

U10B00
Maryland Environmental Service

Program Description

The Maryland Environmental Service (MES) is an instrumentality of the State. MES provides technical services including engineering, design, financing, construction, and operation of water supply and wastewater treatment facilities. MES also provides similar services in the area of hazardous and solid waste facility management, including sanitary landfills, incinerators, and resource recovery facilities. Additional services offered include sludge and dredged materials management, recycling and marketing of end products, regulatory monitoring, and renewable energy needs servicing. MES operates on a fee-for-service basis. Three goals guide MES’s activities: improving the environment; improving infrastructure to treat water and wastewater in the State; and working more safely. A fourth goal to provide excellent customer service and satisfaction is not included in the fiscal 2024 budget materials.

Operating Budget Summary

Maryland Environmental Service
Fiscal 2019-2022
(\$ in Thousands)

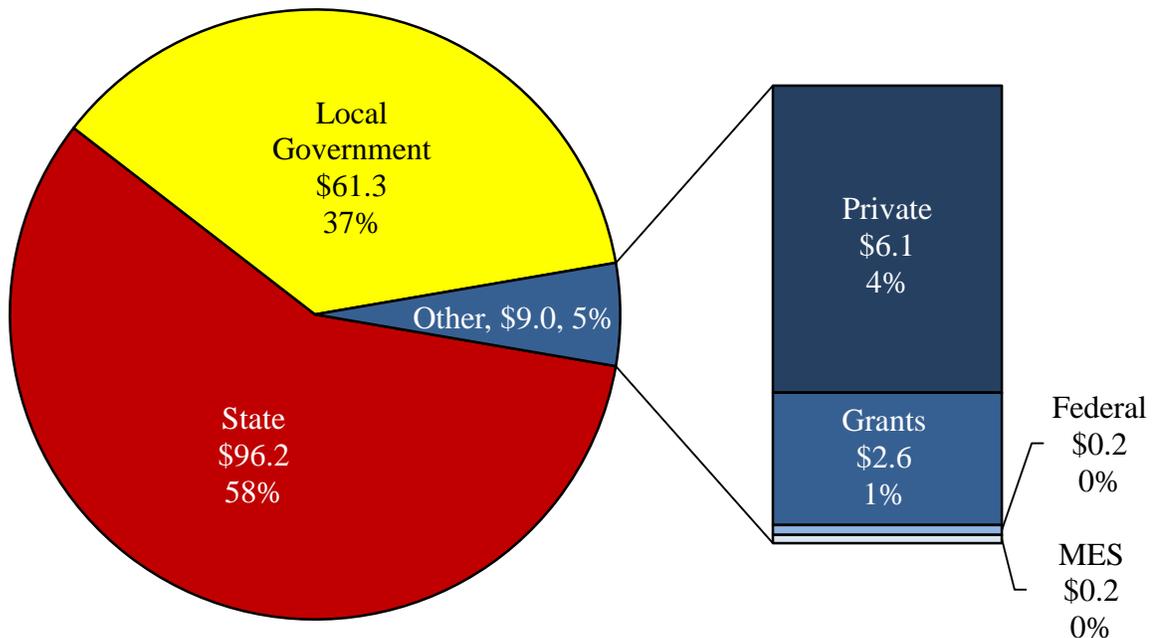
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Change</u> <u>2021-2022</u>
Total Assets	\$91,767	\$101,114	\$101,313	\$110,912	\$9,599
Total Liabilities	62,010	70,630	70,829	81,486	10,657
Total Net Assets	\$29,757	\$30,484	\$30,484	\$29,426	-\$1,058
Total Revenue	\$161,121	\$182,221	\$186,529	\$166,474	-\$20,055
Total Expenditures	159,699	181,600	186,489	167,602	-18,887
Operating Income	\$1,422	\$621	\$40	-\$1,128	-\$1,168

- Between fiscal 2021 and 2022, MES’s net operating income decreased by \$1.1 million for all operations excluding the Midshore Regional Landfill Private Purpose Trust Fund. According to MES’s audited financial statements, the reduction resulted from depreciation, equipment acquisition, and debt payments.

MES’s Fiscal 2022 Financial Position

MES breaks down its revenue by fund sources and type of business activity. **Exhibit 1** provides an overview of fiscal 2022 revenue by fund source and shows that approximately 95% of MES’s revenue comes from State and local government. In terms of its relationship with the State, MES has two arrangements: (1) reimbursable projects are related to Executive Order 01.01.1971.11 and the Board of Public Works directive that MES operate wastewater and drinking water plants for State agencies; and (2) contractual projects for which MES has a contract with a State agency to do the work. Between fiscal 2021 and 2022, MES’s State government revenues decreased by \$13.8 million, and local government revenues decreased by \$4.1 million. The State revenues decreased due to the completion of large projects including the Seagirt Berth 3 Dredging, Lake Linganore Dredging, and the Cox Creek expansion project. The local government revenues decreased due to the completion of the Prince George’s County Materials Recycling Facility project, which included major equipment upgrades and renovations.

Exhibit 1
MES Revenue by Fund Source
Fiscal 2022
 (\$ in Millions)

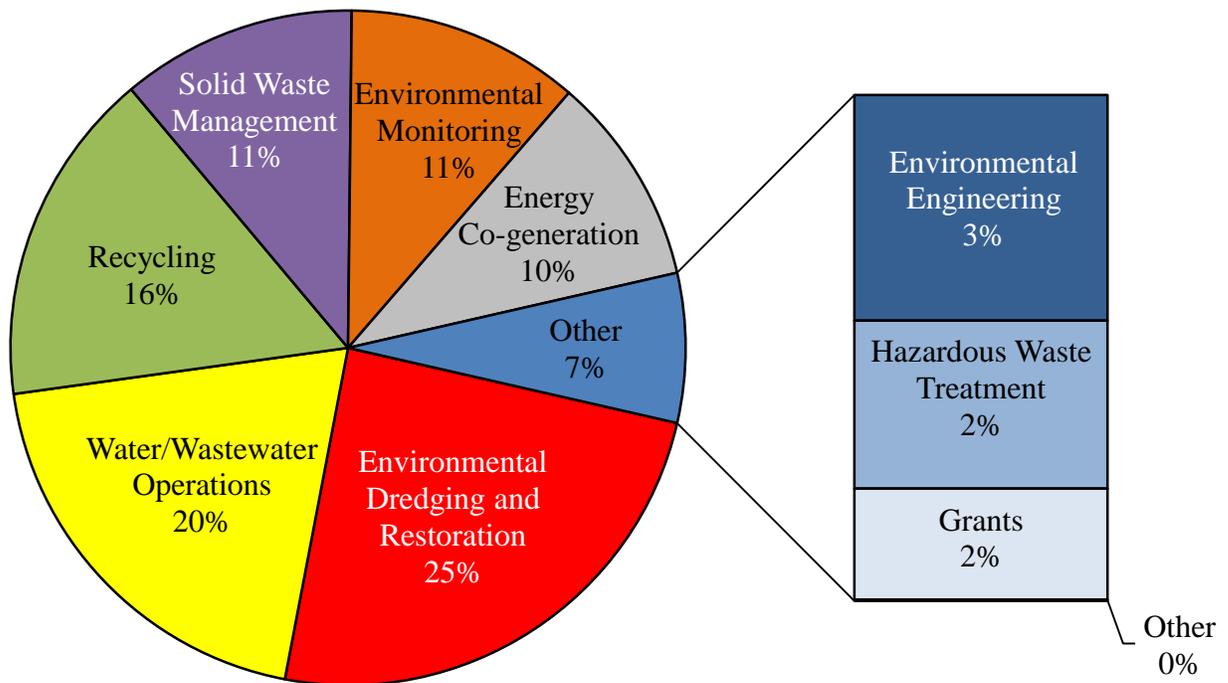


MES: Maryland Environmental Service

Source: Maryland Environmental Service

Exhibit 2 provides an overview of revenue by business activity type and shows that the largest three categories are dredging, water/wastewater operations, and recycling, which account for a combined 61% of MES’s revenue in fiscal 2022.

Exhibit 2
MES Revenue by Business Activity Type
Fiscal 2022



MES: Maryland Environmental Service

Source: Maryland Environmental Service

Financial Changes

MES’s revenues decreased by \$20 million between fiscal 2021 and 2022. Year-to-year revenue changes are largely attributable to the completion and billing timelines for major projects or projects being reclassified among the business type activities. As shown in **Exhibit 3**, the largest decreases in revenue were in dredging and solid waste, which were offset in part by increased revenue in energy co-generation, water/wastewater operations, and recycling.

Exhibit 3
Revenues by Business Activity Type
Fiscal 2018-2022
(\$ in Thousands)

<u>Business Type Activity</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Change</u> <u>2021-2022</u>
Energy Co-generation	\$7,162	\$7,155	\$8,173	\$8,618	\$16,763	\$8,145
Water/Wastewater Operations	29,926	27,677	25,402	27,313	32,987	5,674
Recycling	15,714	17,989	19,868	21,157	26,772	5,615
Environmental Engineering Hazardous Waste Treatment	2,398	2,594	4,518	4,239	5,309	1,070
Other	4,837	4,994	4,653	4,471	3,959	-512
Grants	506	361	461	617	28	-589
Environmental Monitoring	1,699	2,867	5,123	4,055	2,613	-1,442
Solid Waste Management	19,384	20,584	21,992	23,017	18,610	-4,407
Environmental Dredging and Restoration	29,430	24,316	24,385	30,037	18,775	-11,262
	44,243	52,584	67,646	63,005	40,658	-22,347
Total Revenue	\$155,299	\$161,121	\$182,221	\$186,529	\$166,474	-\$20,055

Source: Maryland Environmental Service

- ***Environmental Dredging and Restoration*** revenues decreased by \$22 million. Several large-scale projects were completed in fiscal 2021 or early fiscal 2022, including Seagirt Berth 3 dredging, Lake Linganore dredging, and Cox Creek expansion, leading to a significant decrease in associated revenues.

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- **Solid Waste Management** revenues decreased by \$11 million due to completion of Prince George’s County Materials Recycling Facility renovations, and reclassification of the Maryland Correctional Institution (MCI) Steam Plant project from a solid waste project to an energy co-generation project in fiscal 2022.
- **Energy Co-generation** revenues increased by \$8 million due to the reclassification of the MCI Steam Plant project noted above and the reclassification of three other projects into the energy co-generation category.

As shown in **Exhibit 4**, MES’s overall expenses increased by \$8.7 million in the fiscal 2024 allowance. The major changes are increases of \$3.6 million in salaries, wages, and fringe benefits for increased personnel expenses to mirror cost-of-living adjustments offered by the State; \$1.9 million in contractual services for anticipated cost increases due to inflation; and \$1.3 million in projected increased costs for capital construction.

Exhibit 4
Operating Expenses
Fiscal 2022-2024
(\$ in Thousands)

<u>Operating Expense</u>	<u>Expenditures</u> <u>2022</u>	<u>Legislative</u> <u>Appropriation</u> <u>2023</u>	<u>Allowance</u> <u>2024</u>	<u>Change</u> <u>2023-2024</u>
Salaries, Wages, and Fringe Benefits	\$64,656	\$71,313	\$74,879	\$3,566
Technical and Special Fees	9,591	13,856	14,549	603
Communication	498	591	609	18
Travel	180	364	370	5
Fuel and Utilities	11,778	7,752	8,140	388
Motor Vehicle Operation and Maintenance	5,249	5,269	5,532	263
Contractual Services	40,467	39,170	41,091	1,921
Supplies and Materials	8,911	9,576	10,055	479
Fixed Charges	1,628	4,062	4,265	203
Land and Structures	20,527	43,390	44,691	1,302
Total Operating Expenses	\$163,484	\$195,343	\$204,181	\$8,748

Source: Department of Budget and Management

Fiscal 2024 Overview of Agency Spending

Discussion of the proposed budget focuses on the State reimbursable projects portion of MES’s budget. **Exhibit 5** shows that the overall change in reimbursable projects to State agencies between fiscal 2023 and 2024 is a budgeted increase of \$5.3 million. The majority of the change, \$4.6 million, accounts for projected continuing increases in fuel and supply costs due to market changes and inflation.

Exhibit 5 Reimbursable Projects Operating Expenses Fiscal 2022-2024

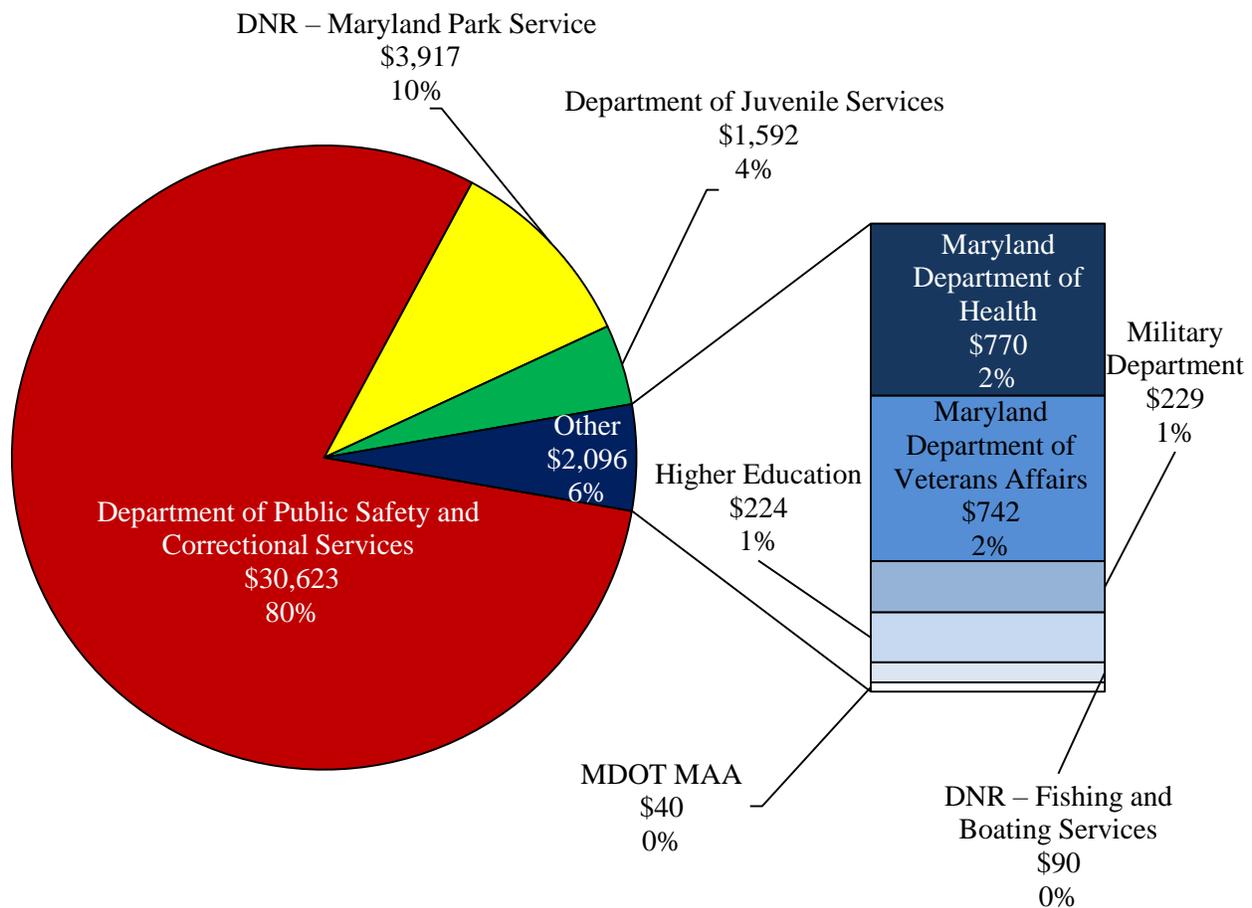
<u>Operating Expense</u>	<u>Expenditures</u> <u>2022</u>	<u>Appropriation</u> <u>2023</u>	<u>Allowance</u> <u>2024</u>	<u>Change</u> <u>2023-2024</u>
Salaries, Wages, and Fringe Benefits	\$11,897,091	\$14,073,732	\$14,265,142	\$191,410
Technical and Special Fees	526,426	542,933	670,895	127,962
Communication	116,219	124,715	124,900	185
Travel	650	15,195	13,626	-1,569
Fuel and Utilities	9,427,922	8,768,576	13,441,780	4,673,204
Equipment Operations and Maintenance	342,916	396,736	368,495	-28,241
Contractual Services	1,472,297	2,009,621	2,133,596	123,975
Materials and Supplies	2,469,589	2,292,372	2,438,457	146,085
Fixed Charges	2,083	0	2,081	2,081
Land, Structures, and Equipment	3,865,553	4,654,541	4,729,677	75,136
Information Technology Expenses	40,495	42,233	39,574	-2,659
Miscellaneous Expenses	507	0	150	150
Total Operating Expenses	\$30,161,748	\$32,920,654	\$38,228,373	\$5,307,719

Source: Maryland Environmental Service

The Crownsville Hospital Project with the Maryland Department of Health was removed from the reimbursable projects list due to the facility’s ownership being transferred from the State to Anne Arundel County, with whom MES now contracts directly. Projected costs for several Department of Public Safety and Correctional Services (DPSCS) projects were reduced due to the closure of certain facilities and the resulting reduction in maintenance costs.

Exhibit 6 shows MES’s reimbursable projects budgeted for fiscal 2024 by contracting agency. Projects serving DPSCS facilities constitute the majority of State reimbursable projects, followed by projects serving the Maryland Park Service within the Department of Natural Resources (DNR) and the Department of Juvenile Services.

Exhibit 6
Reimbursable Project by Agency
Fiscal 2024 Allowance
(\$ in Thousands)



DNR: Department of Natural Resources
 MAA: Maryland Aviation Administration
 MDOT: Maryland Department of Transportation

Source: Governor’s Fiscal 2024 Budget Books

Personnel Data

	<u>FY 22</u> <u>Actual</u>	<u>FY 23</u> <u>Working</u>	<u>FY 24</u> <u>Allowance</u>	<u>FY 23-24</u> <u>Change</u>
Regular Positions	825.00	797.78	797.78	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	825.00	797.78	797.78	0.00

Vacancy Data: Regular

Turnover and Necessary Vacancies, Excluding New Positions	0.00	0.00%
Positions and Percentage Vacant as of 12/31/22	n/a	n/a
Vacancies Above (Below) Turnover	n/a	

- Regular positions remain unchanged in the fiscal 2024 allowance. The agency notes that the loss of approximately 27 positions between fiscal 2022 and 2023 is reflective of the consolidation of several positions that were previously operating as part time.

Key Observations

1. MES Supports Baltimore City, Brings Back River Wastewater Treatment Plant Back into Compliance

Background

On March 27, 2022, former secretary of the Maryland Department of Environment (MDE) Benjamin H. Grumbles directed MES to take over operations at the Back River Wastewater Treatment Plant (WWTP). The plant, which is owned and operated by Baltimore City, serves approximately 1.3 million residents in a 140 square mile area of Baltimore City and Baltimore County. The plant, the largest in the State, is designed to treat 180 million gallons per day of wastewater. After treatment, about 40% of the effluent is diverted to Sparrows Point for industrial purposes, while the remainder is aerated and diffused into Back River.

The Secretary of the Environment has the legal authority to order MES to take over a wastewater or sewage operation if the operators are noncompliant with previous lawful orders. Section 3-100(c) of the Natural Resources Article empowers the Secretary of the Environment, “upon the failure of a municipality or person to comply with an order of the Secretary of the Environment to correct deficiencies on the operation of sewerage systems” to direct MES to take charge of and operate systems.

MDE performed a regular inspection of Back River WWTP on March 22, 2022, which “revealed the precipitous decline of the functioning of several critical processes at the Plant in comparison with prior inspections.” MDE issued an order to Baltimore City on March 24, which gave a 48-hour deadline to immediately end illegal discharges from the plant and demonstrate compliance with the discharge permit limits and other provisions. Specifically, the order identified noncompliance with effluent levels of total suspended solids (TSS), total nitrogen, and total phosphorus, among other concerns surrounding equipment functionality, vegetation growth, and accumulated solids. MDE conducted a follow-up inspection of the facility on March 26 and, after observing continued violations, issued the directive for MES to assume control of the plant on March 27. The directive stated that “the decline in the proper maintenance and operation of the Plant risks catastrophic failures at the Plant that may result in environmental harm as well as adverse public health and comfort effects.”

The directive charged MES with operating Back River WWTP to achieve compliance with the effluent provisions of its discharge permit and ceasing all unauthorized discharges. The directive also instructed MES to undertake a comprehensive assessment of the plant’s operation, maintenance, staffing, and equipment, and to submit a report of its findings to MDE by June 6 to include specific findings and recommendations, ranked by impact on compliance with discharge limits.

MES submitted the report, which is available on its website, in June. MES’s detailed recommendations included safety improvements, repairs or replacement of various types of

equipment, and making more existing equipment operational. The report states that the recommendations are based “on observations and data collection that show a systemwide catastrophic failure to operate and maintain this facility at every level. These include personnel, morale, licensing, and certification, hiring of competent personnel, firing of incompetent personnel, accountability and more.”

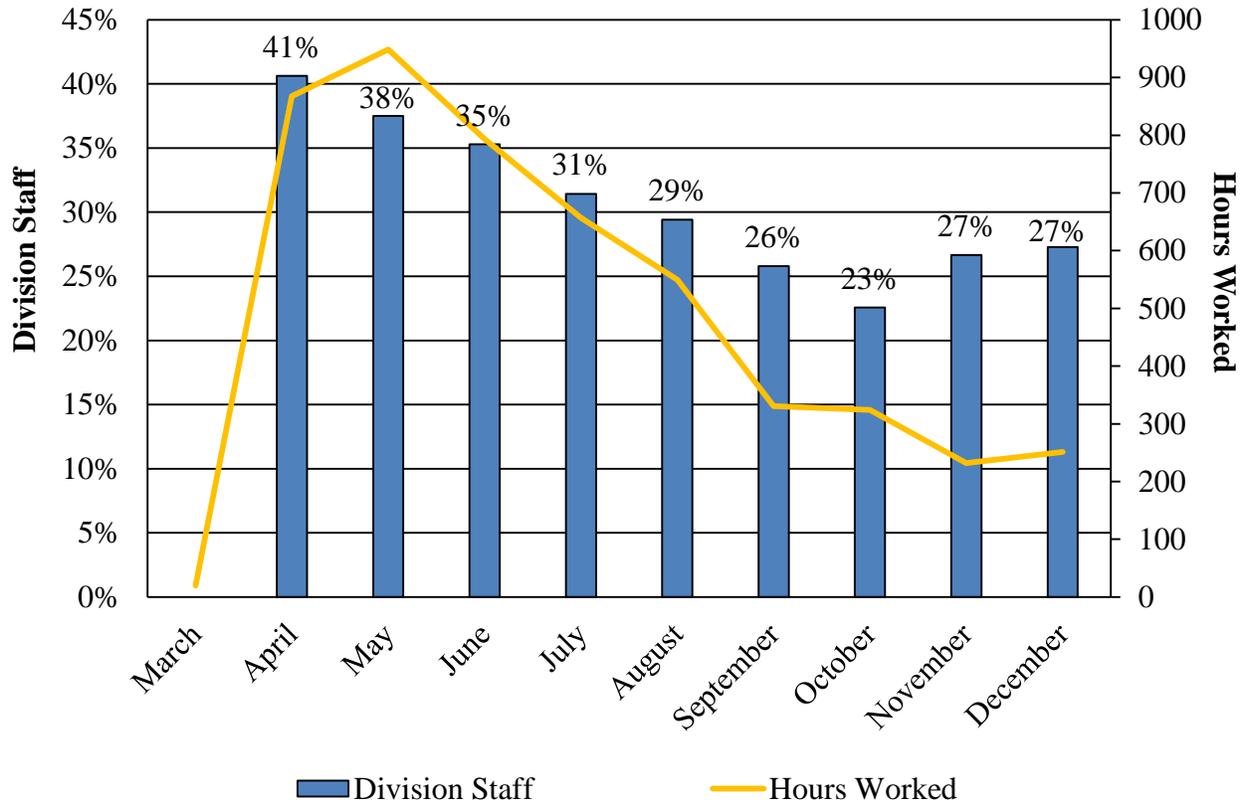
Subsequent revisions of the directive to MES and orders to Baltimore City in the following months made adjustments to the relationships between MES, MDE, and Baltimore City but did not substantively change MES’s efforts at the plant.

MES Operations at Back River WWTP

MES began work at the facility in late March, with operators and maintenance staff performing site visits to become familiar with the site and start to make plans for corrective maintenance. From April to June, MES’s work was largely to evaluate existing issues and stabilize operations to bring the facility into compliance. Operations staff supplemented Baltimore City personnel in completing routine operational duties including sampling and equipment checks, while maintenance staff performed critical equipment repairs.

Significant agency resources, particularly in the maintenance division, were committed to the effort. As shown in **Exhibit 7**, an average of over 30% of all maintenance staff in the water/wastewater division were assigned for nine months, committing over 800 hours to the plant in both April and May. After the initial phase of stabilizing the plant, numbers of assigned staff and committed hours worked began to steadily decrease. MES leadership coordinated pulling staff from across the State to avoid creating unsustainable personnel shortages in any single existing MES project. The agency notes the ability to commit significant maintenance staff was due in part to the time of year, as de-icing, a major annual project for maintenance staff, was completed by April.

Exhibit 7
Maintenance Staff Assigned to Back River WWTP
March 2022 to December 2022

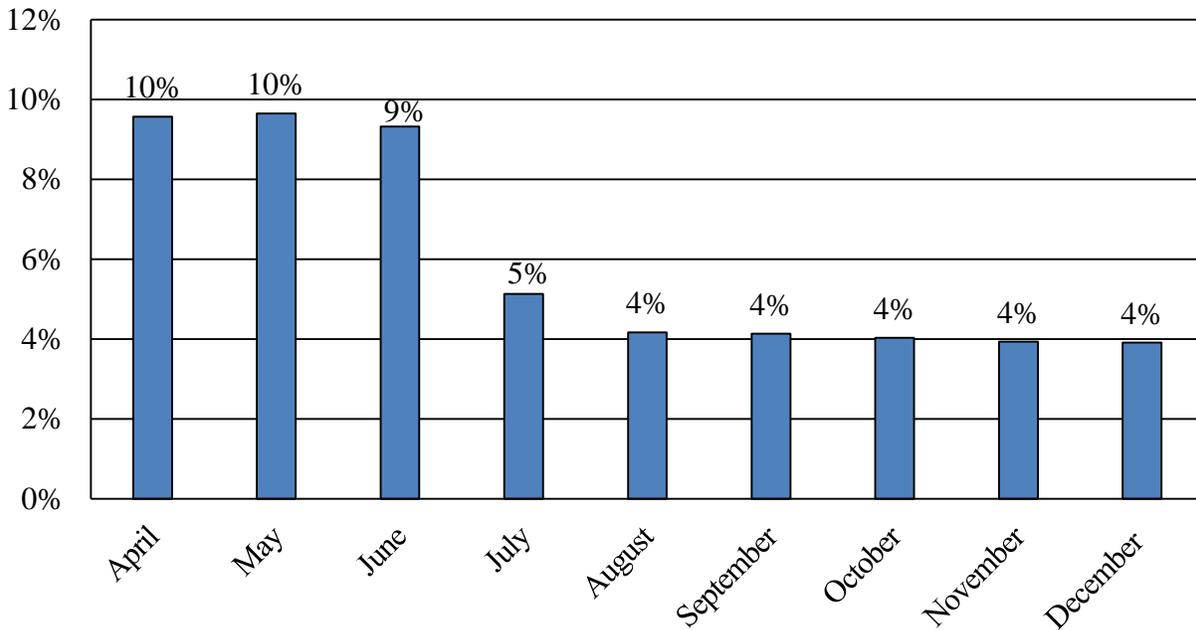


WWTP: wastewater treatment plant

Source: Maryland Environmental Service

Exhibit 8 shows the percentage of operations staff in the water/wastewater division assigned to Back River WWTP.

Exhibit 8
Operations Staff Assigned to Back River WWTP
April 2022 through December 2022



WWTP: wastewater treatment plant

Source: Maryland Environmental Service

To measure progress, MDE monitored the plant and reported at regular intervals on facility inspections, water sampling of Back River, and detailed progress updates on the efforts to achieve and maintain the plant in compliance with effluent discharge limits, staffing concerns, and other issues. All of the reports are available on MDE’s website.

Beginning on July 8, 2022, MDE’s sampling and progress reports demonstrated that the discharges from the facility were meeting the parameters specified in the order, which identified unacceptable discharges of TSS, total phosphorus, and total nitrogen. While the levels of total nitrogen were technically out of compliance with the facility permit, this was due to the permit identifying an annual level of total nitrogen, which had already been surpassed. However, by the time of the July progress report, the facility was meeting the pro-rated nitrogen levels identified in

the consent order, in addition to meeting its permit requirements for total phosphorus and TSS, for the specified three-month period.

From July to December, MES focused on construction management, procurement for additional supplies and equipment, and continued maintenance activities, with the goals of maintaining compliance and supplementing Baltimore City’s operator shortage.

In August, MES leadership announced plans to demobilize the majority of agency staff assigned to the plant. The agency notes that by fall 2022, the number of operators assigned to Back River WWTP was beginning to stress other MES projects throughout the State.

Next Steps

Since January 2023, there have been no operations staff assigned to the facility full time, and the presence of maintenance staff has been reduced. However, the agency is completing two major capital projects, which include the repair of two primary clarifiers and the cleaning of two high-rate anaerobic digestors that have been out of service for years. MES personnel will oversee installation and startup of this equipment once all assets have arrived at the facility. In part to ensure the successful completion of these projects, a revised reimbursement agreement and amendment to the consent order was signed in January 2023 and subsequently approved by the Baltimore City Board of Estimates. The agreement allows MES to stay onsite until April 30, 2023, to complete the capital construction projects and specifies additional parameters for the reimbursement process.

MES completed the objectives outlined in the directive including bringing the facility into compliance with its discharge limits and reporting on the facility, as well as providing specific recommendations for improvement, within 90 days. However, the permit issued to the facility includes additional provisions on staffing, operations, and maintenance. MES’s efforts, including procuring the two capital projects to replace assets that were out of service for years and writing an extensive report that illustrates specific recommendations for long-term success, built a strong foundation on which the facility can move forward.

MES should comment on the status of its continued involvement at Back River WWTP and how this is impacting operational funding and functions for the agency. MES should also be prepared to discuss the best practices used to bring this facility into compliance and how the lessons learned can be applied to other facilities with similar challenges.

2. Implementation of Maryland Environmental Service Reform Act Continues

The Joint Committee on Fair Practices and State Personnel Oversight held several hearings during the 2020 interim concerning a severance payment and the timing and amount of

reimbursements received by MES’s former director. As a result of these deliberations, Chapter 72 of 2021 made significant changes to the governance and administration of MES, including changes to (1) the Board of Directors; (2) the director and other MES officers; (3) spending and procurement provisions; (4) training and other policies; and (5) personnel matters, including collective bargaining.

MES submitted a report to the General Assembly on December 27, 2021, discussing completion of policy changes and other requirements of Chapter 72. The bill took effect July 1, 2021, and all mandated items were completed within the statutory deadlines. While the majority of the requirements, including policy changes, were completed in 2021, several other items, including the independent assessment of the board, misallocated expenses audit, and greenhouse gas reporting requirements, were completed in 2022.

Independent Assessment of the Board

The independent assessment of the board conducted by RSM US, LLP recommended that MES develop a five-year strategic plan in addition to a formal charter and bylaws by the end of calendar 2022.

Five-year Strategic Plan

The five-year strategic plan was approved by the board on June 26, 2022. The plan outlines three strategic pillars of the organization – safety, level of service, and education and training – and strategic goals to guide the organization over the next five years. The report also included the results of an employee survey, client survey, and a Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis.

The results of the surveys and SWOT analysis were designed to identify current strengths and weaknesses of the organization to inform the goals of the strategic plan. In the employee survey, the most positively answered questions included those dealing with working relationships with colleagues, employee benefits, and how an individual’s work contributes to the organization’s overall mission and objectives. The questions with the most negative responses dealt with employee compensation, employee recognition, and employee wellness. Accordingly, the weaknesses and opportunities section of the SWOT and strategic goals address these shortcomings.

The report includes strategic goals in four different categories and delineates performance indicators to measure progress. The goals and performance measures include:

- safety;
- to achieve zero work-related injuries or fatalities across the agency;

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- improving employee morale;
 - to work toward more competitive compensation that will attract and retain quality employees;
 - to increase employee recognition;
 - to achieve better internal communication; and
 - to conduct an assessment of employees requiring licensure and encourage license completion while promoting professional growth;
- employee retention, recruitment, and succession planning;
 - to reduce the vacancy rate to a historic level of 4%; and
 - to embark on a succession planning system to ensure continuity; and
- business growth;
 - to achieve a 4% rate of growth in billable labor;
 - to continue to provide exceptional service to clients; and
 - to identify emerging industries and ensure MES is in a position to contribute.

While the plan includes performance measures for each of the stated goals, the indicators are often vague and lacking in measurable or quantitative benchmarks. The plan also lacks discussion of how and when the goals will be revisited to assess progress. **MES should be prepared to discuss how the performance indicators outlined in the plan will be specifically tracked to monitor progress toward stated goals.**

Charter and Bylaws

The independent assessment of the board also recommended that the board adopt a charter and set of bylaws for the organization by the end of calendar 2022. According to the agency, the assistant Attorney General for MES, in conjunction with the chair of the board, felt that there was not a need to create a charter due to MES's mission and organizational structure being outlined in statute (Natural Resources Article, Section 3-101, *et. seq.*). As of January 19, 2023, the MES board has not yet acted on creation of bylaws.

Required Misallocated Expenses Audit

Chapter 72 also required MES to undergo an audit regarding unauthorized spending, misallocated expenses, lack of conformity with State law or MES board policies, and other accounting errors. This new audit is a one-time requirement in addition to the existing annual audit of MES's financial records and accounts, which is customarily released with the agency's annual report. The law states that this audit may be combined with the annual audit or completed separately. The audit was performed by RSM US, LLP and was completed in June 2022.

The auditors examined expense reports, purchase card purchases, and supplier invoices from the period of July 1, 2020, through June 30, 2021, to examine adherence to MES accounting procedures.

There was one finding that demonstrated nonconformity to established policy, regarding employee expense transactions. Five of the 30 selected transactions, totaling \$730.32, were not submitted for reimbursement within the required timeframe of within five business days of purchase for transactions dated through September 30, 2020, or within 30 calendar days for transactions dated after September 30, 2020. This finding demonstrates a nonadherence to MES travel and advance and expense reimbursement procedures policy. Due to the scope of the audit, the auditors examined adherence to MES internal policy only and provided no analysis, concluding remarks, or recommendations.

Greenhouse Gas Reduction Act

Chapter 72 established a new requirement for MES to report annually on its greenhouse gas reduction activities in accordance the goals set forth in current law. In 2022, MES engaged in a four-month process of analyzing greenhouse gas mitigation projects and technologies in which they are engaged throughout the State. The report summarizes major projects and research endeavors that are completed, ongoing, or planned in their areas of operational and technical expertise. Selected highlights for each of the four operating groups are as follows:

- **Water and Wastewater:** beneficially reused over half of all biosolids produced at MES wastewater plants for agriculture through the land application program, which reduces waste, sequesters carbon, and lessens the use of fossil fuels to produce chemical fertilizers;
- **Technical and Environmental Services:** planning the installation of 15 rooftop solar arrays at five Maryland State parks, providing 446,197 kilowatt hours of electricity and up to 105% of each structure's average electricity use each year through solar power, with additional plans for arrays at local government sites throughout the State;
- **Environmental Dredging and Restoration:** continues to beneficially reuse dredged material from approach channels to the Port of Baltimore and surrounding areas for habitat-rich wetlands projects including Poplar Island, the soils of which sequester an estimated 15,700 kilograms of carbon per year;

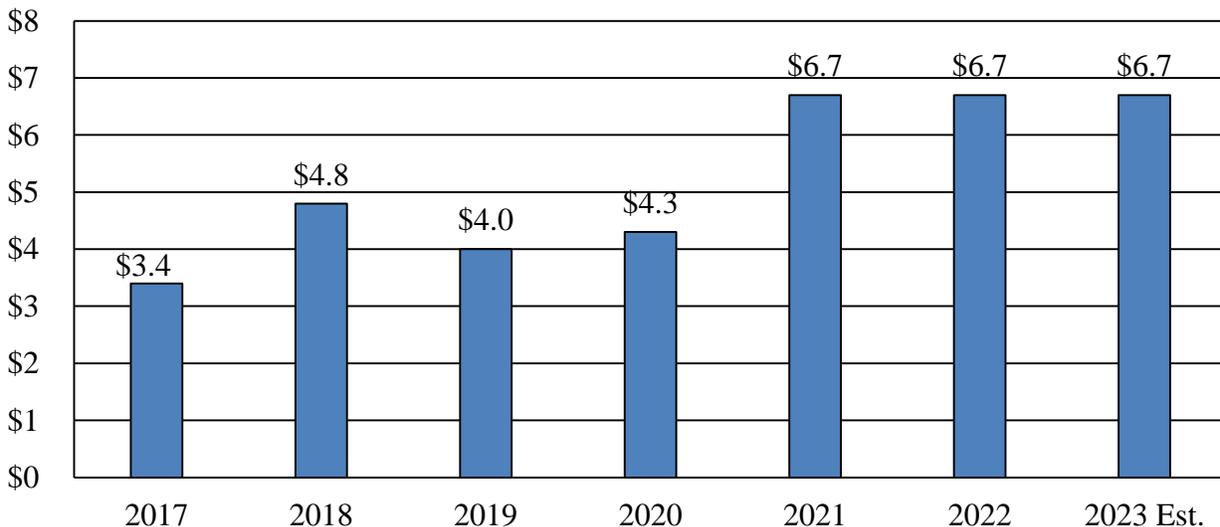
- **Environmental Operations:** operates Materials Recovery Facilities and recycling centers throughout the State including in Montgomery and Prince George’s counties, which recycled a combined 79,872 tons of products in fiscal 2022, for a carbon emissions reduction equivalency of removing 47,276 gasoline-powered vehicles from the roads.

3. MES Funding Statement Reflects Agency Priorities

The 2022 *Joint Chairmen’s Report* (JCR) included committee narrative requesting an MES funding statement including information on MES’s undesignated unrestricted net assets, overhead rate, project reserve fund status, and reimbursable project funding change justifications. The submitted report and prior year information reflect the following.

- **Undesignated Unrestricted Net Assets:** MES considers its undesignated unrestricted net assets to be its fund balance. As shown in **Exhibit 9**, the unrestricted undesignated net position has remained at \$6.7 million since fiscal 2021. MES previously attributed the \$2.4 million increase in fiscal 2021 to the inclusion of MES’s Equipment Fund in the undesignated unrestricted net assets calculations.

Exhibit 9
Undesignated Unrestricted Net Assets
Fiscal 2017-2023 Est.
(\$ in Millions)

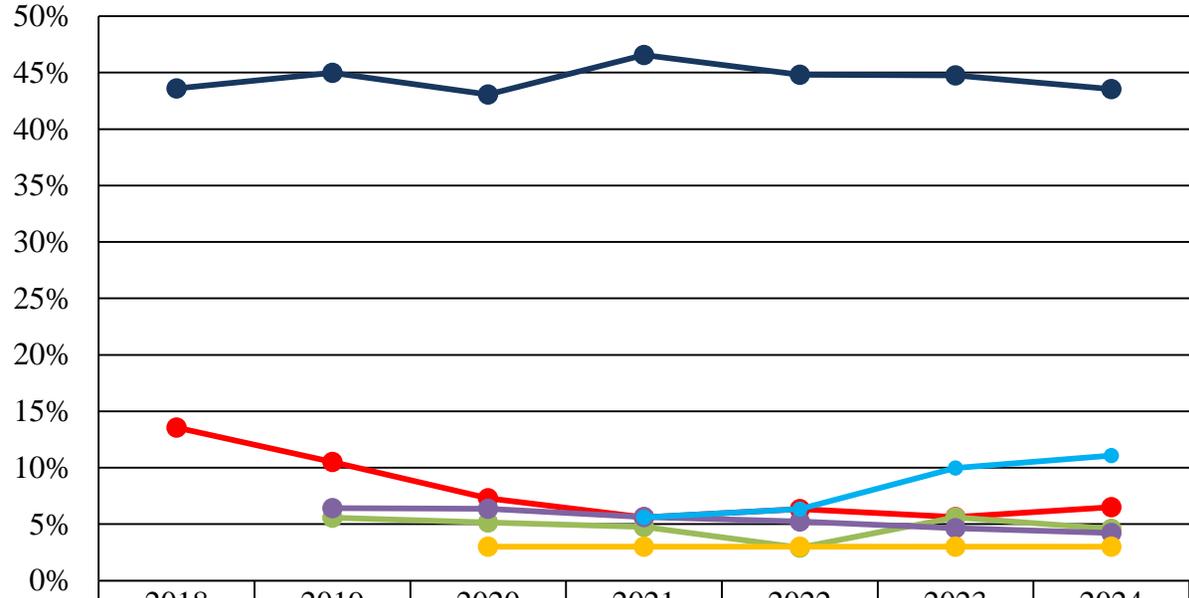


Source: Maryland Environmental Service Annual Funding Statement

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- **Overhead Rate:** An informal goal reflected by MES in the past is to reduce the overhead rate – general administrative rate – charged to State agencies and other clients as a result of increasing MES’s client base, thus spreading overhead over more clients. Fiscal 2024 overhead rates are calculated based on actual overhead expenses and billable labor in fiscal 2022. As shown in **Exhibit 10**, the general and administrative rate has remained steady, hovering around 45% with minor variability since fiscal 2016. In contrast, there is a strong upward trend from fiscal 2021 to 2024 for technical and environmental services, with the rate nearly doubling over the three-year period. This category was previously included in water and wastewater services but was broken out during agency reorganization after fiscal 2021. The agency notes that higher overhead costs and lower billable labor led to the increase in overhead rates in technical and environmental services. Conversely, there has been a downward trend for the water and wastewater overhead rate since fiscal 2018, despite the heavy management component of water and WWTP operations. This trend benefits the State, due to the State’s heavy use of MES’s services in water and wastewater management. Despite an increase of 0.89% in fiscal 2024 due to a decrease in billable labor, the overall trend remains negative. There do not appear to be strong trends for the environmental dredging and restoration, environmental operations, and working capital overhead rates for the time period shown.

**Exhibit 10
Overhead Rates
Fiscal 2018-2024 Unaudited**



	2018	2019	2020	2021	2022	2023	2024
● General and Administrative	43.60%	44.98%	43.06%	46.56%	44.80%	44.76%	43.55%
● Water and Wastewater	13.57%	10.51%	7.28%	5.59%	6.33%	5.62%	6.51%
● Environmental Dredging and Restoration		5.56%	5.16%	4.76%	2.91%	5.60%	4.58%
● Environmental Operations		6.41%	6.35%	5.62%	5.23%	4.65%	4.22%
● Technical and Environmental Services				5.59%	6.33%	9.96%	11.08%
● Working Capital			3.00%	3.00%	3.00%	3.00%	3.00%

Source: Maryland Environmental Service

- Project Reserve Fund Status:** MES has four project reserve funds: the State Reimbursable Project Contingency Fund; the Eastern Correctional Institution (ECI) Steam Turbine Contingency Fund; the DNR Project Contingency Fund; and the ECI Energy Upgrade Project Reserve Fund. The status of these reserve funds is shown in **Exhibit 11**. In fiscal 2022, the agency retained \$1,659,204 in the ECI Energy Upgrade Project Reserve fund. No monies were retained or expended in the three other funds in fiscal 2022 or 2023.

Exhibit 11
Project Reserve Fund Balances
Fiscal 2021-2023

<u>Project Reserve Fund Activity</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Cap</u>
State Reimbursable Project Contingency Fund				
Beginning Balance	\$149,452	\$500,204	\$500,704	
Approved Retainage (Fiscal 2020)	350,548	0	0	
Funds Used	0	0	0	
Interest Earned	204	500	9,371	
Current Balance	\$500,204	\$500,704	\$510,075	\$1,000,000
ECI Correctional Institution Steam Turbine Contingency Fund				
Beginning Balance	\$1,232,941	\$1,233,446	\$1,234,690	
Approved Retainage	0	0	0	
Funds Used	0	0	0	
Interest Earned	505	1,244	23,371	
Current Balance	\$1,233,446	\$1,234,690	\$1,258,061	\$1,500,000
DNR Project Contingency Fund				
Beginning Balance	\$3,495	\$3,496	\$3,496	
Approved Retainage	0	0	0	
Funds Used	0	0	0	
Interest Earned	1	0	0	
Current Balance	\$3,496	\$3,496	\$3,496	\$500,000
ECI Energy Upgrade Project Reserve Fund				
Beginning Balance	\$0	\$1,659,204	\$1,660,776	
Approved Retainage	0	0	0	
Funds Used	0	0	0	
Interest Earned	0	1,572	31,498	
Current Balance	\$0	\$1,660,776	\$1,692,274	\$2,000,000

DNR: Department of Natural Resources
ECI: Eastern Correctional Institution

Source: Maryland Environmental Service; Department of Legislative Services

U10B00 – Maryland Environmental Service

- The newest of the funds is the ECI Energy Upgrade Project Reserve Fund, which was created in December 2021. The intent of the ECI Energy Upgrade Project Reserve Fund is to retain reimbursable project funds for the express purpose of the natural gas energy upgrade/conversion project at ECI, which received bids that significantly exceeded the original estimate. The cap for the project reserve fund is \$2,000,000, and any funding not spent by June 30, 2024, is required to be remitted to the State at which time the fund will cease to exist. MES received approval from the Department of Budget and Management to retain \$1,659,204 in the ECI Energy Upgrade Project Reserve Fund in January 2022.

The Department of Legislative Services (DLS) recommends that committee narrative be adopted requesting that MES continue to provide an MES funding statement, including information on MES’s undesignated unrestricted net assets, overhead rate, project reserve fund status, and justification for reimbursable project funding changes.

Operating Budget Recommended Actions

1. Adopt the following narrative:

Maryland Environmental Service (MES) Funding Statement: The committees request that MES continue to provide a report on the following:

- undesignated unrestricted net assets for fiscal 2023, 2024, and 2025 estimated and an explanation for any changes between each of these years, including revenues credited to and expenditures debited from the net assets;
- overhead rate for fiscal 2023, 2024, and 2025 estimated, including a separate calculation for the water and wastewater overhead rate for each fiscal year from fiscal 2017 through 2025;
- project reserve fund status by beginning balance, approved retainage, funds used, and interest earned for fiscal 2023 and 2024 for the State Reimbursable Project Contingency Fund, the Eastern Correctional Institution (ECI) Steam Turbine Contingency Fund, the Department of Natural Resources Project Contingency Fund, ECI Energy Upgrade Project Reserve Fund, and any other project reserve funds created by MES; and
- justification for the changes in reimbursable project funding for fiscal 2023, 2024, and 2025 estimated based on a discussion about how MES’s undesignated unrestricted net assets allow for reducing MES’s overhead rate for State reimbursable projects and how project reserve funds are available for any under budgeting.

The report should be submitted in coordination with the Department of Budget and Management (DBM) with the fiscal 2025 budget submission.

Information Request	Author	Due Date
MES funding statement	MES DBM	Fiscal 2025 budget submission

Appendix 1
2022 Joint Chairmen’s Report Responses from Agency

The 2022 JCR requested that MES prepare one report. Electronic copies of the full JCR responses can be found on the DLS Library website.

- ***MES Funding Statement:*** The 2022 JCR included committee narrative requesting an MES funding statement. The funding statement was requested to include information on MES’ undesignated unrestricted net assets, overhead rate, project reserve fund status, and reimbursable project funding change justification. Further discussion of this issue can be found in Key Observation 3 of this analysis.

**Appendix 2
Object/Fund Difference Report
Maryland Environmental Service**

<u>Object/Fund</u>	<u>FY 22 Actual</u>	<u>FY 23 Working Appropriation</u>	<u>FY 24 Allowance</u>	<u>FY 23 - FY 24 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	825.00	797.78	797.78	0.00	0%
Total Positions	825.00	797.78	797.78	0.00	0%
Objects					
01 Salaries and Wages	\$ 64,655,711	\$ 71,313,348	\$ 74,879,016	\$ 3,565,668	5.0%
02 Technical and Special Fees	9,591,364	13,855,784	14,548,573	692,789	5.0%
03 Communication	497,642	591,176	608,912	17,736	3.0%
04 Travel	179,575	364,348	369,813	5,465	1.5%
06 Fuel and Utilities	11,778,321	7,752,172	8,139,781	387,609	5.0%
07 Motor Vehicles	5,248,930	5,268,948	5,532,396	263,448	5.0%
08 Contractual Services	40,466,592	39,169,567	41,091,062	1,921,495	4.9%
09 Supplies and Materials	8,910,758	9,576,160	10,054,968	478,808	5.0%
13 Fixed Charges	1,628,083	4,062,132	4,265,238	203,106	5.0%
14 Land and Structures	20,526,845	43,389,537	44,691,223	1,301,686	3.0%
Total Objects	\$ 163,483,821	\$ 195,343,172	\$ 204,180,982	\$ 8,837,810	4.5%
Funds					
07 Nonbudgeted Fund	\$ 163,483,821	\$ 195,343,172	\$ 204,180,982	\$ 8,837,810	4.5%
Total Funds	\$ 163,483,821	\$ 195,343,172	\$ 204,180,982	\$ 8,837,810	4.5%