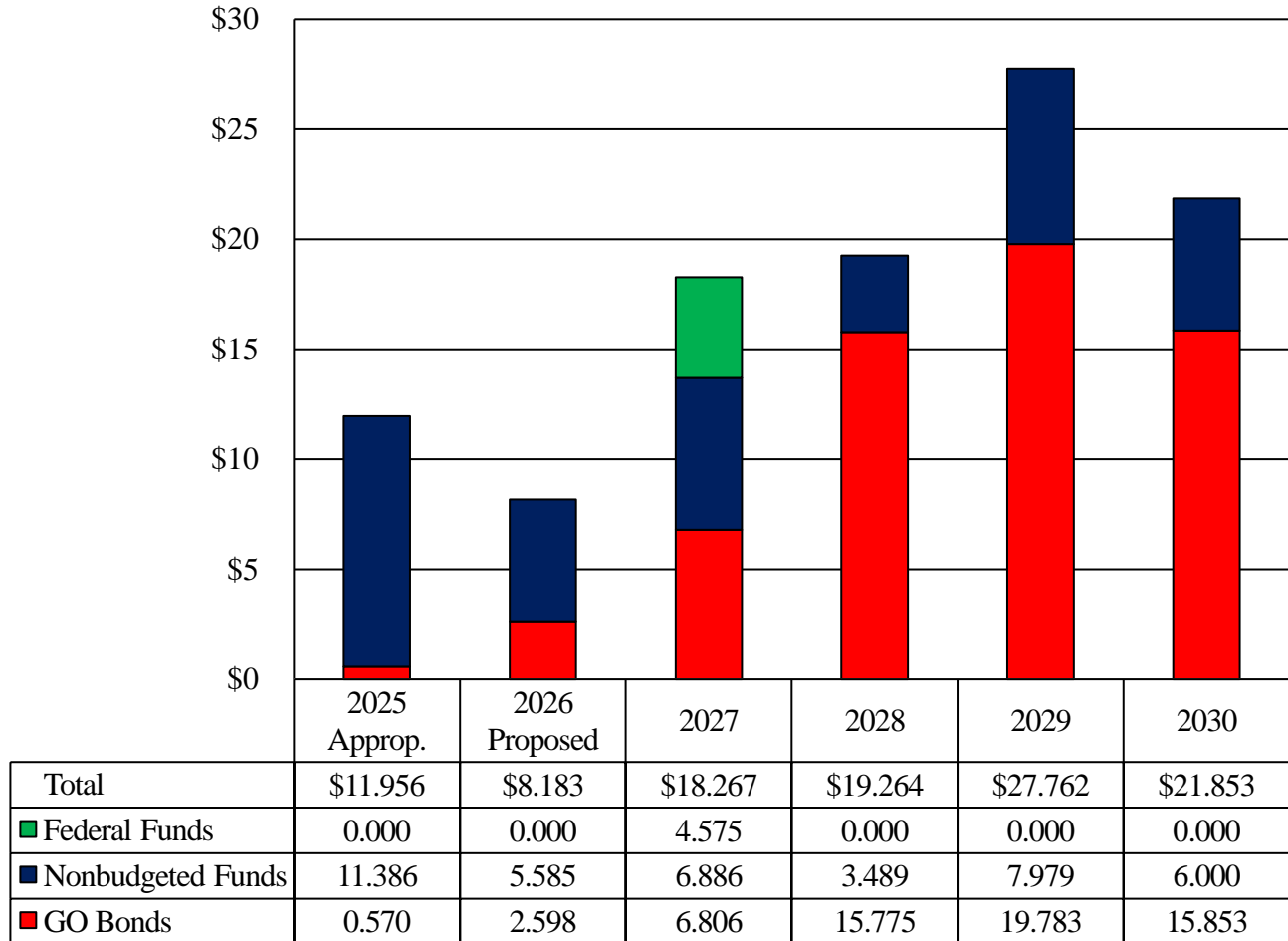


UB00
Maryland Environmental Service – Capital

Capital Budget Summary

Grant and Loan *Capital Improvement Program*
State Water and Sewer Infrastructure Improvement Fund
(\$ in Millions)



GO: general obligation

Note: Nonbudgeted funds are transferred from the Department of Natural Resources (DNR) to the Maryland Environmental Service to complete projects at DNR-owned facilities. The funds originate as special funds in DNR's Natural Resources Development Fund, which is allocated to the agency from real estate transfer tax revenue as part of the Program Open Space formula.

Source: Department of Budget and Management

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Key Observations

- ***State Water and Sewer Infrastructure Improvement Fund:*** The fiscal 2026 capital budget includes funding for six projects located in three jurisdictions, including general obligation (GO) bond funding for two projects at State-owned facilities and nonbudgeted funds for four projects at Department of Natural Resources (DNR) facilities.
- ***Proposed Fiscal 2027 Preauthorization:*** The fiscal 2026 capital budget bill includes a proposed preauthorization for fiscal 2027 of \$2.3 million in GO bond funding for the Charlotte Hall Veteran’s Home (CHVH) – Water Treatment Plant (WTP) Upgrade project. However, a grant application for federal fund support for this project has been submitted, which, if successful, would eliminate the need for fiscal 2027 State funding.

GO Bond Recommended Actions

1. Approve all authorizations and preauthorizations for the Maryland Environmental Service.

Budget Overview of Grant and Loan Programs

The State Water and Sewer Infrastructure Improvement Fund was established to provide for capital improvements of State-owned and operated WTPs, wastewater treatment plants (WWTP), water distribution and sewer collection systems, and water towers. Since fiscal 1992, funding for capital maintenance projects relating to WTPs and WWTPs has been budgeted under the Maryland Environmental Service (MES). MES operates 282 water and wastewater facilities in Maryland, of which 96 are State-owned. The remaining facilities are operated by MES under contract with a local government or private owner.

The fiscal 2026 capital budget provides \$2.6 million in GO bonds and \$5.6 million in nonbudgeted funds for the State Water and Sewer Infrastructure Improvement Fund. The nonbudgeted funds are provided for water and wastewater projects at DNR facilities, while the GO bond funding supports projects at other State facilities. The DNR projects appear as nonbudgeted funds, as they have been budgeted with transfer tax special funds from the Natural Resources Development Fund and will be transferred to MES to cover project costs. Funds in fiscal 2026 support six projects in three jurisdictions, as shown in **Exhibit 1**.

**Exhibit 1
Fiscal 2026 Projects
(\$ in Millions)**

	<u>Total Cost</u>	<u>Prior Authorized</u>	<u>Fiscal 2026 Request</u>	<u>Future Request</u>
State Facility (Non-DNR) Projects				
Charlotte Hall Veteran’s Home – WTP Upgrade (St. Mary’s County): This project will construct improvements to the WTP at the Charlotte Hall Veteran’s Home, including the construction of a new advanced WTP and upgrades to the water tank, electrical system and controls, and the water distribution system. The existing water treatment facility is in poor condition and is in need of replacement. The fiscal 2026 budget includes funding to begin construction of this project. Prior funding was authorized in the fiscal 2023 capital budget for the project’s design. At that time, construction was planned to begin in fiscal 2024; however, project design was delayed due to a change in the proposed WTP technology and to allow planning for a federal grant application to begin.	\$7.039	\$0.490	\$1.974	\$4.575

MES is working with DVMF to submit a grant application to the VA – State Home Construction Grant Program for a portion of funding for this project. If awarded, federal funding would support an estimated 65% of the total cost of the project, and the State would fund the remaining 35%. Fiscal 2026 funding included in the capital budget for this project reflects a 35% State cost-share for the project, which is required for eligibility for a VA grant. The fiscal 2026 capital budget bill also includes a \$2.3 million GO bond preauthorization for fiscal 2027 for the project, representing a scenario where 100% of project costs are supported through State funds in the case that DVMF is not awarded a federal grant. If the federal grant is awarded, this \$2.3 million fiscal 2027 State funding would not be needed. It is anticipated that DVMF will be notified of an award from VA in late calendar 2025.

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	<u>Total Cost</u>	<u>Prior Authorized</u>	<u>Fiscal 2026 Request</u>	<u>Future Request</u>
<p>Maryland Correctional Institution – WWTP – Headworks and Facility Improvements (Washington County): This project will construct upgrades to the Maryland Correctional Institution WWTP to enhance the capacity, reliability, and efficiency of the system and to ensure compliance with environmental regulations and efficient handling of current and future wastewater flows. Improvements include corrective measures to the sewer collection system upstream of the headworks building to address frequent sewer overflows due to undersized infrastructure. Additionally, improvements to the headworks area will address grit accumulation issues by enhancing the velocity in the influent channel and optimizing the grit removal system. Other upgrades include replacement of aging anoxic tank mixers, installation of a screening system for sludge receiving stations to minimize debris accumulation, and installation of a new retractable awning for the dewatered sludge storage area to protect against rain. The fiscal 2026 budget includes funding to begin the design of this project.</p>	6.791	0.000	0.624	6.167
Subtotal: State (Non-DNR Projects)	\$13.830	\$0.490	\$2.598	\$10.742
DNR Facility Projects				
<p>Point Lookout State Park – Power Distribution (St. Mary’s County): This project will construct improvements to the electrical distribution system at Point Lookout State Park, including the replacement of electrical conductors, transformers, distribution panels, and receptacles. A preliminary engineering report that evaluated the components of the park’s electric distribution system noted deficiencies related to the age and condition of the system and that certain components were out of compliance with current electrical codes and standards. This project will include comprehensive repairs and improvements to bring the system into compliance with current codes and improve the reliability and safety of the system. The scope of the project also includes the installation of EV charging stations and photo voltaic systems for renewable energy production. The fiscal 2026 budget includes funding to design and construct the project.</p>	\$2.198	\$0.000	\$2.198	\$0.000

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	<u>Total Cost</u>	<u>Prior Authorized</u>	<u>Fiscal 2026 Request</u>	<u>Future Request</u>
<p>Point Lookout State Park – WWTP Upgrade (St. Mary’s County): This project will construct upgrades to the WWTP at Point Lookout State Park to enable compliance with ENR discharge requirements. The existing plant has not been upgraded since 1991 and utilizes outdated technology. The facility is located in, and discharges into, an environmentally sensitive area at the confluence of the Potomac River and the Chesapeake Bay. MDE previously provided a Bay Restoration Fund grant, which supports approximately 55% of total project cost. Funding for the project’s construction was included in the fiscal 2025 budget. At that time, construction was scheduled to begin in August 2024, and no future funding needs were projected. However, construction is now scheduled to begin in July 2025, and the fiscal 2026 budget includes additional funding to complete project construction. Project design has been completed, and final permitting is pending, which will allow for a construction contract to be awarded. The total project cost has increased by \$3.8 million since last year’s estimate due to cost increases for WWTP technology and other changes in project scope.</p>	14.881	4.967	1.376	0.000
<p>Fort Frederick State Park – Water Distribution System Upgrade (Washington County): This project will construct improvements to the water distribution system at Fort Frederick State Park, including replacement of deficient water lines, water metering devices, and a backup generator. Existing water distribution pipes are in poor condition and have experienced numerous leaks, impacting the availability of water supply. Park maintenance and public parking area asphalt would also be resurfaced as part of this project. The fiscal 2024 capital budget included initial funding for the design of this project. Fiscal 2026 funding supports completion of the project’s design and construction of the project. Total project cost has increased by \$400,000 based on an updated scope of work and cost estimates from MES.</p>	1.068	0.061	1.007	0.000

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	<u>Total Cost</u>	<u>Prior Authorized</u>	<u>Fiscal 2026 Request</u>	<u>Future Request</u>
<p>Janes Island State Park – Water Main Extension and Power Distribution Improvements (Somerset County): This project will construct improvements to the park’s water main and electric power distribution systems. Water main improvements include upgrading the existing two-inch water main to a four-inch water main to provide adequate water pressure to support the installation of fire suppression systems as part of renovations planned by DNR. Power distribution improvements include upgrading existing campsite electric hookups from 30-amp to 50-amp, refurbishing electric panels in several buildings to bring them up to current code standards, and installation of EV charging stations. The fiscal 2026 budget includes funding to construct the project. Prior funding was authorized in the fiscal 2024 capital budget for the project’s design. Project design was delayed due to the completion of a preliminary engineering report. Design activities resulted in the removal of planned sewer collection system improvements from the project scope, which reduced the total project cost by \$5 million.</p>	1.404	0.400	1.004	0.000
<i>Subtotal DNR Projects</i>	<i>\$19.551</i>	<i>\$5.428</i>	<i>\$5.585</i>	<i>\$0.000</i>
Total	\$33.381	\$5.918	\$8.183	\$10.742

DNR: Department of Natural Resources
DVMF: Department of Veterans and Military Families
ENR: enhanced nutrient removal
EV: electric vehicle
GO: general obligation
MDE: Maryland Department of the Environment
MES: Maryland Environmental Service
VA: U.S. Department of Veterans Affairs
WTP: water treatment plant
WWTP: wastewater treatment plant

Source: Department of Budget and Management

Changes to Fiscal 2026 Planned Projects

Five projects previously planned for fiscal 2026 are not included in the request:

- the Poplar Hill WTP and WWTP Upgrade and Lagoon Closure project was removed due to the property's consideration for acquisition by local government;
- the North Branch Correctional Institute – Pump Station Upgrade project was removed at the request of MES;
- the Washington Monument State Park WTP Upgrade project has been deferred to fiscal 2028 at the request of MES;
- the Swallow Falls State Park WTP and WWTP Upgrade project has been deferred to fiscal 2027 based on delays to the project schedule and a program modification request under review by the Department of Budget and Management (DBM); and
- the CHVH WWTP Lagoon Dredging project has been deferred to fiscal 2027 due to project planning delays.

Encumbrance and Expenditure of Previously Authorized Funds

The program has \$39.5 million in total previously allocated funding that has yet to be encumbered, which includes \$12.0 million allocated in fiscal 2025, \$17.0 million allocated in fiscal 2024, and \$10.5 million allocated in fiscal 2023 or prior fiscal years. In fiscal 2025, MES has an ambitious plan to encumber nearly all of this outstanding funding. Through early December 2024, MES had encumbered \$10.8 million. Encumbrance levels vary substantially from year to year based on the magnitude and number of projects in the agency's five-year plan, bidding timelines, and other factors. Additionally, the amount of previously allocated program funding from fiscal 2024 and prior fiscal years that has yet to be expended totals \$55.5 million, including \$12.4 million allocated in fiscal 2022 or earlier. Through early December 2024, MES recorded \$9.3 million in program expenditures.

Contingency Funds

Unallocated funds are not included in the fiscal 2026 program; however, elevated contingency percentages provide the flexibility needed to address unanticipated project delays or challenges. Generally, contingency funds are budgeted at 5% to 10% of the total for capital project costs; however, DBM and MES find that rate to be insufficient for this program due to the logistical complications associated with water and wastewater infrastructure. The agency notes that a 15% to 20% contingency is more appropriate, with 15% applied to projects with infrastructure that can be

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visually inspected and 20% applied to water and wastewater treatment facilities that cannot be visually inspected (such as underground facilities). Contingency percentages for fiscal 2026 are 20% for all projects except for the Point Lookout State Park WWTP Upgrade project, which has a contingency of 15%. Contingency percentages are generally estimated high to ensure that sufficient resources are available and are further refined after preliminary engineering reports are complete.

Appendix 1
Operating Budget Impact Statement
Fiscal 2026-2030
(\$ in Thousands)

	2026	2027	2028	2029	2030
Point Lookout State Park – Wastewater Treatment Plan Upgrade					
Estimated Operating Cost	\$0.000	\$5.400	\$6.000	\$6.500	\$6.800
Estimated Staffing	0.0	0.0	0.0	0.0	0.0

Beginning in fiscal 2027, operating expenses for Point Lookout State Park will increase by between \$5,400 and \$6,800 annually due to the new WWTP. These increases include telecommunications and internet services necessary to allow remote access to the WWTP, additional utilities costs due to higher power usage by enhanced nutrient removal (ENR) process equipment, increased lab services for quality monitoring, and additional supplies and materials costs for chemicals needed as part of the ENR process.