

K00A
Department of Natural Resources

Operating Budget Data

(\$ in Thousands)

	FY 04	FY 05	FY 06	FY 05-06	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$70,656	\$68,545	\$65,508	-\$3,037	-4.4%
Special Fund	59,512	67,362	66,500	-863	-1.3%
Federal Fund	22,951	23,323	23,857	534	2.3%
Reimbursable Fund	<u>4,193</u>	<u>6,157</u>	<u>5,074</u>	<u>-1,082</u>	<u>-17.6%</u>
Total Funds	\$157,312	\$165,387	\$160,939	-\$4,448	-2.7%
Contingent & Back of Bill Reductions			-3,386	-3,386	
Adjusted Total	\$157,312	\$165,387	\$157,553	-\$7,834	-4.7%

- The Department of Natural Resource's (DNR) fiscal 2006 allowance of \$157.6 million represents a \$7.8 million, or 4.7% decrease from the fiscal 2005 working appropriation. When adjusted for contingent actions, DNR's general funds decrease by 9.1%, special funds decrease by 1.5%, federal funds increase by 2.2%, and reimbursable funds decrease by 17.7%.
- The \$6.2 million reduction in general funds reflects a \$3.0 million reduction in the State Forest and Park Service (SFPS) contingent upon the enactment of legislation providing transfer tax special funds. Other reductions include \$542,022 in SFPS operations, \$473,315 in Natural Resources Police (NRP) Field Operations, \$479,087 in the Geographic Information Service, \$342,928 in Shellfish Restoration and Management, and \$530,268 in department wide vehicle operation and maintenance funding.
- The \$1.0 million decrease in special funds reflects a \$361,268 increase in the Capital Grants and Loans Administration offset by reductions in Waterway Improvement Fund revenue available for administrative costs (\$728,616), Maryland Environmental Trust (\$683,134), and the Power Plant Assessment Program (\$372,654).
- The \$509,920 increase in federal funds is primarily due to U.S. Environmental Protection Agency grant funds for projects that expand and strengthen cooperative efforts to restore and protect the Chesapeake Bay.

Note: Numbers may not sum to total due to rounding.

For further information contact: Amanda Mock

Phone: (410) 946-5530

Personnel Data

	<u>FY 04 Actual</u>	<u>FY 05 Working</u>	<u>FY 06 Allowance</u>	<u>FY 05-06 Change</u>
Regular Positions	1,454.00	1,417.00	1,376.50	-40.50
Contractual FTEs	<u>316.51</u>	<u>439.07</u>	<u>343.19</u>	<u>-95.88</u>
Total Personnel	1,770.51	1,856.07	1,719.69	-136.38

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	89.06	6.47%
Positions Vacant as of 12/31/04	124.75	8.80%

- DNR has lost a significant number of authorized positions over the past five years. Authorized positions decrease by 15% when the fiscal 2006 allowance is compared to the fiscal 2001 actual.
- The fiscal 2006 allowance abolishes 40.5 regular positions, of which 8 are vacant and 32.5 are technically filled. The abolished positions are located in the following units: 4 in the Office of the Secretary, 9 in the Forestry Service, 11 in SFPS, 13 in NRP, 2 in Resource Assessment Service, and 1.5 in Watershed Services. It is important to note that over half of these abolitions are law enforcement officer (LEO) positions in SFPS (11 positions) and NRP (12 positions). While these LEO positions will be abolished, the individuals in these positions will not lose their jobs, because these abolished positions will be vacated by the beginning of fiscal 2006, or the individuals will be transferred to vacant positions.
- DNR's projected fiscal 2006 turnover rate of 6.5% is 2.3% lower than the current vacancy rate. To achieve this turnover rate in fiscal 2006, it will be necessary for DNR to maintain 89 vacancies. This may be difficult since many vacancies will be filled as part of the internal law enforcement merger.

Analysis in Brief

Issues

DNR's Lofty Goals Flout Fiscal Reality: DNR has responsibility for managing the protection, enhancement, and balanced use of the State's natural resources. However, actions in the budget over the past several fiscal years have reduced the agency's ability to perform this mission as evidenced by its performance indicators. Paradoxically, the State has either committed to, or has the potential for involvement in, resource conservation activities that could require billions of State funds. **DLS recommends that DNR discuss whether it is achieving its mission. DNR should also discuss why it is engaged in efforts to develop a financing authority and a tributary strategy that would demand resources that far exceed DNR's funding capacity.**

Spat Over Asian Oysters: In hopes of reversing plummeting oyster harvests, Maryland and Virginia are voluntarily preparing an Environmental Impact Statement (EIS) to evaluate eight potential oyster restoration strategies for the Chesapeake Bay. Several concerns have been raised about DNR's efforts to chart out a new oyster restoration strategy. **DNR should be prepared to discuss how its funding requirements may change when an oyster restoration strategy is identified in fall 2005. Also, the Department of Legislative Service's (DLS) recommends budget bill language making DNR funding for implementation of any of the alternatives set forth in the EIS contingent upon the submittal of a report.**

DNR Law Enforcement Merger Implemented: DNR initiated efforts to consolidate SFPS and NRP law enforcement functions in early 2004, and this consolidation became effective January 1, 2005. **DLS recommends that DNR discuss its strategy for paying for the law enforcement and civilian personnel called for as part of this merger. Furthermore, budget bill language is recommended requiring DNR to provide an update on the law enforcement merger.**

Surprise State Forest Management Shift: A January 2005 DNR report outlined options for improving State forest management and recommended shifting management responsibility for the State forests from SFPS to the Forestry Service (FS). While not reflected in the fiscal 2006 budget allowance, DNR has initiated efforts to implement this recommendation. **DNR should be prepared to discuss why this organizational change is necessary; the estimated amount of funding, positions, and equipment that will be transferred from SFPS to FS; whether any statutory changes will be required; the impact on land designations; and the amount of State forest land that DNR intends to manage in accordance with two forest certification standards.**

Significant Decrease in Funding for Vehicles: The status and condition of DNR's vehicles, vessels, and heavy equipment and machinery has been a longstanding concern. **DNR should be prepared to discuss how the fiscal 2006 funding decrease for vehicle replacement will impact its programs, employees, and visitors, and what criteria will be used to determine which vehicles should be**

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replaced. DLS recommends narrative requiring DNR and the Department of Budget and Management to submit a report that proposes a strategy for ensuring that DNR's vehicles are replaced in a timely manner.

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Add budget bill language making implementation of the preferred oyster restoration alternative contingent upon submittal of a report.		
2. Add budget bill language requiring submittal of a report on the law enforcement merger.		
3. Add budget bill language concerning vehicle replacement funding.		
4. Add budget bill language to delete one position in the Office of the Secretary.		
5. Delete a vacant Chief of Staff position.	\$ 98,066	1.0
6. Adopt committee narrative concerning submittal of a report on vehicle replacement.		
7. Add budget bill language to delete a vacant public affairs position in the Office of the Secretary.		
8. Add budget bill language to delete a vacant public affairs position in the Resource Assessment Service.		
Total Reductions	\$ 98,066	1.0

Updates

Backfilling Waterway Improvement Funds (WWIF): This update describes DNR's efforts to comply with new requirements dictating how WWIF revenue may be utilized.

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Operating Budget Analysis

Program Description

The Department of Natural Resources (DNR) manages the protection, enhancement, and balanced use of the State's natural resources. To accomplish this mission, DNR is structured into the programmatic units described below. By July 1, 2005, primary management responsibility for State forests will be transferred from the State Forest and Park Service (SFPS) to the Forest Service; thus separating the currently, combined SFPS organizational unit.

- **Office of the Secretary:** Provides leadership, public outreach, customer service, legislative, and legal services.
- **Forest Service:** Supports Maryland's forest and tree resources by providing private forestland management expertise, wildfire protection, and urban and community forestry assistance.
- **Wildlife and Heritage Service:** Provides technical assistance and expertise to the public and private sectors for the conservation of Maryland's wildlife resources, including the management of threatened and endangered species, game birds and mammals, and the operation of 105,000 acres of State-owned lands classified as Wildlife Management Areas.
- **Forest and Park Service:** Manages natural, cultural, historic, and recreational resources in 47 forests and parks across the State, and provides related educational services.
- **Capital Grants and Loan Administration:** Administers diverse financial assistance programs that support public land and easement acquisitions, local grants, and waterway improvements.
- **Licensing and Registration Service:** Operates six regional service centers that assist the public with vessel titling and registration, off-road vehicle registration, commercial fishing licenses, and hunting and sport fishing licenses.
- **Natural Resources Police:** Preserves and protects Maryland's natural resources and its citizens through enforcement of conservation, boating, and criminal law.
- **Resource Planning:** Provides technical assistance to land managers in property acquisition, development, and management.
- **Engineering and Construction:** Provides engineering, project management, and in-house construction services.
- **Chesapeake Bay Critical Areas Commission:** Promulgates criteria to minimize storm water runoff impact, conserve living resources and habitats, and establish land use policies that accommodate growth while addressing the environmental impact of development along sensitive shorelines.

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- **Resource Assessment Service:** Evaluates and directs implementation of environmental restoration and protection policy for tidal and non-tidal ecosystems.
- **Maryland Environmental Trust:** Negotiates and accepts conservation easements over properties with environmental, scenic, historic, or cultural significance; provides grants, loans, and technical assistance to local land trusts.
- **Watershed Services:** Develops and supports watershed, greenway, and waterway management strategies for the restoration, protection, and economic vitality of Chesapeake and coastal ecosystems.
- **Fisheries Service:** Manages commercial and recreational harvests to maintain sustainable fisheries, enhance and restore fish species in decline, and promote fishery ethics and public involvement.

DNR's six primary goals are to achieve:

- sustainable populations of living resources and aquatic habitat in the main stem of the Chesapeake Bay, tidal tributaries, and coastal bays;
- healthy Maryland watershed lands, streams, and non-tidal rivers;
- natural resources stewardship opportunities for Maryland's urban and rural citizens;
- a conserved and managed statewide network of ecologically valuable private and public lands;
- diverse outdoor recreation opportunities for Maryland citizens and visitors; and
- diverse workforce and efficient operations.

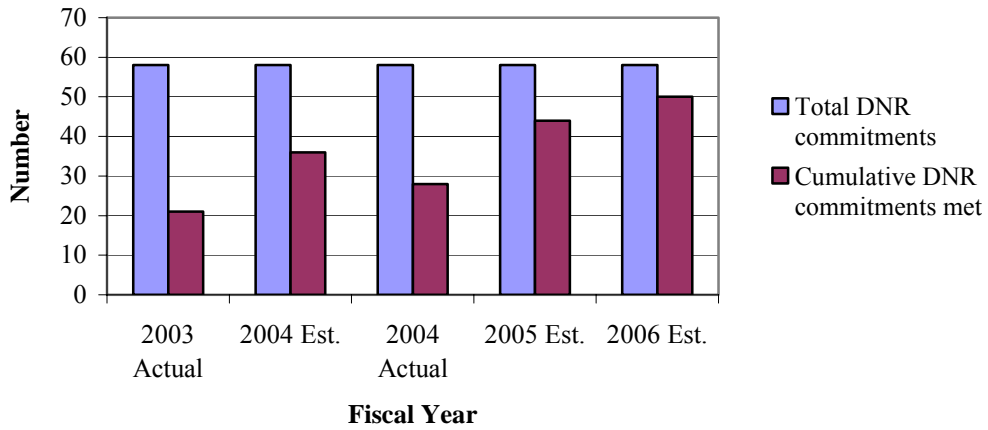
Performance Analysis: Managing for Results

DNR's fiscal 2006 Managing for Results submission is structured around six primary departmental level goals, with numerous subsequent objectives and performance measures. **Exhibit 1** illustrates DNR's progress toward several performance goals in key program areas. These charts indicate the following trends:

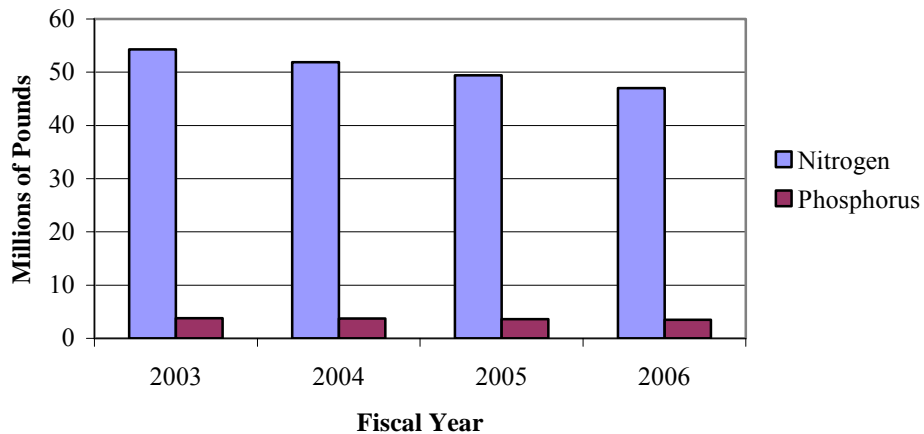
- anticipated progress toward meeting Maryland's *Chesapeake 2000* commitments;
- small reductions in nitrogen and phosphorus loading into the Chesapeake Bay; and
- a decreasing amount of forest, agricultural, and wetland acres being restored in fiscal 2003 through 2005, but a projected increase in agricultural land restored in fiscal 2006.

In fiscal 2004, DNR estimated that it would meet a total of 36 *Chesapeake 2000* commitments. However, ultimately the department was able to meet only 28 commitments. This suggests that DNR may have a tendency to overestimate its ability to achieve these commitments. **DNR should be prepared to discuss its efforts to achieve the *Chesapeake 2000* goals within the stated timeline and specifically describe which commitments were not met in fiscal 2004, why they were not attained as estimated, and whether the fiscal 2005 and 2006 goals are truly achievable.**

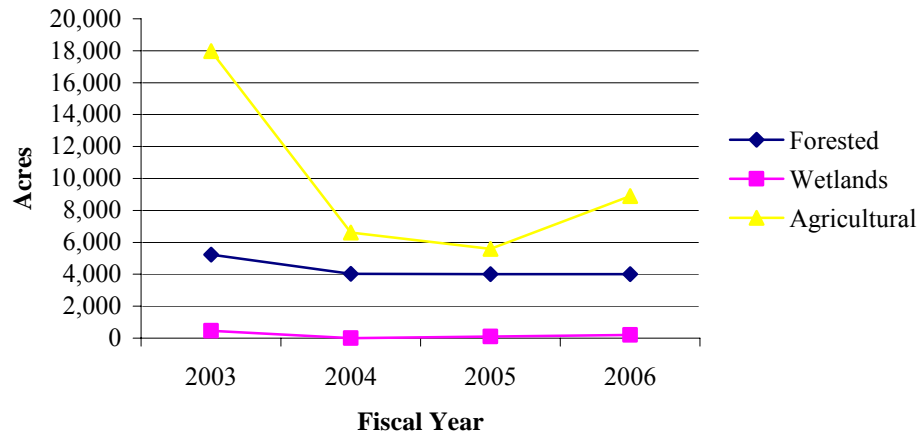
**Exhibit 1
DNR Commitments to Chesapeake Bay Agreement Progress**



Estimated Nutrient Load to the Chesapeake Bay



Acres of Land Restored



Source: Budget Books, Fiscal 2005 and 2006

Governor's Proposed Budget

As shown in **Exhibit 2**, the Governor's fiscal 2006 allowance of \$157.6 million is \$7.8 million, or 4.7% below DNR's fiscal 2005 working appropriation. This change reflects a \$6.2 million decrease in general funds, \$1.0 million decrease in special funds, \$509,920 increase in federal funds, and a \$1.1 million decrease in reimbursable funds.

Exhibit 2
Governor's Proposed Budget
Department of Natural Resources
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimbursable Fund	Total
2005 Working Appropriation	\$68,545	\$67,362	\$23,323	\$6,157	\$165,387
2006 Governor's Allowance	65,508	66,500	23,857	5,074	160,939
Contingent & Back of Bill Reductions	<u>-3,209</u>	<u>-143</u>	<u>-24</u>	<u>-10</u>	<u>-3,386</u>
Adjusted Allowance	62,299	66,357	23,833	5,064	157,553
Amount Change	-\$6,246	-\$1,006	\$510	-\$1,092	-\$7,834
Percent Change	-9.1%	-1.5%	2.2%	-17.7%	-4.7%

Where It Goes:

Personnel Expenses

Abolish 40.5 positions, of which 22 are law enforcement officer positions.....	-\$2,407
Increments and other compensation.....	1,932
Employee and retiree health insurance	-469
Retirement contribution cost increase.....	26
Turnover adjustments.....	1,296
Other fringe benefit adjustments largely related to the transfer of the Nonpoint Source Program to the Maryland Department of the Environment	-817

Other Changes

Land Management for Wise Use and Public Enjoyment

Reduce State Forest and Park Operations contingent upon the enactment of legislation providing \$3.8 million in special funds.....	-3,000
Reduce State Forest and Park Operations, with 40% of the total reduction due to the loss of reimbursable funds from the State Highway Administration...	-1,741
Scale back Forestry Service proscribed fire, fire response, and education programs	-476
Environmental Trust Fund revenue for the Power Plant Assessment Program...	-373

Natural Resources Protection and Restoration

Increase in U.S. Environmental Protection Agency Chesapeake Bay Program grant funds	893
Natural Resources Police Field Operations	-272
Reduce Maryland Environmental Trust conservation easements	-689

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Where It Goes:

Other Changes

Fewer engineering and construction projects.....	-521
Close the Information Research Center	-88
Reduce motor vehicle replacement, operations, and maintenance funding.....	-865
Other adjustments	-263
Total	-\$7,834

Note: Numbers may not sum to total due to rounding.

General Funds

The 9.1% decrease in general funds is the result of numerous program adjustments. A \$3.0 million reduction in SFPS funds is assumed contingent upon the enactment of budget reconciliation legislation providing transfer tax special funds. Other general fund decreases were made in the following programs:

- \$594,892 in the Forestry Service reducing fire programs, technical assistance to urban communities for tree and forest management, business development opportunities for industry, and education programs. This decrease is partially offset by a \$106,731 increase in special funds;
- \$542,022 in SFPS operations, eliminating DNR’s ability to respond to weather-related and other facility emergencies and potentially reducing operations at some parks;
- \$473,315 in NRP Field Operations, reducing the unit’s ability to fulfill its law enforcement and search, rescue, and recovery responsibilities. This decrease is partially offset by a \$201,667 increase in special and federal funds;
- \$479,087 in the Geographic Information Service, which is partially offset by a \$333,719 increase in special funds;
- \$342,928 in Shellfish Restoration and Management reducing funds for salaries and contractual services; and
- \$530,268 in department-wide vehicle operation and maintenance funding, reducing DNR’s vehicle fleet replacement potential to 84 cars annually.

Special Funds

The 1.5% decrease in special funds is due in part to the following changes:

- \$361,268 increase in the Capital Grants and Loans Administration due primarily to additional transfer tax revenue;
- \$728,616 reduction in Waterway Improvement Fund revenue in the Office of the Secretary due to recently enacted statutory limitations;
- \$683,134 decrease in the Maryland Environmental Trust due to less anticipated matching funding from local land trusts; and
- \$372,654 reduction in the Power Plant Assessment Program to more accurately estimate anticipated Environmental Trust Fund revenue.

Federal Funds

The 2.2% increase in federal funds is primarily due to an \$879,136 increase in U.S. Environmental Protection Agency grant funds for projects that expand and strengthen cooperative efforts to restore and protect the Chesapeake Bay.

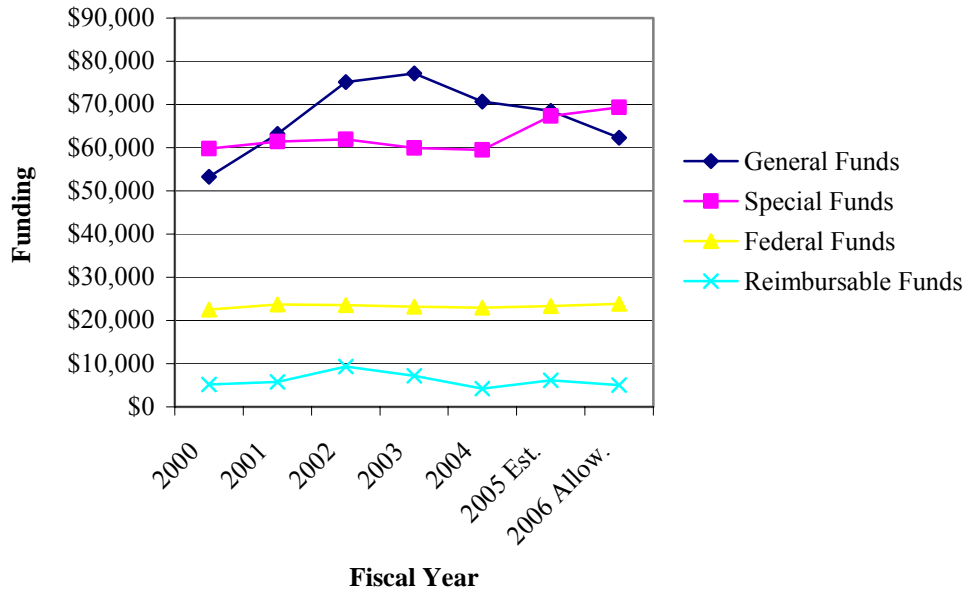
Reimbursable Funds

The 17.7% decrease in reimbursable funds reflects the Maryland Department of Transportation's State Highway Administration (SHA) reducing funding for SFPS road construction mitigation projects (\$865,227) and completion of a SHA-funded trail construction project in Washington County (\$242,828).

Impact of Strategic Budget Reductions

DNR's fiscal 2006 allowance reflects a significant reduction in general funds and minimal special and federal funds to offset this decrease. As shown in **Exhibit 3**, DNR has been able to rely to some extent on increasing special funds to offset general fund reductions. As a result of the decisions reflected in DNR's fiscal 2006 allowance, there will be significant programmatic cutbacks in DNR's forestry, law enforcement, and State park programs, and the department's efforts to ensure that its vehicle fleet is safe and up-to-date will be seriously threatened. Some of these reductions reflect substantive, structural budget changes. For example, the fiscal 2006 allowance assumes closure of DNR's Information Research Center and an overall reduction in fire-related programs in the Forestry Service. However, in other areas, DNR intends to provide approximately the same level of service by absorbing costs, being unprepared for emergencies, or depleting special fund balances.

Exhibit 3
DNR Budget Trends by Fund Source
Fiscal 2000 – 2006



Note: This chart reflects a \$3.0 million contingent decrease in SFPS general funds being offset by new special funds.

Source: Department of Legislative Services

Contingent Actions

The fiscal 2006 allowance reflects the elimination of \$385,682 (subobject 0172), the appropriation for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in budget reconciliation legislation.

Secondly, general funds for SFPS operations would decrease by \$3.0 million, contingent upon enactment of a provision in budget reconciliation legislation providing \$3.8 million in additional transfer tax special fund revenue for this purpose. Current law dictates that only up to \$1.2 million in transfer tax revenue may be dedicated to SFPS operations. Therefore, these provisions in the budget bill and the budget reconciliation bill would result in a net increase of \$800,000 in special funds over fiscal 2005 for SFPS operations.

Issues

1. DNR's Lofty Goals Flout Fiscal Reality

DNR has responsibility for managing the protection, enhancement, and balanced use of the State's natural resources. However, actions in the budget over the past several fiscal years have reduced the agency's ability to perform this mission as evidenced by its performance indicators. Paradoxically, the State has either committed to, or has the potential for involvement in, resource conservation activities that could require billions of State funds. The ambitious goals envisioned under the initiatives stand in stark contrast to the current agency which appears underfunded and less effective as a result. These two initiatives are described below.

\$15 Billion Bay Cleanup Financing Authority

In its final report to the Chesapeake Executive Council, the Chesapeake Bay Watershed Blue Ribbon Panel called on bay states and the federal government to make a six-year, \$15 billion investment in a new regional financing authority. This Chesapeake Bay financing authority would prioritize and distribute restoration funds throughout the watershed's seven jurisdictions: New York, Pennsylvania, Maryland, Delaware, Virginia, West Virginia, and the District of Columbia. This recommendation was based on the finding that current efforts to control nutrient and sediment pollution are too modest and fragmented, and lack the kind of directed coordination required for a regional strategy. The main elements of the proposed financing authority are summarized below:

- Establish the authority no later than January 1, 2007, and capitalize it with \$12.0 billion in federal funds and \$3.0 billion in state funds between 2005 and 2010.
- Fund the authority in perpetuity by developing sustainable, dedicated federal and state revenue streams to adequately support long-term restoration programs.
- Develop a list of shared funding priorities and provide grant and revolving loan funds for all sectors of bay watershed pollution, with priority being given to agriculture and wastewater treatment.

In addition to calling for the creation of a financing authority, the report outlines specific recommendations for financing pollution reductions from agriculture, municipal and industrial wastewater treatment, development, and air disposition. These recommendations include establishing state surcharge programs to raise revenues and increasing federal farm bill funding. Maryland recently signed a directive of the Chesapeake Bay Executive Council to further explore what needs to be done to set up such an authority. A committee of federal, State, and regional finance and legal experts is being convened to develop a proposal by July 1, 2005.

State Tributary Strategy Implementation Plan

To meet the water quality goals set forth in the *Chesapeake 2000 Agreement*, Maryland has committed to developing and implementing a statewide Tributary Strategy Plan that includes pollution control actions unique to each watershed, its population, and its land-use patterns. While Maryland has made some progress in reducing nutrient pollution, significant additional improvement is necessary to meet the *Chesapeake 2000* goals. Last spring, the Governor’s Bay Cabinet adopted a Tributary Strategy composed of a formidable set of restoration goals and associated actions for achieving these goals. The strategy document identifies specific actions under three broad categories: agriculture (e.g., animal waste management and alternative crops), urban point source (e.g., wastewater treatment plants), and urban nonpoint source (e.g., septic systems and stormwater management). As shown in **Exhibit 4**, it was estimated that this proposed blueprint would cost \$10.1 billion to fully implement.

Exhibit 4 Maryland’s Tributary Strategy Funding Analysis

	<u>Total Cost</u> <u>(\$ Millions)</u>	<u>Nitrogen Reduction</u> <u>(Million lbs./yr.)</u>	<u>Phosphorus Reduction</u> <u>(Million lbs./yr.)</u>
Agriculture	\$806	10.57	0.59
Urban Point Source	1,069	5.14	0.07
Urban Nonpoint Source			
Septic	3,028	1.58	0.00
Stormwater	5,151	2.07	0.28
Total	\$10,054	19.36	0.95

Source: Maryland’s Tributary Strategy, September 2004

During the second half of 2004, ten tributary teams, appointed by the Governor, met monthly to develop on-the-ground local implementation strategies necessary to achieve the identified goals. These strategies are detailed descriptions of planned local actions and a schedule for undertaking those actions necessary to reduce nutrient and sediment loads from each tributary watershed to reach assigned loading caps by the year 2010. DNR is now compiling the information and formulating basin-specific and statewide implementation plans. The draft plans should be available for public review and input by April 2005, with the final documents to be completed by July 2005.

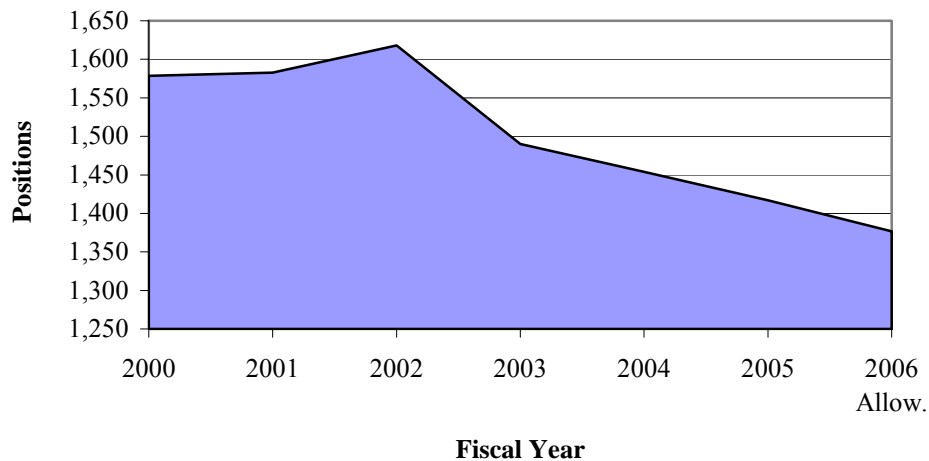
DNR: An Agency in Decline

While DNR’s efforts to develop a \$15 billion financing authority and a \$10.1 billion tributary strategy may be useful planning exercises, these initiatives do not appear to be grounded in fiscal reality. At this time, DNR is not in a position to make a significant contribution to these initiatives, as illustrated by the following trends:

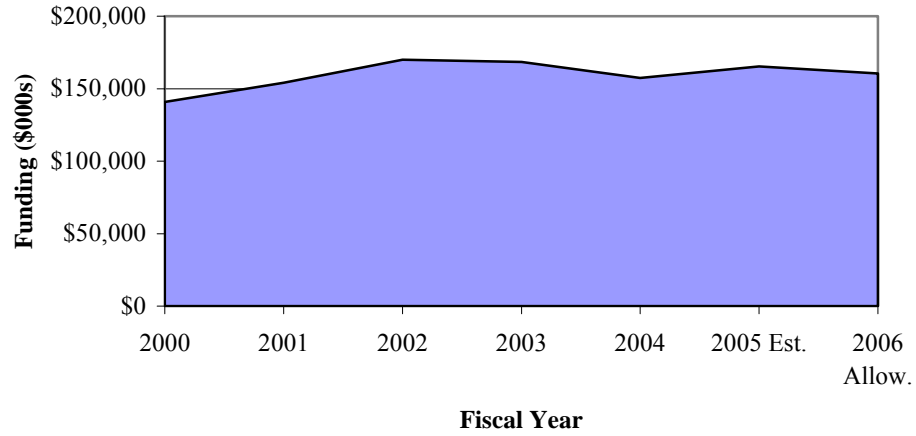
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- As shown in **Exhibit 5**, DNR’s personnel have decreased 15% since fiscal 2002, and DNR’s fiscal 2006 allowance is only 2.2% higher than the fiscal 2001 budget. Examples of how this impacts DNR programs include:
 - DNR’s vehicle replacement rate has shrunk from 136 vehicles in fiscal 2002 to only an estimated 84 vehicles in fiscal 2006. This reduced funding level may represent a threat to employee safety.
 - Funding for the State Forests and Parks grew by only 1% when the fiscal 2001 actual budget and fiscal 2006 allowance is compared. DNR advises that it may be required to reduce services at several parks.
 - The Forestry Service’s budget decreased approximately 25% between fiscal 2001 and fiscal 2006, resulting in a significant reduction in fire programs, technical assistance to communities for tree and forest management, and forest education programs.
 - As discussed previously in the Managing for Results section, DNR is struggling to meet its performance goals. **Exhibit 6** illustrates that DNR is not able to affect a significant change in three key areas; specifically, limited progress is being made in reducing Chesapeake Bay nutrient loading, restoring the native oyster, and restoring forested corridors between Green Infrastructure land conservation hubs.

Exhibit 5
Total DNR Positions

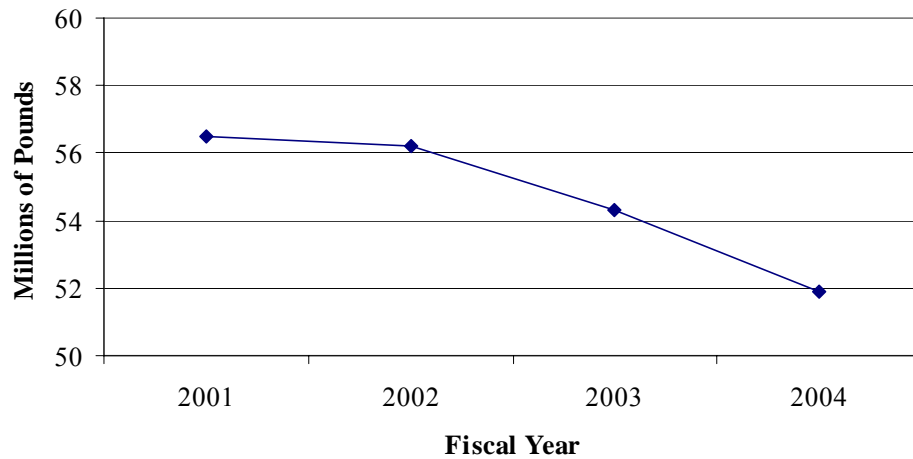


Total DNR Funds

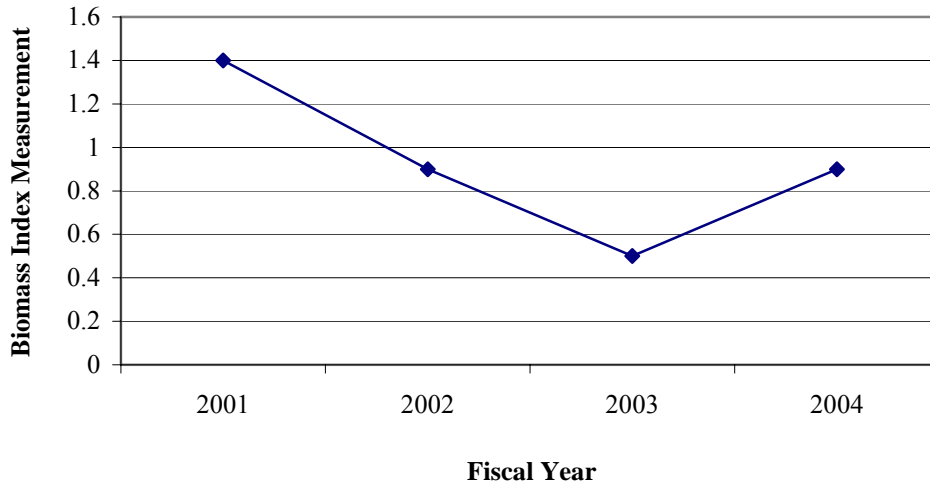


Source: Department of Legislative Services

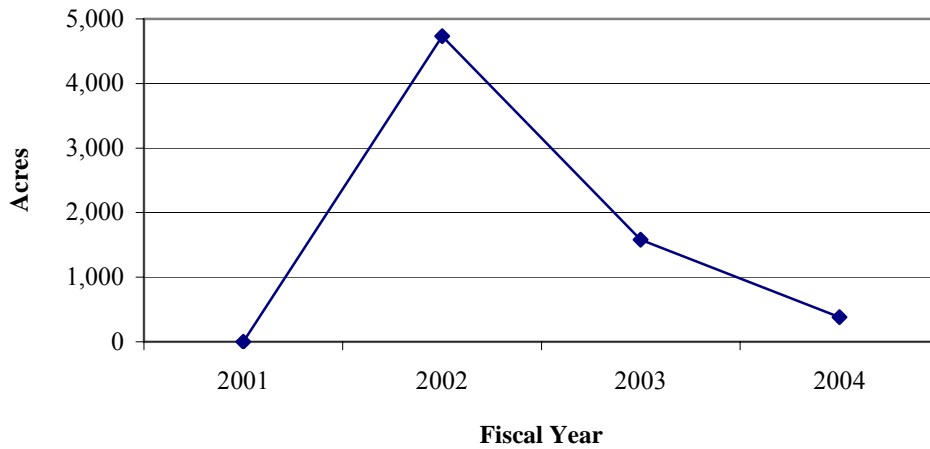
**Exhibit 6
Estimated Nitrogen Load to the Chesapeake Bay
(Millions of Pounds)**



Oyster Biomass Index



Acres of Reforestation of Green Infrastructure Gaps



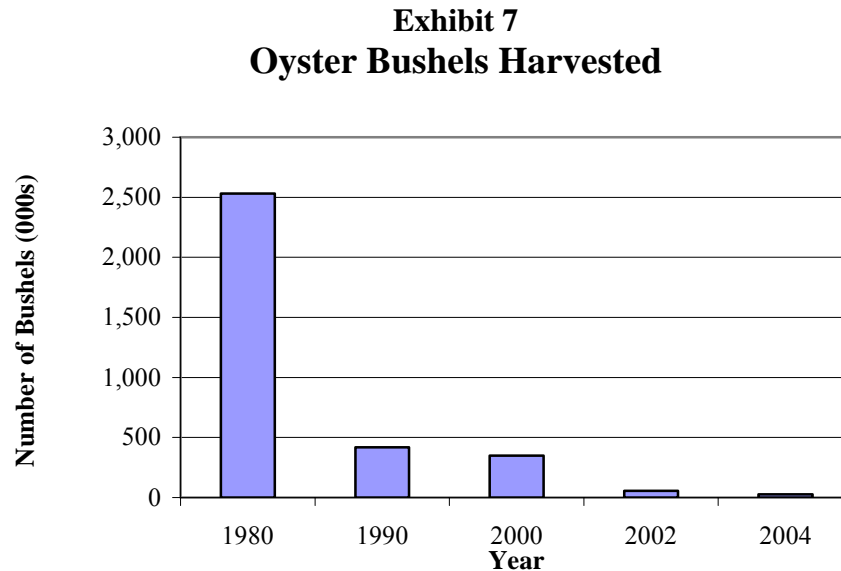
Source: Budget Books, Fiscal 2003 through 2006

DLS recommends that DNR discuss whether it is achieving its mission. DNR should also discuss why it is engaged in efforts to develop a financing authority and a tributary strategy that would demand resources that far exceed DNR’s funding capacity.

2. Spat Over Asian Oysters

Background

The native Chesapeake Bay oyster (*Crassostrea virginica*) plays a vital role in improving water quality and providing habitat for other marine life. However, oyster harvests have plummeted in recent years, as illustrated in **Exhibit 7**.



Source: Department of Natural Resources

In hopes of reversing this disturbing trend, Maryland, Virginia, and the U.S. Army Corps of Engineers are preparing an Environmental Impact Statement (EIS) to evaluate eight potential oyster restoration strategies for the Chesapeake Bay. These restoration alternatives include continuation/expansion of native oyster restoration programs; implementation of a temporary harvest moratorium; and introduction of non-native, diploid (reproducing) *Crassostrea ariakensis*, also known as the Suminoe or Asian oyster, propagated from stock from Oregon. This EIS represents the first time consideration has been given to intentionally introducing a non-native species, since most non-natives are introduced by accident.

The current timeline for the EIS process is outlined in **Exhibit 8**. During the second and third phase, a determination could be made that additional information and time is needed for adequate evaluation; and the timeline could be extended. Assessment information will be incorporated into the draft EIS in June 2005 at which time the states will determine if there is sufficient information to recommend a preferred oyster restoration strategy. If decision-makers identify a preferred alternative, a Draft EIS will be made available to the public in July 2005. Based upon public input, decision-

makers will decide whether or not to proceed with a Final EIS in September 2005, and if so, implement the preferred restoration alternative in October 2005.

Exhibit 8
Oyster Environmental Impact Statement Timeline

Phase I	January 2004	Notice of Intent to prepare EIS published. DNR and Virginia Marine Resources Commission, on behalf of the State of Maryland and Commonwealth of Virginia, are designated as the lead State agencies. The U.S. Army Corps of Engineers is designated as the lead federal agency.
Phase II*	June 2005	Independent Oyster Advisory Panel meets to review pre-draft EIS. Panel advises Maryland and Virginia on the sufficiency of research, and degree of risk associated with each EIS alternative.
Phase III*	July 2005	Draft EIS with preferred alternative(s) released for public review.
Phase IV	September 2005	Publish Final EIS.
Phase V	October 2005	Implement preferred restoration alternative(s).

*A determination may be made during these phases that additional information and time is required to make a decision.

Source: Department of Natural Resources

Implementation Issues

Several major concerns have been raised about DNR's efforts to chart a new oyster restoration strategy. The bulk of the concern is directed toward the EIS alternative involving introduction of the Asian Oyster. The basis of this concern is that the National Academy of Science's National Research Council and the U.S. EPA's Chesapeake Bay Program have recommended caution and significant additional research before introducing Asian Oysters into the Chesapeake Bay. To allay some of these concerns, DNR implemented 16 scientific research efforts to gain the missing research necessary to be able to select from eight EIS alternatives. Also, DNR has created an Independent Oyster Advisory Panel to review the adequacy of the research data and risk assessments used to develop the EIS.

DNR has dedicated a significant amount of funding to evaluation of various oyster restoration alternatives, as illustrated in **Exhibit 9**. Since the EIS may be completed this summer, DNR may

require an entirely new programmatic and funding framework to guide its oyster restoration programs and priorities in fiscal 2006.

Exhibit 9
Funding for Oyster Restoration Alternatives Evaluation

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$1,674,518
2005	1,700,000
2006	1,642,908

Source: Department of Natural Resources

DNR should be prepared to discuss how its funding requirements may change when an oyster restoration strategy is identified in fall 2005. Also, DLS recommends budget bill language making DNR funding for implementation of any of the alternatives set forth in the EIS contingent upon the submittal of a report describing the preferred oyster restoration alternative, how it differs from DNR's current restoration programs, the preferred alternative's fiscal and programmatic impact, and DNR's timeline for implementing the strategy.

3. DNR Law Enforcement Merger Implemented

Background

In a February 2004 law enforcement report, DNR, the Department of State Police (DSP), and the Department of Budget and Management, made the following recommendations:

- It is not in the State's interest to combine DNR's law enforcement functions with DSP.
- Significant efficiencies may be achieved by consolidating SFPS rangers with NRP and making civilians responsible for park operations. Since many SFPS jobs currently filled by sworn police officers could be better classified as security guard positions, or involve ground maintenance, concessions, or management, the report recommends assigning SPFS rangers and NRP officers and managers to a single unit, while pursuing changes to the personnel system that will remove SFPS's law enforcement responsibilities.

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Consistent with the report's recommendations, DNR initiated efforts to consolidate SFPS and NRP law enforcement functions in early 2004. On March 25, 2004, a Memorandum of Understanding (MOU) was signed by State officials and representatives of the State Law Enforcement Officers Labor Alliance (SLEOLA) that provided a broad outline of the merger. Throughout the summer and fall, an internal steering committee process was implemented to, among other items, address issues of concern to personnel and develop a timeline for cross-training of personnel.

Current Status

Pursuant to the MOU, DNR's law enforcement consolidation became effective January 1, 2005 and will be fully implemented by January 1, 2006. The status of the merger is summarized below.

- **Training** – Six SFPS Rangers graduated on November 22, 2004 from the first of four, six-week academy sessions to be held by NRP. Thirty-one Rangers are currently being trained and are scheduled to graduate in February 2005. The balance of the SFPS Ranger transfers will begin their training in either March or mid to late April. Also, by December 31, 2005 the current NRP force will receive cross training in State park related field experiences.
- **Reclassifications/Civilian Park Duties** – Upon graduation from training, transferring Rangers will be reclassified and report to a NRP Area Office. During this transition year, these individuals will be reassigned to their originating park with little change to their current responsibilities and SFPS will work to hire civilian replacement staff. This arrangement will end on January 1, 2006 when the Rangers will assume exclusive full-time NRP law enforcement duties.
- **Promotional Opportunities in the Parks** – DNR advises that a career path will be developed within each geographic region for Park Manager law enforcement officers (LEOS) who remain in the State park system.
- **SFPS Civilian Hires** – DNR is in the process of hiring 12 civilian positions and is seeking a hiring freeze exemption to hire an additional 30 civilian personnel.
- **Collective Bargaining** – At this time another bargaining session is neither anticipated nor scheduled prior to negotiations reopening in September. However, at the request of either labor or management, negotiations may be reopened at any time.

Fiscal 2006 Budget Implications

As illustrated in **Exhibit 10** the current law enforcement consolidation staffing plan reflects 108 Ranger LEOs and 26 Sergeant LEOs transferring from SFPS to NRP. Thirty-nine supervisory LEOs will remain with SFPS, and DNR will realize budget savings as these positions are filled with civilians over time through attrition. While the number of SFPS civilian positions to be created due to transfers to NRP is indeterminate at this time, DNR plans to hire 42 civilians in the short-term. DNR anticipates cost savings in personnel and operations after the merger is completed over some undefined period of time. In SFPS, it will cost an estimated 40% less to hire civilian personnel rather than LEOs.

Exhibit 10 Tentative Law Enforcement Consolidation Staffing Plan*

<u>State Forest and Park Service</u>	<u>Transfer</u>	<u>Natural Resources Police</u>
Ranger LEOs (108)	→Yes→	Become NRP LEOs
Sergeant LEOs (26)	→Yes→	Become NRP Corporals
Supervisory LEO positions (39) replaced with civilians via attrition** Civilians (up to 42 in short-term) hired to perform non-law enforcement work.	No	
SFPS LEO positions abolished (11)		

*While this information is current as of February 2005, the staffing plan is subject to change.

**One additional supervisory position will be filled with a civilian in the short term.

Source: Department of Natural Resources

DLS recommends that DNR discuss its strategy for paying for the law enforcement and civilian personnel called for as part of this merger. Furthermore, budget bill language is recommended requiring DNR to provide another update on the law enforcement merger.

4. Surprise State Forest Management Shift

Background

DNR manages the State's public forests and provides technical assistance to individuals and communities for the purpose of maintaining the current forest land base of the State. On October 1,

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2004, Governor Robert L. Ehrlich Jr. announced two executive orders aimed at improving DNR's forestry programs.

- Executive Order 01.01.2004.53 created the "Governor's Commission for Protecting the Chesapeake Bay through Sustainable Forestry." Among other responsibilities, this commission was tasked with conducting analyses on DNR's Strategic Forestlands Assessment and conservation models used in other states; providing recommendations concerning the Forest Legacy Assessment of Need Plan; assessing State and local land preservation and recreation plans; and, identifying additional federal programs and partners. The commission is required to submit an interim report by January 1, 2005 and a final report by December 1, 2005. However, since appointments have not been made to the commission, an interim report was not submitted.
- Executive Order 01.01.2004.21 requires DNR to develop, upgrade, and/or modify forest stewardship plans on all DNR-owned lands; and, work with industry and non-profit organizations to determine how to certify timber from State forests as meeting various environmental and social standards. DNR is required to submit a report with recommendations to the Governor by June 1 of each year.

New State Forest Management Structure

Currently, DNR's forestry programs are implemented by two different organizational units. The Forestry Service (FS) provides technical assistance to individuals and communities for the purpose of maintaining the current forest land base of the State, whereas SFPS manages the State's public forests. However, this management structure has come under recent scrutiny. Interest in managing State forests under Sustainable Forestry Industry (SFI) and Forest Stewardship Council (FSC) certification standards, the availability of vastly improved computer technology, and the development of new sustainable forest management practices have all prompted interest in determining whether a new management approach would be beneficial. In recognition of this changing environment, the 2004 *Joint Chairmen's Report* requested a report on what actions could be taken to centralize State forest management authority. In response, DNR submitted a report developed by an internal workgroup that examined the three policy options for State forest managerial responsibility and made a recommendation.

- **Option 1:** SFPS retains overall management responsibility for State forests, but FS assumes leadership for forest resource management related to silvicultural operations that occur in the State forests.
- **Option 2:** Primary management responsibility for State forests is transferred from SFPS to FS; thus separating the currently, combined SFPS and centralizing forestry programs in one organizational unit. (Recommended Option)
- **Option 3:** SFPS and FS are merged into one unit, which would assume overall management responsibility for State forests and State forest resource management.

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The DNR workgroup's rationale for recommending the second option included that it would result in resources being better aligned to achieve the mandates set forth in the recent executive orders, and would allow DNR to manage State Forests in accordance with new forest certification standards.

Several weeks after submitting this report to the General Assembly, DNR announced its intent to implement Option 2 immediately, with the transition being complete by July 1, 2005. This announcement was somewhat of a surprise, as DNR's fiscal 2006 budget allowance does not reflect this significant program management decision. Furthermore, by making this immediate decision, DNR did not build public consensus for this option, nor did it make any attempt to clarify its position on many of the difficult decisions that must be made regarding program budgets, personnel, land unit designations, facilities, equipment, and maintenance.

DNR should be prepared to discuss the following issues:

- **Why this organizational change is necessary to improve managerial efficiency;**
- **The estimated amount of funding, positions, and equipment that will be transferred to FS from SFPS as part of the reorganization;**
- **Whether any statutory changes will be required;**
- **The programmatic and fiscal impact of proposed or actual shifts in land designations (e.g.: Elk Neck and parts of Cedarville State Forests being redefined as State Parks); and**
- **The amount (acres/percent of total) of State forest land that DNR intends to manage in accordance with *both* SFI and FSC standards, and how these two sets of forest certification standards differ and overlap.**

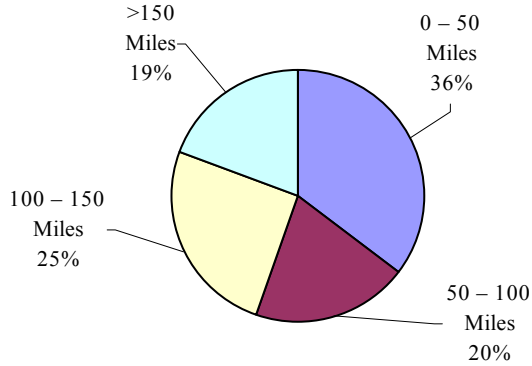
5. Significant Decrease in Funding for Vehicles

The status and condition of DNR's vehicles, vessels, and heavy equipment and machinery has been a longstanding concern of the budget committees. In response to this concern, DNR and the Department of Budget and Management (DBM) drafted a plan in 2001 for making DNR's vehicle replacement rate more consistent with the rest of the State. This report made it evident that DNR had used vehicle replacement funding for other purposes thus creating a replacement backlog. In response to this finding, annual budget language has been included requiring DNR to spend funds appropriated for vehicles only for that purpose.

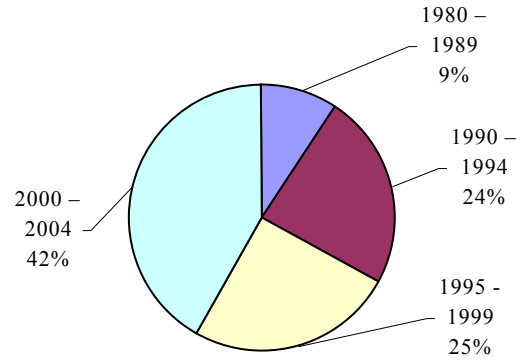
DNR is still struggling to update its vehicle fleet. As shown in **Exhibit 11**, 45% of DNR's vehicle fleet has over 100,000 miles, and 33% of the vehicles are more than 10 years old. The vast majority of DNR's vehicles are used by SFPS, NRP, and FS.

Exhibit 11

**DNR Vehicle Fleet Odometer Reading
(Miles in Thousands)**



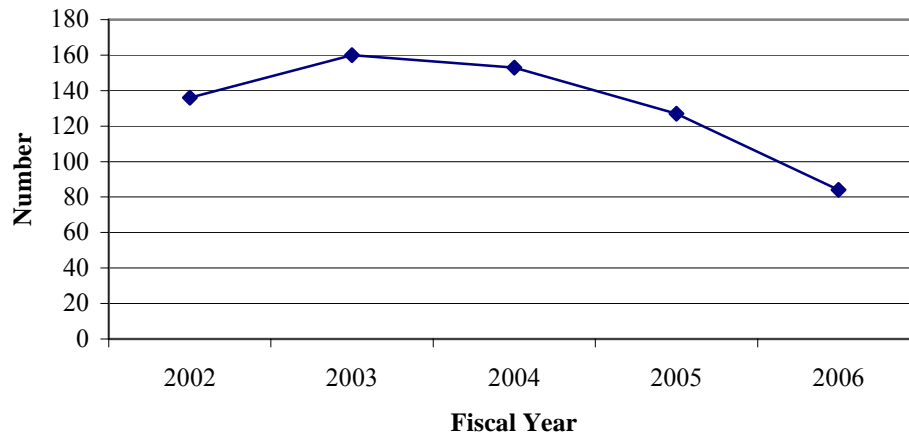
DNR Vehicle Fleet Age



Source: Department of Natural Resources

DNR’s fiscal 2006 allowance reflects an \$864,954 decrease from fiscal 2005 for motor vehicle operation and maintenance. As shown in **Exhibit 12**, this significant funding reduction will reduce the agency’s vehicle replacement to 84 vehicles in fiscal 2006, a 34% decrease from fiscal 2005.

**Exhibit 12
Number of DNR Vehicles Replaced**



Source: Department of Natural Resources

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DNR should be prepared to discuss how the fiscal 2006 funding decrease for vehicle replacement will impact its programs, employees, and public land visitors, and what criteria will be used to determine which vehicles should be replaced. DLS recommends narrative requiring DNR and DBM to submit a report that proposes a strategy for ensuring that DNR vehicles are replaced in a timely manner.

Recommended Actions

1. Add the following language:

Provided that Department of Natural Resources (DNR) funding for implementation of the preferred oyster restoration alternative identified in the Final Environmental Impact Statement is contingent upon submittal of a report providing the following information:

1. the short- and long-term fiscal and programmatic impact of implementing the preferred oyster restoration alternative,
2. how the preferred oyster restoration alternative differs from current DNR oyster restoration programs, and
3. the anticipated timeline for implementing the preferred oyster restoration alternative.

The House Environmental Matters Committee, Senate Education, Health, and Environmental Affairs Committee, and the budget committees shall have 45 days to review and comment upon the report.

Explanation: This budget bill language would make funding for implementation of the preferred oyster restoration alternative identified in an anticipated Final Environmental Impact Statement, contingent upon the submittal of a report.

Information Request	Author	Due Date
Oyster Strategy Report	DNR	Prior to implementation of the preferred oyster restoration alternative

2. Add the following language:

Further provided that the Department of Natural Resources (DNR) shall submit a report by December 31, 2005 that provides a complete update on the status of the State Forest and Park Service (SFPS) and Natural Resources Police (NRP) law enforcement merger. This report should include the following information:

1. A comparison of the law enforcement and civilian positions, noting position title and salaries, prior to the merger and as of December 15, 2005;
2. A list of the civilian positions filled in fiscal 2005 and 2006 to perform park responsibilities no longer performed by SFPS law enforcement officers;
3. A description of how DNR has addressed concerns about career advancement by SFPS law enforcement officer supervisors;

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4. A description of NRP’s new management structure and how the law enforcement services provided to State forests and parks has changed or remained the same; and
5. The estimated short- and long-term costs and cost savings, including salaries, training, and equipment, that DNR incurred as a result of the merger.

The budget committees shall have 45 days to review and comment on this report.

Explanation: This language requires DNR to submit a report to the committees by December 31, 2005, providing detailed information about implementation of the SFPS and NRP law enforcement merger.

Information Request	Author	Due Date
Law Enforcement Merger Report	DNR	December 31, 2005

3. Add the following language:

Further provided that the \$1,043,512 in general funds and \$627,800 in special funds appropriated for vehicle purchases in the Department of Natural Resources may only be expended for vehicle purchases. General funds unexpended at the end of the fiscal year shall revert to the State General Fund. Unexpended special fund appropriations will be cancelled.

Explanation: In the past, the Department of Natural Resources (DNR) has not made vehicle replacement a priority. Consequently, the vehicle fleet has fallen into disrepair. This language requires DNR to spend funds appropriated for vehicle purchases only on vehicle purchases or to revert or cancel the funds.

4. Add the following language:

Further provided that the Department of Natural Resources is directed to delete either PIN 013364 or PIN 014631 by July 1, 2005 and submit a report to the budget committees by July 1, 2005 detailing which position was abolished.

Explanation: This language requires the Department of Natural Resources (DNR) to delete either the Associate Deputy Secretary or Special Assistant/Director of Development position and submit a report detailing which position was abolished. Since none of DNR’s organizational units report to these positions, these positions are not essential.

Information Request	Author	Due Date
Position Abolishment Update	DNR	July 1, 2005

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- | | <u>Amount
Reduction</u> | | <u>Position
Reduction</u> |
|---|-----------------------------|----|-------------------------------|
| 5. Delete a vacant Chief of Staff position (PIN 014569).
DNR's Deputy Secretary and four Assistant Secretaries provide sufficient executive oversight. | \$ 98,066 | GF | 1.0 |
| 6. Adopt the following narrative: | | | |

Department of Natural Resources (DNR) Vehicle Replacement: The committees are concerned that DNR has many vehicles which have in excess of 100,000 miles and are not being replaced in a timely manner. DNR and the Department of Budget and Management (DBM) should jointly submit a report, by September 30, 2005, to the committees that provides the following information:

- An inventory of the condition of DNR's vehicles, vessels, and maintenance equipment and machinery that includes quantity, mileage, purchase cost, and age;
- A plan outlining the associated costs and timeline for replacing all vehicles in DNR's fleet that will have excess of 100,000 miles at the end of fiscal 2005 and all vessels and maintenance equipment and machinery that is approaching the end of its useful life;
- A plan to keep and maintain a reasonable and timely replacement schedule for the DNR fleet after the fleet has been replaced; and
- A comparison of the condition of DNR's vehicle fleet to other comparable State agencies as well as the State government average.

Information Request	Authors	Due Date
DNR Vehicle Fleet	DNR DBM	September 30, 2005

7. Add the following language:

provided that one Administrator I position (PIN 013616) is deleted from the budget of the Department of Natural Resources.

Explanation: This budget bill language deletes a vacant public affairs position in the Department of Natural Resource's Office of the Secretary.

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8. Add the following language:

. provided that one Public Affairs Officer I position (PIN 075333) is deleted from the budget of the Department of Natural Resources.

Explanation: This budget bill language deletes a vacant public affairs position in the Department of Natural Resource’s Resource Assessment Service.

Total General Fund Reductions	\$ 98,066	1.0
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Updates

1. Backfilling Waterway Improvement Funds (WWIFs)

In recent years DNR has dedicated approximately 10% of the annual WWIF special fund revenue to administrative overhead costs. In fiscal 2005, this administrative funding amount totaled approximately \$3.0 million. A January 2004 report of the DNR Special Fund Work Group found that DNR has not been complying with statutory language limiting the usage of the WWIF for administrative costs. In response to this finding, a provision was included in Chapter 430, Acts of 2004 (the Budget Reconciliation and Financing Act of 2004) requiring DNR to dedicate a decreasing percentage of WWIF revenue for administrative expenses related to implementing the purposes of the fund over the next 5 years - 8% in fiscal 2006, 6% in fiscal 2007, 4% in fiscal 2008, 2% in fiscal 2009, 0% in fiscal 2010 and thereafter.

Budget Implications

In accordance with this new statute, DNR's fiscal 2006 budget reflects \$2.2 million or just under 8% of the WWIF revenue being allocated to administrative purposes in the Office of the Secretary. Due to the implementation of the 8% cap, the fiscal 2006 allowance provides approximately \$728,616 less WWIF revenue for the Office of the Secretary than is provided in fiscal 2005. However, the fiscal 2006 allowance replaces these special funds with general funds. DNR advises that there was no net fiscal impact.

Long-Term Plan

Fiscal 2005 budget bill language required DNR to submitted a report "...that outlines a multi-year plan for reducing the percentage of WWIF revenues allocated to DNR's administrative purposes over the next five years." In January 2005, DNR submitted a two-page letter advising the committees that "...as the State budget situation continues to show improvement, DNR and DBM hope to continue to be able to replace the administrative costs covered by the WWIF with general funds in the Office of the Secretary." Furthermore, DNR stated that it would be "...premature to discuss potential reductions, or a 'multi-year' plan, that may or may not have to be made due to the WWIF limitations as long as the potential for general fund replacement is a viable alternative."

Current and Prior Year Budgets

Current and Prior Year Budgets Department of Natural Resources (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2004					
Legislative Appropriation	\$74,795	\$62,798	\$25,043	\$6,304	\$168,940
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-9	3,027	2,350	806	6,174
Cost Containment	-3,968	0	0	0	-3,968
Reversions and Cancellations	-162	-6,313	-4,442	-2,917	-13,834
Actual Expenditures	\$70,656	\$59,512	\$22,951	\$4,193	\$157,312
Fiscal 2005					
Legislative Appropriation	\$67,746	\$67,362	\$23,323	\$5,577	\$164,008
Budget Amendments	799	0	0	580	1,379
Working Appropriation	\$68,545	\$67,362	\$23,323	\$6,157	\$165,387

Note: Numbers may not sum to total due to rounding.

Fiscal 2004

General funds dedicated to operating functions decreased by \$4,139,094. This major reduction was mainly due to \$4.0 million in cost containment actions under the provisions of Section 7-213(a) of the State Finance and Procurement Article (Budget Amendment No. 37-04). **Exhibit 12** lists the various actions DNR implemented.

Exhibit 12
DNR Fiscal 2004 Cost Containment

<u>Program Item</u>	<u>General Fund Reduction</u>
Replacement vehicles, use available special funds	-\$600,000
Merge capital-related programs to achieve efficiencies	-420,000
Consolidate the environmental review function with other programs and eliminate two positions	-138,000
Critical Areas Commission operations and aid to local governments	-167,000
Nature Tourism Program	-100,000
Outward Bound Program	-100,000
Merge Watershed Service and Education, Bay Policy, and Growth Management; and reduce funds for three positions	-287,052
GreenPrint funding	-150,000
Eliminate watershed restoration activities and shift focus to tributary strategy programs and other Chesapeake Bay commitments	-324,500
Wildlife and Heritage Service – Abolish 2 positions, reduce operating expenses, and switch 6 positions to federal funds	-687,611
Fisheries Service – Eliminate 9 positions, reduce recognition, data, education, and outreach programs; and use available special funds	-591,715
Forestry Service – Shift \$350,000 in expenses to special funds, reduce operating costs, reduce project costs, and eliminate 2 positions	-604,000
State Forest and Park Service – Eliminate 10 ranger positions	-298,127
Subtotal Reductions	-\$4,468,005
Asian Oyster environmental impact statement	500,000
Adjusted Total	-\$3,968,005

Source: Department of Natural Resources

Special funds dedicated to operating functions decreased by \$3.3 million. The following funds were brought in via budget amendment:

- \$1,039,155 to support 10 seasonal park rangers, implement timber harvests at four forests, match

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federal Conservation Reserve Enhancement Program funds, conduct submerged aquatic vegetation restoration, and operate the licensing and registration program;

- \$750,000 for salaries within the Wildlife and Heritage Service;
- \$600,000 for NRP personnel and SFPS motor vehicle maintenance and operation costs;
- \$254,261 to purchase computer hardware for the Customer Oriented Information Network, necessary rent payments, and enhancement of existing radio communication systems; and
- \$211,500 for the printing of the Maryland Bay Game and Forest Service operations.

These special fund increases were offset by \$6.3 million in cancellations in the following programs: Fisheries Service (\$1.6 million), Wildlife and Heritage Service (\$623,162), NRP Field Operations (\$562,706), Power Plant Assessment Program (\$482,200), Office of the Secretary (\$468,752), Forestry Service (\$359,857), Chesapeake and Coastal Watershed Service (\$357,624), Licensing and Registration Service (\$232,610), Maryland Environmental Trust (\$224,093), and Maryland Geological Survey (\$203,208).

Federal funds dedicated to operating functions decreased by \$2.1 million. The following funds were brought in via budget amendment:

- \$1,193,209 for construction of the Alaskan Steep Pass Fishway at Andover Branch/Jones Lane Dam in Millington in order to reopen upstream spawning habitat to fish;
- \$409,113 for forestry programs;
- \$225,000 for the provision of assistance payments to watermen and seafood industries in the State;
- \$192,043 for NRP's efforts to protect Maryland's marine fisheries; and
- \$111,675 for NRP communications infrastructure improvements and the Conservation Reserve Enhancement Program.

These federal fund increases were offset by \$4.4 million in cancellations in the following programs: Watershed Services (\$2.6 million), Fisheries Service (\$517,016), Tidewater Ecosystem Assessment (\$387,188), NRP (\$383,875), and SFPS (\$314,600).

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Fiscal 2005

General funds increased by \$798,844 due to allocation of the cost of living adjustment general fund appropriation to State agencies as authorized in the fiscal 2005 budget bill (Budget Amendment 006-05). The increase in reimbursable funds is largely due to \$442,828 from the Maryland Department of Transportation to construct a paved trail from the Town of Hancock to Long Hollow Bridge in Washington County.

Audit Findings

Audit Period for Last Audit:	July 1, 1998 – January 17, 2001
Issue Date:	February 2002
Number of Findings:	19
Number of Repeat Findings:	7
% of Repeat Findings:	58%
Rating: (if applicable)	Unsatisfactory

- Finding 1:** DNR did not always comply with State budgetary law and accounting policies for recording expenditure and revenue transactions.
- Finding 2:** Revenues were not being properly recorded thereby allowing the Department to use these funds without proper authorization.
- Finding 3:** Reimbursement requests for federal funds were not submitted in a timely manner, resulting in approximately \$196,000 in lost interest income.
- Finding 4:** Adequate control had not been established over fees collected at the regional service centers.
- Finding 5:** Sales of certain licenses were not under effective control resulting in a possible loss of revenues.
- Finding 6:** DNR did not adequately restrict access to its Customer Oriented Information Network System (COINS).
- Finding 7:** COINS regional server computer files were not backed up.
- Finding 8:** Proper internal controls were not established over the processing of purchasing and disbursement transactions.
- Finding 9:** DNR made 33 duplicate vendor payments totaling approximately \$154,000.
- Finding 10:** DNR did not adequately verify contractors' labor rates resulting in overpayments of \$56,000 for fiscal year 2000.
- Finding 11:** DNR did not independently verify that it received all rental payments due from its contractor for State park facilities.
- Finding 12:** Employee commute charge exemptions were not adequately substantiated.

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Finding 13: DNR did not attempt to obtain from property owners reimbursements for the costs to provide technical and administrative services related to shore erosion control projects, as required by law.

Finding 14: DNR spent money from the Waterway Improvement Fund for administrative and enforcement costs in excess of the \$350,000 annual limit specified in the law.

Finding 15: **Adequate controls were not maintained over accounts receivable.**

Finding 16: Administrative controls over corporate purchasing cards were not adequate.

Finding 17: **Collections received at a number of locations were not adequately controlled or verified to deposit.**

Finding 18: **DNR did not periodically account for pre-numbered documents.**

Finding 19: Adequate controls were not maintained over equipment.

* Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
Department of Natural Resources**

<u>Object/Fund</u>	<u>FY04 Actual</u>	<u>FY05 Working Appropriation</u>	<u>FY06 Allowance</u>	<u>FY05 - FY06 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1454.00	1417.00	1376.50	-40.50	-2.9%
02 Contractual	316.51	439.07	343.19	-95.88	-21.8%
Total Positions	1770.51	1856.07	1719.69	-136.38	-7.3%
Objects					
01 Salaries and Wages	\$ 93,656,234	\$ 94,722,527	\$ 94,668,516	-\$ 54,011	-0.1%
02 Technical & Spec Fees	6,955,290	9,226,455	7,861,762	-1,364,693	-14.8%
03 Communication	2,134,160	2,625,475	2,214,166	-411,309	-15.7%
04 Travel	431,083	638,427	596,716	-41,711	-6.5%
06 Fuel & Utilities	3,296,472	3,454,320	3,724,760	270,440	7.8%
07 Motor Vehicles	7,025,830	7,064,900	6,199,946	-864,954	-12.2%
08 Contractual Services	28,131,372	31,416,190	30,643,221	-772,969	-2.5%
09 Supplies & Materials	5,479,696	5,964,719	5,490,989	-473,730	-7.9%
10 Equip - Replacement	1,493,207	1,527,152	1,306,647	-220,505	-14.4%
11 Equip - Additional	969,259	811,516	861,857	50,341	6.2%
12 Grants, Subsidies, and Contributions	5,712,256	5,095,966	4,432,103	-663,863	-13.0%
13 Fixed Charges	1,869,218	2,489,257	2,455,215	-34,042	-1.4%
14 Land & Structures	157,579	350,252	483,187	132,935	38.0%
Total Objects	\$ 157,311,656	\$ 165,387,156	\$ 160,939,085	-\$ 4,448,071	-2.7%
Funds					
01 General Fund	\$ 70,655,642	\$ 68,545,263	\$ 65,508,162	-\$ 3,037,101	-4.4%
03 Special Fund	59,512,177	67,362,390	66,499,658	-862,732	-1.3%
05 Federal Fund	22,951,075	23,322,945	23,857,087	534,142	2.3%
09 Reimbursable Fund	4,192,762	6,156,558	5,074,178	-1,082,380	-17.6%
Total Funds	\$ 157,311,656	\$ 165,387,156	\$ 160,939,085	-\$ 4,448,071	-2.7%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.

**Fiscal Summary
Department of Natural Resources**

<u>Program/Unit</u>	<u>FY04 Actual</u>	<u>FY05 Wrk Approp</u>	<u>FY06 Allowance</u>	<u>Change</u>	<u>FY05 - FY06 % Change</u>
01 Secretariat	\$ 11,658,224	\$ 13,267,225	\$ 12,954,458	-\$ 312,767	-2.4%
02 Forest Service	9,190,742	9,261,901	8,786,178	-475,723	-5.1%
03 Wildlife And Heritage	8,250,897	8,813,407	8,727,600	-85,807	-1.0%
04 State Forest And Park Service	38,923,338	39,213,439	37,252,889	-1,960,550	-5.0%
05 Land And Water Conservation Service	4,350,970	4,866,929	5,225,592	358,663	7.4%
06 Licensing And Registration Service	3,719,394	3,595,080	3,801,708	206,628	5.7%
07 Natural Resources Police	26,646,316	28,378,736	28,196,699	-182,037	-0.6%
08 Water Resources Administration	1,527,501	1,512,045	1,310,003	-202,042	-13.4%
09 Maryland Environmental Service	4,435,994	4,859,372	4,338,703	-520,669	-10.7%
10 Chesapeake Bay Critical Area Commission	2,010,965	2,030,218	2,076,928	46,710	2.3%
12 Resource Assessment Service	16,832,253	17,986,562	16,963,113	-1,023,449	-5.7%
13 Maryland Environmental Trust	619,529	1,669,606	980,311	-689,295	-41.3%
14 Chesapeake And Coastal Watershed Service	13,761,911	14,213,935	14,881,646	667,711	4.7%
17 Fisheries Service	15,383,622	15,718,701	15,443,257	-275,444	-1.8%
Total Expenditures	\$ 157,311,656	\$ 165,387,156	\$ 160,939,085	-\$ 4,448,071	-2.7%
General Fund	\$ 70,655,642	\$ 68,545,263	\$ 65,508,162	-\$ 3,037,101	-4.4%
Special Fund	59,512,177	67,362,390	66,499,658	-862,732	-1.3%
Federal Fund	22,951,075	23,322,945	23,857,087	534,142	2.3%
Total Appropriations	\$ 153,118,894	\$ 159,230,598	\$ 155,864,907	-\$ 3,365,691	-2.1%
Reimbursable Fund	\$ 4,192,762	\$ 6,156,558	\$ 5,074,178	-\$ 1,082,380	-17.6%
Total Funds	\$ 157,311,656	\$ 165,387,156	\$ 160,939,085	-\$ 4,448,071	-2.7%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.

**Fiscal 2006 Cost Containment Actions
As Submitted by the Agency
Estimated FY 2006 Savings
Compared to FY 2005**

<u>Cost Saving Action/Efficiency Measure</u>	<u>Program Code</u>	<u>Total Funds</u>	<u>General Funds</u>	<u>Special Funds</u>	<u>Positions Reduced</u>	<u>Impact of Action</u>
Office of the Secretary—Extend computer replacement cycles, reduce IT staff	KA0105	\$130,159	\$130,159		1	Longer replacement cycles for computers.
OOS—Reduce contractual staff in Office of Communications and Marketing	KA0106	66,504	66,504		2	Work must be absorbed by existing permanent staff.
OOS—Reduce administrative positions in OCM, FAS, and HR	KA0103 KA0104 KA0106	124,000	124,000		3	Work reassigned to existing staff.
Reductions to Forestry Programs	KA0209	\$573,945	\$573,945		9	Reduces fire response capabilities and fire training opportunities for local governments. Reduces proscribed fire capabilities like managed burns. Reduces technical assistance to urban communities for tree and forest management. Reduces business development opportunities for forest industry. Significant reduction in delivery of forest education programs.
Reductions to State Forest and Park Service	KA0401	\$1,003,982	\$1,003,982		11	The State Forest and Park Service will deplete the Forest and Park Reserve Fund to meet turnover and civilian hiring for the merger and will be unable to afford unanticipated costs associated with weather-related and other facility emergencies. The SFPS may have to minimize operations at some park facilities.

<u>Cost Saving Action/Efficiency Measure</u>	<u>Program Code</u>	<u>Total Funds</u>	<u>General Funds</u>	<u>Special Funds</u>	<u>Positions Reduced</u>	<u>Impact of Action</u>
Reductions to the Natural Resources Police	KA0701 KA0704	\$1,000,000	\$1,000,000		13	The proposed reductions to the NRP budget will severely impact the agency's ability to fulfill its law enforcement and search, rescue and recovery responsibilities resulting in the following: reduced ability to respond to incidents/public safety emergencies; increased violations of natural resources, conservation and boating/hunting laws and regulations; increased violations of criminal, natural resource, and civil laws and regulations associated with the public's use of campgrounds, boating facilities and all other State Park amenities; increased risks to officer and public safety; reduced ability to fulfill any new additional law enforcement responsibilities i.e. oyster sanctuary protection; reduced ability to provide regular patrols and respond to state and national threats to Homeland Security at locations such as Calvert Cliffs and other identified critical state infrastructure.
Reductions to the Resources Assessment Service	KA1204 KA1206	\$244,111	\$244,111		2	DNR will have to reduce the number of stream samples collected from the Biological Stream Survey.

<u>Cost Saving Action/Efficiency Measure</u>	<u>Program Code</u>	<u>Total Funds</u>	<u>General Funds</u>	<u>Special Funds</u>	<u>Positions Reduced</u>	<u>Impact of Action</u>
Reductions to Watershed Services	KA1402	\$255,126	\$255,126		1.5	DNR will Close the Information Research Center, leaving no centralized place to manage shared periodicals.
	KA1401					Unit will reduce map production capabilities.
	KA1402					
	KA1402					
Department Wide Fleet Replacement Reduction	Varies	668,097	355,903	\$312,194		Reduces fleet replacement to 84 cars a year.
Total		\$4,065,924	\$3,753,730	\$312,194	40.50 2.00	Authorized Positions Contractual Positions