

K00A
Department of Natural Resources

Operating Budget Data

(\$ in Thousands)

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$76,476	\$58,795	\$57,985	-\$810	-1.4%
Contingent & Back of Bill Reductions	0	0	-5,385	-5,385	
Adjusted General Fund	\$76,476	\$58,795	\$52,600	-\$6,195	-10.5%
Special Fund	67,829	99,756	132,607	32,851	32.9%
Contingent & Back of Bill Reductions	0	0	-6,754	-6,754	
Adjusted Special Fund	\$67,829	\$99,756	\$125,853	\$26,097	26.2%
Federal Fund	22,436	23,558	26,497	2,939	12.5%
Contingent & Back of Bill Reductions	0	0	-35	-35	
Adjusted Federal Fund	\$22,436	\$23,558	\$26,462	\$2,904	12.3%
Reimbursable Fund	8,576	8,509	8,093	-416	-4.9%
Contingent & Back of Bill Reductions	0	0	-15	-15	
Adjusted Reimbursable Fund	\$8,576	\$8,509	\$8,078	-\$431	-5.1%
Adjusted Grand Total	\$175,318	\$190,619	\$212,994	\$22,375	11.7%

- The Department of Natural Resources (DNR) has submitted a fiscal 2009 budget deficiency request for \$1,413,225 in special funds and \$2,118,452 in federal funds for a total of \$3,531,677. The deficiency includes \$357,698 in special funds and \$1,073,094 in federal funds for Maryland Maritime Task Force activities in the Natural Resources Police.
- Five contingent reductions are included in the allowance. Deletion of the deferred compensation match would decrease DNR's appropriation by \$463,291. Reductions of \$1,881,676 in general funds also are included contingent on legislation to eliminate payments in lieu of taxes to counties, \$1,794,000 in general funds for the grant to the Waterway Improvement Fund, and \$750,000 in general funds for operating expenses to be supplanted with Waterway Improvement Fund special funds. A contingent reduction of \$6,487,556 in special funds also is included for the Chesapeake Bay 2010 Trust Fund appropriation.

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

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- Across-the-board reductions are effected in DNR’s budget. The total reduction is \$811,669 in general funds. Reductions detailed for DNR include 13 positions and \$582,777 in general funds as part of the abolition of 1,000 positions, 1 position and \$18,169 in general funds as part of the consolidation of personnel classification and salary functions within the Department of Budget and Management, \$4,584 in general funds to reduce full-time equivalents, and \$206,139 in general funds in the expectation of savings in contracted services based on a favorable bidding climate. Additional personnel actions may occur in DNR as part of a statewide \$30.0 million general fund unallocated across-the-board general fund reduction.
- The overall adjusted change in DNR’s budget is \$22.4 million, or 11.7%. The major change is the \$25.0 million increase in special funds reflecting the budgeting of the Chesapeake Bay 2010 Trust Fund monies in DNR’s budget. The fiscal 2009 trust funds are budgeted in the Department of Budget and Management.

Personnel Data

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>
Regular Positions	1,343.50	1,358.50	1,341.50	-17.00
Contractual FTEs	<u>463.82</u>	<u>464.08</u>	<u>419.88</u>	<u>-44.20</u>
Total Personnel	1,807.32	1,822.58	1,761.38	-61.20

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	78.89	5.82%
Positions and Percentage Vacant as of 12/31/08	90.15	6.64%

- With across-the-board reductions and contingent reductions the allowance would provide for 1,341.5 regular positions.
- Across-the-board cuts abolish 13 unspecified positions and 1 personnel administrator II. In addition, 3 positions in the Natural Resources Police (natural resources police lieutenant, natural resources police chief pilot, and aviation mechanic chief inspector) are abolished.
- DNR’s turnover rate of 5.82% is 0.82% less than the current vacancy rate and is less than the fiscal 2009 working appropriation turnover rate of 7.21%.

Analysis in Brief

Major Trends

Chesapeake Bay 2010 Trust Fund Allocation: The fiscal 2010 allowance includes \$31.5 million from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund for nonpoint source nutrient and sediment reduction.

Crab Winter Dredge Survey Data Awaited: The winter dredge survey of blue crabs is the primary indicator of the blue crab population and may provide an indication of the impact of crab harvest regulations. The survey will be completed in spring 2009.

Issues

Chesapeake Bay 2010 Trust Fund Allocation: Chapters 120 and 121 of 2008 require that the BayStat Subcabinet submit annual work and expenditure plans as part of the annual budget submission. The submitted annual work plan contains neither nutrient and sediment reduction targets nor information about specific projects. **DLS's recommendation is to (1) reduce the Chesapeake Bay 2010 Trust Fund appropriation by \$16.5 million and through budget reconciliation legislation redirect the monies to the general fund, (2) reduce the cover crop reimbursable fund allocation from the Chesapeake Bay 2010 Trust fund by \$10.0 million, and (3) restrict \$5.0 million of Bay Restoration Funds – Septic Account funding allocated to septic system projects instead to be used by the cover crop program. DLS also recommends that DNR comment on how the Chesapeake Bay 2010 Trust Fund funding will be targeted, how this particular effort at targeted watershed restoration will differ from that of the previous Corsica watershed experience, when nutrient and sediment reduction targets and a list of specific projects can be expected, and how the process of communicating information to the General Assembly will be improved upon in the next annual work plan submission. Budget bill language to effect these recommendations is included as recommended actions.**

Comprehensive Plan for Fishing License Fee Expenditures Received: The General Assembly was concerned that DNR did not have a plan for how a license fee revenue increase would be spent. Therefore, the General Assembly required DNR to submit a comprehensive plan for how the revenue would be spent; the plan has not been received. **DLS recommends that DNR comment on how it will fund future Fisheries Service activities initiated by the license fee revenue increase given the fiscal 2010 sunset provision.**

Maryland Park Service Funding Priorities Questioned: The Maryland Park Service is now entirely funded with special funds but has not developed a plan for sustainably funding the budget. In addition, it took on the new Civic Justice Corps program in fiscal 2009 and intends to expand it in fiscal 2010. **DLS recommends that DNR comment on how it plans to diversify funding for sustainability in the long-term and whether entrance fees for State parks can be expected to be reduced at any point in the foreseeable future. DLS also recommends that the \$1.3 million in special funds for the Civic Justice Corps program be deleted and that instead the Maryland Park Service focus efforts and resources on developing more Maryland Conservation Corps crews.**

DNR Special Fund Balances Reduced Substantially: The majority of DNR’s fund balances have been reduced by more than 50% between fiscal 2008 and 2010. **DLS recommends that DNR comment on how reduced fund balances impact the ability to handle emergencies and service delivery.**

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Delete one position in the Office of Communications.	\$ 50,000	1.0
2. Delete the appropriation for the Civic Justice Corps within the Maryland Park Service.	1,311,305	
3. Strike the contingent budget bill language on the Boating Services general fund appropriation.		
4. Delete the Boating Services general fund appropriation.	1,794,000	
5. Amend language on the Watershed Services special fund appropriation.		
6. Reduce the Watershed Services appropriation from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund allocation.	16,486,556	
7. Delete the match to the fiscal 2008 fishing license fee increase.	750,000	
8. Delete the mandated general fund appropriation for the Fisheries Service.	1,794,000	
Total Reductions	\$ 22,185,861	1.0

Updates

Shore Erosion Control Shifted to Operating Budget: The Shore Erosion Control Loan Program has been moved from the pay-as-you-go capital budget to the operating budget. The change was made to reflect the shift in focus from capital-eligible structural improvements to capital-ineligible non-structural living shoreline techniques.

Critical Area Commission Funds One Circuit Rider: The Maryland Department of Planning has abolished the circuit rider program and transferred one of the remaining positions to the Critical Area Commission for the Chesapeake and Atlantic Coastal Bays. The Critical Area Commission intends to fill this position using a grant from the Keith Campbell Foundation.

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Operating Budget Analysis

Program Description

The Department of Natural Resources (DNR) preserves, protects, enhances, and restores the State's natural resources for the use and enjoyment of all citizens. To accomplish this mission, DNR is structured into the programmatic units described below.

- **Office of the Secretary:** Provides leadership, public outreach, customer service, legislative, financial, administrative, information technology and legal services.
- **Forest Service:** Manages the State forests and 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 107,500 acres of State-owned lands classified as Wildlife Management Areas.
- **Park Service:** Manages natural, cultural, historic, and recreational resources in parks across the State, and provides related educational services.
- **Land Acquisition and Planning:** Administers diverse financial assistance programs that support public land and easement acquisitions, local grants, waterway improvements, and shoreline protection.
- **Licensing and Registration Service:** Operates seven 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 (NRP):** Preserves and protects Maryland's natural resources and its citizens through enforcement of conservation, boating, and criminal law.
- **Engineering and Construction:** Provides engineering, project management, and in-house construction services.

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- **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.
- **Boating Services:** Coordinates the Clean Marina Program, oversees two State-owned marinas, funds public boating access facilities and navigation channel dredging, and places regulatory markers and navigation aids in support of sustainable development, use, and enjoyment of Maryland waterways for the general boating public.
- **Resource Assessment Service:** Evaluates and directs implementation of environmental restoration and protection policy for tidal and non-tidal ecosystems, ensures electricity demands are met at reasonable costs while protecting natural resources, and provides scientific assessments and technical guidance for the management of geologic and hydrologic resources.
- **Maryland Environmental Trust:** Negotiates and accepts conservation easements over properties with environmental, scenic, historic, or cultural significance and provides grants, loans, and technical assistance to local land trusts.
- **Watershed Services:** Develops and supports watershed 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:

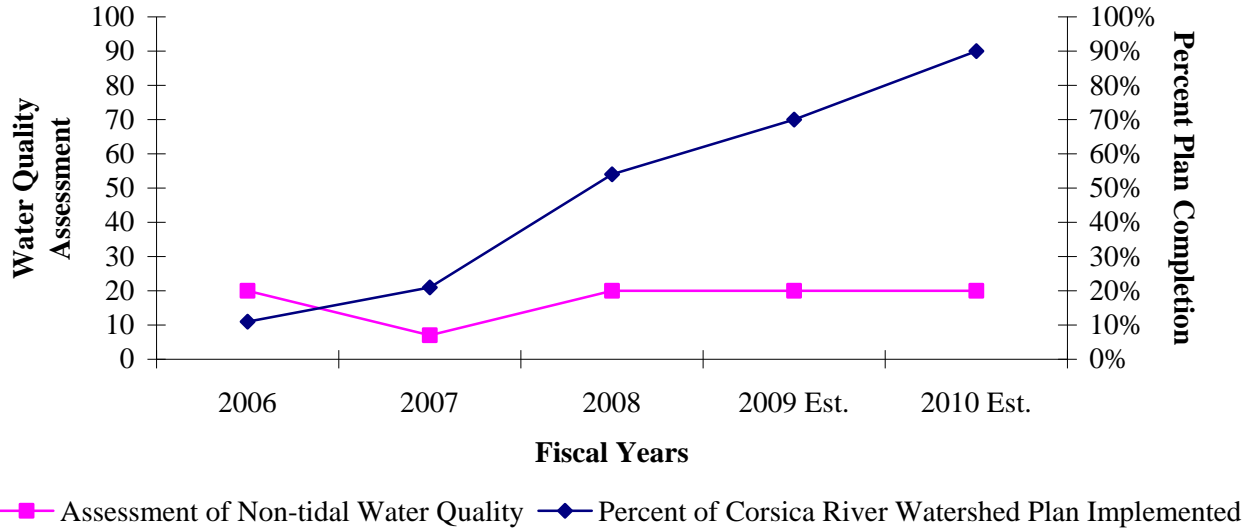
- sustainable populations of living resources and aquatic habitat in the mainstem of the Chesapeake Bay, tidal tributaries, and coastal bays;
- healthy Maryland watershed lands, streams, and non-tidal rivers;
- natural resources stewardship opportunities for Maryland's urban and rural citizens;
- a conserved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

Performance Analysis: Managing for Results

DNR's goals of healthy watershed lands, streams, and non-tidal rivers; diverse outdoor recreation opportunities for Maryland citizens and visitors; and sustainable populations of living resources and aquatic habitat are highlighted in **Exhibit 1**. The trends shown are as follows:

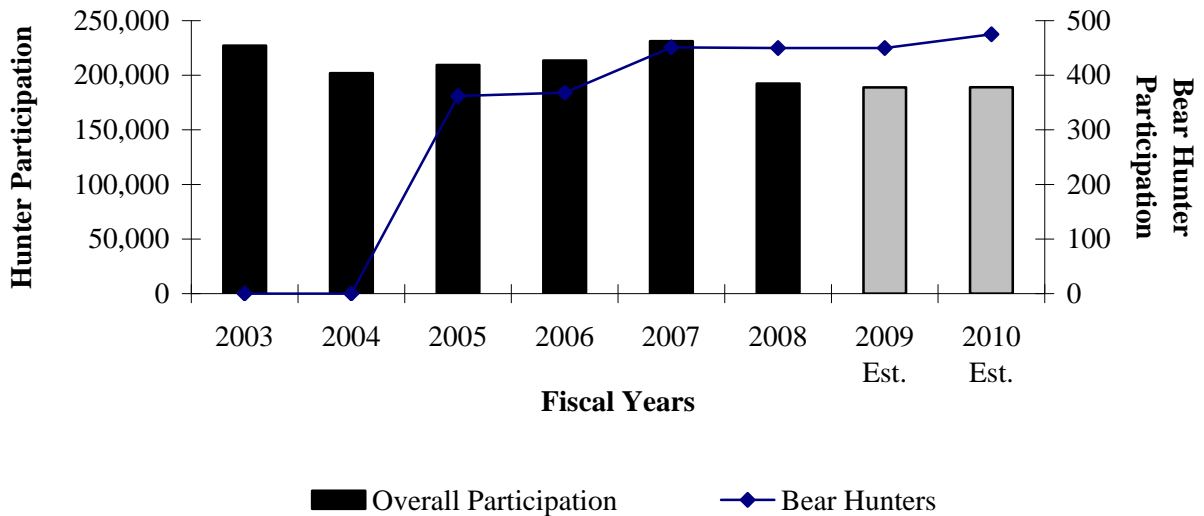
- Corsica River watershed restoration plan progress – the Corsica River watershed was selected in fiscal 2006 for restoration; however, despite significant progress in implementing the watershed restoration plan, there has been little improvement in the non-tidal water quality assessment measure; DNR notes that while nutrient and sediment reductions have occurred, the Corsica River still experiences algal blooms, fish kills, low dissolved oxygen, and overall poor water quality due to a lack of implementation of non-point source reduction programs such as cover crop planting and septic system retrofits;
- hunter participation declining – the overall number of people hunting deer, bear, waterfowl, game bird, and fur bearers has declined between fiscal 2003 and 2010 although the number of participants in just bear hunting has increased; DNR attributes this decline to changes in permit requirements and to a decrease in the number of licensed hunters in Maryland due to an aging population, time demands, reduced availability of animals to hunt, limited access to land for hunting, and lower recruitment levels of new hunters;
- comparison of blue crab dredge survey index and fishing mortality rate – the fishing mortality rate for the blue crab was set at 46% in fiscal 2008, and the winter dredge survey index indicates that the population is estimated to be stabilized between fiscal 2007 and the 2010 estimate; the 2008 Chesapeake Bay Blue Crab Advisory Report indicates that the Chesapeake Bay-wide blue crab spawning population was estimated to be 120 million in fiscal 2007 through 2008, which is below the target abundance target of 200 million crabs but above the 86 million overfished threshold; the Chesapeake Bay Blue Crab Advisory Report also indicates that the Chesapeake Bay-wide target exploitation fraction of 46% has been exceeded in 9 out of the last 10 years.

**Exhibit 1
Corsica River Watershed Restoration Plan Progress
Fiscal 2006-2010**



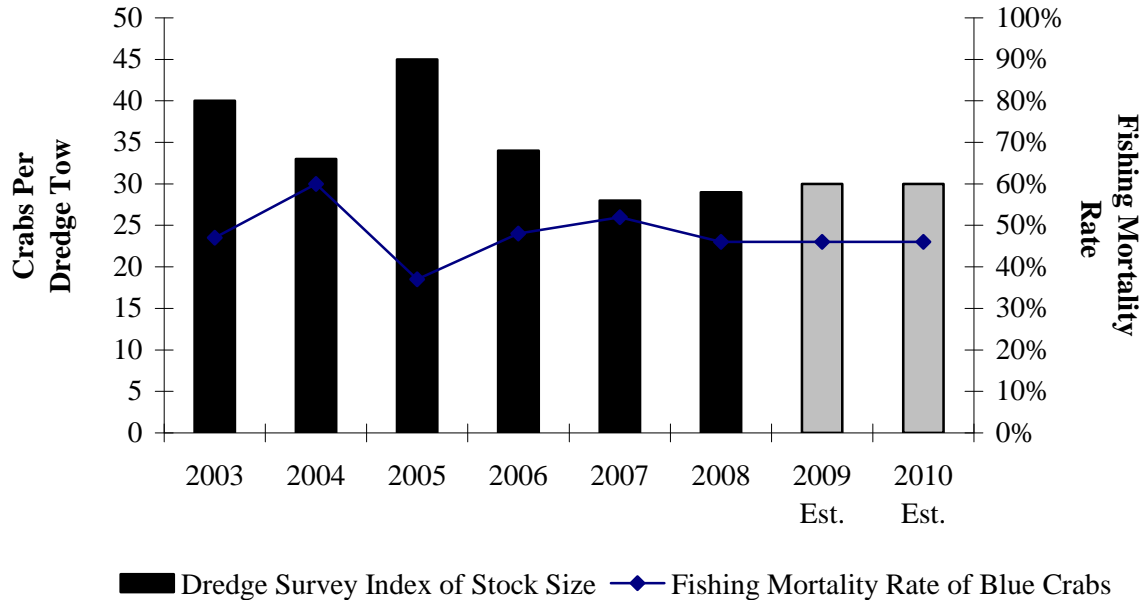
Source: Governor’s Budget Books, Fiscal 2009-2010

**Hunter Participation Declining
Fiscal 2003-2010**



Source: Governor’s Budget Books, Fiscal 2006-2010

Comparison of Blue Crab Dredge Survey Index and Fishing Mortality Rate Fiscal 2003-2010



Note: The Chesapeake Bay Stock Assessment committee set the target exploitation rate for blue crabs at 46%.

Source: Governor’s Budget Books, Fiscal 2006-2010

DLS recommends that DNR comment on (1) why the progress in implementing the Corsica River watershed plan has not correlated with an improvement in non-tidal water quality, (2) whether permit requirement changes have led to undercounting of hunter participants, and (3) what the exploitation rate actually has been for blue crabs in Maryland waters of the Chesapeake Bay.

Fiscal 2009 Actions

Proposed Deficiency

The Governor has submitted a deficiency appropriation for the fiscal 2009 operating budget, which would increase DNR’s special fund appropriation by \$1,413,225 and federal appropriation by \$2,118,452.

The special fund appropriation increases by \$1,413,225 for the following:

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- \$357,698 for Maryland Maritime Task Force activities from the Fisheries Research and Development Fund (Natural Resources Police);
- \$297,915 for communication equipment expenses from donations (Natural Resources Police);
- \$275,000 for continuation of water studies, improvements to phone lines and safety features in campsites at the Deep Creek Lake Natural Resources Management Area from the Deep Creek Lake Management and Protection Fund (Maryland Park Service);
- \$250,000 for the operation of the Maryland Park Service Concession Program from the Forest and Park Concession Fund (Maryland Park Service);
- \$109,932 for surveillance of avian influenza from the Wildlife Management and Protection Fund (Wildlife and Heritage Service);
- \$75,000 for cost sharing commitments with Prince George’s County to replace ash trees removed in connection with emerald ash borer control efforts from the Reforestation Fund (Forest Service); and
- \$47,680 for field office support from donations (Natural Resources Police).

The federal fund appropriation increases by \$2,118,452 for the following:

- \$1,073,094 for Maryland Maritime Task Force activities from the Port Security Grant (Natural Resources Police)
- \$575,000 for purchase of additional watercraft from Boating Safety Financial Assistance (Natural Resources Police);
- \$329,985 for cooperative federal/State law enforcement expenses from the Higher Intensity Drug Trafficking Agency; and Financial Assistance for National Centers for Central Coastal Ocean Science (Natural Resources Police);
- \$71,500 for control of wavyleaf basketgrass and salt marsh restoration on Assateague Island National Seashore from the Forest Health Program and Wetlands Protection, State Development Grants (Wildlife and Heritage Service);
- \$53,873 for expenses at Knocks Folly Visitors Center and the project Improving Existing Trailheads Through Orientation and Interpretive Signage Development from Chesapeake Bay Gateways Network grants (Maryland Park Service); and

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- \$15,000 for State and local land inventorying along the Chesapeake Bay and tidal tributaries in the vicinity of the Captain John Smith Chesapeake National Historic Trail from Save America’s Treasures (Boating Services).

Impact of Cost Containment

The net impact of the June 25 and October 15, 2008 Board of Public Works (BPW) actions is a reduction of 46 positions, \$6.2 million in general funds, \$297,159 in special funds, and \$51,800 in federal funds. Thirty-one of the positions are in the Natural Resources Police and 2 of the 31 positions were filled. A summary of the reductions follows:

- salaries, wages, and fringe benefits – \$4.4 million;
- Other Post Employment Benefits (OPEB) prefunding – \$0.9 million;
- special funds supplanting general funds (State Boat Act and Wildlife Management and Protection Fund) – \$0.6 million;
- travel and vehicles – \$0.3 million;
- statewide employee health insurance balances – \$0.2 million; and
- wetland restoration – \$0.2 million.

In addition to BPW actions on June 25 and October 15, 2008, DNR’s general fund appropriation is estimated to decrease in fiscal 2009 due to the across-the-board State furlough.

Proposed Budget

DNR’s fiscal 2010 allowance increases by \$22.4 million, or 11.7%, relative to the fiscal 2009 working appropriation as shown in **Exhibit 2**. The changes by fund are a decrease of \$6.2 million in general funds, an increase of \$26.1 million in special funds from the allocation of the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund, a decrease of \$35,000 in federal funds, and an increase of \$431,000 in reimbursable funds. There are five items reduced contingent upon the enactment of the Governor’s Budget Reconciliation and Financing Act of 2009 (House Bill 101/Senate Bill 166) and four specified across-the-board reductions.

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

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
2009 Working Appropriation	\$58,795	\$99,756	\$23,558	\$8,509	\$190,619
2010 Allowance	<u>57,985</u>	<u>132,607</u>	<u>26,497</u>	<u>8,093</u>	<u>225,182</u>
Amount Change	-\$810	\$32,851	\$2,939	-\$416	\$34,563
Percent Change	-1.4%	32.9%	12.5%	-4.9%	18.1%
Contingent Reduction	-\$5,385	-\$6,754	-\$35	-\$15	-\$12,188
Adjusted Change	-\$6,195	\$26,097	\$2,904	-\$431	\$22,375
Adjusted Percent Change	-10.5%	26.2%	12.3%	-5.1%	11.7%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance pay-as-you-go costs.....	\$2,824
Retirement contribution.....	1,324
Increments due to January 1 annualization	1,062
Decrease turnover rate on existing positions.....	1,155
Social Security contributions.....	255
Miscellaneous adjustments in Natural Resources Police	195
Reduction in Other Post Employment Benefits' unfunded liability.....	-1,661
Reduction of 13 positions and funding (Section 18).....	-583
Deferred compensation contingent reduction.....	-463
Workers' compensation premium assessment.....	-274
Abolished positions in Aviation Unit (3)	-249
Other fringe benefit adjustments	-101
One-time shift differential funding in Natural Resources Police in fiscal 2009.....	-130

Other Changes

Natural Resources Policy

Allocation from the Chesapeake Bay 2010 Trust Fund	31,487
Statewide police computer aided dispatch and record management system modernization initiative	2,250

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Where It Goes:

Fisheries Service contracted studies on bay bottom, fish studies, and oyster shells	567
Civic Justice Corps increase in Maryland Park Service.....	300
Reduction in transfer tax revenue for programs in Land Acquisition and Planning	-1,619
One-time wetlands restoration project in Watershed Services.....	-1,317
Western Maryland Rail Trail and marsh restoration project reductions	-550
Equipment decreases due to budgeting Maryland Park Service enhancement	-416
Aviation unit deletion in Natural Resources Police	-406
Other	-150
<i>Mandates and Cost Containment Actions</i>	
Contingent reduction in Chesapeake Bay 2010 Trust Fund allocation	-6,488
Contingent reduction due to elimination of local payments in lieu of taxes	-1,882
Contingent reduction of the general fund grant to Waterway Improvement Fund	-1,794
Contingent reduction if Waterway Improvement Fund monies are allowed to fund administrative costs.....	-750
<i>Across-the-board Reductions</i>	
Reduction for contractual services (Section 24)	-206
Reduction for contractual full-time equivalents (Section 23)	-5
Total	\$22,375

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

Personnel

Overall, personnel expenses increase \$3.4 million in the fiscal 2010 allowance relative to fiscal 2009. There are increases in employee and retiree health insurance spending of \$2,824,000, retirement contribution of \$1,324,000, decreased turnover of \$1,155,000, Social Security contributions of \$255,000, and miscellaneous adjustments of \$195,000 including an increase in the allowance for uniforms in the NRP. These increases partially are offset by the following personnel decreases:

- OPEB – the funding of \$1,661,000 for reducing the unfunded liability for OPEB is deleted;
- Workers’ compensation premium assessment – the premium decreases by \$274,000;
- position abolished – three positions were abolished in the Aviation Unit within the NRP for a reduction of \$249,000 reflecting the deletion of the entire aviation program; and

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- one-time shift differential – shift differential (overtime) spending decreases by \$130,000 relative to fiscal 2009 although this spending may be necessary in fiscal 2010 as well given the reduced number of NRP officers relative to the assigned duties.

Other Changes

Overall, the nonpersonnel portion of the fiscal 2010 allowance increases \$19,021,000. The areas of change include general natural resources policy, mandates and cost containment actions, and across-the-board reductions. General natural resources policy funding increases \$30,146,000 in fiscal 2010 as follows:

- allocation from the Chesapeake Bay 2010 Trust Fund – spending on Chesapeake Bay restoration is shifted from the Department of Budget and Management’s budget – \$20,000,000 in the fiscal 2009 working appropriation – to DNR’s budget to reflect the fiscal 2010 allocation of the \$31,487,000 in special funds from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund. The allocation plan is included as one of the issues in this analysis;
- statewide police computer aided dispatch and record management system – an increase of \$2.25 million in federal funds from the 2006 U.S. Department of Homeland Security’s Port Security Grant Program is budgeted in DNR’s fiscal 2010 allowance as part of a project led by the Maryland State Police to purchase a statewide call dispatching system that would integrate communications across local, State, and federal agencies;
- Fisheries Service contracted studies – an increase of \$567,000 for contractual services including the surveying of the Chesapeake Bay bottom, studying water quality impacts on fish health, and purchasing of oyster shell;
- Civic Justice Corps – an increase of \$300,000 for the Civic Justice Corps program within the Maryland Park Service which would allow the program to expand its work with adjudicated and at-risk youth on environmental restoration activities in parks to include 240 youth in a fiscal 2009 summer program;
- reduction in transfer tax revenue – the substantial decrease in transfer tax revenue reduces the activities available to receive Program Open Space Administrative Fee special fund revenues by \$1,619,000 in Land Acquisition and Planning which led DNR to request a \$1,217,000 transfer of special funds from the pay-as-you-go Program Open Space budget in order to fund mapping projects (\$600,000); land acquisition support services in the Department of General Services (\$227,000); salaries and land management database support in Wildlife and Heritage Services (\$200,000); land acquisition evaluation services in Maryland Department of Planning (\$130,000); and contractual services, travel, and operations funding in Land Acquisition and Planning (\$60,000);

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- one-time wetlands restoration project – a decrease of \$1,317,000 for contractual services in Watershed Services primarily reflects the completion of a one-time wetlands restoration project;
- Western Maryland Rail Trail and marsh restoration reductions – a decrease of \$550,000 in reimbursable funds for contractual services in Engineering and Construction primarily reflects reductions for the Western Maryland Rail Trail and a marsh restoration project;
- equipment decreases in Maryland Park Service – a decrease of \$416,000 primarily reflects how the fiscal 2009 budget enhancement for the Maryland Park Service was reflected in the fiscal 2009 appropriation; and
- Aviation Unit deletion – the fiscal 2010 allowance reflects the deletion of the Aviation Unit within the Natural Resources Police and requires disposal of the three helicopters and one fixed wing airplane according to federal guidelines for two of the helicopters and Department of General Services guidelines for the remaining equipment and tools.

Impact of Cost Containment

Cost containment actions in the fiscal 2010 allowance include reductions to mandates and other funding contingent on the enactment of the Budget Reconciliation and Financing Act of 2009 (Senate Bill 166/House Bill 101), and across-the-board reductions. The five contingent reductions are as follows:

- Chesapeake Bay 2010 Trust Fund – reduces the appropriation, for fiscal 2010 only, from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund by \$6,487,556 in special funds contingent on the diversion of the revenue to the general fund;
- payments in lieu of taxes to counties – for fiscal 2010 and 2011, deletes the \$1,881,676 in special funds paid to counties as payments in lieu of taxes proportionate to the amount of State park and forest land in the county, reduces the general fund appropriation contingent on the deletion of the special funds, and authorizes a budget amendment to use the special funds to replace the general funds;
- Waterway Improvement Fund grant – permanently deletes the \$1,794,000 in general funds budgeted for the Waterway Improvement Fund that was initially included per Chapter 6 of the 2007 special session in order to replace the special fund revenue to the fund reduced by the change in the allocation of the motor fuel tax revenue;
- Waterway Improvement Fund for operating expenses – reduces the appropriation for operations in the Office of the Secretary by \$750,000 in general funds contingent on the right permanently to use Waterway Improvement Fund special funds to cover administrative expenses which is contrary to the intent of Chapter 430 of 2004 (Budget Reconciliation and

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Financing Act of 2004) that implemented the DNR Special Funds Workgroup recommendation to phase out Waterway Improvement Fund use for operating expenses;

- deletion of the deferred compensation match – reduces DNR’s appropriation by \$463,291 in all funds;

Across-the-board reductions include the following:

- Section 18 – deletion of 13 positions and reduction of \$582,777 in general funds as part of the abolition of 1,000 positions;
- Section 19 – deletion of 1 position and reduction of \$18,169 in general funds part of the consolidation of personnel classification and salary functions within the Department of Budget and Management;
- Section 23 – reduction of \$4,584 in general funds to reduce contractual full-time equivalents; and
- Section 24 – reduction of \$206,139 in general funds in the expectation of savings in contracted services based on a favorable bidding climate.

Additional personnel actions may occur in DNR as part of a statewide \$30 million general fund unallocated across-the-board reduction.

Issues

1. Chesapeake Bay 2010 Trust Fund Allocation

Chapter 6 of the 2007 special session (House Bill 5) established a Chesapeake Bay 2010 Trust Fund to be used to implement the State’s tributary strategy. The fund is financed with a portion of existing revenues from the motor fuel tax and the sales and use tax on short-term vehicle rentals. Subsequently, Chapters 120 and 121 of 2008 established a framework for how the trust fund money must be spent by specifying that it be used for nonpoint source pollution control projects, and by expanding it to apply to the Atlantic Coastal Bays.

Annual Work Plan Submitted but Not Complete

Chapters 120 and 121 of 2008 require that the BayStat Subcabinet submit annual work and expenditure plans as part of the annual budget submission. The two plans are required to identify the following:

- annual work plan – planned work to be funded with monies from the Chesapeake Bay 2010 Trust Fund for the next fiscal year, including annual nutrient and sediment reduction targets, performance measures, and accountability criteria; and
- expenditure plan – planned expenditures for the work plan including an accounting of all monies distributed from the Chesapeake Bay 2010 Trust Fund in the previous fiscal year.

The BayStat agencies have submitted the required annual work plan for the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund. However, the plan does not contain all of the required elements. A summary of the plans contents follows:

- nutrient and sediment reduction targets – not included in the annual work plan;
- performance measures – measures are listed but do not appear comprehensive; measures include pounds of nutrients removed, cost effectiveness, miles of stream restored, acres of watershed restored; and
- accountability criteria – criteria are listed including design start, design completion, construction advertising, award, notice to proceed, and construction completion.

Planned allocations from the fund are displayed in **Exhibit 3**.

Exhibit 3
Chesapeake Bay 2010 Trust Fund Allocation
Fiscal 2009-2010
(\$ in Millions)

<u>Category</u>	<u>Agency</u>	<u>Program</u>	<u>Description</u>	<u>2009</u>	<u>2010</u>
Strategic Monitoring	DNR		Monitoring project outcomes	\$0.25	\$0.50
Agency Direct Costs (1.5%)	MDA, MDE, DNR		Administrative costs	0.00	0.375
Urban/Suburban Stormwater Projects	MDE		Stormwater retrofit projects for local governments	1.83 (top 5 ranked projects)	3.75 (next 5 ranked projects)
Agricultural Practices	MDA	Cover crops	Traditional cover crop funding	2.83	11.90
		Technical Assistance	Soil Conservation District personnel to assist farmers with best management practices	0.85	0.85
		Forest/grass buffers/wetlands restoration	Installation of agricultural buffer best management practices	0.25	1.00
		Animal Waste Management (MAFO/CAFO)	Animal waste management best management practice funding	3.0	1.00
Targeted Innovative Practices	DNR	Local implementation grants	Competitive grants targeted to five watersheds	0.34 (top ranked project)	5.38 (continue with top ranked and add next 6 ranked projects)
	UMCP – Maryland Technology Enterprise Institute	Bay restoration innovation technology program	Traffax for traffic reduction and Zymetis for biofuels advancement	0.25	0.25
Total				\$9.60	\$25.01

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CAFO: Concentrated Animal Feeding Operation – federally defined as an animal feeding operation that discharges or proposes to discharge to surface waters of the State.

MAFO: Maryland Animal Feeding Operation – any large animal feeding operation (based on the Environmental Protection Agency’s definition, includes poultry operations totaling 100,000 square feet or greater) that because of their size have a significant potential to discharge to either surface or groundwater of the State.

DNR: Department of Natural Resources

MDA: Maryland Department of Agriculture

MDE: Maryland Department of the Environment

UMCP: University of Maryland, College Park

Source: Department of Legislative Services

Legislative Oversight Precluded

DNR notes that nutrient and sediment reduction targets will not be set until the final funding level for the fund is set and agreements have been signed with funding recipients for particular projects. DNR notes that the process of confirming individual project recipients may not be completed until July 2009, which precludes legislative oversight.

The Administration announced the recipients of urban/suburban stormwater projects and targeted innovative practices grants from the Chesapeake Bay 2010 Trust Fund on February 11, 2009. The initial intent was to target Chesapeake Bay 2010 Trust Fund funding to five tributary basins: Lower Eastern Shore, Choptank River, Upper Eastern Shore, Lower Western Shore, and Patuxent River. The grants amount to \$11.3 million over fiscal 2009 and 2010 and will be allocated as shown in **Exhibit 4**.

While the majority of projects funded are in the targeted tributary basins, there is also funding for projects outside of the targeted area. Baltimore City (Patapsco – Back River), Baltimore County (Patapsco – Back River, Upper Western Shore), and Harford County (Upper Western Shore) are outside the area originally targeted for funding. A draft allocation plan provided by DNR indicates that the Patapsco – Back River tributary basin is a low priority for funding because point sources – wastewater treatment plants – are the primary source of nutrients in the tributary basin. The Upper Western Shore tributary basin is a low priority relative to the five tributaries listed due to its lower nitrogen loading levels.

Exhibit 4
Targeted Funding for Chesapeake Bay 2010 Trust Fund
Fiscal 2009-2010

<u>County</u>	<u>Tributary Basin</u>	<u>Targeted Innovative Practice</u>	<u>Urban/ Suburban Stormwater</u>
Anne Arundel	Lower Western Shore, Patuxent	Magothy River	2 projects along Spa Creek
Baltimore City	Patapsco – Back River	unspecified	2 projects
Baltimore	Patapsco – Back River, Upper Western Shore		1 project along Back River
Harford	Upper Western Shore	Bush River/Wheel Creek	
Howard	Patuxent River, Patapsco – Back River	Little Patuxent River	
Kent	Upper Eastern Shore	Middle Chester River	
Prince George’s	Patuxent River, Lower Potomac River, Middle Potomac River		four projects
Queen Anne’s	Choptank River, Upper Eastern Shore	Corsica River	
Talbot	Choptank River, Upper Eastern Shore	Tred Avon River	1 project

Source: Department of Natural Resources; Department of Legislative Services

The lack of nutrient and sediment reduction targets is a concern given the failure of the targeted watershed methodology so far. The Corsica River watershed was the most recent effort to focus resources in a particular watershed. Restoration funding for the Corsica River watershed followed a similar format to that being discussed for the current fund-sponsored projects: determination of the most cost-effective nutrient reduction practices, inquiries into local capacity and

interest, and cross-agency coordinated funding for restoration. However, the Corsica watershed has experienced little to no improvement since fiscal 2006. Even more troubling is the fact that the Corsica River watershed is on the list of targeted watersheds for funding in fiscal 2009-2010 despite this lack of progress. DNR notes that the lack of participation from local partners is the reason for the limited restoration progress in the Corsica watershed.

The Administration has proposed reducing the funds for the Chesapeake Bay 2010 Trust Fund by \$6.5 million and through the budget reconciliation act redirecting the monies to the general fund. Of the remaining \$25.0 million, \$11.9 million is proposed for cover crop funding to bring total cover crop funding in the allowance from all sources to \$17.8 million. The Department of Legislative Services (DLS) questions whether a cover crop program of this size is realistic given recent experience and has recommended a \$5.0 million reduction. It is noted that there is a sizeable balance in the Bay Restoration Fund – Septic Account allocated to septic system projects. This funding could be redirected on a one-time basis for cover crops via the Budget Reconciliation and Financing Act of 2009. **Exhibit 5** provides an overview of a possible set of actions to be taken with the fiscal 2010 cover crop allocation from the Chesapeake Bay 2010 Trust Fund and Bay Restoration Fund – Septic Account.

Exhibit 5
Possible Cover Crop Funding Actions
Fiscal 2010
(\$ in Millions)

	<u>CB 2010</u> <u>Trust Fund</u>	<u>BRF</u> <u>Septic Account</u>	<u>Total</u>
Allowance	\$11.9	\$5.9	\$17.8
DLS Recommended Reduction	-10.0	0	-10.0
Subtotal	\$1.9	\$5.9	\$7.8
BRF Septic Account Fund Balance	0	5.0	5.0
Total	\$1.9	\$10.9	\$12.8

BRF: Bay Restoration Fund

CB 2010 Trust Fund: Chesapeake and Atlantic Coastal Bays 2010 Trust Fund

DLS: Department of Legislative Services

Source: Department of Legislative Services

DLS’s recommendation is to (1) reduce the Chesapeake Bay 2010 Trust Fund appropriation by \$16.5 million and through budget reconciliation legislation redirect the monies to the general fund, (2) reduce the cover crop reimbursable fund allocation from the Chesapeake Bay 2010 Trust fund by \$10.0 million, and (3) restrict \$5.0 million of Bay

Restoration Fund – Septic Account funding allocated to septic system projects instead to be used by the cover crop program. These actions (1) reduce the Chesapeake Bay 2010 Trust Fund allocation by \$10.0 million more than the Governor’s proposal leaving \$12.8 million for cover crops in the Maryland Department of Agriculture budget, (2) provide sufficient funds for the non-cover crop allocations from the Chesapeake Bay 2010 Trust Fund in the Department of Natural Resources budget, and (3) in conjunction with budget reconciliation legislation provide additional general funds to address the State’s revenue shortfall.

DLS also recommends that DNR comment on how the Chesapeake Bay 2010 Trust Fund funding will be targeted, how this particular effort at targeted watershed restoration will differ from that of the previous Corsica watershed experience, when nutrient and sediment reduction targets and a list of specific projects can be expected, and how the process of communicating information to the General Assembly will be improved upon in the next annual work plan submission.

2. Comprehensive Plan for Fishing License Fee Expenditures Received

Chapter 217 of 2007 (Natural Resources – Fishery Management Reform Act) made the following changes:

- increased the license fees for resident and nonresident non-tidal angler’s licenses and sport fishing licenses;
- authorized the inclusion of general fund appropriations for the State Fisheries Management and Protection Fund and Fisheries Research and Development Fund; and
- established the Task Force on Fishery Management with a report due on December 1, 2008, reviewing current fishery management processes and recommending methods to improve, modernize, and streamline fishery management.

Budget Bill Language Requires a Report

The General Assembly was concerned that DNR did not have a plan for how the license fee revenue increase would be spent. Therefore, DNR was required to submit a comprehensive plan for how the revenue from the increased non-tidal angler and sport fishing license fees would be spent before expenditure of any of the projected additional revenue.

The Department of Legislative Services received the required report on February 13, 2009. DNR notes that it received \$1.4 million in fiscal 2008 from the license fee increase, which is lower than the original \$2.3 million estimate. The Fisheries Management and Protection Fund (inland fisheries) received an increase of \$923,000 and the Fisheries Research and Development Fund received \$448,000 in fiscal 2008. DNR has assumed that this revenue will be available in fiscal 2009 as well and is added to \$750,000 in general funds from the Administration for \$2.1 million in planned

spending in fiscal 2009. The license fee revenue increase will sunset at the end of fiscal 2010 at which point a new negotiation about the license fee amounts will need to be initiated.

Task Force on Fishery Management Report Identifies Needs

The fiscal 2010 allowance includes an increase in funding for the Fisheries Service which is informed by the report submitted by DNR and supported by the report of the Task Force on Fishery Management. A summary of Task Force on Fishery Management report findings by workgroup is as follows:

- habitat preservation and restoration – create a new habitat specialist position to develop habitat criteria for target species; create three new positions in the Environmental Review Program including a program manager, lead reviewer, and reviewer focusing on transportation projects in order to incorporate habitat criteria in the review of proposed projects; designate a coordinator position to focus agency habitat protection and restoration efforts;
- stock monitoring and assessment – review current staffing and budget levels relative to the implementation of a strategic plan for ecosystem-based management including a review of target species, forage species for the target species, invasive species, and threatened/endangered species;
- data management – create a searchable comprehensive database; designate a data management position to coordinate inland and tidewater data consistency, storage, and availability; train staff handling data on geographic information system data management;
- fishery management – prioritize resources for achieving management objectives for the 19 fishery management plans;
- alternative management – study an alternative to the commercial fisheries “commons” such as limited entry programs, individual transferrable quotas, or other rights-based privileges management system;
- laws and regulations – clarify tidal and non-tidal license suspension regulations; update fines to reflect inflation; require restitution for fisheries law violations;
- enforcement of fisheries laws – authorize 435 law enforcement officers and maintain 400 filled positions in keeping with fiscal 1990 levels; conduct 30-officer training academies annually to reach the 400 filled positions goal within 10 years given 12 retirements per year; establish a dedicated funding source for maintenance or replacement of the NRP’s vessels, aircraft, and emergency radio system.

DNR Spending Plan

DNR's license fee increase revenue spending plan for fiscal 2009 is as follows:

- Research and monitoring (\$325,000) – enable adoption of Maryland Biological Stream Survey habitat assessment protocols in Western Maryland, study brook trout, and study fish diseases;
- Data management (\$330,000) – fisheries-wide database creation;
- Statistical analysis and assessment (\$90,000) – train staff on fisheries monitoring and study socio-economic impacts of Maryland's fishing communities;
- Conservation and management (\$701,000) – restore fish and oyster populations, and study environmental impacts on fish;
- Hatcheries and restoration (\$415,000) – assess trout production facilities, improve Bear Creek Hatchery, implement artificial reef projects, restore anadromous fish populations;
- Public outreach, communications, and marketing (\$160,000) – develop Fisheries Service website, develop and distribute public materials, train staff on conflict resolution, and educate on invasive species; and
- Enforcement (\$100,000) – improve enforcement by providing funding to the Natural Resources Police.

DLS recommends that DNR comment on how it will fund future Fisheries Service activities initiated by the license fee revenue increase given the fiscal 2010 sunset provision.

3. Maryland Park Service Funding Priorities Questioned

The sustainability of the Maryland Park Service budget came into question when the Maryland General Assembly expressed the intent to eliminate the use of general funds through Chapter 2 of the 2007 special session. Chapter 2 changed the transfer tax allocation formula and directed that the greater of \$21.0 million or 20% be allocated to the Maryland Park Service. As a result of the funding formula change, the Maryland Park Service received an approximately \$4.7 million funding enhancement.

The Administration has followed the intent of the General Assembly and in the fiscal 2010 allowance, the Maryland Park Service budget is composed entirely of special funds with \$32.5 million, or 90%, of its operating revenue coming from the Program Open Space Transfer Tax (\$22.2 million) and the Forest and Park Reserve Fund (\$10.3 million).

No Strategic Budget Plan

The Maryland Park Service has not made any plans to diversify its funding sources or address its long-term funding needs by consolidating park budgets. In addition, it has not made any changes to the entrance fees despite the possibility of doing so with the fiscal 2009 enhancement.

The last funding study conducted on the Maryland Park Service was required by fiscal 2008 budget bill language that required DNR to submit a plan on how to fully fund the operations of the Maryland Park Service using general funds. The Maryland Park Service has noted that while it has not made any decisions about diversifying the funding sources, it has been reviewing strategies implemented by other states.

A possible cost-saving measure is to consolidate park budgets in order to streamline accounting across parks. The Maryland Park Service hired a new financial officer in August 2008 who has not decided yet whether consolidating park budgets is the path DNR would like to pursue.

Maryland park entrance fees are among the highest in the nation. The confluence of high entrance fees and the parks enhancement in fiscal 2009 led to the suggestion to reduce park entrance fees. The Maryland Park Service notes that it adjusted fees to make them consistent across the park system and has no plans to increase them in calendar 2009. However, the Maryland Park Service also has no plans to reduce the entrance fees because of the need to maintain the approximately \$3.5 million in revenue that entrance fees raise for operations as part of the Forest and Park Reserve Fund.

Civic Justice Corps

Despite the Maryland Park Service's concern about the entrance fee revenue coming into the Forest and Park Reserve Fund and the question about the long-term sustainability of the Maryland Park Service's budget, the Maryland Park Service has embarked upon an urban youth outdoor experience in State parks called Civic Justice Corps. Civic Justice Corps is a collaborative effort between the Maryland Park Service, Department of Juvenile Services (DJS), and local partners in Baltimore City. Fiscal 2009 enhancement funding of \$1.0 million in special funds allowed the Civic Justice Corps program to begin in the summer of 2008. Ultimately, 112 participants graduated – a combination of adjudicated youth recommended by DJS and at-risk youth that responded to advertisements and a newspaper article.

However, in a review of the program by the Parks and People Foundation, it was noted by Civic Justice Corps crew chiefs that the youth selected by DJS were not prepared for success in the program. The tenor of the comments indicate that adjudicated youth may not be ideally suited for success in the program, which raises the question of why the Maryland Park Service is working with this population instead of focusing on its existing Maryland Conservation Corps teams. In addition, it is noted that a program for adjudicated youth should be funded by DJS and not take away from the prime focus of the Maryland Park Service to manage the natural, cultural, historical, and recreational resources of Maryland to provide the best use for the benefit of citizens.

DLS recommends that DNR comment on how it plans to diversify the funding for sustainability in the long-term and whether entrance fees for State parks may be expected to be reduced at any point in the foreseeable future. DLS also recommends that the \$1.3 million in special funds for the Civic Justice Corps program be deleted and that instead the Maryland Park Service focus efforts and resources on developing more Maryland Conservation Corps crews.

4. DNR Special Fund Balances Reduced Substantially

Special fund balances provide a reservoir in case of emergencies or economic downturn. The majority of DNR's fund balances have been reduced below the fiscal 2008 actual level, and 13 of DNR's 25 special funds have been reduced by more than 50% between fiscal 2008 and 2010. These substantial reductions include reductions for several of DNR's largest special funds including the Program Open Space Administration Fee, which no longer has a fund balance, and the Waterway Improvement Fund, which has been reduced by over \$13.0 million between the fiscal 2008 actual and fiscal 2010 allowance as shown in **Exhibit 6**.

DLS recommends that DNR comment on how reduced fund balances impact the department's ability to handle emergencies and service delivery.

Exhibit 6
Department of Natural Resources Special Fund Balances
Fiscal 2008-2010

<u>Special Fund</u>	<u>Actual 2008</u>	<u>Approp. 2009</u>	<u>Allow. 2010</u>	<u>Change 2008-10</u>
Program Open Space Administrative Fee	\$2,726,821	\$556,736	-\$1	-100.0%
State Boat Act	1,903,580	1,897,879	30,509	-98.4%
Off Road Vehicle Account	167,391	83,496	8,287	-95.0%
Waterway Improvement Fund	14,586,419	323,927	1,262,212	-91.3%
Chesapeake Bay Endangered Species	108,761	135,477	12,949	-88.1%
Forest and Park Reserve Fund	4,570,888	3,478,729	640,181	-86.0%
Environmental Trust Fund	1,292,047	637,018	223,541	-82.7%
Upland Wildlife Habitat Fund	4,875	74	1,089	-77.7%
Wildlife Management and Protection Fund	1,950,460	1,460,669	542,217	-72.2%
Migratory Wild Waterfowl Stamp	210,399	181,357	69,714	-66.9%
Forest and Park Service Concession Fund	1,089,604	1,000,746	387,698	-64.4%
Local Land Trust	1,327,431	1,118,391	620,602	-53.2%
Fisheries Research and Development Fund	6,828,832	5,696,098	3,398,787	-50.2%
Fair Hill Improvement Fund	376,692	229,895	189,384	-49.7%
Deer Stamp Account	37,802	33,323	19,759	-47.7%
Deep Creek Lake NRMA	1,016,827	987,673	541,473	-46.7%
Natural Resources Property Maintenance Fund	296,379	199,783	158,490	-46.5%
Wildlife Habitat Incentive Program	47,966	27,460	28,778	-40.0%
Fisheries Management and Protection Fund	3,158,750	3,027,622	2,137,561	-32.3%
Somers Cove Marina	591,455	490,115	490,115	-17.1%
Ocean Beach Replenishment Account	7,449,720	7,449,720	6,449,720	-13.4%
Woodlands Incentive Fund	829,389	841,339	761,280	-8.2%
Reforestation Fund	259,553	259,553	259,553	0.0%
Smith Island Restoration Account	294,266	294,266	294,266	0.0%
SEC Revolving Loan Fund	66,708	47,831	282,269	323.1%
Total	\$51,193,015	\$30,459,177	\$18,810,433	-63.3%

NRMA: Natural Resources Management Area

SEC: Shoreline Erosion Control

Note: The fund balances do not reflect the contingent actions proposed in the operating budget; therefore, the Waterway Improvement Fund and the Program Open Space Administrative Fee fund balances may change.

Source: Department of Natural Resources

Recommended Actions

	<u>Amount Reduction</u>		<u>Position Reduction</u>
1. Delete one position in the Office of Communications. This action would delete one filled position and \$50,000 in general funds in the Office of Communications. This reduction would leave the Office of Communications with seven positions.	\$ 50,000	GF	1.0
2. Delete the appropriation for the Civic Justice Corps within the Maryland Park Service. This action would delete the funding for the Civic Justice Corps program since it is more properly funded by the Department of Juvenile Services. It is recommended that the Department of Natural Resources instead focus efforts on developing more Maryland Conservation Corps crews.	1,311,305	SF	
3. Strike the following language on the general fund appropriation: ; provided that this appropriation shall be reduced by \$1,794,000 contingent upon the enactment of legislation to reduce the General Fund contribution to the Waterway Improvement Fund.			

Explanation: Technical amendment to reflect budget action.

	<u>Amount Reduction</u>		<u>Position Reduction</u>
4. Delete the Boating Services general fund appropriation. This action would reduce the general fund appropriation by \$1,794,000. The inclusion of \$1,794,000 was mandated by Chapter 6 of the 2007 special session. This action is consistent with the Governor’s Budget Reconciliation and Financing Act of 2009.	1,794,000	GF	

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5. Amend the following language on the special fund appropriation:

~~; provided that this appropriation shall be reduced by \$6,487,556 contingent upon the enactment of legislation to allocate Chesapeake Bay 2010 Trust Fund revenue to the General Fund.~~ , provided that no more than \$1.9 million of this appropriation funded with Chesapeake and Atlantic Coastal Bays 2010 Trust Fund revenue shall be spent on the cover crop program.

Further provided that no portion of this appropriation funded with Chesapeake and Atlantic Coastal Bays 2010 Trust Fund revenue shall be spent until the Department of Natural Resources (DNR) has submitted a report to the budget committees providing the name, location, description, and nutrient and sediment reduction targets for all projects to be funded in fiscal 2010. The budget committees shall have 45 days to review and comment from the date of receipt of the report.

Explanation: The cover crop program receives \$17.9 million in the fiscal 2010 allowance including \$11.9 million from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund. This funding level has not been supported by previous years' actual spending. Therefore, the cover crop program shall receive no more than \$1.9 million from the Chesapeake Bay 2010 Trust Fund, which, in conjunction with other actions recommended by the Department of Legislative Services, funds the cover crop program at \$12.8 million for fiscal 2010.

Chapters 120 and 121 of 2008 require that the BayStat Subcabinet submit annual work and expenditure plans as part of the annual budget submission. The submitted annual work plan contains neither nutrient and sediment reduction targets nor information about specific projects. Therefore, the budget committees require that a report be submitted on the name, location, description, and nutrient and sediment reduction targets for all projects to be funded with Chesapeake and Atlantic Coastal Bays 2010 Trust Fund monies in fiscal 2010. The budget committees have 45 days to review and comment upon the report from the date of receipt of the report.

Information Request	Author	Due Date
Report on the projects funded with Chesapeake Bay 2010 Trust Fund revenue	DNR	Prior to the expenditure of the fiscal 2010 allocation from the Chesapeake Bay 2010 Trust Fund

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	<u>Amount Reduction</u>	<u>Position Reduction</u>
<p>6. Reduce the Watershed Services appropriation from the Chesapeake and Atlantic Coastal Bays 2010 Trust allocation. It is recommended that this action be taken as part of the following: (1) reduce the Chesapeake Bay 2010 Trust Fund appropriation by \$16.5 million, (2) reduce the cover crop reimbursable fund allocation from the Chesapeake Bay 2010 Trust fund by \$10.0 million, and (3) restrict \$5.0 million of Bay Restoration Fund – Septic Account funding allocated to septic system projects instead to be used by the cover crop program as part of the Budget Reconciliation and Financing Act of 2009. These actions (1) reduce the Chesapeake Bay 2010 Trust Fund allocation by \$10.0 million more than the Governor’s proposal leaving \$12.8 million for cover crops in the Maryland Department of Agriculture budget, (2) provide sufficient funds for the non-cover crop allocations from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund in the Department of Natural Resources’ budget, and (3) in conjunction with budget reconciliation legislation provide additional general funds to address the State’s revenue shortfall.</p>	<p>16,486,556</p>	<p>SF</p>
<p>7. Delete the \$750,000 match to the fishing license fee increase. The Governor included \$750,000 in general funds in the fiscal 2009 appropriation as a match to the increase in non-tidal angler and sport fishing license fees. This reduction of \$750,000 in general funds would reflect the one-time nature of the match and is a prudent fiscal measure.</p>	<p>750,000</p>	<p>GF</p>
<p>8. Delete the mandated general fund appropriation for the Fisheries Service. Chapter 6 of the 2007 special session required the inclusion of \$1,794,000 in general funds in the Fisheries Research and Development Fund. This action would delete this mandated appropriation of \$1,794,000 and is a prudent cost-saving measure. The fiscal 2010 allowance includes a Fisheries Research and Development Fund balance of \$3,398,787 and so this</p>	<p>1,794,000</p>	<p>GF</p>

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reduction would leave a fund balance of \$1,604,787. In addition, it is recommended that the reduction of \$1,794,000 in general funds be made permanent by adding language to the Budget Reconciliation and Financing Act of 2009.

Total Reductions	\$ 22,185,861	1.0
Total General Fund Reductions	\$ 4,388,000	
Total Special Fund Reductions	\$ 17,797,861	

Updates

1. Shore Erosion Control Shifted to Operating Budget

The Shore Erosion Control Loan Program has been moved from the pay-as-you-go (PAYGO) capital budget to the operating budget. The change was made to reflect the shift in focus from capital-eligible structural improvements to capital-ineligible non-structural living shoreline techniques.

2. Critical Area Commission Funds One Circuit Rider

The Maryland Department of Planning (MDP) has abolished the circuit rider program and transferred one of the remaining positions to the Critical Area Commission for the Chesapeake and Atlantic Coastal Bays. Until recently, the three circuit rider positions were budgeted in MDP and were funded by the Critical Area Commission. However, over time MDP had broadened the responsibilities of the positions without charging the Critical Area Commission an additional amount for the positions. MDP then eliminated the circuit rider program as part of cost containment actions in fiscal 2008 and transferred one of the positions to the Critical Area Commission. The Critical Area Commission intends to fill this position using a grant from the Keith Campbell Foundation.

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 2008					
Legislative Appropriation	\$76,988	\$73,376	\$25,241	\$9,125	\$184,730
Deficiency Appropriation	0	1,161	2,572	0	3,733
Budget Amendments	1,083	4,117	1,032	2,792	9,024
Cost Containment	-1,215	-53	-65	-6	-1,339
Reversions and Cancellations	-379	-10,771	-6,343	-3,335	-20,828
Actual Expenditures	\$76,477	\$67,830	\$22,437	\$8,576	\$175,320
Fiscal 2009					
Legislative Appropriation	\$63,717	\$98,308	\$23,610	\$8,509	\$194,144
Cost Containment	-6,208	-315	-52	0	-6,575
Budget Amendments	1,286	1,763	0	0	3,049
Working Appropriation	\$58,795	\$99,756	\$23,558	\$8,509	\$190,618

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

Fiscal 2008

DNR's general fund appropriation decreased by \$0.5 million. The changes are as follows:

- budget amendments – an increase of \$1.1 million for allocation of the cost-of-living adjustment (COLA) general fund appropriation as authorized in the fiscal 2008 budget bill;
- cost containment – a decrease of \$1.2 million for cost containment actions taken at the July, 11, 2007 and January 30, 2008 BPW meetings including the abolishing of 21 positions and the reduction of funding for salaries, wages, and fringe benefits, vehicle replacement, monitoring surveys, Patuxent River monitoring surveys, and the supplanting of general funds with federal funds for the Corsica River targeted watershed project; and
- reversions and cancellations – a decrease of \$0.4 million mostly due to targeted reversions in Natural Resources Police (\$0.3 million) and Watershed Services (\$0.1 million).

DNR's special fund appropriation decreased by \$5.5 million. The changes are as follows:

- deficiency appropriation – an increase of \$1.2 million for maintenance and repairs at the Bear Creek facility (\$0.3 million), research activities in support of Maryland Energy Administration energy efficiency initiatives (\$0.2 million), replacement of ash trees as part of the emerald ash borer eradication effort (\$0.2 million), maintenance and repair costs of vessels (\$0.2 million), operations funding for the Maryland Park Service concession program (\$0.1 million), and yellow perch management (\$0.1 million);
- budget amendments – an increase of \$4.1 million mostly for administration, survey, design, and a portion of the construction phase for the Blackwater Restoration and Enhancement Project (\$0.9 million), enhancing recreational boating opportunities in 10 parks (\$0.5 million), reflecting the transfer of the Shoreline Erosion Control Loan Program from the PAYGO capital budget to the operating budget (\$0.5 million), allocating the COLA special fund appropriation as authorized in the fiscal 2008 budget bill (\$0.5 million), meeting a salary shortfall in the Wildlife and Heritage Service (\$0.4 million), completing a water study of the effects of accelerated development on Deep Creek Lake (\$0.4 million), covering salaries and wages within Land Acquisition and Planning from the Program Open Space Administrative Fee (\$0.3 million), and operating the Somers Cove Marina (\$0.2 million);
- cost containment – a decrease of \$0.1 million for reductions of salaries, wages, and fringe benefits to reflect the overall reduction of 11 positions in DNR as part of the January 30, 2008 BPW statewide 500.15 position reduction; and
- reversions and cancellations – a decrease of \$10.8 million mostly due to unneeded appropriation and vacant positions in Natural Resources Police (\$4.7 million), Capital Grants and Loan Administration (\$1.0 million) due to unrealized Program Open Space

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Administrative Fee revenue from the transfer tax, Maryland Park Service (\$0.9 million), Forestry Service (\$0.9 million), Engineering and Construction (\$0.6 million), and Maryland Environmental Trust (\$0.5 million).

DNR's federal fund appropriation decreased by \$2.8 million. The changes are as follows:

- deficiency appropriation – an increase of \$2.60 million for maritime security and boating safety activities (\$1.00 million), equipment/vessel purchases and overtime costs in the High Intensity Drug Trafficking Area program (\$0.80 million), research on oyster restoration alternatives (\$0.20 million), Maryland Conservation Corps (\$0.20 million), monitoring animal populations for disease and restoring 400 acres of salt marsh (\$0.10 million), boating safety activities (\$0.10 million), and the Maryland catch card census program for Atlantic bluefin tuna and billfish landings (\$0.03 million);
- budget amendments – an increase of \$1.03 million for increasing the amount of Recreational Boating Safety Grant funds available to the Natural Resources Police (\$0.80 million), additional overtime, the purchase of a patrol vehicle, and equipment necessary for enforcing and conserving Maryland's marine fisheries (\$0.10 million), reimbursing the Natural Resources Police for salary and travel costs related to reviewing U.S. Department of Agriculture – Wildlife Service boating activity (\$0.02 million), conducting an inventory of State and local lands in the vicinity of the Captain John Smith Chesapeake National Historic Trail (\$0.02 million), and printing the Maryland Bay Game (\$0.01 million);
- cost containment – a decrease of \$53,328 for reductions of salaries, wages, and fringe benefits to reflect the overall reduction of 11 positions in DNR as part of the January 30, 2008 BPW statewide 500.15 position reduction; and
- reversions and cancellations – a decrease of \$6.3 million mostly due to lower than anticipated grant costs and revenue in Natural Resources Police (\$3.1 million), Fisheries Service (\$1.6 million), Watershed Services (\$0.7 million), and Resource Assessment Service (\$0.6 million).

DNR's reimbursable fund appropriation decreased by \$0.5 million. The changes are as follows:

- budget amendments – an increase of \$2.8 million mostly due to transfers from the Maryland Emergency Management Agency to DNR for relocating the communications center in the basement of DNR's Tawes's building to Sandy Point Park in order to manage incidents of terrorism (\$1.2 million), from the Maryland Department of Transportation – State Highway Administration to DNR for recreational trail project grants (\$0.3 million), from the Maryland Department Agriculture to DNR for the emerald ash borer eradication project (\$0.2 million), and an internal transfer from the Capital Grants and Loan Administration to the Wildlife and Heritage Service for applying Coastal and Estuarine Land Conservation Program guidelines to properties funded with Program Open Space funds (\$0.2 million);

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- cost containment – a decrease of \$5,630 for reductions of salaries, wages, and fringe benefits to reflect the overall reduction of 11 positions in DNR as part of the January 30, 2008 BPW statewide 500.15 position reduction; and
- reversions and cancellations – a decrease of \$3.3 million mostly due to Western Maryland Rail Trail project costs not incurred in the engineering and construction (\$2.1 million) and unneeded appropriation in Watershed Services (\$0.5 million) and the Resource Assessment Service (\$0.3 million).

Fiscal 2009

The general fund appropriation decreases by a net of \$4.9 million. The changes are as follows:

- cost containment – a decrease of \$6.2 million due to salaries, wages, and fringe benefits reductions at the June 25, 2008 BPW meeting (\$1.0 million); reductions from wetland restoration, abolishing 46 positions, vehicles and out-of-state travel, and using State Boat Act and Wildlife Management and Protection Fund special funds to supplant general funds at the October 15, 2008 BPW meeting (\$4.1 million); and fringe benefit appropriations being reduced as OPEB prefunding of \$0.9 million was ceased and statewide employee health insurance balances of \$0.2 million were used in lieu of budgeted funds, also at the October 15, 2008 BPW meeting; and
- budget amendments – an increase of \$1.3 million for allocation of the COLA general fund appropriation as authorized in the fiscal 2009 budget bill (\$0.8 million) and for allocation of the Annual Salary Review for the scientist and engineer series (\$0.4 million).

The special fund appropriation increases by a net of \$1.4 million. The changes are as follows:

- cost containment – a decrease of \$0.3 million for cost containment actions relating to salaries, wages, and fringe benefits as part of BPW actions on June 25, 2008; and
- budget amendments – an increase of \$1.8 million for allocation of the COLA special fund appropriation as authorized in the fiscal 2009 budget bill (\$0.7 million), allocation of the Annual Salary Review for the scientist and engineer series (\$0.5 million), and transfer of the Shoreline Erosion Control Loan Program from the PAYGO capital budget to the operating budget (\$0.5 million).

The federal fund appropriation decreases by \$51,800 for cost containment actions relating to salaries, wages, and fringe benefits as part of BPW actions on June 25, 2008.

The reimbursable fund appropriation remains unchanged from the legislative appropriation.

Audit Findings

Audit Period for Last Audit:	January 7, 2004 – April 30, 2007
Issue Date:	August 2008
Number of Findings:	13
Number of Repeat Findings:	4
% of Repeat Findings:	31%
Rating: (if applicable)	n/a

- Finding 1:** **Inadequate accounting to ensure certain special funds were spent in accordance with statutory requirements.**
- Finding 2:** Improper retention of \$244,117 in security interest filing fees that should have been reverted to the general fund.
- Finding 3:** Program Open Space grants awarded to local jurisdictions for indoor recreation projects that did not appear to be consistent with statutory restrictions.
- Finding 4:** Loaned \$400,000 from the Land Trust Grant Fund to a private foundation in apparent violation of State law and did not obtain required assurances that the land purchased would be used as intended.
- Finding 5:** Inadequate monitoring of public land leases to ensure tenant compliance with lease terms.
- Finding 6:** Improper creation of certain purchase orders at the end of the year to avoid reverting unspent appropriations in violation of State policies and procedures.
- Finding 7:** **Lack of proper internal controls over purchasing and disbursement transactions and Financial Management Information System user security was not properly monitored.**
- Finding 8:** Federal fund recoveries to offset State expenditures were not maximized.
- Finding 9:** **Lack of adequate controls over cash receipts.**
- Finding 10:** Lack of annual independent audits of the State Park Reservation System and lack of accounting for certain revenues and expenditures.
- Finding 11:** Inadequate separation of duties over certain payroll processing functions.

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Finding 12: Inadequate maintenance of procedures and controls over equipment.

Finding 13: Employee purchase of janitorial and maintenance supplies at excessively high prices from certain vendors.

*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>FY08 Actual</u>	<u>FY09 Working Appropriation</u>	<u>FY10 Allowance</u>	<u>FY09 - FY10 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,343.50	1,358.50	1,355.50	-3.00	-0.2%
02 Contractual	463.82	464.08	419.88	-44.20	-9.5%
Total Positions	1,807.32	1,822.58	1,775.38	-47.20	-2.6%
Objects					
01 Salaries and Wages	\$ 100,854,776	\$ 105,743,355	\$ 110,161,190	\$ 4,417,835	4.2%
02 Technical and Spec. Fees	9,866,176	11,520,054	11,227,433	-292,621	-2.5%
03 Communication	1,818,104	2,066,672	2,041,153	-25,519	-1.2%
04 Travel	797,157	761,017	723,354	-37,663	-4.9%
06 Fuel and Utilities	5,198,574	5,632,694	5,944,096	311,402	5.5%
07 Motor Vehicles	8,224,258	7,935,471	7,844,534	-90,937	-1.1%
08 Contractual Services	31,100,624	35,120,607	34,388,147	-732,460	-2.1%
09 Supplies and Materials	6,258,097	6,738,225	7,073,362	335,137	5.0%
10 Equipment – Replacement	1,136,785	1,626,892	1,199,235	-427,657	-26.3%
11 Equipment – Additional	2,892,974	875,066	1,224,379	349,313	39.9%
12 Grants, Subsidies, and Contributions	4,198,103	8,290,872	39,737,831	31,446,959	379.3%
13 Fixed Charges	2,563,414	2,788,993	2,839,642	50,649	1.8%
14 Land and Structures	408,498	1,518,837	777,700	-741,137	-48.8%
Total Objects	\$ 175,317,540	\$ 190,618,755	\$ 225,182,056	\$ 34,563,301	18.1%
Funds					
01 General Fund	\$ 76,476,074	\$ 58,795,440	\$ 57,985,016	-\$ 810,424	-1.4%
03 Special Fund	67,829,397	99,756,147	132,606,970	32,850,823	32.9%
05 Federal Fund	22,436,185	23,558,099	26,497,186	2,939,087	12.5%
09 Reimbursable Fund	8,575,884	8,509,069	8,092,884	-416,185	-4.9%
Total Funds	\$ 175,317,540	\$ 190,618,755	\$ 225,182,056	\$ 34,563,301	18.1%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

**Fiscal Summary
Department of Natural Resources**

<u>Program/Unit</u>	<u>FY08 Actual</u>	<u>FY09 Wrk Approp</u>	<u>FY10 Allowance</u>	<u>Change</u>	<u>FY09 - FY10 % Change</u>
01 Office of the Secretary	\$ 14,030,914	\$ 13,227,850	\$ 16,233,684	\$ 3,005,834	22.7%
02 Forestry Service	10,979,463	11,418,768	11,577,449	158,681	1.4%
03 Wildlife and Heritage Service	9,904,780	10,847,673	10,908,234	60,561	0.6%
04 Maryland Park Service	32,171,934	37,432,593	38,756,480	1,323,887	3.5%
05 Capital Grants and Loan Administration	6,203,547	6,671,551	4,553,785	-2,117,766	-31.7%
06 Licensing and Registration Service	3,833,915	4,277,542	4,306,604	29,062	0.7%
07 Natural Resources Police	37,915,560	35,068,744	36,115,863	1,047,119	3.0%
09 Engineering and Construction	4,779,477	5,237,053	4,575,981	-661,072	-12.6%
10 Chesapeake Bay Critical Area Commission	2,280,235	2,332,056	2,480,068	148,012	6.3%
11 Maryland Geological Survey	5,597,490	9,182,491	8,722,993	-459,498	-5.0%
12 Resource Assessment Service	18,766,086	18,554,985	18,810,379	255,394	1.4%
13 Maryland Environmental Trust	755,912	1,337,443	1,341,292	3,849	0.3%
14 Watershed Services	12,239,165	14,607,264	44,304,944	29,697,680	203.3%
17 Fisheries Service	15,859,062	20,422,742	22,494,300	2,071,558	10.1%
Total Expenditures	\$ 175,317,540	\$ 190,618,755	\$ 225,182,056	\$ 34,563,301	18.1%
General Fund	\$ 76,476,074	\$ 58,795,440	\$ 57,985,016	-\$ 810,424	-1.4%
Special Fund	67,829,397	99,756,147	132,606,970	32,850,823	32.9%
Federal Fund	22,436,185	23,558,099	26,497,186	2,939,087	12.5%
Total Appropriations	\$ 166,741,656	\$ 182,109,686	\$ 217,089,172	\$ 34,979,486	19.2%
Reimbursable Fund	\$ 8,575,884	\$ 8,509,069	\$ 8,092,884	-\$ 416,185	-4.9%
Total Funds	\$ 175,317,540	\$ 190,618,755	\$ 225,182,056	\$ 34,563,301	18.1%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.