

**U10B00**  
**Maryland Environmental Service**

***Operating Budget Data***

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(\$ in Thousands)

	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Change FY 07-08</u>
Total Assets	\$58,886	\$72,290	\$68,399	-\$3,891
Total Liabilities	51,700	63,589	60,184	-\$3,405
<b>Total Net Assets</b>	<b>\$7,186</b>	<b>\$8,701</b>	<b>\$8,215</b>	<b>-\$486</b>
Total Revenue	\$76,786	\$91,943	\$123,136	<b>\$31,193</b>
Total Expenditures (includes non-operating)	76,007	90,428	123,622	<b>\$33,194</b>
<b>Net Assets Change</b>	<b>\$779</b>	<b>\$1,515</b>	<b>-\$486</b>	<b>-\$2,001</b>

- Between fiscal 2007 and 2008 the net assets of the Maryland Environmental Service (MES) decreased by \$2.0 million reflecting the sale of the scrap tire recycling facility in January 2008.
- Revenues grew slower than expenditures between fiscal 2007 and 2008. The increase in both primarily reflects the pass-through funding MES paid to contractors for completing construction of the Masonville dredge material containment facility.
- MES participated in the fiscal 2009 furlough, and the estimated impact is \$276,756 in lost income for MES and approximately \$318,154 in savings to the State.
- MES considers the undesignated unrestricted net assets to be the fund balance. Undesignated, unrestricted net assets increased by \$931,000 between fiscal 2007 and 2008 to \$1,047,000.

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

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## *Analysis in Brief*

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### Major Trends

***National Pollutant Discharge Elimination System Violations Increase:*** MES's National Pollutant Discharge Elimination System violations decreased between fiscal 2007 and 2008 but are still higher than the fiscal 2003 to 2006 time period due to a greater number of wastewater treatment plants in operation.

### Issues

***MES Overcharging for Services Provided to the State?:*** MES's charges for reimbursable project services provided to the State increased by \$2.6 million, or 13.8%, between fiscal 2008 and 2009. In addition, there is the question of whether questionable business activities that MES has undertaken, including a failed scrap tire recycling facility that it sold in February 2008 at a loss, may be impacting how much the State is charged. **The Department of Legislative Services (DLS) recommends that MES comment on how it anticipates changing charges to the State in the future, given historical salary and fuel cost increases and the aging State water and wastewater treatment plant infrastructure. DLS also recommends that MES comment on whether the non-State business impacts how it sets charges for services to the State.**

***Other Post Employment Benefits Shortfall:*** MES has an Other Post Employment Benefits funding (OPEB) shortfall similar to that of other governmental entities. MES's unfunded liability amounts to an annual required contribution of approximately \$452,000 as of June 30, 2008; however, in fiscal 2008, MES only contributed \$16,000, which increased the unfunded liability. **DLS recommends that MES comment on its long-term plan for reducing its OPEB liability.**

***Solar Power Plant Agreement Not Fully Evaluated:*** MES entered into a 15-year power purchase contract with Constellation Energy on September 30, 2008, that involved the installation of 300 kilowatts of solar energy production capacity at the headquarters in Millersville, Maryland. MES acknowledges that it did not conduct a cost-benefit analysis to determine the value of the real estate when it entered into the agreement with Constellation Energy, but notes that it has a responsibility to take action to improve the environment despite the cost. **DLS recommends that MES comment on why it did not conduct a cost-benefit analysis on the leasing of the land for the solar structures as part of the 15-year power purchase agreement with Constellation Energy.**

### Recommended Actions

1. Nonbudgeted.

## **Updates**

***New Midshore Regional Landfill to Open in Fall 2010:*** The Midshore Regional Solid Waste Facility (Midshore I) has nearly reached capacity, and the plan is to close it in December 2010. The total closure and postclosure maintenance and monitoring costs for 30 years after closure are estimated to be \$11,865,000. Prior to the closure of the existing landfill, MES intends to open a new Midshore landfill, Midshore II, in the fall of 2010.

***Corporate Headquarters Purchased:*** MES purchased the outstanding 50% share of the corporate headquarters on September 24, 2008, for \$1,720,000 in cash. MES formed a limited liability company with a for profit entity in order to construct the two-story office building. The original price of the building was \$5.5 million, and MES paid operating lease expenses of \$788,000 in fiscal 2008.

***Legislation Authorizing Energy Generation Projects:*** In the 2009 legislative session, Senate Bill 14/House Bill 314 (Maryland Environmental Service – Energy Generation Projects) have been introduced to expand MES’s authority to engage in certain energy projects and services. Similar legislation was submitted in the 2008 legislative session as House Bill 1509 (failed).

*U10B00 – Maryland Environmental Service*

**U10B00**  
**Maryland Environmental Service**

***Operating Budget Analysis***

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**Program Description**

The Maryland Environmental Service (MES) was created as a unit within the Department of Natural Resources (DNR) in 1970 to provide water supply, wastewater treatment, and waste management services to State agencies, local governments, and private entities. During the 1993 session, the General Assembly adopted legislation that created MES as an instrumentality of the State and a public corporation independent of DNR. The organization's primary goals are to improve the environment, work more safely, and provide excellent customer service and satisfaction. MES provides technical services including engineering, design, financing, construction, and operation of water supply and wastewater treatment facilities. MES also provides similar services in the area of hazardous and solid waste facility management, including sanitary landfills, incinerators, and resource recovery facilities. Additional services offered include sludge and dredged materials management, recycling and marketing of end products, and regulatory monitoring. As of June 30, 2008, MES operated and maintained 550 facilities, of which 227 were State-owned facilities, such as the Poplar Island environmental restoration project, the Hart-Miller Island Dredged Material Containment Facility, and a regional yard-debris composting facility.

MES operates on a fee-for-service basis. Operating funds are generated from five sources: State agency contracts, local government contracts, federal government contracts, private contracts, and MES enterprises. In addition, MES receives State general obligation bond appropriations for capital improvements at State-owned facilities and may issue revenue bonds to finance local government projects. Revenues from State agency contracts derive from the operation and maintenance of State-owned water and wastewater treatment plants and from specific projects and services such as environmental cleanup or recycling program management. Revenues from local governments, the federal government, and the private sector derive from the operation and maintenance of water and wastewater treatment facilities and solid waste management services. MES enterprise revenues are generated by efforts such as yard waste grinding and waste oil recovery.

Three goals guide MES's activities:

- improve the environment;
- work more safely; and
- provide excellent customer service and satisfaction.

## Performance Analysis: Managing for Results

MES's mission and vision statements are shown below.

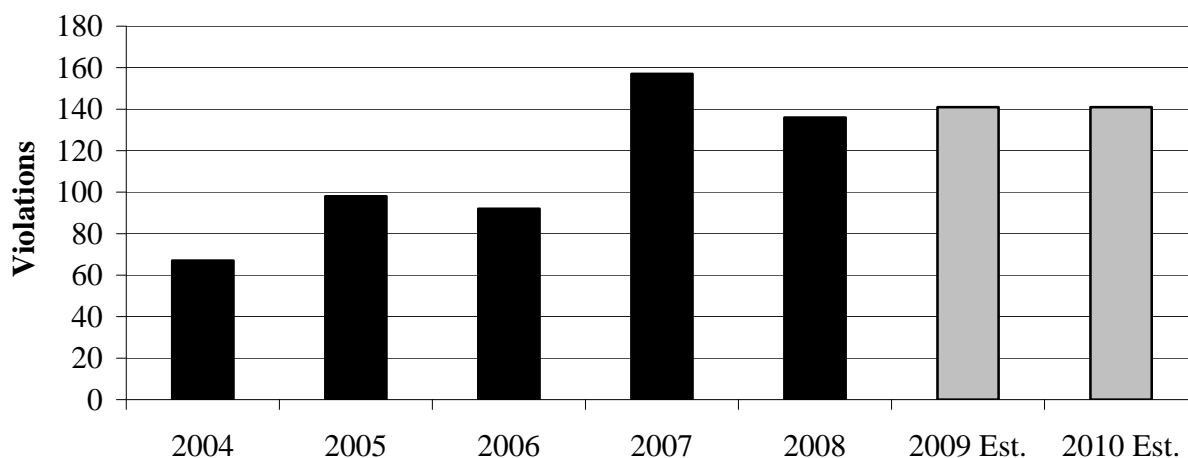
**Mission Statement:** To provide operational and technical services to protect and enhance the environment for the benefit of the people of Maryland.

**Vision Statement:** An innovative and leading edge solver of environmental problems, a responsible and successful manager of environmental operations, and a great place to work.

MES's performance measures relate to three goals. The first goal is to improve the environment through MES's activities. One output for this goal is the number of corporate and State National Pollutant Discharge Elimination System (NPDES) violations. **Exhibit 1** shows that MES's fiscal 2007 (157 violations) and fiscal 2008 (136 violations) performance declined relative to the fiscal 2003 to 2006 time period. Future year estimates project a higher level of violations. MES notes that the increase in violations between fiscal 2006 and 2007 relates to more stringent requirements for ammonia and nitrogen removal. MES also notes that the number of NPDES violations does not account for the fact that MES is operating more plants; therefore, the potential exists for more NPDES violations. MES uses an internal measure of NPDES violations as a percent of total possible violations across all standards. By this measure, MES needs to have fewer than 141 NPDES violations to meet a 99.8% compliance level.

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**Exhibit 1**  
**Corporate and State NPDES Violations**  
**Fiscal 2004-2010**

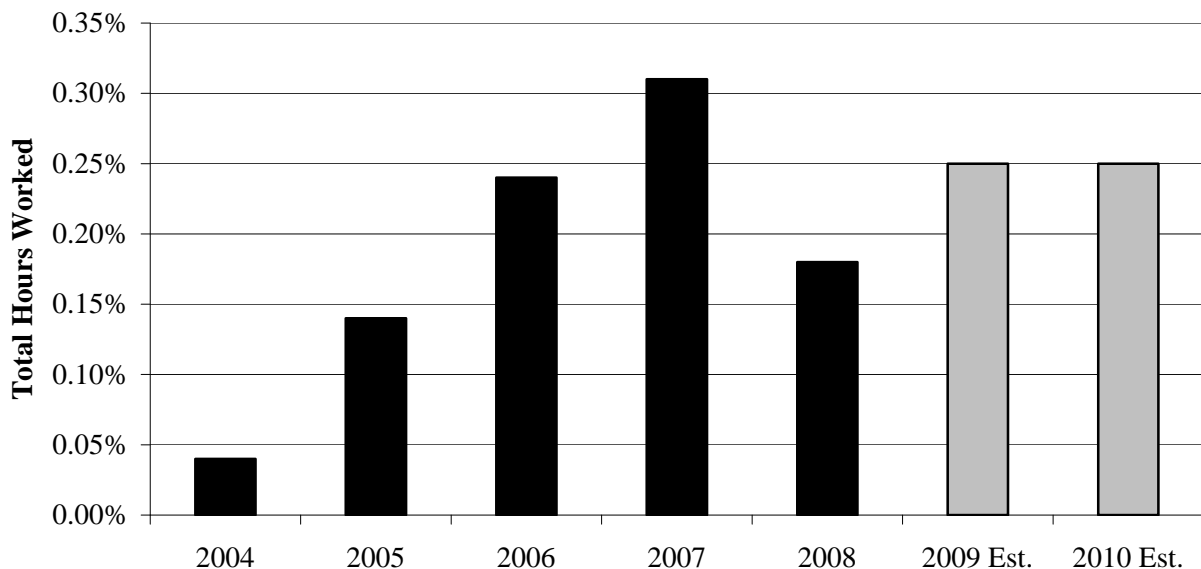


NPDES: National Pollutant Discharge Elimination System

Source: Governor's Budget Books, Fiscal 2007-2010

MES also has a second goal of working more safely. One outcome related to this goal is accident leave as a percent of total hours worked which increased between fiscal 2006 and 2007, as shown in **Exhibit 2**. MES has established a new goal under which accident leave as a percent of total hours worked should be less than 0.25%, or less than one accident for every 400 hours worked. The prior goal for accident leave as a percent of total hours worked was 0.20%.

**Exhibit 2**  
**Accident Leave as a Percent of Total Hours Worked**  
**Fiscal 2004-2010**

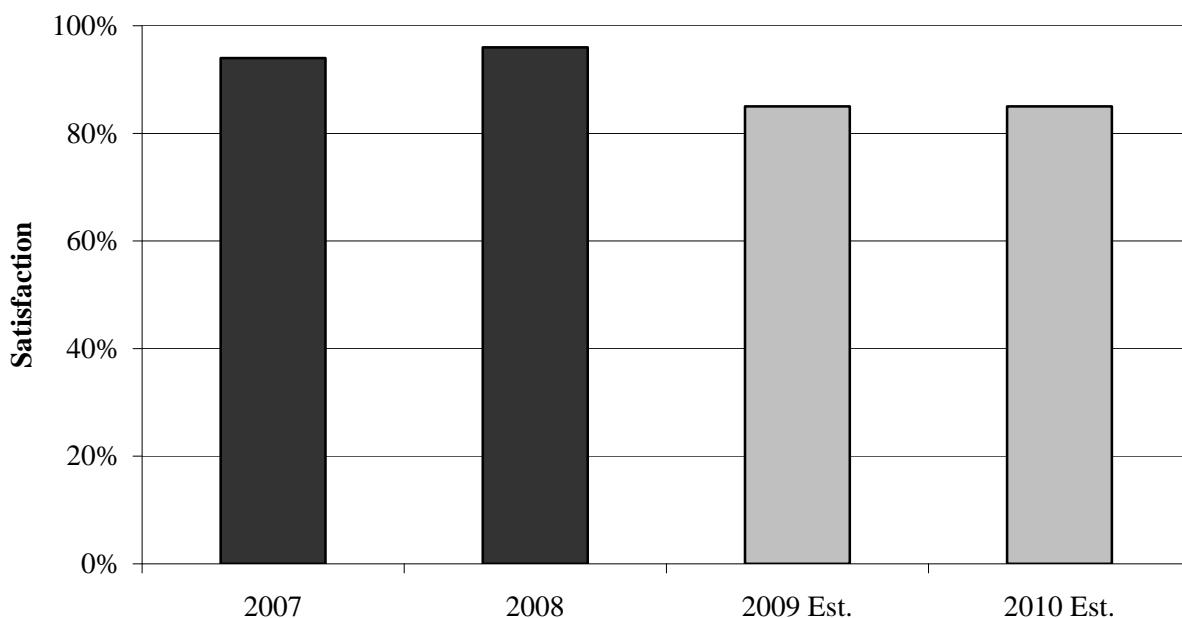


Note: Fiscal 2009 and 2010 estimates are for less than 0.25%. The previous estimate for accident leave as a percent of total hours worked was for less than 0.20%.

Source: Governor’s Budget Books, Fiscal 2007-2010

Providing excellent customer service and satisfaction is MES’s third goal. It is measured by a client satisfaction rate, as shown in **Exhibit 3**. Performance has improved for this measure between fiscal 2006 and 2008. However, MES notes that it changed the survey methodology in fiscal 2007 from a mail survey with five categories to a phone survey with four categories. In both cases, the top two categories indicate full satisfaction, but the Department of Legislative Services (DLS) notes that the mail survey allowed for more flexibility in how clients responded and also may have been more objective. In addition, the phone survey may have a higher response rate, which invalidates

**Exhibit 3  
Client Satisfaction Rate  
Fiscal 2007-2010**



Note: Fiscal 2009 and 2010 estimates are for greater than 85%. The previous estimate for out-year client satisfaction rate was for greater than 75%.

Source: Governor's Budget Books, Fiscal 2007-2010

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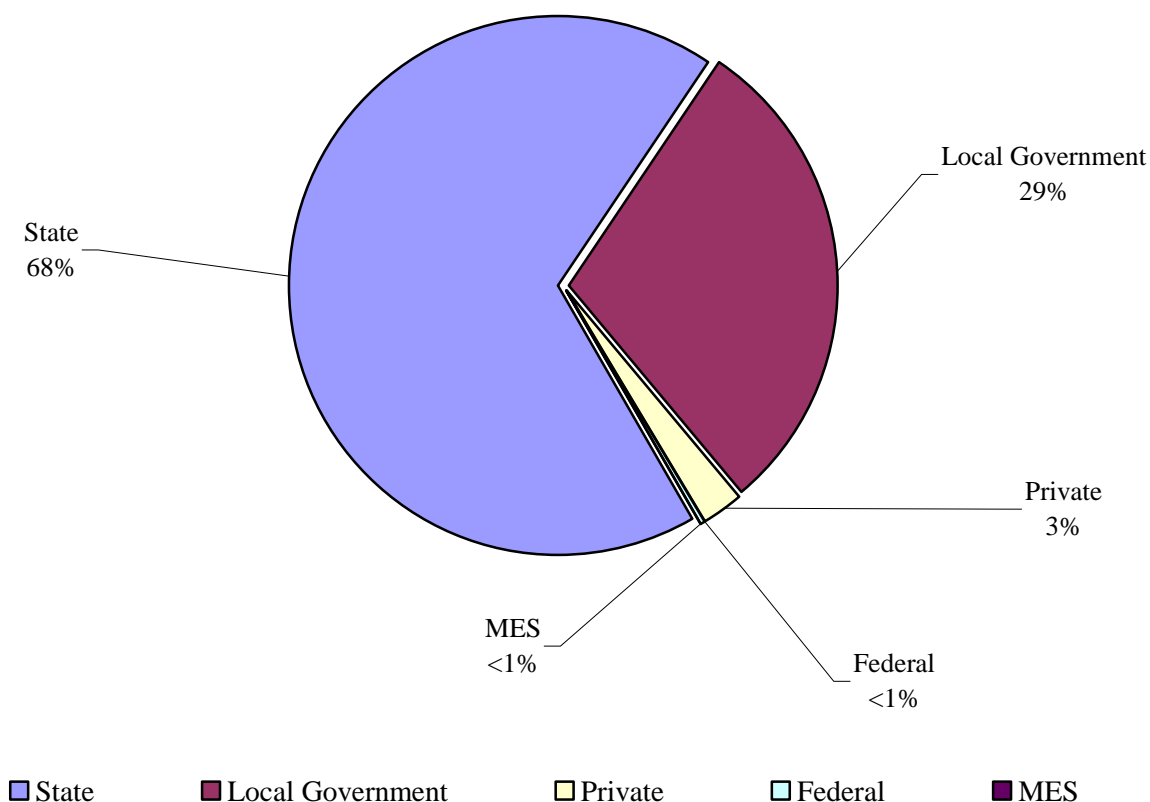
year-to-year comparisons. Therefore, Exhibit 3 does not show client satisfaction rate data prior to the switch to the phone survey. MES has increased the out-year client satisfaction rate estimates from greater than 75% to greater than 85%.

**DLS recommends that MES update the performance measures to include the number of NPDES violations as a percent of total possible violations and comment on the reason for the increase in accident leave between fiscal 2006 and 2007. DLS also recommends that MES comment on why it has increased the goal for accident leave as a percent of total hours worked, and that client satisfaction rate measures be footnoted to reflect the change in survey methodology between fiscal 2006 and 2007.**

## MES's Fiscal 2008 Financial Position

MES breaks down its revenue by fund sources and type of business activity. **Exhibit 4** provides an overview of fiscal 2008 revenue by fund source and shows that 97% of MES's revenue comes from State and local government. **Exhibit 5** provides an overview of fiscal 2008 revenue by business activity type and shows that the largest two categories are dredging and water/wastewater operations. These two business activity types account for the majority of MES's revenue.

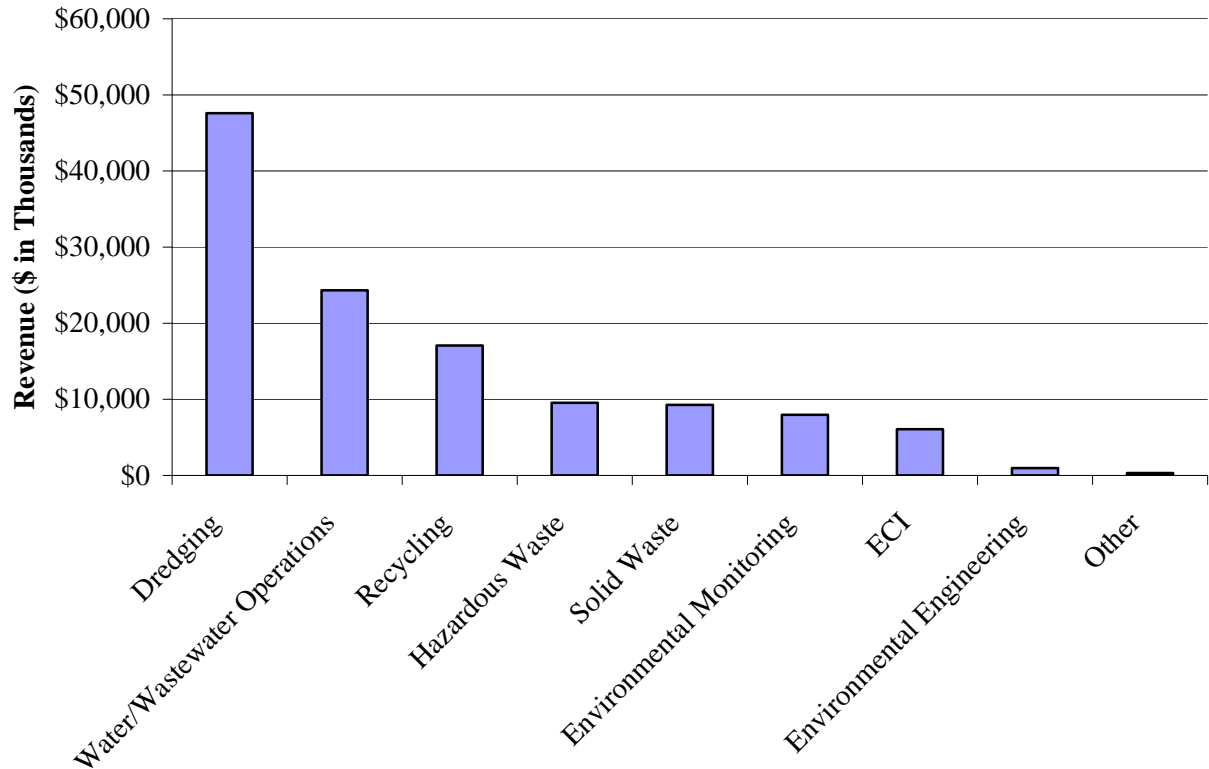
**Exhibit 4**  
**MES Revenue by Fund Source**  
**Fiscal 2008**



MES: Maryland Environmental Service

Source: Maryland Environmental Service

**Exhibit 5  
MES Revenue by Business Activity Type  
Fiscal 2008**



Source: Maryland Environmental Service

**Financial Changes**

MES’s net assets decreased by \$2.0 million between fiscal 2007 and 2008 reflecting the sale of the scrap tire recycling facility in January 2008 at a loss.

MES’s operating income decreased by \$0.2 million between fiscal 2007 and 2008. This indicates a greater increase in expenses than revenues. The largest revenue increase was environmental dredging and restoration revenue (\$17.8 million) due to the pass-through funding MES pays to contractors for completing construction of the Masonville dredge material containment facility. The largest expense increase was land, structures, and equipment (\$20.2 million) due to pass-through costs also related to the containment facility. Revenue by business type activity is shown in **Exhibit 6** and expenses by object are shown in **Exhibit 7**.

**Exhibit 6**  
**Revenues by Business Type Activity**  
**Fiscal 2006-2008**  
**(\$ in Thousands)**

<b><u>Business Type Activity</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>Change 2006-2007</u></b>	<b><u>Change 2007-2008</u></b>
Environmental Dredging & Restoration	\$21,202	\$29,792	\$47,601	\$8,590	\$17,809
Hazardous Waste Treatment	3,833	4,809	9,547	976	4,738
Recycling	13,794	13,268	17,071	-526	3,803
Water/Wastewater Operations	19,692	22,106	24,330	2,414	2,224
Environmental Monitoring	5,957	6,371	7,960	414	1,589
Energy Co-generation	4,431	4,747	6,083	316	1,336
Environmental Engineering	245	846	959	601	113
Solid Waste Management	7,447	9,353	9,265	1,906	-88
Other	185	651	320	466	-331
<b>Total Revenues by Business Type Activity</b>	<b>\$76,786</b>	<b>\$91,943</b>	<b>\$123,136</b>	<b>\$15,157</b>	<b>\$31,193</b>

Note: Numbers reflect restatements to account for the sale of the scrap tire recycling facility.

Source: Maryland Environmental Service

**Exhibit 7**  
**Operating Expenses**  
**Fiscal 2006-2008**  
**(\$ in Thousands)**

	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>Change 2006-2007</u></b>	<b><u>Change 2007-2008</u></b>
Land, structures and equipment	\$8,408	\$14,750	\$34,942	\$6,342	\$20,192
Contractual services	11,574	14,026	18,285	2,452	4,259
Salaries and benefits	28,013	30,736	34,818	2,723	4,082
Technical fees	3,985	5,255	6,523	1,270	1,268
Other	-56	216	918	272	702
General and administrative	7,493	9,086	9,598	1,593	512
Utilities	2,233	2,097	2,453	-136	356
Depreciation	851	1,084	1,145	233	61
Materials and supplies	7,706	7,976	8,025	270	49
Repairs and maintenance	3,729	3,648	3,571	-81	-77
<b>Total Operating Expenses</b>	<b>\$73,936</b>	<b>\$88,874</b>	<b>\$120,278</b>	<b>\$14,938</b>	<b>\$31,404</b>

Note: Numbers reflect restatements to account for the sale of the scrap tire recycling facility.

Source: Maryland Environmental Service

## **Types of MES Operations**

MES's business type activities can be viewed generally as fee-for-service, but more specifically as net revenue generating activities and cost recovery activities. Revenue generating activities can be further divided into products and services. Before the sale of the scrap tire recycling facility in January 2008, MES sold recycled crumb rubber products. Now, MES only produces a product called Leafgro. Leafgro is a compost made from grass clippings and leaves that is produced for Montgomery and Prince George's counties which receive the revenues from sales. However, MES continues to perform at least two revenue generating services: yard waste grinding and waste oil collection. Therefore, the number of MES's revenue generating activities is fewer than in previous years, which means that ideally revenues for the cost recovery projects equal the expenses.

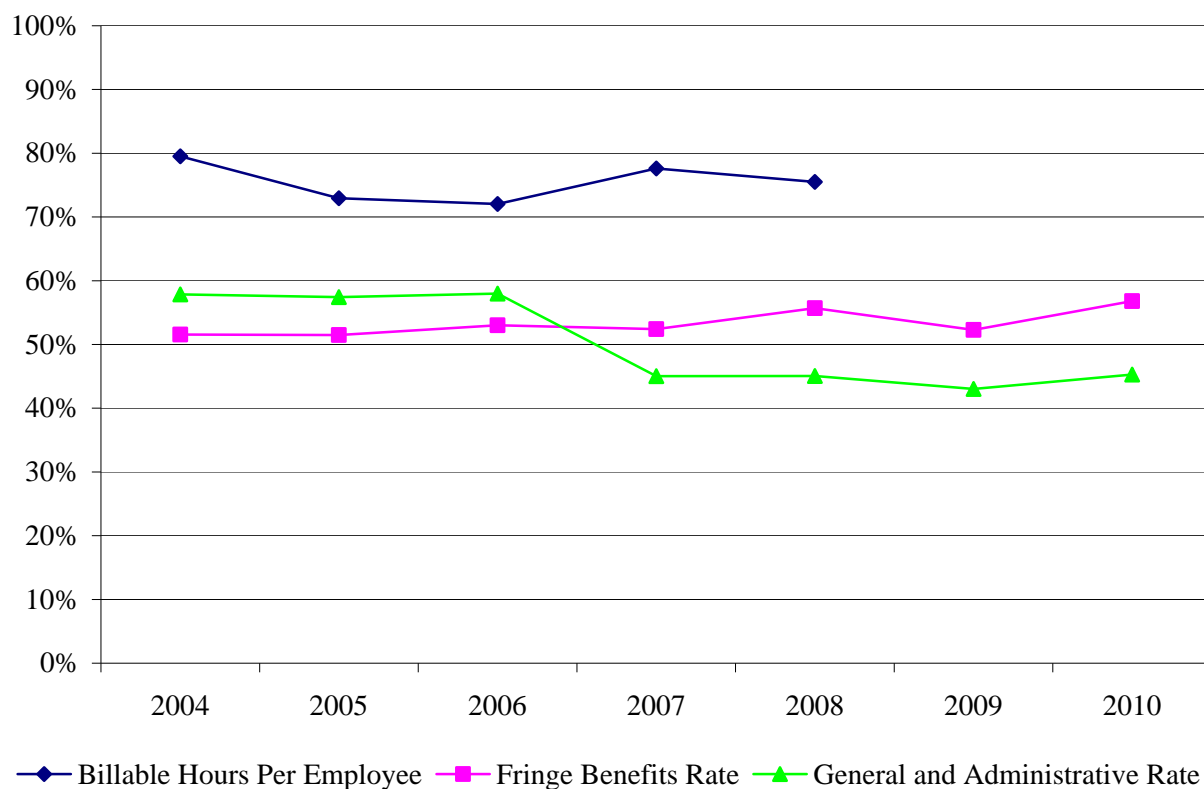
## **Three Rates That Indirectly Measure Financial Performance**

MES has chosen labor sales as the focus of its business plan, and in order for it to cover all of the administrative and non-billable personnel costs, it must charge customers two rates: one for employee fringe benefits and the other for general and administrative purposes (overhead). It is MES's intent to expand business and increase internal efficiency such that the overhead rate is spread out over a larger customer base and expenses are reduced. As a result, MES will be able to reward customers for return service by reducing the overhead rate. MES's revenue generating activities were intended to provide a little cushion for the rest of the budget and allow for the reduction in the overhead rate, the potential for which is now reduced with the sale of the crumb rubber tire recycling facility. **DLS recommends that MES comment on whether it intends to pursue any revenue generating products and the impact of the reduced number of revenue generating activities on revenue.**

**Exhibit 8** shows the fringe benefits, general and administrative, and billable hours per employee rates (where billable hours per employee is defined as the total number of billable hours in a year divided by the total number of employees and then divided by 2,080 work-hours per year to get a percentage). For fiscal 2009 and 2010, the general and administrative rate is a base of approximately 44%. On top of this base rate is added a general and administrative rate for each business activity type for a fiscal 2009 range of 48.55 to 58.32% and a fiscal 2010 range of 51.40 to 60.49%.

The general and administrative rate decreased between fiscal 2006 and 2007 but since then has leveled off and is anticipated to increase in fiscal 2010. A decreasing general and administrative rate means lower costs for clients so an increase in the rate may be seen as a negative trend. The fringe benefits rate has been fairly stable over the fiscal 2004 to 2009 time period with a slight increase in fiscal 2010. An increase in the fringe benefits rate makes sense in terms of rising health care costs and other fringe benefits proportionally tied to salary but hurts MES's bottom line. The billable hours per employee rate does not appear to have a particular trend in the time period shown. In order to be successful, MES needs to find a balance between the number of projects it takes on, the general and administrative rate, and the incremental cost of adding administrative and non-billable positions. **DLS recommends that MES comment on what it is doing to reduce the general and administrative rate for clients including the State and the reason for the anticipated increase in fiscal 2010.**

**Exhibit 8**  
**MES Financial Indicator Rates**  
**Fiscal 2004-2010**



MES: Maryland Environmental Service

Source: Maryland Environmental Service

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### **Fiscal 2009 Actions**

MES participated in the fiscal 2009 furlough formula and the estimated impact is \$276,756 in lost income for MES, and approximately \$318,154 in savings to the State. The amounts differ due to the cost recovery structure of MES and the fact that the State is not MES's only customer.

## *Issues*

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### **1. MES Overcharging for Services Provided to the State?**

MES's charges for reimbursable project services provided to the State increased by \$2.6 million, or 13.8%, between fiscal 2008 and 2009. For instance, in the fiscal 2009 allowance, the Department of Health and Mental Hygiene Crownsville Hospital Center's MES charges for the operation of water and wastewater plants were \$864,612, an increase of 24% from the previous year, despite the site transitioning from a psychiatric hospital with over 200 beds to being effectively closed with water levels at one-fourth the previous year's levels. However, the fiscal 2009 legislative appropriation of \$584,612 reflects a reduction made by the General Assembly.

**Exhibit 9** shows the overall scope of MES's service charge increase by subobject. As noted above, between fiscal 2008 and 2009, MES's service charges increased \$2.6 million and subsequently decreased \$0.8 million between fiscal 2009 and 2010. MES attributes the increase between fiscal 2008 and 2009 to the following:

- salaries – water and wastewater treatment plant operator salaries were not competitive with the market which led to high turnover and continuity of operations problems;
- Bay Restoration Fund – Bay Restoration Fund fees for wastewater treatment plants operated by MES needed to be budgeted; and
- fuel costs – an increase in fuel costs at the Eastern Correctional Institution co-generation facility.

MES notes that for fiscal 2010 it has reduced full-time equivalent positions at State facilities by 12.73 and has taken other efficiency measures as part of the \$0.8 million decrease between fiscal 2009 and 2010. However, salaries and wages still increase 4% between fiscal 2009 and 2010.

In addition, there is the question of whether questionable business activities that MES has undertaken, including a failed scrap tire recycling facility that it sold in February 2008 at a loss, may be impacting how much the State is charged. The scrap tire recycling facility opened in Baltimore County in January 2003 and recycled passenger, light truck, and heavy truck tires into value-added, high quality crumb rubber and rubber mulch. Lower than anticipated revenues from the facility did not cover associated production and capital debt service expenses. Overall the facility lost a cumulative \$7.1 million over four years of operations.

**DLS recommends that MES comment on how it anticipates changing charges to the State in the future given historical salary and fuel cost increases and the aging State water and wastewater treatment plant infrastructure. DLS also recommends that MES comment on whether its non-State business impacts how it sets its charges for services to the State.**

**Exhibit 9**  
**State Reimbursable Projects by Subobject**  
**Fiscal 2008-2010**

<u>Subobject</u>	<u>Expenditures 2008</u>	<u>Allocation 2009</u>	<u>\$ Change 2008-2009</u>	<u>% Change 2008-2009</u>	<u>Request 2010</u>	<u>\$ Change 2009-2010</u>	<u>% Change 2009-2010</u>
Salaries, Wages and Fringe Benefits	\$7,472,407	\$8,387,448	\$915,041	12.2%	\$8,719,847	\$332,399	4.0%
Contractual Services	1,462,281	2,171,906	709,626	48.5%	1,551,300	-620,606	-28.6%
Maintenance and Engineering	3,304,636	3,772,680	468,044	14.2%	3,458,574	-314,106	-8.3%
Supplies and Materials	4,041,202	4,300,191	258,989	6.4%	4,288,809	-11,382	-0.3%
Motor Vehicles O&M	330,063	444,287	114,224	34.6%	403,706	-40,581	-9.1%
Equipment – Replacement	22,693	128,175	105,482	464.8%	63,080	-65,095	-50.8%
Fuel and Utilities	834,426	887,959	53,533	6.4%	910,281	22,322	2.5%
Communication	61,090	95,933	34,843	57.0%	92,900	-3,033	-3.2%
Other Revenues and Expenses	-24,123	0	24,123	-100.0%	0	0	0.0%
Technical and Special Fees	407,224	409,146	1,922	0.5%	449,403	40,257	0.0%
Fixed Charges	707,313	707,976	663	0.1%	706,996	-980	-0.1%
Travel	25,931	23,498	-2,433	-9.4%	16,225	-7,273	-31.0%
Equipment – Additional	220,836	146,425	-74,411	-33.7%	26,000	-120,425	-82.2%
<b>Total</b>	<b>\$18,865,978</b>	<b>\$21,475,624</b>	<b>\$2,609,646</b>	<b>13.8%</b>	<b>\$20,687,121</b>	<b>-\$788,503</b>	<b>-3.7%</b>

O&M: operations and maintenance

Source: Maryland Environmental Service

## **2. Other Post Employment Benefits Shortfall**

MES has an Other Post Employment Benefits (OPEB) funding shortfall similar to that of other governmental entities. OPEB are defined as health care benefits for retirees and all Other Post Employment Benefits except pensions. Statements 43 and 45 from the Governmental Accounting Standards Board (GASB) require governmental employers to include in their 2008 financial statements, for the first time, any liabilities associated with the commitments they have made to provide post employment benefits, other than pensions. OPEB includes health insurance for retirees, as well as any life insurance or long-term care insurance paid by the employer.

The specifics of MES's postemployment medical benefits are as follows:

- medical plan – self-funded medical reimbursement plan;
- eligibility – retired employees aged 60 or older with 16 years of service and their spouses;
- reimbursement – eligible medical expenses up to \$3,600 per calendar year per employee; and
- payment – retirees are exempt from contribution requirements.

MES's unfunded actuarial accrued OPEB liability is \$4.745 million, which is 16.8% of the \$28.2 million existing annualized covered payroll. For comparison purposes, Dorchester County's OPEB liability is \$20.4 million. MES's unfunded liability amounts to an annual required contribution of approximately \$452,000 as of June 30, 2008; however, in fiscal 2008 MES only contributed \$16,000, which increased the unfunded liability. The actuarial firm contracted by MES notes that a variation in medical costs, the discount rate, retirement rates, and employee turnover rates would impact MES's OPEB liability.

In fiscal 2009, MES anticipates contributing up to \$500,000 to an OPEB trust fund in order to reduce its unfunded liability. This practice is consistent with that of other public employers that seek to prefund their OPEB liabilities. While GASB does not require governmental entities to prefund their OPEB, it does require employers to calculate those liabilities and reflect them on their financial statements, which may hurt bond ratings and thus increase the cost of borrowing money if the liabilities are allowed to increase unchecked.

**DLS recommends that MES comment on its long-term plan for reducing its OPEB liability.**

## **3. Solar Power Plant Agreement Not Fully Evaluated**

On September 30, 2008, MES entered into a 15-year power purchase contract with Constellation Energy that involved the installation of 300 kilowatts of solar energy production capacity at the headquarters in Millersville, Maryland. The solar energy is delivered by thin film

photovoltaic cells applied to the headquarters rooftop and crystalline photovoltaic cells arrayed on structures on the headquarters' grounds.

MES notes that it was paying \$0.16 per kilowatt hour as of July 2008 and so the \$0.15 per kilowatt hour offered by Constellation made fiscal sense. The agreement allows for a maximum annual 2.85% increase, and MES may purchase the two photovoltaic structures at the appraised value. In the meantime, MES pays Constellation Energy for the use of the solar-generated electricity.

MES acknowledges that it did not conduct a cost-benefit analysis to determine the value of the real estate when it entered into the agreement with Constellation Energy but notes that it has a responsibility to take action to improve the environment despite the cost. However, Natural Resources Article §3-102 states that it is the intent of the General Assembly that MES serve the State's economic interests in addition to assisting with the preservation, improvement, and management of the State's air, land, and water resources.

**DLS recommends that MES comment on why it did not conduct a cost-benefit analysis on the leasing of its land for the solar structures as part of the 15-year power purchase agreement with Constellation Energy.**

## ***Recommended Actions***

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1. Nonbudgeted.

## ***Updates***

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### **1. New Midshore Regional Landfill to Open in Fall 2010**

The current Midshore Regional Solid Waste Facility is owned by MES in a private purpose trust fund and services four eastern shore counties: Kent, Queen Anne's, Talbot, and Caroline. For internal accounting purposes, MES has divided the private purpose trust fund into two accounts: Midshore I (existing landfill) and Midshore II (proposed new landfill). Midshore I nearly has reached capacity, and the plan is to close it in December 2010. The total closure and postclosure maintenance and monitoring costs for 30 years after closure are estimated to be \$11,865,000.

Prior to the closure of Midshore I, MES intends to open Midshore II in the fall of 2010 with full operations beginning not later than January 1, 2011. The plan is to use revenue bonds secured by the general obligation pledge of the participating counties. Current costs associated with the opening of Midshore II include \$1.0 million in design funding and \$1.7 million for land purchase. These costs have been funded by closure funds from Midshore I on a temporary basis. MES plans to reimburse the Midshore I account with bond proceeds from the sale of revenue bonds guaranteed with the general obligation pledge of the participating counties – a practice that is allowed as long as it is completed within an 18-month time period.

### **2. Corporate Headquarters Purchased**

MES purchased the outstanding 50% share of the corporate headquarters on September 24, 2008, for \$1,720,000 in cash. MES formed a limited liability company with a for profit entity in order to construct the two-story office building. The original price of the building was \$5.5 million, and MES paid operating lease expenses of \$788,000 in fiscal 2008.

### **3. Legislation Authorizing Energy Generation Projects**

In the 2009 legislative session, Senate Bill 14/House Bill 314 (Maryland Environmental Service – Energy Generation Projects) have been introduced. The legislation expands MES's authority to engage in certain energy projects and services. Similar legislation was submitted in the 2008 legislative session as House Bill 1509 (failed).

The stated goal of the change to MES's authority is to promote the conservation of energy usage and to enable and provide for the production of energy from solid wastes and renewable and other sources. MES indicates that the objective of the legislation is to reduce costs to State and other clients through energy generation projects and that only projects with a positive cash flow for either MES or clients will be implemented. MES also indicates that no particular projects currently are being considered.

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

<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>
<b>Positions</b>					
01 Regular	708.40	673.39	731.40	58.01	8.6%
<b>Total Positions</b>	<b>708.40</b>	<b>673.39</b>	<b>731.40</b>	<b>58.01</b>	<b>8.6%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 43,125,577	\$ 46,750,647	\$ 49,878,375	\$ 3,127,728	6.7%
02 Technical and Spec. Fees	9,277,021	12,033,829	14,043,131	2,009,302	16.7%
03 Communication	551,391	630,242	753,972	123,730	19.6%
04 Travel	328,843	389,191	511,801	122,610	31.5%
06 Fuel and Utilities	2,766,595	2,823,778	2,755,995	-67,783	-2.4%
07 Motor Vehicles	4,257,148	4,049,227	4,444,182	394,955	9.8%
08 Contractual Services	19,770,656	19,285,991	23,085,335	3,799,344	19.7%
09 Supplies and Materials	12,330,007	9,133,765	10,485,978	1,352,213	14.8%
10 Equipment – Replacement	1,195,619	1,621,396	1,766,306	144,910	8.9%
11 Equipment – Additional	2,139,100	3,521,778	2,636,360	-885,418	-25.1%
13 Fixed Charges	6,292,291	4,279,431	5,849,166	1,569,735	36.7%
14 Land and Structures	33,134,598	28,418,737	13,903,260	-14,515,477	-51.1%
<b>Total Objects</b>	<b>\$ 135,168,846</b>	<b>\$ 132,938,012</b>	<b>\$ 130,113,861</b>	<b>-\$ 2,824,151</b>	<b>-2.1%</b>
<b>Funds</b>					
07 Nonbudgeted Fund	\$ 135,168,846	\$ 132,938,012	\$ 130,113,861	-\$ 2,824,151	-2.1%
<b>Total Funds</b>	<b>\$ 135,168,846</b>	<b>\$ 132,938,012</b>	<b>\$ 130,113,861</b>	<b>-\$ 2,824,151</b>	<b>-2.1%</b>

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