



Larry Hogan, Governor
Boyd Rutherford, Lt. Governor
Jeannie Haddaway-Riccio, Secretary
Charles Glass, Deputy Secretary

**Maryland Department of Natural Resources
Fiscal Year 2021 Operating Budget
Response to Department of Legislative Services Budget Analysis**

House Appropriations Committee
House Transportation and the Environment Subcommittee
Delegate Marc Korman
February 26, 2020

Senate Budget and Taxation Committee
Senate Public Safety, Transportation, and Environment Subcommittee
Senator Cory V. McCray
February 27, 2020

Issues:

1. Chesapeake and Atlantic Coastal Bays 2010 Trust Fund Allocation

Chapter 6 of the 2007 special session established the Chesapeake and Atlantic Coastal Bays 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. Fiscal 2021 revenue is estimated to be \$57,160,931 and is comprised of \$13,314,000 from the motor fuel tax and \$43,832,931 from the sales and use tax on short-term vehicle rentals.

The Chesapeake and Atlantic Coastal Bays 2010 Trust Fund allocations for fiscal 2020 and the fiscal 2021 allowance are shown in Exhibit 7. Final decisions on allocations typically are made by the BayStat agencies after the final funding levels have been determined. Overall, the three largest allocations in fiscal 2021 are the \$25.5 million for the Competitive Grant Program to fund cost-effective nonpoint source nutrient and sediment reduction projects, \$11.3 million for the Cover Crop Program, and \$6.0 million for Natural Filters on Public Lands Program to fund nutrient and sediment reduction projects such as forested buffers and stream and floodplain restoration. The largest changes between fiscal 2020 and 2021 include increases of \$1.7 million for the Competitive Grant Program, \$1.6 million for agricultural technical assistance to fund 53 new soil conservation district positions in the Maryland Department of Agriculture's budget, \$1.0 million for Grants to Farmers, and \$1.0 million for the Manure Transport Program. The reductions between fiscal 2020 and 2021 include \$1.6 million for manure management through proven technology and \$0.2 million for development of the Phosphorus Management Tool, but these allocations are being funded through grants to farmers and other nonpoint source pollution funding items.

DNR notes that there is an opening balance, presumably for fiscal 2020, of \$12.1 million, which includes revenue overattainment and balances from projects that closed out under budget. A portion of this balance has been identified and selected for Competitive Grant Program local projects through a funding solicitation. In fiscal 2019 and 2020, the largest recipient of Chesapeake and Atlantic Coastal Bays 2010 Trust Fund funding by number of projects funded was the Maryland Forestry Foundation for its Healthy Forests, Healthy Waters Initiative.

The Department of Legislative Services (DLS) recommends that DNR comment on what the Maryland Forestry Foundation's Healthy Forests, Healthy Waters Initiative entails. DLS also recommends that \$200,000 in special fund appropriation be restricted pending the submission of the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund annual work plan with the fiscal 2022 budget submission. DLS further recommends the addition of committee narrative to request that the Administration continue to publish the overall Chesapeake Bay restoration data in the Governor's Budget Books and provide the electronic data separately.

Agency Response:

The Maryland Forestry Foundation's Healthy Forests, Healthy Waters Initiative is a program that demonstrates the environmental benefits of forest management - specifically nutrient and sediment pollution reduction.

The Maryland Forestry Foundation (MFF) collaborates with DNR's Maryland Forest Service and the Alliance for the Chesapeake Bay to implement upland tree plantings and riparian forest buffer projects on private rural and agricultural lands within the Department of Natural Resources Trust Fund's priority watersheds. Projects deliver quantifiable nutrient and sediment reductions. With funding in FY2020, MFF will lead 33 afforestation projects on 177.55 acres. This effort is estimated to reduce 1,852.92 lbs. of nitrogen, 192.43 lbs. of phosphorus and 64.82 tons of sediment from entering Chesapeake Bay waterways. In addition to the tree plantings, Forest Service staff provide maintenance and monitoring to ensure establishment of plantings and overall success.

Regarding the submission of the Annual Report and the Annual Expenditure Plan both are incorporated in the Governor's annual budget and are generally submitted to the General Assembly at that time. While we had a slight delay in delivering the published reports this year, we do not anticipate a delay in the future. Therefore, we respectfully ask the committee to oppose withholding funds that are intended to provide environmental benefits to the state.

DNR and DBM will continue to publish the overall Chesapeake Bay restoration data in the Governor's Budget Books and provide the electronic data separately.

2. Overhead Rate Change Proposed for Office of the Secretary

DNR's fiscal 2021 allowance reflects a change in the overhead rate methodology for funding charged to its special funds for the use of the Office of the Secretary. The change in methodology amounts to a \$3.2 million reduction in special fund allocation to the Office of the Secretary and an overall increase of \$4.8 million of which \$3.8 million is designated as replacement funding for the special funds, and the remainder is allocated for increased salary costs.

As shown in Exhibit 8, the special fund reductions are not uniform but appear to be targeted to particular funds. For instance, the Forest and Park Reserve Fund allocation decreases by \$1.8 million, and the Environmental Trust Fund allocation decreases by \$0.9 million. The Forest and Park Reserve Fund is one of the main sources of revenue supporting MPS, so it is understandable that there would be interest in reducing the overhead charged to this fund. Similarly, the Environmental Trust Fund is one of the main sources of revenue supporting the Power Plant Assessment Program. Both of these programs have had funding challenges in recent years. In contrast, the allocations increase by \$226,230 for the State Boat Act, which supports NRP and the Licensing and Registration Service; and by \$118,082 for the Fisheries Management and Protection Fund and \$116,985 for the Fisheries Research and Development Fund, both of which support Fishing and Boating Services.

DNR notes that the additional general funds are provided in the fiscal 2021 budget in the Office of the Secretary in order to allow the units to use their special fund revenues. DNR further notes that the funds were chosen based on the units with the greatest need and that the funds that continue to support the Office of the Secretary are proportional to the fiscal 2020 rates. DNR intends to make the agency wide overhead rates equitable for all units as part of a multi-year plan, with up to \$2.7 million in additional general funds provided in fiscal 2022, and notes that the overhead rate for federal and reimbursable funds was comparable between fiscal 2020 and fiscal 2021.

If DNR intends to change the special fund allocation for the Office of the Secretary, then it may want to consider the possibility of raising fees. DNR notes that it does not believe increasing fees would improve its overall revenue picture for special funds. DNR may also want to consider the equitability of reimbursable fund arrangements between DNR's other units. As shown in Exhibit 9, there is \$3.7 million in funding, excluding the \$6.0 million one-time funding for the J. Millard Tawes ice breaking buoy tender vessel replacement, which is budgeted in one DNR unit but is actually used in another unit.

DLS recommends that committee narrative be added requesting a report on DNR's multi-year special fund overhead replacement plan, including an analysis of the possibility of raising fees in order to address shortfalls, and the equitableness of its reimbursable fund arrangements between units.

Agency Response:

The Agency is working to address special fund challenges by replacing special funds used in the Office of the Secretary with general funds. The goal is to allow special fund balances to reach levels that sustainably support program operations. Additionally, this plan allows the department to use more of its special funds for achievement of our mission rather than operations.

Operating Budget Recommended Actions:

1. Adopt the following narrative:

Multi-year Special Fund Overhead Replacement Plan: The budget committees are concerned that insufficient information has been provided about the scope of the Department of Natural Resources' (DNR) multi-year plan to replace the special fund overhead charged to the Office of the Secretary with general funds. In addition, the budget committees are concerned that DNR appears to be shifting from a funding model of self-sustaining special funds to a funding model making greater use of general funds. Therefore, the budget committees request that DNR submit a report on its multi-year special fund overhead replacement plan with additional information about its special funds and interunit reimbursable fund arrangements. The report shall be submitted by October 1, 2020. The additional information about DNR's special funds and interunit reimbursable fund arrangements shall include an analysis of the following:

- the relative burden to be shared by the general public and the user community for the work funded by each special fund;
- the revenue goals, expenditure plans, and desired fund balance levels for each special fund and explanations for these determinations;
- the fee structure history for each special fund;
- scenarios for future fee increase, expenditure reductions, or both in order to address the revenue goals, expenditure plans, and desired fund balance for each special fund;
- the source of the reimbursable funds supporting DNR's interunit reimbursable fund arrangements by fund and fund type; and

- the equitableness of DNR's reimbursable fund arrangements

Information Request	Author	Due Date
Multi-year special fund overhead replacement plan	DNR	October 1, 2020

Agency Response:

A previously stated, the Agency is working to address special fund challenges by replacing special funds used in the Office of the Secretary with general funds. The goal is to allow special fund balances to reach levels that sustainably support program operations. Additionally, this plan allows the department to use more of its special funds for achievement of our mission rather than operations. The department would be happy to provide a report to the budget committees, but we respectfully request that we be given a deadline of February 1, 2021 to allow sufficient time to prepare and submit the report.

2.

	Amount Reduction	Position Reduction
Abolish vacant positions in the Wildlife and Heritage Service. PINS 013561 and 013799 Have been vacant for more than a year.	\$96,136 SF \$45,015 FF	2.0

Agency Response: The Agency respectfully requests that the committee reject the DLS recommendation to abolish these vacant positions.

PIN 013799: While this PIN was left vacant in FY19 due to budget restrictions, recruitment for this position has been approved by DBM and initiated. The loss of this PIN would leave only three Land Management Technician's to support the 21 wildlife management areas on the Eastern Shore which would greatly diminish our ability to provide wildlife-oriented recreation to the public.

PIN 013561: This position was reclassified effective February 19, 2020 to an Administrator II and will serve as the Chief Fiscal Officer for the Unit. This position will also be responsible for the unit's federal grants submissions, management and reporting which is mission-critical given that federal funds comprise 50% of the unit's annual budget.

3. Add the following language to the special fund appropriation:

, provided that \$200,000 of this appropriation made for the purpose of administration may not be expended until the Department of Natural Resources submits the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund annual work and expenditure plans as required by Natural Resources Article § 8-2A-03. The work plan shall identify the planned work to be funded with money from the Trust Fund for fiscal 2022, including annual nutrient and sediment reduction targets, performance measures, and accountability criteria. The expenditure plan shall identify planned expenditures for the work plan and include an accounting of all moneys distributed from the Trust Fund in fiscal 2020. The report shall be submitted with the fiscal 2022 budget submission, and the budget committees shall have 45 days to review and comment following the receipt of the report. Funds restricted pending the receipt of the report may not be transferred by budget amendment or otherwise to any other purpose and shall be canceled if the report is not submitted.

Explanation: This language restricts funding in the Department of Natural Resources (DNR) pending the submission of the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund annual work and expenditure plan as required by Natural Resources Article § 8-2A-03.

Information Request	Author	Due Date
Chesapeake and Atlantic Coastal Bays 2010 Trust Fund annual work and expenditure plan	DNR	Fiscal 2022 Budget Submission

Agency Response:

Regarding the submission of the Chesapeake and Atlantic Coastal Bays Trust Fund Annual Report and Annual Expenditure Plan, both are incorporated in the Governor’s annual budget and are generally submitted to the General Assembly at that time. While we had a slight delay in delivering the published reports this year, we do not anticipate a delay in the future. Therefore, we respectfully ask the committee to oppose withholding funds that are intended to provide environmental benefits to the state.

4.

	Amount Reduction	Position Reduction
Abolish vacant positions in the Chesapeake and Coastal Service. Pins 013562 and 224528 have been vacant for more than a year	123,539 SF	2.0

Agency Response: The Agency respectfully requests that the committee reject the DLS recommendation to abolish these vacant positions.

PIN 013562: This position is a marine and coastal restoration specialist. The specialist is responsible for helping public agencies, non-governmental organizations and private landowners protect critical coastal assets against tidal erosion from sea-level rise and extreme weather events. This position requires unique expertise and technical skills which prolonged the recruitment process, however candidates have been identified and interviews have been conducted.

PIN 224528: A classification study is underway, expanding the scope of this position to include the fiscal responsibilities associated with the management of the State’s Waterway Improvement Fund. As with other vacancies in this unit, a staffing review is conducted to ensure that we maximize resource capacity.

5. Adopt the following narrative:

Summary of Chesapeake Bay Restoration Spending:

The budget committees request that the Department of Budget and Management (DBM), the Department of Natural Resources (DNR), and the Maryland Department of the Environment (MDE) provide a report on Chesapeake Bay restoration spending. The report shall be drafted subject to the concurrence of the Department of Legislative Services (DLS) in terms of both electronic format to be used and data to be included. The scope of the report is as follows: Chesapeake Bay restoration operating and capital expenditures by agency, fund type, and particular fund source based on programs that have over 50% of their activities directly related to Chesapeake Bay restoration for the fiscal 2020 actual, fiscal 2021 working appropriation, and fiscal 2022 allowance to be included as an appendix in the fiscal 2022 budget volumes and submitted electronically in disaggregated form to DLS.

Information Request	Authors	Due Date
Summary of Chesapeake Bay restoration spending for programs that have over 50% of their activities directly related to the Chesapeake Bay restoration	DBM DNR MDE	Fiscal 2022 budget submission

Agency Response:

The Administration will provide the requested data with the Governor’s fiscal 2022 Allowance.

Appendix 2 Major Information Technology Project:

Modernization and OneStop Integration

- **Project Summary:** The project would replace the current COMPASS web-based licensing and registration system. The goals for the project are to integrate with the Maryland OneStop platform; reduce inefficiencies and redundancies; create a return on investment to ensure increased revenue; decrease monthly and annual operational costs; and increase customer satisfaction.
- **Need:** COMPASS can no longer meet current reporting requirements and is anticipated to become even less functional; the COMPASS contract expires in August 2020. For instance, COMPASS cannot integrate with the Maryland Park Service’s parks reservation system or shop the Department of Natural Resources’ (DNR) point of sale system. A new system could increase the retention of fishing and hunting license holders through autorenewal, which is not available with COMPASS.
- **Observations and Milestones:** DNR is in the user needs assessment stage. A key measure of the success of the project is the addition of all recreational and commercial hunting and fishing licenses as well as vehicle registration and tags to the Maryland OneStop platform within the first 18 months of the project.
- **Concerns:** Funding is a concern because of the relatively high cost of the project, which is estimated to be \$16.5 million in general funds. Another concern is the interoperability with other systems such as those operated by the State Board of Elections, the Interstate Wildlife Violator Compact, the Maryland Child Support Administration, the

Maryland Department of Transportation, the Maryland State Police, the Federal Duck Stamp, and the Natural Resources Police

Agency Response:

The agency does not agree with the concern regarding a lack of interoperability with other systems. In fact, Maryland OneStop aims to provide a single point of entry for connecting Marylanders to all offices of state government. Every effort will be made to ensure that all systems required to be interoperable are reviewed and addressed during the user needs assessment stage of the project. However, we agree with DLS that improving the ease of purchasing licenses and products from the department will help increase the opportunity for revenue. This system development is being conducted in tandem with our Recruitment, Retention and Reactivation (R3/F3) initiative providing DNR the opportunity to integrate the best practices identified into the new system.