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**MARYLAND ENVIRONMENTAL SERVICE  
FISCAL YEAR 2025 OPERATING BUDGET HEARING  
RESPONSE TO DEPARTMENT OF LEGISLATIVE SERVICES ANALYSIS**

**House Appropriations Committee  
Subcommittee on Transportation and the Environment  
The Honorable Courtney Watson, Chair**

**January 23, 2024**

We first would like to thank Ms. Carrie Cook and the entire DLS team for their thorough work on the MES Operating and Capital Budget. Ms. Cook has been fantastic to work with. We greatly appreciate her professionalism and attention to detail throughout the budget development process.

MES provides the following information in response DLS's request and recommended actions:

- 1. MES should comment on the uniform overhead rates for all clients and should describe if the agency has considered assessing lower overhead rates for State clients.***

MES Response: MES is an independent unit of State government and operates on a fee-for-service basis without operating assistance from the State. To cover its operating costs, MES contracts mainly with units of State and local governments (collectively, MES's "clients") to operate facilities and perform other work and tasks. MES charges overhead rates to our clients to recover overhead costs and charges actual cost for all other expenses incurred by the project.

MES's Overhead rate is determined based on MES's Board of Directors' resolutions and is verified by independent auditors RSM US LLP each fiscal year.

MES has worked diligently to continue to reduce overhead rates as much as possible each year. As is shown in Exhibit 9 of the DLS analysis, MES has, on average, decreased overhead rate charged to our clients, including State projects, over the last several years.

State projects accounted for 57% of MES's revenues and other projects accounted for 43% of MES's revenues in FY 2023. MES's projects are diverse. For example, Environmental Operations projects and Water/Wastewater projects are operational projects requiring substantial MES labor. On the other hand, Technical & Environmental Services projects require highly skilled employees. MPA projects are both operational and technical in nature.

The current method of determining overhead rate is fair and equitable considering the unique needs and resources required for a wide variety of projects managed by MES.

- 2. The Department of Legislative Services (DLS) recommends that committee narrative be adopted requesting that MES continue to provide an MES funding statement, including information on MES's undesignated unrestricted net assets, overhead rate, project reserve fund status, and justification for reimbursable project funding changes.**

MES Response: MES concurs with this recommendation.

- 3. MES should comment on the decision to consolidate project agreement by agency instead of executing agreements for individual projects, given frequent changes in project scope, timeline, and budgetary needs. MES should also provide an update on the estimated timeline of execution for all formal project agreements to be in compliance with the BPW advisory and OLA recommendation.**

MES Response: The Office of Legislative Audits noted a lack of formal agreements for 78 of 79 reimbursable projects for State agencies, as required by a BPW advisory and recommended that MES enter into such written agreements. Since then, the MES Attorney General's office has been working diligently to bring MES into compliance with this edict. The decision to consolidate these agreements into one per agency will help expedite transitioning these agreements into written agreements. It is not practical to draft, enter into, process, track and execute 79 different agreements when it can much more easily and efficiently be done with 9 agreements, which will be in full compliance with the OLA directive and BPW advisory.

With respect to the timeline, MES is working towards having all these agreements in place by the end of this calendar year.