Chesapeake Bay Cabinet

Fiscal Year 2027 Operating Budget

Response to the Department of Legislative Services Analysis

House Appropriations Committee

Transportation and Environment Subcommittee

Delegate Courtney Watson, Chair

February 5, 2026

Senate Budget and Taxation Committee

Public Safety, Transportation, and Environment Subcommittee

Senator Shelly Hettleman, Chair

February 9, 2026

Page 27: The Department of Legislative Services (DLS) recommends the adoption of committee narrative requesting that the Administration continue to publish the overall Chesapeake Bay restoration data in the Governor's budget books and provide the electronic data separately. For administrative purposes, this recommendation will appear in the operating budget analysis K00A – DNR. DLS also recommends the adoption of committee narrative requesting that DNR comply with statute and provide the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund annual report at the time of the fiscal 2028 budget submission. This recommendation also will appear in the operating budget analysis for K00A – DNR.

Administration Response: Concur. The Administration will continue to provide the requested data, including the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund annual report, with the Governor's fiscal 2028 allowance.

Page 34: DLS recommends that the Administration comment on why the Whole Watershed Fund special fund does not reflect all funding sources in the fiscal 2027 budget, the amount of funding budgeted for the Whole Watershed Act in fiscal 2027, and how the funding will support the proposals to be selected. The Administration should also comment on why only one explicit agricultural project was selected for fiscal 2026 despite three of the watersheds having an agricultural sector focus, why MDA's funding is being accounted for separately, why MDA is not reflected as playing a formal role in any of the projects selected in fiscal 2026, and whether any decisions have been made about providing long-term maintenance funding to ensure projects are successful.

Administration Response: The Chesapeake and Atlantic Coastal Bays Trust Fund (DNR - Trust Fund), as well as the Waterway Improvement Fund (DNR), are providing $5M and $1.25M, respectively, for SFY27. MDE will be providing funding from the Bay Restoration Wastewater Fund and is in the process of determining the amount of funding for SFY27. MDE will be providing updates once the amount of funding is determined. Waterway Improvement Funds are used to monitor the watershed's response to project implementation, with success measured as achieving rapid improvement (de-listing) of impaired streams, improvements to shallow water habitat and living resources, or rapid improvement in local ecosystem conditions. Investments from the Trust Fund will support capacity building, planning and design, as well as implementation and maintenance of projects. The State Management Team is currently working with the five watershed sponsors to select projects for SFY27 funding.

In consultation with DBM and the Whole Watershed State Management Team, it was determined that the best course of action was to keep MDA's funding separate from the Whole Watershed Fund. The primary reason for this is due to the fact that both MDA funding sources are from capital appropriations and state law is prescriptive on the use of these funds within their respective programs. While a portion of these funds are not specifically dedicated to funding the Whole Watershed Fund, MDA continues to work with the State Management Team and project sponsors to prioritize the use of MDA funds within the selected watersheds.

The State Management Team also held an agriculture-focused meeting with project sponsors on September 30, 2025. Key agenda items include presentations on the MACS Program, MALPF, and Watershed Strategies & WIP Reporting. The team also reviewed agricultural initiatives and goals for five specific watersheds involving relevant project sponsors and Soil Conservation District personnel. Future meetings are being scheduled to focus on prioritizing agricultural funding, finding support for non-traditional projects, and planning for FY 2027.

Page 34: DLS also recommends that DNR, in cooperation with its partner BayStat agencies, submit a report with the fiscal 2028 allowance describing the Whole Watershed Act funding by amount and source; the status of each project; the use of the fiscal 2027 and 2028 funding since the RFP is every five years; how projects will be funded over multiple years assuming uncertain appropriations to the Whole Watershed Fund each fiscal year; and preliminary outcomes of the projects selected, including State support provided to project sponsors and nutrient and sediment reductions. This recommendation will also appear in the operating budget analysis for K00A – DNR.

Administration Response: Concur. The Administration will continue to provide the requested data, including the Whole Watershed Act Annual Report, with the Governor's fiscal 2028 allowance.

Page 35: DLS recommends that the Administration brief the committees on the policy implications of pushing out the restoration requirement to 2040 under the new agreement; what this means for programs, policies, and funding going forward; and what this means overall for the Chesapeake Bay.

Administration Response: The revised Chesapeake Bay Watershed Agreement is a voluntary agreement that commits six states, Washington DC, the federal government and the Chesapeake Bay Commission to continue working together on Chesapeake Bay and watershed restoration goals for the next 15 years above and beyond what is already required by federal or state law. The revised Agreement recalibrated the restoration goals based on the progress made over the previous decade and the latest science. Pending final analysis, the partnership is on track to meet two thirds of the Outcomes set in the 2014 Agreement, and revising the Agreement gave us the opportunity to build on these successes while incorporating new priorities. For the one third of Outcomes that we were not on track to meet by the end of last year, revising the Agreement gave us the opportunity to assess our shortfalls and course-correct based on where we are and what we know today, not a decade ago. Maryland's leadership role in the revisions means that our state's practitioners were involved at every step, helping to ensure that the resulting goals are ambitious, yet achievable. This revised Agreement keeps the entire regional partnership engaged in restoration, protection, and conservation activities that will be more impactful than individual jurisdictions working alone to meet the minimum legally-mandated requirements. Maryland will continue to take an innovative approach to our implementation and financing work, ensuring we remain a leader in the Chesapeake's restoration while benefitting from the cumulative efforts, expertise, attention, and resources that result from the local, state, and national commitments to improving the health of the Bay.

Page 37: DLS recommends that the Administration comment on the plan for meeting the new 2040 Chesapeake Bay restoration requirement; the implications of the 2040 restoration requirement for funding; the need and prospects for enhanced nutrient removal refinement given the current sunset of the Bay Restoration Fund fee on June 30, 2030; and the possible reconsideration of the regional financing authority, impervious surface fee, natural capital accounting, bottom-up farmer engagement, and septic system regulations.

Administration Response: The revised Chesapeake Bay Watershed Agreement lays out a combined, strategic, and accountable approach to advance the goals of Thriving Habitats, Fisheries, and Wildlife; Clean Water; Healthy Landscapes; and Engaged Communities – all of which are necessary to restore the Chesapeake in a meaningful way. With regard to implementing and maintaining practices and controls necessary to reduce nitrogen, phosphorus, and sediment (and thus achieve the water quality standards set in the Bay TMDL), the revised Agreement commits to all jurisdictions accelerating completion of their current pollution reduction targets through 2030, after which the targets will be updated and all jurisdictions will meet their new obligations by 2040. Maryland remains on track to meet its 2025 pollution reduction obligations and anticipates continuing to lead the other jurisdictions by example in the coming years, both in terms of developing innovative pollution reduction initiatives and funding opportunities.

On the wastewater side, the key to our success moving forward is to keep our wastewater plants operating at better than ENR levels (under than 2.85-mg/l total nitrogen) and using remaining plant growth capacity wisely. To do so it will be critical that we reinvest in our aging wastewater

treatment plants to maintain peak performance. One of our key strategies to accomplish that is by working with the legislature to ensure the Bay Restoration fees are not reduced by 50% in 2030. This will provide sufficient wastewater plant maintenance funding into the future.

For stormwater, we will keep making restoration progress with each new generation of our stormwater (MS4) permits. We are also modernizing our stormwater regulations so they keep up with increased climate driven storm runoff. Those proposed regulations are currently out for public review and comment. Focusing on those stormwater practices that have multiple community and ecological benefits, as well as pursuing innovative financing mechanisms to reduce costs and spur private investment, are also key components of meeting our restoration goals.

For agriculture, strategies remain in place to fulfill much of the conservation goals outlined in the sector's Phase 3 WIP. With regard to the LEEF program, for FY 26 the Department has focused on standing up the program. To date we have conducted five listening sessions with partners from MDE, DNR, and MDP in attendance, culminating in a listening session with farmers from across the state. In addition to these public listening sessions, MDA has engaged in over twenty partner meetings with representation from academia, agribusiness, environmental organizations, and financial institutions, and received feedback in the form of survey responses and emails from over 200 stakeholders. Framework to date includes menus of both conservation and community best practices, draft requirements for tiers, consideration of practice points based on nutrient reduction efficiency, co-benefits, priority geographies (such as the five Whole Watershed Program watersheds) - as well as alignment across both the Watershed Implementation Plan and Climate Implementation Plan, and considered incentives range from application points for programs (MALPF) and grants (MARBIDCO), to priority access for institutional food purchasing. Funding will also support expenses for farm recognition materials and vouchers to offset farm expenses (e.g. permit fees, lending rates, match funding) for pilot cohorts of LEEF certified farms. Additionally, MDA has named a Program Manager as of January 7th. Priorities for the spring are convening an advisory committee and working with showcase farms to pilot the program framework.

Page 37: DLS also recommends that committee narrative be adopted requesting a report from the agencies for the fiscal 2028 budget submission on updated historical and projected Chesapeake Bay spending and associated impacts and both the final status of meeting the calendar 2025 requirement of having all BMPs in place to meet water quality standards for restoring the Chesapeake Bay and the new 2040 requirement. The report should include updated information on how the loads associated with the Conowingo Dam infill, population growth for both people and animals, and climate change will be addressed; the status of staffing and preventive maintenance at the 67 major WWTPs; the status of the Soil Conservation District field positions in terms of Soil and Water Quality Conservation Plan development and BMP implementation; and the long-term plans for reducing loading from the stormwater sector. For administrative purposes, this committee narrative will appear in the operating budget analysis for K00A – DNR.

Administration Response: Concur. The Administration agrees that it is appropriate and is very willing to submit a report to DLS summarizing Maryland's Chesapeake Bay funding and restoration progress to date, current status, and future plans. However, the Administration respectfully requests that the scope of the requested report be scaled back from what has historically been requested. The current scope of the report requires a tremendous amount of staff time to compile and it is unclear how much of it is useful to the committees. The Administration is willing

to work with DLS to identify a more appropriate scope.

Page 42: DLS recommends that the Administration comment on the budget committees' past concerns about the status of contributions from other states toward the Conowingo Dam WIP and whether the round 1 projects chosen by the Susquehanna River Basin Commission meet the intent of the committees. The intent is that the $25.0 million allocated to this purpose in fiscal 2023 be used only for the purchase or implementation of cost-effective pollution load reduction BMPs with at least a 15-year beneficial life that support the Chesapeake Bay Program partnership's efforts to achieve the Chesapeake Bay TMDL, with a priority placed on the purchase or implementation of fixed natural filter practices as defined in § 8-701 of the Agriculture Article.

Administration Response: As far as the other states and to date, Pennsylvania has allocated over $26 million for the Clean Water Procurement Program and designated more than $3 million in Local Government Investment funds towards the Conowingo WIP (CWIP). New York works with the Upper Susquehanna Coalition to implement CWIP projects with a current contract (2024-2028) valued at $1.43-million.

For Maryland's Round 1 projects, the annualized average cost is $12 per lb of total nitrogen (TN) reduced, with individual projects ranging from $6 to $153 per lb. The Round 1 investment of $11.3 million secured projects projected to yield an annual reduction of approximately 165,650 lbs of TN, representing 92% of Maryland's CWIP goal once fully implemented. The lifespan of the projects range from 1 to 20 years, with an average lifespan of 10 years. The proposed projects met the goals of being cost efficient and nitrogen effective and we are seeing costs continuing to decline with Round 2 proposals.

Among the Maryland Round 1 projects are fixed natural filter practices, including riparian forest buffers on land used for livestock grazing and hay production. Additional projects include the conversion of cropland to grassland, agricultural precision nutrient management, and stream restorations in agricultural areas.

Page 42: In addition, DLS recommends that the Administration comment on what is known about the responses to the round 2 RFP; what portion of the $13.6 million in remaining funding will be used for these proposals; how tracking, verifying, and reporting BMP implementation will be handled; why over a year has elapsed since the round 2 RFP closed with no BPW actions; and the next steps for Maryland's funding and overall involvement in the Conowingo Dam WIP.

Administration Response: MDE internally selected the Round 2 projects for award in March 2025 to utilize the remaining funding. Since that time MDE has been working with DBM to get a budget amendment approved so the money could be transferred to MDE from the Dedicated Purpose Account. As of January 23rd, the budget amendment is with the Governor's Office for signature. Once funding is received, MDE will work with SRBC to develop contracts and award project funding. SRBC will be in direct contact with the awardees and will be responsible for verification. MDE, MDA, and SRBC will coordinate to obtain the documentation needed for annual BMP progress submissions to the EPA.

Page 42: DLS also recommends that the Administration comment on the next steps for Conowingo Dam water quality certification and relicensing as well as the timing and amount of the full settlement agreement between MDE and Constellation Energy and how this compares to the prior settlement agreement. Finally, DLS recommends that MDE comment on the status of the U.S. Army Corps of Engineers Conowingo Reservoir Modeling Study, what it expects to learn from the study, and how this will inform its next steps.

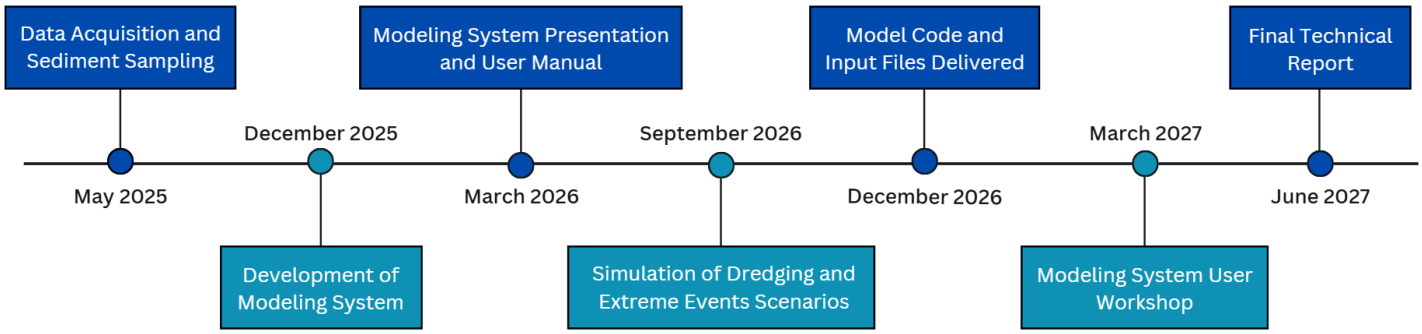
Administration Response: The Maryland Department of the Environment (MDE) has finalized the 2025 Revised Water Quality Certification (2025 WQC) and Settlement Agreement (SA). The final authority on the license term, expected to be 50 years, rests with the Federal Energy Regulatory Commission (FERC). Immediate obligations under the Settlement Agreement, such as debris and invasive species removal, are already underway; however, the 2025 WQC's legal enforceability and the SA's major financial commitments for mitigation, mussel restoration and dredging will occur after FERC issues the license and any subsequent legal challenges are resolved. MDE does not know how long it will take FERC to issue a relicensing decision. However, because there is a vacated 2021 FERC license, it may not take as long to draft a new license for issuance (anticipated 6-18 months from October 2025).

The 2025 WQC and SA represents significant progress from the 2019 SA, securing $341 million in environmental commitments, an increase of over $100 million. The headlines identified certain operational and SA payments to Maryland, however, that list was not exhaustive of the investment commitments required under the 2025 and SA related to operations and intended to capture the key elements of the commitment. For example, commitments for protective plan development, monitoring and reporting requirements, community clean-ups and oversight cost reimbursements were not separately disclosed during public outreach. All of the SA payments and operational valuations are inflation-adjusted investments over the license term and several are front-loaded so projects begin earlier in the license term, delivering transparent and long-lasting water quality improvements to the Susquehanna River and the Chesapeake Bay. The WQC and SA also shift operations from voluntary measures to enforceable mandates. Crucially, this agreement locks in strict requirements for fish passage and restoration, trash and debris removal, flow management, aquatic invasive species removal, eel passage and restoration, and ecosystem mitigation and restoration, including dredging of Conowingo Reservoir.

The Conowingo Reservoir Modeling Study has three main objectives:

1. Develop a three-dimensional water quality modeling system. The modeling system will be capable of simulating hydrodynamics, biogeochemical, and sediment transport processes within the reservoir.
2. Set up the modeling system to simulate both current and future dredging scenarios, specifically the evaluation of sediment and associated nutrient reductions from the different scenarios.
3. Simulate future hydrologic-climate scenarios.

Information generated from this project will help the partnership better understand and institutionalize the resiliency and response of Conowingo Reservoir to different dredging scenarios and hydrologic conditions. The model will also determine scour and sediment resuspension as well as associated nutrient/contaminant increases both within the reservoir and downstream based upon different management scenarios. Below is a timeline of the modeling milestones.


Data Acquisition and Sediment Sampling
Modeling System Presentation and User Manual
Model Code and Input Files Delivered
Final Technical Report
May 2025
December 2025
March 2026
September 2026
December 2026
March 2027
June 2027
Development of Modeling System
Simulation of Dredging and Extreme Events Scenarios
Modeling System User Workshop