

MARYLAND ENVIRONMENTAL SERVICE

**Schedules of Indirect Costs Together with
Independent Auditor's Report**

For the Year Ended June 30, 2023

**MARYLAND ENVIRONMENTAL SERVICE
SCHEDULES OF INDIRECT COSTS**

For the Year Ended June 30, 2023

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RSM US LLP

Independent Auditor's Report on Schedules of Indirect Costs

Board of Directors
Maryland Environmental Service

We have audited the financial statements of each major fund and the fiduciary activities of the Maryland Environmental Service (the Service), a component unit of the State of Maryland, as of and for the year ended June 30, 2023, and have issued our report thereon, dated December 22, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to December 22, 2023.

The accompanying Schedule of Indirect Costs Rate Calculation and the Schedule of Fringe Benefit Cost Rate Calculation are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Gaithersburg, Maryland
December 22, 2023

Maryland Environmental Service

**Schedule of Indirect Cost Rate Calculation
For the Year Ended June 30, 2023 for Fiscal Year 2025 Rate Setting**

	General and Administrative Expense	Environmental Operations	Water and Wastewater	Environmental Dredging & Restoration	Technical & Environmental Services	Total
General and administrative expenses per financial statements excluding fringe variance	\$ 12,240,728	\$ 538,837	\$ 525,589	\$ 296,842	\$ 759,795	\$ 14,361,791
Cost Adjustments	<u>1,024,543</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,024,543</u>
Total overhead costs	<u>\$ 13,265,271</u>	<u>\$ 538,837</u>	<u>\$ 525,589</u>	<u>\$ 296,842</u>	<u>\$ 759,795</u>	<u>\$ 15,386,334</u>
Labor index						
Total salaries, including overtime premium	\$ 5,747,407	\$ 15,220,672	\$ 8,987,374	\$ 7,920,877	\$ 7,769,175	\$ 45,645,505
Less general and administrative	<u>(5,497,434)</u>	<u>(320,391)</u>	<u>(256,023)</u>	<u>(177,299)</u>	<u>(446,411)</u>	<u>(6,697,558)</u>
Net labor index	<u>\$ 249,973</u>	<u>\$ 14,900,281</u>	<u>\$ 8,731,351</u>	<u>\$ 7,743,578</u>	<u>\$ 7,322,764</u>	<u>\$ 38,947,947</u>

Maryland Environmental Service

**Schedule of Indirect Cost Rate Calculation (continued)
For the Year Ended June 30, 2023 for Fiscal Year 2025 Rate Setting**

Labor index	Net Labor Index	Labor Rate Index	Adjusted Labor Index
(a) Labor index @ \$0-\$725,000	\$ 23,124,266	100%	\$ 23,124,266
(b) Labor index @ \$725,001-\$1,370,000	2,499,138	75%	1,874,354
(c) Labor index @ \$1,370,001-\$1,980,000	1,894,378	50%	947,189
(d) Labor index @ \$1,980,001-\$2,390,000	820,000	25%	205,000
(e) Labor index @ over \$2,390,001	1,551,215	10%	155,121
(f) Labor Index @ 47%	9,058,950	47.0%	4,257,707
Net labor index	\$ 38,947,947		\$ 30,563,637

General and administrative overhead cost rate:

G&A Overhead	Labor Rate Index	G&A Overhead Rate
\$ 13,265,271	\$ 30,563,637	43.40%

Group overhead rates:

Group Overhead	Group Labor Index	Group Overhead Rate
Environmental Operations	\$ 11,317,215	4.76%
Water and Wastewater	8,731,351	6.02%
Environmental Dredging & Restoration	7,743,578	3.83%
Technical & Environmental Services	7,322,764	10.38%

The accompanying notes are an integral part of this schedule.

Maryland Environmental Service

**Schedule of Fringe Benefit Cost Rate Calculation
For the Year Ended June 30, 2023 for Fiscal Year 2025 Rate Setting**

Labor index

Total direct salaries, including overtime premium \$ 47,363,392

Total labor index \$ 47,363,392

Fringe costs

Salaries - holiday and personal leave	\$ 3,419,225
Salaries - sick leave	1,140,304
Salaries - vacation	3,543,079
Social security contribution	4,099,368
Health insurance	8,028,584
Employee retirement plan	2,913,276
Unemployment	183,121
Workers' compensation	955,920
State pension - MES employees	229,426
Group disability insurance	472,766
Retiree medical reimbursement plan	1,115,311
Apprentice training	41,482
Salaries - severance pay	4,032
Contractual services	88,825
Tuition reimbursement and training	82,120
Other	10,172

Subtotal 26,327,011

*Cost adjustments 868,141

Total adjusted fringe costs \$ 27,195,152

Fringe benefit cost rate calculation:

Fringe rate = Total fringe benefit costs/total labor index
 \$ 27,195,152 / \$ 47,363,392 = 57.42%

***Cost adjustments**

Health insurance inflation rate increase 4.0% each year	\$ 817,372
Change in State Retirement and Pension System	2,069
FY 2024 Workers' Compensation premium increase	48,700
FY 2025 Workers' Compensation premium increase	-

Total cost adjustments \$ 868,141

The accompanying notes are an integral part of this schedule.

MARYLAND ENVIRONMENTAL SERVICE

Notes to the Schedules of Indirect Costs June 30, 2023

1. INDIRECT COST RECOVERY METHODOLOGY

The Board of Directors (the Board) of the Maryland Environmental Service (the Service) authorized through board resolution the Service to adopt and use the indirect cost recovery methodology described in Note 2. The methodology addresses the recovery of indirect overhead and fringe benefit costs.

2. INDIRECT OVERHEAD COSTS

The Maryland Environmental Service is currently organized into five basic groups: General and Administrative, Environmental Operations, Water/Wastewater, Environmental Dredging and Restoration, and Technical and Environmental Services. The indirect overhead costs to be allocated consist of the general and administrative expenses and group overhead costs included in the financial statements for the year ended June 30, 2023, adjusted for certain costs for rate setting purposes. These costs include additional employees, fringe benefit and overhead variances, office rent increase and certain cost transfers as defined in board resolution 06-09-2R.

The labor index is used to recover indirect overhead costs, which consists of billable direct labor.

The calculated general and administrative recovery rate using the labor index is adjusted to meet the following criteria based upon direct labor incurred:

- For those projects where the labor index is less than or equal to \$725,000, the recovery rate is 100% of the base rate.
- For those projects where the labor index is over \$725,001, and under \$1,370,000, the recovery rate is 75% of the base rate.
- For those projects where the labor index equals or exceeds \$1,370,001, and under \$1,980,000, the recovery rate is 50% of the base rate.
- For those projects where the labor index equals or exceeds \$1,980,001, and under \$2,390,000, the recovery rate is 25% of the base rate.
- For those projects where the labor index exceeds \$2,390,001, the recovery rate is 10% of the base rate.

The amounts in the labor index categories above reflect the amounts used in the previous year adjusted for a 4.7% inflation adjustment based on the Bureau of Labor Statistics 12-month Employment Cost Index.

The resulting recovery rates will then be used by the Service for the next full budget cycle (second fiscal year after the year for which the rates are calculated). As a result, the rates calculated for fiscal year 2023, will be used for setting the overhead rates for fiscal year 2025.

The Service projects were segregated by master customer. Based on labor reports summarized by master customer, it was determined that the Montgomery County, The Harford County, The Prince George's County, The ECI CoGeneration Facility, and The Midshore projects had a labor index content at the levels reflected above, and therefore qualified for adjusted overhead rates. The amounts of labor index falling within each of the six rate categories were determined. Based on such amounts, the following standard rates were calculated: General and Administrative 43.40%, Environmental Operations 4.76%, Water/Wastewater 6.02%, Environmental Dredging and Restoration 3.83%, Technical and Environmental Services 10.38%. Certain projects that were determined technical in nature require extensive oversight and support are at a rate of 47%.

MARYLAND ENVIRONMENTAL SERVICE

Notes to the Schedules of Indirect Costs June 30, 2023

3. FRINGE BENEFIT COSTS

The labor index for recovering fringe benefit costs is total direct labor, including overtime premium costs. The fringe benefit costs have been adjusted to reflect projected changes in health insurance inflation rate increases, workers' compensation, and State retirement and Pension increases. This resulting recovery rate will then be used by the Service for the next full budget cycle (second fiscal year after the year for which the rate is calculated). As a result, the rate calculated for fiscal year 2023, will be used for setting the fringe benefit rate for fiscal year 2025. Based on such amounts, a standard rate of 57.42% was calculated.