BOARD OF DIRECTORS

MARYLAND ENVIRONMENTAL SERVICE

RESOLUTION

(97-06-1R)

A RESOLUTION AMENDING and rescinding certain resolutions of the Service; establishing a rate to be charged by the Service for Working Capital; modifying procedures for credits to and disbursements from the Business Research and Development Fund; and generally relating to the financial affairs of the Service.

R E C I T A L S

The Service was created by, exists under, and exercises the powers contained in Sections 3-101 to 3-130, inclusive, of the Natural Resources Article of the Annotated Code of Maryland (the "Act") including (among others) the power to fix, alter, charge, and collect rates, fees, and charges for the use of or for the services furnished by the Service or its projects, including administrative and overhead expenses. On July 25, 1991, the Board of Directors of the Service adopted an unnumbered resolution establishing standards for the management of funds in the Program Development Fund (now known as the Business Research and Development Fund). On April 25, 1996, the Board adopted Resolution 96-04-1R amending Resolution 95-05-1R. Resolution 96-04-1R provided *inter alia*, for the adoption and use of an Indirect Cost Recovery Methodology for the Service. The Resolution also included an attachment which detailed the Indirect Cost Recovery Methodology. The Service has determined to modify the procedures related to the Business Research and Development Fund, and to amend the Indirect Cost Recovery Methodology to abolish reference to recovery for Business Research and Development.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE MARYLAND ENVIRONMENTAL SERVICE, THAT:

1. In the Attachment to Resolution 96-04-1R, the section entitled "Business Research and Development (BR & D) and Operating Capital" is hereby

changed to read as follows:

Working Capital

1. In addition to the other charges set forth herein, the Service shall charge a rate of three percent (3%) of the labor index to each project for which a Service client has not provided an operating advance. This charge shall be known as the "Working Capital Charge".

2. The rate of the Working Capital Charge shall not be subject to annual audit adjustment. The Board shall, from time to time, review and adjust, in its discretion, the rate of the Working Capital Charge.

2. The unnumbered resolution dated July 25, 1991, establishing standards for the management of the Program Development Fund (now called the Business Research and Development Fund) is hereby rescinded.

3. The Board may, from time to time, and in its discretion, credit to the Business Research and Development Fund such funds of the Service as it deems appropriate. The Director is hereby authorized to make expenditures that do not exceed $10,000 from the Business Research and Development Fund. No expenditures greater than $10,000 shall be made from the Business Research and Development Fund without the approval of the Board, upon such terms and conditions as the Board deems appropriate.

4. This Resolution shall take effect July 1, 1997.

ADOPTED, this 26th day of June, 1997.

SEAL

MARYLAND ENVIRONMENTAL SERVICE

BY: James W. Peck
JAMES W. PECK, DIRECTOR

BY: _____
CATHERINE STEVENSON, DEPUTY DIRECTOR

BY: _____
KENNETH HOWARTH, TREASURER

BY: Carolyn D. Davis
CAROLYN D. DAVIS, SECRETARY

INDIRECT COST RECOVERY
METHODOLOGY
Conformed as of June 26, 1997

Overhead and General and Administrative (G & A) Costs

- Overhead and G & A costs will be accumulated into a single cost pool for all program level and agency level costs. Multiple cost centers will be used to record, manage and control costs and then accumulated for recovery.

- The base index for recovering overhead and G & A costs is the sum of straight time billable direct labor and contract labor (not to include sub contract labor).

- The actual base recovery rate for a fiscal year will be confirmed by the agency's independent auditors as part of the regular fiscal year end audit.

- The base recovery rate will be adjusted to meet the following customer criteria:

  1. For that portion of the labor index that exceeds $350,000 and is less than $700,000, the recovery rate will be 75% of the base rate.

  2. For that portion of the labor index that equals or exceeds $700,000, and is less than $1,500,000, the recovery rate will be 50% of the base rate.

  3. For that portion of the labor index that equals or exceeds $1,500,000, the recovery rate will be 25% of the base rate.

- The most recent audited base recovery rate will be adjusted for any known or required changes to the rate components. This adjusted base recovery rate will then be used for the next full budget cycle (second fiscal year after the audited year).

- Based upon the annual audit, if recovery of costs varies from actual overhead and G & A costs by more than plus or minus 3%, that difference will be a required adjustment to the next established budgeted base recovery rate.

Operating Capital

- A rate of 3% of the labor index will be charged to each project for which the customer has not provided an operating capital advance.
- This operating capital rate is not subject to audit adjustment.
- This operating capital rate is subject to annual review and approval of the Board.

Fringe Benefits

- Fringe benefit costs will be accumulated in a single cost center cost pool.
- The base index for recovering fringe benefits is the sum of straight time total direct labor.
- The actual recovery rate for a fiscal year will be confirmed by the agency's independent auditors as part of the regular fiscal year end audit.
- The most recent audited rate will be adjusted for any known or required changes to the rate components. This adjusted rate will then be used for the next full budget cycle (second fiscal year after the audited year).
- Based upon the annual audit, if recovery of costs varies from actual fringe costs by more than plus or minus 3%, that difference will be a required adjustment to the next established budgeted recovery rate.

For the purpose of this methodology, normal accounting accruals which are consistent with generally accepted accounting principles will be actual costs.

MARYLAND ENVIRONMENTAL SERVICE
BOARD OF DIRECTORS

RESOLUTION

WHEREAS, the statutory mission of the Maryland Environmental Service (hereinafter "Service") is to provide for the delivery, acquisition, construction, reconstruction, rehabilitation, operation, maintenance and repair of water, wastewater and solid waste projects, facilities and services for both State and private clients; and

WHEREAS, Sections 3-104 (m) and (n) of the Natural Resources Article of the Maryland Annotated Code authorize the Service to enter into contracts to provide the above enumerated services in furtherance of its statutory mission; and

WHEREAS, the Service, in accordance with Section 3-104 (b) of the Natural Resources Article of the Maryland Annotated Code enjoys perpetual existence as a corporation; and

WHEREAS, the development of new projects requires extensive marketing and promotional efforts and proposal preparations involving personal contacts by employees of the Service with corporate executives, State, County and municipal elected officials and employees; and

WHEREAS, it is necessary in support of these efforts to provide funds for expenses related to the development of new projects pursuant to the statutory mandate of the Service; and

WHEREAS, the Board has previously allocated funds for program development from the Capital Working Account pursuant to Resolution 84-1 and from retained earnings generated by fees assessed corporate customers pursuant to Resolution 1-1986 which repealed and superseded Resolution 84-1; and

WHEREAS, the Board wishes to refine and simplify the procedures for the generation of the Program Development Fund and its use; and

WHEREAS, the Board wishes to restrict the use of a portion of the Service's retained earnings to purposes solely devoted to Program Development and to provide for the separate accounting of the use of these funds; and

WHEREAS, the Board desires to repeal and supersede, by this Resolution, its former Resolution 1-1986, passed on April 1, 1986; and

WHEREAS, the Board desires to provide the Director standards for his management of the Program Development Fund.

NOW, THEREFORE, BE IT RESOLVED this 25th day of July, 1991, as follows:

1. That the Director of Finance & Administration shall credit on a monthly basis ~~a portion~~ of retained earnings to the Program Development Fund (the Fund), provided that there are sufficient current year retained earnings to support such a credit. That portion shall be calculated as $1\frac{1}{2}\%$ of direct operating charges to corporate clients, excluding overhead, capital costs, pre-treatment and major maintenance funding charges. In the event there are not sufficient retained earnings to credit the Fund in any given month, then the deficit may be made up in any other month of that fiscal year. The total amount of retained earnings credited to the Fund on an annual basis shall not exceed 50% of retained earnings generated during that fiscal year, exclusive of any interest earned.

2. This Resolution shall apply to all of Fiscal Year 1991. The Director of Finance & Administration is directed to make such credits to the Program Development Fund in accordance with paragraph 1.

3. The Board, by a majority vote of a quorum, may disapprove the Director of Finance & Administration's monthly credit to the Program Development Fund and may credit those funds to any purpose allowed by law.

4. That funds currently allocated to the Program Development Fund shall remain in that Fund.

5. Charges against the Fund shall be accounted for separately. Use of the Fund shall be limited to the furtherance of program development activities. These uses may include, but are not limited to, the purposes of developing, supporting, researching, promoting, securing, providing and procuring goods and services for new and proposed projects, experiments, programs, and facilities.

6. Procurement under the Fund shall follow the Service's standard Corporate and State procurement procedures.

7. The Program Development Fund may be used to pay the salaries of special purpose corporate employees for periods not to exceed one (1) year. Payments for longer periods must be expressly authorized by this Board.

8. Expenditures for the Fund shall be made in accordance with the following guidelines:

   A. The Director may authorize expenditures from the Fund up to a maximum for any one project of $7,500. The Director of Finance & Administration may exercise such authority in the Director's absence if such authority is delegated by the Director to the Director of Finance

& ~~Finance~~. Administration

B. ~~All requests for expenditures from the Fund shall contain a~~ detailed written justification for use of Program Development Funds. ~~All requests for expenditures~~ shall be retained in the permanent records of the Service.

C. Proposals that anticipate expenditures exceeding $7,500 shall be referred to the Board for prior approval. Projects exceeding $7500 after start-up shall be submitted to the Board for ratification.

D. The Director shall report to the Board all Program Development expenditures authorized by him at the Board of Directors' meeting that immediately follows the authorization.

9. This Board's Resolution 1-1986 dated April 1, 1986, concerning the Program Development Fund, is hereby repealed and rescinded in its entirety. This Resolution shall supersede it in all respects.

10. This Resolution shall be effective upon adoption.

George G. Perdikakis
Chairman
Board of Directors

IN WITNESS WHEREOF, the undersigned certifies the above Resolution was duly adopted and approved by the Board of Directors of the Maryland Environmental Service at a meeting duly called and held July 25, 1991.

R. Kenneth Barnes
Secretary