

J00D00
Maryland Port Administration
Maryland Department of Transportation

Operating Budget Data

(\$ in Thousands)

	<u>FY 12</u> <u>Actual</u>	<u>FY 13</u> <u>Working</u>	<u>FY 14</u> <u>Allowance</u>	<u>FY 13-14</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$41,612	\$46,665	\$47,718	\$1,053	2.3%
Contingent & Back of Bill Reductions	0	0	-39	-39	
Adjusted Special Fund	\$41,612	\$46,665	\$47,678	\$1,013	2.2%
Adjusted Grand Total	\$41,612	\$46,665	\$47,678	\$1,013	2.2%

- The fiscal 2014 allowance increases approximately \$1.1 million, or 2.2%, compared to the fiscal 2013 working appropriation.
- The largest increase in the allowance is for energy loan repayments at \$1.2 million; however, this increase is offset by corresponding decreases in electricity and fuel costs from the energy efficiency measures put in place. The energy savings will support the debt service cost for the efficiency measures implemented.
- Personnel-related expenditures account for \$0.6 million of the increase in the allowance.

PAYGO Capital Budget Data

(\$ in Thousands)

	<u>Fiscal 2012</u> <u>Actual</u>	<u>Fiscal 2013</u> <u>Legislative</u>	<u>Working</u>	<u>Fiscal 2014</u> <u>Allowance</u>
Special	\$55,995	\$99,932	\$96,882	\$113,144
Federal	\$2,536	\$700	\$6,868	\$449
Total	\$58,532	\$100,632	\$103,750	\$113,593

Note: Numbers may not sum to total due to rounding.

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- The fiscal 2013 working appropriation increases \$3.1 million, with special funds decreasing \$3.1 million and federal funds increasing approximately \$6.2 million. The increase in federal funds is due to the availability of federal funds for various security projects. Special funds decrease due to cash flow changes in a number of projects.
- The fiscal 2014 allowance increases \$9.8 million with special funds increasing \$16.3 million and federal funds decreasing \$6.4 million. Most of the additional funding will be used for major projects which increases \$14.5 million and is offset by a decrease of approximately \$4.7 million in system preservation.

Operating and PAYGO Personnel Data

	<u>FY 12 Actual</u>	<u>FY 13 Working</u>	<u>FY 14 Allowance</u>	<u>FY 13-14 Change</u>
Regular Operating Budget Positions	186.00	186.00	186.00	0.00
Regular PAYGO Budget Positions	<u>39.00</u>	<u>39.00</u>	<u>39.00</u>	<u>0.00</u>
Total Regular Positions	225.00	225.00	225.00	0.00
Operating Budget FTEs	0.70	0.70	0.70	0.00
PAYGO Budget FTEs	<u>0.50</u>	<u>0.50</u>	<u>0.50</u>	<u>0.00</u>
Total FTEs	1.20	1.20	1.20	0.00
Total Personnel	226.20	226.20	226.20	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	8.96	3.98%
Positions and Percentage Vacant as of 12/31/12	14.00	6.22%

- There are no new additional regular positions or full-time equivalent positions in the fiscal 2014 allowance.
- Turnover is budgeted at 3.98% which requires 8.96 positions to be vacant. Currently, the agency has 14.0 positions vacant and a turnover rate of 6.22%. Of the 14.0 vacant positions, 5.0 have been vacant over 12 months.

Analysis in Brief

Major Trends

Foreign Cargo Volumes at Maryland Port Administration Terminal Increase: Foreign cargo volumes at the Helen Delich Bentley Port of Baltimore (Port) increased 15.2% in calendar 2011, greater than the national average increase for ports nationwide. The total value of foreign cargo handled at the Port was \$51.4 billion in calendar 2011. Among port districts in the United States, the Port ranked twelfth in terms of total foreign cargo handled.

General Cargo Tonnage Continues to Grow: General cargo, defined as containers, autos, forest products, and roll on/roll off (Ro/Ro), increased to 9.3 million tons in fiscal 2012. Most of the growth occurred in autos and Ro/Ros. As the economic outlook has started to improve or at least stabilize, businesses and consumers are making purchases. Forest products was the only commodity to decline as lumber sales are off due to housing, and paper needs are diminishing as society becomes more paperless.

Cruises in Maryland: In calendar 2012, there were 100 homeport cruises and 415,000 passengers. In fiscal 2013 and 2014, the Maryland Port Administration (MPA) is expecting fewer cruise ships and, as a result, passengers are expected to decline. **The Department of Legislative Services (DLS) recommends that MPA discuss why cruises are expected to decline and what can be done to increase the number of cruises.**

Dredging Capacity Exists Only for Maintenance Activities: An important function for the Port is its ability to maintain and improve the shipping channels for safe, unimpeded access to the Port. This is achieved through the Port's dredging program, which maintains and improves shipping channels. A major issue for the dredging program is having adequate dredge placement capacity to meet the demands for dredging in the State. Currently, the Port does not have adequate capacity for new harbor or bay dredged material, only the existing maintenance, in fiscal 2013 and 2014. **DLS recommends that MPA discuss the state of its dredging program and what this might mean for future growth at the Port of Baltimore. Furthermore, it should discuss the status of its efforts to secure Coke Point as a new dredge placement site.**

Net Income Is Positive, but Declining: The agency closed fiscal 2012 with a positive net income, partially due to a one-time payment. In fiscal 2013 and 2014, the agency still projects a positive net income; however, it is declining as expenditure growth outpaces revenue growth.

Issues

Update on Seagirt Public-private Partnership: The public-private partnership (P3) for the Seagirt Marine Terminal was completed in 2009. Since that time, several improvements to the terminal have been made as directed in the agreement, including the construction of a 50-foot berth and the addition of four new super post-Panamax cranes. The amount of cargo moving through the terminal has

increased; however, it is not clear if this is attributable to the P3 or the overall growth in cargo. It is likely that both have contributed to the improved performance at Seagirt. **DLS recommends that MPA discuss the benefits of the Seagirt P3 and any issues it foresees moving forward.**

Chromium Ore Remediation Plan Finalized: In the 1970s, a portion of the Dundalk Marine Terminal was developed and expanded using Chrome Ore Processing Residue (COPR) as fill material. At that time, COPR was thought to be good fill material; however, COPR has since been defined and regulated as a hazardous substance. In 2006, MPA entered into two agreements intended to provide a long-term, final solution resolving all matters related to the presence of COPR at the Dundalk Marine Terminal. The Maryland Department of the Environment has announced the final corrective plan for addressing COPR which is expected to cost MPA \$43.2 million. **DLS recommends that MPA discuss the impact on operations from implementing the corrective plan.**

Labor Negotiations May Impact Port Operations: Labor employees represented by the International Longshoreman’s Association (ILA) at East and Gulf Coast ports are currently in negotiations with the United States Maritime Alliance. There are more than 15,000 ILA members impacted by these negotiations, with 1,200 represented by four ILA locals at the Port of Baltimore. The current agreement has been extended by 30 days until February 6, 2013. **DLS recommends that MPA discuss with the budget committees the current status of negotiations and any contingencies it has planned for in the event of a work stoppage.**

Operating Budget Recommended Actions

	<u>Funds</u>
1. Reduce funding for advertising.	\$ 25,256
2. Reduce funding for printing.	32,376
3. Reduce funding for out-of-state travel.	34,862
Total Reductions	\$ 92,494

PAYGO Budget Recommended Actions

1. Concur with Governor’s allowance.

Updates

Update on P3 Activities: An update is provided on P3 activities relating to the Curtis Bay Ordnance Depot and the Cambridge Waterfront Redevelopment.

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Budget Analysis

Program Description

The Maryland Port Administration (MPA) functions under Title 6 of the Transportation Article of the Annotated Code of Maryland. Through its efforts to increase waterborne commerce, MPA promotes the economic well-being of the State of Maryland and manages the State-owned facilities at the Helen Delich Bentley Port of Baltimore (Port). Activities include the developing, marketing, maintaining, and stewarding of the State's port facilities; improving access channels and dredging berths; developing and promoting international and domestic waterborne trade by promoting cargoes and economic expansion in the State; and providing services to the maritime community, such as developing dredged material placement sites.

To pursue its mission of stimulating the flow of waterborne commerce through the ports of the State of Maryland in a manner that provides economic benefit to the citizens of the State, MPA has identified the following key goals:

- maximize cargo throughput, terminal efficiency, and the economic benefit generated by the Port;
- operate MPA to ensure revenue enhancements and to optimize operating expenses;
- preserve and enhance the Port's infrastructure to maintain cargo capacities, while ensuring adequate security and environmental stewardship; and
- maintain and improve the shipping channels for safe, unimpeded access to the Port.

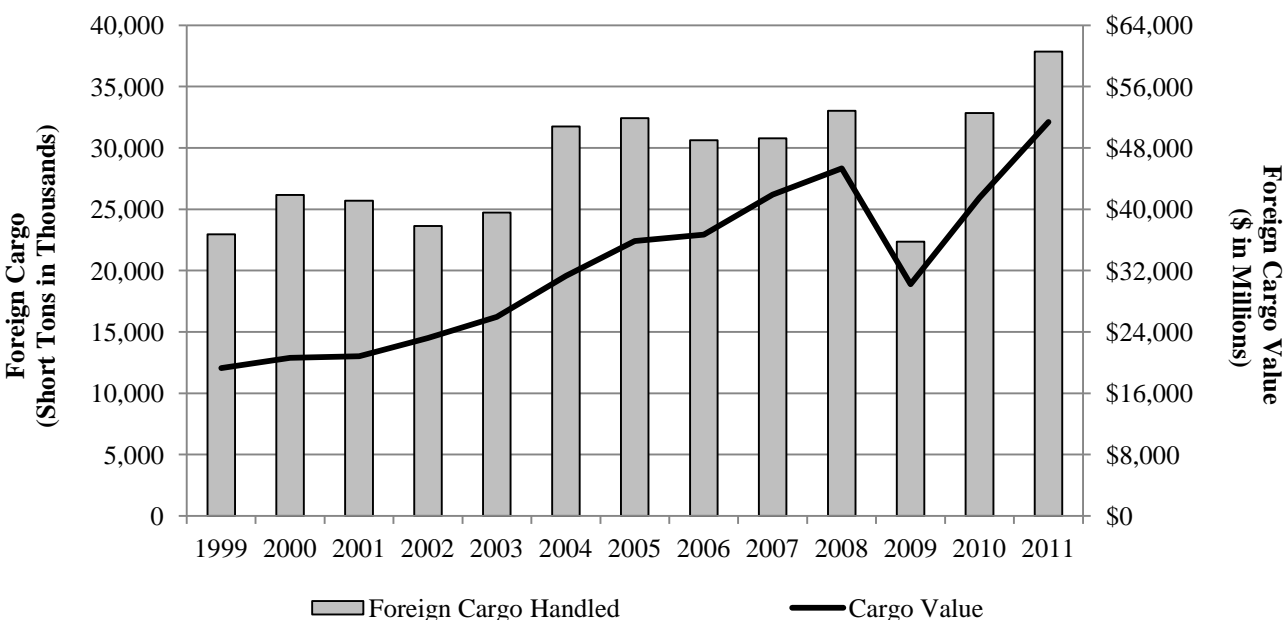
Performance Analysis: Managing for Results

1. Foreign Cargo Volumes at MPA Terminal Increase

The Port is a vast industrial complex that encompasses 45 miles of shoreline and 3,403 waterfront acres. It includes 7 public terminals owned by MPA, as well as 23 private terminals. Unlike many State entities, the Port operates in a highly competitive market, with direct competition not only from the private industry but also from other ports up and down the east coast, as well as some Canadian ports. Following a difficult year in calendar 2009, ports nationwide began their recovery in 2010. Following a 12.0% decline nationwide in United States foreign waterborne commerce in 2009, foreign waterborne commerce increased 9.0% in 2010. Calendar 2011 growth was not nearly as robust as 2010 and totaled 2.9%.

As was the case in calendar 2010, the Port’s recovery in 2011 is greater than the national recovery. **Exhibit 1** shows that the Port handled 37.8 million tons of cargo at its private and public terminals, an increase of 15.2% compared to calendar 2010. Since the low point of the economic downturn in 2009, the volume of cargo through the Port has increased 69.0%. Growth in calendar 2011 occurred in exports which increased 35.2%, compared to imports which decreased 8.2%. The value of foreign commerce increased from \$41.5 billion in calendar 2010 to \$51.4 billion in calendar 2011. In calendar 2011, the Port ranked twelfth among all United States port districts for total foreign cargo handled (up from thirteenth in 2010) and eleventh among all United States port districts in terms of the total dollar value of that cargo.

Exhibit 1
Total Foreign Cargo Handled and Cargo Value
Helen Delich Bentley Port of Baltimore
Calendar 1999-2011



Note: Includes both public and private terminals.

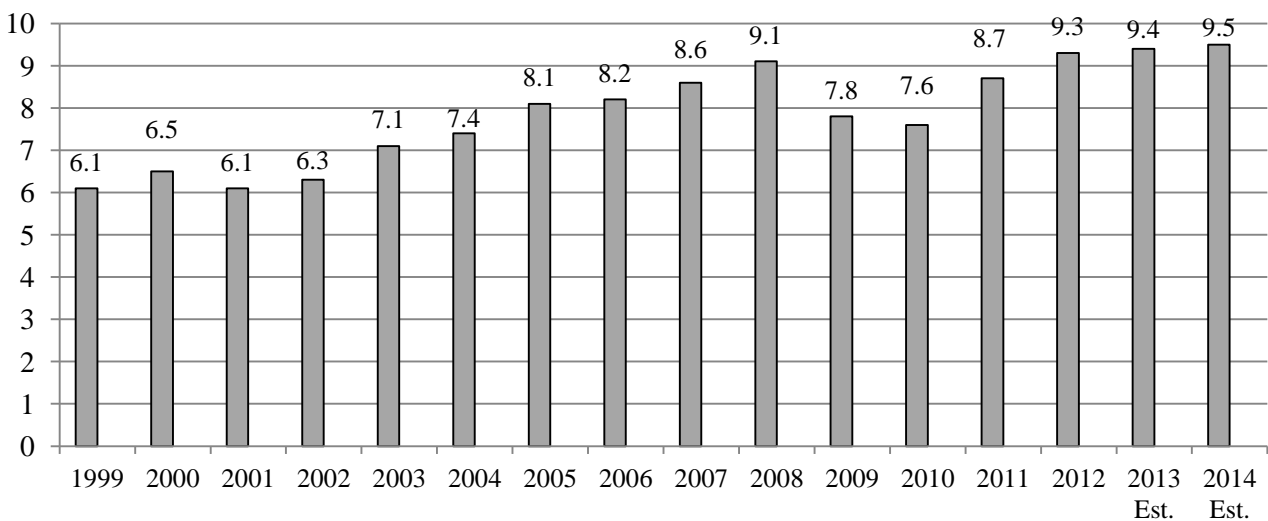
Source: Maryland Port Administration, *Foreign Commerce Statistical Report*, 2011

2. General Cargo Tonnage Continues to Grow

Nearly all general cargo that moves through the Port is handled at the terminals owned by MPA. General cargo is defined as containers, autos, forest products, and roll on/roll off (Ro/Ro).

Ro/Ro includes construction and farm equipment, as well as other cargo that is driven on or off a ship, excluding autos. Following a substantial decline in general cargo volumes in fiscal 2009 and a smaller decline in fiscal 2010, general cargo revenues rebounded in fiscal 2011, as shown in **Exhibit 2**. Total general cargo handled in fiscal 2012 increased to 9.3 million tons and exceeded pre-recession peak levels of 9.1 million tons in fiscal 2008. Slower growth is expected in the coming years.

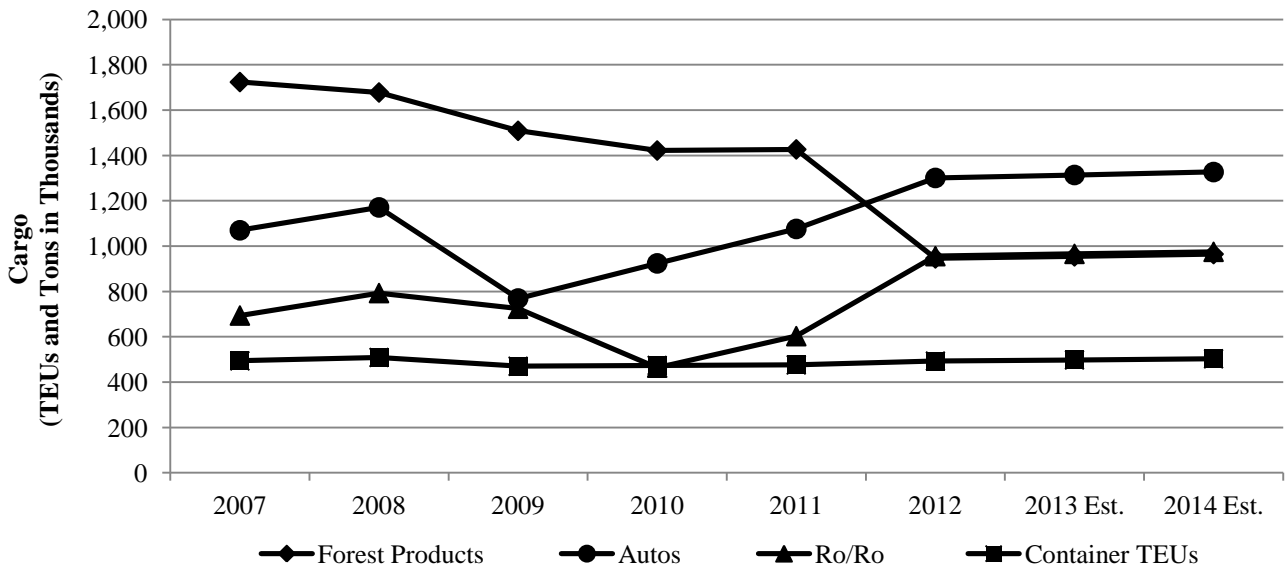
Exhibit 2
Total General Cargo Tonnage at State-owned Facilities
Fiscal 1999-2014
(in Millions)



Source: Maryland Port Administration

Exhibit 3 provides data on selected general cargo commodities handled at the Port. Other than forest products, all commodities showed increases in fiscal 2012, although the increase in containers was slight. General cargo commodities, other than forest products, handled at the Port are at or above fiscal 2008 levels indicating that the Port has largely recovered from the recession. The largest rebounds were in Ro/Ro, which increased 59.0%, and autos, which increased 21.5% from fiscal 2011. As the economy has gradually improved and the age of vehicles has increased, individuals appear more willing to purchase a new automobile. While there was growth in fiscal 2012, growth in fiscal 2013 and 2014 is expected to level off. The growth in Ro/Ro is attributable to the demand to replenish aging construction machinery. In addition, farm equipment did very well in fiscal 2012.

**Exhibit 3
Cargo Volume by Type
Fiscal 2007-2014**



Ro/Ro: roll on/roll off

TEUs: twenty-foot equivalent unit (an industry standard for measuring containers)

Source: Maryland Port Administration

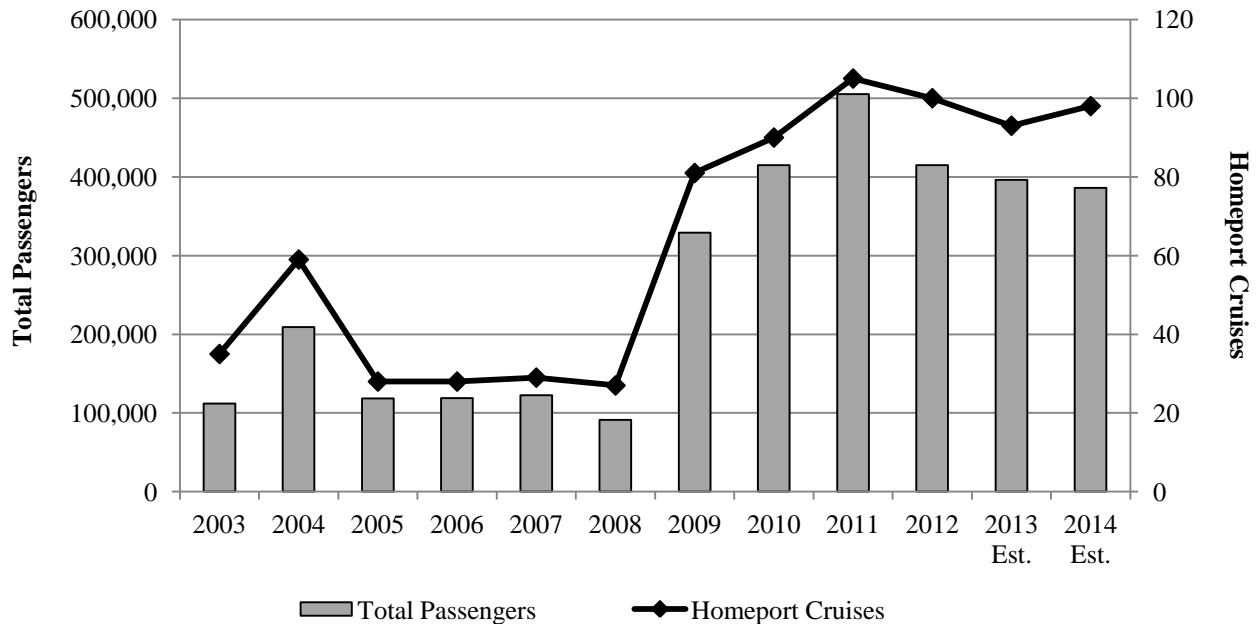
Forest products declined in fiscal 2012. Overall, all North American ports experienced a decline for this commodity. This can be attributed to the move to a paperless society and the continued sluggishness in the housing market. It is expected that forest products will stabilize at current levels in the coming fiscal years.

Since the cargo declines at the Port over the last several years have been similar to nationwide trends, Baltimore has been able to maintain market share for most of its key commodities. It remains number one among all United States ports for handling Ro/Ro and imported forest products.

3. Cruises in Maryland

Besides handling cargo, another activity at the Port is the cruise ship business. **Exhibit 4** shows the total number of homeport cruises and passengers that utilized the Port's cruise terminal that opened in 2006.

**Exhibit 4
Cruise Ship Operations
Calendar 2003-2014**



Source: Maryland Port Administration

In calendar 2012, the Port of Baltimore had 100 homeport cruises and 415,000 passengers. The net income from operating the cruise ship site is expected to be \$5.0 million. In fiscal 2013 and 2014, it is expected that the number of passengers declines even though the number of cruises increases in fiscal 2014. **The Department of Legislative Services (DLS) recommends that MPA discuss what can be done to increase the number of cruises and why passengers are expected to decline so much from the peak in 2011.**

4. Dredging Capacity Exists Only for Maintenance Activities

The Port’s final Managing for Results (MFR) measure relates to its ability to maintain and improve the shipping channels for safe, unimpeded access to the Port. This is achieved through the Port’s dredging program to maintain and improve shipping channels. A major issue for the dredging program is having adequate dredge placement capacity to meet the demands for dredging the bay. The MFR measure shows that the Port does not have adequate capacity for additional harbor or bay dredged material in fiscal 2013 and 2014. Currently, only maintenance dredging of harbor channels can be accommodated by the available placement sites. MPA indicates that a third placement site is needed for new harbor dredged material and that it is looking at the Coke Point property at Sparrows

Point. The Dredge Material Placement and Monitoring capital program increased by \$74.6 million from the fiscal 2012 to 2017 *Consolidated Transportation Program (CTP)* for the development of Coke Point as a dredge placement site. For bay dredged material, if existing facilities are expanded, then new dredging activities could be undertaken. **DLS recommends that MPA discuss the state of its dredging program and what this might mean for future growth at the Port. Furthermore, MPA should discuss the status of its efforts to secure Coke Point as a dredge placement site.**

5. Net Income Is Positive, but Declining

Unlike most other State agencies that rely solely on the State for all support, MPA receives revenues that help to offset its expenditures. Its profitability determines how much the Transportation Trust Fund must provide as a subsidy. In fiscal 2010, MPA posted its first positive net operating income in more than a decade. As shown in **Exhibit 5**, MPA also achieved a positive net operating income in fiscal 2011 and 2012. In fiscal 2011, MPA's operating revenue decreased significantly as a result of a public-private partnership (P3) for Seagirt Marine Terminal; however, operating expenditures declined at a slightly higher rate as a result of the Seagirt P3 and cost containment actions. In fiscal 2012, operating revenues were boosted by a one-time payment of \$6 million from a port customer that had not met contracted minimum cargo amounts. In fiscal 2013 and 2014, net operating income decreases as operating revenue growth stagnates.

It is important to note that in looking at MPA capital expenditures in a business manner, consideration should be given to the fact that capital expenditures are often paid for in a single year, or over multiple years, but depreciation over the life of the asset does not take place, meaning that revenues and capital expenditures would not match in a year-to-year comparison.

Proposed Budget

As shown in **Exhibit 6**, the fiscal 2014 allowance increases \$1.0 million, or 2.2%, compared to the fiscal 2013 working appropriation. Personnel-related expenditures increase approximately \$0.6 million with the largest increase for the employee retirement system. Contribution rates for the regular employees', teachers', State Police, and law enforcement officers' pension plans increase in fiscal 2014. The rate increases are attributable to underattaining investment returns, adjusting actuarial assumptions, and increasing the reinvestment savings achieved in the 2011 pension reform. Health insurance grows by \$106,000 net of an across-the-board reduction for health insurance totaling \$39,000.

The agency entered into an energy performance contract where energy efficiency measures were implemented across the agency. The net savings of this contract is approximately \$0.3 million. Other expenditures include the replacement of eight vehicles (\$0.2 million) and increased operation and maintenance costs at the World Trade Center (\$0.2 million).

Exhibit 5
Special Fund Revenues and Expenses
Fiscal 2011-2014
(\$ in Thousands)

	<u>2011</u>	<u>2012</u>	<u>Working Approp. 2013</u>	<u>Allowance 2014</u>	<u>\$ Change 2013-2014</u>	<u>% Change 2013-2014</u>
Operating Revenue	\$49,065	\$55,892	\$47,712	\$47,217	-\$495	-1.0%
Total Operating Expenses ¹	46,875	44,094	49,169	50,242	1,073	2.2%
Total Exclusions ²	-4,735	-4,220	-4,319	-4,565	-246	5.7%
Net Operating Expenses	\$42,140	\$39,874	\$44,850	\$45,677	\$827	1.8%
Net Operating Income	\$6,925	\$16,018	\$2,862	\$1,540	-\$1,322	-46.2%
Capital Expenditures³	61,768	55,996	96,270	112,532	16,262	16.9%
Net Income/Loss	-\$54,843	-\$39,978	-\$93,408	-\$110,992	-\$17,584	18.8%

¹ Includes the following expenses paid by the Maryland Department of Transportation: \$1.4 million per year for Baltimore City Fire Suppression and payments in lieu of taxes in the amount of \$1.0 million in 2011 and \$1.1 million from fiscal 2012 to 2014.

² Excluded expenditures include payments to the Maryland Transportation Authority for Masonville, certificates of participation debt service payments, and certain capital equipment.

³ Includes special fund capital allowance as well as the capital expense exclusions that were removed from the operating budget above.

Source: Department of Legislative Services

Exhibit 6
Proposed Budget
MDOT – Maryland Port Administration
(\$ in Thousands)

How Much It Grows:	<u>Special</u> <u>Fund</u>	<u>Total</u>
2013 Working Appropriation	\$46,665	\$46,665
2014 Allowance	<u>47,718</u>	<u>47,718</u>
Amount Change	\$1,053	\$1,053
Percent Change	2.3%	2.3%
Contingent Reductions	-\$39	-\$39
Adjusted Change	\$1,013	\$1,013
Adjusted Percent Change	2.2%	2.2%

Where It Goes:

Personnel Expenses

Employee retirement.....	\$335
Annualized general salary increase	138
Employee and retiree health insurance, net of across-the board reductions	106
Workers' compensation premium assessment.....	68
Overtime	32
Other fringe benefit adjustments	8
Turnover adjustments	-17
Increments and other compensation	-60

Other Changes

Replace eight vehicles	227
Management operations and maintenance at the World Trade Center	223
Water and sewage increase based upon actual expenditures	105
Additional equipment spending decreases based upon need	93
Replacing older leased equipment	77
Purchasing new software	64
Advertising for Cruise Maryland.....	51
Gas and oil per Department of Budget and Management instructions	49
Other	6

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Where It Goes:

Insurance payments reduced partially due to the Seagirt public-private partnership	-111
Replacement equipment spending declines based upon need	-120
Net loan repayment – Energy Conservation	-261
Total	\$1,013

Note: Numbers may not sum to total due to rounding.

PAYGO Capital Program

Program Description

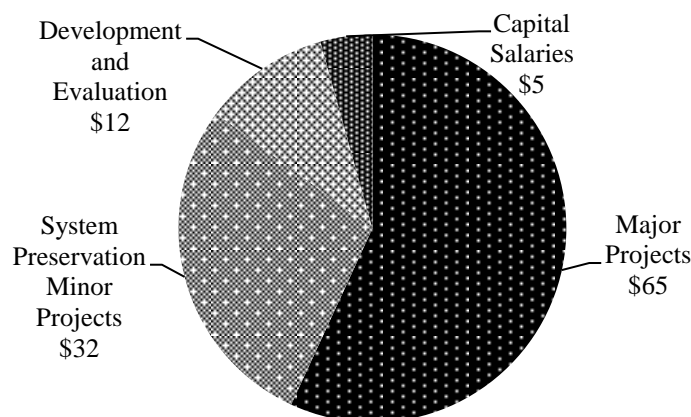
MPA’s pay-as-you-go capital program identifies and manages projects and funding for Port facilities that provide increased capacity for existing cargo and promote the shipment of new cargo. Current projects focus on improving and modernizing existing State capital facilities, developing new facilities, and supporting the improvement of shipping channels through dredging activities conducted in cooperation with the United States Army Corps of Engineers.

Fiscal 2013 to 2018 CTP

MPA’s total capital program from fiscal 2013 to 2018 is \$825.4 million, providing an increase of \$85.4 million over the fiscal 2012-2017 CTP. The six-year increase is attributable to increased funding for the Coke Point dredge placement site totaling \$74.6 million, the reconstruction of Berth 4 at the Dundalk Marine Terminal totaling \$28.8 million, and a \$16.3 million decrease in funding to deal with Chromium Ore remediation due to a favorable Maryland Department of Environment (MDE) directive. Part of the savings from the favorable Chromium Ore remediation plan was used to fund a portion of the CSX intermodal facility.

Exhibit 7 shows that of the \$113.6 million in the fiscal 2014 allowance, \$65.0 million is for major projects.

Exhibit 7
Capital Expenditures by Category
Fiscal 2014
(\$ in Millions)



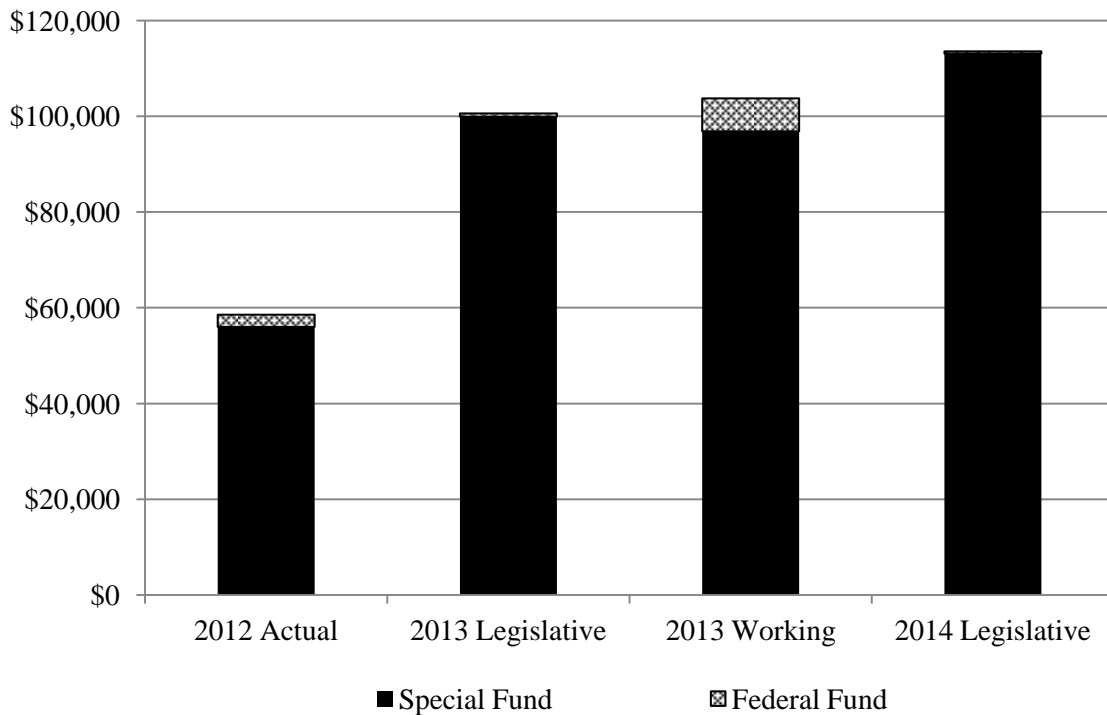
Source: Maryland Department of Transportation, 2013-2018 *Consolidated Transportation Program*

Fiscal 2013 and 2014 Cash Flow Analysis

The fiscal 2013 working appropriation increases \$3.1 million; however, as shown in **Exhibit 8**, there was a large increase in federal funding, \$6.2 million, due to the addition of several security projects. The increase in federal funds is offset by a decrease in special funds totaling \$3.1 million. The decrease in special funds is due to a various cash flow changes in projects.

In fiscal 2014, the allowance increases \$9.8 million with special funds increasing \$16.3 million and federal funds decreasing by \$6.5 million. The special fund increase is driven by additional funding for Berth 4 construction and additional funding for dredge placement. The increase in major construction projects is offset by a decrease in system preservation funding.

Exhibit 8
PAYGO Cash Flow Changes
Fiscal 2012-2014
(\$ in Thousands)



PAYGO: pay-as-you-go

Source: Maryland Department of Transportation, 2013-2018 *Consolidated Transportation Program*

Exhibit 9 provides a list of major construction projects funded in fiscal 2014. The five projects listed account for nearly 92% of fiscal 2014 funding for major projects in the construction program. As is typical, the largest portion of the fiscal 2014 capital allowance is for the dredging program.

Exhibit 9
Major Construction Projects
Funded in Fiscal 2014
(\$ in Thousands)

<u>Project</u>	<u>Fiscal 2014</u>	<u>Total \$</u>	<u>Completion of Fiscal Cash Flow</u>
Masonville Berth Construction – construction of a new berth at Masonville Marine Terminal to handle auto and Ro/Ro ships.	\$11,028	\$21,655	2015
Chrome Ore Processing Residue Remediation – includes studies and work plans to assess the presence and scope of chromium at the Dundalk Marine Terminal and the development and evaluation of remediation options.	3,593	67,883	Ongoing
Hart-Miller Island – this dredged material placement site ceased receiving new material on December 31, 2009, but maintenance and monitoring of water quality will continue.	3,938	99,385	Ongoing
Dredged Material Placement and Monitoring – involves the construction, monitoring, and operation of dredged material containment sites.	30,206	696,638	Ongoing
Reconstruction Berths 1-6 at Dundalk Marine Terminal, Phase II – berths will be designed to allow dredging to an eventual depth of 50 feet. Current reconstruction funds activity at Berth 4.	10,736	53,081	2016
Total	\$59,501	\$938,642	

Ro/Ro: roll on/roll off

Source: Maryland Department of Transportation, 2013-2018 *Consolidated Transportation Program*

Issues

1. Update on Seagirt Public-private Partnership

On December 16, 2009, the Board of Public Works approved a 50-year lease of Seagirt Marine Terminal to Ports America Chesapeake (PAC). PAC, a member of the Ports America Group, is the largest independent terminal operator in the United States and is the current stevedore contractor at Seagirt.

Key provisions of the agreement included:

- PAC leased Seagirt and the Canton Warehouse property, an 18-acre site adjacent to Seagirt, for a 50-year period, to include all operations, maintenance, and capital investments;
- PAC agreed to fund and construct a 50-foot berth at Seagirt and purchase four new super post-Panamax cranes prior to July 2014 (to coincide with the opening of the expanded Panama Canal) and two additional new super post-Panamax cranes by May 2019, with a total estimated cost of \$105.0 million (the berth and four cranes were completed in 2012);
- PAC agreed to pay MPA an annual rental fee of \$3.2 million, with annual increases beginning in year five based on the Consumer Price Index for all Urban Consumers (CPI-U), with a minimum increase of 1.5% and a maximum of 3.5%;
- PAC agreed to pay MPA an incremental fee of \$15 per container for every container handled over 500,000. The fee will increase annually beginning in year five based on CPI-U, with a minimum increase of 1.5% and a maximum of 3.5%. Currently, total container operations are about 380,000 per year;
- Maryland Transportation Authority (MDTA) received \$140.0 million in escrow for transferring ownership of Seagirt to MPA;
- PAC is to return approximately 65 acres of land currently leased at Dundalk Marine Terminal, thereby allowing MPA to lease this land to another company. This includes 53 acres leased by PAC and 12 acres leased by Amports;
- MPA retains responsibility for security and contracts the MDTA Police as the primary law enforcement agency at Seagirt;
- a noncompete clause prohibited the operation of a container terminal at Dundalk Marine Terminal for 16 years or on land owned, leased, or operated by MPA, MDTA, or the Maryland Department of Transportation (MDOT) for 15 years; and

- an adverse action clause allowed PAC to cancel the contract and impose financial penalties if any action taken by the State or Baltimore City has an adverse effect on the fair market value of Seagirt.

Seagirt Performance Since the P3

Exhibit 10 shows several performance measures for Seagirt and how they have changed since the P3 was approved.

Exhibit 10 Seagirt Operational Performance Measure Changes

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Change (2009 v. 2012)</u>
General Cargo (1000 tons)	4,330	5,080	5,340	5,768	33%
Billable Cargo (1000 tons)	5,216	6,310	6,623	7,164	37%
Number of Containers (1000s)	257	342	358	386	50%
Average Crane Production – Net (Containers/hour)	34.8	34.3	36.2	35.9	Faster
Average Lifts Per Vessel (Containers/vessel call)	651	819	888	861	210 more per ship call
Terminal Average Weekly Transactions (Containers)	8,057	10,249	10,830	11,452	3,395 more per week

Source: Maryland Port Administration

As shown, the increase in cargo corresponds to the overall increase in cargo at the Port; however, the increase at Seagirt of 33% is greater than the overall percentage increase at State-owned facilities of 19%, as shown in Exhibit 2. A portion of Seagirt’s increase is due to PACs consolidation of containers from Dundalk to Seagirt. Furthermore, it appears that the average crane production is faster than before the P3 agreement was signed. While there are positive signs in terms of cargo passing through Seagirt, it is likely that the increase can be attributed to both the economy recovering and the Seagirt P3.

It is also important to note that PAC has completed its obligations relating to the 50-foot berth and cranes sooner than expected. **DLS recommends MPA discuss the benefits of the Seagirt P3 and any issues it foresees moving forward.**

2. Chromium Ore Remediation Plan Finalized

In the 1970s, a portion of the Dundalk Marine Terminal was developed and expanded, using Chrome Ore Processing Residue (COPR) as fill material. At that time, COPR was thought to be good fill material; however, COPR has since been defined and regulated as a hazardous substance. In 2006, MPA entered into two agreements intended to provide a long-term, final solution resolving all matters related to the presence of COPR at the Dundalk Marine Terminal. The first was a settlement agreement with Honeywell International, Inc. (whose predecessor company was responsible for the dumping of COPR) requiring MPA to pay 23% of the remediation costs and Honeywell to pay the remaining 77%.

The second agreement was a consent decree among MPA, Honeywell, and MDE that requires MPA and Honeywell to thoroughly assess the nature and extent of COPR at the Dundalk Marine Terminal and to identify, evaluate, and implement a broad range of interim and final corrective measures for the site. The consent decree requires that all corrective measures be completed by 2023, although MDE can revise this schedule based on its review of the Corrective Measures Alternative Analysis (CMAA).

In November 2010, MDE approved all of the required technical reports and investigations required by the consent decree. In January 2011, MPA and Honeywell submitted the CMAA to MDE for review. On July 19, 2012, MDE announced the final corrective measures to address COPR at the Dundalk Marine Terminal. MDE's decision was based upon protecting the health, environment, and community over the short- and long-term and considering the degree to which a remedy would interfere with operations at Dundalk.

Under MDE's plan, the corrective measures would include, but not limited to, the following:

- repair and reline storm drains located in the COPR area to mitigate impacts to stormwater;
- install storm drains vaults to monitor stormwater and facilitate inspections and repairs;
- prepare a comprehensive groundwater monitoring plan, installing additional monitoring wells, and conduct quarterly groundwater sampling for a minimum of three years; and
- implement a performance management program for stormwater, groundwater, paving, and any impacts from COPR movement.

It is expected that the State's share of the remediation plan will be \$43.2 million. This amount is reflected in the fiscal 2013-2018 CTP. MPA does indicate that there is still some uncertainty, and corrective measures could change when the additional groundwater wells are installed and monitored. **DLS recommends that MPA discuss the impact on operations from implementing the corrective plan.**

3. Labor Negotiations May Impact Port Operations

Labor employees represented by the International Longshoreman's Association (ILA) at East and Gulf Coast ports are currently in negotiations with the United States Maritime Alliance. There are more than 15,000 ILA members impacted by these negotiations, with 1,200 represented by four ILA locals at the Port. MPA does not hire labor and, therefore, is not involved in the negotiations between the unions; however, it does have an interest in maintaining operations at the Port.

The current agreement between the ILA and management expired on September 30, 2012, and was followed by a 90-day extension. That extension was extended by 30 days until February 6, 2013. The issues being negotiated include wages, royalties, and the use of emerging technologies at ports. If an agreement is not reached, then Dundalk and Seagirt terminals will be impacted by either a partial or complete work shutdown. **DLS recommends that MPA discuss with the budget committees the current status of negotiations and any contingencies it has planned in the event of a work stoppage.**

Operating Budget Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce funding for advertising. This action will reduce funding for advertising while still providing for an increase over fiscal 2012 actual spending and the fiscal 2013 working appropriation.	\$ 25,256	SF
2. Reduce funding for printing. This action funds printing activities at the fiscal 2013 working appropriation while still providing for an increase over fiscal 2012 actual spending.	32,376	SF
3. Reduce funding for out-of-state travel. This action provides funding equal to the fiscal 2013 working appropriation.	34,862	SF
Total Special Fund Reductions	\$ 92,494	

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Update on P3 Activities

Following is an update on the P3 activities at MPA.

Cambridge Marine Terminal

Cambridge Marine Terminal, located in Dorchester County, is a 12-acre waterfront lot that was previously used as a port facility. In 1988, the property ceased operating as a port facility, and it was converted to public use. Sailwinds Park includes Governors Hall, a converted cargo shed used for concerts and public events; a boardwalk area; and the Dorchester County Visitors Center. These improvements were funded by MDOT and total about \$3.5 million. Other improvements include the nearby Hyatt Regency Chesapeake Bay Golf Resort, Spa, and Marina, a property of the Maryland Economic Development Corporation.

In May 2011, MDOT issued a request for qualifications to select a developer to enter into exclusive negotiations regarding the redevelopment of the Cambridge Marine Terminal. Redevelopment of the property is an important part of Cambridge Waterfront 2020, a comprehensive redevelopment plan for the area from the Great Marsh Park to the Hyatt Regency. The proposed redevelopment includes redeveloping Sailwinds Park into a multi-use development of retail shops, restaurants, a boutique hotel, residences, and a public park.

In December 2011, MDOT announced the selection of Jerome J. Parks Companies as the selected developer. Currently, MDOT and the developer are negotiating a memorandum of understanding regarding the project that begins to lay out some of the process and timeline groundwork. Following that, there will be several opportunities for public comment, followed by negotiation of a master developer agreement. This project is still very much in its infancy, and many of the details of the partnership between the State and the developer, including whether the land will be leased or sold and what financial contributions MDOT may make, are not yet known. MDOT indicates that it anticipates entering into an agreement with a selected developer during calendar 2013.

Curtis Bay Ordnance Depot

The Curtis Bay Ordnance Depot is a 435-acre site located in Glen Burnie (Anne Arundel County). Its current owner, the United States' General Services Administration, made it available for purchase in September 2007. MDOT expressed an interest in acquiring the property for possible development as a port-related warehouse, storage, and distribution complex. The property has an appraised value of \$33 million, but MDOT is trying to negotiate acquiring the property at a reduced cost or no cost. Currently, environmental studies are underway on the property, and MDOT would not be able to purchase it until it is certified as clean for industrial use. It is still unknown at this time whether the project will move forward and if it does, whether it will be developed solely by the State or as a P3.

Current and Prior Year Budgets

**Current and Prior Year Budgets
Maryland Port Administration
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2012					
Legislative Appropriation	\$0	\$44,219	\$0	\$0	\$44,219
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	143	0	0	143
Reversions and Cancellations	0	-2,751	0	0	-2,751
Actual Expenditures	\$0	\$41,612	\$0	\$0	\$41,612
Fiscal 2013					
Legislative Appropriation	\$0	\$46,530	\$0	\$0	\$46,530
Budget Amendments	0	135	0	0	135
Working Appropriation	\$0	\$46,665	\$0	\$0	\$46,665

Note: Numbers may not sum to total due to rounding.

Fiscal 2012

Fiscal 2012 actual expenditures totaled \$41.6 million and was \$2.6 million less than the legislative appropriation. Fiscal 2012 budget amendments total \$0.1 million to fund the one-time \$750 bonus for State employees. Fiscal 2012 cancellations total \$2.7 million, with savings in salaries and fringes due to vacancies, insurance, utilities, and a legal contingency fund that was not needed.

Fiscal 2013

The fiscal 2013 working appropriation increases \$135,331 to fund the cost-of-living adjustment for State employees.

**Object/Fund Difference Report
MDOT – Maryland Port Administration**

<u>Object/Fund</u>	<u>FY 12 Actual</u>	<u>FY 13 Working Appropriation</u>	<u>FY 14 Allowance</u>	<u>FY 13 - FY 14 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	186.00	186.00	186.00	0.00	0%
02 Contractual	0.70	0.70	0.70	0.00	0%
Total Positions	186.70	186.70	186.70	0.00	0%
Objects					
01 Salaries and Wages	\$ 16,557,804	\$ 17,250,431	\$ 17,899,170	\$ 648,739	3.8%
02 Technical and Spec. Fees	-762,317	264,585	264,585	0	0%
03 Communication	342,718	298,625	291,243	-7,382	-2.5%
04 Travel	268,832	275,790	350,802	75,012	27.2%
06 Fuel and Utilities	4,387,998	4,996,549	4,785,677	-210,872	-4.2%
07 Motor Vehicles	1,053,860	898,244	1,243,413	345,169	38.4%
08 Contractual Services	12,779,552	15,126,250	15,483,569	357,319	2.4%
09 Supplies and Materials	978,100	1,077,000	1,085,646	8,646	0.8%
10 Equipment – Replacement	247,928	341,000	225,910	-115,090	-33.8%
11 Equipment – Additional	92,060	43,500	158,590	115,090	264.6%
12 Grants, Subsidies, and Contributions	25,000	25,000	25,000	0	0%
13 Fixed Charges	5,034,147	5,339,941	5,213,908	-126,033	-2.4%
14 Land and Structures	605,849	728,000	690,000	-38,000	-5.2%
Total Objects	\$ 41,611,531	\$ 46,664,915	\$ 47,717,513	\$ 1,052,598	2.3%
Funds					
03 Special Fund	\$ 41,611,531	\$ 46,664,915	\$ 47,717,513	\$ 1,052,598	2.3%
Total Funds	\$ 41,611,531	\$ 46,664,915	\$ 47,717,513	\$ 1,052,598	2.3%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

Fiscal Summary
MDOT – Maryland Port Administration

<u>Program/Unit</u>	<u>FY 12 Actual</u>	<u>FY 13 Wrk Approp</u>	<u>FY 14 Allowance</u>	<u>Change</u>	<u>FY 13 - FY 14 % Change</u>
2010 Port Operations	\$ 41,611,531	\$ 46,664,915	\$ 47,717,513	\$ 1,052,598	2.3%
2020 Port Facilities and Capital Equipment	58,531,629	103,750,061	113,593,161	9,843,100	9.5%
Total Expenditures	\$ 100,143,160	\$ 150,414,976	\$ 161,310,674	\$ 10,895,698	7.2%
Special Fund	\$ 97,607,012	\$ 143,546,976	\$ 160,861,674	\$ 17,314,698	12.1%
Federal Fund	2,536,148	6,868,000	449,000	-6,419,000	-93.5%
Total Appropriations	\$ 100,143,160	\$ 150,414,976	\$ 161,310,674	\$ 10,895,698	7.2%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

**Budget Amendments for Fiscal 2013
Maryland Department of Transportation
Port Administration – Operating**

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	\$135,331	Special	Funds the cost-of-living adjustment

Source: Maryland Department of Transportation

**Budget Amendments for Fiscal 2013
Maryland Department of Transportation
Port Administration – Capital**

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	\$34,296	Special	Funds the cost-of-living adjustment
Pending	-\$3,084,613	Special	Adjusts the capital appropriation to reflect
	<u>6,168,000</u>	Federal	funding in the
	\$3,083,387	Total	fiscal 2013-2018 CTP
Total	\$3,117,683		

CTP: *Consolidated Transportation Program*

Source: Maryland Department of Transportation