

J00D00
Maryland Port Administration
Maryland Department of Transportation

Operating Budget Data

(\$ in Thousands)

	<u>FY 14 Actual</u>	<u>FY 15 Working</u>	<u>FY 16 Allowance</u>	<u>FY 15-16 Change</u>	<u>% Change Prior Year</u>
Special Fund	\$45,505	\$48,741	\$51,300	\$2,559	5.3%
Deficiencies and Reductions	0	0	-393	-393	
Adjusted Special Fund	\$45,505	\$48,741	\$50,908	\$2,167	4.4%
 Adjusted Grand Total	 \$45,505	 \$48,741	 \$50,908	 \$2,167	 4.4%

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- After adjusting for across-the-board reductions, the fiscal 2016 allowance increases by \$2.2 million, or 4.4%.
- The largest increase was in utility costs, which increased by \$1.6 million.
- Personnel costs increased by about \$518,000, largely due to health insurance costs.

PAYGO Capital Budget Data

(\$ in Thousands)

	Fiscal 2014	Fiscal 2015		Fiscal 2016
	<u>Actual</u>	<u>Legislative</u>	<u>Working</u>	<u>Allowance</u>
Special	\$76,551	\$147,347	\$93,935	\$155,468
Federal	\$288	\$5,750	\$3,354	\$4,049
Total	\$76,839	\$153,097	\$97,289	\$159,517

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

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Analysis of the FY 2016 Maryland Executive Budget, 2015

J00D00 – MDOT – Maryland Port Administration

- The fiscal 2015 working appropriation is \$55.8 million lower than the legislative appropriation due to procurement delays, schedule changes, and project scope changes.
- The fiscal 2016 allowance increases by \$62.2 million, primarily due to project delays shifting costs from fiscal 2015.

Operating and PAYGO Personnel Data

	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Working</u>	<u>FY 16</u> <u>Allowance</u>	<u>FY 15-16</u> <u>Change</u>
Regular Operating Budget Positions	186.00	185.00	185.00	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	224.00	224.00	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	225.20	225.20	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	11.11	4.96%
Positions and Percentage Vacant as of 1/1/15	13.00	5.80%

- The fiscal 2016 personnel allowance remains unchanged compared to the fiscal 2015 working appropriation.
- The fiscal 2016 budgeted turnover rate is 4.96%, requiring 11.11 vacant positions. There were 13.0 vacant positions on January 1, 2015, for a turnover rate of 5.8%.

Analysis in Brief

Major Trends

Foreign Cargo Volumes at the Port of Baltimore Decrease: Nationally, foreign waterborne commerce fell by 2.7%. In calendar 2013, cargo tonnage at the Helen Delich Bentley Port of Baltimore (Port) fell by 17.5%, driven by a 22.6% drop in coal exports as well as the ending of iron ore imports due to the closure of the Sparrows Point steel mill. While tonnage saw a significant decrease, the value of the cargo handled only decreased by 1.8% to \$52.6 billion, reflecting an increase in other, more valuable types of cargo like automobiles.

General Cargo Tonnage Continues to Grow: Following a substantial decline in general cargo volumes in fiscal 2009 and a smaller decline in fiscal 2010, general cargo tonnage rebounded in fiscal 2011 and 2012. Since then, slow growth has continued, with 9.6 million tons handled in fiscal 2014, and 9.7 million and 9.8 million tons expected in fiscal 2015 and 2016, respectively.

Cruises in Maryland: In calendar 2014, the Port had 89 homeport cruises and 411,000 passengers, declines of 2.2% and 4.6%, respectively, from the prior year. The Port estimates further declines in calendar 2015, followed by a rebound in calendar 2016.

Net Operating Income Is Slightly Negative: The Maryland Port Administration (MPA) achieved a positive net operating income in fiscal 2013 and 2014; however, in fiscal 2015 and 2016, net income is expected to be slightly negative.

Issues

Intermodal Facility Plans Derailed: In August 2014, the Maryland Department of Transportation (MDOT) announced that it had terminated its agreements with CSX to locate the Baltimore Rail Intermodal Facility at Mount Clare Yard. Although any intermodal facility is unlikely to be built, increasing the container capacity at the Port remains an important goal for MPA. MDOT reports that it is working with the Federal Railroad Administration, Amtrak, CSX, and Norfolk Southern to study the feasibility of adding double-stack capacity into a new or rehabilitated Baltimore and Potomac (B&P) Tunnel. **The Department of Legislative Services (DLS) recommends that MDOT and MPA provide an update to the budget committees about the status of the B&P Tunnel, the potential impact on the Transportation Trust Fund, the impact on the business of the Port due to the cancellation of the intermodal facility, and if other alternatives are being pursued.**

Search for Dredging Capacity: Only maintenance dredging of harbor channels can be accommodated by the currently available placement sites, with little capacity to enhance or expand channels to meet business demands. MPA indicates that a third placement site is needed and that it is focusing on the Coke Point property at Sparrows Point. The *Consolidated Transportation Program* has almost \$63 million for the purchase and development of Coke Point. **DLS recommends that MPA discuss the status of its negotiations with the owners of Coke Point, what is being done regarding the Cox**

Creek facilities, and the potential for any other ways to increase capacity for harbor dredged materials.

Sparrows Point Redevelopment Sees Port as Catalyst: Baltimore County is working on ways to redevelop the Sparrows Point area and to that end formed the Sparrows Point Partnership to evaluate redevelopment opportunities. One major focus to come out of the partnership's work is the ability of the Port to be a large catalyst for redevelopment. The key to marine development at Sparrows Point would be finalizing Coke Point as a dredged material containment facility. The total cost for the Port's preferred development plan is \$393 million. There are also preliminary plans for other terminals at the site. **MPA should comment on the status of the Coke Point portion of the Sparrows Point redevelopment, any collaboration with Baltimore County, and the need for State funding for any projects beyond the Consolidated Transportation Program period.**

Delinquent Accounts and Tenant Incentives: A recent Office of Legislative Audit report found that MPA did not always submit accounts receivable to the Central Collection Unit (CCU) when required. Auditors also found one MPA tenant that leased space for four years that was delinquent with its payments and was not referred to CCU. In July 2010, MPA renewed the lease despite past due rent of approximately \$55,000 and operating expenses of approximately \$172,000. MPA waived the balance as an incentive for the tenant to renew its lease. Further delinquent payments eventually led to a lease termination, and MPA submitted to CCU in April 2014 an outstanding balance, including interest and penalties, of approximately \$1 million. **MPA should comment on actions taken to correct the audit findings. MPA should also comment on whether debt forgiveness is used as an incentive for other Port tenants. DLS recommends that committee narrative requesting a report be adopted.**

Operating Budget Recommended Actions

1. Adopt committee narrative requesting a report on debt forgiveness and tenant incentives.

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

J00D00
Maryland Port Administration
Maryland Department of Transportation

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 developing, marketing, maintaining, and stewarding 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.

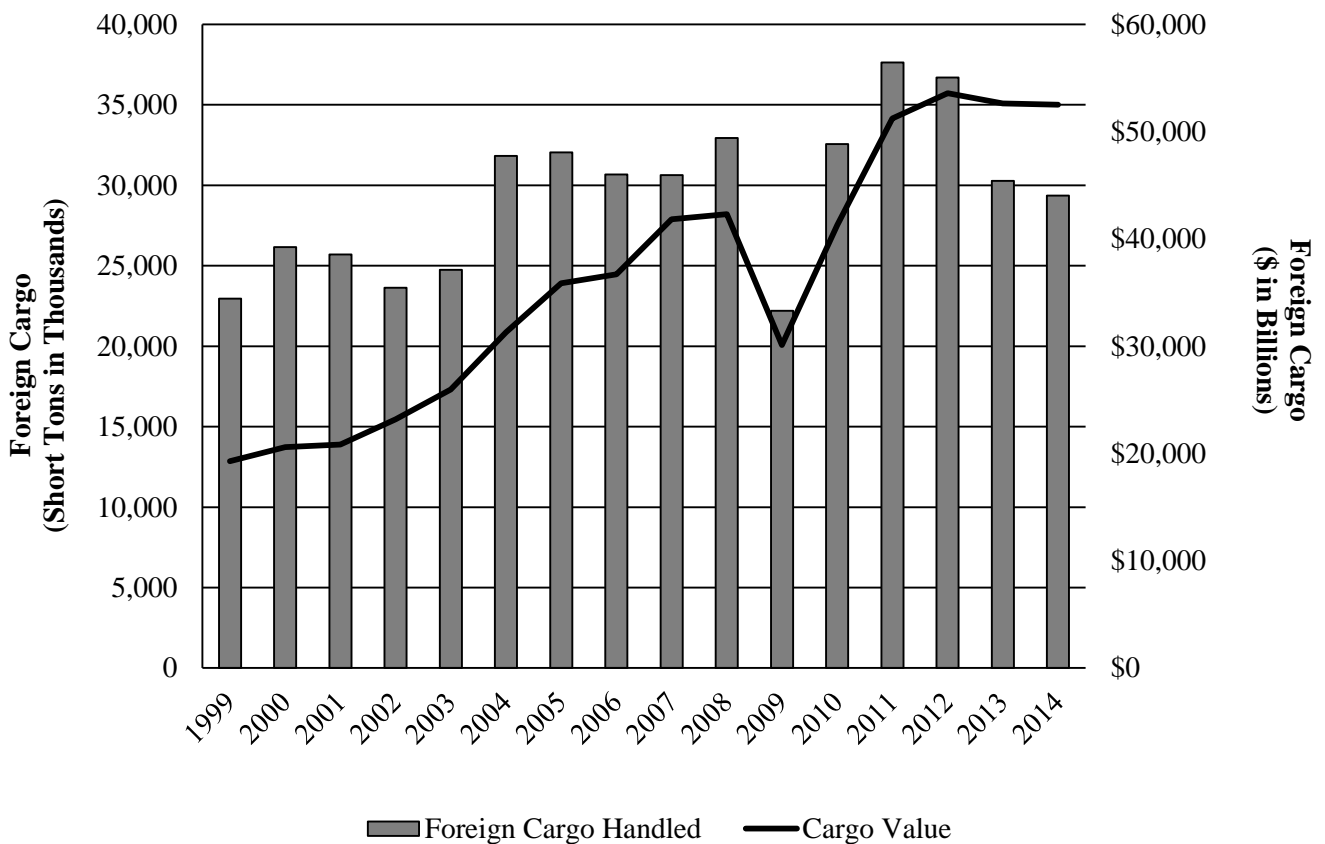
Performance Analysis: Managing for Results

1. Foreign Cargo Volumes at the Port of Baltimore Decrease

The Port is a vast industrial complex that encompasses 45 miles of shoreline and 3,403 waterfront acres. It includes 7 public cargo terminals and a cruise terminal owned by MPA, as well as more than 25 privately owned marine facilities within the Port. 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. The Port handles about 2.1% of the nation's foreign waterborne commerce, and about 12.8% of the foreign cargo flowing through mid-Atlantic ports.

Nationally, foreign waterborne commerce increased by 2.2% in 2014. As shown in **Exhibit 1**, cargo tonnage at the Port fell by 3.0%, driven by a 14.0% drop in coal exports. While tonnage saw a decrease, the value of the cargo handled only decreased by 0.5% to \$52.5 billion, reflecting an increase in other, more valuable types of cargo like automobiles.

Exhibit 1
Total Foreign Cargo Handled and Cargo Value
Helen Delich Bentley Port of Baltimore
Calendar 1999-2014



Note: Includes both public and private terminals.

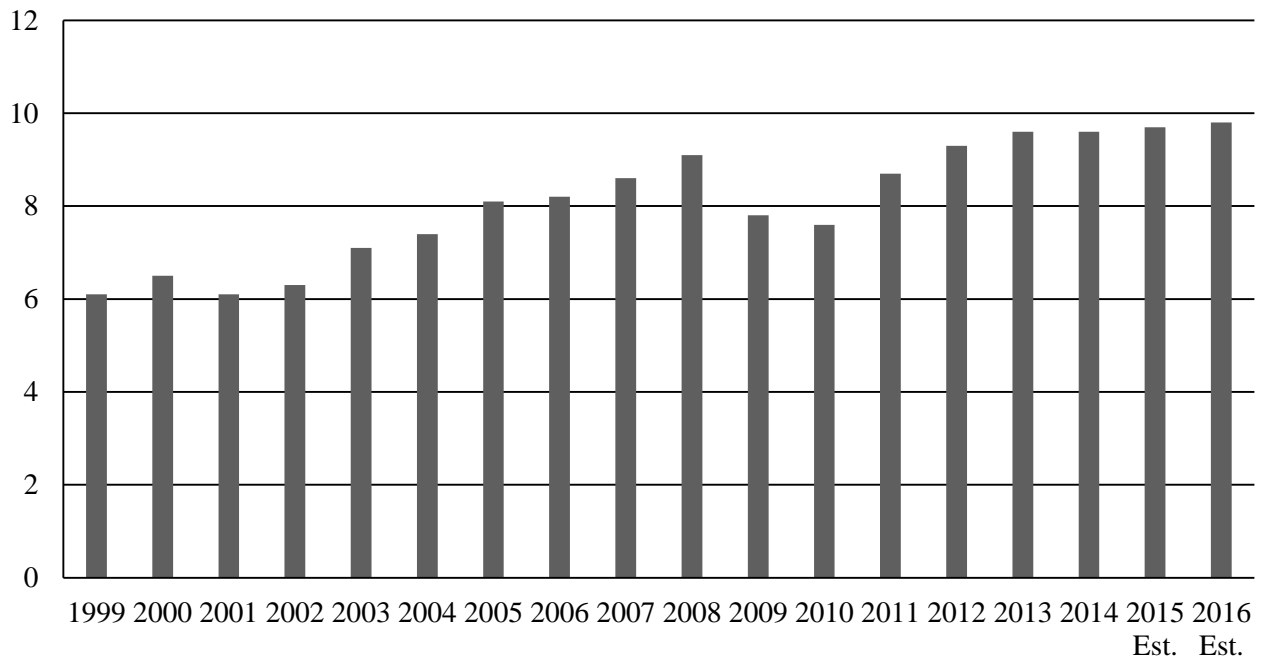
Source: Maryland Port Administration, *Foreign Commerce Statistical Report*, 2014

In calendar 2014, the Port ranked thirteenth among all U.S. ports for total foreign cargo handled and ninth among all U.S. ports in terms of the total dollar value of that cargo.

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, automobiles, 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 automobiles. Following a substantial decline in general cargo volumes in fiscal 2009 and a smaller decline in fiscal 2010, general cargo tonnage rebounded in fiscal 2011 and 2012, as shown in **Exhibit 2**. Since then, slow growth has continued, with 9.6 million tons handled in fiscal 2014, and 9.7 million and 9.8 million tons expected in fiscal 2015 and 2016, respectively.

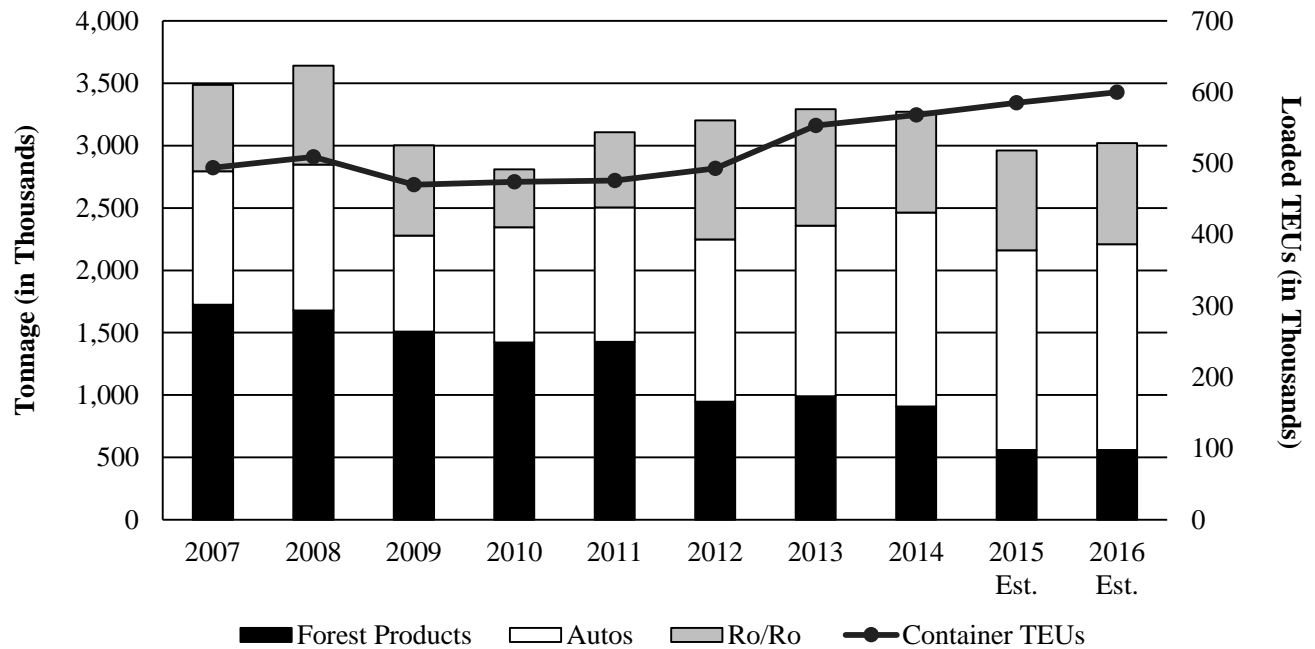
Exhibit 2
Total General Cargo Tonnage at State-owned Facilities
Fiscal 1999-2016 Est.
(Tons in Millions)



Source: Maryland Port Administration

Exhibit 3 provides data on selected general cargo commodities handled at the Port. The amount of forest products declined by 8.4% in fiscal 2014 primarily due to the move of an importer of forest products that left the Port for the Port of Philadelphia, while Ro/Ro declined by 13.5% mainly due to the weak European economy, the biggest export market for Ro/Ro. Those decreases were offset by a large gain in automobile imports (13.7%) due to a full year of Mazda imports at the Port. The Port continues to see steady growth in containers handled and expects nearly 600,000 20-foot equivalent units in fiscal 2016.

Exhibit 3
Cargo Volume by Type
Fiscal 2007-2016 Est.



Ro/Ro: roll on/roll off

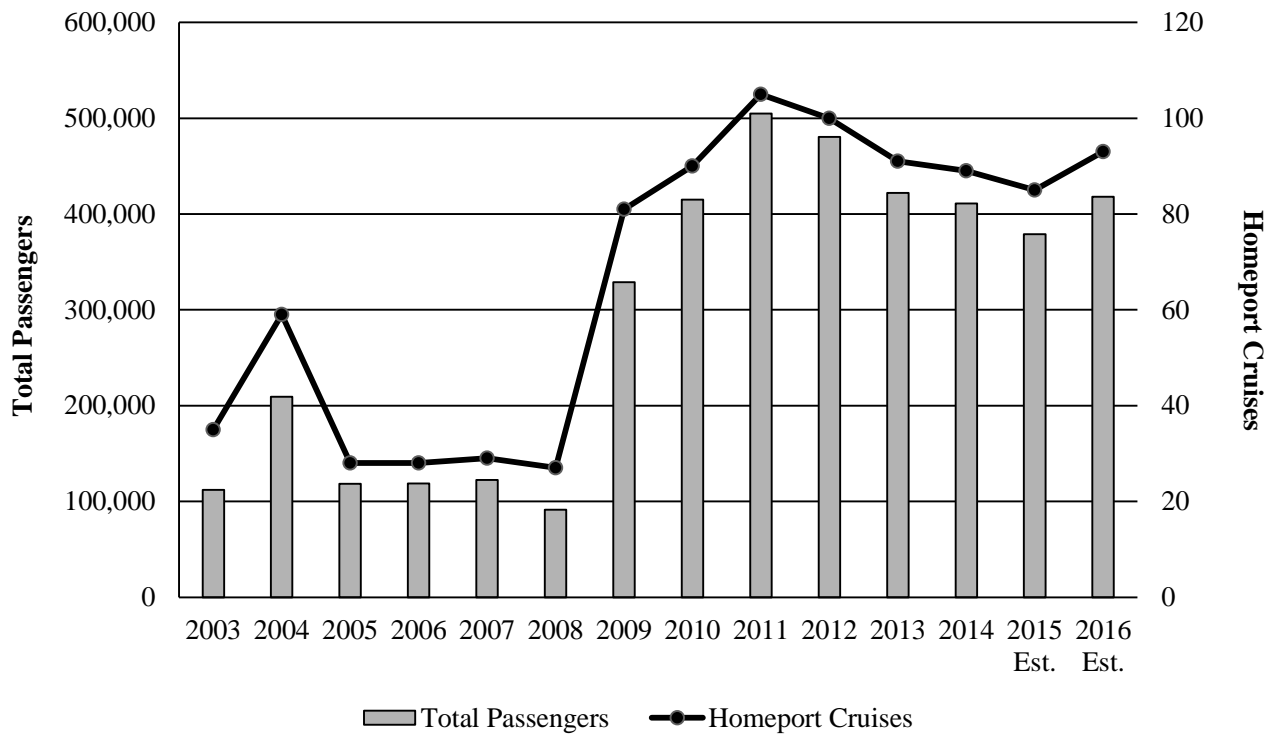
TEUs: twenty-foot equivalent unit (an industry standard for measuring containers)

Source: Maryland Port Administration

3. Cruises in Maryland

In addition to handling cargo, the Port is also involved in the cruise ship business. **Exhibit 4** shows the total number of homeport cruises and passengers that utilized the Port's cruise terminal. A new terminal opened in 2006.

Exhibit 4
Cruise Ship Operations
Calendar 2003-2016 Est.



Source: Maryland Port Administration

In calendar 2014, the Port had 89 homeport cruises and 411,000 passengers, declines of 2.2% and 4.6%, respectively, from the prior year. The Port estimates further declines in calendar 2014 and 2015, followed by a rebound in calendar 2016. Carnival Cruises left the Port in October 2014 but is scheduled to return in March 2015. Net income from operating the cruise ship site is expected to be \$4.5 million in fiscal 2015.

4. Net Operating Income Is Slightly Negative

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. As shown in **Exhibit 5**, MPA achieved a positive net operating income in fiscal 2013 and 2014; however, in fiscal 2015 and 2016, net income is expected to be slightly negative.

Exhibit 5
Special Fund Revenues and Expenses
Fiscal 2013-2016
(\$ in Thousands)

	<u>2013</u>	<u>2014</u>	<u>Working Approp. 2015</u>	<u>Allowance 2016</u>	<u>\$ Change 2015-2016</u>	<u>% Change 2015-2016</u>
Operating Revenue	\$48,448	\$52,841	\$46,621	\$47,283	\$662	1.4%
Total Operating Expenses ¹	44,476	47,792	51,265	53,426	2,161	4.2%
Total Exclusions ²	-4,423	-4,542	-4,621	-4,455	166	-3.6%
Net Operating Expenses	\$40,053	\$43,250	\$46,644	\$48,971	\$2,327	5.0%
 Net Operating Income	 \$8,395	 \$9,591	 -\$23	 -\$1,688	 -\$1,665	 -7239.1%
 Capital Expenditures³	 \$79,937	 \$77,140	 \$94,578	 \$155,811	 \$61,233	 64.7%
 Net Income/Loss	 -\$71,542	 -\$67,549	 -\$94,601	 -\$157,499	 -62,898	 66.5%

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 \$900,000 in fiscal 2013 and 2014 and \$1.1 million in fiscal 2015 and 2016. Fiscal 2016 is adjusted for across-the-board and contingent reductions.

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

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 2016 allowance increases by about \$2.2 million, or 4.4%, in special funds.

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

How Much It Grows:	Special Fund	Total
Fiscal 2014 Actual	\$45,505	\$45,505
Fiscal 2015 Working Appropriation	48,741	48,741
Fiscal 2016 Allowance	<u>50,908</u>	<u>50,908</u>
Fiscal 2015-2016 Amt. Change	\$2,167	\$2,167
Fiscal 2015-2016 Percent Change	4.4%	4.4%

Where It Goes:

Personnel Expenses

Increments and other compensation (prior to cost containment)	\$281
Section 20: Abolition of prior year 2% general salary increase.....	-220
Section 21: Abolition of employee increments	-172
Employee and retiree health insurance	559
Workers' compensation premium assessment	-38
Turnover adjustments.....	-178
Employee retirement contributions	248
Social Security contributions	38
Unemployment compensation.....	1

Other Changes

Electricity per Department of Budget and Management (DBM) instructions	1,050
Water and sewage costs per DBM instructions.....	334
Natural gas and propane per DBM instructions	264
Consulting	279
Legal service support	176
Advertising and legal	160
Rent paid to the Department of General Services	94
Travel	66
Motor vehicle purchase	-199
Other contractual services	-652
Other changes.....	76

Total	\$2,167
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Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Cost Containment

In fiscal 2016, several across-the-board reductions are being implemented. For MPA, this includes the elimination of employee increments and a revision to the salary plan, which reflects the abolition of the 2% general salary increase provided on January 1, 2015. The effect of these reductions on MPA total \$392,595 in the operating budget and a further \$99,828 in the capital budget.

Other changes

The largest increases in the MPA operating budget are in utility costs, including:

- a \$1,050,328 increase in electricity;
- a \$334,150 increase in water and sewage; and
- a \$263,535 increase in natural gas and propane.

Costs for consulting services increase by about \$279,000 for help desk support, network and database administration, and maintenance for software applications. Motor vehicle purchase costs are moved from the operating to the capital budget, decreasing operating costs by \$199,105. Costs for other contractual services decrease by \$651,797 to align with historic spending levels.

PAYGO Capital Program

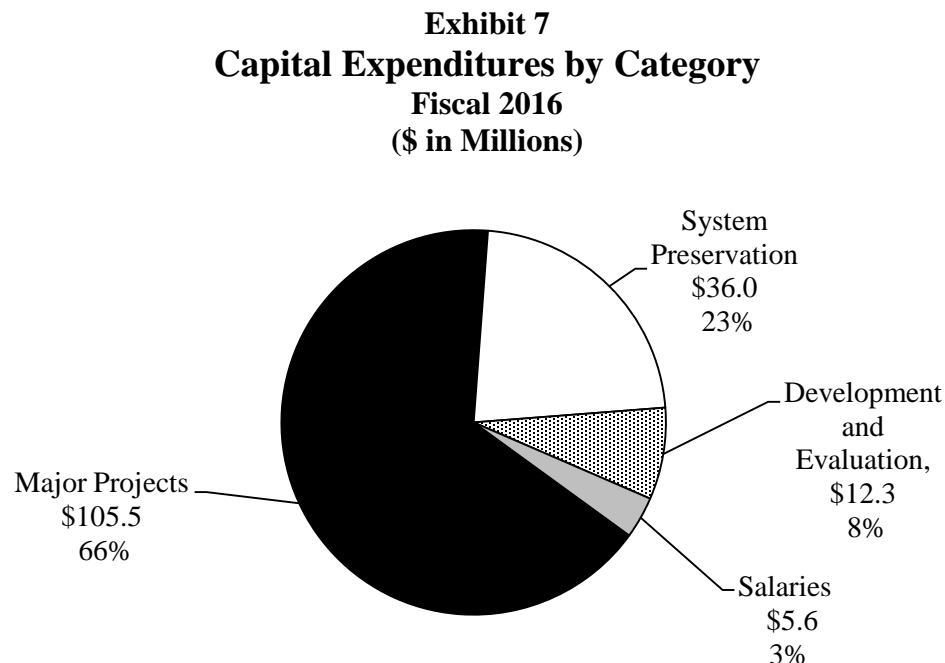
Program Description

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 U.S. Army Corps of Engineers.

Fiscal 2015 to 2020 Consolidated Transportation Program

The MPA capital program totals \$971.3 million from fiscal 2015 to 2020, a decrease of \$13.6 million from the fiscal 2014 to 2019 *Consolidated Transportation Program* (CTP). The decrease is due to a \$62.3 million decrease in the Dredge Material Placement and Monitoring Program related to schedule changes, offset by a \$25.4 million increase in costs for the reconstruction of berths at the Dundalk Marine Terminal, and the addition of a \$14.2 million project to construct a waterline from Cecilton to near the Pearce Creek Dredged Material Containment Facility.

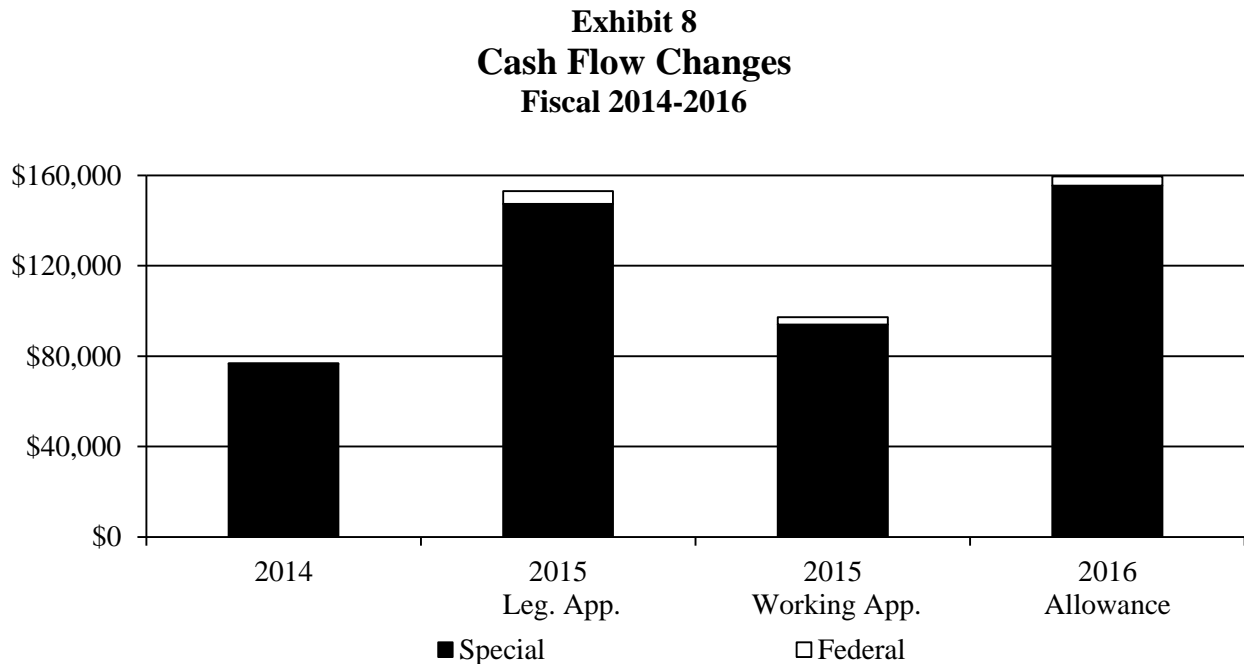
Exhibit 7 shows that of the \$159.5 million in the fiscal 2016 allowance, \$105.5 million, or 66%, is for major projects.



Source: Maryland Department of Transportation, 2015-2020 *Consolidated Transportation Program*

Fiscal 2015 and 2016 Cash Flow Analysis

As shown in **Exhibit 8**, the fiscal 2016 working appropriation is \$55.8 million less than the legislative appropriation.



Source: Maryland Department of Transportation, 2015-2020 *Consolidated Transportation Program*

The change in spending is due to several factors. Several system preservation projects were delayed due to procurement issues, including bid protests that led to project delays and increased dedication of staff time. Changes in project scope also changed costs for several system preservation projects, and overall system preservation costs in the fiscal 2015 working appropriation are \$18.1 million lower than the legislative appropriation. A \$13.7 million reduction from the legislative appropriation is due to construction schedule changes in the Dredge Material Placement and Monitoring Program, as well as reduced need for dredging in planned areas.

Other changes include:

- The Port of Baltimore Export Expansion Project was delayed (\$8.5 million reduction).
- The Reconstruction of Berth 4 at Dundalk Marine Terminal faced bid protests (\$5.1 million reduction).

- A change in ownership of the Coke Point site delayed feasibility and environmental studies, and other projects in the program were also delayed (\$5.1 million reduction).

The fiscal 2016 allowance increases by \$62.2 million, primarily due to the delays noted above shifting costs from fiscal 2015.

Exhibit 9 lists some major projects in the 2015 to 2020 CTP, with ongoing dredging work representing the two largest projects. The listed projects represent 84% of the fiscal 2016 funding for major construction projects.

Exhibit 9
Major Construction Projects
Funded in Fiscal 2016
(\$ in Thousands)

<u>Project</u>	<u>2016</u>	<u>Total</u>	<u>CTP Cost 2015-2020</u>	<u>Completion of Fiscal Cash Flow</u>
Dredge Material Placement and Monitoring – Placement and monitoring of material dredged from the Port of Baltimore channels	\$67,466	\$806,615	\$430,256	Ongoing
Dredge Material Management Program – Along with the U.S. Army Corps of Engineers, the Maryland Port Authority conducts studies to identify and assess potential dredged material placement sites	12,347	140,231	62,680	Ongoing
Port of Baltimore Export Expansion Project – federal grant project has three portions: rail access to Fairfield Marine Terminal; widening and straightening channel to Seagirt Marine Terminal; and filling in Fairfield Basin for cargo storage	11,139	38,857	38,605	2018
Reconstruction of Berths 1-6 at Dundalk Marine Terminal – Replace and deepen berths to meet future cargo and vessel needs	8,619	83,398	54,000	2019
Total	\$99,571	\$1,069,101	\$585,541	

CTP: *Consolidated Transportation Program*

Source: Maryland Department of Transportation, 2015-2020 *Consolidated Transportation Program*

Projects Added to the Construction Program

The only MPA project added to the construction program is the \$14.2 million Pearce Creek Waterline project, noted earlier in this analysis.

Issues

1. Intermodal Facility Plans Derailed

Since 2009, the Maryland Department of Transportation (MDOT) had been working with CSX Transportation to develop near-dock, double-stack container capability for the Port's Seagirt Marine Terminal. Vertical clearances along CSX's rail network prevent double-stacked containers from reaching Seagirt by rail, with the Howard Street Tunnel being the major impediment. Plans to build a facility at Mount Clare Yard in southwest Baltimore City have stalled, and MDOT has pulled a previously planned \$30 million from the CTP. The proposed facility would have served as a place to transfer cargo from single-stacked to double-stacked after passing through the low-clearance areas noted.

In August 2014, MDOT announced that it had terminated its agreements with CSX to locate the Baltimore Rail Intermodal Facility at Mount Clare Yard. Communities surrounding the proposed location of the facility opposed the project, and CSX suspended its permitting process in order to address the concerns of the surrounding communities. After it was determined that CSX could not address those concerns to the satisfaction of the neighborhood, MDOT, or Baltimore City, the permitting and environmental process was stopped.

Next Steps

Although any intermodal facility is unlikely to be built, increasing the container capacity at the Port remains an important goal for MPA. In the short term, this could mean operational improvements and/or incentive programs to enhance the Port's competitive advantage. MDOT has included \$3 million in the Secretary's Office budget for development of this program.

As for a long-term solution, MDOT reports that it is working with the Federal Railroad Administration, Amtrak, CSX, and Norfolk Southern to study the feasibility of adding double-stack capacity into a new or rehabilitated Baltimore and Potomac (B&P) Tunnel. As shown in **Exhibit 10**, the B&P Tunnel is 1.4 miles long and connects Penn Station to the West Baltimore Maryland Area Regional Commuter Station and is nearing the end of its useful life. The 2015 to 2020 CTP currently contains a federally funded \$60 million planning study to evaluate future improvements to the tunnel. Replacing the B&P Tunnel, along with increasing vertical clearances elsewhere along this route, could provide the long-term double-stack solution for the Port. The project team at MDOT is evaluating four alternatives and will complete the planning process in summer 2017.

Exhibit 10 Baltimore Rail Tunnels



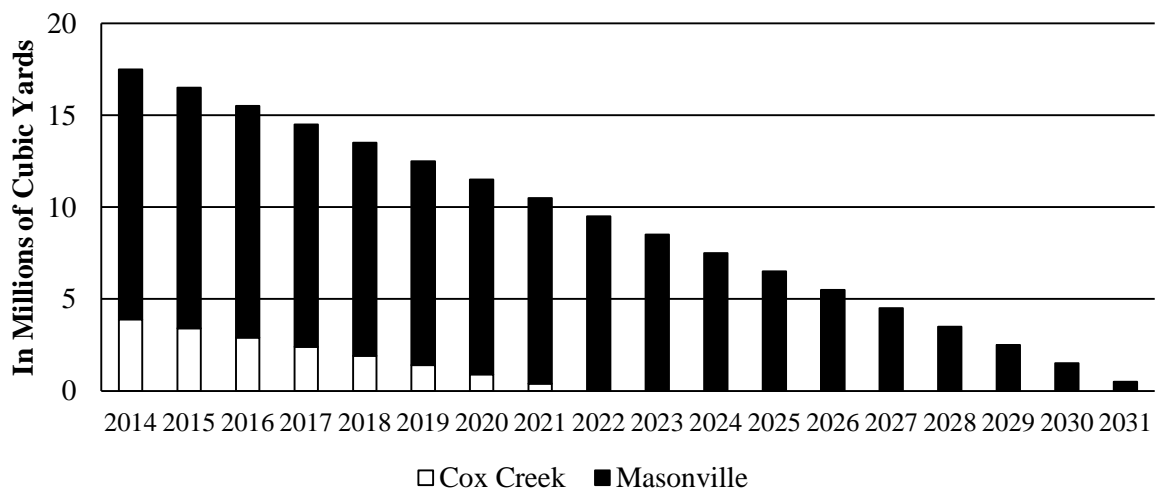
Source: Maryland Port Administration

The improved movement of freight is an important goal for the State and CSX. This is particularly true for the Port as the expansion of the Panama Canal is nearly complete. The State is well positioned to take advantage of this expansion, since it is one of only two ports on the East Coast with a 50-foot channel, which is necessary for the new ships that will be traveling through the Panama Canal. **The Department of Legislative Services (DLS) recommends that MDOT and MPA provide an update to the budget committees about the status of the B&P Tunnel, the potential impact on the Transportation Trust Fund, the impact on the business of the Port due to the cancellation of the intermodal facility, and if other alternatives are being pursued.**

2. Search for Dredging Capacity

One of the major long-term issues confronting the Port is the need for more dredged placement capacity. Currently, only maintenance dredging of harbor channels can be accommodated by the available harbor placement sites, with little capacity to enhance or expand channels to meet business demands. MPA believes that if future options can be brought online in a timely manner, dredging in Baltimore Harbor can be accommodated for the next 20 years. MPA estimates its current maintenance dredging produces about 1.0 million cubic yards (mcy) of material per year on average. At that rate, MPA's two existing facilities – Cox Creek and Masonville – have enough capacity to handle that amount of material until 2031, as shown in **Exhibit 11**. The combined capacity of Cox Creek and Masonville was 17.5 mcy as of June 30, 2014.

Exhibit 11
Baltimore Harbor Dredging Capacity
2014-2031



Source: Maryland Port Administration

Additional capacity for the Baltimore Harbor dredged material is extremely difficult to obtain and has long lead times due to permitting and stakeholder engagement requirements. Therefore, MPA indicates that the search for a third placement site is needed, and that it is focusing on the Coke Point property at Sparrows Point. The CTP includes almost \$63 million for the purchase and development of Coke Point; however, the agency is still trying to negotiate with the owner of the facility. Recent ownership changes have slowed this process. Depending on the size of the property purchased, a new Coke Point facility would add between 12.5 mcy and 20.0 mcy of capacity.

Space for Chesapeake Bay dredged materials is also limited, with Poplar Island the only space now available with capacity. While the need for Bay material capacity is not as pressing as it is for harbor material, the Port is seeking to expand capacity. The Port places about 3.2 mcy per year at Poplar Island from Chesapeake Bay channels, which includes 1.2 mcy per year from the Chesapeake and Delaware (C&D) Canal approaches. As of December 2014, Poplar Island had approximately 15 mcy of capacity, or less than five years of operational life. The project in development and evaluation to reactivate the Pearce Creek facility would provide capacity primarily for materials from the C&D Canal approaches, which is now placed at Poplar Island, thereby extending Poplar Island's operational life. MPA and the U.S. Army Corps of Engineers are also working on approvals for vertical and horizontal expansion at Poplar Island. **DLS recommends that MPA discuss the status of its negotiations with the owners of Coke Point, the status of increasing capacity for harbor and Bay dredged materials, and the difference in need between harbor sites and Bay sites.**

3. Sparrows Point Redevelopment Sees Port as Catalyst

Baltimore County is working on ways to redevelop the Sparrows Point area and to that end formed the Sparrows Point Partnership to evaluate redevelopment opportunities. One major focus to come out of the partnership's work is the ability of the Port to be a large catalyst for redevelopment. The group found that deep water access available at Sparrows Point provided both long- and short-term potential to attract marine-related businesses.

The key to marine development at Sparrows Point would be finalizing Coke Point – which is the southwestern portion of Sparrows Point – as a dredged material containment facility, as previously discussed. There are funds in the current CTP for this project, as well as funds beyond the CTP. The total cost for the Port's preferred development plan, which includes a rock dike for future development of a cargo terminal but not terminal construction, is \$393 million. It's unclear what the construction cost of a cargo terminal would be.

In addition, the Port has longer term plans to add a Ro/Ro terminal at Coke Point. There are no funds in the CTP for this project. Early estimates for this terminal's cost are between \$200 million and \$250 million. **MPA should comment on the status of the Coke Point portion of the Sparrows Point redevelopment, any collaboration with Baltimore County, and the need for State funding for any projects beyond the CTP period.**

4. Delinquent Accounts and Tenant Incentives

A recent Office of Legislative Audit report found that MPA did not always submit accounts receivable to the Central Collection Unit (CCU) when required. In a test of 10 accounts receivable, auditors found 2 accounts totaling \$27,473 that were more than 180 days overdue and had not been submitted to CCU.

Auditors also found one MPA tenant that leased space for four years that was delinquent with its payments and was not referred to CCU. In July 2010, MPA renewed the lease despite past due rent of approximately \$55,000 and operating expenses of approximately \$172,000. MPA waived the balance as an incentive for the tenant to renew its lease. Further delinquent payments eventually led to a lease termination, and MPA submitted to CCU in April 2014 an outstanding balance, including interest and penalties, of approximately \$1 million.

As of December 31, 2013, MPA had accounts receivable of \$5.6 million, including \$738,000 in accounts overdue by more than 180 days. **MPA should comment on actions taken to correct the audit findings. MPA should also comment on whether debt forgiveness is used as an incentive for other Port tenants. DLS recommends that committee narrative requesting a report be adopted.**

Operating Budget Recommended Actions

1. Adopt the following narrative:

Debt Forgiveness and Tenant Incentives: An Office of Legislative Audits report found that the Maryland Port Administration (MPA) did not refer a delinquent account of a tenant to the Central Collection Unit despite a long period of nonpayment. As an incentive to get the tenant to renew its lease, MPA forgave approximately \$227,000 in unpaid rent and operating expenses. MPA should report on other instances of using debt forgiveness as an incentive and any other tenant incentive programs it uses.

Information Request	Author	Due Date
Debt forgiveness and tenant incentives	MPA	November 1, 2015

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

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 2014					
Legislative Appropriation	\$0	\$47,599	\$0	\$0	\$47,599
Deficiency Appropriation	0	-355	0	0	-355
Budget Amendments	0	271	0	0	271
Reversions and Cancellations	0	-2,010	0	0	-2,010
Actual Expenditures	\$0	\$45,505	\$0	\$0	\$45,505
Fiscal 2015					
Legislative Appropriation	\$0	\$48,592	\$0	\$0	\$48,592
Cost Containment	0	0	0	0	0
Budget Amendments	0	149	0	0	149
Working Appropriation	\$0	\$48,741	\$0	\$0	\$48,741

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

MPA finished fiscal 2014 approximately \$2.1 million below its legislative appropriation. Retirement contributions were reduced by \$238,029, and health care contributions were reduced by \$117,229 through deficiency appropriations. Amendments for the cost-of-living adjustment (COLA) and salary increment increased the appropriation by \$271,347.

The Administration cancelled approximately \$1.3 million appropriated for legal contingencies and approximately \$661,000 appropriated for health insurance and retirement contributions.

Fiscal 2015

The fiscal 2015 legislative appropriation increased by \$148,891 for the COLA.

Audit Findings

Audit Period for Last Audit:	January 20, 2011 – January 12, 2014
Issue Date:	October 2014
Number of Findings:	2
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

Finding 1: MPA did not adequately separate the cash receipts and accounts receivable functions.

Finding 2: Delinquent accounts receivable were not always submitted to the State's CCU when required.

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

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	186.00	185.00	185.00	0.00	0%
02 Contractual	0.70	0.70	0.70	0.00	0%
Total Positions	186.70	185.70	185.70	0.00	0%
Objects					
01 Salaries and Wages	\$ 16,888,962	\$ 18,357,926	\$ 19,268,965	\$ 911,039	5.0%
02 Technical and Spec. Fees	-1,215,687	253,507	429,431	175,924	69.4%
03 Communication	307,277	296,205	314,305	18,100	6.1%
04 Travel	335,433	282,040	348,169	66,129	23.4%
06 Fuel and Utilities	6,951,135	4,784,636	6,432,649	1,648,013	34.4%
07 Motor Vehicles	1,270,970	1,250,490	1,058,446	-192,044	-15.4%
08 Contractual Services	13,101,558	15,929,056	15,537,319	-391,737	-2.5%
09 Supplies and Materials	1,156,388	1,071,646	1,169,445	97,799	9.1%
10 Equipment – Replacement	129,542	346,390	341,725	-4,665	-1.3%
11 Equipment – Additional	213,164	98,110	101,025	2,915	3.0%
12 Grants, Subsidies, and Contributions	25,000	25,000	25,000	0	0%
13 Fixed Charges	5,110,507	5,238,820	5,466,663	227,843	4.3%
14 Land and Structures	1,230,343	807,300	807,300	0	0%
Total Objects	\$ 45,504,592	\$ 48,741,126	\$ 51,300,442	\$ 2,559,316	5.3%
Funds					
03 Special Fund	\$ 45,504,592	\$ 48,741,126	\$ 51,300,442	\$ 2,559,316	5.3%
Total Funds	\$ 45,504,592	\$ 48,741,126	\$ 51,300,442	\$ 2,559,316	5.3%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

Fiscal Summary
MDOT – Maryland Port Administration

<u>Program/Unit</u>	<u>FY 14 Actual</u>	<u>FY 15 Wrk Approp</u>	<u>FY 16 Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16 % Change</u>
2010 Port Operations	\$ 45,504,592	\$ 48,741,126	\$ 51,300,442	\$ 2,559,316	5.3%
2020 Port Facilities and Capital Equipment	76,838,826	97,289,000	159,516,745	62,227,745	64.0%
Total Expenditures	\$ 122,343,418	\$ 146,030,126	\$ 210,817,187	\$ 64,787,061	44.4%
Special Fund	\$ 122,055,721	\$ 142,676,126	\$ 206,768,187	\$ 64,092,061	44.9%
Federal Fund	287,697	3,354,000	4,049,000	695,000	20.7%
Total Appropriations	\$ 122,343,418	\$ 146,030,126	\$ 210,817,187	\$ 64,787,061	44.4%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

Budget Amendments for Fiscal 2015
Maryland Department of Transportation
Maryland Port Administration – Operating

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	\$148,891	Special	Cost-of-living adjustment

Source: Maryland Department of Transportation

Budget Amendments for Fiscal 2015
Maryland Department of Transportation
Maryland Port Administration – Capital

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	\$38,324	Special	Cost-of-living adjustment
Pending	-53,450,051	Special	Adjust the amended appropriation to agree with the final fiscal 2015 to 2020 CTP
	-2,396,000	Federal	
	-\$55,846,051	Total	

CTP: Consolidated Transportation Program

Source: Maryland Department of Transportation