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Maryland Port Administration
Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 17 Actual	FY 18 Working	FY 19 Allowance	FY 18-19 Change	% Change Prior Year
Special Fund	$46,738	$51,453	$50,537	-$916	-1.8%
Adjustments	0	-260	92	352	
Adjusted Special Fund	**$46,738**	**$51,193**	**$50,629**	**-$564**	**-1.1%**
Federal Fund	103	119	263	143	119.8%
Adjusted Federal Fund	**$103**	**$119**	**$263**	**$143**	**119.8%**
Adjusted Grand Total	**$46,842**	**$51,312**	**$50,891**	**-$421**	**-0.8%**

Note: FY 18 Working includes targeted reversions, deficiencies, and across-the-board reductions. FY 19 Allowance includes contingent reductions and cost-of-living adjustments.

- The fiscal 2019 allowance decreases by approximately $421,000, or 0.8%.

- Personnel costs decrease by approximately $350,000, primarily due to the consolidation of the Human Resources Office for the Maryland Port Administration (MPA) under the Secretary's Office (TSO).

PAYGO Capital Budget Data

($ in Thousands)

	Fiscal 2017	Fiscal 2018		Fiscal 2019
	Actual	Legislative	Working	Allowance
Special	$169,222	$95,170	$91,721	$124,813
Federal	$3,701	$3,394	$9,765	$2,143
Total	**$172,922**	**$98,564**	**$101,486**	**$126,956**

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

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- The fiscal 2018 working appropriation is approximately $2.9 million greater than the legislative appropriation, primarily due to an increase in spending for system preservation and minor projects.

- The fiscal 2019 allowance increases by approximately $25.5 million relative to the fiscal 2018 working appropriation, primarily due to the continued construction and development of the Cox Creek dredge material containment facility.

Operating and PAYGO Personnel Data

	FY 17 Actual	FY 18 Working	FY 19 Allowance	FY 18-19 Change
Regular Operating Budget Positions	177.00	177.00	173.00	-4.00
Regular PAYGO Budget Positions	36.00	36.00	36.00	0.00
Total Regular Positions	**213.00**	**213.00**	**209.00**	**-4.00**
Operating Budget FTEs	0.70	0.70	0.70	0.00
PAYGO Budget FTEs	0.50	0.50	0.50	0.00
Total FTEs	**1.20**	**1.20**	**1.20**	**0.00**
Total Personnel	**214.20**	**214.20**	**210.20**	**-4.00**
Vacancy Data: Regular Positions				
Turnover and Necessary Vacancies, Excluding New Positions		12.54	6.00%	
Positions and Percentage Vacant as of 1/1/2018		21.0	10.05%	

- The fiscal 2019 allowance includes 4 fewer regular operating budget positions than the fiscal 2018 working appropriation. These positions were transferred to TSO within the Maryland Department of Transportation (MDOT). TSO has assumed human resource operations for MPA.

- The fiscal 2019 budgeted turnover rate is 6%, requiring 12.54 vacant positions. There were 21 vacant positions on January 1, 2018, for a turnover rate of approximately 10.1%. MPA has seen continued high vacancy rates for the past two and a half fiscal years. **The Department of Legislative Services (DLS) recommends increasing the budgeted turnover rate to 7% to better align with the historic vacancy rate for MPA.**

Analysis in Brief

Major Trends

Foreign Cargo Volumes at the Port Increase Significantly: The Helen Delich Bentley Port of Baltimore (Port) is a vast industrial complex that encompasses approximately 45 miles of shoreline and 3,403 waterfront acres. In calendar 2017, cargo tonnage at the Port increased by an estimated 13.1%. The Port's share of the East Coast market increased to approximately 15% versus 14% in calendar 2016.

General Cargo Tonnage Continues to Grow: General cargo handled through the public terminals at the Port increased by 0.5 million tons between fiscal 2016 and 2017. The Port also saw increases in forest product tonnage and containers handled. Roll on/Roll off (Ro/Ro) cargo decreased in fiscal 2017, marking the fifth straight year of decline since Ro/Ro shipping peaked in fiscal 2012 following the Great Recession. Auto shipments were also down due to low oil prices, as the chief markets for secondhand vehicles leaving the Port have economies tied to the oil market.

Cruises in Maryland: Cruises and total cruise passengers declined in fiscal 2017 due to the temporary repositioning of the Carnival Pride to Tampa, which deprived Baltimore of eight homeport cruises.

Net Operating Income Increases: MPA is projected to see an increase in net operating income for fiscal 2019.

Issues

CSX Withdrew Proposed Support of Howard Street Tunnel Project: The inability to run double-stacked container railcars through the Howard Street tunnel and several clearances north of the tunnel continues to limit the full economic potential of the Port. Recently, CSX, which owns and operates the rail line in question, withdrew its proposed financial support for a project to expand the tunnel and the related bridges along the line due to its focus on Precision Scheduling Railroading. The total estimated cost of the project is $445 million and would have been funded by a three-way split between CSX, the State, and a federal grant. The grant application was subsequently withdrawn when CSX withdrew its support. An MPA report on double-stack capacity at the Port suggests that the Port could capture 25% to 50% more container volume if double-stack transportation was possible, based on a review of existing container moves via intermodal rail through regional ports serving the same trade lanes and markets in which Baltimore could most likely compete. The report also identified that double-stack rail capacity may attract a new ocean carrier service to the Port, and it could mean between 1,136 and 1,417 new direct jobs in the first year of operation alone, with the potential for many more indirect and induced positions and millions in personal income, business revenue, and State and local taxes. **DLS recommends that MPA comment on any actions it has taken since the withdrawal of CSX from the planned expansion of the tunnel and related projects. Further, DLS recommends that the committee adopt narrative requesting MPA to report on alternatives to modifying the Howard Street Tunnel and the associated bridges and tunnels to increase throughput at the Port,**

the feasibility of implementing such alternatives, and the strengths and weaknesses of these alternatives.

Efforts to Incentivize Shipping of Discretionary Containerized Cargo to the Port: In order to combat the detriments created by a lack of double-stack rail capacity, MPA and MDOT have maintained an intermodal rail incentive program to attract ocean carriers and bring more discretionary containerized cargo through the Port. This program provides certain payments for both existing and new container moves within a given 12-month period. While the purpose of this program is understood, there are certain questions as to the operation of and need for this incentive program. **DLS recommends that MPA comment on the need to subsidize discretionary container cargo via the Port of Baltimore Incentive Pilot Program after it has engaged in a public-private partnership agreement with Ports America Chesapeake to operate the Seagirt Marine Terminal.**

Operating Budget Recommended Actions

		Funds
1.	Increase turnover rate from 6% to 7% to better reflect recent experience.	$ 149,216
2.	Report on alternatives to modifying the Howard Street Tunnel to allow for double-stack rail capacity.	
	Total Reductions	**$ 149,216**

PAYGO Budget Recommended Actions

		Funds
1.	Increase turnover rate from 6% to 7% to better reflect recent experience.	$ 36,730
	Total Reductions	**$ 36,730**

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). The State-owned property at or related to the Port includes the Dundalk Marine Terminal, the North Locust Point and South Locust Point marine terminals, Hawkins Point, the World Trade Center, Hart-Miller Island, Cox Creek, the Fairfield Terminal, the Masonville Auto Facility, the Seagirt Marine Terminal (Seagirt), and supportive intermodal container transfer facilities. 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:

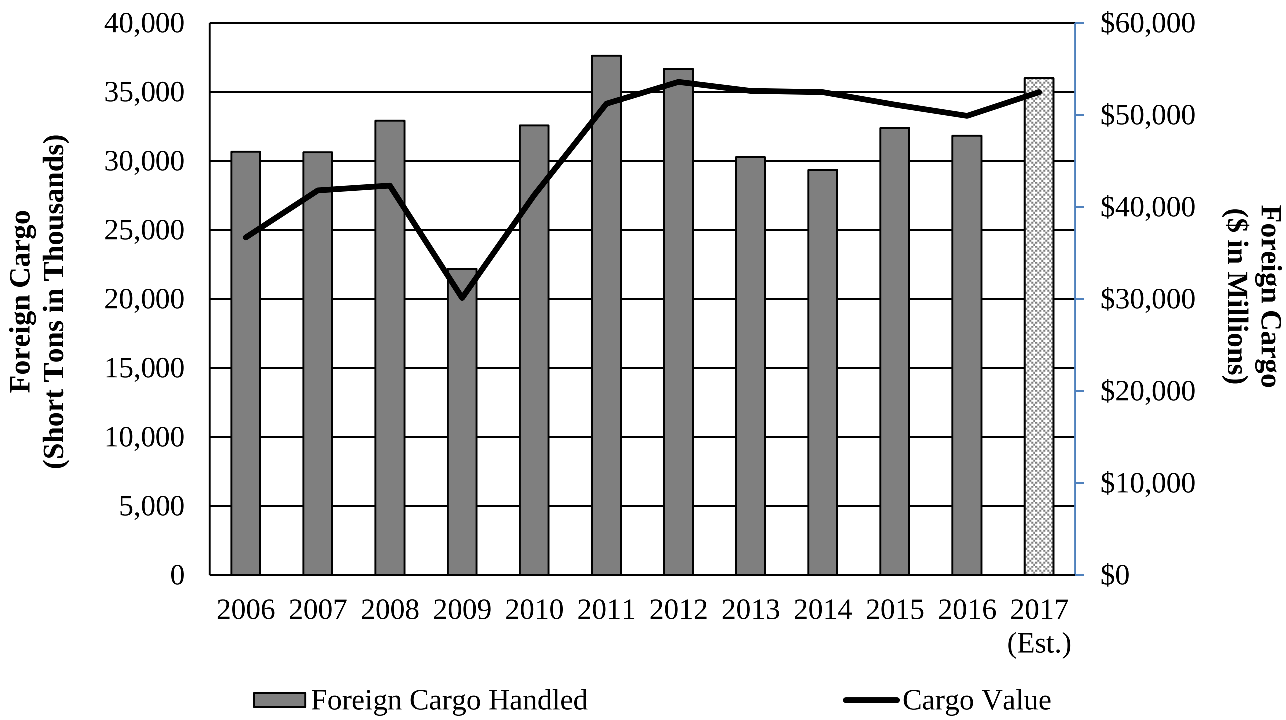
- maximize cargo throughput, terminal efficiency, and the economic benefit generated by the Port;
- operate MPA to ensure revenue enhancements and optimize operating expenses;
- preserve and enhance the Port's infrastructure to maintain cargo capacities, while ensuring adequate security and environmental 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 Increase Significantly

The Port is a vast industrial complex that encompasses approximately 45 miles of shoreline and 3,403 waterfront acres. It includes seven 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 private industry but also from other ports up and down the East Coast, as well as some Canadian ports. As shown in **Exhibit 1**, cargo tonnage at the Port increased in calendar 2017 by an estimated 13.1%, to 36 million short tons when compared with the prior year. This increase is predominantly attributed to a sharp increase in coal exports through the Port. Total foreign cargo value for calendar 2017 is $52.5 billion.

Exhibit 1
Total Foreign Cargo Handled and Cargo Value
Helen Delich Bentley Port of Baltimore
Calendar 2006-2017 (Est.)

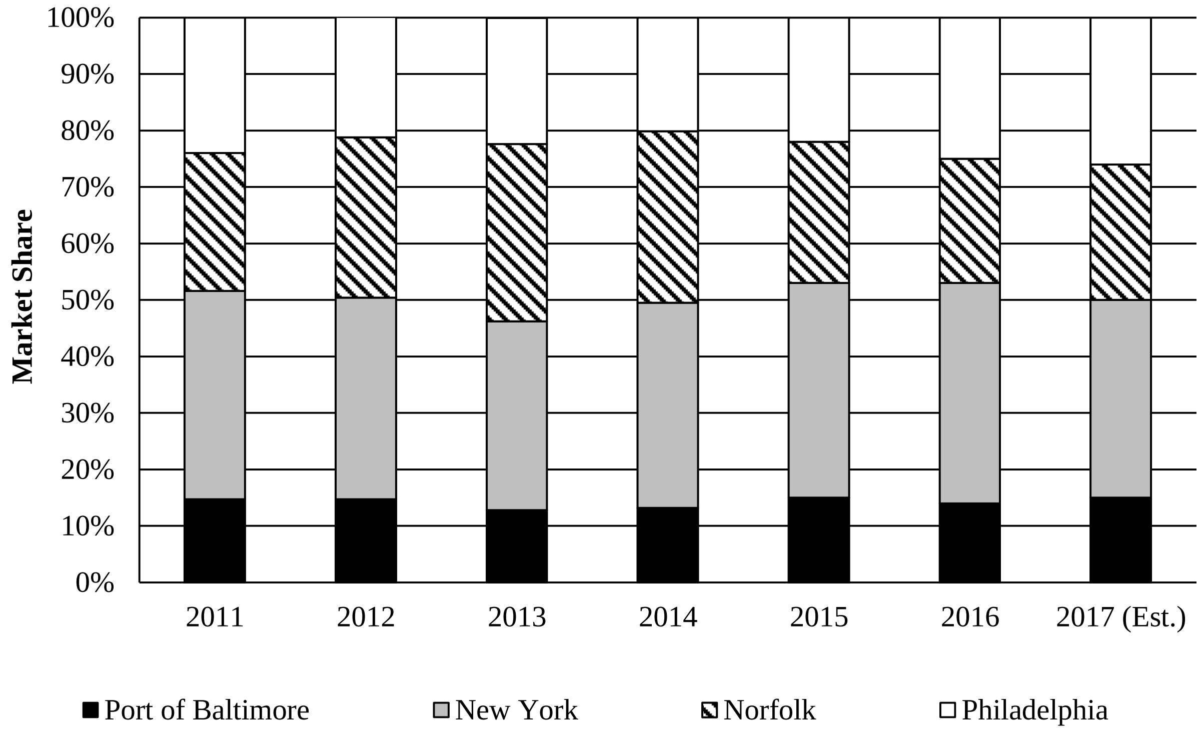


Note: Includes both public and private terminals. 2017 estimate as of January 2018. Final numbers may vary slightly.

Source: Maryland Port Administration

The Port competes with other East Coast ports, especially ports in Norfolk, Philadelphia, and New York. As shown in **Exhibit 2**, the Port held an estimated 15% of that market in calendar 2017, up from approximately 14% in calendar 2016 and returning to 2015 levels, as shown in Exhibit 2.

Exhibit 2
Market Share, Major North American Ports
Calendar 2011-2017 (Est.)

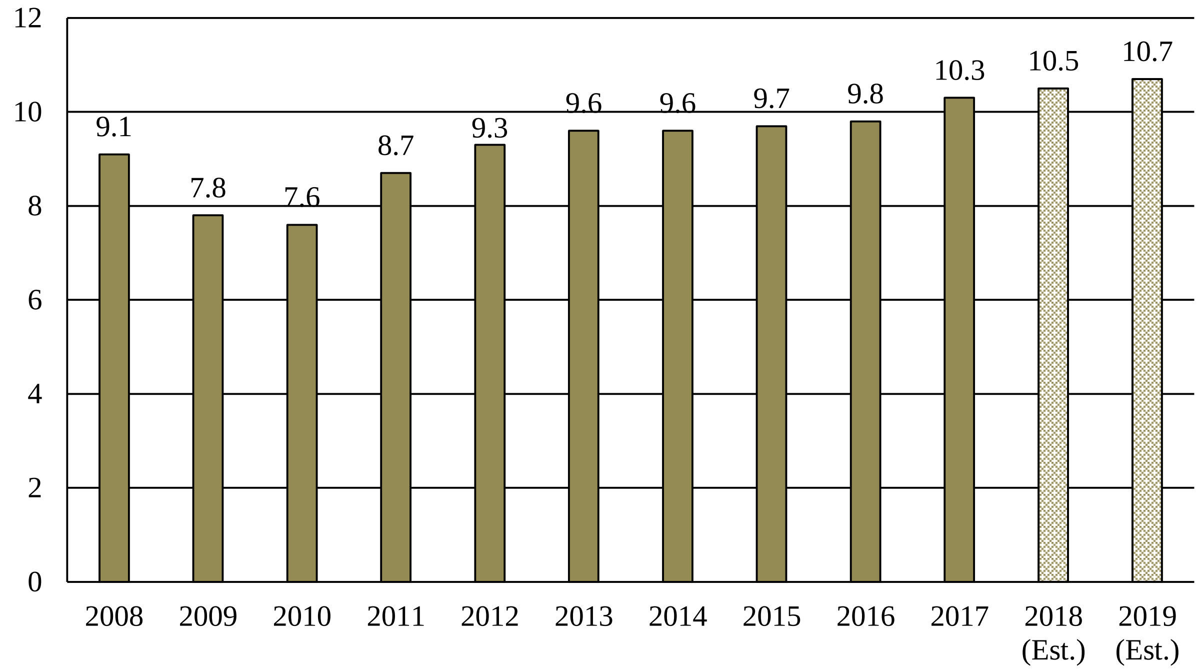


Source: Maryland Port Administration

2. General Cargo Tonnage Continues to Grow

General cargo is defined as containers, automobiles, break bulk (which includes 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 3**. Since then, slow but consistent growth has continued, with 9.8 million tons handled in fiscal 2016 and 10.3 million tons in fiscal 2017.

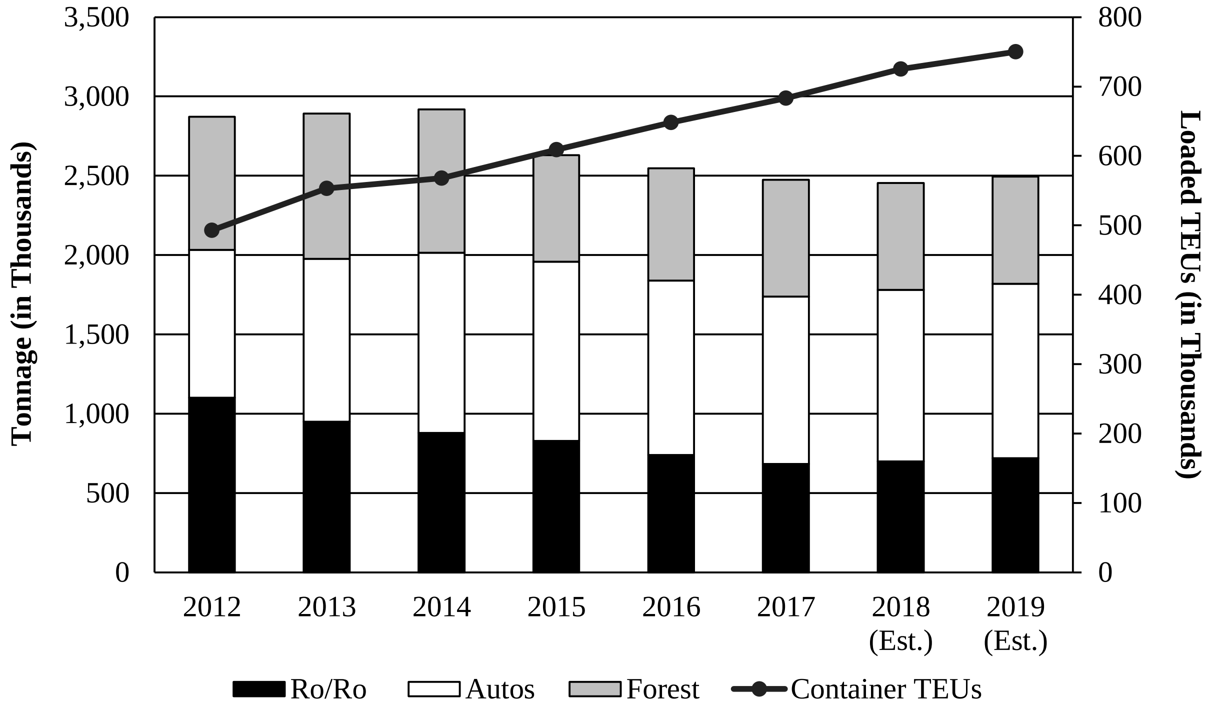
Exhibit 3
Total General Cargo Tonnage at State-owned Facilities
Fiscal 2008-2019 (Est.)
(Tons in Millions)



Source: Maryland Port Administration

Exhibit 4 provides data on selected general cargo commodities handled at the Port. Total forest product tonnage increased by 3.8% in fiscal 2017 as forest product handling continues to recover from a 25.7% decline in fiscal 2015 due to the departure of a major wood pulp account. Additionally, the Port continues to see steady growth in containers handled, with approximately 683,000 20-foot equivalent units in fiscal 2017, a 5.4% increase over fiscal 2016. The Port expects continued growth in containers handled through fiscal 2019. Ro/Ro cargo handled was down 7.6% in fiscal 2017; this represents the fifth straight year of declines after Ro/Ro cargo shipping peaked in fiscal 2012 during the global economic recovery following the Great Recession. Auto shipments also continued to decline by 4.1% in fiscal 2017 due to lower oil prices – the chief export markets for secondhand vehicles leaving the Port have economies directly tied to the oil market.

Exhibit 4
Cargo Volume by Type
Fiscal 2012-2019 (Est.)



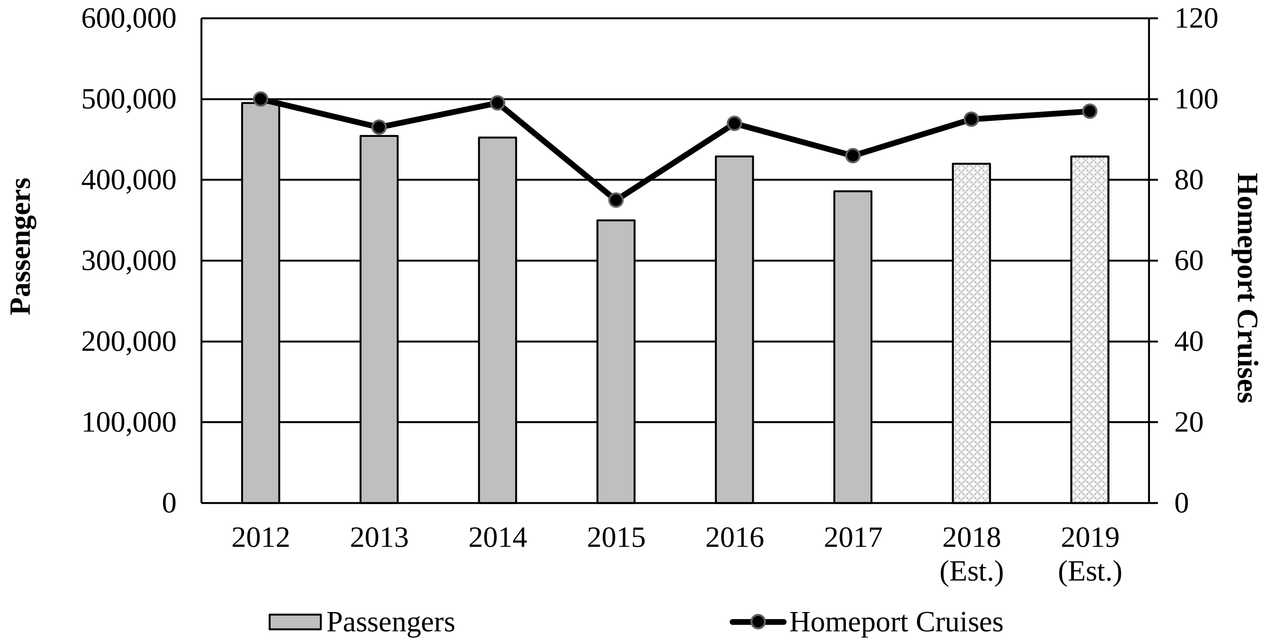
Ro/Ro: Roll on/Roll off
TEU: Twenty-foot Equivalent Unit (an industry standard for measuring containers)

Source: Maryland Port Administration

3. Cruises in Maryland

In addition to handling cargo, the Port plays a vital role in Maryland's cruise industry. **Exhibit 5** shows the total number of homeport cruises and passengers that utilized the Port's cruise terminal.

Exhibit 5
Cruise Ship Operations
Fiscal 2012-2019 (Est.)



Source: Maryland Port Administration

In fiscal 2017, the Port had 86 homeport cruises and 386,000 passengers, decreases of 8.5% and 10%, respectively, from fiscal 2016. This is due to Carnival Cruise Lines' temporary reposition of the Carnival Pride to Tampa from early January 2017 through early March 2017, depriving Baltimore of eight cruises. While these figures marked the second lowest performing year for cruise services out of Baltimore in the past five fiscal years, it should be noted that total passengers are tightly correlated to the number of homeport cruises and otherwise remain stable.

4. Net Operating Income Increases

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 6**, net operating income in fiscal 2019 is expected to increase by approximately 1.7%, to $2.16 million, over the projected fiscal 2018 working appropriation numbers.

Exhibit 6
Special Fund Revenues and Expenses
Fiscal 2017-2019
($ in Thousands)

	2017	Working Appropriation 2018	Allowance 2019	$ Change 2018-19	% Change 2018-19
Operating Revenue	**$49,039**	**$53,547**	**$54,357**	**$810**	**1.5%**
Total Operating Expenses(1)	49,495	54,263	55,024	**$761**	**1.4%**
Total Exclusions(2)	-2,760	-2,844	-2,831	**$13**	**-0.5%**
Net Operating Expenses	**$46,735**	**$51,419**	**$52,193**	**$774**	**1.5%**
Net Operating Income	**$2,304**	**$2,128**	**$2,164**	**$36**	**1.7%**
Capital Expenditures	$169,222	$91,721	$124,813	**$33,092**	**36.1%**
Net Income/Loss	**-$166,918**	**-$89,593**	**-$122,649**	**-$33,056**	**36.9%**

(1) Includes the following expenses paid by the Maryland Department of Transportation: Baltimore City Marine Fire Suppression ($1.4 million annually) and payments in lieu of taxes in the amount of $1.01 million in fiscal 2017, $1.07 million in fiscal 2018, and $2.20 million in fiscal 2019. Also includes a port incentive plan in the amount of $344,350 in fiscal 2017, $600,000 in fiscal 2018, and $800,000 in fiscal 2019.
(2) Excluded expenditures include payments to certificates of participation debt service payments and certain capital equipment.

Source: Maryland Port Administration

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 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.

Fiscal 2018 Actions

Across-the-board Employee and Retiree Health Insurance Reduction

The budget bill includes an across-the-board reduction for employee and retiree health insurance in fiscal 2018 to reflect a surplus balance in the fund. This agency's share of this reduction is $259,832 in special funds.

Proposed Budget

As shown in **Exhibit 7**, the fiscal 2019 allowance decreases by approximately $0.4 million when compared to the fiscal 2018 working appropriation.

Exhibit 7
Proposed Budget
MDOT – Maryland Port Administration
($ in Thousands)

How Much It Grows:	**Special Fund**	**Federal Fund**	**Total**
Fiscal 2017 Actual	$46,738	$103	$46,842
Fiscal 2018 Working Appropriation	51,193	119	51,312
Fiscal 2019 Allowance	50,629	263	50,891
Fiscal 2018-2019 Amount Change	-$564	$143	-$421
Fiscal 2018-2019 Percent Change	-1.1%	119.8%	-0.8%

Where It Goes:	
Personnel Expenses	
Abolished/transferred positions	-405
Regular earnings	-274
Employee and retiree health insurance	216
2% cost-of-living adjustment	92
Reduce turnover rate from 6.03% to 6%	62
Overtime earnings	43
Other personnel expenses	-85
Contractual Services Changes	
Other contractual services, primarily due to terminal maintenance and stormwater management	460
Maryland Transportation Authority police security services	397
Information technology infrastructure improvements, with emphasis on cybersecurity	193

Where It Goes:	
Janitorial services	88
Equipment rental (other than data processing)	86
Other Changes	
Insurance premium payment – STO and non-STO	163
Routine travel for the Intermodal/Trade Development unit – in-state and out-of-state	161
Energy Performance Contract maintenance contract land and structure expenses	104
Radios and electronic equipment	60
Dundalk Marine Terminal container crane decommissioning	-122
Aligning building interior allowance with historic spending	-231
Repayment of Masonville facility debt and Certificate of Participation restructuring	-1,429
Total	**-421**

MDOT: Maryland Department of Transportation
STO: State Treasurer Office

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

General Salary Increase

The fiscal 2019 allowance includes funds for a 2% general salary increase for all State employees, effective January 1, 2019. These funds are budgeted in the Department of Budget and Management's statewide program and will be distributed to agencies during the fiscal year. This agency's share of the general salary increase is $92,201 in special funds. In addition, employees will receive another 0.5% increase and a $500 bonus effective April 1, 2019, if actual fiscal 2018 general fund revenues exceed the December 2017 estimate by $75 million. These funds have not been budgeted. The Administration will need to process a deficiency appropriation if revenues are $75 million more than projected.

Other Personnel Changes and Issues

In fiscal 2017, 2 positions were transferred from MPA to the Secretary's Office (TSO) within the Maryland Department of Transportation (MDOT) as TSO assumed the human resources operations for MPA. An additional 4 positions were transferred to TSO for this purpose in the first quarter of fiscal 2018. This results in a decrease of approximately $0.4 million in personnel costs for MPA between the fiscal 2018 working appropriation and the fiscal 2019 allowance. Additionally, personnel costs decrease by approximately $0.3 million, primarily due to a decrease in funds budgeted for regular earnings.

MPA's Turnover Rate Does Not Match Longstanding Historical Vacancy Rates

The budgeted turnover rate for MPA in fiscal 2019 is 6%, requiring 12.54 vacant positions. However, as of January 1, 2018, there were 21 positions vacant at MPA for a vacancy rate of 10.05%. Further investigation into MPA's historic vacancy rates shows that for fiscal 2016, MPA maintained an average vacancy rate of 8.83%. The average vacancy rate in fiscal 2017 was 10.08%, roughly the same as MPA has experienced in the first seven months of fiscal 2018 (10.09%). While average annual vacancy rates can be affected by outlier months, it is the closest approximation available for determining whether budgeted turnover reflects actual vacancy levels for a particular agency or department.

MPA has not had a vacancy rate lower than 7% since the first three months of fiscal 2016. Increasing budgeted turnover to 7% for fiscal 2019 will result in a decrease in special fund personnel costs of approximately $186,000 and will better align budgeted turnover with the historic vacancy rate for MPA, while minimizing the risk that MPA will have to move funds from other operations to cover personnel costs if hiring increases in fiscal 2019. **The Department of Legislative Services (DLS) recommends increasing the budgeted turnover rate to 7% to better align with the historic vacancy rate for MPA.**

Contractual Services Changes

MPA's cost for security services increases by approximately $0.4 million, primarily due to increases in the labor and wage contract for Maryland Transportation Authority (MDTA) police services. Other contractual services, primarily due to terminal maintenance and stormwater management, increase by approximately $0.5 million in fiscal 2019. Information technology infrastructure costs increase by $0.2 million, primarily due to cybersecurity enhancements.

Masonville Auto Terminal Debt Repaid

In April 1998, MPA, MDOT, and MDTA entered into an agreement whereby MDTA financed the construction of Phase I of the Masonville Auto Terminal. For this financing, MDOT agreed to make payments to MDTA of principal and interest for a term extending until June 30, 2019. The agreement allowed MDTA to terminate the lease early, "after the [MDTA] recovers all of its financing costs associated with the construction of Masonville Phase I Auto Terminal" in accordance with Article II of the Masonville Phase I Lease. On August 25, 2016, MDOT, MPA, and MDTA entered into an agreement whereby MDOT would repay the balance of the debt owed to MDTA to obtain a release for itself and MPA from the obligations of the Masonville Phase I Agreement and to terminate the Masonville Phase I Lease. As a result of this and restructuring of certificates of participation to which MPA is a party, total non-Department of General Services rent decreases by approximately $1.4 million in fiscal 2019.

PAYGO Capital Program

Program Description

The MPA 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 2018 to 2023 *Consolidated Transportation Program*

The MPA capital program from fiscal 2018 to 2023 totals $800.7 million, a decrease of $75.9 million compared to the fiscal 2017 to 2022 *Consolidated Transportation Program* (CTP). Funding for projects in the fiscal 2018 to 2023 CTP is largely devoted to dredging and system preservation and minor projects.

Fiscal 2019 Capital Allowance

Exhibit 8 shows the fiscal 2019 capital allowance for MPA by project and program along with estimated total project costs and six-year funding included in the CTP. In fiscal 2019, the dredging programs, including projects at the Cox Creek dredge material containment facility (DMCF), total $72.6 million, or 57.2%, of the CTP. Minor and system preservation projects account for $29.8 million, or 23.5%, of MPA's fiscal 2019 capital allowance.

Exhibit 8
Maryland Port Administration Pay-as-you-go Capital Allowance
Fiscal 2019
($ in Thousands)

Jurisdiction	Project Description	2019	Total Cost	Six-year Total
Major Projects				
Baltimore County	Hart-Miller Island-related Projects	$4,817	$106,700	$25,653
Statewide	Dredge Material Placement and Monitoring[1]	27,489	608,797	206,831
Baltimore City	Reconstruction of Berths 1-6 at Dundalk Marine Terminal[2]	3,435	56,768	31,211
Baltimore City	South Locust Point Cruise Terminal	1,455	8,198	2,714
Baltimore City	Marine Terminal Property Acquisition	0	89,748	5,115
Baltimore City and Baltimore County	Chrome Ore Processing Residue Remediation	4,686	66,983	28,110
Anne Arundel County	Cox Creek DMCF Expansion and Related Projects[3]	35,120	252,918	200,364
Baltimore City	Port of Baltimore Export Expansion Project	4,000	48,660	10,676
Cecil County	Pearce Creek Waterline Project	1,094	14,011	5,643
Subtotal		***$82,096***	***$1,252,783***	***$516,317***
D&E, System Preservation and Minor Projects, and Salaries				
Statewide	Dredge Material Management Program[4]	$10,026	$100,654	$51,859
Statewide	System Preservation and Minor Projects	29,800	n/a	202,100
Statewide	Capital Salaries	5,000	n/a	30,500
Subtotal – Programs		***$44,826***	***$100,654***	***$284,459***
Total – Projects and Programs		**$126,922**	**$1,353,437**	**$800,776**

D&E: Development & Evaluation
DMCF: dredged material containment facility

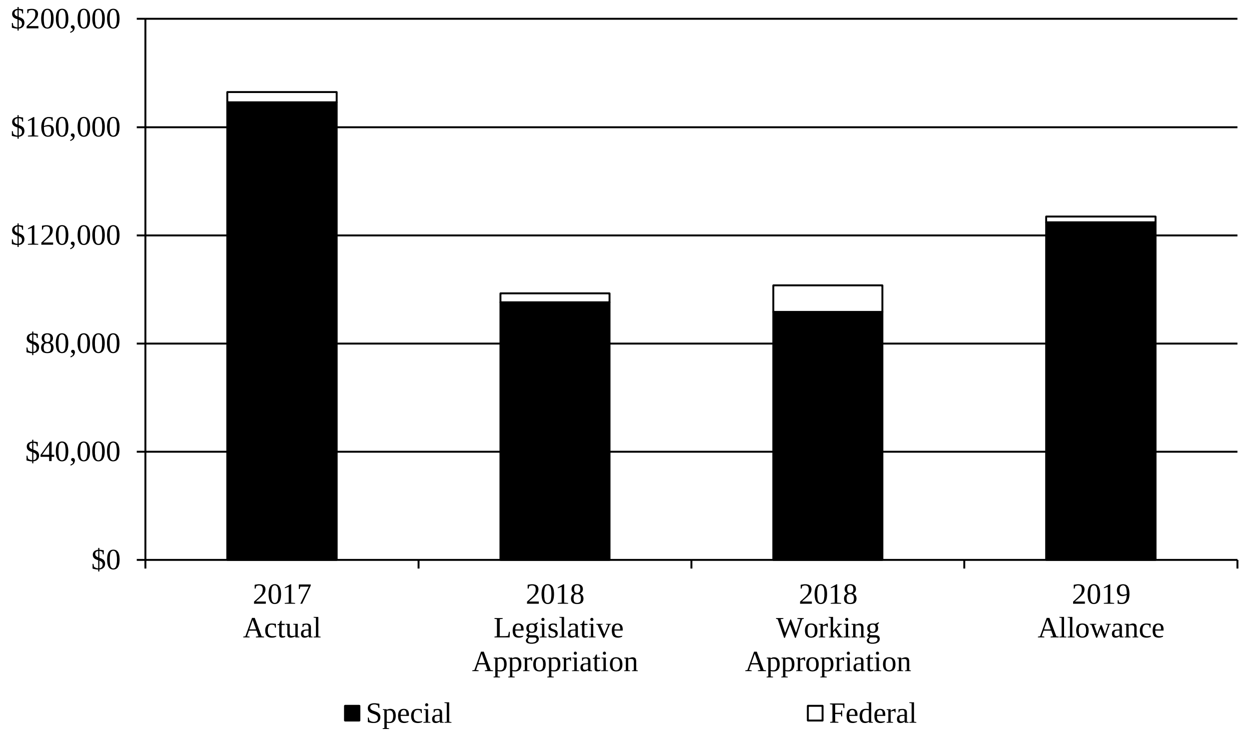
[1] The Dredge Material Placement and Monitoring is the program for the construction and management of DMCFs and the responsible and innovative re-use of dredge material.
[2] Phase II (Berth 4), Phase III (Berth 3), and a portion of Berth 2.
[3] This project was originally included as part of the "Dredge Material Placement and Monitoring" line item.
[4] The Dredge Material Management Program is a program for evaluating sites as potential DMCFs.

Source: Maryland Department of Transportation, *2018-2023 Consolidated Transportation Program*

Fiscal 2018 and 2019 Cash Flow Analysis

Exhibit 9 shows cash flow changes by fiscal year for 2017 through 2019. The fiscal 2018 working appropriation increased by approximately $2.9 million compared to the legislative appropriation due to a $8.6 million increase in system preservation and minor projects and a $2.0 million increase in the Pearce Creek Waterline project. This increase is offset in part by decreases in both the dredge material placement and monitoring ($1.3 million) and dredge material management programs ($1.5 million), as well as the Dundalk Marine Terminal berth reconstruction ($1.5 million) and the Port of Baltimore expansion projects ($3.4 million). The fiscal 2019 allowance increases by approximately $25.4 million, primarily due to planned progression with the Cox Creek DMCF expansion and related projects. Significant construction activities planned for fiscal 2019 include demolition of an industrial building at the site and bio-remediation of the land (approximately $13 million); erosion and sediment control, excavation, modifications to the dike, and construction of an operations and maintenance complex (approximately $5 million); and improvements to Spillway #2 (approximately $1 million). MDOT separated Cox Creek from the Dredge Material Placement and Monitoring Program in the 2018-2023 CTP due to the size of the project and its cost relative to the total for the other sites.

Exhibit 9
Cash Flow Changes
Fiscal 2017-2019



Fiscal 2018 Legislative Appropriation vs. Fiscal 2018 Working Appropriation

	2018 Leg. Approp.	2018 Work. Approp.	Change Work. Leg.
Major Projects			
Hart-Miller Island-related Projects	$4,017	$4,102	$85
Dredge Material Placement and Monitoring (DMPM)	37,290	35,970	-1,320
Reconstruction of Berths 1-6 at Dundalk Marine Terminal	1,500	0	-1,500
South Locust Point Cruise Terminal	1,030	1,259	229
Marine Terminal Property Acquisition	0	115	115
Chrome Ore Processing Residue Remediation	4,868	4,564	-304
Port of Baltimore Export Expansion Project	5,935	2,576	-3,359
Pearce Creek Waterline Project	2,549	4,549	2,000
D&E, System Preservation and Minor Projects, and Salaries			
Dredge Material Management Program (DMMP)	8,352	6,855	-1,497
System Preservation and Minor Projects	28,100	36,700	8,600
Capital Salaries	4,900	4,800	-100
Total	**$98,541**	**$101,490**	**$2,949**

Fiscal 2018 Working Appropriation vs. Fiscal 2019 Allowance

	2018 Work. Approp.	2019 Allow.	(2019-2018) Change
Major Projects			
Hart-Miller Island-related Projects	$4,102	$4,817	$715
DMPM	26,360	27,489	1,129
Reconstruction of Berths 1-6 at Dundalk Marine Terminal	0	3,435	3,435
South Locust Point Cruise Terminal	1,259	1,455	196
Marine Terminal Property Acquisition	115	0	-115
Chrome Ore Processing Residue Remediation	4,564	4,686	122
Cox Creek DMCF Expansion and Related Projects	9,610	35,120	25,510
Port of Baltimore Export Expansion Project	2,576	4,000	1,424
Pearce Creek Waterline Project	4,549	1,094	-3,455
D&E, System Preservation and Minor Projects, and Salaries			
DMMP	6,855	10,026	3,171
System Preservation and Minor Projects	36,700	29,800	-6,900
Capital Salaries	4,800	5,000	200
Total	**$101,490**	**$126,922**	**$25,432**

DMCF: dredge material containment facility

Source: Maryland Department of Transportation, 2018-2023 *Consolidated Transportation Program*

Issues

1. CSX Withdrew Proposed Support of Howard Street Tunnel Project

The inability to run double-stacked container railcars through the Howard Street tunnel and several clearances north of the tunnel continues to limit the full economic potential of the Port. Recently, CSX, which owns and operates the rail line in question, withdrew its proposed financial support for a project to expand the tunnel and the related bridges along the line.

Background

The Baltimore and Ohio Railroad Company built the Howard Street Tunnel in 1895. The tunnel, which runs under Howard Street through much of downtown Baltimore City, is now owned and operated by CSX and is the primary freight rail route connecting the Port to markets in the Midwest. However, the height of the tunnel, as well as other clearances to the north of the tunnel, prevent double-stacked container and tri-level autorack cars from being shipped from the Port. Previously, federal studies have identified the tunnel as a major infrastructure need for interstate freight commerce and put replacement or renovation costs at more than $1 billion. Other rejected alternatives included intermodal container facilities near Jessup or at Mount Clare in Baltimore City.

Improved engineering techniques resulted in a modified project estimate of $265 million, with related improvements expected to cost $180 million. The two phases would take approximately four to five years to complete. **Exhibit 10** shows the location of the tunnel and several bridge clearances that also need to be improved. In 2016, MDOT and MPA applied for a federal Fostering Advancements in Shipping and Transportation for the Long-term Achievement of National Efficiencies (FASTLANE) grant of $155 million to combine with $145 million in State funds and $145 million from CSX. The application received high ratings from the U.S. Department of Transportation but was not selected for award. The FASTLANE grant program was replaced by the Infrastructure for Rebuilding America (INFRA) grant program in 2017 as the vehicle to provide federal financial assistance for infrastructure needs under the federal Fixing America's Surface Transportation, or FAST, Act. Much of the criteria remains the same between the two programs; however, the INFRA program appears to place significantly greater emphasis on using program funds to leverage available nonfederal funding sources, as well as identifying methods to improve funding and project accountability.

Exhibit 10
Howard Street Tunnel and Related Bridges

Source: Maryland Port Administration

Recently, CSX adopted a new and significantly different operating plan called Precision Scheduled Railroading (PSR). The PSR differs from the more traditional "hub and spoke" model of railroading in that the focus is on maintaining train schedules and keeping trains moving, regardless of whether a train contains all cars destined for a specific location. The PSR prioritizes more scheduled trips directly to the final cargo destination. In October 2017, CSX informed MDOT and MPA that it would not be moving forward with the tunnel project, and that this was a business decision based on its new PSR-based operating plan. This was an unexpected set-back for MPA, and while there have been further discussions between CSX, the Maryland Congressional delegation, and other representatives of the State, there is no evidence that the project will proceed as planned. As a result of CSX withdrawing its support of the project, MPA withdrew its 2017 INFRA grant application.

An MPA report on double-stack capacity at the Port suggests that the Port could capture 25% to 50% more container volume if double-stack transportation was possible, based on a review of existing container moves via intermodal rail through regional ports servicing the Northern Europe, India Subcontinent, and Mediterranean trade lanes and an analysis of destinations in which Baltimore could most likely compete. The report also identified that double-stack rail capacity may attract a new ocean carrier service to the Port, and it could mean between 1,136 and 1,417 new direct jobs in the first year of operation alone, with the potential for many more indirect and induced positions and millions in personal income, business revenue, and State and local taxes. Such figures are supported by the many modern shipping attributes featured at the Port, including a 50-foot deep channel from the ocean; a modern ship berth with the characteristic elements to handle container ships with a cross-deck capacity of 22 containers; on-dock intermodal container transfer facilities; and convenient access to the national Interstate highway system. **Exhibit 11** details the expected economic impact as reported by MPA in fiscal 2017.

Exhibit 11

Economic Impact of Adding Double-stack Access to the Port

($ in Millions)

	Year 1 Low	Year 1 High	Year 30
Direct Jobs	1,136	1,417	2,952
Induced Jobs	1,329	1,655	3,401
Indirect Jobs	361	451	939
Total Jobs	**2,826**	**3,523**	**7,292**
Total Personal Income	**$240**	**$299**	**$613**
Business Revenue	155	207	443
State and Local Taxes	26	32	65

Source: Maryland Port Administration

MPA has affirmed that double-stack capability is a high priority that it will continue to pursue. **DLS recommends that MPA comment on any actions it has taken since the withdrawal of CSX from the planned expansion of the tunnel and related projects. Further, DLS recommends that the committees adopt narrative requesting MPA to report on alternatives to modifying the Howard Street Tunnel and the associated bridges and tunnels to increase throughput at the Port, the feasibility of implementing such alternatives, and the strengths and weaknesses of these alternatives.**

2. Efforts to Incentivize Shipping of Discretionary Containerized Cargo to the Port

On December 16, 2009, the Board of Public Works approved a 50-year lease of Seagirt to Ports America Chesapeake (PAC) for the operation of the on-site container facility and berths as a public-private partnership (P3). PAC, a member of the Ports America Group, received a lease for Seagirt as well as certain adjacent property. Subsequently, PAC received a lease for the intermodal container transfer facility (ICTF) adjacent to Seagirt. In exchange for the ability to manage container operations at Seagirt, including the ability to set rates and collect revenues and a noncompetition clause that prohibits operation of a container terminal on land owned, leased, or operated by MPA, MDTA, or MDOT for a period of 15 years (16 years at the Dundalk Marine Terminal), PAC agreed to provide certain capital infrastructure investments at the Port. These include the funding and construction of the recently completed 50-foot berth at Seagirt and the purchase of new super post-Panamax cranes to support the handling of ships traversing the recently expanded Panama Canal. The agreement also provided for $140 million in capital reinvestment payments to MDTA in exchange for MDTA transferring the ownership of Seagirt to MPA, as well as payment of annual rent to MPA that increases over the life of the lease. Finally, PAC agreed to pay MPA an incremental fee, again which increases over the life of the agreement, of $15 per container for every container handled over 500,000.

Since fiscal 2017, MDOT has maintained an intermodal rail incentive program to attract ocean carriers and bring more discretionary containerized cargo through the Port through the TSO capital program. The Port of Baltimore (POB) Incentive Pilot Program is meant to bring shipping costs in line with costs from ports that can offer double-stack rail capacity and its associated cost savings. Containers must pass through ICTF and make a prior or subsequent waterborne movement through Seagirt to receive the incentive credit. After completing a grant agreement with the shipper, MPA looks at the number of container movements for a shipper over the preceding 12-month period. This sets the threshold for existing container movements. Incentives are issued per container at one rate for existing moves up to the threshold amount, while the per container incentive for moves over the threshold is paid at a second, higher rate. The total number of movements in a given year becomes the next year's threshold for new container movements. While this threshold can always increase, it cannot be less than the threshold in any of the preceding years of the agreement. In fiscal 2019, $800,000 is budgeted in TSO for this purpose.

While DLS recognizes the benefits to improving container volumes moving through the Port, there are certain questions as to the operation of this incentive program. It is unclear to DLS why this grant is funded through TSO capital and not as a direct MPA grant, despite MPA management of and contributions to the grant fund. Further, prior fiscal years show actual costs associated with this program of $344,350; this amount has increased substantially, with $800,000 budgeted in fiscal 2019. Also, such a grant program offsets the revenues generated from the profit-sharing agreement on all containers over the initial 500,000 processed through Seagirt in a given year. However, and perhaps most importantly, while the Port collects revenue off of container moves over a contractually set ceiling, the incentive to attract discretionary containerized cargo lies primarily with the private operator. As such, the revenue that the State stands to gain from this P3 agreement is being offset, in part, by subsidies to shipping companies, the benefit of which the State may not fully recover. **DLS**

recommends that MPA comment on the need to subsidize discretionary container cargo via the POB Incentive Pilot Program after it has engaged in a P3 agreement with PAC to operate Seagirt.

Operating Budget Recommended Actions

		Amount Reduction	
1.	Increase turnover rate from 6% to 7% to better reflect recent experience.	$ 149,216	SF

2. Adopt the following narrative:

Alternatives to Howard Street Tunnel Revisions: The committees are concerned about the ongoing nature of the Howard Street Tunnel project, which for years has been a major detriment to expansion of operations at the Helen Delich Bentley Port of Baltimore. The Maryland Port Administration has endeavored to find a solution to replace or modify the Howard Street Tunnel to develop double-stack rail-capacity for cargo container transport. While the Maryland Port Administration (MPA) seemed close to a solution, the private firm operating the rail line withdrew its support of the project. With the ability to provide double-stack capacity again uncertain, the committees request a report summarizing:

- the alternatives to modifying the Howard Street Tunnel and the associated bridges and tunnels;
- the feasibility of implementing such alternatives;
- the advantages and disadvantages of each alternative; and
- estimated costs for the alternatives and proposed funding sources.

This report shall be submitted by November 1, 2018.

Information Request	**Author**	**Due Date**
Report on alternatives to modifying the Howard Street Tunnel to allow for double-stack rail capacity	MPA	November 1, 2018

Total Special Fund Reductions **$ 149,216**

PAYGO Budget Recommended Actions

		Amount Reduction	
1.	Increase turnover rate from 6% to 7% to better reflect recent experience.	$ 36,730	SF
	Total Special Fund Reductions	**$ 36,730**	

Appendix 1
Current and Prior Year Budgets
MDOT – Maryland Port Administration
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2017					
Legislative Appropriation	$0	$51,421	$0	$0	$51,421
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	191	103	0	295
Reversions and Cancellations	0	-4,875	0	0	-4,875
Actual Expenditures	**$0**	**$46,738**	**$103**	**$0**	**$46,842**
Fiscal 2018					
Legislative Appropriation	$0	$51,453	$119	$0	$51,572
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	**$0**	**$51,453**	**$119**	**$0**	**$51,572**

MDOT: Maryland Department of Transportation

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. Numbers may not sum to total due to rounding.

Fiscal 2017

The Maryland Port Administration (MPA) finished fiscal 2017 approximately $4.6 million below its legislative appropriation.

Special funds decreased by approximately $4.7 million compared to the legislative appropriation. An amendment increased the special fund appropriation by approximately $0.2 million for a fiscal 2017 salary increment. Additionally, the federal funds appropriation increased by approximately $0.1 million due to the award of a Port Security Grant in August 2016 for the renewal of warranties for MPA's Closed-circuit Television camera system.

MPA canceled more than $4.8 million in special funds for the following reasons:

- approximately $1.8 million in salary and fringe benefits due to high employee turnover;
- approximately $0.2 million in outside legal support and counsel fees, as actual use did not rise to the level of estimated costs;
- approximately $0.2 million in advertising expenses, as actual use did not rise to the level of estimated costs;
- approximately $0.6 million due to lower than expected utility rates;
- approximately $1.7 million in debt payments owed to the Maryland Transportation Authority for Phase I of the Masonville Auto Terminal due to repayment of the debt balance; and
- approximately $0.2 million in crane part supplies, as total replacement and repair costs did not rise to expected levels.

Fiscal 2018

There are no changes in the fiscal 2018 working appropriation at this time. However, there is one pending amendment to transfer funds to the Secretary's Office within the Maryland Department of Transportation for the consolidation of MPA's Human Resources office.

Appendix 2
Audit Findings

Audit Period for Last Audit:	January 13, 2014 – February 20, 2017
Issue Date:	January 2018
Number of Findings:	1
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

Finding 1: Controls over cash receipts were not sufficient to ensure all collections were deposited.

*Bold denotes item repeated in full or part from preceding audit report.

Appendix 3
Object/Fund Difference Report
MDOT – Maryland Port Administration

Object/Fund	FY 17 Actual	FY 18 Working Appropriation	FY 19 Allowance	FY 18 - FY 19 Amount Change	Percent Change
Positions					
01 Regular	177.00	177.00	173.00	-4.00	-2.3%
02 Contractual	0.70	0.70	0.70	0.00	0%
Total Positions	**177.70**	**177.70**	**173.70**	**-4.00**	**-2.3%**
Objects					
01 Salaries and Wages	$ 18,492,449	$ 18,594,775	$ 17,892,526	-$ 702,249	-3.8%
02 Technical and Spec. Fees	134,078	454,181	429,658	-24,523	-5.4%
03 Communication	344,458	317,305	331,892	14,587	4.6%
04 Travel	354,474	406,967	568,497	161,530	39.7%
06 Fuel and Utilities	5,157,093	5,658,981	5,514,264	-144,717	-2.6%
07 Motor Vehicles	645,147	951,054	983,494	32,440	3.4%
08 Contractual Services	15,996,696	17,392,937	18,651,885	1,258,948	7.2%
09 Supplies and Materials	917,567	1,042,215	914,115	-128,100	-12.3%
10 Equipment – Replacement	272,108	281,725	381,725	100,000	35.5%
11 Equipment – Additional	114,852	153,125	213,125	60,000	39.2%
12 Grants, Subsidies, and Contributions	525,000	525,000	525,000	0	0%
13 Fixed Charges	3,520,721	4,761,650	3,491,781	-1,269,869	-26.7%
14 Land and Structures	366,873	1,032,160	901,315	-130,845	-12.7%
Total Objects	**$ 46,841,516**	**$ 51,572,075**	**$ 50,799,277**	**-$ 772,798**	**-1.5%**
Funds					
03 Special Fund	$ 46,738,097	$ 51,452,645	$ 50,536,717	-$ 915,928	-1.8%
05 Federal Fund	103,419	119,430	262,560	143,130	119.8%
Total Funds	**$ 46,841,516**	**$ 51,572,075**	**$ 50,799,277**	**-$ 772,798**	**-1.5%**

MDOT: Maryland Department of Transportation

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.

Appendix 4
Fiscal Summary
MDOT – Maryland Port Administration

Program/Unit	FY 17 Actual	FY 18 Wrk Approp	FY 19 Allowance	Change	FY 18 - FY 19 % Change
2010 Port Operations	$ 46,841,516	$ 51,572,075	$ 50,799,277	-$ 772,798	-1.5%
2020 Port Facilities and Capital Equipment	172,922,312	101,486,000	126,956,000	25,470,000	25.1%
Total Expenditures	**$ 219,763,828**	**$ 153,058,075**	**$ 177,755,277**	**$ 24,697,202**	**16.1%**
Special Fund	$ 215,959,797	$ 143,173,645	$ 175,349,717	$ 32,176,072	22.5%
Federal Fund	3,804,031	9,884,430	2,405,560	-7,478,870	-75.7%
Total Appropriations	**$ 219,763,828**	**$ 153,058,075**	**$ 177,755,277**	**$ 24,697,202**	**16.1%**

MDOT: Maryland Department of Transportation

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.

Appendix 5
Budget Amendments for Fiscal 2018
MDOT – Maryland Port Administration – Operating

Status	Amendment	Fund	Justification
Pending	-$754,670	Special	Consolidation of Human Resources Office services from the Maryland Port Administration to the Secretary's Office.
	-$754,670	***Subtotal***	
	-$754,670	**Total**	

MDOT: Maryland Department of Transportation

Source: Maryland Department of Transportation

Appendix 6
Budget Amendments for Fiscal 2018
MDOT – Maryland Port Administration – Capital

Status	Amendment	Fund	Justification
Pending	-$3,448,764	Special	Adjusts the amended appropriation to agree with the anticipated expenditures for the current year as reflected in the MDOT final *Fiscal 2018-2023 Consolidated Transportation Program*).
	$6,371,000	Federal	
	$2,922,236	***Subtotal***	
	$2,922,236	**Total**	

MDOT: Maryland Department of Transportation

Source: Maryland Department of Transportation