JD.00
Maryland Port Administration
Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 00 Actual	FY 01 Working	FY 02 Allowance	Change	% Change Prior Year
Special Fund	$75,282	$82,655	$85,750	$3,094	3.7%
Total Funds	**$75,282**	**$82,655**	**$85,750**	**$3,094**	**3.7%**

- Stevedoring labor expenses increase by $1.2 million.

PAYGO Capital Budget Data

($ in Thousands)

	Fiscal 2000	Fiscal 2001		Fiscal 2002	
	Actual	Legislative	Working	Request	Allowance
Special Fund	$32,729	$95,123	$63,427	$107,946	$115,260
Total	**$32,729**	**$95,123**	**$63,427**	**$107,946**	**$115,260**

- Special funds totaling $13.8 million for four new projects are added to the fiscal 2002 capital appropriation.
- One project, a Roll-On/Roll-Off cargo warehouse at South Locust Point Marine Terminal, was completed during fiscal 2001.
- System preservation and other minor projects increase $25.5 million to provide for rehabilitation efforts at Maryland Port Administration (MPA) terminals.

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

For further information contact: Christine M. Anderson Phone: (410) 946-5530

Personnel Data

	FY 00 Actual	FY 01 Working	FY 02 Allowance	Change
Regular Positions	312.00	311.00	313.00	2.00
Contractual FTEs	0.80	1.20	1.20	0.00
Total Personnel	**312.80**	**312.20**	**314.20**	**2.00**

Vacancy Data: Regular

Budgeted Turnover: FY 02	15.59	4.98%
Positions Vacant as of 12/31/00	13.00	4.18%

- Two additional positions are provided for the Harbor Development Program within MPA's capital program. They will support the management of an expanded dredged material management program as well as aid development of additional dredged material placement options.

Analysis in Brief

Issues

MPA Business Trends: Cargo summary, revenue and expenditure forecasts, and Transportation Trust Fund (TTF) subsidy of MPA operations are discussed. **The Department of Legislative Services (DLS) recommends that MPA discuss its current balance sheet and the TTF subsidy to MPA. Committee narrative regarding budgeting MPA operating expenses is also recommended.**

Port of Baltimore Market Share and Niche Port Status*:* MPA's strategic plan specifically identifies seven types of cargo that it intends to develop and grow at the Port. **MPA should discuss its future plans for growing the volume of niche cargo at the Port of Baltimore**

Corps of Engineers Says "Not Now" to MPA C&D Canal Deepening Project: MPA has proposed deepening the Chesapeake and Delaware (C&D) Canal system from the current 35-feet depth to 40-feet. The fiscal 2002 allowance provides $400,000 for engineering studies. **Given the decrease in container volume at the Port of Baltimore, MPA should comment on the continued desire to deepen the C&D canal. In addition, in light of the U.S. Army Corps of Engineers decision, DLS recommends deletion of funding for the C&D canal project in the fiscal 2002 allowance.**

Dredging and Sediment Strategic Plan at the Port of Baltimore*:* MPA has developed a variety of dredge material placement options in accordance with the *Governor's Strategic Plan for Dredged Material Management*. The 2000 *Joint Chairmen's Report* requested MPA to update this dredging plan in light of changing dredging needs, including new capital projects and the availability of placement sites.

DLS is concerned about the potential for inefficient use of existing dredged material placement capacity. DLS recommends that the administration discuss the effect that legislation introduced in the 2001 legislative session may have on MPA's ability to continue its dredging operations.

Audit Finds Procurement Issues at the MPA: In April 2000 the Office of Legislative Audits (OLA) released an audit of MPA. The report highlighted several areas of concern including issues with State procurement practices, lack of Board of Public Works (BPW) approval for contract modifications, and accrued expenditures which could not be verified. In addition, the existing stevedoring contract with ITO Corporation (the subject of many of the auditor's concerns) expires in April 2001. **DLS recommends that MPA report on what steps and administrative processes have been established to ensure compliance with State law in the future. MPA should brief the committees on the new stevedoring contract, including the possibility for any increase in cost over the fiscal 2002 allowance of $38.3 million.**

Rail Access at the Port of Baltimore Public Marine Terminals*:* The 2000 *Joint Chairmen's Report* directed MPA to study the possibility of reactivating cross-harbor rail car float operations. In this type of operation, rail cars are loaded onto a barge at one terminal and ferried between marine terminals, potentially providing open access to both the Norfolk Southern and CSX rail networks. **DLS recommends that MPA brief the committees on the need and viability of rail car float service at the Port of Baltimore.**

Operating Budget Recommended Actions

		Funds	Positions
1.	Delete funding for supplemental benefit program.	$ 5,000	
2.	Delete rent for MPA office space at the Point Breeze office complex.	$ 445,000	
3.	Reduce utility costs for buildings to be demolished in fiscal 2002.	$ 58,489	
4.	Delete Deputy Executive Director position vacant over two years.	$ 137,035	1.0
5.	Reduce replacement of personal computers expense.	$ 225,129	
6.	Delete grants, subsidies, and contributions for non-essential activities.	$ 294,000	
7.	Adopt committee narrative requiring that the MPA balance sheet and operating budget include all MPA operating expenses.		
	Total Reductions	**$ 1,164,653**	**1.0**

PAYGO Capital Budget Recommended Actions

		Funds	Positions
1.	Delete funds for C&D Canal Deepening project	$ 400,000	
	Total Reductions	**$ 400,000**	

Updates

Private Sector Interest in a Refrigerated Warehouse Is Lacking: During the 2000 legislative session, the General Assembly adopted budget bill language requiring that MPA, prior to the expenditure of $200,000, provide details on both the possibility of a private entity constructing and operating a refrigerated warehouse facility and the potential market for refrigerated cargo at the Port of Baltimore. The fiscal 2001 funds were never released and the 2001 CTP no longer includes this project. Instead the refrigerated warehouse is being redesigned for construction of a niche cargo warehouse.

***Innovative Uses of Dredged Material**:* The 2000 *Joint Chairmen's Report* requested the formation of two groups: a task force to study the use of Lower Eastern Neck Island as a dredge material placement site and an advisory group on innovative and beneficial uses of dredge material. Both groups were charged with reporting to the budget committees with their findings.

JD.00
Maryland Port Administration
Maryland Department of Transportation

Budget Analysis

Program Description

The Maryland Port Administration (MPA) is responsible for stimulating waterborne commerce through the Port of Baltimore. MPA provides marketing, operations, and maintenance services in expanding waterfront commerce and promotes the use of its facilities. MPA's principal focus is on the operation of five public facilities at the Port of Baltimore to improve and modernize existing State capital facilities, to develop required new facilities, and to promote the use of private facilities. MPA's responsibilities include developing and promoting international trade and coordinating services to the maritime community, such as dredging, surveys, ice-breaking, spill control, and marine radio. In addition, MPA works with the U.S. Army Corps of Engineers to improve access channels through dredging activities and to provide project financing to promote new cargo and economic expansion to the State.

Governor's Proposed Operating Budget

Changes between the fiscal 2001 working appropriation and the fiscal 2002 allowance are highlighted in **Exhibit 1**. There are no significant new initiatives in the operating allowance.

Exhibit 1

Governor's Proposed Budget
Maryland Port Administration
($ in Thousands)

How Much It Grows:	**Special Fund**	**Total**
2001 Working Appropriation	$82,655	$82,655
2002 Governor's Allowance	85,750	85,750
Amount Change	$3,094	$3,094
Percent Change	3.7%	3.7%

Where It Goes:

Personnel Expenses	
Fiscal 2002 general salary increase, increments, fiscal 2001 increase phase-in and other fringe benefit adjustments	$864
Employee and retiree health insurance rate change and workers compensation premium assessment	226
Turnover adjustments	176
Retirement contribution rate change	(122)
Contract and Programmatic Changes	
Increase in stevedoring services contract fees	1,200
Replacement of 199 personal computers	429
Increased security services at Port of Baltimore terminals	412
Increased cost for computer consultants for maintaining the Navis containerized cargo terminal operating system at Seagirt Marine Terminal	203
Decrease in computer programming consultants because development and installation of Navis was completed	(110)
Decrease in building interior and exterior maintenance activities	(228)
Other Changes	44
Total	**$3,094**

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

Performance Analysis: Managing for Results

MPA has continued to develop its Managing for Results (MFR) statement. In particular MPA has added one new goal, bringing the total number of goals to five, as well as added several new or refined objectives and performance measures to support these goals. In light of the positive role MPA can play in reducing the environmental impact of port activities on State land, air, and waterways, the new environmental goal is appropriate. In addition, MPA has continued to develop key objectives making them more specific and attainable, with a target time for achievement. **Exhibit 2** provides outcome measurement data for each of MPA's five goals. These changes increase the usefulness of the MFR document and better represent the activities to which fiscal resources should be devoted. The goals and objectives continue to tie together well and provide the type of data that MPA can use to assess the type of future actions the port should contemplate.

Capital projects are clearly included in the estimates for several of the performance measures. Market share and volume figures in the MFR statement reflect the port's expected increase in the volume of forest products. This trend should continue as new facilities are opened. One point to note: while MPA provides market share data for most of the cargo types included in its strategic plan, only tonnage and growth rates for Baltimore's volume of containerized cargo are included. In addition, it is unclear what specific actions MPA will undertake that will allow them to obtain a 3.0% growth rate in fiscal 2002.

MPA should brief the committee's on why they do not report container market share and what strategies have been developed to provide for 3.0% growth in container volume at the Port of Baltimore.

Finally, with the addition of an environmental goal, i.e., to "enhance the environment in port projects," MPA is providing justification for several innovative use or beneficial use projects. MPA undertakes these projects to provide for placement of material dredged from the Chesapeake Bay and Baltimore Harbor. MPA has yet to develop benchmarks for one of the performance measures, which would give a better sense of the value of these projects. In addition, while this is a worthy goal for a state-owned agency and, given MPA's capital program, fits in with the existing dredged material placement plans, it is not consistent with the port's MFR mission statement. Neither the mission or vision statement refers to enhancing the environment.

DLS recommends that MPA revise its mission or vision statement to include its intent to enhance the environment.

Exhibit 2

Program Measurement Data
Maryland Port Administration
Fiscal 1998 through 2002

	Actual 1998	Actual 1999	Est. 2000	Actual 2000	Est. 2001	Est. 2002
Goal 1 -- Increase the flow of waterborne cargo through the Port of Baltimore						
Roll-on/Roll-off (Ro/Ro) tonnage (thousands)	418	425	450	375	370	390
Ro/Ro market share*	45%	46%	52%	48%	48%	49%
Auto tonnage (thousands)	446	440	440	528	603	664
Auto market share*	18%	18%	18%	17%	20%	20%
Forest products (thousands)	510	550	560	827	924	1,016
Forest products market share*	20%	24%	25%	29%	29%	30%
Container cargo (thousands of twenty foot equivalent units/TEU)	413	410	405	418	430	443
Container growth	0.5%	(1.4)%	1.3%	1.5%	3.0%	3.0%
Goal 2 -- Operate the MPA with an annual net income of $1 million						
MPA net income (thousands)	$935	$3,922	$2,200	$5,335	$3,355	$3,068
World Trade Center revenue (millions)	$3.9	$4.1	$4.1	$4.0	$3.9	$3.9
World Trade Center occupancy	97%	97%	96%	96%	96%	96%
Goal 3 -- Preserve and enhance the port's infrastructure to maintain and increase cargo capacities.						
MPA total general cargo tonnage (thousands)	6,207	6,128	6,220	6,478	6,740	7,010
MPA total general cargo growth	4.2%	1.3%	1.5%	5.7%	4.0%	4.0%
Covered storage facilities that are "state of the art" (square foot)	**	200,000	**	300,000	300,000	408,000
New or previously unusable acres brought online for cargo storage	**	n/a	**	n/a	43	35

Goal 4 -- Safety and mobility -- maintain and improve the shipping channels for safe, unimpeded access to the port.

	Actual 1998	Actual 1999	Est. 2000	Actual 2000	Est. 2001	Est. 2002
Channel Improvements projects completed	**	n/a	**	n/a	Brewerton and Tolchester	Harbor Anchorage
Goal 5 -- Enhance the environment in port projects						
Number of acres created/developed for wildlife habitat, or cleaned/ mitigated since fiscal 1999	**	n/a	**	640	774	1,274
Cubic yards of dredged material recycled to beneficial use	**	n/a	**	n/a	n/a	TBD
Beneficial use cost per cubic yard	**	n/a	**	n/a	n/a	TBD

* Market share is defined as the portion of the market Baltimore handles as a factor of the total cargo handled by North Atlantic ports, principally Norfolk, Virginia; Philadelphia; New York; and New Jersey.

** New performance measure

n/a = information is not available

TBD = to be developed

Source: Maryland Port Administration

MPA PAYGO Capital Program

Program Description

The MPA capital program provides the funds for port facilities to improve and modernize existing State capital facilities; develop required new facilities; improve access channels in cooperation with the U.S. Army Corps of Engineers through dredging activities; and provide financing to promote new cargo and economic expansion in the State.

MPA Consolidated Transportation Program Changes

The fiscal 2001 through 2006 Consolidated Transportation Program (CTP) includes four new projects, totaling $13.8 million. One project, a Ro/Ro cargo warehouse at South Locust Point Marine Terminal, was completed during fiscal 2001. System preservation and other minor projects increased from $13.9 million to $39.4 million, primarily to provide for rehabilitation at MPA terminals. Highlights include:

- ***Forest Products Warehouse at Dundalk Marine Terminal -- Lot 5B:*** The fiscal 2002 capital allowance provides $1.5 million for construction of a 108,000 square foot warehouse. The facility will provide an existing tenant, BalTerm, with additional facilities for pulp and lumber.

- ***Autoprocessor Expansion at Dundalk Marine Terminal:*** Funds totaling $3.3 million were added to the fiscal 2001 appropriation to improve 74 acres at Dundalk. MPA signed an agreement with Am Ports guaranteeing that 450,500 vehicles will be processed at Dundalk over the five-year lease period. Improvements include paving, installation of a drainage system and perimeter fencing, as well as a high mast lighting system. No funds are provided for this project in fiscal 2002.

- ***North American Paper Hub at South Locust Point:*** Funds for construction of a 150,000 square foot warehouse, increase the capital allowance by $4 million. The total cost of the warehouse is approximately $18 million. Several paper producers and shippers, BalTerm and UPM-Kymmene/Metsa- Serla, intend to consolidate North American paper imports at one terminal complex, and have agreed to process 550,000 tons of finished paper per year for five years at the Port of Baltimore.

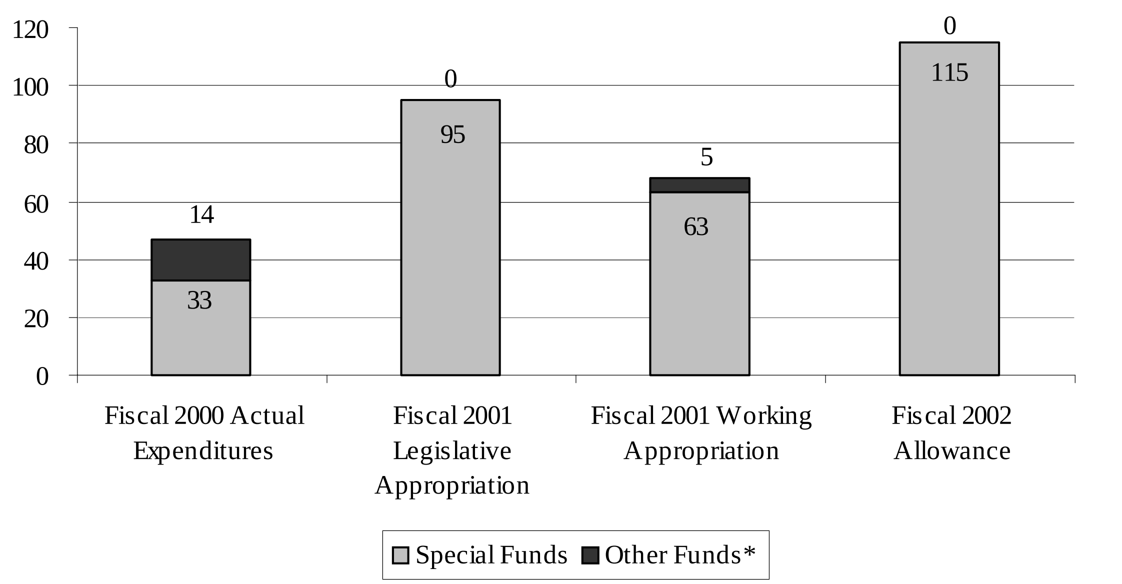
- ***Protective Land Acquisition:*** MPA has begun a multi-year program for the purchase of property in the immediate vicinity of the port to ensure its availability in future years should it decide to expand current facilities. The fiscal 2002 allowance provides $5 million for the first of two or three purchases to acquire the 130-acre area known as Point Breeze. Fiscal 2002 funds will purchase 25 acres adjacent to Seagirt Marine Terminal. MPA offices are currently located at the site.

Fiscal 2001 and 2002 Cash Flow Analysis

The administration's fiscal 2002 capital allowance is $115.3 million, which is $51.8 million, or 81.7%, greater than the fiscal 2001 working appropriation. **Exhibit 3** shows that capital expenditures in fiscal 2002 are projected to be about 252.2% greater than the $33 million in fiscal 2000 actual expenditures.

Exhibit 3

Fiscal 2000 to 2002 Cash Flow Changes
($ in Millions)



*Funds from the Maryland Transportation Authority
Source: Maryland Department of Transportation, *2001 Consolidated Transportation Program*

Cash flow changes are attributable to a number of factors including a significant decrease of $22.1 million for dredging projects due to several project delays, including deepening Baltimore Harbor anchorages and permitting issues at Cox Creek in fiscal 2001. MPA expects that the dredging projects delayed in fiscal 2001 will resume in fiscal 2002; the allowance provides $26.4 million for dredging activities. In addition, construction costs for another forest products warehouse at Dundalk -- Lot 400, decreased due to bids coming in lower than expected.

The other funds represented in Exhibit 3 are construction funds received from the Maryland Transportation Authority (MdTA) for construction of the Masonville Auto Terminal. The project was expected to be completed in fiscal 2000 but project delays required additional MdTA funds in fiscal 2001. A project to improve rail access to Masonville is underway. MPA funded the development and planning of the project and will fund a portion of the rail access project. A lease agreement provides for payments of $1.7 million to MdTA beginning in fiscal 2001.

Exhibit 4 lists MPA's 2002 capital projects. The fiscal 2001 legislative appropriation is the department's spending plan according to the 2000 CTP. Increases in fiscal 2001 represents changes made during the current CTP and increases in fiscal 2002 represent changes relative to fiscal 2001 spending. These cash flow changes indicate that several projects were delayed or rescheduled. In addition, MPA was able to shift funds toward expanding the terminal space for an autoprocessor at Dundalk.

Exhibit 4

Fiscal 2001 and 2002 Project Cash-Flow Changes
($ in Thousands)

	Fiscal 2001 Leg. Approp.	Change Leg. App. to Work.	Change Work. to Allow.	Fiscal 2002 Allow.
New Projects Added to the D&E and Construction Programs				
North American Paper Hub (SLP)	0	0	4,000	4,000
Forest Products Warehouse -- Lot 5B (DMT)	0	0	1,500	1,500
Protective Land Acquisition	0	0	5,000	5,000
Autoprocessor Expansion at (DMT)	0	3,300	(3,300)	0
Changes in Scope or Projects Delayed				
Berth IV Container Storage (SMT)	6,350	(325)	550	6,575
Niche Warehouse (DMT)	200	(200)	200	200
Roll-On/Roll-Off Hub Facility, Phase 1 (DMT)	2,000	(2,000)	2,000	2,000
Intermodal Container Transfer Facility Improvements (SMT)	1,000	(1,000)	4,000	4,000
Project Cash Flow Changes				
Hart-Miller Island Related Projects	5,136	(1,272)	1,272	5,136
Dredge Placement and Monitoring Program	44,069	(22,091)	4,435	26,413
Masonville Auto Facility Phase 1	0	4,491*	(4,491)	0
Lot 400 Forest Products Warehouse (DMT)	7,600	(1,767)	(5,029)	804
Rehabilitation of Berths 1-6 (DMT)	5,350	(4,605)	9,705	10,450
Dredge Material and Placement Options Program	2,929	1,325	1,474	5,728
C&D Canal Deepening	156	(83)	485	558
Studies: Facilities Plan, Rail Improvements	100	126	(226)	0
Completed Projects				
Roll-On/Roll-Off Warehouse (SLP)	0	71	(71)	0
Minor Projects Changes	17,000	(3,100)	25,500	39,400
Other Changes	3,233	(4,566)	4,829	3,496
Total Changes	**$95,123**	**($31,696)**	**$51,833**	**$115,260**

* Funds from the Maryland Transportation Authority
Note: Numbers may not sum to total due to rounding.
DMT = Dundalk Marine Terminal SLP = South Locust Point Marine Terminal SMT = Seagirt Marine Terminal

Source: Maryland Department of Transportation, *2001 Consolidated Transportation Program*

Minor project expenditures increase 183.5% over the fiscal 2001 working appropriation. Routine rehabilitation and improvement projects at all MPA-owned terminals drive this increase. In particular, demolition of several old structures; new crane equipment and repairs; repaving Seagirt Marine Terminal; and an increase in a port-wide engineering and design contract explain the majority of minor project spending in fiscal 2002.

Updates on Existing Projects

The scope of several projects has changed, causing either a delay in design or construction.

- ***Rehabilitation of Berths 1-6 at Dundalk Marine Terminal:*** The fiscal 2002 allowance provides $10.5 million for design and reconstruction of berths five and six. This is an increase of $9.7 million over the fiscal 2001 working appropriation. The project encountered design delays but MPA expects construction to begin early in fiscal 2002.

- ***Intermodal Container Transfer Facility Improvements:*** Improvements such as connecting the Canton Railroad track to the Norfolk Southern track, obtaining the Canton warehouse site for additional container storage, and gate improvements at the intermodal container transfer facility, increase the fiscal 2002 allowance by $4 million. The project was delayed while details on obtaining the Canton warehouse site were negotiated.

- ***Dredge Material and Placement Options:*** Funding for developing and engineering additional dredge material placement options increases by $1.5 million over the fiscal 2001 working appropriation.

- ***Niche Warehouse:*** This facility was previously envisioned as a refrigerated warehouse complex. However, MPA indicates that the current market makes construction of a refrigerated warehouse at the Port of Baltimore unfeasible. MPA is working to design a 100,000 square foot warehouse for niche cargoes such as forest products or breakbulk commodities. The allowance provides $200,000.

- ***Facilities Plan:*** In 1998 MPA began working on a long-term document that would ostensibly guide the use of the state-owned facilities in conjunction with an existing strategic plan. Completion of the facilities plan was delayed while MPA officials prepared for a potential deal with Maersk-Sealand. After Maersk-Sealand selected New York/New Jersey for its operations, MPA was able to resume work on the plan, which was released in January 2001. The plan, at a total cost of $800,000, provides details on existing infrastructure and plans for future infrastructure as demand and cargo volume warrants.

Issues

1. MPA Business Trends

MPA is responsible for stimulating waterborne commerce through the Port of Baltimore. MPA provides marketing, operations, and maintenance services, and ensures that the State's navigable waters are safe for efficient commercial navigation. MPA principally focuses on the operation of five public marine terminals at the Port of Baltimore: Dundalk Marine Terminal, Seagirt Marine Terminal, South Locust Point, North Locust Point, and Fairfield.

MPA generates revenues from charges to shipping companies and terminal tenants for dockage, wharfage, stevedoring, crane usage, and cargo storage. Revenues are deposited in the Transportation Trust Fund (TTF) and stevedoring charges are recovered from shipping line payments. The TTF funds the MPA's operating and capital budgets. **Exhibit 5** provides MPA revenues and expenses for fiscal 1995 through 2005.

Exhibit 5

MPA Actual and Projected Operating Revenues and Expenditures
Fiscal 1995 through 2005
($ in Thousands)

	1996 Actual	1997 Actual	1998 Actual	1999 Actual	2000 Actual	2001 Projected	2002 Projected	2003 Projected	2004 Projected	2005 Projected
Revenues	$43,811	$45,504*	$61,537	$67,802	$73,082	$75,513	$77,736	$77,973	$78,219	$78,600
Expenses**	47,205	51,188	68,182	70,948	75,282	82,655	85,750	86,407	86,771	87,143
Exclusions	(7,047)	(6,619)	(8,138)	(7,991)	(7,520)	(10,284)	(10,381)	(10,681)	(10,981)	(11,281)
Excess Revenue	$3,653	$935	$1,493	$4,845	$5,320	$3,142	$2,367	$2,247	$2,429	$2,738

* In fiscal 1998, MPA began to pay for stevedoring services at some MPA-owned terminals. These fees are recovered from the shipping lines.
** Excludes expenditures for payments in lieu of taxes, Baltimore Marine Fire Suppression, certain capital equipment, and all lease payments to MdTA.

Source: Maryland Port Administration

MPA's fiscal 2000 balance sheet shows actual operating revenues totaling $73.1 million and expenses totaling $67.8 million, resulting in an apparent profit of $5.3 million. For fiscal 2002, the allowance projects $77.7 million in operating revenues and $75.4 million in expenses, resulting in a profit of $2.4 million.

MPA's Balance Sheet Does Not Reflect All Operating Expenses

Each year the TTF provides funds for other MPA operating expenses that the administration has chosen to transfer out of its operating budget, or exclude when calculating MPA's expenses, including payments in lieu of taxes (PILOTS), marine fire suppression payments made to Baltimore City, two lease payments to the MdTA for capital projects at the Seagirt Marine Terminal, and one lease payment to MdTA for the Masonville Auto Processing Terminal which was added in fiscal 2001.

For fiscal 2002, these unreflected expenses total $12.5 million, including:

- $675,485 for payments in lieu of taxes;
- $1,340,000 for capital equipment;
- $1,399,940 for Marine fire suppression;
- $1,674,000 for MdTA Masonville Auto Processing Terminal lease payment;
- $6,800,000 for MdTA Seagirt Marine Terminal; and
- $567,000 for MdTA Seagirt Marine Terminal Berth IV

When these unreflected expenses are left in MPA's fiscal 2002 balance sheet, MPA requires a $10.1 million subsidy from the TTF to cover all operating expenses. This is a considerable change from the $2.4 million profit that MPA's budget reflects. **Exhibit 6** illustrates the magnitude of TTF support between fiscal 1995 and 2005 (projected) where all unrecognized MPA operating expenses are counted.

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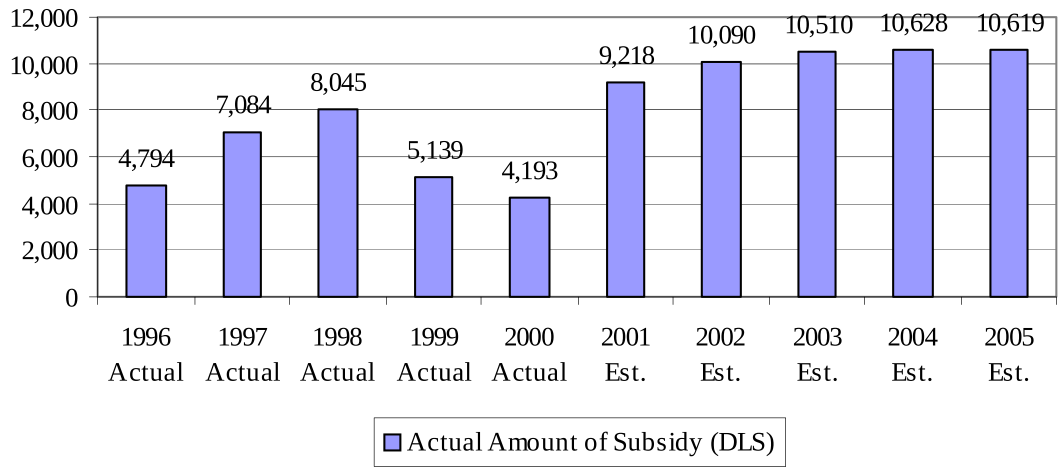
DLS recommends that MPA discuss the port's current balance sheet and the TTF subsidy. Adoption of the following committee narrative is also recommended:

Truth in Budgeting of All Port Operating Expenses: The committees are concerned that the MPA balance sheet and operating budget do not fully disclose all operating expenses. It is the intention of the committees that the MPA balance sheet and operating budget include all MPA operating expenses, including leases, payments in lieu of taxes, and marine fire suppression costs.

Exhibit 6

TTF Subsidy of MPA Operations Including Unrecognized Operating Expenses

($ in Millions)



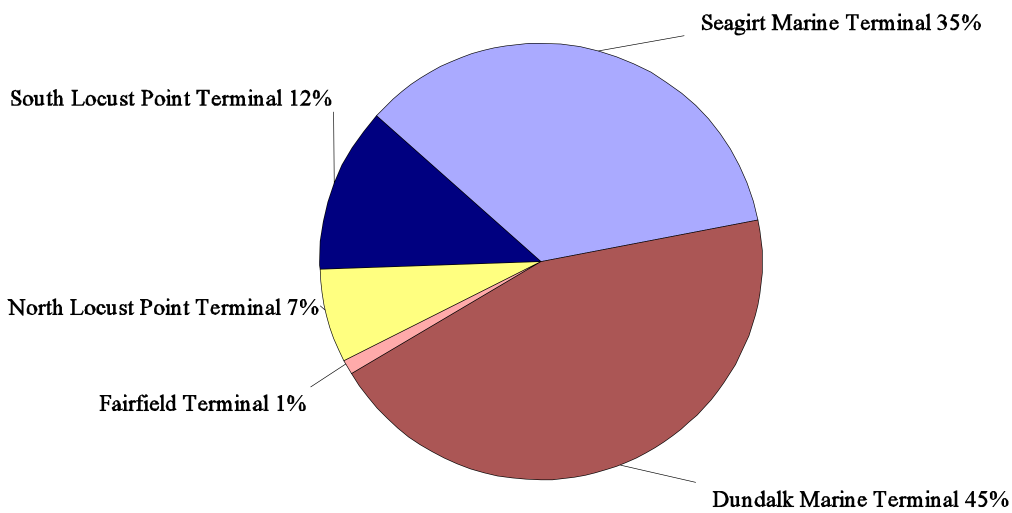
Source: Department of Legislative Services

Dundalk Marine Terminal Serves as MPA's Primary Public Terminal

The most active public facility of the five public terminals MPA operates is the Dundalk Marine Terminal (DMT). DMT handled approximately 45.5 % of MPA's total cargo tonnage in fiscal 2000, a decrease of 1.5% compared with fiscal 1999. This small decrease can be attributed to the loss of Maersk-Sealand traffic when the company relocated its load center to Port Elizabeth, New Jersey. While cargo decreased marginally at DMT, the volume of wood pulp and paper product cargo increased 30% over the same period at North Locust Point. The volume of imported vehicles increased 22% at the Fairfield Auto Terminal. Seagirt Marine Terminal (SMT), which opened in 1990 to handle container cargo, handled approximately 34.5% of the cargo flowing through the Port of Baltimore during fiscal 2000, up 10% from fiscal 1999. **Exhibit 7** provides the share of total cargo handled by each of MPA's facilities during fiscal 2000.

Exhibit 7

MPA Share of Total Cargo at Public Terminals
Fiscal 2000



Source: Maryland Port Administration

MPA Terminals Primarily Handle General Cargo

MPA terminals handled approximately 6.7 million tons of total cargo in fiscal 2000. Of that amount, as shown in **Exhibit 8**, approximately 232,000 tons (3.5%) was bulk cargo which includes latex and molasses. Bulk cargo primarily travels through private terminals at the port; MPA facilities only handle approximately 1.2 % of the port’s total bulk cargo in fiscal 2000. The majority of the cargo (96.5%) that traveled through MPA’s public terminals in fiscal 2000 was general cargo which includes forest products, automobiles, Ro/Ro machinery, and containers. MPA facilities handle approximately 91% of the port's total volume of general cargo. Significant changes in the port's cargo volume include:

- ***Containerized Cargo:*** Containerized cargo accounts for the majority of cargo traffic, 66.6% in fiscal 2000, using MPA facilities. Since fiscal 1995, containerized cargo’s share of MPA’s total business has decreased slightly as other types of cargo have experienced growth.

- ***Forest Products:*** The volume of forest products has seen explosive growth in the last five fiscal years, increasing 91%, or 388,786 tons. In particular, much of this growth occurred between fiscal 1999 and fiscal 2000 due to additional port facilities coming on-line and additional business attracted by a terminal operator bringing imported wood pulp and finished paper products.

- ***Automobiles:*** Since fiscal 1998, the volume of automobiles at the Port of Baltimore increased by 22.8%.

- ***Roll-On/Roll-Off:*** Ro/Ro grew significantly during the period fiscal 1997 and 1999; however, in fiscal 2000 Ro/Ro decreased by 11.8% over fiscal 1999. This change occurred as growth in the farm and construction equipment industry slowed during fiscal 2000.

Exhibit 8

Volume of Total Cargo by Cargo Type for all Terminals
Fiscal 1995 through 2005
(Short Tons)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General Cargo										
Containers	4,393	4,330	4,409	4,347	4,467	4,543	4,621	4,700	4,781	4,864
Breakbulk	322	299	335	336	335	340	345	350	355	361
Ro/Ro	347	409	498	507	448	454	461	468	475	483
Steel/Metals	302	210	179	77	88	89	90	91	92	94
Forest Products	427	412	520	544	814	833	850	867	885	903
Automobiles	234	280	266	316	327	333	339	346	353	360
Subtotal	**6,025**	**5,941**	**6,207**	**6,128**	**6,478**	**6,592**	**6,706**	**6,822**	**6,941**	**7,065**
Percent of Total Cargo	94.8%	93.4%	93.9%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%
Bulk Cargo										
Liquid Bulk	330	422	400	221	232	236	241	246	251	256
Percent of Total Cargo	5.2%	6.6%	6.1%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Total	**6,355**	**6,363**	**6,607**	**6,349**	**6,711**	**6,828**	**6,947**	**7,068**	**7,192**	**7,321**

Source: Maryland Port Administration, December 2000

2. Port of Baltimore Market Share and Niche Port Status

MPA's strategic plan specifically identifies seven types of cargo that it intends to develop and grow at the port including: Ro/Ro, automobiles, forest products, refrigerated cargo, steel, containers, and other breakbulk cargo. In addition, the administration's MFR statement includes several performance measures, provided in Exhibit 2, detailing the port's market share of four of these strategic cargos. **Exhibit 9** details the current share of each of these types of cargo at the four largest ports in the North Atlantic: New York/New Jersey, Philadelphia, Baltimore, and Norfolk.

Baltimore handles the majority of Ro/Ro cargo and shares the auto market with ports in New York and New Jersey. Most of the container volume flowing through North Atlantic ports is handled by New York/New Jersey or Norfolk. Baltimore also has a sizable share of the forest products volume compared to other North Atlantic ports.

Exhibit 9

Baltimore's Market Share in the North Atlantic
Calendar 1999
(Short Tons or 1000 TEU)

	New York/ New Jersey		Philadelphia		Baltimore		Norfolk	
	Volume	% Share	Volume	% Share	Volume	% Share	Volume	% Share
Containers	2,028	63%	89	3%	255*	8%	829	26%
Automobiles	953	63%	0	0%	556	37%	0	0%
Ro/Ro	0	0%	0	0%	384	81%	93	19%
Forest Products	153	6%	1,128	46%	676	28%	473	20%
Refrigerated**	33	3%	987	97%	0	0%	0	0%
Steel/Metals	0	0%	4,703	92%	312	6%	107	2%

* In calendar 1999, an additional 161,000 TEU were shipped to Baltimore from other U.S. ports.
** Refrigerated cargo figures for Philadelphia includes tonnage for Wilmington, Delaware.
All tonnage is for non-containerized cargo except containers.

Source: Maryland Port Administration

Why Is Containerized Cargo Important?

The trend to containerization of cargo across the world flows from the need to economize the cost of shipping. Ships, in particular container ships, have grown larger and require deeper channels. Furthermore shipping lines continue to consolidate and share space on ocean carriers. By reducing the number of ports of call and increasing the amount of cargo carried on each ship, shippers, manufacturers, and carriers are able to realize stronger profits. As a result, competition among ports with the capability to handle containerized cargo is fierce. Without containers ports are relegated to niche port status, whereby the port specializes in certain types of cargo.

MPA constructed the Seagirt Marine Terminal at a cost of approximately $218 million in 1990 with the hope of growing the amount of containerized cargo imported and exported through the Port of Baltimore. Despite this investment, Exhibit 9 shows the limited share of the container business handled by the Maryland-owned terminals. Baltimore has carved out a role in handling other niche types of cargo such as Ro/Ro, autos, and forest products.

MPA's strategic plan focuses the administration's resources on the types of cargo that MPA is most likely to attract. MPA has done a fine job of achieving the goals set out in its strategic plan. In addition, MPA has done well with a niche cargo strategy, especially in light of the strengths of other North Atlantic competitors, including New York, Philadelphia, and Norfolk. MPA should focus its attention on continuing to develop its name as a niche port rather than point to containers as the necessary type of cargo to make the port profitable. Baltimore's inland location, rail and highway access, and two waterway entrances (although one entrance is limited by a 35 foot depth) make it an ideal niche port. Focusing on niche cargo will not make the Port of Baltimore any less of a competitive port in the North Atlantic.

MPA should discuss its future plans for growing the volume of niche cargo at the Port of Baltimore. MPA should also discuss the strategic plan's role of the success in growing this cargo in recent years.

3. Corps of Engineers Says "Not Now" to MPA C&D Canal Deepening Project

MPA has proposed deepening the Chesapeake and Delaware (C&D) Canal system from the current 35 feet depth to 40 feet. The proposal was based on the perceived need for a shorter passage for southbound container ships traveling from the North Atlantic to reach the Port of Baltimore or northbound ships making inland stops in Baltimore. Currently large container ships can only approach the port from the South by traveling 150 miles up the Chesapeake Bay, bypassing another large container port in Norfolk, Virginia. If the C&D canal were deepened to allow passage for larger ships, MPA believes that they could realize an increase in containerized cargo and an increase in overall cargo business for the port.

The U.S. Army Corps of Engineers is responsible for evaluating and issuing permits for dredging US waterways. The corps is also responsible for managing the projects in many cases. Prior to issuing its recommendation, the corps conducts several feasibility, economic, and environmental studies. The corps was nearing completion of an economic study of the C&D Canal dredging project when MDOT requested that the C&D Canal project be deferred for future study, rather than be canceled. MPA believes that future growth in containerized cargo would again justify the need for the project. MDOT requested the deferment over concerns that the corps would recommend canceling the project altogether. This action would have also canceled the federal authorization for the project. The corps granted MDOT's request stating: "based on recent downturns in container ships calling on the Port of Baltimore, it is unlikely there is federal interest in proceeding with the C&D Canal project at this time."

If the corps had issued a favorable report, MPA would have contributed 25% of the cost of the project; approximately $12 million from the Transportation Trust Fund. In addition MPA would be responsible for the placement of part of the silt dredged from the C&D Canal, estimated to be approximately six million cubic yards.

MPA believes that the following economic factors caused the corps to grant the deferment of the project: the number of container calls to the port had decreased; container ship usage of the C&D Canal, (of those ships that could have passed through the canal) had also decreased; and vessel operating costs worldwide were at the lowest point in ten years. Vessel operating costs are calculated as the total operating and capital costs of a ship and are important in determining the actual benefit of a deeper C&D Canal in terms of time saved to container ship companies.

Given the decrease in container volume at the Port of Baltimore, MPA should comment on the continued desire to deepen the C&D canal. In addition, in light of the U.S. Army Corps of Engineers decision, DLS recommends deletion of funding for the C&D canal project in the fiscal 2002 allowance.

4. Dredging and Sediment Strategic Plan at the Port of Baltimore

Annually the U.S. Army Corps of Engineers, in coordination with MPA, conducts routine maintenance dredging of the Port of Baltimore navigation channels, producing four to five million cubic yards (mcy) of dredged material. MPA advises that maintenance dredging of the berths is required every five to six years. The inner harbor channels require maintenance dredging every two years; however, some main channels require dredging every year due to water flowing from other sources, such as the Susquehanna River. New projects such as deepening or widening of channels beyond their current depths, deepening of berths, or new construction projects can add significantly each year to the amount of dredge material that MPA must manage and deposit. The fiscal 2002 allowance provides $26.4 million for dredge placement and monitoring.

MPA has developed a variety of placement options in accordance with the *Governor's Strategic Plan for Dredged Material Management, August 1996*, focusing on three main categories: open water, containment, and beneficial use. Each of these types vary in cost with the most expensive option, beneficial use, balancing out lower cost options such as open water placement, to yield affordable costs per cubic yard in the long-term for the total program.

The 2000 *Joint Chairmen's Report* requested MPA to update this dredging plan in light of changing dredging needs, including new capital projects and the availability of placement sites. Several significant changes increased the need for a new planning document. In particular, in July 2000, Site 104 was removed as a placement option for material dredged from the Chesapeake Bay over concerns about the negative effects on water quality which might result from placement of dredged material. In addition, the corps decision in January 2001 to defer work on the C&D canal, although too late to be incorporated into

MPA's JCR response, defers the need for placement of approximately six mcy of dredged material.

Existing or Potential Placement Options

MPA is currently considering four main categories of placement options for new dredged material placement capacity consisting of at least 24 projects. Existing sites are listed on **Exhibit 10**. Near-term Options, which require development time of five to ten years, include modifying Poplar Island; developing a beneficial use project at Parsons Island or Eastern Neck Island; an innovative use site at Furnace Bay in Cecil County; or ocean placement.

Exhibit 10

Strategic Plan for Dredged Material Management for the Port of Baltimore
Plan 2000 -- Demand vs. Placement Capacity
Fiscal 2001 through 2010 (mcy)

	Total	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Dredging Demand											
Annual Maintenance	40.5	3.3	4.6	4.0	4.6	4.0	4.0	4.0	4.0	4.0	4.0
C & D Deepening	6.2		3.1	3.1							
DMT Berths and SMT Berths	6.2			1.5	3.4	1.3					
Baltimore Harbor Anchorages	5.0		2.5	2.5							
Tolchester S-Turn	3.0	3.0									
Brewerton Extension	2.5	2.5									
Swan Point	0.7			0.7							
Masonville Cargo Terminal	5.0					0.5	2.5	2.0			
Dredging Demand Total	**69.1**	**8.8**	**10.2**	**11.8**	**8.0**	**5.8**	**6.5**	**6.0**	**4.0**	**4.0**	**4.0**
Placement Capacity											
Existing Sites											
Pooles Island	7.4	1.2	3.1	3.1							
Hart-Miller Island North Cell	19.5	2.1	3.1	4.0	4.0	1.8	2.5	2.0			
Cox Creek	4.5		0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Poplar Island Restoration	20.2	5.5	3.5	4.2	3.5	3.5		see Near-term Option			
Future Options											
Near-term and Long-term Development	17.5						3.5	3.5	3.5	3.5	3.5
Placement Capacity Total	**69.1**	**8.8**	**10.2**	**11.8**	**8.0**	**5.8**	**6.5**	**6.0**	**4.0**	**4.0**	**4.0**

	Total	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010

Source: Maryland Port Administration

Long-term beneficial use options with development time of over ten years include the following:

- James Island;
- Upper Bay Island Placement Sites: Tolchester West, Tolchester/Brewerton Angle, Swan Point West, Swan Point West (submerged island), three Pooles Island sites, and the mouth of the Patapsco River;
- Barren Island;
- Holland Island;
- Sparrows Point; and
- Soller Point Containment Facility.

In addition MPA is investigating several innovative use projects including: Cox Creek, mines and quarries, and agricultural innovative uses.

Overloading Placement Sites Reduces Efficiency of Dredged Material Program

Currently, MPA estimates that existing placement sites provide eight years of adequate capacity. However, the effect of removing Site 104 from the list of placement sites, which was to take up to 18 mcy of dredged material, will require moderate overloading of existing placement sites to allow all currently planned maintenance and new dredging work to take place. **Exhibit 11** shows differences between the dredging plan presented during the 2000 legislative session for fiscal 2001 and the updated fiscal 2002 plan in terms of the volume of material MPA expects to locate at each of the placement sites.

Exhibit 11

Placement Site Usage Differences Between Fiscal 2000 and 2001 Dredging Plan
Fiscal 2001 through 2005 (million cubic yards)

	2001	2002	2003	2004	2005
Pooles Island -- 2001 Plan	1.2	1.2	1.2	1.2	0.0
Pooles Island -- 2002 Plan	1.2	3.1	3.1	0.0	0.0
Change	**0.0**	**1.9**	**1.9**	**(1.2)**	**0.0**
Hart-Miller Island -- 2001 Plan	2.2	2.0	3.5	3.4	3.0
Hart-Miller Island -- 2002 Plan	2.1	3.1	4.0	4.0	1.8
Change	**(0.1)**	**1.1**	**0.5**	**0.6**	**(1.2)**
Poplar Island -- 2001 Plan	2.9	2.0	2.0	2.0	1.9
Poplar Island -- 2002 Plan	5.5	3.5	4.2	3.5	3.5
Change	**2.6**	**1.5**	**2.2**	**1.5**	**1.6**
CSX/Cox Creek -- 2001 Plan	0.5	0.5	0.6	0.5	0.5
CSX/Cox Creek -- 2002 Plan	0.0	0.5	0.5	0.5	0.5
Change	**(0.5)**	**0.0**	**(0.1)**	**0.0**	**0.0**
Total -- 2001 Plan	6.8	5.7	7.3	7.1	5.4
Total -- 2002 Plan	8.8	10.2	11.8	8.0	5.8
Total Change	**2.0**	**4.5**	**4.5**	**0.9**	**0.4**

* Site 104 was removed as a placement option in July 2000

Source: Maryland Port Administration

As Exhibit 11 indicates, Poplar Island will be overloaded, capacity at that site will be reduced, and its useful life reduced from 20 years to 9 years. Hart-Miller Island will be overloaded, reducing its useful life by one year. MPA indicates that overloading is necessary due to the long lead time in developing placement sites and the need to continue with currently planned projects. DLS notes, however, that over time, overloading placement sites requires greater placement capacity than if existing sites are not overloaded and alternative sites are developed.

DLS is concerned about the potential for inefficient use of existing dredged material placement capacity and the potential for shortening the life of existing placement sites.

Legislation May Have Effect on MPA's Ability to Place Dredged Material

At least three bills concerning placement of material dredged from the Chesapeake Bay or Baltimore Harbor have been introduced during the 2001 legislative session. These bills are summarized below:

- ***House Bill 72 -- Chesapeake Bay Dredged Material Management:*** The bill changes the existing statutory definition of an area in the bay known as the deep trough to also include Site 104.

- ***House Bill 402 -- Dredge Spoil - Redeposit -- Cox Creek:*** The bill prohibits the placement of dredge material from any location except an Anne Arundel County tributary within five miles of the Cox Creek Dredge Disposal site.

- ***Senate Bill 527 -- Dredge Spoil -- Cox Creek Citizens Oversight Committee:*** The bill establishes a Cox Creek Citizens Oversight Committee to monitor the redeposit of dredge spoil and respond to citizen complaints in the Cox Creek area.

DLS recommends that the administration discuss the effect these bills may have on MPA's ability to continue dredging operations.

5. Audit Finds Procurement Issues at the MPA

In April 2000 the Office of Legislative Audits (OLA) released an audit of MPA covering the period July 1, 1996, through July 31, 1999. The report contained 12 findings, including six repeat findings. Specifically OLA raised the following major issues:

- State procurement practices were not followed in obtaining stevedoring services for the Port of Baltimore;

- MPA's procurement practices did not assure that stevedore and marine terminal services were obtained at the lowest cost;

- Board of Public Works (BPW) approval was not obtained for all modifications made to existing contracts; and

- accrued expenditures in fiscal 1999 of $4 million could not be verified.

State Procurement Rules vs. Business Opportunities

Chapter 9, Acts of 1990, authorized the MPA to create a separate but wholly owned terminal operating company, Maryland International Terminals (MIT), to operate the Seagirt Marine Terminal. Creating MIT allowed MPA to provide stevedoring, crane operations, and other services at a lower cost than individual shipping lines using the port could arrange themselves. Specifically MPA, through MIT, contracted with ITO Corporation for stevedoring services at Seagirt. The port's other state-owned terminals were operated by individual companies on behalf of the State. MPA acts only as the landlord for these terminals.

In 1997 Ceres International ceased terminal operations at Dundalk Marine Terminal. In order to continue uninterrupted operations at Dundalk, MPA took over operating Dundalk through MIT as a shortterm solution and utilized ITO Corporation to provide stevedoring services at Dundalk. MPA, however, never formally modified the contract with ITO for stevedoring services.

In addition, MPA did receive BPW approval for a one-year stevedoring services contract totaling $4.2 million at Dundalk. MPA did not seek BPW approval when actual expenditures exceeded the authorized amount by $6.7 million. MPA did not advise BPW of these additional costs and instead only processed a budget amendment to increase their annual appropriation.

In 1998 the existing stevedoring contract was set to be rebid. The request for proposals (RFP) for a three-year contract for stevedoring services totaling $35 million only identified Seagirt and did not inform potential bidders that significant services would be required at Dundalk throughout the contract period. The auditors noted that this amounted to a material omission, in that Dundalk was a key component of the contract, amounting to 44% of the total stevedoring services to be required under the contract. Since MPA had made the decision to continue to have MIT operate Dundalk with ITO providing stevedoring services, Dundalk should have been specifically noted in the RFP.

Furthermore the full amount of the three-year contract was exhausted in approximately one-year as business volume rose dramatically and the majority of the contract appropriations were used to fund operations at Dundalk. MPA had to obtain a $64 million contract modification to fund these services. The auditors found that MPA did not advise BPW as they should have, of all of the pertinent aspects of the contract modification, although they did request BPW approval.

Stevedoring Services May Not Have Been Obtained at the Lowest Cost

When the contract for stevedoring services to be provided through MIT was rebid in 1998, the RFP allowed a 35-day response time. While this was within State procurement regulations, the auditors recommended that for contracts of significant scope, as was the MIT stevedoring contract, this period should have been expanded so as to allow for a greater pool of applicants. The response time allowed for this contract did not vary significantly from bid time allowances for smaller contracts. As a result, only two bidders responded to the RFP. The auditors noted the lack of sufficient time to prepare a bid may have contributed to the limited number of responses.

MPA Modified Scope of Existing Contract without BPW Approval

The audit also found that MPA spent $231,331 for renovations to its non-revenue producing leased offices at Point Breeze using excess funds of $147,173 from other BPW-approved contracts as well as additional funds of $84,158. These unauthorized renovations were performed by the same contractors that had been approved for similar contracts including renovations to revenue-producing offices at the World Trade Center property in Baltimore. MPA did not obtain BPW approval for this change in scope.

Unsupported Accrued Expenditures of $4 Million

The audit noted that MPA could not provide documentation to substantiate certain fiscal 1999 year-end expenditure accruals totaling approximately $4 million. The State's Policy on Accounts Payable, Accrued Expenditures and Encumbrances issued by the State Comptroller requires that documentation be maintained to support all accounting entries recorded as accrued expenditures. Unsubstantiated expenditures should not be recorded as accruals and the funds should revert to the Transportation Trust Fund (TTF) at year-end. The audit also found a lack of documentation for expenditure accruals for fiscal 1997 and 1998.

MPA Response to Audit Findings

MPA defended their actions to the Joint Audit Committee on July 11, 2000, by indicating that some business opportunities require immediate action to satisfy the customers' need and BPW approval can not always be sought in advance. MPA believes it would not have been beneficial to the State if MIT had not stepped in to operate Dundalk. To protect the State's interests, immediate action had to be taken. Per the auditor's recommendations, MPA amended the current contract with the ILA to indicate that Dundalk is included in the service area as of August 2, 2000. MPA also indicated that they intend in the future to receive BPW approval for all contract changes, and will extend the RFP response time on future stevedoring contracts. Finally, MPA properly reverted to the TTF the $4 million in unsubstantiated accrued expenditures on March 3, 2000.

DLS recommends that MPA report on what steps and administrative processes have been established to ensure compliance with State law in the future.

New Stevedoring Contract to be Awarded

The existing stevedoring contract with ITO Corporation, and the subject of many of the auditor's concerns, expires in April 2001. MPA issued separate RFP's for Dundalk and Seagirt Marine Terminals in December 2000, allowing for a sixty-day response period. Bids have been received and MPA expects to present the contract to the BPW by March 2001.

MPA should brief the committees on the new stevedoring contract, including the possibility for any increase in cost over the fiscal 2002 allowance of $38.3 million.

6. Rail Access at the Port of Baltimore Public Marine Terminals

MPA promotes Class I railroad services in marketing the use of the port to the world shipping community. Most of the commodities targeted in the port's strategic plan, particularly autos, forest products, and Ro/Ro necessitate some type of rail service. Seagirt Marine Terminal, South Locust Point, and North Locust Point are directly served by CSX railroad. Construction of connecting rail track to CSX tracks at the Masonville Auto Terminal is underway and MPA expects completion by fall 2001. Dundalk

Marine Terminal is served by Norfolk Southern Railroad (NS). In addition, two shortline railroads, Canton and Patapsco Back River, serve as local switching railroads interchanging rail cars to both CSX and NS.

Rail Car Ferry Service

The 2000 *Joint Chairmen's Report* directed the MPA to study the possibility of reactivating cross-harbor rail car float operations, which ceased in the late 1950s. In this type of operation, rail cars are loaded onto a barge at one terminal and ferried between marine terminals, potentially providing open access to both the NS and CSX rail networks without the added cost of construction of connecting tracks.

Each of the terminals could be served by both railroads, but the limited reciprocal switching arrangements between CSX and NS to allow rail cars on one set of tracks to switch to another effectively restricts these terminals to one primary railroad. At the current time, most situations regarding the need for dual rail service have been resolved with service agreements between CSX, NS, and port customers.

MPA estimates that, should the need arise to initiate this type of service, two barges would be necessary to ferry rail cars. Preliminary estimates to implement a rail car float operation between Seagirt and South Locust Point, including the use of existing MPA equipment, facilities, and labor arrangements as well as procuring new facilities, are $10-15 million.

DLS recommends that MPA brief the committees on the need and viability of rail car float service at the Port of Baltimore.

Operating Budget Recommended Actions

		Amount Reduction		Position Reduction
1.	Delete funding for the supplemental benefit program. MPA began offering this program to offset the medical expense costs of State employees who were located in MPA field offices around the U.S. State medical insurance plans would not cover these expenses as they were considered out-of-network. Employees were required to pay the higher costs for all of their medical coverage. As of fiscal 1997, the State's medical plans have changed their policy on the eligibility of State employees living outside Maryland. As a result the funds for this program are no longer necessary.	$ 5,000	SF	
2.	Delete rent for the MPA office space at the Point Breeze office complex. MPA currently leases the top floor at a total annual cost of approximately $445,000. The fiscal 2002 capital program provides $5 million for MPA to purchase this building and associated land and structures, negating the need for ongoing lease payments.	$ 445,000	SF	
3.	Reduce utility costs for buildings to be demolished in fiscal 2002. The capital program includes funds for demolition of three port structures: the fruit pier at South Locust Point, building B-1 at Dundalk Marine Terminal, and the Airport Tower at Dundalk. The operating budget, however, provides funds for utility costs for these structures. As it will not be necessary to continue to provide electricity, steam, oil, or water service to these structures once demolition is complete, utility costs calculated on a per square foot basis, should be deleted.	$ 58,489	SF	
4.	Delete Deputy Executive Director position as the position has been vacant over two years. The position is not required by State law. Insofar as the MPA managerial functions have been accomplished without filling this position, it should be deleted.	$ 137,035	SF	1.0
5.	Reduce replacement of personal computers (PCs). The fiscal 2002 allowance includes $429,504 for replacement of 177 PCs and 22 notebook computers.	$ 225,129	SF	

MPA currently employs 311 individuals. Replacement of approximately 75% of the agency's data processing equipment in one fiscal year is an excessive expense. Furthermore, the request is overbudgeted by $20,753 when the current costs supplied by the Department of Budget and Management are used to calculate the replacement cost of each type of computer. DLS recommends that MPA be advised to replace half of the computers contained in the fiscal 2002 allowance in fiscal 2002 and request replacement of the remaining equipment in subsequent fiscal years.

6. Delete grants, subsidies, and contributions for non-essential activities. MPA indicates that these funds are used for goodwill tours, promotions, and scholarships. Insofar as these grants do not directly support MPA's goals and objectives, funding should be deleted. — $ 294,000 SF

7. Adopt the following narrative:

Truth in Budgeting Port Operating Expenses: The committees are concerned that the Maryland Port Administration (MPA) balance sheet and operating budget do not fully disclose all operating expenses. It is the intent of the committees that the MPA balance sheet and operating budget include all MPA operating expenses, including leases, payments in lieu of taxes, and marine fire suppression costs.

Total Special Fund Reductions	**$ 1,164,653**	**1.0**

PAYGO Capital Budget Recommended Actions

		Amount Reduction		Position Reduction
1.	Delete funds for C&D Canal Deepening project. In January 2001 the U.S. Corps of Engineers decided to delay consideration of the necessity of the C&D Canal Deepening project for three years. As a result funds provided for further engineering work in fiscal 2002 will not be necessary.	$ 400,000	SF	
	Total Special Fund Reductions	**$ 400,000**		

Updates

1. Private Sector Interest in a Refrigerated Warehouse Is Lacking

During the 2000 legislative session, the General Assembly adopted budget bill language that restricted $200,000 and required the MPA to provide details on both the possibility of a private entity constructing and operating an on-dock, breakbulk refrigerated warehouse facility, and the potential market for refrigerated cargo at the Port of Baltimore. MPA was asked to report specifically on available market opportunities and potential customers; efforts undertaken by MPA to maximize the use of private funds; existence of proposals for the development, construction or operation of the facility; proposed locations for the facility; and the status of labor of agreements.

The 2001 CTP no longer includes this project. Instead, the refrigerated warehouse is being redesigned for construction of a niche cargo warehouse. MPA has neither specifically identified the type of cargo nor an entity that will likely make use of this facility, but expects it to be suitable for forest products or breakbulk commodities. MPA noted that due to the lack of interest, a refrigerated warehouse is not feasible at this time.

2. Innovative Uses of Dredged Material

The 2000 *Joint Chairmen's Report* requested the formation of two groups: a task force to study the use of Lower Eastern Neck Island as a dredge material placement site and an advisory group on innovative and beneficial uses of dredge material. Both groups were charged with reporting to the budget committees with their findings.

The Lower Eastern Neck Island and Parsons Island Task Force reported in December 2000 the following findings as to the potential use of either site as a dredged material placement site:

- ***Lower Eastern Neck Island:*** 1.0 mcy of dredged material could be placed at Lower Eastern Neck Island. The preliminary estimated cost of this project is $25 million or $25.00 per cubic yard.

- ***Parsons Island:*** 1.0 to 3.5 mcy of dredged material could be placed at the site at a cost of $36 million. This translates to $18.00 per cubic yard.

The task force noted that these cost are well above the per cubic yard costs of a current beneficial use project. The per cubic yard cost is $11.00 for Poplar Island. The task force stated that, pending completion of MPA-sponsored conceptual studies, there may be justification for feasibility studies including environmental impacts for either of these sites. Between fall 2001 and spring 2002, the task force expects to make a recommendation as to whether or not the projects should be funded.

The Advisory Group on Innovative and Beneficial Uses of Dredge Material submitted a report in October 2000. The group was asked to receive information on proposals and projects that demonstrate innovative and alternative uses of dredge material. The existing Cox Creek Innovative Use project, which began in December 1999, falls within the purview of the advisory group. MPA is asking vendors to aid

MDOT in identifying, evaluating, selecting, and testing systems for creating renewable dredged material placement capacity by processing or treating contaminated and uncontaminated dredged material to produce environmentally safe material or products and to help develop a market base for such material and products. The group was unable to fully evaluate the project; however, the project was in the beginning stages. MPA intends to brief the advisory group in spring 2001 on the proposal evaluation and testing process for the Cox Creek Innovative Use project once the bench scale testing phase and the pilot scale testing phase have been completed.

Appendix 1

Current and Prior Year Operating Budgets

Current and Prior Year Operating Budgets

Maryland Port Administration

($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimbursable Fund	Total
Fiscal 2000					
Legislative Appropriation	$0	$74,172	$0	$0	$74,172
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	1,111	0	0	1,111
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	**$0**	**$75,282**	**$0**	**$0**	**$75,282**
Fiscal 2001					
Legislative Appropriation	$0	$76,080	$0	$0	$76,080
Budget Amendments	0	6,575	0	0	6,575
Working Appropriation	**$0**	**$82,655**	**$0**	**$0**	**$82,655**

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

Major Changes in Current and Prior Year Appropriations

In fiscal 2000 the special fund appropriation increased by $1.1 million to provide funds for additional stevedoring services and personnel changes, including deferred compensation costs, the new 16-step salary scale, and pay for performance. Stevedoring is provided by MPA through a contract with ITO Corporation, and the expense is recovered from shipping line fees.

In fiscal 2001 the special fund appropriation increased by $6.6 million to provide funds for stevedoring services due to increased cargo volume at the Port of Baltimore as well as $500,000 for office equipment. MPA advised that it delayed office equipment purchases authorized for purchase in fiscal 2000 to cover increased stevedoring costs, and instead requested additional funds through the budget amendment process in fiscal 2001.

Object/Fund Difference Report
MDOT Maryland Port Administration

Object/Fund	FY00 Actual	FY01 Working Appropriation	FY02 Allowance	FY01 - FY02 Amount Change	Percent Change
Positions					
01 Regular	272.00	271.00	271.00	0	0%
02 Contractual	0.80	1.20	1.20	0	0%
Total Positions	**272.80**	**272.20**	**272.20**	**0**	**0%**
Objects					
01 Salaries and Wages	$ 15,447,339	$ 16,718,414	$ 17,862,813	$ 1,144,399	6.8%
02 Technical & Spec Fees	292,553	458,407	412,465	(45,942)	(10.0%)
03 Communication	351,475	339,869	359,035	19,166	5.6%
04 Travel	794,722	636,679	711,679	75,000	11.8%
06 Fuel & Utilities	3,009,149	2,917,630	2,918,247	617	0%
07 Motor Vehicles	695,034	1,115,691	864,521	(251,170)	(22.5%)
08 Contractual Services	43,953,351	46,884,048	48,915,140	2,031,092	4.3%
09 Supplies & Materials	1,333,616	1,125,815	1,228,952	103,137	9.2%
10 Equip - Replacement	228,428	313,187	645,124	331,937	106.0%
11 Equip - Additional	298,417	427,242	375,773	(51,469)	(12.0%)
12 Grants,Subsidies,Contr	286,685	294,000	294,000	0	0%
13 Fixed Charges	8,383,121	10,674,843	10,640,662	(34,181)	(0.3%)
14 Land & Structures	208,348	749,499	521,376	(228,123)	(30.4%)
Total Objects	**$ 75,282,238**	**$ 82,655,324**	**$ 85,749,787**	**$ 3,094,463**	**3.7%**
Funds					
03 Special Fund	$ 75,282,238	$ 82,655,324	$ 85,749,787	$ 3,094,463	3.7%
Total Funds	**$ 75,282,238**	**$ 82,655,324**	**$ 85,749,787**	**$ 3,094,463**	**3.7%**

Note: Full-time and contractual positions and salaries are reflected for operating budget programs only.

Fiscal Summary
MDOT Maryland Port Administration

Unit/Program	FY00 Actual	FY01 Legislative Appropriation	FY01 Working Appropriation	FY00 - FY01 % Change	FY02 Allowance	FY01 - FY02 % Change
01 Port Operations	$ 75,282,238	$ 76,080,149	$ 82,655,324	9.8%	$ 85,749,787	3.7%
02 Port Facilities and Capital Equipment	32,729,445	95,123,433	63,427,433	93.8%	115,260,291	81.7%
Total Expenditures	**$ 108,011,683**	**$ 171,203,582**	**$ 146,082,757**	**35.2%**	**$ 201,010,078**	**37.6%**
Special Fund	$ 108,011,683	$ 171,203,582	$ 146,082,757	35.2%	$ 201,010,078	37.6%
Total Appropriations	**$ 108,011,683**	**$ 171,203,582**	**$ 146,082,757**	**35.2%**	**$ 201,010,078**	**37.6%**

Appendix 4

Budget Amendments for Fiscal 2001

Maryland Port Administration
Maryland Department of Transportation

Status		Amount	Fund	Description
Approved	**(1)**	$144,678	SF Operating	Provides funding for the 4% cost-of-living adjustment (COLA) that went into effect November 15, 2000. The current appropriation funds the 2% COLA from January 1, 2001, through the end of the fiscal year. This amendment also funds the increased cost of salaries associated with the Annual Salary Review (ASR) that was effective July 1, 2000, for certain classifications related to attorneys, as well as the ASR that takes effect January 1, 2001, for certain fiscal and clerical classifications.
Approved	**(2)**	6,430,497	SF Operating	Provides funding for terminal operations at Seagirt Marine Terminal and Dundalk Marine Terminal as a result of unanticipated volume increases and labor changes. The Seagirt Marine Terminal and the Dundalk Marine Terminal expenses are offset by revenues. Purchase of vehicles and equipment was deferred to fiscal 2001 due to increased stevedoring costs in fiscal 2000.
Projected	**(3)**	1,200,000	SF Operating	To fund terminal operations based on December estimates of volume increases and service costs. Expenses offset by revenue.
Projected	**(4)**	173,415	SF Operating	Provide funding for the actual cost of the sick leave incentive program enacted in 2000.
Projected	**(5)**	($31,696,000)	SF Capital	Adjusts the amended appropriation to agree with the anticipated expenditures for the current year as reflected in the fiscal 2001 through 2006 Final Consolidated Transportation Program.

Source: Maryland Department of Transportation