J00D00
Maryland Port Administration
Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 02 Actual	FY 03 Approp.	FY 04 Allowance	FY 03 - 04 Change	FY 03 - 04 % Change
Special Funds	$86,803	$95,019	$94,438	-$581	-0.6%
Contingent & Back of Bill Reductions	0	-20	-151	-131	663.3%
Adjusted Special Funds	**$86,803**	**$94,999**	**$94,287**	**-$712**	**-0.7%**
Adjusted Grand Total	**$86,803**	**$94,999**	**$94,287**	**-$712**	**-0.7%**

- The fiscal 2004 allowance decreases by a total of $712,000 (1%) below the fiscal 2003 working appropriation.

- Small decreases are seen in the allowance for fuel and utilities ($200,000), computer and software services ($148,000), travel ($90,000), and personnel expenses ($84,000).

PAYGO Capital Budget Data

($ in Thousands)

	FY 02 Actual	FY 03 Approp.	FY 04 Allowance	FY 03 - 04 Change	FY 03 - 04 % Change
Special Funds	$85,457	$77,643	$92,143	$14,500	18.7%
Contingent & Back of Bill Reductions	0	0	-24	-24	0.0%
Adjusted Special Funds	**$85,457**	**$77,643**	**$92,119**	**$14,476**	**18.6%**
Federal Funds	0	0	1,325	1,325	0.0%
Adjusted Grand Total	**$85,457**	**$77,643**	**$93,444**	**$15,801**	**20.4%**

- The Maryland Port Administration's (MPA) capital program increases by $15.8 million (20%) in fiscal 2004 over the fiscal 2003 working appropriation.

- Most of the increase in 2004 is attributed to dredge placement and rehabilitation of berths 1-6 at the Port of Baltimore (POB).

- POB received a Port Security grant totaling $3.263 million from the U.S. Department of Transportation to fund the construction of a new security gate at Dundalk Marine Terminal. A total of $1.325 million of this grant will be expended in fiscal 2004; the balance of the funds will be spent in fiscal 2005.

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

For further information contact: Lucinda Lessley Phone: (410) 946-5530

Personnel Data

	FY 02 Actual	FY 03 Working	FY 04 Allowance	Change
Regular Positions	313.00	313.00	313.00	0.00
Contractual FTEs	1.30	1.30	1.70	0.40
Total Personnel	**314.30**	**314.30**	**314.70**	**0.40**

Vacancy Data: Regular Positions

Budgeted Turnover: FY 04	13.30	4.25%
Positions Vacant as of 12/31/02	26	8.31%

Note: Reflects personnel data for all operating and PAYGO capital programs.

- The fiscal 2004 allowance includes funding for 313 regular positions; there has been no change in the number of regular positions at MPA from fiscal 2002 to 2004.

- MPA advises that data regarding the total number of contractual positions included in the State budget books erroneously represents an increase in contractual positions. The fiscal 2003 working appropriation should reflect 1.70 contractual positions.

Analysis in Brief

Major Trends

Total Volume of General Cargo Handled by MPA Has Still Not Recovered to Pre-2001 Levels: The total volume of general cargo passing through MPA experienced a decline in fiscal 2001 of 391,000 tons (6.3%) from the fiscal 2000 level. While the total tonnage of general cargo passing through MPA began to rebound in 2002 (showing an increase of 3% over the 2001 levels), projections of total cargo volume show that the level of cargo will still lag at the 2000 level by the end of fiscal 2004.

Issues

MPA Business Trends: Due to a combination of increases in expenses and declines in overall cargo volume, MPA expects to incur an operating loss of approximately $1.5 million in fiscal 2003 and just over $400,000 in fiscal 2004. **DLS recommends that MPA discuss its plans for closing this operating deficit and for reducing the amount of subsidies provided by the Transportation Trust Fund to support MPA's operating expenses.**

Economic Impact of POB Activities on the State: MPA has reported on the economic impact of POB to the State. This report is an update to a 1999 report on the same topic and a precursor to a more comprehensive report to be submitted in January 2004. The report indicates that the total foreign cargo handled by the POB increased by 400,000 tons in volume and $2.2 billion in total value between calendar 1998 and 2001. The POB ranked thirteenth among U.S. ports for total volume of foreign cargo handled and ninth among U.S. ports in total value of foreign cargo handled in calendar 2001. The POB supported 18,400 direct jobs earning a total of $768 million in personal income. **Given that the POB has experienced declines in total cargo volume and in specific cargo types since calendar 2001, the Department of Legislative Services (DLS) recommends that MPA discuss with the committees the impact of these cargo volume decreases on the economic impact statistics reported here.**

Development of Long-term Dredged Material Management Plan Continues: The executive committee charged with overseeing the development of Maryland's Dredged Material Management Program has identified 12 potential material placement sites for advanced study but has not yet developed any site-specific placement recommendations. The dredged material placement capacity provided by the four sites currently used by MPA cannot accommodate the materials generated by anticipated maintenance and new work dredging past July 2009. **DLS recommends that MPA brief the committees on the steps it is taking to ensure that sufficient placement capacity will be available to support maintenance and new work dredging beyond July 2009.**

Operating Budget Recommended Actions

		Funds
1.	Delete funds for a grant to support the Pride of Baltimore.	$ 214,000
2.	Delete funds for student intern programs.	49,650
3.	Reduce funds for replacement vehicles.	30,206
4.	Delete funding for quarterly and annual awards.	35,000
	Total Reductions	**$ 328,856**

Capital Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

Status of Cruise Business at the POB: A total of 40 cruise ships visited the POB in calendar 2002. However, the cruise business remains at best a break-even venture for the port and is associated with significant capital costs.

Litigation with Archer Daniel Midlands (ADM) Over Collapsed Grain Pier: ADM is seeking $20 million from MPA in compensation for damages including lost revenues resulting from the collapse of the grain pier at the POB.

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 (POB) in a manner that provides economic benefit to the citizens of the State. MPA operates five public facilities at the POB (which comprise slightly less than half of the port's terminal acreage) and provides marketing, operations, and maintenance services that support the expansion of waterfront commerce throughout the port and the improvement and expansion of State capital facilities. MPA also works with the U.S. Army Corps of Engineers to coordinate the delivery of services to the maritime community – such as dredging services to maintain and expand shipping channels – and to enhance the environment in port projects.

Performance Analysis: Managing for Results

Exhibit 1 displays a selection of performance measures from MPA's Managing for Results (MFR) document. These measures indicate that the total general cargo passing through MPA experienced a decline in fiscal 2001 of 391,000 tons (6.3%) of volume. While the total tonnage of general cargo passing through the POB began to rebound in fiscal 2002 (showing an increase of 3% over the 2001 levels), estimated projections of total general cargo show that the volume will experience only a 0.5% growth in both fiscal 2003 and 2004 and, therefore, will still not have recovered to the 2000 level by the end of fiscal 2004.

Containerized cargo, which comprises 65% to 70% of the port's total annual tonnage, experienced a 4.8% decline in 2001. Container volumes are not expected to reach pre-2001 levels by the end of the fiscal year.

Roll-on/Roll-off (Ro/Ro) cargo, forest products (including pulp, paper, lumber, and logs), and automobile volumes showed steady increases in volume from fiscal year 2001 to 2002[1]. The port has aggressively focused on attracting these niche cargos and is now ranked number one among East Coast ports for Ro/Ro and forest products. This ranking has enabled the POB to retain market share even as overall cargo volumes in these products have remained flat or decreased. Ro/Ro volumes, for example, were flat along the East Coast in the first half of calendar 2002 but showed an 8% increase at the POB. MPA recently signed its first direct land lease with a Ro/Ro manufacturer, Case New Holland Global. In addition, Hyundai, Honda, and Porsche signed new contracts in fiscal 2002 to use the POB, and a long-term lease has recently been finalized with Mercedes. However, these niche commodities comprised only 29% of the total general cargo volume at the port during fiscal 2002, and both Ro/Ro and forest products (which has shown very strong recent growth) are projected to show only limited growth between fiscal 2002 and 2003 and no growth from fiscal 2003 to 2004.

[1] The MFR measures for these products and for containers are measures of the total volume of this cargo passing through all terminals at the POB, including both MPA's public terminals and various private terminals.

Exhibit 1

Program Measurement Data
Maryland Port Administration
Fiscal 2000 through 2004

	2000 Actual	2001 Actual	2002 Actual	2003 Est.	2004 Est.	Annual Change
Goal 1 – Increase the flow of waterborne cargo through the POB						
Ro/Ro tonnage	375	362	365	370	370	-.34%
Ro/Ro market share	48%	47%	46%	49%	49%	
Auto tonnage	528	496	683	717	753	9.28%
Auto market share	17%	16%	20%	21%	22%	
Forest products tonnage	827	998	1,222	1,230	1,230	10.43%
Forest products market share	29%	29%	34%	35%	35%	
Container (thousands of twenty foot equivalent units)	418	398	371	373	375	-2.68%
Foreign container market share[1]	7.8%	7.6%	7.7%[2]	7.8%	7.9%	
Number of crane moves per hour at Seagirt Marine terminal	n/a	34.3	35	37	37	
Goal 3 – Preserve and enhance the port's infrastructure to maintain and increase cargo capacities						
MPA total general cargo tonnage (thousands)	6,478	6,087	6,270	6,287	6,319	-.62%
Total general cargo growth	5.7%	-6.3%	3%	.5%	.5%	

Note: The MFR measures for Ro/Ro cargo, automobiles, forest products, and containers are measures of the total volume of this cargo passing though all terminals at the POB, including MPA's public terminals and various private terminals.

[1]The measures for container market share are for calendar years.

[2]The calculation of 2002 container market share is based on three quarters of the calendar year. The fixed figure for the fiscal year is not yet available.

Source: Maryland Port Administration, 2003

Fiscal 2003 Actions

Impact of Cost Containment

Fiscal 2003 cost containment reflects the reversion of appropriations to support free transit ridership for State employees, contingent upon enactment of a provision in the Budget Reconciliation and Financing Act of 2003 (BRFA).

MPA advises that it expects to reduce the fiscal 2003 budget by an additional $1.6 million, which may include extensive reductions to salaries and wages and contractual services, based on reductions in the MdTA police presence, reductions in maintenance requirements for the Point Breeze Complex, and reductions in stevedoring costs. As of February 6, 2003, however, neither the Board of Public Works nor the Maryland General Assembly has taken action on these potential reductions.

Governor's Proposed Operating Budget

The fiscal 2004 allowance totals $94.3 million, which represents a 1% decrease below the fiscal 2003 working appropriation. Specific changes between the fiscal 2003 working appropriation and the fiscal 2004 allowance are highlighted in **Exhibit 2**.

Personnel costs are decreasing by just over $80,000. Increases in insurance premiums (nearly $400,000), in the allowance for overtime costs ($44,000) associated with the maintenance of four new rubber tire gantry cranes, and in retirement contributions are offset by decreases in workers' compensation premiums ($157,000), turnover ($132,000), and in other fringe benefits ($254,000).

Additional changes in the operating budget are seen in the area of contractual services. Because the Point Breeze complex was purchased by the Maryland Transportation Authority (MdTA), there is a decrease of approximately $500,000 in contractual service charges associated with the management of the complex; however, this savings is offset by MPA's rent payment to the MdTA for the complex. MPA was able to achieve a cost savings of approximately $100,000 by including some property management responsibilities for the World Trade Center complex in the contract with the property management firm that provides day-to-day management services at the complex.

Security costs for the MdTA police presence at the port's terminals are decreasing by approximately $240,000 below the fiscal 2003 level due to a realignment of the police contingent. There are also decreases in the allowances for fuel and utilities ($200,000) and computer and software services ($148,000), and a small decrease in the allowance for travel ($90,000).

Impact of Cost Containment

The allowance reflects the elimination of the appropriation for matching employee deferred compensation contributions up to $600, contingent upon enactment of a provision in the BRFA.

Exhibit 2

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

	FY 02 Actual	FY 03 Approp.	FY 04 Allowance	FY 03 - 04 Change	FY 03 - 04 % Change
Special Funds	$86,803	$95,019	$94,438	-$581	-0.6%
Contingent & Back of Bill Reductions	0	-20	-151	-131	663.3%
Adjusted Special Funds	**$86,803**	**$94,999**	**$94,287**	**-$712**	**-0.7%**
Adjusted Grand Total	**$86,803**	**$94,999**	**$94,287**	**-$712**	**-0.7%**

Where It Goes:

Personnel Expenses

Employee and retiree health insurance		392
Deferred compensation		-95
Workers' compensation premium assessment		-157
Turnover adjustments		-132
Overtime earnings		44
Retirement contribution cost increases		23
Other fringe benefit adjustments		-159
Personnel subtotal	**-84**	

Contractual Services

Rent, including payments to the MdTA for the Point Breeze complex	859
Contractual services for Point Breeze complex	-518
Stevedoring cost reductions due to anticipated reduction in cargo volume	-350
Realignment of MdTA police contingent at MPA terminals and World Trade Center	-238
Fuel and utilities	-200
Computer consulting services/applications software acquisition and maintenance	-148
Printing and reproduction costs	137
Reduction in World Trade Center maintenance contract due to inclusion of these costs in property management contract	-103

Where It Goes:

Travel	-90
Consultant agreements for marketing services, and for consultant to support development of enhanced security measures at the port	95
Technical fees, including legal services for pending lawsuits	52
Other Changes	**-124**
Total	**-$712**

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

PAYGO Capital Program

Program Description

MPA's capital program identifies and manages projects and funding for port facilities that promote the shipment of new cargo at the port and support economic expansion in the State. These projects improve and modernize existing State capital facilities, support the development of new facilities, and support the improvement of shipping channels through dredging activities conducted in cooperation with the U.S. Army Corps of Engineers.

Fiscal 2003 to 2008 *Consolidated Transportation Program*

Specific changes in the 2003 *Consolidated Transportation Program* (CTP) are described below.

Projects Completed

Construction of a 50-acre Ro/Ro Hub facility offering proper pavement as well as fencing, gates, lighting, and rail access for Ro/Ro cargos will be completed in fiscal 2003 at a total cost of $13.5 million.

Projects Added to the CTP

Funding has been added in fiscal 2004 for two new projects.

- **Terminal Access Security Gate** (Dundalk Marine Terminal): MPA will construct a new terminal access gate at Dundalk Marine Terminal that will consolidate security, cargo processing, and inspection functions at a single centralized security checkpoint for trucks entering and exiting the terminal. The total cost of constructing the new gate will be $4.9 million; $3.3 million of these costs will be funded by a Port Security grant awarded to MPA by the U.S. Department of Transportation.

- **Niche Cargo Warehouse at Shed 6B** (Dundalk Marine Terminal): A total of $1.5 million is budgeted for expenditure in fiscal 2004 to fund construction of a niche cargo warehouse. This project was previously included in the CTP, but construction is just now being initiated. The warehouse will be finished in fiscal 2005 at a total cost of $7.6 million. This warehouse will provide approximately 108,000 square feet of covered storage space and will include a floor capable of bearing a load of up to 1,200 pounds/square foot.

Projects Removed from the CTP

Three projects were eliminated or had significant phases removed over the six-year period due to the planned transfers in fiscal 2003 and 2004 in the Transportation Trust Fund (TTF).

- **Fruit Pier Slip Fill:** MDOT has removed a project to fill the unused vessel berth at the Fruit Pier Slip at South Locust Point. The project had been intended to fill and pave the area to provide additional space for cargo storage. Approximately $2 million of the $9.6 million total cost of the project has been re-programmed to support the construction of two paper storage sheds at South Locust Point. The remaining funding was deleted from planned expenditures in fiscal 2003 and 2004.

- **Cox Creek Development:** A total of $3.8 million has been removed from the projected fiscal 2007 budget for the Cox Creek dredged material placement site. The Cox Creek facility is being reactivated as a duel purpose facility where dredged material will be both stored and recycled into innovative use materials. Currently, four vendors have offered proposals to recycle dredged material at this site; they are proceeding to undertake demonstration scale testing, which requires them to recycle 30,000 cubic yards of material from this site if this proves to be economically feasible. Technical proposals from all these vendors are being evaluated. Oral presentations will be completed in mid-February 2003; cost proposals will then be opened and evaluated. Upon the completion of this procurement process, one or more vendors may be selected to conduct innovative use recycling activities.

  The dikes at the Cox Creek site are currently being raised to a level of 24 feet; they will be raised in two subsequent phases to a maximum elevation of 36 feet so that a total placement capacity of 6 million cubic yards is reached.

  With the reduction of funding from the out-years of this project, additional funds will need to be identified to support continuation of the innovative use program and to support the schedule of dike raising as currently planned.

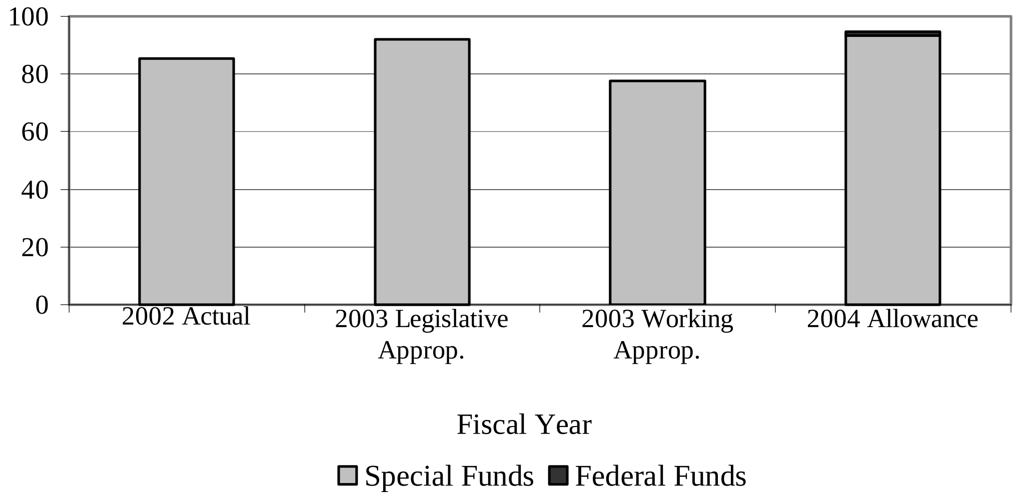
- **System Preservation Projects and World Trade Center Upgrades:** Approximately $14.5 million was removed from MPA's system preservation budget in fiscal 2006 through 2008; this budget includes funding for regular upgrades at MPA's public terminals and system preservation activities at the World Trade Center. Specific reductions in system preservation and World Trade Center projects have not yet been identified.

Fiscal 2003 and 2004 Cash Flow Analysis

Exhibit 3 presents the cash flow changes between MPA's fiscal 2002 and 2004 capital budgets.

Exhibit 3

Fiscal 2002 to 2004 Cash Flow Changes



Source: Maryland Department of Transportation, 2003 *Consolidated Transportation Program*

Fiscal 2003 Capital Budget Allowance

There was a total decrease of $14.4 million (16%) from the fiscal 2003 legislative appropriation of $92.1 million to the working appropriation of $77.6 million in MPA's capital program. This decrease is due primarily to changes in two large projects, including the removal of the Fruit Slip Pier project ($7.2 million), and the reallocation of funding from the Dredge Placement and Monitoring program ($6.5 million). In fiscal 2002, the U.S. Army Corps of Engineers requested accelerated payments to its escrow accounts for several projects included in the Dredge Placement and Monitoring program; expenditures were not as high as expected and therefore the funding level needed for the Dredge Program in fiscal 2003 was reduced.

In addition, there were smaller cash flow changes associated with several ongoing projects, including an addition of $2.5 million to the Cox Creek dredged material placement site project to support accelerated construction of the facility dikes and an addition of $4.8 million to accelerate the purchase of rubber tire gantry cranes at the Seagirt Marine Terminal. These increases were offset by a decrease of $2.7 million in World Trade Center improvements and minor projects.

Fiscal 2004 Capital Budget Allowance

The administration's fiscal 2004 allowance is $93.4 million, which is a $15.8 million (20%) increase over the fiscal 2003 working appropriation but just a 2% increase over the fiscal 2003 legislative appropriation.

Approximately $9.2 million has been added to the allowance to support the rehabilitation of berths 1-6 (beginning with berths 5 and 6) at Dundalk Marine Terminal. After an earlier delay, construction is now underway. As this project will make the cruise terminal located at berth 5 unusable, shed 3A at Dundalk is currently being retrofitted to serve as a temporary cruise terminal.

Exhibit 4 lists all of MPA's 2003 capital projects. The fiscal 2003 legislative appropriation is MPA's spending plan as outlined in the 2002 CTP. Increases in fiscal 2003 represent changes made during the current CTP and increases in fiscal 2004 represent changes relative to fiscal 2003 spending. These cash flow changes reflect reductions made to projects due to changes in phasing or construction delays, or reductions due to the slowing of the economy.

Exhibit 4

Maryland Port Administration
Fiscal 2003 and 2004 Project Cash Flow Changes
($ in Thousands)

	FY 03 Legislative Approp.	Change from Leg. to Working Approp.	Change from Working to Allowance	FY 04 Allowance
New Projects Added to the D&E and Construction Programs				
Terminal Access Security – Dundalk Marine Terminal	$0	$0	$1,981	$1,981
Dundalk Truck and Rail Circulation Improvements	0	50	0	50
Project Cash Flow Changes				
Hart-Miller Island	4,067	-251	755	4,571
Changes in Scope or Projects Delayed				
Dredge Placement and Monitoring	23,215	-6,480	3,996	20,731
Rehabilitation of Berths 1-6, Dundalk Marine Terminal	6,100	-1,000	9,200	14,300
Niche Cargo Warehouse, Shed 6B	0	0	1,500	1,500
North American Paper Hub	4,600	3,650	2,797	11,047
Forest Products Warehouse, Lot 5B	7,050	-589	-4,019	2,445
Fruit Pier Fill – South Locust Point	7,170	-7,170	0	0
Development and Evaluation Program	6,400	1,700	-181	7,919
Minor Project Changes	29,100	-3,400	-700	25,000
Capital Salaries, Wages, and Other Costs	4,000	-200	100	3,900
Other Changes	**356**	**-725**	**372**	**0**
Total Changes	**$92,058**	**-$14,415**	**$15,801**	**$93,444**

Source: Maryland Department of Transportation, 2003 *Consolidated Transportation Program*

Issues

1. MPA Business Trends

MPA is responsible for stimulating waterborne commerce through the POB by providing marketing, operations, and maintenance services. Additionally, MPA coordinates with the U.S. Army Corps of Engineers regarding the management of dredging programs that keep waterways safe and efficient for commercial navigation.

MPA Will Incur Operating Deficits in Fiscal 2003 and 2004

MPA's revenues consist of charges paid by shipping companies and terminal tenants for dockage, wharfage, stevedoring, crane usage, and cargo storage. Stevedoring charges are paid with shipping line payments; all other revenues pass into the TTF, which funds MPA's other operating costs and its capital budget. **Exhibit 8** presents MPA's financial performance for the period from 1999 to 2004.

Exhibit 8

MPA Actual and Projected Operating Expenses and Revenues
Fiscal 1999 through 2004

	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Projected	2004 Projected	Annual % Change
Operating Revenue	$67,802	$73,082	$76,743	$78,207	$83,147	$83,062	4.14%
Total Operating Expenses	70,948	75,282	85,180	89,029	97,305	97,291	6.52%
Total Exclusions*	-7,991	-7,520	-12,235	-12,252	-12,640	-13,811	11.56%
Net MPA Operating Expenses	62,957	67,762	72,945	76,777	84,665	83,480	5.81%
Amount Subsidized by TTF (exclusions plus operating deficit if applicable)	-3,146	-2,200	-8,437	-10,822	-14,158	-14,229	35.23%

* Excludes expenditures for payments in lieu of taxes, Baltimore City Marine Fire Suppression, certain capital equipment, all lease payments to MdTA, and MdTA's contribution to the Pride of Baltimore, Inc.

Source: Maryland Port Administration

MPA's operating expenses are projected to rise by nearly $8 million from fiscal 2002 to 2003. MPA's fiscal 2003 working appropriation has already increased by more than $4 million through budget amendments; approximately $2.5 million of this increase was due to security enhancements and increases in insurance premiums. Due to a combination of increases in expenses and declines in overall cargo volume in fiscal 2003, MPA expects to incur a total of $84.7 million in expenses while producing only $83.1 million in revenue. This will produce an operating loss of approximately $1.5 million in the fiscal year. In fiscal 2004, MPA expects to incur an operating loss of just over $400,000. The operating expenses not covered by port revenues are subsidized by the TTF.

DLS recommends that MPA brief the committees on the actions it will take to close this operating deficit and to achieve operating profits, which can be used to support ongoing capital development.

In calculating its net income, MPA excludes five categories of expenses from its total operating expenses. These exclusions, which will total $13.8 million in fiscal 2004, are completely subsidized by the TTF. When these exclusions are added to the operating expenses claimed by the port, MPA's operating costs increase to more than $97 million. When these exclusions are added to the income loss MPA expects to incur, the total amount of the subsidy provided by the TTF to finance port operations increases to nearly $14.2 million in fiscal 2003 and $14.2 million in fiscal 2004. Over the past six years, the TTF subsidy provided to MPA has increased at an annual rate of nearly 36% (though the amount of the subsidy has varied widely from year to year).

DLS recommends that MPA brief the committees on what actions it will take to begin to reduce the amount of the subsidy provided by the TTF.

MPA Excludes Operating Expenses

The five categories of expenses excluded from the port's calculation of operating expenses and the fiscal 2004 amount of each expense are presented below.

Lease Payments to MdTA for Seagirt	$7,753,000
Lease Payments to MdTA for Masonville	1,674,000
Baltimore City Marine Fire Suppression	1,400,000
Payments in lieu of taxes	1,604,000
Capital equipment purchases	1,166,000
Payment on behalf of MdTA to Pride of Baltimore	214,000
Total	**$13,811,000**

MPA treats the lease payment to MdTA for the Masonville auto facility as a capital lease payment and excludes it from the operating budget. Similarly, MPA indicates that it treats the lease payment to MdTA for the Seagirt Terminal, which comprises 56% of the excluded expenses, as a capital lease payment and excludes it from the operating budget on the basis of this classification. MPA owns the land at Masonville and received funding from MdTA only for the construction improvements made on the land; in return, MdTA received a 20-year leasehold on the auto facility. However, MPA will not own the Seagirt terminal at the end of the lease term (ownership will remain with the MdTA); therefore, no equity is accruing to

MPA through these payments. For this reason, in its 2001 *Annual Report*, MdTA identifies the payments it receives from MPA for the Seagirt terminal as operating lease payments.

DLS recommends that MPA also treat the lease payments it makes to MdTA for the Seagirt facility as operating expenses. These payments should therefore no longer be excluded from the MPA's account of its annual operating expenses.

Total Cargo Share Growth at Public Terminals

The public terminals at the POB handled 6,440 million short tons of foreign and domestic cargo in fiscal 2002. Of that amount, 65% was container cargo. An average of 97.4% of all cargo handled by MPA facilities was general cargo, while bulk cargo (primarily latex and molasses) comprised only 3.3% of all cargo processed at public terminals. The majority of all other bulk cargo (including coal, salt, sugar, and cement) is handled by private terminals at the POB.

As **Exhibit 9** shows, trends in total general cargo handled specifically by the public terminals at the POB mirror trends in general cargo handled by all terminals at the port. The total volume of general cargo handled by the public terminals declined 6% in fiscal 2001; total cargo volumes increased in fiscal 2002 over the 2001 levels but are still not projected to return to pre-2001 levels by the end of fiscal 2004.

Containers handled at the public terminals have shown decreases in volume in fiscal 2001 and 2002 and are projected to show only slight increases in fiscal 2003 and 2004. Forest products and automobiles – two key niche cargos handled at the POB – have shown strong growth at the public terminals from fiscal 2001 to 2003. The volume of forest products handled by the public terminals increased by 27% from fiscal 2001 to 2002, while the automobile volume increased by 25% during that time period.

Bulk cargo at the public terminals – which is comprised primarily of liquid bulk cargos, including molasses and latex – decreased by 45% from fiscal 1998 to 1999 and has continued to decline in each subsequent year. This decrease is due primarily to the relocation of one molasses customer from Dundalk Marine Terminal – one of two customers located on the public terminals. PMAG required a new, updated facility, while MPA sought to reclaim the land used by this company at Dundalk. Upon the conclusion of PMAG's lease, PMAG closed its tanks at Dundalk and re-located to a private terminal at the POB.

Breakbulk, which is comprised primarily of project cargo such as machine parts, has been declining due to a slowdown in the world economy and in new construction starts. Steel and metals have also declined sharply in recent years in keeping with industry trends.

Exhibit 9

Volume of Total Cargo at Public Terminals by Cargo Type
Fiscal 1998 through 2005
(Thousands of Short Tons)

	1998 Act.	1999 Act.	2000 Act.	2001 Act.	2002 Act.	2003 Proj.	2004 Proj.	2005 Proj.	Annual % Change FY98 - 02
General Cargo									
Containers	4,409	4,347	4,467	4,233	4,156	4,178	4,199	4,220	-1.47%
Breakbulk	335	336	335	254	226	226	226	226	-9.37%
Ro/Ro	498	507	448	414	415	417	419	421	-4.46%
Steel/Metals	179	77	88	65	55	54	53	52	-25.55%
Forest Prod.	520	544	814	813	1,032	1,037	1,042	1,047	18.69%
Automobiles	266	316	327	309	386	389	391	393	9.76%
Total General Cargo	**6,207**	**6,127**	**6,479**	**6,088**	**6,270**	**6,301**	**6,330**	**6,359**	**0.25%**
% of Total Cargo	93.9%	96.5%	96.5%	96.7%	97.4%	97%	97%	97%	0.92%
Bulk Cargo									
Liquid Bulk	400	221	232	206	170	169	168	167	-19.26%
% of Total Cargo	6.1%	3.5%	3.5%	3.3%	2.6%	3%	3%	3%	-19.20%
Total	**6,607**	**6,348**	**6,711**	**6,294**	**6,440**	**6,470**	**6,498**	**6,526**	**-0.64%**

Source: Maryland Port Administration

Continued Growth at the POB Will Require Additional Land

Several of the POB's key long-term lease holders, including AmPorts, ATC, and Wallenius-Wilhelmsen Lines, are aggressively marketing their businesses and are looking for opportunities to expand existing facilities. Mercedes, which recently finalized a long-term lease at the POB, has already asked MPA for a 100-acre facility to enable them to consolidate their operations.

A recent analysis of the POB's long-term needs for additional cargo capacity has identified a shortfall of 260 acres by the year 2022. Further, continued development on additional acreage will need to be off-set by environmental mitigation efforts, which will also require additional land.

DLS recommends that MPA discuss impending land needs with the committees, including explaining where new land is most urgently required and what the capital costs of obtaining this land and preparing it for use by the POB customers are likely to be.

2. Economic Impact of POB Activities on the State

As required by fiscal 2002 budget bill language MPA has reported on the economic impact of the POB to the State. MPA's report constituted an update to a 1999 report on the same subject and is a precursor to a more comprehensive report on the impact of the POB due in January 2004.

Port Cargo Activity from 1998 to 2001

As shown in **Exhibit 5**, in calendar 2001 (the latest year for which statistics are available), the POB handled a total of 42.1 million tons of cargo, including 25.7 million tons of foreign cargo valued at $21 billion. The POB ranked thirteenth among U.S. ports for total volume of foreign cargo handled (up from fifteenth in 1998) and ninth among U.S. ports in total value of foreign cargo (up from tenth in 1998). In 1998, the POB handled a total of 25.3 million tons of foreign cargo valued at $18.8 million. Thus, there was an increase of 400,000 tons in the volume and $2.2 billion in the value of foreign cargo handled at the POB between 1998 and 2001.

Exhibit 5

Port Cargo Activity
Calendar 1998 and 2001
(Volume of Cargo in Millions of Tons)

	1998	2001	Change
Foreign Cargo	25.3	25.7	1.60%
Domestic Cargo	14.8	16.4	10.80%

Source: Maryland Port Administration

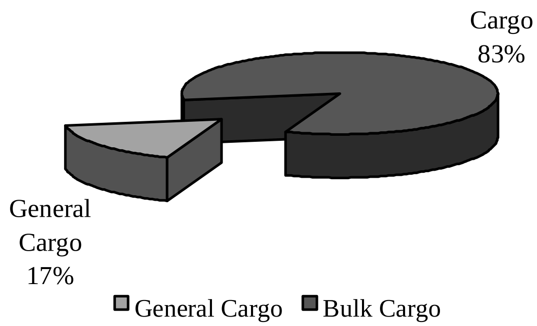
As illustrated in **Exhibit 6**, approximately 83% of the total cargo handed at the POB was bulk cargo (comprised of cargo such as coal, iron ore, petroleum, molasses, latex, and other dry and liquid bulk cargos). All but 209,000 tons of this bulk cargo was handled by private terminals. General cargo (comprised of containers, automobiles and trucks, Ro/Ro products, forest products, and other non-containerized cargo) totaled 7.1 million tons (16.9% of total cargo volume); nearly 88% of all general cargo is handled by MPA at its six public terminals.

Exhibit 6

Total Cargo and General Cargo at the Port of Baltimore
Calendar 2001

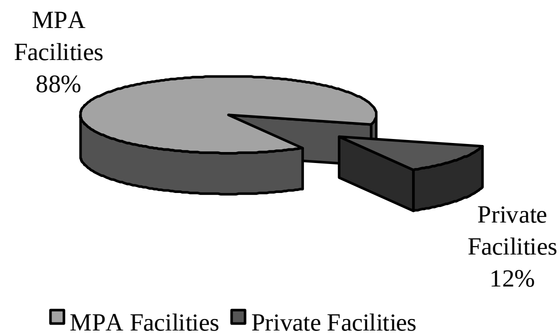
Total Cargo Handled by POB in 2001

42.1 Million Tons



Handling of General Cargo at the POB in 2001

7.1 Million Tons

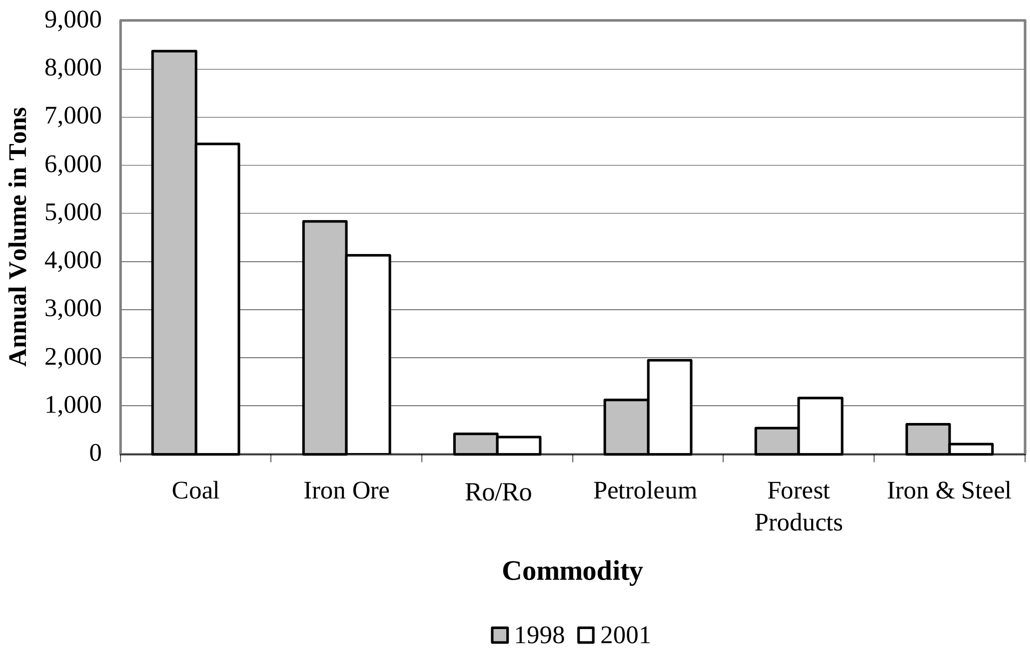


Source: Maryland Port Administration

There are several commodities that have shown declines in total annual volumes from 1998 to 2001, including bulk coal shipments (decline is consistent with U.S. coal export trends), bulk iron ore shipments (related to declining production at the Bethlehem Steel plant), domestic containers, and Ro/Ro machinery. Other products, including forest products and petroleum, showed increases in annual tonnage. Changes in annual tonnage volumes among specific commodities are illustrated in **Exhibit 7** below.

Exhibit 7

Changes in Selected Commodities Between 1998 and 2001



Source: Maryland Port Administration

Economic Impact

According to the economic impact report, in 2001, there were approximately 18,400 direct employees working in some capacity at the POB earning a total of $768 million in personal income. These direct employees supported a total of 11,700 induced jobs (accounting for $649 million in personal income), which are jobs in trades and services supported by the purchases of direct employees of the port. These jobs are dependent upon the employment and wage levels of the port's direct employees and would be at risk in the near term if the direct jobs were eliminated. The port also supported 15,200 indirect jobs (accounting for $495 million in personal income), which are jobs generated in the local community by the purchases of firms in which direct port jobs are generated. Finally, the port supported approximately 81,000 related jobs, which are jobs with the shippers/consignees using POB to ship or receive cargo. These statistics are summarized in **Exhibit 8**.

Exhibit 8

Employment Related to the Port of Baltimore
1998 and 2001

Category of Employment	1998	2001	Change
Direct Jobs	17,700	18,400	700
Induced Jobs	11,300	11,700	400
Indirect Jobs (In State)	14,600	15,200	600
Related Jobs (In State)	83,000	81,000	-2000

Source: Maryland Port Administration

The report also estimates that the direct, induced, and indirect employment at and business activities of the port generated nearly $300 million in State and local taxes in 2001 – an increase of approximately $12 million over 1998.

Given that the POB has experienced cargo volume decreases during and after calendar 2001, DLS recommends that MPA discuss with the committees the impacts of these cargo volume decreases on the economic impact statistics reported here.

3. Development of Long-term Dredged Material Management Plan Continues

The Dredged Material Management Act of 2001 (Chapter 627, Acts of 2001) initiated a process to phase out the practice of open-water disposal of dredged material within Maryland waters by 2010 and created an executive committee responsible for reviewing and recommending options for meeting both short- and long-term placement capacity requirements. In addition to the executive committee, several other advisory groups were also formed to ensure the effective participation of all stakeholders in the site selection process, including the management of State and federal agencies and port-related industries (who comprise the Management Committee), citizens and representatives of local governments (who comprise the Citizens' Advisory Committee), and technical experts from State and federal agencies (who comprise the Bay Enhancement Work Group).

As required by the Act, the executive committee has submitted a report to the General Assembly on the progress made to date in identifying dredged material placement options. The report does not contain site-specific placement recommendations – except for suggesting that the State should advance the study of a proposal to raise the dikes of both upland cells at Poplar Island – nor does it articulate a long-term plan for meeting placement needs. The report lists a total of 12 placement options designated for advanced study, and indicates that following the successful conclusion of a feasibility cost-sharing agreement between the State and the U.S. Army Corps of Engineers in November 2002, a study of several mid-bay beneficial use island restoration sites (James Island and Barren Island) has begun. The participatory evaluation process conducted through the framework of these committees will continue to work toward the goal of developing site-specific recommendations by the end of calendar 2003.

The committees are working in an urgent context. MPA reports that it generally requires approximately 12 years to move a new placement project through the State and federal regulatory, authorization, and appropriation processes. However, the dredged material placement capacity provided by the four sites currently used by MPA (Hart-Miller Island, Poplar Island, Pooles Island, and Cox Creek) cannot accommodate the materials generated by anticipated maintenance and new work dredging past July 2009. Under these circumstances, the dredging needed to support the POB could not be performed for a period of three years after July 2009 due to the lack of sufficient placement capacity.

DLS recommends that MPA brief the committees on the steps it is taking to ensure that sufficient placement capacity will be available to support maintenance and new work dredging beyond July 2009.

Operating Budget Recommended Actions

		Amount Reduction	
1.	Delete funds for a grant to support the Pride of Baltimore. The Pride of Baltimore is a nonprofit organization that operates the *Pride of Baltimore II*, a replica of an 1812-era topsail schooner. The provision of a grant to support the operation of this tourist attraction is not an essential business expense.	$ 214,000	SF
2.	Delete funds for student intern programs, including programs for summer interns and student technical and engineering interns. An intern program is not an essential program.	49,650	SF
3.	Reduce funds for replacement vehicles. The Maryland Port Administration is requesting replacement of 16 vehicles. This recommendation delays replacement of two vehicles with the lowest mileage. These vehicles will have attained the replacement mileage requirements by only 51 miles and 301 miles respectively by the end of fiscal 2004.	30,206	SF
4.	Delete funding for quarterly and annual awards. Given the projected operating deficit at Maryland Port Administration, non-essential expenditures should be reduced.	35,000	SF
	Total Special Fund Reductions	**$ 328,856**	

Capital Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Status of Cruise Business at the POB

A total of 40 cruise ships visited the POB in 2002; previously, an average of 11 cruise ships visited Baltimore each year between 1990 and 2000. Much of this increase is due to Celebrity Cruise Lines' decision to originate some cruises at the port. Celebrity has indicated its intention to home-port in Baltimore for the next two years, and MPA is currently in negotiations regarding rates for the 2003 cruise season.

A recent *Cruise Market Study and Economic Assessment* completed in 2001 by Bermello, Ajamil and Partners estimated that direct cruise line spending in 2002 would be approximately $32 million, of which $20 million would be spent on the purchase of fuel in Maryland for the ships. It was also estimated that passengers and crew would spend an additional $3.6 million in the region. However, despite generating these positive economic impacts, the cruise business is at best a break-even venture for the port (and is actually projected to generate a loss of approximately $30,000 in fiscal 2002 and 2003), and total cruise vessel calls are projected to increase from the current total of 40 to only 57 by the year 2015.

The cruise terminal at the port will become unusable with the rehabilitation of berths 5 and 6 at Dundalk Marine Terminal (DMT). Therefore, at an estimated cost of $1.4 million, MPA has begun retrofitting shed 3A at DMT to serve as a temporary cruise terminal. However, given the limited revenue generated by the cruise business, MPA has not developed specific plans for constructing a permanent cruise terminal. Early in 2002, a private developer submitted an application through the MdTA's Public Private Partnership Program for the construction of a cruise terminal on private property in the Canton area of Baltimore City; this proposal is currently being evaluated.

2. Litigation with Archer Daniel Midlands (ADM) Over Collapsed Grain Pier

On June 30, 2001, the grain pier at North Locust Point (NLP) used by the ADM Company collapsed. CSX Transportation leased NLP to MPA beginning in 1963 while still retaining an easement over the grain pier. CSX assigned its easement to ADM (and its predecessors) who owned the grain gallery on the pier. In 2002, MPA exercised an option established in the original lease to purchase NLP (including the grain pier but not the gallery) from CSX at a cost of $1.6 million (the appraised value of the property is $65 million); the purchase closed on July 2, 2002.

ADM claims that MPA is now responsible for damages associated with the pier collapse – including the costs associated with cleaning up the collapsed pier and building a new pier – and for lost revenues. MPA denies the claim and filed a declaratory judgment action on March 27, 2002, asking the court to determine the rights and responsibilities of MPA, ADM, and CSX. ADM filed a counterclaim against MPA requesting $20 million in compensation. ADM removed the case from the Baltimore City Circuit Court to the U.S. District Court for Maryland, Northern Division but, at MPA's request, the count remanded the case to the Baltimore City Circuit Court in November 2002.

MPA has found that unlike all other shippers using the POB's public terminals, ADM has never paid any dockage or wharfage charges associated with the shipments of grain through the POB. MPA also states that research has revealed that of the 1.2 to 1.3 million tons of grain shipped through the ADM facility in its last year of operation, only approximately 200,000 to 300,000 tons originated in Maryland. MPA discussed the possibility of rebuilding the grain pier with ADM but required as a condition for its capital investment that ADM begin to pay dockage and wharfage for the subsequent use of the facility. After further negotiations, the POB offered to allow ADM to retain 25% of these fees; however, the company refused that offer and moved its grain shipment business to Chesapeake, Virginia.

MPA estimates that it would cost approximately $12 million for debris removal and to replace the grain pier and gallery. Construction of such a pier in any area of the port other than at the grain elevator facility owned by ADM would also require construction of a grain elevator. MPA has approached other grain handlers about the possibility of locating at the POB; however, none of these firms has expressed interest in making capital contributions toward the cost of constructing a grain facility. Given the current economic situation of the State, MPA has concluded it is not feasible to construct grain shipment facilities at this time.

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	Reimb. Fund	Total
Fiscal 2002					
Legislative Appropriation	$0	$84,801	$0	$0	84,801
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	6,523	0	0	6,523
Reversions and Cancellations	0	-$4,522	0	0	-4,522
Actual Expenditures	**$0**	**86,803**	**$0**	**$0**	**$86,803**
Fiscal 2003					
Legislative Appropriation	$0	$90,918	$0	$0	$90,918
Budget Amendments	0	4,081	0	0	4,081
Working Appropriation	**$0**	**$94,999**	**$0**	**$0**	**$94,999**

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

Major Changes in Current and Prior Year Appropriations

In fiscal 2002, the legislative appropriation increased by a total of $6.5 million. Nearly half of the appropriation increase ($3.3 million) funded costs associated with increased operations at Seagirt and Dundalk Marine Terminals resulting from unanticipated increases in volumes in the early part of the fiscal year. Approximately $1.5 million was appropriated to fund new security requirements at the port, including $999,713 appropriated to create a new security office to develop, execute, and manage a comprehensive security plan throughout the public terminals and the World Trade Center in anticipation of new federal mandates. In addition, $624,000 was appropriated to lease and operate the Point Breeze facility; more than $700,000 was appropriated for port-wide utilities and to purchase new and replacement equipment; and $101,000 was appropriated to provide MPA the funds necessary to support the Maryland Department of the Environment's effort to address ballast water management mandates in accordance with new federal guidelines.

A total of $405,963 was withdrawn from MPA's operating budget as part of cost containment actions. The largest part of these funds was withdrawn from salaries and wages ($163,000); approximately $50,000 was withdrawn from contractual services and more than $120,000 was withdrawn from supplies and equipment.

In addition to the funds withdrawn due to cost containment measures, MPA reverted more than $4 million in special funds. Approximately half of this reversion was due to reduced stevedore costs due to sudden reductions in volumes following the September 11 attacks. Funds were also reverted from the appropriations for travel ($108,000), utilities ($226,000 reverted because energy costs were lower than expected due to the mild winter), motor vehicle purchases ($210,000 reverted due to the deferment of vehicle purchases), and capital equipment ($363,000 due to deferment of equipment purchases). Spending was also lower than anticipated in some other objects (e.g., spending on contractual services was approximately $1.1 million below the appropriated level); however, most of these decreases were used to off-set increased spending on salaries.

Fiscal 2003

The fiscal 2003 working appropriation reflects a $4.1 million (5%) increase over the legislative appropriation. A total of $940,000 was appropriated to cover costs associated with the operation of a shuttle service to carry passengers between the Dundalk Terminal (where the temporary cruise terminal is located) and Seagirt Terminal (where a remote facility providing long-term parking for cruise passengers is located), and to cover costs associated with increased MdTA police presence during cruise ship arrivals. In addition, more than $700,000 was allocated to provide for the maintenance of six rubber tire gantry cranes delivered to MPA in July 2002. Approximately $571,000 was also allocated to support increases in contracts for World Trade Center property management, media coverage in *Port of Baltimore* magazine, and increased advertising throughout the maritime industry.

A total of $1.9 million was also appropriated to cover increased security costs associated with port operations. Of this total, $1.2 million was appropriated to cover increased contractual services related to security, including funding the increased presence of MdTA police officers at marine terminals ($875,000), the placement of additional security guards at the World Trade Center and the gate to the Dundalk Marine Terminal ($100,000), the implementation of an identification for truck drivers and vendors as well as the conduct of background checks ($100,000), and the implementation of emergency preparedness planning for MPA. A total of $680,000 was appropriated to cover increased comprehensive general liability insurance costs related to international shipping, and nearly $93,000 was appropriated to support the establishment of a Security Office that will be responsible for reviewing and enhancing security at the World Trade Center and MPA-owned marine terminals.

Object/Fund Difference Report
MDOT – Maryland Port Administration

Object/Fund	FY 02 Actual	FY 03 Working Appropriation	FY 04 Allowance	FY 03 – FY 04 Amount Change	Percent Change
Positions					
01 Regular	268.00	267.00	267.00	0	0%
02 Contractual	1.20	1.20	1.20	0	0%
Total Positions	**269.20**	**268.20**	**268.20**	**0**	**0%**
Objects					
01 Salaries and Wages	$ 18,071,977	$ 18,526,295	$ 18,579,517	$ 53,222	0.3%
02 Technical & Spec Fees	350,665	354,469	406,058	51,589	14.6%
03 Communication	415,900	420,299	416,712	-3,587	-0.9%
04 Travel	560,067	747,869	657,783	-90,086	-12.0%
06 Fuel & Utilities	3,029,241	3,340,162	3,140,162	-200,000	-6.0%
07 Motor Vehicles	849,148	983,447	949,830	-33,617	-3.4%
08 Contractual Services	50,338,348	56,373,886	55,286,900	-1,086,986	-1.9%
09 Supplies & Materials	1,168,501	1,793,088	1,827,468	34,380	1.9%
10 Equip - Replacement	322,581	342,364	391,369	49,005	14.3%
11 Equip - Additional	318,765	423,100	459,325	36,225	8.6%
12 Grants, Subsidies, Contr	453,000	468,000	468,000	0	0%
13 Fixed Charges	10,824,667	10,808,141	11,564,842	756,701	7.0%
14 Land & Structures	99,706	437,843	290,276	-147,567	-33.7%
Total Objects	**$ 86,802,566**	**$ 95,018,963**	**$ 94,438,242**	**-$580,721**	**-0.6%**
Funds					
03 Special Fund	$ 86,802,566	$ 95,018,963	$ 94,438,242	-$ 580,721	-0.6%
Total Funds	**$ 86,802,566**	**$ 95,018,963**	**$ 94,438,242**	**-$ 580,721**	**-0.6%**

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

Fiscal Summary
MDOT – Maryland Port Administration

Unit/Program	FY02 Actual	FY03 Legislative Appropriation	FY03 Working Appropriation	FY02 - FY03 % Change	FY04 Allowance	FY03 - FY04 % Change
2010 Unknown Title	$ 86,802,566	$ 90,918,083	$ 95,018,963	9.5%	$ 94,438,242	-0.6%
2020 Unknown Title	85,457,498	92,058,154	77,643,063	-9.1%	93,467,737	20.4%
Total Expenditures	**$ 172,260,064**	**$ 182,976,237**	**$ 172,662,026**	**0.2%**	**$ 187,905,979**	**8.8%**
Special Fund	$ 172,260,064	$ 182,976,237	$ 172,662,026	0.2%	$ 186,580,979	8.1%
Federal Fund	0	0	0	0.0%	1,325,000	n/a
Total Appropriations	**$ 172,260,064**	**$ 182,976,237**	**$ 172,662,026**	**0.2%**	**$ 187,905,979**	**8.8%**

Appendix 4

Budget Amendments for Fiscal 2003

Maryland Department of Transportation
Maryland Port Administration

Status	Amount	Fund	Justification
Approved (1)	$1,907,959	SF Oper	Security - provides funds to establish a Security Office to be responsible for reviewing and enhancing the security at the World Trade Center and the various MPA-owned terminals. Also, funding for additional MdTA sworn officers are required to man posts at the WTC (five officers) and at the marine terminals (five officers), security guards, security checks and additional insurance related to international shipping.
Approved (2)	$2,192,921	SF Oper	Provides funding to support the increased passenger cruise line business to the POB during normal operating hours despite space restrictions for additional cargo storage and terminal construction. This operation will generate off-setting revenues. Also, provides MPA with funding to maintain and perform preventive and emergency maintenance for the new Rubber Tire Gantry (RTG) cranes which will replace the previous top loader operation to improve and increase cargo handling capacities and efficiencies at Seagirt marine terminal formally performed through the contractual stevedoring agreement. Provides funding to maintain the World Trade Center as a class A office complex for existing and new tenants. Provides funds to perform crane maintenance services at the South Locust Point marine terminal formerly performed by a tenant whose lease has expired.
Projected (3)	$(14,415,091)	SF Cap FF Cap	Adjusts the amended appropriation to agree with the anticipated expenditures for the current year as reflected in the FY 2003 - 2008 Final CTP.
Projected (4)	$(1,578,000) $(22,300) $(1,600,300)	SF Oper SF Cap	FY 2003 Cost containment consisting of savings from hiring freeze, reductions in travel and marketing contracts and reduced stevedoring volumes.
Projected (5)	$0	SF Oper	Lawsuit - Project Life, Inc. v. Glendening, et al. – U.S. District Court, MD (Northern Division): Project Life sued the State claiming that it had discriminated in failing to provide a five-year lease for the vessel M/V SANCTUARY to be permanently berthed at an MPA marine terminal. MPA lost the case, but will now be arguing the issue of the reasonableness and legitimacy of the requested attorneys' fees (approximately $2.0 million).

Source: Maryland Department of Transportation