J00D00

Maryland Port Administration

Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 06 Actual	FY 07 Working	FY 08 Allowance	FY 07-08 Change	% Change Prior Year
Special Fund	$95,423	$97,700	$106,302	$8,603	8.8%
Total Funds	**$95,423**	**$97,700**	**$106,302**	**$8,603**	**8.8%**

- The fiscal 2008 allowance includes two deficiencies for a total of $1.1 million. The first deficiency is $360,872 for fuel and utilities. The second deficiency is $766,989 for overtime payments to the Maryland Transportation Authority (MdTA) Police and fire and safety compliance costs.

- The fiscal 2008 allowance increases by $8.6 million, or 8.8%, over the fiscal 2007 working appropriation. Adjusting for the health insurance costs decline due to one-time savings, the underlying growth in the allowance is $9.4 million, or 9.7%.

- The largest increases are for stevedoring costs ($3.3 million), security ($2.1 million), Certificates of Participation (COPs) debt service payment ($1.9 million), and fuel and utilities ($1.1 million).

PAYGO Capital Budget Data

($ in Thousands)

	Fiscal 2006	Fiscal 2007		Fiscal 2008	
	Actual	Legislative	Working	Request	Allowance
Special	$68,379	$112,501	$125,185	$144,611	$123,858
Federal	$4,595	$2,517	$5,741	$0	$0
Subtotal	**$72,974**	**$115,018**	**$130,926**	**$144,611**	**$123,858**
Other Funds *	$306	$11,581	$13,637	$13,015	$13,015
Total	**$73,280**	**$126,599**	**$144,563**	**$157,626**	**$136,873**

* Other funds include Certificates of Participation and Urban Area Security Initiative funding.

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

For further information contact: Jaclyn D. Dixon Phone: (410) 946-5530

- The fiscal 2008 allowance (includes special and federal funds only) decreases $7.1 million, or 5.3%, below the fiscal 2007 working appropriation.

- Total funding, including other funds, for the Maryland Port Administration's (MPA) capital program decreases $7.7 million, or 5.3%, from fiscal 2007 to 2008.

- The decrease in MPA's capital program from fiscal 2007 to 2008 is attributed to large construction decreases for the Dredge Material Placement and Monitoring program and Terminal Security. These large decreases are offset by an increase for dredging at Seagirt Marine Terminal.

Operating and PAYGO Personnel Data

	FY 06 Actual	FY 07 Working	FY 08 Allowance	FY 07-08 Change
Regular Operating Budget Positions	250.00	250.00	250.00	0.00
Regular PAYGO Budget Positions	42.00	42.00	43.00	1.00
Total Regular Positions	**292.00**	**292.00**	**293.00**	**1.00**
Operating Budget Contractual FTEs	1.00	1.00	1.00	0.00
PAYGO Budget Contractual FTEs	0.20	0.50	0.50	0.00
Total Contractual FTEs	**1.20**	**1.50**	**1.50**	**0.00**
Total Personnel	**293.20**	**293.50**	**294.50**	**1.00**
Vacancy Data: Regular Positions				
Turnover, Excluding New Positions		11.20	4.48%	
Positions Vacant as of 12/31/06		18.00	6.16%	

- The personnel allowance includes one new position in the capital program. The new position is an environmental analyst, needed for the Maryland Department of Transportation's (MDOT) new Compliance-Focused Environmental Management System.

- MPA's vacancy rate is 6.2%, which includes one position that has been vacant for 12 months or longer.

Analysis in Brief

Major Trends

Size of the Helen Delich Bentley Port of Baltimore (Port or POB) Expanding: Two property acquisitions included in the 2007-2012 *Consolidated Transportation Program* seek to expand the size of the Port. The first acquisition includes the purchase of land adjacent to Seagirt Marine Terminal from MdTA for $3 million. It is estimated that an additional $13 million will be spent to develop the land as a 17-acre container storage facility. The second acquisition involves land in close proximity to the Dundalk Marine Terminal for potential cargo expansion opportunities.

Cargo Trends at the Port: Cargo at the Port again increased in 2005. Total foreign cargo handled at the Port's private and public terminals was 32.4 million tons, ranking it thirteenth among U.S. port districts. Total value of the foreign cargo was $35.9 billion, ranking it twelfth among all U.S. port districts. In terms of the MPA-owned terminals, general cargo tonnage increased from fiscal 2005 to 2006, reaching a new record of 8.2 million tons. Container volumes were up 3.5%, but many of the niche cargoes were down slightly. MPA saw a decline of 6.9% in forest products, 2.4% in roll-on/roll-off, and 3.3% in autos. The decreases occurred for a variety of reasons but are expected to rebound in fiscal 2007.

Issues

Decision to Not Sell the World Trade Center (WTC): Due to the change in administrations, the decision has been made to not sell the WTC. The Department of Legislative Services (DLS) points out several lessons learned from the proposed sale, which include the following: concurrence with MDOT that MPA should not act as a landlord; MPA should not rent office space when it already owns an office building that stands half empty; MDOT should not include revenue from the sale of assets in its forecast until the sale is final; and uncertainty may have a high cost. Additionally, DLS notes that as the result of the decision to retain ownership, MPA will require additional money in its fiscal 2007 and 2008 appropriations for operating expenses and capital improvements. **DLS recommends that budget bill language be added to instruct MPA to hire a broker for all leasing and property management functions; prohibit MDOT from including in its forecast revenue from the sale of assets before the sale is finalized; and require MPA to make every effort to increase occupancy. Furthermore, DLS recommends reductions in MPA's allowance for rent paid at the WTC and at Point Breeze and that the Secretary discuss future funding needs for the building.**

Port Security: Over the interim, two reports were received from MPA regarding port security. The first was an annual report required in statute, and the second was a report requested in the 2006 *Joint Chairmen's Report* (JCR). This issue also discusses recent changes at the federal level, including the passage of the SAFE Port Act and the publication of rules for the Transportation Worker Identification Card. **DLS recommends that the Secretary address recent changes in port security, especially changes at the federal level; the cost of these changes; who will bear**

responsibility for these costs; timeline for implementation; and, the overall state of security at POB.

Performance Contracting: During the interim, DLS selected contracts in excess of $1 million and reviewed them to assess whether performance measures were included in the contract; if payments or continuation of the contract are tied to achievement of certain outcomes; and whether the desired outcomes included in the contract are tied to performance measures in the agency's Managing for Results submission. **DLS recommends that the Secretary address what performance deficiencies took place with the previous security contractor, the potential for increased performance contracting at the Port, the performance of current contractors, and ongoing efforts to monitor contracts.**

Operating Budget Recommended Actions

		Funds
1.	Add budget bill language to prohibit the Maryland Department of Transportation from including any revenue from the sale of assets in its forecast until the sale is final.	
2.	Add budget bill language requiring the Maryland Port Administration to hire a broker to handle all leasing and property management functions and to express the intent that an immediate effort should be made to increase occupancy at the World Trade Center.	
3.	Reduce funding for training to reflect actual usage.	$ 20,200
4.	Reduce funding for medical care to reflect actual usage.	15,000
5.	Reduce funding for additional equipment.	100,000
6.	Delete funding for rent at the World Trade Center.	600,000
7.	Delete funding for lease and utility payments to the Maryland Transportation Authority for office space at the Point Breeze office complex.	484,258
8.	Adopt committee narrative to instruct the Maryland Port Administration to include in its annual Managing for Results submission information concerning cruise operations.	
	Total Reductions	**$ 1,219,458**

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

300th Anniversary and the Renaming of the Port: Throughout 2006, MPA held a number of events marking the Port's tercentennial. At the signature event, an evening gala held at the newly opened cruise terminal, Governor Robert Ehrlich renamed the Port the Helen Delich Bentley Port of Baltimore in honor of Ms. Bentley's more than 50 years of service to the maritime industry and to POB.

Opening of the New Cruise Terminal: The Port's new dedicated cruise facility at South Locust Point opened in May 2006 and served customers throughout the 2006 cruise season. Cruises to new locations have been lined up for next year. The cruise terminal was named "Project of the Year" in the design category by STV Group.

Dubai Ports (DP) World Sells U.S. Operations to American International Group Inc. (AIG): Following intense scrutiny of DP World's purchase of P&O Ports, the Dubai-owned company agreed to sell its operations at POB and five other U.S. ports. In December, DP World announced the winning bidder was AIG, the world's largest insurer. AIG is expected to take a passive oversight role and will retain current management at P&O Ports. Impact of the sale on POB should be minimal. The Port's current six-year contract with P&O Ports is up for renewal in November 2007, but no decisions have yet been made about renewal.

Dredged Material Management Program (DMMP): DMMP was established in 2001 to consider the long-term placement of dredged material. The capacity at current disposal sites is not infinite; therefore, alternative disposal sites and possible re-use of dredged material are currently being examined.

Port Fumigation Services: The 2006 JCR requested a report from MPA regarding fumigation services at the Port. The report submitted outlined why and how fumigation is performed, the recent change of fumigation providers, the reasoning for the change in providers, and the benefits to customers and MPA that have resulted from the change in providers.

Economic Impact of Port Down Slightly, Jobs Up: In response to an item in the 2002 JCR, MPA submitted its annual update of the economic impact of the Port. Total jobs attributed to the Port, including direct, induced, indirect, and related jobs was 128,400 in 2005. This is an increase of 6,500 jobs, or 5.3% over 2004. The Port also had a significant impact on personal wage and salary income, business revenues, local purchases by businesses, taxes, and U.S. Customs Service's collections.

Annual Report Received from the Maryland Port Commission (MPC): Section 6-201.2 of the Transportation Article requires an annual report from MPC including the activities of MPC in the past year, a review of the Port's competitive position, recommendations for changes, and any substantive changes in its regulations for procurement and personnel. This report was received in January 2007 and provided a summary of accomplishments for fiscal 2006.

Maryland Port Administration

Maryland Department of Transportation

Budget Analysis

Program Description

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

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

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

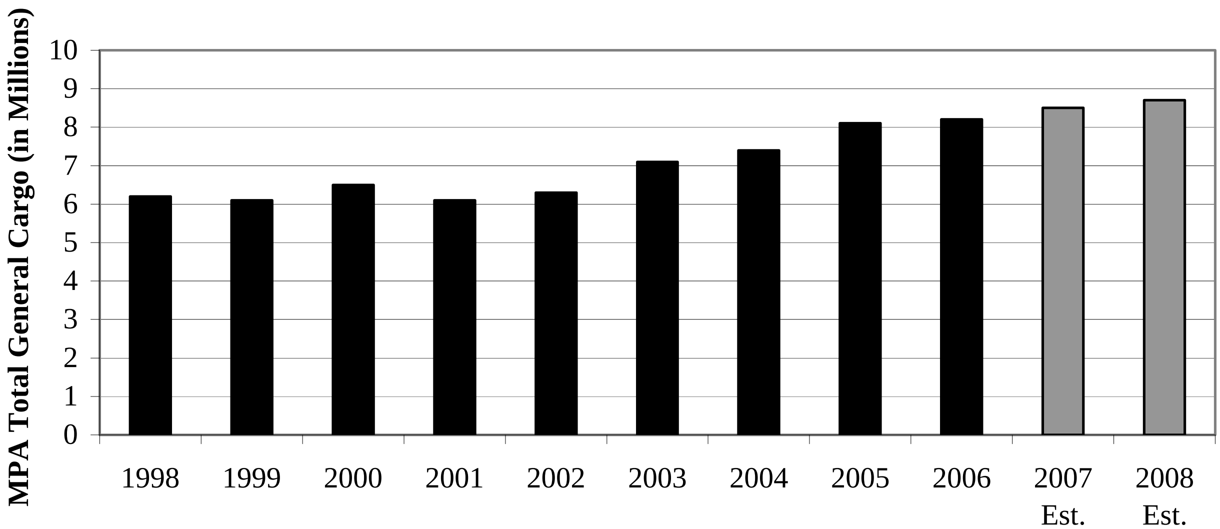
Performance Analysis: Managing for Results (MFR)

The Port is a vast industrial complex that encompasses 45 miles of shoreline and 3,403 waterfront acres. It includes 7 public terminals owned and operated by MPA, as well as 23 private terminals. Unlike many State entities, the Port operates in a highly competitive market, with direct competition not only from the private industry, but also from other ports up and down the east coast, as well as some Canadian ports. In 2005, the Port handled 32.4 million tons of foreign cargo at its private and public terminals, ranking it thirteenth among all U.S. Port districts. In that same year, the value of foreign cargo handled at the Port was $35.9 billion, ranking it twelfth among all U.S. Port districts.

Cargo Handling

In terms of MPA's seven public terminals, one of the key measures to determine if MPA is fulfilling its mission to stimulate the flow of waterborne commerce through the State is to examine the total tonnage that is handled through the public terminals. From fiscal 2005 to 2006, total general cargo tonnage at the Port increased from 8.1 million to 8.2 million, an increase of 1.8%. As shown in **Exhibit 1**, steady increases are expected over the next two fiscal years.

Exhibit 1
MPA Total General Cargo Tonnage
Fiscal 1998-2006 Actual, Fiscal 2007-2008 Estimated

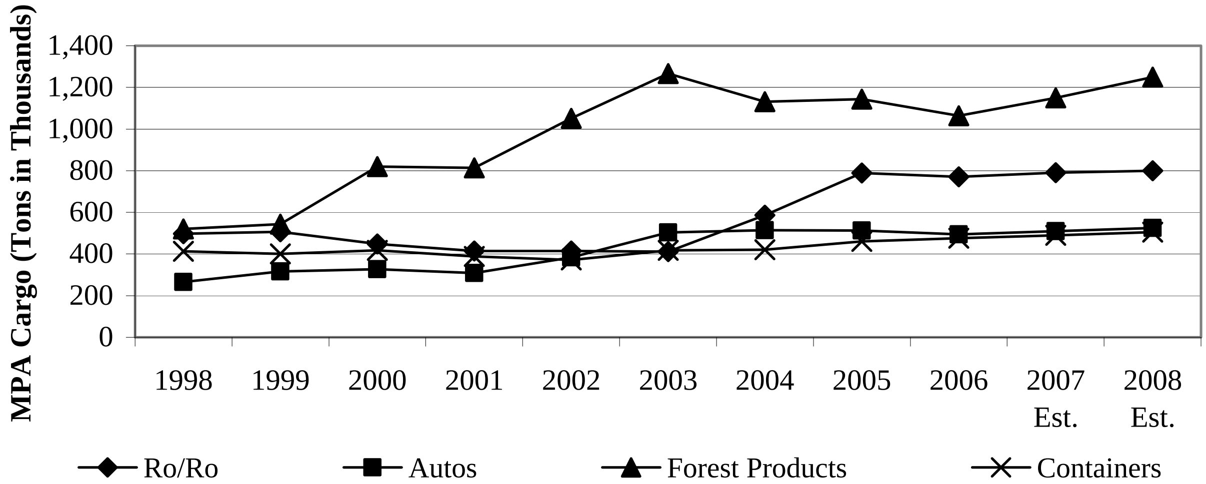


Source: *Governor's Managing for Results Final Report*, January 2007

Four major types of cargo flow through MPA's public terminals. These are roll-on/roll-off (Ro/Ro), forest products, autos, and containers. Ro/Ro includes construction, farm equipment, and other cargo that is driven on or off a ship excluding autos. **Exhibit 2** provides data on total general cargo by type that was handled at MPA terminals.

Forest products declined 6.9% from fiscal 2005 to 2006, largely due to the slowdown in the U.S. housing market and a new U.S.-imposed import duty that heavily hit Brazilian plywood imports. The decline is expected to be an anomaly, as forest products are up 14% in the first five months of fiscal 2007. Ro/Ro also declined by 2.4% from fiscal 2005 to 2006. Again, this decline is only temporary as the overall trend has been growth. Ro/Ro is up 11% for the first five months of fiscal 2007. Autos experienced a 3.3% decrease from fiscal 2005 to 2006, which is attributed to Toyota and Honda moving their imports to other ports. These decreases will be offset in fiscal 2007 as the Port begins to handle autos for Sterling and Subaru. Finally, containers increased for the third year in a row.

Exhibit 2
MPA Terminals Cargo Tonnage, by Cargo Type
Fiscal 1998-2006 Actual, Fiscal 2007-2008 Estimated



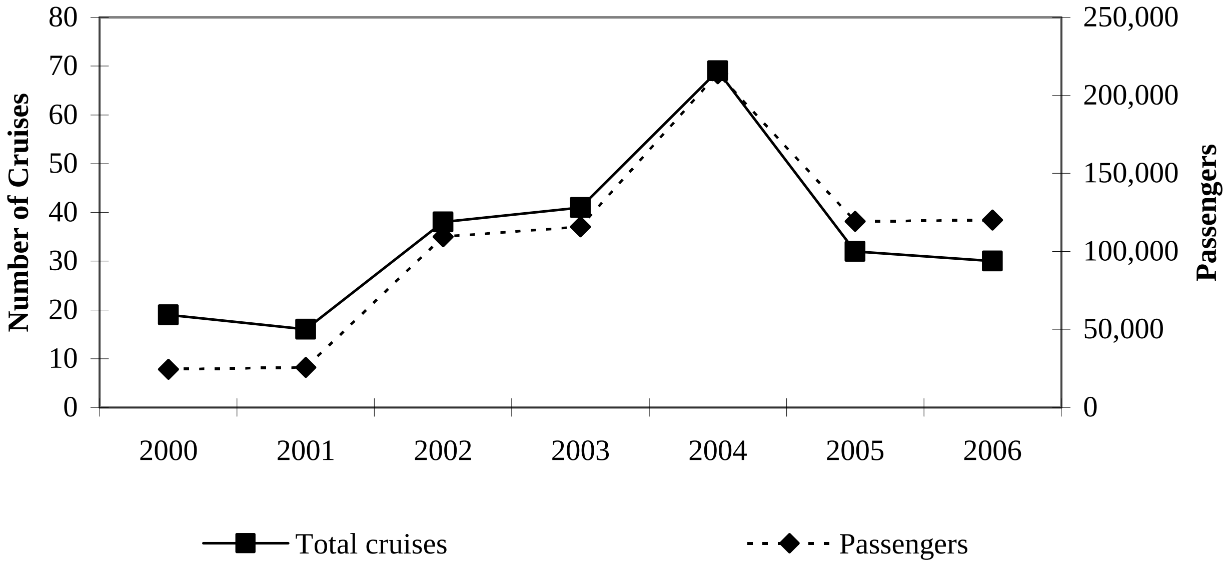
Source: *Governor's Managing for Results Final Report*, January 2007

Although market share and Port ranking data are often available for these cargo types, this information is unavailable in fiscal 2006 due to damage from Hurricane Katrina that the U.S. Army Corps of Engineers' Data Center, which prepares this information, sustained. It is assumed that the Port will remain among the top East Coast ports in terms of total Ro/Ro, auto, and forest products.

Besides handling cargo, another activity at the Port is the cruise ship business. In May 2006, MPA held the grand opening of its new $13.6 million dedicated cruise facility. The expectation was that the new facility was needed for a growing cruise ship industry at the Port. As **Exhibit 3** shows, although there is only one year of data for the new cruise facility, this expectation does not seem to be coming to fruition.

Prior to the terrorist attacks of September 11, 2001, the Port experienced a modest number of cruise departures. After September 11, many vacationers decided to forgo travel by air and instead travel closer to home. This included utilizing cruises departing from closer to home rather than flying to Florida or elsewhere to take a cruise. Therefore, the Port saw an increase in departing cruises in 2002 and 2003, which seemed to peak in the 2004 cruise season. In 2005, there was a steep decline in the number of cruise departures and passengers, followed by a slight increase in passengers and slight decrease in cruise departures in 2006. **The Department of Legislative Services (DLS) recommends that the Secretary address attempts to market the Port's cruise services, both to consumers and to cruise lines. Additionally, DLS recommends committee narrative be adopted to instruct MPA to include in its MFR data information concerning the number of cruise ships departing from the Port, the number of port calls, the number of passengers, and the revenues received from the cruise business in each cruise season (calendar year data).**

Exhibit 3
Cruise Ship Operations
Calendar 2000-2006 Actual

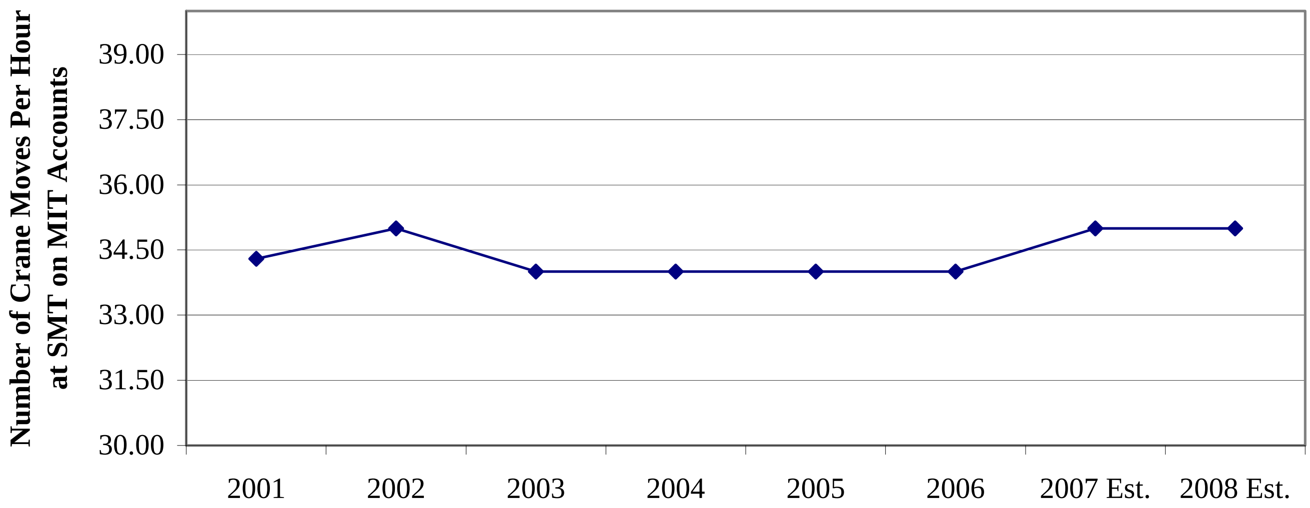


Source: Maryland Port Administration

Efficiency Measures

As the amount of cargo that moves through the Port continues to increase, efficiency plays a greater role. MPA's MFR measures include two measures of efficiency for handling containers. **Exhibit 4** shows the number of crane moves per hour at Seagirt Marine Terminal (SMT) for all Maryland International Terminals, Inc (MIT) accounts. A crane move refers to the loading or unloading of a container on or off a ship. Crane moves demonstrate efficiency because the greater the number of crane moves per hour, the faster that a ship can be loaded or unloaded. MPA's goal is to reach 37 crane moves per hour, which is higher (more efficient) than its current average of 34 moves per hour. However, it should be noted that some factors affecting this measure are beyond the control of MPA, including the way that cargo is stored on the ship.

Exhibit 4
Number of Crane Moves Per Hour
Fiscal 2001-2006 Actual, Fiscal 2007-2008 Estimated



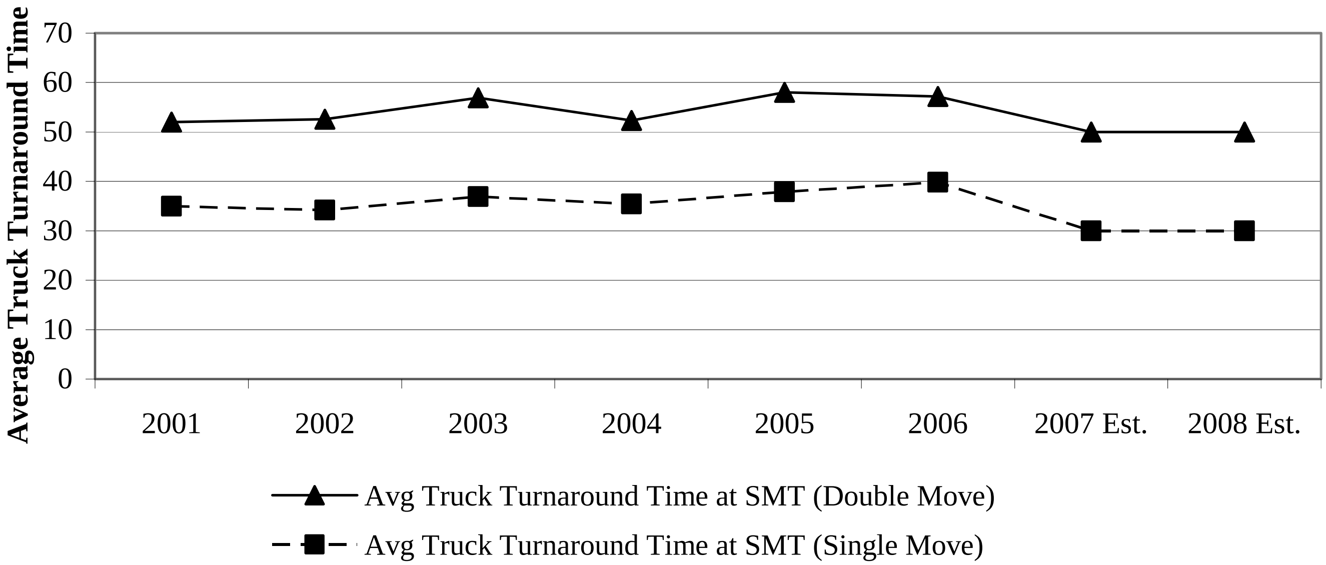
MIT: Maryland International Terminal

SMT: Seagirt Marine Terminal

Source: *Governor's Managing for Results Final Report*, January 2007

The other cargo handling efficiency measure relates to truck turnaround time. Truck turnaround time is the average time elapsed between when a truck arrives at the terminal and when it departs. Just as the crane move measure looks at how quickly a ship can be unloaded or loaded, the truck turnaround time looks at how quickly trucks can be loaded or unloaded and get back on the road. **Exhibit 5** shows the average truck turnaround time for single and double moves. Single moves are when a truck comes in and only loads or unloads a container. Double moves are when a truck brings a container in and then loads up and takes one out. MPA's goal for truck turnaround time is 30 minutes for single moves and 60 minutes for double moves. For the years shown, MPA consistently meets the goal for double moves; however, it has not reached this goal for single moves. This is likely due to the fact that certain actions included in the truck processing time take place no matter if a truck is just unloading or loading or if they are doing both.

Exhibit 5
Truck Turnaround Time
Fiscal 2001-2006 Actual, Fiscal 2007-2008 Estimated



SMT: Seagirt Marine Terminal

Source: *Governor's Managing for Results Final Report*, January 2007

Revenues and Expenditures

Unlike most other State agencies that rely solely on the State for all support, MPA receives revenues that help to offset its expenditures. Its profitability determines how much the Transportation Trust Fund (TTF) must provide as a subsidy. MPA had a positive net operating income in only 1 of the last 10 fiscal years, requiring that the TTF provide a subsidy in all other years. This subsidy for operating expenses has grown steadily during this time, and the projected operating subsidy in fiscal 2008 is $10.5 million. Revenues also do not cover MPA's capital expenditures. MPA relies on the TTF or other non-MPA financing mechanisms, such as Certificates of Participation (COPs), for all capital investments.

Exhibit 6 shows that MPA projects a net operating loss of $10.5 million in fiscal 2008. This loss, representing 10.1% of operating expenditures, will be provided as a subsidy from the TTF. When coupled with the capital program, MPA requires a $139.6 million subsidy from the TTF in fiscal 2008. This subsidy totals 60.0% of total expenditures for MPA. This represents a $3.2 million, or 2.3%, increase over the fiscal 2007 TTF subsidy to MPA.

Exhibit 6
MPA Special Fund Expenses and Revenues
Fiscal 2005-2008
($ in Thousands)

	Actual 2005	Actual 2006	Estimated 2007	Estimated 2008	Percentage Change 2007-2008
Operating Revenue[1]	$93,717	$90,904	$88,887	$93,004	4.63%
Total Operating Expenses[2]	102,097	97,646	100,105	108,707	8.59%
Total Exclusions[3]	-2,737	-2,588	-2,803	-5,219	86.19%
Net Operating Expenses	$99,360	$95,058	$97,302	$103,488	6.36%
Net Operating Income	**-$5,643**	**-$4,154**	**-$8,415**	**-$10,484**	**24.59%**
Capital Expenditures[4]	$75,045	$70,967	$127,988	$129,077	0.85%
Total TTF Subsidy of MPA	**-$80,688**	**-$75,121**	**-$136,403**	**-$139,561**	**2.32%**

[1] Includes $788,000 in fiscal 2005 and $90,000 in fiscal 2006 for prior year adjustments.

[2] Includes the following expenses paid by the Maryland Department of Transportation (MDOT): $1.4 million for Baltimore City Fire Suppression and PILOTS payments in the amount of $1.6 million in fiscal 2005, $823,000 in fiscal 2006, and $1.0 million budgeted for fiscal 2007 and 2008.

[3] Excluded expenditures include payments to the Maryland Transportation Authority (MdTA) for Masonville, COPs payments, and certain capital equipment.

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

Source: Maryland Port Administration

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

Operating Exclusions

In its comparison of operating revenues and expenditures, MPA typically projects an operating surplus; however, this surplus is the result of a number of operating exclusions utilized by

MPA. Exclusions include: payments for Baltimore City Fire Suppression, Payments in Lieu of Taxes (PILOTs), lease payments to the Maryland Transportation Authority (MdTA) for SMT and Masonville Auto terminal, capital equipment, and an annual contribution to the Pride of Baltimore on behalf of MdTA. New this year, MPA has also included an operating exclusion for the debt service payment for the COPs issued for construction of a new cargo shed at South Locust Point Terminal.

These operating exclusions often make the difference between MPA showing a net operating surplus instead of a deficit. Of particular concern are the lease payments to MdTA that MPA excludes from its operating expenses, totaling $10.0 million in fiscal 2008. MPA historically argued that these are capital leases and should, therefore, be excluded from operating expenses. The 2006 *Joint Chairmen's Report* (JCR) directed the Office of Legislative Audits (OLA) to review these operating exclusions for conformity to Generally Accepted Accounting Principles (GAAP).

OLA concluded that the lease payment for Masonville Auto Terminal ($1.7 million in fiscal 2008) does qualify as a capital lease; however, the lease payment for SMT ($8.4 million in fiscal 2008) was not and, therefore, should not be excluded from operating budget expenses. The finding that the SMT lease payment should not be excluded was based on the fact that there is not an option to purchase the land in the future, as would be necessary according to GAAP standards. Taking these findings into account for its fiscal 2008 budget, MPA shows a net operating loss of $8.1 million, rather than a surplus of $729,000. Future budget analyses will reflect this OLA finding.

As a result of the OLA finding, DLS reviewed the other operating exclusions utilized by MPA to determine their applicability. These findings are below:

- ***Contribution to the Pride of Baltimore on Behalf of MdTA:*** As a means of lowering its lease payments to MdTA for SMT, MPA agreed to make a contribution to the Pride of Baltimore on MdTA's behalf. Since the lease is no longer considered an operational exclusion, DLS concludes that neither should this contribution since it arises out of the same agreement.

- ***Payments to Baltimore City for Fire Suppression and PILOTs Payments:*** Although these expenses are paid by the Maryland Department of Transportation (MDOT) on MPA's behalf, they still qualify as operating expenses. Therefore, DLS will no longer include these expenses as operating exclusions.

- ***Lease Payments to MdTA for Masonville, Certain Capital Equipment Costs, and Debt Service for COPs Issued for the New Paper Shed:*** These exclusions qualify as capital expenses and will, therefore, continue to be considered as operational exclusions.

Although MPA continues to include the contribution to the Pride of Baltimore, payments for Baltimore City Fire Suppression, and PILOTs payments as exclusions, DLS will no longer do so. The operating expenses and revenues shown in Exhibit 6 reflect these changes in exclusions.

Fiscal 2007 Actions

Proposed Deficiency

The fiscal 2008 allowance includes two deficiencies. The first, for $360,872, is to supplement the appropriation for fuel and utility expenses. This additional money is needed for increasing market rates. The second deficiency is for $766,989 to provide funds for overtime payments to MdTA Police for cruise operations and fire safety regulations compliance.

MPA has two other funding needs for fiscal 2007 that have been submitted to the Department of Budget and Management as budget amendments. The first is $1.7 million for debt service for the COPs issued for construction of the new paper shed. This money was not included in the fiscal 2007 budget since the COPs had not yet been issued. The second funding need is for approximately $3.1 million for operating expenses at the World Trade Center in Baltimore. Under the prior administration, MDOT had proposed the sale of the building and was progressing through negotiations with bidders. However, with the change in administrations, MDOT will retain ownership of the building. No money was budgeted in fiscal 2007 because of the expected sale.

Governor's Proposed Budget

The fiscal 2008 allowance increases by $8.6 million, or 8.8%, over the fiscal 2007 working appropriation. Without the health insurance costs decline due to one-time savings, the underlying growth in the allowance is $9.4 million, or 9.7%.

Personnel costs decrease by $0.4 million; however, without the health insurance costs decline due to one-time savings, personnel costs increase $1.2 million. The largest personnel cost increases are for retirement ($295,302), overtime earnings ($286,977), and salaries ($258,398). The increases are offset by decreases in health insurance ($752,445) due to a surplus in the health insurance account, and an increase in the turnover rate, which further reduces funds for turnover ($463,156).

Outside of personnel expenses, several other large increases took place. These were:

- $3.3 million increase for stevedoring costs due to increased business;
- $2.1 million for security;
- $1.9 million for debt service for the COPs used to fund the construction of a new paper shed for M-real; and
- $1.1 million for fuel and utilities due to increased market rates.

Exhibit 7 provides details on the major changes occurring in MPA's fiscal 2008 allowance.

Exhibit 7
Governor's Proposed Budget
Maryland Port Administration
($ in Thousands)

How Much It Grows:	Special Fund	Total
2007 Working Appropriation	$97,700	$97,700
2008 Governor's Allowance	106,302	106,302
Amount Change	$8,603	$8,603
Percent Change	8.8%	8.8%

Where It Goes:	
Personnel Expenses	
Retirement	$295
Overtime earnings	287
Increments and other compensation	234
Social Security and unemployment	24
Workers' compensation	-21
Turnover adjustments	-463
Employee and retiree health insurance	-752
Other Changes	
Stevedoring costs (contract with P&O Ports)	3,298
Security	2,062
Certificates of Participation debt service payment	1,900
Fuel and utilities	1,091
Purchase of replacement vehicles	314
Purchase of additional equipment and supplies	328
Communications and information technology as a result of changes in the Consolidated Transportation Information Processing Plan	146
Copier rental and pager services	124
Contract with Media Two for Port of Baltimore magazine, increases publication from quarterly to bimonthly	95
Electrical, plumbing, and miscellaneous supplies and materials	90
Real property appraisals	82
Marketing and advertising	65
Janitorial contracts	58
Snow removal contract	43
Contracts for training and medical care	35

Where It Goes:

Employee uniforms	29
Rehab wharf logs at all terminals	25
Maintenance and repair of motor vehicles	-18
Travel	-49
Painting interiors and exteriors of buildings	-55
Purchase of replacement equipment	-81
Insurance	-110
MIT consultant	-137
Shuttle service, HVAC, portable restroom rentals for cruise operations	-380
Other adjustments	44
Total	**$8,603**

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

PAYGO Capital Program

Program Description

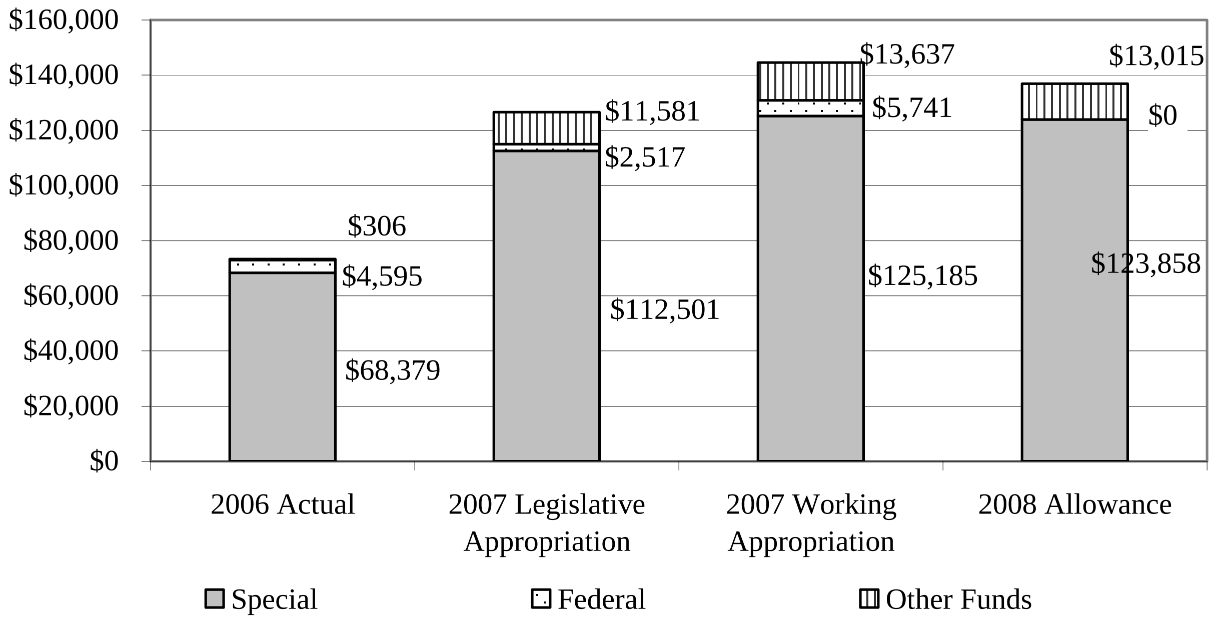
MPA's capital program identifies and manages projects and funding for Port facilities that provide increased capacity for existing cargo and promote the shipment of new cargo. Current projects focus on improving and modernizing existing State capital facilities, developing new facilities, and supporting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

Fiscal 2007 to 2012 *Consolidated Transportation Program* (CTP)

The fiscal 2008 allowance (special and federal funds only) for the capital program decreases $7.1 million, or 5.3%, from the fiscal 2007 working appropriation. Total funding for the capital program, including other funds, decreases $7.7 million, or 5.3%. This overall decrease includes an $11.6 million decrease in the construction program, $6.2 million decrease in the development and evaluation (D&E) program, and a $10.2 million increase in system preservation projects. Large construction decreases from 2007 to 2008 in major projects include a $10.6 million decrease for the Dredge Material Placement and Monitoring program due to cashflow changes in the Masonville Dredge Placement Facility and Poplar Island construction and a $14.0 million decrease in the Terminal Security Program due to near completion. These large decreases are offset by an increase of $14.0 million for dredging at SMT.

Exhibit 8 presents the cash flow changes between MPA's fiscal 2006 to 2008 capital budgets. The cash flow consists almost entirely of special funds, but there is a portion of federal funds and other funds. Federal funds are only used for terminal security. The "other" funding in fiscal 2008 includes $13.0 million of COPs, which will fund construction of the new paper shed at South Locust Point terminal.

Exhibit 8
Cash Flow Changes
Fiscal 2006-2008
($ in Thousands)



Source: Maryland Department of Transportation; 2007-2012 *Consolidated Transportation Program*

Exhibit 9 provides a list of MPA major CTP construction projects funded in fiscal 2008. The five projects listed account for 95% of all major projects in the construction program for fiscal 2008.

Exhibit 9
MPA Major Construction Projects Funded in Fiscal 2008
($ in Thousands)

Project	Fiscal 2008	Total $	Completion of Fiscal Cash Flow
Hart-Miller Island Related Projects – provides for the operation and monitoring of the quality of water released from this dredged material disposal site. Hart-Miller Island will be closed to accepting dredged material after 2009, but costs will continue to close the site.	$3,912	$93,787	Ongoing
Dredged Material Placement and Monitoring – involves the placement and monitoring of dredged material for enhancement and maintenance dredging of Baltimore Port channels.	38,468	364,260	Ongoing
South Locust Point Paper Shed – construction of a 215,000 square foot shed to accommodate the importing of Northern European forest products previously imported through the Port of Philadelphia. Project will also include demolition work, railroad track work, and roll-on/roll-off ramp installation. This project will be funded by 18-year Certificates of Participation.	13,015	26,651	2008
Dundalk Marine Terminal Property Acquisition – involves the purchase of land adjacent to Dundalk Marine Terminal.	4,998	5,000	2008
Seagirt Marine Terminal Deep Berth 4 Dredging – involves the first phase of an effort to construct a 50-foot berth. This phase includes dredging of a 50-foot access channel to allow for the new fleet of larger container vessels and the deepening of Berths 1 – 3 from 42 feet to 45 feet. Phase II of the project will involve construction of a marginal wharf, and Phase III involves the purchase and installation of four Post-Panamax cranes.	26,000	40,000	2009
Total	**$86,393**	**$529,698**	

Source: Maryland Department of Transportation; 2007-2012 *Consolidated Transportation Program*

Projects Added to the Construction Program

As shown in **Exhibit 10**, two projects were added to the construction program in the fiscal 2007 through 2012 CTP. The purchase of the Canton Warehouse Facility will take place in fiscal 2007, and the purchase of land adjacent to the Dundalk Marine Terminal will take place in fiscal 2008.

Exhibit 10
MPA CTP Projects Added to the Construction Program
($ in Thousands)

Project	Fiscal 2008	Total $	Completion of Fiscal Cash Flow
Canton Warehouse Facility – involves the purchase of land from the Maryland Transportation Authority for future development as a 17-acre container storage facility.	$0	$3,000	2007
Dundalk Marine Terminal (DMT) Property Acquisition – involves the purchase of land adjacent to DMT for future development as a storage area for automobiles and roll-on/roll-off equipment.	4,998	5,000	2008
Total	**$4,998**	**$8,000**	

Source: Maryland Department of Transportation; 2007-2012 *Consolidated Transportation Program*

Issues

1. Decision to Not Sell the World Trade Center (WTC)

In 2005, MPA provided notice to the legislature that it would be selling the WTC. The decision to sell was in response to then-Governor Ehrlich's direction to dispose of non-core assets. Since owning an office building was not core to MPA's mission of stimulating the flow of waterborne commerce and the building had already served its purpose as a catalyst for Inner Harbor redevelopment, MPA made the decision to sell the building. The decision to sell was reinforced by the damage, low occupancy, and lawsuits that the building sustained in 2003 as a result of Hurricane Isabel. The building was declared excess by the Board of Public Works in April 2005, setting the stage for it to be sold.

An offering statement was issued in January 2006. After months of negotiations, MPA entered into exclusive negotiations with a bidder in April. After MPA and the bidder failed to reach agreement on the terms of the sale, the bidding was reopened to six "top-tier" bidders who had all made initial bids within $1 million of one another. These bidders were then given an opportunity to perform due diligence, which is a period when bidders have access to the building to arrange any inspections or appraisals they feel necessary. Final bids were due in August, and the former Secretary of MDOT reviewed and began negotiating offers. However, following the election of a new administration, the decision has been made to retain ownership of the building.

Cost Benefit Analysis and Appraisals

Language in the fiscal 2006 budget required MPA to provide a cost benefit analysis of the sale, a preliminary plan for staff relocation, and two appraisals of the building. The cost benefit analysis and plan for staff relocation was received in March 2006. The analysis found that MDOT selling the WTC and MPA remaining in the building for 10 years would be the most cost beneficial option. However, DLS had serious concerns about some of the assumptions used in the analysis. The most compelling of these arguments was the use of an artificially low net operating income, which depresses the value of retaining ownership of the building.

The two independent appraisals were received from MDOT in May 2006. The appraisals put the building's value at $37 million and $30 million. Subsequent analysis by DLS found that the $30 million appraisal may have been too low. DLS estimates the value of the building at $35 million to $42 million based on comparable sales of properties in the vicinity that were recently sold. As the sale progressed, MDOT had these appraisals reevaluated, and they each went down by about $1 million.

Issues

The proposed sale of the WTC has brought to light a number of issues that should be addressed. These are:

- ***Agreement with MDOT that MPA's proper role is not that of a landlord:*** DLS concurs with the assertion that managing an office building is not core to MPA's mission of stimulating the flow of waterborne commerce. However, that does not mean that the building must be sold; rather, **DLS recommends budget bill language instructing MPA to hire a broker to handle all leasing and property management functions.** Currently, MPA already utilizes a property manager, which costs just over $1 million per year. This language would require MPA to also utilize a broker to perform leasing functions. This will result in a more efficient and professional handling of leases and will decrease the number of leases negotiated at below market rates.

  In the short run, hiring a broker for leasing and property management will cost more money since MPA will have to pay brokers' fees and commissions. Additionally, in order to retain quality tenants, MPA will need to provide money for tenant improvements. Tenant improvement allowances are a standard practice in office real estate and provide money for the space to be outfitted to the tenant's needs. However, in the long run, MPA will increase revenues as the result of higher rents and occupancy.

- ***MPA should utilize the office space it owns rather than renting from MdTA:*** Currently, MPA rents approximately 30,000 square feet of office space from MdTA at the Point Breeze office complex for an annual rent of $387,667 plus utilities. Given that MPA has decided to retain ownership of the WTC and the fact that the building is currently half empty (current occupancy 52%), MPA should stop renting from MdTA and move those offices into the WTC. Besides providing a savings of nearly $0.5 million, this will also allow MPA to consolidate a majority of its staff at the WTC rather than having it spread across the WTC, Point Breeze, and offices at the Port.

  Furthermore, this will also allow MdTA to achieve rent savings and staff consolidation. MdTA owns the building at Point Breeze; however, the building is not large enough for both MdTA and MPA staff. Therefore, MdTA began renting 18,547 square feet of space from the building next door to house part of its staff. By removing MPA from the building, MdTA will be able to move its offices into that space, achieving both rent savings ($345,902 per year) and staff consolidation. **DLS recommends a reduction in MPA's allowance of the rent and utilities paid to MdTA.**

- ***MDOT should refrain from including profits from the sale of assets in its forecast unless the sale has been finalized:*** MDOT first included the proceeds of the sale of the WTC in its fiscal 2007 forecast and had the amount included in the current year budget for fiscal 2006. When this sale was not finalized by the end of fiscal 2006, the fiscal 2008 forecast then showed this revenue rolled over to the current year budget for fiscal 2007.

  The problem with including the sale proceeds in the forecast before the sale was finalized is that in both fiscal 2006 and 2007, it required MDOT to fill the hole created when this revenue did not come in. Although revenue attainment in fiscal 2006 lessened the impact of the WTC sale not taking place in that year, fiscal 2007 may be more difficult in the face of flattening revenues. **DLS recommends budget bill language be added to specify that MDOT should not include in its forecast any revenues received from the sale of assets unless the sale is final.**

- ***Uncertainty may have a high cost:*** The former Secretary of MDOT received final offers from bidders in August 2006 and reviewed and negotiated offers. In the meantime, tenants who leased space at the WTC faced great uncertainty as to the future status of the building. This uncertainty was compounded by the fact that MPA, acting on advice of the broker handling the sale, would not renew leases beyond one year. As a result, many tenants decided to move out of the building. As the occupancy rate decreased (currently 52%), revenues received from rent also decreased, to the point that MPA was actually losing money for every month that it continued to retain ownership of the building. Since August 2006 when the final offers for the building came in through January 2007, MPA has lost nearly $0.5 million dollars as the result of a monthly net operating income (NOI) of -$75,000. This negative NOI will continue until more rent revenue comes in, achieved by increasing occupancy. **DLS recommends that budget bill language be added to require MPA to make every effort to retain current tenants (by renewing leases if requested) and attract new ones.**

- ***Need for continuing operating expenses and capital improvements:*** The only money appropriated in the fiscal 2007 budget for the WTC was $600,000 in rent, in expectation of the building being sold prior to fiscal 2007 and MPA renting from the new owner. Since that sale will not take place, MPA has submitted a budget amendment for approximately $3.1 million for fiscal 2007 operating expenses for the building. The same is true in fiscal 2008, where MPA's allowance includes only rent payments and no operating expenses for the building. A budget amendment or deficiency will be expected in fiscal 2008 for the building's operating expenses.

  There may also be a need for additional money in fiscal 2008 for capital improvements, tenant improvement allowances, and broker fees and commissions (if one is hired). MDOT recommends $5.9 million worth of capital improvements at the WTC, including increased flood protection (above and beyond the flood protection improvements made immediately after the hurricane damage); plaza, lobby, and security improvements; and other improvement projects. MDOT is currently prioritizing projects included on this list to determine what needs to be done immediately and what can wait until more money is available. In terms of tenant improvement allowances, MDOT estimates the need for $1.4 million over the next three years to lease up the building, followed by $250,000 per year after that. Likewise, MDOT estimates the commission for a broker to handle the leasing function would require $275,000 per year for the first three years to lease up the building, and $50,000 per year after that. Altogether, MPA may need approximately $3.5 million in the first year. **DLS recommends that the Secretary discuss future funding needs necessitated by the decision to retain ownership of the building.**

2. Port Security

Security at the Port is a joint effort that primarily involves MPA's Office of Security, MdTA Police, the U.S. Coast Guard (USCG), U.S. Customs and Border Patrol (CBP), and a private security firm contracted by MPA. Since the terrorist attacks of September 11, 2001, over $58 million has been spent on security at the Port, $52.6 million of which came from the Transportation Trust Fund.

Annual Report on Funding to Address Vulnerability Concerns

Each year, in accordance with Chapter 78 of 2004, MPA submits a report concerning funding to address vulnerability concerns at POB. The December 2006 report covered the following topics:

- In 2006, the eModal Trucker Check system was installed at SMT. This system will enable MPA to verify truck driver and company information for all trucks entering SMT to handle containers.

- CBP officials at the Port have two valuable tools: VACIS, a truck-mounted, non-intrusive gamma ray imaging system that detects the presence of contraband, and a mobile Eagle X-ray imaging system that can take an image of a 40-foot container in less than a minute. POB is one of only three ports in the nation that has an Eagle X-ray machine.

- The recently enacted Security and Accountability for Every (SAFE) Port Act of 2006 (discussed later) mandates the installation of fixed radiation portal monitors at the nation's 22 largest ports by the end of 2007. Ahead of the Act, POB is one of only two ports in the nation to currently have this equipment. There is a fixed radiation portal monitor in operation at SMT, which ensures that 100% of containers leaving SMT are checked for radiation. The system will be operational at Dundalk Marine Terminal (DMT) by spring 2007.

- Since 2002, MPA has secured $11.1 million in Federal Port Security Grants through the federal Department of Transportation and the federal Department of Homeland Security (DHS). This money was supplemented by $8.7 million from the TTF for various security initiatives. An additional $0.6 million was received from other DHS grant programs for additional projects.

- There are several security initiatives that MPA is currently evaluating. These include:

  - a wireless maritime security communications network that will improve communication between vessels, MPA, MdTA Police, USCG, CBP, and other law enforcement and emergency response agencies;

  - Transportation Worker Identification Credential (TWIC) – an initiative by the Transportation Security Administration (TSA) that will require the issuance of a national identification card with biometric verification for all terminal facility personnel; and

- acquisition of land for an off-terminal badging station and parking for terminal workers and visitors.

Security Practices at the Port

Language in the 2006 *Joint Chairmen's Report* (JCR) requested a report concerning security practices at the Port. The report was received in December 2006 and adequately addressed all matters of concern noted in the JCR. Since much of the information overlaps with information contained in the annual report noted above, only new information will be addressed here.

Responsibility for Port Security

The Captain of the Port, USCG, Sector Baltimore is ultimately responsible for security at the Port.

Container Screening

- The examination of containers is performed by CBP. At POB, the percentage of containers scanned is significantly higher than the national average.

- CBP's Container Security Initiative (CSI) enables the examination of high-risk maritime containerized cargo at host foreign seaports prior to being loaded onto U.S.-bound vessels.

- Manifest information must be provided 24 hours in advance of a container being loaded onto a vessel in a foreign port. CBP can deny loading of any high-risk cargo destined for the United States.

Potential for Technological Changes that Could Require Less Personnel

To the contrary, technological security changes could require new personnel to monitor and service intrusion detection systems, camera surveillance systems, and screening equipment.

Requirements for Cooperation with Other Stakeholders

Federal regulations require the Captain of the Port to establish Area Maritime Security Committees to develop, review, and update Security Assessments of the infrastructure and operations of the Port. The Maryland Maritime Area Security Committee is composed of representatives from federal and state agencies, emergency response agencies, law enforcement agencies, security organizations, private terminals, the International Longshoremen's Association, shippers, and port-related businesses.

Federal Changes to Port Security

SAFE Port Act

On October 13, 2006, President George W. Bush signed into law the SAFE Port Act of 2006. Some of the provisions of the law include:

- authorizes $400 million a year over five years for port security grants;
- provides 1,000 additional CBP officers across the country by 2012;
- requires the nation's 22 largest ports to install radiation detectors by the end of 2007, and all ports by the end of 2008;
- codifies into law CSI, described above;
- codifies into law the Customs-Trade Partnership Against Terrorism (C-TPAT). C-TPAT is a joint public-private sector initiative in which private shippers agree to improve their own security measures in return for certain benefits, including expedited security clearances through U.S. ports;
- develops a 100% Scanning Pilot Program at three foreign ports to test the feasibility of scanning 100% of U.S.-bound cargo containers for nuclear and radiological material; and
- requires DHS to issue TWIC at the 40 largest U.S. ports by 2008 and all ports by 2009.

TWIC Card Rules Published

Long awaited rules relating to TWIC cards were published in January 2007. The rules require checks of criminal history and immigration status, on top of the existing check against terror watch lists, of all port workers. Workers will have to pay $137 to cover the costs of the card, which will be valid for five years. The issuance of cards will begin in April at selected ports (not including POB) and will be progressively introduced at additional ports at a schedule determined by USCG. The cards will include a biometric component, although the card readers that will utilize the biometrics are still under development and will not be deployed until a later time. TSA, the agency tasked with developing the TWIC card, did not receive any funding for the program. Therefore, money to purchase equipment and for operations will be the Port's responsibility. MPA has included $645,953 in its fiscal 2008 operating allowance for the TWIC program, and to ensure interoperability between TWIC and other port security systems.

DLS recommends that the Secretary address:

- **recent changes in port security, especially changes at the federal level;**
- **the cost of these changes;**
- **who will bear responsibility for these costs;**
- **timeline for implementation; and**
- **the overall state of security at POB.**

3. Performance Contracting

Over the last few years, the State has taken steps to better evaluate the outcomes produced by its programs. The Department of Budget and Management (DBM) is spearheading this effort through its Managing for Results initiative which attempts to link State spending to outcomes. DBM has required every agency to develop a mission, vision, key goals, objectives, and performance measures for each budgetary program. For the State's emphasis on results and accountability to be effective, it must permeate throughout the agency, as well as throughout all vendors doing business on the State's behalf. Managers in public agencies and vendors delivering services on the State's behalf must be equally aware of the relevant goals and objectives and share responsibility for producing the desired outcomes. The best way to ensure that vendors focus on the State's objectives is to link payments or continuation of the contract to specific performance measures.

To assess the use of performance-based contracts by MPA, DLS selected contracts in excess of $1 million and reviewed them for evidence of:

- performance measures included in the contract;
- whether payments or continuation of the contract are tied to achievement of certain outcomes; and
- whether the desired outcomes included in the contract are tied to performance measures in the agency's MFR submission.

Since MPA has only three contracts worth over $1.0 million, each will be examined in turn. MPA's contract with P&O Ports is by far its largest contract, worth over $46.9 million in fiscal 2008, nearly half of MPA's operating budget. P&O Ports performs the stevedoring functions at SMT, which includes the loading and unloading of cargo. The contract commenced on November 1, 2001, and will expire in 2007. There is a provision for one (six year) renewal term. P&O Ports was bought out by Dubai Ports World in March 2006 after a fierce bidding war. Following opposition to the sale, the U.S. arm of P&O Ports was then sold by DP World to American International Group Inc.

Examination of the contract found few performance measures stipulated. The contract specifies that truck turnaround time will not exceed a monthly average of 30.0 minutes per a single move or 60.0 minutes per a double move. In the event these goals are not met, MPA may reduce the landside charge, thereby, effectively reducing its payment to P&O Ports. MPA's fiscal 2008 MFR submission reported that the average truck turn around time at SMT in fiscal 2006 was 39.8 minutes for single moves and 57.2 minutes for double moves. Data provided by MPA shows that the average truck turnaround time for single moves exceeded the performance measure included in the contract every week in fiscal 2006.

MPA reports that this performance measure was included in the contract to address contractor problems provided that there was a problem and it was the contractor's fault. However, no adverse action was taken against P&O Ports for its failure to meet turnaround times as it was the result of factors outside its control. The turnaround times in the contract were based on significantly lower container volumes than what was experienced in fiscal 2006. The increased containers volume also created a shortage of chassis, which further increased turnaround time but is beyond P&O Ports' control. MPA believes that increases in turnaround time were acceptable according to industry standards in light of increased container volume.

The only other performance standard contained in this contract relates to container moves per hour. The contract stipulates a minimum average of no less than 30 net container moves per hour per crane. The MPA's fiscal 2008 MFR submission reports the average number of crane moves per hour in fiscal 2006 was 34, which exceeds the minimum performance standards included in the contract. Although the stevedoring contract includes several important performance measures, a contract as large as this one should include additional measures. For example, POB prides itself on excellence in cargo quality handling, or preventing damage to cargo; therefore, this contract should include some type of financial penalty if cargo handling standards are not met.

The second contract exceeding $1 million is with Securitas Security Services, the contractor that provides security guards to man the terminal gates. This contract is separate from the memorandum of understanding with MdTA Police, who are the first responders for security on Port property. This contract was the result of an emergency procurement in 2005, following unsatisfactory performance by the previous contractor. Notwithstanding this prior history of unsatisfactory performance by the former contractor, this contract contains no performance standards. It does include a provision that if there is any material default or breach of contract that results in MPA obtaining other personnel to provide security for time which the contractor was responsible, then MPA has the right to refuse payment for that period. Deliverables that are due immediately following the notice of award include a detailed schedule of assignments and how they will be covered; a certificate of training or comparable document attesting to the training, skill, and/or experience of each guard; and evidence of insurance.

Although it is somewhat difficult to measure performance in relation to security, a little creativity could be used. One possible measure would be spot checks of security checkpoints to ensure that guards are manning their posts and have the proper uniform and equipment. Alternatively, much like "mystery shoppers," MPA could send employees who are not generally known to the security guards to evaluate the guard's response to an attempted unauthorized entry. A contract as important as securing the entryways to the Port is certainly not a contract that should have little monitoring in place. **The Secretary should address what performance deficiencies took place with the previous contractor, why performance measures were not included in this contract, and what ongoing monitoring of this contract takes place.**

The final contract reviewed is with Meridian Management Corporation, for property management at the World Trade Center. The contract does not include any performance measures which are directly related to the MFR submission. Standards of service included in the contract are that emergency service shall be provided within one hour of the contractor receiving notice of equipment or system breakdown and system failure shall not result in a loss of essential service for more than three days.

A more innovative standard stipulates that the International Conference Center shall be marketed to the fullest to exceed current average monthly revenue of $185,000 at MPA-approved rates. As an incentive to reach this goal, MPA offers a form of profit sharing, in that for revenues over $185,000, Meridian may retain 30% of the additional revenues. Adversely, if the average annual income is not met, Meridian must provide written documentation justifying the deficiency. If this justification is unacceptable, MPA can reduce the monthly fee paid to Meridian until that money is recovered. Since this performance standard is based on historical rates, it is certainly attainable and provides excellent incentive to the contractor to meet and exceed this goal.

Although MPA is beginning to utilize performance contracting, more could be done through additional performance measures being included in contracts, making performance goals based on cargo volumes, and increased monitoring of contracts and performance. **DLS recommends that the Secretary address the potential for increased performance contracting at the Port, the performance of current contractors, and ongoing efforts to monitor contracts.**

Operating Budget Recommended Actions

1. Add the following language:

The Maryland Department of Transportation may not include in its forecast any expected revenue from the sale of property or other assets until the sale has been approved by the Board of Public Works.

Explanation: This language prohibits the Maryland Department of Transportation (MDOT) from including any revenue from the sale of assets in its forecast unless the sale has been finalized. This action is necessary following the recent decision to retain the World Trade Center. MDOT's forecast from January 2006 included revenues of $35 million from the sale of the building in fiscal 2006. Since the building had not yet sold when the new forecast was submitted in January 2007, the $35 million revenue was moved from fiscal 2006 to 2007. Now that the decision has been made not to sell the building, this leaves a $35 million deficit in MDOT's forecasted revenues. Although this deficit was offset in fiscal 2006 by slower than expected expenditures, given that other MDOT revenues are flattening, this could be much harder to do in fiscal 2007.

2. Add the following language to the special fund appropriation:

, provided that $250,000 of this appropriation may not be expended until the Maryland Port Administration hires a broker or other third party to handle all leasing and property management functions at the World Trade Center in Baltimore. These funds may not be released until a contract with a broker or third party is approved by the Board of Public Works. Further provided that it is the intent of the General Assembly that an immediate effort shall be made to increase occupancy at the World Trade Center.

Explanation: As one justification for the proposed sale of the World Trade Center, the Maryland Port Administration (MPA) argued that being a landlord is not core to its mission. Given the decision to retain ownership of the building, this language restricts $250,000 until a broker or other third party is hired to handle all leasing and property management functions. Current occupancy of the building is 52%. MPA has refrained from pursuing new tenants and retaining existing ones over the past year in preparation for the sale of the building. Due to this low occupancy, a net operating loss is incurred each month. Given the decision to retain ownership of the building, an immediate effort should be made to increase occupancy, and thereby increase revenues.

		Amount Reduction	
3.	Reduce funding for training to reflect actual usage. This action removes the increase included in the	$ 20,200	SF

	fiscal 2008 allowance. This leaves funding in fiscal 2008 at $83,267. This still allows for increased spending over fiscal 2006, as the fiscal 2006 actual was $67,122.		
4.	Reduce funding for medical care to reflect actual usage. This action deletes the increase included in the fiscal 2008 allowance, leaving $26,117. This level is adequate to cover the three-year average actual usage of $16,826.	15,000	SF
5.	Reduce funding for additional equipment. This action moderates an increase of $273,013 in the fiscal 2008 allowance for additional equipment. Even with this reduction, the allowance for this object will more than double from the fiscal 2007 working appropriation of $101,666.	100,000	SF
6.	Delete funding for rent at the World Trade Center. This action deletes the money included for rent at the World Trade Center, since the sale of the building will not go forward at this time.	600,000	SF
7.	Delete funding for lease and utility payments to the Maryland Transportation Authority (MdTA) for office space at the Point Breeze office complex. The Maryland Port Administration (MPA) has made the decision to retain ownership of the World Trade Center in Baltimore. With the building occupancy at 52%, there is an opportunity for MPA to consolidate part of its staff and save money on lease payments. Moving MPA offices to the World Trade Center will also allow MdTA to consolidate its staff at Point Breeze, rather than the current situation where it must rent space next door since there is not enough room in the building it owns for both MPA and MdTA.	484,258	SF

8. Adopt the following narrative:

Additional Managing for Results (MFR) Submissions Concerning Cruise Ship Operations: The Maryland Port Administration's (MPA) MFR submissions effectively portray port operations in terms of cargo. However, another key activity taking place at the Port is the cruise ship business. The committees request that MPA include in its annual MFR submission information concerning:

- the number of cruise ships departing from the Port;
- the number of port calls;
- the number of passengers served; and
- revenues and expenditures related to cruise ship operations.

In the fiscal 2009 submission, actual data from calendar 2006 and 2007 should be reported, as well as projected calendar year data for 2008 and 2009. Calendar year data is preferred over fiscal year data to more accurately reflect performance in each cruise season (which runs from May to November, across two fiscal years).

Information Request	**Author**	**Due Date**
Performance measures	MPA	With submission of the fiscal 2009 allowance

Total Special Fund Reductions **$ 1,219,458**

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. 300th Anniversary and the Renaming of the Port

From its early beginnings in 1706 as an official port of entry for Maryland's tobacco trade with England, the Port has steadily grown and increased its prominence in the national and international shipping industry. In 1956, Malcolm McLean's vision of containerized cargo came to fruition and the Maryland Port Authority was created by the General Assembly. The development of containers forever changed the shipping industry, and the creation of the Port Authority forever changed the Port. Over the next 50 years, five additional public terminals were developed and POB has grown into one of the top ports in the nation. In 1971, the Port Authority became the Maryland Port Administration and was put under the umbrella of the Department of Transportation.

Today, the Port includes 45 miles of shoreline and 3,403 acres of waterfront land. One of the Port's public terminals, SMT, is regarded as one of the best container terminals on the Atlantic United States East Coast. Furthermore, the Port is ranked number one in Ro/Ro cargo and handles 50% of the U.S. East Coast market share of Ro/Ro annually.

Throughout 2006, a number of tercentennial events took place. Events included an evening cruise of the Port, birthday cake at Lexington Market, a ceremonial first pitch at a Baltimore Orioles game, an evening gala at the newly opened cruise terminal, and a Portfest providing bus tours of the terminals to the public. At the evening gala, a special announcement was made that POB would change its name to the Helen Delich Bentley Port of Baltimore in recognition of her more than 50 years of contributions to, and advocating for, the maritime industry and POB.

2. Opening of the New Cruise Terminal

On May 10, 2006, the grand opening of the new cruise terminal was held. The new dedicated cruise passenger facility is located at South Locust Point marine terminal. The total cost of the project rose slightly from $13.2 million to $13.6 million, funded through the TTF. The project involved conversion of an existing cargo shed with adjacent parking into a cruise terminal. The project was necessary to separate cargo and passenger traffic and provides enhanced visibility and access from Interstate 95.

In August, the cruise terminal was recognized as "Project of the Year" in the design category by STV Group, a national planning and design company. The award was given based on the terminal's functional and welcoming design provided on an expedited schedule for both design and construction.

During the 2006 cruise season, 28 direct departure cruises and 2 port calls were made at the new facility, serving 119,972 passengers. In 2007, a total of 35 cruises are projected, including at least 29 departing cruises and 4 port calls. The 2007 cruise season will also include cruises to new destinations, such as Canada, New England, and the Eastern Caribbean.

3. Dubai Ports (DP) World Sells U.S. Operations to American International Group Inc. (AIG)

DP World has agreed to sell its U.S. port operations to AIG, the world's largest insurer. AIG's asset management and private equity unit, AIG Global Investment Group, will manage six major container terminals, including POB, stevedoring operations at 16 locations along the eastern seaboard and Gulf Coast, and a New York passenger terminal for an undisclosed price believed to be slightly above $1 billion.

DP World is owned by the government of Dubai, a member of the United Arab Emirates. Its acquisition in March of Peninsular & Oriental Steam Navigation Co. (P&O Ports) set off a political firestorm. Congress threatened to block the deal, and state lawmakers had their own concerns regarding national security. Additionally, there were broader concerns about U.S. ports being run by a foreign company.

DP World's acquisition of U.S. port operations was part of a much larger deal, which included 23 other container terminals and logistics operations globally, including key assets in Asia and operations in Canada, for a total price of $6.8 billion. In response to the controversy, DP World agreed not to take control of U.S. operations after the sale and to sell its newly acquired U.S. operations to a U.S. entity. During the bidding process, U.S. operations continued to be handled by P&O Ports.

AIG currently does not own any other port assets but does own pipelines, power plants, water utilities, and other infrastructure. Since the United States is the world's largest importer, the port management business is viewed as a way to generate solid and steady returns. The sale will be finalized in the first quarter of 2007. It is expected that AIG will passively oversee the U.S. operations and will retain current P&O management, and perhaps even the P&O Ports name. Impact of the sale on operations at POB is expected to be minimal.

The current six-year contract with P&O Ports for stevedoring services at POB is up for renewal in November 2007. No decisions have been made yet regarding possible contract renewal, although the Maryland Port Commission (MPC) has formed a subcommittee to identify and discuss the best course of action. Possibilities include renewal of the six-year contract with P&O Ports; attempt to procure a new terminal operator; or a long-term lease of SMT to an operator.

4. Dredged Material Management Program (DMMP)

There are two primary laws affecting DMMP. The first is the Dredged Material Management Act of 2001 (Chapter 627 of 2001), which requires the development of a dredged material management plan to provide 20 years of dredged material placement and creates a State executive committee to oversee development of that plan.

The second is the Dredged Material Disposal Alternatives Act of 2004 (Chapter 552 of 2004). This law establishes a program within the Department of Business and Economic Development to foster the development of innovative re-use as a sustainable alternative for dredged material and requires MDOT to allocate money from the TTF for the program once a 20-year long-term plan for managing dredged material is operational. Also in accordance with that law, MDOT submitted a report on October 1, 2006, regarding the planned date of funding for the program. Based on currently available information, MDOT anticipates that the TTF will start funding the program in 2015.

In accordance with these components of DMMP, a range of options are being considered for the short- and long-term disposal of dredged material. Since there are additional restrictions on material dredged from the Baltimore Harbor channels, options for disposal must include locations for dredged material disposal for both the Harbor channels and the Chesapeake Bay channels.

Bay Channel Options

Poplar Island Expansion: In conjunction with the U.S. Army Corps of Engineers (ACOE), MPA has developed a plan to expand Poplar Island by 50% to increase capacity. The plan was approved by DMMP's Executive Committee and ACOE and was included in the Senate version of the Water Resources Development Act of 2006 (WRDA 2006). If WRDA 2006 had passed and the project was funded and constructed on schedule, it would have become operational in 2011. However, since WRDA 2006 failed in the 109th Congress, the project could be delayed pending the inclusion and approval of a new WRDA bill in 2007.

Mid-Bay Islands: In conjunction with ACOE, MPA is studying the restoration of James Island and the creation of additional protection at Barren Island, both in Dorchester County. Restoration of the Blackwater Wildlife Refuge marshlands is also being evaluated for possible inclusion. This project's feasibility study has been completed, and it is awaiting inclusion in the next WRDA bill. In the best case scenario, the project would not become operational until 2015. At that time, a placement plan with 20 years of placement capacity for Bay Channels dredged material would be operational.

Harbor Channel Options

Dredged material from the Baltimore Harbor currently goes to the Hart-Miller Island facility; however, that facility closes in 2009 per State law. The Cox Creek site was renovated and became operational in 2006 but does not provide enough annual capacity. The following options are under consideration:

Masonville: The proposed Masonville site is progressing through the steps required to receive the proper permits. MPA completed detailed environmental and engineering studies, and a final environmental impact statement is expected to be issued by ACOE in early 2007. If permitted, funded, and constructed on schedule, Masonville will become operational in late 2008.

Cox Creek and Masonville together will not provide enough capacity for 20 years of placement for Harbor Channels dredged material. MPA's goal is to have a third site operational by 2013 in order to reach that goal. Possible sites include:

Sparrows Point: MPA continues to conduct feasibility studies and discussions with stakeholders regarding the possibility of a dredged material placement site at Sparrows Point. However, legislative modifications to State law prohibiting dredged placement sites within five miles of Hart-Miller Island would be necessary to pursue this option.

BP-Fairfield: MPA continues feasibility studies of this potential site.

Innovative Re-use

Annual maintenance dredging and dredging for new projects is an ongoing necessity; however, limitations on the disposal of dredged material leave few future options. Therefore, one of the key goals of the Dredged Material Disposal Alternatives program is to facilitate the re-use of at least 500,000 cubic yards of dredged material each year. To support this effort, MDOT created an Innovative Re-use committee to explore the re-use options available. Some of the most promising re-uses include:

- reclamation of sand and gravel mines, coal mines, and brownfields;
- base material for roads and parking lots;
- manufactured topsoil; and
- products such as bricks and blocks.

Currently the committee is evaluating options based on technological factors such as process capability; levels of contamination; costs; environmental impacts; and community acceptability. The committee will report a ranked list of options to MPA in March 2007.

5. Port Fumigation Services

In response to a request in the 2006 JCR, MPA submitted a report in October 2006 concerning fumigation services. Fumigation is necessary to eliminate and control invasive species or insects that can cause damage to goods and materials. The federal government, as well as many foreign governments, requires that some goods moving in international trade be subjected to fumigation before entering the country's commerce. Fruit, wood packaging material, and logs are items that are regularly fumigated.

At POB, the primary cargo requiring fumigation is logs. Since the Port is a leader in handling forest products, it established a fumigation facility at DMT as an attractive service for its log exporters. Because it competes directly with fumigation services in Norfolk, Virginia, MPA is mindful of its costs to customers. Additionally, since it operates as a business, MPA is also conscious of the revenues that it receives from the fumigation company.

From 1995 to 2005, MPA contracted with one fumigation company to provide fumigation services at DMT. During the contract period, MPA received $1,000 per month in lease payments from the company. As the average number of fumigated containers continued to increase, complaints regarding performance and timeliness also increased. Therefore, when the contract expired in 2005, MPA issued a Request for Proposals to secure a new fumigation provider.

Evaluation of the proposals included not only proven competency and experience, but also a ranking of which proposal would provide the greatest rent and revenue to MPA and the lowest cost to the customer. Western Fumigation ranked first in both of these categories and was awarded the contract beginning October 1, 2005. The previous contractor ranked fourth (out of four) in greatest MPA revenue and third in lowest customer cost. Over the term of the three-year agreement, it is estimated that Western will pay MPA over $300,000 more in lease and container payments than the previous contractor. Annually, payments to MPA from the contractor will increase from $12,000 to an estimated $135,000.

Since being awarded the contract, Western has invested in the replacement of the building's heating system to improve customer service levels and capacity, a suggestion that was made several times to the previous contractor but never acted upon. In 2006, Western fumigated 1,369 containers, surpassing the previous contractor's annual average of 1,200 containers.

6. Economic Impact of Port Down Slightly, Jobs Up

Following a request in the 2002 JCR, in 2003, MPA issued the results of a comprehensive study entitled *The Economic Impact of the Port of Baltimore.* The study documented the economic impact of port activity in 2002 by conducting extensive surveys of the port community to determine relationships with the region's economy. In accordance with the 2002 JCR, that information has been updated each year to reflect prior year cargo statistics. In January 2007, MPA submitted its annual update, and the results are summarized in **Exhibit 11**. Total jobs attributed to the Port, including direct, induced, indirect and related jobs was 128,400 in 2005. This is an increase of 6,500 jobs, or 5.3%, over 2004. Economic impact in 2005 was $6.2 billion, down $0.2 billion, or 3.1%, from 2004.

Exhibit 11
Economic Impact of the Port

	2004	2005	Change 2004-2005	% Change 2004-2005
Jobs				
Direct Jobs	18,900	19,300	400	2.1%
Induced Jobs	9,700	9,900	200	2.1%
Indirect Jobs	13,800	13,100	-700	-5.1%
Related Jobs	79,500	86,100	6,600	8.3%
Total Jobs	**121,900**	**128,400**	**6,500**	**5.3%**
Economic Impact				
Personal Wage and Salary Income	$2.4 billion	$2.4 billion	0	0
Business Revenues	2.0 billion	1.9 billion	-0.1 billion	-5.0%
Local Purchases by Businesses Directly Dependent on Port Activity	1.2 billion	1.1 billion	-0.1 billion	-8.3%
State, County, and Municipal Taxes Generated	278 million	278 million	0	0
Collections by the U.S. Customs Service	507 million	507 million	0	0

Source: Maryland Port Administration

7. Annual Report Received from MPC

Section 6-201.2 of the Transportation Article requires a yearly report from MPC including the activities of MPC in the past year, a review of the Port's competitive position, recommendations for changes, and any substantive changes in its regulations for procurement and personnel.

The January 2007 report contained a summary of fiscal 2006 cargo and business accomplishments:

- general cargo tonnage at MPA terminals reached 8.2 tons;
- total foreign cargo handled at the public and private terminals in 2005 was 32.4 million tons;
- the Port generated 128,400 direct, induced, indirect, and related jobs and had a significant economic impact;
- MPA generated a net income of $5.8 million in fiscal 2006 (does not include changes to the operating exclusions as discussed above);

- the Port welcomed new customers, received new services from existing customers, and completed expansions and improvements at its terminal facilities;

- dredging improvements approved for 2007 include a 50-foot berth and access channel and three 45-foot berths at SMT and development of a new dredged placement site; and

- MPA continues to secure funding and improve security at the Port.

MPC reports the following challenges in 2007 and beyond:

- expanding terminal capacity to accommodate long-term cargo growth;

- maintaining an environmentally sensitive and cost-effective dredging program;

- selecting new dredged placement sites; and

- providing operational resources to the growing security infrastructure.

Appendix 1

Current and Prior Year Budgets

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

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2006					
Legislative Appropriation	$0	95,973	$0	$0	$95,973
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	1,002	0	0	1,002
Reversions and Cancellations	0	-1,552	0	0	-1,552
Actual Expenditures	**$0**	**$95,423**	**$0**	**$0**	**$95,423**
Fiscal 2007					
Legislative Appropriation	$0	$97,357	$0	$0	$97,357
Budget Amendments	0	343	0	0	343
Working Appropriation	**$0**	**$97,700**	**$0**	**$0**	**$97,700**

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

Fiscal 2006

Fiscal 2006 expenditures at MPA totaled $95.4 million, which is $550,000 less than the legislative appropriation. The net decrease was the result of an increase of $1.0 million in budget amendments and $1.6 million in cancellations.

The net increase in budget amendments was the result of several budget amendments. These were:

- $1,053,813 increase for snow removal and fuel and utilities;

- $716,010 net decrease, which was the result of a $3.2 million increase for operating costs for security, global port promotion, and managing the World Trade Center and a decrease of $3.9 million in stevedoring costs;

- $386,059 increase for the cost-of-living adjustment (COLA) granted to all State employees;

- $257,456 increase for additional health care costs for active and retired employees;

- $52,595 decrease for the reallocation of funds within MDOT associated with PIN transfers; and

- $26,769 decrease to consolidate funds for telecommunications within the Secretary's Office.

Of the $1.6 million in cancellations, the majority was caused by a $1.4 million reduction in stevedoring costs. The remaining money was largely the result of underspending in the Consolidated Transportation Information Processing Plan (CTIPP).

Fiscal 2007

The fiscal 2007 legislative appropriation for special funds increased $342,651 to reflect a transfer from the Department of Budget and Management for the COLA granted to all State employees.

Object/Fund Difference Report
MDOT – Maryland Port Administration Operating Budget

Object/Fund	FY06 Actual	FY07 Working Appropriation	FY08 Allowance	FY07-FY08 Amount Change	Percent Change
Positions					
01 Regular	250.00	250.00	250.00	0	0%
02 Contractual	1.00	1.00	1.00	0	0%
Total Positions	**251.00**	**251.00**	**251.00**	**0**	**0%**
Objects					
01 Salaries and Wages	$ 19,615,671	$ 20,466,024	$ 20,069,592	-$ 396,432	-1.9%
02 Technical and Spec Fees	2,309,178	282,344	282,170	-174	-0.1%
03 Communication	460,043	483,404	485,252	1,848	0.4%
04 Travel	220,425	333,007	283,952	-49,055	-14.7%
06 Fuel and Utilities	4,820,107	3,989,240	4,416,503	427,263	10.7%
07 Motor Vehicles	1,278,346	1,152,203	2,113,456	961,253	83.4%
08 Contractual Services	51,561,625	54,017,747	59,535,829	5,518,082	10.2%
09 Supplies and Materials	1,871,767	1,755,291	1,950,987	195,696	11.1%
10 Equip – Replacement	289,967	631,885	551,029	-80,856	-12.8%
11 Equip – Additional	355,436	101,666	374,679	273,013	268.5%
12 Grants, Subsidies, and Contributions	510,000	260,000	260,000	0	0%
13 Fixed Charges	11,942,605	13,889,464	15,671,543	1,782,079	12.8%
14 Land and Structures	187,694	337,276	307,276	-30,000	-8.9%
Total Objects	**$ 95,422,864**	**$ 97,699,551**	**$ 106,302,268**	**$ 8,602,717**	**8.8%**
Funds					
03 Special Fund	$ 95,422,864	$ 97,699,551	$ 106,302,268	$ 8,602,717	8.8%
Total Funds	**$ 95,422,864**	**$ 97,699,551**	**$ 106,302,268**	**$ 8,602,717**	**8.8%**

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Appendix 2

Fiscal Summary
MDOT – Maryland Port Administration

Program/Unit	FY06 Actual	FY07 Wrk Approp	FY08 Allowance	Change	FY07-FY08 % Change
2010 Port Operations	$ 95,422,864	$ 97,699,551	$ 106,302,268	$ 8,602,717	8.8%
2020 Port Facilities and Capital Equipment	72,973,897	130,926,486	123,858,294	-7,068,192	-5.4%
Total Expenditures	**$ 168,396,761**	**$ 228,626,037**	**$ 230,160,562**	**$ 1,534,525**	**0.7%**
Special Fund	$ 163,801,390	$ 222,885,037	$ 230,160,562	$ 7,275,525	3.3%
Federal Fund	4,595,371	5,741,000	0	-5,741,000	-100.0%
Total Appropriations	**$ 168,396,761**	**$ 228,626,037**	**$ 230,160,562**	**$ 1,534,525**	**0.7%**

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Appendix 4

Budget Amendments for Fiscal 2007

Maryland Department of Transportation
Maryland Port Administration – Operating

Status	**Amendment**	**Fund**	**Justification**
Approved	$342,651	Special	Funds the cost-of-living adjustment granted to all eligible State employees.
Projected	$1,700,000	Special	This amendment is for the payment of debt service on the certificates of participation issued for construction of the new paper shed at South Locust Point terminal.
Projected	$3,144,418	Special	This amendment represents the operating expenses for 12 months at the World Trade Center. Sale of the building was projected prior to the start of the fiscal year, but has not taken place.

Source: Maryland Department of Transportation

Appendix 5

Budget Amendments for Fiscal 2007

Maryland Department of Transportation
Maryland Port Administration – Capital

Status	Amendment	Fund	Justification
Approved	$67,945	Special	Funds the cost-of-living adjustment granted to all eligible State employees.
Projected	12,617,015	Special	Adjusts the amended appropriation to agree with the anticipated expenditures for the current year as reflected in the fiscal 2007-2012 final *Consolidated Transportation Program*.
	3,224,000	Federal	
	15,841,015		

Source: Maryland Department of Transportation