# J00D00
# Maryland Port Administration
## Maryland Department of Transportation

## *Operating Budget Data*

**($ in Thousands)**

| | FY 08 Actual | FY 09 Working | FY 10 Allowance | FY 09-10 Change | % Change Prior Year |
|---|---|---|---|---|---|
| Special Fund | $104,887 | $112,290 | $112,591 | $302 | 0.3% |
| Contingent & Back of Bill Reductions | 0 | 0 | -148 | -148 | |
| **Adjusted Special Fund** | **$104,887** | **$112,290** | **$112,444** | **$154** | **0.1%** |
| | | | | | |
| **Adjusted Grand Total** | **$104,887** | **$112,290** | **$112,444** | **$154** | **0.1%** |

- After accounting for contingent reductions, the fiscal 2010 operating budget allowance increases $153,948 (0.1%) compared to the fiscal 2009 working appropriation. The only contingent reduction affecting the Maryland Port Administration (MPA) is a $147,644 decrease in special funds to delete the deferred compensation State match.

- MPA has identified an additional $1.1 million in cost containment savings in fiscal 2009; however, this amount was not removed from the fiscal 2009 working appropriation. When these savings are removed from the fiscal 2009 working appropriation, then the true budget growth in fiscal 2010 is $1.2 million, or 1.1%.

- The largest increases in the operating allowance are for electricity ($1.0 million), the operating lease for Seagirt Marine Terminal ($0.3 million), and water and sewage utilities ($0.3 million). These increases are offset by decreases in studies and consultants (-$0.7 million), the purchase of additional and replacement equipment (-$0.5 million), and security (-$0.4 million).

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

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

# *Paygo Capital Budget Data*

**($ in Thousands)**

| | **Fiscal 2008** | **Fiscal 2009** | | **Fiscal 2010** |
|---|---|---|---|---|
| | **Actual** | **Legislative** | **Working** | **Allowance** |
| Special | $120,532 | $127,659 | $124,720 | $113,792 |
| Federal | $2,394 | $754 | $1,039 | $761 |
| **Subtotal** | **$122,926** | **$128,413** | **$125,759** | **$114,553** |
| Other | $10,671 | 0 | 0 | 0 |
| **Total** | **$133,597** | **$128,413** | **$125,759** | **$114,553** |

- The pay-as-you-go capital program fiscal 2010 allowance decreases $11.2 million, or 8.9%, from the fiscal 2009 working appropriation.

- This decrease in the capital program is largely the result of a large decrease in the Dredge Material Placement and Monitoring program ($17.4 million).

- Other funds include Certificates of Participation issued to construct a paper shed at South Locust Point terminal.

## *Operating and PAYGO Personnel Data*

| | FY 08 Actual | FY 09 Working | FY 10 Allowance | FY 09-10 Change |
|---|---|---|---|---|
| Regular Operating Budget Positions | 248.00 | 249.00 | 249.00 | 0.00 |
| Regular PAYGO Budget Positions | 42.00 | 42.00 | 42.00 | 0.00 |
| **Total Regular Positions** | **290.00** | **291.00** | **291.00** | **0.00** |
| Operating Budget FTEs | 0.70 | 1.00 | 1.20 | 0.20 |
| PAYGO Budget FTEs | 0.00 | 0.50 | 0.50 | 0.00 |
| **Total FTEs** | **0.70** | **1.50** | **1.70** | **0.20** |
| **Total Personnel** | **290.70** | **292.50** | **292.70** | **0.20** |
| **Vacancy Data: Regular Positions** | | | | |
| Turnover and Necessary Vacancies, Excluding New Positions | | 14.46 | 4.97% | |
| Positions and Percentage Vacant as of 12/31/08 | | 15.00 | 5.15% | |

- The fiscal 2010 allowance includes 291 regular positions, the same as the fiscal 2009 working appropriation.

- MPA's vacancy rate as of December 31, 2008, was 5.15%. There are no positions that have been vacant over 12 months.

# *Analysis in Brief*

## Major Trends

***Cargo Volumes Continue to Reach Record Levels:*** In 2007, the Port of Baltimore handled 30.8 million tons of foreign cargo at its public and private terminals, ranking it thirteenth among all United States port districts. In that same year, the value of foreign cargo handled was $41.9 billion, an increase of 14.2% over the previous year. In fiscal 2008, general cargo at the MPA-owned terminals reached a new record of 9.1 million tons.

***Port Business Announcements:*** Over the past year, several announcements have been made regarding new and extended contracts at the Port. Evergreen Marine Corp extended its contract by 10 years to bring at least 40,000 containers annually. UPM-Kymmene also extended its contract by 10 years for the delivery of forest products. Carnival Cruise Lines announced that it would begin year-round cruises in 2009, offering 36 cruises. Celebrity Cruises also announced that it would begin cruises from Baltimore, with 5 cruises in 2009. However, not all the news was good. In May 2008, CMA-CGM and China Shipping announced they would no longer serve the Port, resulting in 25,000 fewer containers per year.

## Issues

***Public-private Partnership at Seagirt Marine Terminal:*** MPA is pursuing a long-term lease for operations at Seagirt Marine Terminal. However, many issues remain with whether a public-private partnership (P3) is really the best option and, given the current state of the economy, whether or not this is the best time to move forward. **The Department of Legislative Services (DLS) recommends that MPA address these outstanding issues and that budget bill language be added to require legislative notice of a P3 agreement.**

***Critical Shortage in Options for the Placement of Dredged Material:*** Beginning in fiscal 2010, dredging from the Baltimore Harbor will be restricted to maintenance dredging only. Beginning in fiscal 2011, maintenance dredging of the Chesapeake Bay can only be accommodated by overloading existing sites. Overloading reduces the total capacity of the placement site and requires greater placement capacity than if existing sites are not overloaded and alternative sites are developed. In addition, since the development of new placement sites costs hundreds of millions of dollars and takes an average of 12 years, every effort should be made to maximize capacity at existing sites. **DLS recommends modifications to current statute to extend the closure date and to allow for additional capacity at two placement sites, a review of MPA studies to determine whether dredged material defined as contaminated actually is, and that MPA should make every effort to avoid the overloading of existing sites.**

***Minor Projects with a Major Price:*** Current statute establishes a definition of major and minor capital projects and establishes the reporting requirements for each. Generally, minor projects are those that preserve or rehabilitate an existing facility or service and do not require an environmental impact assessment. Although projects classified as minor under this definition are often small projects that cost less than $5 million, there are sometimes projects with a total cost of $10 million or more that are categorized as minor projects. Since they are considered minor projects, the General Assembly receives very little information on them, even when there is a significant cost to the project. One example is the remediation of chromium ore at Dundalk Marine Terminal that is defined as a minor project but has the potential to cost up to $575 million. **DLS recommends that language be added to the Budget Reconciliation and Financing Act of 2009 to alter the definition of major projects to include any project with a total cost greater than $10 million.**

***Future Waterfront Growth in Baltimore City: Industrial or Condos?:*** The Baltimore City Council is currently reviewing legislation to extend the expiration of the Maritime Industrial Zoning Overlay District (MIZOD) to 2024. MIZOD is intended to protect certain sections of the city's waterfront from non-industrial development. **DLS recommends that MPA discuss the importance of the MIZOD legislation, what failure of this legislation could mean for future Port activity, and what actions MPA is taking to secure land for current and future Port use.**

## Operating Budget Recommended Actions

| | | Funds |
|---|---|---|
| 1. | Add budget bill language requiring legislative notice of a public-private partnership at Seagirt Marine Terminal. | |
| 2. | Reduce funding for advertising for cruise ship operations. | $ 175,000 |
| 3. | Reduce funding for cell phone expenditures. | 23,261 |
| 4. | Reduce funding for the replacement of two utility vehicles. | 42,883 |
| 5. | Reduce funding for real property appraisals. | 60,128 |
| 6. | Reduce funding for the stevedoring contract. | 2,500,000 |
| 7. | Delete funding for the Preakness. | 75,000 |
| 8. | Reduce funding for janitorial services based on executed contract. | 200,000 |
| | **Total Reductions** | **$ 3,076,272** |

## PAYGO Budget Recommended Actions

| | | Funds |
|---|---|---|
| 1. | Delete funding for development of the Canton Warehouse Facility. | $ 6,090,000 |
| 2. | Adopt committee narrative to require a report from the Maryland Port Administration on remediation efforts at Dundalk Marine Terminal and to specify committee intent that the project be included as a major project in the *Consolidated Transportation Program*. | |
| 3. | Adopt committee narrative to require a report on cost recovery for the construction and operation of dredged material placement sites. | |
| | **Total Reductions** | **$ 6,090,000** |

## Updates

***Remediation Work at Dundalk Marine Terminal Continues:*** Committee narrative in the 2008 *Joint Chairmen's Report* (JCR) directed MPA to provide a report on the remediation of chromium ore processing residue at Dundalk Marine Terminal. The report was received in December 2008. To date, MPA and Honeywell have initiated a number of pilot studies and work plans; however, submission of a Corrective Measures Alternative Analysis is not expected until the end of calendar 2010. Once this analysis is reviewed, the Maryland Department of the Environment will select the final corrective measures to be implemented, and a better sense of the cost and a timeline for remediation will be available.

***Agreements Between MPA and Baltimore City:*** Committee narrative in the 2008 JCR required a report from MPA on the status of payment in lieu of taxes (PILOT) agreements with Baltimore City for port properties located in the city. MPA submitted this report in December 2008, and it included a summary of each of the PILOT agreements currently in place and a summary of other benefits provided to Baltimore City by MPA or by the location of the Port within city limits.

***Annual Maryland Port Commission Report Received:*** Section 6-201.2 of the Transportation Article requires an annual report from the Maryland Port Commission (MPC). MPC was created to establish policies directed toward improving the competitive position of the ports of Maryland within the port industry; adopt regulations for the operation of MPA; and serve as the board of directors of Maryland International Terminals, Inc., MPA's private operating company. The January 2009 report from MPC summarized fiscal 2008 cargo and business developments.

***Security at the Port:*** Chapter 78 of 2004, borne out of concerns about security at the Port, requires MPA to submit an annual report on port security. The December 2008 report, entitled *Funding to Address Vulnerability Concerns*, provides a summary of security funding and achievements and addresses unfunded security needs.

# *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 the developing, marketing, maintaining, and stewarding 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 developing dredged material placement sites.

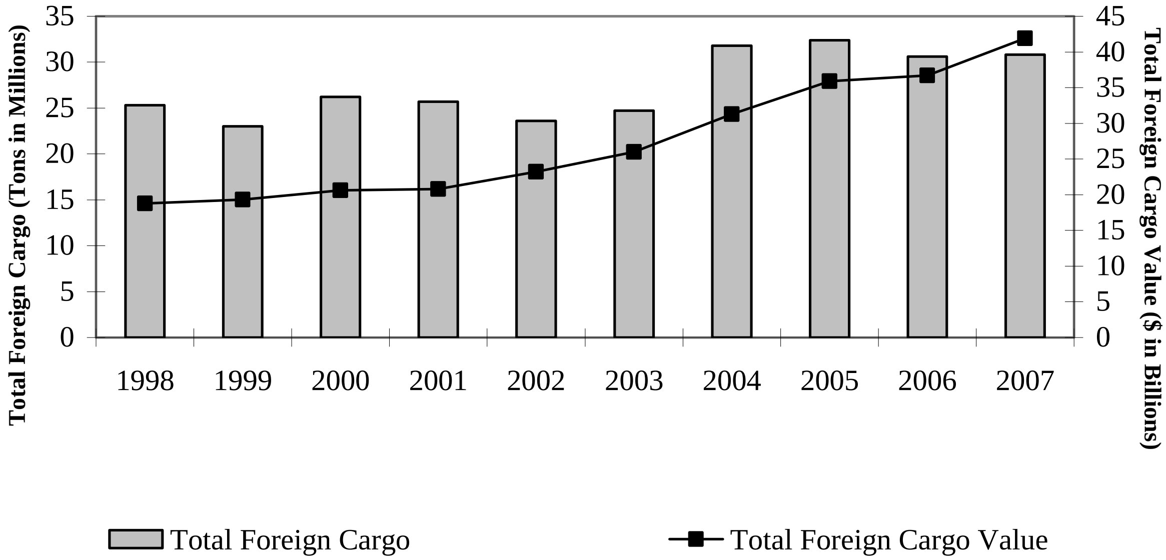
To pursue its mission of stimulating the flow of waterborne commerce through the ports of the State of Maryland in a manner that provides economic benefit to the citizens of the State, MPA has identified the following key goals:

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

## Performance Analysis: Managing for Results

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. As shown in **Exhibit 1**, in 2007, the Port handled 30.8 million tons of foreign cargo at its private and public terminals, ranking it thirteenth among all United States port districts (up from fourteenth in 2006). In that same year, the value of foreign cargo handled at the Port was $41.9 billion, a 14.2% increase over the previous year. The Port ranks twelfth among all United States port districts in terms of total dollar value of cargo.

**Exhibit 1**
**Total Foreign Cargo Handled and Cargo Value**
**Helen Delich Bentley Port of Baltimore**
**Calendar 1998-2007**



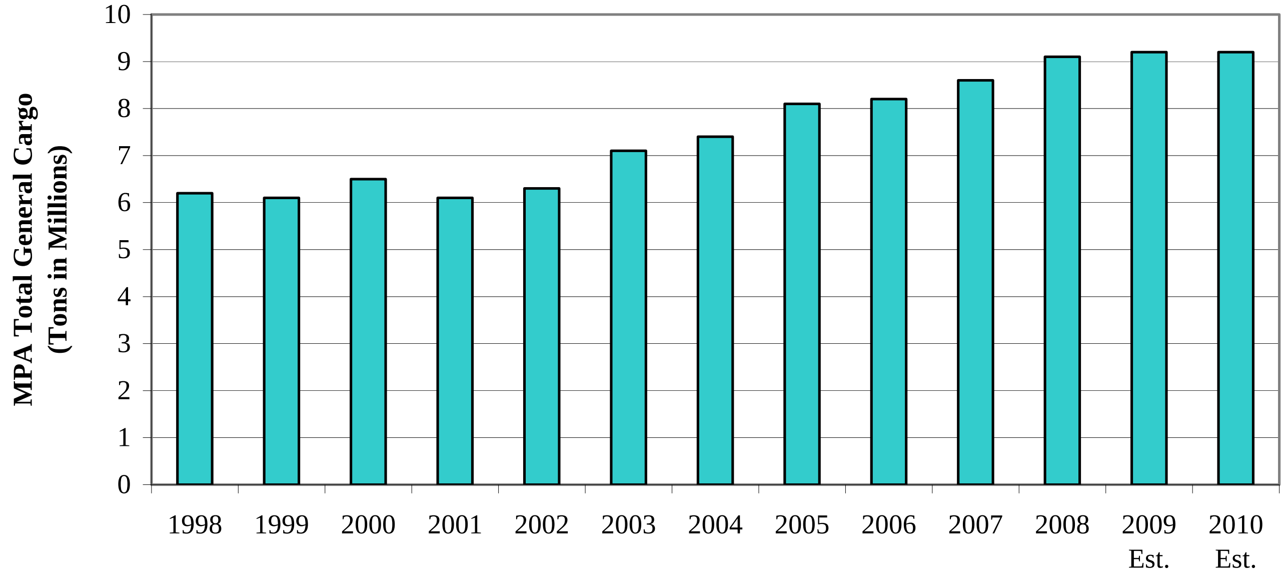

Note: Includes public and private terminals.

Source: Maryland Port Administration

## 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 2007 to 2008, total general cargo tonnage at the Port increased from 8.6 million to 9.1 million, an increase of 5.8%. As shown in **Exhibit 2**, little to no growth is expected in fiscal 2009 and 2010.

**Exhibit 2**
## MPA – Total General Cargo Tonnage
**Fiscal 1998-2008 Actual, Fiscal 2009-2010 Estimated**




MPA: Maryland Port Administration

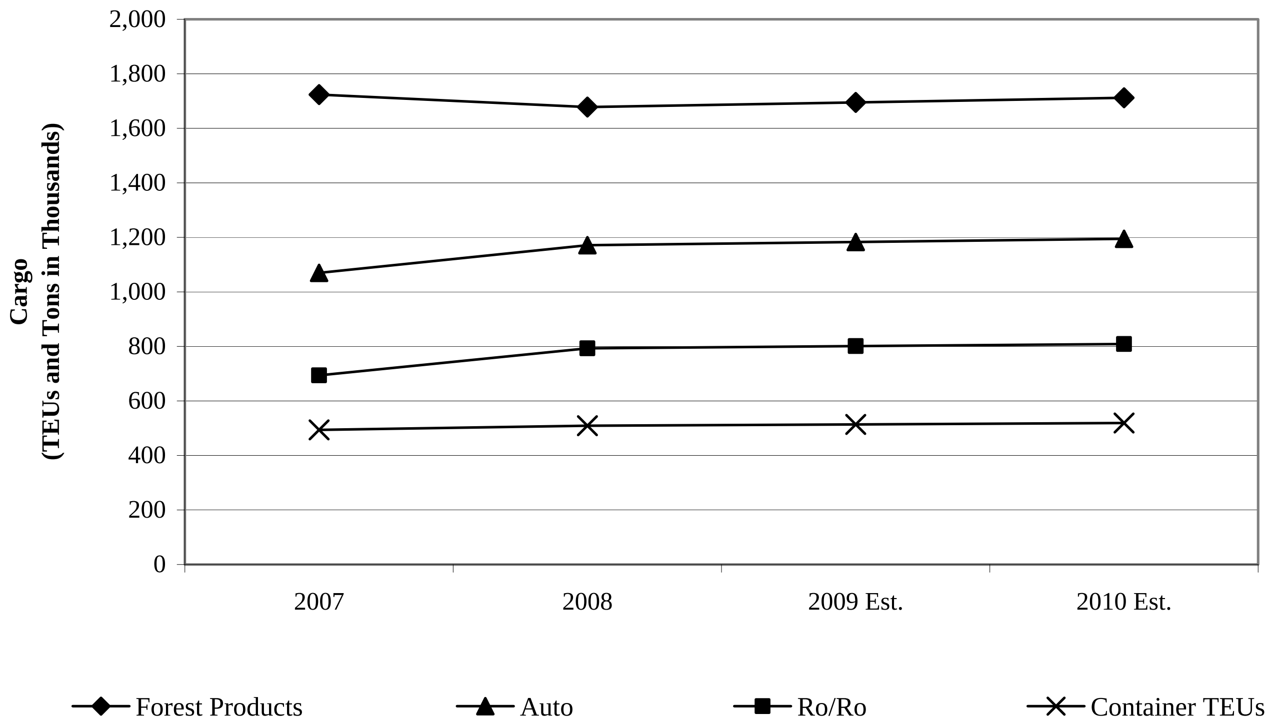
Source: Maryland Port Administration

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 and farm equipment, as well as other cargo that is driven on or off a ship, excluding autos. **Exhibit 3** provides data on total general cargo by type that is handled at the Port.

Cargo volumes for all cargo types are largely stagnant over the period from fiscal 2007 to 2010. From fiscal 2007 to 2008, slight increases were seen in autos and Ro/Ro, but there was a slight decline in forest products. Projections for fiscal 2009 and 2010 show little to no growth based on the current weakened state of the economy.

MPA continues to focus its attention on niche cargoes such as autos, forest products, and Ro/Ro. Although containers are the primary cargo for most ports, attracting that type of cargo at POB has always been an uphill battle because ships must spend an additional eight hours of travel coming up the Chesapeake Bay to reach POB. However, POB has excelled at niche markets. In 2007, POB moved from second to first in auto exports and imported sugar. In addition, it maintained its number one national rankings for Ro/Ro, imported forest products, trucks, and the import of gypsum and iron ore.

**Exhibit 3**
**Cargo Tonnage at Public Terminals, by Cargo Type**
**Fiscal 2007-2008 Actual, Fiscal 2009-2010 Estimated**



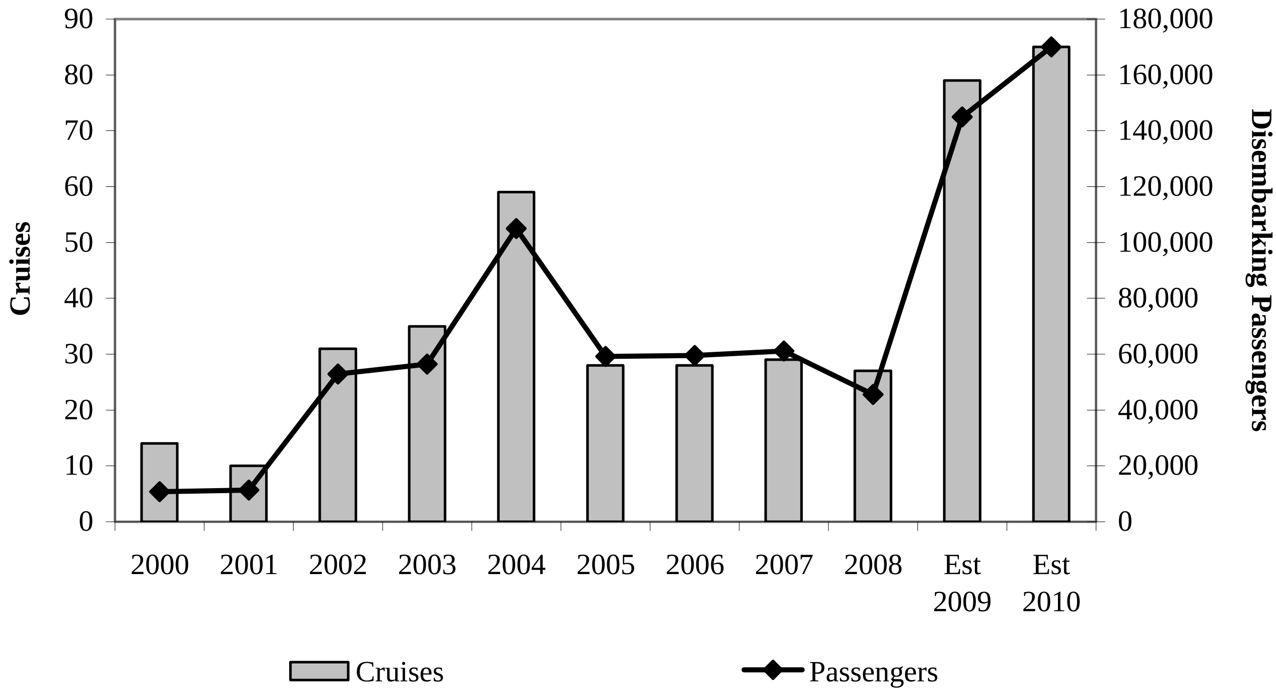

Ro/Ro: roll-on/roll-off
TEUs: twenty-foot equivalent units

Source: Maryland Port Administration

Besides handling cargo, another activity at the Port is the cruise ship business. **Exhibit 4** shows the total number of cruises and passengers that utilized the Port's new cruise terminal that opened in 2006.

The cruise business at POB peaked in 2004 as the result of two factors related to the terrorist attacks of September 11, 2001. First, air travel dropped sharply following the attacks as people planning discretionary travel, such as vacations, decided to stay closer to home. Many people in the Maryland region took cruises departing from Baltimore rather than fly to New York or Florida, which both have large cruise businesses. Second, one of the cruise ship lines that typically operates year-round cruising from New York decided to come to Baltimore. Therefore, rather than POB's typical cruise season from May to September, it lasted from April to December. The following year, that cruise line went back to New York and air travel increased, resulting in fewer cruise ships and passengers at POB in subsequent years.

**Exhibit 4**
**Cruise Ship Operations**
**Calendar 2000-2008 Actual, Calendar 2009-2010 Estimated**



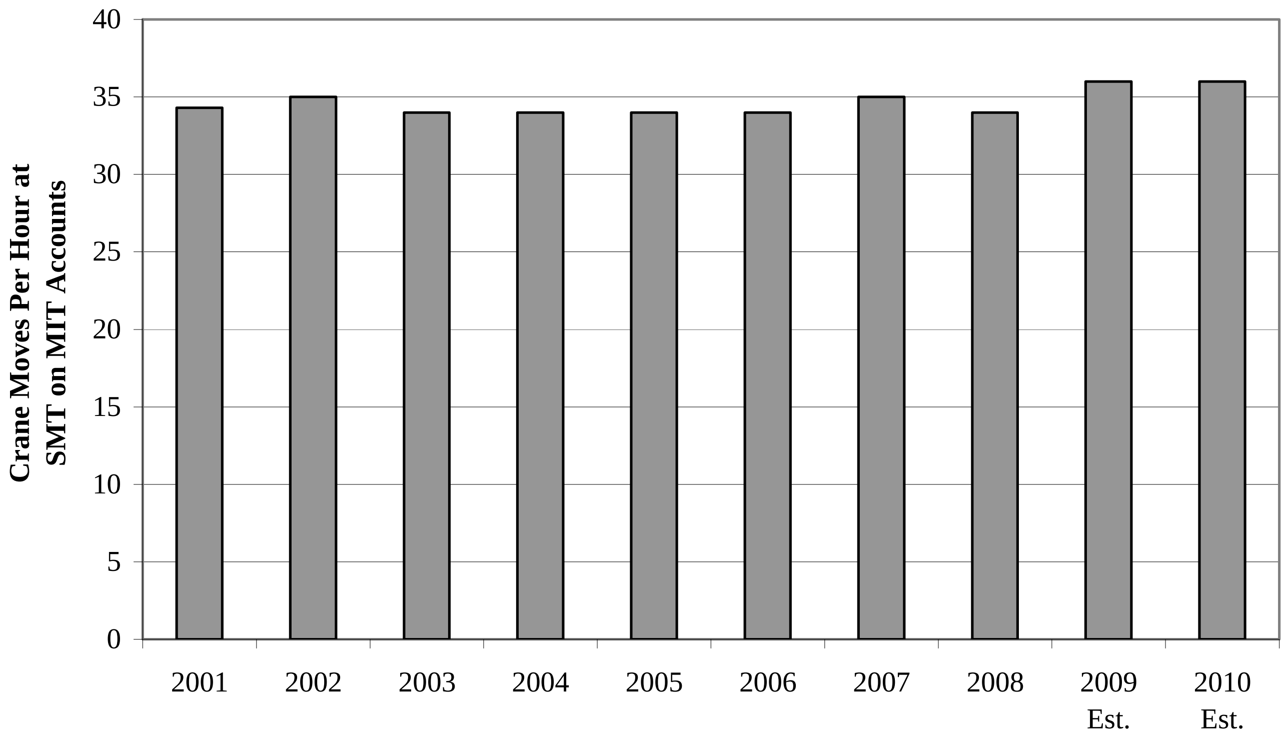

Source: Maryland Port Administration

Announcements over the past year of new cruise lines coming to Baltimore should make 2009 the best year for cruises yet. In 2009, the Port will offer year-round cruises on four different cruise lines. Of the 79 total cruises planned, 36 will be from Carnival Cruise Lines, 23 from Royal Caribbean International, 15 from Norwegian Cruise Lines (NCL), and 5 from Celebrity Cruises. The expanded number of cruises will continue into 2010, although there may be a slight decline due to NCL selling its Majesty ship that had been sailing from Baltimore. Similar to 2001 when passengers chose to book cruises closer to home to avoid air travel due to the recent terrorist attacks, today's passengers are cruising from ports closer to home to save money on air travel.

## Efficiency Measures

As the amount of cargo that moves through the Port continues to increase, efficiency plays a greater role. MPA's Managing for Results measures include two measures of efficiency for handling containers. **Exhibit 5** shows the number of crane moves per hour at Seagirt Marine Terminal for all Maryland International Terminals, Inc. accounts. A crane move refers to the loading or unloading of

**Exhibit 5**
**Number of Container Crane Moves Per Hour at SMT**
**Fiscal 2001-2008 Actual, Fiscal 2009-2010 Estimated**



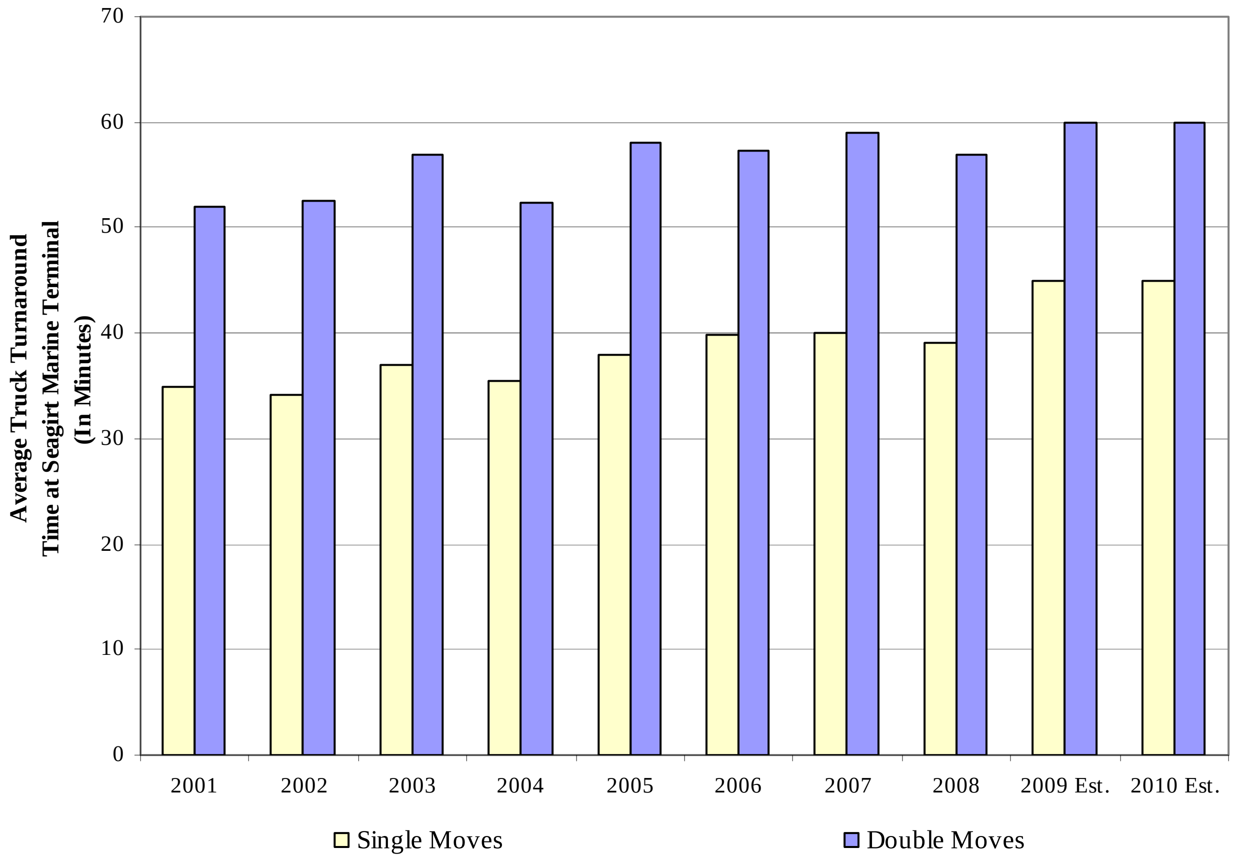

MIT: Maryland International Terminal
SMT: Seagirt Marine Terminal

Source: Maryland Port Administration

a container on or off of 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 36 crane moves per hour, which is higher (more efficient) than its fiscal 2008 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.

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 above measure looks at how quickly a ship can be unloaded or loaded, the truck turnaround time measure looks at how quickly trucks can be loaded or unloaded and get back on the road. **Exhibit 6** 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 also takes one out.

**Exhibit 6**
**Truck Turnaround Time**
**Fiscal 2001-2008 Actual, Fiscal 2009-2010 Estimated**




Source: Maryland Port Administration

MPA recently increased its benchmark for truck turnaround time for single moves from 30 to 45 minutes and maintained the turnaround time for double moves at 60 minutes. For the years shown, MPA consistently meets the new benchmark of 45 minutes for single moves and the existing benchmark for double moves. It should be noted that MPA was unable to meet its prior benchmark of 30 minutes; therefore, the benchmark was increased to 45 minutes. Currently, MPA has a working group studying truck turnaround times and identifying issues that negatively affect truck turnaround times. Additionally, MPA is working closely with the Maryland Motor Truck Association on these and other matters.

## 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. Over the past 10 years, MPA has been operating at a loss. 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, for all capital investments.

**Exhibit 7** shows that MPA projects a net operating loss of $5.0 million in fiscal 2010. This loss, representing 4.5% of operating expenditures, will be provided as a subsidy from the TTF. When coupled with the capital program, MPA requires a $123.6 million subsidy from the TTF in fiscal 2010. This subsidy totals 54.0% of total expenditures for MPA.

**Exhibit 7**
**MPA – Special Fund Expenses and Revenues**
**Fiscal 2007-2010**
**($ in Thousands)**

| | Actual 2007 | Actual 2008 | Estimated 2009 | Estimated 2010 | Percentage Change 2008-2009 |
|---|---|---|---|---|---|
| **Operating Revenue** | $94,624 | $96,795 | $101,128 | $105,238 | 4.06% |
| Total Operating Expenses[1] | 100,935 | 107,102 | 114,695 | 114,997 | 0.26% |
| Total Exclusions[2] | -4,363 | -4,748 | -5,080 | -4,778 | -5.94% |
| **Net Operating Expenses** | **$96,572** | **$102,354** | **$109,615** | **$110,219** | 0.55% |
| **Net Operating Income** | **-1,948** | **-5,559** | **-8,487** | **-4,981** | -41.31% |
| **Capital Expenditures[3]** | 76,521 | 125,280 | 129,800 | 118,570 | -8.65% |
| **Total TTF Subsidy of MPA** | **$78,469** | **$130,839** | **$138,287** | **$123,551** | 10.66% |

[1] Includes the following expenses paid by the Maryland Department of Transportation: $1.4 million per year for Baltimore City Fire Suppression and payments in lieu of taxes in the amount of $819,000 in fiscal 2007, $815,370 in fiscal 2008, and $1.0 million budgeted for fiscal 2009 and 2010.

[2] Excluded expenditures include payments to the Maryland Transportation Authority for Masonville, certificates of participation debt service payments, and certain capital equipment.

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

MPA: Maryland Port Administration
TTF: Transportation Trust Fund

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 operating at a loss.

## Fiscal 2009 Actions

### Impact of Cost Containment

Chapter 10 of 2008 repealed the expansion of the sales tax to certain computer services and replaced the revenue lost from this repeal by a combination of sources, including directing the Governor to identify at least $50.0 million in ongoing general fund reductions. On June 25, 2008, the Governor proposed and the Board of Public Works (BPW) adopted $75.2 million in reductions to the fiscal 2009 appropriation. These actions included a reduction to MPA special funds to reflect a surplus in the State Employee Health Insurance Account. The reduction totaled $121,804 and included $104,224 from the operating program and $17,580 from the capital program.

Departmentwide, the Maryland Department of Transportation (MDOT) has identified cost containment savings totaling $23.3 million in fiscal 2009. This includes $1.1 million at MPA for reductions in security, equipment, vehicles, information technology software maintenance and outside consulting, and miscellaneous operating costs. Although MDOT identified these items as cost containment, MDOT has not withdrawn these appropriations through BPW, budget amendment, or otherwise.

## Proposed Budget

The fiscal 2010 operating budget allowance increases $0.3 million, or 0.3%, over the fiscal 2009 working appropriation. After accounting for contingent reductions, the fiscal 2010 operating budget allowance increases $0.2 million, or 0.1%, compared to the fiscal 2009 working appropriation. The only contingent reduction affecting MPA is a $147,644 decrease in special funds for the deferred compensation State match.

**Exhibit 8** provides a short summary of the changes taking place from the fiscal 2009 working appropriation to the fiscal 2010 allowance. This exhibit does not take into account cost containment efforts totaling $1.1 million in fiscal 2009 that have been identified by MDOT but are still contained in the fiscal 2009 working appropriation. When these cost containment actions are removed from the fiscal 2009 working appropriation, then the true budget growth in fiscal 2010 is $1.2 million, or 1.1%.

**Exhibit 8**
## Proposed Budget
**MDOT – Maryland Port Administration**
**($ in Thousands)**

| How Much It Grows: | Special Fund | Total |
|---|---|---|
| 2009 Working Appropriation | $112,290 | $112,290 |
| 2010 Allowance | 112,591 | 112,591 |
| Amount Change | $302 | $302 |
| Percent Change | 0.3% | 0.3% |
| | | |
| Contingent Reductions | -$148 | -$148 |
| Adjusted Change | $154 | $154 |
| Adjusted Percent Change | 0.1% | 0.1% |

**Where It Goes:**

| | |
|---|---|
| **Personnel Expenses** | |
| Employee and retiree health insurance pay-as-you-go costs | $775 |
| Retirement contribution | 188 |
| Additional assistance | 49 |
| Deferred compensation (after reducing fiscal 2010 for contingent reductions) | -148 |
| Workers' compensation premium assessment | -170 |
| Turnover adjustments | -205 |
| Other Post Employment Benefits' unfunded liability | -417 |
| Other fringe benefit adjustments | 2 |
| **Other Changes** | |
| Electricity | 1,019 |
| Operating lease payment to Maryland Transportation Authority for Seagirt Marine Terminal | 297 |
| Utilities – water and sewage | 260 |
| Janitorial services at the marine terminals | 210 |
| Cruise ship advertising | 175 |
| Vehicle gas and oil | 173 |
| Purchase of new and replacement maintenance equipment | 150 |
| Miscellaneous contracts (includes snow removal, cruise operations, property management at the World Trade Center, and landscaping) | 102 |
| Supplies and materials | -112 |
| Information technology costs | -275 |

**Where It Goes:**

| | |
|---|---|
| Insurance payments | -338 |
| Security | -406 |
| Purchase of additional and replacement equipment (includes electronic gates, floodlights, seaguards, generators, etc.) | -455 |
| Management studies and consultants | -729 |
| Other adjustments | 9 |
| **Total** | **$154** |

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

---

After accounting for contingent reductions, personnel costs increase by $73,811. The largest increase (-$774,781) takes place in health insurance for employees and retirees. This increase was offset by large decreases in funding for the Other Post Employment Benefits liability (-$417,052) and turnover adjustments (-$204,520).

Outside of personnel, there are few large increases in the fiscal 2010 allowance. The largest increases in the operating allowance are for electricity ($1.0 million), the operating lease for Seagirt Marine Terminal ($0.3 million) and water and sewage utilities ($0.3 million). The increase in electricity is reflective of large increases across the State budget to account for higher electricity costs. Similarly, the increase in water and sewage utilities is in response to fiscal 2007 and 2008 actual spending that significantly exceeded the appropriation. This increase makes the appropriation more reflective of actual spending. The increase in the operating lease for Seagirt Marine Terminal is the result of a 3% automatic escalation clause contained in the lease agreement with the Maryland Transportation Authority (MDTA).

These increases are offset by decreases in studies and consultants (-$0.7 million), the purchase of additional and replacement equipment (-$0.5 million) and security (-$0.4 million). The net decrease in studies and consultants is the result of deleting funding for security software (-$100,000), security consultants (-$620,000) and a marketing firm providing services in Korea (-$49,440), which is offset by an increase in a marketing firm providing services in Japan and Southeast Asia ($47,120).

The decrease in the purchase of additional and replacement equipment is the result of equipment needs being less than last year. The net decrease in security is the result of a decrease in the contract with MDTA Police for law enforcement at the marine terminals and a reduction in funding of application costs for MPA personnel to acquire the newly required Transportation Worker Identification Credential (TWIC) card. These decreases in security are offset by a slight increase for security at the World Trade Center (WTC) as the result of Meridian, the new property manager at the WTC, taking over security responsibilities at the building.

## PAYGO Capital Program

### Program Description

MPA's pay-as-you-go (PAYGO) 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 United States Army Corps of Engineers.

#### Fiscal 2009 to 2014 *Consolidated Transportation Program*

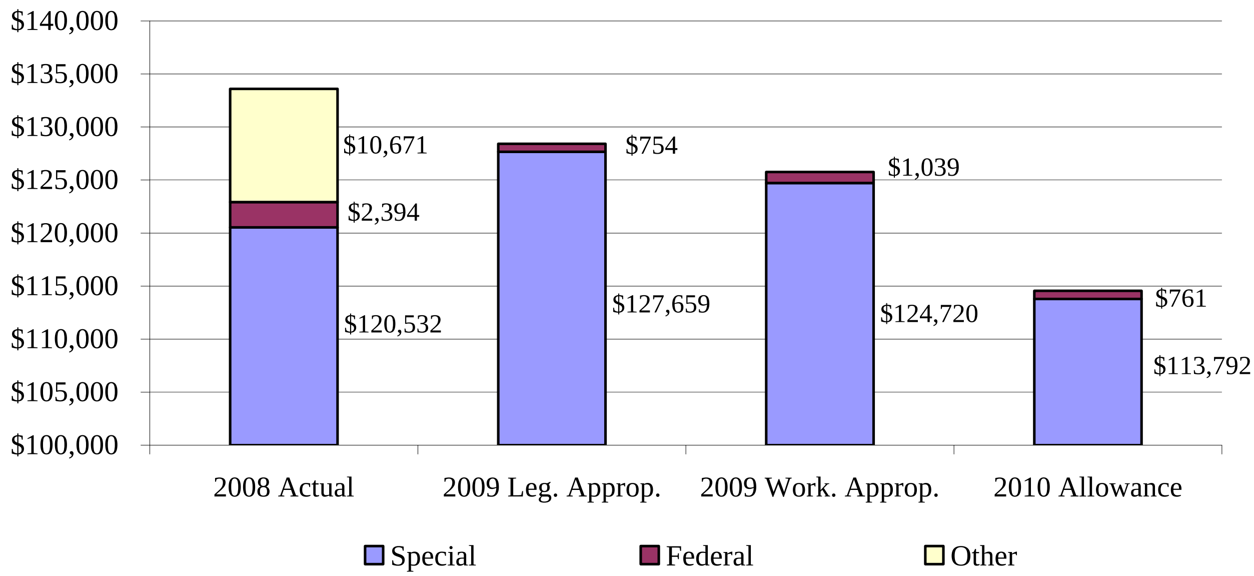
The fiscal 2010 PAYGO capital allowance for the capital program decreases $11.2 million, or 8.9%, from the fiscal 2009 working appropriation. This overall decrease includes a $25.9 million decrease in the construction program for major projects, a $1.6 million decrease in the development and evaluation (D&E) program, and a $16.5 million increase in system preservation projects. The large decrease in the construction program for major projects takes place primarily as the result of a $17.4 million decrease in the Dredged Material Placement and Monitoring project. This project involves the construction, monitoring, and operation of dredged material containment sites.

Projects involving dredging and the placement of dredged material have a substantial impact on MPA's capital program. In the fiscal 2009 to 2014 *Consolidated Transportation Program* (CTP), 93.3% of the funding in the major projects construction program is for dredging or dredged placement sites.

#### Fiscal 2009 and 2010 Cash Flow Analysis

**Exhibit 9** presents cash flow changes from MPA's fiscal 2008 to 2010 PAYGO capital budgets. The total PAYGO capital program, including all fund sources, decreases $11.2 million, or 8.9%, from $125.8 million in fiscal 2009 to $114.6 million in fiscal 2010. The funding consists almost entirely of special funds, although there is a small portion of federal funds, used solely for terminal security.

**Exhibit 9**
**Cash Flow Changes**
**Fiscal 2008-2010**
**($ in Thousands)**




Note: Other funds include the Certificates of Participation that funded construction of the M-real paper shed.

Source: Maryland Department of Transportation, 2009-2014 *Consolidated Transportation Program*

**Exhibit 10** provides a list of major construction projects funded in fiscal 2010. The three projects listed account for 96.1% of fiscal 2010 funding for major projects in the construction program.

## Impacts Due to Revenue Adjustments

Substantial declines in transportation revenues have forced MDOT to cut $1.1 billion in capital funding from its fiscal 2009-2014 draft CTP, and an additional $1.1 billion from its final CTP. The modes most affected by these reductions were the State Highway Administration and the Maryland Transit Administration since these were the modes that received the most additional capital money as a result of the 2007 special session increase in transportation revenues. However, MPA was not immune from these cuts. While MPA was able to maintain its capital funding in the short term, it did have $11.4 million removed from the Masonville dredge placement facility in fiscal 2014.

**Exhibit 10**
## Major Construction Projects
**Funded in Fiscal 2010**
**($ in Thousands)**

| Project | Fiscal 2010 | Total $ | Completion of Fiscal Cash Flow |
|---|---|---|---|
| Canton Warehouse Facility – involves the purchase and development of land adjacent to Seagirt Marine Terminal from the Maryland Transportation Authority for cargo storage. | $6,090 | $10,590 | 2011 |
| Dredged Material Placement and Monitoring – involves the construction, monitoring, and operation of dredged material containment sites. | 44,390 | 503,799 | Ongoing |
| 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 for water quality monitoring will continue. | 3,912 | 82,259 | Ongoing |
| **Total** | **$54,392** | **$596,648** | |

Source: Maryland Department of Transportation, 2009-2014 *Consolidated Transportation Program*

# *Issues*

## 1. Public-private Partnership at Seagirt Marine Terminal

In 1990, Seagirt Marine Terminal opened as a dedicated container facility. The terminal is owned by MDTA, which funded the $208.0 million project, and is operated by MPA. In return for MDTA's investment in construction of the facility, MPA is repaying the principal of $208.0 million over a 40-year term at a 2.9% interest rate. MPA's fiscal 2010 allowance includes $8.5 million for repayment of this loan.

### Current Operations

MPA contracts the vessel stevedoring and other marine and landside services to Ports America. Previously, MPA contracted with Ports America for six-year contracts; however, given recent activities related to studying and obtaining a public-private partnership (P3) for Seagirt, a series of contract renewals for one year or less have taken place. Currently, the contract with Ports America is operating under two six-month renewal options which extend the contract through October 31, 2009.

Under the current operating model, MPA collects all fees at Seagirt, estimated at $60.7 million in fiscal 2010, and then pays Ports America its contract cost. In fiscal 2010, the contract is estimated at $43.6 million, although an action recommended by the Department of Legislative Services (DLS) would reduce this amount to $41.1 million. In addition, MPA incurs terminal operating costs estimated at $14.5 million.

The most pressing capital need at this time is construction of Berth 4, a 50-foot berth at Seagirt Marine Terminal, which will cost approximately $100 million. The Port currently has a 50-foot access channel but lacks a 50-foot berth that would be able to accommodate the larger container ships that are currently in operation. There is a sense of urgency to this capital project, as many predict that the current expansion of locks at the Panama Canal will bring much larger ships to the East Coast. The Panama Canal expansion should be complete by 2014 and ports on the East Coast are rushing to have the necessary infrastructure in place to accommodate these larger ships.

### Proposed P3 Agreement

MPA is pursuing a long-term lease with the private sector for operations at Seagirt. In return for a 30- to 50-year lease for operations and maintenance of Seagirt, the private sector would be expected to finance and construct Berth 4, repay MDTA for its investment in Seagirt, and provide some type of annual revenue-sharing agreement to MPA. It will be left to the private sector to decide whether it wants to repay MDTA as one large up-front payment or make annual payments as MPA has been doing.

Under this scenario, MPA would relinquish majority control of operation of the terminal to a private entity. The private entity would be required to maintain existing contracts with shipping lines, but once those contracts expire, it would have the ability to stop doing business with those carriers. That may be the case if a shipping line is the successful bidder and wants to use Seagirt as a dedicated facility for its company.

There are several advantages of a P3 at Seagirt. One of the advantages is that the private partner could bring its own equity to the table to fund construction of Berth 4 and to repay MDTA. Another advantage includes transferring risk from MPA to the private entity. This includes the risk of future container business, both related and unrelated to the Panama Canal expansion; the risk associated with construction of Berth 4; and the risk of future rail capacity improvements.

There are also certain disadvantages to a P3 agreement for Seagirt. These include the fact that MPA would lose operational control of the facility, the impact on the State workforce, and the possible increase in costs to customers as the result of additional unionized labor. Other disadvantages and issues to consider in regard to a P3 agreement are outlined below.

## Timeline

In October 2008, MPA selected Public Financial Management, Inc. (PFM) to serve as its P3 advisor. PFM will help MPA throughout the process to issue a request for qualifications (RFQ), evaluate responses, select a short list of bidders, issue a request for offers, and negotiate with the selected private partner.

MPA hopes to issue the RFQ in April 2009. Language contained in the fiscal 2009 budget bill requires MPA to provide legislative notice at least 30 days prior to issuing an RFQ. It is expected that this legislative notice will be provided in March 2009.

The RFQ will be widely distributed so that any interested party may submit its plan and qualifications. The RFQ will likely be open for about 30 days. Following the due date, MPA and PFM will take several weeks to review all of the proposals and select several to put on a short list of potential bidders. Once that short list has been established, MPA will issue a request for offers to these selected bidders only. A request for offers is the same as a request for proposals (RFP) except an RFP refers to procurement and what MPA is doing is not considered procurement. The request for offers will likely extend through mid-August.

After selecting the preferred bidder from the short list, MPA and PFM will negotiate that offer in an attempt to obtain the best deal for the State. The bidder who has the second best offer will stay in contention should negotiations with the preferred bidder fail. MPA is hopeful that by October 2009 it will provide legislative notice and seek BPW approval of a P3 agreement.

Additional language included in the fiscal 2009 budget bill requires MPA to provide legislative notice 30 days prior to entering into a P3 deal. However, since MPA does not expect to enter into a deal until fiscal 2010, the legislative notice would no longer have the full force of law. **DLS recommends that budget bill language again be added to require legislative notice of a P3 arrangement.**

## Issues

DLS raises the following issues in connection with a P3 at Seagirt.

***MPA Seems to Focus More on Construction of a 50-foot Berth Than on the Effect of a Long-term Lease:*** MPA's justification for pursuing a P3 seems to focus more on the need for a 50-foot berth and less on whether a long-term lease is really the best option. A fundamental change in the operation and maintenance of Seagirt from public to private should be the primary focus of a decision on whether to pursue a P3. That decision should take place independently of capital needs.

***Other Funding Options Are Available for Construction of a 50-foot Berth:*** Although MDOT presents a P3 as the only funding option available for Berth 4, there are several other options available. The 2007 special session increased revenues to MDOT by $2.1 billion over the six-year planning period; yet, MDOT never added funding for Berth 4 to its capital program. If MDOT cannot find $100 million out of $2.1 billion in additional revenues to fund construction of a deep berth, this suggests that the project is not as much of a priority as MDOT claims.

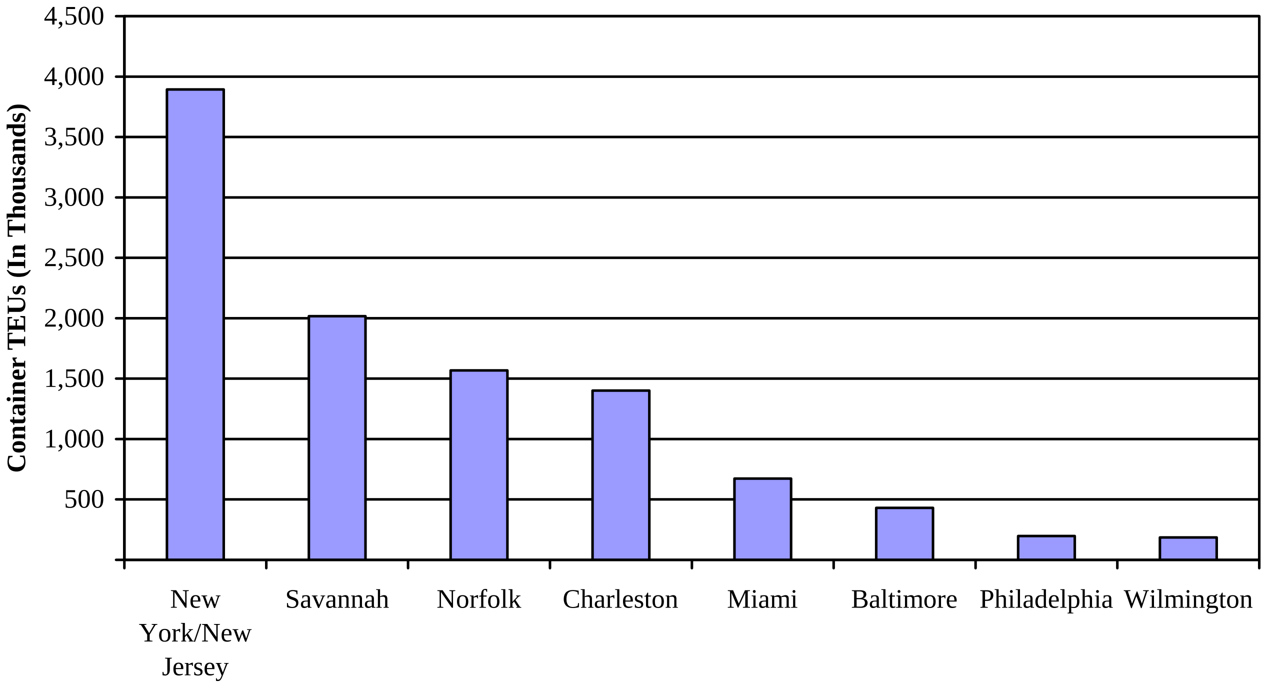
Unfortunately, over the past year MDOT's revenue projections have significantly declined. Over the past 6 months, $2.2 billion of projects have been removed from the CTP and now many worthy projects, including Seagirt, lack funding. However, other funding options are still available for the project. Perhaps the best option to fund construction would be the issuance of Certificates of Participation (COP). MPA utilized COPs in 2006 to fund construction of a cargo shed at South Locust Point terminal for M-real. COPs are a form of nontraditional debt and could be issued either through MDOT or MDTA. The benefit of using COPs is that they do not count under normal debt outstanding limits or debt affordability measures utilized by MDOT or MDTA. COPs could be backed by the additional revenues generated from Berth 4 or from all the revenues derived from Seagirt.

MPA intends to provide the private partner access to conduit financers like MDTA and the Maryland Economic Development Corporation to finance all or part of the deal if necessary. It should be noted that MPA can also utilize these conduit financers to fund construction on its own.

***Regardless of Who Is Operating Seagirt, Significant Hurdles Impede a Growth in Container Traffic:*** In fiscal 2008, POB handled just over 500,000 container TEUs. Although POB has the advantage of being the closest port to the Midwest, it requires an additional eight-hour trip up the Chesapeake Bay. Moreover, it lacks double-stack clearance, which is important for shippers because it can significantly reduce costs. Although CSX Railroad has a National Gateway proposal that would alleviate these problems, funding remains a significant hurdle.

Part of the benefit of a P3 is that a private partner may have certain advantages that MPA lacks. These include relationships with shipping lines and CSX Railroad that have been developed by doing business with these companies across the country and across the globe. Whereas MPA deals with CSX and shipping lines only in Baltimore, a private partner may be able to develop certain efficiencies in the distribution system with a shipping line that may include several ports besides Baltimore. However, as shown in **Exhibit 11,** given how far behind POB is in the container market, playing catch-up may be difficult.

**Exhibit 11**
**Container Traffic at Selected East Coast Ports**
**Calendar 2007**




TEUs: twenty-foot equivalent units

Source: U.S. Department of Transportation Maritime Administration

***The Expansion of the Panama Canal May Not Bring an Increase in Business:*** Ports up and down the East Coast are preparing for the larger ships that are expected to arrive as a result of the Panama Canal expansion. Ports at Miami and Norfolk and one terminal at the Port of New York/ New Jersey are prepared with a 50-foot access channel and berth for the larger ships expected to arrive from the Panama Canal expansion. Other ports are struggling with funding and dredging issues which will likely prevent them from meeting the 2014 deadline. Given the fact that other East Coast ports that will have the necessary infrastructure for the larger ships include three of the five East Coast ports that generate more container traffic than POB, it is doubtful that Baltimore would see a large surge in business following the expansion.

***The Majority of the Port Industry and Entities That Engage in P3s Are Foreign-owned:*** In 2006, the acquisition of P&O Ports, a stevedoring company, to Dubai Ports World (DP World), owned by the government of Dubai, set off a political firestorm. Legislators at the federal and State level raised concerns about national security and about United States ports being run by foreign companies. DP World was forced to separate the United States operations of P&O Ports from the rest of the company and sell the United States operations to American International Group, Inc., the world's largest insurer. In reviewing a potential P3 at Seagirt, the legislature should be mindful of the fact that there are very few United States owned businesses in the Port industry and that the majority of financial firms in the P3 business are foreign-owned. It is highly probable that a long-term lease at Seagirt will involve a foreign company.

***The Current State of the Economy Is Not the Best Time to Seek Such a Deal:*** DLS is concerned that given the current state of the economy, MPA will be unable to secure a deal that maximizes the value of Seagirt. In February 2008, in a deal very similar to MPA's, the Port of Portland announced that it was seeking a long-term lease for operations and maintenance of an under-utilized container facility. The process made it all the way to negotiations with the short list of bidders, yet the port announced in December 2008, that it was suspending its effort due to market conditions. The port, which was seeking an upfront payment and an annuity payment stream, said it would not have realized its financial goals if it moved forward at this time. This is a very real concern for MPA as well. Even if it is able to achieve its minimum financial goals, it is unlikely that it would receive the same value for the long-term lease today as it may have two years ago.

***Placement of Dredged Material:*** In order to obtain a 50-foot berth at Seagirt, dredging will be required. As will be discussed in the next issue, MPA has announced that beginning in 2010, only maintenance dredging will be allowed due to a lack of placement options. Since the dredging of Berth 4 would be new work, there will not be placement options available unless existing placement sites are overloaded.

***Canton Warehouse Facility Purchase:*** MPA is currently in negotiations with MDTA to purchase the Canton Warehouse Facility. This facility is located adjacent to Seagirt and MPA plans to develop it for additional container storage. **Given the fact that MPA plans to enter into a long-term lease for container operations at Seagirt, DLS recommends deletion of funds for development of Canton Warehouse Facility.**

As outlined above, there a number of major issues regarding a P3 arrangement at Seagirt. The chief among these is the fact that MPA identified a long-term lease of Seagirt as the preferred option for funding Berth 4 without adequately considering other funding options. Last year, with $2.1 billion in new transportation revenues in hand, MDOT did not make construction of Berth 4 a priority and did not set aside $100 million for this project. Today, MPA has alternative funding options such as COPs available, yet has moved forward on a long-term lease without adequately considering COPs. Moreover, MPA seems so focused on moving forward on the project that it ignores certain basic facts, such as Seagirt's historical struggle to attract and retain container business, which will be unchanged by expansion of the Panama Canal, and the current state of the economy, which may lessen the value it receives for Seagirt. **DLS recommends that the Secretary provide:**

- **justification for why MPA is pursuing a long-term lease of Seagirt;**

- **how Seagirt could benefit from an increase in container traffic following the expansion of the Panama Canal given the fact that:**

  - **certain characteristics of Seagirt, including the required trip up the Chesapeake Bay and the lack of adequate rail facilities, have historically hindered the growth of the container business at POB; and**

  - **POB will have little competitive advantage following the expansion of the Panama Canal, since many ports on the East Coast are making the necessary infrastructure changes to prepare for the larger ships that the expansion will bring;**

- **why MPA would continue to move forward on this process given the current state of the economy; and**

- **whether MPA has any concerns about the winning bidder being foreign-owned.**

## 2. Critical Shortage in Options for the Placement of Dredged Material

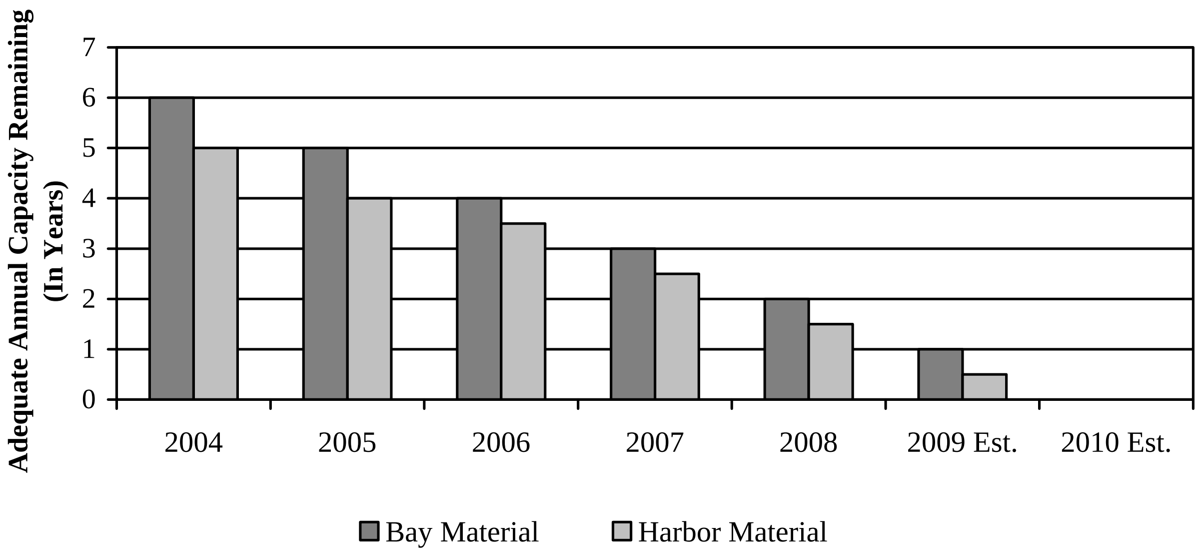
The dredging of the shipping channels leading to and from the Port of Baltimore is essential to business at the Port. On average, about 4.7 million cubic yards (mcy) of dredged material must be removed from the shipping channels each year just to maintain existing shipping channels, berths, and anchorages. Dredging is also required to deepen, straighten, or widen channels to ensure the safe passage of larger ships.

The Dredged Material Management Act of 2001 (Chapter 627 of 2001) changed the way that MPA manages dredged material placement by requiring an end to open water placement by 2010 and emphasizing beneficial reuse and innovative use as the preferred dredged material management options. Beneficial use means putting dredged material to work for environmental benefits, such as creating wildlife habitats and restoring eroded islands like projects at Poplar Island and Hart-Miller Island. Innovative reuse includes uses such as landscaping, agricultural use, reclamation of mines and sand and gravel pits, and building materials.

Most dredged material is considered clean because the levels of contaminants are considered environmentally safe. Poplar Island is the primary placement site for clean dredged material. Some sediment dredged from the Baltimore Harbor poses special challenges because it is contaminated with heavy metals and chemicals. Section 5-1101 of the Environment Article establishes the Baltimore Harbor as all points of the Patapsco River westward of a line extending from Rock Point in Anne Arundel County to North Point in Baltimore County. Harbor material must be placed in a confined disposal facility, a diked area construction in open water, along a shoreline, or at an upland site. Currently, Harbor materials are going to Hart-Miller Island and Cox Creek.

MPA develops long-term dredging plans through the Dredged Material Management Program (DMMP). DMMP is composed of several committees that identify potential placement sites and evaluate the feasibility of utilizing these identified sites. The goal is to have a rolling plan for dredged material management that will meet the Port's needs for at least 20 years in the future. As shown in **Exhibit 12,** the current placement options for dredged material are drastically inadequate.

**Exhibit 12**
**Remaining Dredged Material Placement Capacity**
**Fiscal 2004-1010**




Note: Adequate capacity means having capacity for both new work and maintenance dredging without overloading existing placement sites.

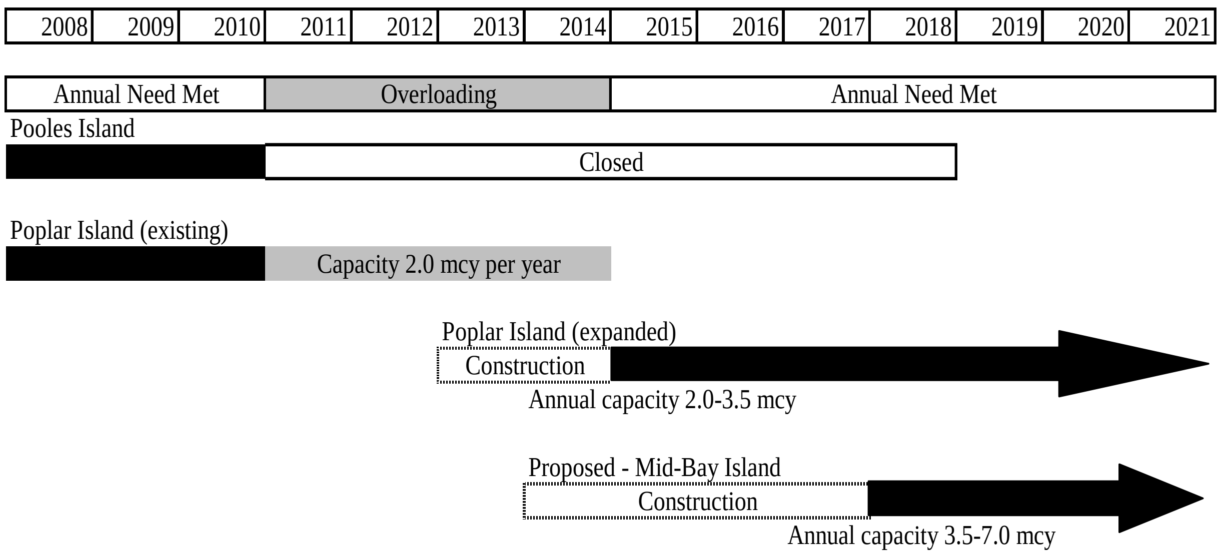
Source: Maryland Port Administration

Beginning in fiscal 2010, only maintenance dredging of Harbor channels can be accommodated without overloading existing placement sites. New Harbor work probably cannot be accommodated without overloading existing placement sites for Harbor material until a new placement option is brought online, most likely in the 2014 to 2016 time frame. Beginning in fiscal 2011, maintenance dredging of bay channels can only be accommodated by overloading existing placement sites. New work in the bay is unlikely to be accommodated until new capacity can be brought online in the 2014 to 2016 time frame. Having capacity to only do maintenance dredging may have a significant impact on the federal Army Corps of Engineers, MPA, Baltimore City, Baltimore County, and private port operators. In addition, lacking capacity for dredged material placement options may also impact construction of a 50-foot berth at Seagirt Marine Terminal.

### Dredged Material from the Bay

The current options for placement of dredged material from the bay channels are at Poplar Island or at the Pooles Island Open Water Placement Site. However, statute requires the closure of Pooles Island by the end of 2010. As shown in **Exhibit 13,** beginning in 2011, the only facility accepting bay channel dredged material will be Poplar Island. On its own, Poplar Island does not have sufficient annual capacity to accommodate the annual 3.2 mcy of maintenance material volume from the bay channels. With no other options available, MPA will be forced to overload Poplar Island.

**Exhibit 13**
**Placement Options for Dredged Material from the Bay**
**Calendar 2008-2021**




mcy: million cubic yards

Source: Maryland Port Administration

The overloading of existing sites has significant impacts for the future, because overloading reduces the total capacity of the placement site, thereby reducing the operational life of the facility. Over time, overloading placement sites requires greater placement capacity than if existing sites are not overloaded and alternative sites are developed. Given that the identification, development, approval, and construction of new placement sites costs hundreds of millions of dollars and takes an average of 12 years, every effort should be made to maximize the operational life of existing facilities. Moreover, the location of placement sites has significant impact, as sites that are further away from the actual dredging site or are located further inland require significantly greater transportation costs.

Several options are currently being evaluated for future placement of dredged material; however, even in the best case scenario, the earliest that a new placement site may become available is 2015. Future placement site options include:

***Poplar Island Expansion:*** The United States Army Corps of Engineers received federal approval through the 2007 Water Resources Development Act (WRDA) to expand capacity at Poplar Island by 50%. The expansion project will have a total capacity of 28 mcy and will extend the life of the facility by seven years. Pending the availability of funds, the preconstruction engineering and design phase of the expansion should begin in 2010.

***Mid-bay Islands:*** MPA is studying the restoration of James Island and the creation of additional protection at Barren Island, both in Dorchester County. The project is still moving through the federal approval process. Moving forward on the project would be dependent on approval through the next WRDA; however, seven years passed between the most recent WRDA and the previous one, so it is difficult to predict when approval may occur. Funding will also be a major issue. In the best case scenario, assuming the unlikely passage of a 2009 WRDA that includes this project, it would not become operational until 2018.

***Chesapeake Bay Marshlands (Blackwater) Restoration Project:*** This project is looking at possible marshland restoration using dredged material. This project is not as far along as the Mid-bay project and still requires many studies, approval, and funding. MPA's best case scenario of having the facility operational by 2018 is likely not realistic.

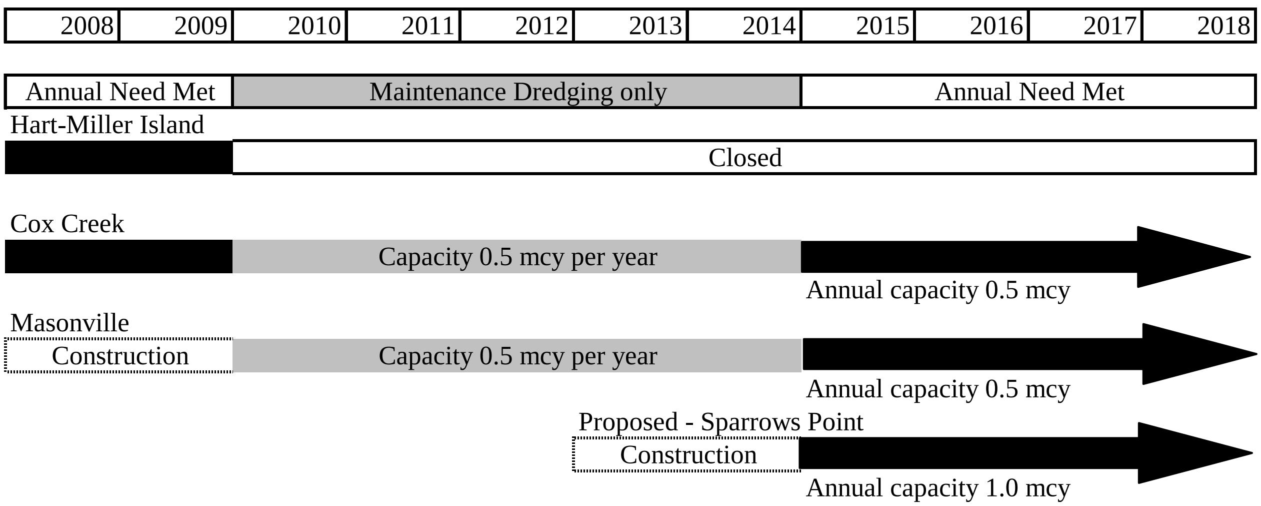
## Dredged Material from the Harbor

Currently, Hart-Miller Island can accommodate all of the sediment dredged from the Baltimore Harbor channels. However, legislative mandate requires that Hart-Miller Island cease receiving dredged material by the end of 2009. The only other site currently available is the reactivated Cox Creek site, which has an annual placement capacity of only 0.5 mcy; however, it is expected that the Masonville site currently being constructed will become operational in 2010. The facility will have an annual capacity of 0.5 mcy and a total capacity of 16 mcy.

As shown in **Exhibit 14,** together, Cox Creek and Masonville will have an annual capacity of 1.0 mcy; however, this is not enough to meet the average annual Harbor need of 1.5 mcy. To address this shortfall, MPA announced that it will accept dredged material from maintenance work only and will not accept dredged material from new work until an additional placement option is available. Beginning in 2010, the placement of more than 1.0 mcy of dredged material per year, resulting from either maintenance or new dredging, will result in overloading Cox Creek and/or Masonville. Overloading these sites will reduce the total capacity of the placement sites, thereby shortening their operational lives.

Currently, MPA is pursuing the possibility of a dredged material placement site at Sparrows Point. MPA is conducting feasibility studies and discussions with the current landowner to purchase the land. However, several studies and negotiations with stakeholders must still take place and legislative modifications to State law prohibiting dredged placement sites within five miles of Hart-Miller Island would be necessary. Even under the best case scenario, a dredged placement site at Sparrows Point would not become operational until at least 2015.

**Exhibit 14**
**Placement Options for Dredged Material from the Baltimore Harbor**
**Calendar 2008-2018**




mcy: million cubic yards

Source: Maryland Port Administration

## Innovative Reuse

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 Act of 2004 (Chapter 552 of 2004) is to facilitate the reuse of at least 500,000 cubic yards of dredged material each year. In response, MPA created an Innovative Reuse committee to explore the reuse options available. In April 2007, the committee issued its final report which found that flowable fill, reclamation of sand and gravel pits and coal mines, and land amendment are the most highly favored technologies for reuse. In 2009, MPA hopes to provide funding to support several demonstration projects to determine the feasibility of a few of the reuse strategies. However, it should be noted that innovative reuse of dredged material may be substantially more expensive than current placement options and innovative reuse options alone would not be able to accommodate annual dredged material placement needs.

## Issues

There are several issues associated with the status of the dredging program. These include:

***Mandated Closure of Dredged Placement Sites with Remaining Capacity Is Not Cost Effective:*** Statute requires the closure of Hart-Miller Island by the end of 2009 and Pooles Island by the end of 2010. Both facilities will still have remaining capacity at that time. The closure of Hart-Miller Island will result in restrictions on new dredging in 2010 until a new facility can become operational, possibly in 2015. This may impact the dredging necessary to create a 50-foot berth at Seagirt. The closure of Pooles Island will result in the overloading of Poplar Island, which will reduce its total capacity and shorten its operational life. **DLS recommends modifications to current statute to allow the continued placement of dredged material at Hart-Miller Island and Pooles Island until new placement sites are available. Modifications to statute could include extending the statutory date of closure as well as increasing the maximum height of dikes allowed at Hart-Miller Island to increase capacity and increasing the statutory maximum capacity of Pooles Island.**

***The Statutory Line of Contamination May Unnecessarily Classify Certain Material as Contaminated:*** Current statute establishes the Baltimore Harbor as all points of the Patapsco River westward of a line extending from Rock Point in Anne Arundel County to North Point in Baltimore County and classifies material dredged from this area as contaminated. While some of this material is indeed contaminated with heavy metals and chemicals, some of it may not be. MPA is currently funding an independent scientific study of national experts investigating the sediment quality and possible contamination of materials dredged from the Baltimore Harbor. **DLS recommends that the results of this study be reviewed to determine if the current line of contamination defined in statute is still appropriate.**

***Overloading Placement Sites Reduces the Total Capacity of the Site:*** Current plans to overload Poplar Island beginning in 2011 may provide a short-term solution to placement needs, but it will exacerbate the problem long-term because it will cause the premature closure of the facility. **Given the cost of creating new placement sites, DLS recommends that MPA make every effort to prevent the overloading of existing sites. This includes exploring all dredged material placement options in the short- and long-term and, where possible, deferring dredging until after adequate placement options are available.**

***The Cost of Identifying and Developing Dredged Placement Sites Is Extremely High:*** Projects involving dredging and the placement of dredged material have a substantial impact on MPA's capital program. In the fiscal 2009 to 2014 CTP, 93.3%, or \$316.3 million, of the \$339.0 million of the funding in the major projects construction program is for dredging or dredged material placement sites. More than 95% of this money is for the identification, construction, operation, and maintenance of dredged material placement sites. The cost of dredging the shipping channel is largely borne by the federal government. MPA and the private terminal operators are responsible for dredging from the channel to its berths. MPA has primary responsibility for funding the identification, construction, operation, and maintenance of dredged material placement sites. Although the federal government will sometimes participate in the funding of these facilities, funding availability is extremely limited. MPA is able to recover some of its costs through tipping fees, whereby the private sector and the federal government pay a fee based on the amount of dredged material placed at these sites. However, these fees do not fully recover the cost of building these sites. Construction costs average \$10 per cubic yard, yet the private sector pays fees of only \$6 per cubic yard. **DLS recommends that committee narrative be adopted to require MPA to provide a report on cost recovery for the dredged material placement sites.**

***Dredging Is Vital to the Operation of the Port:*** Without dredging to maintain the shipping channels to and from the Port, the Port's business would be negatively affected as the size of ships that would be able to navigate the channel would be continually reduced. Current plans to construct a 50-foot berth to accommodate the larger ships expected as the result of the expansion of the Panama Canal will become unnecessary if the Port is unable to adequately maintain dredging of the shipping channels.

## 3. Minor Projects with a Major Price

Current statute requires MDOT to annually submit an updated CTP and distinguishes between major and minor capital projects. Major projects involve a new, expanded, or significantly improved facility or service that involves planning, environmental studies, design, right-of-way, construction or purchase of essential equipment. Minor capital projects are defined as any project for the preservation or rehabilitation of an existing facility or service, including planning, design, right-of-way, construction or purchase of essential equipment and not requiring the preparation of an environmental impact assessment.

The designation of a project as a major or minor project has a significant impact on the amount of information that is provided in the CTP about each project. Major projects have their own page in the CTP providing a description, justification, status, and funding by year for the project, as well as any significant changes from the previous year. Much less detail is provided on minor projects, which are reduced to a one-line description in the back of each mode's section of the CTP with an amount showing total funding.

At MPA, major projects funded in fiscal 2010 include the operation and ongoing monitoring of the quality of water released from Hart-Miller Island and the acquisition of land near Seagirt Marine Terminal. Minor projects funded at MPA in fiscal 2010 include sprinkler rehabilitation at one of the sheds located at South Locust Point marine terminal and tenant renovations at the World Trade Center.

Chrome ore removal, with projected spending of $3.2 million in fiscal 2010, is also included as a minor project. As explained in further detail in Update One, MPA, Honeywell International, Inc., and the Maryland Department of the Environment (MDE) are currently working on remediation of chromium ore processing residue (COPR) located at Dundalk Marine Terminal (DMT). The remediation efforts at DMT will be a long-term (15+ years) joint effort of MPA and Honeywell. Costs for the project will be shared by MPA and Honeywell, with MPA paying 23% of costs and Honeywell paying the remaining 77%. Since final remediation options have not yet been determined, an exact cost is not yet known; however, MPA's portion of the cost of remediation could be as high as $575.0 million over the next 5 to 18 years.

Although the remediation efforts at DMT do not constitute a major project under the current definition contained in statute, the potential costs of the project should qualify it as such. **DLS recommends that language be added to the Budget Reconciliation and Financing Act of 2009 to**

**alter the definition of major CTP projects to include any project with a total cost greater than $10 million.**

## 4. Future Waterfront Growth in Baltimore City: Industrial or Condos?

In 2004, the Baltimore City Council enacted the Maritime Industrial Zoning Overlay District (MIZOD). MIZOD is intended to reduce the increasing conflicts in the waterfront area of Baltimore City between new mixed-use development and maritime shipping in the Port of Baltimore by demarcating deep water parcels within heavy industrial zones and protecting them from conversion to residential and/or tourism/entertainment purposes. MIZOD also acts a buffer between residential and industrial properties. As more residential properties are built along the waterfront, residents quickly discover that they do not want to live so close to the noise, smells, and truck traffic associated with an active port. MIZOD delineates an area where:

- maritime shipping can be conducted without the intrusion of non-industrial uses; and
- investment in maritime infrastructure is encouraged.

MIZOD is generally referred to as a single district, but it actually comprises five separate and distinct areas of the city that includes Locust Point, Canton/Dundalk, Curtis Bay, Fairfield, and Hawkins Point. The criterion for inclusion within MIZOD is:

- a parcel of land with deepwater access (defined in MIZOD as 18 feet or more);
- a parcel with rail access leading to a parcel with deepwater access;
- a parcel that needs to be included for contiguity of the zone; and
- a parcel that is zoned M-3 (heavy industrial) and not designated as an industrial planned unit development (PUD).

As an overlay district, MIZOD is not distinct; rather, it modifies certain provisions of the underlying zoning district. Any waterfront property not in MIZOD is available for mixed-use development through several methods. MIZOD permits any industrial use but excludes the following uses that would otherwise be permitted in an M-3 (heavy industrial) zone or within a PUD:

- hotels and motels;
- business and professional offices other than accessory;
- planned unit development, which are currently the principal method for converting an area from industrial to mixed-use;

- restaurants and lunchrooms other than accessory without live entertainment or dancing; and
- taverns.

MIZOD protection allows companies and their lenders to confidently finance significant capital investment because it affords a guarantee that the use of the land will continue as heavy industrial; however, this guarantee expires in 2014, when MIZOD is scheduled to sunset. Although still five years away, the scheduled sunset of MIZOD has an effect on companies that want to make capital investments and require capital financing to do so. Securing financing for a project can be difficult when there is no guarantee that land currently zoned as industrial will continue to be so several years from now.

In response, City Council Bill 08-0018 was introduced to extend the sunset provision for an additional 10 years, which would move expiration out to 2024. The bill also includes a provision that would allow property owners to request a rezoning of their property to remove it from MIZOD.

Although the bill was introduced in January 2008, little movement on the bill has taken place as the City Council has awaited the findings of several reports on the matter. Most recently, in January 2009, a report from the Abell Foundation was released. The report found that "land with access to deepwater that is functional and conducive to maritime use is a scarce resource that warrants preservation and protection within the context of a land-use plan based on present and prospective demand."

As of the writing of this analysis, the bill has been referred to the Land Use and Transportation Committee and is scheduled for a hearing on February 18. Given the implications for future Port activity, MPA and private terminal operators have been following the legislation closely and support the extension of MIZOD for an additional 10 years. MIZOD is critically important because it supports an industry that can only be operated near deepwater. Even if relocation were possible, significant costs associated with dredging, dredged material placement options, construction, and creating and maintaining transportation infrastructure would be prohibitive. The ability of the Port, including both MPA and private terminal operators, to continue to do business and to grow would be severely hampered by the transition of land currently designated as industrial to mixed use. **DLS recommends that MPA discuss the importance of the MIZOD legislation, what failure of this legislation would mean for future Port activity, and what actions MPA is taking to secure land for current and future Port use.**

# *Operating Budget Recommended Actions*

1. Add the following language:

Provided that the Maryland Port Administration (MPA) may not enter into a public-private partnership of Seagirt Marine Terminal without providing the General Assembly ample time to review the proposed agreement. Therefore, the General Assembly requires a report from MPA:

(1) not less than 30 days before issuing a request for qualifications related to a public-private partnership arrangement, subject to Section 2-1246 of the State Government Article. The report shall include a summary of the proposed document to be used for solicitation of the public-private partnership arrangement; and

(2) not less than 30 days before entering into any public-private partnership arrangement, subject to Section 2-1246 of the State Government Article, MPA shall provide a description of the proposed public-private partnership and a financing plan, including:

(A) the length of the proposed lease;

(B) the scope of payments to MPA from the proposed public-private partnership arrangement;

(C) a cost-benefit analysis of the proposed public-private partnership arrangement;

(D) evidence of the financial stability of the private partner;

(E) requirements pertaining to the ongoing operation and maintenance of the facility and contract oversight;

(F) requirements pertaining to capital investment in the facility and timeline for completion of that investment;

(G) a description of performance measures utilized in the contract, as well as actions that may be taken if performance goals are not met;

(H) information on the ownership and nationality of the private partner;

(I) the estimated dollar amount of any bonds, including private activity bonds, to be used to finance the public-private partnership and the estimated impact of the issuance of the bonds on the bonding capacity of the Maryland Department of Transportation or other issuing entity;

(J) a description, including the estimated value, of any land, buildings, or other structures or assets that are to be transferred to or exchanged with a private entity as part of the public-private partnership; and

(K) the impact, if any, on federal funds.

These reports shall be submitted to the Senate Budget and Taxation Committee, the Senate Finance Committee, the House Committee on Ways and Means, the House Appropriations Committee, and to the Department of Legislative Services. Upon submission, the committees shall have 30 days to review and comment on each report.

**Explanation:** MPA is moving forward with a public-private partnership of Seagirt Marine Terminal. The General Assembly is concerned that the current statutory framework for legislative notice of public-private partnerships does not include port facilities. It is the intent of the General Assembly that MPA should follow the same legislative notice requirements as if the current statutory requirements applied. Therefore, this language requests two reports, one prior to issuance of a request for qualifications of a long-term lease, and one prior to entering into an agreement.

| **Information Request** | **Author** | **Due Date** |
|---|---|---|
| Report summarizing the request for qualifications to be issued | MPA | 30 days prior to issuance of a request for qualifications |
| Report providing a description of the proposed agreement | MPA | 30 days prior to entering into an agreement |

| | **Amount Reduction** | |
|---|---|---|
| 2. Reduce funding for advertising for cruise ship operations. This action deletes the $175,000 increase in the fiscal 2010 allowance for cruise ship advertising. This action allows for an appropriation of $221,830, the same as the fiscal 2009 working appropriation. Although the number of cruises scheduled for 2009 has significantly increased from prior years, cruise lines should have the responsibility for advertising these cruises. The Maryland Port Administration has already spent $15.6 million on a dedicated cruise terminal with easy access from I-95 to attract more cruise lines and passengers. | $ 175,000 | SF |

| | | | |
|---|---|---|---|
| 3. | Reduce funding for cell phone expenditures. The fiscal 2010 allowance includes an increase of $25,044 for cell phone expenditures. This action reduces the appropriation to a 5% increase over the fiscal 2009 working appropriation. The allowance includes funding for 49 cell phones and 29 Blackberries. Assuming that each employee has only one or the other, this means that nearly 1 in 3 employees has a cell phone or Blackberry. The use of Blackberries is increasing rapidly, from 14 in the fiscal 2008 allowance to 29 in the fiscal 2010 allowance. Blackberries have a much higher estimated monthly cost ($72.77) versus cell phones ($27.10). The Maryland Port Administration should make efforts to reduce the number of employees with cell phones and Blackberries and to provide Blackberries only to employees to which one is essential. | 23,261 | SF |
| 4. | Reduce funding for the replacement of two sport utility vehicles (SUV). This action defers the replacement of two hybrid SUVs. Funding remains for the replacement of three other hybrid SUVs. Although the SUVs recommended for deferral both have over 100,000 miles, one SUV is only five years old and the other is six years old, and they are likely in good shape except for the high mileage. | 42,883 | SF |
| 5. | Reduce funding for real property appraisals. This action reduces the appropriation to $20,000. In October 2008, the Governor recommended and the Board of Public Works adopted cost containment actions including the abolition of 830 positions. Among these abolished positions were 3 from the Maryland Aviation Administration (MAA) to abolish MAA’s Office of Real Estate and consolidate these responsibilities under the State Highway Administration (SHA). Similarly, the Maryland Port Administration should work with SHA appraisers rather than contract these services out. | 60,128 | SF |
| 6. | Reduce funding for the stevedoring contract. This action reduces the appropriation to $41.1 million, which is more appropriate based on fiscal 2008 expenditures of $40.6 million. Two shipping lines | 2,500,000 | SF |

| | | | |
|---|---|---|---|
| | recently announced that each will contract directly with the stevedoring company rather than contract through the Maryland Port Administration (MPA). A third shipping line announced it will no longer serve the Port, resulting in 25,000 less containers per year. Additionally, due to the weakened economy, little to no growth is expected at the Port in fiscal 2009 and 2010. MPA's Managing for Results submission shows only a 2% growth in containers from fiscal 2008 to 2010. Should business grow to levels not accommodated by this reduction, MPA is authorized to request a deficiency appropriation or process a budget amendment to obtain necessary funding. | | |
| 7. | Delete funding for the Preakness. This action deletes the $75,000 in funding included for Preakness. The Maryland Port Administration (MPA) reports that the Preakness is a time to build relationships with potential business partners. However, given the current economic climate, MPA should find other less expensive venues at which to build relationships. | 75,000 | SF |
| 8. | Reduce funding for janitorial services based on an executed contract. The fiscal 2010 allowance includes $436,176 for janitorial services at Dundalk and Seagirt Marine Terminals. The estimate was based on rates being charged under the three-month emergency contract that was in place at the time. However, pending Board of Public Works approval, a new three-year janitorial services contract has been secured with an annual cost of $228,783. This action reduces the appropriation to $236,176 to reflect these contract savings. | 200,000 | SF |
| | **Total Special Fund Reductions** | **$ 3,076,272** | |

# *PAYGO Budget Recommended Actions*

| | Amount Reduction | |
|---|---|---|
| 1. Delete funding for development of the Canton Warehouse Facility. The fiscal 2009-2014 *Consolidated Transportation Program* includes the purchase and development of the land for container storage. Given the fact that the Maryland Port Administration (MPA) just recently purchased 15 acres of land on Broening Highway for cargo storage and the fact that it plans to enter into a long-term lease with the private sector for container operations at Seagirt, this additional cargo space is not needed at this time. This action still allows MPA to purchase the land but deletes funding for development. | $ 6,090,000 | SF |

2. Adopt the following narrative:

**Remediation Efforts at Dundalk Marine Terminal:** Given the potential for a long-term and expensive remediation of chromium ore processing residue at Dundalk Marine Terminal, the committees request an annual report from the Maryland Port Administration (MPA) providing information on:

- progress made over the past year;
- actions expected to take place over the next year;
- State funding to date of investigative and evaluative studies, work plans, and remediation work; and
- future funding needs.

Furthermore, it is the intent of the committees that remediation efforts shall be defined as a major project for the purpose of preparing the fiscal 2010-2015 *Consolidated Transportation Program* and in future versions.

Finally, upon submission of the Corrective Measures Alternative Analysis to the Maryland Department of the Environment, MPA shall provide a copy to the Senate Budget and Taxation Committee, the House Appropriations Committee and the Department of Legislative Services.

| **Information Request** | **Author** | **Due Date** |
| --- | --- | --- |
| Annual report on remediation efforts at Dundalk Marine Terminal | MPA | December 15, 2009, and annually thereafter |
| Copy of the Corrective Measures Alternative Analysis | MPA | Upon submission to the Maryland Department of the Environment |

3. Adopt the following narrative:

**Cost Recovery for Identifying and Developing Dredged Placement Sites*:*** In the Maryland Port Administration's (MPA) current capital program, 93.3% of the funding in the major projects construction program is for dredging or dredged placement sites. More than 95% of this money is for the identification, construction, operation, and maintenance of dredged material placement sites. The cost of dredging the shipping channel is largely borne by the federal government. MPA and private terminal operators are responsible for dredging from the channel to its berths. MPA has primary responsibility for funding the identification, construction, operation, and maintenance of dredged material placement sites. Although the federal government will sometimes participate in the funding of these facilities, funding availability is extremely limited. MPA is able to recover some of its costs through tipping fees, whereby the private sector and the federal government pay a fee based on the amount of dredged material placed at these sites. However, these fees do not fully recover the cost of building these sites. Construction costs average $10 per cubic yard, yet the private sector pays fees of only $6 per cubic yard. MPA shall provide a report that includes:

- the methodology used to determine tipping fees;
- an explanation of why greater cost recovery is not pursued through tipping fees; and
- how other ports along the East Coast charge private terminal operators for the placement of dredged material.

| **Information Request** | **Author** | **Due Date** |
| --- | --- | --- |
| Report on cost recovery of dredged material placement sites | MPA | December 1, 2009 |

**Total Special Fund Reductions** **$ 6,090,000**

# *Updates*

## 1. Remediation Work at Dundalk Marine Terminal Continues

Committee narrative in the 2008 *Joint Chairmen's Report* (JCR) directed MPA to provide a report on the remediation of COPR at DMT. The report was received in December 2008. The following provides a summary of the report.

From 1918 until 1975, the predecessor companies of Honeywell International Inc. disposed of COPR from its manufacturing process at several locations around the Baltimore Harbor. At the time, COPR was considered good fill material, and it is believed that about two mcy of COPR combined with other fill material was used to create approximately 138 acres of the 570-acre DMT. Since that time, it has been found that much of the COPR at DMT contains hexavalent chromium, which is defined and regulated as a hazardous substance under federal and State law.

In April 2006, MPA and Honeywell executed two agreements designed to resolve all matters related to the presence of, and threatened releases from, chromium in and at DMT. The first agreement was a long-term settlement, approved by BPW, which allocates the work and financial responsibilities for the remediation of DMT. Under the Settlement Agreement, Honeywell pays 77% of the remediation costs, while MPA pays 23%. Prior to 2006, MPA and Honeywell spent about $42.0 million on corrective measures such as construction of a wastewater treatment plant to treat groundwater at the site, installation of catch basins and backflow preventors for stormdrains, rehabilitation of stormdrains, and health and safety plans for terminal workers. Since the execution of the agreement in 2006, MPA and Honeywell have spent approximately $27.0 million on remediation work, with the State portion accounting for $6.2 million of that cost.

The second agreement was a Consent Decree among MPA, Honeywell, and MDE that requires MPA and Honeywell to thoroughly assess the nature and extent of chromium contamination from COPR at DMT and to identify, evaluate, and implement a broad range of interim and final corrective measures for the site. The studies and work plans required under the Consent Decree are designed to assess the presence and scope of chromium in the soil, water, and air at DMT and to evaluate whether chromium is migrating off-site. Once these studies and work plans are completed to MDE's satisfaction, MPA and Honeywell must prepare a Corrective Measures Alternative Analysis (CMAA) to evaluate all of the potential final remediation options at DMT. After reviewing the CMAA, MDE will decide which remediation options MPA and Honeywell will pursue. Options include:

- capping and containing technologies;
- rerouting, relocating, relining, and/or repair of storm drains and other site utilities;
- partial excavation and disposal of COPR from specific areas;

- full site excavation and removal of COPR; or

- a combination of any of the above.

Since 2006, MDE has approved a number of reports, pilot studies and work plans submitted by MPA and Honeywell, including a corrective measures implementation project plan, a groundwater monitoring plan, an updated operations plan for the wastewater treatment plant, COPR investigation plans and reports, an air monitoring plan, plans to quantify chromium transport from storm drains, a Heave Investigation and Minimization study, a Site Drinking Water Plan, and a Master Health and Safety Plan. MPA and Honeywell anticipate that the CMAA will be submitted to MDE toward the end of calendar 2010. Once MDE reviews the CMAA and selects the final corrective measures, a better sense of the cost and a timeline for remediation will be determined. The State's portion of the cost of remediation could range from $20 million to $575 million over 5 to 18 years depending on which remediation options MDE selects.

The Consent Decree has been challenged in federal court by several third-party intervenors who allege that certain terms of the Consent Decree are deficient and that it did not adequately address alleged environmental concerns in neighboring communities. MPA, MDE, and Honeywell filed motions to dismiss which were partially granted in late 2007. The remaining claims of the intervenors are still pending.

## 2. Agreements Between MPA and Baltimore City

Committee narrative in the 2008 JCR required a report from MPA regarding the payment in lieu of taxes (PILOT) agreements it has with Baltimore City for various Port properties. This report was received in December 2008 and the following provides a summary.

In 1956, the General Assembly enacted legislation stating that PILOTs exist under the statutory principle that the World Trade Center and any cargo handling facilities owned or leased by MPA should not be taxed. Although the federal government and charitable and nonprofit organizations such as Johns Hopkins are completely exempt from property tax requirements, MPA and Baltimore City have entered into several PILOT agreements to replace lost property tax revenue. The amount of PILOTs is often based on the value of the land at the time of its sale to MPA or a new value for property if the property was never on the tax rolls.

Earlier PILOT agreements were constructed to replace the taxes being paid to Baltimore City at the time the property was sold to MPA. This is true of the PILOT agreements for Clinton Street Terminal and South Locust Point Terminal made in 1967 and 1970, respectively. The 1973 PILOT agreement for the World Trade Center provides for an annual payment of $1,000. The 1999 PILOT agreement for the Masonville Terminal provides for an annual payment of $171,850 that will be renegotiated when additional construction takes place on the property. The 2002 agreement for Hawkins Point includes an initial payment of $25,000 that has a 3% escalation factor.

The only statutorily defined PILOT payment between MPA and Baltimore City was negotiated in conjunction with the reformulation of highway user revenue distributions to the counties and Baltimore City. The properties included in the agreement are a total of four small parcels of land located within the South Locust Point, Dundalk, Seagirt, and Masonville Marine Terminals. The PILOT for these properties is based on the present assessment of the land multiplied by the real property tax rate. In fiscal 2008, the PILOT payment for these properties totaled $453,641.

Besides PILOT payments, MPA states that other significant benefits result from Port property located in the city. These include:

- over $700.0 million in financial investments in the Port over the last 10 years;
- $635.0 million in the Port's current six-year capital program, much of which will be spent within city limits;
- $42.0 million in annual federal investment for navigational channel maintenance and improvements;
- roughly half of the Port's direct jobs are filled by city residents;
- the city operates and retains revenues for the "Top of the World" observation deck on the twenty-seventh floor of the World Trade Center for only a $1 lease and 4% of the building's heating, ventilation and air conditioning, electric, and water bills;
- extensive mitigation work involving the construction of a dredged material placement site at Masonville, including spending $12.0 million to restore and renovate habitat along the shoreline, construct and partially fund a community and environmental education center with water access for residents, the installation of five trash interceptors, and the removal of trash and derelict vessels in Masonville Cove;
- selecting six city schools for "greening projects" to replace concrete with grass; and
- a $1.4 million annual grant from the Secretary's Office to Baltimore City for its marine fire suppression unit.

## 3. Annual Maryland Port Commission Report Received

Section 6-201.2 of the Transportation Article requires an annual report from the Maryland Port Commission (MPC). MPC consists of seven voting members, including the Secretary of MDOT as chairman as well as six members appointed by the Governor with the advice and consent of the Senate. Additionally, the Secretary of the Department of Business and Economic Development serves as a non-voting ex officio member. MPC was created to establish policies directed toward improving the competitive position of the ports of Maryland within the port industry; adopt regulations for the operation of MPA; and serve as the board of directors of Maryland International Terminals, Inc., MPA's private operating company.

The January 2009 MPC report contained a summary of fiscal 2008 activities in regard to cargo, business accomplishments, environmental initiatives, dredging, security, cruises, rail access, future operations at SMT, and MIZOD.

The annual MPC report also identified several challenges that MPA will face in fiscal 2009. These include:

- the acquisition of additional property adjacent to existing marine terminals for cargo storage;
- operational challenges to improve the productivity and expand the capacity of existing terminals;
- maintaining an environmentally sensitive and cost-effective dredging program and developing new placement sites; and
- providing adequate operational resources to the new terminal security infrastructure that has been constructed over the past few years.

Under Section 6-204 of the Transportation Article, MPC is also required to report on changes made to the 12 management personnel positions for which MPC is authorized to appoint and set salaries. This report was received in October 2008 and stated that MPA approved the appointment of a new executive director, director of finance, and deputy director of marketing.

## 4. Security at the Port

Since the terrorist attacks of September 11, 2001, security at our nation's ports and airports has received national attention. Chapter 78 of 2004, borne out of concerns about security at the Port, requires MPA to submit an annual report on port security. The December 2008 report, entitled *Funding to Address Vulnerability Concerns*, is summarized below.

During 2008, MPA continued efforts to modernize and improve security at the Port. Security improvements in 2008 include:

- the continued issuance of MPA credentials which utilize color-coding to signify employee status and contain an electronic chip that stores employees data and controls access gates;
- MPA was certified and validated in the U.S. Customs Trade Partnership Against Terrorism program for container operations;

- MPA began using CyberLock, an innovative lock system, to track and control access for all locks in MPA facilities,

- MPA launched a new visitor access system to account for and monitor approved visitors;

- the enhanced perimeter and area-wide remote video surveillance system became operational at all facilities; and

- MPA instituted a “soft” deadline for requiring TWIC cards as of December 1, 2008, followed by a December 30, 2008, hard deadline mandated by the United States Coast Guard Sector Baltimore.

Unfunded security needs at the Port include a statewide interoperability plan using a 700 MHz communication frequency and a centralized facility to house the MDTA Police, MPA security-related functions, and administrative offices for the private security company that mans the gates at the terminals.

Appendix 1

# Current and Prior Year Budgets

## Current and Prior Year Budgets
**Maryland Port Administration Operating Budget**
**($ in Thousands)**

| | General Fund | Special Fund | Federal Fund | Reimb. Fund | Total |
|---|---|---|---|---|---|
| **Fiscal 2008** | | | | | |
| Legislative Appropriation | $0 | $109,693 | $0 | $0 | $109,693 |
| Deficiency Appropriation | 0 | 0 | 0 | 0 | 0 |
| Budget Amendments | 0 | -4,239 | 0 | 0 | -4,239 |
| Cost Containment | 0 | -63 | 0 | 0 | -63 |
| Reversions and Cancellations | 0 | -504 | 0 | 0 | -504 |
| **Actual Expenditures** | **$0** | **$104,887** | **$0** | **$0** | **$104,887** |
| **Fiscal 2009** | | | | | |
| Legislative Appropriation | $0 | $112,021 | $0 | $0 | $112,021 |
| Cost Containment | 0 | -104 | 0 | 0 | -104 |
| Budget Amendments | 0 | 373 | 0 | 0 | 373 |
| **Working Appropriation** | **$0** | **$112,290** | **$0** | **$0** | **$112,290** |

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

## Fiscal 2008

Fiscal 2008 operating expenditures at MPA totaled $104.9 million, which is $4.8 million less than the legislative appropriation. The net decrease was the result of a $62,917 decrease for cost containment, a $4.3 million decrease through budget amendments, and $0.5 million in cancellations. The $62,917 decrease in special funds for cost containment was the result of the abolition of four positions through BPW in January 2008.

Fiscal 2008 budget amendments include:

- $361,125 increase in special funds for the cost-of-living increase granted to all State employees; and

- $4.6 million decrease in special funds to transfer funds to the Maryland Transit Administration (MTA) to allow MTA to close out fiscal 2008 with a positive fund balance.

Cancellations total $0.5 million. This is primarily the result of a surplus in health insurance and the overbudgeting of application fees for MPA employees to obtain a TWIC card.

## Fiscal 2009

The fiscal 2009 legislative appropriation for MPA's operating program increased by $268,530 in special funds. Cost containment actions in fiscal 2009 include a $104,224 decrease in special funds to reflect health insurance reductions made through BPW in June 2008.

The only fiscal 2009 budget amendment approved to date is a $372,754 increase in special funds for the cost-of-living increase granted to all State employees.

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

| Object/Fund | FY08 Actual | FY09 Working Appropriation | FY10 Allowance | FY09 - FY10 Amount Change | Percent Change |
|---|---|---|---|---|---|
| **Positions** | | | | | |
| 01 Regular | 248.00 | 249.00 | 249.00 | 0 | 0% |
| 02 Contractual | 0.70 | 1.00 | 1.20 | 0.20 | 20.0% |
| **Total Positions** | **248.70** | **250.00** | **250.20** | **0.20** | **0.1%** |
| **Objects** | | | | | |
| 01 Salaries and Wages | $ 20,329,643 | $ 21,683,584 | $ 21,905,039 | $ 221,455 | 1.0% |
| 02 Technical and Spec. Fees | 1,630,294 | 320,740 | 308,389 | -12,351 | -3.9% |
| 03 Communication | 446,409 | 396,473 | 423,451 | 26,978 | 6.8% |
| 04 Travel | 483,716 | 454,666 | 403,746 | -50,920 | -11.2% |
| 06 Fuel and Utilities | 7,006,810 | 6,696,965 | 8,045,388 | 1,348,423 | 20.1% |
| 07 Motor Vehicles | 2,087,762 | 1,874,452 | 2,155,216 | 280,764 | 15.0% |
| 08 Contractual Services | 54,600,023 | 61,059,984 | 60,091,460 | -968,524 | -1.6% |
| 09 Supplies and Materials | 2,046,989 | 2,171,693 | 2,060,226 | -111,467 | -5.1% |
| 10 Equipment – Replacement | 448,944 | 801,084 | 567,257 | -233,827 | -29.2% |
| 11 Equipment – Additional | 323,149 | 474,825 | 253,763 | -221,062 | -46.6% |
| 12 Grants, Subsidies, and Contributions | 25,036 | 25,000 | 25,000 | 0 | 0% |
| 13 Fixed Charges | 15,104,556 | 15,755,248 | 15,726,123 | -29,125 | -0.2% |
| 14 Land and Structures | 354,090 | 574,975 | 626,223 | 51,248 | 8.9% |
| **Total Objects** | **$ 104,887,421** | **$ 112,289,689** | **$ 112,591,281** | **$ 301,592** | **0.3%** |
| **Funds** | | | | | |
| 03 Special Fund | $ 104,887,421 | $ 112,289,689 | $ 112,591,281 | $ 301,592 | 0.3% |
| **Total Funds** | **$ 104,887,421** | **$ 112,289,689** | **$ 112,591,281** | **$ 301,592** | **0.3%** |

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

Appendix 2

**Fiscal Summary**
**MDOT – Maryland Port Administration**

| Program/Unit | FY08 Actual | FY09 Wrk Approp | FY10 Allowance | Change | FY09 - FY10 % Change |
|---|---|---|---|---|---|
| 2010 Port Operations | $ 104,887,421 | $ 112,289,689 | $ 112,591,281 | $ 301,592 | 0.3% |
| 2020 Port Facilities and Capital Equipment | 122,926,158 | 125,758,693 | 114,552,920 | -11,205,773 | -8.9% |
| **Total Expenditures** | **$ 227,813,579** | **$ 238,048,382** | **$ 227,144,201** | **-$ 10,904,181** | **-4.6%** |
| Special Fund | $ 225,419,824 | $ 237,009,382 | $ 226,383,201 | -$ 10,626,181 | -4.5% |
| Federal Fund | 2,393,755 | 1,039,000 | 761,000 | -278,000 | -26.8% |
| **Total Appropriations** | **$ 227,813,579** | **$ 238,048,382** | **$ 227,144,201** | **-$ 10,904,181** | **-4.6%** |

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

Appendix 3

Appendix 4

**Budget Amendments for Fiscal 2009**

## Maryland Department of Transportation
## Maryland Port Administration – Operating

| Status | Amendment | Fund | Justification |
|---|---|---|---|
| Approved | -$104,224 | Special | Reduction to health insurance through a June 2008 Board of Public Works action. |
| Pending | 372,754 | Special | Funds the cost-of-living adjustment granted to all State employees. |
| Projected | -1,077,891 | Special | Cost containment reductions to align with the department's financial plan. |

Source: Maryland Department of Transportation

Appendix 5

**Budget Amendments for Fiscal 2009**

## Maryland Department of Transportation
## Maryland Port Administration – Capital

| Status | Amendment | Fund | Justification |
|---|---|---|---|
| Approved | -$17,580 | Special | Reduction to health insurance through a June 2008 Board of Public Works action. |
| Pending | 73,971 | Special | Funds the cost-of-living adjustment granted to all State employees. |
| Projected | -2,996,000 | Special | Adjusts the appropriation to agree with anticipated expenditures for the current year as reflected in the 2009-2014 *Consolidated Transportation Program.* |
| | 285,000 | Federal | |
| | **-$2,711,000** | | |

Source: Maryland Department of Transportation