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Maryland Aviation Administration

Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 07 Actual	FY 08 Working	FY 09 Allowance	FY 08-09 Change	% Change Prior Year
Special Fund	$177,723	$183,191	$187,088	$3,896	2.1%
Federal Fund	350	350	350	0	N/A
Reimbursable Fund	84	0	0	0	N/A
Total Funds	**$178,157**	**$183,541**	**$187,438**	**$3,896**	**2.1%**

- The fiscal 2009 allowance for the operating program increases $3.9 million, or 2.1%, over the fiscal 2008 working appropriation. The underlying fiscal 2009 budget change for this agency, excluding health insurance and Other Post Employment Benefits funding which distorts year-to-year spending, is $2.2 million, or 1.2%.

- Several large increases are included in the fiscal 2009 operating allowance, including security ($2.4 million), equipment repair and maintenance ($1.9 million), and debt service ($1.5 million), which are offset by a large decrease in utilities (-$2.9 million).

PAYGO Capital Budget Data

($ in Thousands)

	Fiscal 2007	Fiscal 2008		Fiscal 2009
	Actual	Legislative	Working	Allowance
Special	$50,900	$57,750	$54,633	$58,083
Federal	$16,949	$22,373	$11,119	$4,342
Subtotal	**$67,849**	**$80,123**	**$65,752**	**$62,425**
Other Funds	$52,188	$38,928	$56,817	$41,633
Total	**$120,037**	**$119,051**	**$122,569**	**$104,058**

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

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- The pay-as-you-go capital fiscal 2009 allowance (special and federal funds only) decreases by $3.3 million, or 5.1%, from the fiscal 2008 working appropriation. This decrease is largely due to changes in cash flow for a number of major projects in the Construction program.

- Other funding decreases by $18.5 million, largely as the result of completion of cash flow for several projects associated with Baltimore/Washington International Thurgood Marshall Airport's (BWI Marshall Airport) recent capital expansion program.

Operating and PAYGO Personnel Data

	FY 07 Actual	FY 08 Working	FY 09 Allowance	FY 08-09 Change
Regular Operating Budget Positions	484.00	484.00	477.00	-7.00
Regular PAYGO Budget Positions	60.00	60.00	58.00	-2.00
Total Regular Positions	**544.00**	**544.00**	**535.00**	**-9.00**
Operating Budget Contractual FTEs	2.00	2.00	1.00	-1.00
PAYGO Budget Contractual FTEs	0.00	0.00	0.00	0.00
Total Contractual FTEs	**2.00**	**2.00**	**1.00**	**-1.00**
Total Personnel	**546.00**	**546.00**	**536.00**	**-10.00**
Vacancy Data: Regular Positions				
Turnover, Excluding New Positions		30.50	5.70%	
Positions Vacant as of 12/31/07		53.50	9.83%	

- The fiscal 2009 allowance includes 535.0 regular positions, a decrease of 9.0 positions from the fiscal 2008 working appropriation. This decrease is the result of 8.5 positions that were abolished as part of the 500 position cuts that the Governor made statewide through a Board of Public Works (BPW) action and a 0.5 position that was transferred to the Governor's office.

- The Maryland Aviation Administration's (MAA) vacancy rate as of December 31, 2007, was 9.83%, which is the highest of any modes of the Maryland Department of Transportation. This includes seven positions that have been vacant for 12 months or longer.

Analysis in Brief

Major Trends

Yearly Passenger Totals Reach New Record: Passenger totals at BWI Marshall Airport reached 21.0 million passengers in calendar 2007, a 1.7% increase over 2006. Southwest Airlines remains the largest carrier at BWI Marshall Airport, carrying 52.5% of all passengers, followed by AirTran Airways with 11.8% of passengers.

Monthly Passenger Volume Nearing Pre-9/11 Levels: Monthly passenger traffic reached 2.06 million passengers in August 2007, the second highest month on record. The highest monthly passenger total of 2.09 million was achieved in August 2001. In September 2001, air traffic dropped sharply following the terrorist attacks of September 11, 2001. It was not until calendar 2006 that BWI Marshall Airport achieved a yearly passenger total higher than its peak year in calendar 2001. The August 2007 monthly total is the closest BWI Marshall Airport has come to reaching pre-9/11 monthly passenger totals. Both Dulles International Airport and Ronald Reagan Washington National Airport exceeded their pre-9/11 monthly and yearly passenger totals in 2004.

BWI Marshall Loses Two More International Carriers: During calendar 2007, both Icelandair and Mexicana Airlines announced they would discontinue international service at BWI Marshall Airport. Despite ongoing efforts to attract and retain international carriers, only six international airlines remain at the airport.

Issues

BWI Marshall Airport Continues to Struggle Attracting and Retaining International Carriers: In defense of its 1993 decision to build a new international terminal at BWI Marshall Airport, MAA cited the fact that international passengers increased by 45.9% from calendar 1990 to 1994. Expecting that level of growth to continue, MAA estimated that total international passengers would reach one million by 2000; however, international passenger growth has fallen far short of expectations. In 2007, total international passengers were 625,039, a 4.3% decrease from 1993. Even with a relatively new international terminal and various economic incentives, BWI Marshall Airport struggles to attract and retain international carriers. A recent "Open Skies" agreement reached between the United States and the European Union, coupled with Southwest Airlines' desire to fly internationally, may mean expanded international service in the coming years. **The Department of Legislative Services (DLS) recommends that the Secretary discuss international air service at BWI Marshall Airport.**

Status of Promotional Agreements: During the 2007 legislative session, the Office of Legislative Audits presented to the budget committees its findings from an October 2006 audit of MAA. Two of the key findings involved MAA's use of certain promotional agreements to attract and retain international carriers. In response to these findings, Section 21 of the fiscal 2008 budget bill was adopted, which required BPW approval and budget committee chairmen notice of such agreements, as well as a year-end report. MAA properly followed these provisions; however, due to the ongoing need to attract and retain international carriers, it is likely that the use of such agreements will continue in the future. **Therefore, DLS recommends that a section be added to the fiscal 2009 budget bill to again require BPW approval, budget committee notice, and year-end reporting of all such agreements.**

Operating Budget Recommended Actions

		Funds
1.	Reduce funds for turnover based on historical vacancy rates.	$ 389,645
2.	Reduce funds for contract to repair and maintain light- and heavy-duty vehicles.	161,537
3.	Reduce funding for advertising.	332,000
4.	Reduce funding for pest extermination based on actual spending.	28,234
5.	Reduce funds for trash and garbage removal based on actual spending.	82,013
6.	Reduce funds for building supplies and materials to reflect actual spending.	34,105
7.	Reduce funding for air service development consultants in the Regional Air Development subprogram.	18,546
8.	Add a section requiring a report summarizing all agreements reached with airlines concerning fee waivers, joint marketing services, and guarantees of an airline's profits.	
	Total Reductions	**$ 1,046,080**

PAYGO Budget Recommended Actions

		Funds	Positions
1.	Increase turnover rate to 7% based on historical vacancy rates.	$ 56,301	
2.	Reduce funds for additional assistance.	11,135	
3.	Reduce funds for legal service support based on actual spending.	84,218	
4.	Reduce funds for communications based on actual spending.	24,395	
5.	Delete funding for converting paper documents to microfilm or microfiche.	58,600	
6.	Reduce funds for the Protective Land Acquisition program.	2,600,000	
7.	Delete one executive position and associated funding that has been vacant for two years.	80,382	1.0
8.	Delete funding for a new air traffic control tower at Martin State Airport.	445,000	
	Total Reductions	**$ 3,360,031**	**1.0**

Updates

Martin State Airport Excluded from Air Defense Identification Zone: Following the terrorist attacks of September 11, 2001, the Federal Aviation Administration (FAA) created the Air Defense Identification Zone (ADIZ) to identify and control all aircraft operating near the National Capital Region. Since creation of ADIZ, take offs and landings, as well as planes based at Martin State Airport (MTN), have decreased as owners moved their planes to other airports not affected by the strict requirements of ADIZ. In August 2007, FAA announced changes to ADIZ, and MTN is no longer included in ADIZ. Although it may be too early to quantify effects, MTN's recent exclusion from ADIZ will likely have a positive impact on activity and revenues at MTN.

Annual Maryland Aviation Commission Report Received: Section 5-201.2 of the Transportation Article requires an annual report from the Maryland Aviation Commission reviewing the financial and operational results of all State-owned airports, recommending changes, and estimating expenditures. This report was received in January 2008 and provided a summary of accomplishments for 2007.

Budget Analysis

Program Description

The Maryland Aviation Administration (MAA) has responsibility for fostering, developing, and regulating aviation activity throughout the State. MAA is responsible for operating, maintaining, and developing the State-owned Baltimore/Washington International Thurgood Marshall Airport (BWI Marshall Airport) as a major center of commercial air carrier service in the State and Martin State Airport (MTN) as a general aviation reliever facility and as a support facility for the Maryland Air National Guard and the Maryland State Police. MAA strives to make BWI Marshall Airport the "Easy Come, Easy Go" gateway to the world, and to achieve this, it has identified the following key goals:

- keep BWI Marshall Airport passengers, tenants, and facilities safe;
- operate BWI Marshall Airport efficiently and effectively;
- attract, maintain, and expand air service; and
- provide exceptional service.

Performance Analysis: Managing for Results

Unlike most other State agencies that rely solely on the State for all support, MAA receives revenues that help to offset its expenditures. Its profitability determines how much the Transportation Trust Fund (TTF) must provide as a subsidy. Historically, MAA has covered operating expenditures with operating revenues; however, since fiscal 2006, MAA has required subsidies from the TTF for its operating program. Revenues also do not cover MAA's capital expenditures, so MAA must rely on the TTF or other non-MAA financing mechanisms, such as Maryland Transportation Authority (MdTA) bonds, for all capital investments. Many of these investments are supported by specific user fees, which are not considered part of MAA's operating revenues for purposes of covering ongoing or general capital expenses.

Exhibit 1 shows that MAA projects a net operating loss of $9.9 million in fiscal 2009. This loss, representing 5.3% of operating expenditures, will be provided as a subsidy from the TTF. When coupled with the capital program, MAA requires a $70.0 million subsidy from the TTF in fiscal 2009. This is a 3.2% decrease from the fiscal 2008 TTF subsidy.

Exhibit 1

MAA Special Fund Revenues and Expenditures

Fiscal 2007-2009

($ in Thousands)

	Actual 2007	Appr. 2008	Allowance 2009	% Change 08-09
Operating Revenues				
Flight activities	$34,837	$40,196	$42,033	4.6%
Rent/user charges	41,502	48,848	52,243	7.0%
Concessions	63,700	66,776	70,589	5.7%
Other revenues	3,151	2,946	3,003	1.9%
Martin State Airport activities	8,430	8,868	9,329	5.2%
Subtotal	**$151,620**	**$167,633**	**$177,197**	**5.7%**
Operating expenditures[1]	$177,723	$183,191	$187,088	2.1%
Net Operating Income	**-$26,103**	**-$15,557**	**-$9,891**	**-36.4%**
Capital expenditures[1]	50,900	54,633	58,083	6.3%
Total TTF Subsidy of MAA	**-$77,003**	**-$70,190**	**-$67,974**	**-3.2%**

MAA: Maryland Aviation Administration
TTF: Transportation Trust Fund

[1] Includes special funds only.

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

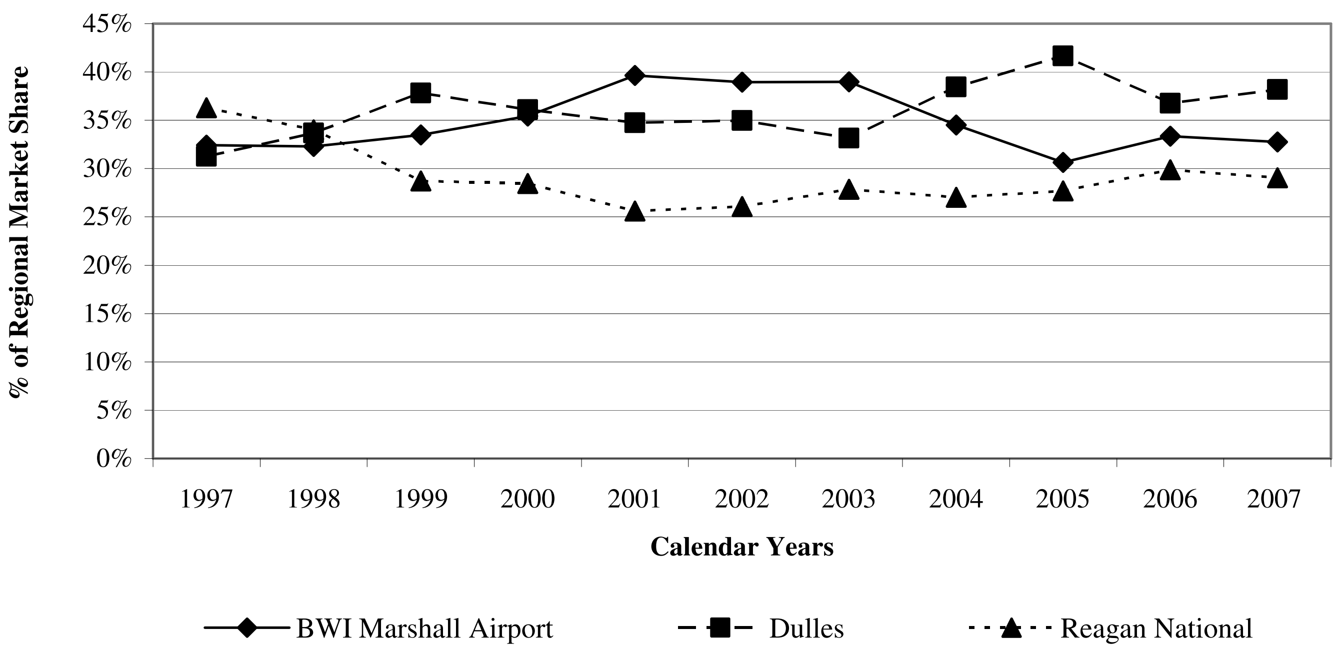
Source: Maryland Aviation Administration

It is important to note that in looking at MAA capital expenditures in a business manner, consideration should be given to the fact that at MAA 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 and that reimbursement from the airlines (through the Basic Use and Lease Agreement) actually takes place over 20 plus years, 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 MAA were operating as a business, would be operating at a loss.

Passenger Market Share and Total Passengers

In order for BWI Marshall Airport to experience growth in business, it must remain competitive with other airports. In addition to competing with other airports nationally and internationally, BWI Marshall Airport must also compete for passengers closer to home in the Washington region due to the proximity of Dulles International Airport (Dulles) and Ronald Reagan Washington National Airport (Reagan National). **Exhibit 2** shows that in calendar 2007, both BWI Marshall Airport and Reagan National lost market share to Dulles. Calendar 2007 was a year of strong growth for Dulles, as total passengers there increased by 7.5%. While total passengers at BWI Marshall Airport grew by 1.7%, it was unable to match Dulles' growth level and, therefore, lost market share. Growth at Dulles was aided by the addition of two new international airlines, four new international destination cities, and expanded domestic air travel.

Exhibit 2
Passenger Market Share
Calendar 1997-2007



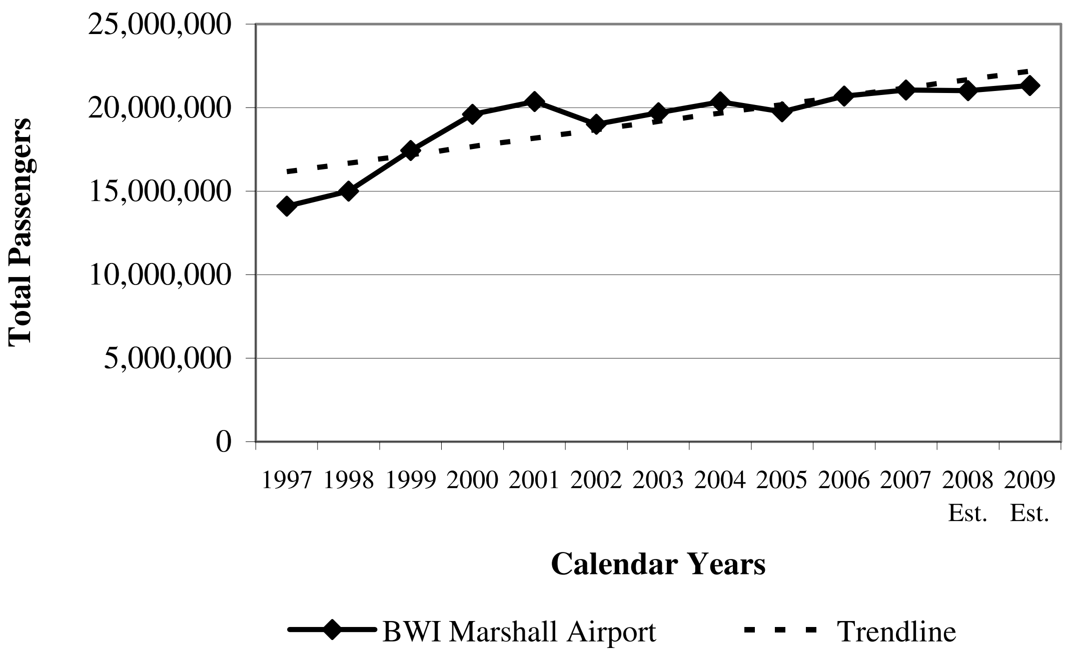
Source: Maryland Aviation Administration

Passenger traffic at BWI Marshall Airport increased 1.7% from calendar 2006 to 2007, up from 20.7 million passengers in calendar 2006 to 21.0 million in calendar 2007. As **Exhibit 3** shows, there is a general trend of increased total passenger volume at BWI Marshall Airport over the time period from calendar 1997 to 2009. Between 1998 and 2001, BWI Marshall Airport experienced significant growth when Southwest Airlines became the largest low-fare carrier in the Washington, DC market and continued to expand operations at the airport. Growth slowed after the terrorist attacks of September 11, 2001. Moderate growth occurred from 2001 through 2004, followed by a decline in 2005 as the result of the increased competition from Independence Air, a new low-cost carrier, at Dulles. Following the bankruptcy and termination of service of Independence Air, passenger totals at BWI Marshall Airport have rebounded, and again surpassed the 20 million mark in 2006 after falling below it in 2005. Calendar 2007 was a year of modest growth at BWI Marshall Airport, with total passenger growth of 1.7%. MAA projects minimal growth for 2008 and 2009; however, it should be noted that these estimates were made before 2007 year-end totals were completed.

Exhibit 3

Total Passengers at BWI Marshall Airport

Calendar 1997-2007 Actual and Calendar 2008-2009 Estimated



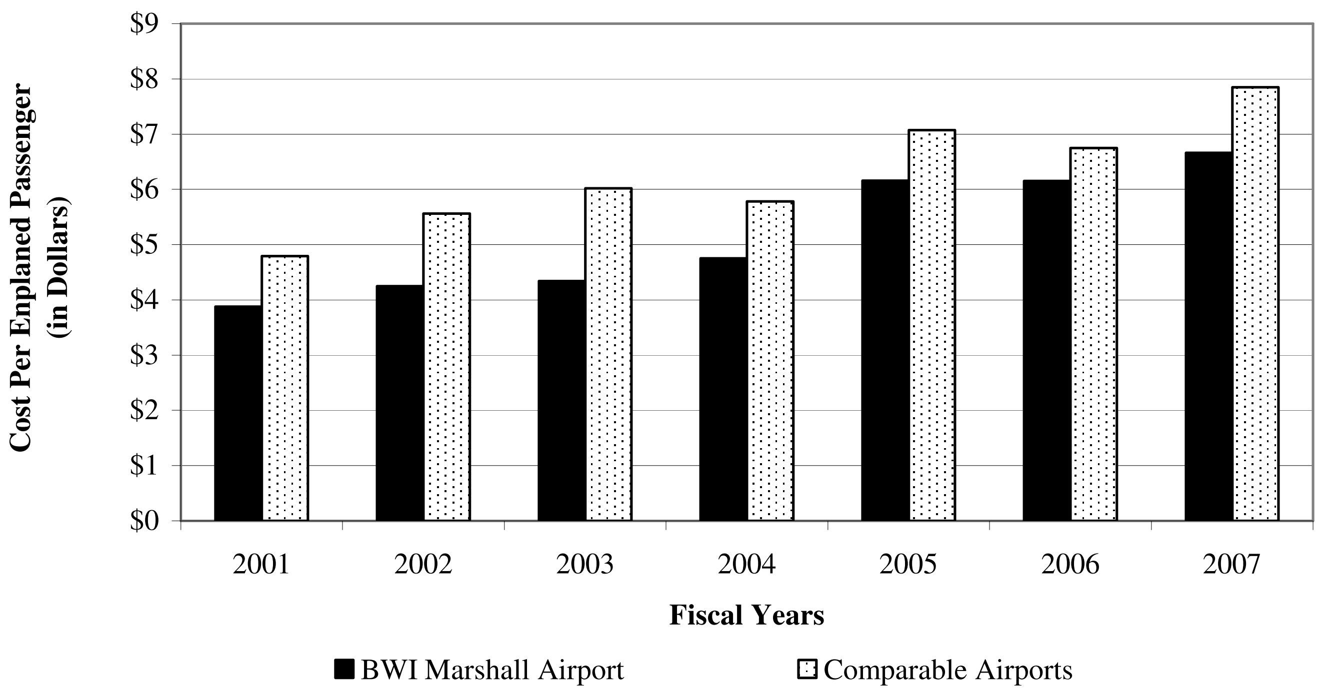
Source: Maryland Aviation Administration

The dominant airline at BWI Marshall Airport continues to be Southwest Airlines, which handled 52.5% of all passengers in calendar 2007. The next largest airline is AirTran Airways, which handled 11.8% of all passengers in calendar 2007. Passengers on international flights comprise 2.5% of total passengers in 2007, down slightly from 2.7% in 2006.

Cost and Revenue Per Enplaned Passenger

Two of the important financial calculations considered in regard to airports are the cost per enplaned passenger (CPE) and the revenue per enplaned passenger (RPE). In regards to CPE, part of BWI Marshall Airport's success has been its ability to maintain low CPE rates, which attracts and retains low-cost carriers such as Southwest Airlines. At BWI Marshall Airport, like all airports, operating costs are passed on to airlines through building rent, landing fees, and other user charges. Therefore, both MAA and the airlines have an interest in keeping operating costs as low as possible. As shown in **Exhibit 4**, in fiscal 2007, BWI Marshall Airport's CPE increased from $6.15 to $6.66, an 8.3% increase. This compares favorably to the CPE of $7.85 for comparable airports. Comparable airports are the seven airports below and above BWI Marshall Airport in rankings by the number of passengers. In 2008, BWI Marshall Airport's CPE is expected to jump to $7.83 as the result of higher landing fees and building rent. These user fees increased as the result of increased operating costs, including increases in maintenance, utilities, security, and snow removal costs. Though this is a rather large increase ($1.17 per enplaned passenger), it remains well below the CPE at the airports that are BWI Marshall Airport's toughest competition. CPEs at regional rivals range from $8.19 at Philadelphia to $12.35 at Dulles.

Exhibit 4
Cost Per Enplaned Passenger at BWI Marshall Airport
Actual Fiscal 2001-2007



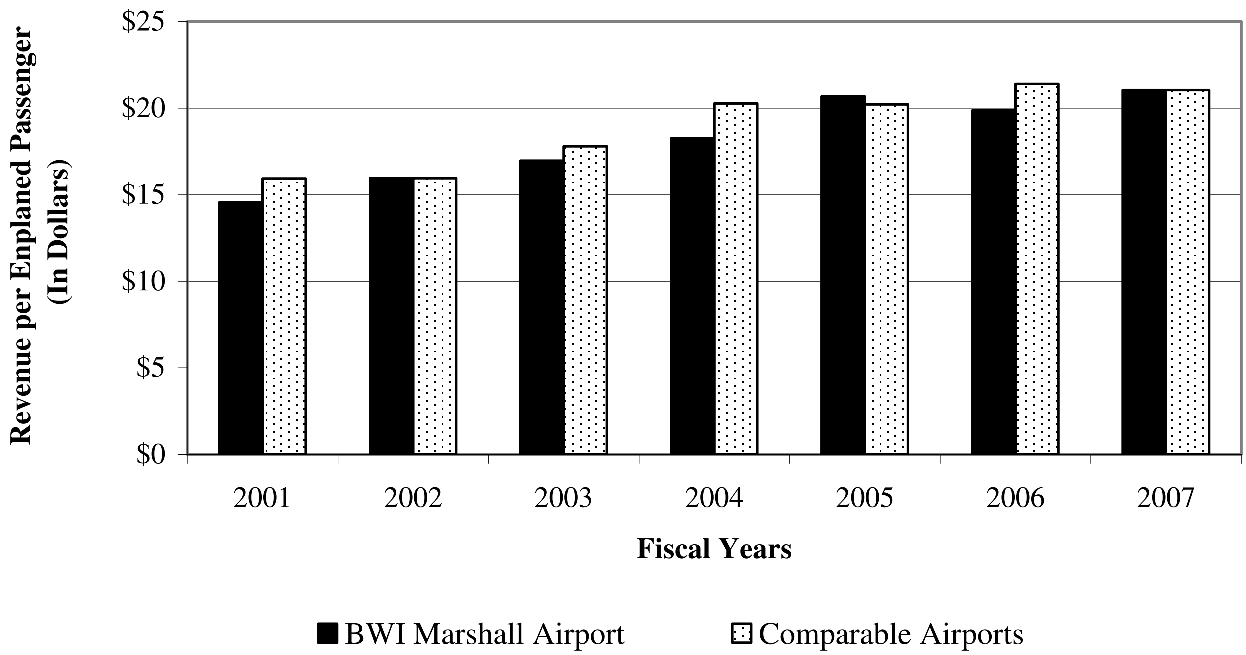
Source: Maryland Aviation Administration

The other important financial consideration for airports is RPE. As shown in **Exhibit 5**, BWI Marshall Airport's RPE increased in fiscal 2007 to $21.04, a 5.9% increase over the 2006 RPE of $19.86. BWI Marshall Airport's 2007 RPE was exactly the same as the median amount for comparable airports. In 2002, RPE at BWI Marshall Airport and the median of comparable airports was also the same, $15.94. In 2003 and 2004, the median for comparable airports grew at a much faster pace than at BWI Marshall Airport; however, since 2004, BWI Marshall Airport's RPE has increased 15.3%, while growth of the median at comparable airports has only been 3.8%. During this time, revenue from rent and user charges at BWI Marshall Airport have grown by nearly 75%, revenues from flight activities (including landing fees) have increased 58%, and concessions revenues have increased 49%. Revenue attainment has also benefited from the recent terminal expansion at BWI Marshall Airport.

Exhibit 5

Revenue Per Enplaned Passenger at BWI Marshall Airport

Actual Fiscal 2001-2007



Source: Maryland Aviation Administration

Fiscal 2008 Actions

Impact of Cost Containment

MAA has indicated that it has taken cost containment actions totaling $5.6 million in fiscal 2008; however, rather than removing this money by budget amendment, the money remains appropriated to MAA to offset any budget amendments in other areas should they arise during the fiscal year. If no offset is needed, this money will revert to the TTF at the end of the fiscal year. These cost containment actions have been removed from the fiscal 2009 allowance.

Cost containment actions for MAA include:

- $2.4 million reduction in utilities;
- $907,659 reduction to various contracts;
- $802,953 reduction to janitorial services;
- $500,000 reduction to the shuttle bus contract (no decrease in service);
- $404,738 reduction for landscaping;
- $250,000 reduction for customer service surveys;
- $233,643 reduction for information technology;
- $58,755 reduction to overtime; and
- $10,000 reduction to grants, comprised of reductions of $5,000 each in the grants to the BWI Business Partnership, Inc. and the BWI Development Council.

Governor's Proposed Budget

The fiscal 2009 operating allowance increases by $3.9 million, or 2.1%, over the fiscal 2008 working appropriation. The underlying fiscal 2009 budget change for this agency, excluding health insurance and Other Post Employment Benefits (OPEB) funding which distorts year-to-year spending, is $2.2 million, or 1.2%. **Exhibit 6** provides a short summary of the changes taking place from the fiscal 2008 working appropriation to the fiscal 2009 allowance.

Exhibit 6
Governor's Proposed Budget
Maryland Aviation Administration
($ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Total
2008 Working Appropriation	$183,191	$350	$183,541
2009 Governor's Allowance	187,088	350	187,438
Amount Change	$3,896	$0	$3,896
Percent Change	2.1%		2.1%

Where It Goes:	
Personnel Expenses	
Health insurance – reduce long-term Other Post Employment Benefits liability	$1,481
Increments	513
Health insurance – pay-as-you-go costs	259
Other fringe benefit adjustments	-50
Overtime (cost containment action)	-59
Retirement	-77
Abolished and transferred positions	-378
Increase turnover rate from 4.4% to 5.7%	-471
Other Changes	
Security	2,385
Equipment repair and maintenance	1,880
Debt service	1,528
Advertising and promotional events	832
Maintenance and repair of vehicles	254
Communications and information technology changes as the result of the updated Consolidated Transportation Information Processing Plan	246
Purchase of additional and replacement equipment	211
Insurance	120
Purchase of additional and replacement vehicles	-124
Trash and garbage removal (cost containment action)	-200
Customer service surveys (cost containment action)	-250
Shuttle bus service (cost containment action)	-575
Janitorial services (cost containment action)	-803
Overbudgeted fuel and utilities (cost containment action)	-2,876
Other changes	50
Total	**$3,896**

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

Personnel costs increase by $1.2 million. The largest increase, $1.7 million, took place in health insurance, both costs for current employees and retirees, as well as the long-term OPEB liability. The large increases at MAA mirror large increases for these purposes across all State agencies. This increase was offset by decreases for abolished and transferred positions and an increase in the turnover rate. As part of the Governor's effort to abolish 500 positions statewide, 8.5 positions from MAA were abolished. These were all vacant positions, and 2 had been vacant for 12 months or more. In addition, a 0.5 position was transferred from MAA to the Governor's Office. The increase in the turnover rate from 4.4% to 5.7% was the result of historically high vacancy rates at MAA.

Outside of personnel, the largest increases in the allowance are for security ($2.4 million), equipment repair and maintenance ($1.9 million), debt service ($1.5 million), and advertising and promotional events ($832,000). These large increases are offset by large decreases in utilities (-$2.9 million) and janitorial services (-$802,953).

The increase in security is the result of contract increases with the Maryland Transportation Authority police ($627,475) for cost-of-living adjustments (COLA) and step increases, and AKAL security, the private security company ($1.8 million). The increase in equipment repair and maintenance is based on executed contracts, and the increase for debt service is largely the result of payments for the Maryland Economic Development Corporation financing of Concourse A. Of the total increase associated with advertising and promotional events, $200,000 of the increase is associated with various small promotional procurements. The largest part of this increase, $632,000, is for additional funding to provide joint marketing money and other economic incentives to lure new international airlines in the wake of increased market availability between the European Union (EU) and the United States (U.S.) after the U.S. and EU signed the Open Skies agreement. This agreement is discussed more in the first issue.

The large decrease for fuel and utilities is largely the result of overbudgeting. During the 2007 legislative session, MAA received a deficiency appropriation for fiscal 2007 of $6.7 million for fuel and utilities. At the end of fiscal 2007, $2.4 million of this money was reverted to the TTF. This $2.4 million was removed by MAA in the fiscal 2009 allowance to reflect actual need. In regard to the decrease in janitorial services, as noted above in the fiscal 2008 cost containment actions, this was a cost containment measure noted in fiscal 2008, but not removed from MAA's budget until fiscal 2009.

Impact of Cost Containment

As noted above in the section on fiscal 2008 cost containment actions, MAA identified $5.6 million of cost containment actions for fiscal 2008; however, this amount was not removed by budget amendment and remains in the fiscal 2008 working appropriation. In fiscal 2009, these items are deducted from the allowance and many of these are identified in Exhibit 6. Some decreases were offset by increases in other categories and were not as easily identifiable. All together, fiscal 2009 cost containment actions at MAA total $5.6 million.

PAYGO Capital Program

Program Description

The MAA pay-as-you-go (PAYGO) capital program provides for the development and maintenance of facilities at BWI Marshall Airport and MTN. MAA undertakes projects that meet the demands of commercial and general aviation for both passenger and cargo activities at BWI Marshall Airport. At MTN, facilities improvements and rehabilitation activities such as runway and taxiway improvements, building and system renovations, and various maintenance projects are implemented.

Fiscal 2008-2013 *Consolidated Transportation Program* (CTP)

The MAA PAYGO capital fiscal 2009 allowance for special and federal funds decreases by $3.3 million from the fiscal 2008 working appropriation. The net decrease reflects a $3.5 million increase in special funds which is offset by a $6.8 million decrease in federal funds. The decrease in federal funds is largely due to the assumptions used for federal funding being higher than the actual dollar value of grants provided by the Federal Aviation Administration (FAA) in the September 2007 Airport Capital Improvement Program update.

The MAA PAYGO capital program also utilizes "other funds" that includes passenger facility charges (PFCs), customer facility charges, and pass-through federal funding. Some of these other funds are received by MdTA to pay debt services for projects that MdTA financed in 2002 and 2003 during BWI Marshall Airport's capital expansion program. **Exhibit 7** shows the funding that is received by MdTA for repayment of these projects.

Exhibit 7
Funds Retained by MdTA for Project Financing
Fiscal 2007-2009
($ in Thousands)

	Actual 2007	Appr. 2008	Allowance 2009	% Change 08-09
Passenger Facility Charges	$41,376	$44,805	$45,701	2.00%
Customer Facility Charges	12,107	11,131	11,128	-0.03%
Parking Garage Revenue	20,927	20,854	20,896	0.20%
Total	**$74,411**	**$76,790**	**$77,726**	**1.22%**

MdTA: Maryland Transportation Authority

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

Source: Maryland Aviation Administration

Exhibit 8 shows the breakdown of projects using other funding. Other funds decrease from $56.8 million in fiscal 2008 to $41.6 million in fiscal 2009. This decrease is primarily due to completion of projects associated with BWI Marshall Airport's capital expansion program.

Exhibit 8
Other Funds
Fiscal 2008-2009
($ in Thousands)

Project	Source	2008	2009
CORE network upgrades	PFC	$419	
Additional glycol collection tank	PFC	7	
B/C airfield ramp regrading – Phase II	PFC	1,657	
800 Mhz emergency digital trunked radio system	PFC	57	
Terminal entrance roadway – Phase II	PFC	2,426	
D/E airfield ramp paving improvements	PFC	13,097	
Mobile command post vehicle	PFC	52	
Terminal complex roadway resurfacing	PFC	1,086	
New concourse A expansion	PFC	178	
Baggage handling system upgrades	TSA	1,302	
New concourse A expansion	TSA	3,085	
Replacement electronic fingerprinting machines (3)	TSA	72	
New concourse A expansion	MEDCO	328	
Elm Road parking structure	MdTA	1,884	
Consolidated rental car facility	CFC	1,397	
Rental car facility bus improvements	CFC	81	
Equipment and safety training system	PFC	2,080	$145
Airfield lighting cable replacement	PFC	104	4,084
External information technology infrastructure upgrades	PFC	137	953
BWI Marshall Airport closed circuit television	PFC	88	749
C/D airfield ramp improvements	PFC	825	953
BWI Marshall Airport perimeter gates and fencing improvements	PFC	1,093	115
D/E baggage system and claim improvements	PFC	5,009	16,012
Perimeter intrusion detection systems	PFC	104	96
Terminal improvement project	PFC	749	6,691
Airside taxiway paving rehab	PFC	11,979	2,866
Rental car facility courtyard improvements	CFC	21	1,212
Hagerstown Airport	RAA	7,500	6,000
Runway safety area improvements	PFC		1,171
Perimeter service road – northwest quadrant	PFC		25
Controlled access security system replacement	PFC		502
Exit lane technology	PFC		59

Total by Fund Type		**$56,817**	**$41,633**
	PFC	**$41,147**	**$34,421**
	RAA	**$7,500**	**$6,000**
	CFC	**$1,499**	**$1,212**
	TSA	**$4,459**	**$0**
	MdTA	**$1,884**	**$0**
	MEDCO	**$328**	**$0**
Total Maryland Aviation Administration		**$56,817**	**$41,633**

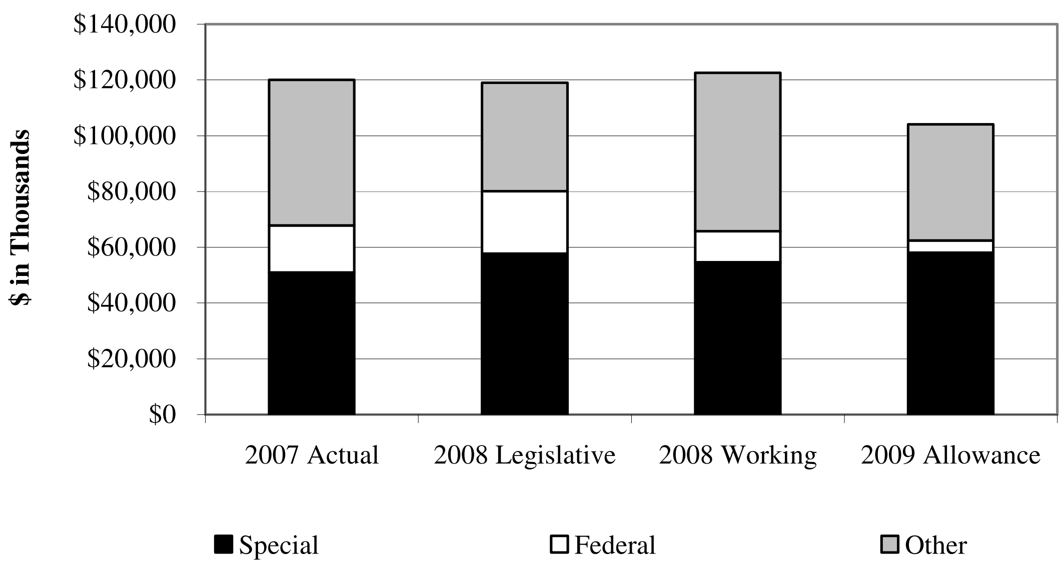
CFC: customer facility charges
MdTA: Maryland Transportation Authority
MEDCO: Maryland Economic Development Corporation
PFC: passenger facility charges
RAA: Regional Aviation Assistance
TSA: Transportation Security Administration

Source: Maryland Department of Transportation, 2008-2013 *Consolidated Transportation Program*

Fiscal 2008 and 2009 Cash Flow Analysis

Exhibit 9 provides cash flow information for MAA's capital program from fiscal 2007 to 2009. The total capital program in fiscal 2009 is $104.1 million, $18.5 million less than the fiscal 2008 working appropriation.

Exhibit 9
Cash Flow Changes
Fiscal 2007-2009



Source: Maryland Department of Transportation, 2008-2013 *Consolidated Transportation Program*

Exhibit 10 provides a list of major MAA CTP construction projects funded in fiscal 2009. The four projects listed account for 91% of all funding of major projects in the construction program for fiscal 2009.

Exhibit 10
MAA Major Construction Projects
Funded in Fiscal 2009
($ in Thousands)

Project	2009	Total $	Completion of Fiscal Cash Flow
Concourse D/E Baggage Screening System and Baggage Claim Expansion at BWI Marshall Airport – includes reconfiguration of the existing baggage screening and baggage make-up system to a more integrated baggage security and handling system.	$16,012	$36,665	2010
Airfield Pavement Improvement Program at BWI Marshall Airport – reconstruction and overlay of multiple taxiways and the reconstruction of aircraft ramp areas between Concourses D and E and Concourses C and D.	4,113	112,583	2013
Hagerstown Airport Expansion – multi-year project to expand a runway at Hagerstown Regional Airport.	6,314	59,194	2014
Protective Land Acquisition Program – allows for the purchase of land in the immediate vicinity of BWI Marshall Airport and Martin State Airport.	4,107	23,757	Ongoing
Total	**$30,546**	**$232,199**	

Source: Maryland Department of Transportation, 2008-2013 *Consolidated Transportation Program*

During the 2007 special session, transportation revenues were increased by $418 million in fiscal 2009. Revenue increases took place in titling tax (increased from 5% to 6%), sales tax (6.5% of total receipts), and title certificate fee (increased from $23 to $50). In addition, certain transfers from the TTF to the general fund were discontinued.

Exhibit 11 shows the projects that were added to MAA's system preservation program as a result of this revenue increase.

Exhibit 11
Projects Added as a Result of the Revenue Increase
Funding in Fiscal 2009 and Total Funding
($ in Thousands)

Project	2009	Total $	Completion of Fiscal Cash Flow
Baggage Security Cage	$700	$700	2009
Fire Rescue Department Self Breathing Apparatus	800	800	2009
MTN Common Use Hangar Taxilane	1,500	1,500	2009
MTN Fire Suppression	100	900	2011
Utility System Preservation	1,850	5,550	2011
BWI Marshall Airport Gate G Modifications	50	1,550	2012
Parking Revenue Control System Replacement[1]	0	4,000	2012
Consolidated Dispatch Center Upgrade[1]	0	2,500	2012
Terminal Roadway Exit to I-195 Improvements[1]	0	7,500	2013
Total	**$5,000**	**$25,000**	

[1] Funding for these projects do not begin until fiscal 2010 for the parking revenue control system and consolidated dispatch center upgrade and fiscal 2011 for the terminal roadway improvements.

MTN: Martin State Airport

Source: Maryland Department of Transportation, 2008-2013 *Consolidated Transportation Program*

Projects Moved from the Construction Program to the Development and Evaluation (D&E) Program

One project was moved from the construction program back to the D&E program. The project involves construction of a new air traffic control tower at MTN to replace the existing one, which is over 50 years old. This project was first added to the 2000-2007 CTP. It was moved from the D&E program to the construction program in the 2002-2009 CTP, and has remained there since. The project has been habitually delayed due to ongoing coordination with FAA and the need for MTN's airport layout plan to be approved by FAA before the project can move forward. In the 2008-2013 CTP, the project was moved back to the D&E program and $4.2 million in associated funding was reprogrammed to other system preservation needs. **Due to the nearly 10-year delay in this project, the Department of Legislative Services (DLS) recommends deleting funding for the project, with the provision that the funding can be restored through a budget amendment if MAA provides proof of resolution of the ongoing issues with FAA and approval of MTN's airport layout plan.**

Construction Schedule Delays

Several MAA projects were delayed in the 2008-2013 CTP relative to the previous year's CTP. These projects are summarized in **Exhibit 12**, along with the reason for delay.

Exhibit 12
Construction Schedule Delays

Project	Reason	Delay
Comprehensive Roadway Signing, Phase II at BWI Marshall Airport	Construction start dependent on environmental permits.	From FY 2007 to 2008
Interim Airport Layout Plan Environmental Assessment at BWI Marshall Airport	Start is contingent upon approved Interim Airport Layout Plan.	From FY 2007 to 2008
Runway Safety Area Improvements Design at BWI Marshall Airport	Start dependent upon FAA approval of Interim Airport Layout Plan.	From FY 2008 to 2009
Airfield Pavement Improvement Program at BWI Marshall Airport	Concourses C and D ramp paving construction start deferred to match PFC funding availability.	From FY 2008 to 2009
Midfield Complex – New Air Traffic Control Tower at MTN	Construction start dependent on reaching agreement with FAA.	From FY 2009 to 2010
Airport Administrative Office Building at BWI Marshall Airport	Start dependent upon environmental assessment schedule.	From FY 2009 to 2010

FAA: Federal Aviation Administration
MTN: Martin State Airport
PFC: passenger facility charges

`Source: Maryland Department of Transportation, 2008-2013 *Consolidated Transportation Program*

Future PFC Funding

The PFC program, administered by FAA, has been in place since 1990. It allows the collection of PFC fees up to $4.50 for every enplaned passenger at commercial airports controlled by public agencies. Airports may use these fees to fund FAA-approved projects that preserve or enhance safety, security, or capacity; reduce noise or mitigate noise impacts; or increase airline competition. PFCs are considered local (not federal) funds, but FAA must approve the imposition and use of PFCs. PFC-funded projects require consultation with the airlines.

At the federal level, several bills have been introduced in Congress which would, among other things, increase PFC fees from $4.50 to $7.00. In fiscal 2009, MAA received PFC revenues of $45.7 million. If BWI Marshall Airport was given authority to collect this higher fee, it could generate an additional $25.4 million in PFC revenue.

MAA has had FAA authority to impose PFCs since July 1992. Through the end of December 2007, 25 projects with an associated PFC expenditure of $487 million have been partially funded with PFCs. Total PFC use authority covering construction and debt service costs for these projects is $836 million.

Amendments to Application 5 were approved by FAA in February 2007. Application 6 was approved in July 2007. In November 2007, MAA received approval to close out applications 1, 2, and 3 since all projects were complete.

Most recently, in October 2007, Application 7 was submitted requesting $16.3 million in PFC authority for terminal improvements and design of runway safety areas. Approval is expected in February 2008.

Exhibit 13 provides a summary of projects associated with amended Application 5 and Applications 6 and 7 from the official FAA application documents. The total cost of the projects is $195.0 million, which includes $128.6 million in PFC funding (including PFC financing), $64.7 million in Airport Improvement Program grants, and $1.8 million from the TTF.

Exhibit 13
PFC Projects in Applications 5 (Amended), 6, and 7
($ in Thousands)

	PFC	PFC Financing	AIP Grants	TTF	Total
Application 5 (Amended Projects)					
Equipment and Safety Training Systems	$2,080			$79	$2,159
Concourses C/D and D/E Apron Rehabilitation	27,023		49,768	21	76,812
Taxiway Rehabilitation Program	16,141		14,896	40	31,077
Glycol Collection Tank	2,761			167	2,928
Subtotal	**$48,005**		**$64,664**	**$307**	**$112,976**
Application 6					
Terminal Area D/E Baggage Handling System Upgrades (Construction)	$32,415	$31,857		$10	$64,282
Subtotal	**$32,415**	**$31,857**		**$10**	**$64,282**
Application 7					
Terminal Improvement Program	$10,298			$1,472	$11,770
Runway Safety Area Improvements (Supporting Design and Environmental Assessment)	6,000				6,000
Subtotal	**$16,298**			**$1,472**	**$17,770**
Total All Projects	**$96,718**	**$31,857**	**$64,664**	**$1,789**	**$195,028**

AIP: Airport Improvement Program
FAA: Federal Aviation Administration
PFC: passenger facility charges
TTF: Transportation Trust Fund

Source: Maryland Aviation Administration

Issues

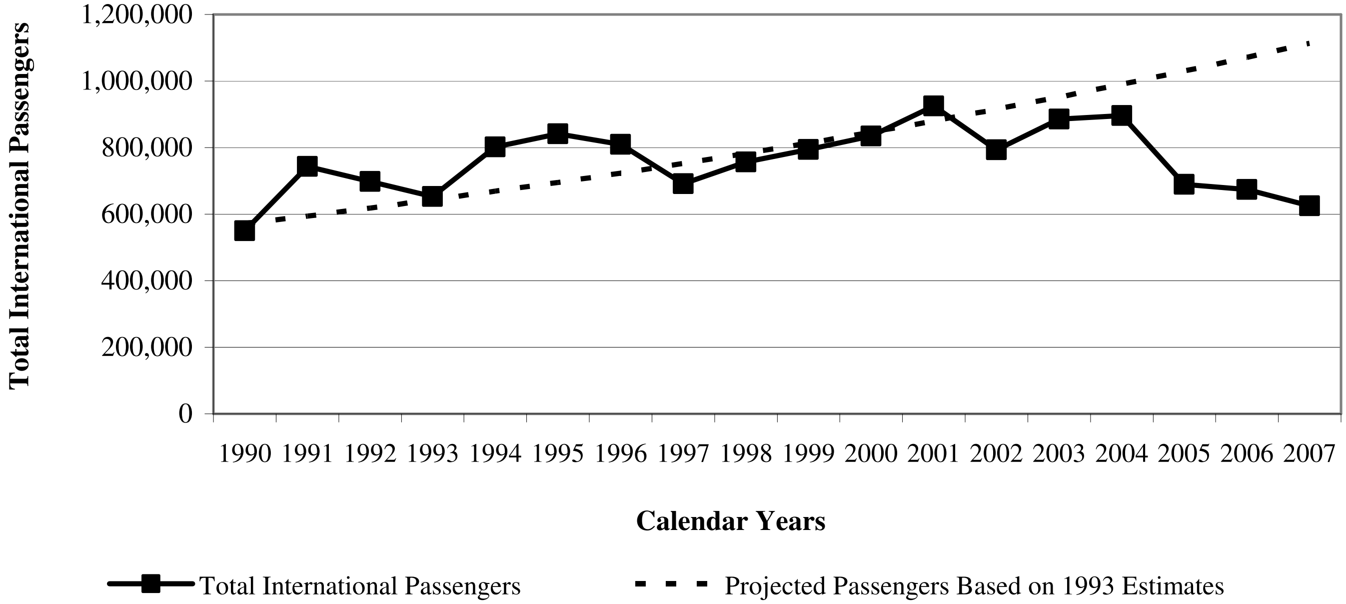
1. BWI Marshall Airport Continues to Struggle Attracting and Retaining International Carriers

During the 1994 legislative session, in response to MAA's inclusion of capital construction funding for a new international terminal at BWI Marshall Airport, DLS voiced concerns to the budget committees through its budget analysis of MAA that MAA was "embarking on a 'build it and they will come' strategy." Fourteen years later, MAA is still waiting for the international carriers to come.

In 1993, 14 international carriers operated at BWI Marshall Airport, carrying 652,953 international passengers. From calendar 1990 to 1994, BWI Marshall Airport witnessed tremendous growth in international travel, with international passengers increasing by 45.9%. The international terminal was built on the belief that such explosive growth would continue. In its justification for the new terminal, MAA used what it considered as conservative international passenger growth estimates of approximately 4% per year. International passengers were expected to top one million by the year 2000.

Unfortunately, as seen in **Exhibit 14**, growth in international passengers did not follow such an upward trajectory. Slow to moderate growth was seen in most years, as well as steep declines in several years. In 1997, international passengers decreased by 15% from the previous year; 2002 witnessed a 14% drop; and 2005 saw a 23% decrease in passengers from the previous year. In 2007, after construction of a new international terminal and multiple agreements to waive rent and fees, provide joint marketing money, and guarantee an airline's profit, only six international carriers operate at BWI Marshall Airport, serving 625,039 passengers. The number of international passengers utilizing BWI Marshall Airport has actually decreased by 4.3% from total international passengers in 1993. In 2007, both Mexicana Airlines and Icelandair announced they would discontinue service at BWI Marshall Airport.

Exhibit 14
International Passengers at BWI Marshall Airport
Calendar 1990-2007



Source: Maryland Department of Transportation, 2008-2013 *Consolidated Transportation Program*

Efforts to Attract and Retain Airlines

MAA has certainly done its part to attract and retain international carriers. In response to concerns about deficiencies with its then current international facilities on Pier E, MAA studied and eventually proceeded forward with a new international terminal. In recent years, MAA has utilized several economic incentives to attract and retain international carriers.

First, MAA utilizes joint marketing money. This is money that is provided to the airline, often with a required match by the airline, to promote BWI Marshall Airport as a destination airport. For example, money given to AirTran Airways could be used by the airline to fund a marketing campaign in Philadelphia to fly to BWI Marshall Airport. Approximately $1.4 million of MAA's $3.5 million fiscal 2009 allowance is projected to be used in this way.

Second, MAA enters into promotional contracts with airlines providing international service to a previously unserved destination. These promotional contracts allow for up to two years of waived terminal rent, landing fees, and other use charges dependent on the airline's commitment to fly a specified amount of times (daily, weekly, etc.) over a certain time period (usually two years).

Finally, in one specific case where MAA deemed the international carrier vital to BWI Marshall Airport's success internationally, MAA guaranteed an airline's profit. As discussed in the proceeding issue, the airline was prepared to discontinue service at BWI Marshall Airport because its return on sales (ROS) was not meeting the airline's specified margin. Like any private enterprise, airlines must determine the best place to use their limited resources based on profit potential. As such, the airline was prepared to redeploy its aircraft to another airport. To retain the airline, an agreement was made which guaranteed that the airline would reach its preferred ROS, with a payment of up to $5.5 million annually form the TTF if this level was not met.

The Underlying Problem of International Service Expansion

One could argue that one of BWI Marshall Airport's greatest strengths is also its weakness. Southwest Airlines, the dominant airline at BWI Marshall Airport, carries over 52% of passengers. Southwest's focus on low-cost, no-frills flying allowed it to escape relatively unharmed from the economic downturn in the airline industry following 9/11 that left many airlines in or near bankruptcy. It is Southwest whose passengers have helped to increase total passengers at BWI Marshall Airport. Yet, in terms of international travel, Southwest is also BWI Marshall Airport's weakness.

The airline industry relies heavily on airline alliances and codesharing agreements. Airline alliances are agreements between two or more airlines to cooperate on a substantial level. This cooperation is often achieved through codesharing agreements. Codesharing agreements refer to a practice where a flight operated by one airline is marketed as a flight for one or more airlines. In essence, it allows a consumer to book just one flight with two segments provided by two different airlines rather than to book two separate flights with two airlines. For the consumer, it also makes transfers between connecting flights less time-consuming. Most major airlines participate in alliances with other airlines. For example, the Star Alliance includes US Airways, Air Canada, Lufthansa, Singapore Airlines, Austrian, and Air China to name only a few.

Unlike most airlines, Southwest has decided to remain independent of these alliances. Only since 2005 has Southwest begun a partnership with ATA Airlines, an airline that serves the U.S. mainland, Hawaii, and Mexico. Without being involved in a larger airline alliance for both domestic and international airlines, Southwest does not benefit from the international travel that often results from airline alliances.

With its dominant airline not participating in airline alliances, BWI Marshall Airport has struggled to attract international service. With international destinations such as Accra, Ghana and Lagos, Nigeria, BWI Marshall Airport is not often the first airport that comes to mind when considering international travel. This is especially true because of the proximity to Dulles, which has thriving international service.

By way of comparison, in calendar 2006 (the most recent year which Dulles passenger totals were available), BWI Marshall Airport served 674,100 international passengers, and international passengers comprised 3.3% of total passengers. In that same year, Dulles served 4.6 million international passengers, which was 21.1% of all passengers. Currently, Dulles serves 40 international destinations, while BWI Marshall Airport serves only 18. In 2007, Dulles announced the addition of two new international airlines and four new international destination cities.

Open Skies Agreement Reached

In April 2007, the U.S and the European Union (EU) signed a landmark Open Skies aviation agreement that opens up passenger and cargo service on the trans-Atlantic. The agreement removed decades-old traffic rights linked to nationality. Under the old structure, only four carriers could operate trans-Atlantic flights to and from London's Heathrow Airport, the world's busiest international airport. The four carriers – two each from the U.S. and the United Kingdom – were United Airlines, American Airlines, British Airways, and Virgin Atlantic. Beginning in March 2008, any U.S. or EU airline may fly from the U.S. to any country in the 27 nations comprising the EU.

Most in the airline industry predict more competition and lower prices will result from this agreement. Given BWI Marshall Airport's status as a low-cost airport, it hopes to entice large European low-cost carriers, such as Ryanair and Easyjet. In fact, shortly after the Open Skies agreement was reached, Ryanair announced that it plans to launch service to several U.S. cities, including Baltimore.

Furthermore, in June 2007, Southwest announced that it plans to launch international service to Canada, Mexico, and the Caribbean through its partnership agreement with ATA Airlines. Southwest sees BWI Marshall Airport as a possible place to launch its international service, based on its geographic location and the fact that it is the airline's fourth-largest hub. In the future, Southwest hopes to capitalize on the Open Skies agreement and launch international service to Europe through an expanded codesharing agreement with ATA Airlines.

Approval of the Open Skies agreement, coupled with Southwest's desire to expand to international travel, could help to expand international service in the coming years. Armed with a relatively new and underutilized international terminal and economic incentives to use as bargaining tools, perhaps BWI Marshall Airport may be able to increase the number of international destinations available. Although it may never be able to fully compete against Dulles in terms of international travel, it should be able to make some headway.

DLS recommends that the Secretary discuss international air service at BWI Marshall Airport. This discussion should include what factors have prevented the growth of international service in the past, what the Open Skies agreement may mean to BWI Marshall Airport, Southwest's possible expansion to international service, and what international airlines MAA is currently pursuing.

2. Status of Promotional Agreements

During the 2007 legislative session, the Office of Legislative Audits presented findings of its October 2006 audit of MAA. Two of these findings were addressed through Section 21 of the fiscal 2008 budget bill. The following provides a short update on those findings and subsequent MAA action.

The first finding of the audit was that an agreement had been entered into on MAA's behalf to provide a guarantee of ROS for an airline, a potential liability of the TTF of up to $5.5 million annually, and the agreement had not been disclosed to the budget committees. The second finding related to joint marketing money that MAA provided to airlines, often without a written contract in place or verification that the money was spent as it should be.

In regard to the first finding, in 2004, a certain international airline was considering discontinuing air service at BWI Marshall Airport because it was not attaining the minimum revenue requirements that it had established. Seeing the airline as an integral part of BWI Marshall Airport's international operations, the Department of Business and Economic Development (DBED) entered into an agreement with the airline to guarantee a specified profit margin. It was assumed that through aggressive marketing of the airline's business and first class services, emphasis to the airline's reservation staff that BWI Marshall Airport serves the Washington region, and the airline's use of an aircraft that caters more to business passengers, the ROS would be met. These assumptions were largely correct until large increases in fuel costs caused the airline's profit to fall below guaranteed levels. Therefore, in December 2006, a $3.3 million payment was made to the airline through a capital grant from the Maryland Department of Transportation's Secretary's Office.

Legislative Response

To address the legislature's concerns of not having knowledge about the agreement guaranteeing an airline's profit, a potential liability of the TTF, Section 21 was included in the fiscal 2008 budget bill. This section required that any agreement made through any State agency that involves providing money to airlines for joint marketing services, the waiving of certain airport fees, or agreements guaranteeing an airline's profit may not go into effect unless:

- the agreement is approved by the Board of Public Works (BPW), or involves a standard agreement previously approved by BPW; and

- it is included in the Maryland Aviation Commission's (MAC) annual report.

Furthermore, the section requires that the chairmen of the Senate Budget and Taxation committee and House Committee on Appropriations, as well as the appropriate subcommittee chairmen, be notified before any agreements guaranteeing an airline's profit are entered into.

Actions Over the Past Year

In response to the auditor's recommendations and legislative concerns, MAA prepared several items for review by BPW. These items were approved in April 2007 and include:

- an amended standard contract for the conduct of commercial flight operations and for the lease of space and facilities in the terminal to allow MAA to waive certain airport fees, charges, and rent during a two-year promotional period if needed to attract certain international airlines to BWI Marshall Airport. These types of agreements have been used several times in the past by MAA and each was approved on a contract-by-contract basis by BPW. This action was taken to formalize the process of providing fee and rent waivers to certain international carriers;

- delegation from BPW for authority to enter into sole source contracts with airlines to create advertising and marketing programs, as well as approval of a standard joint marketing agreement. These actions were taken to formalize the process of MAA providing joint marketing funds to airlines; and

- a memorandum of understanding between the State of Maryland and a certain international airline to extend the previous agreement regarding ROS through April 2009.

In September 2007, the executive director of MAA met with the chairmen of the appropriate budget subcommittees to inform them of the extension of the ROS agreement through April 2009 and to report that an additional payment of $1.9 million to the airline was necessary.

As required in Section 21 of the fiscal 2008 budget bill, the MAC annual report in January 2008, reported:

- the amounts of joint marketing money granted to each international airline;

- that no fee or rent waivers were granted to any airlines in fiscal 2007; and

- the ROS agreement had been extended after approval of BPW.

In total, two payments have been made to the airline. The first was for $3.3 million and was made in December 2006. The second payment of $1.9 million was made in September 2007. Currently, MAA and the airline are reviewing financial performance of the most recent quarter to determine if another payment is due.

As MAA continues to try to attract and retain international airlines, including those airlines that have increased importance due to the effects of the Open Skies agreement, it will continue to utilize joint marketing money, fee and rent waivers, and ROS agreements as negotiating tools in attracting new airlines. **For this reason, DLS recommends that a section requiring BPW approval and budget committee chairmen notice of certain agreements with airlines again be included in the fiscal 2009 budget bill.**

Operating Budget Recommended Actions

		Amount Reduction	
1.	Reduce funds for turnover based on historical vacancy rates. The turnover rate is currently budgeted at 5.7%. Since January 2007, the vacancy rate has hovered near 10.5% and has ranged from a low of 9.56% to a high of 13.69%. This action increases the turnover rate to 7.0% to better reflect these high vacancy rates.	$ 389,645	SF
2.	Reduce funds for a contract to repair and maintain light- and heavy-duty vehicles. In April 2006, the Maryland Aviation Administration entered into a contract to perform scheduled maintenance and authorized repairs for 85 light-duty vehicles and 17 heavy-duty fire rescue vehicles. The allowance includes funding matching the 2007 actual, as well as a nearly 60% increase. This action reduces funding to a more reasonable growth rate of 8% over the 2007 actual.	161,537	SF
3.	Reduce funding for advertising. The fiscal 2009 allowance for advertising totals $3.8 million, an increase of $832,000, or 27.9%, over the fiscal 2008 working appropriation. Although the Open Skies agreement increases the need for additional advertising to attract new carriers, over $1.1 million in advertising dollars went unspent in fiscal 2007. The Maryland Aviation Administration should spend its existing base appropriation before seeking a large increase in funding. This action still allows for a $500,000 increase over fiscal 2008.	332,000	SF
4.	Reduce funding for pest extermination based on actual spending. The fiscal 2009 allowance for extermination is $80,539. Fiscal 2007 actual spending was $47,550. This reduction allows for a 10% increase over fiscal 2007 spending.	28,234	SF

5.	Reduce funds for trash and garbage removal based on actual spending. The fiscal 2009 allowance for trash and garbage removal is $1.9 million. Fiscal 2007 spending totaled $1.7 million. This reduction allows for a 10% increase over fiscal 2007 spending.	82,013	SF
6.	Reduce funds for building supplies and materials to reflect actual spending. The fiscal 2009 allowance for building supplies and materials is $875,111. Fiscal 2007 spending was only $732,007. This reduction allows for a 15% increase over fiscal 2007 spending.	34,105	SF
7.	Reduce funding for air service development consultants in the Regional Air Development subprogram. Since fiscal 2004, $18,546 has been appropriated to this subprogram for the development of the regional air service pilot program; however, no funds have been spent since fiscal 2003. This action would delete funding for this purpose.	18,546	SF

8. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That any agreement made through any State agency, including all promotional contracts offering money to airlines for joint marketing services, contracts that waive certain airport fees, and agreements guaranteeing an airline's profit or return on sales, that involves the payment of funds to an airline which results in a reduction in revenue to the State from any fees, rent charges, or other types of revenue charged to an airline:

(1) may not be approved or go into effect unless the agreement is approved by the Board of Public Works, except if the Maryland Aviation Administration or the Maryland Department of Transportation is using a standard agreement previously approved by the Board of Public Works; and

(2) must be included in the Maryland Aviation Commission's annual report submitted to the General Assembly in accordance with Section 5-201.2 of the Transportation Article. The report shall include the total number of agreements reached during the previous fiscal year, the total number of airlines involved in the agreements, and the total dollar amount for that fiscal year relating to those agreements. These summary reports shall be provided separately for agreements relating to fee waivers, joint marketing services, and agreements that guarantee an airline's profit or return on sales.

Further provided that all agreements guaranteeing an airline's profit or return on sales may not be entered into unless the executive director of the Maryland Aviation Administration or the Secretary of the Maryland Department of Transportation advise the chairman of the Senate Budget and Taxation Committee; the chairman of the Public Safety, Transportation, and Environment Subcommittee; the chairman of the House Committee on Appropriations; the chairman of the Transportation and Environment Subcommittee; and the Department of Legislative Services of the proposed agreement.

Explanation: A 2006 audit of the Maryland Aviation Administration (MAA) found that an agreement was entered into on MAA's behalf that guaranteed a certain level of profit to an airline. Unbeknownst to the General Assembly, this agreement was a potential liability of the Transportation Trust Fund of up to $5.5 million annually. This language requires that any agreements for joint marketing services, the waiver of certain airport fees, and agreements guaranteeing an airline's profit or return on sales must be approved by the Board of Public Works (if not using the standard agreement form) and a summary of all such reports must be included in the Maryland Aviation Commission's (MAC) annual report. Additionally, for all agreements guaranteeing an airline's profit or return on sales, the executive director of MAA or the Secretary of the Maryland Department of Transportation must meet with the appropriate budget committee and subcommittee chairmen and the Department of Legislative Services.

Information Request	**Author**	**Due Date**
Report summarizing all agreements reached with airlines concerning fee waivers, joint marketing services, and guarantees of an airline's profits	MAC	January 15, 2009

Total Special Fund Reductions **$1,046,080**

PAYGO Budget Recommended Actions

		Amount Reduction		Position Reduction
1.	Increase turnover rate to 7.0% based on historical vacancy rates. The turnover rate is currently budgeted at 5.7%. Since January 2007, the vacancy rate has hovered near 10.5% and has ranged from a low of 9.56% to a high of 13.69%. This action increases the turnover rate to 7.0% to better reflect these high vacancy rates.	$ 56,301	SF	
2.	Reduce funds for additional assistance. The fiscal 2009 allowance includes a $22,800 increase to fund a new graduate student internship program. The fiscal 2008 appropriation for additional assistance was $11,135, and no money was spent for this purpose in fiscal 2007. The Maryland Aviation Administration should use existing resources to fund part of this internship program. This reduction leaves a remaining appropriation of $22,800, the amount needed to fund the internship program.	11,135	SF	
3.	Reduce funds for legal service support based on actual spending. The fiscal 2009 allowance includes $146,128 for legal service support. The three-year average of actual spending totals $61,910. This action reduces funding to the three-year average actual spending.	84,218	SF	
4.	Reduce funds for communications based on actual spending. The fiscal 2009 allowance includes $62,129 for communications. Actual fiscal 2007 spending was only $34,304. This reduction allows for a 10% increase over fiscal 2007 actual spending.	24,395	SF	
5.	Delete funding for converting paper documents to microfilm or microfiche. This same amount has been appropriated the prior three fiscal years, and no money has been spent in any of those years. With the growing ease and use of computer scanners to preserve documents, scanned documents would provide a more accessible historical record.	58,600	SF	

6.	Reduce funds for the Protective Land Acquisition program. This program involves the purchase of property in the immediate vicinity of Baltimore/Washington International Thurgood Marshall Airport to ensure its availability in future years for potential aviation purposes. This is an ongoing program where funds are made available should potential purchases arise. Typical funding for this program is $1.5 million to $2.0 million. The fiscal 2008 appropriation was $1.5 million. The fiscal 2009 allowance includes $4.1 million for this purpose, without any identification of proposed purchases. This action leaves $1.5 million in funding for fiscal 2009, level funding the program from last year. The three-year average of actual spending is $22,700.	2,600,000	SF	
7.	Delete one executive position that has been vacant for two years. This action deletes PIN 006665 and associated funding. This position has been vacant since January 2006.	80,382	SF	1.0
8.	Delete funding for a new air traffic control tower at Martin State Airport (MTN). This project has been in the *Consolidated Transportation Program* (CTP) since 2000 and still is not under construction. In the 2008-2013 CTP, it was moved from the Construction program back to the Development and Evaluation program and $4.2 million of funding associated with the project was reprogrammed to system preservation projects. Moving the project forward is dependent on negotiations with the Federal Aviation Administration (FAA) and FAA approval of MTN's airport layout plan. This action deletes funding for the project, but the funding may be restored through budget amendment if the Maryland Aviation Administration can provide proof to the budget committees that they have reached an agreement with FAA over location and funding and MTN's airport layout plan is approved.	445,000	SF	
	Total Special Fund Reductions	**$ 3,360,031**		**1.0**

Updates

1. Martin State Airport Excluded from Air Defense Identification Zone

The DLS budget analysis of MAA for the fiscal 2008 budget included an issue concerning the negative effect that inclusion in the Air Defense Identification Zone (ADIZ) was having on MTN. Following the terrorist attacks of September 11, 2001, ADIZ was implemented to identify and control all aircraft operating near the National Capital Region. Many compared the peculiar shape of ADIZ to "Mickey Mouse ears," with an area encircling Reagan National and two protruding "ears" circling Dulles and BWI Marshall Airport.

MTN is located within one of these "ears" and therefore, pilots flying into or out of MTN were required to file a flight plan and get a special code from FAA before entering the airspace around MTN. The stricter requirements often led to delay and confusion, as pilots sometimes had to wait for a half-hour or more to get clearance or committed airspace violations, unaware that they had entered the restricted zone.

Since its inclusion in ADIZ, MTN has witnessed a decline in the number of takeoffs and landings at the airport, as well as a decline in the number of airplanes based at MTN. Although revenues at MTN increased due to increased profits from fuel resale, all other measures of activity at MTN steadily decreased.

In July 2007, FAA announced changes to ADIZ. In effect, the changes lopped off the "ears" of ADIZ, leaving only a circular, 30 nautical mile radius restricted area surrounding the Washington Monument. The changes took effect on August 30, 2007, and removed MTN from ADIZ. Although it may be too early to quantify the effect this has on MTN, it is likely the changes will have a positive impact on MTN activity and revenues.

2. Annual Maryland Aviation Commission Report Received

MAC consists of nine members. Eight members are appointed by the Governor with advice and consent of the Senate. The ninth member is the Secretary of the Maryland Department of Transportation, who also serves as chairman. Additionally, the Secretary of DBED serves as a nonvoting ex officio member. MAC was created in 1994 to:

- establish policies to improve and promote BWI Marshall Airport;
- approve regulations for the operation of State-owned airports;
- provide direction to MAA in developing and implementing airport management policy;
- approve major capital projects;

- determine the qualifications, appointment, and compensation for the 12 senior management personnel positions; and

- provide advice on the appointment or removal of the executive director of MAA.

Section 5-201.2 of the Transportation Article requires a yearly report from MAC reviewing the financial and operational results of all State-owned airports, recommending changes, and estimating expenditures.

The January 2008 report provided a summary of accomplishments for 2007. From fiscal 2006 to 2007, BWI Marshall Airport saw an increase in passengers of 1.4%, rising to 20.6 million passengers. Cargo transport at BWI Marshall Airport in fiscal 2007 decreased to 264.5 million pounds of cargo, a 6.0% decrease from fiscal 2006.

BAA Maryland, Inc., the concessionaire developer at BWI Marshall Airport, continues its redevelopment of the terminal concessions program. Several new food, beverage, and retail stores have been developed in the past year, including the Greene Turtle Restaurant, Olympic News, Quiznos Subs, and a second location of Candy Express. Several additional restaurants and retail shops will open in the coming months, including Silver Diner, Rams Head Tavern, and Bayside Landing. Concessions sales in the summer of 2007 were the highest ever recorded at BWI Marshall Airport, with a $3.3 million (16%) increase in sales over the summer of 2006. Participation by Disadvantaged Business Enterprises in the concession program for federal fiscal 2007 is at 37% overall.

In fiscal 2007, aircraft operations at MTN were down slightly, from 85,941 in fiscal 2006 to 84,038 in fiscal 2007. Similarly, the number of gallons of aviation fuel sold dipped slightly from over 1.6 million to slightly under 1.6 million. Given the FAA decision to reconfigure the ADIZ and free MTN from the airspace security requirements, it is anticipated that aircraft operations at MTN will increase.

During calendar 2007, MAC members:

- reviewed and approved two amendments to the Code of Maryland Regulations involving BWI Marshall Airport;

- approved changes to the 12 management positions outlined in Section 5-201.1 of the Transportation Article; and

- were regularly briefed on air service trends, air service marketing efforts, the concession development program, airport security, and updates to BWI Marshall Airport's Master Plan.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Maryland Aviation Administration Operating Budget
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2007					
Legislative Appropriation	$0	$169,622	$280	$0	$169,902
Deficiency Appropriation	0	9,360	0	0	9,360
Budget Amendments	0	1,139	70	84	1,293
Reversions and Cancellations	0	-2,398	0	0	-2,398
Actual Expenditures	**$0**	**$177,723**	**$350**	**$84**	**$178,157**
Fiscal 2008					
Legislative Appropriation	$0	$182,591	$350	$0	$182,941
Cost Containment	0	0	0	0	0
Budget Amendments	0	601	0	0	601
Working Appropriation	**$0**	**$183,191**	**$350**	**$0**	**$183,542**

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

Fiscal 2007

Fiscal 2007 operating expenditures at MAA totaled $178.9 million, which is $9.0 million higher than the legislative appropriation. The net increase was the result of a $9.4 million increase for special fund deficiencies, an increase of $1.3 million in all funds in budget amendments, and $2.4 million in cancellations.

Fiscal 2007 deficiencies include:

- $6.7 million in special funds for fuel and utility expenses; and

- $2.6 million in special funds for insurance and additional security expenses required by changes in federal security requirements and threat levels.

Fiscal 2007 budget amendments include:

- $1.1 million increase in special funds for the cost-of-living adjustment (COLA) granted to all State employees;

- $70,055 increase in federal funds to support the Canine Division's new cargo inspection initiative required by the Transportation Security Administration; and

- $84,208 in reimbursable funds from the Maryland Emergency Management Agency for the purchase of a temporary vehicle registration and pass system and additional 800 MHz radios to enhance interoperability between the various departments in and around BWI Marshall Airport.

Reversions totaled $2.4 million. The largest portion of this ($2.36 million) was the result of overbudgeted electricity needs. The remaining $40,536 was for miscellaneous expenses.

Fiscal 2008

The fiscal 2008 legislative appropriation for MAA's operating program increased by $600,612 in special funds to reflect the COLA granted to all State employees.

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

Object/Fund	FY07 Actual	FY08 Working Appropriation	FY09 Allowance	FY08-FY09 Amount Change	Percent Change
Positions					
01 Regular	484.00	484.00	477.00	-7.00	-1.4%
02 Contractual	2.00	2.00	1.00	-1.00	-50.0%
Total Positions	**486.00**	**486.00**	**478.00**	**-8.00**	**-1.6%**
Objects					
01 Salaries and Wages	$ 34,399,390	$ 35,572,084	$ 36,790,146	$ 1,218,062	3.4%
02 Technical and Spec. Fees	2,179,514	2,377,203	2,114,661	-262,542	-11.0%
03 Communication	2,027,201	1,501,684	2,051,079	549,395	36.6%
04 Travel	517,959	332,528	332,528	0	0%
06 Fuel and Utilities	13,721,143	18,296,345	15,420,627	-2,875,718	-15.7%
07 Motor Vehicles	1,483,712	1,319,443	1,468,342	148,899	11.3%
08 Contractual Services	81,739,209	87,256,802	90,289,723	3,032,921	3.5%
09 Supplies and Materials	7,482,829	5,477,653	5,477,653	0	0%
10 Equip. – Replacement	332,835	88,000	299,000	211,000	239.8%
11 Equip. – Additional	300,844	64,495	122,500	58,005	89.9%
12 Grants, Subsidies, and Contributions	709,273	587,157	577,157	-10,000	-1.7%
13 Fixed Charges	21,671,935	21,938,900	23,347,590	1,408,690	6.4%
14 Land and Structures	11,591,245	8,728,930	9,146,537	417,607	4.8%
Total Objects	**$ 178,157,089**	**$ 183,541,224**	**$ 187,437,543**	**$ 3,896,319**	**2.1%**
Funds					
03 Special Fund	$ 177,722,881	$ 183,191,224	$ 187,087,543	$ 3,896,319	2.1%
05 Federal Fund	350,000	350,000	350,000	0	0%
09 Reimbursable Fund	84,208	0	0	0	0.0%
Total Funds	**$ 178,157,089**	**$ 183,541,224**	**$ 187,437,543**	**$ 3,896,319**	**2.1%**

Note: The fiscal 2008 appropriation does not include deficiencies.

Fiscal Summary
MDOT – Maryland Aviation Administration

Program/Unit	FY07 Actual	FY08 Wrk Approp	FY09 Allowance	Change	FY08-FY09 % Change
2021 BWI Operations	$ 168,768,531	$ 175,187,222	$ 179,060,652	$ 3,873,430	2.2%
2022 Martin State Airport	9,020,517	7,988,796	7,988,038	-758	0%
2023 Regional Air Development	368,041	365,206	388,853	23,647	6.5%
2030 Facilities and Capital Equipment	67,069,997	64,324,000	58,243,000	-6,081,000	-9.5%
1270 Parking Revenue Control System	0	233,000	2,046,000	1,813,000	778.1%
1334 800 MHz Emergency Digital Trunked Radio	599,763	255,000	0	-255,000	-100.0%
1623 Airport Engineering Information System	76,570	456,000	0	-456,000	-100.0%
7200 Consolidated Dispatch Center Upgrade	102,237	334,000	2,136,000	1,802,000	539.5%
7402 Contractual Services	0	150,000	0	-150,000	-100.0%
Total Expenditures	**$ 246,005,656**	**$ 249,293,224**	**$ 249,862,543**	**$ 569,319**	**0.2%**
Special Fund	$ 228,622,437	$ 237,824,224	$ 245,170,543	$ 7,346,319	3.1%
Federal Fund	17,299,011	11,469,000	4,692,000	-6,777,000	-59.1%
Total Appropriations	**$ 245,921,448**	**$ 249,293,224**	**$ 249,862,543**	**$ 569,319**	**0.2%**
Reimbursable Fund	$ 84,208	$ 0	$ 0	$ 0	0.0%
Total Funds	**$ 246,005,656**	**$ 249,293,224**	**$ 249,862,543**	**$ 569,319**	**0.2%**

Note: The fiscal 2008 appropriation does not include deficiencies.

Appendix 5

Budget Amendments for Fiscal 2008

Maryland Department of Transportation
Maryland Aviation Administration – Operating

Status	**Amendment**	**Fund**	**Justification**
Pending	$600,612	Special	Funds the cost-of-living adjustment granted to all eligible State employees.

Source: Maryland Department of Transportation

Appendix 6

Budget Amendments for Fiscal 2008

Maryland Department of Transportation
Maryland Aviation Administration – Capital

Status	Amendment	Fund	Justification
Pending	$86,582	Special	Funds the cost-of-living adjustment granted to all eligible State employees.
Projected	-3,203,620	Special	Adjusts the amended appropriation to agree with the anticipated expenditures for the current year as reflected in the 2008-2013 *Consolidated Transportation Program.*
	-11,254,000	Federal	
	-$14,457,620		

Source: Maryland Department of Transportation