

J00I00
Maryland Aviation Administration
Maryland Department of Transportation

Operating Budget Data

(\$ in Thousands)

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$177,416	\$184,972	\$183,589	-\$1,384	-0.7%
Contingent & Back of Bill Reductions	0	0	-94	-94	
Adjusted Special Fund	\$177,416	\$184,972	\$183,495	-\$1,477	-0.8%
Federal Fund	656	656	656	0	
Adjusted Federal Fund	\$656	\$656	\$656	\$0	0.0%
Adjusted Grand Total	\$178,072	\$185,628	\$184,151	-\$1,477	-0.8%

- After accounting for contingent reductions, the fiscal 2010 operating budget allowance decreases \$1.5 million (0.8%) compared to the fiscal 2009 working appropriation. One contingent reduction of \$93,796 in special funds is included for the deferred compensation State match.
- The Maryland Aviation Administration (MAA) has identified \$5.6 million in additional cost containment savings in fiscal 2009; however, this amount is still included in 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 \$4.1 million, or 2.3%.
- The fiscal 2010 allowance level-funds or reduces most items; however, increases are seen in fuel and utilities (\$2.5 million) and plumbing repair and maintenance (\$0.6 million). The largest decreases take place in security services (\$2.1 million) and advertising (\$1.5 million).

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

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PAYGO Capital Budget Data

(\$ in Thousands)

	Fiscal 2008	Fiscal 2009		Fiscal 2010
	<u>Actual</u>	<u>Legislative</u>	<u>Working</u>	<u>Allowance</u>
Special	\$54,367	\$56,312	\$33,555	\$26,881
Federal	\$8,620	\$4,342	\$2,594	\$1,082
Subtotal	\$62,987	\$60,654	\$36,149	\$27,963
Other Funds	\$40,519	\$41,633	\$50,951	\$63,599
Total	\$103,506	\$102,287	\$87,100	\$91,562

- The pay-as-you-go capital program fiscal 2010 allowance (special and federal funds only) decreases \$8.2 million, or 22.6%, from the fiscal 2009 working appropriation. This decrease is due to cost containment efforts.
- Other funding, derived mostly from passenger facility charges, increases \$12.6 million, or 24.8%, from the fiscal 2009 working appropriation. This increase is largely the result of fiscal 2010 funding for two projects involving airfield ramp reconstruction and baggage claim system improvements.

Operating and PAYGO Personnel Data

	<u>FY 08 Actual</u>	<u>FY 09 Working</u>	<u>FY 10 Allowance</u>	<u>FY 09-10 Change</u>
Regular Operating Budget Positions	477.50	471.00	471.00	0.00
Regular PAYGO Budget Positions	<u>58.00</u>	<u>62.00</u>	<u>62.00</u>	<u>0.00</u>
Total Regular Positions	535.50	533.00	533.00	0.00
Operating Budget FTEs	0.59	2.00	1.00	-1.00
PAYGO Budget FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total FTEs	0.59	2.00	1.00	-1.00
Total Personnel	536.09	535.00	534.00	-1.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	32.35	6.07%
Positions and Percentage Vacant as of 12/31/08	49.5	9.29%

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- The fiscal 2010 allowance includes 533 regular positions, the same as the fiscal 2009 working appropriation.
- MAA's vacancy rate as of December 31, 2008, was 9.29%, the highest of any of the transportation modes. Vacant positions include six positions vacant over 12 months.

Analysis in Brief

Major Trends

Passenger Levels Declining: From 2007 to 2008, total passengers at Baltimore/Washington International Thurgood Marshall Airport (BWI Marshall Airport) decreased from 21.0 million to 20.5 million. This includes a significant decline (-22.5%) in international passengers to a total of only 411,679 in calendar 2008. Although Southwest Airlines, the dominant carrier at the airport, saw a decline in passengers of 4.7% from calendar 2007, the second largest carrier, AirTran Airways, increased passengers by 15.2% over the previous year. Regional rival airports Dulles International and Ronald Reagan Washington National each saw a decline of 3.5%.

2008 a Difficult Year for the Airline Industry: In calendar 2008, the airline industry was characterized by extreme volatility in jet fuel costs and a steady erosion of air travel demand due to the weakening economy. Many airlines entered into fuel hedges assuming that prices would stay high or go higher; however, these fuel hedges have become a liability as prices have decreased. Airlines have responded by cutting capacity, charging new fees, and in some cases, merging or entering bankruptcy.

Issues

MAA Negotiates Rates with Airlines, Discovers \$57 Million Error, Seeks to Recoup \$25 Million: MAA is currently renegotiating the basic use and lease agreement (BULA) with the airlines that governs all airport fees and charges. In preparing for the negotiations, MAA consultants discovered that MAA undercharged the airlines from fiscal 2004 through 2008. MAA has negotiated with the airlines to collect these under-charged revenues from fiscal 2007 and 2008 totaling \$25 million and to forbear collection of \$32 million. **The Department of Legislative Services (DLS) recommends that the administration comment on the status of the BULA negotiations, its goals for the negotiations, and what changes have been made to prevent miscalculations in the rate-setting methodology in the future.**

Plans for Office Space to Consolidate Staff on Hold: A project to construct an office building near BWI Marshall Airport to house the majority of MAA employees was removed from this year's capital program. The benefits of consolidating MAA staff were first identified eight years ago and still have not been realized. **DLS recommends that committee narrative be adopted to encourage MAA to consolidate staff and renegotiate leases.**

No Multi Billion Dollar Deal in Sight for BWI Marshall Airport: Recent announcement of a deal between the city of Chicago and a joint venture for a 99-year lease of Midway International Airport for \$2.5 billion has many governments seeing dollar signs. However, under current federal regulations, a similar deal at BWI Marshall Airport is not possible at this time. **DLS recommends that MAA comment on airport privatization and alternative governance structures.**

Operating Budget Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Delete six positions that have been vacant for over 12 months.	\$ 308,194	6.0
2. Increase the turnover rate to 7% to reflect historical vacancy rates.	325,826	
3. Reduce grants to private organizations to historical levels due to the current economic climate.	30,000	
4. Reduce funds for shift differential based on actual spending.	20,000	
5. Reduce funds for the repair and maintenance of closed circuit television systems based on actual spending.	75,000	
6. Reduce funds for janitorial services at Martin State Airport based on actual spending.	50,000	
7. Adopt committee narrative encouraging the Maryland Aviation Administration to consolidate staff and attempt to reduce lease costs.		
8. Add a section requiring a report on all promotional contracts with airlines.		
Total Reductions	\$ 809,020	6.0

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

Airline Promotional Agreements Continue: Language included in the fiscal 2009 budget bill requires MAA to provide notice to the legislature of any promotional agreements with airlines. In September 2008, MDOT extended through March 2011 its promotional agreement with British Airways. Under this agreement, MDOT guarantees a return on sales of not less than 8% at a cost of not more than \$5.5 million per year.

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 2009 and provides a summary of accomplishments for calendar 2008.

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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 the Maryland aviation system 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

Although MAA participates in the Managing for Results (MFR) program like all other State agencies, as owner and operator of a commercial airport, many of the performance indicators that MAA measures are at least partially affected by factors outside of its control. The predominant factor outside of its control is the status of the airline industry. Since airports depend not only on the airlines, but also on the passengers they bring, to generate revenues, downturns in the airline industry affect the airlines as well as the airports where they operate. For this reason, any discussion of performance at BWI Marshall Airport would be incomplete without some discussion about the airline industry as a whole.

The Airline Industry

In 2008, the airline industry was characterized by extreme volatility in jet fuel costs and a steady erosion of air travel demand due to the weakening economy. High jet fuel costs forced many airlines to begin charging for checked baggage, to suffer record losses, and to go into bankruptcy or merge with other airlines. Since July, the decrease in the cost of jet fuel has been a double-edged sword; although it has improved the cost outlook for some carriers, others are being hurt by fuel

prices that have dropped below the level of their fuel hedges. While these carriers are not only missing out on the benefit of lower fuel prices, they are also being forced to post hundreds of millions of dollars in hedge collateral, which lessens their liquidity.

In addition to the effect of fuel prices, airlines are also being impacted by the economic slowdown, which has decreased demand as families and businesses alike attempt to reduce costs by refraining from discretionary travel. For the airlines, the decline in demand has partially been offset by cuts in capacity to attempt to equalize supply and demand. However, declines in the number of passengers has a much more substantial impact on airport revenues, since almost all airport revenues depend either directly or indirectly on the number of passengers flying into and out of, and spending time at, the airport.

Financial 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. Fiscal 2008 marks the first time since fiscal 2005 that MAA has not required an operating subsidy from the TTF. However, MAA will still require a subsidy for its capital program, as it has every year since fiscal 1999. When revenues are not enough to cover MAA's capital expenditures, MAA must rely on the TTF or other non-MAA financing mechanisms, such as Maryland Transportation Authority or Maryland Economic Development Corporation bonds, for capital improvements. Many of these financing mechanisms are supported by specific user fees, which are not considered part of MAA's operating revenues for purposes of covering operating or capital expenses.

Exhibit 1 shows that MAA projects a net operating income of \$1.8 million in fiscal 2010. Although MAA will not need an operating subsidy in fiscal 2010, it will still rely on the TTF for funding part of its capital program. The TTF subsidy of MAA in fiscal 2010 is estimated at \$24.5 million. In fiscal 2008, MTN generated revenues of \$9.8 million, an increase of 16% from the previous year. This was the first time in recent years that MTN did not end the year with an operating deficit.

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. Reimbursement from the airlines (through the Basic Use and Lease Agreement) actually takes place over 5 to 30 years, meaning that revenues and capital expenditures would not match in a year-to-year comparison.

Exhibit 1
MAA Special Fund Revenues and Expenditures
Fiscal 2008-2010
(\$ in Thousands)

	<u>Actual</u> <u>2008</u>	<u>Appr.</u> <u>2009</u>	<u>Allowance</u> <u>2010</u>	<u>% Change</u> <u>09-10</u>
Operating Revenues				
Flight activities	\$41,032	\$49,129	\$51,774	5.38%
Rent/user charges	51,820	54,929	52,159	-5.04%
Concessions	68,732	62,894	64,730	2.92%
Other revenues	8,835	2,260	7,457	229.96%
Martin State Airport activities	9,836	9,132	9,311	1.96%
Subtotal	\$180,255	\$178,344	\$185,431	3.97%
Operating expenditures ¹	\$177,416	\$184,972	\$183,589	-0.75%
Net Operating Income	\$2,839	-\$6,628	\$1,842	127.79%
Capital expenditures ¹	54,367	29,373	26,344	-10.31%
Total TTF Subsidy of MAA	-\$51,528	-\$36,001	-\$24,502	-31.94%

MAA: Maryland Aviation Administration

TTF: Transportation Trust Fund

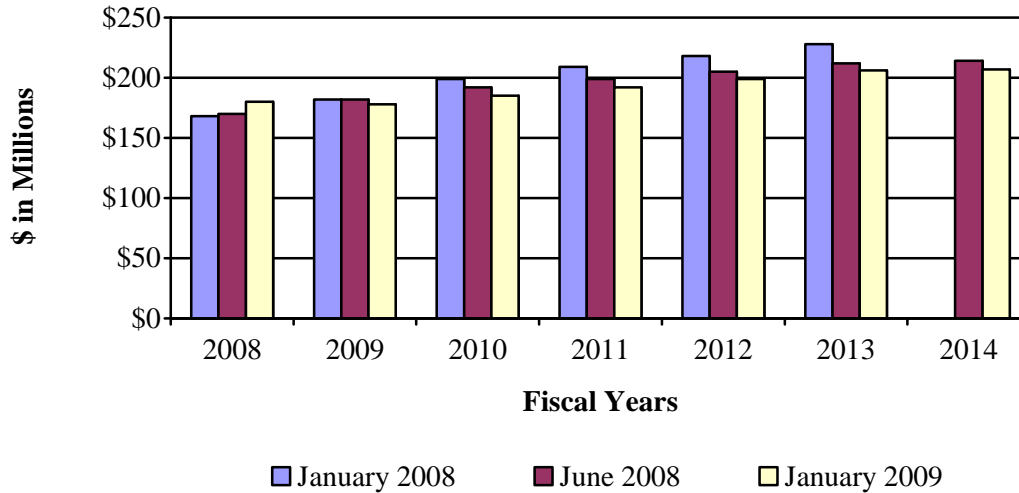
¹Includes special funds only.

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

Source: Maryland Aviation Administration

Exhibit 2 shows the effect of passenger declines in the airline industry on MAA revenues. From the January 2008 financial forecast to the January 2009 forecast, MAA has written down revenues by \$76 million from fiscal 2009 through 2013.

**Exhibit 2
Operating Revenue Projections
Fiscal 2008-2014**



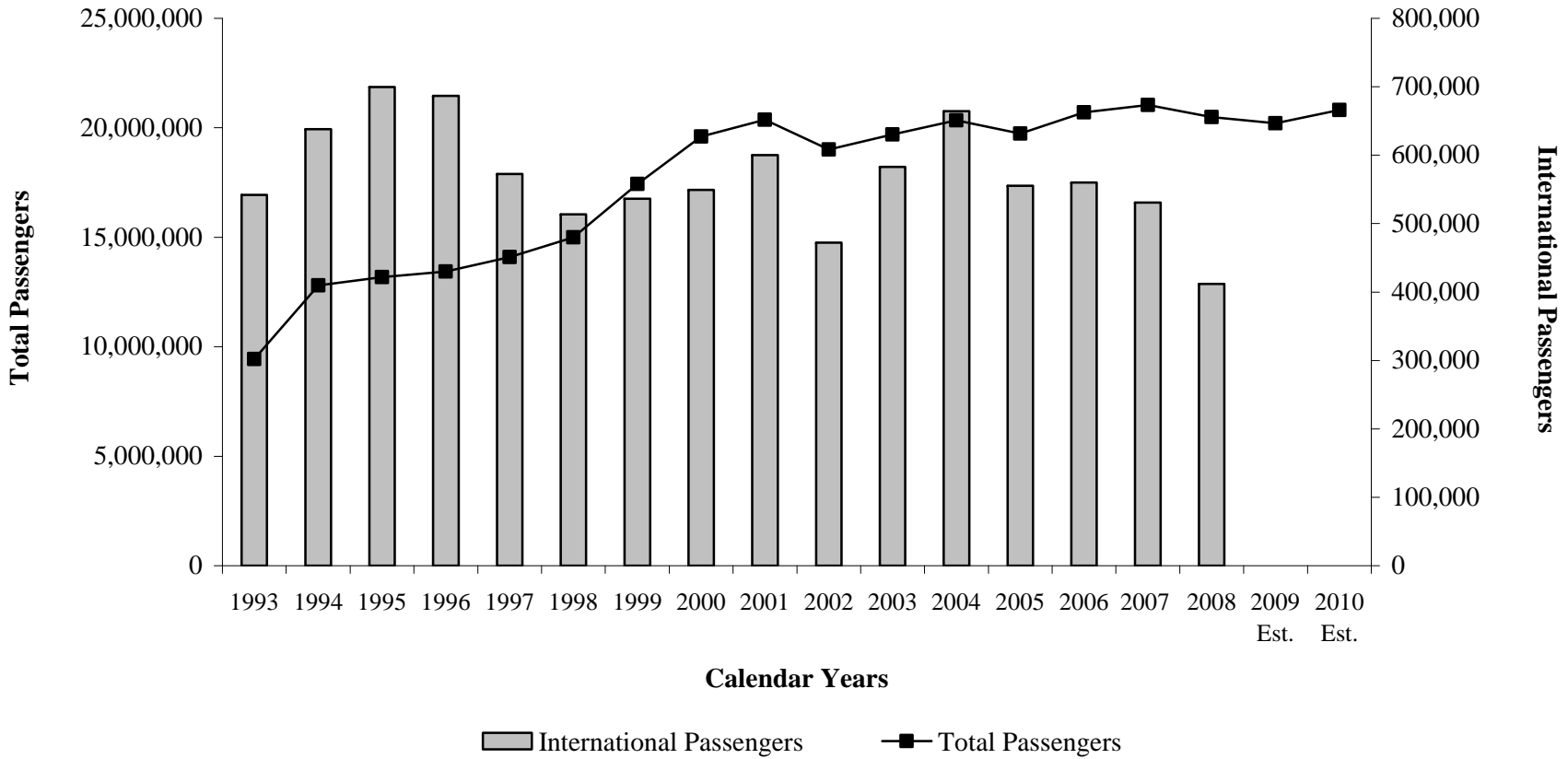
Source: Maryland Department of Transportation’s January 2008, June 2008, and January 2009 Financial Forecasts

Total Passengers and Passenger Market Share

Passenger traffic at BWI Marshall Airport declined 2.6% from calendar 2007 to 2008, down from 21.0 million passengers in calendar 2007 to 20.5 million in calendar 2008. As **Exhibit 3** shows, after steady increases in passenger volumes throughout the 1990s, growth in passengers has been largely stagnant. Since calendar 2000, passenger volumes have hovered around 20.0 million passengers. In 2008, passenger volumes decreased slightly after peaking in 2007 at 21.0 million passengers.

Between calendar 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 calendar 2001 through 2004, followed by a decline in calendar 2005 as the result of the increased competition from Independence Air, a new low-cost carrier, at Dulles International Airport (Dulles). Following the bankruptcy and termination of service of Independence Air, passenger totals at BWI Marshall Airport rebounded in calendar 2007. Calendar 2008 has been a difficult year for the airline industry as a whole. A further decline in passengers is expected in calendar 2009, followed by a slight rebound in calendar 2010.

Exhibit 3
Total Passengers at BWI Marshall Airport
Calendar 1993-2008 Actual and Calendar 2009-2010 Estimated

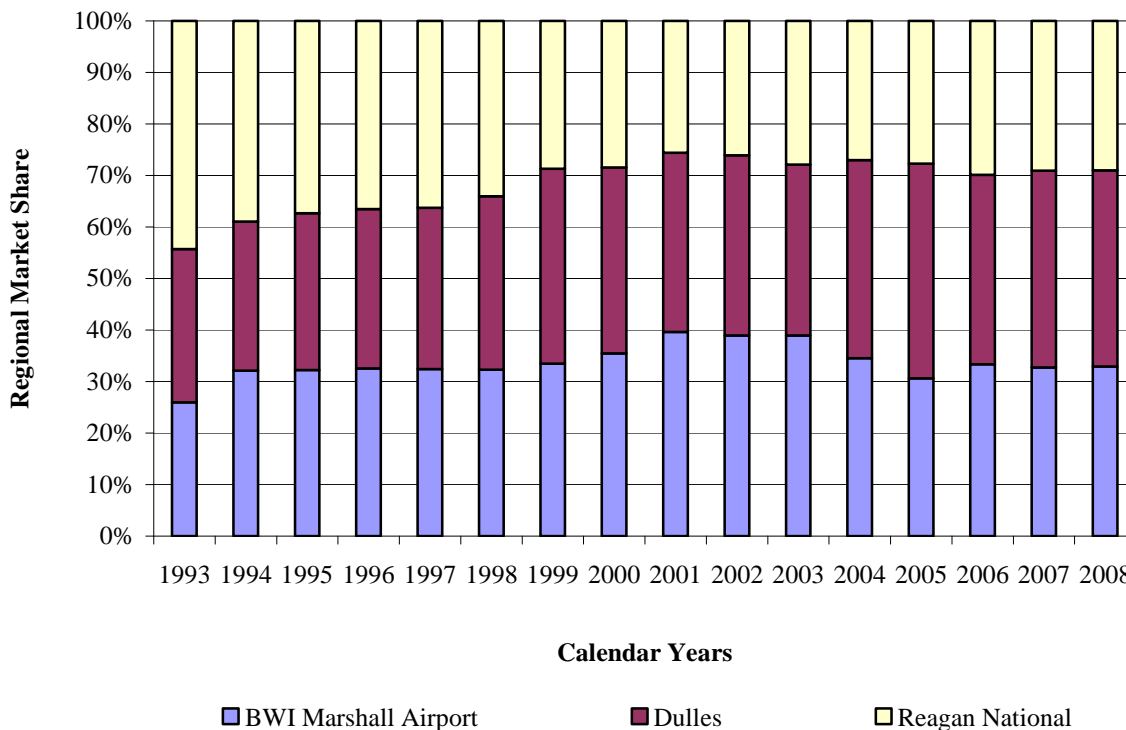


Source: Maryland Aviation Administration

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 and Ronald Reagan Washington National Airport (Reagan National).

Although passenger levels declined at BWI Marshall Airport in calendar 2008, levels declined at most airports nationwide. Both Dulles and Regan National saw declines of 3.5%, which is a slightly deeper decline than the 2.6% drop at BWI Marshall Airport. **Exhibit 4** shows that in calendar 2008, the percentage of regional market share for each airport remained relatively unchanged from calendar 2007. Dulles continues to lead market share with 38.1% of the regional market. The continued strength of Dulles in attracting regional travelers is due in part to the multitude of domestic flights and destinations that it offers. In addition, Dulles also has many more international travel options available. Comparing Dulles' 24.2% of total passengers in calendar 2008 that flew internationally to BWI Marshall Airport's 2.0% provides further evidence of the strength of Dulles' international offerings.

Exhibit 4
Passenger Market Share
Calendar 1993-2008



Source: Maryland Aviation Administration

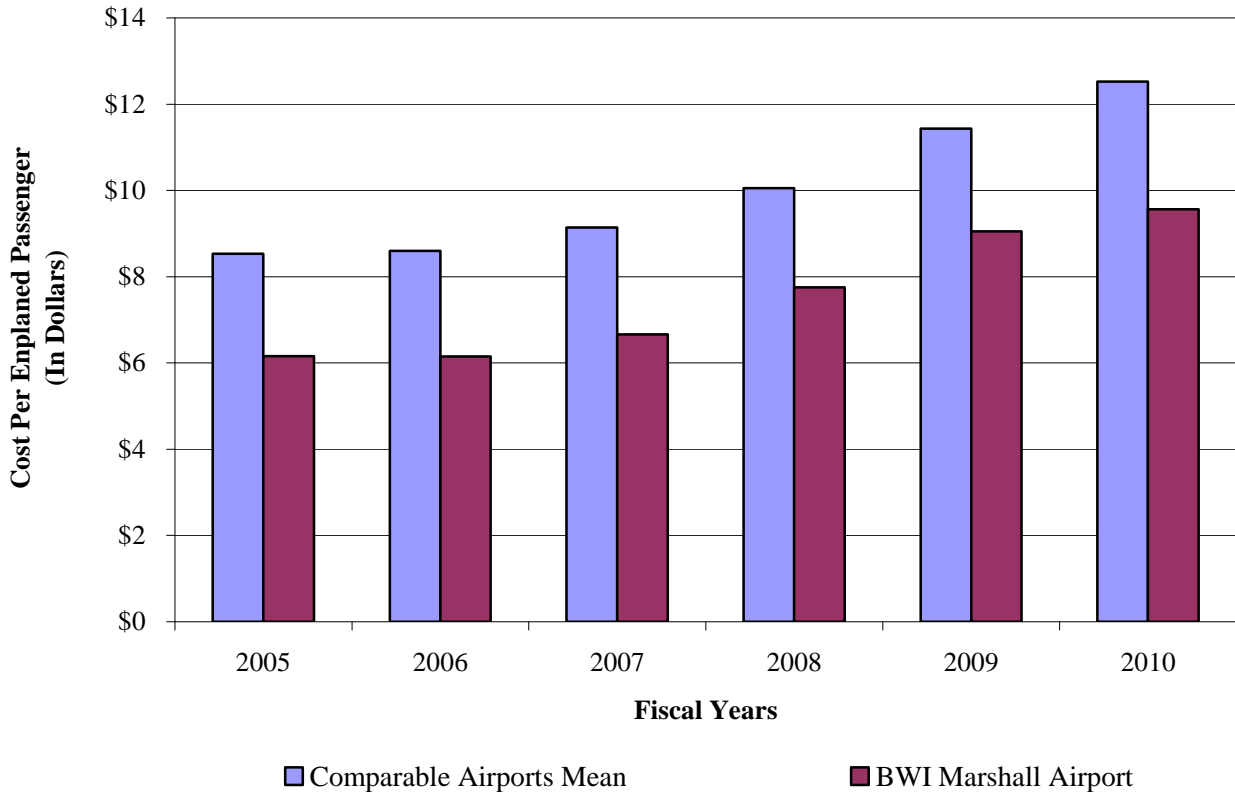
The dominant airline at BWI Marshall Airport continues to be Southwest Airlines, which handled 51.9% of all passengers in calendar 2008. The next largest airline is AirTran Airways, which handled 14.0% of all passengers in calendar 2008. Passengers on international flights declined 22.5% from calendar 2007 to 2008 and now make up only 2.0% of total passengers at BWI Marshall Airport.

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 5**, from fiscal 2007 to 2008, BWI Marshall Airport's CPE increased from \$6.66 to \$7.75, a 16.4% increase. This compares favorably to the fiscal 2008 CPE of \$10.05 for comparable airports. Beginning this year, MAA defines comparable airports as the regional airports with which BWI Marshall Airport is in direct competition. These are Reagan National, Dulles, and Philadelphia International Airport. In fiscal 2010, BWI Marshall Airport's CPE is estimated at \$9.56, well below the comparable airports' mean CPE of \$12.52. The increase in BWI Marshall Airport's CPE from fiscal 2008 to 2010 is largely the result of higher fees and charges being negotiated through the Basic Use and Lease Agreement that governs airport charges. User fees are increasing as the result of increased operating costs, including increases in maintenance, utilities, security, and snow removal costs.

Exhibit 5
Cost Per Enplaned Passenger
Actual Fiscal 2005-2008, Estimated Fiscal 2009-2010

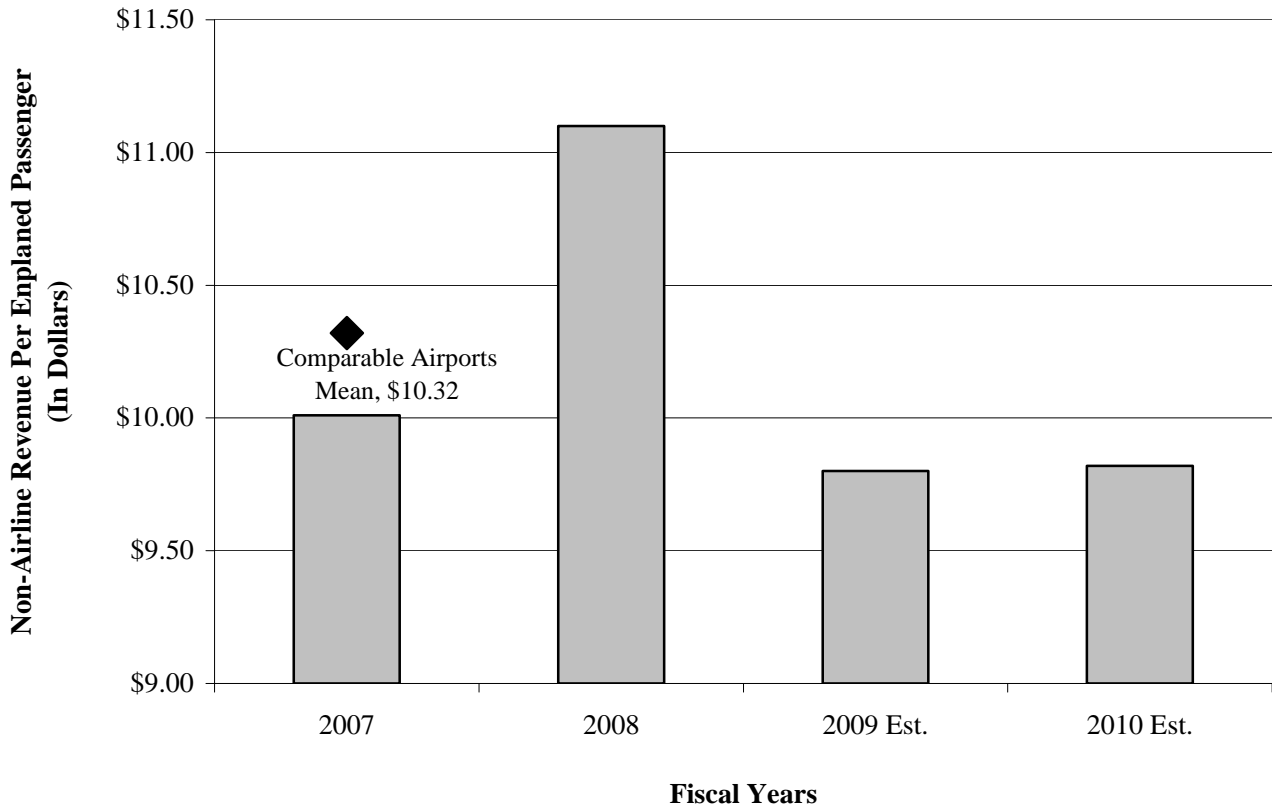


Source: Maryland Aviation Administration

The other important financial consideration for airports is RPE. Beginning this year, MAA changed its MFR measure from total revenue per enplaned passenger to non-airline revenue per enplaned passenger. Non-airline revenue includes parking, concessions, rental cars, and other revenue sources that are more directly affected by MAA. The total revenue measure included all of the rates and fees charged to airlines, which is less effective as a performance measure since airline fees and charges recover direct costs only and are not intended to generate a profit.

As shown in **Exhibit 6**, BWI Marshall Airport’s non-airline RPE increased in fiscal 2008 to \$11.10, a 10.9% increase over the fiscal 2007 non-airline RPE of \$10.01. Although the fiscal 2008 actual RPE for comparable airports is not yet available, the fiscal 2007 actual shows that the fiscal 2007 mean of comparable airports is slightly higher than at BWI Marshall Airport. At BWI Marshall Airport, a decline in non-airport revenue is expected in fiscal 2009 as the result of the forecasted 1.2% decline in passengers. A decline in passengers causes a decline in non-airport revenues, because revenues such as parking and concessions decline when fewer people are moving through the terminal.

Exhibit 6
Non-Airline Revenue Per Enplaned Passenger
Actual Fiscal 2007-2008, Estimated Fiscal 2009-2010



Source: Maryland Aviation Administration

Fiscal 2009 Actions

In an effort to maintain a balanced budget, the Governor and the Maryland Department of Transportation (MDOT) have taken a number of actions over the last year to reduce fiscal 2009 spending.

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 \$50.0 million in ongoing general fund budget reductions. On June 25, 2008, the Governor proposed and the Board of Public Works (BPW) adopted \$75.2 million in reductions to the

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fiscal 2009 appropriation. These actions included a reduction to special funds at MAA to reflect a surplus in the State Employee Health Insurance Account. The reduction totaled \$183,229 from the operating program and \$22,280 from the capital program.

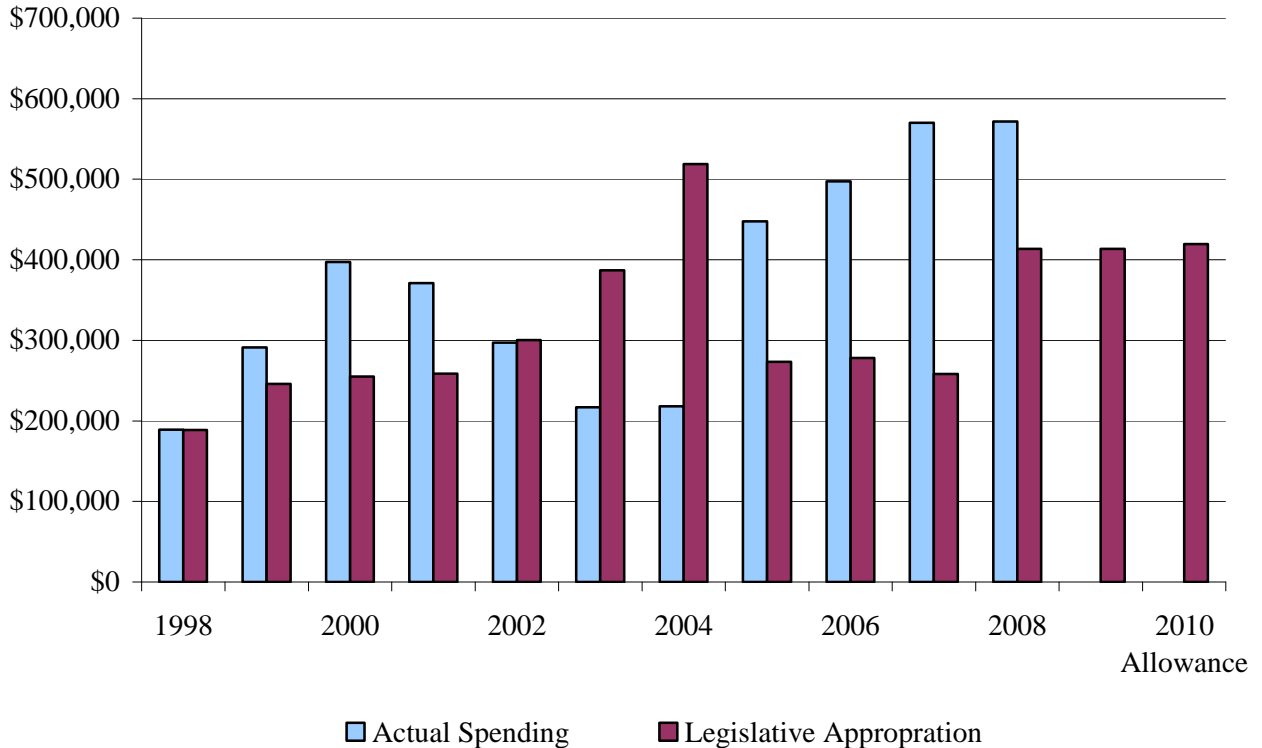
On October 15, 2008, the Governor proposed and BPW adopted \$347.8 million in reductions to the fiscal 2009 appropriation and the abolition of 830.15 regular positions. These reductions included 3 position abolitions at MAA, including 2 filled positions. The position abolitions were the result of transferring the duties of the MAA Office of Real Estate to the State Highway Administration.

Departmentwide, MDOT has also identified cost containment savings totaling \$23.3 million in fiscal 2009. This includes \$5.6 million at MAA for reductions in advertising; security; janitorial; information technology hardware, software, and systems maintenance; and contractual services. Although MDOT identified these actions as cost containment, MDOT has not withdrawn these appropriations through BPW, budget amendment, or otherwise.

Although cost containment efforts can have a significant impact on spending, it is vital that these efforts are carried out as intended. If State agencies simply reduce the appropriation for a particular budget category, but do not make efforts to actually reduce spending, then the result is an imbalance between appropriations and actual spending. **Exhibit 7** shows the legislative appropriation and the actual spending at MAA on travel since fiscal 1999.

In fiscal 2005, MAA significantly decreased its budget for travel by \$250,000 as a cost containment measure. The cost containment reductions that MAA identified that year were taken to offset increases associated with 14 new positions that MAA needed. However, as the exhibit shows, although MAA's appropriation for travel was reduced, it did not cut back on its travel spending and instead spent double the amount spent on travel the year before. Since fiscal 2005, spending on travel has continued to increase even though the appropriation remained relatively unchanged until fiscal 2008. **The Department of Legislative Services (DLS) recommends that the Secretary comment on the imbalance between appropriations for travel and actual spending and why MAA would identify travel as a cost containment action yet significantly increase spending for that purpose.**

Exhibit 7
Travel Appropriations and Spending
Fiscal 1998-2010



Source: Maryland Aviation Administration

Proposed Budget

The fiscal 2010 operating allowance decreases \$1.4 million, or 0.7%, under the fiscal 2009 working appropriation. After accounting for contingent reductions, the fiscal 2010 operating budget allowance decreases \$1.5 million, or 0.8%, compared to the fiscal 2009 working appropriation. One contingent reduction deletes \$93,796 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 \$5.6 million in fiscal 2009 savings that has been identified by MDOT but is still included in 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 \$4.1 million, or 2.3%. Where appropriate, reductions in fiscal 2010 that MAA has identified as cost containment actions have been noted.

Exhibit 8
Proposed Budget
MDOT – Maryland Aviation Administration
(\$ in Thousands)

How Much It Grows:	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Total</u>
2009 Working Appropriation	\$184,972	\$656	\$185,628
2010 Allowance	<u>183,589</u>	<u>656</u>	<u>184,245</u>
Amount Change	-\$1,384	\$0	-\$1,384
Percent Change	-0.7%		-0.7%
Contingent Reductions	-\$94	\$0	-\$94
Adjusted Change	-\$1,477		-\$1,477
Adjusted Percent Change	-0.8%		-0.8%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance pay-as-you-go costs	\$1,328
Turnover adjustments	225
Retirement contribution	219
Social Security	95
Other fringe benefit adjustments.....	-42
Deferred compensation (after reducing fiscal 2010 for contingent reductions)	-94
Workers' compensation premium assessment	-331
Reduction in Other Post Employment Benefits' unfunded liability	-724

Other Changes

Fuel and utilities	2,460
Net shuttle bus operations (increase in fuel costs partially offset by decrease in contract cost)	784
Plumbing repair and maintenance.....	626
Custodial supplies.....	200
Computer and printer supplies and materials.....	125
Communication.....	102
Seasonal decorations and commemorative displays	-100
Repair and replacement of floors, wall coverings, and drapes at airport terminals	-100
Small contracts at Martin State Airport (cost containment)	-104

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Where It Goes

Road repair services.....	-128
Trash and garbage removal (cost containment).....	-130
Ground maintenance (cost containment).....	-171
Repair and maintenance of lighting and electrical distribution systems (cost containment).....	-179
One-time hosting of Airport Minority Advisory Council conference in fiscal 2009.....	-200
Building rent.....	-206
One-time purchases in fiscal 2009.....	-373
Repair and maintenance of computer hardware and software (cost containment).....	-476
Janitorial services (cost containment).....	-700
Advertising (cost containment).....	-1,500
Security services (cost containment).....	-2,068
Other changes.....	-15
Total	-\$1,477

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

After accounting for contingent reductions, personnel costs increase by \$676,317. The largest increase, \$1.3 million, 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 (-\$724,037) and workers' compensation premium assessments (-\$330,994).

Outside of personnel, the fiscal 2010 allowance level-funds or reduces most items; however, increases are seen in fuel and utilities (\$2.5 million), shuttle bus operations (\$0.8 million), and plumbing repair and maintenance (\$0.6 million).

The increase in shuttle bus operations is the result of a re-bidding of the shuttle bus contract that took place in August 2008. Previously, the contractor paid the cost of fuel for the shuttle busses. When the contract was re-bid, MAA determined that contract cost savings could be realized by buying fuel itself rather than requiring the contractor to do so, given the recent volatility in fuel prices. In addition, MAA can purchase fuel at lower prices due to fuel contracts that the Department of General Services enters into and due to federal rebates on fuel tax that MAA is eligible to receive and the contractor would not be eligible for. The \$2.8 million increase in gas and oil for shuttle bus operations is partially offset by a \$2.0 million decrease in the contract cost due to the change in the purchaser of the fuel.

The increase in fuel and utilities takes place as the result of rising electricity and natural gas prices. The increase in plumbing repair and maintenance is largely due to an increase in contract scope, as well as an annual contractual step increase and the Consumer Price Index increase for renewals of a contract with the Maryland Environmental Service (MES), which inspects and maintains the backflow preventors at BWI Marshall Airport. The increase in contract scope is the result of MES recently identifying 70 additional backflow preventors at BWI Marshall Airport that need to be maintained and inspected every six months.

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For the most part, MAA's budget contains few increases besides those noted above. Most spending categories in MAA's budget are level-funded from fiscal 2009 to 2010 or decrease. The largest decreases include \$2.1 million for security services and \$1.5 million for advertising. The reduction in advertising was made as the result of cost containment efforts.

The decrease in security is attributable to a \$1.7 million decrease in the private security contract at BWI Marshall Airport and a \$0.3 million decrease for security at MTN. The private security contract at BWI Marshall Airport was reduced as the result of negotiations between MAA and the Transportation Security Administration (TSA) to use federal government TSA personnel in lieu of State-paid security guards at certain posts, replace certain manned posts with a monitored security camera and a locked door with a badge reader to allow access as appropriate, and eliminate guard posts where appropriate. At MTN, general aviation airports are not required to provide security; however, as a preventive measure, MAA has maintained a contract for two guards per shift for 24-hour security guard services. This reduction allows for one security guard to man the entrance gate for the eight hours between 11:00 p.m. and 7:00 a.m. when no other MAA personnel are on duty.

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 2009 to 2014 Consolidated Transportation Program

The MAA PAYGO capital fiscal 2010 allowance for special and federal funds decreases by \$8.2 million from the fiscal 2009 working appropriation. The net decrease reflects a \$6.7 million decrease in special funds and a \$1.5 million decrease in federal funds

The MAA PAYGO capital program also utilizes “other funds” that include passenger facility charges (PFC), customer facility charges, and pass-through federal funding. **Exhibit 9** shows the breakdown of projects using other funding. Other funds increase from \$51.0 million in fiscal 2009 to \$63.6 million in fiscal 2010.

Exhibit 9 Other Funds Fiscal 2009-2010 (\$ in Thousands)

<u>Project</u>	<u>Source</u>	<u>2009</u>	<u>2010</u>
Security identification area access improvements	PFC	\$253	
Terminal entrance roadway – Phase II	PFC	869	
Concourse D/E airfield ramp paving improvements	PFC	1,661	
Terminal complex roadway resurfacing	PFC	-48	
Airside taxiway paving rehab	PFC	7,424	
Equipment and safety training system	PFC	1,664	
Concourse C/D airfield ramp improvements	PFC	28	
BWI Marshall Airport perimeter gates and fencing improvements	PFC	727	
Baggage handling system upgrades	TSA	569	
New concourse A expansion	TSA	2,258	
Replacement electronic fingerprinting machines (3)	TSA	120	
Elm Road parking structure	MDTA	1,588	
Consolidated rental car facility	CFC	237	
Rental car facility bus improvements	CFC	1	
Airfield lighting cable replacement	PFC	4,050	6,093

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<u>Project</u>	<u>Source</u>	<u>2009</u>	<u>2010</u>
External information technology infrastructure upgrades	PFC	650	2,180
BWI Marshall Airport closed circuit television	PFC	38	1,758
Concourse D/E baggage system and claim improvements	PFC	16,647	9,337
Terminal improvement project	PFC	3,925	6,040
Glycol collection tank #4	PFC	15	848
Concourse B/C airfield ramp regrading – Phase II	PFC	545	10,544
Terminal modernization design	PFC	494	3,952
Gate G modifications	PFC	200	1,711
Rental car facility courtyard improvements	CFC	304	1,537
Hagerstown Airport	RAA	6,000	6,000
International pier security baggage redesign	TSA	302	698
Closed circuit television system replacement	TSA	430	1,190
Controlled access security system replacement	PFC		911
Concourse D/E baggage system and claim improvements	TSA		10,800
Total by Fund Type	PFC	\$39,142	\$43,374
	RAA	\$6,000	\$6,000
	CFC	\$542	\$1,537
	TSA	\$3,679	\$12,688
	MDTA	\$1,588	\$0
Total Maryland Aviation Administration		\$50,951	\$63,599

CFC: customer facility charges
MDTA: Maryland Transportation Authority
PFC: passenger facility charges
RAA: Regional Aviation Assistance
TSA: Transportation Security Administration

Source: Maryland Aviation Administration

Fiscal 2009 and 2010 Cash Flow Analysis

Exhibit 10 provides cash flow information for MAA’s capital program from fiscal 2008 to 2010. The total capital program in fiscal 2010 is \$91.6 million, \$4.5 million more than the fiscal 2009 working appropriation.

**Exhibit 10
Cash Flow Changes
Fiscal 2008-2010**



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

Exhibit 11 provides a list of major construction projects funded in fiscal 2010. The three projects listed account for 92% of all funding of major projects in the construction program for fiscal 2010.

Exhibit 11
MAA Major Construction Projects
Funded in Fiscal 2010
(\$ in Thousands)

<u>Project</u>	<u>2010</u>	<u>Total \$</u>	<u>Completion of Fiscal Cash Flow</u>
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.	\$20,137	\$39,003	2010
Airfield Pavement Improvement Program Phase II at BWI Marshall Airport – reconstruction and overlay of multiple taxiways and the reconstruction of a portion of the aircraft ramp area between Concourses B and C.	10,781	22,936	2011
Hagerstown Airport Expansion – multi-year project to expand a runway at Hagerstown Regional Airport.	6,202	59,194	2014
Total	\$37,120	\$121,133	

MAA: Maryland Aviation Administration

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

Projects Added to the Construction Program

Only one project was added to the construction program in the fiscal 2009-2014 *Consolidated Transportation Program* (CTP). This project is Phase II of the airfield pavement improvement program and includes the reconstruction and overlay of a portion of the ramp between Concourses B and C. The purpose of the project is to enhance airfield safety and operations. The total cost of Phase II is \$22.9 million, including \$10.8 million in fiscal 2010. The project is being funded largely through PFCs and federal Airport Improvement Program (AIP) grants. Future phases of the project will depend upon the availability of funding and the impact on airfield operations and terminal gate usage.

Projects Removed from the D&E Program

Exhibit 12 shows the projects that were removed from the Development and Evaluation (D&E) program in the fiscal 2009-2014 CTP. Both projects were removed after a series of delays over the past several years.

Exhibit 12 Projects Removed from the D&E Program

<u>Project</u>	<u>Justification</u>
New Air Traffic Control Tower at MTN – construction of a new air traffic control tower at MTN to provide air traffic controllers with an improved line of sight.	Cost containment defers construction start until fiscal 2012.
Airport Administrative Office Building – a new office building to accommodate MAA employees and aviation related space.	Cost containment has placed project on hold indefinitely.

D&E: Development and Evaluation

MAA: Maryland Aviation Administration

MTN: Martin State Airport

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

The new air traffic control tower at MTN was first added to the fiscal 2000-2007 CTP. The project has been habitually delayed due to ongoing coordination with the Federal Aviation Administration (FAA) and the need to have MTN's airport layout plan approved by FAA. In the fiscal 2008-2013 CTP, the project was moved from the construction program back to the D&E program. During the 2008 legislative session, the General Assembly deleted fiscal 2009 funding for the project citing the history of delays as the primary reason. However, the General Assembly did not disapprove of the project itself; rather, it withdrew fiscal 2009 funding until the project was ready to move forward. In the fiscal 2009-2014 CTP, MAA has removed the project completely due to cost containment efforts.

The second project removed from the fiscal 2009-2014 CTP is the construction of a consolidated airport administrative office building and is discussed more in Issue 2.

Construction Schedule Delays

Exhibit 13 shows the construction schedule delays in MAA’s capital program.

Exhibit 13
Construction Schedule Delays
Fiscal 2010
(\$ in Thousands)

<u>Project</u>	<u>Justification</u>	<u>Delay</u>
New air traffic control tower at MTN – construction of a new air traffic control tower at MTN to provide air traffic controllers with an improved line of sight.	Cost containment	From Fiscal 2010 to 2012
Protective Land Acquisition Program – provides for the purchase of land near both State-owned airports to ensure its availability in the future for potential aviation purposes.	Cost containment	From Fiscal 2009 to 2011

MTN: Martin State Airport

Source: Maryland Department of Transportation, 2009-2014 *Consolidated Transportation 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, as shown in **Exhibit 14**, MAA was not immune from these cuts, as it had \$59.5 million in capital funding removed from its capital program due to the decline in revenues.

Exhibit 14
Impacts Due to Revenue Adjustments
Fiscal 2009-2014
(\$ in Thousands)

<u>Project</u>	<u>Reductions in Special Funds</u>						<u>Total</u>
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	
Consolidated dispatch center	-\$537	-\$1,321	-\$25	\$1,683			-\$200
Substation emergency generator	-400	-650					-1,050
Airside taxiway rehabilitation Phase II		-3,000	-3,000				-6,000
Airside pavement safety improvements						-\$13,526	-13,526
Pavement/taxiway preservation	-2,144	-8,176	2,050	-1,380	-13,448	-15,593	-38,691
Total	-\$3,081	-\$13,147	-\$975	\$303	-\$13,448	-\$29,119	-\$59,467

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

PFC Funding

PFCs are a significant source of “other funding” for MAA’s capital program. 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, there has been some discussion in Congress about increasing PFC fees from \$4.50 to \$7.00. If BWI Marshall Airport was given authority to collect this higher fee, it could generate substantial additional revenues and could support additional projects.

MAA has had FAA authority to impose PFCs since July 1992. Through the end of September 2008, 27 projects with an associated PFC expenditure of \$510.9 million have been partially funded with PFCs. Total PFC use authority covering construction and debt service costs for these projects is \$866.2 million.

Exhibit 15 provides a summary of the most recent projects for which MAA has received FAA approval. The total cost of these projects is \$195.0 million, which includes \$128.6 million in PFC funding (including PFC financing), \$64.7 million in AIP grants, and \$1.8 million from the TTF.

Exhibit 15
FAA Approved PFC Projects
(\$ in Thousands)

	<u>PFC</u>	<u>PFC Financing</u>	<u>AIP Grants</u>	<u>TTF</u>	<u>Total</u>
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. MAA Negotiates Rates with Airlines, Discovers \$57 Million Error, Seeks to Recoup \$25 Million

At the country's largest airports, the relationship between airport management and the major airlines with scheduled commercial air service is typically governed by a basic use lease agreement (BULA). The agreement covers the use of airside and terminal facilities and establishes fees for terminal rent, boarding device fees, landing fees, aircraft parking fees and domestic baggage claim fees. The BULA also establishes the rate-setting methodology for airline activities and the basic philosophy for the recovery of airport costs.

BULA History

MAA's original BULA agreement with the airlines was entered into in 1978 as a 25-year contract with one 10-year renewal option. When it expired in 2003, MAA negotiated BULA II with the major airlines serving BWI Marshall Airport with a term from June 1, 2003 through June 30, 2008. BULA II increased fees to provide greater cost recovery and allowed MAA more flexibility and control over the use of its facilities.

In 2007, when preparing for negotiations with the airlines for the next BULA agreement, MAA consultants discovered an error in the calculations that were being used to determine the amounts charged to the airlines. The ensuing negotiation on these miscalculated costs forced MAA to delay negotiations for the new BULA agreement. Consequently, before BULA II expired in June 2008, MAA sought and received BPW approval for a one-year contract extension allowing more time for negotiation. By the time the one-year extension expires in June 2009, MAA expects to be prepared to seek BPW approval of a BULA III agreement.

\$57 Million Error Discovered

Beginning in October 2006, MAA began preparing for negotiations with the airlines for a new BULA agreement. As part of this preparation, MAA consultants reviewed the costs and expenses that formed the basis for the fees that MAA charged to the airlines under BULA II. The review revealed that MAA undercharged the airlines by approximately \$57.3 million. The reasons for the undercharging were:

- miscalculation of terminal space that resulted in the terminal rates per square foot being understated due to the fact that total terminal square footage was overstated;
- exclusion of certain capital projects and amortization charges that should have been included in the rate setting methodology; and
- exclusion of certain operating expenses, including security and janitorial, that should have been charged to the airlines.

Although much of the miscalculation of terminal space resulted from changes brought about by the reconstruction of Concourse B and the construction of Concourse A, the improper exclusion of certain operating and capital costs was in effect throughout the agreement period. MAA determined that the total amount of under-collected revenues was \$57.3 million.

MAA Working to Recoup \$25 Million in Under-collected Revenues

After a legal review of its case and negotiations with the airlines, MAA decided to forbear collection of the under-collected revenues from fiscal 2004 through 2006 totaling \$32.3 million. Instead, MAA is only pursuing collection of the \$25.0 million in under-collected revenues from fiscal 2007 and 2008. Since Southwest Airlines is the dominant airline at BWI Marshall Airport, it has the largest share of under-collected revenues to repay at \$12.2 million. In May 2008, BPW approved a one-year contract extension of BULA II, the forbearance of \$32.3 million in under-collected revenues, and repayment of \$25.0 million in under-collected revenues from the airlines over the next five years.

Since the repayment of under-collected revenues was a significant amount of money for many airlines, MAA gave the airlines the option of repaying the amount in one-lump sum or over a period up to five years. Most airlines are repaying the amount over a five-year period. In order to help manage airline costs, MAA agreed to undertake significant cost containment efforts in both the operating and capital budgets.

DLS recommends that the administration comment on the status of the BULA negotiations, its goals for the negotiations, and what changes have been made to prevent miscalculations in the rate-setting methodology in the future.

2. Plans for Office Space to Consolidate Staff on Hold

The issue of construction of an office building for MAA to consolidate staff first arose in fiscal 2002 budget bill language, which directed that MDOT select a location for its headquarters building that could accommodate office space for MAA. At that time, and still today, MAA staff occupy space at six locations. Locations include two leases with the private sector and several State-owned buildings, including the BWI Marshall Airport terminal building. The two private leases are for just over 50,000 square feet and have an annual rent of just under \$1 million. **Exhibit 16** provides information on these two leases.

**Exhibit 16
Current Leased Space
Fiscal 2010**

<u>Location</u>	<u>Lease Expiration</u>	<u>Number of Employees</u>	<u>Square Feet</u>	<u>Cost per Sq. Ft.</u>	<u>Utilities</u>	<u>Janitorial Services</u>	<u>Annual Rent</u>
901 Elkridge Landing Road	6/30/2010	81	19,919	\$21.95	Yes	Yes	\$437,222
991 Corporate Drive	10/30/2010	79	34,892	\$15.95	No	No	\$556,527

Source: Maryland Aviation Administration Fiscal 2010 budget book

Committee narrative in the 2004 *Joint Chairmen’s Report* directed MAA to provide a cost benefit analysis of constructing a new building and to explore possible locations. In response, MAA submitted an analysis that found that construction of a MAA headquarters building with aviation-related lease space available was the most cost-effective option. In the 2004 analysis, maintaining the status quo had no capital costs but a net present cost of \$26.3 million. The alternative to construct an office building with leasable space had a \$36.5 million capital cost, and a \$4.2 million net present cost, resulting in a net present value savings of \$22.1 million. Although MDOT had selected a site for its headquarters building with space for an MAA building nearby as directed, the site selection process from the 2004 analysis did not select this as a viable alternative. Instead, the preferred location was the site of the former rental car maintenance facility.

The project was added to the D&E program in the fiscal 2006-2011 CTP but never made it to the construction program. Construction of the office building has been delayed because of ongoing coordination with FAA. The fiscal 2007-2012 CTP showed a delay of the project from fiscal 2007 to 2009 due to design of the project being contingent on an environmental assessment. The fiscal 2008-2013 CTP further delayed the project from fiscal 2009 to 2010 for the same reason, and now the fiscal 2009-2014 CTP has removed the project from the capital program entirely.

Given the current economic situation, removing the project from the capital program makes sense, as it allows MAA to focus on its core mission and use the remaining capital dollars on necessary airport improvements. Although constructing an office building to consolidate operations may no longer be the best option, the basic concept of consolidating staff and, where possible, moving out of expensive private leases, are still important goals. The issue deserves special attention now, since both private leases are coming up for renewal.

Over the past two years, there has been a substantial growth in office buildings in the vicinity of BWI Marshall Airport and Arundel Mills Mall. According to the most recent Colliers Pinkard market report for the Baltimore southern metropolitan area, over the past two years, this additional 4.6 million square feet of additional office space, coupled with the current economic situation muting

demand, has increased vacancy rates from 9.83% in 2006 to 15.44% in 2008. These high vacancy rates, coupled with the stability that State leases provide to landlords, could result in substantial lease savings for MAA when its leases expire.

MAA has indicated that in an effort to lower costs and consolidate staff to the extent possible, it intends to move the employees currently located at 901 Elkridge Landing Road into the airport terminal when the lease expires. This will provide lease savings of over \$400,000 beginning in fiscal 2011. MAA has also indicated that it intends to renegotiate or seek a new lease for the employees currently at 991 Corporate Drive.

DLS recommends that, in light of MAA's decision to defer construction of a headquarters building for its employees, that committee narrative be adopted to encourage MAA to consolidate staff to the extent possible and to utilize the current state of the commercial real estate market to attempt to produce lease savings when its current leases expire in 2010.

3. No Multi Billion Dollar Deal in Sight for BWI Marshall Airport

Recent news reports of negotiations between the city of Chicago and a joint venture of several firms for a \$2.5 billion 99-year lease of Midway International Airport has generated much interest in the privatization of airports; however, for reasons outlined below, given current federal regulations, a similar deal is not possible at this time for BWI Marshall Airport. Nonetheless, a review of the advantages and disadvantages of MAA's current governance structure and governance alternatives may be useful.

Although BWI Marshall Airport is State-owned and operated, it relies heavily on the private sector. Over 90% of employees at the airport are private sector employees. This includes airline employees as well as thousands of employees of private contractors. MAA currently awards contracts at BWI Marshall Airport in excess of \$80 million, or nearly half of its operating budget, for private sector services. These services include concessions, security guard services, parking, shuttle bus operation and maintenance, maintenance contracts, janitorial services, advertising, and landscaping.

Since the early 1990s, several studies have examined the feasibility of privatizing BWI Marshall Airport or changing its governance structure. Most recently, in 2005, the BWI Marshall Airport Governance Study Group found that the governance structure of the airport should not be changed at this time.

Advantages of the Current Governance Structure

Although several states run their own commercial airports, only a handful of large and medium size commercial airports are operated in this way. Some of the advantages of BWI Marshall Airport being owned and operated by the State include the availability of capital financing, a statewide economic development focus, certain legal strengths, and a multi-modal approach to meeting transportation needs. In addition, in recognition of the fact that MAA operates like a

business, several other benefits are afforded to MAA. These include 12 management personnel positions that it may set the qualifications, appointment, compensation, and leave for; an executive director that is among the highest paid of all State officials; exclusion from the position caps placed on MDOT each year; and exclusion, up to the amount of operating revenues, from State spending affordability limits.

Disadvantages of the Current Governance Structure

The largest disadvantage for MAA, and for all modes of transportation, of inclusion in the TTF is that they must compete with other transportation modes for funding. The TTF is a zero-sum game: for every dollar spent on one mode, there is one less dollar available for another mode. Since fiscal 1973, the TTF has provided over \$700 million to MAA to cover operating and capital deficits. This is money that otherwise would have been available for other transportation modes. As shown in **Exhibit 17**, an additional \$223 million would be available over the six-year capital planning period for other transportation priorities if MAA were removed from the TTF. Depending on whether or not MAA's revenues exceed expenditures, there could also be a positive or negative effect on MDOT's bonding capacity.

Exhibit 17
Effect of Removing MAA from the TTF
Fiscal 2009-2014
(\$ in Millions)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
Revenues							
Operating revenues	-\$178	-\$185	-\$192	-\$199	-\$206	-\$207	-\$1,167
Aviation gas and jet fuel	-1	-1	-1	-1	-2	-2	-8
Subtotal	-\$179	-\$186	-\$193	-\$200	-\$208	-\$209	-\$1,175
Expenditures							
Operating expenses	\$181	\$184	\$191	\$196	\$202	\$208	\$1,162
Capital expenses ¹	34	27	44	41	43	47	236
Subtotal	\$215	\$211	\$235	\$237	\$245	\$255	\$1,398
Total	\$36	\$25	\$42	\$37	\$37	\$46	\$223

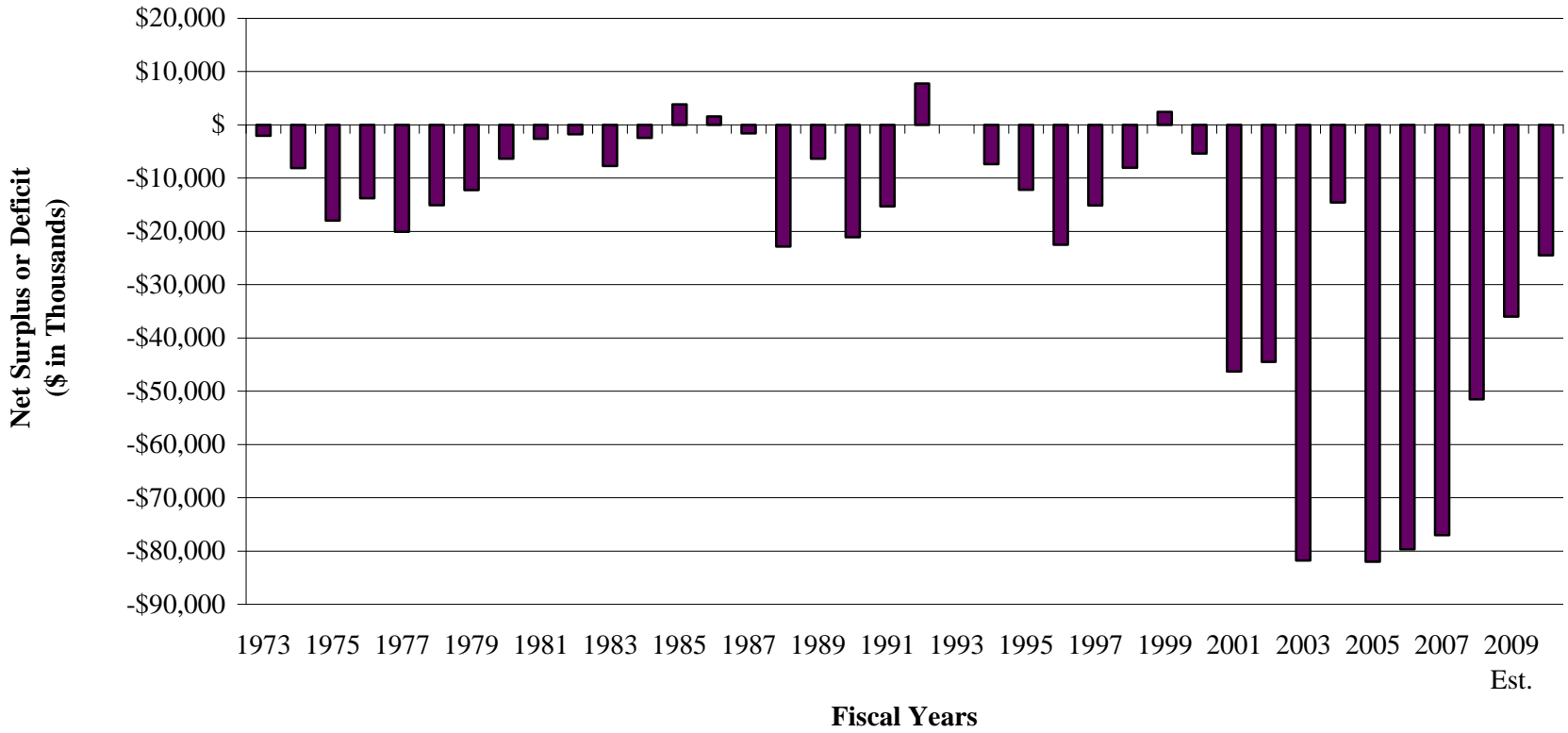
¹ Includes TTF funds only.

MAA: Maryland Aviation Administration
TTF: Transportation Trust Fund

Source: Maryland Department of Transportation's January 2009 Financial Forecast

Exhibit 18 provides a history of MAA surpluses and deficits. This compares all operating revenues against operating and capital expenditures.

**Exhibit 18
History of MAA Surpluses and Deficits
Operating and Capital
Fiscal 1973-2010**



Source: Maryland Aviation Administration

Alternative Options for Ownership and Management of BWI Marshall Airport and MTN

Several alternative governance options are available. These include:

Private Management Contract

One of the options for changing the existing governance structure of BWI Marshall Airport or MTN is to secure a contract for private management and relieve MAA of these duties. In this model, MAA would retain ownership of the affected airport and responsibilities related to regulating general aviation in the State, but day-to-day operations would transfer to a private company. Depending on the structure of the contract, MAA and the State could retain varying levels of oversight and approval.

When successful, private management of airports can result in operating efficiencies, improved customer service, and private investment in capital improvements. However, there is some uncertainty about the feasibility of private management contracts at large hub airports like BWI Marshall Airport since the only large hub airport to be entirely operated under such a contract later reverted operations back to the public airport authority. Such contracts are much more commonplace at general aviation airports like MTN. Private management contracts may have a negative effect on State employees; however, provisions can be made to mitigate this effect. Depending on several factors, MAA may currently enter into such a contract on its own. The legislature can provide direction to MAA to pursue such an option, but other legislative changes to effect this change are not required.

Restructuring from an Administration to an Authority

The most common form of governance for airports in the United States is by an authority. Under this model, an independent board typically governs the airport and operates as a financially self-sufficient entity. Several different authority models are available, including the State retaining ownership of the airports and leasing operations to an authority, an authority that both owns and operates the airports, and a consolidated authority that owns and operates the airports as well as other transportation facilities such as the port or toll roads.

Benefits of creating independent authorities include increased speed and efficiency in decisionmaking; independence from governmental constraints on personnel policies; and the ability to more quickly approve changes to personnel, procurement and financing practices, and procedures. Creation of an authority could relieve some of the pressure on the TTF; however, it may require large capital debt issuances that would result in higher costs for the airlines. An authority model may also result in less legislative oversight. If the legislature wanted to pursue creation of an airport authority, changes to current statute would be required.

Privatization

Privatizing an airport can include a range of options from a sale or long-term lease of the airport facility to privatization of specific airport services. Federal laws and regulations have historically discouraged private ownership and management of public use airports. To address these barriers, the Airport Privatization Pilot Program was established in 1996 and allows private companies to own, manage, and develop up to five public airports.

Although the pilot program has been in place for more than a decade, only one small hub airport has been privatized under this model, and it has since reverted back to operation by a public authority. Currently, Chicago is negotiating a 99-year lease of Midway International Airport in return for an upfront payment of \$2.5 billion. Provisions of the pilot program prohibit more than one large hub airport from inclusion in the program; therefore, if the Midway deal is approved, then BWI Marshall Airport would no longer be eligible. MTN is still eligible to be leased or sold under the pilot program. Although the sale or lease of MTN would generate significantly less revenue than a lease of BWI Marshall Airport, it could still generate some revenues and cost savings. The effect on current employees could be mitigated by reassigning these employees to other positions at MDOT or including in the contract a provision securing jobs for current employees with the private operator.

Under current conditions, it is unrealistic for the State to envision a windfall from the privatization of BWI Marshall Airport. However, if the Midway deal is not approved or if the FAA reauthorization bill includes an expansion of the pilot program, privatization could be a viable option. Benefits of privatization may include: large upfront payments to the public partner, investment in capital infrastructure, and operational efficiencies and improvements. Allowing the privatization of either of the State's airports would require modifications to current law.

DLS recommends that the administration comment on airport privatization and alternative governance structures.

Operating Budget Recommended Actions

	<u>Amount Reduction</u>	<u>Position Reduction</u>
1. Delete six positions that have been vacant for over 12 months. This action deletes six positions (PIN 013092, 013104, 055974, 056281, 060389, and 079222) and associated funding for positions that have been vacant for longer than 12 months. These positions include one position that has been vacant since February 2007. If the Maryland Aviation Administration has managed without the positions for this long, it can continue to do so.	\$ 308,194	SF 6.0
2. Increase the turnover rate to 7% to reflect historical vacancy rates. The turnover rate is currently budgeted at 6%. Since January 2008, the vacancy rate has hovered near 9.5% and has ranged from a low of 8.4% to a high of 10.8%.	325,826	SF
3. Reduce grants to private organizations to historical levels due to the current economic climate. The Maryland Aviation Administration (MAA) currently provides grants of \$55,000 each to the BWI Business Partnership and the BWI Development Council. The BWI Business Partnership aims to improve employee transportation for businesses in and around the airport. The BWI Development Council helps to promote the airport. While both of these missions are beneficial to MAA, prior to fiscal 2007, the BWI Business Partnership was receiving only \$30,000 from MAA and the BWI Development Council received \$50,000. These organizations also receive funding from membership dues, and the BWI Business Partnership receives federal funding as well.	30,000	SF
4. Reduce funds for shift differential based on actual spending. Shift differential is an additional \$6.25 per shift paid to employees who are assigned to a permanent shift that begins between 2 p.m. and 1 a.m. or any shift worked by a member of the Fire Rescue Division. The three-year average of actual	20,000	SF

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spending for this purpose is \$137,610. The action reduces the appropriation to \$160,614.

5. Reduce funds for the repair and maintenance of closed circuit television systems based on actual spending. Fiscal 2008 spending for this purpose was \$404,225. Three-year average actual spending was \$328,510. This action reduces the appropriation to \$506,658. This action still allows for \$100,000 in additional spending over fiscal 2008, recognizing that, where possible, the Maryland Aviation Administration is utilizing security cameras in place of manned posts. 75,000 SF
6. Reduce funds for janitorial services at Martin State Airport based on actual spending. Over the last three years, spending on janitorial services at Martin State Airport has hovered around \$122,000. This action reduces the appropriation to \$143,000 to more accurately reflect actual spending. 50,000 SF
7. Adopt the following narrative:

Encouraging Staff Consolidation: Recent declines in transportation revenues have forced the Maryland Aviation Administration (MAA) to remove a project for construction of a headquarters building from its capital program. The benefits of such a building were first identified in 2001 as a means of centralizing staff currently dispersed to six different locations and to realize lease savings. Over the last eight years, minimal progress was made on construction of a headquarters building; yet, the benefits of consolidation still remain. In 2010, both of the leases with the private sector that MAA has entered into for office space will expire. Over the past two years, the addition of 4.6 million square feet of office space, coupled with the current reduced demand due to the economic situation, has increased office vacancy rates in the area surrounding Baltimore/Washington International Thurgood Marshall Airport from 9.8% in 2006 to 15.4% in 2008. These high vacancy rates make this an ideal time to renegotiate leases or to seek out new ones. The committees encourage MAA to take the opportunity afforded by the upcoming expiration of its leases to consolidate staff where possible and to take advantage of high vacancy rates in the market to maximize lease savings.

8. Add the following section:

Section 36 Maryland Aviation Administration Agreement

SECTION 36. 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 that 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 advises the chair of the Senate Budget and Taxation Committee, the chair of the Public Safety, Transportation, and Environment Subcommittee, the chair of the House Appropriations Committee, the chair of the Transportation and Environment Subcommittee, and the Department of Legislative Services of the proposed agreement.

Explanation: This language has been added to the past two budget bills in response to a 2006 audit of the Maryland Aviation Administration that found that an agreement had been entered into guaranteeing a certain level of profit to an airline, and that unbeknownst to the General Assembly, it was a potential liability of the Transportation Trust Fund of up to \$5.5 million annually.

Information Request	Author	Due Date	
Report summarizing all agreements with airlines concerning fee waivers, joint marketing services, and profit guarantees	Maryland Aviation Commission	January 15, 2010	
Total Special Fund Reductions		\$ 809,020	6.0

PAYGO Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Airline Promotional Agreements Continue

Language included in the fiscal 2009 budget requires MAA to seek BPW approval and to provide notice to the legislature of any 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. Under this provision, in September 2008, MDOT sought and received BPW approval of an extension of the memorandum of understanding (MOU) between British Airways and MDOT.

This MOU has been in place since 2004 and provides British Airways a guaranteed return on sales of at least 10% in exchange for daily service to London Heathrow Airport. If the return on sales falls below 10%, MDOT agrees to provide British Airways a payment of not more than \$5.5 million annually. Under this agreement, MDOT has paid British Airways \$3.3 million in fiscal 2006, \$1.9 million in fiscal 2007, and \$2.6 million in fiscal 2008.

The contract extension approved by BPW in June extends this agreement through March 31, 2011, and reduces the return on sales guarantee percentage from 10 to 8%.

2. Annual Maryland Aviation Commission Report Received

The Maryland Aviation Commission (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 MDOT, who also serves as chairman. Additionally, the Secretary of the Department of Business and Economic Development 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;
- provide advice on the appointment or removal of the executive director of MAA; and
- consider input from air carriers, airport concessionaires, the airport services industry, and citizen advisory groups.

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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 2009 report provided a summary of accomplishments for 2008. From fiscal 2007 to 2008, BWI Marshall Airport saw an increase in passengers of 3.3%, rising to 21.3 million passengers. Cargo operations at BWI Marshall Airport decreased 8.8% to 241 million pounds of cargo.

In fiscal 2008, aircraft operations at MTN were down slightly, from 84,038 in fiscal 2007 to 81,190 in fiscal 2008. The number of gallons of aviation fuel sold stayed steady at just under 1.6 million gallons. In fiscal 2008, MTN revenues were \$9.8 million, a 16% increase over the previous year. This was the first year in several years that MTN did not have an operating deficit.

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 local operators like Silver Diner, Bayside Landing, and Mama Ilardos Pizza as well as nationally known operators like Panda Express and Subway. Concessions sales rose from fiscal 2007 to 2008 by 16.9%. Participation by Disadvantaged Business Enterprises in the concession program for federal fiscal 2008 through August 2008 is at 20.7% overall, down from 37% in federal fiscal 2007.

During calendar 2008, MAC members:

- reviewed and approved amendments to five chapters of the Code of Maryland Regulations to correct references, updated documents incorporated by reference, and updated regulations to reflect current information;
- approved changes to the 12 senior management personnel positions outlined in Section 5-201.1 of the Transportation Article; and
- were briefed on air service trends, air service marketing efforts, the concession development program, and the current BULA negotiations between MAA and the airlines.

Current and Prior Year Budgets

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

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2008					
Legislative Appropriation	\$0	\$182,591	\$350	\$0	\$182,941
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	-4,306	306	0	-4,000
Cost Containment	0	-105	0	0	-105
Reversions and Cancellations	0	-764	0	0	-764
Actual Expenditures	\$0	\$177,416	\$656	\$0	\$178,072
Fiscal 2009					
Legislative Appropriation	\$0	\$185,328	\$350	\$0	\$185,678
Cost Containment	0	-183	0	0	-183
Budget Amendments	0	-173	306	0	133
Working Appropriation	\$0	\$184,972	\$656	\$0	\$185,628

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

Fiscal 2008

Fiscal 2008 operating expenditures at MAA totaled \$178.1 million, which is \$4.9 million less than the legislative appropriation. The net decrease was the result of a \$4.0 million decrease in budget amendments, \$105,176 in cost containment, and \$0.8 million in cancellations. Cost containment actions include a \$105,176 decrease in special funds to reflect the abolition of 8.5 positions through BPW in January 2008.

Fiscal 2008 budget amendments include:

- \$600,612 increase in special funds for the cost-of-living increase granted to all State employees;
- \$306,191 increase in federal funds and a corresponding decrease in special funds to reflect reimbursement from the Department of Homeland Security for security enhancements at BWI Marshall Airport; 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 \$0.8 million. This is primarily the result of a surplus in health insurance.

Fiscal 2009

The fiscal 2009 legislative appropriation for MAA's operating program decreased by \$355,947 in special funds and increased by \$306,191 in federal funds. Cost containment actions in fiscal 2009 include an \$183,229 decrease in special funds to reflect health insurance reductions made through BPW in June 2008.

Fiscal 2009 budget amendments include:

- \$632,004 increase in special funds for the cost-of-living increase granted to all State employees;
- \$11,456 increase for the annual salary review for engineers; and
- a net decrease of \$509,987 to reflect an increase of \$306,191 in federal funds and a decrease of \$816,178 in special funds to reflect reimbursement from the Department of Homeland Security for security enhancements at BWI Marshall Airport.

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

<u>Object/Fund</u>	<u>FY08 Actual</u>	<u>FY09 Working Appropriation</u>	<u>FY10 Allowance</u>	<u>FY09 - FY10 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	477.50	471.00	471.00	0	0%
02 Contractual	0.59	2.00	1.00	-1.00	-50.0%
Total Positions	478.09	473.00	472.00	-1.00	-0.2%
Objects					
01 Salaries and Wages	\$ 34,796,534	\$ 35,601,625	\$ 36,371,738	\$ 770,113	2.2%
02 Technical and Spec. Fees	1,806,713	2,097,887	2,004,458	-93,429	-4.5%
03 Communication	1,786,187	2,051,079	2,152,599	101,520	4.9%
04 Travel	526,114	332,528	338,528	6,000	1.8%
06 Fuel and Utilities	14,918,112	15,420,627	17,881,009	2,460,382	16.0%
07 Motor Vehicles	2,109,955	1,306,805	4,242,618	2,935,813	224.7%
08 Contractual Services	80,303,162	89,847,476	82,681,841	-7,165,635	-8.0%
09 Supplies and Materials	8,680,596	5,477,653	5,816,386	338,733	6.2%
10 Equipment – Replacement	377,433	299,000	0	-299,000	-100.0%
11 Equipment – Additional	389,643	122,500	0	-122,500	-100.0%
12 Grants, Subsidies, and Contributions	701,354	577,157	722,027	144,870	25.1%
13 Fixed Charges	21,822,797	23,347,590	22,994,650	-352,940	-1.5%
14 Land and Structures	9,853,256	9,146,537	9,039,010	-107,527	-1.2%
Total Objects	\$ 178,071,856	\$ 185,628,464	\$ 184,244,864	-\$ 1,383,600	-0.7%
Funds					
03 Special Fund	\$ 177,415,665	\$ 184,972,273	\$ 183,588,673	-\$ 1,383,600	-0.7%
05 Federal Fund	656,191	656,191	656,191	0	0%
Total Funds	\$ 178,071,856	\$ 185,628,464	\$ 184,244,864	-\$ 1,383,600	-0.7%

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

Fiscal Summary
MDOT – Maryland Aviation Administration

<u>Program/Unit</u>	<u>FY08 Actual</u>	<u>FY09 Wrk Approp</u>	<u>FY10 Allowance</u>	<u>Change</u>	<u>FY09 - FY10 % Change</u>
2021 BWI Marshall Airport	\$ 167,957,767	\$ 177,369,471	\$ 176,844,716	-\$ 524,755	-0.3%
2022 Martin State Airport	9,820,254	7,954,762	7,112,062	-842,700	-10.6%
2023 Regional Air Development	293,835	304,231	288,086	-16,145	-5.3%
2030 Facilities and Capital Equipment	62,987,006	31,967,131	27,426,230	-4,540,901	-14.2%
1270 Parking Revenue Control System	0	2,046,000	0	-2,046,000	-100.0%
7200 Consolidated Dispatch Center Upgrade	0	2,136,000	537,000	-1,599,000	-74.9%
Total Expenditures	\$ 241,058,862	\$ 221,777,595	\$ 212,208,094	-\$ 9,569,501	-4.3%
Special Fund	\$ 231,782,481	\$ 218,527,404	\$ 210,469,903	-\$ 8,057,501	-3.7%
Federal Fund	9,276,381	3,250,191	1,738,191	-1,512,000	-46.5%
Total Appropriations	\$ 241,058,862	\$ 221,777,595	\$ 212,208,094	-\$ 9,569,501	-4.3%

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

**Budget Amendments for Fiscal 2009
Maryland Department of Transportation
Maryland Aviation Administration – Operating**

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	-\$183,229	Special	Reduction to health insurance through a June 2008 Board of Public Works action.
Approved	11,456	Special	Annual salary review for engineers.
Pending	632,004	Special	Funds the cost-of-living adjustment granted to all State employees.
Pending	-816,178	Special	Funding for security enhancements and to add a greater law enforcement presence at the airport to meet federal requirements.
	<u>306,191</u>	Federal	
	-\$509,987		
Projected	-5,607,576	Special	Cost containment reductions to align with the Maryland Department of Transportation's financial plan.

Source: Maryland Department of Transportation

**Budget Amendments for Fiscal 2009
Maryland Department of Transportation
Maryland Aviation Administration – Capital**

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	-\$22,280	Special	Reduction to health insurance through a June 2008 Board of Public Works action.
Pending	88,026	Special	Funds the cost-of-living adjustment granted to all State employees.
Pending	-93,093	Special	Funding for security enhancements and to add a greater law enforcement presence at the airport to meet federal requirements.
Projected	-22,730,000	Special	Adjusts the appropriation to agree with anticipated expenditures for the current year as reflected in the 2009-2014 <i>Consolidated Transportation Program</i> .
	<u>-1,748,000</u>	Federal	
	-\$24,478,000		

Source: Maryland Department of Transportation