

**J00D00**  
**Maryland Port Administration**  
**Maryland Department of Transportation**

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$97,900	\$100,613	\$92,236	-\$8,377	-8.3%
Contingent & Back of Bill Reductions	0	0	-622	-622	
<b>Adjusted Special Fund</b>	<b>\$97,900</b>	<b>\$100,613</b>	<b>\$91,613</b>	<b>-\$8,999</b>	<b>-8.9%</b>
<b>Adjusted Grand Total</b>	<b>\$97,900</b>	<b>\$100,613</b>	<b>\$91,613</b>	<b>-\$8,999</b>	<b>-8.9%</b>

Note: For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected across-the-board reductions. The actual allocations are to be developed by the Administration.

- After accounting for estimated allocations of across-the-board reductions, the fiscal 2011 allowance decreases by \$9.0 million, or 8.9%, from the fiscal 2010 working appropriation. Across-the-board allocated reductions include additional service reduction and furlough days for all State employees, injured workers' settlement policy and administrative costs, and health insurance savings to reflect a balance in that account.
- The decrease in the fiscal 2011 allowance is largely the result of the cessation of payments (\$8.6 million) to the Maryland Transportation Authority (MDTA) for Seagirt Marine Terminal due to a recently approved public-private partnership (P3).

***PAYGO Capital Budget Data***

(\$ in Thousands)

	Fiscal 2009	Fiscal 2010		Fiscal 2011
	<u>Actual</u>	<u>Legislative</u>	<u>Working</u>	<u>Allowance</u>
Special	\$102,338	\$113,767	\$81,563	\$80,933
Federal	\$0	\$761	\$1,117	\$5,101
<b>Total</b>	<b>\$102,338</b>	<b>\$114,528</b>	<b>\$82,680</b>	<b>\$86,034</b>

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

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- The fiscal 2011 allowance for the pay-as-you-go capital program increases by \$3.4 million, or 4.1%, from the fiscal 2010 working appropriation.
- Due to cost containment actions required by downward revisions to revenue estimates in March 2009, the fiscal 2010 working appropriation declined by \$31.8 million from the legislative appropriation. The decrease was primarily the result of deferring projects to later years.

***Operating and PAYGO Personnel Data***

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	<b><u>FY 09</u></b> <b><u>Actual</u></b>	<b><u>FY 10</u></b> <b><u>Working</u></b>	<b><u>FY 11</u></b> <b><u>Allowance</u></b>	<b><u>FY 10-11</u></b> <b><u>Change</u></b>
Regular Operating Budget Positions	249.00	242.00	242.00	0.00
Regular PAYGO Budget Positions	<u>42.00</u>	<u>42.00</u>	<u>42.00</u>	<u>0.00</u>
<b>Total Regular Positions</b>	<b>291.00</b>	<b>284.00</b>	<b>284.00</b>	<b>0.00</b>
Operating Budget FTEs	0.90	1.20	0.70	-0.50
PAYGO Budget FTEs	<u>0.50</u>	<u>0.50</u>	<u>0.50</u>	<u>0.00</u>
<b>Total FTEs</b>	<b>1.40</b>	<b>1.70</b>	<b>1.20</b>	<b>-0.50</b>
<b>Total Personnel</b>	<b>292.40</b>	<b>285.70</b>	<b>285.20</b>	<b>-0.50</b>

**Vacancy Data: Regular Positions**

Turnover and Necessary Vacancies, Excluding New Positions	11.25	3.96%
Positions and Percentage Vacant as of 12/31/09	9.00	3.17%

- The fiscal 2011 allowance includes 284.0 regular positions, the same as the fiscal 2010 working appropriation. The working appropriation reflects the abolition of 7.0 positions during fiscal 2010, including 6.0 vacant positions and 1.0 filled position.
- As of December 31, 2009, the Maryland Port Administration (MPA) had 9.0 vacant positions, for a vacancy rate of 3.2%; however, the fiscal 2011 turnover is set at 4.0%, requiring 11.25 vacancies. If the vacancy rate remains below the turnover rate, the amount budgeted for salaries will be insufficient and MPA may have to identify reductions elsewhere in its budget to fund salaries.
- One position has been vacant over 12 months.
- The fiscal 2011 allowance includes 27.0 regular positions that are no longer required due to a recent P3 at Seagirt Marine Terminal that turns operations over to the private sector.

## *Analysis in Brief*

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### Major Trends

**Cargo Volumes Decline:** The economic downturn has affected ports nationwide. Declines at the Port of Baltimore were comparable to declines for other east coast ports. From fiscal 2008 to 2009, general cargo tonnage at MPA facilities decreased 14% from 9.1 million to 7.8 million. The most dramatic declines were seen in paper (-31%), autos (-26%), and roll-on/roll-off (-18%).

**Severe Strain in Capacity of Dredged Material Placement Sites:** Currently, dredged material placement sites for material dredged from the Baltimore Harbor are able to accept material from maintenance dredging only and cannot accommodate new dredged material without overloading existing placement sites. Beginning in 2011, annual maintenance dredging of Bay channels will require overloading of existing sites, thus shortening the sites' operational lives. It will take several years before new placement sites for Harbor or Bay material become operational.

### Issues

**Public-private Partnership for Seagirt Approved:** In December 2009, the Board of Public Works approved a 50-year lease for the operation and maintenance of Seagirt Marine Terminal to Ports America Chesapeake (PAC). In return, PAC agreed to pay MDTA \$140 million to repay its investment in the construction of Seagirt, construct a 50-foot berth prior to expansion of the Panama Canal in 2014, and pay MPA annual operating and cargo volume payments. **The Department of Legislative Services recommends that MPA brief the committee on the transaction and implementation to date and on any lessons it may have learned from its first P3 agreement.**

### Operating Budget Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Abolish 27 crane maintenance positions and delete associated funding.	\$ 1,706,597	27.0
2. Delete funding for the stevedoring contract for operations at Seagirt.	36,392,956	
3. Reduce expenditures by \$1.5 million to reflect the long-term lease of Seagirt Marine Terminal to a private company.	1,548,666	
4. Delete funds for operating lease payments to the Maryland Transportation Authority.	500,000	

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5.	Delete 1 position that has been vacant over 12 months.	60,507	1.0
6.	Delete funding for vessel insurance for the Pride of Baltimore II.	41,449	
7.	Delete funds for employee parking.	150,000	
8.	Reduce funds for travel to the fiscal 2010 working appropriation.	148,000	
9.	Reduce funds for association dues to the fiscal 2010 working appropriation.	20,000	
	<b>Total Reductions</b>	<b>\$ 40,568,175</b>	<b>28.0</b>

**PAYGO Budget Recommended Actions**

	<u>Funds</u>
1. Reduce funds for computer replacement to reflect the long-term lease of Seagirt Marine Terminal to a private company.	\$ 75,000
<b>Total Reductions</b>	<b>\$ 75,000</b>

## **Updates**

***Port Security Remains a Priority:*** Port security remains a top priority at ports nationwide and in Maryland. The December 2009 *Funding to Address Vulnerability Concerns* report provides an update of security improvements made in 2009.

***Chromium Ore Processing Residue Remediation:*** In recognition of the long-term nature and potential cost of remediation at Dundalk Marine Terminal, the 2009 *Joint Chairmen's Report (JCR)* required annual reports from MPA on the status of remediation efforts. In 2009, MPA and Honeywell International completed a number of studies and assessments and submitted them to the Maryland Department of the Environment (MDE) for review. In addition, a number of interim corrective measures were taken. MPA anticipates submission of the final Corrective Measures Analysis to MDE in late 2010.

***Cost Recovery for Dredged Material Placement Sites:*** The 2009 JCR required a report on the use of tipping fees to recover costs associated with the construction and operation of dredged material placement sites. A number of factors combine to increase the cost of developing dredged material placement sites in Maryland compared to neighboring states. Although allowed by law to recover construction and operating costs as well as a reasonable rate of return, in an effort to keep rates competitive, MPA seeks to recover annual operating costs only.

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## ***Budget Analysis***

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### **Program Description**

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

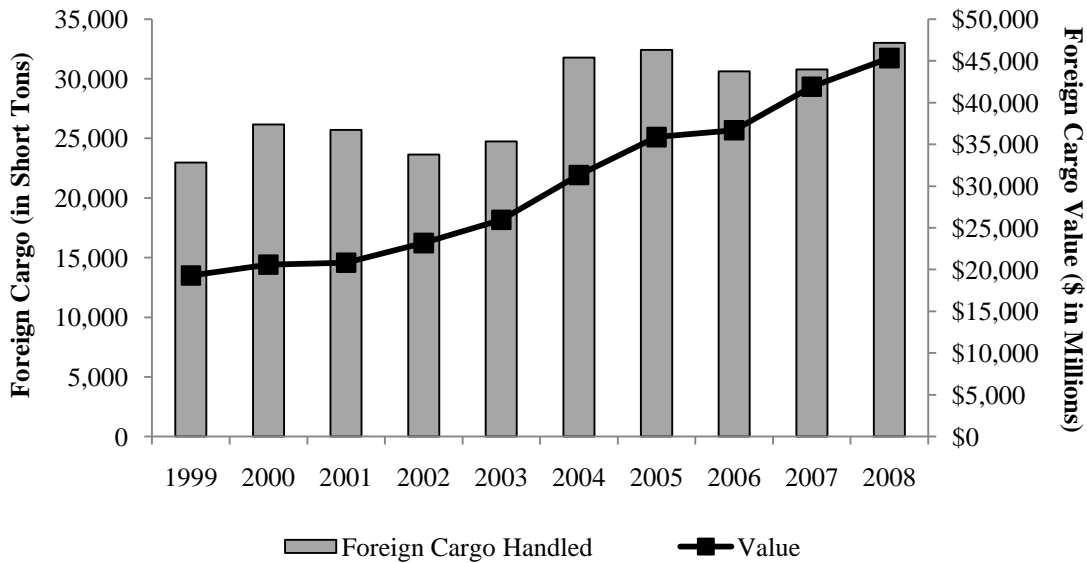
To pursue its mission of stimulating the flow of waterborne commerce through the ports of the State of Maryland in a manner that provides economic benefit to the citizens of the State, MPA has identified the following key goals:

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

### **Performance Analysis: Managing for Results**

The Port is a vast industrial complex that encompasses 45 miles of shoreline and 3,403 waterfront acres. It includes 7 public terminals owned by MPA, as well as 23 private terminals. Unlike many State entities, the Port operates in a highly competitive market, with direct competition not only from the private industry but also from other ports up and down the east coast, as well as some Canadian ports. As shown in **Exhibit 1**, in 2008, the Port handled 33.0 million tons of foreign cargo at its private and public terminals, up 7.3% from 30.8 million tons in 2007. The Port ranked 14th among all United States port districts (down from 13th in 2007) for total foreign cargo handled and 12th among all United States port districts in terms of the total dollar value of that cargo. In 2008, the value of foreign cargo handled at the Port increased by 8.0% to \$45.3 billion, the highest total on record.

**Exhibit 1**  
**Total Foreign Cargo Handled and Cargo Value**  
**Helen Delich Bentley Port of Baltimore**  
**Calendar 1999-2008**



Note: Includes both public and private terminals.

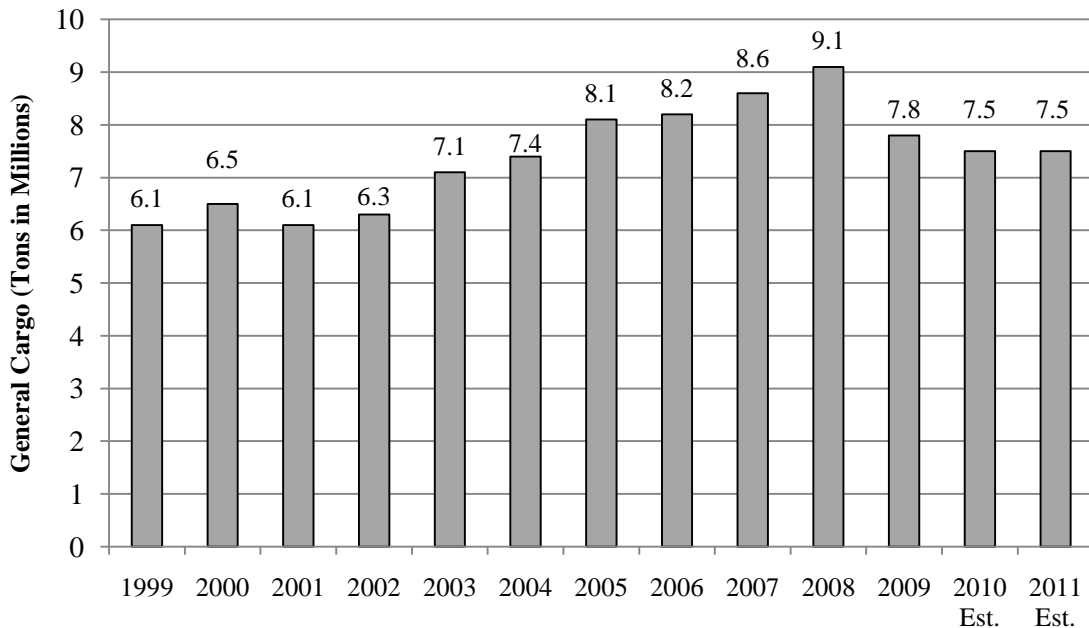
Source: Maryland Port Administration, Foreign Commerce Statistical Report, 2008

### Cargo Volumes at MPA Terminals

Nationwide, the economic downturn and the accompanying decrease in consumer demand has had an effect on cargo traveling through our nation’s ports. Largely due to the decline in the value of the U.S. dollar compared to other world currencies, exports increased while imports declined. Although east coast ports have fared slightly better than west coast ports, both have seen dramatic declines in cargo.

At the Port of Baltimore, declines in general cargo began later and were less severe than in much of the rest of the country. In calendar 2008, general cargo was flat and then dropped sharply by 23.0% in the first six months of 2009. At MPA terminals, general cargo tonnage peaked in fiscal 2008 at 9.1 million tons and then decreased to 7.8 million in fiscal 2009, a decrease of 14.3%. As shown in **Exhibit 2**, the current economic downturn is expected to continue into fiscal 2010 and 2011, as general cargo is expected to slightly decrease in fiscal 2011 and then stabilize in fiscal 2012.

**Exhibit 2**  
**Total General Cargo Tonnage at State-owned Facilities**  
**Fiscal 1999-2011**

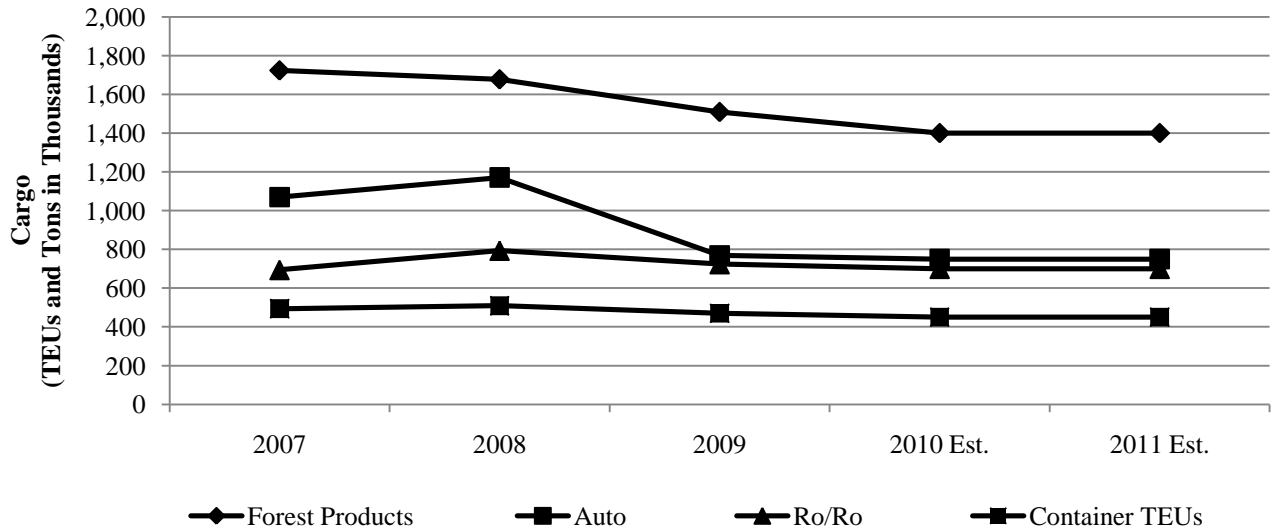


Source: Maryland Port Administration

Four major types of cargo flow through MPA’s public terminals. These are roll-on/roll-off (Ro/Ro), forest products, autos, and containers. Ro/Ro includes construction and farm equipment, as well as other cargo that is driven on or off a ship, excluding autos. **Exhibit 3** provides data on total general cargo by type that is handled at the Port. In calendar 2008, the Port of Baltimore was first in the nation in Ro/Ro, imported forest products, sugar, iron ore, and gypsum. In 2007, the Port moved from second to first in auto exports, but in 2008 it slid back into second place.

Total general cargo at MPA facilities dropped by 14.0% from fiscal 2008 to 2009, with declines in nearly every cargo type. The greatest declines were seen in paper (-31.0%), autos (-26.0%), Ro/Ro (-18.0%), and containers (-10.0%). Pulp imports were one of the few cargo types to increase, albeit slightly (0.4%). Looking ahead to fiscal 2010, additional declines are expected followed by stabilization in fiscal 2011.

**Exhibit 3  
Cargo Tonnage at State-owned Facilities, by Cargo Type  
Fiscal 2007-2011**



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

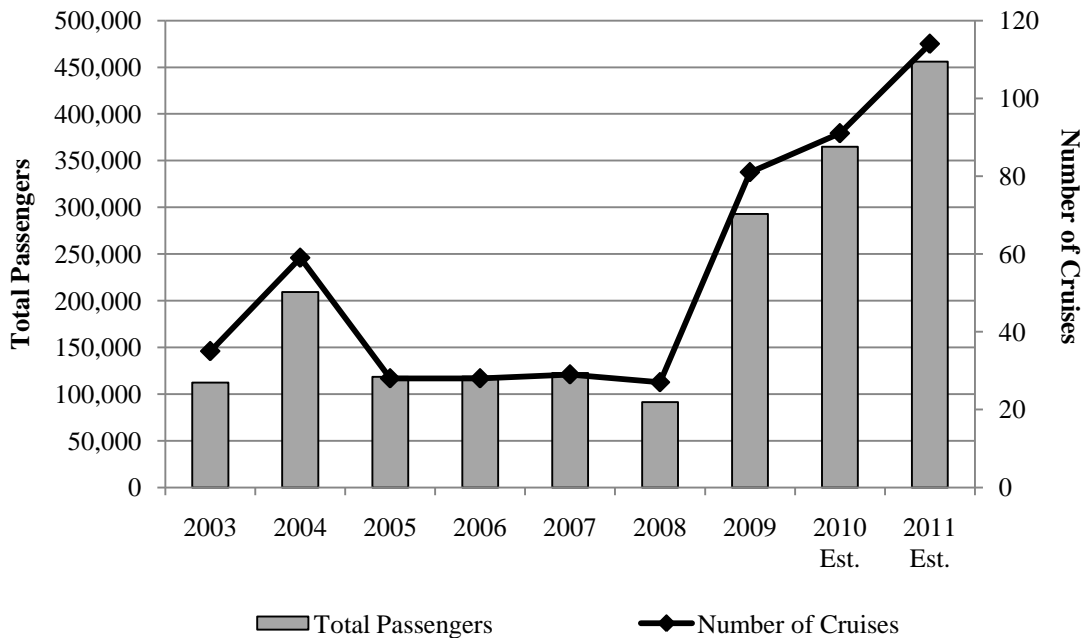
Source: Maryland Port Administration

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

As airline prices, delays, and travel hassles increase, more people are turning to ports within driving distance to set sail on a cruise rather than flying to traditional cruise ports like Miami. This, coupled with recent improvements in the cruise terminal at South Locust Point, has resulted in a record year for cruises in 2009 at the Port of Baltimore. Eighty-one cruises set sail in calendar 2009, a new record for the Port. MPA also continues to set all-time cruise passenger records for single sailings with the most recent record of 2,598 people set on June 13, 2009, aboard the Carnival Pride. Carnival Cruise Lines is also the first cruise carrier to offer year-round cruises from the Port of Baltimore.

Cruise lines currently serving the Port are Carnival Cruise Lines, Royal Caribbean International, and Celebrity Cruises. Although Norwegian Cruise Lines serviced the port in 2009, after a recent downsizing of their fleet, it will no longer have a ship based in Baltimore. Regardless of that change, the number of cruises and passengers is expected to continue to increase in calendar 2010 due to Royal Caribbean International’s announcement that it would begin year-round cruises. It will also bring a cruise ship with greater passenger capacity.

**Exhibit 4  
Cruise Ship Operations  
Calendar 2003-2011**



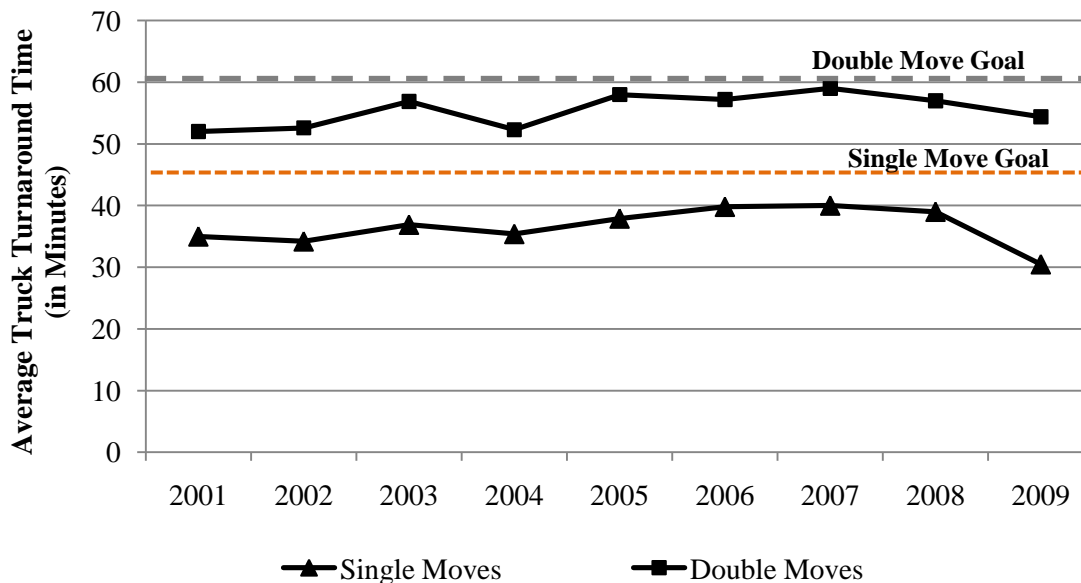
Source: Maryland Port Administration

**Efficiency Measures**

Decreased cargo volume in fiscal 2009 allowed MPA, as well as many ports across the nation, to become more efficient at handling the remaining cargo. In fiscal 2009, the number of crane moves per hour at Seagirt Marine Terminal increased from 34.0 to 34.7, allowing ships to be loaded and unloaded more quickly.

In fiscal 2009, MPA also improved truck turnaround times, which measure the average time elapsed between when a truck arrives at the terminal and when it departs. **Exhibit 5** shows the average truck turnaround time for single and double moves. Single moves involve the loading or unloading of a container and double moves involve both. MPA’s goal for single moves is 45 minutes (increased from 30 minutes in calendar 2009) and double moves is 60 minutes. Although no national benchmarks exist, these goals are comparable to other ports’ goals.

**Exhibit 5  
Truck Turnaround Time  
Fiscal 2001-2009**



Source: Maryland Port Administration

**Dredged Material Management**

Following the closure of Hart Miller Island at the end of 2009, there is not sufficient annual capacity for material dredged from the Harbor. Although MPA reports that the estimated annual capacity remaining for Harbor material is 14 years, this comes at the expense of overloading existing sites, which shortens the operational life of the facilities. Although annual maintenance dredging can take place without overloading existing capacity, there is not sufficient capacity for new dredging until a new placement option becomes operational. The possibility of a site at Sparrows Point is being studied and could become operational in 2015 in a best case scenario; however, several major hurdles exist with this potential site that may be difficult to overcome.

The current options for placement of material dredged from the Chesapeake Bay are at Poplar Island or at Pooles Island Open Water Placement Site. However, statute requires the closure of Pooles Island by the end of 2010. Following the closure, there will not be sufficient capacity for maintenance or new dredging without overloading existing sites. Although Congressional authorization has been granted to expand the Poplar Island site, it will take several years before this expansion becomes operational. Therefore, following the closure of Pooles Island, all Bay dredging will result in overloading Poplar Island, thus shortening its operational life. **MPA should comment**

**on the lack of capacity for dredged material placement and what options are being studied for the future.**

## **Revenues and Expenditures**

Unlike most other State agencies that rely solely on the State for all support, MPA receives revenues that help to offset its expenditures. Its profitability determines how much the Transportation Trust Fund (TTF) must provide as a subsidy. Over the past 10 years, MPA has been operating at a loss. Revenues also do not cover MPA's capital expenditures. MPA relies on the TTF or other non-MPA financing mechanisms, such as Certificates of Participation, for all capital investments.

For the first time in at least a decade, MPA is projecting a positive net operating income in fiscal 2011, as shown in **Exhibit 6**. However, MPA's fiscal 2011 budget submission does not reflect changes due a public-private partnership (P3) for Seagirt Marine Terminal. In December 2009, the Board of Public Works (BPW) approved a long-term lease of Seagirt to Ports America Chesapeake (PAC). Discussed in greater detail in Issue 1, the P3 agreement involves PAC assuming the operations and maintenance of Seagirt from MPA for the next 50 years. Due to the agreement being approved so late in the budget-building process, many of the costs associated with operating Seagirt were built into MPA's budget in case the deal was not approved. Although MPA deleted \$8.6 million in operating costs associated with Seagirt from its budget, \$40.2 million in other costs associated with Seagirt were not removed. Additionally, revenues from Seagirt were not removed from MPA's estimates, causing it to overstate revenues by \$51.0 million.

As shown in the "Adjusted 2011" column, which adjusts MPA's revenues and expenditures based on estimates of funding associated with Seagirt, MPA will post a net operating loss in fiscal 2011 of roughly \$5.1 million. This loss, representing 10.3% of adjusted operating expenditures, will be provided as a subsidy from the TTF. When coupled with the capital program, MPA requires a \$96.2 million subsidy from the TTF in fiscal 2011. This subsidy totals 68.5% of total expenditures for MPA.

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

**Exhibit 6**  
**Special Fund Revenues and Expenses**  
**Fiscal 2008-2011**  
**(\$ in Thousands)**

	<u>Actual</u> <u>2008</u>	<u>Actual</u> <u>2009</u>	<u>Estimated</u> <u>2010</u>	<u>Estimated</u> <u>2011</u>	<u>Adjusted</u> <u>2011<sup>1</sup></u>
<b>Operating Revenue</b>	\$96,795	\$91,426	\$93,720	\$95,248	\$44,232
Total Operating Expenses <sup>2</sup>	107,102	100,115	103,019	94,642	54,419
Total Exclusions <sup>3</sup>	-4,748	-4,397	-4,515	-5,101	-5,101
<b>Net Operating Expenses</b>	<b>\$102,354</b>	<b>\$95,718</b>	<b>\$98,504</b>	<b>\$89,541</b>	<b>\$49,318</b>
<b>Net Operating Income</b>	<b>-5,559</b>	<b>-4,292</b>	<b>-4,784</b>	<b>5,707</b>	<b>-5,086</b>
<b>Capital Expenditures<sup>4</sup></b>	<b>125,280</b>	<b>106,735</b>	<b>87,194</b>	<b>91,135</b>	<b>91,135</b>
<b>Total TTF Subsidy</b>	<b>\$130,839</b>	<b>\$111,027</b>	<b>\$91,978</b>	<b>\$85,428</b>	<b>\$96,221</b>

TTF: Transportation Trust Fund

<sup>1</sup> Based on Department of Legislative Services' estimates of revenue and expenditures excluding Seagirt.

<sup>2</sup> Includes the following expenses paid by the Maryland Department of Transportation: \$1.4 million per year for Baltimore City Fire Suppression and payments in lieu of taxes in the amount of \$815,370 in fiscal 2008 and 2009, and \$1.0 million budgeted for fiscal 2010 and 2011.

<sup>3</sup> Excluded expenditures include payments to the Maryland Transportation Authority for Masonville, certificates of participation debt service payments, and certain capital equipment.

<sup>4</sup> Includes special fund capital allowance as well as the capital expense exclusions that were removed from the operating budget above.

Source: Department of Legislative Services

## Fiscal 2010 Actions

### Impact of Cost Containment

Throughout fiscal 2010, a number of cost containment actions have taken place. These cost containment actions took place as the result of a requirement in the fiscal 2010 budget bill abolishing a total of 55.0 vacant positions departmentwide and a number of BPW actions reducing spending statewide. In total, MPA's budget was reduced by \$9.0 million and 7.0 positions were abolished. Of the 7.0 abolished positions, 1.0 was filled and the remaining positions were vacant.

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The cost containment actions included a number of operating budget reductions. These include:

- \$5.1 million for the stevedoring contract to reflect a payment to labor that had previously been made as a pass through payment from the shipper to labor that will now be paid directly from the shipper to labor; however, since there is a corresponding decrease in revenues, the action did little to reduce the bottom line since it came off both sides of the balance sheet;
- \$0.7 million for reduced maintenance and housekeeping;
- \$0.6 million to reflect statewide furloughs and service reduction days;
- \$0.6 million for information technology-related expenses;
- \$0.6 million for supplies and materials;
- \$0.5 million for vehicle purchases, repair, and fuel; and
- \$0.2 million for travel.

The majority of these cost containment actions represent one-time savings; however, actions such as moving employees from leased office space to space owned by MPA will provide permanent savings.

**Lease Savings Realized by Moving Employees to the World Trade Center**

In January 2010, MPA moved 94 employees from leased office space at Point Breeze in Dundalk to the MPA-owned World Trade Center (WTC). Office space at Point Breeze was previously leased from the Maryland Transportation Authority (MDTA) at a rate of \$12.78 per square foot. In recent years, MDTA leased one of the floors of the Point Breeze complex to a portion of MPA staff. Unfortunately, as MDTA's need for space grew over the years, rather than terminating its lease with MPA to free up space, MDTA began leasing space from a private owner in an adjacent building. Moving MPA staff to the WTC will allow MDTA to terminate its lease for additional space in the adjacent building, thus allowing the majority of staff at both agencies to be centrally located and to produce total lease savings of nearly \$1 million. Furthermore, when taking the moves to the WTC by MPA and by the Department of Business and Economic Development into account, occupancy at the WTC has reached 80%, up from a low of 48% in 2008 resulting from uncertainty about the sale of the building.

## **Proposed Budget**

MPA's fiscal 2011 operating budget allowance decreases by \$8.4 million, or 8.3%, from the fiscal 2010 working appropriation. After adjusting for MPA's estimated allocation of across-the-board reductions, the fiscal 2011 operating budget allowance decreases \$9.0 million, or 8.9%, from the fiscal 2010 working appropriation. **Exhibit 7** provides a short summary of the changes taking place from the fiscal 2010 working appropriation to the fiscal 2011 allowance.

### **Impact of Cost Containment**

The fiscal 2011 budget reflects several across-the-board actions to be allocated by the Administration. This includes a combination of employee furloughs and government shut-down days similar to the plan adopted in fiscal 2010; a reduction in overtime based on accident leave management; streamlining of State operations; hiring freeze and attrition savings; a change in the injured workers' settlement policy and administrative costs; and a savings in health insurance to reflect a balance in that account. For purposes of illustration, the Department of Legislative Services (DLS) has estimated the distribution of selected actions relating to employee furloughs, health insurance, and the Injured Workers' Insurance Fund cost savings.

### **MPA Selling Pride**

As another cost containment measure, MPA is negotiating with the Pride of Baltimore, Inc., the nonprofit organization that operates the Pride of Baltimore II, to convey the vessel to them. The Pride of Baltimore II is a replica of an 1812 Baltimore Clipper ship that sails goodwill missions to educate the public about Maryland's maritime history, Baltimore Clippers, the War of 1812, and the Star Spangled Banner. Until fiscal 2007, MPA paid the nonprofit an annual operating grant of \$164,000 for operating expenses. When that grant was terminated due to cost containment, increased private donations filled the void. Since that time, the vessel has been operated by the Pride of Baltimore, Inc. without financial support from the State except for MPA continuing to pay the vessel insurance.

**Exhibit 7**  
**Proposed Budget**  
**MDOT – Maryland Port Administration**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b><u>Special</u> <u>Fund</u></b>	<b><u>Total</u></b>
2010 Working Appropriation	\$100,613	\$100,613
2011 Allowance	<u>92,236</u>	<u>92,236</u>
Amount Change	-\$8,377	-\$8,377
Percent Change	-8.3%	-8.3%
 Contingent Reductions	 -\$622	 -\$622
Adjusted Change	-\$8,999	-\$8,999
Adjusted Percent Change	-8.9%	-8.9%

**Where It Goes:**

**Personnel Expenses**

Employee retirement .....	\$252
Turnover adjustments.....	192
Social security contributions .....	46
Employee salaries (after adjusting for across-the-board reductions) .....	43
Other fringe benefit adjustments .....	30
Employee health insurance (after adjusting for across-the-board reductions).....	-73
Workers' compensation premium assessment (after adjusting for across-the-board reductions) .....	-135

**Other Changes**

Purchase of new and replacement vehicles .....	300
Sprinkler system compliance .....	247
Purchase of additional and replacement equipment .....	223
Shuttle bus services for cruise operations .....	194
Security .....	154
Supplies and materials .....	145
Travel .....	140
Employee parking .....	137
Other miscellaneous operating budget adjustments .....	126
Maintenance and repair of terminal facilities.....	101
Insurance coverage.....	96

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**Where It Goes:**

Vehicle-related expenses, including fuel, insurance, repair, and maintenance .....	-119
Information technology-related expenses .....	-335
Savings from moving employees from leased office space to the World Trade Center ...	-484
Utilities .....	-1,688
Termination of payments to the Maryland Transportation Authority for Seagirt .....	-8,591
<b>Total</b>	<b>-\$8,999</b>

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

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**Personnel Costs**

After adjusting for across-the-board allocated reductions, personnel costs increase by \$355,431, primarily as the result of increases in employee retirement costs due to an increase in the State’s contribution rate. Other notable changes include decreasing the turnover rate from 5.3 to 4.0%, resulting in an increase of \$192,147 of funds budgeted for turnover and a decrease of \$134,955 (including a decrease of \$117,047 included in the allowance and a proposed allocation for across-the-board reductions of \$17,908) for workers’ compensation premiums due to lower claims activities.

**Nonpersonnel Costs**

Outside of personnel, the fiscal 2011 allowance decreases by \$9.4 million from the fiscal 2010 working appropriation. The majority of this decrease (\$8.6 million) is due to the termination of annual operating lease payments to MDTA to repay MDTA’s investment in construction of Seagirt Marine Terminal. As noted above and discussed further in Issue 1, in December 2009, BPW approved a 50-year lease of Seagirt Marine Terminal from MPA to PAC. Included in this agreement was the requirement that PAC provide an upfront payment of \$140.0 million to MDTA to repay its investment in Seagirt. In return, ownership of Seagirt then transferred to MPA, which entered into a long-term operating lease with PAC. Due to approval of the agreement taking place so late in the budget-building process, the majority of costs associated with Seagirt are still included in MPA’s budget. Several recommended actions discussed later will delete these operating costs no longer needed as a result of the long-term lease.

Other large changes taking place in the budget include:

- \$0.3 million net increase for new and replacement vehicles, including a \$72,933 decrease in the purchase of autos and a \$372,459 increase in the replacement of other land vehicles, such as trailers, forklifts, skid loaders, and yard tractors;
- \$0.2 million increase for monitoring additional sprinkler systems;

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- \$0.2 million increase for additional and replacement equipment, such as sea guards, jersey barriers, heat pumps, office equipment, and tools;
- \$0.2 million increase for additional shuttle bus services for cruise operations based on the higher number of cruises scheduled;
- \$0.2 million increase for security provided by MDTA Police;
- \$0.3 million decrease for information technology-related expenses, such as the purchase and maintenance of software; and
- \$1.7 million decrease for overbudgeted utilities.

## **PAYGO Capital Program**

### **Program Description**

MPA's pay-as-you-go (PAYGO) capital program identifies and manages projects and funding for Port facilities that provide increased capacity for existing cargo and promote the shipment of new cargo. Current projects focus on improving and modernizing existing State capital facilities, developing new facilities, and supporting the improvement of shipping channels through dredging activities conducted in cooperation with the United States Army Corps of Engineers.

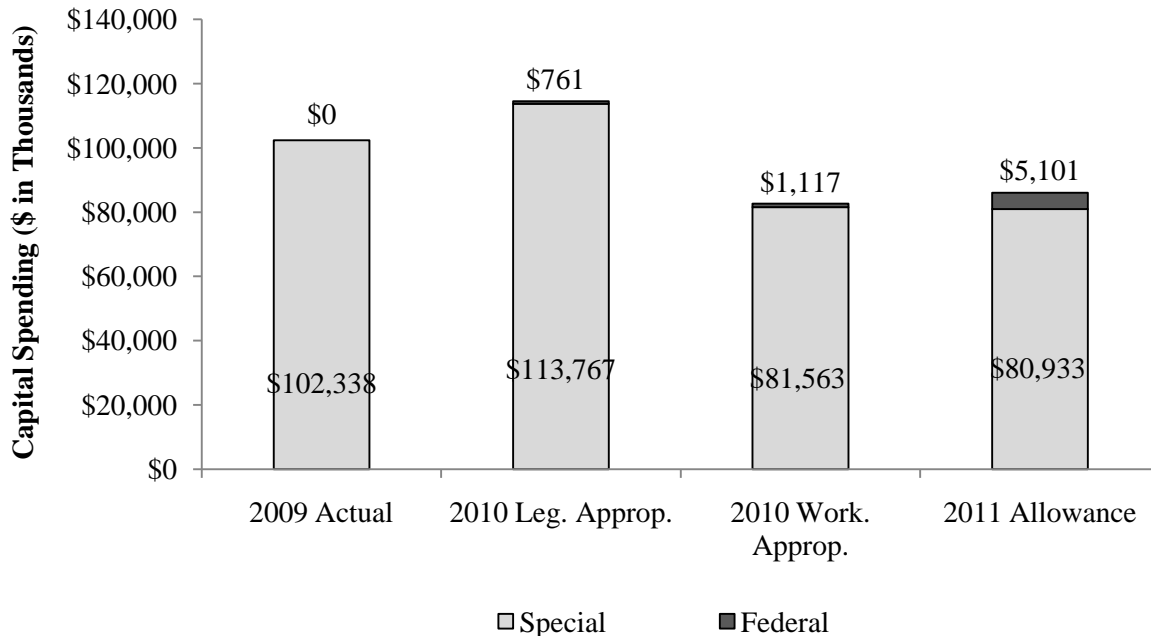
### **Fiscal 2010 to 2015 Consolidated Transportation Program**

The fiscal 2011 PAYGO capital allowance increases by \$3.4 million from the fiscal 2010 working appropriation. This net increase is the result of a \$10.5 million decrease in major construction projects, which is offset by a \$13.8 million increase in system preservation projects. The decrease in the major projects program is largely the result of a \$23.7 million decrease in the dredged material placement and monitoring project as the result of completion of construction of the Masonville Dredged Material Containment Facility, which should begin operation later this year. This large decrease is offset by increases of \$5.7 million for terminal security due to the receipt of additional federal funds and \$3.4 million for the cruise terminal to develop additional parking and to purchase an additional gangway.

### **Fiscal 2010 and 2011 Cash Flow Analysis**

**Exhibit 8** presents cash flow changes from MPA's fiscal 2009 to 2011 PAYGO capital budgets. The total PAYGO capital program, including all fund sources, increases \$3.4 million, or 4.1%, from \$82.7 million in fiscal 2010 to \$86.0 million in fiscal 2011. The funding consists almost entirely of special funds, although there is a small portion of federal funds for terminal security. Federal funds for security also include \$0.7 million in fiscal 2010 and \$0.6 million in fiscal 2011 from the American Recovery and Reinvestment Act of 2009.

**Exhibit 8  
Cash Flow Changes  
Fiscal 2009-2011**



Source: Maryland Department of Transportation, 2010-2015 *Consolidated Transportation Program*

The fiscal 2010 working appropriation reflects a significant decrease (\$28.6 million, or 24.9%) from the fiscal 2010 legislative appropriation. In March 2009, the Maryland Department of Transportation (MDOT) revised its revenue estimates downward in response to lowered estimates by the Board of Revenue Estimates and the continuing deterioration of the economy. Due to these revisions, MDOT had to shift \$170.0 million in spending from fiscal 2009 through 2011 to fiscal 2012 through 2014. Shifting money from earlier years to later years allowed MDOT to defer projects rather than cancel them. In total, \$6.3 million worth of major projects and \$31.2 million of minor projects at MPA were deferred from fiscal 2009 to 2011 to fiscal 2012 to 2014. In addition, one minor project had funding over the six-year capital program increase by \$0.5 million, one minor project had funding reduced by \$0.2 million, and two minor projects were deleted.

**Exhibit 9** provides a list of major construction projects funded in fiscal 2011. The five projects listed account for 92.3% of fiscal 2011 funding for major projects in the construction program.

**Exhibit 9**  
**Major Construction Projects**  
**Funded in Fiscal 2011**  
**(\$ in Thousands)**

<u>Project</u>	<u>Fiscal 2011</u>	<u>Total \$</u>	<u>Completion of Fiscal Cash Flow</u>
Hart-Miller Island – this dredged material placement site ceased receiving new material on December 31, 2009, but maintenance and monitoring of water quality will continue.	\$3,301	\$89,407	Ongoing
Chromium Ore Processing Residue Remediation – includes studies and work plans to assess the presence and scope of chromium at Dundalk Marine Terminal and the development and evaluation of remediation options.	3,490	28,615	Ongoing
Cruise Terminal Improvements – includes development of land adjacent to the cruise terminal for parking and a new gangway for boarding vessels.	3,775	20,828	2012
Terminal Security Program – enhancements to security at MPA terminals and facilities. Fiscal 2011 funding includes \$4.4 million in federal Port Security Grants and ARRA funding.	7,669	35,609	2012
Dredged Material Placement and Monitoring – involves the construction, monitoring and operation of dredged material containment sites.	17,762	537,764	Ongoing

ARRA: American Recovery and Reinvestment Act of 2009  
 MPA: Maryland Port Administration

Source: Maryland Department of Transportation, 2010-2015 *Consolidated Transportation Program*

**Projects Added to the Construction Program**

In the fiscal 2010-2015 *Consolidated Transportation Program* (CTP), one project was added to the construction program. Although the project was previously included in the CTP as a minor project, it was added to the construction program as the result of an agreement during the 2009 legislative session between the legislature and MDOT to include projects that may statutorily be defined as a minor project, but have a total cost of more than \$10 million, as major projects.

The project involves the remediation of chromium ore processing residue (COPR) at Dundalk Marine Terminal. During the 1970s, COPR was thought to be a good fill material and about

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two million cubic yards of COPR was used to create a portion of Dundalk Marine Terminal. Since that time, it has been determined that much of the COPR at Dundalk Marine Terminal contains hexavalent chromium, a hazardous substance. Currently, MPA and Honeywell International, Inc (whose predecessor company was responsible for disposal of the COPR) are conducting a number of studies to determine the presence of COPR in the soil, air, and water at the terminal and to develop and evaluate remediation strategies. Once this analysis is complete, the Maryland Department of the Environment (MDE) will select the preferred remediation option for MPA and Honeywell to pursue. Per a 2006 agreement between MPA and Honeywell, MPA is responsible for 23% of the costs of the studies and remediation, and Honeywell is responsible for the remaining portion. Fiscal 2011 funding for MPA's share of this project is \$3.5 million. Since final remediation options have not yet been decided, an exact cost is not known; however, MPA's share of the cost could be as high as \$575.0 million over the next 5 to 18 years.

## ***Issues***

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### **1. Public-private Partnership for Seagirt Approved**

On December 16, 2009, BPW approved a 50-year lease of Seagirt Marine Terminal to PAC. PAC, a member of the Ports America Group, is the largest independent terminal operator in the United States and is the current stevedore contractor at Seagirt.

Key provisions of the agreement include:

- PAC will lease Seagirt and the Canton Warehouse property, an 18-acre site adjacent to Seagirt, for a 50-year period, to include all operations, maintenance, and capital investments;
- the Intermodal Container Transfer Facility is not included as part of the agreement; however, when the lease with CSX ends in 2014, if MPA is unable to renew that lease or lease the facility to the Canton railroad or another Class I railroad, PAC will have the right of first refusal for the facility;
- PAC will return approximately 65 acres of land currently leased at Dundalk Marine Terminal, thereby allowing MPA to lease this land to another company. This includes 53 acres leased by PAC and 12 acres leased by Amports;
- MDTA Police will remain the primary law enforcement agency at Seagirt;
- a noncompete clause prohibits the operation of a container terminal at Dundalk Marine Terminal for 16 years or on land owned, leased, or operated by MPA, MDTA, or MDOT for 15 years;
- an adverse action clause allows PAC to cancel the contract and impose financial penalties if any action taken by the State or Baltimore City has an adverse effect on the fair market value of Seagirt or is expected to principally affect PAC or private port operators; and
- the deal commenced on January 12, 2010. **MPA should brief the committee on the transfer of operations and the implementation to date.**

### **Financial Considerations Included in the Agreement**

The following financial considerations are included in the contract:

- PAC agrees to fund and construct a 50-foot berth at Seagirt and purchase two new super post-Panamax cranes prior to July 2014 (to coincide with the opening of the expanded Panama

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Canal) and two additional new super post-Panamax cranes by May 2019, with a total estimated cost of \$105.0 million;

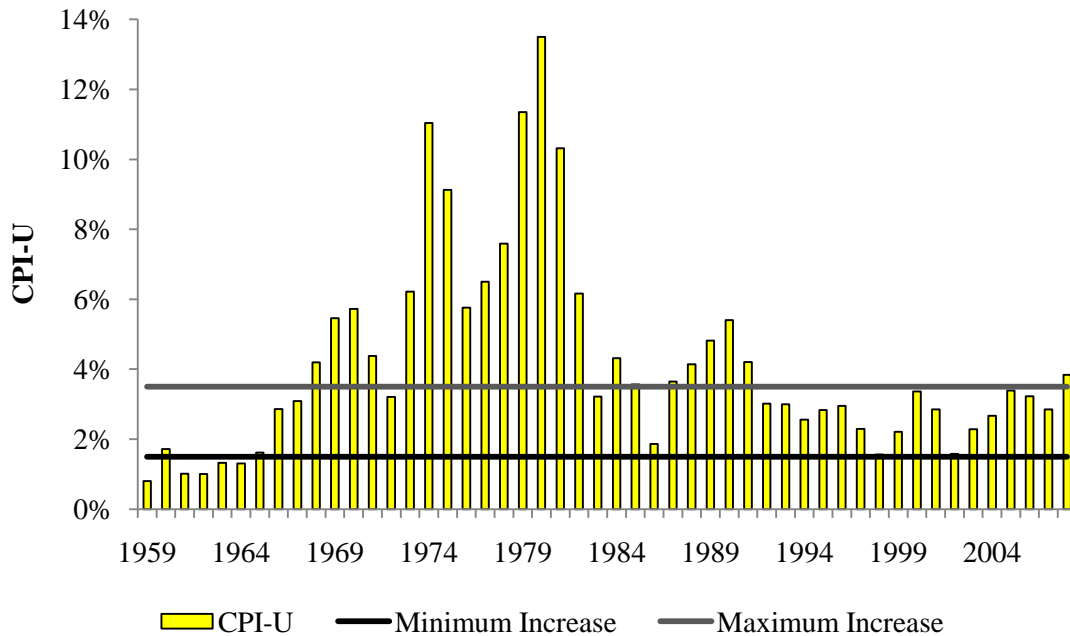
- PAC agrees to make a capital reinvestment payment of \$140.0 million to MDTA in exchange for MDTA transferring ownership of Seagirt to MPA;
- PAC agrees to pay MPA an annual rental fee of \$3.2 million, with annual increases beginning in year five based on the Consumer Price Index for all Urban Consumers (CPI-U), with a minimum increase of 1.5% and a maximum of 3.5%;
- PAC agrees to pay MPA an incremental fee of \$15 per container for every container handled over 500,000. The fee will increase annually beginning in year five based on CPI-U, with a minimum increase of 1.5% and a maximum of 3.5%. Currently, total container operations are about 380,000 per year;
- PAC will receive a rent credit up to \$3.0 million for development of the Canton property;
- PAC will set rates and collect all revenues at Seagirt; and
- PAC will pay the annual payment in lieu of taxes to Baltimore City.

### **Annual Increases in Payments to MPA**

As noted above, the agreement provides for annual increases in the rental fee and incremental fees that PAC must pay to MPA. These increases are based on CPI-U, with a minimum increase of 1.5% and a maximum of 3.5%. The minimum increase protects MPA from years in which inflation is low. The maximum increase protects PAC from large increases and gives PAC some predictability of future payments. However, as shown in **Exhibit 10**, including these minimum and maximum increases in payments to MPA protects PAC much more than MPA.

Over the last 50 years, CPI-U has fallen below 1.5% only 5 times; yet, over this same time period, CPI-U has exceeded 3.5% 21 times, reaching a peak of 13.5% in 1980. At times when inflation exceeds the maximum annual increase, the value of payments to MPA will erode. Over the 50-year term of the contract, the cumulative effect of these caps becomes readily apparent. If this agreement would have spanned the previous 50 years instead of the next 50 years, without caps on annual increases, MPA would have received a total of \$537.9 million in rental payments. However, over that same time frame with these caps in place, MPA would have only received \$330.6 million. **MPA should comment on the inclusion of this provision limiting its future revenue.**

**Exhibit 10**  
**Annual Increases in the Consumer Price Index**  
**Calendar 1959-2008**



CPI-U: consumer price index for all urban consumers

Source: Bureau of Labor Statistics

### **Financing the Deal**

To finance the deal, PAC pledged an equity contribution of \$75.0 million and issued \$248.7 million worth of tax-exempt revenue bonds through the Maryland Economic Development Corporation on January 12, 2010. The bond issuance included Series A bonds for \$166.9 million to make the \$140.0 million payment to MDTA and to fund capitalized interest, a debt service reserve account, and certain issuance costs and Series B bonds for \$81.8 million to finance construction of a 50-foot berth at Seagirt, required dredging, the purchase of four new super post-Panamax cranes, and to fund capitalized interest, a debt service reserve account, and certain issuance costs. The bonds mature from 2020 to 2035. The bonds sold at a slight discount of \$3.7 million, and the true interest cost was 5.95%. Prior to the sale, PAC received a rating of Baa3 by Moody’s Investor Services.

### **Legislative Involvement in the Process**

The long-term lease of Seagirt Marine Terminal represents the State’s first fully completed P3. Given the high cost of repairing or replacing aging infrastructure and the budgetary pressures that

most states are already facing, P3s may begin to play a larger role in American infrastructure as they have in Europe for several decades. In Maryland, several other P3s are underway, including the redevelopment of State Center, the development of a new public health laboratory, and a long-term lease of two travel plazas along I-95. Over the past several years, the legislature has grappled with how and when to allow these projects to take place.

Budget bill language included in the fiscal 2009 and 2010 operating budget bills required MPA to provide legislative notice 30 days prior to issuing a request for qualifications (RFQ) beginning the P3 process and 15 days prior to entering into an agreement. In each case, MPA provided the necessary notification containing all required information. The legislature's review of the RFQ document was made easier by the fact that it arrived during session, allowing legislators adequate time to review the 34-page document. However, the 15-day notice prior to the approval of the agreement did not allow adequate time for the General Assembly to review and respond to the hundreds of pages of documentation of the agreement and preliminary financing documents. Instead, it took 27 days from the initial date of notification for the budget committee chairmen to issue a letter supporting the deal. If the General Assembly had decided to hold hearings or raised objections to the proposed agreement, there would not have been adequate time for this to take place. **While the General Assembly agreed to the 15-day notification period in response to MPA's arguments that the private partner would be unwilling to delay the approval of the agreement beyond that, DLS recommends that the standard 45-day notification period be utilized for future P3 agreements to allow the General Assembly adequate time to review the proposed transaction.**

Several other important lessons were learned from the Seagirt P3. These include:

- determining the value of an asset and whether a proposed P3 deal is good for the State is made difficult by the long terms typical in P3s (*e.g.* Seagirt entails a 50-year lease);
- clauses common in P3 contracts, like adverse action and noncompete, may place limitations on the State for the life of the contract and require financial penalties if not abided by;
- there is a delicate balance between the openness required of government and the confidentiality required during the negotiation of these agreements;
- in many cases, the legislature may have to review and approve P3 deals without all of the financing in place, realizing that changes may take place as a result of securing financing; and
- participation of minority business enterprises cannot be required in these transactions, only encouraged.

Just as completion of this P3 deal was a first for the General Assembly, it was also a first for MPA. **MPA should brief the committees on the things that it has learned from its first P3 venture.**

## Operating Budget Recommended Actions

	<u>Amount Reduction</u>	<u>Position Reduction</u>
1. Abolish 27 crane maintenance positions and delete associated funding. As part of the recently approved public-private partnership for Seagirt Marine Terminal, Ports America Chesapeake hired 27 crane maintenance employees from the Maryland Port Administration. This action deletes these positions and associated funding since these are now private sector employees.	\$ 1,706,597 SF	27.0
2. Delete funding for the stevedoring contract for operations at Seagirt. A public-private partnership for all Seagirt operations was approved in December 2009; therefore, this expense is no longer required.	36,392,956 SF	
3. Reduce expenditures by \$1.5 million to reflect the long-term lease of Seagirt Marine Terminal to a private company. This action reduces the fiscal 2011 allowance to more accurately reflect expected expenditures in fiscal 2011 given the recent long-term lease of Seagirt Marine Terminal. Reductions include \$200,000 for utilities, \$50,000 for communications, \$50,000 for vehicle-related expenses, \$50,000 for janitorial services, \$100,000 for information technology-related expenses, \$4,000 for medical services, \$494,666 for crane and other supplies and materials, \$50,000 for additional and replacement equipment, \$500,000 for insurance, and \$50,000 for general maintenance of the terminal.	1,548,666 SF	
4. Delete funds for operating lease payments to the Maryland Transportation Authority (MDTA). In 1990, MDTA invested \$208 million in the construction of Seagirt Marine Terminal and the Intermodal Container Transfer Facility (ICTF). The facilities were then leased to the Maryland Port Administration (MPA) for a term of 40 years. In December 2009, MPA entered into a public-private partnership for Seagirt, and MDTA received an	500,000 SF	

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upfront cash payment of \$140 million to repay its investment in the construction of Seagirt and the ICTF. In light of this payment, and the 20 years of operating lease payments previously made, MPA should no longer be required to make annual operating lease payments to MDTA.

- |    |  |         |    |     |
|----|--|---------|----|-----|
| 5. | Delete 1 position that has been vacant over 12 months. This position has been vacant since March 2007 and was reclassified to Manager of Community Relations in August 2008. The position will be responsible for interacting with communities and organizations to enhance understanding of port operations; however, other people have fulfilled these job duties up until now and can continue to do so.  | 60,507  | SF | 1.0 |
| 6. | Delete funding for vessel insurance for the Pride of Baltimore II. The Maryland Port Administration (MPA) is currently in negotiations to convey the Pride of Baltimore II to the nonprofit organization that has been operating it. Since the vessel will no longer belong to MPA, MPA will not have to pay insurance for it.   | 41,449  | SF |     |
| 7. | Delete funds for employee parking. In January 2010, 94 employees moved from leased office space to the World Trade Center. Parking at the building is limited, so the Maryland Port Administration intends to purchase employee parking at alternative sites. Although a limited number of State employees currently pay for their own parking, following the redevelopment of State Center, this will be a much more common practice.                                 | 150,000 | SF |     |
| 8. | Reduce funds for travel to the fiscal 2010 working appropriation. The action deletes the increase for travel in the fiscal 2011 allowance. During fiscal 2010, the Maryland Port Administration reduced its travel budget by \$163,276 as part of one-time cost containment efforts. Most of this reduction was restored in the fiscal 2011 allowance. Given the ongoing nature of this recession, this cost containment action should be continued in to fiscal 2011. | 148,000 | SF |     |

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9.	Reduce funds for association dues to the fiscal 2010 working appropriation. This action deletes the increase included in the fiscal 2011 allowance. This item was reduced in fiscal 2010 as a one-time cost containment action, and given the ongoing nature of this economic downturn, this cost containment action should be continued into fiscal 2011.	20,000	SF	
<b>Total Special Fund Reductions</b>		<b>\$ 40,568,175</b>		<b>28.0</b>

## ***PAYGO Budget Recommended Actions***

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	<b><u>Amount Reduction</u></b>
1. Reduce funds for computer replacement to reflect the long-term lease of Seagirt Marine Terminal to a private company. This action reduces the fiscal 2011 allowance to more accurately reflect expected expenditures in fiscal 2011 given the recent long-term lease of Seagirt Marine Terminal.	\$ 75,000 SF
<b>Total Special Fund Reductions</b>	<b>\$ 75,000</b>

## **Updates**

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### **1. Port Security Remains a Priority**

In December 2009, MPA submitted its annual *Funding to Address Vulnerability Concerns* report as required by Chapter 78 of 2004. In 2009, MPA continued to make port security a priority. Following the successful implementation of the federally required Transportation Worker Identification Credential (TWIC) card in December 2008, MPA continues to require TWIC cards at its terminals. In addition, it also continues to require a MPA credential card, which is a color-coded card that reflects employee status.

Also in 2008, MPA launched mVisitor, a visitor access system that accounts for visitors and vendors entering MPA terminals and facilities and allows MPA to conduct audits of the system to verify compliance with all regulations and mandates. Over the next year, MPA plans to further improve the system to account for vessel crews, tours, or other Port visitors and to expand the system to the World Trade Center.

Federal mandates play an important role in Port security. In 2009, MPA was recertified and validated in the U.S. Customs Trade Partnership Against Terrorism (C-TPAT). C-TPAT is a joint effort between the U.S. Customs and Border Patrol and the trade community to reduce the supply chain threat of terrorism by securing cargo entering, transiting, and exiting the United States. To comply with the Maritime Transportation Security Act, MPA updated its Facility Security Plans for each of its terminals in 2009. To date, MPA has received \$19.5 million in Port Security Grants to help defray some of these security costs.

### **2. Chromium Ore Processing Residue Remediation**

In the 1970s, a portion of Dundalk Marine Terminal was developed and expanded using COPR as fill material. At that time, COPR was thought to be good fill material; however, COPR has since been defined and regulated as a hazardous substance.

In 2006, MPA entered into a Settlement Agreement with Honeywell International, Inc (whose predecessor company was responsible for the dumping of COPR) requiring MPA to pay 23% of the costs associated with the remediation and Honeywell to pay the remaining 77%. Also in 2006, MPA, Honeywell, and MDE entered into a Consent Decree requiring MPA and Honeywell to thoroughly assess the nature and extent of COPR at Dundalk Marine Terminal and to identify, evaluate, and implement a broad range of interim and final corrective measures for the site. Once the site assessment studies and work plans are completed to MDE's satisfaction, MPA and Honeywell will submit a Corrective Measures Alternative Analysis to MDE evaluating all of the potential final remedies for Dundalk Marine Terminal. MDE will then decide on the final remedy, and Honeywell and MPA will implement. Given the long-term nature of this remediation, and the potential costs associated with it, the 2009 *Joint Chairmen's Report* (JCR) required MPA to submit annual progress reports.

In 2009, MPA and Honeywell completed and submitted to MDE several reports and assessments, thus completing the site investigation and assessment documents necessary to prepare the Corrective Measures Alternative Analysis. Upon approval by MDE, MPA and Honeywell will have approximately 180 days to submit the Corrective Measures Alternative Analysis. Submitted documents include:

- Surface Water and Sediment Report;
- COPR Investigation Reports;
- Heave Investigation and Minimization Report;
- Chromium Transport Study;
- Ecological Risk Assessment; and
- Human Health Risk Assessment.

Also in 2009, MPA implemented and began construction on several interim corrective measures, including:

- construction of a tidal back flow preventer to prevent tidal flushing of the lower reaches of the storm drain system;
- relining of several storm drain systems to prevent the infiltration of COPR in the system;
- upgrades to the wastewater treatment plant that treats COPR-contaminated water; and
- continued implementation of the Master Health and Safety Plan and the Site Drinking Water Plan.

In 2010, MPA expects to construct three additional tidal back flow preventers, test three drain systems to determine if relining is necessary, and submit the Corrective Measures Alternative Analysis. Projected costs for fiscal 2010 are \$8.6 million, of which MPA would be responsible for paying \$2.0 million.

### **3. Cost Recovery for Dredged Material Placement Sites**

The 2009 JCR required MPA to submit a report on cost recovery for identifying and developing dredged material placement sites. The following summarizes that report.

Each year, an average of 1.5 million cubic yards of material is dredged from the channel system inside the Baltimore Harbor. The bulk of the dredging is primarily performed by the State

and the federal government. On average, less than one-fifth of the dredging is performed by the private sector.

Traditionally, MPA has been required to develop and construct dredged material containment facilities. Although cost-sharing with the U.S. Army Corps of Engineers (Corps) for development and construction of these facilities is possible, the process is quite lengthy. Therefore, MPA has resorted to funding these projects on its own and seeking a tipping fee from the Corps to recover these costs. In a tipping fee arrangement, the federal government provides funding on a prorated basis when it uses the facility. The fee charged to the Corps is determined by federal law, Corps Policy and Guidance, and negotiation with the State.

Tipping fees for the private sector are set based on rules established in statute allowing MPA to recover initial costs for site construction and implementation, a reasonable rate of return, annual operation and maintenance cost, or any combination thereof. Currently, MPA's tipping fee for the private sector is \$6 per cubic yard to recover the average cost of operation and maintenance of the facilities. MPA does not recover the cost of construction and implementation costs as allowed by law because it seeks to keep the overall cost of private sector dredging projects comparable to that of neighboring ports.

In terms of cost, MPA is at a disadvantage to other ports for a variety of reasons. Reasons include: neighboring ports have long-existing placement sites owned and operated by the Corps whose construction costs have long since amortized, long average distances between dredged channels and placement sites increases transportation costs, and the often negative public opinion and environmental regulations associated with dredged material in Maryland.

***Current and Prior Year Budgets***

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

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2009</b>					
Legislative Appropriation	\$0	\$112,021	\$0	\$0	\$112,021
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	373	0	0	373
Cost Containment	0	-1,433	0	0	-1,433
Reversions and Cancellations	0	-13,061	0	0	-13,061
<b>Actual Expenditures</b>	<b>\$0</b>	<b>\$97,900</b>	<b>\$0</b>	<b>\$0</b>	<b>\$97,900</b>
<b>Fiscal 2010</b>					
Legislative Appropriation	\$0	\$109,457	\$0	\$0	\$109,457
Cost Containment	0	-8,844	0	0	-8,844
Budget Amendments	0	0	0	0	0
<b>Working Appropriation</b>	<b>\$0</b>	<b>\$100,613</b>	<b>\$0</b>	<b>\$0</b>	<b>\$100,613</b>

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

## **Fiscal 2009**

Fiscal 2009 operating expenditures totaled \$97.9 million, which is \$14.1 million less than the legislative appropriation. The net decrease was the result of several actions, including:

- a \$1.4 million decrease for cost containment, including a \$250,840 decrease in salaries resulting from a furlough plan of two to five days for all State employees, a \$104,224 decrease in special funds for health insurance as the result of a fund swap, and \$1.1 million decrease for various operating reductions;
- a \$372,754 increase for a budget amendment to fund the cost-of-living adjustment granted to all State employees; and
- \$13.1 million in cancellations, including \$8.2 million for the stevedoring contract and \$4.9 million in various operating budget reductions. The large amount of cancellations resulted from MPA's ongoing cost containment efforts.

## **Fiscal 2010**

The fiscal 2010 legislative appropriation for MPA's operating budget decreases by \$8.8 million in special funds. This includes the following cost containment actions taken through BPW:

- a \$719,844 decrease for position abolitions and a combination of service reduction and furlough days for all State employees; and
- an \$8.1 million decrease for various operating budget reductions.

## ***Audit Findings***

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Audit Period for Last Audit:	December 27, 2004 – January 7, 2008
Issue Date:	February 2009
Number of Findings:	9
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	

- Finding 1:** MPA did not adequately monitor certain blanket contracts for architectural and engineering services, resulting in overspending and a lack of assurance that contract payments were proper.
- Finding 2:** MPA could not document that it adequately monitored a key performance provision of its stevedoring contract.
- Finding 3:** Proper internal controls were not established over the processing of purchasing and disbursement transactions.
- Finding 4:** MPA did not always use the appropriate payment method for disbursement transactions.
- Finding 5:** MPA did not establish adequate controls over collections, which totaled \$87.9 million during fiscal 2008.
- Finding 6:** MPA should require customers to remit large payments electronically to enhance controls and to expedite deposit of the funds.
- Finding 7:** Authentication and monitoring controls over Seagirt Marine Terminal operations application and database were inadequate.
- Finding 8:** An insecure communications protocol was used to access Seagirt Marine Terminal sensitive information.
- Finding 9:** Key documents describing the scope of services to be rendered and authorizing payments for a personal services contract were frequently not prepared or approved, as required.

\*Bold denotes item repeated in full or part from preceding audit report.

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

<u>Object/Fund</u>	<u>FY09 Actual</u>	<u>FY10 Working Appropriation</u>	<u>FY11 Allowance</u>	<u>FY10 - FY11 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	249.00	242.00	242.00	0	0%
02 Contractual	0.90	1.20	0.70	-0.50	-41.7%
<b>Total Positions</b>	<b>249.90</b>	<b>243.20</b>	<b>242.70</b>	<b>-0.50</b>	<b>-0.2%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 20,772,109	\$ 20,894,892	\$ 21,872,640	\$ 977,748	4.7%
02 Technical and Spec. Fees	532,457	258,574	246,177	-12,397	-4.8%
03 Communication	332,292	369,788	384,788	15,000	4.1%
04 Travel	380,641	240,470	380,470	140,000	58.2%
06 Fuel and Utilities	6,795,989	8,045,388	6,356,843	-1,688,545	-21.0%
07 Motor Vehicles	1,359,122	1,634,464	1,952,344	317,880	19.4%
08 Contractual Services	49,999,653	50,992,711	51,025,270	32,559	0.1%
09 Supplies and Materials	1,702,973	1,458,169	1,603,450	145,281	10.0%
10 Equipment – Replacement	522,867	457,641	626,545	168,904	36.9%
11 Equipment – Additional	124,705	202,933	257,302	54,369	26.8%
12 Grants, Subsidies, and Contributions	25,000	25,000	25,000	0	0%
13 Fixed Charges	14,768,958	15,704,543	6,809,129	-8,895,414	-56.6%
14 Land and Structures	583,689	327,933	695,655	367,722	112.1%
<b>Total Objects</b>	<b>\$ 97,900,455</b>	<b>\$ 100,612,506</b>	<b>\$ 92,235,613</b>	<b>-\$ 8,376,893</b>	<b>-8.3%</b>
<b>Funds</b>					
03 Special Fund	\$ 97,900,455	\$ 100,612,506	\$ 92,235,613	-\$ 8,376,893	-8.3%
<b>Total Funds</b>	<b>\$ 97,900,455</b>	<b>\$ 100,612,506</b>	<b>\$ 92,235,613</b>	<b>-\$ 8,376,893</b>	<b>-8.3%</b>

Note: The fiscal 2010 appropriation does not include deficiencies.

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

<u>Program/Unit</u>	<u>FY09 Actual</u>	<u>FY10 Wrk Approp</u>	<u>FY11 Allowance</u>	<u>Change</u>	<u>FY10 - FY11 % Change</u>
2010 Port Operations	\$ 97,900,455	\$ 100,612,506	\$ 92,235,613	-\$ 8,376,893	-8.3%
2020 Port Facilities and Capital Equipment	102,338,151	82,679,645	86,034,476	3,354,831	4.1%
<b>Total Expenditures</b>	<b>\$ 200,238,606</b>	<b>\$ 183,292,151</b>	<b>\$ 178,270,089</b>	<b>-\$ 5,022,062</b>	<b>-2.7%</b>
Special Fund	\$ 200,238,606	\$ 182,175,151	\$ 173,169,089	-\$ 9,006,062	-4.9%
Federal Fund	0	1,117,000	5,101,000	3,984,000	356.7%
<b>Total Appropriations</b>	<b>\$ 200,238,606</b>	<b>\$ 183,292,151</b>	<b>\$ 178,270,089</b>	<b>-\$ 5,022,062</b>	<b>-2.7%</b>

Note: The fiscal 2010 appropriation does not include deficiencies.

**Budget Amendments for Fiscal 2010  
Maryland Department of Transportation  
Maryland Port Administration – Operating**

<b><u>Status</u></b>	<b><u>Amendment</u></b>	<b><u>Fund</u></b>	<b><u>Justification</u></b>
Approved	-\$719,844	Special	Reflects August 2009 BPW reductions.
Pending	-8,124,553	Special	Reflects November 2009 BPW reductions.

BPW: Board of Public Works

Source: Maryland Department of Transportation

**Budget Amendments for Fiscal 2010**  
**Maryland Department of Transportation**  
**Maryland Port Administration – Capital**

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	-\$105,643	Special	Reflects August 2009 BPW reductions.
Pending	-32,098,470	Special	Adjusts the appropriation to agree with anticipated expenditures for the current year as reflected in the 2010-2015 CTP.
	<u>356,000</u>	Federal	
	<b>-\$31,742,470</b>		

BPW: Board of Public Works

CTP: *Consolidated Transportation Program*

Source: Maryland Department of Transportation