MDOT RESPONSE TO DLS ANALYSIS

DLS Budget Analysis Issues

1. Port not Able to Take Full Advantage of Unique Deep Water Access (Page 17)

The Department of Legislative Services (DLS) recommends MPA comment on its readiness for post-Panamax ships and on the status of a study that MPA is undertaking on the economic impact of adding double-stack rail capacity to the Port.

DLS also recommends that the department modify its CTP to reserve funds necessary to this endeavor.

MDOT/MPA Response:
The Port can handle the larger ships, i.e. the channel is wide and deep enough, the berth is strong and long enough, and there are adequate numbers of tall cranes to handle the volumes. However, without having double-stack rail capabilities, the Port will be somewhat handicapped in moving the containers inland to/from the terminal, and attracting additional ocean shipping services. The large Post-Panamax vessels must have the opportunity to deliver discretionary cargo to inland destinations (beyond local truck dray) by rail. These efficiencies and economies of scale are critical for increasing cargo volumes.

MPA is constantly investigating the economic benefits that would result from additional cargo volumes for many different commodities, including double-stack containers. MPA believes that adding double-stack capacity would result in positive economic impacts for the State, but the specific benefits depend on a number of factors. Given the variables, MPA is working to identify possible economic benefits for a variety of scenarios.

MDOT does not own the rail lines that could offer a future double-stack route to/from Seagirt Marine Terminal. Since a rail line owner would likely require funds from MDOT before a double-stack project moves forward, it could hurt MDOT's negotiating position if capital funds are set aside in the CTP before a project scope and cost estimate is developed by the rail line owner and MDOT agrees to an appropriate match. As such, MDOT does not believe that funds should be set aside in the CTP for such an undertaking at this time.

MDOT RESPONSE TO DLS ANALYSIS

DLS Budget Analysis Issues

2. MPA Sells Cranes to Ports America Chesapeake (Page 18)

MPA should comment on the sale and what it means for:

- ***the future of the existing P3 agreement,***
- ***PAC's involvement at the Port, and***
- ***the potential for an extended or new P3 agreement.***

MDOT/MPA Response:

The P3 Agreement dictates that Ports America is the only handler of container cargo at MPA terminals in the Port of Baltimore and that Ports America will make significant investments in the Seagirt Terminal over the term of the Agreement. As the noncompete exists through the P3 Agreement, the sale of the Dundalk cranes is consistent with that P3 language and allows for Ports America's cost effective handling of container business at the adjacent Dundalk Marine Terminal.

The sale of the cranes strengthens Ports America's cargo operations at Dundalk by optimizing the efficiency and cost effectiveness of its operation which will maximize cargo volumes and associated economic impact to the region. This enhances the Port's overall service product for containers both at Seagirt, expanding upon the existing successful P3 Agreement, and at Dundalk.

The current P3 Agreement has triggers in place for Ports America to make improvements to increase capacity at Seagirt and there is still too much to be accomplished and too early in this 50-year Agreement to consider extending it at this time. Once the current noncompete expires with Ports America in 2026, MPA will be free to pursue another P3 agreement if it is found that the market has an appetite for such an agreement at that time.

MDOT RESPONSE TO DLS ANALYSIS

DLS Budget Analysis Issues

3. Tradepoint Atlantic Requests State Aid (Page 18)

MPA should comment on the proposed tax credit or any other incentives or aid to Tradepoint Atlantic.

MDOT/MPA Response:
MPA was not present at the Tradepoint Atlantic presentation to the General Assembly, and does not know the specifics of Tradepoint's request. MPA encourages more cargo volumes through the Port, and if Tradepoint Atlantic is successful in bringing new business to the Port (compared to getting cargo from existing terminals in the Port), then similar incentives might be appropriate for the Port's existing customers to increase their cargo volumes too.

Port activity associated with the container shipping industry is widely recognized as an economic engine for state and local economies. Port-related incentives have placed the Port of Baltimore at a significant disadvantage in attracting additional container and container related businesses. Unlike Maryland, most competing states on the US East Coast with major seaports have developed incentives to attract container business:

- Boston, MA: Dollar-for-dollar tax credit on harbor maintenance tax
- Philadelphia, PA: Per container incentive over previous year's volume
- Norfolk, VA: Three port related tax incentives
- Wilmington, NC: Tax credit on port wharfage and cargo handling fees
- Charleston, SC: Tax credits for entities that utilize the port
- Savannah, GA: Tiered investment tax credit program based on cargo through the ports

There are also other incentives which target ocean carriers. Multiple ports offer a "first port in" incentive which provides additional payment to the ocean carrier for stopping at the selected port first before any others along the East Coast. Additionally, rail incentives aid in routing discretionary cargo – freight with hinterland destinations such as Columbus and Chicago that can utilize multiple ports of entry. All of these incentives attract more cargo volume which in turn attracts more ocean carriers.

The dynamics of container shipping along the East Coast continues to evolve with increased services through the Suez Canal and the pending expansion of the Panama Canal. From an infrastructure perspective and through its partner, Ports America Chesapeake, the Port of Baltimore positioned itself well as one of a handful of ports that could accommodate the very large ocean vessels poised to transit both canals. Unfortunately, this is no longer a unique factor as more ports are dredging their harbors deeper and constructing facilities that can handle the largest vessels projected to call on the East Coast. Furthermore, competing states and ports have had incentives in place for years which has resulted in more cargo growth and ocean carrier services in their respective regions compared to Baltimore.

MDOT RESPONSE TO DLS ANALYSIS

Shippers and ocean carriers are driven by bottom-line cost in their supply chain. Robust incentives are needed for State of Maryland and the Port of Baltimore to compete for cargo and maximize the potential economic benefit from port activity.

In second quarter 2016, MPA plans to start the Intermodal Rail Incentive Program (IRIP), which is designed to incentivize existing and potential ocean carriers to move international waterborne laden containers by rail through the Seagirt Intermodal Container Transfer facility. This rail incentive program should improve Ocean Carrier access and service to the large mid-western markets which are best served by rail; however, today they cannot be handled competitively through Baltimore due to lack of double-stack capability.

MDOT RESPONSE TO DLS ANALYSIS

Operating Budget Recommended Actions

1. Grant to Pride of Baltimore II, (Page 20)

Delete special funds intended for an operating grant to Pride Inc., which operates the Pride of Baltimore II schooner.	$500,000 SF

MDOT/MPA Response:
Respectfully, MDOT/MPA does not concur with this reduction. The Pride of Baltimore is used to help with marketing and promotional events for the Port. The vessel is used to host receptions and events for port customers.

2. Adopt the following narrative:

> **Funds for Double-stack Access Should Be Included in the Consolidated Transportation Program:** The budget committees are concerned about the lack of funds programmed in the Consolidated Transportation Program (CTP) to address efforts to add double-stack container rail access to the Helen Delich Bentley Port of Baltimore. It is the intent of the committees that the 2017 to 2022 CTP reserve funds necessary for this endeavor.

MDOT/MPA Response:
Respectfully, MDOT/MPA does not concur with this narrative language. Although having on-dock double-stack capabilities at Seagirt is a goal of the Department, it is premature to reserve funds in the CTP at this time.

MDOT/MPA proposes that the following alternative narrative be adopted:

> **MDOT Should Continue to Consider Double-Stack Access at the Port of Baltimore**: The budget committees are concerned about the efforts to add double-stack container rail access to the Helen Delich Bentley Port of Baltimore. It is the intent of the committees that the Department of Transportation continue to explore opportunities to provide this capability.

MDOT RESPONSE TO DLS ANALYSIS

Paygo Capital Budget Recommended Actions

1. Concur with the Governor's allowance.

MDOT/MPA Response:

The MPA concurs with DLS's recommendation.

Maryland Department of Transportation

Maryland Port Administration (MPA)

Fiscal Year 2017 Budget Overview

MPA Operating and Capital Programs

Presentation to Budget Committees

2016 Session

Pete K. Rahn, Secretary MDOT

James J. White, Executive Director, MPA

M. Kathleen Broadwater, Deputy Executive Director, MPA

Table of Contents

Progress Since Last Session

Port of Baltimore's Economic Impacts to the State of Maryland:

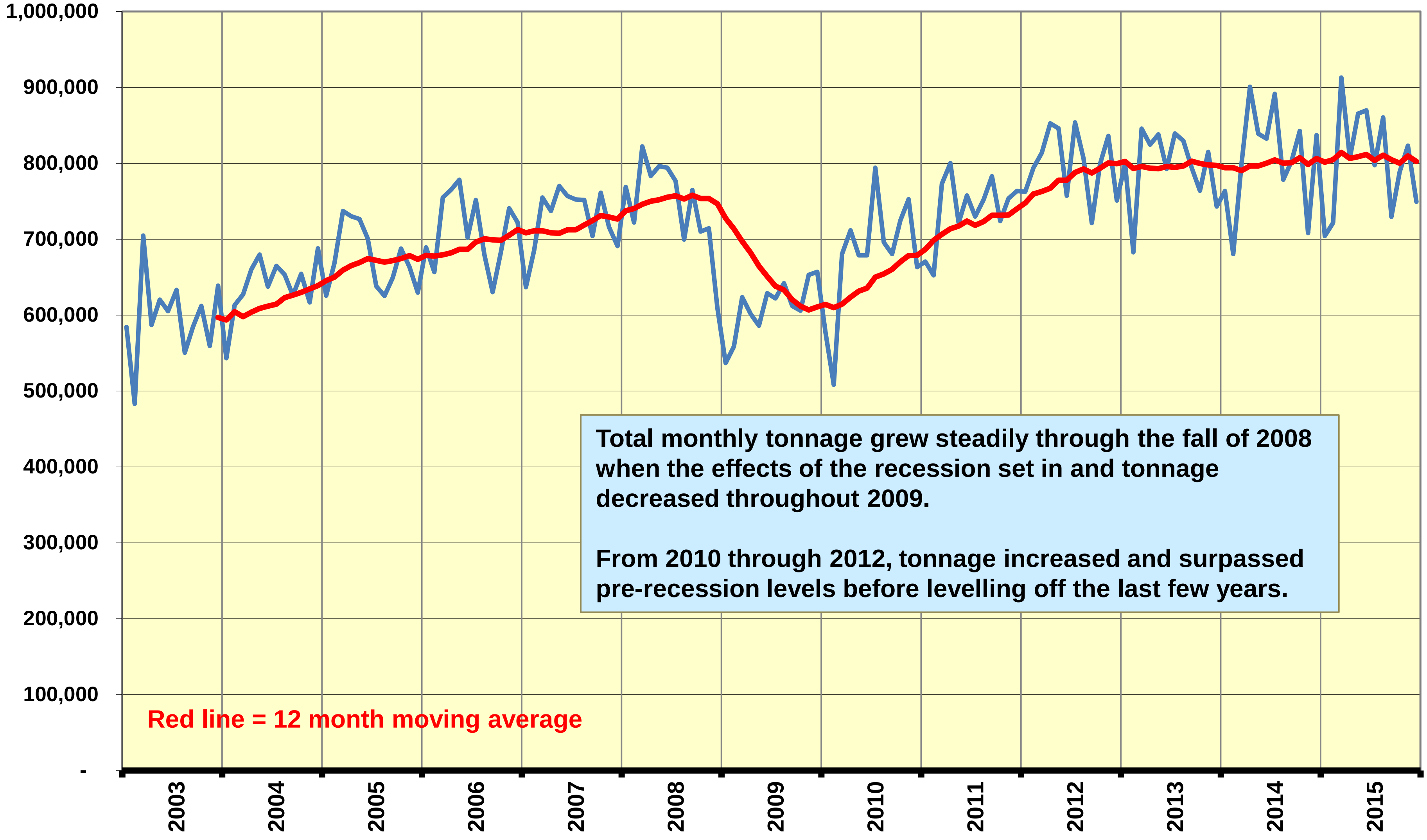
- 33,920 Direct, Induced, Indirect Jobs generated by the Port.
- $2.9 billion in personal wages & salary income.
- $310 million per year in State and Local Tax Revenues.
- 93,700 additional jobs in Maryland are related to Port activities.
- In total, there are **over 127,600 jobs** in Maryland linked to the Port of Baltimore.

While the USA economy is growing, other areas of the world are still struggling economically. The Port is proud of several significant achievements:

- In 2015, MPA general cargo was 9.6 million tons – down 0.5% compared to 2014. MPA's FY2015 general cargo was a new record at 9.7 million tons (+1.5% compared to FY2014).
- MPA set new commodity records for: Container TEUs and Automobile import units.
- International cargo volumes for the whole Port (public and private terminals) in 2015 are projected to be about 33 million tons or 11% higher than 2014, due in part to coal's unexpected rebound. (Baltimore was the only USA port to see a rise in coal export tons.)
- The transfer of Seagirt to Ports America Chesapeake was seamless to the shipping lines and cargo volumes are up again for 2013. Construction of the 50' deep vessel berth is complete; cranes are installed and the Port is ready for the expanded Panama Canal (3rd set of locks are scheduled to open in 2016).
- Our Cruise business is strong in 2015 with Carnival and Royal Caribbean Cruise Lines providing year around cruises to exciting destinations.

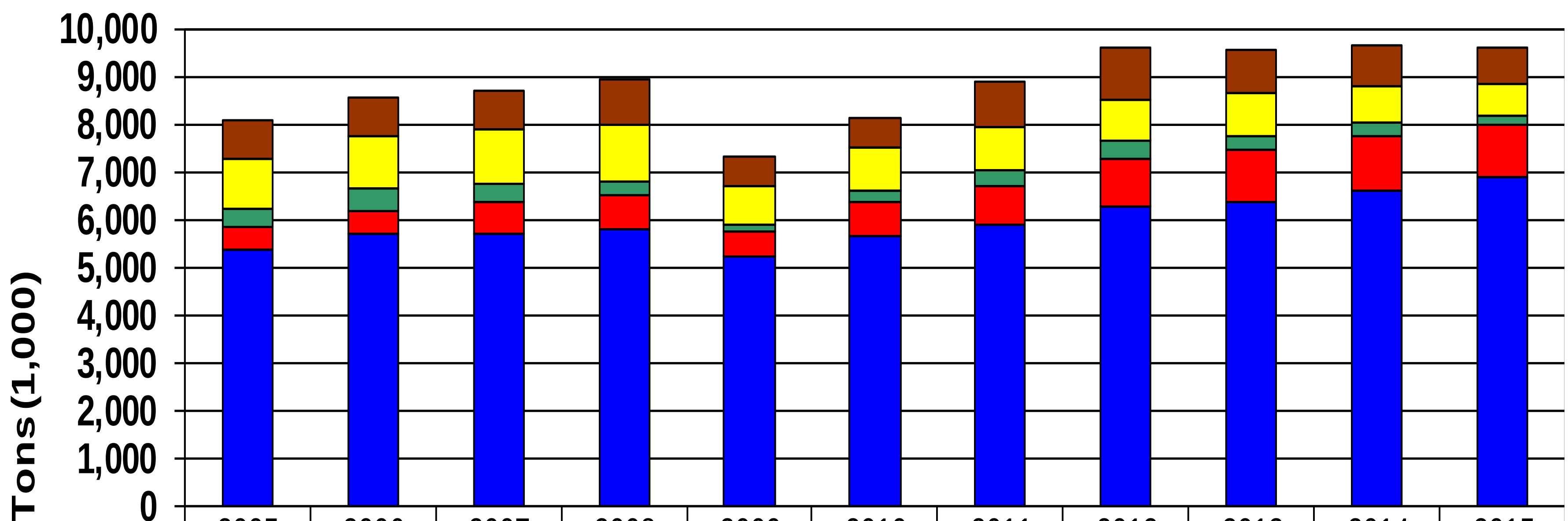
Progress Since Last Session (continued)

MPA Total Monthly General Cargo Tonnage



MPA had steady cargo growth before and after the Recession.

MPA General Cargo Tonnage (thousands)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
RoRo	781	808	833	969	598	623	939	1,092	899	862	760
Forest P.	1,056	1,100	1,144	1,169	844	933	913	835	934	789	675
Steel/BB	381	443	380	311	146	211	329	389	272	247	214
Autos	496	515	684	699	493	735	829	982	1,094	1,152	1,103
Containers	5,368	5,690	5,686	5,814	5,246	5,648	5,877	6,297	6,369	6,625	6,878
Total	**8,082**	**8,556**	**8,727**	**8,962**	**7,327**	**8,150**	**8,887**	**9,594**	**9,569**	**9,675**	**9,630**

Progress Since Last Session (continued)

The following MPA accomplishments were noteworthy in 2015:

- New MPA Cargo records set in 2015 for:
  - Containers, (840,314 TEUs)
  - Imported Auto Units (399,613)
- Automotive Supply Chain's "Top North American Auto Port"
- #1 USA port in Container Berth Productivity – by Journal of Commerce
- New 30 year Lease with WWL
- Attracted Maersk – the world's largest container line

The Port of Baltimore's National Rankings for 2014:

- Ranks #1 for Autos and Light Trucks
- Ranks #1 for Roll-on Roll-off Heavy Equipment
- Ranks #1 for imported Sugar, and imported Aluminum; #2 imported Salt
- Ranks #9 in the U.S. in the value of international cargo, ($52.3 billion)
- Ranks #13 in international cargo tonnage (29.5 million tons).

Progress Since Last Session (continued)

Harbor Development Program status:

- Construction of **Pearce Creek** Dredged Material Containment Facility (DMCF) began in late 2015 with the US Army Corps of Engineers contract for the site liner. The Town of Cecilton has advertised contracts for the water transmission and distribution lines (using a MDOT grant). Construction of the liner and water line is expected to be complete before first inflow to the facility in October 2017.
- Demolition of buildings has begun at the **Cox Creek** DMCF as part of the expansion onto adjacent State-owned property to increase capacity. Separate negotiations to acquire the adjacent Cristal USA property are also underway, which would enable further expansion of the DMCF in the future. **Innovative use** of dredged material is still being considered as part of the expansion projects.
- Construction of the **Poplar Island Expansion** is expected to begin this year. Design of the Barren Island portion of the **Mid-Chesapeake Bay Islands** project is expected to begin in Federal fiscal year 2017.
- Implementation of the revised strategy for the **Innovative** and Beneficial Reuse of dredged material, has been initiated with the interagency Regulatory Work Group's recommendations expected before the end of the fiscal year.
- Through MPA's **community outreach** and education program, over 14,000 citizens had the opportunity to learn about the Port of Baltimore by visiting DMCFs and participating in other events in 2015.
- MPA, MES and DNR signed an agreement in 2015 which will allow opening of the South Cell of the **Hart Miller Island** DMCF for public recreational use in the spring of 2016.
- Studies and design of the **Coke Point** DMCF are on hold while the landowners develop their plans for the Sparrows Point property.

MPA FY15 & FY16 Operating Program Financial Results

FISCAL 2015 Operating Results:

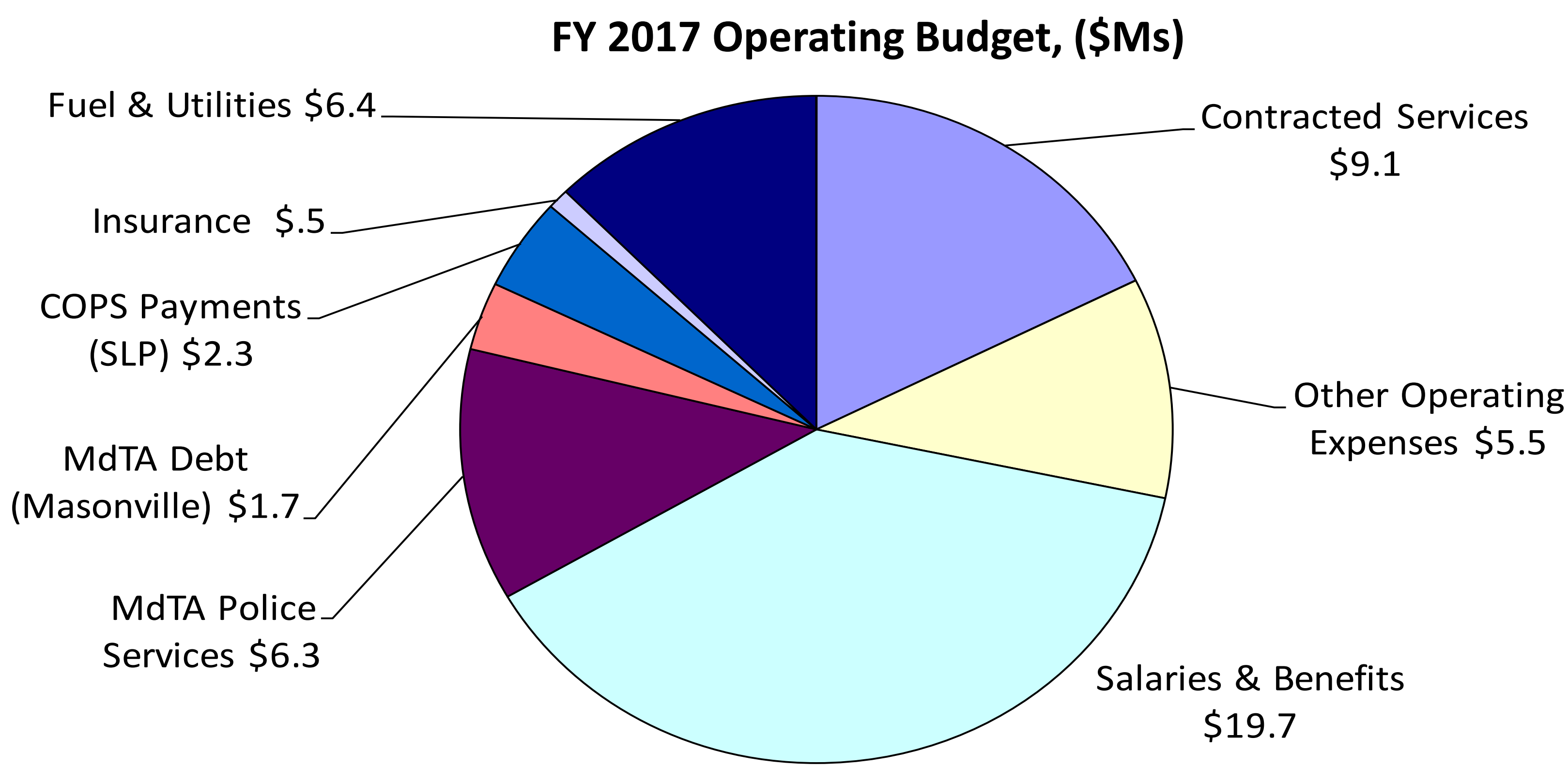
- Operating revenue received during FY 2015 equaled $49.7M. This amount is 12% higher than the $44.6M budget estimate. Much of the increase over the budget was due to higher revenue from forest products and auto processor tenants as well as the volumes of salt and metal imports.
- FY 2015 operating cost was $47.9M which finished 2% under the $48.7M operating budget. Although there is a positive budgetary variance, utilities exceeded its budget by $1.4M. Most of this variance is due higher than budget contract rates.
- Net Income in FY 2015 was $2.1M.

FISCAL 2016 (First Six Months):

- Revenues - Revenues through December 31, 2015 equaled $26.4M.
- Expenses - Expenses and debt payments incurred through the first half of FY 2016 equaled $23.7M.

MPA FY17 Operating Program Budget Allowance is $51.6M.

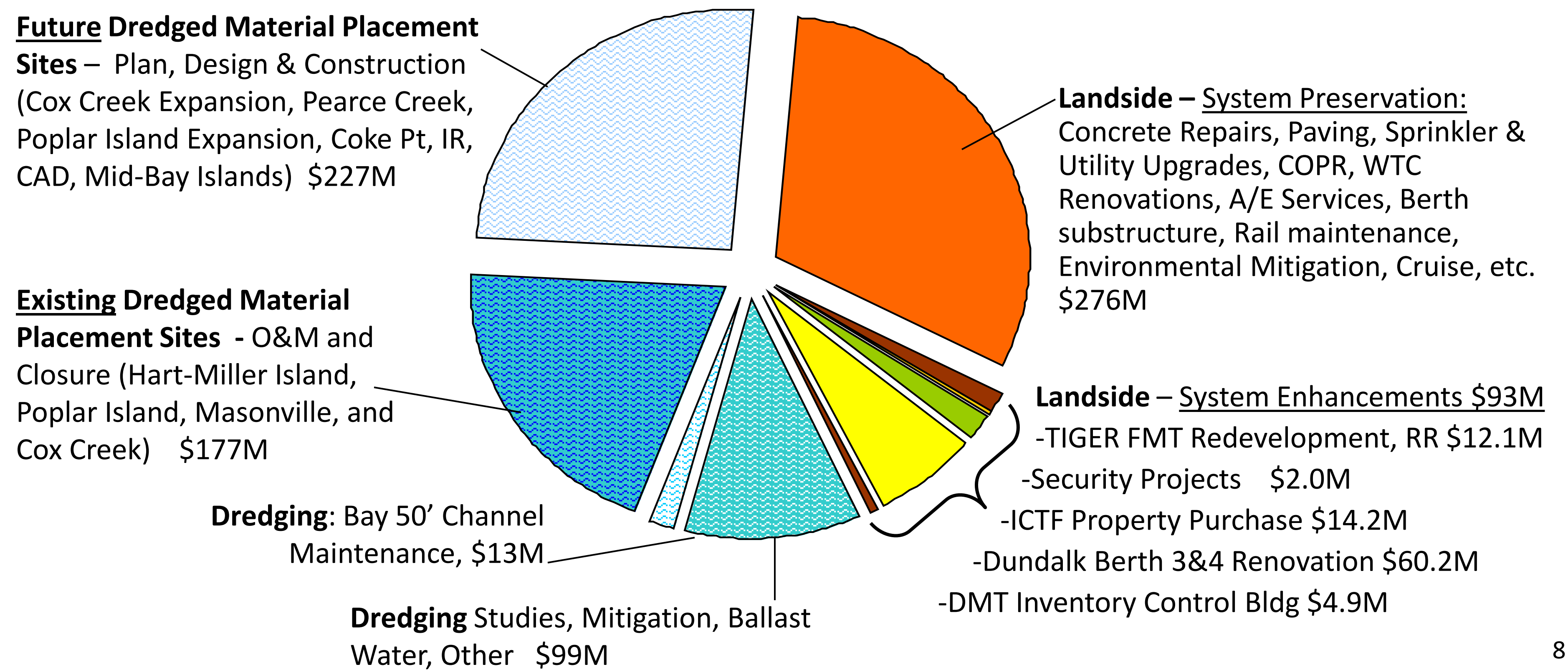
- MPA contractual obligations are approximately 30% of the FY 2017 allowance.
- The FY 2017 allowance is $.5M (1% higher) than the FY 2016 appropriation, and it includes a MDOT mandatory 2% across the board budget reduction.
- FY 2017 operating budget includes the annual payments to MdTA for the Masonville Auto Facility ($1.7M); COPS payments for the South Locust Point Paper Facility ($2.3M); and loan repayment for the Energy Conservation Program ($1.2).



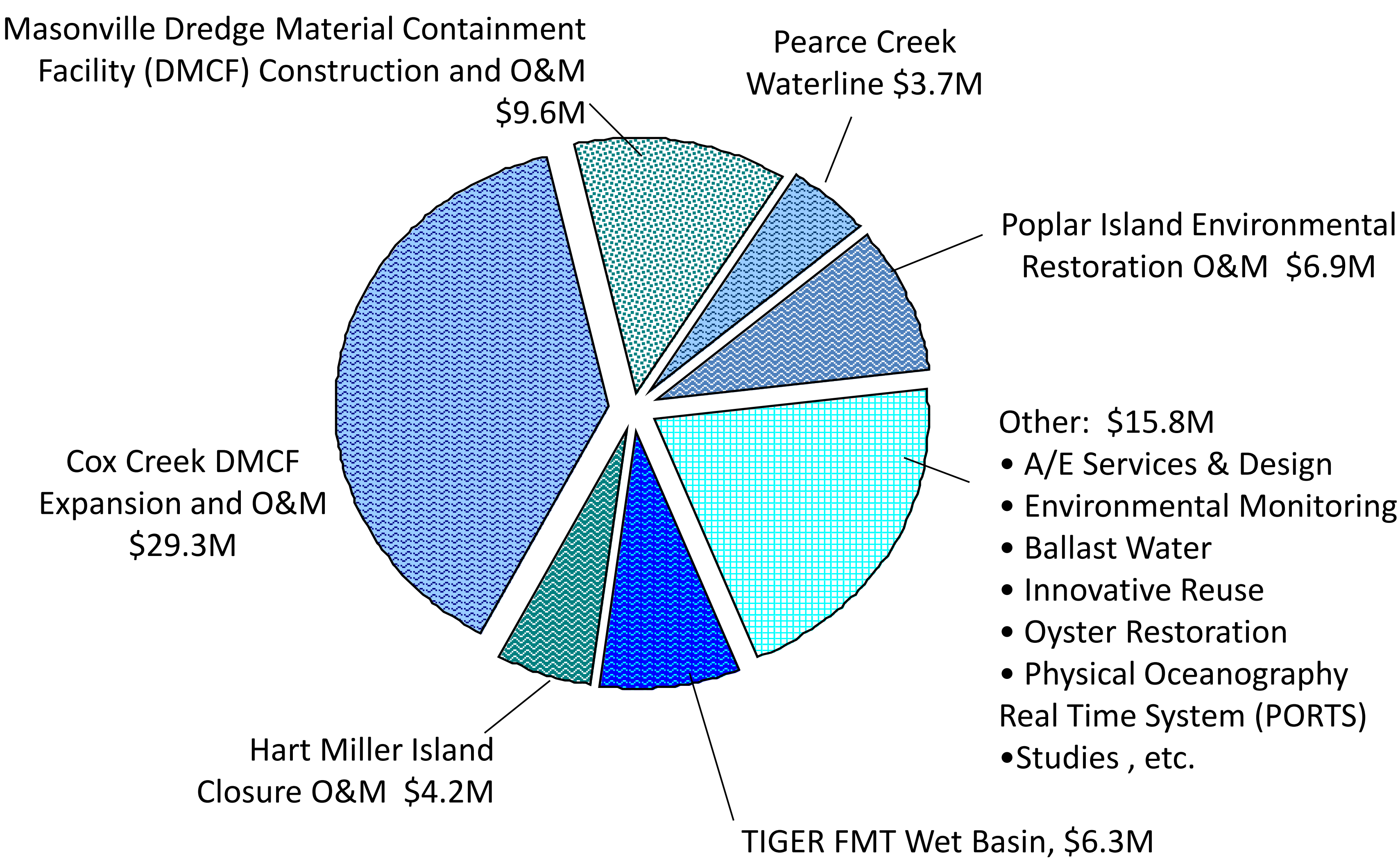
The 6-year Capital Program (FY16 to FY21) is $909M.

- The 6-year Capital budget includes $11M Federal grants: TIGER, Security, Environmental.
- The **Harbor Development Program** is 57% of the total budget. Dredged material placement sites are 97% of this program due to O&M of existing sites or construction for new capacity. Dredging is 3% (i.e. Bay's 50-foot deep channel maintenance).
- The **Landside Program** is 43% of the total budget. System preservation projects are 75% of this program, and enhancement projects are 25% (e.g. Dundalk Berths 3&4, TIGER, ICTF, Security).

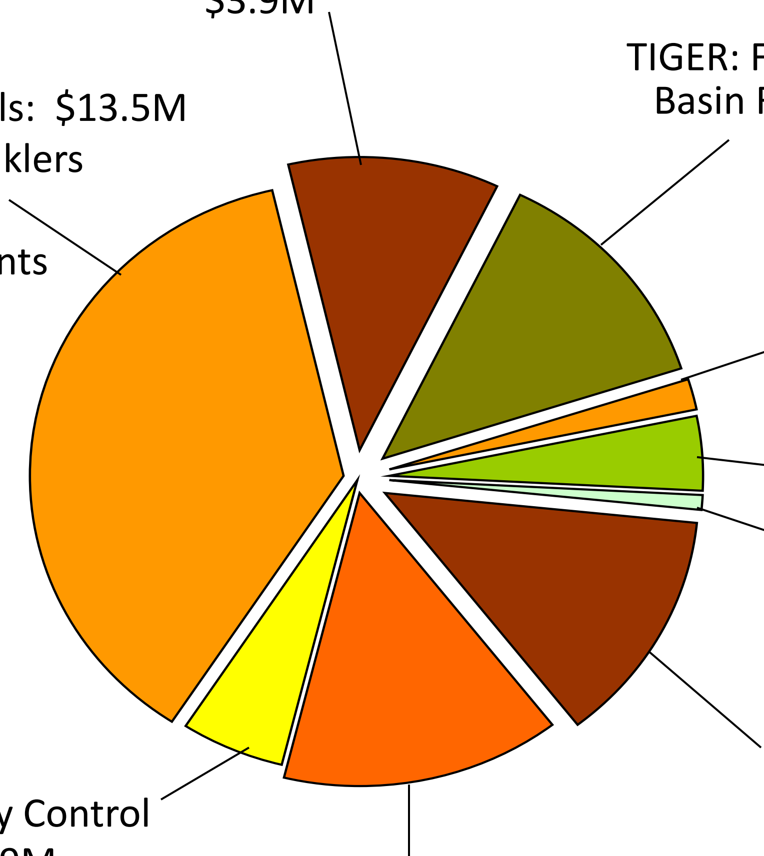
FY16 – FY21 Capital Budget, ($Ms)



The FY17 Harbor Development Capital Budget Request is $75.8M.



The FY17 Landside Capital Budget Request is $36.2M.



Note: $9.3M of Hbr Dev TIGER funds are shown on this page (Wet Basin/Fruit Slip).

Emerging Issues:

Expanding Terminal Capacity – Additional land is needed to capture cargo volumes and grow Port business.

Remaining Globally Competitive– With the impending expansion of the Panama Canal and overall shifts in global trade, the Port is in a position to attract new cargo opportunities, particularly with containers. Identifying and pursuing cost-effective strategies to improve cargo movement to and from the Port via rail will be necessary to ensure future cargo growth. Not being connected to the national high-cube double stack rail network is a competitive disadvantage, and the MPA is pursuing incentive programs to resolve this issue in the short-term, and working with partners for a longer-term solution.

Meeting dredging and dredged material placement demand – Constraints on dredged material placement options, ongoing constraints on federal funds, and rising dredging costs are mission critical concerns. Current capacity is inadequate to accommodate both maintenance and "new work" dredging projects without overloading current dredged material placement sites. As a result MPA is working to find and activate additional dredged material management solutions, for both Harbor and Bay material, to ensure long-term capacity. Maintaining a cost-effective, environmentally sensitive, and community-supported dredging program is an ongoing and formidable challenge. Long-term, as ships continue to grow, the Chesapeake Bay channel will need to be widened, further adding to the demand for placement capacity and alternative management solutions.

(Continued)

Emerging Issues (continued)

Remaining competitive nationally– East Coast ports continue making investments to modernize and expand terminals, increase channel depths, and offer lower rates and incentives to divert existing cargo from Baltimore to their ports. The MPA must maintain our competitiveness through strategic investments, partnerships, aggressive rates, outstanding Quality programs, and exceptional customer service.

Growing cargo volumes with aging facilities – Cargo terminals operate in increasingly harsh marine environments. System preservation ("Fix-it-First") efforts need to continue to efficiently maintain and enhance Port infrastructure and facilities in a timely manner, while competing for limited capital funding for terminal projects that are critical to effectively serving our customers and remaining competitive.

Being a good neighbor and continuing "Green Port" initiatives – The MPA takes pride in its record as an important partner in the protection and enhancement of the Chesapeake Bay, and as a steward for air and water quality in Maryland. The MPA strives to be a good neighbor to the communities located near the marine terminals and dredged material management sites. These efforts are important to achieve both a regulatory and social license to operate. The need for a full range of environmental and community relations activities is expected to grow as the Port's cargo volumes increase. As a result, more resources will need to be directed toward these efforts.