

J00I00
Maryland Aviation 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	\$169,797	\$173,885	\$174,189	\$304	0.2%
Contingent & Back of Bill Reductions	0	0	-972	-972	
Adjusted Special Fund	\$169,797	\$173,885	\$173,218	-\$667	-0.4%
Federal Fund	656	656	656	0	
Adjusted Federal Fund	\$656	\$656	\$656	\$0	0.0%
Adjusted Grand Total	\$170,453	\$174,541	\$173,874	-\$667	-0.4%

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 \$0.7 million, or 0.4%, 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.
- A decrease of \$3.5 million for utilities somewhat masks other budget growth. When this item is removed, the operating budget for fiscal 2011 grows by \$2.8 million. Nearly all of this increase is attributed to contractual services, such as security, janitorial, shuttle bus, and environmental monitoring and testing.

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

For further information contact: Jaclyn D. Hartman

Phone: (410) 946-5530

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	\$26,983	\$26,798	\$20,874	\$20,000
Federal	\$1,575	\$1,082	\$17,992	\$5,667
Subtotal	\$28,558	\$27,880	\$38,866	\$25,667
Other Funds	\$46,800	\$63,599	\$52,037	\$53,228
Total	\$75,358	\$91,479	\$90,903	\$78,895

- The capital program decreases \$12.0 million from the fiscal 2010 working appropriation to the fiscal 2011 allowance. This decrease is largely the result of completion of improvements to the baggage screening system in Concourses D and E.
- The fiscal 2011 allowance (special and federal funds only) for the pay-as-you-go capital program decreases by \$13.2 million, or 34.0%, from the fiscal 2010 working appropriation. Other funding, derived mostly from passenger facility charges, increases \$1.2 million, or 2.3%, from the fiscal 2010 working appropriation.

Operating and PAYGO Personnel Data

	<u>FY 09 Actual</u>	<u>FY 10 Working</u>	<u>FY 11 Allowance</u>	<u>FY 10-11 Change</u>
Regular Operating Budget Positions	474.00	455.50	455.50	0.00
Regular PAYGO Budget Positions	<u>59.00</u>	<u>56.00</u>	<u>56.00</u>	<u>0.00</u>
Total Regular Positions	533.00	511.50	511.50	0.00
Operating Budget FTEs	0.59	1.00	0.50	-0.50
PAYGO Budget FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total FTEs	0.59	1.00	0.50	-0.50
Total Personnel	533.59	512.50	512.00	-0.50

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	30.69	6.00%
Positions and Percentage Vacant as of 12/31/09	35.00	6.84%

- The fiscal 2011 allowance includes 511.5 regular positions, the same as the fiscal 2010 working appropriation. The working appropriation reflects the abolition of 11.5 positions during fiscal 2010, including 6.5 vacant positions and 5.0 filled positions, and the transfer of 10.0 positions to the Secretary's Office as a cost containment measure.
- As of December 31, 2009, the Maryland Aviation Administration (MAA) had 35.0 vacant positions, for a vacancy rate of 6.8%. This includes 7.0 positions that have been vacant for 12 months or longer.
- MAA maintains the highest vacancy rate of all of the transportation modes.

Analysis in Brief

Major Trends

MAA Projects Self-sufficiency in Fiscal 2011 for Only the Sixth Time in the History of State Ownership: MAA's revenues are typically sufficient to cover operating expenses; however, MAA must rely on the Transportation Trust Fund or alternative financing mechanisms to fund its capital program. Since the State assumed ownership of Baltimore/Washington International Thurgood Marshall Airport (BWI Marshall Airport) in 1973, there have only been five years in which revenues were sufficient to cover both operating and capital costs, the most recent being in fiscal 1999. MAA projects that revenues in fiscal 2011 will be sufficient to cover both operating and capital expenses. However, given the increases expected in passenger traffic and significant cost containment actions taken in fiscal 2009 through 2011, the operating budget appears underfunded and will likely increase. Although it is likely that operating revenues in fiscal 2011 will cover operating expenses, it is doubtful they will be sufficient to cover the capital program.

Passenger Volumes Increase in Calendar 2009, Bucking Nationwide Trend: Passenger totals increased by 2.3% from calendar 2008 to 2009 at BWI Marshall Airport, bucking a national trend that saw declines in passengers at most major airports. From 2008 to 2009, the United States aviation industry saw a decline in passenger traffic of 6.9% and regional competitors Dulles Airport and Reagan National saw passengers decline by 2.7 and 2.5%, respectively. Total passengers at BWI Marshall Airport were 21 million in calendar 2009, only 90,769 passengers less than the record total set in calendar 2007.

Issues

Sale or Privatization of BWI Marshall Airport Unlikely: In January 2010, Governor Martin O'Malley expressed interest in the sale or an initial public offering involving BWI Marshall Airport. Over the next several days, his office quickly retrenched from that statement. Although BWI Marshall Airport already heavily relies on the private sector to provide airline employees,

concessions employees, and contracted services such as shuttle busses, privatization or sale of the airport would be difficult given current federal regulations. **The Department of Legislative Services (DLS) recommends MAA comment on airport privatization and the suitability of the current governance structure.**

Runway Safety Area Projects Veer Off Course: A Congressional mandate requires that all commercially operated airports must have adequate runway safety areas (RSA) by 2015. In a March 2009 report by the U.S. Department of Transportation Inspector General, BWI Marshall Airport was cited as 1 of 11 major airports nationwide that may not meet the Congressional deadline. MAA is currently conducting an environmental assessment to evaluate the impacts of the RSA improvement alternatives. The final decision on improvements will be based on the findings of this study and the availability of funding. **DLS recommends that MAA discuss delays in improving RSAs to date, its plan to meet the 2015 Congressional deadline, and its ability to secure necessary funding to meet project needs.**

MAA to Sell 275 Surplus Acres in Depressed Real Estate Market: Following guidance from the Federal Aviation Administration, MAA reviewed its inventory of land acquired for noise mitigation. It has identified 275 surplus acres that may be sold at fair market value to pay for future noise mitigation costs. Although this land is outside of the noise contour zone, it may still be affected by airport noise. **DLS recommends the adoption of committee narrative expressing the intent of the committees that all land acquired for noise mitigation and later sold must include a provision in the contract that the land is ineligible for State funding of future noise mitigation strategies. MAA should also comment on the process to date and the advisability of selling this land in the current real estate market.**

Business Class Travel Further Subsidizes British Airways: In December 2009, the Office of Legislative Audits released its most recent audit of MAA. One of the findings related to overseas business class travel by MAA employees aboard British Airways flights. Auditors noted that although State regulations allow business class travel for overseas flights, ticket prices were substantially higher than what could have been obtained from other airlines or in coach class. The finding is somewhat moot since the State is highly supportive of this service and maintains a profit guarantee agreement with British Airways in order to retain scheduled service. However, MAA could have taken actions to reduce ticket prices. **MAA should comment on efforts to curtail travel spending and why actions were not taken to obtain the most cost effective travel.**

Operating Budget Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Reduce funds for the security contract with the Maryland Transportation Authority Police.	\$ 500,000	
2. Delete 7 positions and associated funding for positions that have been vacant over 12 months.	441,824	7.0

J00100 – MDOT – Maryland Aviation Administration

3.	Delete funding for employee awards programs.	19,470	
4.	Reduce funding for information technology related expenses.	280,000	
5.	Reduce funds for building and household supplies.	200,000	
6.	Adopt committee narrative expressing the intent that the Maryland Aviation Administration charge for the issuance and/or replacement of identification badges.		
	Total Reductions	\$ 1,441,294	7.0

PAYGO Budget Recommended Actions

1. Adopt committee narrative expressing the intent that all land purchased as part of noise mitigation and later disposed of must include a contract provision that the land is ineligible for future noise mitigation strategies funded by the State.

J00100 – MDOT – Maryland Aviation Administration

J00I00
Maryland Aviation Administration
Maryland Department of Transportation

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

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, such as the status of the airline industry. Since airports depend not only on 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 discussion of the airline industry as a whole.

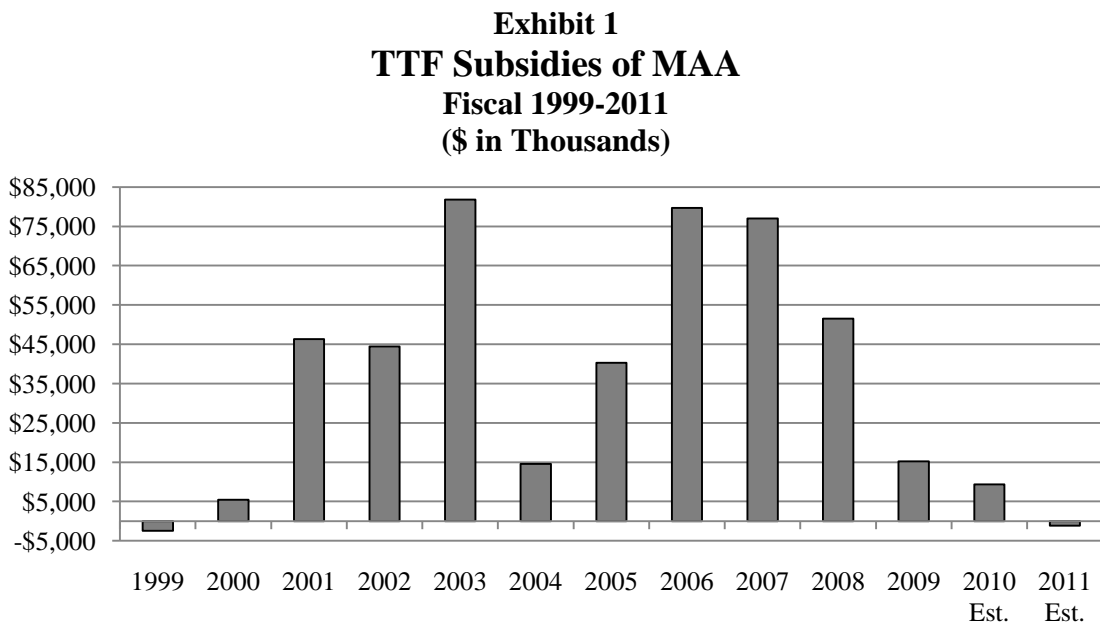
The Airline Industry

Although the extreme volatility in fuel prices that characterized the airline industry in 2008 has largely stabilized, the economic downturn has posed new challenges in 2009. The International Air Transport Association reports that 2009 saw the worst demand decline in airline history, down 3.5% worldwide. In the United States, the aviation industry declined by 6.9% in 2009. Demand for travel has fallen, in part, due to rising unemployment and businesses struggling to stay afloat. Demand is also depressed by the airline industry failing to deliver one of its most valuable benefits – time savings. Although the airplanes themselves are faster than ever, trips are taking longer than before. All components of the journey face delays – congestion on local roads increases travel time to the airport, fewer customer service agents mean longer check-in times, the growing list of security regulations adds additional time to security checkpoints, and an antiquated and overburdened air traffic control system results in numerous delays.

In 2009, the gross domestic product (GDP) shrank for nearly every sector of the economy, including the airline industry. However, for airlines, their share of GDP actually decreased from an average of 0.73% in 1991 through 2000 to 0.48% in the 12-month period from October 2008 through September 2009, meaning that the airline industry declined more precipitously than other industries. Equally troubling for the airline industry is that despite the overall decline in GDP, fuel prices did not decline. In fact, the end of 2009 has seen crude oil prices rising again. Although prices are well below the \$145 per barrel peak in July 2008, they have risen from an average of \$40 per barrel at the beginning of 2009 to \$80 per barrel at the end of the year. Continued increases in fuel prices, coupled with continued weak demand and threats of terrorism, could mean another difficult year for the airline industry in 2010.

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. Although MAA's revenues have typically covered its operating expenses, MAA relies on the TTF or other non-MAA financing mechanisms to fund its capital program. **Exhibit 1** provides a history of TTF subsidies of MAA, taking both the operating and capital budgets into account.



MAA: Maryland Aviation Administration
TTF: Transportation Trust Fund

Note: Years in which there is a negative subsidy are the years that MAA revenues exceeded expenses and MAA gave money to the TTF.

Source: Department of Legislative Services

Exhibit 2 shows that for the first time since fiscal 1999, MAA is projecting that fiscal 2011 revenues will be sufficient to cover both operating and capital expenses. This is only the sixth time since MAA took ownership of BWI Marshall Airport in 1973 that this has happened. It is due in large part to aggressive cost containment actions made in response to the current economic downturn. However, it should be noted that MAA’s operating budget has been fairly constant since fiscal 2008, and continuing to maintain these levels of cost containment may be unsustainable over the long term, especially as passenger volumes increase.

It is important to note in looking at MAA 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. 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 may not match in a year-to-year comparison.

Exhibit 2
Special Fund Revenues and Expenditures
Fiscal 2008-2011
(\$ in Thousands)

	<u>Actual 2008</u>	<u>Actual 2009</u>	<u>Work. Approp. 2010</u>	<u>Allowance 2011</u>	<u>Change 2010-2011</u>	<u>% Change 2010-2011</u>
Operating Revenues						
Flight Activities	\$41,032	\$48,945	\$52,626	\$54,590	\$1,964	3.7%
Rent and User Fees	51,820	55,279	54,134	58,660	4,526	8.4%
Concessions	68,732	63,766	63,607	66,409	2,802	4.4%
Other Revenues	8,835	5,643	7,606	8,116	510	6.7%
Martin State Airport Activities	9,836	7,948	7,411	7,586	175	2.4%
Subtotal	\$180,255	\$181,580	\$185,384	\$195,361	\$9,977	5.4%
Operating Expenditures ¹	\$177,416	\$169,797	\$173,885	\$174,189	\$304	0.2%
Net Operating Income	\$2,839	\$11,783	\$11,499	\$21,172	\$9,673	84.1%
Capital Expenditures ¹	\$54,367	\$26,983	\$20,874	\$20,000	-\$874	-4.2%
Total TTF Subsidy	-\$51,528	-\$15,200	-\$9,375	\$1,172	\$10,547	-112.5%

TTF: Transportation Trust Fund

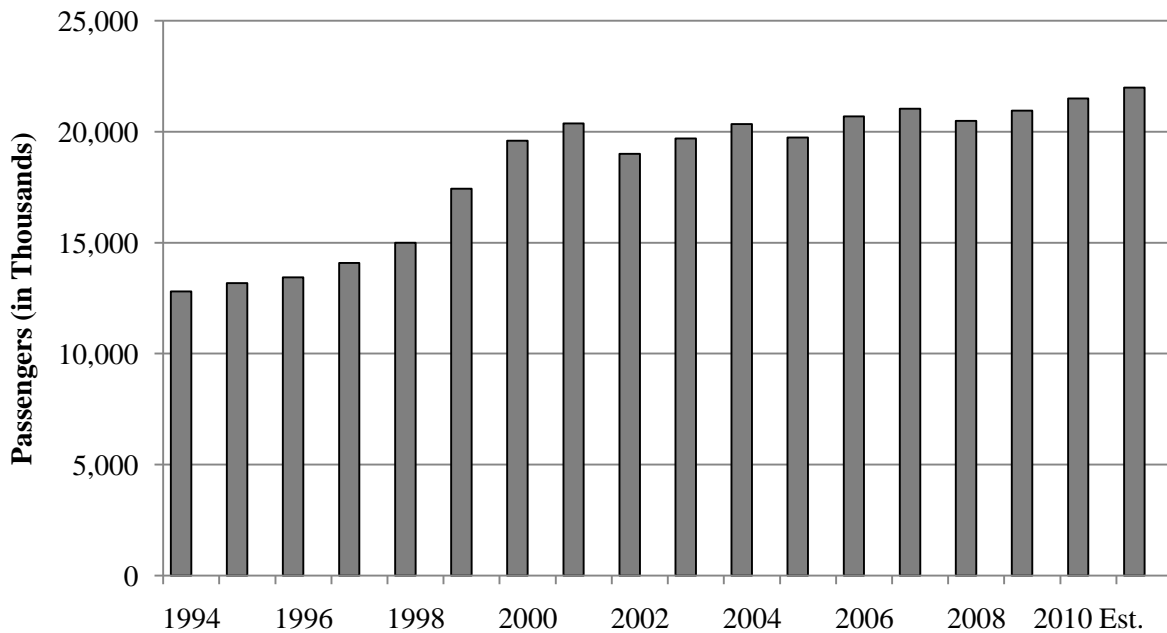
¹ Includes special funds only.

Source: Maryland Aviation Administration

Total Passengers and Passenger Market Share

Passenger traffic at BWI Marshall Airport increased 2.3% from calendar 2008 to 2009, up from 20.5 million passengers in calendar 2008 to 21.0 million in calendar 2009. As shown in **Exhibit 3**, 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. Passenger volumes declined slightly in 2008 as a result of the economic downturn, but a strong finish in 2009 allowed an overall increase for the year. Passenger volumes are expected to rebound in 2010 and 2011, reaching record passenger levels.

Exhibit 3
Total Passengers at BWI Marshall Airport
Calendar 1994-2011



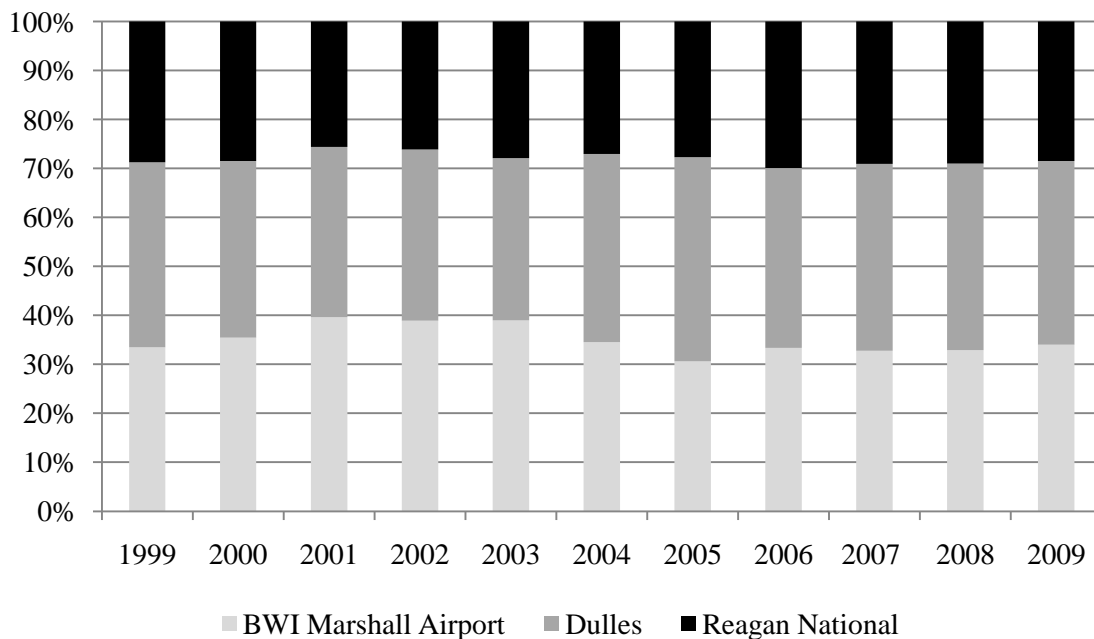
Source: Maryland Aviation Administration

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).

Both Dulles and Reagan National saw declines in passengers from 2008 to 2009, declining 2.7 and 2.5%, respectively. The fact that passenger totals at both of these airports declined while BWI Marshall Airport increased allowed BWI Marshall Airport to increase its regional market share from 32.9 to 34.0%, as shown in **Exhibit 4**. Dulles continues to lead market share with 37.5% 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' 26.6% of total passengers in calendar 2009 that flew internationally to BWI Marshall Airport's 1.4% provides further evidence of the strength of Dulles' international offerings.

The dominant airline at BWI Marshall Airport continues to be Southwest Airlines, which handled 52.3% of all passengers in calendar 2009. The next largest airline is AirTran Airways, which handled 15.8% of all passengers in calendar 2009. Passengers on international flights declined 26.2% from calendar 2008 to 2009 and now make up only 1.4% of total passengers at BWI Marshall Airport.

Exhibit 4
Passenger Market Share
Calendar 1999-2009



Source: Maryland Aviation Administration

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 nonairline revenue per enplaned passenger (RPE). Nonairline revenue includes parking, concessions, rental cars, and other revenue sources. In regard 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 2008 to 2009, BWI Marshall Airport's CPE increased from \$7.75 to \$9.28, a 19.7% increase. This remains below the fiscal 2009 CPE of \$11.53 for other regional airports. Regional airports are the airports that BWI Marshall Airport is in direct competition with: Reagan National, Dulles, and Philadelphia International Airport. Through fiscal 2011, MAA projects that its costs will increase more slowly (10.1% growth from fiscal 2009 to 2011 versus 20.7% for regional airports) resulting in a difference by fiscal 2011 of \$3.70 per passenger.

Also shown in Exhibit 5, BWI Marshall Airport's nonairline RPE decreased in fiscal 2009 to \$10.82, a 2.5% decrease from fiscal 2008. Although data for fiscal 2009 comparable airports is not yet available, the fiscal 2008 actual shows that BWI Marshall Airport's RPE is comparable to that of other regional airports.

Exhibit 5 Cost and Revenue Per Enplaned Passenger Fiscal 2007-2011

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Est.</u> <u>2010</u>	<u>Est.</u> <u>2011</u>
Cost Per Enplaned Passenger					
BWI Marshall Airport	\$6.66	\$7.75	\$9.28	\$9.77	\$10.22
Regional Airports Mean	\$9.14	\$10.05	\$11.53	\$12.38	\$13.92
Revenue Per Enplaned Passenger					
BWI Marshall Airport	\$10.01	\$11.10	\$10.82	\$10.64	\$10.60
Regional Airports Mean	\$10.32	\$11.35	*	*	*

* Actual data for fiscal 2009 for regional airports is not yet available. Projections of revenues for regional airports are not made.

Source: Maryland Aviation Administration

Fiscal 2010 Actions

Impact of Cost Containment

Throughout fiscal 2010, a number of cost containment actions have taken place. These cost containment actions were the result of a requirement in the fiscal 2010 budget bill abolishing a total of 55 vacant positions departmentwide and a number of Board of Public Works (BPW) actions reducing spending statewide. In total, MAA's budget was reduced by \$9.1 million, 11.5 positions were abolished, and 10.0 positions were transferred to the Secretary's Office as a cost containment measure. Of these 21.5 positions, 6.5 were filled and the remaining positions were vacant.

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

- \$2.0 million for security to reflect the consolidation of several posts and the shifting of some responsibilities to the Transportation Security Administration;
- \$1.3 million for janitorial services to reflect modifications to service schedules;
- \$1.0 million for information technology related costs;
- \$0.9 million for environmental protection testing and services as a result of better contract management;
- \$0.9 million for building and grounds maintenance;
- \$0.6 million for miscellaneous contracts, including equipment repair and maintenance and trash removal;
- \$0.5 million for communications charges; and
- \$0.5 million for consultants, including consultants for air service development and security.

Revenue Measures

In fiscal 2010, MAA implemented several revenue measures. These include changes to parking rates and the development of a rental car transportation facility charge.

Parking Rates

Effective July 1, 2009, MAA eliminated the practice of making the first 30 minutes at the hourly garage free. Effective December 1, 2009, parking rates were modified as shown in **Exhibit 6**.

**Exhibit 6
Parking Rates Per Day**

	<u>Old Rate</u>	<u>New Rate</u>
Hourly	\$20	\$22
Daily	10	12
Express	14	10
Long-term	8	8

Source: Maryland Aviation Administration

Rental Car Transportation Facility Charge

MAA also proposed changes to the *Code of Maryland Regulations* to require rental car companies to charge \$1.60 per day to cover the operating and maintenance cost of the rental car shuttle bus services. MAA estimates annual revenues from this fee at \$5 million, of which \$500,000 would go to MAA as part of the rental car concessions contract. BPW approval is required for this change.

Biometric Badges Now Required

Each year, MAA's Division of Airport Security provides identification badges to over 20,000 airport employees, contractors, and delivery personnel. A recent federal mandate requires that badges include biometric access control measures. In September 2008, MAA began building a biometric database of all its patrons, issuing biometric badges and installing biometric readers. The biometric requirements have significantly increased the cost of producing badges. Previous versions of badges cost only about \$0.70 per badge to produce, but the newer biometric badges cost \$7.00 per badge. The fiscal 2011 allowance increases \$85,000 for badging supplies and \$28,500 for the maintenance of fingerprinting machines and equipment to train and test individuals applying for badges on security, as required by federal mandates. **Given the rising cost of issuing biometric identification badges, the Department of Legislative Services (DLS) recommends the adoption of committee narrative expressing the intent that MAA charge individuals for the issuance of new and/or replacement badges.**

Proposed Budget

MAA's fiscal 2011 operating budget allowance increases by \$0.3 million, or 0.2%, from the fiscal 2010 working appropriation. After adjusting for MAA's estimated allocation of across-the-board reductions, the fiscal 2011 operating budget allowance decreases \$0.7 million, or 0.4%, 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.

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

How Much It Grows:	Special Fund	Federal Fund	Total
2010 Working Appropriation	\$173,885	\$656	\$174,541
2011 Allowance	<u>174,189</u>	<u>656</u>	<u>174,845</u>
Amount Change	\$304	\$0	\$304
Percent Change	0.2%	0.0%	0.2%
 Contingent Reductions	 -\$972	 \$0	 -\$972
Adjusted Change	-\$667	\$0	-\$667
Adjusted Percent Change	-0.4%	0.0%	-0.4%

Where It Goes:

Personnel Expenses

Employee retirement	\$730
Special duty pay and clothing allowance for fire and rescue personnel	118
Other fringe benefit adjustments	72
Employee and retiree health insurance (after adjusting for across-the-board reductions)	-202
Employee salaries (after adjusting for across-the-board reductions)	-558

Other Changes

Security services	814
Shuttle bus contract	712
Janitorial services	611
Information technology related expenses	557
Maryland Environmental Services	269
Supplies and materials	261
Equipment repair and maintenance	247
Vehicle insurance, maintenance, and repair	120
Contract with the Department of Business and Economic Development to provide a program administrator for volunteers	-50
Grants to organizations	-50
Debt service	-55
Defer all vehicle purchases	-219

J00100 – MDOT – Maryland Aviation Administration

Where It Goes:

Lease savings from moving some employees from leased space to the terminal	-237
Advertising	-300
Utilities.....	-3,512
Other changes.....	5
Total	-\$667

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

Personnel Costs

After adjusting for across-the-board reductions, MAA’s personnel budget increases by \$160,288. The largest change in personnel costs is an increase of \$729,722 for employee retirement costs due to higher contribution rates. The bulk of this increase (\$447,625) is attributable to fire and rescue personnel enrolled in the Law Enforcement Officers Pension System. There is also an \$118,129 increase for special duty pay and clothing allowances for fire and rescue personnel based on fiscal 2009 expenditures. These increases are largely offset by decreases in employee salaries and health insurance due to the projected allocation of across-the-board reductions for these items.

Nonpersonnel Costs

Outside of personnel, the fiscal 2011 allowance decreases \$827,537 from the fiscal 2010 working appropriation; however, a large decrease of \$3.5 million for overbudgeted utilities masks the true growth in the budget. After removing this decrease, the true growth in the budget is a \$2.7 million increase. The increase is primarily attributable to contracted services. These include:

- security contracts increase \$814,347 based on fiscal 2009 actual expenditures. Security contracts include AKAL Security, a private security company (increases \$723,109), the Maryland Transportation Authority (MDTA) Police K-9 (increases \$91,238), and the Airport Detachment of the MDTA Police (no increase);
- the contract for shuttle bus services increases \$712,074 due to a higher hourly rate that goes into effect in September 2010;
- the contract for janitorial services increases by \$610,879 based on fiscal 2009 expenditures;
- environmental protection services, including stormwater pollution control systems and environmental testing provided by the Maryland Environmental Service, increase \$268,625; and
- various contracts for repair and maintenance increase by \$246,713, including \$207,826 for mechanical equipment such as loading bridges, baggage claim systems, and moving walkways.

Other notable changes include:

- \$556,838 increase for information technology related costs such as software acquisition and maintenance and computer maintenance contracts;
- \$300,000 decrease for advertising, including deleting funds for airline cooperative marketing agreements;
- \$237,222 decrease for lease savings as a result of moving employees from privately leased space to newly constructed office space at BWI Marshall Airport (total lease savings were \$430,649 but the savings were spread over fiscal 2010 and 2011 as MAA gradually reduced staff at the leased office space); and
- \$219,405 decrease by deferring all new and replacement vehicle purchases.

Impact of Cost Containment

Fiscal 2011

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, DLS has estimated the distribution of selected actions relating to employee furloughs, health insurance, and the Injured Workers' Insurance Fund cost savings.

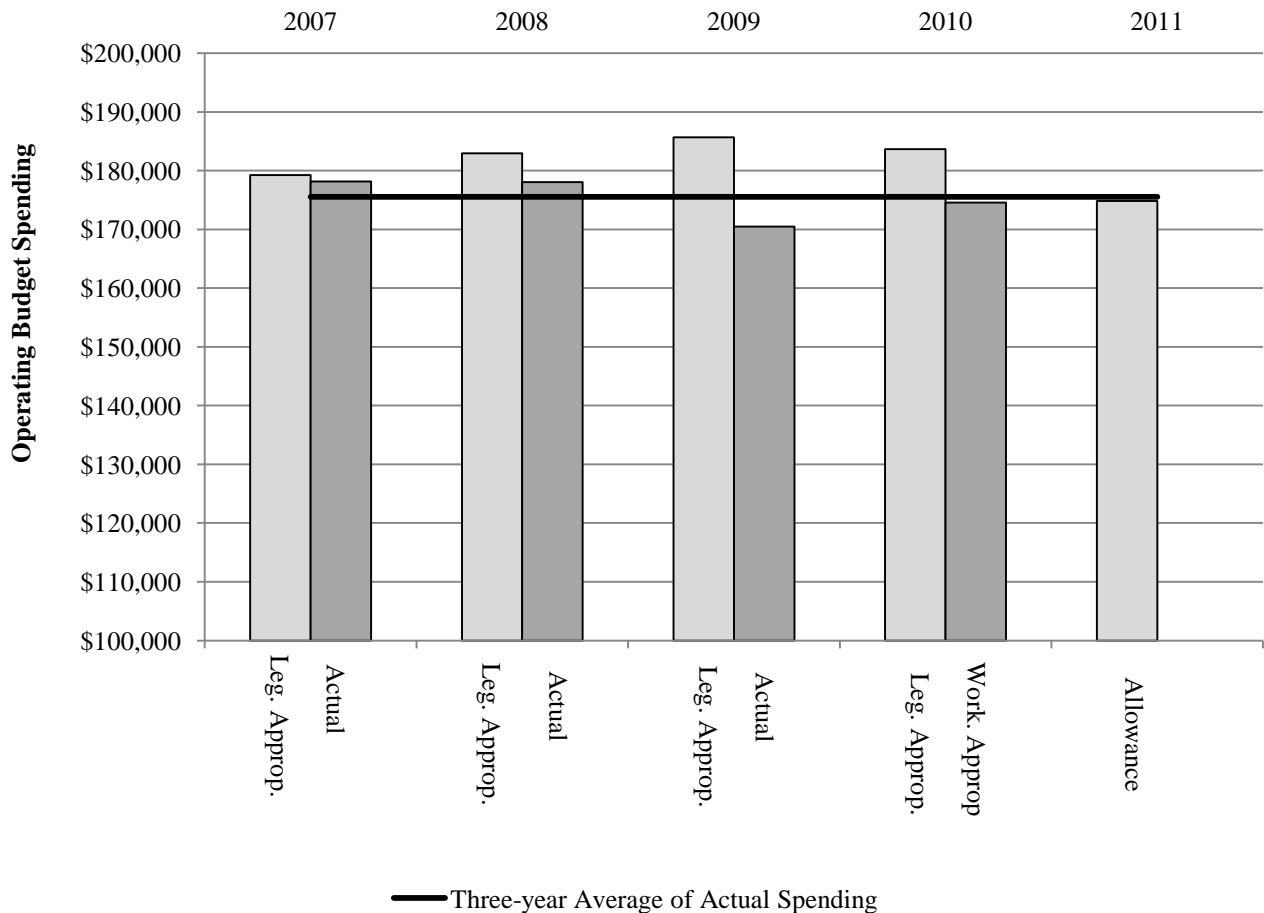
Cumulative Effect

Since fiscal 2008, MAA has taken cost containment actions totaling \$29.1 million. These actions include:

- \$4.7 million in cost containment actions in fiscal 2008;
- \$5.2 million in cost containment actions in fiscal 2009;
- \$10.1 million in end-of-year cancellations, due to constrained spending throughout the year for cost containment; and
- \$9.1 million in cost containment actions in fiscal 2010.

As shown in **Exhibit 8**, since fiscal 2007, actual expenditures have been lower than the legislative appropriation, often by significant amounts, such as \$15.2 million in fiscal 2009. While some of these cost containment actions, such as position abolitions, produce ongoing savings, many of the actions only defer spending to later years. One-time savings actions include furloughs and deferring the purchase of new vehicles or equipment. Other cost containment actions may be useful in the short term but prove unsustainable over longer periods. For example, deferring maintenance or road paving is fine in the short-term; however, deferring over several years ultimately leads to more costly repairs.

Exhibit 8
Effect of Cost Containment Actions
Fiscal 2007-2011
(\$ in Thousands)



Source: Maryland Aviation Administration

One factor particular to the airport is the effect of passenger traffic. As the airline industry begins to recover and passenger volume increases, certain cost containment actions taken when passenger volumes were lower may be unsustainable as they increase. For example, cost containment actions to reduce janitorial services by changing service schedules may be unworkable when more people are moving through the terminal. The fiscal 2011 allowance is slightly lower than the three year average of actual spending, which may already be underbudgeting MAA for fiscal 2011. This, coupled with increased passengers forecasted in fiscal 2010 and 2011, may make living within its budget quite difficult for MAA.

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 2010 to 2015 Consolidated Transportation Program

The MAA PAYGO capital fiscal 2011 allowance for special and federal funds decreases by \$13.2 million from the fiscal 2010 working appropriation. The net decrease reflects a \$0.9 million decrease in special funds and a \$12.3 million decrease in federal funds. The large decrease in federal funds is the result of \$17.1 million in federal grants that were received in fiscal 2010 for particular projects. MAA received \$15.0 million from the American Recovery and Reinvestment Act of 2009 (ARRA) for reconstruction of the apron area between Concourses C and D and \$2.1 million in Airport Improvement Program (AIP) funds for improvements to MTN and development of the BWI Marshall Airport master plan and environmental assessment.

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 \$52.0 million in fiscal 2010 to \$53.2 million in fiscal 2011.

Exhibit 9
Other Funds
Fiscal 2010-2011
(\$ in Thousands)

<u>Project</u>	<u>Source</u>	<u>2010</u>	<u>2011</u>
D/E apron rehabilitation – Phase 2	PFC	15	
Airfield lighting cable replacement	PFC	4,884	

J00100 – MDOT – Maryland Aviation Administration

<u>Project</u>	<u>Source</u>	<u>2010</u>	<u>2011</u>
Airside taxiway paving rehabilitation	PFC	701	
External information technology infrastructure upgrades	PFC	1,194	
Concourse B/C airfield ramp regrading – Phase III	PFC	4,496	
Concourse D/E baggage system and claim improvements	PFC	6,337	
D/E airfield ramp improvements	PFC	794	
Deicing storage tank # 4	PFC	1,228	
Equipment and safety training systems	PFC	860	
Concourse D/E baggage system and claim improvements	TSA	10,800	
Security division expansion	TSA	174	
Interim CCTV improvements	TSA	200	
Baggage handling system upgrades	TSA	569	
New Concourse A expansion	TSA	28	
Terminal improvement project	PFC	1,305	1,506
Integrated security system	PFC	2,331	2,972
Gate G modifications	PFC	82	2,780
Emergency backup systems	PFC	773	934
Terminal modernization design	PFC	262	4,028
Permanent noise monitoring system replacement	PFC	124	636
Concourse C/D apron reconstruction	PFC	7,748	15,030
Hagerstown Airport	RAA	6,000	4,000
Rental car facility courtyard improvements	CFC	644	1,290
Integrated security system	TSA	188	7,316
TSA baggage screening improvements	TSA	300	2,951
Airfield pavement improvement	PFC		7,509
Widen airport road	PFC		144
Airfield equipment storage building	PFC		217
Above ground deicing tanks	PFC		215
Portable snowmelter replacement	PFC		1,700
Total by Fund Type	PFC	\$33,134	\$37,671
	RAA	\$6,000	\$4,000
	CFC	\$644	\$1,290
	TSA	\$12,259	\$10,267
Total		\$52,037	\$53,228

CCTV: closed circuit television

CFC: customer facility charges

PFC: passenger facility charges

RAA: Regional Aviation Assistance

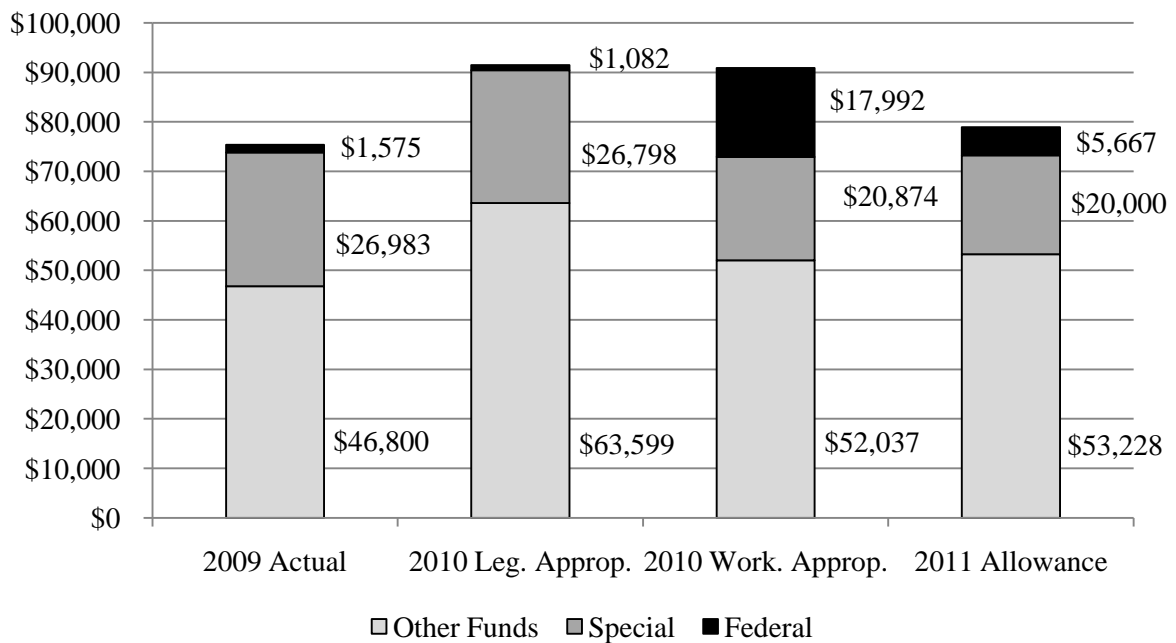
TSA: Transportation Security Administration

Source: Maryland Aviation Administration

Fiscal 2010 and 2011 Cash Flow Analysis

Exhibit 10 provides cash flow information for MAA’s capital program from fiscal 2009 to 2011. The total capital program in fiscal 2011 is \$78.9 million, a \$12.0 million decrease from the fiscal 2010 working appropriation.

**Exhibit 10
Cash Flow Changes
Fiscal 2009-2011
(\$ in Thousands)**



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

Exhibit 11 provides a list of major construction projects funded in fiscal 2011. The three projects listed account for 90% of all funding of major projects in the construction program for fiscal 2011.

Exhibit 11
Major Construction Projects
Funded in Fiscal 2011
(\$ in Thousands)

<u>Project</u>	<u>2011</u>	<u>Total \$</u>	<u>Completion of Fiscal Cash Flow</u>
Concourse C/D apron reconstruction at BWI Marshall Airport – includes the pavement removal and reconstruction of the aircraft ramp area between Concourses C and D, improvements to drainage structures and upgrades to deicing collection facilities, communications infrastructure, and ramp lighting. Includes \$15.0 million in ARRA funding.	\$18,306	\$43,329	2011
Integrated Life-safety and Security Systems at BWI Marshall Airport – provides for the replacement of numerous, disparate end of life cycle facility monitoring, emergency response and security systems into one integrated system.	10,288	35,357	2013
Hagerstown Airport Expansion – multi-year project to expand a runway at Hagerstown Regional Airport.	4,060	59,194	2014
Total	\$32,654	\$137,880	

ARRA: American Recovery and Reinvestment Act of 2009

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

Projects Added to the Construction Program

One project was added to the construction program in the fiscal 2010 to 2015 *Consolidated Transportation Program* (CTP). 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 in the 2009 legislative session between the Legislature and the Maryland Department of Transportation (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 is the integrated life-safety and security systems at BWI Marshall Airport, and it involves the replacement of numerous disparate, end of life cycle facility monitoring, emergency response, and security systems. New technology will allow for the integration of consolidated dispatch center systems with closed circuit television and controlled access security systems. The total project cost is \$35.4 million, and completion is set for fiscal 2013.

Construction Schedule Advancements

The receipt of \$15.0 million in ARRA funds allowed MAA to advance one project from fiscal 2012 to 2010. The project involves improvements to the aircraft ramp area between Concourses C and D. The improvements include pavement removal and reconstruction, improvements to drainage structures and upgrades to deicing collection facilities, communications infrastructure, and ramp lighting. The total cost of the project is \$43.3 million and will be funded by ARRA dollars and PFCs. Completion is expected in fiscal 2011.

Construction Schedule Delays

Exhibit 12 shows the construction schedule delays in the capital program.

Exhibit 12 Construction Schedule Delays

<u>Project</u>	<u>Justification</u>	<u>Delay</u>
Integrated Life-safety and Security Systems at BWI Marshall Airport – provides for the replacement of numerous, disparate end of life cycle facility monitoring, emergency response, and security systems into one integrated system.	Awaiting PFC funding approval	From Fiscal 2010 to 2011
Terminal Modernization Program at BWI Marshall Airport – involves the identification and assessment of various improvements to the older parts of the terminal to increase uniformity across older and newer terminals.	Awaiting PFC funding approval	From Fiscal 2010 to 2011

PFC: passenger facility charges

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

PFC Funding

PFCs are a significant source of “other funding” for MAA’s capital program. The PFC program, administered by the Federal Aviation Administration (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.

J00100 – MDOT – Maryland Aviation Administration

At the federal level, there has been some discussion in Congress about increasing PFC fees from \$4.50 to \$7.00. If MAA is 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 December 2009, 27 projects with an associated PFC expenditure of \$558.2 million have been partially funded with PFCs. Total PFC use authority covering construction and debt service costs for these projects is \$879.4 million.

Issues

1. Sale or Privatization of BWI Marshall Airport Unlikely

In January 2010, an article on the *Financial Times* web site stated that Governor Martin J. O'Malley was interested in the possible sale or an initial public offering involving BWI Marshall Airport. In the proceeding days, the Governor's Office quickly retrenched from that statement, saying that although they continue to monitor trends and best practices in the airport industry, they were not actively seeking any change to the airport governance model currently in place at BWI Marshall Airport.

Several federal laws and regulations have historically hindered the ownership or management of public use airports by private entities. In 1996, the United States Congress established the Airport Privatization Pilot Program to allow private entities to own, operate and develop up to five public airports. In the 14 years since the Pilot Program was established, only eight airports have applied and three of those later withdrew their application. In 2000, Stewart International Airport in New York became the first and only airport to privatize under this program; however, 7 years later the Port Authority of New York and New Jersey decided to buy out the remaining 93 years of the lease, thus ending the privatization experiment. Three airports have active applications for the program. They are Chicago Midway International Airport (Midway Airport), Luis Munoz Marin International Airport, and Louis Armstrong New Orleans International Airport.

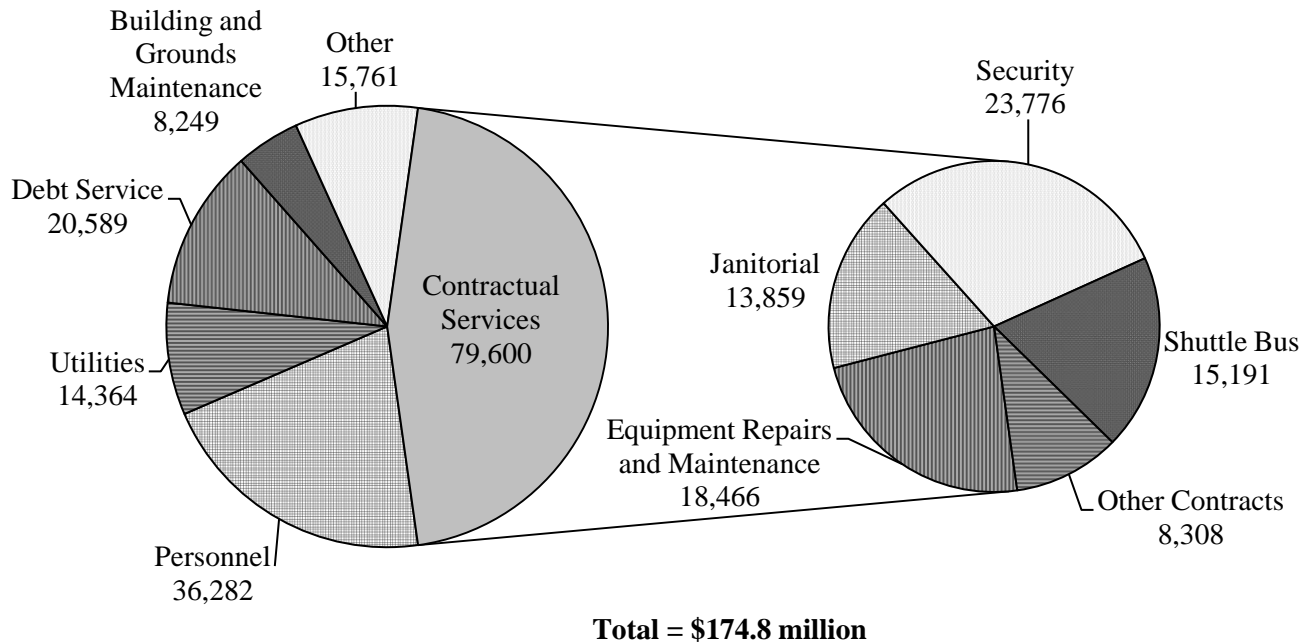
Privatization of Midway Airport

Midway Airport provides an interesting case study. It occupies the sole large hub airport spot allowed in the Pilot Program and handles slightly less passengers than BWI Marshall Airport (17 million versus 20 million). In 2009, Midway Airport was close to finalizing a deal for a 99-year lease of the airport in return for an upfront payment of \$2.5 billion. The deal fell through when the private partner failed to secure the necessary financing. Some reports have suggested that Midway Airport may try to revive the deal this year using tax-exempt financing to lower the cost of borrowing. However, in January 2010, Mayor Richard M. Daley announced that he would not move forward on the deal until he could be sure that the value of the airport would not be negatively affected by the current economic downturn. The City of Chicago must provide an updated timeline for privatization to FAA by April 30 if it intends to stay in the Pilot Program. As long as Midway Airport occupies the large hub airport spot in the Pilot Program, BWI Marshall Airport would be unable to privatize.

Substantial Private Sector Involvement in BWI Marshall Airport

Although BWI Marshall Airport is currently owned and operated by the State, it relies heavily on the private sector. Of the roughly 10,000 employees at the airport, less than 500 of those are State employees. Others include private contractors and airline and concessions employees. As shown in **Exhibit 13**, nearly one-half of MAA's operating budget is spent on contracted services. The largest of these contracts include security, equipment repairs and maintenance, shuttle busses, and janitorial.

Exhibit 13
Fiscal 2011 Operating Budget
 (\$ in Thousands)



Source: Department of Legislative Services

Although contracted services include a contract with MDTA Police for law enforcement services and the Maryland Environmental Service for environmental monitoring and testing, both quasi-State agencies, the bulk of these contracts are with the private sector.

Changes to Governance Structure

Since the early 1990s, a number of studies have evaluated alternative governance structures for BWI Marshall Airport and all have recommended no changes to the governance structure. Most recently, in 2005, the BWI Marshall Airport Governance Study Group found that the current governance structure was the preferred model but did make some recommendations that were later adopted to allow MAA to operate in a more business-like manner. Recommendations included increasing marketing and advertising budgets, reviewing procurement procedures to ensure that decisions can be made quickly, and taking certain personnel actions to enhance competition with the private sector. **DLS recommends MAA comment on airport privatization and the suitability of the current governance structure.**

2. Runway Safety Area Projects Veer Off Course

Between 1997 and 2007, 75 aircraft have overrun or veered off U.S. runways, resulting in nearly 200 injuries and 12 fatalities. In December 2005, an airplane landing in icy conditions at Chicago's Midway Airport skidded off the runway, through the airport's perimeter fencing, and onto a public street. The plane collided with a car, killing 1 and injuring 4 people in the car and injuring 18 people on board the airplane.

In November 2005, the U.S. Congress mandated that all airports conducting commercial operations improve their runway safety areas (RSA) by 2015. RSAs are rectangular spaces around runways that provide critical safety margins for landing and departing aircraft, thereby minimizing the risk of undershooting, overrunning, or veering off runways. FAA requires that RSAs be free of obstructions and be properly graded to accommodate an airplane. The RSA standard is 500 feet across for the full length of the runway and 1,000 feet at each end of the runway.

In March 2009, the U.S. Department of Transportation Inspector General issued a report assessing the progress and challenges in meeting the 2015 deadline established by Congress and found that although significant progress was being made, 11 of the nation's 30 largest airports face major challenges in making necessary improvements. Included in these 11 airports is BWI Marshall Airport.

In response to the federal mandate, MAA completed an RSA Compliance Study in 2004, an Airport Layout Plan in 2008, and is in the process of conducting an environmental assessment to evaluate the impacts of the RSA improvements. At BWI Marshall Airport, all four RSAs were found to have deficiencies but resolving these deficiencies has been difficult because the runways are constrained by interstate and State highways. MAA and FAA have agreed on methods for improving the RSAs but will not execute them until the airport's master plan has been updated. Alternatives for improvements include regrading existing RSAs to meet current standards, shortening runway lengths for arrivals and departures to provide sufficient RSA lengths, closing runways to commercial use, and converting runways to taxiway use.

Development and evaluation of RSA improvements are currently included in the fiscal 2010 to 2015 CTP. Once the environmental assessment is completed in July 2010, design of the RSA improvements and other airfield pavement improvements can begin. The engineering phase will further define the cost and phases of the project. It is anticipated that construction will begin in 2012 and RSA improvements will be completed by December 2014, in time to meet the Congressional deadline.

The final decision on improvements to each of the runways will be determined by the findings of the environmental assessment and available funding. There are not yet any funding commitments for this project, but MAA included out-year reserves for this project in the CTP. The estimated cost of the RSA improvements is \$50 to \$60 million. Reconstructing all surrounding areas, including runways and taxiways to meet all current FAA standards to be eligible for AIP and PFC funding would cost around \$250 million. Although there are no funding commitments, MAA hopes to obtain funding from federal AIP grants, PFCs, and the TTF. It is unclear what adjustments would have to be

made to the project if expected funding sources do not materialize. **DLS recommends that MAA discuss delays in improving RSAs to date, its plan to meet the 2015 Congressional deadline, and its ability to secure necessary funding to meet project needs.**

3. MAA to Sell 275 Surplus Acres in Depressed Real Estate Market

The FAA airport noise compatibility program is designed to encourage airport operators and surrounding communities to prevent or mitigate noise sensitive land uses around airports. One way that airports can mitigate noise impacts is to acquire noise impacted land and convert it to a compatible use. When an airport uses certain federal funds to acquire land for noise compatibility, the airport must commit to dispose of the land “as soon as practicable” when the land is no longer needed for noise compatibility purposes. The airport must then repay the federal share of the proceeds or reinvest the funds, with FAA approval, into the airport’s noise compatibility program.

Since 1985, MAA has acquired 202 parcels of land under this program to create a buffer between BWI Marshall Airport and surrounding communities. The total cost of the land was \$36 million, and it was acquired primarily using federal funds with a portion of funds from the TTF. Over time, airplane technology has reduced noise and led to smaller areas affected by airport noise.

In September 2005, an audit report from the U.S. Department of Transportation Inspector General recommended that FAA enhance its monitoring of the noise land disposal requirement. In February 2008, FAA issued Program Guidance Letter 08-2 mandating that airports develop comprehensive reuse plans for land acquired for noise compatibility. The new guidance required airports to develop an inventory of land acquired under this program and determine whether each piece of land is still required for noise mitigation, can be converted to other federally eligible airport development uses, or can be disposed of. Disposal may include selling the land at fair market value or leasing the land. Reuse plans had to be submitted to FAA by October 2009. MAA submitted its plan in October 2009. The plan proposes to convert 48 parcels to federally eligible airport development land and to sell the remaining 154 parcels. Once the plan is approved by FAA, MAA will look to sell 275 surplus acres around BWI Marshall Airport. These funds will then be put into an escrow account and will reimburse MAA for future noise mitigation projects.

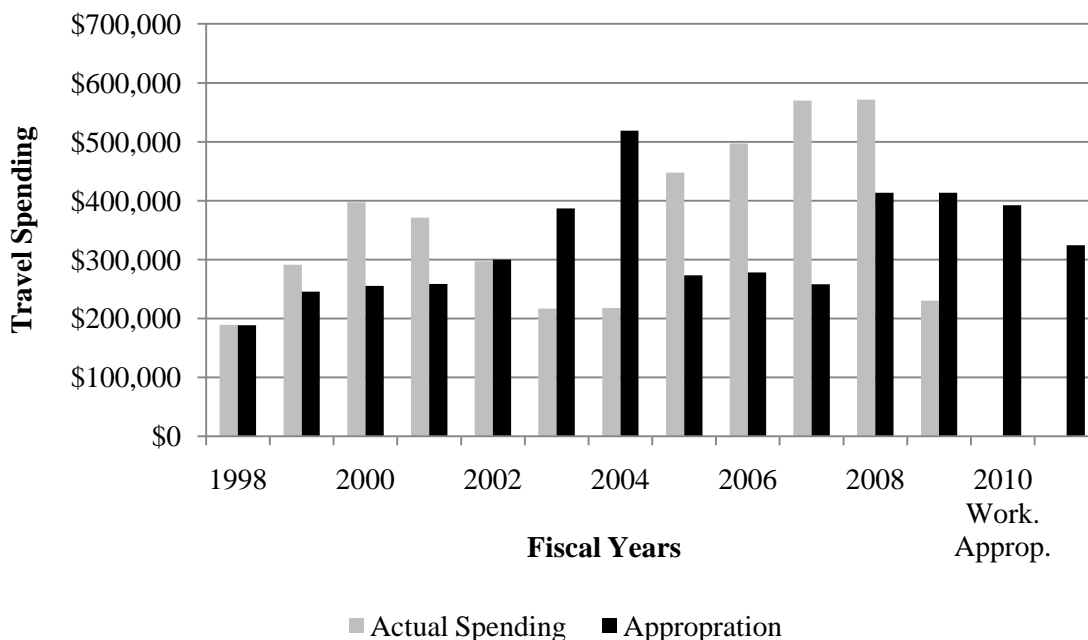
Finding 1 of the December 2009 MAA audit noted that MAA failed to obtain \$2.4 million in federal funding for the noise compatibility program because it had not yet completed this process; however, reimbursement will be available once these provisions are met. **DLS notes that the current real estate market is not the optimal market in which to sell land acquired over several decades, invariably at higher prices. DLS recommends the adoption of committee narrative requiring that the sale of these parcels of land include contract provisions that stipulate that this property is ineligible for State funding of future noise mitigation strategies. MAA should comment on the land disposal process to date and the rationale for selling the land now, given the depressed real estate market.**

4. Business Class Travel Further Subsidizes British Airways

In December 2009, the Office of Legislative Audits (OLA) released its latest audit of MAA. Among other findings, the audit revealed that MAA did not comply with State travel regulations related to foreign travel by its employees. From November 2005 to October 2008, MAA purchased 67 business class airline tickets for travel to London from the same airline. The individual tickets ranged in price from \$3,480 to \$10,960 and the total cost was \$543,000. The average cost of the tickets was \$9,400 each. OLA noted that nonstop coach class tickets on the same flight cost \$2,084, and other airlines at BWI Marshall Airport offered one-stop business class tickets for \$2,227. Although State regulations allow business class travel on overseas flights, employees are required to exercise the same care that a prudent person traveling for personal reasons would use.

DLS’s analysis of MAA’s fiscal 2010 budget noted that MAA travel expenditures have been well in excess of its travel appropriation since fiscal 2005. As shown in **Exhibit 14**, in fiscal 2007, travel expenditures were double the budgeted amount. The auditor’s findings may help to explain why this was occurring. MAA significantly curtailed travel spending in fiscal 2009 as a cost containment measure and has reduced both the fiscal 2010 working appropriation and the fiscal 2011 allowance for travel as cost containment measures.

Exhibit 14
Travel Budgets and Spending



Source: Department of Legislative Services

All of the tickets noted in the auditor's findings were purchased through British Airways (BA) and over half involve MAA employees traveling to London Heathrow Airport to meet with BA staff. The daily nonstop service from BWI Marshall Airport to London Heathrow Airport on BA has long been a source of pride for MAA, who touts London Heathrow Airport as the gateway to the world and a vital destination for BWI Marshall Airport to maintain. To retain this service, MDOT maintains a profit guarantee agreement with BA, and MAA and BA officials work with local businesses to increase business use of the flight. The budget committees have shown support for this deal and agree that London Heathrow service is invaluable to BWI Marshall Airport. For this reason, the auditor's findings is somewhat of a moot point, as a policy decision has already been made to retain BA's daily nonstop service and to encourage the use of business class. However, MAA should take actions to reduce the cost of travel whenever possible. These options may include:

- buying tickets further in advance;
- allowing flexibility with the day or time of travel;
- including additional overnight stays;
- consolidating several trips into one when possible;
- sending less staff for overseas meetings; and
- utilizing video conferencing when possible.

MAA should comment on efforts to curtail travel spending and why actions were not taken to obtain the most cost effective travel.

Operating Budget Recommended Actions

	<u>Amount Reduction</u>	<u>Position Reduction</u>
1. Reduce funds for the security contract with the Maryland Transportation Authority (MDTA) Police. In fiscal 2010, the contract with MDTA Police was reduced by only 3.5% while the Maryland Aviation Administration's total budget was reduced by 5.0%. As a quasi-State agency, MDTA has not been subject to the level of cost containment actions that other State agencies have. To help in cost containment measures, the Airport Detachment of the MDTA Police should defer all vehicle replacements, defer information technology related expenses where possible, reduce overtime, and hold vacant positions open longer. Although MDTA Police follows a modified version of the furlough plan for all State employees, savings will also be realized from temporary salary reductions.	\$ 500,000 SF	
2. Delete 7 positions and associated funding for positions that have been vacant over 12 months. These positions were held vacant for some time to determine whether or not they could be abolished for cost containment reasons. All positions (except 1) have been in some form of recruitment but still have not been filled. The positions have all been vacant for more than 12 months, with the longest being vacant since April 2008. Since the Maryland Aviation Administration has operated for this long without these positions, it can continue to do so.	441,824 SF	7.0
3. Delete funding for employee awards programs. Given the State's current fiscal situation, this program awarding employees for submitting innovative ideas should be discontinued.	19,470 SF	

J00100 – MDOT – Maryland Aviation Administration

	<u>Amount Reduction</u>	<u>Position Reduction</u>
4. Reduce funding for information technology related expenses. The fiscal 2011 allowance for information technology related expenses, including the acquisition and maintenance of software and applications, increases \$556,838 from the fiscal 2010 working appropriation. This action reduces the increase by half and still allows for an increase of \$276,838.	280,000	SF
5. Reduce funds for building and household supplies. Fiscal 2009 spending on supplies such as lighting, paint, and plumbing repair and replacement parts was \$619,980. This action would reduce the fiscal 2011 allowance to \$739,106, which is more appropriate given actual spending and December 2009 audit findings (findings 6 and 7) determining that the Maryland Aviation Administration was amassing too much inventory of certain supplies such as ceramic floor tiles, without properly maintaining an inventory of such items.	200,000	SF
6. Adopt the following narrative: <p>Cost Recovery for Issuing Identification Badges: Each year, the Maryland Aviation Administration (MAA) issues 20,000 identification badges to employees, contractors, and delivery personnel requiring access to the airport. Recent federal mandates requiring a biometric component to the badges has significantly increased the cost of issuing badges, from \$0.70 per badge to \$7.00 per badge. The fiscal 2011 allowance includes an increase of \$113,500 in MAA’s operating budget for expenses related to the issuance of badges with a biometric component. Given the rising cost of issuing badges, it is the intent of the committees that MAA should implement a fee for new and/or replacement badges to recover the costs of issuance.</p>		
Total Special Fund Reductions	\$ 1,441,294	7.0

PAYGO Budget Recommended Actions

1. Adopt the following narrative:

Land Determined No Longer Needed for Noise Mitigation May Not Be Noise Free: Since 1985, the Maryland Aviation Administration (MAA) has purchased 202 parcels of land at a cost of \$36 million as part of noise mitigation efforts. Following Federal Aviation Administration guidance, MAA is currently reviewing these parcels of land to determine which are no longer needed for noise mitigation or other airport development needs. Estimates suggest that MAA may sell as much as 275 acres of land surrounding Baltimore/Washington International Thurgood Marshall Airport. Although by definition of the land no longer being needed for noise mitigation, these properties fall outside the airport's current noise contour maps, the property may still be affected by federally acceptable levels of noise. However, as the airport location is a preexisting condition known when the property is purchased, it is the intent of the committees that MAA should stipulate in all contracts involving the sale of this surplus land that unless the federal noise contour maps are changed to include this property, the property is ineligible for any type of State funded noise mitigation strategies.

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2009					
Legislative Appropriation	\$0	\$185,328	\$350	\$0	\$185,678
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	-173	306	0	133
Cost Containment	0	-5,241	0	0	-5,241
Reversions and Cancellations	0	-10,118	0	0	-10,118
Actual Expenditures	\$0	\$169,797	\$656	\$0	\$170,453
Fiscal 2010					
Legislative Appropriation	\$0	\$182,995	\$656	\$0	\$183,651
Cost Containment	0	-9,110	0	0	-9,110
Budget Amendments	0	0	0	0	0
Working Appropriation	\$0	\$173,885	\$656	\$0	\$174,541

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

Fiscal 2009

Fiscal 2009 operating expenditures at MAA totaled \$170.5 million, which is \$15.2 million less than the legislative appropriation. The net decrease was the result of a \$133,473 net increase in all funds for budget amendments, a \$5.2 decrease in special funds due to cost containment actions, and a \$10.1 million cancellation of special funds.

Fiscal 2009 budget amendments include:

- \$632,004 increase in special funds for the cost-of-living adjustment granted to all State employees;
- \$509,987 decrease in special funds as a result of transferring 6 regular positions and associated funding from the operating program to the capital program;
- \$306,191 decrease in special funds from the Department of Homeland Security, with a corresponding increase in federal funds, to provide additional security enhancements and add a greater law enforcement presence at BWI Marshall Airport; and
- \$11,456 increase in special funds for annual salary reviews for engineers.

Cost containment actions total \$5.2 million in special funds and include a \$4.1 million reduction in contractual services, a \$741,183 decrease for various operating budget reductions, a \$266,302 decrease resulting from a furlough plan of two to five days for all State employees, and a \$183,229 decrease for health insurance as the result of a fund swap.

Cancellations total \$10.1 million, largely resulting from additional cost containment efforts. The largest categories of cancellations include:

- \$2.8 million for maintenance and repair for in-house work, contracts, and vehicles;
- \$1.7 million for fuel for State vehicles and the shuttle bus fleet;
- \$1.0 million for information technology;
- \$0.8 million for consultants;
- \$0.7 million for advertising; and
- \$0.5 million for communication charges.

Fiscal 2010

The fiscal 2010 legislative appropriation for MAA's operating budget decreases by \$9.1 million in special funds. This includes the following cost containment actions taken through BPW:

- an \$814,092 decrease for position abolitions and a combination of service reduction and furlough days for all State employees; and
- an \$8.3 million decrease for various operating budget reductions.

Audit Findings

Audit Period for Last Audit:	November 1, 2005 – November 18, 2008
Issue Date:	December 2009
Number of Findings:	8
Number of Repeat Findings:	1
% of Repeat Findings:	12.5%
Rating: (if applicable)	

- Finding 1:** Certain federal requirements were not fulfilled resulting in federal funding for approximately \$2.4 million in expenditures that has not been obtained.
- Finding 2:** Procedures were not established to verify the propriety of airline incentive payments totaling \$7.9 million.
- Finding 3:** MAA did not comply with State travel regulations for employees traveling to foreign countries.
- Finding 4:** Proper internal controls were not established over certain purchasing transactions.
- Finding 5:** Solicitation specifications for an ambulance purchase appeared to have been written to favor a particular vendor.
- Finding 6:** Certain materials and supplies appeared to have been purchased far beyond MAA’s needs.
- Finding 7:** Proper internal controls were not established over warehouse materials and supplies inventories.
- Finding 8:** **Recordkeeping and physical inventory procedures for certain equipment were inadequate.**

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

**Object/Fund Difference Report
MDOT – Maryland Aviation 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>
Positions					
01 Regular	474.00	455.50	455.50	0	0%
02 Contractual	0.59	1.00	0.50	-0.50	-50.0%
Total Positions	474.59	456.50	456.00	-0.50	-0.1%
Objects					
01 Salaries and Wages	\$ 34,734,191	\$ 35,150,562	\$ 36,282,393	\$ 1,131,831	3.2%
02 Technical and Spec. Fees	1,016,905	1,492,878	1,406,177	-86,701	-5.8%
03 Communication	1,236,227	1,640,601	1,650,099	9,498	0.6%
04 Travel	215,218	311,345	273,528	-37,817	-12.1%
06 Fuel and Utilities	15,431,120	17,876,009	14,363,732	-3,512,277	-19.6%
07 Motor Vehicles	2,805,374	3,931,542	3,798,267	-133,275	-3.4%
08 Contractual Services	75,358,986	76,755,990	79,600,183	2,844,193	3.7%
09 Supplies and Materials	7,862,926	5,780,100	6,041,220	261,120	4.5%
10 Equipment – Replacement	335,930	0	20,000	20,000	N/A
11 Equipment – Additional	30,283	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	703,692	662,027	647,166	-14,861	-2.2%
13 Fixed Charges	22,387,000	22,787,567	22,513,611	-273,956	-1.2%
14 Land and Structures	8,335,076	8,152,535	8,249,074	96,539	1.2%
Total Objects	\$ 170,452,928	\$ 174,541,156	\$ 174,845,450	\$ 304,294	0.2%
Funds					
03 Special Fund	\$ 169,796,737	\$ 173,884,965	\$ 174,189,259	\$ 304,294	0.2%
05 Federal Fund	656,191	656,191	656,191	0	0%
Total Funds	\$ 170,452,928	\$ 174,541,156	\$ 174,845,450	\$ 304,294	0.2%

Note: The fiscal 2010 appropriation does not include deficiencies.

Fiscal Summary
MDOT – Maryland Aviation 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>
2021 BWI Marshall Airport	\$ 162,364,139	\$ 167,244,464	\$ 167,726,239	\$ 481,775	0.3%
2022 Martin State Airport	7,792,119	7,010,408	6,837,651	-172,757	-2.5%
2023 Regional Air Development	296,670	286,284	281,560	-4,724	-1.7%
2030 Facilities and Capital Equipment	27,723,866	38,269,000	24,793,000	-13,476,000	-35.2%
1270 Parking Revenue Control System	103,112	505,000	874,000	369,000	73.1%
1623 Engineering and Facility Emergency Mapping	80,000	0	0	0	0%
7200 Consolidated Dispatch Center Upgrade	558,394	92,000	0	-92,000	-100.0%
7402 BWI Marshall Airport Integrated Security System	92,370	0	0	0	0%
Total Expenditures	\$ 199,010,670	\$ 213,407,156	\$ 200,512,450	-\$ 12,894,706	-6.0%
Special Fund	\$ 196,779,856	\$ 194,758,965	\$ 194,189,259	-\$ 569,706	-0.3%
Federal Fund	2,230,814	18,648,191	6,323,191	-12,325,000	-66.1%
Total Appropriations	\$ 199,010,670	\$ 213,407,156	\$ 200,512,450	-\$ 12,894,706	-6.0%

Note: The fiscal 2010 appropriation does not include deficiencies.

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

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	-\$814,092	Special	Reflects August 2009 BPW reductions.
Pending	\$-8,296,217	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 Aviation Administration – Capital**

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	-\$117,334	Special	Reflects August 2009 BPW reductions.
Pending	-5,806,238	Special	Adjusts the appropriation to agree with anticipated expenditures for the current year as reflected in the 2010-2015 CTP.
	<u>-191,000</u>	Federal	
	5,997,238		
Pending	17,101,000	Federal	Reflects \$15 million in federal ARRA funds and \$2.1 million in federal Airport Improvement Program funds.

ARRA: American Recovery and Reinvestment Act of 2009

BPW: Board of Public Works

CTP: *Consolidated Transportation Program*

Source: Maryland Department of Transportation