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Maryland Aviation Administration
Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 06 Actual	FY 07 Working	FY 08 Allowance	FY 07-08 Change	% Change Prior Year
Special Fund	$166,427	$170,762	$183,236	$12,474	7.3%
Federal Fund	280	280	350	70	25.0%
Total Funds	**$166,707**	**$171,042**	**$183,586**	**$12,544**	**7.3%**

- The allowance includes two deficiency appropriations totaling $9.4 million. This includes $6.7 million for fuel and utilities and $2.6 million for insurance and security.
- The fiscal 2008 allowance increases $12.5 million (7.3%) over the fiscal 2007 working appropriation. Without the health insurance costs decline due to one-time savings, the allowance would have increased $14.0 million, or 8.2%.
- The largest increases in the fiscal 2008 allowance are for fuel and utilities ($7.1 million) and security ($2.7 million).

PAYGO Capital Budget Data

($ in Thousands)

	Fiscal 2006	Fiscal 2007		Fiscal 2008	
	Actual	Legislative	Working	Request	Allowance
Special	$52,819	$57,458	$51,660	$57,232	$57,799
Federal	16,067	27,621	28,576	23,654	22,373
Subtotal	**$68,886**	**$85,079**	**$80,236**	**$80,886**	**$80,172**
Other Funds	$67,990	$42,100	$77,019	$38,928	$38,928
Total	**$136,876**	**$127,179**	**$157,255**	**$119,814**	**$119,100**

- The PAYGO capital fiscal 2008 allowance (special and federal funds only) decreases by $64,000 from the fiscal 2007 working appropriation. This net decrease is due to a number of changes. Decreases resulting from completion of Baltimore/Washington International Thurgood Marshall Airport's (BWI Marshall Airport) capital expansion program are offset by increases for baggage screening and claim projects, as well as a number of system preservation projects.

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

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- Other funding decreases by $38.1 million, largely as the result of completion of BWI Marshall Airport's expansion program.

Operating and PAYGO Personnel Data

	FY 06 Actual	FY 07 Working	FY 08 Allowance	FY 07-08 Change
Regular Operating Budget Positions	484.00	484.00	484.00	0.00
Regular PAYGO Budget Positions	59.00	59.00	60.00	1.00
Total Regular Positions	**543.00**	**543.00**	**544.00**	**1.00**
Operating Budget Contractual FTEs	2.00	1.50	1.50	0.00
PAYGO Budget Contractual FTEs	0.00	0.00	0.00	0.00
Total Contractual FTEs	**2.00**	**1.50**	**1.50**	**0.00**
Total Personnel	**545.00**	**544.50**	**545.50**	**1.00**
Vacancy Data: Regular Positions				
Turnover, Excluding New Positions		35.20	6.47%	
Positions Vacant as of 12/31/06		65.00	11.95%	

- The personnel allowance includes one new position in the capital program. The new position is an environmental analyst, needed for the Maryland Department of Transportation's (MDOT) new Compliance-focused Environmental Management System.

- The percentage of vacant positions at the Maryland Aviation Administration (MAA) is 11.9%, the highest among all modes of MDOT. This includes six positions that have been vacant for 12 months or longer, the highest number of long-term vacancies among all the modes.

Analysis in Brief

Major Trends

Recent Merger Talks Among Airlines Suggest Consolidation and Higher Fares in the Future: The last couple of months have included takeover talks for a number of airlines, including the takeover of Delta by US Airways and Midwest Air by AirTran Airways and merger talks between United Airlines and Continental. Consolidation in the airline industry could result in more crowded flights and higher prices for consumers as overlapping routes are eliminated. AirTran is the second largest carrier at BWI Marshall Airport, carrying about 10% of passengers.

Passenger Trends: Passenger totals for calendar 2006 once again topped 20 million, following a slight decline in 2005 caused by the emergence of Independence Air, a new low-fare carrier at Dulles International Airport. The subsequent bankruptcy and termination of service of the airline brought passengers back to BWI Marshall Airport. Total passengers in 2006 were 20.7 million, and Southwest Airlines continues to be the dominant airline (52% of all passengers), followed by AirTran Airways (10%).

Issues

MAA's Use of Promotional Agreements: An audit completed by the Office of Legislative Audits (OLA) found that MAA entered into a memorandum of understanding (MOU) to provide financial incentives to an airline, which obligates the State to potentially pay up to $5.5 million annually, without notifying the budget committees of the agreement. The MOU guaranteed a certain return on sales, which was not met in two quarters, requiring a payment of $3.3 million to the airline. **The Department of Legislative Services (DLS) recommends that budget bill language be added to require that any agreements that will have an adverse impact on revenues must be approved by the Board of Public Works and must also be annually disclosed to the budget committees. DLS further recommends that the Secretary discuss whether MAA plans to renew the MOU beyond March 2007; what legislative notice will be provided if the MOU is renewed; whether any additional payments are due to the airline; and the current performance of airlines serving international markets.**

Performance Contracting: During the interim, DLS selected contracts in excess of $1 million and reviewed them to assess whether performance measures were included in the contract; whether payments or continuation of the contract are tied to achievement of certain outcomes; and whether the desired outcomes included in the contract are tied to performance measures in the agency's Managing for Results submission. **DLS recommends that MAA continue to include the above elements in its contracts. Whenever possible, specific measurements of performance and expectations should be clearly defined and included in the contracts. DLS further recommends that the Secretary comment on the use of performance contracting at MAA, current performance of contractors, the possibility of increased future use of performance contracting, and any changes to contract monitoring that may have taken place as a result of the audit findings.**

Martin State Airport (MTN) Negatively Affected by Federal Regulations: MTN plays an important role as a reliever airport, thereby reducing the number of aircraft that fly to BWI Marshall Airport. However, following the terrorist attacks of September 11, 2001, an Air Defense Identification Zone (ADIZ) was created to identify and control all aircraft flying within 30 miles of the Washington Monument. Pilots flying within this zone must adhere to stricter flight requirements. The inclusion of MTN in this ADIZ has negatively affected aircraft operations and revenues. **DLS recommends that MAA address the effect that ADIZ has on MTN and what effect this may have on the long-term viability of the airport. Furthermore, MAA should address attempts to discuss this matter with the Federal Aviation Administration and what, if any, actions may help to secure an exemption from ADIZ for MTN.**

Operating Budget Recommended Actions

		Funds
1.	Add budget bill language to require approval by the Board of Public Works and disclosure of all agreements requiring the payment of funds or reduction in revenue received from any airline or shipping line.	
2.	Delete funding for the Innovative Ideas Award program.	$ 11,944
3.	Reduce funds for out-of-state travel by the Executive Management team to attract and market air service.	50,000
4.	Reduce funds for attendance at out-of-state seminars and conferences.	9,700
5.	Reduce funding for replacement vehicles.	4,384
6.	Reduce funding for repair and maintenance contracts based on actual usage.	393,977
7.	Reduce funding for hazardous waste removal to reflect actual usage.	125,000
8.	Reduce funding for water treatment to reflect actual usage.	40,000
9.	Reduce funding for engineering fees.	10,000
	Total Reductions	**$ 645,005**

PAYGO Budget Recommended Actions

		Funds	Positions
1.	Reduce funding for travel.	$ 10,000	
2.	Delete one new position (NEW001).	38,971	1.0
	Total Reductions	**$ 48,971**	**1.0**

Updates

Report Received Regarding Management Personnel Positions: Fiscal 2007 budget bill language requested a report from MAA regarding actions taken during the previous year affecting the 12 management personnel positions as determined by the Maryland Aviation Commission (MAC). The report was received in December 2006 and stated that two positions were filled, three positions were added with salary increases, and one position was removed from the management personnel positions. Rather than requiring annual budget bill language, MAA has agreed to submit this information in future reports of MAC submitted annually by January 15.

Annual MAC Report Received: Section 5-201.2 of the Transportation Article requires an annual report from MAC reviewing the financial and operational results of all State-owned airports, recommending changes, and estimating expenditures. This report was received in January 2007 and provided a summary of accomplishments for fiscal 2006.

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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. The administration strives to be 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;
- provide exceptional service;
- operate BWI Marshall Airport efficiently and effectively; and,
- attract, maintain, and expand air service.

Performance Analysis: Managing for Results

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

Exhibit 1 shows that MAA projects a net operating loss of $14.9 million in fiscal 2008. This loss, representing 8.1% of operating expenditures, will be provided as a subsidy from the TTF. When coupled with the capital program, MAA requires a $72.7 million subsidy from the TTF in fiscal 2008. This is a 10.7% increase over the fiscal 2007 TTF subsidy. The higher subsidy results from revenues increasing at a slower rate than expenditures (7.2% vs. 8.4%).

It is important to note that in looking at MAA capital expenditures in a business manner, consideration should be given to the fact that at MAA, capital expenditures are often paid for in a single year, or over multiple years, but depreciation over the life of the asset does not take place and that reimbursement from the airlines (through the Basic Use and Lease Agreement) actually takes place over 20 plus years, meaning that revenues and capital expenditures would not match in a year to year comparison. However, this is not true of operating expenditures, which, if MAA were operating as a business, would be lower than revenues.

Exhibit 1
MAA Special Fund Revenues and Expenditures
Fiscal 2006-2008
($ in Thousands)

	Actual 2006	Appr. 2007	Allowance 2008	% Change 07-08
Operating Revenues				
Flight activities	$33,971	$38,073	$39,965	5.0%
Rent/user charges	35,097	43,390	44,623	2.8%
Concessions	59,057	63,519	71,472	12.5%
Other revenues	3,459	2,947	3,009	2.1%
Martin State activities	7,995	8,868	9,289	4.7%
Subtotal	**$139,579**	**$156,798**	**$168,358**	**7.4%**
Operating expenditures[1]	$166,427	$170,762	$183,236	7.3%
Net Operating Income	**-$26,848**	**-$13,964**	**-$14,878**	**6.5%**
Capital expenditures[1]	$52,819	$51,660	$57,799	11.9%
Total TTF Subsidy of MAA	**$79,667**	**$65,624**	**$72,677**	**10.7%**

[1] Includes special funds only.

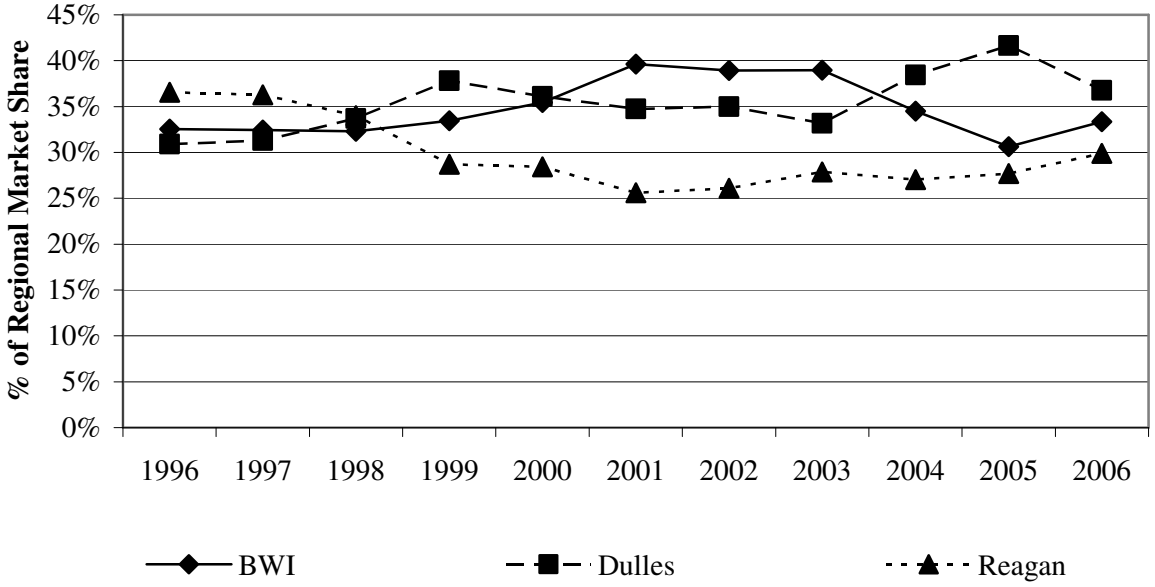
Note: Numbers may not sum due to rounding.

Source: Maryland Aviation Administration

Passenger Market Share and Total Passengers

In order for BWI Marshall Airport to experience growth in business, it must remain competitive with other airports. In addition to competing with other airports nationally and internationally, BWI Marshall Airport must also compete for passengers closer to home in the Washington region due to the proximity of Dulles International Airport (Dulles) and Ronald Reagan Washington National Airport (Reagan National). **Exhibit 2** shows that in 2006, BWI Marshall Airport reversed the trend of losing market share to Dulles and Reagan National. In 2005, BWI Marshall Airport's market share declined by nearly 4 percentage points as it lost customers to Independence Air, the new low-fare carrier at Dulles. Following the bankruptcy and termination of service of Independence Air in November 2005, customers returned to BWI Marshall Airport and increased its market share to 33.4%. Now that the immediate threat from Dulles is gone, BWI Marshall Airport should be mindful of the resurgence of Reagan National, which declined steadily from 1996 to 2001, but has slowly yet steadily rebounded in the past five years.

Exhibit 2
Passenger Market Share
Calendar 1996-2006



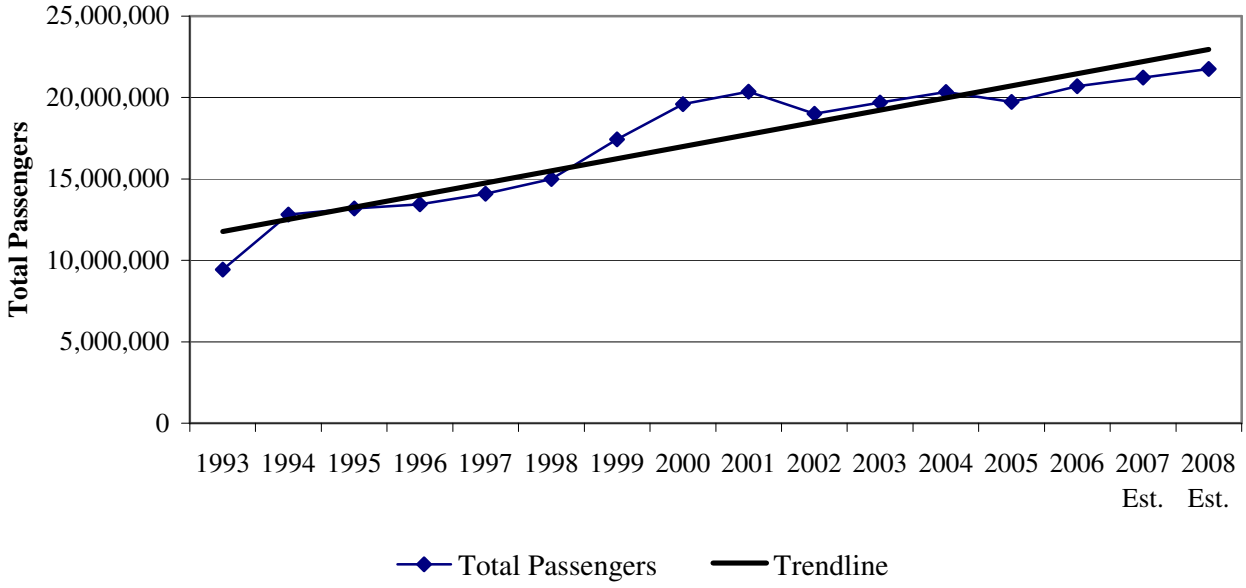
Source: Maryland Aviation Administration

Passenger traffic at BWI Marshall Airport increased 4.9% from calendar 2005 to 2006, up from 19.7 million passengers in calendar 2005 to 20.7 million in calendar 2006. As **Exhibit 3** shows, there is a general trend of increased total passenger volume at BWI Marshall Airport over the time period from 1993 to 2008. Between calendar 1998 and 2001, BWI Marshall Airport experienced

significant growth when Southwest Airlines became the largest low-fare carrier in the Washington, DC market and continued to expand operations at the airport. Growth slowed after the terrorist attacks of September 11, 2001. Moderate growth occurred from calendar 2001 through 2004, followed by the decline in 2005 as the result of the increased competition from Independence Air at Dulles. Following the bankruptcy and termination of service of Independence Air, passenger totals at BWI Marshall Airport have rebounded, and again surpassed the 20 million mark in 2006 after falling below it in 2005.

The dominant airline at BWI Marshall Airport continues to be Southwest Airlines, which handles 51.7% of all passengers. The next largest airline is AirTran Airways, which handles 10.3% of all passengers. Passengers on international flights comprise 2.7% of total passengers in 2006, down slightly from 2.8% in 2005.

Exhibit 3
Total Passengers at BWI Marshall Airport
Calendar 1993-2006 Actual and Calendar 2007-2008 Estimated



Source: Maryland Aviation Administration

Survey Results and Awards

BWI Marshall Airport was ranked third best in overall passenger satisfaction among medium-sized airports in the 2006 North America Airport Satisfaction Study released in June by J.D. Power and Associates. The study ranks airports based on a passenger survey of eight specific performance factors – airport accessibility, check-in/baggage check, security check, terminal

facilities, food and beverage, retail services, baggage claim, and immigration/customs control. BWI Marshall Airport received a satisfaction index score of 706 out of 1,000, compared to a medium-sized airport average of 685. The airport also achieved "among the best" rankings for airport accessibility and terminal facilities. BWI Marshall Airport was bested in the medium-sized airport category by New York City's LaGuardia International Airport (first) and Chicago's Midway International Airport (second) but topped regional rivals Reagan National (fifteenth) and Dulles (twentieth).

Also in 2006, BWI Marshall Airport was named the Airport with the Best Concessions Design by Airport Revenue News. Winners are selected by a panel of judges reviewing all nominated airports.

Finally, the Illuminating Engineering Society of North America named BWI Marshall Airport the Air Carrier Airport of the Year in 2006, based partially on its lighting improvements to a taxiway and runway intersection on the airfield. Proper lighting on runways and taxiways can help to prevent accidents, such as the crash that took place in August at a Kentucky airport when an airplane tried to take off using the wrong runway.

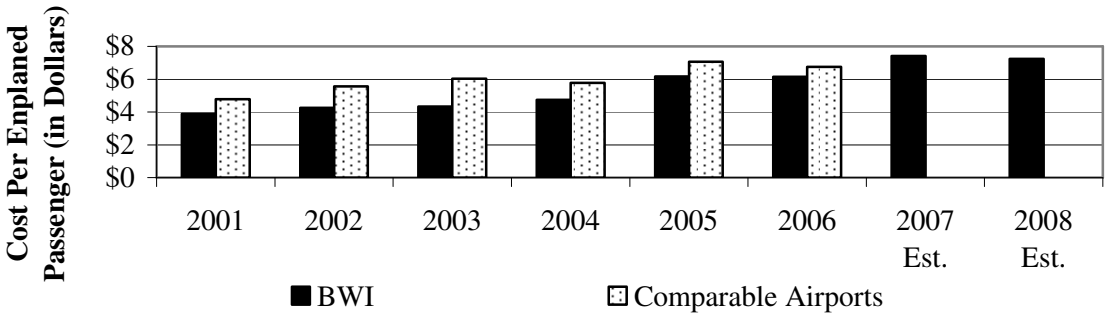
Cost and Revenue Per Enplaned Passenger

Two of the important financial calculations considered in regard to airports are the cost per enplaned passenger (CPE) and the revenue per enplaned passenger (RPE). In regards to CPE, part of BWI Marshall Airport's success has been its ability to maintain low CPE rates. As shown in **Exhibit 4**, in fiscal 2006, BWI Marshall Airport's CPE was $6.15, compared to $6.75 for comparable airports. Comparable airports are the seven airports below and above BWI Marshall Airport in rankings by the number of passengers. In 2007, CPE is expected to jump to $7.41 as the result of increased operating costs, including increases in utilities and security. Although this is a rather large increase ($1.26 per enplaned passenger), it remains well below the CPE at the airports that are BWI Marshall Airport's toughest competition. CPEs at regional rivals range from $10.95 at Philadelphia to $12.38 at Dulles.

Exhibit 4

Cost Per Enplaned Passenger at BWI Marshall Airport

Actual Fiscal 2001-2006 and Estimated Fiscal 2007-2008



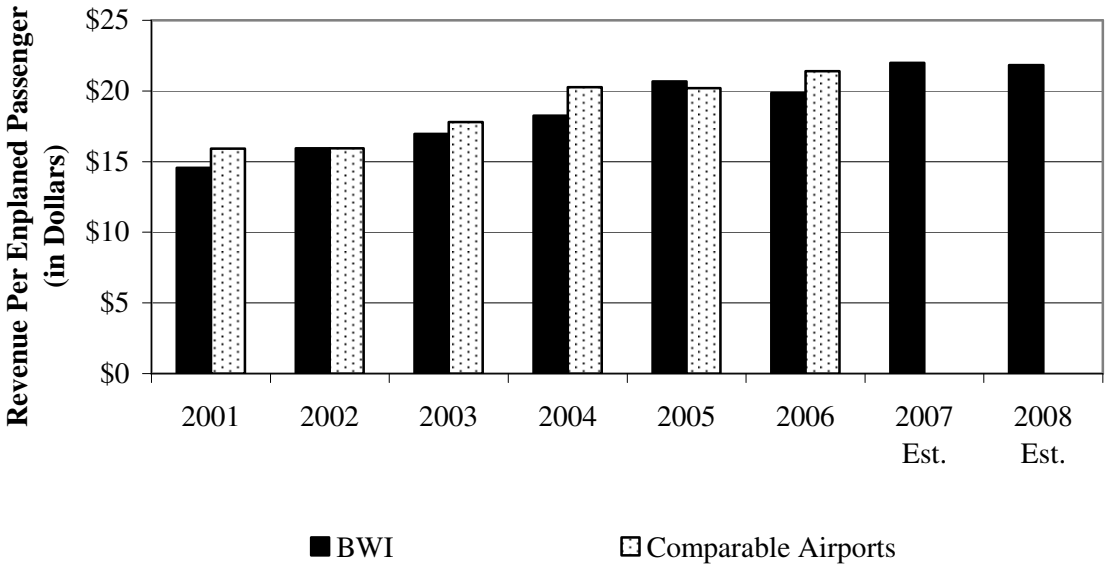
Source: Maryland Aviation Administration

The other important financial consideration for airports is RPE. As shown in **Exhibit 5**, BWI Marshall Airport's RPE drops in fiscal 2006 to $19.86, after steadily increasing over the last five years. The decrease in RPE is attributed to lower aircraft landed weights, which results in reduced landing fees. Over the last year, many airlines have been attempting to maximize revenue by reducing the number of larger aircraft and replacing them with smaller aircraft. By replacing larger jets with smaller ones, airlines are still able to meet passenger demand and also reduce their operating costs. Reduced landing fees mean decreased operating expenses for airlines but also mean decreased revenues for airports.

Exhibit 5

Revenue Per Enplaned Passenger at BWI Marshall Airport

Actual Fiscal 2001-2006 and Estimated Fiscal 2007-2008



Source: Maryland Aviation Administration

Fiscal 2007 Actions

Proposed Deficiency

The fiscal 2008 allowance includes two deficiencies. The first, for $6.7 million, is to supplement the appropriation for fuel and utility expenses. This additional money is needed for increasing market rates.

The second deficiency of $2.6 million is for insurance ($0.4 million) and security expenses ($2.2 million). The deficiency appropriation is necessary because of changing federal security requirements and threat levels that require increased security and liability protection.

Governor's Proposed Budget

The fiscal 2008 allowance increases $12.5 million (7.3%) over the fiscal 2007 working appropriation. Without the health insurance costs decline due to one-time savings, the allowance would have increased $14.0 million, or 8.2%.

Personnel costs decrease by $0.3 million; however, this number is affected by two large reductions. The first is retirees' health insurance which is being funded through a surplus in the health insurance account, and the second is the removal of $542,000 incorrectly coded in the fiscal 2007 appropriation for a one step increase for all fire rescue personnel. Without these reductions, personnel costs would have increased $1.6 million. Personnel cost increases were largely for salaries, health insurance, and retirement.

Outside of personnel, the largest increases in the allowance are for fuel and utilities ($7.1 million) and security ($2.7 million). As mentioned in the section on deficiencies, the increase for fuel and utilities is necessary due to increasing market rates and the increase for security is necessary because of changing federal security requirements and threat levels.

Other large increases include:

- snow removal, $0.7 million – while this increase nearly doubles the amount budgeted for snow removal, the fiscal 2008 allowance of $1.6 million still appears underbudgeted, given that the fiscal 2006 actual was $4.1 million and the fiscal 2005 actual was $5.0 million.

- insurance, $0.6 million – this includes all types of insurance paid by MAA.

- changes due to the *Consolidated Transportation Information Processing Plan* (CTIPP), $0.5 million – this includes increases in payments for pagers, cell site expenses, emergency parking lot phones, and cell phones; inspection and repair of passenger communication systems; data management; website maintenance; repair and maintenance of telecommunications systems; and other assorted information related increases.

- increases in repair and maintenance contracts, $0.3 million – this includes repair and maintenance contracts for the electronic security card access system, maintenance and operating equipment, heating and air conditioning, elevators, escalators, and moving walkways.

Exhibit 6 provides details on the major changes occurring in the fiscal 2008 allowance.

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

How Much It Grows:	Special Fund	Federal Fund	Total
2007 Working Appropriation	$170,762	$280	$171,042
2008 Governor's Allowance	183,236	350	183,586
Amount Change	$12,474	$70	$12,544
Percent Change	7.3%	25.0%	7.3%

Where It Goes:

Personnel Expenses	
Retirement	$816
Increments	521
Workers' compensation	178
Social Security	37
Turnover adjustments	-131
Step increase for fire rescue personnel incorrectly coded in fiscal 2007	-542
Employee and retiree health insurance	-1,185
Other adjustments	1
Other Changes	
Fuel and utilities	7,095
Security	2,731
Snow removal	695
Insurance	597
Communications and information technology as a result of changes in the Consolidated Transportation Information Processing Plan	500
Increases in equipment repair and maintenance contracts	279
Travel	151
Maintenance and repair of vehicles	108
Ground maintenance	78
Pension money paid to Baltimore City for firefighters and Transportation Authority Police	78
Purchase of additional and replacement vehicles	74
Inventory of paint, tools, electrical supplies, and materials for sign fabrication for various maintenance jobs around airport	73
Increase in other contracts valued at less than $25,000	60
Increase for consultants	59

Where It Goes:

Net increase in trash and garbage removal, caused by a decrease in hazardous waste disposal (-60) offset by an increase in solid waste removal (110)	50
Repair and replacement of carpet, vinyl wall coverings, and drapes inside BWI Marshall Airport terminal	50
Laundry and extermination	50
Ramp cleaning and deicing fluid recovery	40
Annualization of contract for additional air traffic control operations at Martin State Airport ($150,000 added in fiscal 2007)	35
Environmental Protection Services	24
Maintenance equipment rental	21
Adjustments to debt service for Certificates of Participation and Maryland Economic Development Corporation debt	-38
Decrease for printing and reproduction costs	-65
Other adjustments	104
Total	**$12,544**

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

PAYGO Capital Program

Program Description

The MAA capital program provides for the development and maintenance of facilities at BWI Marshall Airport and MTN. The administration 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 2007 to 2012 *Consolidated Transportation Program* (CTP)

The MAA capital PAYGO allowance decreases by $64,000 from the fiscal 2007 working appropriation to the fiscal 2008 allowance. The net decrease reflects a $6.1 million increase in special funds which is offset by a $6.2 million decrease in federal funds. This change is the result of the completion and addition of several projects which vary in funding source.

The MAA capital PAYGO program also utilizes "other funds" that includes MdTA bond financing, passenger facility charges (PFCs), customer facility charges (CFCs), and Maryland Economic Development Corporation (MEDCO) funds. **Exhibit 7** shows the breakdown of projects using other funding. Other funds decrease from $77.0 million in fiscal 2007 to $38.9 million in fiscal 2008. These changes are primarily due to completion of projects associated with BWI Marshall Airport's capital expansion program.

Exhibit 7
MAA Other Funds
Fiscal 2007-2008
($ in Thousands)

Project	Other Source	2007	2008
CORE Network upgrades	PFC	$362	
External IT infrastructure upgrades	PFC	1,845	
Parallel taxiway and ramp	PFC	961	
Additional glycol collection tank	PFC	2,593	
B/C airfield ramp regrading	PFC	2,091	
B/C airfield ramp regrading Phase II	PFC	1,251	
Replace glycol recovery vehicles (3)	PFC	850	
800 Mhz emergency digital trunked radio system	PFC	392	
Terminal entrance roadway phase II	PFC	22,665	
Baggage handling system upgrades	PFC	488	
New concourse A expansion	PFC	653	
BWI Marshall Airport closed circuit TV	PFC	60	

Exhibit 7 (Cont.)

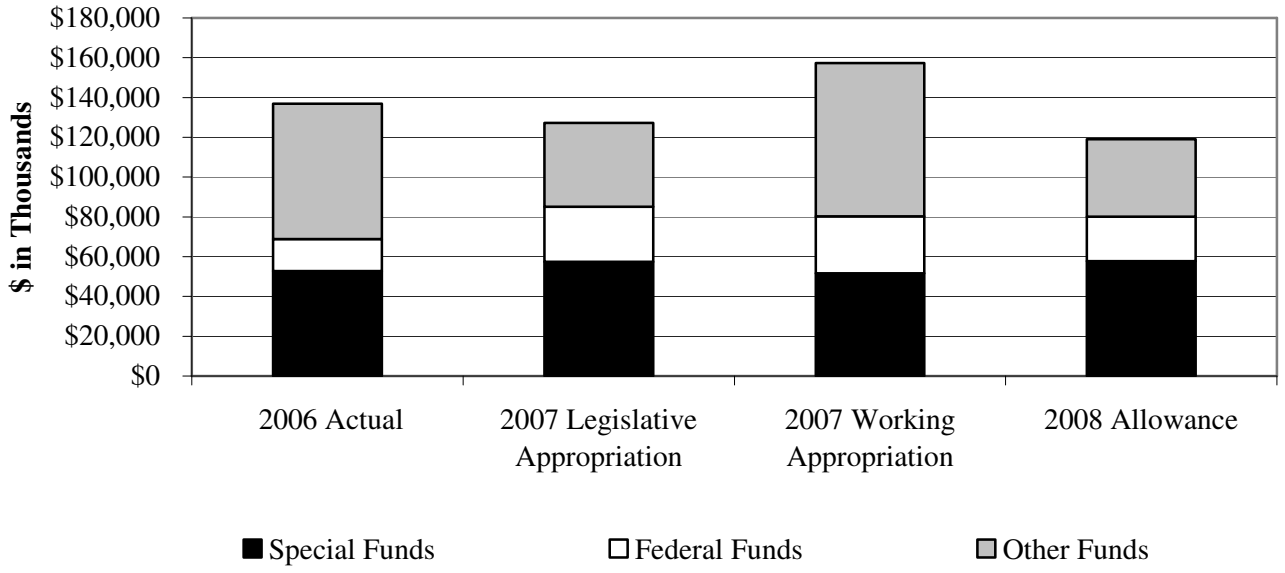
Project	Other Source	2007	2008
Elm Road parking structure	MdTA	4,636	
Consolidated rental car facility	CFC	4	
Rental car facility bus improvements	CFC	407	
New concourse A expansion	MEDCO	3,281	
Terminal A/B door access control	TSA	1,067	
New concourse A expansion	TSA	7,000	
Exit lane technology	PFC	997	$258
Equipment and safety training system	PFC	1,542	538
Airfield lighting cable replacement	PFC	200	3,213
D/E airfield ramp paving improvements	PFC	3,562	3,645
C/D airfield ramp improvements	PFC	765	1,134
Terminal complex roadway resurfacing	PFC	55	951
BWI Marshall Airport perimeter gates and fencing improvements	PFC	400	1,926
Mobile command post vehicle	PFC	152	858
D/E baggage system and claim improvements	PFC	2,775	5,348
Airside taxiway paving rehab	PFC	6,634	9,034
Consolidated rental car improvements	CFC	327	1,574
Baggage handling system upgrades	TSA	1,004	929
Hagerstown Airport	RAA	8,000	6,000
Airfield marking and signage revision	PFC		68
Perimeter intrusion detection systems	PFC		617
Terminal improvement project	PFC		2,527
Runway safety area improvements	PFC		308
		$77,019	**$38,928**
Total by Fund Type	**PFC**	**$51,293**	**$30,425**
	RAA	**$8,000**	**$6,000**
	CFC	**$738**	**$1,574**
	TSA	**$9,071**	**$929**
	MdTA	**$4,636**	
	MEDCO	**$3,281**	
Total MAA		**$77,019**	**$38,928**

CFC: Customer Facility Charges
MdTA: Maryland Transportation Authority
MEDCO: Maryland Economic Development Corporation
PFC: Passenger Facility Charges
RAA: Regional Aviation Assistance
TSA: Transportation Security Administration

Source: Maryland Department of Transportation

Exhibit 8 provides cash flow information for MAA's capital program from fiscal 2006 to 2008. The total capital program in fiscal 2008 is $38.2 million less than fiscal 2007.

Exhibit 8
MAA Capital Program Cash Flow Changes
Fiscal 2006-2008
($ in Thousands)



Source: Maryland Department of Transportation, January 2007 *Consolidated Transportation Program*

Exhibit 9 provides a list of major MAA CTP construction projects funded in fiscal 2008. The three projects listed account for 90% of all funding of major projects in the construction program for fiscal 2008.

Exhibit 9
MAA Major Construction Projects Funded in Fiscal 2008
($ in Thousands)

Project	FY 2008	Total $	Completion of Fiscal Cashflow
Airfield Pavement Improvement Program at BWI Marshall Airport – includes the reconstruction and overlay of multiple taxiways, and the construction of aircraft ramp areas between Concourses D/E and C/D.	$31,081	$107,889	2011
Hagerstown Airport Expansion – provides for a multi-year project to expand a runway at Hagerstown Regional Airport.	8,314	57,611	2014
Concourse D/E Baggage Screening System and Baggage Claim Expansion at BWI Marshall Airport – includes reconfiguration of the existing baggage screening and baggage make-up system to a more integrated baggage security and handling system.	5,353	36,665	2011
Total	**$44,748**	**$202,165**	

Source: Maryland Department of Transportation; January 2007 *Consolidated Transportation Program*

Projects Added to the CTP

As shown in **Exhibit 10**, two projects were added to the fiscal 2007 to 2012 CTP, one each in the Development and Evaluation (D&E) program and the Construction program. The terminal modernization program was added to the D&E program and planning is currently underway. The second phase of the roadway signage program was added to the Construction program, and the design phase is already underway.

Exhibit 10
MAA Projects Added to the CTP
($ in Thousands)

Project Added to the D&E Program

Project	FY 2008	Total $	Completion of Fiscal Cashflow
Terminal Modernization Program at BWI Marshall Airport – to identify various terminal modernization alternatives for the older areas of the existing terminal building and address the feasibility and cost of each alternative.	$2,255	$4,000	2008

Project Added to the Construction Program

Project	FY 2008	Total $	Completion of Fiscal Cashflow
Comprehensive Roadway Signing Phase II at BWI Marshall Airport – this is the final phase of the new Comprehensive Roadway Sign System for BWI Marshall Airport that was began as part of the Comprehensive Landside Development Program. It will include changes to various access roadway signage.	$1,724	$3,703	2009

Source: Maryland Department of Transportation; January 2007 *Consolidated Transportation Program*

Projects Removed from the CTP

As shown in **Exhibit 11,** several projects were removed from previous versions of the CTP. The project involving construction of an aircraft hangar at MTN for corporate use was removed from the construction program due to a legislative budget reduction from last session. Additionally, three projects were removed from the D&E program. A second aircraft hangar and an airport operations and fuel based operator facility were removed pending the development of a business plan at MTN. Additionally, a project to reconfigure the baggage screening and baggage make-up system at BWI Marshall Airport to include an upgrade and expansion was removed due to lack of support by the airlines.

Exhibit 11
MAA Projects Removed from the CTP

Projects Removed from the D&E Program

Project	Reason for Removal
Midfield Complex – Second Aircraft Hangar at MTN – provides for the design of a second 20,000 square foot hangar in the midfield complex area for public aircraft servicing and storage and aviation-related support activities.	Project on hold pending development of a business plan.
Midfield Complex – Airport Operations and Fixed Base Operator Facility at MTN – facility to house the MAA Office of Airport Operations and Fixed Base Operator offices. The facility will also provide additional space to provide support services for airport tenants/business and other customer needs, flight schools, aircraft sales companies, and other aviation-related businesses.	Project on hold pending development of a business plan.
Concourse B/C Baggage Screening System and Baggage Claim Expansion at BWI Marshall Airport – reconfigures the existing baggage screening and baggage make-up system to a fully integrated baggage security and handling system. Includes changes to the baggage security configuration, sort loop, equipment, expansion of the current building structure, and an upgrade of the baggage claim area.	Lack of airline support during Passenger Facility Charge application consultation.
Project Removed from the Construction Program	
Midfield Complex – Aircraft Hangar at MTN – construction of a 20,000 square foot hangar in the midfield complex area for public aircraft maintenance and storage and aviation-related support activities.	Legislative budget reduction.

Source: Maryland Department of Transportation; January 2007 *Consolidated Transportation Program*

Construction Schedule Delays

Several MAA projects were delayed in the fiscal 2007 to 2012 CTP relative to the previous year's CTP. These projects are summarized in **Exhibit 12**, along with the reason for delay.

Exhibit 12
MAA Construction Schedule Delays

Project	Reason	Delay
Concourse D/E Baggage Screening System and Baggage Claim Expansion at BWI Marshall Airport	Construction delay due to scope revisions from tenant consultations.	From FY 2007 to 2008
Midfield Complex – New Air Traffic Control Tower at MTN	Tower options under evaluation.	From FY 2007 to 2009
Master Plan at BWI Marshall Airport	Start of Master Plan phase II adjusted to reflect latest schedule.	From FY 2007 to 2008
Runway Safety Area Improvements Design at BWI Marshall Airport	Engineering design assistance dependent on environmental assessment schedule.	From FY 2007 to 2008
Airport Administrative Office Building at BWI Marshall Airport	Engineering design start dependent on environmental assessment schedule.	From FY 2007 to 2009
Northwest Quadrant Airfield Perimeter Roadway at BWI Marshall Airport	Planning to be coordinated with Runway Safety Area Improvements.	From FY 2007 to 2009

Source: Maryland Department of Transportation, January 2007 *Consolidated Transportation Program*

BWI Marshall Airport Expansion Program Complete; Moving to System Preservation Projects

After five years and nearly $1.4 billion, BWI Marshall Airport's capital expansion program is complete. The completion in late October of the widening of the terminal roadway to allow two new lanes for airport shuttle vehicles and expanded curbside passenger loading areas marked completion of the final project included in the expansion program. Other improvements included:

- $288 million terminal for Southwest Airlines, which includes a fully in-line baggage system and expanded retail and food establishments;
- $132 million consolidated rental car facility with an 8,600 car capacity; and
- $155 million daily parking garage with 8,400 spaces, which includes the Smart Park System that advises drivers if there are spots available in a particular row.

As shown in **Exhibit 13**, the improvements were paid for with funds from the TTF, PFCs, CFCs, Certificates of Participation (COPs), bonds issued by MdTA, and a variety of other funding mechanisms. The original price tag of $1.8 billion was reduced because of a decision not to go forward at this time with the proposed monorail system that would take passengers from the terminal to parking lots and the BWI Amtrak and MARC station. This project remains in the planning stage and will likely be included in the new Master Plan currently being developed for possible development in the future. Collectively, the expansion projects will give BWI Marshall Airport room to grow for years to come – the improvements increased capacity to 30.0 million passengers, while BWI Marshall Airport served just over 20.0 million passengers in 2006.

From here, MAA is embarking on a system preservation program for BWI Marshall Airport to make the most of existing facilities. These include many less visible projects, such as an airfield ramp regrading and paving, apron reconstruction, improvements to lighting on the airfield, and terminal improvements to aid in a seamless appearance between the newer and older sections of the terminal.

Exhibit 13

BWI Marshall Airport Expansion Program Summary

($ in Millions)

Project	Status	Cost	Funding Source
Parking Improvements			
Daily Surface lot (1,400 spaces)	Complete	$5	TTF, PFC
Tenant parking lot (3,400 spaces)	Complete	14	TTF
Daily parking garage (8,400 spaces)	Complete	155	TTF, MdTA
Bus Fleet Acquisition (50 buses)	Complete	15	COPs
Consolidated Rental Car Facility			
Garage infrastructure	Complete	132	TTF, CFC, AIP
Customer service building	Complete	Included in above	
Bus purchase (25 buses)	Complete	Included in above	
Bus maintenance facility	Complete	Included in above	
Terminal A/B Expansion			
Airfield improvements	Complete	61	PFC, AIP
Terminal A (11 new gates)	Complete	227	PFC, MEDCO
Terminal B connector (4 gates)	Complete	Included in above	
Utility Upgrades			
Central utility plant expansion	Complete	24	MdTA
Electrical substations upgrades	Complete	Included in above	
Terminal Access			
Terminal return loop	Complete	246	PFC, MdTA
Concourse A curbside extension	Complete	Included in above	
Upper and lower roadway widening and skywalks	Complete	Included in above	
Comprehensive roadway signs	Complete	5	TTF
People Mover System	Study underway	2	TTF

Exhibit 13 (Cont.)

Project	Status	Cost	Funding Source
Airfield Improvements	Complete	15	TTF, PFC, AIP
System Preservation	Complete	485	TTF, AIP
Total Expansion Program		**$1,386**	

AIP: Airport Improvement Program
CFC: Customer Facility Charges
COPs: Certificates of Participation
MdTA: Maryland Transportation Authority
MEDCO: Maryland Economic Development Corporation
PFC: Passenger Facility Charges
TTF: Transportation Trust Fund

Source: Maryland Aviation Administration

Future PFC Funding

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 can use these fees to fund FAA-approved projects that enhance safety, security, or capacity; reduce noise; or increase air carrier competition. "Impose and use" projects allow the airport to collect PFCs and apply them toward approved projects. "Impose only" projects allow fees to be collected for future use. "Use" projects allow the airport to apply PFCs already approved to pay for approved projects.

MAA has had FAA authority to impose PFCs since July 1992. Through the end of September 2006, 25 projects with an associated PFC expenditure of $437 million have been partially funded with PFCs. Total PFC use authority covering construction and debt service costs for these projects is $811 million.

In October 2006, MAA issued a notice of intent to apply for PFC Application 6. Application 6 includes two new impose and use projects and one project to amend and obtain use authority. MAA has also submitted an amendment to Application 5 to address cost increases for four projects. **Exhibit 14** provides a summary chart detailing Applications 5 and 6. The total cost of the projects is $201 million, which includes $134 million in PFC funding (including PFC bond financing), $1.4 million from the TTF, and $65 million in federal Airport Improvement Program (AIP) funds.

On November 15, 2006, MAA consulted with the airlines on the proposed new and amended PFC projects. The airlines approved all projects. The amendments to Application 5 were filed on January 17, 2007, and approval is expected within 30 days. Application 6 and the use authority for the baggage screening project will be submitted in late February, and approval is expected in June or July.

Exhibit 14
Projects Included in Amended Application 5 and Application 6
($ in Thousands)

	PFC Project Cost	PFC Bond Financing and Interest	AIP Grants	TTF	Total
Impose and Use Projects					
Terminal Improvement Program	$10,299			$1,102	$11,401
Runway Safety Area (Design and Environmental)	6,000	$5,908			11,908
Subtotal Impose and Use Projects	**$16,299**	**$5,908**		**$1,102**	**$23,309**
Project to Amend and Obtain Use Authority					
Terminal Area D/E Baggage Handling System Upgrades (Construction)	$32,415	$31,857		$10	$64,282
Subtotal Amend and Use Projects	**$32,415**	**$31,857**		**$10**	**$64,282**
Amended Application 5 Projects					
Equipment and Safety Training Systems	$2,080			$79	$2,159
Concourse C/D and D/E Apron Rehabilitation	27,023		$49,768	21	76,812
Taxiway Rehabilitation Program	16,141		14,896	40	31,077
Glycol Collection Tank	2,761			167	2,928
Subtotal Amended Application 5 Projects	**$48,005**		**$64,664**	**$307**	**$112,976**
Total All Projects	**$96,719**	**$37,765**	**$64,664**	**$1,419**	**$200,567**

Source: Maryland Aviation Administration

Issues

1. MAA's Use of Promotional Agreements

The Department of Legislative Services' (DLS) Office of Legislative Audits (OLA) completed an audit of MAA for the period from September 1, 2002 to October 31, 2005. The report was issued in October 2006. There were 15 findings, 3 of which were repeat findings. A summary of the findings are included in **Appendix 2.** Finding 1 noted that an agreement to provide financial incentives to an airline, which obligates the State to potentially pay the airline up to $5.5 million annually, was not disclosed to the budget committees.

The airline in question has been operating at BWI Marshall Airport since 1995. In 2001, the airline changed its destination airport to one that is a vital destination to any airport interested in international travel, thereby increasing the importance of its service at BWI Marshall Airport. In 2004, the airline approached MAA, the Governor, and the Department of Business and Economic Development (DBED) to report that they were considering ending service at BWI Marshall Airport because they were not meeting the minimum revenue requirements that the airline had established for itself, largely because of inadequate use of its business and first class seating. As with any private enterprise, airlines seek to maximize profit by effectively using limited resources in whichever manner is deemed best. Therefore, the airline wanted to redeploy the aircraft from BWI Marshall Airport to another airport where it would be more profitable.

Agreement Reached to Retain Airline at BWI Marshall Airport

Based upon the importance of having access to the destination airport that the airline served, MAA and DBED officials agreed to work to retain the airline. DBED and the Maryland Department of Transportation (MDOT) worked with the region's businesses, individuals, and governments to promote the use of business and first class service. In addition, DBED entered into a memorandum of understanding (MOU) with the airline to guarantee a return on sales (ROS). DBED negotiated a ROS that is lower than the standard ROS used for the airline's long haul flights. The original agreement was for a period from April 2005 to March 2006. In February 2006, both parties agreed to extend the MOU until March 2007.

DBED and MDOT assumed that through aggressive marketing of the airline's business and first class services, emphasis to the airline's reservation staff that BWI Marshall Airport serves the Washington region, and the airline utilizing an aircraft that caters more to business passengers, the ROS would be met.

Profit Falls Below Guaranteed Levels, Payment Necessary

That assumption was correct until large increases in fuel costs caused the ROS to fall below guaranteed levels. Although the airline still made a profit in those quarters, the profit was not at the level agreed to in the MOU. Therefore, for the quarters ending in December 2005 and March 2006, the terms of the contract required a $3.3 million payment to the airline. The payment was made to the

airline in December 2006 through a capital grant from the Secretary's Office. The grant was included in the draft and final version of the FY 2007-12 *Consolidated Transportation Plan* (CTP) but not in any previous versions of the CTP.

MAA reports that for the quarters ending in June and September 2006, no payments are required; however, as mentioned above, the MOU extends through March 2007, so further payments could become necessary. Furthermore, the airline is interested in extending the MOU, although MAA has not yet decided whether or not it will pursue a renewal.

Other Financial Incentives Utilized

In addition to this MOU that provided for the subsidy of airline profits if they fell below certain levels, MAA also utilized other provisions favorable to the airline that were pointed out in the audit. These include:

- the purchase of 22 business class airline tickets at prices 1.5 to 5.0 times the price of coach tickets, for a total cost of $142,000;
- the waiving of certain fees that the airline would normally pay, such as landing fees and terminal space rental, totaling approximately $1.6 million in waived fees in fiscal 2003 and 2004; and
- nearly $2.5 million paid to the airline from MAA for joint marketing efforts.

While fee waivers and money for joint marketing are not uncommon and were approved by the Board of Public Works (BPW), they did provide yet another financial incentive to the airline. Although these are all incentives that are often utilized in the airport industry, two important questions emerge as the result of State ownership of the airport. The first is how much the State is willing to pay to retain an airline, and the second is whether legislative notification should be required of such airline incentives.

Legislative Notice of Agreements Affecting Revenues Should Be Required

MAA has a valid argument that public airing of such agreements may weaken MAA's bargaining position because it enables other airlines to use knowledge of such favorable terms to negotiate against MAA to secure similar favorable agreements. Although full public disclosure of the agreements may not be the best course of action, neither is making the agreements behind closed doors.

Currently, MAA seeks approval of BPW before entering into promotional contracts with airlines. These promotional contracts are usually for:

- the waiving of certain airport fees (*i.e.*, landing fees and terminal space rental) for a set period of time (typically two years); and

- money given to an airline from MAA for joint marketing services.

Given this current practice of BPW review, it is unclear why an MOU, as described above, would not also require BPW approval. MDOT's argument that the MOU was entered into by DBED, not MAA, while technically true, makes little difference since the money ultimately still comes from the Transportation Trust Fund and the MOU was entered into on MAA's behalf. Furthermore, since nearly half of MAA's total advertising budget in fiscal 2007 of $2.9 million goes to various airlines for joint marketing services, it is important that the legislature is aware of such arrangements.

DLS recommends the addition of budget bill language to require that any agreements, contracts, or MOU that may have an adverse impact on revenues must be approved by BPW and must be disclosed annually in a report to the budget committees. This includes:

- **the waiving of any airport fees, including landing fees and terminal space rental;**

- **contracts involving money for joint marketing services; and**

- **agreements that guarantee a certain level of profit.**

This also includes any money given directly to airlines for any reason or any other agreement, contract, or understanding that produces less revenue than what would have been earned if the agreement, contract, or understanding had not been in place.

DLS further recommends that the Secretary discuss the agreement in question, including:

- **whether MAA plans to renew the MOU beyond March 2007;**

- **what legislative notice will be provided if the MOU is renewed;**

- **whether any additional payments are due to the airline; and**

- **the current performance of airlines serving international markets.**

2. Performance Contracting

Over the last few years, the State has taken steps to better evaluate the outcomes produced by its programs. The Department of Budget and Management (DBM) is spearheading this effort through its Managing for Results (MFR) initiative which attempts to link State spending to outcomes. DBM

has required every agency to develop a mission, vision, key goals, objectives, and performance measures for each budgetary program. For the State's emphasis on results and accountability to be effective, it must permeate throughout the agency, as well as throughout all vendors doing business on the State's behalf. Managers in public agencies and vendors delivering services on the State's behalf must be equally aware of the relevant goals and objectives and share responsibility for producing the desired outcomes. The best way to ensure that vendors focus on the State's objectives is to link payments or continuation of the contract to specific performance measures.

To assess the use of performance-based contracts by MAA, DLS selected contracts in excess of $1 million and reviewed them for evidence of:

- performance measures included in the contract;
- whether payments or continuation of the contract are tied to achievement of certain outcomes; and
- whether the desired outcomes included in the contract are tied to performance measures in the agency's MFR submission.

MAA has eight contracts exceeding $1 million, and they all contain some type of performance standard. Since many of MAA's contracts concern repair and maintenance of various systems (elevators, electrical, HVAC, etc.), performance measures primarily address the ability to communicate at all hours with the contractor, response time, and time allowed for repairs. In these repair and maintenance contracts, MAA is careful to set out exactly what its expectations are regarding tasks, frequency, and scheduling of preventive and routine maintenance. The contracts even go so far as to include specific checklists for each piece of equipment for items that should be inspected and/or replaced at each daily, weekly, and monthly inspection. As a catchall performance measure, after clearly specifying what is expected of the contractor, the contract contains a provision that MAA may withhold payment of up to 50% of the monthly or annual payment if work is incomplete or not properly completed as determined by MAA.

For the more service-oriented contracts, MAA includes appropriate measures which define its expectations of the contractor, allow for proper monitoring of performance, and allow recourse if performance standards are not met. For example, in the janitorial contract with The Chimes, specific definitions of cleaning tasks and frequency are included, as well as a provision to allow for third party quality inspections.

Perhaps the best examples of performance contracting are included in MAA's largest contract with First Transit for shuttle bus service. Specific examples of performance measures included in the contract are mystery rider survey scores, driver turnover rate, percent of drivers unavailable, percentage of overtime hours to all hours, on-time performance, complaints, number of accidents, and number of workers compensation claims. More importantly, these performance standards are linked directly to financial incentives and penalties. For example, if bus drivers are found not to be in proper uniform, MAA may charge $50 per incident. There are also financial penalties that increase as

the time that passengers must wait increases. The specificity of the measures likely arose both out of the size of the contract ($18 million) as well as the result of service problems with the previous contractor.

In addition to a number of performance standards, MAA contracts typically contain a number of deliverables required of the contractor. Typical deliverables include proof of insurance; daily, weekly, and monthly reports; invoices; and operating procedures. These deliverables often have a specified due date (*e.g.*, five days after notice of award) and/or an expected frequency (*e.g.*, daily, monthly, etc.).

MAA reports that it closely monitors contracts and imposes financial penalties on contractors when the work done is unsatisfactory. When there are concerns about the work completed by the contractor, MAA disputes the invoice and communicates its concerns to the contractor. If the concerns are not resolved to its satisfaction, MAA either refuses to pay the invoice or directs the contractor to submit a revised invoice. MAA provided evidence of financial penalties that had been assessed, in a very timely manner, on one contractor who failed to meet its performance standards. However, in the audit completed by OLA in October 2006, audit findings 4 – 7 noted that MAA did not properly monitor its contracts and in some cases lacked the ability to properly manage its contractors, especially in regard to snow removal stand-by time.

In terms of utilizing performance contracts, MAA is doing well; however, additional progress may be made to contract monitoring and oversight. Its contracts clearly define expectations, provide financial incentives and penalties for meeting or not meeting those goals, require performance reports, allow adequate monitoring of performance, and provide for non-payment or cancellation of the contract if standards are repeatedly not met. While it is important to have these financial incentives and penalties included in the contract, such provisions are worthless if not properly monitored and utilized. It appears that MAA does provide adequate oversight of some of its more performance-based measures (such as passenger wait times for shuttle busses and cleaning schedules for janitorial contracts) but fails to adequately monitor many other provisions included in the contracts (such as snow removal stand-by time and auditing invoices to ensure contract compliance). **DLS recommends that MAA continue to include the above elements in its contracts. Whenever possible, specific measurements of performance and expectations should be clearly defined and included in contracts. DLS further recommends that the Secretary comment on the use of performance contracting at MAA, current performance of contractors, the possibility of increased future use of performance contracting, and any changes to contract monitoring that may have taken place as a result of the audit findings.**

3. Martin State Airport (MTN) Negatively Affected by Federal Regulations

Although BWI Marshall Airport is often the first place people think of when referring to Maryland airports, MTN also plays an important role in Maryland aviation. MTN is Maryland's largest federally designated reliever airport and is one of the largest general aviation facilities on the East Coast. By catering primarily to private and corporate aircraft that may otherwise fly to BWI Marshall Airport, MTN maximizes the long-term efficiency and capacity of BWI Marshall Airport.

As a growing number of corporate travelers take to the air in corporate aircraft rather than face ever increasing security standards and lines, MTN is able to meet this demand. A 2001 economic impact report estimates that the direct economic impact of MTN was 1,037 jobs and $37 million in personal income. However, MTN's long-term viability is being threatened by federal regulations.

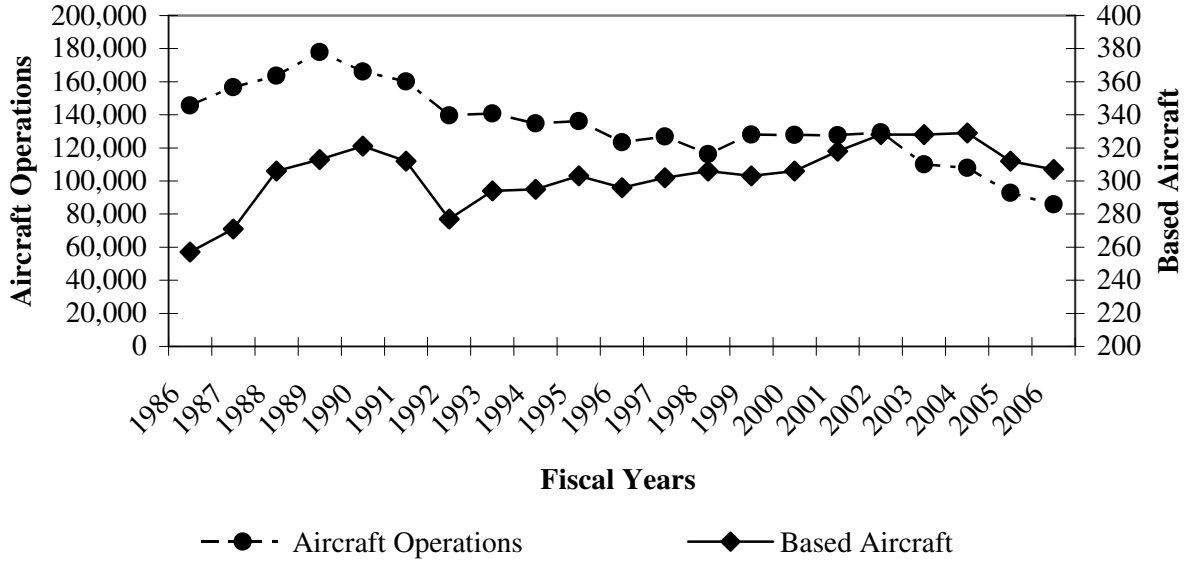
Following the terrorist attacks of September 11, 2001, the Air Defense Identification Zone (ADIZ) was implemented to identify and control all aircraft operating within 30 miles of the Washington Monument. MTN is located approximately 25 miles from the Washington Monument and falls within the ADIZ.

Due to the strict requirements of flying within the ADIZ, pilots operating in and out of MTN must now file a flight plan and get a special code from the Federal Aviation Administration (FAA) before entering the airspace around MTN. Previously, pilots had to only pre-flight the aircraft and then call the tower for takeoff clearance when ready. Due to these stricter requirements, some pilots have moved their aircraft out of MTN, and some of the cross-country flight schools that previously utilized MTN's long runways and instrument approach no longer use the airport. Moreover, two of the flight schools based at MTN take their students to other airports for flight training rather than deal with the stricter requirements necessary because MTN is in the ADIZ.

As shown in **Exhibit 15**, prior to implementation of the ADIZ, MTN's annual aircraft operations, which includes all takeoffs and landings, was approximately 125,000. In 2006, this number has dropped to 85,000. Likewise, the number of aircraft based at MTN held steady for a number of years following the creation of ADIZ but since 2004 has been dropping.

Exhibit 15

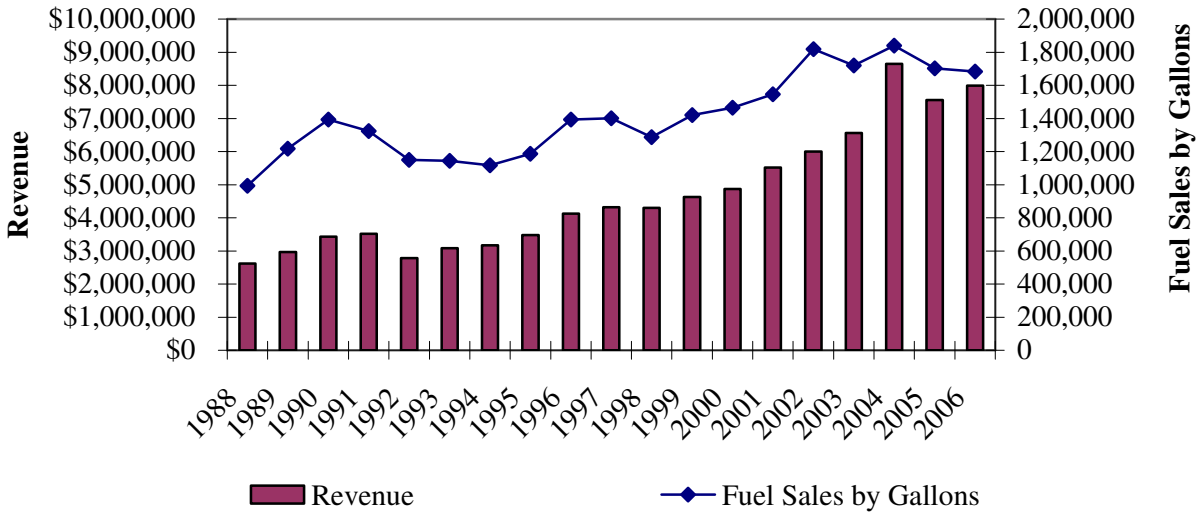
Aircraft Operations and Based Aircraft at MTN



Source: Maryland Aviation Administration

As shown in **Exhibit 16**, the effect of the ADIZ on revenues it not readily apparent. Overall, revenues at MTN, which come primarily from fuel sales, concessions, and hangar rental fees, have increased steadily since fiscal 1992. The increase in revenues is primarily driven by an increase in the profit from fuel sales. Therefore, although MTN sold less fuel by gallons in fiscal 2006 than it did in fiscal 2005, revenues still increased. The real effect of the ADIZ on MTN is difficult to quantify because it involves the hangars that people never rented and the fuel and concessions they never bought. Although many people continue to utilize MTN, many more are deciding to use airports that have less stringent flight requirements.

Exhibit 16
MTN Revenues



Source: Maryland Aviation Administration

The effect of ADIZ on MTN has been negative, as witnessed by steadily declining aircraft operations and revenues not reaching full potential. MAA has written letters to FAA in an attempt to secure an exemption for MTN from the ADIZ since it is only 5 miles from the outer ring of the ADIZ airspace. FAA has not acted on this request.

DLS recommends that MAA address the effect that ADIZ has on MTN and what effect this may have on the long-term viability of the airport. Furthermore, MAA should address attempts to discuss this matter with FAA and what, if any, actions may help to secure an exemption from ADIZ for MTN.

Operating Budget Recommended Actions

1. Add the following section:

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

   (1) may not be approved or go into effect unless the agreement is approved by the Board of Public Works; and

   (2) must be included in an annual report prepared by the Maryland Department of Transportation and submitted to the budget committees by June 30, 2008. The report shall include a listing of all agreements reached, as well as all agreements previously reached but still in effect, in fiscal 2008 that result in the payment of funds or reduction in revenue received by the State for any airline or shipping line. The committees shall have 45 days to review and comment on the report. For each agreement, this report shall include the amount of payment or reduction in revenue granted to an airline or shipping line, the month and year the agreement was reached, the length of time that the agreement is in place, the reason the agreement is needed, the State agency which reached the agreement, the impact on the Transportation Trust Fund for each agreement and in the aggregate for all such agreements on both revenues and spending from the Transportation Trust Fund or any other affected fund, and any other pertinent facts related to the agreement.

   Explanation: A recent audit of the Maryland Aviation Administration (MAA) found that an agreement was entered on MAA's behalf that guaranteed a certain level of profit to an airline. Unbeknownst to the General Assembly, this agreement was a potential liability of the Transportation Trust Fund of up to $5.5 million annually. This language will ensure that any agreement that pays money to an airline or shipping line, or results in a loss of revenue to the State through reduced or waived fees, must be approved by the Board of Public Works and notice must be provided to the budget committees.

Information Request	**Author**	**Due Date**
Report on any agreements resulting in payments to, or reduction of fees, for any airline or shipping line	MDOT	June 30, 2008

		Amount Reduction		Position Reduction
2.	Delete funding for the Innovative Ideas Award program. The same amount has been budgeted the past three fiscal years, and no money has been spent on the program. The Maryland Aviation Administration has another Employee Awards program through which it may continue to grant money.	$ 11,944	SF	
3.	Reduce funds for out-of-state travel by the Executive Management team to attract and market air service. This reduces a total increase of $93,000 to $43,000 for travel by Maryland Aviation Administration (MAA) executives. MAA already has a Division of Marketing and Air Service Development, as well as numerous consultants, whose function is to attract new air service. This reduction still allows for a $43,000 increase for additional travel.	50,000	SF	
4.	Reduce funds for attendance at out-of-state seminars and conferences. This action moderates an increase of $53,200. It allows for one employee to attend the majority of conferences where two were requested. It does not reduce the number of employees able to attend certification classes.	9,700	SF	
5.	Reduce funding for replacement vehicles. This action changes two replacement vehicles from gasoline-fueled vehicles to ethanol-fueled vehicles. This continues a trend at the Maryland Aviation Administration to utilize ethanol-fueled vehicles.	4,384	SF	

6.	Reduce funding for repair and maintenance contracts based on actual usage. This action deletes the increase included in the Governor's allowance. Fiscal 2006 actual usage of the contracts was $14.5 million. This reduction maintains the appropriation at the fiscal 2007 level, $16.7 million, leaving ample room for increased costs. Contracts with large differences between allowance and actual include operating equipment, passenger communication systems, operating services, furniture, and refrigeration.	393,977	SF
7.	Reduce funding for hazardous waste removal to reflect actual usage. This action reduces the appropriation to $226,756, which is more appropriate based on fiscal 2006 actual spending of $175,889.	125,000	SF
8.	Reduce funding for water treatment to reflect actual usage. This action reduces the appropriation for water treatment services to $20,000 to reflect that not more than $3,000 has been spent on this in any of the three prior fiscal years.	40,000	SF
9.	Reduce funding for engineering fees. This action reduces the appropriation for engineering fees at Martin State Airport to $6,000. The same amount has been appropriated and no money has been spent the prior three fiscal years.	10,000	SF
	Total Special Fund Reductions	**$ 645,005**	

PAYGO Budget Recommended Actions

		Amount Reduction		Position Reduction
1.	Reduce funding for travel. This action moderates an increase of nearly $40,000 in the travel allowance. This still allows for employees' increased attendance at various seminars and conferences.	$ 10,000	SF	
2.	Delete one new position (NEW001). This action deletes the new position added to the capital program. This reduction adheres to the Spending	38,971	SF	1.0

Affordability Committee's recommendation that no new positions should be authorized if the agency's vacancy rate is above 8%. The Maryland Aviation Administration's (MAA) vacancy rate is currently 11.9%. Furthermore, MAA has 6.0 positions that have been vacant for 12 months or longer. MAA should attempt to reclassify an existing vacant position rather than create a new position.		
Total Special Fund Reductions	**$ 48,971**	**1.0**

Updates

1. Report Received Regarding Management Personnel Positions

Section 5-201.1 of the Transportation Article allows the Maryland Aviation Commission (MAC) the authority to set the qualifications, appointment, compensation, and leave for 12 management personnel positions. MAC is also required to submit an annual report to the General Assembly that must include, among other things, any actions taken by MAC during the previous year in regard to these 12 positions. Previous years' submissions have often contained limited information in regard to actions affecting these positions.

Similar to MAC, the Maryland Port Commission (MPC) also has the authority to set the qualifications, appointments, compensation, and leave for 12 management personnel positions. The annual report submitted summarizing MPC's changes to these management personnel positions is a more thorough document, containing:

- changes to the positions included in the management personnel group;
- the appointment of a new person in any of these positions, including previous and current incumbent's salary;
- salary changes by position, including previous salary, new salary, and change in salary; and
- an annual list of all positions and salaries included in the management personnel positions.

In an effort to have similar reporting requirements for both MAC and MPC, language in the fiscal 2007 budget required that the report submitted by the MAC should contain all of the information listed above.

The report was received from MAC on December 1, 2006. It reported that the following actions were taken during the previous year:

- the positions of Executive Director for MAA and Director of the Office of Planning and Environmental Services were filled;
- the positions of Deputy Executive Director of Airport Technology and Community Affairs; Deputy Executive Director of Maintenance, Utilities, and Terminal Services; and Director of Office of Regional Aviation Assistance were added to the management personnel positions, all with increased salaries; and
- the position of Senior Deputy Executive Director was removed from the management personnel positions.

As requested in the fiscal 2007 budget, a listing of these positions was also included in the Executive Pay Plan section in the back of the fiscal 2008 budget. Rather than requiring annual budget bill language to request this information, MAA has volunteered to include the above information in all future submissions of its annual MAC report, which is due by January 15 each year. Future submissions will be reviewed by the Department of Legislative Services to ensure compliance.

2. Annual MAC Report Received

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

The January 2007 report provided a summary of accomplishments for 2006. From fiscal 2005 to 2006, BWI Marshall Airport saw an increase in passengers of 4%, rising to 20.4 million passengers. Also in 2006 the BWI Marshall Airport capital expansion program was completed, as well as a number of important System Preservation projects. Beginning in 2006 and continuing in 2007, MAA is working on long range planning, which includes Federal Aviation Administration approval of an Interim Area Layout Plan, a Long Range Needs Assessment, and development of a compliance focused Environmental Management system.

BAA Maryland, Inc., the concessions developer for BWI Marshall Airport, has continued its redevelopment of the airport's concessions program. In February, Airport Revenue News awarded the concessions program its 2006 award for Airport with the Best Concession Program. Concession and parking revenues continue to increase, and concession sales in the summer of 2006 were the highest ever recorded.

In the summer of 2006, both Southwest Airlines and AirTran Airways reached significant milestones as Southwest carried more than 1 million passengers in a month and AirTran carried over 200,000 passengers in a month. It was the first time that both airlines reached their respective marks. In addition to the expansion of domestic flights, there were also several new international destinations added in fiscal 2006. This included Mexicana Airlines starting daily flights to Mexico City, North American Airlines providing weekly services to West Africa, and Air Greenland announcing seasonal service to Greenland.

Progress is also being made at MTN. There has been an increase in corporate air traffic and fuel sales, and business is expected to further increase as a result of the completion of the Maryland Route 43 extension project, which provides a direct link between MTN and Interstate 95. Like BWI Marshall Airport, MTN is also concentrating on environmental assessment issues and system preservation projects.

Finally, the MAC annual report noted that the commission's costs in fiscal 2006 were $61,563, an increase of $4,775, or 8.4%, over fiscal 2005.

Appendix 1

Current and Prior Year Budgets

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

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2006					
Legislative Appropriation	$0	$159,568	$241	$0	$159,809
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	7,533	39	0	7,572
Reversions and Cancellations	0	-673	0	0	-673
Actual Expenditures	**$0**	**$166,427**	**$280**	**$0**	**$166,707**
Fiscal 2007					
Legislative Appropriation	$0	$169,622	$280	$0	$169,902
Budget Amendments	0	1,139	0	0	1,139
Working Appropriation	**$0**	**$170,762**	**$280**	**$0**	**$171,042**

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

Fiscal 2006

Fiscal 2006 expenditures at MAA totaled $166.7 million, which is $6.9 million more than the legislative appropriation. The net increase was the result of an increase of $7.5 million in budget amendments and a decrease of $673,472 in cancellations.

The net increase in budget amendments was the result of several budget amendments. These were:

- $6,443,481 increase for snow removal, purchase of fuel for resale, and janitorial services;
- $636,859 increase for the cost-of-living adjustment (COLA) granted to all State employees;
- $498,794 increase for additional health care costs for active and retired employees;
- $39,445 increase in federal funds for the K-9 Federal Bomb Detection squads, which was offset by a corresponding decrease in special funds; and
- $7,049 decrease to consolidate funds for telecommunications within the Secretary's Office.

$673,742 in cancellations occurred from (1) $368,000 in unspent health insurance money; (2) $300,000 for over budgeted debt service; and (3) just under $6,000 for miscellaneous expenses.

Fiscal 2007

The fiscal 2007 legislative appropriation for special funds increased $1,139,336 to reflect a transfer from the Department of Budget and Management for the COLA granted to all State employees.

Appendix 2

Audit Findings

Audit Period for Last Audit:	September 1, 2002 – October 31, 2005
Issue Date:	October, 2006
Number of Findings:	15
Number of Repeat Findings:	3
% of Repeat Findings:	20%
Rating: (if applicable)	n/a

Finding 1: Incentives to an airline of up to $5.5 million annually were not disclosed to the General Assembly.

Finding 2: MAA did not always execute written contracts with airlines and obtain approval from the Board of Public Works for joint marketing services.

Finding 3: Snow removal services were not procured in the most cost-beneficial manner.

Finding 4: Hourly rates paid for snow removal services were not always in accordance with contract terms.

Finding 5: MAA did not track standby time, which resulted in excessive payments to snow removal vendors.

Finding 6: Certain payments were not made in accordance with contractual agreements, and certain services were not adequately monitored.

Finding 7: An audit of payments to a shuttle bus contractor was not conducted.

Finding 8: A procurement was made from a debarred vendor in violation of State law.

Finding 9: Certain federal requirements were not complied with resulting in the loss of federal funding of at least $2.5 million.

Finding 10: Collections were not adequately safeguarded, and deposit verifications were not performed timely.

Finding 11: **Revenue received from the airport concessionaire was not verified for propriety.**

Finding 12: Appropriate collection efforts for delinquent accounts receivable were not made.

Finding 13: Questionable payroll payments were made to two employees, and numerous time sheets were missing.

Finding 14: **Physical inventories of information technology equipment were not conducted as required.**

Finding 15: **Proper internal controls were not established over warehouse inventories.**

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

Object/Fund Difference Report
MDOT Maryland Aviation Administration Operating Budget

Object/Fund	FY06 Actual	FY07 Working Appropriation	FY08 Allowance	FY07-FY08 Amount Change	Percent Change
Positions					
01 Regular	484.00	484.00	484.00	0	0%
02 Contractual	2.00	1.50	1.50	0	0%
Total Positions	**486.00**	**485.50**	**485.50**	**0**	**0%**
Objects					
01 Salaries and Wages	$ 33,753,636	$ 35,278,037	$ 34,973,464	-$ 304,573	-0.9%
02 Technical and Spec Fees	1,244,548	2,271,793	2,387,155	115,362	5.1%
03 Communication	1,358,915	1,412,939	1,501,684	88,745	6.3%
04 Travel	440,243	240,748	392,228	151,480	62.9%
06 Fuel and Utilities	13,009,073	11,495,958	18,296,345	6,800,387	59.2%
07 Motor Vehicles	1,226,360	1,068,951	1,331,827	262,876	24.6%
08 Contractual Services	76,958,335	84,169,653	87,815,779	3,646,126	4.3%
09 Supplies and Materials	7,294,270	5,392,903	5,477,653	84,750	1.6%
10 Equip – Replacement	94,294	79,075	80,000	925	1.2%
11 Equip – Additional	253,828	75,000	64,495	-10,505	-14.0%
12 Grants, Subsidies, and Contributions	546,511	508,857	587,157	78,300	15.4%
13 Fixed Charges	20,374,735	21,357,481	21,938,900	581,419	2.7%
14 Land and Structures	10,152,424	7,690,189	8,738,930	1,048,741	13.6%
Total Objects	**$ 166,707,172**	**$ 171,041,584**	**$ 183,585,617**	**$ 12,544,033**	**7.3%**
Funds					
03 Special Fund	$ 166,427,227	$ 170,761,639	$ 183,235,617	$ 12,473,978	7.3%
05 Federal Fund	279,945	279,945	350,000	70,055	25.0%
Total Funds	**$ 166,707,172**	**$ 171,041,584**	**$ 183,585,617**	**$ 12,544,033**	**7.3%**

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Fiscal Summary
MDOT Maryland Aviation Administration

Program/Unit	FY06 Actual	FY07 Wrk Approp	FY08 Allowance	Change	FY07-FY08 % Change
2021 BWI Operations	$ 157,455,345	$ 163,073,776	$ 175,256,730	$ 12,182,954	7.5%
2022 Martin State Airport	8,931,099	7,590,862	7,966,848	375,986	5.0%
2023 Regional Air Development	320,728	376,946	362,039	-14,907	-4.0%
2030 Facilities and Capital Equipment	63,334,978	78,613,538	77,166,009	-1,447,529	-1.8%
1270 Parking Revenue Control System	0	459,000	1,770,000	1,311,000	285.6%
1334 800 MHz Emergency Digital Trunked Radio	5,551,313	76,000	0	-76,000	-100.0%
1335 FIDS/BIDS Upgrade	0	763,000	0	-763,000	-100.0%
1623 Airport Engineering Information System	0	264,000	518,000	254,000	96.2%
7200 Consolidated Dispatch Center Upgrade	0	60,000	718,000	658,000	1096.7%
Total Expenditures	**$ 235,593,463**	**$ 251,277,122**	**$ 263,757,626**	**$ 12,480,504**	**5.0%**
Special Fund	$ 219,246,230	$ 222,421,177	$ 241,034,626	$ 18,613,449	8.4%
Federal Fund	16,347,233	28,855,945	22,723,000	-6,132,945	-21.3%
Total Appropriations	**$ 235,593,463**	**$ 251,277,122**	**$ 263,757,626**	**$ 12,480,504**	**5.0%**

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Appendix 5

Budget Amendments for Fiscal 2007
Maryland Department of Transportation
Maryland Aviation Administration – Operating

Status	Amendment	Fund	Justification
Approved	$1,139,336	Special	Funds the COLA granted to all eligible State employees.

Source: Maryland Department of Transportation

Appendix 6

Budget Amendments for Fiscal 2007

Maryland Department of Transportation

Maryland Aviation Administration – Capital

Status	Amendment	Fund	Justification
Approved	$79,260	Special	Funds the COLA granted to all eligible State employees.
Projected	-$5,877,841 $955,000 **-$4,922,841**	Special Federal	Adjusts the amended appropriation to agree with anticipated expenditures for fiscal 2007 as reflected in the FY 2007 – FY 2012 Final *Consolidated Transportation Program.*

Source: Maryland Department of Transportation