



**Maryland Department of Transportation**  
The Secretary's Office

**Martin O'Malley**  
Governor

**Anthony G. Brown**  
Lt. Governor

**John D. Porcari**  
Secretary

**Beverley K. Swaim-Staley**  
Deputy Secretary

September 1, 2007

The Honorable Ulysses Currie  
Chairman, Senate Budget & Taxation Committee  
3W Miller Senate Building  
Annapolis MD 21401-1991

The Honorable Norman Conway  
Chairman, House Appropriations Committee  
131 Lowe House Office Building  
Annapolis MD 21401-1991

Dear Chairmen:

Attached is a report concerning the *Future Operations at Seagirt Marine Terminal* as required in the 2007 Joint Chairmen's Report (JCR), pages 82 and 83. The language states:

*"The committees are interested in the current review of options for future operations at Seagirt Marine Terminal that the Maryland Port Administration (MPA) and the Maryland Port Commission are currently undertaking. Options include: renew the contract with the current stevedoring company; procure a new contract; or pursue other options, such as a long-term lease of the terminal to a terminal operator. As a decision on operations will affect funding MPA's funding needs, capital projects, operations, and the Transportation Trust Fund, the committees would like to be kept aware of the decision-making process. The committees request two reports no more than six months apart, on actions and decisions relating to future operations at Seagirt Marine Terminal. Over the course of these two reports, the committees request:*

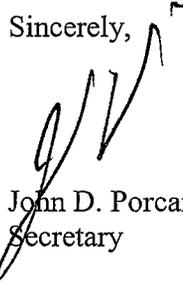
- *A description of the options that are available for Seagirt operations;*
- *The cost, advantages, and disadvantages of each option;*
- *What effect each option will have on construction of a 50-foot berth at Seagirt (who will have responsibility for funding and construction);*
- *The actions taken in regard to this matter (i.e. studies, requests for interest, etc.);*
- *The final decision on future operations; and*
- *Justification for such decision.*

*This information should be provided in the reports as it becomes available. It is the intent of the committees that if MPA decides to enter into a long-term lease with a terminal operator, the committees shall have 45 days to review and comment on the proposal before the lease term is commenced."*

The Honorable Ulysses Currie  
The Honorable Norman Conway  
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If you have additional questions or concerns, please do not hesitate to contact Mr. Jim White, Executive Director, Maryland Port Administration at 410-385-4401. Of course, you should always feel free to contact me directly.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Porcari', written over the printed name and title.

John D. Porcari  
Secretary

Attachment

cc: Members of the Budget Committees  
Mr. Jim White, Executive Director, Maryland Port Administration

A Report to the Maryland General Assembly

Senate Budget and Taxation Committee

and

House Appropriations Committee

regarding

Future Operations at Seagirt Marine Terminal

2007 JCR, pp. 82-83

September 2007

The Maryland Department of Transportation

## Future Operations at Seagirt Marine Terminal 2007 JCR, pp. 82-83

This report was prepared by the Maryland Port Administration (MPA) in response to 2007 Joint Chairmen's Report, pages 82 and 83. The language directs that:

*"The committees are interested in the current review of options for future operations at Seagirt Marine Terminal that the Maryland Port Administration (MPA) and the Maryland Port Commission are currently undertaking. Options include: renew the contract with the current stevedoring company; procure a new contract; or pursue other options, such as a long-term lease of the terminal to a terminal operator. As a decision on operations will affect funding MPA's funding needs, capital projects, operations, and the Transportation Trust Fund, the committees would like to be kept aware of the decision-making process. The committees request two reports no more than six months apart, on actions and decisions relating to future operations at Seagirt Marine Terminal. Over the course of these two reports, the committees request:*

- *A description of the options that are available for Seagirt operations;*
- *The cost, advantages, and disadvantages of each option;*
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- *The actions taken in regard to this matter (i.e. studies, requests for interest, etc.);*
- *The final decision on future operations; and*
- *Justification for such decision.*

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### Background

The Port of Baltimore is one of the most significant contributors to the economy of Baltimore City, and the State of Maryland as a whole.

The Port generates 42,300 jobs, 19,300 of which are direct jobs generated by cargo and vessel activities. The average salary in 2005 for a direct job at the Port was \$49,200. The remaining jobs are supported by the spending of port-related businesses and the holders of direct jobs.

This employment provides a significant positive impact of \$2.4 billion annually in personal wages and salary to the City and region. Also, port-related activities contributed \$1.9 billion in business revenue and \$278 million annually in State and local tax revenue in 2005.

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Due to globalization, the volumes of international trade are expected to double by the year 2020. The Port is well positioned to attract its share of this growth and to continue to prosper and provide good jobs for the foreseeable future.

### Introduction

Currently Seagirt Marine Terminal is operated by the MPA and Maryland International Terminals, Inc. (MIT) through Ports America under procurement contract # 210002-S that was awarded on September 19, 2001. Under this contract, Ports America provides vessel stevedoring and other marine and landside terminal services at the facility. The initial term of the contract is for six years from November 1, 2001 until October 31, 2007. The State has an option to renew the contract for an additional six-year term.

In March 2007, the MPA came before the Board of Public Works (BPW) with a Modification #9 that extended the term of the current contract by one year (November 1, 2007 through October 31, 2008) with the option of extending the contract for two additional terms of six months each, if needed.

The vessel stevedoring, and other marine and landside services, provided by Ports America are the services offered to container customers by MIT. The MPA's contracts with its container customers at Seagirt are in the name of MIT.

The decision to proceed as outlined above was requested by the MPA and the Maryland Port Commission (MPC) and approved by the BPW to allow for additional time to determine:

- a) Whether the current procurement contract should be renewed for 6 years.
- b) Whether the MPA should continue with an operating agreement but with a new contract based on a new procurement.
- c) Whether the facility should be leased to a private concern.

Seagirt could be leased to a private terminal operating company, an ocean carrier, an investment company or other private entity. For ease of discussion, the term "private concern" is used in this document to mean any of these.

#### **1) Provide a description of the options that are available for Seagirt operations:**

There are essentially two options available for Seagirt operations. The options are an operating agreement where the MPA would continue in an operating role or a lease agreement where the MPA's role would be as landlord. Each is discussed below:

Operating Agreement - Under an operating agreement, the MPA will maintain complete control of the Port's container handling facility. The MPA will bear all operating, overhead, security, and capital costs; as well as the operating lease payments to the Maryland Transportation Authority (MdTA) on the facility. (All revenue from the facility also accrues to the MPA.) The

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facility would remain a common user facility and would be well positioned to service a number of different ocean carriers calling at the Port. However, in the current financial environment, the MPA will be challenged to make the necessary long-term capital investments to keep the facility competitive. If the State is unable to adequately invest in and improve the facility, then there are risks involved in maintaining the existing container customer base as well as attracting any new container carriers to the port.

Landlord Agreement / Long-Term Lease - Under a long-term lease to a private concern, the MPA would relinquish a majority of control over how the facility is operated. In exchange, the MPA would expect to receive a fixed long-term lease payment, some concession type fee based on business levels, and projected private sector investment to expand and upgrade the facility. The lessee would be expected to cover the operating lease payments to the MdTA, maintenance costs, security costs, capital costs, and hopefully the Seagirt allocation of MPA overhead.

Under a long-term lease, the lessee would have total control over the facility and would decide, as an example, what ocean carriers to attract as customers. Such a long-term lease or concession is very much like those already in place with ATC Logistics of Maryland, Inc. (ATC) for the Masonville Automobile Terminal or with Mercedes Benz for the Fairfield Marine Terminal. Under a long-term lease, the MPA would have certain market based performance requirements. These performance requirements would be designed to attempt to guard against poor service or lack of marketplace responsiveness, which could harm the Port of Baltimore.

### 2) **Provide the costs, advantages and disadvantages of each option.**

Operating Agreement - Under an operating agreement, the MPA will continue to be responsible for the annual overhead costs, security costs and daily operating costs as dictated by either the existing procurement contract or as a result of the new procurement contract resulting from a successful Request For Proposal (RFP) process. Thus, the operating costs to the MPA would be very similar to those incurred by the MPA currently. More importantly, however, the MPA will be required to provide all funding for system preservation, capital improvement, and infrastructure expansion needed to continue to maintain and grow the facility. It is anticipated that the estimated \$80 to \$100 million needed for a 50-foot container berth at Seagirt would not be available for some time, negatively impacting the competitiveness of the facility. The advantage of this approach is that the MPA would maintain operational control of the Port's main container terminal. The disadvantage is that the 50-foot container berth could not be achieved for some time.

Landlord Agreement / Long-Term Lease - Under a long-term lease agreement, the cost to the MPA should go down significantly (as long as such a lease agreement could be negotiated to cover all annual overhead costs, security costs and debt service while ensuring some meaningful level of capital investment to maintain and grow the facility). The advantages to the State would be timely private investment in a State asset to possibly make it more productive and competitive. The disadvantages would be the MPA lack of control and the risk that the facility could be operated as a single user facility. (For example, if one container customer were to lease

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the facility, other container customers may leave Baltimore to find an independent terminal operator.) Facility and labor costs could increase with a private operator as equipment might be maintained with International Longshoremen's Association (ILA) union members. Other disadvantages could include the impact to an existing State workforce that is currently employed to maintain the facility and cranes, as well as provide backroom services such as accounting and information services; however, the MPA needs personnel resources and would hope any affected workforce would be retrained/redeployed.

**3) What affect each option will have on the construction of the 50-foot Berth at Seagirt:**

Operating Agreement - In general under an operating agreement, the responsibility for design, funding and construction of the 50-foot berth project will be borne by of the MPA. The MPA could try to integrate an investment option under a procurement contract but major capital investments require a significant term for pay back (estimated at 20 to 30 years). The traditional State procurement contract terms are much shorter than required for such an investment, and this option could risk the chances of having a successful procurement. In the current financial environment, it is anticipated that the 50-foot container berth would be seriously delayed and this is a major concern.

Landlord Agreement / Long-Term Lease - Under a long-term lease, the construction of the 50-foot berth and the purchase of cranes would be borne by the lessee. We foresee dredging costs to be a continuing MPA funded program. As evidenced by the recent high profile purchases of terminal operating companies in the U.S. and international ports, coupled with the continued investment in major infrastructure projects around the Country by various financial institutions, it is anticipated that such an RFP or solicitation for a long-term agreement to lease Seagirt would garner significant interest from outside parties, including the financial capacity to make the investment in the 50-foot berth quickly.

**4) What actions have been taken in regard to this matter to date?**

Since October 2005, the MPC and the MPA have worked diligently to evaluate the available options and develop a series of action steps needed that would allow the MPA to have in place either an operating agreement or a lease that would provide terminal and vessel services to the shipping lines calling Seagirt. These efforts have included many internal meetings with MPA executive staff, formation of an MPC sub-committee, issuance of a publicly advertised Request for Information (RFI) that was sent to over 20 terminal operators and steamship lines (this was done to obtain industry input on current trends and scenarios), evaluation of the RFI responses, development of several "draft" procurement documents if the decision was to proceed in that direction. Most recently, we have developed a "working draft" of a Request for Proposals for a long-term lease agreement that would include the operation, maintenance and investment in infrastructure for Seagirt Marine Terminal. In addition, the MPA has developed detailed timelines for the process of either soliciting a procurement contract or executing a

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lease/concession agreement to include solicitation, evaluation, negotiation, transition and ultimately the completion of this process to a new terminal operator.

**5) The final decision on future operations:**

The MPA has determined at this time to proceed with the process of obtaining a long-term lease agreement. In consideration of the current financial environment in State government, coupled with the extreme importance to proceed with the Seagirt 50-foot berth project, as well as the ongoing financial need to invest even further into new equipment and technologies, the MPA feels this is the best decision at this time. It is also apparent in a very financially active maritime industry that major investments are being made in port infrastructure and that the timing is now critical that the MPA take advantage of these opportunities to secure the long-term stability of Seagirt Marine Terminal. It would be the MPA's intent that, with any long-term arrangement, that the contracts with existing container carriers would be honored.

**6) Justification for such a decision:**

The need for private investment and the risk of not acting prudently to solicit this private investment into our MPA infrastructure is the critical issue at this time. While it is recognized that the MPA will lose significant control over the day-to-day operation of our primary container handling facility, it is also recognized that unless we proceed in this direction the likelihood of securing these much needed capital funds is remote. There could be negative repercussions resulting in this decision to proceed with a lease/concession, which have been mentioned earlier in this document. However, we feel that without the commitment to obtaining a long-term lease or the ability of the State to continue to invest in this facility the long-term success of Seagirt Marine Terminal would be in jeopardy.