The Maritime Administration Annual Report to Congress 2008

Maritime Administration at a glance

Established: 1950

Headquarters: 1200 New Jersey Avenue, SE

Washington, DC 20590

www.MARAD.dot.gov

Fiscal Year 2008 Budget: $313,400,000

Total Employees: 760

Headquarters: 268

US Merchant Marine Academy: 234

Gateway Offices & Fleet Sites: 258

Mission: To improve and strengthen the U.S .marine transportation system to meet the economic, environmental and security needs of the Nation.

Maritime Administration
Annual Report to Congress
Fiscal Year 2008

U.S. Department of Transportation
Maritime Administration
Office of Congressional and Public Affairs
1200 New Jersey Avenue, W24–226
Washington, DC 20590
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Introduction:

Wider Horizons

This was a busy year for the Maritime Administration. We greatly expanded our worldwide outreach, participating in bilateral and multilateral international negotiations, as well as gaining support for a new international regime governing cargo liability and cargo harmonization. We established a comprehensive Agency-wide green program to make our practices more environmentally responsible and worked with stakeholders and government partners on important environmental issues. Our Agency updated many of its administrative practices and information technology media.

We have taken advantage of the worldwide shortage of skilled mariners to expand opportunities for American mariners, securing agreements with liquefied natural gas shippers, and with foreign-flag operators, to give training opportunities to U.S. student mariners and employ U.S. maritime school graduates on their ships.

Wider horizons mean there is room for greater accomplishme nts in the years to come.

We also crossed a major threshold this year when Congress called for the establishment of a short sea transportation program within the Department of Transportation. We are rapidly implementing this program, which has sparked significant interest on the part of transportation planners, ports, vessel owners and operators and shippers. Through strategic use of our coastal, intracoastal and inland waterways, America's Marine Highway Program could serve as an extension of the surface transportation system and help mitigate congestion by replacing rail and truck traffic.

We formulated new policy and issued wide-ranging studies and leadership documents: The Maritime Administration and the U.S. Marine Transportation System: A Vision for the 21st Century laid out the Agency's vision for an improved marine transportation system; our five-year strategic plan, Leading the Future, marked a departure from earlier strategic plans, laying out our refocus on non-traditional areas such as intermodal system development and environment and compliance issues, while still maintaining the Agency's traditional focus on promoting the U.S. maritime industry and national security.

The Maritime Administration made important progress in the often-vexing issue of ship disposal, taking advantage of high worldwide metal prices, removing 25 obsolete ships from the Agency's fleet sites, and even generating positive revenue with the program. The Agency's Ready Reserve Force managed eight Fast Sealift Ships, in preparation for accepting title to them in October 2008.

The Maritime Administration expanded its horizons in many ways in fiscal year 2008. Wider horizons mean there is room for greater accomplishments in the years to come.

Executive Summary

This Maritime Administration Annual Report to Congress for fiscal year 2008 outlines the financial status of the Maritime Administration, and reports on the Agency's accomplishments, which align with the strategic goals of the U.S. Department of Transportation.

The **Industry Overview** briefly outlines the status of the United States maritime industry. This year's annual report also outlines **Expanded Opportunities**.

The Agency's accomplishments which align with the strategic goals of the U.S. Department of Transportation.

The accomplishments of the Agency's **Intermodal System Development** line of business are highlighted in the section on **Reduced Congestion**, which outlines the Maritime Administration's work in congestion mitigation, the establishment of Agency "Gateway" offices nationwide, successful projects in port development, and work in developing America's Marine Highways, the nation's network of navigable rivers, lakes, seaways, and coastwise routes.

The section on **Global Connectivity** sets out the accomplishments of the **Business and Workforce Development** line of business. It includes the Cargo Preference program, the Maritime Administration's support of shipyard work, energy security, and U.S. mariner development and employment. The section also notes the accomplishments of the office of the **Assistant Administrator**, covering policy, plans and international activities.

The section on **Security, Preparedness and Response** gives the status and accomplishments of the **National Security** line of business in the Maritime Security Program, the Voluntary Intermodal Sealift Agreement program, the Ready Reserve Force, and in support of the U.S. Missile Defense Agency. This report also outlines the growing portfolio of the Maritime Administration in the areas of **Preparedness and Response**.

The accomplishments of the **Environment and Compliance** line of business are emphasized in the section on **Environmental Stewardship**, which outlines the Maritime Administration's work in international environmental and safety agreements, as well as identifying progress made in battling aquatic invasive species and in ship recycling.

Appendices outline the Agency's financial and legal transactions, as well as its publications. Also included in the appendices are the Maritime Administration's organizational chart and a copy of the President's Annual Maritime Day Proclamation, a signed proclamation issued by the White House every year since 1933.

Expanded Opportunities

For many years, the Maritime Administration's focus was on the domestic maritime transportation industry, plus ensuring the health of the U.S. merchant marine. However, the global nature of the maritime industry has required a global focus, particularly on what the worldwide industry has to offer for American mariners.

American mariners now have more opportunities worldwide than they have had in more than a generation. The increasing technical complexity of modern ships also means that the competition for skilled licensed mariners is particularly sharp. Maritime academies reported near 100 percent job placement for their 2008 graduates in maritime jobs at sea and ashore.

During fiscal year 2008, the Maritime Administration took advantage of these conditions to position the U.S. merchant marine worldwide, securing training and crewing agreements with global shipping companies. The Maritime Administrator negotiated agreements with five international-flag shipping companies to offer training opportunities to cadets at the U.S. Merchant Marine Academy and the six state maritime academies. Such training opportunities are vital for cadets to acquire the skills to sail worldwide. The Maritime Administration also negotiated agreements with four liquefied natural gas (LNG) companies to employ U.S. mariners on their ships. LNG shipping is a rapidly growing area worldwide, and the complexity of LNG tankers calls for a highly-developed set of skills.

American mariners now have more opportunities worldwide than they have had in more than a generation.


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Industry Overview

The U.S. water transportation industry serves the needs of both foreign and domestic commerce. It is comprised of companies that carry freight or passengers on the open seas or inland waterways, offer towing services, charter vessels, and operate canals and terminals.

Commerce

Over the last 10 years, container trades increased at an average annual rate of 6.4 percent, or more than three times the growth of non-container trades.

In 2007, U.S. waterborne commerce amounted to 2.3 billion metric tons. International commerce accounted for 60 percent of the total. In the mid-1990s, domestic and foreign trades were about 1 billion metric tons each. By 2007, foreign trade had increased to 1.4 billion metric tons while domestic trade had decreased to 0.9 billion metric tons.

The growth in foreign waterborne commerce has been spurred largely by growth in container trades. Over the last 10 years, container trades increased at an average annual rate of 6.4 percent, or more than three times the growth of non-container trades. In 2007, 80 percent of the container trades, as measured in metric tons, were time-sensitive, food and manufactured product shipments that were *carried by vessels in scheduled services.*

The non-container trades, oil, ores, coal, grains and other crude materials, are moved in unscheduled services. Because they are stockpiled, there can be significant year-to-year fluctuations in the trades as commodity prices change; nonetheless, the long-term growth of these trades is generally below U.S. economic growth.

To service the rapid growth in container trades, carriers have deployed post-Panamax (too large to transit the Panama Canal) containerships in end-to-end services, increased call frequencies and reduced transit times.[1] Over the last 5 years, containership calls at U.S. ports increased by 16 percent while the average vessel size (measured in TEUs [20 foot equivalent units]) per call increased by 14 percent. Containerships calling at U.S. ports are about 38 percent larger than those calling at foreign ports because feeder and short-sea services common in intra-European and intra-Asian trades, which use smaller vessels than intercontinental services, rarely call in U.S. ports.

Over the last five years, calls by containerships of 5,000 TEU or greater, which are largely post-Panamax class, increased by 247 percent. In 2007, post-Panamax containerships accounted for 20 percent of the containership calls at U.S. ports, up from 7 percent five years earlier; and 69 percent of the post-Panamax calls were at West Coast ports.

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[1] Panamax refers to the maximum dimensions of a vessel that can pass through the locks of the Panama Canal: length – 965 feet, beam – 106 feet, and draft – 39.5 feet. Post-Panamax containerships exceed one or more of these dimensions. In the past, containerships that could transit the Canal were deployed in tri-continental services, such as Europe/U.S./Asia. Now, most containerships operate in end-to-end services (transit one ocean).

As of year-end 2007, the post-Panamax segment accounted for about 35 percent of global containership capacity, which left 65 percent of the capacity on order to be constructed. Based on existing orders, the post-Panamax segment could grow to more than 46 percent of the fleet over the next five years. The Panama Canal is being expanded to accommodate the post-Panamax fleet and when completed in 2014, it will facilitate all-water post-Panamax shipments to/from Gulf and East Coast ports and reduce rail transportation shipment costs. [2]

To service post-Panamax size containerships terminal owners at U.S. ports have invested heavily in post-Panamax and super post-Panamax gantry cranes, which are capable of unloading vessels with 18 or more containers across. However, over the next five years, U.S. container ports will need to make significant investments in infrastructure to accommodate the expanding post-Panamax fleets and container trades.

North America Cruise Passengers

In 2007, 67 million passenger nights were booked on North American cruises, up 26 percent from 5 years earlier. Over the same period, the occupancy rate increased from 105 percent to 108 percent. (Since many double staterooms can accommodate three or four people, occupancy can actually be more than 100 percent.). The North American cruise market has been capacity driven, that is, cruise lines have reduced prices to ensure that the cruises are fully booked. Thus, the growth of passenger nights has followed the increase in cruise capacity. But unlike land-based resorts, cruise ships can be moved to markets that have the highest prices. During 2008, several North American cruise lines announced the movement of cruise vessels from North America to Europe to take advantage of a strong Euro and higher prices for European cruises.

The North American cruise market is highly concentrated, with the top four firms (Carnival, Royal Caribbean, Norwegian and Disney) accounting for 98 percent of the 2007 passenger nights. By itself, Carnival accounted for six brands and 54 percent of the passenger nights. Competition between sellers in a concentrated market can be fierce with low prices and extreme levels of product differentiation or market segmentation, which appears to be the case in the North America cruise market. In 2007, for example, 10 firms offered 630 different cruise products, differentiated by ship, departure port, destination and nights. The cruises involved 117 ships, 61 departure ports, and 16 major destinations and ranged in length from one to 35 nights.

U.S. Fleets

According to the Bureau of Economic Analysis between 2002 and 2007, U.S. carriers invested $9.3 billion in new vessels including 91 ocean vessels, 271 tugs, 3,500 barges, 99 offshore supply vessels and 52 ferries. The investments in new vessels have contributed to a 23 percent increase in the value of the industry's fixed assets, the highest five-year growth of the last 25 years.

The new vessels were largely replacements for vessels built during the expansion of the late 1970s. There were, however, major differences between the two expansions. The investments of the 1970s were largely speculative. Vessels were built to operate in spot markets as investors took advantage of investment tax credits, loan guarantees and construction subsidies.

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[2] After the expansion the maximum dimensions of a vessel that can pass through the Panama Canal will be: length – 1,401 feet, beam – 180 feet, and draft – 60 feet, which will be able to accommodate the world's largest containerships.

The recent expansion, in contrast, is largely market-driven, backed by long-term customer commitments. The new assets are much different from those they replace. For example, articulated tank barge units (ATBs) have replaced single-hull product tankers in U.S. coastal trades; new dual-propulsion double-hull crude carriers have replaced 30+ year-old, steam-propulsion single-hull crude carriers in Alaska/West Coast oil trades; and large dynamically-positioned offshore supply vessels have replaced smaller vessels in servicing deep-water oil exploration and production in the Gulf of Mexico.

According to the U.S. Army Corps of Engineers as of year-end 2007, there were about 40,000 privately-owned, U.S. cargo-carrying vessels available for operation in U.S. foreign and domestic trades. Over the last five years, the largest growth has been in the dry bulk, container, offshore supply vessel and double-hull tank barge fleets.

U.S.-flag vessels accounted for about 36 percent (236 vessels) of the ocean fleet owned by American entities, 80 percent (523 vessels) of the offshore fleet and all of the Great Lakes, coastal and waterways fleets. The Jones Act fleet,[3] which is comprised of vessels with unrestricted coastwise trading privileges, accounted for about 53 percent (146 vessels) of the ocean fleet and all of the Great Lakes, offshore, coastal and waterways fleets. [3]

There are also a large number of U.S.-owned vessels on order including: 71 tankers, 67 dry-bulk carriers; 30 large tank barge units (articulated tug/barge units, ATBs), and 41 offshore supply vessels. The year-end 2007 orders for U.S.-built coastal tank vessels are at record levels (21 product tankers and 30 ATBs) and are more than sufficient to replace the capacity of the existing 25+ year-old single-hull fleets. Over the next three years, the double-hulling of the coastal tank vessel fleets will be virtually complete.

Industry Growth

The investment in new water transportation assets has contributed to significant growth in water transportation employment and earnings. From 2002 to 2007, employment in water transportation increased by 18 percent while earnings per employee increased by 22 percent. By comparison, employment and earnings for other transportation modes increased by just 8 percent and 14 percent, respectively.

While it might seem reasonable to expect that the newer vessel assets would require less employment than those they replace, the new technologies have, in fact, created new markets for marine transportation services. For example, high-speed ferries have opened up new longer routes for marine transportation of passengers; dynamically-positioned supply vessels were built to service the expansion of deepwater oil exploration; and the vessels they replaced are now used to move products in the coastwise trades.

The investments in new vessels have been driven by customer needs and many are tied to long-term customer commitments, which have integrated marine transportation into the production and distribution processes, improved service to customers and contributed to stable growth in employment and earnings

[3] Jones Act vessels must be constructed in the United States, owned by U.S. citizens, and registered under the U.S.-flag; or wrecked in U.S. waters and rebuilt in the U.S. and re-flagged U.S.; or forfeited for violation of U.S. law and reflagged U.S.

Reduced Congestion

Congestion in the transportation system constrains growth and distorts business decisions. When the transportation infrastructure does not support efficiency, there are delays in the supply chain, which in turn lead to increased prices for goods. Increased prices for goods not only have a negative impact on businesses, consumers, and the U.S .economy, but also mean lost export opportunities for American companies.

Marine Highways Program

During fiscal year 2008, the Maritime Administration promoted the use of America's waterways as an effective way to move bulk freight cargo through its Marine Highways Program.

The United States has more than 25,000 miles of inland, intracoastal, and coastal waterways—those are America's Marine Highways. They represent a practical tool to help mitigate some of today's significant congestion challenges on our roads and rails. Use of the waterways can be cost effective, requires very little new infrastructure, and could provide significant fuel savings and air emission reductions relative to truck or rail transport.

Fiscal year 2008 marked a turning point for America's Marine Highways in which several key milestones were achieved and awareness of its benefits grew. In December 2007, Congress passed and President George W. Bush signed the Energy Independence and Security Act, which called for the expansion of the Marine Highways as an extension of the surface transportation system. The Maritime Administration assisted several new Marine Highways services that will help mitigate congestion and improve air quality. The new law also requires the Secretary of Transportation to designate Marine Highways corridors and specific projects to mitigate landside congestion, and requires the integration of Marine Highways into surface transportation planning by working with state, multi-state and regional transportation planners and to conduct research to be carried out in partnership with the U.S. Environmental Protection Agency to identify benefits derived from America's Marine Highways and vessel designs, technologies and efficiencies that can help advance the initiative as a transportation solution.

Gateway Presence

The Agency's Gateway offices identify bottlenecks and ways to improve freight movement.

Having a presence in major U.S. ports is an important way to gain insight into the challenges facing the industry, and finding practical ways to address them. Continuing the Agency's Gateway office initiative that began in fiscal year 2007, the Maritime Administration provided a presence in 2008 at more of the largest ports on the West, East, and Gulf Coasts, as well as the Great Lakes and inland river system. Using the successful model developed in Southern California, the offices have worked with public and private sector participants to better understand the connections among improved cargo flow, economic vitality, community improvement, and environmental sustainability. The Southern California effort has led to an inter agency cooperation agreement to specifically address congestion in and around the Nation's busiest port area.

The Agency's Gateway offices identify bottlenecks and ways to improve freight movement. They work with stakeholders to promote collaboration among Federal, State, local and private partners on challenges facing the marine transportation system in their areas of responsibility, focusing particularly on planning and environmental issues. These offices act as liaisons for the Agency to help ensure that measurable progress is made on specific projects as well as to bring Agency and U.S. Department of Transportation expertise to the table.

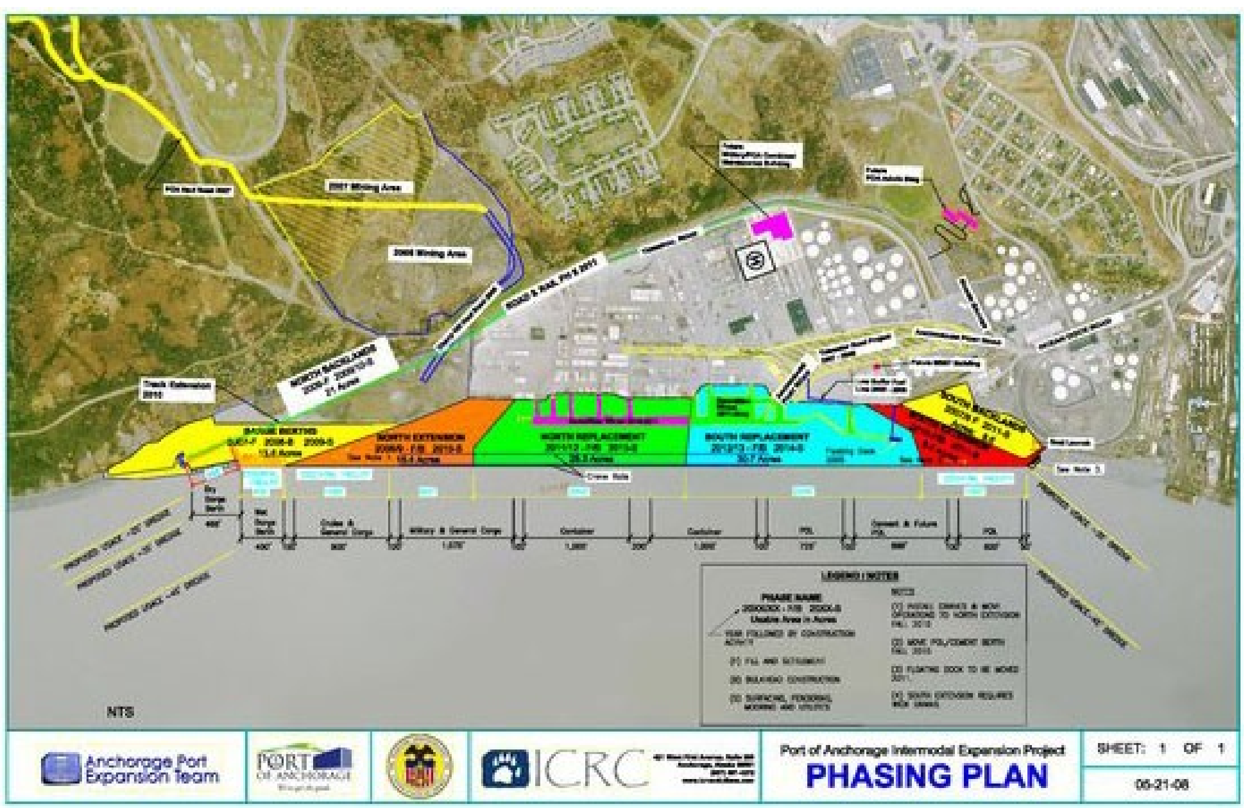
The offices support and place particular emphasis on most Maritime Administration priorities: Congressional Outreach Initiatives; America's Marine Highway Initiatives; Port Infrastructure Development, including project support and overcoming impediments at intermodal nodes, including rail, barge, road and air connectors; Development of Deepwater Ports; Shipper and Carrier Outreach including linkages to the Marine Transportation System National Advisory Council, and the Committee on the Marine Transportation System; support to the passenger and cruise industry including ferries; Workforce Development, which promotes opportunities for American employment; Emergency Preparedness and Response Activities; and support for the Port Security Grants Program.

As of September 30, 2008, the Maritime Administration had staffed its Gateway offices in Long Beach; New York City; Chicago; Norfolk; Miami; New Orleans; St. Louis and Seattle. The planned Gateway office in Houston is expected to be staffed during fiscal year 2009.

Port Development and Expansion Programs

The Maritime Administration continued working with the Port of Anchorage, Alaska, and its prime contractor, completing a substantial portion of the next phase of the facility's marine terminal redevelopment as a part of the overall Port of Anchorage Intermodal Expansion Project. Environmental mitigation measures have also included underwater noise monitoring during all in-water construction and measuring sound levels to ensure marine mammal safety.

(Figure 1)



Port of Anchorage Intermodal Expansion Project Phasing Plan

This partnership has evolved into an infrastructure development program, using the Maritime Administration's expertise in managing multi-dimensional and multi-year projects to expand the capacity of America's ports. The success in Anchorage has led to two other projects, one in Hawaii and another in Guam.

In Hawaii, the Maritime Administration has begun joint work with the Hawaii Department of Transportation Harbors Division and the Hawaii Harbors Users Group, completing and publishing a draft environmental assessment. This is part of the National Environmental Policy Act process required for the Pier 2A at Kawaihae Harbor on the "Big Island" of Hawaii.

In May 2008, the Maritime Administration signed a Memorandum of Understanding with the government of Guam and the Port Authority of Guam. The Agency is also working with the Port Authority of Guam to develop and implement a strategy to accomplish the necessary port improvements required to meet the expected expansion in trade resulting from the redeployment of military forces in the Pacific.

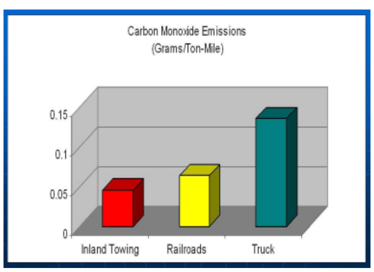
The success in Anchorage has led to two other projects, one in Hawaii and another in Guam.

Highlights and Accomplishments in Reducing Congestion

The Maritime Administration provided leadership and assistance in a public-private partnership to create the “64 Express”, a project that will provide a barge service between Norfolk and Richmond, VA. The project, which is scheduled to begin in fiscal year 2009, is expected to shift more than 4,000 trucks from the congested I-64 highway corridor in its first year, and as many as 120,000 by its fifth year. By its third year, the service is expected to reduce hydrocarbon and nitrogen oxide emissions by an estimated 70 tons per day.

The Maritime Administration and Texas Transportation Institute released a Modal Comparison of Domestic Freight Transportation assessing the environmental, energy-saving and safety-related benefits of the Marine Highways. The Maritime Administration, in a partnership with the Texas Transportation Institute, conducted and published a study concluding that transportation of freight on America’s rivers offers important benefits, especially considering today’s transportation challenges. The study found that freight transportation on inland waterways represents a lower cost alternative to other modes, and it does so while consuming less fuel, with greater safety, and generating fewer emissions. Following the study, the U.S. Environmental Protection Agency revised national air quality standards, triggering mandates that require communities to focus on transportation activities that reduce emissions.

The Maritime Administration and the U.S. Marine Transportation System: *A Vision for the 21st Century* laid out the Agency’s new emphasis and vision for an improved American marine transportation system that can better accommodate the ever-increasing amounts of cargo arriving on U.S. shores each year. The Vision emphasizes the intermodal nature of freight congestion, the tremendous importance of the U.S. transportation system to national economic prosperity and the recognition that the diverse spectrum of transportation stakeholders must work together to plan and implement a better future for the marine transportation system.



(Figure 2)

Carbon Monoxide Emissions

Southern California Cooperation Agreement. The Maritime Administration played a crucial role in helping to develop a cooperation agreement for the Southern California National Freight Gateway. This cooperation agreement serves as a framework to advance projects for sustainable and efficient freight transportation operations in the Southern California National Freight Gateway area. This effort is in support of the Department of Transportation’s National Strategy to Reduce Congestion on America’s Transportation Network. The Southern California Gateway is one of six focus areas for the national strategy because more than 40 percent of all goods imported into the United States flow through Southern California, which is home to the Nation’s largest port complex of Los Angeles/Long Beach.

Global Connectivity

The marine transportation industry has always been global in nature, and it remains critically important to encourage and sustain American involvement and investment in it. This is important for the economy in peacetime, and vital to national security and survival in time of war or other national emergency. The Maritime Administration is dedicated to supporting the health of the American maritime industry: its ships, its ports, and its people.

The Maritime Administration administers a number of statutory programs that foster a strong merchant marine and protect American jobs and investment: Cargo Preference, the Maritime Security Program, shipbuilding loan guarantees, training of entry-level licensed mariners, and implementation of U.S. cabotage laws. The Maritime Administration also represents the United States in negotiating maritime agreements. During fiscal year 2008, the Maritime Administration also used its influence in the Deepwater Ports program to assure job opportunities for U.S. mariners.

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Energy Security: Deepwater Ports

Through the operation and licensure of deepwater port offshore energy receiving facilities, the Maritime Administration plays a vital role in meeting Presidential Directives on energy while protecting the environment, building local economies, and improving mobility and safety in the Nation's oceans and ports.

Deepwater ports are offshore facilities that provide a safe and efficient means for the delivery of liquefied natural gas (LNG) into the United States. Once liquefied and transported, LNG must be heated to return it to a gaseous state. With the consultation and advice of the U.S. Coast Guard, the Maritime Administration is responsible for preparing a Record of Decision for each deepwater port license application and for approval, conditional approval or denial of a license. The Record of Decision is based on the criteria for license issuance set forth in the Deepwater Port Act of 1974, as amended.

Importation of LNG and oil through a system of deepwater port facilities helps ensure an adequate supply of energy for the United States, as well as addressing safety concerns and relieving port congestion. The Maritime Administration's Office of Deepwater Ports and Offshore Activities is responsible for processing applications submitted by private energy companies to construct, own, and operate deepwater ports off the Nation's coasts. The deepwater port licensing process involves coordination with 15 federal agencies as well as state and local governments of the adjacent coastal states for the proposed projects.

During fiscal year 2008, the Office of Deepwater Ports and Offshore Activities evaluated and assessed seven license applications, participated in public hearings to support the licensing process, attended national and international public energy outreach forums, and authorized the construction and operation of two LNG deepwater port facilities in the offshore waters of Boston, MA.

The Maritime Administration is currently reviewing five deepwater port license applications, including projects proposed for operations offshore of California, New York, New Jersey, Florida, and in the Gulf of Mexico. Three additional applications are expected to be filed in the coming year. When fully operational, the proposed deepwater port facilities will provide approximately 1.35 trillion cubic feet per year of natural gas to the Nation's energy supply.

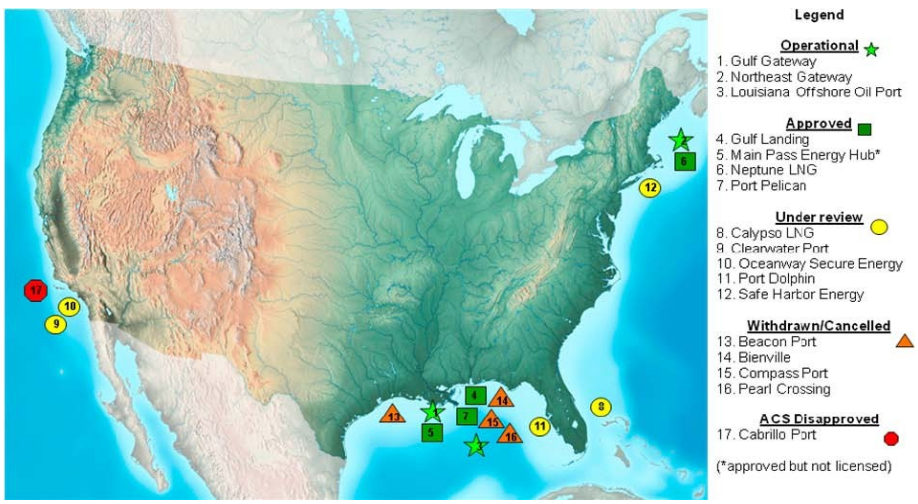
During 2008, the Maritime Administration continued facilitating innovative public/private partnerships with international LNG industry and maritime labor organizations to increase training and employment opportunities for U.S. citizen officers, cadets, and unlicensed mariners serving aboard tanker fleets and at planned deepwater port terminals in the United States.

Cargo Preference

The Maritime Administration is at the forefront in maintaining a strong and visible U.S.-flag fleet through a number of statutory programs, including the reservation for transportation on U.S.-flag vessels of certain government-impelled, ocean-borne cargo in international trade. The purpose of the cargo preference program is to work with federal agencies and other exporters and importers to promote the carriage foreign trade of U.S.-flag vessels. This is carried out through monitoring compliance with the cargo preference laws, with bilateral and similar agreements and by working with the Federal Maritime Commission in identifying and responding to discriminatory trade practices against U.S.-flag vessels.

Preference cargoes and Maritime Security Program subsidy payments together provide a revenue base to encourage private-sector vessel owners to operate and remain in compliance with requirements for registry under the U.S.-flag.

(Figure 3) *Deepwater Water Projects Map*



The cargo preference laws directed more than 12 million revenue tons of cargo and $1.4 billion of ocean freight revenue to U.S.-flag ships in fiscal year 2008. Military cargoes represented 60 percent of the cargo movements, agricultural cargoes represented 25 percent, and other civilian agencies and Iraq reconstruction cargoes represented 15 percent of movements. Depending on corporate size and the world trading areas in which they operate, these preference cargoes represent from 7 percent to more than 50 percent of a carrier's annual revenues and, for certain operators, are vital to continued service operating under the U.S.-flag. In fiscal year 2008, these 120 vessels supported more than 5,500 merchant mariner jobs and a larger number of maritime and transportation-related jobs shoreside.

International Activities

The Maritime Administration plays a critical role in international relations, leading or participating in delegations to negotiate commercial agreements and working on international standards and regulations.

The Agency's service on the United Nations Commission on International Trade Law was instrumental in gaining international support for a new regime governing cargo liability.

During fiscal year 2008, the Maritime Administrator led a U.S. delegation in discussions with Chinese maritime officials, stressing the need for open markets to facilitate trade. The Maritime Administrator also led a delegation to Vietnam to hold the first round of annual negotiations provided for under the U.S./Vietnam Bilateral Maritime Agreement. The Administrator also met with Korean officials in Seoul to discuss bilateral matters, with Japanese officials in Tokyo on maritime transport matters. On separate occasions with European Commission officials, the International Maritime Organization, and with energy company interests to discuss a range of issues from seafarer training, promoting the shipment of natural gas to the United States, and environmental challenges facing the maritime industry.

Shipbuilding and Assistance to Small Shipyards

U.S. shipyards play an important role in America's international maritime presence and in the national economy. American shipyards directly contribute to the output of the U.S. manufacturing sector and support the growth and development of a skilled workforce. These U.S. shipyards are also successfully building the most efficient and environmentally sound tankers and tank barges in the world to replace single-hull vessels retired under the Oil Pollution Act of 1990 ($5 billion worth of double-hull construction and conversion work will take place by 2015 to meet the double-hull requirement under OPA 90).

U.S. shipyards are also successfully building the most efficient and environmentally sound tankers and tank barges in the world…

In June 2008, the Maritime Administration announced $9.8 million in grants to 19 small shipyards in the United States. The purpose of the grants is to make capital and infrastructure Improvements that facilitate the efficiency, cost-effectiveness and quality of domestic ship construction, conversion or repair for commercial and federal government use. The grants cover a maximum of 75 percent of the estimated cost of Improvements. The companies are responsible for the remaining 25 percent.

Recipients, amounts, and purposes of grants:

- Alaska Ship and Drydock of Ketchikan, AK, was awarded $615,805 to upgrade its metal fabricating equipment, machine shop, and painting equipment.
- All American Marine, Inc., of Bellingham, WA., was awarded $285,000 for the acquisition of metal-cutting machinery and boat transfer equipment.
- Brownsville Marine Products, LLC, of Brownsville, PA., was awarded $532,226 for hydraulic buggies, winches, mobile crane, jib and overhead cranes.
- Colonna's Shipyard in Norfolk, VA., was awarded $825,000 for a 1,000-ton travelift.
- Conrad Shipyard, LLC, of Morgan City, LA., was awarded $648,648 for welding equipment and a range of tools.
- Derecktor Shipyards Conn., LLC, of Bridgeport, CT., was awarded $863,515 for a welding tank, welding machines, air casters, and a hydraulic bender.
- Duclos Corporation of Somerset, MA., was awarded $628,300, for railway assembly, upgrading and extending capacity of railway and dock extension.
- Eastern Shipbuilding Group of Panama City, FL., was awarded $436,274 for metal cutting equipment and a computer system.
- Everett Shipyard, Inc., of Everett, WA., was awarded $297,036 for workstations and an overhead crane.
- Great Lakes Shipyard of Cleveland, OH, was awarded $546,000 for an 80-ton mobile crane, a man lift, and automated welding equipment.
- Gulf Marine Repair Corp., of Tampa, FL was awarded $487,630 for four cranes, two electric plate rollers, and other manufacturing equipment.

- Horizon Shipbuilding, Inc., of Bayou La Batre, AL., was awarded $277,500 for a computerized plasma-cutting table used for cutting metal according to ship construction drawings and specifications.
- Leevac Shipyards, LLC, of Jennings, LA., was awarded $66,068, for software to expand its engineering capability.
- Master Marine of Bayou La Batre, AL., was awarded $450,000 for a travelift.
- Pacific Shipyards International, LLC, of Honolulu, HI, was awarded $869,977 for a water blast system and a mobile crane.
- R&R Marine Shipbuilding of Port Arthur, TX, was awarded $400,000 for acquisition and installation of a stiffener-fitting gantry, facility electrical upgrades and the cost to install a panel line fabrication facility.
- Safe Boats of Port Orchard, WA., was awarded $579,084 for the acquisition and installation of router tables, information technology system upgrades and other machinery and equipment.
- Todd Shipyards Corporation of Seattle was awarded $358,515 to enlarge and renovate the company's main assembly building.
- Washburn & Doughty Associates of East Boothbay, ME, was awarded $633,422 for the acquisition and installation of pipe benders, inverter welding machines, hydraulic press brake, plus other equipment and machinery.

Maritime Guaranteed Loan (Title XI) Program

The primary purpose of the Title XI Program is to promote the growth and modernization of the U.S. merchant marine and U.S. shipyards. Title XI authorizes the federal government to guarantee the repayment of debt obligations, including unpaid interest, obtained in the private sector by:

- U.S. or foreign shipowners for the purpose of financing or refinancing either (1) U.S.-flagged vessels or eligible export vessels constructed, reconstructed, or reconditioned in U.S. shipyards; and
- U.S. shipyards for the purpose of financing advanced and modern ship (2) building technology of a privately-owned general shipyard facility located in the United States.
- The Title XI program permits guarantees in an amount not to exceed 87.5 percent of the actual cost of projects eligible for financing. The maximum guarantee period is 25 years.

The primary purpose of the Title XI Program is to promote the growth and modernization of the U.S. merchant marine and U.S. shipyards.

Title XI Activities, Fiscal Year 2008

During fiscal year 2008, the Maritime Administration did not issue any new commitments for Title XI loan guarantees.

The first of two high-speed ferries owned by Hawaii Superferry, Inc. and financed with a Title XI loan guarantee began operations on December 13, 2007. The high-speed, 105-meter roll-on/roll-off (RO/RO) vessel provides passenger, cargo, and vehicle ferry service between Honolulu and Maui. The second vessel is scheduled for delivery in early 2009.

The Maritime Administration successfully concluded litigation in two earlier bankruptcies related to two companies that received Title XI loan guarantees. Proofs of claim have been filed in one consolidated bankruptcy related to four such companies, and litigation continued on the litigated claims.

As of September 30, 2008, the Title XI loan guarantee portfolio consisted of $2.42 billion in loan guarantees outstanding. Currently, all Title XI commitments have been funded. The portfolio consists of 64 projects, which include drill rigs, tankers, barges, containerships, RO/RO vessels, fast ferries, passenger vessels, supply vessels, tugs, and shipyard modernization projects. Additional information on the Title XI program can be reviewed online at the program's website: http://www.MARAD.dot.gov/Title XI

All beneficiary companies in the Maritime Administration's Title XI portfolio undergo periodic financial reviews; however, companies with a higher potential for default receive additional monitoring. This activity involves the preparation of detailed financial reports for senior management review. Summaries of these reports are presented to the Department of Transportation Credit Council. The Credit Council is an oversight and financial guidance body that objectively reviews all discretionary loans and loan guarantees made by DOT. A total of $277 million in guaranteed projects, or 11.4 percent of the Title XI portfolio, has been identified as experiencing financial difficulties and, as such, is receiving the highest level of monitoring. The Title XI loan guarantee program had one default in 2008, with a payoff of $38 million on the guarantee.

During fiscal year 2008, the Maritime Administration continued to implement the recommendations contained in program audits conducted by the DOT's Inspector General and the Government Accountability Office. Included among these activities was implementation of a computer-based credit program portfolio management system.

Security, Preparedness and Response

Since 1775, the U.S. Merchant Marine has been a vital component of national defense. In time of war, the merchant marine serves as the naval auxiliary, providing vessels and skilled seafarers to transport military personnel and supplies. The ingenuity of merchant mariners and the versatility of their vessels are also gaining increasing attention in both preparedness and response to natural disasters and other emergencies.

Defense mobilization equates to having a strong industrial base and a sufficient number of American ships and civilian crews available to meet defense sealift requirements.

Defense mobilization equates to having a strong industrial base and a sufficient number of American ships and civilian crews available to meet defense sealift requirements. It also includes shoreside equipment and infrastructure necessary to keep the intermodal system moving.

The Maritime Administration has four core programs that support national defense sealift requirements:

- The interlocking Maritime Security Program (MSP) and the Voluntary Intermodal Sealift Agreement Program (VISA) provide the Department of Defense (DOD) assured access to U.S. commercial ships and crews as well as their intermodal equipment and facilities. The 60-vessel MSP also provides employment and training opportunities to U.S. seafarers in order to ensure a sufficient labor pool of civilian crewmen exists to meet defense sealift requirements.
- The National Defense Reserve Fleet (NDRF) is comprised of government-owned, militarily-useful cargo vessels that can be used in times of national emergency. The NDRF includes the Ready Reserve Force (RRF) made up of vessels in an enhanced state of readiness that permits them to be underway to support military operations in only a few days time.
- Graduates of U.S. maritime academies with civilian and military service obligations are essential to ensuring that a sufficient number of qualified officers are available to meet both commercial and national defense requirements.

The National Shipping Authority permits the Maritime Administration to assume responsibility for the Nation's vessels and ports during a national emergency. This responsibility includes the peacetime planning oversight of 15 DOD-designated strategic commercial ports needed by the military for deployment during contingency operations.

Maritime Security Program and Voluntary Intermodal Sealift Agreement

Defense sealift continues to rely heavily on the U.S. commercial sector. The National Security Sealift Policy of October 5, 1989, which remains in force today, states that a vital objective of the Nation is to ensure that sufficient military and civil maritime resources will be available to meet defense deployment and essential economic requirements.

Industrial globalization and consolidation have led to the decline of many traditional maritime fleets…

Industrial globalization and consolidation have led to the decline of many traditional maritime fleets, including the U.S.–flag general cargo fleet. In order to ensure that an active U.S. fleet of militarily-useful general cargo ships will continue to adequately serve both the economic and national security objectives of U.S. maritime policy in the future, the Maritime Administration administers the MSP and VISA, a complementary sealift readiness program approved by the Secretary of Defense.

The MSP and VISA are programs that work together to provide militarily-useful commercial vessels and crews necessary to operate them. MSP vessel operators receive financial support to partially offset the higher operating costs of keeping these vessels under the U.S.–flag, and they also obtain preference consideration in the award of DOD peacetime cargoes.

Through MSP and VISA, U.S.-flag vessel operators have made an extraordinary commitment. More than 90 percent of all U.S.-flag dry cargo ships are enrolled in one or both programs; obligating more than two-thirds of the carrying capacity of the entire commercial, U.S.-flag dry cargo fleet to national security needs when necessary.

The vessel capacity, crews and intermodal systems made available through MSP and VISA advance the Department of Transportation's Security, Preparedness and Response strategic goal by ensuring that America's transportation system can respond to emergency needs. These programs also help ensure that DOD meets its strategic goals. Moreover, the design of MSP and VISA provides for a coordinated seamless transition from peace to war or national emergency while these vessels continue serving in the commerce of the United States.

The MSP also provides support for U.S.-flag tankers operating in international trade. These tankers as well as others participate in the Maritime Administration-sponsored Voluntary Tanker Agreement (VTA). Like VISA, the VTA is a program designed to make commercial vessels (in this case, tankers) available to support contingency operations of DOD.

Fiscal Year 2008 MSP / VISA Accomplishments

The MSP ships selected by the Maritime Administration in conjunction with the DOD's U.S. Transportation Command must be militarily useful and commercially viable. As of September 30, 2008, there were 60 ships enrolled in the MSP fleet, which was composed of 40 containerships, 15 roll-on/roll-off vessels, two heavy lift vessels, and three tankers.

During fiscal year 2008, seven MSP ships were replaced with newer ships, increasing the MSP fleet's militarily-useful capacity by approximately 362,000 square feet. MSP ships continued to support U.S. troops in Iraq and Afghanistan by transporting military cargoes and cargo supporting the rebuilding of Iraq. To date, 68 MSP ships have contributed to this effort. MSP ships also carry preference cargoes and employ approximately U.S. mariners that are critical to national security crewing requirements.

Enrollment of vessels in the VISA program satisfies the requirement of MSP operators to enroll in a DOD-approved Emergency Preparedness Program. MSP participants commit 100 percent of MSP vessel capacity to the VISA program. MSP participation represents more than 77 percent of VISA capacity commitments. The remaining commitments are provided by other U.S.-flag vessels operating in U.S. domestic trade, international trade, or in carriage of commercial and DOD preference cargoes. During fiscal year 2008, there were 125 ships enrolled in the VISA program.

Prior to implementation of the MSP and VISA programs, projections indicated that the continued decline in the number of U.S.-flag general cargo vessels would reduce the number and types of vessels available to the U.S. military to unacceptable levels. Together these programs have resulted in an improvement in the amount of U.S.-flag sealift capacity that is readily available for U.S. military use. From a qualitative standpoint, these readily available U.S.-flag vessels are also more modern, and the mix of vessel types better meets the needs of the military.

Ready Reserve Force

On October 1, 2007, the Maritime Administration took custody of eight Fast Sealift Ships, in preparation for gaining full title to the vessels at the beginning of fiscal year 2009. The transfer of the large, fast ships brought the number of vessels in the Maritime Administration's Ready Reserve Force (RRF) to 52. The RRF is a government-owned surge fleet of vessels supporting DOD sealift requirements. It has operated since 1976, and boasts a 99 percent success rate in activations, and has consistently surpassed its 85 percent readiness goal.

While the global war on terrorism continued in 2008, the initial surge-support effort provided by RRF vessels was replaced by U.S.-flag sustainment cargo lifts. RRF ships were activated three times in fiscal year 2008, providing 277 days of roll-on/roll-off support for wheeled and tracked military cargo vehicles. These vessels maintained a 99.0 percent reliability rating during military support operations from 2002 through 2008, which reinforces the force's reputation as sea power's reliable partner. The activated vessels provided employment to over 125 mariners while the remaining RRF vessels continued their maintenance and repair regime, which provided jobs for an additional 350 mariners.

A Growing Role in Preparedness

In recent years, the functional roles of RRF ships have been expanded to include providing aid in case of natural disasters, supplying food and lodging in areas affected by hurricanes, and serving to shelter and transport emergency equipment so that it can be expeditiously used for recovery operations ashore.

Those functions, originally innovative, ingenious, and even improvements, were institutionalized during fiscal year 2008 with a memorandum of Agreement (MOA) on August 8, 2008.

The MOA, a result of two years of intensive coordination among the U.S. Transportation Command, the Military Sealift Command, the Office of the Chief of Naval Operations, and the Maritime Administration, authorized a new mission for RRF ships: “SafeStor”, or safe storage for first responder equipment and personnel. This relatively new use of the RRF, pioneered on RRF ships during the 2005 hurricane season in Texas, was used to good effect in the 2008 season during hurricanes Gustav, Hanna, and Ike. Officials in Charleston, SC, tried SafeStor for the first time, and officials in Beaumont, TX, used it once again--sheltering more than 160 Coast Guard and National Guard personnel with their equipment. The Training Ship Texas Clipper, provided by the Maritime Administration to the Texas Maritime Academy in Galveston, provided housing and meals for recovery workers in the first month after Hurricane Ike devastated the city.

Environmental Stewardship

The Agency's "Going Green" programs include an Environmental Excellence Initiative…

The Maritime Administration works within the U.S. government and with a number of international entities to support the Department of Transportation's goal of responsible environmental stewardship. The Agency is committed to assisting industry in affecting the development of programs and regulations related to safety, security, and the environment, and developing the best management practices to ensure compliance.

In fiscal year 2008, the Maritime Administration launched several new initiatives that place the Agency in the vanguard of federal organizations implementing policies stressing responsible environmental stewardship. The Agency's "Going Green" programs include an Environmental Excellence Initiative that focuses on strengthening environmental stewardship and developing and implementing "green" procedures, including establishing an environmental management system at the Agency's National Defense Reserve Fleet sites and the U.S. Merchant Marine Academy.

The Maritime Administration began a new energy-efficiency and alternative-energy "Going Green" initiative to evaluate the Agency's energy applications and implemented an overhaul of energy-conservation practices. This effort includes a newly developed "Green" travel policy, which outlines travel practices that lead to carbon reductions for employees on official travel, and the Agency's new "green" procurement program, which should serve to reduce the Agency's total carbon-emissions footprint.

Another element of the initiative is a new "Green" awards program, which will recognize exceptional environmental stewardship by industry members in areas such as carbon-emissions reductions.

Cooperative research and development will be continued in public/private sector partnerships to address energy efficiency, emissions reductions, and optimal freight-routing scenarios for marine transportation.

The Agency's "Going Green" initiative also focused on the University Student Green Ship Design Competition, which is an annual juried event for ultra-green ship design conducted in conjunction with the Society of Naval Architects and Marine Engineers (SNAME). The student winners and their schools are announced and recognized annually by SNAME and the Maritime Administration.

At its nationwide locations, the Agency continued "Going Green" by completing a major overhaul of its energy applications with the installation and use of new solar panels, fuel cells, electrical upgrades, and geothermal power. Participating Agency locations included its offices in Beaumont, TX; Suisun Bay, CA; James River, VA; Houston, TX; Miami, FL; San Francisco, CA; New York City, New Orleans, LA; St. Louis, MO; Chicago, IL; Norfolk, VA; Long Beach, CA; and at the U.S. Merchant Marine Academy in Kings Point, NY.

Ship Disposal

When the ships of the National Defense Reserve Fleet (NDRF) are no longer militarily useful, the Maritime Administration oversees the environmentally responsible disposition of the obsolete vessels. Fiscal year 2008 was the sixth year the Agency received direct appropriations for its ship disposal program.

The Maritime Administration used four annual performance measures and goals during fiscal year 2008 for the ship disposal program, and the program was more than successful in each of those measures.

- *Number of obsolete vessels from the NDRF sites covered by disposal contract awards for subsequent disposal:* The target was 12; the actual number of contracts awarded for obsolete, non-retention ships was 21, exceeding the fiscal year 2008 target by nine.
- *Number of obsolete vessels removed from the NDRF sites for subsequent disposal:* The target was 16 vessels; the actual number of vessels removed in fiscal year 2008 was 25, exceeding the fiscal year 2008 target by nine.
- *Number of obsolete vessels disposed of from the et NDRF sites:* The target was 16 ships; the actual number of vessels disposed in fiscal year 2008 was 19, exceeding the fiscal year 2008 target by three.
- *Cost-per-ton for obsolete vessel disposal actions from the NDRF:* The target cost was $170 per ton; the actual cost-per-ton figure for fiscal year 2008 resulted in positive revenue due to vessel sales of $21 per ton.

The Maritime Administration continues to follow its Ship Disposal Comprehensive Management Plan (CMP) that implements disposition of all existing obsolete ships and future transfers in a timely manner, maximizing the use of all available disposal methods. Sound management of disposal contracts under the CMP also contributed to significant savings as shown in the cost-per-ton performance measure. Taken together, the fiscal year 2008 results from these measures have resulted in the reduced likelihood of environmental damage from the obsolete ship inventory now and into the near future.

Fiscal year 2008 was the sixth year the Agency received direct appropriations for its ship disposal program.

In 2008, the Maritime Administration also exceeded the targets for its two long-term ship disposal measures by maintaining the number of high-priority ships available for disposal at no more than 5 percent of the total number of obsolete ships in the NDRF with an actual result of 0.0 percent. The Maritime Administration also exceeded the second long-term measure by removing more vessels in 2008 than the average number of ships designated as obsolete on an annual basis.

The Maritime Administration continues to communicate its disposal plan and impediments to Congress on a semi-annual basis and continues to address legal, legislative, and regulatory inter-Agency issues to ensure the efficient disposal of ships with due regard for the environment and worker safety.

Environmental Assessment at NDRF

The Maritime Administration moved ahead on a Programmatic Environmental Assessment for the admittance, maintenance, and disposal of vessels at the NDRF sites. Changes in conditions have made it clear that procedures for admittance, in particular, needed to be changed, and that ships needed to be cleaned and emptied of oil *before* they were put into the NDRF sites. A draft assessment was issued in July and public comment gathered; a final plan is expected to be issued in fiscal year 2009.

Aquatic Invasive Species / Ballast Water Testing

Even as ships carry goods, they can also carry unwanted travelers: non-indigenous species, which can be transported on hulls or other surfaces, and in water used for ballast. Once introduced into a body of water, non-indigenous species can displace native species, causing harm to the local ecosystem. The transfer of species in this way is a worldwide problem.

Procedures and treatments are needed that will kill or neutralize invasive species without harming the environment; and, while such treatments have been successfully used in laboratory conditions, they are rarely successful aboard a working ship.

In July 2008, the Maritime Administration formally joined forces with the Maryland Department of Transportation and the University of Maryland's Center for Environmental Science to launch test facilities on board two of the Maritime Administration's working Ready Reserve Force ships, the *Cape Washington* and the *Cape Wrath*. The joint enterprise was formally launched during a shipboard ceremony in Baltimore harbor.

Financial Statements

As of September 30, 2008 and 2007

The Financial Statements include:

There are 23 Notes to the Financial Statement.

Notes to the Financial Statements Maritime Administration Financial Statements		
Balance Sheet As of September 30, 2008 and 2007 (Dollars in Thousands)		
	FY 2008	FY 2007
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$592,281	$578,432
Investments (Note 4)	42,052	35,181
Accounts Receivable, Net (Note 5)	37,808	43,752
Loans Receivable		
Other Assets (Note 6)	4,252	545
Total Intragovernmental Assets	$676,392	$657,910
Cash and Other Monetary Assets	10	10
Investments (Note 4)	28,707	74,085
Accounts Receivable, Net (Note 5)		508
Loans Receivable and Related Foreclosed Property, Net (Note 7)	38,960	28,201
Inventory and Related Property, Net (Note 8)	247,163	253,559
General Property, Plant and Equipment, Net (Note 9)	526,872	583,223
Other Assets (Note 6)		
Total Assets	$1,518,104	$1,597,496
Stewardship PP&E (Note 10)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	$291	$3,757
Debt (Note 12)	128,082	194,409
Other Intragovernmental Liabilities (Note 13)	198,095	354,034
Total Intragovernmental Liabilities	$326,469	$552,200
Accounts Payable	51,511	48,645
Loan Guarantee Liability (Note 7)	257,929	336,410
Federal Employee and Veterans' Benefits (Note 11)	22,219	21,523
Environmental Cleanup and Disposal Liabilities (Note 15)	190,932	285,480
Grant Accrual (Note 14)		
Other Liabilities (Notes 13, and 17)	49,378	57,363
Total Liabilities	$898,437	$1,301,621
Commitments and Contingencies (Note 17)		

Notes to the Financial Statements Balance Sheet As of September 30, 2008 and 2007 – Cont. (Dollars in Thousands)		
	FY 2008	FY 2007
Net Position		
Unexpended Appropriations - Earmarked funds (Note 18)		
Unexpended Appropriations - Other funds	$198,732	$99,031
Cumulative Results of Operations - Earmarked funds (Note 18)	130,003	58,358
Cumulative Results of Operations - Other funds	290,933	138,486
Total Net Position	$619,667	$295,875
Total Liabilities and Net Position	$1,518,104	$1,597,496

Notes to the Financial Statements Maritime Administration Financial Statement of Net Cost for Periods Ended September 30, 2008 and September 30, 2007 (Dollars in Thousands)		
	FY 2008	FY 2007
Program Costs (Notes 19 and 20):		
Gross Costs	$823,452	$931,137
Less: Earned Revenues	608,372	360,410
Net Cost of Operations	$215,079	$570,727

Notes to the Financial Statements
Maritime Administration Financial

Statement of Changes in Net Position - Cumulative Results of Operations for Periods Ended September 30, 2008 and September 30, 2007 (Dollars in Thousands)

	FY 2008	FY 2007
Beginning Balances	$196,844	$159,214
Adjustments (+/-)		
Changes in Accounting Principle		
Corrections of Errors		
Beginning Balances, Adjusted	$196,848	$159,214
Budgetary Financing Sources:		
Other Adjustments (Rescissions, etc.) (+/-)		
Appropriations Used	$405,490	$605,877
Non-Exchange Revenue	1	194
Donations and Forfeitures of Cash and Cash Equivalents	1,557	2,422
Transfers-In/Out Without Reimbursement (+/-)	6,500	-58
Other Budgetary Financing Sources (+/-)		
Other Financing Sources:		
Donations and Forfeitures of Property		
Transfers-In/Out Without Reimbursement (+/-)	21,000	-1,000
Imputed Financing From Costs Absorbed by Others	6,497	921
Other (+/-)	-1,873	
Total Financing Sources	$439,171	$608,357
Net Cost of Operations	$215,079	$570,727
Net Change	$224,092	$37,630
Cumulative Results of Operations	$420,936	$196,844

Notes to the Financial Statements
Statement of Changes in Net Position - Unexpended Appropriations for Periods Ended September 30, 2008 and September 30, 2007 (Dollars in Thousands)

	FY 2008	FY 2007
Beginning Balances	$99,031	$197,812
Adjustments (+/-)		
Changes in Accounting Principle		
Corrections of Errors		
Beginning Balances, Adjusted	$99,031	$197,812
Budgetary Financing Sources:		
Appropriations Received	506,358	584,840
Appropriations Transferred-In/Out (+/-)	7,746	
Other Adjustments (Rescissions, etc.) (+/-)	-8,914	-77,744
Appropriations Used	-405,490	-605,877
Total Budgetary Financing Sources	$99,700	$-98,781
Total Unexpended Appropriations	$198,732	$99,031

Notes to the Financial Statements Statement of Budgetary Resources for Periods Ended September 30, 2008 and September 30, 2007 (Dollars in Thousands)		
	FY 2008	FY 2007
Budgetary Resources:		
Unobligated Balance, Brought Forward, October 1 (+/-)	$427,378	$516,882
Adjustment to Unobligated Balance Brought Forward	4,945	
Recoveries of Prior Year Unpaid Obligations	52,851	3,240
Budget Authority:		
Appropriations Received	597,088	585,480
Borrowing Authority	219,000	225,000
Contract Authority		
Spending Authority From Offsetting Collections:		
Earned		
Collected	453,475	390,738
Change in Receivables from Federal Sources	-5,874	-2,731
Change in Unfilled Customer Orders		
Advance Received	9,539	-6,262
Without Advance from Federal Sources	34,008	-3,788
Expenditure Transfers from Trust Funds	6,500	
Anticipated for Rest of Year, Without Advances		
Previously Unavailable		
Subtotal	$1,313,736	$1,188,438
Non-Expenditure transfers, Net, Anticipated and Actual	7,746	
Temporarily Not Available Pursuant to Public Law		-4,945
Permanently Not Available	-202,232	-376,529
Total Budgetary Resources	$1,604,425	$1,327,086

Notes to the Financial Statements Statement of Budgetary Resources for Periods Ended September 30, 2008 and September 30, 2007 -- Cont. (Dollars in Thousands)		
	FY 2008	FY 2007
Status of Budgetary Resources:		
Obligations Incurred:		
Direct:	$646,991	$585,643
Reimbursable:	457,461	314,065
Subtotal	$1,104,453	$899,708
Unobligated Balance:		
Apportioned	178,515	11,747
Exempt from Apportionment	2,944	1,359
Subtotal	181,459	13,106
Unobligated Balance Not Available:	318,513	414,272
Total Status of Budgetary Resources	$1,604,425	$1,327,086
Change in Obligated Balance:		
Obligated Balance, Net,		
Unpaid Obligations, Brought Forward, Oct 1st (+)	$298,285	$297,866
Uncollected Customer Payments from Fed Sources, Brought Forward, Oct 1(-)	-116,622	-123,141
Total, Unpaid Obligated Balance, Brought Forward, Net	$181,663	$174,725
Obligations Incurred (+):	1,104,453	899,708
Gross Outlays (-)	-980,544	-896,050
Obligated Balance Transfers, Net:		
Actual Transfers, Unpaid Obligations (+ or -)		
Actual Transfers, Uncollected Customer Payments from Federal Sources (+ or -)		
Total, Unpaid Obligated Balance Transferred, Net		
Recoveries of Prior-Year Unpaid Obligations, Actual (-)	-52,851	-3,240
Change in Uncollected Customer Payments from Federal Sources (+/-)	-28,134	6,519
Obligated Balances, Net, End of Period:		
Unpaid Obligations (+)	369,343	298,285
Uncollected Customer Payments from Federal Sources (-)	-144,757	-116,622
Total, Unpaid Obligated Balance, Net, End of Period	$224,586	$181,663
NET OUTLAYS		
Gross Outlays (+)	980,544	896,050
Less: Offsetting Collections (-)	-469,514	-384,477
Less: Distributed Offsetting Receipts	-177,100	-17,638
Net Outlays	$333,930	$493,935

Notes to the Financial Statements
Note 2. Non-Entity Assets: **(Dollars in Thousands)**

Intragovernmental:	September 30, 2008		September 30, 2007	
Fund Balance with Treasury	$110		$(268)	
Investments	-		-	
Accounts Receivable	-		-	
Other Assets	-		-	
Total Intragovernmental	$110		$(268)	
Cash and Other Monetary Assets	$-		$-	
Accounts Receivable	-		-	
Loans Receivable and Related Foreclosed Property	-		-	
Inventory and Related Property	-		-	
General Property, Plant and Equipment	-		-	
Other Assets	-		-	
Total Non-Entity Assets	$110		$(268)	
Total Entity Assets	1,517,994		1,597,764	
Total Assets	$1,518,104		$1,597,496	

Entity Assets are assets, which the reporting entity has authority to use in its operations.

Non-Entity Assets are held by the reporting entity, but are not available to the entity.

Non-Entity Asset amounts indicated above should agree with non-entity amounts indicated in other notes, such as accounts receivable, other assets, etc

The accompanying Notes are an integral part of the financial statements

Notes to the Financial Statements

Note 3. Fund Balances with Treasury: (Dollars in Thousands)

	Entity	Non-Entity	September 30, 2008	September 30, 2007
Fund Balances:	Assets	Assets	Total	Total
Trust Funds	$80,500	$-	$80,500	$9,980
Revolving Funds	352,247	-	352,247	429,935
General Funds	159,323	-	159,323	139,061
Other Fund Types	101	110	211	(544)
Total	$592,171	$110	$592,281	$578,432
Status of Fund Balance with Treasury:				
Unobligated Balance				
Available			$(67,933)	$-
Unavailable			101	-
Obligated Balance Not Yet Disbursed			420,785	-
Non-Budgetary FBWT (Credit Reform Financing Accounts or other FBWT that do not have budget authority)			239,328	-
Total			$592,281	$ -

Fund Balances with Treasury are the aggregate amounts of the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. Other Fund Types should include balances in deposit accounts, such as for the collections pending litigation, awaiting determination of the proper accounting disposition (i.e. clearing and suspense accounts), or being held by the entity in the capacity of a banker or agent for others, including miscellaneous receipt accounts.

The accompanying Notes are an integral part of the financial statements

Notes to the Financial Statements
Note 4. Investments: (Dollars in Thousands)

As of September 30, 2008					
		Amortized			Market
		(Premium)	Investments	Other	Value
	Cost	Discount	(Net)	Adjustments	Disclosure
Intragovernmental Securities:					
Marketable	$41,402	$(546)	$40,856	$1,196	$42,052
Non-Marketable:					
Par Value	-	-	-	-	-
Market-Based	-	-	-	-	-
Subtotal	$41,402	$(546)	$40,856	$1,196	$42,052
Accrued Interest	-		-		-
Total Intragovernmental					
Investments	$41,402	$(546)	$40,856	$1,196	$42,052

		Amortized			Market
		(Premium)	Investments	Other	Value
	Cost	Discount	(Net)	Adjustments	Disclosure
Investments with the Public :					
Marketable	$28,535	$106	$28,641	$(356)	$28,285
Non-Marketable:					
Par Value	-	-	-	-	-
Market-Based	-	-	-	-	-
Subtotal	$28,535	$106	$28,641	$(356)	$28,285
Accrued Interest	422		422		422
Total Investments with the Public					
	$28,957	$106	$29,063	$(356)	$28,707

Notes to the Financial Statements
Note 4. Investments: (Dollars in Thousands)

As of September 30, 2008					
		Amortized			Market
		(Premium)	Investments	Other	Value
	Cost	Discount	(Net)	Adjustments	Disclosure
Intragovernmental Securities:					
Marketable	$41,402	$(546)	$40,856	$1,196	$42,052
Non-Marketable:					
Par Value	-	-	-	-	-
Market-Based	-	-	-	-	-
Subtotal	$41,402	$(546)	$40,856	$1,196	$42,052
Accrued Interest	-		-		-
Total Intragovernmental					
Investments	$41,402	$(546)	$40,856	$1,196	$42,052
		Amortized			Market
		(Premium)	Investments	Other	Value
	Cost	Discount	(Net)	Adjustments	Disclosure
Investments with the Public :					
Marketable	$28,535	$106	$28,641	$(356)	$28,285
Non-Marketable:					
Par Value	-	-	-	-	-
Market-Based	-	-	-	-	-
Subtotal	$28,535	$106	$28,641	$(356)	$28,285
Accrued Interest	422		422		422
Total Investments with the Public					
	$28,957	$106	$29,063	$(356)	$28,707

Notes to the Financial Statements Note 5. Accounts Receivable (Continued): (Dollars in Thousands)			
As of September 30, 2007			
	Gross	Allowance for	Net
	Amount	Uncollectible	Amount
Intragovernmental:	Due	Amounts	Due
Entity			
Accounts Receivable	$43,752	$-	$43,752
Accrued Interest	-	-	-
Total Entity Intragovernmental	$43,752	$-	$43,752
Non-Entity:			
Accounts Receivable	$-	$-	$-
Accrued Interest	-	-	-
Total Non-Entity Intragovernmental	$-	$-	$-
Total Intragovernmental Receivables	$43,752	$-	$43,752
Public:			
Entity			
Accounts Receivable	$508	$-	$508
Accrued Interest	-	-	-
Total Entity Public	$508	$-	$508
Non-Entity:			
Accounts Receivable	$-	$-	$-
Accrued Interest	-	-	-
Total Non-Entity Public	$-	$-	$-
Total Public Receivables	$508	$-	$508
Total Receivables	$44,260	$-	$44,260
Entity Accounts Receivable are collected by the reporting entity for use in its operations. Non-Entity Accounts Receivable are collected by the reporting entity, but are not available to the Agency, such as when amounts collected must be transferred to the General Fund.			
The accompanying Notes are an integral part of the financial statements			

Notes to the Financial Statements
Note 6. Other Assets **(Dollars in Thousands)**

Intragovernmental:	September 30, 2008	September 30, 2007
Entity:		
Advances and Prepayments	$4,252	$544
Undistributed Assets and Payments	-	-
Other (Fully Describe Below)	-	-
Other (Fully Describe Below)	-	-
Total Entity Intragovernmental	$4,252	$544
Non-Entity:		
Advances and Prepayments	$-	$-
Undistributed Assets and Payments	-	-
Other (Fully Describe Below)	-	-
Other (Fully Describe Below)	-	-
Total Non-Entity Intragovernmental	$-	$-
Total Intragovernmental Other Assets	$4,252	$544
Public:		
Entity:		
Advances to the States for Right of Way	$-	$-
Other Advances and Prepayments	-	-
Undistributed Assets and Payments	-	-
Other (Fully Describe Below)	-	-
Other (Fully Describe Below)	-	-
Total Entity Public	$-	$-
Non-Entity:		
Advances and Prepayments	$-	$-
Undistributed Assets and Payments	-	-
Other (Fully Describe Below)	-	-
Other (Fully Describe Below)	-	-
Total Non-Entity Public	$-	$-
Total Public Other Assets	$ -	$ -

Entity Assets are available to the reporting entity in its operations. Non-Entity Assets are held by the reporting entity but not available, such as when amounts must be transferred to the General Fund.

The accompanying Notes are an integral part of the financial statements

Notes to the Financial Statements
Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers: **(Dollars in Thousands)**

DOT administers the following direct loan and/or loan guarantee programs:
(1) Railroad Rehabilitation Improvement Program
(2) Amtrak Loans
(3) Transportation Infrastructure Finance Innovation Act (TIFIA) Loan Program
(4) Federal Ship Financing Fund (Title XI)
(5) OST Minority Business Resource Center Guaranteed Loan Program
(6) Federal Ship Liquidating Fund (Title XI)

An analysis of loans receivable, allowance for subsidy costs, liability for loan guarantees, foreclosed property, modifications, reestimates,
and administrative costs associated with the direct loans and loan guarantees is provided in the following sections:

Defaulted Guaranteed Loans from Post-1991 Guarantees

	FY 2008 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Loans Receivable
(4) Fed Ship Financing Fund (Title XI)	$43,680	$600	$-	$(5,320)	$38,960
Total	$43,680	$600	$-	$(5,320)	$38,960

	FY 2007 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Loans Receivable
(4) Fed Ship Financing Fund (Title XI)	$7,501	$200	$19,000	$1,500	$28,201
Total	$7,501	$200	$19,000	$1,500	$28,201

Guaranteed Loans Outstanding

	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(3) TIFIA Loans	$-	$-
(4) Fed Ship Financing Fund (Title XI)	2,430,760	2,430,760
(5) OST Minority Business Resource	-	-
(6) Fed Ship Liquidating Fund (Title XI)	-	-
Subtotal	$2,430,760	$2,430,760

Notes to the Financial Statements
Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers (Continued): **(Dollars in Thousands)**

Liability for Loan Guarantees (Present Value Method Post-1991 Guarantees):

		FY 2008		FY 2007	
		Liabilities for Post-1991		Liabilities for Post-1991	
Loan Guarantee Programs		Guarantees, Present Value		Guarantees, Present Value	
(4) Fed Ship Financing Fund (Title XI)		$257,929		$336,410	
(5) OST Minority Business Resource		-		-	
Total		$257,929		$336,410	

Subsidy Expense for Loan Guarantees by Program and Component

	FY 2008				
Loan Guarantee Programs	Interest Supplements	Defaults Net	Fees and Other Collections	Other Subsidy Costs	Total
(3) TIFIA Loans	$-				$-
(4) Fed Ship Financing Fund (Title XI)	-	(38,599)	21,167	-	(17,432)
(5) OST Minority Business Resource	-	-	-	-	-
Subtotal	$-	$(38,599)	$21,167	$-	$(17,432)
	FY 2007				
	Interest Supplements	Defaults Net	Fees and Other Collections	Other Subsidy Costs	Total
(3) TIFIA Loans	$-				$-
(4) Fed Ship Financing Fund (Title XI)	-	891	774	20,499	22,164
(5) OST Minority Business Resource	-	-	-	-	-
Subtotal	**$ -**	$891	$774	$20,499	$22,164

Notes to the Financial Statements

Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers (Continued): (Dollars in Thousands)

Modifications and Reestimates					
	FY 2008				
Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	
(1) Railroad Rehab Improvement	$-	$-	$-	$-	
(2) Amtrak Loans	-	-	-	-	
(3) TIFIA Loans					
(4) Fed Ship Financing Fund (Title XI)			(106,400)	(106,400)	
Subtotal	$-	$-	$-	**$ -**	
	FY 2007				
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	
(1) Railroad Rehab Improvement	$-	$-	$-	$-	
(2) Amtrak Loans	-	-	-	-	
(3) TIFIA Loans					
(4) Fed Ship Financing Fund (Title XI)			(31,096)	(31,096)	
Subtotal	$-	$-	$-	**$ -**	
Total Loan Guarantee Subsidy Expense:					
Loan Guarantee Programs					
	FY 2008	FY 2007			
(1) Railroad Rehab Improvement	$-	-			
(2) Amtrak Loans					
(3) TIFIA Loans					
(4) Fed Ship Financing Fund (Title XI)	(123,832)	22,164			
Subtotal	**$ -**	**$ -**			

Notes to the Financial Statements
Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers (Continued): (Dollars in Thousands)

Budget Subsidy Rates for Loan Guarantees for the Current Year Cohort

	FY 2008				
Loan Guarantee Programs	Interest		Fees and Other		
	Differential	Defaults	Collections	Other	Total
(3) TIFIA Loans	0.00%	0.00%	0.00%	0.00%	0.00%
(4) Fed Ship Financing Fund (Title XI)	0.00%	9.23%	-4.88%	0.00%	4.35%
(5) OST Minority Business Resource	0.00%	0.00%	0.00%	0.00%	0.00%
Subtotal	0.00%	9.23%	-4.88%	0.00%	4.35%

Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

Beginning Balance, Changes, and Ending Balance	FY 2008	FY 2007
Beginning Balance of the Loan Guarantee Liability	$336,410	$345,342
Add: Subsidy Expense for Guaranteed Loans Disbursed during the		
Reporting Years by Component:		
Interest Supplement Costs	-	-
Default Costs (net of recoveries)	(5,824)	891
Fees and Other Collections	21,838	774
Other Subsidy Costs	-	3,298
Total of the Above Subsidy Expense Components	$16,014	$4,963
Adjustments:		
Loan Guarantee Modifications	-	-
Fees Received		-
Interest Supplements Paid	-	-
Foreclosed Property and Loans Acquired	-	-
Claim Payments to Lenders	-	-
Interest Accumulation on the Liability Balance	11,905	17,201
Other		-
Ending Balance of the Loan Guarantee Liability Before Reestimates	$364,329	$367,506
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimate	-	-
Technical/Default Reestimate	(106,400)	(31,096)
Total of the Above Reestimate Components	$(106,400)	$(31,096)
Ending Balance of the Loan Guarantee Liability	$257,929	$336,410

Notes to the Financial Statements
Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers (Continued): (Dollars in Thousands)

The Federal Credit Reform Act of 1990 divides direct loans and loan guarantees into two groups:

(1) Pre-1992 means the direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans obligations or loan guarantees, and

(2) Post-1991 means the direct loan obligations or loan guarantee commitments made after FY 1991 and the resulting direct loans or loan guarantees. The Act provides that, for direct loan obligations or loan guarantee commitments made after FY 1991, the present value of the subsidy costs (which arises from interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. Direct loans are reported net of an allowance for subsidy at present value, and loan guarantee liabilities are reported at present value. Foreclosed property is valued at the net realizable value. Loans receivable, net, or their value of assets related to direct loans, is not the same as the proceeds that they would expect to receive from selling their loans. DOT calculated the allowance for pre-1992 using the allowance for loss method.

Administrative costs could not be determined and disclosed because DOT has not fully implemented cost accounting Department wide.

Discussion of MARAD's Loan Guarantee Program

The Maritime Administration offers loan guarantees to qualified shipowners and shipyards. The guarantee provides the benefit of long term financing at stable interest rates to the approved applicants. Prior to approval, the Maritime Administration thoroughly reviews the financing proposal.

During the current fiscal year, there have been no new loan approvals or modifications of existing loan guarantees.

During the fourth quarter of FY-08, there was one loan default in the amount of $38 million. This was the first loan default for the MARAD program since FY-2002.

Since MARAD issues loan guarantees, as opposed to direct loans funded by the Government, there is no accounts receivable effect on the financial statements for performing loans. MARAD currently has three accounts receivable totaling approximately $7 million from loan workout transactions and one defaulted loan receivable, as mentioned above, in the amount of $38 million, for a total receivable position as of 09/30/08 of approximately $45 million.

The MARAD policy for interest accrual is based on the contract interest rate for the particular receivable account. MARAD does not accrue interest on non-performing loans.

All foreclosed property from the 2002 defaults has been sold. There is one vessel from the current year's default, in MARAD custody pending foreclosure, through the Department of Justice.

For FY-08 there was a net downward subsidy reestimate of $106.4 million

Notes to the Financial Statements
Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers (Continued): **(Dollars in Thousands)**

MARAD Credit Reform Borrowing Terms

Under the provisions of the Credit Reform Act of 1990, MARAD and other direct loan or loan guarantee agencies are authorized to borrow funds from Treasury to support the credit programs.

As of 09/30/08, MARAD has Treasury loans outstanding of $19,000,000, related to Credit Reform.

MARAD has standby borrowing authority with Treasury to the extent that funds on hand in the financing account are insufficient to cover defaulted guaranteed loan expenses.

The terms of the Treasury borrowings are as follows:

- All loan draw downs are dated October 1 of the applicable fiscal year.

- Interest is payable at the end of each fiscal year based on activity for that fiscal year.

- Principal can be repaid at any time funds become available. Repayment is effectuated by a combination of loan recoveries and upward reestimates. Historically the majority of loan recovery is through foreclosure on the vessel or shipyard property financed under the MARAD guarantee.

The accompanying Notes are an integral part of the financial statements

Notes to the Financial Statements
Note 8. Inventory and Related Property: (Dollars in Thousands)

		Allowance	September 30, 2008	September 30, 2007
	Cost	for Loss	Net	Net
Inventory:				
Inventory Held for Current Sale	$-	$-	$-	$-
Inventory Held in Reserve for Future Sale	-	-	-	-
Excess, Obsolete and Unserviceable Inventory	-	-	-	-
Inventory Held for Repair	-	-	-	-
Inventory Work In Process	-	-	-	-
Other	-	-	-	-
Total Inventory	$ -	$ -	$ -	$ -
Operating Materials and Supplies:				
Items Held for Use (SGL 1511)	$180,045	$4,856	$175,189	$179,688
Items Held in Reserve for Future Use (SGL 1512)	65,903	-	65,903	69,998
Excess, Obsolete and Unserviceable Items (SGL 1513)	-	-	-	-
Items Held for Repair (SGL 1514)	6,071	-	6,071	3,873
Other	-	-	-	-
Total Operating Materials & Supplies	$252,019	$4,856	$247,163	$253,559
Total Inventory and Related Property			$247,163	$253,559

The accompanying Notes are an integral part of the financial statements

Notes to the Financial Statements
Note 9. General Property, Plant and Equipment: **(Dollars in Thousands)**

	Service	Acquisition	Accumulated	September 30, 2008	September 30, 2007
Major Classes	Life *	Value	Depreciation	Net Book Value	Net Book Value
Land		$3,962	$-	$3,962	$3,962
Buildings and Structures	20 SL	150,943	59,798	91,145	74,068
Furniture and Fixtures		-	-	-	-
Equipment	5-10 SL	23,647	23,431	216	267
ADP Software		1,012	735	277	480
Electronics	5-10 SL	738	738	-	-
Assets Under Capital Lease		-	-	-	-
Leasehold Improvements		-	-	-	-
Aircraft		-	-	-	-
Ships and Vessels	25 SL	1,656,764	1,241,137	415,627	480,224
Small Boats	10 SL	17,724	15,180	2,544	2,852
Other Vehicles		-	-	-	-
Construction in Progress		13,101	-	13,101	21,370
Property Not in Use		-	-	-	-
Other Miscellaneous Property		-	-	-	-
Total		$1,867,891	$1,341,019	$526,872	$583,223
* Key:					
Range of Service Life					
1-5 - 1 to 5 years					
6-10 - 6 to 10 years					
11-20 - 11 to 20 years					
>20 - Over 20 years					
SL = Straight Line depreciation method					
The accompanying Notes are an integral part of the financial statements					

Notes to the Financial Statements
Note 10. Stewardship Property, Plant and Equipment [Heritage Assets](Continued):

Heritage Assets:	Units as of			Units as of
	09/30/07	Additions	Withdrawals	9/30/2008
Real Property:				
Buildings and Structures	-	-	-	-
Total Real Property Heritage Assets	-	-	-	-

Artifacts are those of the Maritime Administration. Maritime Administration artifacts are generally on loan to single purpose memorialization and remembrance groups, such as AMVETS and preservation societies.

Museum and Other Collections are owned by the Maritime Administration. They are merchant marine artifacts, composed of ships' operating equipment, obtained from obsolete ships. They are inoperative and in need of preservation and restoration. Museum items are on loan to organizations whose purpose is historic preservation, education, and remembrance, open to the public during regularly scheduled hours. Other collections are on loan to public and private entities, the display of which is incidental to maritime affairs, such as county and state buildings, port authorities, pilots associations, public and college libraries, and other organizations.

Buildings and Structures include Union Station in Washington, D.C. Union Station is an elegant and unique turn-of-the-century rail station in which one finds a wide variety of elaborate, artistic workmanship characteristic of the period. Union Station is listed on the National Register of Historic Places. The station consists of the renovated original building and a parking garage, which was added by the U.S. Park Service. The Federal Railroad Administration received title to Union Station through appropriated funds and assumption of a mortgage. Mortgage payments are made by Union Station Venture Limited, which manages the property. Union Station Redevelopment Corporation, a non-profit group instrumental in the renovation of the station, sublets the operation of the station to Union Station Venture Limited.

Financial information for multi-use heritage assets is presented in the principal statements and notes.

The condition of the heritage assets is included in the Deferred Maintenance section of the Required Supplementary Information.

The accompanying Notes are an integral part of the financial statements

Notes to the Financial Statements
Note 10. Stewardship Property, Plant and Equipment [Heritage Assets]:

1) Explain in a concise statement how the stewardship assets relate to the mission of the entity

Implied within the Agency's mission is the promotion of the nation's rich maritime heritage. One aspect of this entails the collection, maintenance and distribution of maritime artifacts removed from MARAD ships prior to their disposal. These artifacts are sought for public display in museums, aboard memorial ships, and in facilities used by government organizations and issued on a long-term loan basis for this purpose.

2) Provide a description of the stewardship policies for the heritage assets. Stewardship policies for heritage assets are goals and principles the entity established to guide its acquisition, maintenance, use, and disposal of heritage assets consistent with statutory requirements, prohibitions, and limitations governing the entity and the heritage assets.

MARAD has established a list of artifact-type items that are typically found aboard Agency-owned ships. As ships are assigned to a non-retention status in preparation for disposal, artifact items are collected, inventoried, photographed and relocated to secure shoreside storage facilities. This resulting inventory of artifacts is made available for long-term loan to qualified organizations for public display purposes. Qualified organizations have access to the artifact inventory via web-based system. The artifact loan process is also managed on-line via this system. The program is also supports required NHPA processing prior to vessel disposal. Funding for the maintenance of heritage items is typically the responsibility of the organization requesting the loan. As all items are durable and restorable, disposal is not a consideration.

HERITAGE ASSETS SUMMARY NUMBER OF PHYSICAL UNITS

SEPTEMBER 30, 2008

	Units as of			Units as of
Heritage Assets:	09/30/07	Additions	Withdrawals	9/30/2008
Personal Property:				
Collections				
Artifacts	40	1	-	41
Museum	457	5	-	462
Other Collections	101	-	-	101
Total Collections	598	6	-	604
Total Personal Property Heritage Assets	598	6	-	604

Notes to the Financial Statements
Note 11. Liabilities Not Covered by Budgetary Resources: **(Dollars in Thousands)**

Intragovernmental:	September 30, 2008	September 30, 2007
Accounts Payable	$-	$-
Debt	-	1,726
Other Liabilities	96,690	226,598
Total Intragovernmental	$96,690	$228,324
Public:		
Accounts Payable	$-	$-
Federal Employee and Veterans' Benefits Payable	22,219	21,523
Environmental and Disposal Liabilities	190,932	285,479
Other Liabilities	36,888	80,371
Total Liabilities Not Covered by Budgetary Resources	$346,729	$615,697
Total Liabilities Covered by Budgetary Resources	551,708	685,924
Total Liabilities	$898,437	$1,301,621

Liabilities Not Covered by Budgetary Resources are Liabilities incurred which are not covered by realized budgetary resources as of the Balance Sheet date.

Amounts indicated above for Liabilities Not Covered by Budgetary Resources should agree with Liabilities Not Covered by Budgetary Resources in other notes, such as Debt, Environmental and Disposal Liabilities, etc.

The accompanying Notes are an integral part of the financial statements

Notes to the Financial Statements
Note 12. Debt: (Dollars in Thousands)

Intragovernmental Debt:			
As of September 30, 2008			
	FY 2008	Net Change	FY 2008
	Beginning	During	Ending
	Balance	Fiscal Year	Balance
Covered by Budgetary Resources:			
Debt to the Treasury	$198,408	$(70,326)	$128,082
Debt to the Federal Financing Bank	-	-	-
Debt to Other Federal Agencies	-	-	-
Total Covered by Budgetary Resources	$198,408	$(70,326)	$128,082
Not Covered by Budgetary Resources:			
Debt to the Treasury	$-	$-	$-
Debt to the Federal Financing Bank	-	-	-
Debt to Other Federal Agencies	-	-	-
Total Not Covered by Budgetary Resources	$-	$-	$-
Total Intragovernmental Debt	$198,408	$(70,326)	$128,082

Notes to the Financial Statements
Note 12. Debt (Continued): (Dollars in Thousands)

Intragovernmental Debt:			
As of September 30, 2008			
	FY 2007	Net Change	FY 2007
	Beginning	During	Ending
	Balance	Fiscal Year	Balance
Covered by Budgetary Resources:			
Debt to the Treasury	$271,308	$(76,900)	$194,408
Debt to the Federal Financing Bank	-	-	-
Debt to Other Federal Agencies	-	-	-
Total Covered by Budgetary Resources	$271,308	$(76,900)	$194,408
Not Covered by Budgetary Resources:			
Debt to the Treasury	$-	$-	$-
Debt to the Federal Financing Bank	-	-	-
Debt to Other Federal Agencies	-	-	-
Total Not Covered by Budgetary Resources	$-	$-	$-
Total Intragovernmental Debt	$271,308	$(76,900)	$194,408

FY 2008 DEBT BEGINNING BALANCE MUST EQUAL 9/30/07 ENDING BALANCE.

The accompanying Notes are an integral part of the financial statements

Notes to the Financial Statements
Note 13. Environmental and Disposal Liabilities (Continued): **(Dollars in Thousands)**

Components of the Liability

MARAD Environmental Remediation Liability

MARAD's environmental remediation liability generally occurs under the Resource Conservation and Recovery Act of 1976 (RCRA), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA or Superfund) or the Toxic Substances Control Act (TSCA) Environmental remediation includes the fuel storage tank program, fuels, solvents, industrial, and chemicals, and other environmental cleanup associated with normal operations or as a result of an accident. Cost estimates for environmental cleanup and asset disposal liabilities are not adjusted for inflation and are subject to revision as a result of changes in technology and environmental laws and regulations.

MARAD Asset Disposal Liability

The National Maritime Heritage Act requires that the Maritime Administration dispose of certain merchant vessels owned by the U.S. government, including non-retention ships in the National Defense Reserve Fleet. Residual fuel, asbestos, and solid polychlorinated biphenyls (PCB) sometimes exist onboard MARAD's non-retention ships. MARAD is reporting future costs for disposing existing non-retention ships as unfunded asset disposal liabilities.

Environmental remediation generally occurs under the Resource Conservation and Recovery Act of 1976 (RCRA), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA or Superfund), or the Toxic Substances Control Act (TSCA). Environmental remediation includes the fuel storage tank program, fuels, solvents, industrial, and chemicals, and other environmental cleanup activities associated with normal operations or the result of an accident. The increase or decrease in annual liability is charged to the current year expense.

As of September 30, 2008 and 2007, MARAD's environmental remediation liability primarily includes the removal of contaminants on the Nuclear Ship Savannah, containment of exfoliating ship paint for the non-retention ships in the National Defense Ready Reserve Fleet (Fleet), and the remediation at various sites managed by MARAD.

MARAD has not recorded a liability for potential contamination at a site in Portland, Oregon. Because the remedial investigation/feasibility study has not been completed and because MARAD is listed as one of hundreds of potentially responsible parties, it is not yet possible to reasonably estimate MARAD's portion, if any, of the remediation costs.

The National Maritime Heritage Act requires MARAD to dispose of certain merchant vessels owned by the U.S. government, including non-retention ships in the fleet. The asset disposal liability at September 30, 2008 includes the estimated cost of disposing 187 ships.

The accompanying Notes are an integral part of the financial statements

Notes to the Financial Statements
Note 14. Grant Accrual: (NOT APPLICABLE, Exclude)

Grant liabilities are accrued in two categories. The first category is grant related requests for payments that had been billed to an Agency entity as of September 30, but had not yet been paid. The second category is for the grant related costs incurred, but not yet reported (IBNR). IBNR represents an estimate of amounts due to grantees for their expenditures made through September 30 for which payment requests have not been received from grantees as of September 30.

Grant accruals by Operating Administrations at September 30, 2008 and 2007 are summarized as follows:

	FY 2008	FY 2007
Federal-Aid Highways	$-	$-
Federal Motor Carrier Safety Administration		
Federal Transit Administration	-	-
Federal Aviation Administration	-	-
Federal Highway Administration (non-trust fund)	-	-
Federal Railroad Administration	-	-
National Highway Traffic Safety Administration		-
Pipeline and Hazardous Materials Safety Administration	-	-
Total Grant Accrual	$ -	$ -

Notes to the Financial Statements
Note 15. Other Liabilities: **(Dollars in Thousands)**

As of September 30, 2008				
Intragovernmental:	Non-Current	Current	FY 2008	
	Liabilities	Liabilities	Total	
Covered by Budgetary Resources:				
Advances and Prepayments	$-	$95,949	$95,949	
Accrued Pay and Benefits	-	-	-	
Undisbursed Loans	-	-	-	
Federal Employees Compensation Act Billings	-	-	-	
Uncleared Disbursements and Collections	-	(499)	(499)	
Deferred Credits	-	(15)	(15)	
Deposit Funds	-	-	-	
Other - Employer Contribution & Payroll Taxes Payable	-	-	-	
Other Liabilities	-	5,970	5,970	
Total Intragovernmental Covered by				
Budgetary Resources	$-	$101,405	$101,405	
Not Covered by Budgetary Resources:				
Federal Employees Compensation Act (FECA)				
2007 Bill (Current)	$-	$2,162	$2,162	
2008 Bill (Non-Current)	1,913	-	1,913	
4th Quarter of FY 2008 (Non-Current)	460	-	460	
Unbilled Accrued Benefits (Non-Current)	-	-	-	
Total FECA Liabilities	$2,373	$2,162	$4,535	
Other Accrued Liabilities - Ocean Freight Differential	91,696	-	91,696	
Other - Deferred Credit	-	-	-	
Other - Advances and Prepayments				
Other Accrued Liabilities - Custodial Liabilities	3		$3	
Other Unfunded Employment Related Liabilities	456		$456	
Total Intragovernmental Not Covered by				
Budgetary Resources	$94,528	$2,162	$96,690	
Total Intragovernmental Other Liabilities	$94,528	$103,567	$198,095	

Notes to the Financial Statements
Note 15. Other Liabilities (Continued): (Dollars in Thousands)

Public:	Non-Current Liabilities	Current Liabilities	FY 2008 Total
Covered by Budgetary Resources:			
Accrued Unbilled State Payments	$-	$-	$-
Other Accrued Unbilled Payments	-	-	-
Accrued Pay and Benefits	-	3,859	3,859
Uncleared Disbursements and Collections	-	615	615
Advances and Prepayments	-	3,575	3,575
Deposit Funds	-	-	-
Deferred Credits	4,440	-	4,440
Capital Leases	-	-	-
Other (FULLY DESCRIBE BELOW)	-	-	-
Other (FULLY DESCRIBE BELOW)	-	-	-
Total Public Covered by Budgetary			
Resources	$4,440	$8,049	$12,489
Not Covered by Budgetary Resources:			
Accrued Pay and Benefits	$-	$-	$-
Deposit Funds	-	-	-
Legal Claims	2,901	-	2,901
Capital Leases	-	-	-
Other - Unfunded Leave	7,201	-	7,201
Other - Other Deferred Revenue	26,789	-	26,789
Other - Custodial Liabilities	(3)	-	(3)
Total Public Not Covered by Budgetary			
Resources	$36,888	$ -	$36,888
Total Public Other Liabilities	$41,328	$8,049	$49,378

Notes to the Financial Statements
Note 15. Other Liabilities (Continued): (Dollars in Thousands)

As of September 30, 2007				
Intragovernmental:	Non-Current	Current	FY 2007	
	Liabilities	Liabilities	Total	
Covered by Budgetary Resources:				
Advances and Prepayments	$-	$89,939	$89,939	
Accrued Pay and Benefits	-	-	-	
Undisbursed Loans	-	-	-	
Federal Employees Compensation Act Billings	-	-	-	
Uncleared Disbursements and Collections	-	(3,444)	(3,444)	
Deferred Credits	-	34,972	34,972	
Deposit Funds	-	-	-	
Other (FULLY DESCRIBE BELOW)	-	-	-	
Other Liabilities	-	5,970	5,970	
Total Intragovernmental Covered by				
Budgetary Resources	$-	$127,437	$127,437	
Not Covered by Budgetary Resources:				
Federal Employees Compensation Act (FECA)				
2007 Bill (Current)	$-	$2,506	$2,506	
2006 Bill (Non-Current)	2,162	-	2,162	
Quarter of FY 2007 (Non-Current)	479	-	479	
Unbilled Accrued Benefits (Non-Current)	-	-	-	
Total FECA Liabilities	$2,641	$2,506	$5,147	
Other Accrued Liabilities - Ocean Freight Differential (2190)	-	221,000	221,000	
Other - Deferred Credit (2320)	-	-	-	
Other - Advances and Prepayments (2310)		-	-	
Other Accrued Liabilities - Custodial Liabilities (2980)		3	3	
Other Unfunded Employment Related Liabilities (2290)		447	447	
Total Intragovernmental Not Covered by				
Budgetary Resources	$2,641	$223,956	$226,597	
Total Intragovernmental Other Liabilities	$2,641	$351,393	$354,034	

Notes to the Financial Statements
Note 16. Leases (Continued): (NOT APPLICABLE, exclude)

Net Capital Lease Liability, divided between Covered by Budgetary Resources and Not Covered by Budgetary Resources, should equal Capital Lease Liability amounts reported in Note 15, Other Liabilities.

Operating Leases:				
Future Payments Due:				
Fiscal Year				
Year 1 (2009)		$-		
Year 2 (2010)		-		
Year 3 (2011)		-		
Year 4 (2012)		-		
Year 5 (2013)		-		
After 5 Years (2014+)		-		
Total Future Lease Payments		$ -		

Amounts for Operating Leases must be reported in this note, but are not reported on the financial statement as a liability, since the Agency is not assuming the risks and benefits of ownership.

Provide other information necessary for understanding leases that is not disclosed in the above categories.

Notes to the Financial Statements
Note 17. Contingencies and Commitments:

Describe any contingencies. A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty should ultimately be resolved when one or more future events occur or fail to occur. The likelihood that the future event or events will confirm the loss or the incurrence of a liability can range from probable to remote. Statement of Federal Financial Accounting Standards (SFFAS) No. 5, as amended by SFFAS No. 12, contains the criteria for recognition and disclosure of contingent liabilities. In addition to the contingent liabilities required by SFFAS No. 5, the following shall also be disclosed: (1) An estimate of obligations related to canceled appropriations for which the reporting entity has a contractual commitment for payment, and (2) Amounts for contractual arrangements, which may require future financial obligations (commitments), e.g., undelivered orders.

1. Legal Claims	2,901

The accompanying Notes are an integral part of the financial statements

Notes to the Financial Statements
Note 18. Earmarked Funds:

Notes to OA: If your organization has more than one earmarked fund, please provide a separate explanation for each ear**marked fund in Sections A-C. If the category of earmarked funds is not listed for your OA, please add as appropriate.**

Section A: A description of each fund's purpose, how the entity accounts for and reports the fund, and its authority to use those revenues and other financing sources.

War Risk Insurance Fund - MARAD is authorized to insure against loss or damage from marine war risks until commercial insurance can be obtained on reasonable terms and conditions. This insurance includes war risk hull and disbursement interim insurance, war risk protection and indemnity interim insurance, second seaman's war risk interim insurance and war risk cargo insurance standby program.

S**pecial Study, Services & Project Fund** - All payments for work or services performed or to be performed under the Act shall be deposited in this separate account, which may be used to pay directly the costs of such work or services.

Gifts and Bequests Fund - The Secretary is authorized to accept, hold, and administer gifts and bequests of property, both real and personal for the purpose of aiding or facilitating the work of Department of Transportation.

Section B: The sources of revenue or other financing for the period and an explanation of the extent to which they are inflows of resources to the Government or the result of intra-governmental flows.

Section C: Any change in legislation during or subsequent to the reporting period and before the issuance of the financial statements that significantly changes the purpose of the fund or that redirects a material portion of the accumulated balance.

None

Section D:

Balance Sheet as of September 30, 2008

	All Other Earmarked
Assets	Funds
Fund Balance with Treasury	$83,736
Investments, Net	42,473
Accounts Receivable, Net	-
Property, Plant & Equipment	3,794
Other	-
Total Assets	$130,003

Notes to the Financial Statements
Note 18. Earmarked Funds (Continued):

Balance Sheet as of September 30, 2007	All Other Earmarked
Assets	Funds
Fund Balance with Treasury	$18,595
Investments, Net	35,817
Accounts Receivable, Net	-
Property, Plant & Equipment	3,946
Other	-
Total Assets	$58,358
Liabilities and Net Position	
Liabilities (explain the types of liabilities)	$-
Accounts Payable	-
FECA Liabilities	-
Grants Accrual	-
Other Liabilities	-
Unexpended Appropriations	-
Cumulative Results of Operations	58,358
Total Liabilities and Net Position	$58,358

Notes to the Financial Statements
Note 18. Earmarked Funds (Continued):

Statement of Net Cost	
For the Period Ended September 30, 2007	
Program Costs	$2,943
Less Earned Revenue	4,893
Net Program Costs	(1,949)
Costs Not Assigned to Programs	-
Less Earned Revenues Not Assigned to Programs	-
Net Cost of Operations	$(1,949)
Statement of Changes in Net Position	
For the Period Ended September 30, 2007	
Beginning Net Position	$53,792
Budgetary Financing Sources	2,616
Other Financing Sources	-
Net Cost of Operations	(1,949)
Net Position End of Period	$58,358

The accompanying Notes are an integral part of the financial statements

Notes to the Financial Statements
Note 19. Net Program Costs: **(Dollars in Thousands)**

Program Costs	September 30, 2008	September 30, 2007
Maritime		
Program 1 (Ship Construction - 1708)	$(1,382)	$(5,697)
Program 2 (Operating Diff. Subsidy - 1709)	-	2,595
Program 3 (Ready Reserve Fleet - 1710)	206	1,182
Program 4 (Maritime Security Program - 1711)	153,653	155,597
Program 5 (Operations & Training - 1750)	100,880	104,865
Program 6 (Ocean Freight Diff. - 1751)	(921)	272,766
Program 7 (Federal Ship Financing Fund - 4301)	-	(20)
Program 8 (War Risk Insurance - 4302)	(1,277)	(1,318)
Program 9 (Vessel Op. Revolving Fund - 4303)	(11,374)	6,344
Program 10 (MGL Program - 1752)	4,119	17,704
Program 11 (MGL Financing - 4304)	21,000	(1,000)
Program 12 (Gift and Bequest - 8503)	1,508	2,853
Program 13 (Special Studies - 8547)	(70,319)	(3,484)
Program 14 (Ship Disposal - 1768)	17,325	18,339
Program 15 (MGL Escrow Fund - 6040)	-	-
Program 16 (General Fund Proprietary Receipt - 3220)	-	-
Program 17 (Assistance to Small Shipyards (1770)	1,661	-
Total Maritime Program Costs	$215,079	$570,727
The accompanying Notes are an integral part of the financial statements		

Notes to the Financial Statements
Note 20. Intragovernmental Costs and Exchange Revenues:

	FY 2008		FY 2007
Maritime Transportation:			
Intragovernmental Gross Costs	$136,166		$344,189
Public Costs	687,285		586,739
Total Program Costs	823,451		930,928
Intragovernmental Earned Revenue	399,761		354,214
Public Earned Revenue	208,611		5,988
Total Program Earned Revenue	608,372		360,202
Net Program Cost	$215,079		$570,727
Cross-Cutting Programs:			
Intragovernmental Gross Costs	$-		$-
Public Costs	-		-
Total Program Costs	-		-
Intragovernmental Earned Revenue	-		-
Public Earned Revenue	-		-
Total Program Earned Revenue	-		-
Net Program Cost	$-		$-
Costs Not Assigned to Programs	-		-
Less Earned Revenues Not			
Attributed to Programs	-		-
Net Cost of Operations	$215,079		$570,727

The accompanying Notes are an integral part of the financial statements

Notes to the Financial Statements
Note 21. Statement of Changes in Net Position: (NOT APPLICABLE, exclude)
(Dollars in Thousands)

			September 30, 2008	September 30, 2007
Prior Period Adjustments:				
	(1) Other (FULLY DESCRIBE BELOW)		$-	$-
	(2) Other (FULLY DESCRIBE BELOW)		-	-
	(3) Other (FULLY DESCRIBE BELOW)		-	-
	(4) Other (FULLY DESCRIBE BELOW)		-	-
		Total	$ -	$ -

Fully describe the nature of any prior period adjustments and any other information relative to prior period adjustments.

			September 30, 2008	September 30, 2007
Non-Exchange Revenue:				
Taxes and Other Non-Exchange Revenue:				
	Gasoline		$-	$-
	Diesel and Special Motor Fuels		-	-
	Passenger Ticket		-	-
	Trucks		-	-
	Gasohol		-	-
	International Departure		-	-
	Fuel (Air)		-	-
	Waybill		-	-
	Fines and Penalties		-	-
	Investment Income		-	-
	Other Non-Exchange Revenue (Describe)		-	-
	Other Non-Exchange Revenue (Describe)		-	-
	Other Non-Exchange Revenue (Describe)		-	-
		Total Taxes	$-	$-
	Less: Transfers		-	-
		Gross Taxes	$-	$-
	Less: Refunds and Other Credits		-	-
	Net Non-Exchange Revenue		$ -	$ -

Report all taxes and collections received from the public that result from the exercise of the Federal Government's sovereign powers to tax and all other non-exchange revenue. Provide other information relative to tax revenues.

Notes to the Financial Statements
Note 22. Statement of Budgetary Resources:
(Dollars in Thousands)

The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, B and Exempt from apportionment as of the end of the period:

		FY 2008	
+	Direct	Reimbursable	Total
Category A	$116,709	$456,517	$573,226
Category B	442,863	945	443,808
Exempt from apportionment	87,419	-	87,419
Total	$646,991	$457,462	$1,104,453

		FY 2007	
	Direct	Reimbursable	Total
Category A	$98,715	$314,065	$412,780
Category B	475,790	-	475,790
Exempt from apportionment	11,138	-	11,138
Total	$585,643	$314,065	$899,708

	FY 2008	FY 2007
Available Contract Authority as of the end of the period:	$-	$-
Available Borrowing Authority as of the end of the period:	$200,000	$225,000
Undelivered orders, Unpaid at the end of the period (SGLs 4801,4831,4871,4881)	$312,910	$240,728

Notes to the Financial Statements
Note 22. Statement of Budgetary Resources (Continued):
(Dollars in Thousands)

Describe repayment requirements, financing sources for repayment, and other terms of borrowing authority used:

Adjustments during the fiscal year to Beginning Balance of Budgetary Resources:

	FY 2008	FY 2007
Cumulative Authorizations in Excess of Obligation Limitation	$-	$-
Rescissions	-	-
Prior Year Recoveries	-	-
Temporarily Not Available	-	-
Cancelled Authority	-	-
Permanently Not Available	-	-
Other Adjustments (Describe)	-	-
Total Adjustments to Beginning Balance of Budgetary Resources	$ -	$ -

The accompanying Notes are an integral part of the financial statements

Notes to the Financial Statements
Note 23. Incidental Custodial Collections: (NOT APPLICABLE, exclude) (Dollars in Thousands)

Note to OA: This section pertains to all miscellaneous receipts fund group that is custodial in nature

Revenue Activity:		
Sources of Cash Collections:		
	September 30, 2008	September 30, 2007
Fines, Penalties and Forfeitures	$-	$-
User Fees	-	-
Miscellaneous Receipts	-	-
Other (Describe)	-	-
Other (Describe)	-	-
Other (Describe)	-	-
Total Cash Collections	$ -	$ -
Accrual Adjustment (+/-)	-	-
Total Custodial Revenue	$ -	$ -
Disposition of Collections:		
Transferred to Others (by Recipient):		
Treasury (General Fund)	$-	$-
Other (Describe)	-	-
(Increase) Decrease in Amounts Yet to be Transferred	-	-
Collections Used for Refunds and Other Payments	-	-
Retained by the Reporting Entity	-	-
Net Custodial Revenue Activity	$ -	$ -

Both Sources of Cash Collections and Disposition of Collections should be entered as positive amounts. The only exceptions are the Accrual Adjustment and the (Increase) Decrease in Amounts to be Transferred lines, which should be the same, but may be either positive or negative amounts. Total Sources of Cash Collections should equal Total Disposition of Collections to arrive at Net Custodial Revenue Activity of zero.

The only refunds and other payments to be disclosed in this note are those made from custodial collections.		

Notes to the Financial Statements

Note 24. Reconciliation of Net Cost of Operations to Budget: (NOT APPLICABLE, exclude)

Format and guidance will be provided separately		

Notes to the Financial Statements

Deferred Maintenance: (Dollars in Thousands)

DOT			Asset	Cost to Return to
Entity	Major Class of Asset	Method of Measurement	Condition*	Acceptable Condition**
FAA	Buildings	Condition Assessment	4 & 5	$-
		Survey		
	Other Structures and	Condition Assessment	4 & 5	-
	Facilities	Survey		
	Other (Describe)	?	?	-
MARAD	Vessels, Ready Reserve	Condition Assessment	2	4,511
	Force	Survey		
	Real Property, Anchorage	Condition Assessment	2	40
		Survey		
	Real Property, Buildings	Condition Assessment	2 & 3	350
		Survey		
	Other - Pier and Berthing Surveys and Studies	Estimate	2	35
Other	Other (Heritage Assets)	Condition Assessment Survey	3 & 4	200

			Total	$5,136
*Asset Condition Rating Scale:				
1 - Excellent 2 - Good 3 - Fair 4 - Poor 5 - Very Poor				
**Acceptable Condition is:				
FAA Buildings	3 - Fair			
FAA Other Structures and Facilities	3 - Fair			
MARAD Vessels, Ready Reserve Force	1 - Excellent - Ships are seaworthy and ready for mission assignments within prescribed time limits.			
MARAD, Real Property, Anchorage	3 - Fair - Adequate water depth, shore power, and mooring capabilities.			
MARAD, Real Property, Buildings	3 - Fair - Buildings are safe and inhabitable.			
Other (Describe)	?			
Describe requirements or standards for acceptable operating condition and any change in the condition requirements or standards.				
Deferred Maintenance is maintenance that was not performed when it should have been or was scheduled to be performed and delayed until a future period. Maintenance is keeping fixed assets in acceptable condition, and includes preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve assets in a condition to provide acceptable service and to achieve expected useful lives.				
The accompanying Notes are an integral part of the financial statements				

Notes to the Financial Statements Schedule of Budgetary Resources by Major Fund Type: (NOT APPLICABLE, exclude)
Required Supplementary Information
Format and guidance will be provided separately

APPENDIX: Litigation and Administrative Proceedings

Foreign Build and U.S.-Flag Vessels

On March 18, 2008, the Maritime Administrator issued a preliminary order in Docket No. A-199, addressing the request of the Shipbuilders Council of America, Inc. and Pasha Hawaii Transport Lines LLC (collectively, Petitioners) that the Maritime Administration investigate whether certain work performed in foreign shipyards on vessels owned by Matson Navigation Company (Matson) constitutes reconstruction or rebuilding of those vessels. Petitioners maintained that the Matson vessels have been reconstructed or rebuilt abroad, and the vessels are therefore ineligible to participate in the Capital Construction Fund (CCF) and civilian cargo preference programs.

After consideration of written submissions by Petitioners and Matson, the Maritime Administrator found that Petitioners' allegations as to the foreign rebuilding of the SS Lihue, SS Matsonia, M/V Pfeiffer, and SS Kauai relative to eligibility for preference to carry U.S. government-sponsored civilian cargoes do not warrant further investigation, but that the Maritime Administration will review additional information to be submitted by Matson relative to whether the SS Lurline and M/V Mokihana have been rebuilt abroad and remain eligible for preference to carry U.S. government-sponsored civilian cargoes. In addition, the Maritime Administrator determined that no investigation will be opened as to whether any Matson vessel is no longer an "eligible" or "qualified" vessel under Matson's CCF agreement unless the Coast Guard determines that vessel to have been rebuilt abroad and to be ineligible for a coastwise endorsement.

Petitioners had also challenged Coast Guard determinations that certain Matson vessels had not been rebuilt abroad for purposed of compliance with the coastwise trade requirements. That challenge is being heard in the U.S. District Court for the Eastern District of Virginia. No party has challenged the Maritime Administration docket opinion.

Clean Water Act

Under the Clean Water Act, the discharge of pollutants into the waters of the United States is generally prohibited unless authorized under a National Pollutant Discharge Elimination System ("NPDES") permit. The Environmental Protection Agency (EPA) had issued a regulation that exempted the ordinary discharges from vessels from the general rule. This regulation was struck down in Northwest Environmental Advocates v. EPA, 537 F.3d 1006 (9th Cir. 2008) and EPA was given until December 19, 2008 to promulgate new rules with respect to vessel discharges. These new rules will not cover the non-retention vessels of the National Defense Reserve Fleet. The Maritime Administration will be seeking NPDES permits from the states with respect to those vessels.

The Maritime Administration has been involved in litigation with plaintiffs, who among other things, have argued that such NDPES permits issued by cognizant state regulatory authorities are necessary for the operation of the National Defense Reserve Fleet with particular reference to the vessels in the Suisun Bay Reserve Fleet. Interrelated with that suit is a notice of intent to sue from the State of California. Plaintiffs have also contended that the Maritime Administration's vessel disposal program has not performed the environmental analysis necessary under the National Environmental Policy Act (NEPA).

The Maritime Administration is working with California regulatory officials as well as officials in other states in which the National Defense Reserve Fleet operates to bring fleet operations in full compliance with the requirements of the Clean Water Act. The Maritime Administration is also undertaking a "hard look" at the environmental impacts of its ship disposal program in compliance with NEPA.

Toxic Substances Control Act

The Toxic Substances Control Act (TSCA) prohibits the export of polychlorinated biphenyls (PCBs) in excess of certain prohibited concentrations. Most vessels constructed before 1978 were constructed with PCBs. EPA's position is that this prevents vessels containing such PCBs from being disposed of abroad, even when the PCBs are part of the vessel's structure and watertight integrity.

The Sanctuary was a former Maritime Administration vessel that was transferred to a charitable organization in 1989. When the charitable organization that owned Sanctuary failed to pay the costs associated with maintaining the vessel, it was sold at an admiralty sale and buyer of the vessel sought to remove the vessel overseas. The United States initiated legal proceedings which enjoined the removal of that vessel. The owner has filed a third-party complaint against Maritime Administration and the Navy, as former owners of the vessel, under tort law, the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and TSCA, alleging that the Maritime Administration and the Navy are liable due to the presence of the PCBs for the owner's lost business opportunities.

Title XI Litigation

The Maritime Administration successfully concluded litigation in two earlier bankruptcies related to two Title XI companies. Proofs of claim have been filed in one consolidated bankruptcy related to four Title XI companies, and litigation continued on the litigated claims. In addition, this fiscal year the Maritime Administration commenced foreclosure proceedings on one cruise vessel following default in payment of its Title XI guaranteed obligations.

Admiralty Personal Injury Cases

There were 12 active personal injury cases pending against the United States in federal district court as of Sept. 30, 2008

Deepwater Ports Litigation

On Feb. 15, 2008, Deepwater Port Applicant, Atlantic Sea Island Group, LLC filed a complaint with the U.S. District Court for the District Court of Columbia for declaratory and injunctive relief from a Nov. 2, 2007, determination by the Maritime Administrator designating the State of New Jersey an Adjacent Coastal State in accordance with 33 U.S.C. § 1508(a)(2) of the Deepwater Port Act (DWPA). (Atlantic Sea Island Group LLC v. Connaughton, (D.D.C., No. 08-00259)). The case has been briefed. In the meantime, processing of the application has proceeded even though the statutory timeline has been suspended pending the receipt of outstanding environmental and financial data gaps.

Citizenship Matters

Macquarie Group, an Australian enterprise, approached the Office of the Chief Counsel to determine whether Maritime Administration approval is necessary for its acquisition of a company engaged in the coastwise trade. In its initial proposal, the non-citizen parent corporation held an economic interest in the venture and maintained some degree of control through the board of directors of the new U.S. holding company entity, which the Maritime Administration believed implicated its foreign transfer regulations. Macquarie and the U.S.-citizen participants in the new venture addressed the Agency's concerns about foreign control of a company engaged in coastwise trade, and made changes to the operating agreement of the new limited liability company in order to comply with the Jones Act. In view of these changes, the Maritime Administration issued a letter concurring with Macquarie and the U.S. participants that the ownership structure of the company after the transaction did not constitute a foreign transfer.

The Maritime Administration and the National Marine Fisheries Service (NMFS) coordinated efforts in the investigation of the vessel owner of the fishing industry vessel, the Stellar Sea. The Maritime Administration conducted an ownership and control analysis of the vessel owning entity and in that process discovered that certain information central to the analysis of the citizenship status of the owners had not previously been provided by the vessel owner. As a result of a final review, the Citizenship Approval Officer determined that impermissible non-citizen participation would exist if the vessel owner did not take immediate steps to modify their existing relationship with the non-citizen lender. The vessel owner agreed to take the necessary steps and has since worked to comply with the Agency's requirements as directed.

For Immediate Release
Office of the Press Secretary
May 21, 2008

National Maritime Day, 2008

A Proclamation by the President of the United States of America

On National Maritime Day, America honors our highly skilled mariners who sail the high seas, support those on the front lines of the war on terror, and promote commerce around the world.

Since 1775, the United States Merchant Marine has served our country, helping America become a great maritime power. During the Second World War, courageous mariners were among those who suffered greatly -- hundreds of ships were lost to enemy action, and many mariners made the ultimate sacrifice. We pay tribute to these heroes who answered the call to serve when our Nation needed them most. Today, our merchant mariners continue to protect our homeland, including by supporting our troops in Iraq and Afghanistan.

In times of peace and war, these brave patriots help keep our Nation safe and strengthen our economy. By transporting American goods across the oceans, merchant mariners facilitate commerce and advance trade. These Americans honor the noble traditions of seafarers and enrich our country's maritime heritage.

In recognition of the importance of the U.S. Merchant Marine, the Congress, by joint resolution approved on May 20, 1933, as amended, has designated May 22 of each year as "National Maritime Day," and has authorized and requested that the President issue an annual proclamation calling for its appropriate observance.

NOW, THEREFORE, I, GEORGE W. BUSH, President of the United States of America, do hereby proclaim May 22, 2008, as National Maritime Day. I call upon the people of the United States to mark this observance by honoring the service of merchant mariners and by displaying the flag of the United States at their homes and in their communities. I also request that all ships sailing under the American flag dress ship on that day.

IN WITNESS WHEREOF, I have hereunto set my hand this twenty-first day of May, in the year of our Lord two thousand eight, and of the Independence of the United States of America the two hundred and thirty-second.

GEORGE W. BUSH

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Front and back cover: Washington State Ferry at Sunrise, Derek Taff

Page 4: MV Washington Express, Hapag Lloyd USA LLC

Page 5: Maritime Administration

Page 8: Seafarer on RRF ship, Maritime Administration

Page 9: River Barge, Maritime Administration

Page 12: Port of Guam (Courtesy of port of Guam)

Page 16: Negotiations in Vietnam, Maritime Administration

Page 19: Flags on the RRF ship MV Antares, Maritime Administration

Page 21: MV Ocean Atlas, U.S. Ocean LLC

Page 22: Seafarer on RRF ship, Maritime Administration

Page 23: The SS Chesapeake, Maritime Administration

Page 24: Coral reef, National Oceanic and Atmospheric Administration

Page 26: Truckee leaves the James River Reserve Fleet for disposal, Maritime Administration

Page 27: Opening of ballast water test facilities on the MV Cape Washington, Crowley Maritime Corporation