

# MERCER

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May 6, 2005

Mr. John Milliken  
Chairman of the Board  
Virginia Port Authority  
c/o Venable LLP  
8010 Towers Crescent Drive  
Suite 300  
Vienna, VA 22182

Subject:

## **Virginia Port Authority Executive Director Compensation Analysis**

Dear Mr. Milliken:

This letter details the results of Mercer's analysis of total cash compensation for the Executive Director position at the Virginia Port Authority (VPA). These results are based on our understanding of the operations and structure of VPA and the role and responsibility of the job. The following sections outline the background, methodology, and results of this study.

### **Background**

The Virginia Port Authority is an agency of the Commonwealth of Virginia, reporting to the Secretary of Transportation. It is the state's leading agency for international transportation and maritime commerce, charged with operating and marketing the marine terminal facilities through which the shipping trade takes place.

The agency owns four general cargo terminals – Norfolk International Terminals, Portsmouth Marine Terminal, Newport News Marine Terminal, and the Virginia Inland Port in Front Royal – which are operated by its affiliate, Virginia International Terminals, Inc.

Virginia's mid-Atlantic location and transportation infrastructure offer steamship lines and shippers access to two-thirds of the U.S. population with more than 75 international shipping lines and one of the most frequent direct sailing schedules of any port.

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Virginia ports have long maintained a reputation for efficient and uncongested intermodal service. The Port of Virginia transports more intermodal containers to more cities faster and more efficiently than any other port in the United States. VPA runs the largest intermodal facility on the U.S. East Coast, offering six direct-service trains to 28 major cities each day.

More than 50 motor-carrier companies offer full freight-handling and load-consolidation services. A modern network of interstate and local highways permits fast, direct inland motor-freight transportation to any point in the United States.

Importantly, VPA is not a landlord operation where the principal requirement of the authority is contract management of others who deliver the services, maintain the facilities, etc. VPA is an operating entity. Operating entities move product, find and service customers, sell the facilities and services on the open marketplace.

The following assumptions were fundamental to our analysis:

While the Virginia Port Authority is part of the government of the Commonwealth of Virginia:

1. VPA's status as an authority within the government structures of the Commonwealth of Virginia. This makes VPA a tax-exempt organization, offering some competitive advantages over a taxable organization that might operate the ports. The Commonwealth has mandated VPA be the operator of the four ports under its management. There is some competitive protection resulting from this status.
2. Historically, the Virginia ports were run by independent for-profit companies. The competition among the operating companies created an inefficient and dysfunctional system of port facilities. The result was not economically viable nor a way to build the economy of the Commonwealth. Integrated management of the facilities under the guidance of the Board of Directors and the Executive Director of the VPA has resulted in the largest single economic engine for the Commonwealth.
3. Those who use the facility are not "required" to come to Virginia. The ports must compete on the open market with other ports along the eastern, and sometimes southern and western coasts of America. Attracting and retaining a customer base makes this operation much more like a competitive business than a State service bureau (e.g. DMV, or Public Works).

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Evidence for the competitive pressure is found in the actions taken to be competitive. These include:

- 300 million dollar renovation, including the largest and most modern cranes available for containerized freight
- Persuade Target, Wal-Mart, Dollar Tree, QVC Network, etc. to add more than 30 new distribution centers in Virginia, driving the need for containerized imports and linkages to rail and truck transportation.
- Dredging the only eastern port fifty foot channel to accommodate the largest containerized freight ships.
- Negotiating for and building out double stacked capable bridges and tunnels on rail routes.
- Working with private unionized workforce rather than state employees.
- Negotiation with Teamsters and trucking companies the use of a standard chassis for all lines, easing maintenance costs and creating increased equipment use efficiencies.
- Negotiate and maintain contractual relationship with Norfolk-Southern Railroad to provide rail transportation to the facilities.
- Negotiate and maintain contractual relationships with US and foreign shipping for use of the facilities. This requires marketing and sales activities worldwide.
- Collaborate with local municipalities to find mutually acceptable solutions to problems ranging from environmental impact, local transportation when 20,000 trucks a day move in and out of the port, infrastructure needs for roads, electric, water, etc., lack of taxable status for facilities, etc.

And, probably of the most direct relevance,

- Hiring from the for-profit private sector senior staff that runs major departments, especially those departments associated with marketing, sales, planning and engineering.

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## **Methodology**

What defines a reasonable set of comparators for the Executive Director of the Virginia Port Authority is based on identifying similarly situated individuals in similarly situated organizations. Mercer's review of background information led us to published survey data concentrating on the top position at other Port Authorities. We focused particularly on authorities with comparable revenue, and which are potential competitors for talent.

In addition we gathered competitive data representing well seasoned leadership positions in the shipping industry, including Shipping Lines, Ship Builders, Ship Repair Facilities (ship yards) in the USA as well as logistics executives running major shipping operations and non-manufacturing operations executives in similar sized companies. Non-profit organization executives also have a history of being recruited by the VPA. Therefore, non-profit data was included in this analysis.

The combination of port authority executives and private enterprise organizations where the knowledge base is similar to what VPA requires represents an appropriate competitive reference for establishing reasonable compensation. This pool of talent is where VPA has historically gone and, in the future, according to the Board, will go for filling its top positions, if they are not staffed internally.

The specific data sources used to collect competitive compensation data are:

- American Association of Port Authorities Annual Survey, 2004
- The Journal of Commerce 2nd Annual Salary Survey, 2004
- Ohio State University Survey of Career Patterns in Logistics, 2004
- Mercer Benchmark Survey, 2004
- PRM Not-for-Profit Survey, 2004
- Cordom Non-Profit Survey, 2004
- Watson Wyatt Industry Report on Top Management Compensation, 2004/2005

When appropriate, survey data was aged to 05/01/05, using a 3.5% projected increase in compensation for 2004, a figure that is based on Mercer's *2004/2005 US Compensation Planning Survey*.

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## Research Results

Table 1  
Summary of Survey Findings  
Executive Director/Virginia Port Authority vs.  
Non-Port Authority Competitive Talent Markets  
All Survey Data Aged to 5/1/05

Job Title	Industry	Survey source	No. of orgs providing data	Scope metric used to calibrate match	Average annual salary	Bonus and/or other cash compensation paid	Total annual cash
Top Operations Executive	Non-manufacturing general industry	Watson Wyatt	50	Full time staff	\$180,297	\$94,909	\$275,206
Executive Director/CEO	Non-Profit	Mercer, Cordom, PRM and Watson - Wyatt	424	Revenue or all participants	\$234,800	\$10,000	\$244,800
Vice President	Logistics	Ohio State University	72	Revenue	not reported	not reported	\$230,000
					Average Base Pay: \$207,000 Average Total Annual Cash: \$250,000		

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**Virginia Port Authority  
Aapa 2004 Salary Survey Analysis  
Executive Director (Or Equivalent) Compensation**

Comparable Ports:

Average <u>Base</u> Salary in 2004	\$207,401
Average Tenure (Years)	8.4
Number of Ports with Auto/Allowances (out of 9)	8
Number of Ports with Incentive Comp (out of 9)	4

Comparative Ports:

	Virginia Port Authority	Maryland Port Admin	Georgia Port Authority	South Carolina State Ports	Miami Dade County
Base Salary	\$194,900	\$174,000	\$210,344	\$214,000	\$228,865
Last Salary Raise (Date)	November, 2003	July, 2001	July, 2003	October, 2002	July, 2004
Tenure (Years)	25	5	9	8	6
Auto or Allowance	\$12,500	Yes	Shared	Yes	\$6,000
Incentive Plan	Yes	No	No	Yes	No
Total Revenues	\$141,416,722	\$78,172,046	\$121,453,916	\$111,345,000	\$87,169,489
Total Employees	142	307	788	577	338
	Port of Tacoma	Port of Houston	Port of New Orleans	Port of Portland	Port of Oakland
Base Salary	\$177,142	\$214,500	\$221,750	\$226,012	\$200,004
Last Salary Raise (Date)	Sept., 2002	January, 2004	March, 2004	October, 2003	July, 2004
Tenure (Years)	15	13	3	3	14
Auto or Allowance/year	Yes	\$7,500	\$12,000	No	\$6900
Incentive Plan	Yes	No	No	Yes	Yes
Total Revenues	\$90,500,000	\$170,618,000	\$37,468,377	\$292,500,000	\$224,518,045
Total Employees	225	495	310	899	600

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## Base Pay for VPA Executive Director

	Effective through November 24, 2005	Effective as of November 25, 2005
Base Salary	\$121,491	\$126,837
Salary Supplement	73,409	76,639
Total Base Salary	\$194,900	\$203,476
Incentive Maximum as a Percentage of Base Pay	35%	35%
Maximum Total Annual Cash	\$263,115	\$274,692

### Analysis

#### *Base Pay*

The most appropriate comparison is the November 24th pay data for the VPA Executive Director. This is because the market data is 2004 data aged to 5/1/2005 or, in the case of the Port Authority data, all 2004 data.

There is little, if any relationship in the data between Authority size and pay. The for-profit, not-for-profit, and Authority marketplace average base pay is \$207,000. Through November 24th, 2005 the VPA Executive Director's base pay is \$194,900 or 94% of the market. If the planned November 25th increase for the Executive Director is provided and the 2004 Port Authority data is aged forward from 2004 to 2005 using an annualized rate of 3.5% and the market rate of pay for the non-profit and for-profit data is aged from 5/1/05 to 12/1/05, the average of the base pay in the external markets will be \$210,993. The November 25th, 2005 VPA Executive Director's base pay will 96% of the market average.

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## *Incentive Pay*

Mercer and Watson Wyatt survey data indicate about a 30% incentive pay package as average, but there is a good deal of variability in this percentage ranging from 5% to 50%. Annual incentive plans are becoming a prevalent practice within the senior management ranks at tax-exempt organizations, particularly those that are operational in nature. No data is available for incentive compensation for Port Authorities. The for-profit sector offers target incentive opportunities for talent source jobs of about 50% of base pay.

If a 30% opportunity is used as the market rate of incentive, then \$269,000 would be the market average total annual cash. The VPA Executive Director could earn \$263,115 or 98% of the market average rate. On November 25th of 2005, The VPA Executive Director could earn \$274,692. If the Port Authority data is aged forward from 2005 to 2005 using an annualized rate of 3.5% and the market rate of pay and the non-profit and for-profit data is aged from 5/1/05 to 12/1/05, the average of the two markets, plus an estimated 30% bonus potential produces a market total annual cash rate \$274,442. This would make the VPA Executive Director's total annual cash opportunity equal to the market average.

## *Performance and Tenure*

Competitive base pay is not a "rate" of pay. Instead, there is a range of reasonable pay around some market indicator of competitiveness. If the market average is our indicator, it is reasonable to hire a new person in at 10-20% below that rate and as much as 20% above the market rate. Top performers, who are top performers over time, should reasonably expect to be paid higher in this range than new or shorter tenured employees.

Looking at the data for Port Authority over the years, the current VPA Executive Director is both successful and long tenured. Compared to his counterparts at other ports, he is more than four times as tenured as the average. Yet, his base and total pay package is just barely at competitive levels. It would be reasonable to pay the current Executive Director a total package including a base of \$248,400 with a 30% incentive (or a similar combination) with a total package value of \$322,000. Pursuing this logic, the current VPA Executive Director has a pay package worth potentially 82% of what would be within reason for 2005.



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## **Summary**

Mercer's analysis concludes that the reward programs at VPA are competitive to a bit light against the competitive marketplace.

Mercer's evaluation has been conducted in accordance with our firm's standards for reviewing compensation arrangements in tax-exempt organizations.

Mercer Human Resource Consulting appreciates the trust and the Board of the Virginia Port Authority has placed in us, and we look forward to assisting you in the future. Please call Laura Clements or me if there are any future opportunities for us to be of service.

Sincerely,

Andrew L. Klein

Copy:

Laura Clements – Mercer

Attachment