

MINUTES

Board of Commissioners - Session 287

Virginia Port Authority
World Trade Center
Norfolk, Virginia
January 27, 2004

Pursuant to call by Chairman Milliken, the VPA Board of Commissioners convened an open session on this date at 10:45 a.m., in the Authority's Conference Room A, 600 World Trade Center, Norfolk, Virginia. The Board immediately went into an Executive (closed) Session pursuant to §62.1-132.4 of the *Code of Virginia*.

At 11:10 a.m., by motion proposed, seconded and carried, the meeting resumed in open session.

The following attended:

Commissioners:

John G. Milliken, Chairman
Mark B. Goodwin
William M. Grace
Jonathan Johnny Johnson
Ronald W. Massie
Peter D. Pruden, III
Ranjit K. Sen
Jody M. Wagner, State Treasurer

Absent:

E. Massie Valentine, Jr., Vice Chairman
Michael J. Quillen
G. H. Stalling, III
Deborah K. Stearns

Office of the Secretary of Transportation

Mr. Ralph M. Davis, Deputy Secretary of Transportation

Staff:

J. Robert Bray, Executive Director
Robert R. Merhige, III, Deputy Executive Director/General Counsel
Thomas D. Capozzi, Senior Managing Director, Marketing Services
Linda G. Ford, Director of Port Promotion
Jeffrey Florin, Chief Engineer
Rodney W. Oliver, Director of Finance
Elaine Smith, Director of Administration
Donald B. Boyd, Chief of Police
JoAnn S. Fitzgerald, Administrative Assistant to the Chief of Police
Charles J. Bauman, III, Economic Development Director

Staff (Continued):

Jeffrey M. Jenkins, Director of Business Analysis and Strategy
Russell W. Young, Economic Development Manager
Diane Reed, Controller
Claudia J. H. Craft, Accounting Manager
Patty A. Wilson, Finance Support Supervisor
Janie B. Fogle, Payroll Specialist
Lorraine H. Gousse, Accounting Specialist
Kris Jackson, Program Support Technician Senior
Mary E. Reilly, Fiscal Technician
Terri S. Campbell, Program Support Technician
Stephanie Bingham, Administrative Clerk
Carla Welsh, Program Manager, Port Promotion
Elizabeth Cho, Benefits Administrator
Karen Siegel, Technology Planner
Debra J. McNulty, Clerk to the Board/Secretary
Jodie L. Asbell, Deputy Clerk to the Board/Assistant Secretary

Guests:

Lloyd M. Richardson, McGuireWoods LLP
JoAnne Carter, Public Financial Management
Sarah Greear, Public Financial Management
John M. Ryan, Vandeventer Black LLP
John D. Cavanaugh, Cavanaugh, Nelson & Co., PLC
Robert A. Dardenne, Financial Consultant
Walter Craigie, Morgan Keegan & Company, Inc.
Ronald Tillett, Morgan Keegan & Company, Inc.
Kevin Rotty, Morgan Keegan & Company, Inc.
Michael T. Crist, P.E., Moffatt & Nichol Engineers
Ken Sanders, PAK-AL USA
Gary Pirko, PAL-AL USA
Joseph A. Dorto, General Manager, VIT
Richard N. Knapp, Assistant General Manager, VIT

CERTIFICATION OF CLOSED MEETING

Action: Upon motion made by Mr. Massie, duly seconded by Mr. Grace, and adopted by affirmative vote (7-0), the Board approved Resolution 04-E1, certifying an Executive (closed) Session of the Board of Commissioners.

Affirmative Votes:

Mr. Goodwin	Mr. Pruden
Mr. Grace	Mr. Sen
Mr. Johnson	Ms. Wagner
Mr. Massie	

INTRODUCTIONS

Ms. Ford introduced guests in attendance. Members of the press in attendance included Ms. Carolyn Shapiro, with *The Virginian-Pilot*, Mr. Peter Dujardin, with *The Daily Press*, and Mr. Philip Newswanger, editor of *ShippingNews*.

PRESENTATION

Deputy Secretary of Transportation, Ralph M. Davis, presented an overview of the Governor's Budget and Tax Reform Plan. Mr. Davis described some of the benefits and sacrifices that would have to be made in the Governor's tax reform proposal in order to "protect the Commonwealth's fiscal integrity". Mr. Davis' presentation listed "Transportation" and "VPA" as two of the Governor's major budget initiatives. He reported that budget initiatives would result in a \$28.2 million increase in operating appropriation and the following VPA capital projects were listed:

- \$60 million NIT Phase III renovations (Commonwealth Port Fund Bond Issue)
- \$25.2 million for new straddle carriers (Lease purchase)
- \$11.0 million container cranes for PMT (Lease purchase)

Mr. Davis concluded by stating that, "a stable general fund is required to prevent raids on the VPA Special Fund and Commonwealth Port Fund". He encouraged everyone to tell others about the Governor's Tax Reform Proposal.

Commissioner Grace asked Mr. Davis if VPA projects listed in his presentation would be advertised to the public. Mr. Grace expressed concern that there would be a misconception by the public that VPA projects are funded by taxpayer dollars from the General Fund. Mr. Grace wants the public to know that VPA is required to seek approval for capital outlay projects through the appropriations process but that the Authority does not receive General Fund monies. He emphasized that the Authority is actually seeking approval to borrow funds through the issuance of bonds that will be repaid from terminal revenues.

Mr. Davis explained that, because some VPA funds had previously been transferred to the General Fund to help offset deficits, he was trying to demonstrate how the budget initiatives would stabilize the General Fund and thus prevent such transfers in the future.

A copy of Mr. Davis' presentation was provided to the members of the Board and staff and is attached hereto.

RESOLUTION OF SERVICE

Chairman Milliken announced that Oliver W. Daughdrill was retiring from the Virginia Port Authority, as Director of Finance, after 30 years of dedicated service. The Chairman listed some of VPA's major accomplishments and he credited Mr. Daughdrill as being instrumental in achieving those accomplishments during his tenure. The Chairman presented a Resolution and VPA shadowbox to Mr. Daughdrill and congratulated him on his retirement.

Action: Upon motion made by Mr. Massie, duly seconded by Mr. Grace, and adopted by unanimous vote (7-0), the Board approved a Resolution of Service that was presented to Oliver W. Daughdrill.

2003 PORT BUSINESS REPORT

Mr. Pruden, Committee Chairman, turned the meeting over to Mr. Capozzi. Mr. Capozzi presented year-end business results for The Port of Virginia during CY2003 and the business forecast for CY2004.

Mr. Capozzi announced that the Port experienced another year of record growth in CY2003 that far exceeded his six percent projection. He explained that exports from Virginia, surrounding states, and Midwest exports all contributed to the Port's growth. He reported that Midwest rail cargo increased by 6.1% and he attributed that growth to VIT's rail incentive program with Norfolk Southern and CSX. Mr. Capozzi reported that Inland Port container traffic decreased by 14.2%, however, he said that is expected to change with anticipated cargo from Home Depot's operation which commenced in December 2003. Mr. Capozzi remarked that exporters are relying on The Port of Virginia to ship their cargo efficiently to countries all over the world. He remarked that The Port of Virginia is not just an asset to the Commonwealth of Virginia – it is an asset to the entire mid-Atlantic and Midwest regions.

Mr. Capozzi reported on government food-aid shipments to foreign countries. He advised that VPA was awarded its first contract from the Federal government two years ago and that shipments increased from 9,326 tons in 2002 to 69,800 tons in 2003. He projected that VPA would handle over 100,000 tons in 2004.

Mr. Capozzi announced a new westbound Round the World Service calling Asia, Middle East, Indian Subcontinent, and North Europe that will commence February 2004, deploying 12 ships of approximately 3,000 TEU capacity, with East Coast stops at Newport News, Charleston and New York.

Mr. Capozzi reported the following for CY2003 compared to CY2002. He noted that the increase in total TEUs far exceeded the Port's expectations from 10.3% last year.

Total TEUs	-	+14.5%
Loaded TEUs	-	+11.9%
Midwest Rail Containers	-	+6.1%
VIP Rail Containers	-	-14.2
Breakbulk Tonnage	-	+6.0%
Vessel Calls	-	+1.3%

Mr. Capozzi announced container and breakbulk forecasts for CY2004, as follows:

Container = +7% to 1.76 million TEUs (addition of more than 115,000 TEUs)
Breakbulk = +3% to 664,209 tons (addition of more than 19,342 tons)

Mr. Capozzi said the Port is hoping for additional cargo opportunities with Lydall Paper and expects a resurgence in machine tool equipment from Japan and increased steel shipments with the lifting of steel tariffs.

Mr. Dorto announced that, as a result of double-digit growth at the Port, VIT has established two off-site empty container depots in the cities of Norfolk and Portsmouth to relieve congestion at the terminals. He reported that the Portsmouth site, which opened last week, is located on Constitution Avenue (8.5 acres) in order to transport empties to and from Portsmouth Marine Terminal. This site will store approximately 2,000 empty containers. Mr. Dorto announced that the Norfolk site is located at the northern end of NIT which is a rail yard owned by Norfolk Southern (14 acres). He reported that VIT is currently grading the land and hopes to start receiving empties on that site in March 2004. The Norfolk site would store approximately 4,000 empty containers from NIT.

Mr. Dorto commented that he believed Mr. Capozzi's estimate of 7% growth was a conservative forecast for 2004.

I. APPROVAL OF MINUTES

Action: Upon motion made by Mr. Massie, duly seconded by Mr. Grace, and adopted by unanimous vote (7-0), the Board approved the minutes of the meeting held November 25, 2003.

II. REPORTS OF COMMITTEES

A. Executive Committee – Chairman Milliken

There was no report from the Executive Committee.

B. Finance/Planning Committee – Mr. Massie, Committee Chairman

1. VPA Financial Reports

Mr. Oliver reviewed revenue and operating expenditures (cash basis) for the month ended December 31, 2003. Revenue consists of Commonwealth Port Fund (CPF) transfers and terminal revenues. Operating expenditures consist of National and International Trade, Security Services, Port Facilities Acquisition, and Other.

Mr. Oliver reported obligated and unobligated balances in the Capital Improvement Program and year-to-date expenditures. The Capital Improvement Program is funded by Commonwealth Port Fund, Special Fund, Federal (security) Grants, and the 1997, 2002, and 2003 bond issues. He described the projects and expenditures that are obligated within each programs.

Mr. Oliver reported that a total of only 3% of funds are unobligated for all three bond issues. He reported that, despite being below budget year-to-date, Commonwealth Port Fund transfers (4.2% of the Transportation Trust Fund) are expected to be slightly higher than the \$31.8 million indicated on the slide. Mr. Oliver advised that this is due to the Department of Taxation reaffirming the total budget for the year. He reported that operating expenditures are tracking well within budget items.

He referred to Mr. Cavanaugh's reports indicating that debt coverage funding levels for all bond issues are in compliance as of December 31, 2003.

C. **Facilities Committee** – Mr. Stalling, Committee Chairman

Mr. Florin presented the “Capital Outlay Program and Facilities Maintenance Overview”, with updated slides of ongoing and completed construction projects.

Mr. Florin described the status of each of the following projects:

- VIP North Pavement Expansion (Construction delayed due to inclement weather. Asphalt pavement installation is on hold until Spring 2004.)
- Plum Point Environmental Restoration (Completion date April 30, 2004)
- NIT Command and Control Center (State-of-the-Art facility for security. Completion date: July 1, 2004)
- NIT Warehouse 4 and 5 Demolition (Provides additional container space at NIT. Completion date: February 28, 2004)
- NIT South Improvements – Phase I (Cranes 7 and 8 scheduled for delivery July 2004 – Cranes 5 and 6 to be received in December 2004)
- NIT South – Phase II - Backlands Reconstruction – Stage 1 (Renovate 48 acres of backlands for straddle carrier operation. Bids due January 29, 2004.)
- NIT South – Phase II - Backlands Reconstruction - Stages 2-8 (Renovate remaining 96 acres of container land. \$50M of Commonwealth Port Fund bonds to be issued FY05. Total NIT South Renovation - \$279 Million)
- Sewell’s Point Empty Yard – 14-acre site for empty containers. Yard to be operational March 2004.
- PMT ID/Security Building – Completion scheduled May 2004
- PMT Multi-Purpose Labor Support Facility
- Fender Maintenance
- 50-Foot Channel Dredging Update (Project to be completed over a two-year schedule.)
 - Thimble Shoals Channel dredging was completed December 2003
 - Design for Norfolk Harbor Channel to be completed February 2004.
- Pinner’s Point Interchange Construction Update (Project scheduled for completion in December 2004.)

2. Consideration of Resolution 04-1, authorizing the application for a minor boundary modification of the Virginia Port Authority’s Foreign Trade Zone

Mr. Merhige briefly explained the establishment of VPA’s Foreign Trade Zone (FTZ) No. 20, which consists of 18 sites totaling approximately 10,118.49 acres. He introduced Resolution 04-1, and explained that the resolution authorizes VPA to file an application with the U.S. Foreign Trade Zone Board for a minor boundary modification of VPA’s FTZ. Mr. Merhige reported that the City of Suffolk’s Economic Development Department approached VPA and requested the change from Bridgeway Commerce Park, which is presently inactive, to the PAK-AL storage and bulk-shipping facility.

Mr. Bauman introduced Mr. Gary Pirko and Ken Sanders with PAK-AL USA. Mr. Pirko thanked the

Board for considering approval of the request. He advised that his company would be able to provide additional containers moving over The Port of Virginia. Mr. Pirko reported that there would be other businesses in Suffolk, namely QVC that would benefit from FTZ status in order to import containers more efficiently. Mr. Pirko extended an invitation to visit PAK-AL's facility. Mr. Capozzi said that FTZ status for PAK-AL would provide value-added service that can sometimes be the deciding factor for a company to import through our port.

Action: Upon motion made by Mr. Massie, duly seconded by Mr. Sen, and adopted by unanimous vote (7-0), the Board approved the application for a minor boundary modification of the VPA's Foreign Trade Zone.

D. **Security Committee** – Mr. Grace, Committee Chairman

1. Status report on mandatory Federal security regulations and the obligation of funds to date.

Mr. Merhige reported that VPA has obligated Federal security funds as required and submitted the Maritime Security plan on time thanks to Chief Don Boyd and Zel Technologies. He announced that the Port's security plan is "going full-steam ahead" with fully operational radiation detectors at all three terminals. Mr. Merhige reported that, at the March meeting, the Board would see a demonstration of a video surveillance system that is currently coming on-line at the terminals.

III. **REPORT OF EXECUTIVE DIRECTOR**

There was no report from the Executive Director.

IV. **UNFINISHED BUSINESS**

There was no unfinished business.

V. **NEW BUSINESS**

There was no new business.

VI. **OTHER BUSINESS AND ADJOURNMENT**

There being no further business and no comments from the public, the open meeting adjourned at 12:15 p.m.

The next meeting of the Board of Commissioners will be held in the Authority's Conference Room, 600 World Trade Center, Norfolk, Virginia, on Tuesday, March 23, 2004.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board