

**Virginia Port Authority Board of Commissioners**  
Finance/Planning Committee  
**Open Session Minutes**  
January 27, 2004

Pursuant to call by the Committee Chairman, Mr. Ronald W. Massie, the Finance/Planning Committee convened an open session on this date at 9:35 a.m., in the Authority's Conference Room A, 600 World Trade Center, Norfolk, Virginia.

Finance/Planning Committee Members Present:

Ronald W. Massie, Committee Chair  
Mark B. Goodwin, Committee Vice Chair  
Peter D. Pruden, III  
Jody M. Wagner

Committee Members Absent:

Michael J. Quillen  
G. H. Stalling, III

Board Members Present:

John G. Milliken, Chairman  
Jonathan J. Johnson  
Ranjit K. Sen

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  
Linda G. Ford, Director of Port Promotion  
Jeffrey Florin, Chief Engineer  
Rodney W. Oliver, Director of Finance  
Diane Reed, Controller  
Carla Welsh, Program Manager, Port Promotion  
Debra J. McNulty, Clerk to the Board/Secretary

Guests:

Lloyd M. Richardson, McGuireWoods LLP  
JoAnne Carter, Public Financial Management  
Sarah Greear, Public Financial Management  
John D. Cavanaugh, Cavanaugh, Nelson & Co., PLC  
Michael T. Crist, P.E., Moffatt & Nichol Engineers

The following items were discussed:

## **1. Management Letter**

Mr. Oliver summarized the Auditor of Public Accounts Management Letter to VPA that contained the following audit findings:

1. Comply with Davis Bacon Act
2. Strengthen travel controls.

Mr. Oliver reported that the auditing firm of KPMG would provide assistance to VPA to help ensure compliance with all guidelines related to the federal grants. VPA should be receiving an engagement letter at the end of the week.

Mr. Bray explained that, when VPA had received its first round of security grant funds, the Authority contacted the Maritime Administration (MARAD) and had received conflicting information about the Davis Bacon Act. He advised that VPA had received assurances from MARAD that the Act did not apply and that VPA was told to use regular procurement processes. Mr. Merhige reported that the work involved the construction of fencing and radiation detectors.

Mr. Florin confirmed that the second and third round of security grants appropriated by VPA are in compliance with the Davis Bacon Act and that language is contained in all contracts.

Mr. Oliver described the travel findings that relate to documenting specific business topics and the business discussion, reimbursement of meals or entertainment expenses with clients without itemized receipts, and Internet usage charges without documentation.

Mr. Oliver reviewed the VPA responses to the audit findings and he confirmed that all VPA employees received an e-mail notice on the matter and that VPA was now in compliance.

Chairman Milliken suggested that staff revise the travel reimbursement form to include a section for time and subject of meeting in order to remind employees.

## **2. Governor's Budget and FY2005 Bond Issue**

Mr. Oliver presented actual and projected revenues (cash basis) for VPA's Special Fund and Commonwealth Port Fund (CPF), from Actual FY2003 through budgeted FY2006. He reported that the CPF budget contains \$1.2 million in accelerated sales tax collections that will benefit the VPA in FY06.

Mr. Oliver announced that the Governor restored a majority of the appropriation for advertising in FY2005 and FY2006 that was taken in the previous biennium to help balance the General Fund.

Mr. Oliver compared budgeted operating expenditures for FY2004, FY2005 and FY2006. He noted that the Port Acquisition budget for FY2005 contains appropriation for additional debt service on a 2005 bond issue, and for additional straddle-carriers and container cranes.

Budgeted capital expenditures were also reviewed for the three-year period. Mr. Oliver explained that container cranes slated for PMT will cost approximately \$11 million.

### **3. Craney Island Update and Funding Options**

Mr. Michael Crist, of Moffatt & Nichol Engineers, presented a current status and project delivery overview of the proposed Craney Island Marine Terminal. Mr. Crist explained that VPA is currently working with the Army Corps of Engineers and members of Congress in order to seek Federal support and determine a multiple-phase construction schedule for Craney Island that would meet business needs.

Mr. Crist reviewed existing conditions at Craney Island and assumptions in the VPA 2040 Master Plan prior to the Corps' reconsideration of the project last year.

Mr. Crist outlined an alternate project delivery method that would assume no federal support, construction in multiple phases, and the probability of public/private financing. Mr. Crist described each of the following phases of construction for the Craney Island Marine Terminal:

Phase I – Land Reclamation (2011) -	Total Cost and VPA Share = \$171,424,000
Marine Terminal - Phase I – Open 2017 -	Total Cost and VPA Share = \$523,142,000
Phase II – Land Reclamation (2017) -	Total Cost and VPA Share = \$356,726,000

Total Marine Terminal Build Out – All Phases – 2032 = \$1.6 Billion

Mr. Oliver briefly reviewed project costs from the original 2040 Master Plan and revised project costs in the event that funds from the Corps and the Commonwealth are not available. He explained that dikes and levees would be constructed in two separate phases and that the \$500+ million in costs would be paid for entirely by VPA. Mr. Oliver outlined the funding alternatives for the Craney Island dikes and levees construction. He discussed the possibility of being able to use additional terminal revenues, over and above those contemplated by the Master Plan, as a funding source.

At this time, Ms. JoAnne Carter, of Public Financial Management, reviewed the remaining funding alternatives. She reviewed each of the following funding sources, describing the advantages and disadvantage of each:

- Commonwealth Port Fund Bonds
- Terminal Revenue Bonds
- Public/Private Partnership
- Partial Funding from the Commonwealth
- Leveraged Lease Transaction
- Monies from various reserves
- Swaption

In conclusion, Ms. Carter reported that, without funding from the Corps and the Commonwealth, the Authority must deviate from the Master Plan to build Phase I of Craney Island. Funding would most likely come from many of the sources mentioned. She advised that additional due diligence and policy discussions are needed regarding new, non-traditional financing mechanisms with stakeholders. The Authority would need to revise the Master Plan to identify additional funding sources for Phases II through IV of Craney Island

Ms. Wagner was concerned with the alternatives discussed that included issuing variable rate debt on a long-term project such as Craney Island. She advised staff of the Treasury Board guidelines that call for no more than 20% of debt outstanding be in the form of variable rate debt.

Chairman Milliken suggested that VPA seek private principals who would be interested to partner in the beginning phases of Craney Island rather than wait until the infrastructure development stage. Mr. Grace was concerned with overhead costs that were not factored in today's presentation.

Mr. Bray announced that he had several meetings with Corps officials who have agreed to take a fresh look at the project. He also mentioned his meeting with Senator Allen's staff. Mr. Bray credited Senator Allen for his support with legislation that called for a study of the eastward expansion of Craney Island when he was Governor.

Due to time constraints, Ms. Carter was not able to present the topic of swaps and derivatives. She explained that a swaption is a derivative structure using an interest rate swap that can produce savings similar to an advanced refunding. Ms. Carter announced that she could present that portion of her report at another meeting.

No members of the public requested an opportunity to comment at this time. There were no members of the press in attendance.

There being no further business, the meeting adjourned at 10:40 a.m.

Respectfully submitted,

Debra J. McNulty  
Clerk to the Board