Virginia Port Authority Board of Commissioners
Finance/Planning Committee Meeting - September 28, 2004
Open Session Minutes

Committee Members Present:
Ronald W. Massie, Committee Chair
Mark B. Goodwin, Committee Vice Chair
Robert C. Barclay, IV

Committee Members Absent:
Michael J. Quillen
Jody M. Wagner, State Treasurer

Commissioners Present:
John G. Milliken, Chairman
William M. Grace
John E. Holleran
Jonathan Johnny Johnson
Ranjit K. Sen
Deborah K. Stearns

Staff:
J. Robert Bray, Executive Director
Thomas Capozzi, Senior Managing Director of Marketing Services
Jeffrey L. Florin, Chief Engineer
Linda G. Ford, Director of Port Promotion
Rodney Oliver, Director of Finance
A. Diane Reed, Controller
Gregory Edwards, Director of Marketing and Intermodal
Russell J. Held, Managing Director of Marketing, Southeast, U.S. and Europe
Carla Welsh, Public Relations Coordinator
Russell Held, Managing Director, Sales
Debra J. McNulty, Clerk

Guests:
Richard L. Walton, Jr., Senior Assistant Attorney General
Tracy L. Clemons, Public Finance Manager, Office of the State Treasurer
Michael Maul, Department of Planning and Budget
James Hewitt, Department of Planning and Budget
Lloyd M. Richardson, McGuireWoods, LLP
JoAnne Carter, Public Financial Management
Sarah Greear, Public Financial Management
John Cavanaugh, Cavanaugh, Nelson & Co., PLC
Michael Crist, P.E., Moffatt & Nichol Engineers
John M. Ryan, Vandeventer Black, LLP (VIT Corporate Counsel)
J. J. (Jeff) Keever, Hampton Roads Maritime Association
Joseph A. Dorto, General Manager, VIT

Guests (continued):
Richard N. Knapp, Asst. General Manager, VIT
W. Millard Meiggs, Chief Financial Officer, VIT

Members of the Media:
Peter Dujardin, *The Daily Press*

Pursuant to call by Mr. Massie, the Finance/Planning Committee convened an open session on this date at 9:30 a.m., in the Authority's Conference Room, 600 World Trade Center, Norfolk, Virginia.

Ms. Joanne Carter, Public Financial Management, presented "Introduction to Interest Rate Swaps" and gave an overview of the application of interest rate swaps, types of swaps, and advantages and disadvantages. She advised that legislation was passed by the 2002 General Assembly that authorizes swaptions.

Ms. Carter described the application of swaption on the VPA's Series 1997 Port Facilities Revenue Bonds. She explained that a swap transaction would allow VPA to extract savings today before the 1997 bonds can be refunded on or before July 1, 2007. Ms. Carter advised that the tax code does not allow the $81.62 million of callable Series 1997 Port Facilities Revenue Bonds to be refunded at this time, called an "advance refunding". She explained that the Authority bears risk that interest rates will rise between now and July 1, 2007, eliminating any potential benefit.

Ms. Carter explained that an interest rate swap involves a contract between two parties, referred to as "counterparties", to exchange payments at specified dates in the future for a given period of time. Ms. Carter advised that counterparties would be highly rated investment firms and banks such as J. P. Morgan, Merrill Lynch, and Bank of America.

Ms. Carter recommended the following steps for VPA:

- Develop a derivatives policy.
    - Establish guidelines and recommended prudent practices for the use and management of interest rate swaps.
    - Draft policies to comply with the Commonwealth's Guidelines for Ancillary Contracts, adopted in December 2003.
    - Seek Treasury Board approval in advance of any swap involving Commonwealth Port Fund debt or proceeds.
- Define criteria and conditions for use and provide the Authority, public, rating and investor communities' insights into the Authority's intended use of such instruments.
    - Derivative policies are viewed as a positive step by the rating agencies.
- Provide for ongoing managing, monitoring and reporting of interest rate swaps.
- To allow staff to act when appropriate.

Mr. Oliver advised that the Authority plans to work with Public Financial Management and with the Treasury Department in order to present a swaps and derivatives policy to the Finance/Planning Committee in the next few months.

Mr. Dorto presented VIT's historical financial results and explained revisions to the VIT FY2005 Budget.

Mr. Dorto explained that the focus is on rate incentives for steamship alliances in exchange for long-term contracts and a commitment from shiplines to bring in more volumes.

Mr. Dorto reviewed VIT's historical growth, operating income and revenues (before and after transfers to VPA), operating, maintenance, general and administrative expenses, including ILA and workers' compensation. Mr. Dorto reviewed VIT's major customers and explained the unit rate.

He reported that revised budgeted revenue for VIT is projected to be $189.2 million for a 9.2% increase compared to the actual of $173.2 million for the fiscal year ended June 30, 2004. The new forecasted revenue growth is based on a 6% increase in container volume. Total projected container volume remains at 888,000. Budgeted revenue reflects an average 6% increase in Schedule of Rates, effective October 1, 2004.

Mr. Dorto reported that VIT's proposed revisions to the FY2005 budget were due to changes in circumstances that were unforeseen during preparation of the original budget. He advised that those changes relate primarily to an increase in ILA labor rates from those estimated, as a result of the new ILA contract approved in July, and an increase in fuel charges, including increased truck drayage charges on/off terminal. Mr. Dorto reported that VIT's "days sales outstanding" averages 38.5 days. The industry average is 60-90 days. He attributed that accomplishment to VIT's "outstanding people, doing a good job".

Mr. Dorto explained the ILA differential and announced that, effective October 1, 2004, gate hours at the terminals would increase by opening 6:00 a.m. and closing 6:00 p.m. He added that VIT had also negotiated a better rate with Signet Mutual Insurance Company for Workers' Compensation. Mr. Dorto also explained the costs associated with the operation of the chassis pool and the opening of two empty container yards.

Mr. Dorto announced that August was a record month for volume of containers and that projections are strong for volumes to continue increasing.

It was the consensus of the Finance/Planning Committee to recommend the adoption of VIT's FY2005 Budget in the full-Board open session.

Mr. Oliver presented an overview of VPA debt and reviewed each of the Authority's outstanding bond issues – CPF Revenue Bonds, Series 1996; CPF Revenue Refunding Bonds, Series 1998; CPF Revenue Bonds, Series 2002; Port Facilities Revenue Bonds, Series 1997; and Port Facilities Revenue Bonds, Series 2003. He also reviewed the balances for each of the Authority's installment purchases and contracts (land lease, channel dredging, and equipment).

Mr. Oliver concluded with an overview of future debt obligations that include a 2005 CPF Revenue Bond Issue for NIT South and other improvements ($60M); 2005 lease purchase for 18 straddle carriers ($12.6M); 2006 lease purchase for 18 straddle carriers ($12.6M); and current refundings as market opportunities arise.

Ms. Carter reviewed annual debt service outstanding on the CPF revenue bonds and port facilities revenue bonds, including the projected bond issue. Ms. Carter reported that VPA would see additional capacity for debt service in 2008-2009 and that swaps could create additional capacity.

Mr. Richardson presented an outline of monthly flow of funds for VIT and VPA, and described the reserve balances on the Port Facilities Revenue Bonds required by the bond resolution. Mr. Richardson also described permitted use of reserve accounts that require replenishment in 12 equal installments. He emphasized that VIT has never used money from the CE reserve. He also discussed the Reserve Maintenance and Improvement Fund (RMIF), a reserve with no replenishment requirement.

Mr. Richardson further explained that the VPA Board and rating agencies had approved a reduction in the requirement for the reserves last year that would not be effective until the 1997 Port Facilities Revenue Bonds are paid in full, or refinanced, which cannott happen prior to July 1, 2007. Mr. Richardson explained how VPA could release up to $7.5 million with the substitution of a LOC issued in favor of VIT.

Mr. Richardson demonstrated VIT's monthly flow of funds, beginning in 2007. He emphasized that the changes approved by the rating agencies last year would have no effect on VPA, however, it would reduce VIT's CE reserve requirement from 12% of budgeted current expenses to 1/12th of VIT budgeted current expenses for fiscal year.

Mr. Dorto explained how the LOC could benefit VIT during emergency situations such as an ILA strike. Mr. Oliver added that, thus far, VPA and VIT have been able to use existing reserves without borrowing.

(Copies of all presentations can be viewed on the Authority's website, at: http://www.vaports.com/boardmeeting.htm.)

At 10:55 p.m., the Committee went into a closed meeting under the Virginia Freedom of Information Act as provided in Virginia Code §2.2-3711(6).

At 11:35 p.m., by motion proposed, seconded and carried, the meeting resumed in open session. In addition to Mr. Peter Dujardin, *The Daily Press*, Mr. Philip Newswanger, *Inside Business*, and Christopher Dinsmore, *The Virginian-Pilot*, joined the meeting at this time.

Certification of Closed Meeting

Action: Upon motion made by Mr. Milliken, duly seconded by Mr. Goodwin, and adopted by affirmative vote (9-0), the Board members approved Resolution 04-E6, certifying a closed meeting of the Finance/Planning Committee.

Affirmative Votes:
Mr. Barclay
Mr. Goodwin
Mr. Grace
Mr. Holleran
Mr. Johnson
Mr. Massie
Mr. Milliken
Mr. Sen
Ms. Stearns

There were no comments from the public. The meeting adjourned at 11:40 p.m.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board