Virginia Port Authority Board of Commissioners
Open Session of the VPA Finance/Planning Committee
January 25, 2005

Minutes

Committee Members Present:
Ronald W. Massie, Committee Chair
Mark B. Goodwin, Committee Vice Chair
Robert C. Barclay, IV
Jody M. Wagner, State Treasurer

Committee Members Absent:
Michael J. Quillen

Commissioners Present:
E. Massie Valentine, Vice Chairman
Ranjit K. Sen

Staff:
J. Robert Bray, Executive Director
J. J. (Jeff) Keever, Deputy Executive Director
Jeffrey L. Florin, Chief Engineer
Linda G. Ford, Director of Port Promotion
Rodney Oliver, Director of Finance
David James, Director of Contracts and Real Estate
A. Diane Reed, Controller
Carla Welsh, Public Relations Coordinator
Jake Denton, Public Relations Program Manager
Debra J. McNulty, Clerk

Guests:
Richard L. Walton, Jr., Senior Assistant Attorney General
John D. Padgett, McGuireWoods LLP
Lloyd M. Richardson, McGuireWoods LLP
Ronald Tillett, Morgan Keegan & Co., Inc.
Kevin Rotty, Morgan Keegan & Co., Inc.
Napoleon Nelson, Public Financial Management
Kevin Larkin, Bank of America
John Coan, Bank of America
John Cavanaugh, Cavanaugh, Nelson & Co., PLC
Katrina R. Riddick, M.R. Beal & Company
Michael Crist, P.E., Moffatt & Nichol Engineers
Joseph A. Dorto, General Manager, 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 9:40 a.m., in the Authority's Conference Room, 600 World Trade Center, Norfolk, Virginia.

The following items were discussed:

1. Consideration of Resolution 05-2, to approve Series Resolution supplementing Resolution 02-4 of the Virginia Port Authority and authorizing the issuance of up to $60,000,000 of the Authority's Commonwealth Port Fund Revenue Bonds (2002 Resolution), Series 2005 and related matters.

Mr. Oliver described use of proceeds from the $60 million CPF Revenue Bonds that include the following projects:

NIT backup area
Land acquisition and improvements
Improvements to, and relocation of, three cranes
$5 Million to the City of Norfolk towards construction of the Cruise Facility at Nauticus

Mr. Oliver referred to the Preliminary Official Statement, Bond Purchase Agreement, and Commonwealth Port Fund Debt Capacity Analysis documents that were also included in the agenda materials. He reported that the Treasury Board is scheduled to consider the bond transaction on February 16, 2005, followed by discussions with the bond rating agencies, a scheduled sale date at the end of March, and final closing in mid-April.

Mr. Richardson continued with a brief description of key provisions contained in Series Resolution 05-2. He advised that this bond structure is similar to the 2003 Series.

Ms. Wagner questioned potential construction delays that had previously caused bond proceeds to sit in the fund. Mr. Richardson explained that, due to the disparity between construction levels, Mr. Oliver had included additional projects in the description portion of the resolution in order to avoid delays in the flow of funds.

Vice Chairman Valentine abstained from voting on Resolutions 05-2, 05-3, and 05-6, as his firm is one of the underwriters for the bonds. Mr. Valentine is Vice President of Investment for Davenport & Co. of Virginia, Inc.

Action: Upon motion made by Ms. Wagner, duly seconded by Mr. Barclay, and adopted by unanimous vote (4-0), the Finance/Planning Committee approved recommending the adoption of Resolution 05-2 to the full Board.

Affirmative Votes:

Mr. Massie	Mr. Barclay
Mr. Goodwin	Ms. Wagner

2. Consideration of Resolution 05-6, authorizing the issuance of up to $25M of the Authority's Commonwealth Port Fund Revenue Refunding Bonds (2002 Resolution), Series 2005, to refund the Series 1996 Bonds, subject to certain conditions.

Mr. Richardson reported that there is a market to sell a commitment to issue bonds in the future. He advised that a closing on refunding the Series 1996 Bonds would not occur until July 1, 2006, at which time $24,860,000 in bonds would be outstanding. (The last of the Series 1996 bonds are scheduled to mature July 1, 2016.) Mr. Richardson explained that interest rates are low and that the analysis indicates that refunding the 1996 bonds would save about $1.5 million – a 5% yield in savings – and that the savings would be locked-in if the refunding took place now. He advised that the Treasury Board would have to approve the transaction.

Mr. Tillett explained that VPA did a similar forward refunding in 1998 and he advised that there are fewer investors in the forward market than for bonds sold currently.

Mr. Richardson advised that Resolution 05-6 sets parameters for refunding the Series 1996 Bonds and that, if parameters are met, approval of bond documents would be requested at the March Board meeting. He advised that a Preliminary Official Statement, Bond Purchase Agreement, and accompanying documents would also be presented at that time.

Mr. Richardson also advised that if VPA cannot achieve an aggregate 5% savings on the refunding of the 1996 Series, the transaction would not be presented in March.

Mr. Goodwin questioned the urgency to refund bonds now instead of waiting for interest rates to go lower, or waiting to sell after July 1, 2006. Mr. Oliver explained that by selling the bonds now we would lock in savings at 5% instead of taking a chance on which way rates will go in the future. If rates rise significantly in the next year, VPA would have lost the opportunity to realize the savings of $1.5 million that can be achieved now. Mr. Goodwin said he was satisfied with $1.5 million in savings.

Ms. Wagner advised that a 5% threshold is typical for refinancing. Mr. Nelson remarked that 3% is the minimum level for savings justification.

(Mr. Walton arrived at this time.)

Action: Upon motion made by Mr. Barclay, duly seconded by Ms. Wagner, and adopted by unanimous vote (4-0), the Finance/Planning Committee approved recommending the adoption of Resolution 05-6 to the full Board.

Affirmative Votes:

Mr. Massie	Mr. Barclay
Mr. Goodwin	Ms. Wagner

3. Consideration of Resolution 05-3, adopting VPA "Interest Rate and Currency Derivatives Policy".

It was reminded by Mr. Oliver that Ms. JoAnn Carter, of Public Financial Management (PFM), had made a presentation on swaps and derivatives to the Finance/Planning Committee in September 2004. He explained that today's action would only involve adoption of a policy in order to provide guidelines for VPA to consider this type of financing.

Mr. Nelson reviewed the derivatives policy objectives, he defined "swaps", and outlined specific objectives for utilizing swaps, including prohibited swap features. Mr. Nelson outlined procedures for submission and execution, limitations on counterparty exposure, analysis of a swap proposal, legal and contractual requirements, and managing and reporting. Mr. Nelson described next steps that included adopting an "Interest Rate and Currency Derivatives Policy", monitoring the market for emergent opportunities, and seeking Board approval to execute a specific contract.

Mr. Oliver confirmed that VPA has no plans to enter into a swap agreement at this time.

Mr. Nelson described an example of a swap transaction. He explained that, instead of issuing fixed rate bonds in a fixed market, VPA could issue variable rate bonds and use this product whereby VPA "swaps" with another contract in order to receive a fixed rate. In a "derived" way, he explained, VPA would have issued fixed rate bonds in the swap market instead of fixed rate bonds in the cash market. Mr. Nelson said it would be prudent for VPA to have a policy in place in order to move quickly to capture that option.

Mr. Goodwin explained that he needed more time to study and understand the benefits of this type of financing mechanism. He recommended that the Committee not take any action today and move further discussion to adopt a policy to the March 22nd meeting. Mr. Massie concurred and stated that he would announce to the full Board that this item is in Committee for further review. Ms. Wagner explained that the 2002 Virginia General Assembly approved state agencies to enter into these transactions and that the Treasury Board had adopted guidelines and a policy, yet they have not committed to a specific transaction to date.

Mr. Goodwin requested that PFM provide additional written material in "layman's terms". Mr. Goodwin was satisfied that the policy was not speculative and that Board approval is required for swap contracts. He said the Committee should trust PFM and Mr. Oliver that VPA will not incur costs with the adoption of a policy.

Action: It was the consensus of the Finance/Planning Committee that further review is needed on the "Interest Rate and Currency Derivatives Policy" and that the matter would be brought back to the Committee at the March 22, 2005 meeting.

4. Consideration of Resolution 05-4, to authorize VPA to enter into a contract with Kalmar Industries, Inc. to purchase 31 straddle-carriers.

Mr. James described the Request for Proposals (RFP) and competitive negotiation process that was undertaken for the procurement of 31 straddle-carriers. He explained that NIT would receive 30 strads and VIP would receive one strad. Mr. James advised that Noell and Kalmar Industries, Inc. are the only two equipment manufacturers that sell and support straddle-carriers in the U.S. Mr. James explained that Kalmar Industries offered the best pricing and most reliable service and that on December 22, 2004, VPA issued a letter of "Intent to Award" to Kalmar, subject to approval by the Board.

Mr. James announced that this transaction is the largest one-time purchase of straddle-carriers for VPA. He explained that Kalmar, based in Europe, required payment predominantly in Euros.

Mr. Oliver explained the financing that was arranged through VPA's Master Equipment Lease Program with Bank of America. He advised that, due to the devalue of the U.S. dollar, Kalmar had included the requirement of Euros in their pricing to eliminate their exchange rate risk, which resulted in a savings of $22,000 per straddle-carrier. Mr. Oliver reported that Bank of America converted the borrowing in U.S. dollars to Euros and is holding funds for the contractin a Euro-denominated account for making payments to Kalmar, eliminating VPA's exchange rate risk.

(Mr. Grace and Mr. Davis arrived at this time.)

Action: Upon motion made by Ms. Wagner, duly seconded by Mr. Goodwin, and adopted by unanimous vote (5-0), the Finance/Planning Committee approved recommending the adoption of Resolution 05-4, to the full Board.

Affirmative Votes:

Mr. Massie	Mr. Valentine
Mr. Goodwin	Ms. Wagner
Mr. Barclay	

5. Consideration of a motion to reaffirm the appointment of Bank of America as an authorized Depository for VPA.

Mr. Oliver explained that Bank of America has been VPA's depository since July 1999. He advised that the bank had requested an updated "Certified Copy of Unincorporated Association Resolution" for approval by the VPA Board, including signatures of designated VPA officials.

Action: Upon motion made by Mr. Barclay, duly seconded by Mr. Goodwin, and adopted by unanimous vote (5-0), the Finance/Planning Committee approved the appointment of Bank of America as an authorized Depository for VPA.

Affirmative Votes:

Mr. Massie	Mr. Valentine
Mr. Goodwin	Ms. Wagner
Mr. Barclay	

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

There were no comments from the public. The meeting adjourned at 10:40 a.m.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board