

MINUTES

Board of Commissioners - Session 295

Virginia Port Authority
World Trade Center
Norfolk, Virginia
March 22, 2005

Pursuant to call by Chairman Milliken, the Board of Commissioners held its regular meeting this date at 11:00 a.m., in the Authority's Conference Room A, 600 World Trade Center, Norfolk, Virginia.

The following attended:

Commissioners:

John G. Milliken, Chairman
E. Massie Valentine, Jr., Vice Chairman
Robert C. Barclay, IV
Mark B. Goodwin
William M. Grace
Ronald W. Massie
Michael J. Quillen
Ranjit K. Sen
Deborah K. Stearns
Jody M. Wagner, State Treasurer

Absent:

John E. Holleran
Jonathan Johnny Johnson

Office of the Secretary of Transportation:

The Honorable Whittington W. Clement, Secretary
James G. Carr, Assistant Secretary

Staff:

J. Robert Bray, Executive Director
J. J. Keever, Deputy 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
Elaine Smith, Director of Administration
Norris (Ed) Merkle, Director of Security
David M. James, Director of Contracts and Real Estate
Gregory Edwards, Director of Marketing and Intermodal
Russell J. Held, Managing Director of Marketing, Southeast, U.S. and Europe
Russell W. Young, Economic Development Manager
Kevin Burwell, Director, Business Analysis and Strategy

Staff (Continued):

A. Diane Reed, Controller
Heather L. Wood, Environmental Program Manager
Carla Welsh, Public Relations Coordinator
Donald B. Boyd, Port Police Chief
Andrew Engemann, Jr., Port Police Captain
Debra J. McNulty, Clerk
Jodie Asbell, Deputy Clerk
Erika Snow, Administrative Assistant

Guests:

Richard L. Walton, Jr., Senior Assistant Attorney General
James M. Hewitt, Dept. of Planning and Budget
John D. Padgett, McGuireWoods LLP
Lloyd M. Richardson, McGuireWoods LLP
Dana Dickens, President, Hampton Roads Partnership
Walter Craigie, Morgan Keegan & Co., Inc.
Ronald Tillett, Morgan Keegan & Co., Inc.
Kevin Rotty, Morgan Keegan & Co., Inc.
Napoleon Nelson, Public Financial Management
Katrina R. Riddick, M.R. Beal & Company
Carthan F. Currin, III, Executive Director, Virginia Tobacco Commission
Michael Crist, P.E., Moffatt & Nichol Engineers
Don Morgan, Barber Martin Advertising
Michael Mares, Witt Mares (VIT External Auditor)
Thomas Brooks, Witt Mares (VIT External Auditor)
Joseph A. Dorto, General Manager, VIT

VIT Board of Directors:

Wilson Goode, President
Marvin Friedberg
Richard Belangia
Regina Brayboy
Leon Stafford
John Ryan, VIT Corporate Counsel

Members of the Media:

Christopher Dinsmore, *The Virginian-Pilot*
Peter Dujardin, *The Daily Press*
Philip Newswanger, *Inside Business*

INTRODUCTIONS

Ms. Ford introduced guests in attendance and members of the media. Chairman Milliken introduced Secretary of Transportation, Whittington (Whitt) W. Clement and welcomed him to the meeting. The Chairman remarked, "Whitt is an extraordinary friend and ally of this Port".

RESOLUTION OF APPRECIATION

Chairman Milliken announced that Secretary Clement is leaving public service for the private sector and he presented a Resolution of Appreciation and a shadowbox commemorating the Secretary's service. The Chairman commended Secretary Clement for his many years of service in the legislature as well as his efforts as Secretary of Transportation.

Secretary Clement remarked that he would look back on his service to the Governor with great pride and that he was glad to have had the opportunity to learn more about the importance of the Virginia Port Authority. He commended the leadership of Bobby Bray who, he stated, has a great deal to do with the success in Virginia in dealing with our competitors on the East Coast.

Action: Upon motion made by Mr. Valentine, duly seconded by Mr. Massie, and adopted by unanimous vote (9-0), the Board approved the Resolution on the Services of Secretary of Transportation, Whittington W. Clement.

Affirmative Votes:

Mr. Barclay	Mr. Massie	Ms. Stearns
Mr. Goodwin	Mr. Quillen	Mr. Valentine
Mr. Grace	Mr. Sen	Ms. Wagner

I. APPROVAL OF MINUTES

Action: Upon motion made by Mr. Milliken, duly seconded by Mr. Sen, and adopted by unanimous vote (9-0), the Board approved the minutes of the regular meeting held January 25, 2005.

Affirmative Votes:

Mr. Barclay	Mr. Massie	Ms. Stearns
Mr. Goodwin	Mr. Quillen	Mr. Valentine
Mr. Grace	Mr. Sen	Ms. Wagner

II. REPORTS OF COMMITTEES

A. Executive Committee – Chairman Milliken

1. Report of the Investment and Administrative Committee

Chairman Milliken reported that the Investment and Administrative Committee met earlier to discuss the performance of the Authority's Defined Benefit and Defined Contribution Plans. He reported that the Committee reviewed the fourth quarter and 2004 year-end investment performance of the Defined Benefit Plan. Plan assets returned 12.01%, which is 4.5 points higher than the benchmark of 7.6%. The Chairman announced that Plan assets are at \$1.49 million. Mr. Milliken announced that the Committee was satisfied with the performance of the plans.

The Committee also discussed certain changes to the Defined Benefit Plan to improve some of the benefits. The Chairman reported that the Committee had recommended that consultants return at the next meeting of the Investment and Administrative Committee, scheduled for May, in order to present

a specific plan for a cash-out requirement for vested employees who leave service. The Chairman explained that the Committee had agreed that a requirement should be in place for former employees with small balances to cash-out or roll over their funds to an IRA rather than leaving it in the Plan, thereby alleviating the Authority from having to administer the funds long-term and possibly losing touch with former employees.

Chairman Milliken reported that the Plan has no automatic COLA provision. He announced that the Committee voted this morning to provide a catch-up adjustment to the COLA, effective July 1 that would primarily apply to the fixed dollar supplement for sworn employees who are now retired. The provision would bring VPA's Plan in line with the Virginia Retirement System (VRS).

The Chairman advised that the Committee requested staff to work with consultants to implement a proposal for asset allocation in the Defined Benefit Plan that would reduce exposure in the bond market and allocate 20% of funds in a global asset portfolio.

Regarding the Defined Contribution Plan, the Chairman reported that the Committee reviewed the investment performance of various managers of the plan and the consultants were advised to present a clear decision at the May meeting to retain or not retain some of the managers (outlined in Aon Consulting's Executive Summary).

The Chairman remarked that the Committee has received good support from the staff and from outside consultants and that the Plans' performance is a good measure of success. He welcomed suggestions from members of the Board.

2. Outline Process Used to Develop and Recommend Compensation for VPA's Executive Director

Chairman Milliken described the Executive Director's compensation approval process. A text of the Chairman's briefing is as follows:

The Executive Director's compensation is established by the VPA on an annual basis and the contract year runs from July 1 - June 30. Under our current formulation, compensation is based on base pay, an executive allowance, and an incentive component that has a maximum incentive of 35% of the base salary. This general structure has been in place since 1998.

The incentive compensation is based on annually agreed upon performance criteria such as TEU growth, management of expenses, and contractual performance designed to see that contracts are completed on time and within budget. These performance criteria are set by this Board's Compensation Committee, in discussions with the Executive Director. The Compensation Committee is comprised of the Chairman, the Vice Chairman (Mr. Valentine) and the Chairman of the Finance Committee (Mr. Massie). In order that a timely decision can be made for a new fiscal year beginning July 1, the measurement of the performance of the Executive Director covers a period that runs from May 1 - April 30 for any year.

In order to meet the Board's meeting schedule this year, it will be necessary to fix the Executive Director's next fiscal year compensation package at the May board meeting. This being the case, I would propose that the Executive Director forward to me and to the other Members of the

Compensation Committee his suggestions for the forthcoming year's package by the third Tuesday of May, which is the 17th . At the same time, I request that the Executive Director give me his incentive compensation self- evaluation for the current year's contract.

Prior to each May board meeting, which as you will recall is being held this year on Monday the 23rd of May, the Compensation Committee will meet and we will make our recommendations known to the full Board so that proper action may be taken in public session at the May board meeting, each year.

3. Outline Process Used by VIT Board to Develop and Recommend Compensation for VIT's General Manager

The Chairman said he thought the joint boards might be interested in how the VIT Board sets its General Manager's compensation. He welcomed the VIT Board members in attendance. VIT's President, Mr. Wilson Goode, was introduced at this time and he announced that Mr. John Ryan, VIT Corporate Counsel, would explain the compensation process for VIT'S General Manager.

The text of Mr. Ryan's briefing is as follows:

The General Manager has traditionally been employed pursuant to a series of three-year contracts. His current contract is for a term of five years. On an annual basis, usually in the June-July time frame, the VIT Board reviews and adjusts the General Manager's incentive opportunity. The Executive Committee of the Board changes each year as one member leaves office and another takes his/her place. In other words, during their individual terms each member of the VIT Board participates in the compensation process.

For the past 12 years, the VIT Board has retained Mercer Human Resources Consulting to assist in establishing base compensation for the General Manager and his key managers. Mercer is an internationally recognized firm with particular expertise in evaluating executive compensation systems. It is one of the Marsh McLennan Companies. The office VIT works with is located in Atlanta.

When the Board retained Mercer in 1993, it authorized the consultant to conduct a study to determine prevailing pay levels for comparable positions within competing industries. VIT, as a private not-for-profit terminal operator established by the state, is unique in the marine terminal world. Its managers must compete with private industry and necessarily it must compete in hiring and retaining its senior management. Thus a pay scale that insured a highly competent General Manager and senior management team was essential for retention purposes.

Since its initial study, Mercer continues annually to collect information on compensation paid executives who hold comparable positions in the same or similar industries across the country. It compares the executives based upon their experience, the position requirements and their performance, places the numbers on a scale and establishes a median. It provides an annual update to VIT for use in its considerations. Depending on the executive's experience, the degree to which he/she meets the position requirement and performance, base compensation is placed at a point within the range.

VIT's General Manager is a highly experienced, marine terminal executive. He exceeds the position requirements and his performance, viewed objectively, is exemplary. While Mr. Dorto's base compensation is significantly above the median or average point, it is well below the maximum point on the scale.

Annually and pursuant to the Executive's multi-year base contract, the VIT Board reviews the incentive bonus level for the General Manager. Incentive awards are common in the marine terminal business. The VIT Board also establishes reasonable incentive benchmarks for the coming year, which are generally based upon gross and net revenues and volumes measured in TEUS, and tons. To the extent the incentive levels are met or exceeded an incentive bonus is added to base compensation. To the extent the level achieved is below the established benchmark, the incentive award is prorated. As with base compensation, the incentive plan is reviewed by Mercer and compared with incentive plans accorded comparable executives across the country. Mr. Dorto's incentive bonus is above the median, but is below the market median maximum range.

At this time, President Goode spoke, on behalf of the VIT Board, and said that he is "extremely pleased with the level of achievement VIT has attained over the years and that the General Manager and his staff have done an outstanding job". Mr. Friedberg remarked, "The team at VIT is terrific and the results show it".

Chairman Milliken announced that VIT's annual budget will also be presented for approval by the VPA Board at the May meeting.

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

1. VPA Financial Reports

Mr. Oliver reported fiscal year-to-date financials for the eight months ended February 28, 2005. He presented revenues (cash basis) from both the Commonwealth Port Fund (CPF) and Terminal Revenues. He reported that CPF revenues, year-to-date, total \$23.5 million, which is \$1.3 million ahead of budget. Mr. Oliver noted that \$1 million of those funds is the result of some accelerated sales tax collections received in October.

VIT terminal revenues, for VPA operations, total \$27.7 million year-to-date - almost \$2.3 million ahead of budget. Mr. Oliver reported that VIT received \$975,000 in insurance proceeds from a ship collision at NNMT that occurred a year ago. Mr. Oliver announced that VIT has handled growth without negatively affecting net revenues.

Mr. Oliver reviewed Operating Expenditures that include Port Facilities Acquisition, National and International Trade, Security Services, and Other Expenses. He noted that Mr. Merkle and the port police have done a good job in keeping down overtime expenses. Regarding Other Expenses, Mr. Oliver reported that, in March, the Authority had received significant requests for Aid to Local Port Funds. The requests will be presented to the Board for approval at the May meeting.

Mr. Oliver reviewed balances and expenditures in the Capital Improvement Program that includes:

Commonwealth Port Fund	-	A "pay as you go" appropriation
Special Fund	-	Includes lease purchase for 31 straddle carriers and 3 container cranes at PMT

Federal Grants	-	Grant 2 – Completed Grant 3 – In process of being completed Grant 4 – Progressing
Bond Issues	-	1997, 2002, and 2003 issues.

He advised that the 1997 bond issue is fully obligated and will no longer be included in the report. The upcoming Series 2005 bond issue will appear in the next Capital Improvement Program report. Mr. Oliver referred to Mr. Cavanaugh’s February 28, 2005 summary of the required reserve balances and various debt service funds that confirmed balances on hand are in compliance with the bond financial covenants.

With regard to the Series 2005 bond issue, Mr. Oliver announced that the Authority received AA+ ratings from Fitch and Standard & Poors, and AA1 rating from Moody’s. Mr. Barclay said it was almost impossible for a government agency to receive a AAA rating. Mr. Oliver confirmed that AA+ is one rating below the highest.

Mr. Bray announced that Moody’s did an analysis of port authorities across the country and that they were very complimentary of VPA and VIT. He said the Moody’s report made mention of VPA’s and VIT’s managing styles, in that, management had maximized the utilization of the facilities, which has maximized the ability to gain profit.

Ms. Wagner announced that every agency in the Commonwealth was rated AA+ and that the high credit rating was expected.

2. Consideration of Resolution 05-3, adopting VPA’s “Interest Rate and Currency Derivatives Policy”.

Mr. Massie reminded the Board that this item was carried over from the January meeting and that Mr. Nelson made a presentation to the Finance/Planning Committee, held earlier. He advised there would be no further presentation before the full Board.

Mr. Oliver reported that the Interest Rate and Currency Derivatives Policy was presented in September 2004 and in January 2005. (The Board had requested more time to study the matter and review materials for a better understanding of swaps and derivatives.) Mr. Oliver announced that today’s action would be to approve the policy and he advised that the Authority has no intention at this time to enter into a swap/derivative contract. Mr. Oliver advised that a policy needed to be in place should the Authority consider entering into a swap transaction. He added that a transaction would also require Board approval.

Action: Upon motion made by Mr. Massie, duly seconded by Mr. Valentine, and adopted by unanimous vote (9-0), the Board approved Resolution 05-3, adopting VPA’s “Interest Rate and Currency Derivatives Policy”.

Affirmative Votes:

Mr. Barclay	Mr. Massie	Ms. Stearns
Mr. Goodwin	Mr. Quillen	Mr. Valentine
Mr. Grace	Mr. Sen	Ms. Wagner

3. Consideration of Resolution 05-7, approving Series Resolution supplementing Resolution 02-4 of the Virginia Port Authority and authorizing the issuance of up to \$25,000,000 of the Authority's Commonwealth Port Fund Revenue Refunding Bonds (2002 Resolution), Series 2006, to refund the Series 1996 Bonds, subject to certain conditions.

Mr. Richardson reviewed key provisions contained in Resolution 05-7.

Vice Chairman Valentine announced that he would abstain from voting on Resolutions 05-7, 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 Mr. Massie, duly seconded by Mr. Sen, and adopted by unanimous vote (8-0), the Board adopted Resolution 05-7, approving Series Resolution supplementing Resolution 02-4 of the Virginia Port Authority and authorizing the issuance of up to \$25,000,000 of the Authority's Commonwealth Port Fund Revenue Refunding Bonds (2002 Resolution), Series 2006, to refund the Series 1996 Bonds, subject to certain conditions.

Affirmative Votes:

Mr. Barclay	Mr. Massie	Ms. Stearns
Mr. Goodwin	Mr. Quillen	Ms. Wagner
Mr. Grace	Mr. Sen	

C. Facilities Committee – Mr. Sen, Committee Chairman

Mr. Florin presented the “Capital Outlay Program and Facilities Maintenance Overview”, with updated slides featuring the following projects:

- NIT South Improvements – Phase I – Wharf Construction
 - o Overall wharf renovations are 90% complete – Work on Stage IV has begun
 - o Four new cranes received
- NIT South Improvements – Phase II – Backland Reconstruction (\$55M 2003 Revenue Bonds)
 - o Renovate 48 acres of backlands for straddle carrier operation
 - o Stage 1 – Project is 65% complete
 - o Estimated completion date: October 2005
- NIT South – Phase II – Stages 2-7 (All stages complete February 2012 – 147 Acres Total)
 - o Stage 2 scheduled to begin July 2005 – Renovate remaining 96 acres of container yard

Total NIT South Renovation - \$279 Million
- PMT Security Canopies
 - o Canopy at Main Gate and Canopy and Police Security Booth at POV Gate (vehicles only)
 - o Estimated completion date: May 2005
- PMT Cranes – Demolition of Cranes 4 and 6
- Fender Maintenance – Multi-year contract to repair/replace damaged fenders at all three marine terminals.

- NNMT Pier C Turning Dolphin and Pier B Bollard – Turning dolphin to provide a pivot point for ships berthing in strong current.
 - o Estimated completion date: June 2005
- VIP Administration Building Addition – Project re-advertised as a Limited Solicitation (SWAM-owned businesses certified with Virginia Department of Minority Business Enterprise
 - o Bids due March 29, 2005
- 50' Channel Dredging
 - o Work on Norfolk Harbor Channel ongoing
 - o New dredging is 62% complete
 - o 492,360 CY of maintenance dredging completed
 - o Construction on Phase III – Atlantic Ocean Channel – expected to begin October 2005

D. Marketing Committee - Ms. Stearns, Committee Chairwoman

Mr. Capozzi announced that VIT is experiencing record tonnage increases due to the diversion of cargo from the U.S. West Coast, congestion at East Coast ports, and the huge influx of cargo from China. He presented calendar year and fiscal year-to-date performance for the period January through February. The Port performed as follows:

<u>Calendar Year-to-Date Performance</u>		<u>Fiscal Year-to-Date Performance</u>	
TEUs	+13.2%	TEUs	+11.6%
Ship Calls	+3.8%	Ship Calls	-1.1%
Breakbulk	-6.1%	Breakbulk	-11.4%
Midwest Train	+22.4%	Midwest Train	+16.1%
VIP Train	+22.7%	VIP Train	+77.5%

Mr. Capozzi reported that ship calls have increased for the first time in two years. He advised that ships are now calling fewer ports and ships are larger. He reported that breakbulk shipments have increased due to a number of incentives designed to attract paper and rubber cargo.

Mr. Capozzi reviewed Northeast Asia growth. Virginia grew 18.8%, which is more than double the TEU gain in Charleston (6.7%) and faster growth than Savannah (10.5%). For the Indian Subcontinent growth – Virginia grew over 31% - twice the gain of NY/NJ (5.0%), and three times that of Savannah (-15.9%). Virginia surpassed the overall trade lane growth of 17.9% (Charleston – 62.7%).

Mr. Capozzi remarked that VPA is in a great position to handle growth due to the advantages of having a 50-foot channel to handle post-Panamax ships, the largest container cranes in the world, and good labor and management.

Chairman Milliken asked when Maersk would be online at its new facility in Portsmouth. Mr. Dorto said about three years. Mr. Dorto reported that Mediterranean Shipping Co. had issued a notice to customers informing them that New York was refusing cargo due to terminal congestion causing the terminal to shut down. Mr. Dorto explained that VIT has a three-year window to balance the huge increases in containers until Maersk is in operation.

E. Security Committee – Mr. Grace, Committee Chairman

Mr. Merkle introduced Captain Andy Engeman, the Authority's new Chief of Administration Division, Port Police. Captain Engeman served over 30 years in law enforcement, the last 25 years with the Virginia State Police.

Mr. Merkle described the Norfolk Southern train derailment that occurred on January 21, and the assistance VPA police provided in traffic control at NIT and Terminal Boulevard.

Mr. Merkle presented the Port's new web portal - Port ID Procedures Web Page – for acquiring and renewing port identification cards. He reported that, with the two new ID stations at PMT and NIT, VPA will be able to meet the MTSA requirements with minimal disruptions to our port personnel, until such time as TSA implements the Transportation Workers Identification Credential (TWIC) card.

He also introduced the port security exercise entitled, "Iron Shield", scheduled for June 2005, to be conducted at NIT in conjunction with a TTX to demonstrate the initial actions taken by VPA police and Customs and Border Protection (CBP) upon detecting an unknown radiation source in a container when departing the port through a truck radiation portal. This will be followed by a Table Top Exercise for senior officials.

Mr. Merkle reported that, at the request of Congressman Bobby Scott, VPA testified before the Subcommittee on Crime, Terrorism, and Homeland Security of the House Committee on the Judiciary on U.S. Port security on March 15. He said Mr. Keever's testimony was focused on the need to provide an adequate funding stream to ports, such as through federal port security grants, to ensure the nation's security against the threat of terrorism.

Mr. Merkle described the design of the Inland Port's closed circuit television system that should be installed by June (Grant 3). He reported that the Department of Homeland Security, Office of Domestic Preparedness, has yet to release the funding for Round 5 of the Port Security Grants. He said, indications are it may be later this month. He described the following high priority projects for Round 5 funding:

- Upgrades to Port Authority Police Communications System
- Command and Control Architecture
- Cyber-Security

(Congressman Bobby Scott arrived at this time.)

III. REPORT OF EXECUTIVE DIRECTOR

1. Consideration of a motion to authorize the Executive Director to enter into a Memorandum of Understanding between The Virginia Tobacco Indemnification and Community Revitalization Commission and Virginia Port Authority, to form a partnership in the economic revitalization of the Tobacco Region of the Commonwealth of Virginia.

Mr. Bray presented a map that outlined the tobacco region of Virginia. He credited State Treasurer, Jody Wagner, for suggesting that the Port Authority utilize the Tobacco Commission as a funding source for economic development projects in the region.

Mr. Bray introduced Mr. Carthan F. Currin, III, Executive Director of the Virginia Tobacco Indemnification and Community Revitalization Commission.

Action: Upon motion made by Mr. Valentine, duly seconded by Ms. Wagner, and adopted by unanimous vote (9-0), the Board approved the Executive Director to enter into a Memorandum of Understanding between The Virginia Tobacco Indemnification and Community Revitalization Commission and Virginia Port Authority.

Affirmative Votes:

Mr. Barclay	Mr. Massie	Ms. Stearns
Mr. Goodwin	Mr. Quillen	Mr. Valentine
Mr. Grace	Mr. Sen	Ms. Wagner

At this time, Mr. Bray and Mr. Currin signed the Memorandum of Understanding.

Mr. Currin said it was very fitting for this occasion to take place given the amount of tobacco that left this Port. He thanked Treasurer Wagner and said he was delighted with the new partnership to help revitalize the region. Mr. Currin also credited Senator Hawkins, Secretary Schewal, Mr. Ron Tillett, and Secretary Clement, who introduced legislation to establish the Tobacco Commission.

Mr. Currin announced that the tobacco region constitutes nearly one-half the landmass of the Commonwealth. He commended Mr. Bray's leadership in working with the Tobacco Commission to help revitalize the economies of these two regions.

Mr. Currin announced that the Tobacco Commission and VPA have planned to host their first conference together at Berry Hill with Governor Baliles as keynote speaker. He also announced that the Commission is currently working with Virginia Economic Development Partnership and VPA to land a major automobile plant in Southside Virginia. He noted that 13% of the business that the Port of Charleston currently handles is from BMW.

IV. UNFINISHED BUSINESS

There was no unfinished business.

IV. NEW BUSINESS

There was no new business.

VI. ADJOURNMENT

There being no further business, the open meeting adjourned at 12:25 p.m.

(Note: Copies of all open session presentations can be viewed on Virginia Port Authority's website, at: <http://www.vaports.com/boardmeeting.htm>)

The next meeting of the Board of Commissioners will be held in the Authority's Conference Room A, 600 World Trade Center, Norfolk, Virginia, and has been rescheduled from May 24, to Monday, May 23, 2005 (time pending), in order to coincide with the inauguration ceremony planned for CMA CGM's new headquarters building in Norfolk.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board