

MINUTES

Board of Commissioners - Session 299

Virginia Port Authority
World Trade Center
Norfolk, Virginia
September 27, 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
Jonathan Johnny Johnson
Michael J. Quillen
Deborah K. Stearns

Absent:

Virginia M. Murphy
Ranjit K. Sen
Jody M. Wagner, State Treasurer

(Note: Ms. Wagner arrived at the conclusion of the meeting due to the rating agencies' visit to Hampton Roads.)

Staff:

J. Robert Bray, Executive Director
J. J. Keever, Deputy Executive Director
Thomas Capozzi, Senior Managing Director of Marketing Services
Linda G. Ford, Director of Port Promotion
Rodney W. Oliver, Director of Finance
Jeffrey L. Florin, Chief Engineer
Elaine Smith, Director of Administration
Ed Merkle, Director of Security
Russell J. Held, Managing Director of Marketing, Southeast, U.S. and Europe
Elaine Smith, Director, Department of Human Resources
David Stutts, Director, Technology Resource Management
Heather L. Wood, Environmental Program Manager
Carla Welsh, Program Manager – Port Promotion
Jake Denton, Public Relations Program Manager
Joe Harris, Media Relations Manager – Port Promotion
Andrew H. Engemann, Jr., VPA Police Captain, Administration

Staff (Continued):

Rebecca Killen, Administrative Assistant, Senior
Debra J. McNulty, Clerk to the Board/Secretary

Guests:

Richard L. Walton, Jr., Senior Assistant Attorney General
John D. Padgett, McGuireWoods LLC
John D. Cavanaugh, Cavanaugh, Nelson & Co., PLC
Michael T. Crist, P.E., Moffatt & Nichol Engineers
Bruce Hornstein, Pyramid Studios
Kenneth Sherwood, Zel Technologies LLC
Joseph A. Dorto, General Manager, VIT
Richard N. Knapp, Assistant General Manager, VIT

INTRODUCTIONS

Ms. Ford introduced guests in attendance. Members of the media in attendance included Mr. Peter Dujardin, *The Daily Press*, and Mr. Jeremiah McWilliams, *The Virginian-Pilot*.

At this time, Mr. Bray introduced Mr. Bruce Hornstein, with Pyramid Studios, who presented a trailer of the new VPA port film that is currently in production. Mr. Hornstein announced that the updated port film would be completed by November in time for the board meeting. He explained that several features were included in the new version of the port film that highlight distribution centers and the increased business they represent, security enhancements at the terminals, and the new cranes and straddle-carriers. The Commissioners were very pleased with the film's preview.

RESOLUTION OF SERVICE

Chairman Milliken presented a resolution on the services of former VPA Commissioner, Ronald W. Massie. The Chairman announced that Mr. Massie had resigned from the board due to health reasons.

Action: Upon motion made by Mr. Valentine, duly seconded by Mr. Barclay, and adopted by unanimous vote (7-0), the Board approved the Resolution on the Services of Ronald W. Massie.

Affirmative Votes:

Mr. Barclay	Mr. Quillen
Mr. Goodwin	Ms. Stearns
Mr. Grace	Mr. Valentine
Mr. Johnson	

I.

APPROVAL OF MINUTES

Action: Upon motion made by Mr. Valentine, duly seconded by Mr. Barclay, and adopted by unanimous vote (7-0), the Board approved the minutes of the annual meeting held July 26, 2005.

Affirmative Votes:

Mr. Barclay Mr. Quillen
Mr. Goodwin Ms. Stearns
Mr. Grace Mr. Valentine
Mr. Johnson

II. REPORTS OF COMMITTEES

A. Executive Committee

1. Appointment of Nominating Committee for the selection of a VIT Director for Norfolk/Virginia Beach

Chairman Milliken announced the following VPA Commissioners to serve as the Nominating Committee for the selection of a new VIT Director.

Deborah K. Stearns, Chairwoman
Robert C. Barclay, IV
William M. Grace

The Chairman explained that the Committee would present a nominee for an appointment to the VIT Board at the Authority's November 22nd meeting. The term of VIT Director Robert T. Taylor, who represents Norfolk/Virginia Beach, ends November 30, 2005.

2. Investment and Administrative Committee Report

Chairman Milliken explained that membership of the Investment and Administrative Committee that includes the Chairman of the Board, the Chairman of the Finance/Planning Committee, and the Executive Director, as outlined in Resolution 00-9, adopted by the Board on July 25, 2000.

The Chairman recommended the appointment of Mr. Mark Goodman to chair the Finance/Planning Committee, replacing former Commissioner, Mr. Ronald Massie. It was noted by Chairman Milliken that Mr. Goodwin had served as vice chair of the Committee. As chair of the Finance/Planning Committee, Mr. Goodman was also appointed to the Investment and Administrative Committee. The Board unanimously approved the appointment of Mr. Goodman to both committees.

Mr. Milliken advised that Mr. Goodwin had attended this morning's open meeting of the Committee, at which meeting consultants reported the financial affairs of the Authority's Defined Benefit and Defined Contribution Plans for VPA employees.

The Chairman reported that the Committee reviewed the July 1, 2005 actuarial report of the Defined Benefit Plan with the plan's actuary, Aon Consulting. He advised that this report is issued annually, and is undertaken to disclose the actuarial liabilities of the plan, to compare the liabilities to plan assets and to develop the recommended rates at which VPA makes contributions to the plan. It was reported that the recommended contribution rates for 2005-2006 reflect an increase from the prior year.

The Chairman noted that this increase is due to growth in the numbers and payroll of participants

covered by the plan, as well as the fact that there were a significant number of new retirements among VPA sworn employees during the year ending June 30, 2005.

The Chairman reported that the recommended VPA contribution is approximately \$466,000 for the 2005-2006 year, as compared to \$336,000 for the prior year. The actuarial report also provides a development of pension plan information to be included in VPA's financial statements, as well as a reconciliation of the group of plan participants and plan assets over the year.

Chairman Milliken reported that the Committee also reviewed the investment performance of the plan assets and selected an investment vehicle for the mandatory cash out of certain benefits effective January 1, 2006. The Committee approved Great-West Retirement Services' Rollover IRA for the mandatory cash outs. The Chairman advised that counsel and financial consultants assured Committee members that this element of the Defined Benefit Plan meets all Department of Labor requirements. The Authority had a total of \$1.9 million in plan assets as of June 30, 2005.

Regarding the Defined Contribution Plans, the Chairman announced that the Committee reviewed the investment performance of the individual investment advisors within the plan. He reported that there were no recommended changes. However, the Committee would review alternatives for investment managers at the November meeting. The Chairman announced that copies of the materials that were distributed at the Investment and Administrative Committee meeting would be made available upon request.

B. Compensation Committee Report

Chairman Milliken reported that the Compensation Committee had met in open session on August 31, 2005, to review the recommended revisions to the Executive Director's Severance Program. It was recalled that in late spring one of the issues discussed was the severance program. The Chairman advised that the Board had asked the Committee to look at that portion of Mr. Bray's compensation. He referred to the addendum to the Executive Director's Compensation Plan, to be executed by the Chairman and Mr. Bray that outlines the following revisions clarifying the terms of the severance program. The Chairman noted that the revisions were approved by the Compensation Committee and also agreed to by Mr. Bray.

- The Severance Program of the Compensation Plan would only be applicable if the Executive Director's employment is terminated by the Board of Commissioners without cause and through no fault, actions, commissions, or omissions of the Executive Director.
- The Severance Program component shall not be applicable in the following circumstances:
 - o If the Executive Director should resign voluntarily or retire from service
 - o If the Executive Director's appointment as Executive Director is terminated for cause
- The maximum eligible severance payment is one month's compensation (using the last month of service for purposes of calculating the amount) for each year of service up to a maximum of twelve months.

There were no questions from the Board.

Action: Upon motion made by Mr. Valentine, duly seconded by Mr. Grace, and adopted by unanimous vote (7-0), the Board approved the revisions to the Executive Compensation Plan Severance Program of the Executive Director and approved execution of said document by Mr. Milliken and Mr. Bray.

Affirmative Votes:

Mr. Barclay	Mr. Quillen
Mr. Goodwin	Ms. Stearns
Mr. Grace	Mr. Valentine
Mr. Johnson	

C. Facilities Committee – Mr. Florin

I. Status report on current construction projects.

Mr. Florin reviewed the following projects:

- **Craney Island Update**

Mr. Florin announced that the Craney Island Marine Terminal is the future of the Port and will provide more than double the Port's capacity. Mr. Florin provided a status report on the feasibility study that was initiated in 1999 as a partnership between the Commonwealth and U.S. Army Corps of Engineers. He reported that the primary purpose of the study is to extend the life of the Craney Island Dredge Material Management Area (CIDMA), rapid filling to accommodate future port expansion, and document environmental issues. Mr. Florin reported that the Draft Feasibility Report and Draft Environmental Impact Statement (EIS) were released for a 60-day public comment period on September 16, 2005.

Mr. Florin reported that the draft report recommends an Eastward expansion of Craney Island (\$614M – FY05 costs) and \$58 million mitigation plan. He announced that the Corps identified a National Economic Development (NED) benefit of \$6 billion associated with the Eastward expansion. (NED benefits largely from transportation savings associated with the marine terminal construction.) He noted that current Corps policy limits federal participation in the project to \$24.6 million. Mr. Florin reported that VPA is pursuing Congressional legislation to modify the cost share to 50/50 and he said that legislation has strong support from Senators Allen and Warner. He said the legislation may be included in the Water Resources and Development Act (WRDA).

VPA can fund 100% of the marine terminal construction, however, assistance will be required from the General Assembly for the following:

- funding for the road and rail corridor
- assistance filling the shortfall on the "start-up" cost
- start-up may require innovative PPTA-type project along with State assistance

Mr. Florin presented a time-line and cost schedule for the Craney Island Marine Terminal construction through build-out in 2032 at a total cost of \$2.2 billion.

- **Heartland Corridor**

Mr. Florin reported that the Heartland Corridor project is comprised of three components:

- Western Freeway Rail Corridor
 - o Rail median project eliminating 14 at-grade crossings
- Central Corridor Double-Stack Initiative
 - o 28 tunnels require modification
- New Terminal Capacity
 - o Roanoke, Virginia
 - o Prichard, West Virginia
 - o Columbus, Ohio

Mr. Florin presented a map of rail service to Chicago that compared the current route through Harrisburg to the Heartland Corridor route that outlined locations for the three intermodal rail yards and 28 tunnel modifications for double-stack rail service. Mr. Florin advised that the new route will shorten transit time to Chicago by one and a half days. He also reviewed the Western Freeway Rail Corridor for the proposed Commonwealth Rail Line relocation along Route 164 that will connect to I-664.

Mr. Florin presented estimated project costs associated with the Heartland Corridor that total \$266 million. He announced that \$140 million has recently been approved for funding through TEA-LU (Transportation Efficiency Act: A Legacy for Users). Project costs in Virginia, totaling \$103 million include tunnel clearances (5), Roanoke intermodal yard, and the Western Freeway Rail Corridor. Mr. Florin listed those projects that will require state assistance:

- \$27 million from Rail Enhancement Fund (\$9M per year x 3 years) – tunnel clearances and intermodal improvements
- \$15 million from State Apportionment of *U.S. Code §130 Rail Grade Crossing Improvements* – Western Freeway U.S. Route 17 Grade Separation
- \$30 million State appropriations – Western Freeway Rail Relocation

- **NIT South Renovation**

Mr. Florin reported that Phase I and Stage 1 of Phase II at NIT South have been completed. He presented updated aerial photographs featuring the new wharf and backlands area containing the new cranes. Mr. Florin explained that Phase II - Stage 2, involves demolition and site preparation for the renovation of 25 additional acres of container yard that began in May.

Mr. Florin referred to Resolution 05-18, and reported that the contractor selection for the backlands construction and associated work involved a “two-step process”. The Authority issued a Request for Qualifications (RFQ) and received three submittals from contractors: Branscombe, Cianbro, and E. V. Williams, Inc. Mr. Florin announced, after the Invitation for Bid (IFB) process, it was determined that E. V. Williams, Inc. was the lowest bid received at \$27,535,000. He explained that the bid package included additive alternate items to provide additional staging area – operations relief - if required.

The project involves a total base bid, not to exceed \$27,535,000, and two alternative bid items for a total amount not to exceed \$40,385,000 (outlined in Resolution 05-18).

2. Consideration of Resolution 05-18, authorizing Virginia Port Authority to approve a contract with E. V. Williams, Inc. for certain construction at Norfolk International Terminals (NIT) South.

Mr. Florin noted that VPA also had a goal of 5 percent minority participation for the project and that E. V. Williams had identified almost \$2 million of work by SWAM (small, women-owned, and minority) contractors.

Action: Upon motion made by Ms. Stearns, duly seconded by Mr. Grace, and adopted by unanimous vote (7-0), the Board approved Resolution 05-18, authorizing Virginia Port Authority to approve a contract with E. V. Williams, Inc. for certain construction at NIT.

Affirmative Votes:

Mr. Barclay	Mr. Quillen
Mr. Goodwin	Ms. Stearns
Mr. Grace	Mr. Valentine
Mr. Johnson	

D. **Marketing Committee – Ms. Stearns – Committee Chairwoman**

Mr. Capozzi presented year-to-date performance for the first two months of the fiscal year. The Port handled 17,600 more TEUs than the same period last year. He remarked that TEU results for this period were strong yet somewhat disappointing when compared to the double-digit growth that was reported last. Mr. Capozzi predicted that the port will have a rebound in September with the arrival of a new sweeper vessel and the start of a new China Shipping service. He noted that August of last year was the single largest month in the Port's history.

FYTD Performance (July – August):

	<u>Percent Change</u>
TEUs	+5.5
Ship Calls	+1.1
Breakbulk	-41.4
Midwest Train	+26.3
Virginia Inland Port	+47.3

Mr. Capozzi reported that rail cargo continues to increase with Midwest rail handling almost 8,000 containers more than last year for the two-month period. Virginia Inland Port rail growth continues due to Home Depot and other businesses locating in the region, log shipments, and increased economic development activity.

Mr. Capozzi advised that North and Southeast Asia trade on the import side is showing signs of slowing. North Europe trade, which has been largely flat for the last 4-5 years, is experiencing double-digit growth for both imports and exports. India continues to beat all other tradelanes with a 25.29% increase in

imports, along with Mediterranean and South America trade. Mr. Capozzi compared export numbers which were slightly lower than imports due to the trade imbalance in our country.

Mr. Capozzi reported on the following shipline acquisitions:

- Maersk and P&O Nedlloyd
- CMA-CGM and Delmas
- Hapag Lloyd and CP Ships

He announced that the combined impact of acquisitions by Maersk, CMA-CGM, Hapag Lloyd are projected to account for at least 42% of The Port of Virginia's total containers compared to 30% in FY05.

Ms. Barclay asked about the increase in North European trade. Mr. Capozzi attributed it to rail diversions to Hampton Roads due to congestion at other ports.

Mr. Goodwin assumed that the combined traffic of Maersk and P&O Nedlloyd would be primarily handled through Maersk's new facility and he questioned the impact on our port. Mr. Dorto advised that it could cost VIT about \$15 million in revenue and 90,000 containers per year. He explained that those assumptions were factored into VIT's budget planning.

Mr. Goodwin questioned the Port's feelings about Maersk coming to Hampton Roads and wondered if it was still a good thing. Mr. Dorto advised that, without Maersk handling the increased cargo, VIT would be out of capacity. Mr. Dorto said the thought process is that both VPA and Maersk would compete against other ports as a single stronger competitor and bring more business to Virginia. Mr. Capozzi explained that Maersk and Maersk-owned companies are using all of their influence to encourage many of the same customers that VPA deals with to show that Virginia is the place to do business.

Mr. Milliken and Mr. Goodwin both agreed that Maersk's arrival is a "win-win" situation for the State of Virginia.

Ms. Stearns announced that the Marketing Committee will meet prior to the November board meeting.

E. Security Committee - Mr. Grace, Committee Chairman

Mr. Grace announced that the Security Committee met on August 31, 2005, to hear a high-level security briefing by officials from the FBI and Joint Terrorism Task Force.

Mr. Merkle reported that the Security Committee meeting focused on three areas: threats, vulnerabilities, and mitigation strategies.

He reported that the Department of Homeland Security (DHS) announced on September 13, 2005 that Round 5 security grants totaling \$141 million were awarded to Houston, Los Angeles/Long Beach, Port Authority of NY&NJ, and Savannah. As reported, "Port of Hampton Roads Risk Field Assessment Score fell below the cut and was not awarded any grants." Mr. Merkle advised that, this year, the Port Security Grant program's focus was on what DHS determined to be the highest-risk ports.

Mr. Merkle described the port exercise "Iron Shield" that was conducted in June. He reported that the Port successfully completed one of the nation's first radiological exercises and Zel Technologies served as the planner, evaluator and grant administrator. Iron Shield involved over 60 people from 16 different agencies, including VPA Police, Customs and Border Protection, U.S. Coast Guard, FBI, and City of Norfolk.

Mr. Merkle reported that VPA met the required submission deadline and had the reports completed and listed as "Official Use Only", which is the Federal term. In order to meet state guidelines, VPA had to pull the reports and republish them as "Sensitive Secure Information" as the state does not recognize "Official Use Only" terminology.

Mr. Merkle announced that Moffatt & Nichol, along with L. A. King, are nearing completion of the Portsmouth 'E-Gate'. He advised that the new gate access controls will significantly improve security while reducing gate transaction time. The E-Gate will operate as a two-stage electronic gate that will either clear the truck to proceed to the interchange or, if there is a discrepancy, direct the truck to the ID station or to the second manned gate for resolution.

Mr. Merkle reported that the closed circuit television system for the terminal was relocated last week to the gate monitoring center at the PMT ID station. He advised that VPA police are in the process of contacting trucking firms to update and reissue port IDs with radio frequency identification imbedded chips. The data base currently contains over 5,000 truckers.

Mr. Merkle announced that the security VPA Security Strategic Plan, a 3 to 5 year plan, was developed through a series of internal and external focus groups and follows standard business strategic planning processes. A one-page synopsis of the plan was provided in the agenda materials. Mr. Merkle added that the development of several performance measures are under development.

Mr. Merkle also reviewed the Port's Disaster Response and Recovery Plan, VPA's review and validation of "COOP" (Continuity of Operations Plan), required by Governor Warner's directive, and enhanced vessel and waterfront security initiatives.

In conclusion, Mr. Merkle announced that the Authority is currently finalizing an agreement on the FY2006 DHS budget which will provide funds for the Port Security Grant program's sixth round.

F. Finance/Planning Committee – Mr. Goodwin, Committee Chairman

1. VPA Financial Reports

Mr. Oliver reported fiscal year financials for the two months ended August 31, 2005. He reported Commonwealth Port Fund (CPF) revenue transfers to VPA, which is a 4.2% allocation from the Transportation Trust Fund, totaled \$6.4 million and is in line with budget expectations. VIT terminal revenues for VPA operations year-to-date totaled \$7.2 million, compared to \$8.2 million budgeted. VPA was slightly under budget due to the delay of the security surcharge by one month, to August 1, at the request of the shiplines and a timing issue with transfers of VIT revenue. He noted that September was a record month for the port.

Mr. Oliver reported operating expenditures that include Port Facilities Acquisition, National and International Trade, Security Services, and Other Expenditures. He advised that Security Services is

currently \$120,000 over budget, which was expected. Mr. Oliver explained that he would be working with Department of Planning and Budget to transfer some excess funds from VPA's debt service appropriations to cover overages in the Security Services budget.

Mr. Oliver reviewed obligated/unobligated balances and year-to-date expenditures in the Capital Improvement Program that consists of CPF, Special Fund, Federal Grants, and the 2002, and 2003, and 2005 (Series A and B) bond proceeds. Mr. Oliver advised that over \$13 million has been expended, year-to-date, from the Special Fund for the purchase of 31 straddle-carriers through the Master Equipment Lease Program.

Mr. Oliver referred to Mr. Cavanaugh's August 31, 2005 summary of the required reserve balances and various debt service funds confirming that balances on hand are in compliance with the bond financial covenants.

2. VPA Coverage of Fiduciary Liability Issues

It was recalled by Chairman Milliken that questions were raised at the last board meeting regarding fiduciary obligations by board members and the need for further insurance coverage.

Mr. Oliver reported that, since the last meeting, he received confirmation from the State's Director of Risk Management that the VPA has \$1 million in fiduciary liability coverage and, in addition to that, VPA acquired additional coverage through our existing insurance provider for a total of \$2 million worth of insurance coverage. Mr. Oliver explained, for industry standards, fiduciary liability is 10% of total plan assets and he advised that the VPA defined benefit and defined contribution plans had \$3.8 million in total assets as of June 30, 2005. Mr. Oliver confirmed that \$2 million is sufficient coverage which includes insurance fees.

III. REPORT OF EXECUTIVE DIRECTOR

There was no report from the Executive Director.

IV. UNFINISHED BUSINESS

There was no unfinished business.

V. NEW BUSINESS

Mr. Barclay asked if VPA handled cargo out of New Orleans due to Hurricane Katrina. Mr. Knapp reported that 25 carloads of frozen poultry arrived through our port.

Mr. Bray added that The Port of New Orleans managed to resume business shortly after the hurricane.

VI. ADJOURNMENT

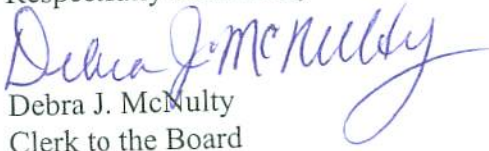
The Chairman announced that The Port of Virginia Structural Review Committee is scheduled to meet in open session at Crumbley House at 2:00 p.m. this afternoon.

There being no further business and no public comments, the open meeting adjourned at 12:10 p.m.

(Note: Copies of presentations can be viewed on the Authority's website at: www.vaport.com)

The next meeting of the Board of Commissioners is scheduled to be held in the Authority's Conference Room A, 600 World Trade Center, Norfolk, Virginia, on Tuesday, November 22, 2005.

Respectfully submitted,


Debra J. McNulty
Clerk to the Board