

MINUTES

Board of Commissioners - Session 300

Virginia Port Authority
World Trade Center
Norfolk, Virginia
November 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
Joe B. Fleming
Mark B. Goodwin
William M. Grace
Virginia M. Murphy
Michael J. Quillen
Ranjit K. Sen
Deborah K. Stearns
Jody M. Wagner, State Treasurer

Absent:

Jonathan Johnny Johnson

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
Russell W. Young, Director of Economic Development
Elaine Smith, Director, Department of Human Resources
David M. James, Director of Contracts and Real Estate
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):

Debra J. McNulty, Clerk to the Board/Secretary

Guests:

Richard L. Walton, Jr., Senior Assistant Attorney General

Michael Bolton, State Police Captain

Michael T. Crist, P.E., Moffatt & Nichol Engineers

Kenneth Sherwood, Zel Technologies LLC

David Miller, Public Financial Management, Inc.

Joseph A. Dorto, General Manager, VIT

Richard N. Knapp, Assistant General Manager, VIT

INTRODUCTIONS

Ms. Ford introduced guests in attendance. Mr. Peter Dujardin, *The Daily Press*, was the only member of the press in attendance.

Chairman Milliken welcomed Pastor Joe B. Fleming to his first meeting of the VPA Board as a newly appointed Commissioner. The Chairman appointed Mr. Fleming to the Board's Finance/Planning Committee and Marketing Committee. Chairman Milliken explained that he reviews and appoints committee assignments annually and he said he would consider Board members' preferences for service on a particular committee.

RESOLUTIONS OF SERVICE

Chairman Milliken presented a resolution honoring VIT Director Robert T. Taylor for his service on the Board of Directors of Virginia International Terminals, Inc.

Action: Upon motion made by Mr. Valentine, duly seconded by Mr. Sen, and adopted by unanimous vote (10-0), the Board approved the Resolution on the Services of Robert T. Taylor.

Affirmative Votes:

Mr. Barclay	Mr. Quillen
Mr. Goodwin	Mr. Sen
Mr. Grace	Ms. Stearns
Mr. Fleming	Mr. Valentine
Ms. Murphy	Ms. Wagner

Chairman Milliken announced that Mr. Walton is leaving the office of the Attorney General for a position as an Assistant Commissioner with VDOT and will be responsible for issues relating to planning and environmental concerns. The Chairman said that Mr. Walton's departure would be a loss to the Attorney General's office and to the Authority. He expressed appreciation to Mr. Walton for his counsel to the Authority and then presented him with a replica of the iron tug, "Dorothy", along with a Resolution.

Action: Upon motion made by Mr. Valentine, duly seconded by Mr. Sen, and adopted by

unanimous vote (10-0), the Board approved the Resolution on the Services of Richard L. Walton, Jr.

I. APPROVAL OF MINUTES

Action: Upon motion made by Mr. Valentine, duly seconded by Mr. Sen, and adopted by unanimous vote (10-0), the Board approved the minutes of the meeting held September 27, 2005.

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 this morning to review the investment performance of the various components of the pension plans for the Authority. The Chairman announced that the Committee approved the replacement of one of the Plan's fund managers, due to under performing investments, on the advice of the Authority's trustee. The Chairman confirmed for Mr. Grace that the Committee had discussed the performance of this particular fund manager at the September meeting. Chairman Milliken reported that, overall, the Authority's plans have performed very well for the quarter just concluded and for the calendar year-to-date benchmark. The Committee also looked at the performance of the various defined contribution plans and considered a proposal for a retirement health care savings plan. The Chairman reported that the Committee agreed to discuss the proposal in more detail at the next meeting of the Investment and Administrative Committee (scheduled for March).

Mr. Barclay asked about the current status of liability insurance for Commissioners. Mr. Oliver reported that the Board has \$1 million in coverage through the State Treasurer's Department of Risk Management "VaRISK2" program. He advised that the Authority also purchased an additional \$1 million in coverage for fiduciary liability.

B. Nominating Committee – Ms. Stearns, Committee Chair

Ms. Stearns referred to Resolution 05-19, and announced that the Nominating Committee had met earlier this morning in open session and unanimously approved the nomination of Mr. Franklin P. ("Lin") Earley, for appointment to the VIT Board of Directors.

Ms. Stearns advised that Mr. Earley, who is the President (Hampton Roads Market) of Bank of America in Norfolk and resides in Virginia Beach, also meets the geographic requirements for appointment to the VIT Board. Mr. Earley succeeds Mr. Robert L. Taylor. A copy of Mr. Earley's biographical resume was also provided.

Action: Upon motion made by Ms. Stearns, duly seconded by Mr. Valentine, and adopted by unanimous vote (10-0), the Board approved the appointment of Mr. Franklin P. Earley to the VIT Board of Directors for a six-year term beginning December 1, 2005, and ending November 30, 2011.

C. Finance/Planning Committee – Mr. Goodwin, Committee Chair

1. Comprehensive Annual Financial Report for FY2005 and Audited Results – Mr. Oliver

Mr. Oliver reported that the FY2005 annual financial report is more comprehensive than reports prepared in the past. He advised that the report contains extensive information on the combined performance of VPA and VIT in FY2005. Mr. Oliver explained that VPA had been approved to change from Governmental Fund Accounting Basis to an Enterprise Fund Accounting system, similar to private business reporting. Mr. Oliver briefly described several sections of the report, a copy of which was provided to the Board, including an introductory section that memorializes the major port initiatives and accomplishments that were reported throughout the year.

Mr. Oliver announced that VPA had received a clean, unqualified opinion issued by the Internal Auditor and that the audit had been completed three weeks earlier this year. He noted in particular the “Management’s Discussion and Analysis” report that summarizes all of the financial results throughout the year and major activities in the port for the fiscal year. Mr. Oliver reported that, for the second year in a row, there have been no audit findings.

Mr. Goodwin asked Mr. Oliver if the Authority is in compliance with assessment of internal control procedures that are similar to Section 404 of the Sarbanes-Oxley Act. He asked if VPA follows a similar process. Mr. Oliver explained that governmental entities are not required to adopt Sarbanes-Oxley. He noted that the Commonwealth is working towards formal compliance of some portions of Sarbanes-Oxley and is in the preliminary planning stages.

Chairman Milliken asked Mr. Oliver if the Authority gets feedback from the Auditor of Public Accounts or from JLARC (Joint Legislative Audit and Review Commission). Mr. Oliver explained that the Department of Accounts conducts an independent audit through a memorandum of understanding with the Authority. Mr. Goodwin asked if there was any plan by the Authority to require a certification similar to what public companies have to do at the end of the internal control review. Mr. Oliver advised that the Commonwealth had not issued guidelines to date, however, a letter signed by the Executive Director and Director of Finance certifying the accuracy of the Comprehensive Audit Report is made a part of the report. Mr. Dorto added that he signs the same certification for the VIT audit. Mr. Goodwin commended Mr. Oliver on the audit report.

2. VPA Financial Reports – Mr. Oliver

Mr. Oliver reviewed the unaudited (cash basis) statements of revenues and expenditures for the combined financials of VPA and VIT, for the four months ended October 31, 2005. He reported that October was a very good month for the port with operating revenues above budget by 8.5%.

Mr. Oliver reported that operating expenses were \$1.6 below budget due to operating efficiencies such as the chassis pool, two empty container depots, and a full month of reporting for the straddle-carrier operations at NIT South. Maintenance expenses were \$400,000 below budget. General administrative expenses were \$500,000 below budget. Mr. Oliver reported that depreciation and interest income expenses are also in line with budget.

Mr. Oliver reviewed the Capital Improvement Program (“pay as you go”) that includes Commonwealth Port Fund (CPF), Special Fund, Federal Grant, and the 2002, 2003, and 2005 bond issues.

Mr. Oliver reported that transfers from the CPF have increased by \$600,000 for the first quarter of the fiscal year and collections have been very good. He advised that VPA had budgeted \$7.4 million for net income and actual was \$9.7 million.

3. Update of Capital Projects and Financial Estimates and Assumptions in the 2040 Master Plan

Mr. Oliver announced that the Port's 2040 Master Plan was last updated in 2003. Mr. Michael Crist, of Moffatt & Nichol Engineers, outlined the components of the updated 2040 Master Plan that included: updated cargo and capacity forecasts, completed Master Plan improvements at the terminals, funding sources, and Craney Island update.

Mr. Crist demonstrated how Port growth outpaced each of the updated forecasts reported since 1999. He advised that the 2003 Master Plan update showed that the port had exceeded all expectations and experienced double-digit growth. Mr. Crist advised that the creation of the chassis pool and two empty container depots had enabled the Port to provide additional capacity in 2003. He reported that discussions with marketing staff and trade representatives resulted in a forecast of 9-10% growth for the next five years.

Mr. Crist presented a timeline that projected cargo demand and planned capacity through 2040 that included the Maersk terminal and future Craney Island Marine Terminal. Chairman Milliken asked Mr. Crist to include TEU figures for each of the years of growth indicated on the Maersk timeline.

In summary, Mr. Crist reported that The Port of Virginia will more than double in the next ten years; VPA has a Master Plan in place to capture this growth; and, through CPF and terminal revenues, VPA can fund 82% of its \$3.2 billion Capital Outlay Program. He reported that \$593 million is needed in State assistance for Craney Island start-up costs that include the feasibility study, environmental mitigation, levee construction, and road and rail access. He noted there were additional costs factored into the project since the release of the Corps' report. Mr. Crist reported there is a 12-year lead-time before Craney Island is online in order to build levees, fill and construct the terminal. (Terminal construction begins in 2013.)

Mr. Goodwin suggested that staff prepare a return-on-investment that would include maps and outlines when approaching the legislature for funding. Mr. Crist advised that Craney Island is expected to generate over \$5 billion of economic growth to the Commonwealth. He said he would provide the Board with some background information.

Mr. Keever reported that VPA requested a one-time \$28 million General Fund allocation for the engineering and design of Craney Island and will also seek a \$30 million one-time surplus allocation to close the gap on funding needs for the Heartland Corridor project. Mr. Keever mentioned that VPA has been working with Senators Allen and Warner to seek a change in Corps' policy that restricts federal funding for the Craney Island levee construction to \$25 million.

Mr. Crist explained that VPA is currently exploring financing through Public-Private Transportation Act (PPTA), Design Build Operate Transfer (DBOT) and other creative financing. Chairman Milliken suggested that the Finance/Planning Committee meet in January to further discuss the subject.

4. Consideration of Resolution 05-20, adopting VPA's "Variable Rate Debt Policy", in accordance with guidelines adopted by the Treasury Department

Mr. Oliver explained that the adoption of a Variable Rate Debt Police would allow the Authority to proceed with an additional financing option for the capital projects reported by Mr. Crist. He announced that the Treasury Department had recently adopted a policy in May 2005. The Authority is required to have a policy in place before issuing debt. Mr. Oliver announced that VPA has no current plans for variable rate financing.

Mr. Oliver introduced David Miller, Public Financial Management, Inc. (PFM), who also represents projects for the Hampton Roads Planning District Commission and Chesapeake Bay Bridge Tunnel. Mr. Miller advised that the proposed policy is consistent with Treasury Board and rating agencies' guidelines. Mr. Miller briefly explained some of the features of the policy and he also listed several reasons to issue variable rate debt: secure interest rates, a financial construction management tool, refunding flexibility, and reduction of risk. He also explained risks involved that include interest rate volatility and public uncertainty.

Mr. Miller advised that ongoing monitoring would be done by Mr. Oliver, assisted by PFM that would also involve a letter of credit and the purchase of bond insurance.

Ms. Wagner announced that she had reviewed the policy and advised that Treasury plans to transact their first issue of this type in December.

Action: Upon motion made by Ms. Wagner, duly seconded by Mr. Grace, and adopted by unanimous vote (10-0), the Board approved the adoption of VPA's "Variable Rate Debt Policy".

D. Facilities Committee – Mr. Sen, Committee Chair

Mr. Florin presented the "Capital Outlay Program and Facilities Maintenance Overview" that featured progress on port construction to date.

The following projects were reviewed:

- Progress on 50' Channel Dredging
- NIT South Improvements – Phase II and Backlands Reconstruction – Stage II
- Backlands Reconstruction – All Stages
- NIT North Yard Expansion Grading (19 acres)
- PMT Reefer Row/Transfer Zone Relocation
- PMT Security Canopies – Located at Main Gate and POV Gate
- PMT Inspection Canopy
- PMT Gate Access Controls
- VIP Administration Building Addition
- Progress on APM/Maersk Terminal – Specifications, Construction Progression, Dredging Plan, Wharf and Yard Construction

Mr. Florin reported that the Maersk terminal at final build-out would house 10 cranes on a 4,000-foot berth, with an expected TEU production of 2.16 million.

E. Marketing Committee – Ms. Stearns, Committee Chair

Mr. Capozzi reported fiscal year-to-date performance (July-October 2005), reflecting an 8.8% increase in TEUs and a 3.9% increase in ships calls. Breakbulk performance declined by 24.3% due to a shortage of warehousing space at the port; a majority of which is non-state owned terminals. He reported that rail movements reflect a 28.7% increase in Midwest train traffic, and a 44.0% increase in rail traffic at the Inland Port.

Mr. Capozzi announced that October was a record month at the Port, producing 188,539 TEU movements and successful negotiations that resulted in 10-year contracts with China Shipping and the COSCO/Yang Ming/K Line consortium.

Mr. Capozzi also announced several major economic highlights that include the following:
California Multimodal, Inc. (CMI) – To begin operations in Hampton Roads in November
Johnson Development – Distribution center under construction in Isle of Wight County
InterChange – Distribution center in Front Royal adjacent to VIP to begin operations in January

Mr. Capozzi concluded with a comparison of trade lane performance for imports and exports from January-August 2005 vs. 2004.

F. Security Committee – Mr. Grace, Committee Chair

Mr. Merkle reviewed progress to date on the upgrade to the police voice and data communications network and VPA's contract with the Statewide Agencies Radio System (STARS). He described the communications capabilities of STARS that will also link VPA directly with State police, Marine Resources police, and Game and Inland Fisheries. Mr. Merkle advised that STARS implementation is underway starting with the Richmond region and will progress throughout the state.

Mr. Merkle reported that VPA police, to date, have completed communications coverage testing

Mr. Merkle reported that to date VPA has completed a successful communications coverage testing and is now participating in a series of "fleet mapping" that sets talk groups and finalizes equipment requirements. He explained that Port Police would have the ability to communicate throughout the terminal and region as well as allow for the capability for police terminal to terminal communications. All officers will have portable radios that will operate on 800 MHZ frequencies, the new interoperability standard.

Mr. Merkle described the features of the Mobile Data Computers that will be installed in a number of police vehicles. He introduced Captain Michael Bolton, State Police, who had one of the new Impala's on site that is fully equipped and will be similar to the equipment that will be installed in VPA police vehicles.

Mr. Merkle reported that the Hampton Roads Planning District Commission was awarded a \$6 million Homeland Security grant in 2004 to address homeland and port security communications within the Hampton Roads and southeast Virginia region. The initial network is projected to be fully operational by March 2006 and is being led by Zel Technologies.

Mr. Merkle announced that, within the year, VPA Police communications would be a leader among the nation's ports in interoperability capabilities.

III. REPORT OF EXECUTIVE DIRECTOR

There was no report from the Executive Director.

IV. UNFINISHED BUSINESS

There was no unfinished business.

V. NEW BUSINESS

VI. ADJOURNMENT

There being no further business and no public comments, the open meeting adjourned at 1:00 p.m.

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, January 24, 2005.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board