

MINUTES

Virginia Port Authority Board of Commissioners - Public Session 310

Norfolk, Virginia

May 22, 2007

Pursuant to call by Chairman Milliken, the Board of Commissioners held its regular meeting this date at 10:20 a.m., in the Authority's Conference Room A, 600 World Trade Center, Norfolk, Virginia. The following attended:

Commissioners:

John G. Milliken, Chairman
Robert C. Barclay, IV, Vice Chairman
Joe B. Fleming
Mark B. Goodwin
William M. Grace
Virginia M. Murphy
Ranjit K. Sen
J. Braxton Powell, State Treasurer

Absent:

Stephen M. Cumbie
Michael J. Quillen
Deborah K. Stearns
Thomas M. Wolf

Staff:

Jerry A. Bridges, Executive Director
J. J. Keever, Deputy Executive Director
Thomas D. Capozzi, Senior Managing Director of Marketing Services
Linda G. Ford, Director of Port Promotion
Rodney W. Oliver, Director of Finance
Jeffrey A. Florin, Chief Engineer
Elaine Smith, Director of Human Resources
Norris (Ed) Merkle, Director of Port Security and Emergency Operations
David M. James, Director of Contracts and Real Estate
Heather Mantz, Director of Environmental Affairs
Gregory J. Edwards, Managing Director of Marketing and Intermodal
Russell J. Held, Managing Director of Marketing
Kevin D. Burwell, Director of Business Analysis and Strategy
Carla Welsh, Program Manager-Port Promotion
Joe Harris, Program Manager-Media Relations
Jake Denton, Public Relations Program Manager
Andrew Engemann, Colonel, Chief of Port Police
Harold M. Willaford, Port Police Captain, Special Operations
Cindy Scheidemantel, Controller
Jodie Love, Administrative Asst., Senior
Rebecca Killen, Administrative Asst., Senior
Kristen Geer, Human Resources Assistant
Erika Snow, Administrative Assistant
Jodie L. Asbell, Deputy Clerk to the Board
Debra J. McNulty, Clerk to the Board

Guests:

J. Jasen Eige, Senior Asst. Attorney General

Guests (continued):

Arthur W. Moye, Virginia Maritime Association
Pat Herman, Vandeventer Black LLP
Lloyd M. Richardson, McGuireWoods LLP (VPA Bond Counsel)
Kenneth Sherwood, Zel Technologies LLC
Joseph A. Dorto, VIT General Manager
Richard N. Knapp, VIT Assistant General Manager
W. Millard Meiggs, Chief Financial Officer
John M. Ryan, VIT Corporate Counsel, Vandeventer Black LLP

INTRODUCTIONS

Ms. Ford introduced guests in attendance. Members of the press in attendance included Mr. Gregory Richards, *The Virginian-Pilot*; and Mr. Peter Dujardin, *The Daily Press*.

Chairman Milliken announced that Thomas M. Wolf, the newest member of the VPA Board, was unable to attend his first meeting. The Chairman referred to Mr. Wolf's biographical resume that was included in the agenda materials. Chairman Milliken announced that he had appointed Mr. Wolf to serve on the Board's Marketing Committee and Security Committee.

RESOLUTIONS OF SERVICE

Chairman Milliken announced that William M. Grace, who had served for almost ten years and whose term has ended, is retiring from the VPA Board. The Chairman spoke of Mr. Grace's personal commitment to the well-being of this port and described him as a "pillar of strength" while serving on the board. A resolution and shadowbox commemorating Mr. Grace's service was presented at this time. Mr. Grace announced that he had never missed a board meeting in ten years.

Action: Upon motion made by Mr. Barclay and seconded by Mr. Powell, the Board approved the Resolution of Service honoring William M. Grace for his service on the VPA Board of Commissioners.

Chairman Milliken also referred to the resolutions that were prepared in honor of Regina P. Brayboy and Leon Stafford, who had both tendered their resignations from the VIT Board of Directors.

Action: Upon motion made by Mr. Barclay and seconded by Mr. Goodwin, the Board approved the Resolution of Service honoring Regina P. Brayboy for her service on the VIT Board of Directors.

Action: Upon motion made by Mr. Barclay and seconded by Mr. Goodwin, the Board approved the Resolution of Service honoring Leon Stafford for his service on the VIT Board of Directors.

I. APPROVAL OF MINUTES

Action: Upon motion made by Chairman Milliken and seconded by Mr. Barclay, the minutes of the regular meeting held March 27, 2007 were unanimously approved.

II. REPORTS OF COMMITTEES

A. Executive Committee – Mr. Milliken, Chairman of the Board

Chairman Milliken appointed Ms. Stearns (to chair), Mr. Cumbie, and Mr. Fleming to serve on a Nominating Committee for the selection of officers to the VPA Board. The Nominating Committee will recommend the appointment of a slate of officers at the Board's annual meeting, scheduled for July 24, 2007.

The Chairman also appointed Mr. Barclay (to chair), Mr. Fleming, and Ms. Stearns to a Nominating Committee for the selection of two candidates for the VIT Board of Directors to replace Ms. Brayboy and Mr. Stafford. Chairman Milliken explained that it is customary for VPA Board members who represent the three port regions to serve on a Nominating Committee to appoint VIT Directors. The VIT Director candidates will be presented for approval by the full Board at the July 24th annual meeting.

Chairman Milliken announced that the Compensation Committee held a closed session meeting earlier and that there was no action to report regarding the Executive Director's compensation. He advised that discussions were held with Mr. Bridges regarding his performance for FY2007 and expectations for FY2008, which begins July 1, 2007.

Chairman Milliken, speaking on behalf of the Compensation Committee members, announced that they are very pleased with the work that Mr. Bridges has accomplished within the four months he has served as Executive Director. The Chairman reported that the award of an incentive compensation for FY07 and the criteria to evaluate the Executive Director's performance measures for the first full year of service for FY08 would both be on the agenda for the July 24th board meeting. Chairman Milliken said he was very pleased with Mr. Bridges' performance and that there would be more information for public disclosure at the July meeting. He invited members of the Board who are not on the Compensation Committee to provide input between now and July. The Compensation Committee is scheduled to meet in July for further discussions with Mr. Bridges prior to a formal decision by the full Board.

Chairman Milliken reported that the Compensation Committee also reviewed the FY07 results for Mr. J. Robert Bray, the Executive Director emeritus. At this time, Mr. Barclay read Resolution 07-13, which approves an incentive supplement for Mr. Bray in the amount of \$70,000.

Action: Upon motion made by Mr. Barclay and seconded by Mr. Sen, the Board unanimously approved (8-0) the Executive Director Emeritus incentive supplement for FY2007, in the amount of \$70,000.

Chairman Milliken explained that Mr. Bray was the Executive Director for the first seven months of the fiscal year and that he had certain criteria to be met. He noted that Mr. Bray's FY07 compensation plan had been amended to include transition activities.

The Chairman reported that the Compensation Committee unanimously felt that Mr. Bray should be recognized for his efforts in achieving a smooth transition to the new Executive Director and for his service to the Virginia Port Authority.

Chairman Milliken announced that Mr. Bray had informed him that he would retire effective July 1, 2007,

rather than December 2007. The Chairman said, "God bless him and we wish him the best." He added that Mr. Bray would be just a phone call away and that he will continue to be vitally interested in the success of this port.

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

1. VPA/VIT Year-to-Date Combined Financial Report

Mr. Oliver presented the VPA/VIT combined summary of results of operations for the first ten months of FY2007, ended April 30, 2007. Operating revenues were 1% below budget and 9% ahead of prior year. Mr. Oliver reported that volumes for April were up by 1.6% which exceeded expectations for flat volume for the rest of the year. Operating expenses were \$4.8 million below budget and \$4.3 million higher than prior year. He advised that the operating initiatives implemented by VIT in recent years have resulted in significant efficiency gains.

Mr. Oliver also reviewed non-operating revenue and expenses and the Commonwealth Port Fund allocation (4.2% of the Transportation Trust Fund) which was \$1.1 million below budget and \$484 thousand below prior year. He reported that Trust Fund collections are down primarily due to depressed auto sales and a decrease in vehicle usage this year due to high gas prices. Mr. Oliver advised that the Special Fund for FY2008 has been increased by \$20 million for contractual obligations including a \$12 million appropriation for the acquisition of straddle-carriers.

Mr. Oliver reviewed year-to-date expenditures and available funds for all of the Authority's outstanding bond issues.

Mr. Oliver advised that, due to time constraints, he would provide the Board with copies of the slides on the VPA/VIT Financial Ratio Analysis, which were not included in the agenda materials distribution.

2. Consideration of Resolution 07-7, approving the FY2008 VIT Budget for the year beginning July 1, 2007 and ending June 30, 2008

Mr. Dorto presented highlights of the proposed FY2008 VIT Budget. He advised that the budget was reviewed in the Finance/Planning Committee's closed session held earlier. Mr. Dorto reported that budgeted revenue for VIT is projected to be \$237,969,000 – down 1.7% compared to the current estimate of \$242,043,000 for the fiscal year ending June 30, 2007.

He reported that operating expenses are budgeted to increase from \$40.6 million for the current fiscal year to \$41.6 for the fiscal year ending June 30, 2008, as the cost per drayage increases as fuel surcharges rise. VIT staffing requirements will remain at 477 positions for the new fiscal year. He advised that maintenance expenses are budgeted to increase by 8.5% representing 19% of revenue.

Mr. Dorto reviewed budgeted accounting and administrative expenses. Budgeted net income for the fiscal year ending June 30, 2008 is \$56,535,000. He reported that budgeted net income should provide enough cash to fund payments to the VPA estimated at \$56 million for the fiscal year ending June 30, 2008.

Mr. Dorto reported that new business on the horizon should help with the 18,000 container deficit. He advised that a downturn in tonnage was anticipated over the last four years due to the opening of APM Terminals and rising maintenance and fuel costs.

Mr. Goodwin clarified that tonnage would have been up about 3.2% were it not for the decline in Maersk business. Mr. Dorto advised that he is looking to negotiate long-term contracts for the remaining 14% of our customers.

In accordance with the VPA Board of Commissioners request, Mr. Dorto reported the salaries and benefits of the following personnel as a part of the VIT budget highlights:

Joseph A. Dorto, CEO and General Manager, base pay of \$441,055 and up to 65% of base pay as a performing incentive (payout was \$273,000 in '06). Annual automobile allowance is \$21,285 and business related club benefits are \$3,986. A split dollar life insurance premium is provided for \$17,000. At age 65, the Annual Retirement Income will be \$393,444.

Richard N. Knapp, Assistant General Manager, base pay of \$222,842 and 30% of base pay as a performance incentive. A company automobile is provided and business related club benefits are \$7,016. At age 65, the Annual Retirement Income will be \$186,516.

M. Lynn Tarkenton, Director of Operations, base pay of \$188,235 and up to 30% of base pay as a performance incentive. A company automobile is provided. At age 65, the Annual Retirement Income will be \$190,660.

Action: Upon motion presented by Mr. Powell, seconded by Mr. Fleming, a majority of the Board (7-1) adopted Resolution 07-7, approving the FY2008 VIT Budget for the year beginning July 1, 2007 and ending June 30, 2008. Mr. Goodwin was the dissenting vote.

3. Consideration of Resolution 07-8, approving the FY2008 VPA Budget for the year beginning July 1, 2007 and ending June 30, 2008

Mr. Oliver reviewed highlights of the FY2008 VPA Budget in the Finance/Planning Committee meeting held earlier.

Action: Upon motion presented by Mr. Goodwin, seconded by Mr. Powell, the Board unanimously adopted (8-0) Resolution 07-8, approving the FY2008 VPA Budget for the year beginning July 1, 2007 and ending June 30, 2008.

4. Consideration of Resolution 07-9, awarding Aid to Local Ports Grants

Mr. Oliver briefly reviewed each of FY2008 Aid to Local Ports Grant requests for projects totaling \$877,940, to Accomack-Northampton Transportation District Commission, Town of Cape Charles, Town of Saxis, and the Town of Onancock.

Action: Upon motion presented by Mr. Goodwin, seconded by Mr. Grace, the Board unanimously approved (8-0) Resolution 07-9, authorizing Aid to Local Ports Funding (FY08), totaling \$877,940, to

Accomack-Northampton Transportation District Commission, Town of Cape Charles, Town of Saxis, and Town of Onancock.

5. Consideration of Resolution 07-11, (i) authorizing the issuance of up to \$155,000,000 in Commonwealth Port Fund Revenue Bonds and (ii) evidencing official intent to reimburse certain expenditures with the proceeds of bonds.

This item was reviewed by Mr. Oliver and VPA's bond counsel, Mr. Lloyd Richardson, in the Finance/Planning Committee meeting. Resolution 07-11 also outlines the IRS requirements for VPA to issue "governmental bonds".

Action: Upon motion presented by Mr. Goodwin, on behalf of the Finance/Planning Committee, seconded by Mr. Powell, the Board unanimously approved (8-0) Resolution 07-11, (i) authorizing the issuance of up to \$155,000,000 in Commonwealth Port Fund Revenue Bonds and (ii) evidencing official intent to reimburse certain expenditures with the proceeds of bonds

Chairman Milliken announced that a review of proposed revisions to the VPA Travel Policies and Procedures would be moved to the July meeting.

The Chairman reported that Resolution 07-10, approval of a VPA Banking Policy, was adopted by the Finance/Planning Committee earlier. He explained that the information was not included in the full Board agenda materials as the Finance/Planning Committee has the authority, according to the VPA Bylaws, to approve a banking policy without the approval of the full board.

Mr. Fleming questioned why the banking policy was not brought to the full Board with recommendations by the Finance/Planning Committee prior to approval. It was reminded by Mr. Fleming that he had raised the issue of opportunities for Consolidated Bank and other minority banks. Mr. Fleming was under the impression that all of the banks currently under contract would be "grandfathered" and would not allow opportunities for other minority banks. Mr. Bridges assured Mr. Fleming that the staff listened to his concerns by creating a banking policy that addresses those concerns. Mr. Oliver explained that the policy states, at least every five years, that VPA will advertise for solicitations for banking services that include SWaM participation.

Mr. Oliver explained that he had no intention of changing anything during fiscal year 2007 due to some staff changes but that he plans changes with some banking relationships by the fall. He said it is a major undertaking. Mr. Bridges reported that the policy was adopted by the Finance/Planning Committee and that VPA plans to do a solicitation for services by fall 2008. He said, at that time, Consolidated Bank or any other bank can submit a proposal.

Chairman Milliken clarified that all of the Authority's banking relationships will be up for re-evaluation this fall. Mr. Oliver explained to Mr. Fleming that the VPA Bylaws state that the Finance/Planning Committee has the authority to approve any new banking relationships and, therefore, did not need to go before the full Board. Mr. Oliver reminded Mr. Fleming that he had voted to approve the policy in the Finance/Planning Committee meeting. Mr. Goodwin mentioned that increased SWaM participation is included in Mr. Bridges' goals and objectives for FY2008.

Mr. Barclay stated that, as of October 1, every bank that has a relationship with VPA can assume their contract is null and void until renewal.

C. Facilities Committee – Mr. Sen, Committee Chairman

Mr. Florin presented the Capital Outlay Program and Facilities Maintenance Overview and provided a status report on projects that are ongoing at all VPA-owned terminals. He reported that Areas 5 and 6 of the NIT South Backlands reconstruction project is on schedule for early completion by July or August.

Mr. Florin described progress-to-date on the NIT North Wharf Extension, VIT office building, NIT POV parking lot, and NIT labor support and foreman buildings. Mr. Florin reported that the Governor included \$40 million in the budget to fully fund the Commonwealth Railway Mainline Safety Relocation to Route 164/I-664 median rail corridor and involves moving and relocating 80 utilities to make way for this project.

Mr. Florin reported that a resolution adopted by the Board approved up to \$11 million for the construction of the NNMT warehouse and he reported that the contract was for \$8.5 million. He also reminded the Board that Resolution 07-6, adopted at the last meeting, calls for the actual contract sum for the first design phase of the Craney Island Marine Terminal. Mr. Florin reported that VPA negotiated 35% design contract with Craney Island Design Partners in the amount of \$9,824,071.

Mr. Florin reported that the NIT Central Rail Yard design engineer is TranSystems and that H&B Railroad Co. (a SWaM vendor) came in as the low bid at \$16,476,450, for Phase 1. He presented Resolution 07-12 at this time, which authorizes VPA to enter into a contract with H&B Railroad Co.

Action: Upon motion presented by Mr. Sen, seconded by Mr. Barclay, the Board unanimously approved (8-0) Resolution 07-12, authorizing VPA to enter into a contract with H&B Railroad Co. to construct the NIT Central Rail Yard, Phase 1 Facility.

Mr. Florin reported that solicitations for construction of Phase 2 of the NIT Central Rail Yard would be issued next year. Mr. Florin also presented highlights of the Hampton Roads Planning District Commission Suffolk Rail Impact Study. The study area involved 40 highway-rail crossings along three rail road lines owned by Norfolk Southern, CSX, and Commonwealth Railway. Norfolk Southern operates 20 trains per day through the City of Suffolk and concerns were expressed as to the impact those trains would have on the city when APM Terminal opens. Mr. Florin advised that most of the crossings that are of concern are located in downtown Suffolk. Study conclusions are as follows:

Near Term Recommendations – Improve gates, signing = \$1.4 million

Intermediate Recommendations – Rail monitoring system with VMS = \$3 million, or

Long Term Recommendations – Flyovers, overpass, underpass = \$260 million

At this time, Mr. Knapp presented a computer-animated demonstration of the central rail yard operation utilizing shuttle-carriers. Mr. Knapp announced that this is one of the most exciting projects at NIT which involves a new method of loading rail cars utilizing shuttle-carriers instead of hustlers and chassis. Mr. Knapp explained that the shuttle-carriers can travel 25-30 miles per hour, without tipping over, and can load and offload rail cargo allowing VIT to triple lift capacity at NIT. He advised that the operation would utilize 8 shuttle-carriers, loading approximately 1,000 containers a day on a dedicated roadway.

Mr. Knapp explained that trains and cargo bound for Chicago will have cargo delivered the second morning from the vessel and from Columbus, Ohio the next morning. He announced that the operation will improve the port's marketing incentives for rail cargo.

Mr. Knapp announced that VIT's Information Technology Department created the demonstration within one month by using animated software.

Photos and status of port construction projects are posted at the following web link: www.vpa-engineering.net

D. Marketing Committee - Ms. Stearns, Committee Chairwoman

Mr. Capozzi reported that fiscal year performance for the period July 2006–April 2007 resulted in a slight increase in TEUs of +0.7% (14,500 TEUs); ship calls increased by +5.0%; and break-bulk was down by -11.4%. He noted that most of the growth in TEUs occurred during the last two months.

Mr. Capozzi advised that the first of the two ship line mergers started impacting VPA in March with the second merger impacting VPA in July.

Mr. Capozzi reported that mid-west rail cargo increased slightly by +1.4% and that rail shipments at the Virginia Inland Port have decreased by -12.9%. He announced that Red Bull has established a market in Front Royal and he predicted a rise in volumes at the Inland Port as a result.

Mr. Capozzi announced two new ship line services that will commence this summer – New World Alliance, CMA-CGM-ESX/SAX (via Panama) and New World Alliance – SZX (via Suez). Norfolk is the last U.S. port out on both services which is a good opportunity for VPA to capture outbound rail cargo from the mid-west. Mr. Capozzi reported that he accompanied the Governor's trade mission and that Virginia is seeing growth opportunities in India as they become a manufacturing center.

New economic developments for Virginia were also announced – West Park Lane in Hampton and Commonwealth Storage in Suffolk. Mr. Capozzi commended the marketing staff for their economic development efforts.

E. Security Committee – Mr. Grace, Committee Chairman

Mr. Grace thanked Mr. Merkle for his professionalism and for his work on the Port's security program. Mr. Merkle also expressed his appreciation to Mr. Grace on behalf of the VPA Police Department, as he leaves the board.

Mr. Merkle mentioned the Virginia Tech tragedy and how VPA port police are undergoing extensive training in order to prevent something like that from happening on our facilities.

Mr. Merkle announced that on May 10th the Department of Homeland Security (DHS) released the 2007 grant program recipients and that VPA was awarded \$3 million. He explained that VPA is a Tier II port and was eligible to compete for \$40 million in grants. (Tier I facilities have high concentration of petrol chemicals.)

Mr. Merkle reviewed the two projects that VPA had selected for funding:

Surveillance and Maritime Domain Awareness (MDA) = \$2.7 million total cost (VPA share=\$0.7M)
Transportation Worker Identification Card (TWIC) = \$1.3 million total cost (VPA share=\$0.3M)

Mr. Merkle announced that the final rule-making for the biometrics portion of the TWIC project will not be released until January 2008. He advised that VPA is in the second group of the top 10 ports. He estimated that TWIC could be ready for issue some time after the first of next year.

III. REPORT OF EXECUTIVE DIRECTOR

Mr. Keever reported that the Water Resources Development Act (WRDA) legislation that would increase Craney Island funding passed the Senate last week and it does include the eastward expansion of Craney Island, however, the funding formula is only 4% of the total cost of the project.

Mr. Keever announced that Senator John Warner had been named as a conferee. He advised that VPA hopes that the funding share could be increased to 50%. Mr. Keever advised that Senator John Warner is a big advocate for VPA and has been working extensively with members of Congress since last year on WRDA.

Mr. Keever reported that he and Greg Edwards, VPA's Director of Marketing and Intermodal, traveled to Huntington, West Virginia last week to meet with representatives from all of the states who have a stake in the Heartland Corridor project (Heartland Corridor Working Group). The parties agreed to meet once each quarter to stay informed about business opportunities in the Virginia, West Virginia, and Ohio corridor.

IV. UNFINISHED BUSINESS

There was no unfinished business.

V. NEW BUSINESS

VI. OTHER BUSINESS AND ADJOURNMENT

There being no further business and no public comments, the open meeting adjourned at 11:45 a.m.

The Annual Meeting of the Board of Commissioners will be held in the Authority's Conference Room A, 600 World Trade Center, Norfolk, Virginia, on Tuesday, July 24, 2007.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board