

MINUTES

Board of Commissioners - Session 315

Virginia Port Authority
600 World Trade Center
Norfolk, Virginia
January 22, 2008

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
Robert C. Barclay, IV, Vice Chairman
Martin J. Barrington
Stephen M. Cumbie
Joe B. Fleming
Mark B. Goodwin
Allen R. Jones
Michael J. Quillen
Deborah K. Stearns
Thomas M. Wolf

Commissioners Absent:

Ranjit K. Sen
J. Braxton Powell, State Treasurer

Staff:

Jerry A. Bridges, Executive Director
Thomas D. Capozzi, Senior Managing Director of Marketing Services
Rodney W. Oliver, Director of Finance
Linda Ford, Director of Port Promotion
Elaine Smith, Director of Human Resources
Jeffrey A. Florin, Chief Engineer
Norris (Ed) Merkle, Director of Security and Emergency Operations
Gregory J. Edwards, Managing Director of Marketing and Intermodal
Russell J. Held, Managing Director of Marketing
Kevin D. Burwell, Director of Business Analysis & Strategy
Carla Welsh, Public Relations Program Manager
Heather Mantz, Director of Environmental Affairs
David M. James, Director of Contracts and Real Estate
Jake Denton, Public Relations Program Manager
Andrew Engemann, Chief of Port Police
Michael Brewer, Captain-NIT Police Operations
Armondo Ward, Lieutenant-NIT Police

Staff (Continued):

Diane Kaufman, Quality Affairs Manager
Jodie Love, Administrative Asst. Senior
Rebecca Killen, Administrative Asst. Senior
Kristen Geer, Human Resources Assistant
Erika Snow, Administrative Assistant
Debra J. McNulty, Clerk
Jodie L. Asbell, Deputy Clerk

Guests:

Todd E. LePage, Senior Asst. Attorney General
Roy L. Pearson, Ph.D., William & Mary Mason School of Business Compete Center
James R. Bradley, Ph.D., William & Mary Mason School of Business Compete Center
K. Scott Swan, Ph.D., William & Mary Mason School of Business Compete Center
Michael Rieger, Moffatt & Nichol Engineers
Kenneth Sherwood, Zel Technologies, Inc.
David S. Stevenson, Zel Technologies, Inc.
John Ryan, Vandeventer Black LLC (VIT Corporate Counsel)
Joseph A. Dorto, General Manager, VIT
Richard N. Knapp, Assistant General Manager, VIT

INTRODUCTIONS

Ms. Ford introduced guests in attendance. Members of the press included Mr. Gregory Richards, accompanied by photographer, Mr. Rich Facun, with *The Virginian-Pilot*, and Mr. Peter Frost with *The Daily Press*.

I. APPROVAL OF MINUTES

Action: Upon motion made by Mr. Barclay, seconded by Ms. Stearns, the minutes of the regular meeting held November 27, 2007 were unanimously approved.

II. REPORTS OF COMMITTEES

A. Executive Committee – Chairman Milliken

There was no report from the Executive Committee.

B. Finance/Planning Committee

Mr. Oliver presented the VPA and VIT Combined Income Statement for the six months ended December 31, 2007. He reported that operating revenues were 14.8% over budget and 10.8% ahead of prior year. He noted that container traffic year-to-date was up approximately 12% from prior year. Mr. Oliver advised that the increase in the first half of this year was due to volume from three new ship line services, increased rail activity, and the result of APM Terminals' move from PMT to their new facility.

Mr. Oliver reported that maintenance expenses are slightly below budget, administrative expenses are in

line with budget, and depreciating expenses are \$3 million over budget. Mr. Oliver advised that some projects had completed earlier than anticipated. Non-operating expenses are also \$3 million ahead of budget.

Mr. Oliver reported that interest income is up because volume is up – cash flow is positive. He advised that there was some delay in borrowing for the straddle-carrier procurement and that VPA had scheduled the transaction for the first of the fiscal year.

He reported that allocations from the Transportation Trust Fund for the Commonwealth Port Fund are slightly below budget due to a downturn in the forecast from VDOT in November. Mr. Oliver advised that net assets are budgeted at \$49 million with an actual of \$61 million. He reported that a portion of net assets includes \$41 million in transfers for the median rail project and the Craney Island PED.

Mr. Oliver reviewed remaining balances, year-to-date expenditures, and unobligated balances for each of the funding sources in the Capital Improvement Program – the Commonwealth Port Fund, Special Fund (includes transfers from VIT), Federal Grants, and the remaining bond issues.

Mr. Oliver mentioned that the Federal government recently cut rates by 75 basis points and he advised that it is a good time for VPA to enter the market for the terminal revenue bond issue that is planned for April.

D. Facilities Committee

Mr. Florin reported that the NIT North wharf extension is ahead of schedule and is 75% complete with 500 of the 900 feet in place. He announced that the project was designed by Parsons Brinckerhoff and the contractor is Tidewater-Skanska. Mr. Florin reported that the wharf extension will be completed by April 2008 with the new cranes arriving approximately by early June. Mr. Florin advised that the cranes would not be operable until about two months from arrival.

Mr. Florin announced that the \$17 million NIT Central Rail project is about 35% complete. The designer is TranSystems and contractor is H&B Railroad Company. He advised that Phase 1 was just awarded and Phase 2 will commence in approximately one and a half years.

Mr. Florin advised that the NIT Shuttle Carrier Road project, a dedicated route for shuttle carriers between NIT North and the new Central Rail Yard, is scheduled for completion by August 2008. The contractor is E.V. Williams.

Mr. Florin explained that the NIT South Backlands Reconstruction involves a 150-acre renovation of the NIT South Container Yard. Moffatt & Nichol Engineers designed the project and the contractor is E. V. Williams. He advised that work is currently being done on Area 8 with several phases of the project having been completed. The entire project is scheduled for completion by 2010.

Mr. Florin announced that he would present a resolution to the Board for approval at the March 25th meeting to award a contract for the paving of Areas 5/7.

He presented a photo of the completed VIT office building that is located on Terminal Boulevard. VIT is currently going through punch-list items and furniture procurement for occupancy by April.

Mr. Florin reported that the \$8.6 million NNMT bulk storage warehouse project is about 60% complete

and is a design-build project by Virtexco that is scheduled for completion by June 2008.

Mr. Florin provided an update on the Commonwealth Railway Mainline Safety Relocation Project that involves relocating the Commonwealth Railway Line to the Route 164/I-664 median rail corridor. The design-build contractor is Branscome and that portion of the project is currently 25% complete with final completion estimated by Summer 2009 and first phase scheduled to open by 2017.

Mr. Florin reported that the eastward expansion for the Craney Island Marine Terminal (CIMT) is currently in the design phase and the permit submittal is scheduled for spring 2008 with major construction on schedule for 2009. Mr. Florin reported that VPA and the Army Corps of Engineers are in the planning stages for the Craney Island connector and had received a \$500,000 grant from the multi-modal office of VDOT.

He presented a map rendering the proposed CIMT and the Craney Island road and rail connector showing their proximity to the APM Terminal. He announced that the Access Modification Study to determine the interchange alignment is nearing completion and is being coordinated among the Federal Highway Administration, VDOT, Hampton Roads Planning District Commission, and City of Suffolk.

A \$4.9 million Transportation Partnership Opportunity Fund Grant application was submitted to develop a design-build RFP for the Craney Road/Rail Connector.

At this time, Mr. Florin presented Resolution 08-01 and he reported on the proposal process for the purchase of 44 straddle-carriers. He explained that VPA had received proposals from the only three companies in the country who make straddle-carriers. The selection panel recommended that VPA divide the award among the three offerors – 34 strads built by Noell Mobile Systems GmbH and 5 strads each built by Kalmar Industries, Inc. and Crane Tech Solutions for a total value of \$41,690,050 (US) million. Mr. Florin reported that VPA issued a Letter of Award to the three companies, 10 of which are contingent upon the approval of the Board and 34 of which are subject to approval by the Board and Appropriation granted by the Governor and General Assembly.

Mr. Wolf questioned the rationale for dividing the contract among three vendors. Mr. Florin explained that one vendor could not provide delivery for all of the machines in time for the port's peak season and Noell had the better price. Mr. Florin said that VPA typically tries to encourage competition among companies by dividing a large order. Mr. James explained that this is the first time VPA had procured electric straddle-carriers and that it was a good time to evaluate the machines and put them up against each other to see if one company stands out above the rest.

Mr. Knapp explained that electric motors perform better than hydraulic motors and also provide lower emissions. Mr. Quillen mentioned that electric machines would involve additional training for mechanics in the conversion from hydraulic.

Action: Upon motion made by Ms. Stearns, duly seconded by Mr. Cumbie, and adopted by unanimous vote, the Board approved Resolution 08-01, authorizing the Executive Director to execute a contract with three companies for the purchase of 44 electric straddle carriers at a cost of \$41,690,050, for delivery to NIT and PMT.

*Photos and status of major projects are posted at the following web link: www.vpa-engineering.net
<<http://www.vpa-engineering.net>>*

E. Marketing Committee

Mr. Capozzi presented 2007 Calendar Year-End Business Report, 2008 Fiscal Year Performance Update, and the 2008 Calendar Year Forecast. He announced that West Coast ports experienced an average decline in business by 1.4%. Mr. Capozzi noted that Savannah experienced a surge in growth due to distribution centers in the Georgia market.

Mr. Capozzi reported that The Port of Virginia increased TEUs by 4.0% for calendar year 2007, breaking the 2.1 million TEU mark. Ship calls decreased by -2.1% and break-bulk decreased by -23.2%. He reported that Midwest train (+20.9%) and Virginia Inland Port train (+14.4%) traffic increased considerably.

Mr. Capozzi announced that the projected forecast for growth at the Port is 2.5% for CY2008 and he presented the following points for consideration:

- West Coast contract negotiations could provide diverted cargo
- Higher oil prices will affect supply chains
- New, larger vessels just built and introduced into service
- Housing and credit affecting consumer purchasing decisions

Mr. Capozzi credited Mr. Kevin Burwell, the Authority's Director of Business Analysis and Strategy, for predicting 4% growth in TEUs for CY07.

Mr. Capozzi reviewed FY2008 performance as follows:

TEUS	+7.0%	Midwest train	+26.5%
Ship Calls	-5.4%	VIP train	+34.9%
Break-bulk	-21.2%		

Mr. Capozzi reviewed 2007 ship line services and a recap of economic development projects that included nearly 2.7 million square feet of space in Virginia. Mr. Capozzi reported that 1.7 million square feet of warehouse space in Virginia was secured in 2007 for new or expanded port business. New 3PL business in the port area included 18,877 TEUs and 14 projects.

Mr. Capozzi reported economic development announcements for 2008 that included the recent announcement that A&R Logistics had purchased the former Nova Chemicals Corporation plant site in Chesapeake. He announced that VPA also secured a five-year deal with long-time customer, Wallenius Wilhelmsen Logistics for roll-off cargo with an estimated minimum value of \$20 million. He advised that, currently WWL vessels in its Far East service call at NIT three times a month and will be shifted to NNMT in summer of 2008 when a dedicated break-bulk cargo terminal will be completed.

Mr. Capozzi concluded with photos of his travel with Mr. Bridges to Egypt for the signing of a Memorandum of Understanding with the Suez Canal, effective December 12, 2007.

At this time, Mr. Capozzi introduced Dr. Roy L. Pearson, Ph.D., with The Mason School of Business Compete Center, College of William & Mary, who presented an executive summary of the "Fiscal Year 2006 Virginia Economic and Fiscal Impacts of Virginia Port Authority Operations". Dr.

Pearson was also accompanied by Dr. James R. Bradley, Ph.D., and Dr. K. Scott Swan, Ph. D. The executive summary and the full report were distributed to members of the Board.

Dr. Pearson explained that the Virginia Port Authority is the center of a broader Virginia value chain that creates value through three main channels: Virginia-made exports; VPA-related port operations; and imports staying in Virginia.

Dr. Pearson presented the total FY2006 VPA economic impacts as follows:

- 16.3 million tons of cargo valued at \$36.2 billion flowed through the four terminals (Includes APM Terminal and does not include Virginia Inland Port)
- VPA terminal operations produced or contributed to:
 - Virginia revenues of \$41.1 billion, with
 - employee compensation of \$13.5 billion,
 - paid to 343,000 Virginia employees (includes full and part-time employees)
- The \$13.5 billion compensation was 7.4% of FY2006 employee compensation to private and state and local government employees.
- The 343,000 employees were 9.0% of the 3.83 million Virginia resident employments.

Dr. Pearson explained that moving 16.3 million tons of cargo is equivalent to moving the weight of 159 fully-loaded aircraft carriers through the terminals, one every two and a quarter days.

Dr. Pearson also provided a breakdown of VPA economic and tax impacts, VPA-related port operations impacts, and VPA export and import Virginia impacts. He explained that of \$14.7 billion in exports handled, \$8.1 billion was made in Virginia and of \$21.5 billion in imports handled, \$8.5 billion stayed in Virginia.

Chairman Milliken stated that the report was very impressive and he asked how the report compared to the last report that had been prepared in 1999. Dr. Pearson explained that tonnage increased by 48% since that time but that the total number of employees had increased by only 19%, which means tonnage moving per employees is up by 24%.

Mr. Bridges explained that he had wanted the VPA Board to hear the report first-hand. The Chairman suggested that Mr. Bridges work with Dr. Pearson to make the appropriate presentations to the administration and to legislators. Mr. Bridges advised that the report would be provided to media outlets throughout the Commonwealth and that members of the General Assembly, who are currently in session, would also be presented with the report over the next several weeks. Mr. Bridges also advised that Dr. Pearson would be available to answer detailed questions posed by the media as to the methodology of the report.

Mr. Capozzi announced that a separate economic impact study of the Virginia Inland Port would also be commissioned. Mr. Knapp said it was important to update the studies more frequently in order to provide accurate information to civic groups as well.

(A copy of the full report is available on the VPA website at: www.vaports.com)

F. Security Committee

Mr. Merkle announced that VPA port police responded to 2,982 incidents involving radiation portal alerts (1,071), vessel declaration of security (238), port ID violations (188) and motor vehicle violations (132).

Mr. Merkle announced that VPA opened its first pedestrian gate this month and, prior to opening, VPA and VIT installed access control readers at job sites to ensure employee IDs were working satisfactory. The unmanned gate is under 24 by 7 video and access monitoring. He advised that several security features have been added to prevent “defeating” the access control and that police conduct both random and targeted verification checks. Mr. Merkle noted that the penalty for unauthorized access is severe with immediate revocation of the Port ID as well as possible criminal charges.

Mr. Merkle reviewed the 2007 Port Security Grant Awards (\$4 million) that included \$2.7 million for surveillance and MDA and \$1.3 million for TWIC. The VPA share for both projects is \$1 million and federal share is \$3 million. He reported that projected costs for surveillance and network improvements are \$2.7 million in order to provide a “robust/resilient” data network; smart perimeter in critical areas, and enhance surveillance capabilities.

Mr. Merkle reported that the region also received just over \$1 million in additional 2007 port security grants by completing a port-wide risk and mitigation plan that was required by the Department of Homeland Security and in coordination with Virginia’s Office of Commonwealth Preparedness.

Mr. Merkle reported that projected costs for TWIC implementation would be approximately \$1.3 million and includes updating the access control system to read TWIC. He advised that the Port of Hampton Roads remains on TSA’s official list for February or March implementation.

Mr. Merkle explained that TWIC would include biometrics and that enrollment for the card at this phase involves submission of information. He advised that it is critical that the activation of TWIC cards is on a secure line. Mr. Merkle reported that biometrics would be required by the Federal government by 2009.

Mr. Merkle announced that VPA Police Captain Monty Willaford is working with the Virginia Maritime Association and other port leaders to develop “common” security plan language, such as procedures for escorting contractors. He is serving as one of the region’s technical experts in TWIC enrollment and implementation.

III. REPORT OF EXECUTIVE DIRECTOR

Mr. Bridges announced that, in keeping with his “triple bottom line philosophy” to increase business opportunities for SWaM vendors by 23%, VPA showed a significant increase in SWaM expenditures to date. He turned the meeting over to Mr. David James to report the numbers for first and second quarter FY08. Mr. James reported that VPA had an increase of \$8 million in SWaM expenditures for the second quarter of FY08 that equates to 29% of VPA’s discretionary budget. The first quarter of FY08 saw an increase of \$6 million or 18% of the budget.

Mr. Jones commended Mr. James on achieving the SWaM goal to date and he said he recognized how difficult it is to change procurement habits. Mr. Jones requested that the Authority work towards raising the benchmark for SWaM procurement beyond the 23% goal.

IV. UNFINISHED BUSINESS

There was no unfinished business.

V. NEW BUSINESS

There was no new business.

VI. ADJOURNMENT

Chairman Milliken announced a proposed schedule for the next meeting, Tuesday, March 25, 2008, as follows:

11:00 a.m. – Finance/Planning Committee meeting, followed by a meeting of the Investment and Administrative Committee

2:00 p.m. – Full Board Public Session

The Chairman explained that major items on the agenda both for the Finance/Planning Committee and full board pertain to an upcoming bond issue and fiscal year assumptions for the VPA and VIT annual budgets. He advised that the budget briefing will be a significant part of both meetings. The Chairman also mentioned that there would be a closed session in order for Mr. Bridges to present personnel items. He asked members of the Board to also plan on staying for dinner as the meetings may extend into late afternoon. The Chairman advised that the VIT Board would be invited to join the VPA Board in the budget discussions.

Mr. Jones entertained the Board with a description of his experience boarding a Yang Ming vessel by way of one of the harbor pilot vessels. Mr. Jones explained that Mr. Kevin Eley had invited him to learn first-hand what it was like to be out on the harbor and to board a container vessel. Mr. Jones recommended the experience to all of the VPA board members and he remarked that he was very proud to be a commissioner of the VPA.

There being no further business and no public comments, the open meeting adjourned at 12:35 p.m.

The next meeting of the Board of Commissioners will be held in the Authority's Conference Room A, 600 World Trade Center, Norfolk, Virginia, at 2:00 p.m. (rescheduled time) on Tuesday, March 25, 2008.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board