

MINUTES

Board of Commissioners - Session 284

Virginia Port Authority

World Trade Center

Norfolk, Virginia

July 22, 2003 (Held immediately after Annual Meeting)

Pursuant to call by Chairman Milliken, the Board of Commissioners held its regular meeting this date at 11:05 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

Mark B. Goodwin

William M. Grace

Jonathan Johnny Johnson

Ronald W. Massie

Peter D. Pruden, III

Ranjit K. Sen

G. H. Stalling, III

Deborah K. Stearns

Jody M. Wagner, State Treasurer

Absent:

Gerald S. McGowan

Office of the Secretary of Transportation

Mr. Ralph M. Davis, Deputy Secretary of Transportation

Staff:

J. Robert Bray, Executive Director

Robert R. Merhige, III, Deputy Executive Director/General Counsel

Thomas Capozzi, Senior Managing Director of Marketing Services

Linda G. Ford, Director of Port Promotion

Oliver W. Daughdrill, Director of Finance

Rodney W. Oliver, Assistant Director of Finance

Jeffrey Florin, Chief Engineer

Jeffrey Jenkins, Director of Business Analysis and Strategy

Carla Welsh, Program Manager, Port Promotion

Joseph Harris, Public Relations Coordinator

Danielle Bazemore, Finance Manager

Claudia J. H. Craft, Accounting Manager

Patty A. Wilson, Finance Support Supervisor

Mary Kaye Hinson, Accounting Specialist

Staff (Continued):

Janie B. Fogle, Payroll Specialist
Lorraine H. Gousse, Program Support Technician Senior
Mary Elizabeth Reilly, Fiscal Technician
Terri S. Campbell, Program Support Technician
Stephanie Bingham, Finance Clerk
Debra J. McNulty, Clerk to the Board/Secretary
Jodie L. Asbell, Deputy Clerk to the Board/ Assistant Secretary

Guests:

Stephanie L. Hamlett, Assistant Attorney General
Lloyd M. Richardson, McGuireWoods LLP
James W. Dyke, Jr., McGuireWoods LLP
JoAnne Carter, Public Financial Management
John D. Cavanaugh, Cavanaugh, Nelson & Co., PLC
Robert A. Dardenne, Financial Consultant
Ronald Tillett, Morgan Keegan & Company, Inc.
Kevin Rotty, Morgan Keegan & Company, Inc.
Jack L. Ezzell, Jr., Zel Technologies LLC
Verle B. Hammond, President & CEO, INNOLOG
Albert Sabol, Director, Homeland Security, INNOLOG
Richard Johnson, Rileen Innovative Technologies, Inc.
Bruce Benson, Rileen Innovative Technologies, Inc.
Michael T. Crist, P.E., Moffatt & Nichol Engineers
Joseph A. Dorto, General Manager, VIT
Richard N. Knapp, Asst. General Manager, VIT

I. APPROVAL OF MINUTES

Action: Upon motion made by Chairman Milliken, the Board approved the minutes of the regular meeting held May 20, 2003.

II. REPORTS OF COMMITTEES

A. Executive Committee

1. Presentation of the W. Wright Harrison Award

Chairman Milliken announced that Oliver W. Daughdrill, the Authority's Director of Finance, was the recipient of the annual W. Wright Harrison Award. Chairman Milliken commended Mr. Daughdrill for over 30 years of service with the Virginia Port Authority and spoke of his accomplishments, some of which include leading the Department of Finance through the consolidation of the ports under one umbrella and the establishment of the Commonwealth's state-wide accounting system (CARS). The Chairman also congratulated Mr. Daughdrill for the successful completion of many bond issue transactions for the Authority. Mrs. Nora Daughdrill and members of the Finance Department were also in attendance.

B. Finance/Planning Committee

1. VPA Financial Reports

Mr. Oliver presented financial results for the Authority for the first 11 months of the fiscal year through May 31, 2003. He announced that terminal revenues are ahead of budget and operating expenditures are well within budget. Mr. Oliver reviewed funds in the Capital Improvement Program that consist of Commonwealth Port Funds, Federal security grant monies, and the 1997, 2002, and 2003 bond proceeds.

Mr. Oliver reported that the Authority received \$5.3 million in federal security grants in the beginning of the year and that the Department of Planning and Budget had appropriated \$3.1 million to VPA to expend during the fiscal year. Mr. Oliver advised that, through the first 11 months, \$663,000 of those funds were expended with \$2.4 million obligated for specific projects.

Mr. Oliver also confirmed that all of the required balances for the 1997, 1996, 1998, and 2002 bond issues are in compliance with financial covenants.

2. Results of Bond Sale

Mr. Oliver reported that the successful completion of the Port Facilities Revenue Bonds, Series 2003 occurred on June 26, 2003. He advised that the issue netted 4.49% true interest costs for an average life of 19 years, par amount of \$55,155,000 and net premium of \$1.5 million. Mr. Oliver outlined the use of funds. He reported the underlying ratings on the Bonds, as follows:

| | |
|----------------------------------|---------------------|
| Moody's Investors Service | A1 (stable outlook) |
| Standard & Poor's Rating Service | A (stable outlook) |
| Fitch Investors Service | A (stable outlook) |

With insurance from MBIA, the ratings on the Bonds are as follows:

| | |
|----------------------------------|-----|
| Moody's Investors Service | Aaa |
| Standard & Poor's Rating Service | AAA |
| Fitch Investors Service | AAA |

3. Motion to adopt amended and restated Resolution 97-5, to become effective pursuant to Resolution 03-3, adopted May 20, 2003.

Mr. Richardson referred to the full restatement of Resolution 97-5 (black-lined), contained in the agenda materials and his memo that described the proposed revisions. Mr. Richardson reported that in connection with the Authority's issuance of its new series of revenue bonds on June 26, the rating agencies indicated that adoption of the 2003 Amendments would not negatively impact their ratings on the Bonds issued under the 1997 Resolution. As a condition to the issuance of its bond insurance policy to secure the 2003 Bonds, MBIA Insurance Corporation asked the Authority to revise two of the requested amendments. These revisions did not affect the substantive charges sought by the Authority. MBIA asked that the Authority drop the "Materiality" addition to Section 1102 of the Resolution, which they felt adversely affected their consent rights.

Mr. Richardson advised that MBIA also asked that the Authority obtain an opinion of a Management Consultant before granting certain kinds of liens on the Port Facilities, such opinion to indicate that the proposed lien will not materially impair the operation of such facilities. Mr. Richardson advised that this would give the bond holders comfort that there will be a third party opinion in that process should the Authority choose to do a financing that requires some type of lien.

Mr. Richardson noted that in passing this resolution it will not go into effect until one of two issues: either we will have to take out the 1997 bondholders through some type of refinancing which can not take place until 2007; or we may be in a position before 2007 to issue additional bonds in a sufficient quantity that we would have a majority consent to these amendments. As a result, the 2003 Amendments are unlikely to go into effect before the middle of 2007.

Referring to the June 14, 2003 memorandum that was sent to the rating agencies, Mr. Stalling questioned the section entitled, "Swaps Versus Derivatives". He asked if the Authority had plans to enter into that market. Mr. Richardson advised that there are no plans to do that at this time, however, the language was included in order to allow VPA, in the future, to consider those products. He noted that the 2002 Virginia General Assembly modernized the statute to permit state agencies to enter into certain types of derivative products.

Mr. Grace asked if it were too costly to not wait until 2007 for the amendments to take place. Mr. Richardson said cost was taken into consideration in that it could take months to locate all of the bondholders and that some of the bondholders might ask for some type of concession in order to give their consent. Mr. Richardson advised that none of the amendments warrants having to go through that process.

Mr. Dorto asked for clarification on the effective date of the proposed changes to the reserves. Mr. Richardson confirmed that those changes would not go into effect until 2007.

Action: Upon motion made by Mr. Massie, duly seconded by Mr. Stalling, and adopted by unanimous vote (10-0), the Board approved the adoption of the proposed amended and restated text of Resolution No. 97-5, as previously amended and restated, to reflect the amendments thereto approved by the Board by Resolution No. 03-3, adopted on May 20, 2003.

Mr. Oliver introduced Ms. Danielle Bazemore, the Authority's new Finance Manager. Ms. Bazemore previously worked for the Henrico County Police Department. Mr. Oliver also introduced the Authority's bond financial advisor, Ms. JoAnne Carter, Public Financial Management.

4. Consideration of Resolution 03-7, authorizing financing under proposed Master Equipment Lease Program for the VPA.

Ms. Carter distributed a one-page summary detailing VPA's equipment financing needs for fiscal years 2004-2006 that would be financed through the Authority's proposed Master Equipment Lease Program. Ms. Carter advised that the Authority is in need of a great deal of equipment in order to keep up with expansion. She reported that a number of the equipment listed has been contracted for and the Authority is expecting delivery of this equipment later in the year. Total equipment needs for the next three fiscal years amounts to approximately \$43.3 million, and includes the purchase of 10 straddle

carriers in FY2004, 3 container cranes and 18 straddle carriers in FY2005, and 18 straddle carriers in FY2006. Ms. Carter advised that Public Financial Management recommended the Master Equipment Lease Program as a means of financing these needs. She stated that the program is an approach her firm has used for other ports around the country and that it is very common among revenue-generated municipal entities.

Ms. Carter advised that she, along with VPA staff and bond counsel, had met with Treasury staff several months ago to consider the Commonwealth's Master Lease Program and, together, had concluded that a stand-alone program would better serve VPA's needs.

Ms. Carter reviewed the features of the program, as follows:

- The proposed structure creates a financing program for the VPA to borrow up to \$45 million on a lease purchase basis, to acquire equipment as needed.
- The equipment serves as security for the loan and lease payments are made from terminal revenues.
- Since terminal revenues will be used, the Authority must comply with provisions of its Bond Resolution 97-5, as amended and restated.
- The Authority's obligation to repay the lender will be subordinate to its obligation to pay terminal revenue bond holders, allowing the Authority to conserve its future capacity to issue terminal revenue bonds.
- Program will allow principal repayment terms matching the useful life of the equipment.

Mr. Richardson briefly reviewed Resolution 03-7, which approves the adoption of the Master Equipment Lease Program.

Action: Upon motion made by Mr. Massie, duly seconded by Mr. Stalling, and adopted by affirmative vote (10-0) the Board approved Resolution 03-7.

5. Declaration of Official Intent of the Authority to Reimburse Itself from Proceeds of Tax-Exempt Financing.

Mr. Richardson explained that the Declaration relates to the equipment lease program and it is a tax code requirement.

Action: Upon unanimous vote (10-0), the Board approved the Declaration of Official Intent of the Authority to Reimburse Itself from Proceeds of Tax-Exempt Financing.

C. **Facilities Committee** – Mr. Stalling, Committee Chairman

Mr. Florin presented the "Capital Outlay Program and Facilities Maintenance Overview", with updated slides featuring the following ongoing and completed projects at the terminals:

- Pinner's Point Interchange

Mr. Knapp announced that Mr. Florin did a great job coordinating construction related to the Pinner's Point project. He said the work has gone more smoothly than any other major project on the terminal.

Mr. Florin reported that when the Pinner's Point project is complete, the Port Authority might look to acquire the Tarmac property.

- PMT Multi-Purpose Labor Support Building
- PMT ID and Security Building

Mr. Florin reported that the ID and Security building will provide a permanent station for VPA police and will serve as an identification issuing facility providing closed circuit TV access and electronic access in and out of the terminal.

- PMT Gate Canopy and Checkpoint
- NIT North Expansion Area and Dredging
- NIT Command and Control Center
- NIT Crane Maintenance Facility
- Plum Point Environmental Restoration
- NIT Warehouse 4 and 5 Demolition
- NIT Warehouse 1, 2, and 3 Site Grading
- NIT South Improvements – Wharf Reconstruction and Backland Reconstruction

Mr. Florin reviewed Phases I, II and III of the NIT South improvements (\$279 million project). He announced that the Authority plans to issue \$50 million in Commonwealth Port Fund bonds next July 2004.

Mr. Florin announced that the cranes should arrive in time for a ceremony that the Authority is planning the end of August.

D. Marketing Committee - Mr. Pruden, Committee Chairman

Mr. Capozzi announced that tonnage figures for the Port reflect "truly amazing" increases in volumes. He praised VIT for their operational efficiencies. Mr. Capozzi reviewed calendar and fiscal year-to-date results.

Calendar Year-to-Date 2003 vs. 2002: Total TEUs increased 19.7% ; loaded TEUs increased 17.2%; Midwest rail containers increased 11.6%; VIP rail containers decreased 19.7; breakbulk tonnage increased 16.4%; and vessel calls increased 4.8%.

Fiscal Year-to-Date 2003 vs. 2002: Total TEUs increased 20.5% and loaded TEUs increased 18.5%. Mr. Capozzi noted that these figures represent an 18.8% increase in TEUs over FY2000 - the Port's best year.

Midwest rail containers increased 15.6%; VIP rail containers decreased 23.5%; breakbulk tonnage increased 31.7%; and vessel calls increased 3.2%

Mr. Capozzi talked about the trade imbalance and reported that a deficit of exports is causing containers to build up. He added that West Coast freight continues to flow over the East Coast. VPA is continuing to encourage ship lines to route services from the West Coast.

Mr. Capozzi reviewed Growth Factors:

- Five new ship line services
- West Coast freight has continued to flow over the East Coast
- Distribution/Deconsolidation Centers
- Home Depot – VIP Export Initiatives
- PL480 – Government Aid Cargo
- Continued Distribution Center/Warehouse Development
- Expected Growth

Mr. Capozzi advised that Home Depot would change Front Royal from “a container deficit area to a container surplus area”. He described the method of shipment for the handling of foreign aid cargo. Mr. Capozzi announced that Target’s new distribution center in Suffolk is expected to produce 30,000 new containers this year for the Port.

Mr. Capozzi projected 6% growth for next fiscal year.

E. Security Committee – Mr. Grace, Committee Chairman

Mr. Merhige reported that the Authority had received two rounds of Federal security grants amounting to \$8.3 million. Total security needs at the Port are estimated at \$25 million. Mr. Merhige reported that a third round of grants was announced yesterday for \$104 million. He announced that there are five criteria for ports to be eligible for funds: (1) a large container port; (2) a Department of Defense (DOD) strategic port; (3) a DOD controlled port; (4) handle hazardous material; (5) large passenger port. VPA meets four of the five criteria (not a passenger port).

Mr. Merhige announced that the Port Authority has entered into a contract for a lead systems integrator to coordinate the Port’s security requirements - Zel Technologies, Inc. (ZelTech) based in Hampton, Virginia. He reported that ZelTech is partnered with Innovative Logistics Techniques, Inc. (INNOLOG), from Northern Virginia. Rileen Innovative Technologies, Inc., based in Virginia Beach, will provide biometrics technology services.

Col. Jack L. Ezzell, Jr., ZelTech’s president and founder, Col. Verle B. Hammond, President & CEO, INNOLOG, Mr. Albert Sabol, Director, Homeland Security for INNOLOG, and Mr. Richard Johnson, President, Rileen Innovative Technologies, Inc., presented company credentials and outlined the role that each one of them would play in providing security services for VPA.

Mr. Johnson demonstrated how his company would provide facial and fingerprint biometrics technology for foreign nationals arriving the Port who leave the vessel. Within the next several weeks, Rileen will commence a pilot program at NIT utilizing the biometric device.

Mr. Grace thanked Mr. Bray and Mr. Merhige for having the foresight in looking for capable Virginia companies to provide the Port’s security needs. Mr. Grace remarked that this Port would become the premier port when it is fully developed.

III. REPORT OF EXECUTIVE DIRECTOR

Mr. Bray notified the Board that the term of a VIT Director, representing the Chesapeake/Portsmouth seat, ends November 30, 2003. The VPA Board will appoint a new director to the VIT Board at the November 25, 2003 meeting.

IV. UNFINISHED BUSINESS

There was no unfinished business.

V. NEW BUSINESS

Chairman Milliken announced the formation of a Procurement Policies Review Committee that he would chair with membership comprised of Commissioners Sen, Grace, and Goodwin. The Committee will work with the Authority staff to review existing procurement policies and to explore new and innovative ways that VPA can become a model of diversified participation in the area of procurement.

The Chairman announced that the first meeting of the Procurement Policies Review Committee would be held September 23, 2003. All board members were invited to attend. Chairman Milliken requested that staff prepare a briefing document regarding current law and practices to provide the necessary background for the meeting. The Chairman said he intended to bring a report to the full Board at the November or, January 2004 meeting.

VI. ADJOURNMENT

There being no further business, the open meeting adjourned at 1:00 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, on Tuesday, September 23, 2003.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board