

**Virginia Port Authority Board of Commissioners**  
**Finance/Planning Committee Meeting**  
**November 22, 2011**

Open Session Minutes

Committee Members Present:

Scott R. Bergeron, Chair  
Juliann J. Clemente, Vice Chair  
John N. Pullen  
Ting Xu

Committee Members Absent:

Manju S. Ganeriwala

Commissioners Present:

James M. Boyd, VPA Vice Chair  
Robert M. Stanton

Staff:

Jerry A. Bridges, Executive Director  
J. J. (Jeff) Keever, Senior Deputy Executive Director, External Affairs  
Rodney Oliver, Deputy Executive Director and CFO  
Jeffrey Florin, Deputy Executive Director, Operations and COO  
Carla Welsh, Manager, Creative Services  
Debra J. McNulty, Clerk to the Board

Guests:

David Tyeryar, Deputy Secretary of Transportation and CFO  
Jeffrey R. Allen, Assistant Attorney General  
DeAnn Compton, Office of Auditor of Public Accounts  
William Harrison, Williams Mullen (VPA Bond Counsel)  
JoAnne Carter, Public Financial Management  
Kristy Choi, Public Financial Management  
Ira Smelkinson, Morgan Stanley  
Sewor Kim, Morgan Stanley  
John Kirn, Siebert Brandford Shank, Co., Inc.  
Richard Hurlbert, Kaufman & Canoles  
Joseph A. Dorto, President and CEO, VIT  
Regina P. Brayboy, Vice President, Administration and Financial Services, VIT

Pursuant to call by the Committee Chair, Mr. Scott Bergeron, the Finance/Planning Committee convened an open session on this date at 8:30 a.m., in the Authority's Conference Room A, 600 World Trade Center, Norfolk, Virginia.

At this time, Mr. Bergeron excused the investment consultants and guests from the meeting in order to convene the closed session. Ms. Clemente presented the motion, seconded by Mr. Bergeron, to convene a closed meeting under the Virginia Freedom of Information Act, pursuant to §2.2-3711(A)(38) to discuss proprietary budget information gathered by or for the Virginia Port Authority,

and pursuant to §62.1-132.4 of the Code of Virginia. The motion carried with a quorum including the VPA Vice Chairman (Bergeron, Boyd, Clemente). Mr. Pullen and Ms. Xu arrived after the vote.

The Board came out of closed session at 9:45 a.m. After reconvening the open session, the following resolution was read by Ms. Clemente and seconded by Mr. Bergeron:

*Whereas, the VPA Board's Finance/Planning Committee had convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of The Virginia Freedom of Information Act; and*

*Whereas, Section 2.2-3712 of the Code of Virginia requires a certification by the Finance/Planning Committee that such closed meeting was conducted in conformity with Virginia law;*

*Now, therefore be it resolved, that the Committee hereby certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements by Virginia law were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed or considered by the Finance/Planning Committee.*

The resolution passed by a roll call vote of the Finance/Planning Committee members as follows:

Ayes: 3 (Bergeron, Clemente, Pullen, Xu)

Nays: 0

Absent During Vote: 1 (Ganeriwala)

Absent During Meeting: 1 (Ganeriwala)

The Finance/Planning Committee reviewed the following items in open session:

1. Presentation of VPA's Audited Financial Report for Year-End - June 30, 2011

Mr. Oliver introduced Ms. DeAnn B. Compton, Audit Director from the Auditor of Public Accounts office, who provided a review of the unqualified opinion on the Authority's financial statements for the year ended June 30, 2011. Ms. Compton reported that the audit identified two significant deficiencies and no material weaknesses. She explained the following:

- Improve IT Security Program
- Improve Microsoft SQL Server Security

Ms. Compton advised that the VPA had transferred IT responsibility to VIT several years ago and that the auditors had difficulty obtaining assurance that VIT security policies and procedures were in place and could be relied upon. She reported that the VPA now has a contract in place to look at VIT's IT policies and procedures and recommend a plan, which is confidential, and is on track.

She reported that the APA suggested that VPA institute further security controls over the Microsoft SQL server that involves further authentication and passwords due to the financial information that is transmitted and stored.

Mr. Oliver explained that the outsourcing of IT functions to VIT has been a great success and that VPA now has a very robust security system plan that will be fully instituted by June 2012. He advised that the security plan will show measurable progress from last year's audit finding. Ms. Compton noted that VPA has shown progress over the last several years and that APA will acknowledge that in next year's report. Mr. Oliver explained that the SQL system plan will be addressed within the next 90 days.

Ms. Compton reported that the VPA audit went very well. Mr. Bergeron asked Ms. Compton if the APA's office reviews the VIT audit report or if they conduct further sampling of VIT as part of their own audit of the VPA. Ms. Compton explained that the APA relies on VIT's independent audit statements and that they do not have authority over VIT.

Ms. Compton reported that the APA audit found no instances of noncompliance that are required to be reported and no indications of fraudulent transactions or illegal acts.

2. Overview of VPA Monthly Financial Statement Components

Mr. Oliver suggested that the Finance/Planning Committee move on to the bond issue and that he present this item in the full Board Public Session, due to time constraints. Mr. Bergeron approved.

3. Consideration of Resolution 11-15, supplementing Resolution No. 02-4 of the Virginia Port Authority and authorizing the issuance of up to \$115,000,000 of the Authority's Commonwealth Port Fund Revenue Refunding Bonds, Series 2012, and related matters.

Mr. Oliver reported that current market conditions are favorable for a refinancing of the Authority's largest outstanding bond issue from 2002 (Resolution 02-4). He reported that the proposed new issue is different in that it involves issuing taxable debt which would be a first for VPA.

Ms. JoAnne Carter, Public Financial Management, Inc., reviewed the following:

- Tax-Exempt Borrowing Rates – Revenue Bond Index (RBI) is currently at 5.09%
- 10-Year History of U.S. Treasury Yields – currently just below 2.01%
- Credit Spreads – Expect AA1, AA+, AA+ which is just below the Commonwealth's ratings.
- Cost of the issue is about 100 basis points

Ms. Carter reported that this transaction will make strong economic sense for the VPA. She reviewed current market rates and yield curves and explained how VPA is normally borrowing at the tax-exempt curve for Alternative Minimum Tax (AMT) borrowers. She continued with an overview of the plan of finance for the Commonwealth Port Fund Refunding Bonds and reviewed the refinancing plan and schedule. Ms. Carter announced that the Treasury Board was briefed last week and that they were comfortable with the plan of finance.

Ms. Carter explained that the settlement date is scheduled for January 25, 2012. Mr. Bergeron asked for Ms. Carter's opinion of the taxable issue. Ms. Carter explained the 3% Commonwealth threshold and she advised that she recommends pursuing the transaction. She also talked about the European debt crisis and its volatile effects on the U.S. markets. She emphasized that there is almost a 10% savings on this issue and that the Authority is looking at \$10 million of cash flow savings (net of cost). Ms. Carter stressed that the VPA is running a risk by not acting now.

Ms. Xu asked about penalties. Ms. Carter explained that there is a 1% redemption penalty factored into the 2002 Analysis.

Ms. Clemente advised Ms. Carter to come back to the Board and Treasury Board if additional bonds become available for refunding. Ms. Clemente stated that, given the unique structure of VPA and VIT and the volatility in the markets, the Board should be attuned to other opportunities recommended by Mr. Oliver and Ms. Carter. Mr. Bergeron cautioned that the pricing should still be the same great deal

that it is today. Mr. Oliver noted that the resolution addresses that and gives VPA management staff the authority and threshold needed to do the transaction.

At this time, Mr. William Harrison with Williams Mullen, reviewed Resolution 11-15 and reviewed key components of the resolution. Mr. Harrison pointed out the provisions in the resolution that explain a taxable refunding and a tax-exempt refunding. He advised that the resolution also delegates power and authority to the Executive Director and Deputy Executive Director and CFO, to act on the Board's behalf in all matters related to the sale and issuance of the Series 2012 Bonds, subject to the Refunding Conditions and any other limitation contained in the Series Resolution.

Mr. Harrison reported that the bond sale is scheduled in January 2012. He also noted the clause in Section 2 of the resolution that the net present value debt service savings to be achieved by the Authority upon issuance of the Series 2012 Bonds shall not be less than three percent (3%). Mr. Harrison advised that was the most important section of the resolution.

Mr. Harrison continued to review sections of the resolution.

Mr. Oliver requested that the Finance/Planning Committee approve the Series 2012 Refunding Bonds. Mr. Bergeron polled the Finance/Planning Committee members and received unanimous approval to recommend the refinancing issue to the full Board.

There were no public comments and the meeting adjourned at 10:35 a.m.

Respectfully submitted,

Debra J. McNulty  
Clerk to the Board