

MINUTES
Virginia Port Authority Board of Commissioners - Session 339
VPA Conference Room
600 World Trade Center, Norfolk, Virginia
July 26, 2011

INTRODUCTION OF NEW BOARD MEMBERS

Prior to convening the board meeting, Assistant Secretary of Transportation, Matt Strader, announced that Ms. Christie Heath, Deputy Secretary of the Commonwealth, would swear in the ten new VPA Commissioners that were recently appointed by Governor McDonnell. Ms. Heath conducted the official swearing in of the Board and distributed Oaths of Office for signature.

The following were in attendance:

Commissioners:

Michael J. Quillen, Chairman
Jennifer D. Aument
Scott R. Bergeron
James M. Boyd
Juliann J. Clemente
The Honorable William H. Fralin, Jr.
Frank E. Laughon, Jr.
John N. Pullen
Robert M. Stanton
Jeffrey D. Wassmer
Manju Ganeriwala, State Treasurer

Absent:

Ting Xu, CEO, Plow & Hearth, LLC and President, Evergreen Enterprises, Inc.

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
Russell J. Held, Deputy Executive Director, Development
Linda G. Ford, Director, Port Promotion
Ed Merkle, Director of Security and Emergency Services
Elaine Smith, Director, Human Resources
David James, Director, Contracts and Real Estate
Greg Edwards, Director of External Affairs
Heather Wood, Director of Environmental Affairs
Carla Welsh, Program Manager-Port Promotion
Joe Harris, Media/Public Relations Manager
Jake Denton, Editor, Virginia Maritimer
Melissa Fulleron, Executive Secretary, External Affairs
Debra J. McNulty, Clerk to the Board
Jodie Asbell, Executive Secretary Senior/Deputy Clerk

Guests:

Christie Heath, Deputy Secretary of the Commonwealth
Emily Barrett, Director of Appointments, Office of the Secretary of the Commonwealth
David Tyerar, Deputy Secretary of Transportation and CFO
Matt Strader, Assistant Secretary of Transportation
Jeffrey R. Allen, Assistant Attorney General
George Consolvo, Kaufman & Canoles
Rick Kaser, Moffatt & Nichol Engineers
Joseph A. Dorto, President and CEO, VIT
Joseph P. Ruddy, Executive Vice President and Chief Operating Officer, VIT
Regina P. Brayboy, Vice President, Administration and Financial Services, VIT
Robert Nestor, Manager, Pricing and Strategic Planning
Kevin Rotty, Morgan Keegan & Co., Inc.
Robert McCabe, *The Virginian-Pilot*
Peter Frost, *The Daily Press*
Bill Cresenzo, *Inside Business*

At 11:10 a.m., Mr. Quillen, who was asked to call the meeting to order, suggested that everyone introduce themselves. Mr. Quillen announced that he is Chairman of Alpha Natural Resources, the largest exporter of coal in the United States and the majority owner of Dominion Terminals in Newport News. He advised that he has been a member of the VPA Board for seven years and has seen a lot of changes throughout his tenure.

Ms. Ganeriwala, who has been State Treasurer for two years and is an ex officio member of the Board, welcomed everyone. The new Commissioners introduced themselves as follows:

Jennifer D. Aument, Vice President of Transurban
Scott R. Bergeron of Leesburg, Chief Operating Officer of Liberian Registry
James M. Boyd of Chesapeake, Attorney and President of Boyd & Boyd, PC
Juliann J. Clemente of McLean, President of Clemente Development Company, Inc.
The Honorable William H. Fralin, Jr. of Roanoke, Vice President and CEO, Medical Facilities of America, Inc.
Frank E. Laughon, Jr. of Richmond, Chairman Emeritus, Richmond Cold Storage
John N. Pullen of Richmond, President and Chief Growth Officer of Luck Stone Corporation
Robert M. Stanton of Virginia Beach, Chairman of Stanton Partners, Inc.
Jeffrey D. Wassmer of Newport News, President and CEO of Spectrum Comm, Inc.

Ms. Ting Xu, CEO of Plow and Hearth, and President of Evergreen Enterprises, Inc., was unable to attend the meeting due to business obligations. Ms. Xu is expected to be sworn in at the office of the Secretary of the Commonwealth when she returns.

INTRODUCTIONS

Ms. Linda Ford introduced guests in attendance and announced that there were three members of the media in attendance – Mr. McCabe, Mr. Frost, and Mr. Cresenzo.

ELECTION OF OFFICERS

Mr. Quillen explained that the election of Chair would take place today and a discussion for the election of Vice Chair. He also noted that there were several officers to the Board that needed to be appointed for the positions of Treasurer, Secretary/Clerk, and Assistant Secretary/Deputy Clerk. Mr. Quillen opened the floor for nominations for chair.

Action: Upon motion made by Ms. Aument, seconded by Mr. Laughon, the VPA Board of Commissioners unanimously appointed Mr. Michael J. Quillen as Chairman of the Board.

Chairman Quillen explained that, traditionally, if the Chair is from outside of the Hampton Roads area, it is an advantage to have a local resident for Vice Chair. The Chairman asked the Board for their recommendations for Vice Chair. Mr. Laughon suggested that new board members get to know each other before the selection of Vice Chair. The Board concurred.

The Chairman announced that the matter would be discussed at the September 27th board meeting. Chairman Quillen presented the following slate of officers, with the exception of Vice Chair, and asked for a motion for nomination by the Board:

Treasurer – Rodney Oliver
Secretary/Clerk – Debra McNulty
Assistant Secretary/Deputy Clerk – Jodie Asbell

Action: Upon motion by Mr. Stanton, seconded by Mr. Pullen, the Board unanimously approved the reappointment of the current slate of officers to the Board.

PORT BRIEFINGS PRESENTED BY VPA STAFF

Mr. Bridges welcomed everyone and announced that the senior management staff would provide a “Port 101” briefing today for the new Commissioners. He explained that there would be more detailed information presented at a planned board retreat scheduled for August 31st.

Mr. Keever briefly explained the functions of the External Affairs division that include environmental, government relations at the local, state and federal level, and media outreach/relations. He announced he is working with Mr. Strader in the Secretary of Transportation’s office on the next round of legislative initiatives for the 2012 General Assembly Session.

Mr. Keever presented aerial photos of all of the terminals that are under the umbrella of VPA’s operations – Newport News Marine Terminal (NNMT), Norfolk International Terminals (NIT), Portsmouth Marine Terminal (PMT), Port of Richmond Terminal (PORT), and Virginia Inland Port (VIP). Mr. Keever reviewed the VPA Board structure and committees, port unification, historic port performance through 2010, overview of funding sources, port statistics, and rail service. He talked about all of the components that make up our port, including the construction phases planned for APMT and Craney Island.

Mr. Dorto explained that VIT is a non-stock, nonprofit corporation that was created in 1981. He advised that VIT hires 800 longshoremen per day to negotiate the long-shore contract in accordance with Virginia law regarding organized labor. He reported that VIT has 400 employees, predominately in operations and maintenance, and is overseen by a seven-member board whose members are appointed by the VPA Board. The Executive Director of the VPA is a

permanent member of the VIT Board. Mr. Dorto explained that six of the members are comprised of two from each of the port cities of Norfolk/Virginia Beach, Portsmouth/Chesapeake, and Newport News/Hampton, and serve one six-year term.

Mr. Dorto mentioned that the VPA Board would be nominating a new VIT Director to replace Franklin (Lin) Earley, whose term expires November 30, 2011.

Mr. Dorto also presented an aerial of the terminals that are operated by VIT. He explained that the terminals all have direct rail service provided by either Norfolk Southern or CSX which is one of our biggest advantages in attracting business.

He presented a slide that demonstrated historical growth in tonnage since 1992, reflecting over \$700 million that VIT has transferred to VPA in assets and operating costs. Mr. Dorto advised that terminal revenues and the Transportation Trust Fund are the primary sources of funds for the state-owned terminals. Mr. Dorto said that VIT's main goal is to grow the volume and to make as much of a profit so that VIT can turn it back into the facilities. He emphasized that, by law, the money can only be spent to improve the facilities.

Mr. Dorto showed photos of some of the equipment used at the terminals that include 24 of the world's largest cranes and 100 straddle-carriers. He concluded with a review of import/export commodities that go through the port and top trading partners.

Chairman Quillen requested that staff provide copies of all presentations to the Board members.

(A copy of all presentations can be viewed on VPA's website: <http://www.portofvirginia.com/corporate/board-room.aspx>)

I. APPROVAL OF MINUTES

Action: Upon motion made by Ms. Ganeriwala, seconded by Mr. Laughon, the minutes of the regular meeting, held May 24, 2011, were unanimously approved.

At this time, Chairman Quillen expressed appreciation to the Board for their confidence in appointing him to serve as chair. He also thanked the former members of the Board for their commitment, dedication, time, and talents to "the betterment of the Port". The Chairman mentioned that over the last several years there have been major undertakings by the VPA Board such as electing a new Executive Director, reorganizing the VPA and VIT staff, advancing Craney Island construction, completion of major capital projects, and security of our facilities. Chairman Quillen also mentioned the anticipation of the Panama Canal expansion. He said he looked forward to getting to know the new Board members and working together with our port constituents to advance the goals we want to achieve.

II. REPORTS OF COMMITTEES

A. Executive Committee

Chairman Quillen announced that he would appoint a Nominating Committee at the September 27th board meeting to appoint a replacement for a VIT Director, Mr. Franklin (Lin) Earley, who is the Norfolk/Virginia Beach representative and whose term expires November 30, 2011.

The Nominating Committee will present their report for the appointment at the November 22nd meeting.

NOTE: According to the VIT Articles of Incorporation, the appointee's principal place of business or residence must be within the jurisdiction of Norfolk or Virginia Beach.

B. Finance/Planning Committee

1. VPA/VIT Combined Financial Reports

Mr. Oliver reviewed the highlights of the VPA 2012 Budget that was approved by the Board at the May 24th board meeting. He explained actual and projected revenues (cash basis), budgeted operating expenses, staffing, reserves, and debt service coverage, capital expenditures, VPA/VIT combined current year estimate 2011 vs. budgeted 2012, and funding sources for future FY12 projects. Mr. Oliver explained that Special Fund revenues are terminal revenues primarily made up of the transfers of net port revenues from VIT to VPA, which is \$89 million of the \$96 million in 2012. He reported that Commonwealth Port Fund revenues are expected to slightly increase from 2011.

Mr. Oliver reported that the Operational Maintenance budget increased due to two grants for the Richmond/Norfolk barge operation, increasing the service from once a week to twice a week. He explained VPA's operating expenditures and the authorization for expenditure of funds in the Appropriations Act. Mr. Oliver reported that there is a large increase in the budget for General Management & Direction which includes \$11.2 million for the projected increase in rent expense for APMT. He explained that 2011 was a transition year for VPA which took about seven months and that APMT will be fully operational in 2012. Operational maintenance expenses are forecast to increase in FY12 as a result of the barge business.

Mr. Oliver noted that debt service is the largest line item with an expected increase of \$7 million for the bond issue that was successfully priced two weeks ago and scheduled to close tomorrow (July 27). The Security Services budget will decrease due to the closure of PMT.

In response to Mr. Fralin's inquiry, Mr. Oliver explained the calculation for PILOTs (payment in lieu of taxes). He also explained the Aid to Local Ports (ALP) Grant line item which is an appropriation from the Commonwealth Port Fund set by the General Assembly. Mr. Oliver explained that VPA staff (Mr. Keever's division) review grant applications that are due in March and meet with localities to determine eligibility for allocation of grant funds. The grant requests are presented to the VPA Board in May of each year.

Mr. Oliver reviewed staffing reserves and debt service coverage. He reported there are currently 127 positions filled from the 146 appropriated staff reserve. The current expense reserve a formula-driven reserve required by VPA's bond covenants which is one month of VPA's operating expenses which is forecast to increase due to the projected rent increase to APMT.

After reviewing budgeted capital expenditures, Mr. Oliver reported that the \$60 million bond issue will fund the construction of the levee system for Craney Island.

Mr. Oliver explained that the Federal Grant Projects budget includes a \$7 million increase in federal grants relating to security grants that cover multiple years, including a \$9 million federal grant for the second track for the 164 median rail project.

Mr. Bergeron questioned the large drop in maintenance reserve and Mr. Oliver explained that the \$4.1 million includes some re-appropriation from previous years.

Mr. Oliver presented FY 11 vs. FY12 VPA/VIT combined financials at this time. He reported that budgeted operating revenues for FY12 are projected to increase by 11.6%, which includes a projected 6% increase in volume and a 5% increase in the Schedule of Rates (SOR), which is a formula-driven rate based on volumes and CPI.

Operating Expenses are projected to be about \$7 million higher than 2011 (6% increase) which compares with the 6% increase in volumes. Maintenance expenses are budgeted to increase after some maintenance was deferred due to the economy. Mr. Oliver reported that the projected increase (\$14 million) in Administration includes the increase in rent payments to APMT. Non-operating income expense is interest expense net of interest income and also includes the federal grants previously mentioned.

Mr. Oliver stated that while VPA expects the FY12 budget to increase by almost \$3 million more than FY11, there is a \$3 million increase in interest expense from the bond issue offset by the \$7 million in additional revenues from federal grants. He concluded the FY12 budget report with a review of projected capital transfers (Commonwealth Port Fund=4.2% of the Transportation Trust Fund) and funding sources for FY12 capital projects.

Mr. Oliver reviewed the financial highlights for the eleven months ended May 31, 2011. He reported that VIT's FY11 year-end numbers just came in and will be available by September after they are audited. He reported that container traffic year-to-date was up an estimated 4.8% from prior year. Container volume was down .7% for the month of May from the same month last year. Operating expenses year-to-date were 42.3% of revenues compared to the 38.7% budgeted and 43.7% from prior year. Increased expenses were incurred for the transition of cargo from PMT to the new APM terminal and due to weather. Maintenance expenses and administrative expenses were lower than budgeted. Mr. Oliver reported that interest income was below budget primarily due to low interest rates on the debt service reserve balances on hand and interest expense was over budget (\$1.3) primarily due to the financing of the 2010 Port Facilities Revenue Refunding bonds.

Mr. Oliver reported that capital transfers (4.2% CPF) improved during the last part of the fiscal year. He said the expected change in net assets should be about \$2.1 million better than FY11. Capital projects for FY12 are primarily involving Craney Island construction.

Mr. Oliver reviewed the Goals and Objectives Dashboard. He reported that VPA would probably not meet the FY11 financial goal but that he is waiting on final year-end figures.

C. Facilities Committee

1. Status report on current construction projects – Mr. Jeffrey Florin, Deputy Executive Director, Operations and COO

Chairman Quillen complimented Mr. Florin on his work in completing projects under budget and on time.

Mr. Florin presented the Capital Outlay Program and Facilities Maintenance Overview and reviewed each of the following projects:

Facilities Update

Median Rail-Second Track – Project will be completed by December 2011 – Provides a second track to APMT and improves rail capacity and efficiency.

NIT Central Rail Yard Phase II – Provides additional six tracks and project was completed on June 22, 2011.

NIT Interchange Truck Canopy – Infrastructure for future technology upgrades and will be completed July 31, 2011.

NIT Maintenance Dredging – South dredging complete; North dredging underway. Project complete by July 31, 2011.

Craney Island Eastward Expansion – Largest project in the history of the Port.

South and Division Cross Dikes – Stage 1 – Project completion scheduled for September 2011 – 50% complete.

South and Division Cross Dikes - Stage 2 – Going out to bid next month. In FY12 placing Stage 2 of foundation lift of sand; installing wick drains for two cross-dikes.

Paradise Creek Mitigation – Project completion date scheduled for November 2012 – 50% complete. VPA is completing the wetlands and the Elizabeth River Project is constructing the eco-park.

D. Security Committee

Mr. Merkle announced that the marine terminals are governed by three practices – two are federally regulated. One is the marine terminal regulations which are federally managed by the U.S. Coast Guard. The second is our international regulations regarding ship moves. The third practice is Customs-Trade Partnership Against Terrorism (C-TPAT) where businesses subject themselves to audits and procedures in order to receive special privileges in the event of an incident. VPA was one of the first ports in the nation to be C-TPAT certified by U.S. Customs and Border Patrol and he advised that most of VPA's security systems were put in place in 2001 immediately after the terrorist attacks.

Mr. Merkle provided an overview of each of the four programs under Port Security Grant '08 funding:

- Security and Surveillance
- Preparedness and Recovery
- Maritime Incident Response Team (MIRT)
- Modeling and Simulation

Mr. Merkle announced that VPA also received a small ARRA stimulus grant to install emergency power at the terminals. He reported that the police division is currently updating VPA's Continuity of Operations (COOP) Plan and VIT's facility preparedness.

Mr. Merkle explained cargo screening in answer to Mr. Wassmer's inquiry, and he advised that VIT assesses \$5.75 per container for security charges which amount to almost \$4 million a year for the port. He advised that this rate is comparable at other ports.

Chairman Quillen announced that Mr. Merkle’s department has been recognized nationally for their efforts and advancements in technology and that VPA was also a leader in the TWIC program. The Chairman complimented Mr. Merkle for doing an “exemplary job”.

E. Marketing/Business Development Committee

Mr. Held explained TEUs (twenty-foot equivalent unit) for the new members of the Board. Several Board members were very interested to learn about coal shipments and Mr. Held and Mr. Dorto explained that coal companies are privately owned and not the responsibility of VPA or VIT. Mr. Keever talked about the 50-harbor which allows the collier ships to transit.

Mr. Held announced that VPA’s total TEU volumes are up 2.9% for fiscal year 2011. Exports have the strongest growth at 3.7% and imports are up 2.1%. Mr. Held advised that our port handles more export than import business. Mr. Held reported the following:

Total Rail Containers	+28.8
Virginia Inland Port (VIP) Containers	+16.8
Ship calls	-2.5
Break-bulk tonnage	+37.0

Mr. Dorto and Mr. Capozzi explained the Chinese ban on Virginia logs. Mr. Held advised that VIP’s biggest market is poultry and logs and there are bans on both commodities. Mr. Keever announced that a delegation from China will be visiting VPA next month to tour the fumigation facility at NIT. Mr. Capozzi talked about the loss of tonnage as a result of the ban, which is affecting Virginia and South Carolina. Mr. Wassmer requested a graph that breaks out exports and imports over the last ten years and the five top East Coast ports. Mr. Held said he would present that information at the Board Retreat.

Mr. Pullen asked how VPA/VIT markets the port. Mr. Held introduced Mr. Capozzi and explained that VPA provides marketing materials and statistics for VIT sales and marketing staff. Mr. Held explained how Mr. Capozzi’s marketing team negotiates with ship lines and “beneficial cargo owners” (BCOs) and how VPA’s Development division works with economic development agencies and distribution centers in order to attract ship line business. Mr. Dorto advised that we are the only port on the East Coast that has long-term contracts with our customers.

Chairman Quillen mentioned Norfolk Southern’s Heartland Corridor double-stack capabilities that will provide bigger opportunities to and from the Chicaco/Ohio market. Mr. Held also mentioned the Panama Canal expansion that should provide increased tonnage for our port.

Mr. Held explained that VPA works closely with Virginia Economic Development Partnership (VDEP) and he described the following economic development announcements:

- California Cartage Company - A third-party logistics provider with operations throughout the United States, has leased 380,000 square feet at Virginia Commerce Center in Suffolk.
- Katoen Natie – A Belgium-based global logistics provider, will establish operations in Norfolk and refurbish 662,000 square-feet of warehouse and distribution space.

- Lumber Liquidators recently announced that they will lease 515,000 square-feet at West Park in Hampton to support their Toano, Virginia facility.
- International Paper Company - Will invest \$83 million to repurpose a portion of its closed mill; creating 213 jobs. IP is the third largest global supplier of fluff pulp.

III. REPORT OF EXECUTIVE DIRECTOR

Mr. Bridges asked the remaining staff in the audience to introduce themselves to the Board members. He announced that each and every person is involved in this organization and is involved in ISO certification procedures. Mr. Bridges stated that VPA's goal over the next several years will be to grow this Port and that each and every person here stands ready to assist the Board in their duties.

Chairman Quillen thanked all of the Commissioners for their questions. The Chairman announced that a Board retreat is scheduled for August 31, 2011 and he asked if this date was convenient for everyone. Mr. Bridges requested that the retreat encompass two days, to allow for travel, with a late morning start time on August 31 and continue for a full day on September 1. **The board approved the retreat schedule. Chairman Quillen asked the Board to provide their suggestions for agenda topics to Mr. Bridges' office and he asked Ms. McNulty to prepare a new Board roster by next week.**

Mr. Fralin suggested the following topics for the retreat:

- Regarding market share, where are we drawing our customers and where are our competitors drawing their customers?
- Where will we get our customers? From small ports or large ports? Where do we want to take that traffic from?
- Need an overview of channel depths at competing ports.
- What is our marketing budget compared to our competitors?

The Chairman also requested that Board members submit three preferences for Standing Committee assignments. Committee appointments will be announced by Chairman Quillen at the September 27th board meeting.

Mr. Bergeron advised that he would like a briefing on the APMT lease agreement and their relationship with A.P. Moeller. Chairman Quillen said it was very critical due to the start of the lease which also changes the timetable on Craney Island. He advised that those two subjects would be on the agenda. **Mr. Oliver explained that the 2040 Master Plan Executive Summary will be distributed before the retreat.**

Mr. Allen advised that the statute requires Board members to complete Conflict of Interest training and that he would provide the information for Ms. McNulty to distribute to the Commissioners. Mr. Allen also mentioned the annual Financial Disclosure statements that would be required and he advised that if Commissioners had filled out documents as members of other boards he would check to see if they would carry over for their requirements for the VPA Board.

IV. UNFINISHED BUSINESS

No Report

V. NEW BUSINESS

Mr. Fralin asked about the Virginia Avenue Tunnel road project in D.C. Mr. Tyeryar explained the project which involves access for CSX's National Gateway project that will also link with the Heartland Corridor's access to the mid-West.

VI. ADJOURNMENT

Chairman Quillen invited Commissioners to stay for port tours if their schedule would permit. Mr. Keever announced that Mr. Denton was available to do photos for the Commissioners' port identification cards.

There being no further business and no public comments, the open meeting adjourned at 1:10 p.m.

The next regularly scheduled meeting of the Board of Commissioners will be held in the Authority's Conference Room, 600 World Trade Center, Norfolk, on Tuesday, September 27, 2011, at 11:00 a.m.

The remaining VPA Board schedule for 2011 is:

September 27

November 22

Respectfully submitted,

Debra J. McNulty
Clerk to the Board