

MINUTES

Board of Commissioners - Session 355

Virginia Port Authority
600 World Trade Center
Norfolk, Virginia
November 19, 2013

The Board of Commissioners (Board) of the Virginia Port Authority (VPA) held its regular meeting on November 19, 2013, in the VPA's Conference Room located at 600 World Trade Center, Norfolk, Virginia. Chairman Wassmer called the meeting to order at 11:30 a.m.

The following were then in attendance:

Commissioners:

Jeffrey D. Wassmer, Chairman
Scott R. Bergeron, Vice Chairman
Jennifer D. Aument
James M. Boyd
Juliann J. Clemente
Craig P. Coy
Frank E. Laughon, Jr.
John N. Pullen
Robert M. Stanton
Ting Xu

Commissioners Absent:

Martin J. Briley
Manju S. Ganeriwala, State Treasurer

VPA Staff:

Rodney W. Oliver, Interim Executive Director
Russell Held, Senior Vice President, Business Development
David James, Director, Contracts and Real Estate
Elizabeth Saxby, Director, Human Resources
Gregory Edwards, Vice President, Government Affairs
Heather Wood, Vice President, Government Affairs
Wendy King, Director of Finance
Nina Malone, Vice President, Business Analysis & Sales Support
Carla Welsh, Manager, Creative Services
Joe Harris, Media/Public Relations Manager
Mike Brewer, VPA Port Police Chief
Debra J. McNulty, Clerk to the Board
Jodie Asbell, Deputy Clerk to the Board/Executive Assistant to Executive Director

Virginia International Terminals, LLC (VIT) Staff:

Joseph P. Ruddy, President and Chief Executive Officer, VIT
Thomas Capozzi, Chief Commercial Officer, VIT

VIT (continued):

Shawn Tibbetts, Vice President, Operations and Maintenance
Matthew Barnes-Smith, Director, Business Intelligence
Robert Nestor, Manager, Pricing and Strategic Planning, VIT
Dan Allen, Controller & Assistant Director, Financial Services

Guests:

David Tyeryar, Deputy Secretary of Transportation
James W. Noel, III, Assistant Attorney General, Transportation Section
Art Moye, Executive Vice President, Virginia Maritime Association (VMA)
Evelyn S. Traub, Troutman Sanders LLP
Kevin D. Rotty, PFM Group
Robert McCabe, *The Virginian-Pilot*
Michael Shapiro, *The Daily Press*

INTRODUCTIONS

Mr. Harris introduced guests in attendance including Mr. McCabe with *The Virginian-Pilot*, and Mr. Shapiro with *The Daily Press*.

Mr. Babski conducted the safety briefing at this time.

I. APPROVAL OF MINUTES

Action: At the request of Chairman Wassmer, the minutes were unanimously approved, as distributed, for the meetings held on September 24 and October 31, 2013.

II. REPORTS OF COMMITTEES

A. Executive Committee – Mr. Jeffrey D. Wassmer, VPA Chairman

The Chairman remarked on progress to-date on the VPA's Vision Forward Plan, acknowledged the work completed by the newly-formed Board committees and the record-breaking month of October for The Port of Virginia. Chairman Wassmer announced that he attended the Virginia Inland Port customer appreciation event that was held in Winchester on November 13th.

1. Consideration of Resolution 13-20, approving the Employment Agreement for Mr. John F. Reinhart, the incoming VPA CEO/Executive Director

The Chairman remarked that he is looking forward to John Reinhart coming onboard next year. At this time, he presented Resolution 13-20, and asked for a motion to approve Mr. Reinhart's Employment Agreement (contract).

Action: Upon motion made by Mr. Stanton, seconded by Mr. Laughon, the Board unanimously approved the Employment Agreement for Mr. John F. Reinhart, the incoming CEO/Executive Director of the Virginia Port Authority.

B. Finance Committee – Mr. Craig P. Coy, Committee Chair

1. Report on Finance Committee meeting and progress report on metrics for Vision Forward

Mr. Coy reported that the Finance Committee held a meeting earlier (today) and he announced that the committee, also lead by Ms. Xu, the vice chair, had worked hard over the last month to meet the standards and goals of the Vision Forward. Mr. Coy reported that the committee had received a report from the auditors of VIT and VPA on their fiscal year end 2013 financial statements. Mr. Coy reported that the Finance Committee will receive a progress report at the next meeting.

Mr. Coy reported that committee members reviewed an outline for a monthly reporting system to the Board that would address progress towards the Vision Forward Plan and incorporate reporting for all five of the divisions in the new organization structure along with an Executive Summary by the CEO/Executive Director. Mr. Coy advised that they also reviewed draft guidelines on debt and financial management that address the Vision Forward fiscal responsibility metrics of debt service coverage, capital investment reserves, and bond ratings.

2. VPA/VIT Combined Financial Reports

Ms. King presented a new format for the financial reporting and she reviewed the consolidated income statement for the four months ended October 31, 2013. Ms. King reported that the overall result was an increase in net assets of \$2.8 million. Mr. Coy thanked Mr. Oliver and Ms. King on the work completed to-date. A copy of Ms. King's presentation is attached hereto.

C. Growth Committee – Mr. John N. Pullen, Committee Chair

1. Report on Growth Committee meeting held October 31, 2013 and progress report on metrics for Vision Forward

Mr. Pullen reported that the Growth Committee continues to develop metrics for the directives assigned by Chairman Wassmer's Vision Forward in the areas of increasing TEUs (twenty-foot equivalent unit), access (channels/sea lanes/road/rail), capacity (terminals/Craney Island/APMT expansion/future use of PMT and VIP), and economic development.

2. Business Development/Marketing Report

Mr. Capozzi reviewed FY2014 and CY2013 business statistics compared with the previous year-to-date results and he announced that October was another record month for The Port of Virginia.

Mr. Capozzi presented U.S. East Coast Ports fiscal year growth and announced that Baltimore surpassed Virginia as the fastest growing port for TEUs for the FY14 period July-September. He reported that Virginia and Baltimore were both at 6.3% growth for Calendar Year-to-date January-September.

Mr. Capozzi concluded with the following economic development announcements:

- DESMI, Inc. (industrial pump manufacturer) – Chesapeake

- EXEL (third party logistics)- Suffolk
- TE Connectivity Ltd – Culpepper County
- Capco Machinery Systems – Botetort County
- AW North Carolina Inc., (manufactures automatic transmissions for Toyota vehicles) – Durham, NC
- New Breed Logistics expansion – High Point, NC

Mr. Coy asked that Mr. Capozzi report on the amount of exports out of Virginia and the balance of import and export cargo.

D. Operations Committee – Mr. Robert M. Stanton, Committee Chair

1. Report on Operations Committee meeting and progress report on metrics for Vision Forward

Mr. Stanton reported that the Operations Committee met yesterday afternoon, November 18. He reported that staff presented the reorganization of the Operations division and discussed the individual sectors of Operations, Safety, Information Technology, Security, and Business Intelligence. Mr. Stanton advised that staff also presented performance objectives for each of the directives as they relate to excellence in Operations in accordance with the Vision Forward. Mr. Stanton reported that Mr. Ruddy explained the role of the Business Intelligence division in detail, which was created to assist Operations in developing analytical tools for ensuring cost competitiveness and efficient operations.

2. Operations Report

Mr. Ruddy provided the following overview:

- September demonstrated slight growth in total volume from the same month last year
- October’s total box count rose to 117,104 containers, just short of the highest monthly volume recorded
- Simulation of the rail operation by Moffatt & Nichol is 80% complete and optimization will be presented to the Operations Department the week of December 9th
- Increased volumes and increased pressure at NIT and APMT gates mean turn times for trucks were higher in October

Mr. Ruddy reviewed gate and rail volumes at NIT and APMT, productivity, and rail moves per man hour. He reported that implementation of the N4 system is scheduled for first quarter of 2014 that would include the installation of an appointment system for trucks. Mr. Ruddy explained the need for supplemental rail operations due to the increased volumes over the last two months and the budgetary effect as a result of terminal labor costs.

3. Security and Safety Reports

Chief Brewer reported that port police are in the process of developing an in-house web-based port enrollment process that will result in the elimination of the port identification card and replacing it with one card (TWIC) for all terminals. Chief Brewer explained that initial testing is scheduled for January 2014 beginning with truckers. He described work that is being done by the

port police to comply with new escorting requirements mandated by the Maritime Transportation Security Act (MTSA). Chief Brewer reported on the Department of Homeland Security (DHS) infrastructure survey tool and he announced that VPA was evaluated along with 30 ports throughout the nation and received very high ratings.

Mr. Babski reported that VIT staff had been working for the last 18 months to identify and mitigate risks at the terminals that include education and re-training, particularly for the longshoremen. Mr. Babski explained the audit program that was developed which identifies areas of risk at NIT and APMT. He advised that NNMT would be added to the program soon. Mr. Babski mentioned the comprehensive safety training program that is conducted every Tuesday (APMT) and Friday (NIT) at 11:00 a.m., and he encouraged all VPA/VIT personnel to attend.

Mr. Babski reviewed the Lost Work Day (LWD) rate through October 31, 2013, and the cost of damage claims for FY2013. He announced that ISO14001 re-certification is scheduled for February and he explained the rating system for the environmental performance at NIT, APMT, NNMT, and PMT.

Mr. Pullen complimented Mr. Babski on the safety training that he received last month when visiting the Port.

III. REPORT OF EXECUTIVE DIRECTOR

MOTION FOR CLOSED SESSION

At 12:33 p.m., Ms. Clemente read the following motion to go into closed session:

“I move that the VPA Board of Commissioners convene a closed meeting pursuant to the provisions of the Virginia Freedom of Information Act (FOIA), Code §2.2-3711(A)(7), for consultation with legal counsel regarding a specific real estate matter.”

The motion was seconded by Ms. Xu.

END OF CLOSED SESSION

At 12:52 p.m., the Board came out of closed session and the following resolution was read by Ms. Clemente:

“WHEREAS, the VPA Board has 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, §2.2-3712 of the Code of Virginia requires a certification that such closed meeting was conducted in conformity with Virginia law; NOW, THEREFORE, BE IT RESOLVED, that the VPA Board certifies that, to the best of each member’s knowledge, (i) only public business matters lawfully exempted from open meeting requirements under this chapter 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 by which the closed meeting was convened were heard, discussed or considered by the Board.”

The resolution was seconded by Mr. Boyd and passed by a roll call vote of the Board as follows:

Ayes: 10 (Aument, Bergeron, Boyd, Clemente, Coy, Laughon, Pullen, Stanton, Wassmer, Xu)

Nays: 0

Absent During Vote: 2 (Briley, Ganeriwala)

Absent During Meeting: 2 (Briley, Ganeriwala)

MOTION FOR CLOSED SESSION

At 12:53 p.m., Ms. Clemente read the following motion to go into closed session:

“I move that the VPA Board of Commissioners convene a closed meeting pursuant to the provisions of the Virginia Freedom of Information Act (FOIA), Code §2.2-3711(A)(1), the personnel exemption, to discuss the FY2014 Compensation Plan for the Interim Executive Director, Mr. Rodney W. Oliver.”

The motion was seconded by Ms. Xu.

END OF CLOSED SESSION

At 1:05 p.m., the Board came out of closed session and Ms. Clemente read the resolution certifying the closed meeting, as previously stated. The resolution was seconded by Mr. Coy and passed by a roll call vote of the Board as follows:

Ayes: 10 (Aument, Bergeron, Boyd, Clemente, Coy, Laughon, Pullen, Stanton, Wassmer, Xu)

Nays: 0

Absent During Vote: 2 (Briley, Ganeriwala)

Absent During Meeting: 2 (Briley, Ganeriwala)

1. Consideration of Resolution 13-21, approving the FY14 Compensation Plan for the Interim Executive Director

There was no action on this item.

2. Consideration of Resolution 13-22, to adopt a new Defined Contribution Plan for new hires

Mr. Oliver explained that Resolution 13-22 outlines the Authority’s plan to freeze participation in the VPA Defined Benefit Pension Plan and provide an enhanced Defined Contribution Plan that would go into effect for new hires after February 1, 2014. Ms. Traub read the resolution and she explained that the Seventeenth Amendment would freeze participation in the current plan to new hires with the exception of the incoming CEO/Executive Director, Mr. John Reinhart.

Mr. Bergeron expressed concern that Ms. Ganeriwala, the State Treasurer, was not present to opine on the new plan. Mr. Bergeron suggested that the matter be tabled until the State Treasurer could provide her opinion and vote. A discussion ensued. The new plan was not adopted by the Board at this time.

IV. UNFINISHED BUSINESS

MOTION FOR CLOSED SESSION

At 1:20 p.m., Mr. Bergeron read the following motion to go into closed session:

“I move that the VPA Board of Commissioners convene a closed meeting pursuant to the provisions of the Virginia Freedom of Information Act (FOIA), Code §2.2-3711(A)(38), §2.2-3705.6(1), and §62.1-132.4, to discuss VIT proprietary information and data furnished to the VPA in confidence, including but not limited to VIT's customer contracts, agreements, or other information relating to tonnages and cargoes and annual budgets; and, pursuant to the provisions of Code §2.2-3711.A.7, for consultation with legal counsel regarding the due diligence review of VIT's finances, internal controls, and operations.”

The motion was seconded by Ms. Clemente.

END OF CLOSED SESSION

At 2:42 p.m., the Board came out of closed session and Ms. Clemente read the resolution certifying the closed meeting, as previously stated. The resolution was seconded by Mr. Laughon and passed by a roll call vote of the Board as follows:

Ayes: 10 (Aument, Bergeron, Boyd, Clemente, Coy, Laughon, Pullen, Stanton, Wassmer, Xu)

Nays: 0

Absent During Vote: 2 (Briley, Ganeriwala)

Absent During Meeting: 2 (Briley, Ganeriwala)

1. Report on VIT Due Diligence Review prepared by KPMG

Chairman Wassmer explained that the VIT due diligence review was done as part of the VPA and VIT restructuring.

The Chairman announced that the report of the VIT due diligence review would be released this week after technical reviews and he commended the work of Vice Chairman Bergeron who led the project on behalf of the Board. The Chairman said that the due diligence review and the recently-released Joint Legislative Audit and Review Committee (JLARC) report on VPA's operations would optimize the focus on the Board's Vision Forward. Chairman Wassmer also commended the leadership of Mr. Oliver and Mr. Ruddy.

Mr. Bergeron provided a background/overview, reviewed the purpose and objectives for the review, and a summary of the findings outlined in the KPMG report. A copy of Mr. Bergeron's presentation is attached hereto.

2. Motion to approve a budget amendment for FY2014.

Mr. Oliver announced that there would be no action on this agenda item.

3. Consideration of Resolution 13-23 to approve revisions to the VPA Purchasing Policies and Procedures Manual (now titled, "Purchasing and Surplus Property Manual")

Mr. Oliver reported that VIT would also implement a procurement policy that will be in line with VPA's. He reviewed a summary of the changes that were made to the procurement manual (copy attached) and he credited Mr. David James for his work.

Action: At the request of Chairman Wassmer, Ms. Clemente made a motion to adopt Resolution 13-23, approving revisions to the VPA Purchasing and Surplus Property Manual. Mr. Laughon seconded the motion.

Chairman Wassmer announced that there would be no action taken by the Board at the conclusion of the next two closed sessions. The Chairman expressed appreciation to the Board and staff for the progress made to-date and he remarked that there are great opportunities for The Port of Virginia moving forward.

MOTION FOR CLOSED SESSION

At 3:11 p.m., Ms. Clemente read the following motion to go into closed session:

"I move that the VPA Board of Commissioners convene a closed meeting pursuant to the provisions of the Virginia Freedom of Information Act (FOIA), Code §2.2-3711(A)(38), §2.2-3705.6(1), and §62.1-132.4, to discuss VIT proprietary information and data furnished to the VPA in confidence, including but not limited to VIT's customer contracts, agreements, or other information relating to tonnages and cargoes and annual budgets."

The motion was seconded by Mr. Pullen.

END OF CLOSED SESSION

At 4:00 p.m., the Board came out of closed session and Ms. Clemente read the resolution certifying the closed meeting, as previously stated. The resolution was seconded by Mr. Laughon and passed by a roll call vote of the Board as follows:

Ayes: 10 (Aument, Bergeron, Boyd, Clemente, Coy, Laughon, Pullen, Stanton, Wassmer, Xu)

Nays: 0

Absent During Vote: 2 (Briley, Ganeriwala)

Absent During Meeting: 2 (Briley, Ganeriwala)

V. NEW BUSINESS

MOTION FOR CLOSED SESSION

At 4:00 p.m., Ms. Clemente read the following motion to go into closed session:

“I move that the VPA Board of Commissioners convene a closed meeting pursuant to the provisions of the Virginia Freedom of Information Act (FOIA), Code §2.2-3711(A)(5), to discuss prospective businesses or industries or the expansion of an existing business or industry; and pursuant to §2.2-3711(A)(6) to discuss the investment of public funds where competition is involved; and pursuant to §2.2-3711(A)(38) and the provisions of §62.1-132.4, to discuss VIT proprietary information and data furnished to the VPA in confidence.”

The motion was seconded by Ms. Aument.

END OF CLOSED SESSION

At 4:35 p.m., the Board came out of closed session and Ms. Clemente read the resolution certifying the closed meeting, as previously stated. The resolution was seconded by Mr. Boyd and passed by a roll call vote of the Board as follows:

Ayes: 10 (Aument, Bergeron, Boyd, Clemente, Coy, Laughon, Pullen, Stanton, Wassmer, Xu)

Nays: 0

Absent During Vote: 2 (Briley, Ganeriwala)

Absent During Meeting: 2 (Briley, Ganeriwala)

VI. OTHER BUSINESS, OPPORTUNITY FOR PUBLIC COMMENT, AND ADJOURNMENT

The Chairman announced that there would be no Executive Committee meeting. There being no further business and no public comments, the meeting adjourned at 4:35 p.m.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board

All open session presentations have been posted to VPA's website at:
<http://www.portofvirginia.com/about/board-room.aspx>

Resolution 13-20

**RESOLUTION APPROVING THE EMPLOYMENT AGREEMENT
(CONTRACT) FOR JOHN F. REINHART, THE INCOMING CEO/EXECUTIVE
DIRECTOR OF THE VIRGINIA PORT AUTHORITY**

WHEREAS, on October 31, 2013, the VPA Board of Commissioners appointed John F. Reinhart, President and CEO of Maersk Line, Limited, to the position of CEO/Executive Director of the Virginia Port Authority, thereby succeeding the Interim Executive Director, Rodney W. Oliver, effective February 10, 2014; and

WHEREAS, §62.1-129 of the Code of Virginia states that the Virginia Port Authority Executive Director's compensation from the Commonwealth shall be fixed by the Virginia Port Authority Board of Commissioners in accordance with law; and,

WHEREAS, this same section of the Code states that the compensation shall be established at a level which will enable the Authority to attract and retain a capable Executive Director; and,

WHEREAS, Chapter 806 of the 2013 Acts of Assembly establishes the Executive Director's salary level and also grants to the Board of Commissioners the authority to supplement the Executive Director's salary, with the prior approval of the Governor; and,

WHEREAS, the Governor of Virginia, His Excellency Robert F. McDonnell, approved the attached Employment Agreement (which includes the supplemental compensation) between the Board of Commissioners of the Virginia Port Authority and John F. Reinhart, the incoming CEO/Executive Director.

NOW THEREFORE, BE IT RESOLVED, that the Board of Commissioners of the Virginia Port Authority does hereby approve the Employment Agreement.

PASSED AND ADOPTED this 19th day of November, 2013.



Jeffrey D. Wassmer, Chairman

Attest:



Debra J. McNulty, Clerk

**EMPLOYMENT AGREEMENT
FOR THE EXECUTIVE DIRECTOR OF
THE VIRGINIA PORT AUTHORITY**

THIS AGREEMENT (the "Agreement") is made and entered into this 31st day of October 2013, by and between the Board of Commissioners of the Virginia Port Authority, Norfolk, Virginia, which has an address of 600 World Trade Center, Norfolk, Virginia 23510 (the "Board"), and John F. Reinhart ("Executive"), whose address is 1672 Dey Cove Drive, Virginia Beach, Virginia 23454.

WITNESSETH:

WHEREAS, the Board and Executive have negotiated the terms of his employment with the Virginia Port Authority (the "Authority") and desire to reduce their agreement on such terms to writing.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties covenant and agree as follows:

1. EMPLOYMENT. The Board hereby employs Executive, and Executive hereby accepts such employment on the terms found in this Agreement. Executive shall perform such duties as are prescribed by the Board, and shall devote his full time, attention, skills and energies to such duties, subject to state law, and the policies, supervision, and direction of the Board. Executive, while employed by the Authority, shall not engage in any business, acquire an interest in any business, or become affiliated as an agent, partner, officer, director, employee, proprietor, consultant, stockholder, or independent contractor of or for any person, business, or legal entity that would violate either the State and Local Government Conflict of Interests Act, §§2.2-3100 *et seq.* of the Code of Virginia (as currently existing and later amended) or the Ethics in Public Contracting Act, §§2.2-4367 *et seq.* of the Code of Virginia (as currently existing and later amended). Further, Executive agrees that during his employment with the Authority, he shall file, upon signing this employment agreement and by January 15th of each year thereafter, a disclosure statement of his personal interests and such other information as is specified on the state disclosure form set forth in §2.2-3117 and shall otherwise comply with the disclosure requirements associated with Article 5 of the State and Local Government Conflict of Interests Act, §§2.2-3100 *et seq.* of the Code of Virginia (as currently existing and later amended). Concurrently with filing the state disclosure form in compliance with state law, Executive shall provide a copy of the same to the Board for its review.

2. TERM OF EMPLOYMENT; EVALUATION. Executive's employment shall be for a term commencing February 10, 2014 (the "Effective Date"), and terminating February 10, 2019, subject to prior termination as provided for in this Agreement. The Board shall annually evaluate the Executive's performance of his duties and responsibilities including all performance measures and objectives enacted by the Board. The Board shall use its best efforts to conduct the Executive's evaluation by no later than November 1 of each year, and

present the evaluation at the next regular Board meeting following the completion of the evaluation, at which time any changes in the compensation for the year to come shall be set. To the extent the Board's evaluation is conducted after such date, then any changes in compensation shall likewise be set at the Board meeting following the completion.

3. COMPENSATION. Executive shall be paid an annual base salary of four hundred fifty thousand dollars (\$450,000.00) per contract year, adjusted yearly as determined by the Board ("Annual Base Salary"). Such salary shall be paid in equal installments (no less frequently than monthly) in accordance with the policy of the Board governing payment of professional staff members employed by the Authority.

At the end of Executive's first full year of employment, Executive will be paid a one-time base salary supplement of 37.5% of the Annual Base Salary, provided that Executive serves as Executive Director for one full year beginning on the Effective Date. In addition, at the end of Executive's first full year of employment, the Board may, at its sole discretion, grant Executive additional incentive compensation up to 12.5% of the Annual Base Salary, provided that Executive achieves certain performance goals and objectives set by the Board at its discretion. If earned, both the one-time base salary supplement of 37.5% and the additional incentive compensation of 12.5% will be contributed to the Supplemental Defined Contribution Plan and 415(m) Plan.

After Executive's first full year in the position of Executive Director, beginning on the Effective Date, the Board may, at its sole discretion, grant Executive additional incentive compensation on an annual basis, as determined by the Board, to a maximum amount of 50% of Executive's then-effective Annual Base Salary, contingent upon the achievement of certain performance goals and objectives set by the Board at its discretion. If earned, such incentive compensation will be contributed to the Supplemental Defined Contribution Plan and 415(m) Plan.

The parties recognize and agree that the total compensation and benefits of the Executive, as set forth in this Agreement, must be established and paid in accordance with the Virginia Appropriations Act, and are subject to the discretion of the Board exercised in a manner not inconsistent with this Agreement, prior review and approval by the Governor of the Commonwealth of Virginia, and available funds.

4. REIMBURSABLE EXPENSES. Subject to Executive providing receipts or other documentation in accordance with the established Commonwealth of Virginia and Authority policies, procedures and rules, and in accordance with Virginia law and the approval of the Board, the Authority shall reimburse the Executive for the following expenses:

a. The reasonable expenses incurred in promoting the business of the Authority, including expenses for entertainment, travel, and attendance at meetings and seminars, in accordance with adopted policies of the Authority concerning such expenses; and

b. Any other reasonable expenses incurred by the Executive in the course of his employment and in accordance with such policies.

5. **BENEFITS.** In addition to his Annual Base Salary, but not as a part thereof, Executive shall be provided with the following benefits during the term of this Agreement:

a. Benefits under State law. Executive shall receive all of the benefits of employment that accrue to a Virginia Port Authority Executive Director under Virginia law and the Enabling Act of the Authority, including but not limited to retirement benefits in the Virginia Port Authority retirement program, in accordance with the terms of the applicable governing documents. Further, if an enhanced Defined Contribution Plan is adopted by the Board for future employees of the Authority, the Board will give due consideration to whether Executive may participate in the enhanced Defined Contribution Plan.

b. Paid Leave. Executive shall be entitled to paid leave benefits, subject to the laws and regulations of the Commonwealth of Virginia, policies of the Board, and provisions of this Agreement as follows:

(i) Ten (10) days of sick leave with a maximum annual carryover of ten (10) days; and

(ii) Thirty (30) days of annual leave credited as of January 1 of each year with a maximum annual carryover to the next calendar year of twenty (20) days (160 hours).

(iii) Executive is not entitled to compensation in lieu of days of paid leave not taken.

c. Health, Dental, Life, and Disability Insurance. Executive shall be provided with health and dental insurance in the same manner as other Authority employees, and life and disability insurance benefits that are enhanced relative to other Authority employees, subject to the laws and regulations of the Commonwealth of Virginia and all approvals deemed necessary by the Board:

(i) Health and dental insurance in accordance with the terms of the applicable governing documents;

(ii) Life insurance, short term disability insurance, and long term disability insurance in accordance with the terms of the applicable governing documents;

(iii) To the extent not provided under the applicable governing documents, the Authority will undertake commercially-reasonable efforts to obtain and provide life insurance coverage to the Executive in the benefit amount of two times his then-current Annual Base Salary without regard to current policy maximums; short-term disability insurance coverage of 100% of then-current Annual Base Salary, and long term disability insurance of 75% of then-current Annual Base Salary. The parties recognize that such additional coverage may be conditioned on evidence of insurability acceptable to the

insurance carrier.

(iv) If the Authority is not able to obtain and provide enhanced life and disability benefits described in (iii) through its commercially reasonable efforts, Executive will receive an annual allowance not to exceed \$18,000 for the purpose of purchasing additional life and long term disability coverage.

d. Vehicle Allowance. Executive shall receive an annual vehicle allowance in an amount not to exceed \$9,000.00, less applicable withholdings, and payable on a monthly basis.

e. Towne Point Club Membership. During his employment, Executive shall receive a membership to the Towne Point Club paid by the Authority.

6. NON-DISCLOSURE. Executive agrees to protect and hold in confidence all “Trade Secrets” and “Confidential Information” belonging to the Authority and its subsidiaries that he has or will receive through or as a result of his employment by the Authority. Executive agrees that he will not use outside the scope of his employment, disclose, divulge, or communicate to any third party any “Trade Secrets” or “Confidential Information,” as set forth herein.

For purposes hereof, “Trade Secrets” means information of the Authority and its subsidiaries including, but not limited to, technical or non-technical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, shipline contract requirements, product or service plans or lists of actual or potential customers or suppliers or customer preferences which (1) derive economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means, by other persons who can obtain economic value from their disclosure or use; and (2) are the subject of efforts that are reasonable under the circumstances to maintain their secrecy. The provisions in this Agreement restricting the disclosure and use of Trade Secrets shall survive the execution of the Agreement and shall survive for so long as the respective information qualifies as a Trade Secret.

For purposes hereof, “Confidential Information” means confidential data and confidential information learned by Executive while employed by Authority and in the course of his employment (that does not rise to the status of a Trade Secret), which has value to the Authority and is not generally known to its competitors, such as engineering information, pricing information, marketing information, distribution information, profit margins, customer preferences, customer lists, and other marketing information of the Authority and its subsidiaries that would have value if disclosed to competitors. Confidential Information shall not include any data or information that (i) has been voluntarily disclosed to the public by the Authority or its subsidiaries, (ii) has been independently developed and disclosed to the public by others, or (iii) otherwise enters the public domain through lawful means. The provisions in this Agreement restricting the disclosure and use of Confidential Information shall survive the termination of this Agreement and shall apply for a period of five (5) years from

the date of termination of Executive's employment with the Authority.

7. COVENANTS AGAINST COMPETITION/NON-PIRACY. Executive acknowledges that Executive will receive from the Authority valuable instruction and training in the business of the Authority and in the duties the Executive performs, and that his services are of a special character that have unique value to the Authority. In consideration of the benefits provided to Executive, he covenants and agrees as follows:

a. During Executive's employment and for a period of two (2) years after Executive's employment ceases, for any reason whatsoever, Executive shall not, directly or indirectly, as a principal, agent, employer, employee, partner, consultant, or any other capacity, perform services that are the same as or substantially similar to the services Executive provided for the Authority at the time his employment ceases or during the twelve (12) month period immediately prior to the cessation of employment, for or on behalf of any of the following competitive ports:

- North Carolina State Ports Authority
- Port of Baltimore
- South Carolina State Ports Authority
- Georgia Ports Authority
- The Port Authority of New York and New Jersey

Nothing in this paragraph shall restrict Executive from working in any position or performing any duties for the above-referenced entities in which Executive is not performing services that are the same as or substantially similar to the services Executive provided for the Authority at the time his employment ceases or during the twelve (12) month period immediately prior to the cessation of employment.

b. During Executive's employment and for a period of two (2) years after his employment ceases, for any reason whatsoever, Executive shall not, directly or indirectly, solicit or divert from the Authority or its subsidiaries any "customer," either in whole or in part, for the purposes of providing services that are the same as or substantially similar to, and competitive with, those services provided by the Authority or its subsidiaries at the time Executive's employment ceases or during the twelve (12) month period immediately prior to the cessation of employment. The phrase "competitive with" as used in this paragraph, limits the application of the post-employment restriction set forth in this subparagraph (b) to solicitation or diversion of customers only to, from or on behalf of, a port or similar facility located on the East Coast or Gulf Coast of the United States operating in competition with the Authority. The phrase "customer," as used in this paragraph, refers to the following entities, as well as their parents, subsidiaries or affiliates, so long as they have berthed and loaded or unloaded their ships at the Authority or at any terminal operated by the Authority or its subsidiaries within the twelve months immediately preceding Executive's last day of employment:

- Maersk
- Hapaq – Lloyd (America), Inc.
- Mediterranean Shipping Company (USA) Inc.
- NYK Line (North America), Inc.

- OOCL (USA), Inc.
- Evergreen Ship Agency (America) Corporation
- APL Limited
- Hanjin Shipping Co., LTD
- CMA CGM (America) LLC
- “K” Line America, Inc.
- Yang Ming Marine Transport Corporation
- MOL (America) Inc.
- United Arab Agencies, Inc.
- ZIM Integrated Shipping Service Ltd.
- Atlantic Container Line
- Hyundai Merchant Marine
- COSCO
- Hamburg Sud
- CSAV
- SLNC
- Turkon Line
- China Shipping Container Lines

c. During Executive’s employment and for a period of two (2) years after Executive’s employment ceases, for any reason whatsoever, Executive shall not, directly or indirectly, solicit for employment or employ any individuals who, as of the date his employment ceases or during the three (3) month period immediately preceding such cessation, were employees of the Authority or its subsidiaries, for the purpose of providing or offering to provide services that are competitive with those provided by the Authority or its subsidiaries at the time Executive’s employment ceases.

d. Executive agrees that a breach of any of the covenants set forth herein would result in irreparable injury and damage to the Authority or its subsidiaries for which the Authority would have no adequate remedy at law. Executive further agrees that in the event of said breach, that the Authority shall be entitled to an immediate injunction to prevent such violations and to any and all costs and expenses incurred as a result of said breach, including reasonable attorney’s fees, in addition to any other remedies, whether at law or in equity, to which the Authority may be entitled.

e. Executive has carefully read and considered Sections 6 and 7 and agrees that the restrictions are fair and reasonable and are reasonably required for the protection of the interests of the Authority.

f. In the event that, notwithstanding the foregoing, any of the provisions of Sections 6 and 7 above shall be held to be invalid or unenforceable, the remaining provisions hereof shall nevertheless continue to be valid and enforceable as though the invalid or unenforceable parts had not been included herein. In the event that any provisions relating to time period or scope of activity shall be declared by a court of competent jurisdiction to exceed the maximum time period or activities such court deems reasonable and enforceable,

said time period and/or scope of activity shall be deemed to become, and thereafter be, the maximum time period and/or scope of activities which such court deems reasonable and enforceable.

8. TERMINATION.

a. The Board may terminate the Executive at any time, with or without Cause. Executive shall be entitled to a Severance Benefit if his employment is terminated by the Board during the term of this Agreement for reasons other than for Cause (as defined below). The Severance Benefit shall be conditioned upon Executive, for himself and for his heirs, successors, legal representatives and assigns, signing a complete release of any and all demands, claims, and actions of every nature and kind whatsoever against the Authority, and its officers, board members, employees and agents (other than any vested retirement, deferred compensation, or similar benefits as provided in paragraph 5.a. above). A form of the release is attached as Exhibit A. Such Severance Benefit shall equal the payment of the equivalent of six (6) months of the most recently established Annual Base Salary and it shall be paid in accordance with normal payroll procedures ("Severance Benefit").

In the event the Executive is terminated for Cause, then the Executive shall be paid his Annual Base Salary up to the date of termination, and the Executive shall have no right to the payment of the Severance Benefit or any other payments (other than any vested retirement, deferred compensation, or similar benefits as provided in paragraph 5.a. above). No Severance Benefit payment shall be payable should the Executive resign from his position for any reason.

b. The Board may terminate the Executive's employment for Cause. For purposes of this Agreement, "Cause" shall mean:

- (i) the Executive's misconduct in connection with the performance of his duties;
- (ii) the Executive's misappropriation or embezzlement of funds or property of the Authority;
- (iii) the Executive's fraud or dishonesty with respect to the Authority and/or the Board;
- (iv) the Executive's failure to perform any of the duties and responsibilities required by the position (other than by reason of incapacity) or the Executive's willful failure to follow reasonable instructions or policies of the Authority and/or the Board, in either case after being advised in writing of such failure and being given a reasonable opportunity and period (as determined by the Board) to remedy such failure;
- (v) the Executive's conviction of, indictment for (or its procedural equivalent), or entering of a guilty plea or plea of no contest with respect to any felony or any other crime involving moral turpitude or any other crime with respect to which imprisonment is a possible punishment;

(vi) the Executive's breach of a material term of this Agreement, or violation of any code, regulation, policy or standard of behavior generally applicable to officers of the Authority, after being advised in writing of such breach or violation and being given a reasonable opportunity and period (as determined by the Board) to remedy such breach or violation;

(vii) the Executive's breach of any fiduciary duty owed to the Authority;

(viii) the Executive's engaging in conduct that, if it became known by any regulatory or governmental agency or the public, is reasonably likely to result, in the good faith judgment of the Board, in injury to the Authority, monetarily, reputationally or otherwise; or

(ix) the Executive's engaging in any other conduct that would warrant termination in accordance with the Commonwealth of Virginia's Department of Human Resource Management's Policies and Procedures Manual.

9. MISCELLANEOUS. This Agreement shall be interpreted, enforced and governed by the laws of the Commonwealth of Virginia (without regard to conflicts of laws). Any legal action regarding this Agreement shall be brought in an appropriate Circuit or Federal District Court within the Commonwealth of Virginia. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and all representations, promises, and prior or contemporaneous understandings relating to the Executive's employment by the Board are merged into and expressed in this Agreement. No change, amendment, supplement, or modification of this Agreement shall be valid unless the same shall be in writing and signed by the parties hereto. The section headings in this Agreement are solely for convenience of reference and shall not affect the interpretation or construction of the terms and provisions thereof. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The delivery by facsimile of an executed copy of this Agreement shall be deemed valid as if an original signature was delivered. Each party has participated fully in the negotiation and preparation of this Agreement with full benefit of counsel. Accordingly, this Agreement shall not be more strictly construed against either of the parties.

10. SURVIVAL OF OBLIGATIONS. The obligations of the parties under Sections 6 and 7 of this Agreement shall survive cessation of the Executive's employment.

11. INTERNAL REVENUE SERVICE CODE SECTION 409A COMPLIANCE.

(a) The intent of the parties is that payments and benefits under this Agreement comply with an exemption from the application of Section 409A of the Internal Revenue Service Code and applicable guidance issued thereunder ("Code Section 409A") and, accordingly, all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A.

(b) To the extent Code Section 409A does apply to any payments or benefits under this Agreement, the following provision shall apply:

- (i) Neither the Executive nor the Authority shall take any action to accelerate or delay the payment of any monies and/or provision of any benefits that are subject to Code Section 409A in any matter which would not be in compliance with Code Section 409A.
- (ii) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the form or timing of payment of any amounts or benefits that are subject to Code Section 409A and that are paid upon or following a termination of employment unless such termination is also a “separation from service” (within the meaning of Code Section 409A) and, for purposes of any such provision of this Agreement under which (and to the extent) deferred compensation subject to Code Section 409A is paid, references to a “termination” or “termination of employment” or “resign” or “resignation” or like references shall mean separation from service.
- (iii) With regard to any provision herein that provides for reimbursement of expenses or in-kind benefits that are subject to Code Section 409A, except as permitted by Code Section 409A, (i) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit, and (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year of the Executive shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year of the Executive, provided that the foregoing clause (ii) shall not be violated with regard to expenses reimbursed under any arrangement covered by Code Section 105(b) solely because such expenses are subject to a limit related to the period the arrangement is in effect. All reimbursements shall be reimbursed in accordance with the Authority’s reimbursement policies but in no event later than the calendar year following the calendar year in which the related expense is incurred.
- (iv) If under this Agreement, an amount is to be paid in two or more installments, for purposes of Code Section 409A, each installment shall be treated as a separate payment. In the event any payment payable upon termination of employment would be exempt from Code Section 409A under Treas. Reg. § 1.409A-1(b)(9)(iii) but for the amount of such payment, the determination of the payments to the Executive that are exempt under such provision shall be made by applying the exemption to payments based on chronological order beginning with the payments paid

closest in time on or after such termination of employment.

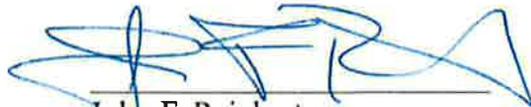
- (v) When, if ever, a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within thirty (30) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Authority.
- (vi) Notwithstanding any of the provisions of this Agreement, the Authority shall not be liable to Executive if any payment or benefit which is to be provided pursuant to this Agreement and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

**The Board of Commissioners of the Virginia
Port Authority**

By: _____

Jeffrey D. Wassmer, Chairman

EXECUTIVE



John F. Reinhart

12771515v1

RESOLUTION 13-23

A RESOLUTION AUTHORIZING REVISIONS TO THE THE VIRGINIA PORT AUTHORITY (VPA) PURCHASING POLICIES AND PROCEDURES MANUAL, RE-TITLED, "PURCHASING AND SURPLUS PROPERTY MANUAL"

WHEREAS, in accordance with § 62.1-132.6 of the Code of Virginia, the Virginia Port Authority, a political subdivision of the Commonwealth of Virginia, is authorized to implement, by policy or regulation adopted by the Board of Commissioners, procedures to ensure fairness and competitiveness in the procurement of goods and services and in the administration of its capital outlay program; and

WHEREAS, the adoption of such procedures exempts the Virginia Port Authority from the provisions of the Virginia Public Procurement Act (§ 2.2-4300 et seq.) as provided in § 2.2-4343 and § 62.1-132.6; and

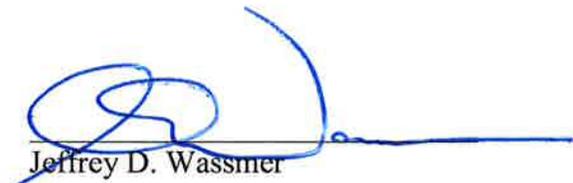
WHEREAS, the last revision to the Virginia Port Authority Purchasing Policies and Procedures manual was approved by the Board of Commissioners on the 23rd day of November, 2004; and

WHEREAS, the Board of Commissioners has reviewed the proposed changes to the Purchasing and Surplus Property Manual.

NOW, THEREFORE BE IT RESOLVED by the Board of Commissioners of the Virginia Port Authority that the proposed changes to the Purchasing and Surplus Property Manual are hereby approved and that the Virginia Port Authority Executive Director is hereby delegated the authority to make future changes to the Purchasing and Surplus Property Manual that are solely made to reflect any change in law.

PASSED AND ADOPTED this 19th day of November, 2013.

Attest:


Jeffrey D. Wassmer
Chairman of the Board


Debra J. McNulty
Clerk to the Board/Secretary



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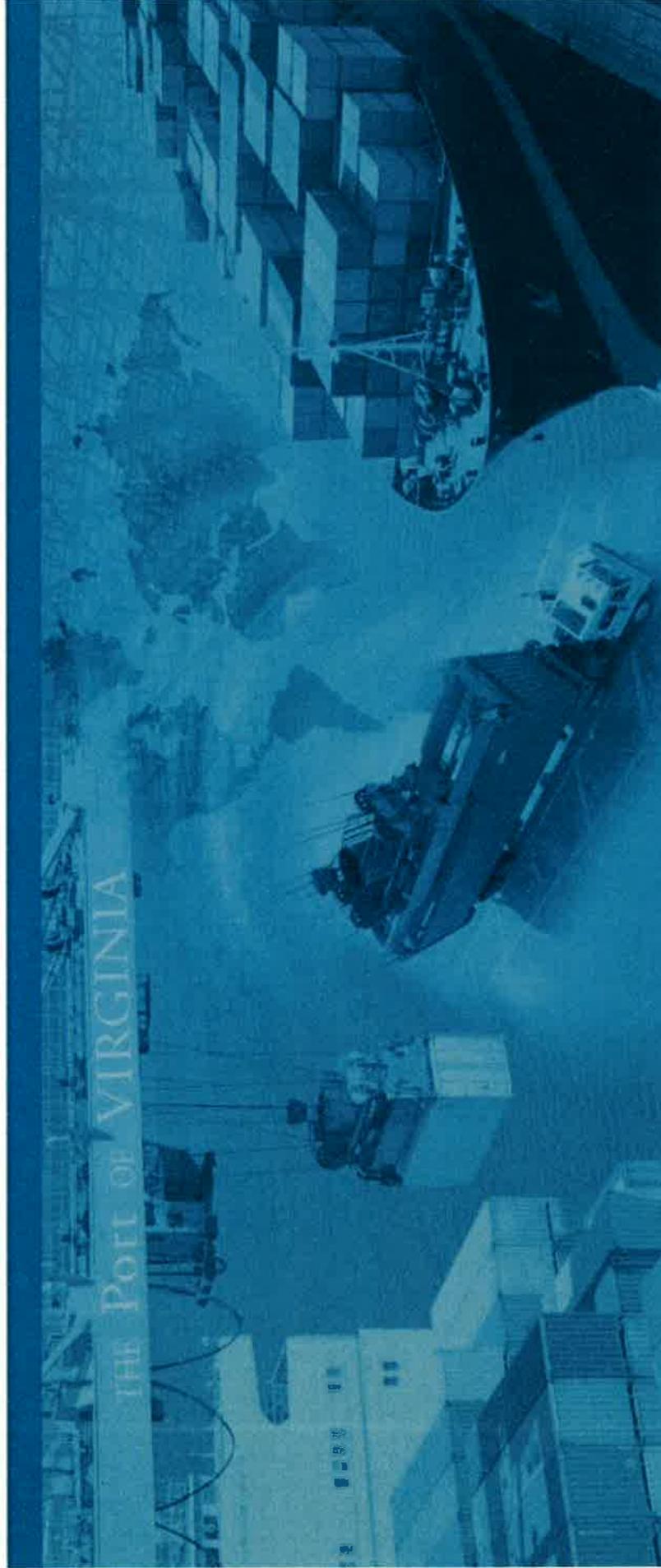
October 2013 Financial Report

Board of Commissioners

November 19, 2013



THE PORT OF
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**PORT OF VIRGINIA
CONSOLIDATED INCOME STATEMENT FOR THE MONTH ENDED
OCTOBER 31, 2013**

	Actual	Budget	\$ Variance	% Variance
Operating Revenues	\$ 30,687,140	\$ 29,562,255	\$ 1,124,885	3.8%

- ***Actual container volume was 117,704 vs. 107,543 budget, a 9.4% increase***
- ***Accordingly, operating revenue was 3.8% above budget***

**PORT OF VIRGINIA
CONSOLIDATED INCOME STATEMENT FOR THE MONTH ENDED
OCTOBER 31, 2013**

	Actual	Budget	\$ Variance	% Variance
Operating Revenues	\$ 30,687,140	\$ 29,562,255	\$ 1,124,885	3.8%
Operating Expenses:				
Terminal operations	15,194,124	13,278,362	(1,915,762)	-14.4%
Terminal maintenance	5,095,405	4,998,164	(97,241)	-1.9%
General and administrative	3,795,574	3,747,201	(48,373)	-1.3%
Facility Rental	4,406,314	4,178,072	(228,242)	-5.5%
Depreciation and amortization	3,636,550	3,947,782	311,232	7.9%
Total operating expenses	32,127,967	30,149,581	(1,978,386)	-6.6%

- **Terminal operations expense was \$1.9 million over budget**
- **Approximately \$1.3 million of this was due to volume increase with the remainder due to rail mix and higher than budgeted premium pay**
- **Remaining operating expenses were relatively flat in total**

**PORT OF VIRGINIA
CONSOLIDATED INCOME STATEMENT FOR THE MONTH ENDED
OCTOBER 31, 2013**

	Actual	Budget	\$ Variance	% Variance
Operating Revenues	\$ 30,687,140	\$ 29,562,255	\$ 1,124,885	3.8%
Operating Expenses:				
Terminal operations	15,194,124	13,278,362	(1,915,762)	-14.4%
Terminal maintenance	5,095,405	4,998,164	(97,241)	-1.9%
General and administrative	3,795,574	3,747,201	(48,373)	-1.3%
Facility Rental	4,406,314	4,178,072	(228,242)	-5.5%
Depreciation and amortization	3,636,550	3,947,782	311,232	7.9%
Total operating expenses	32,127,967	30,149,581	(1,978,386)	-6.6%
Operating income (loss)	(1,440,827)	(587,327)	(853,500)	145.3%

- *The higher than budgeted revenue was offset by higher than budgeted operating expenses resulting in an operating loss of \$854 thousand below budget for the month of October*

**PORT OF VIRGINIA
CONSOLIDATED INCOME STATEMENT FOR THE MONTH ENDED
OCTOBER 31, 2013**

	Actual	Budget	\$ Variance	% Variance
Operating Revenues	\$ 30,687,140	\$ 29,562,255	\$ 1,124,885	3.8%
Operating Expenses:				
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Terminal maintenance	5,095,405	4,998,164	(97,241)	-1.9%
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Facility Rental	4,406,314	4,178,072	(228,242)	-5.5%
Depreciation and amortization	3,636,550	3,947,782	311,232	7.9%
Total operating expenses	32,127,967	30,149,581	(1,978,386)	-6.6%
Operating income (loss)	(1,440,827)	(587,327)	(853,500)	145.3%
Non-operating revenues (expenses)	(1,395,171)	(1,412,643)	17,472	1.2%
Capital contributions and transfers	3,182,008	3,244,518	(62,510)	-1.9%

- ***Non-operating expenses consist primarily of interest expense which is lower than budget due to bond refundings and the negotiation of lower interest rates on MELPs***
- ***Capital contributions consist primarily of Commonwealth Port Fund Revenue and was slightly lower than budget***

**PORT OF VIRGINIA
CONSOLIDATED INCOME STATEMENT FOR THE MONTH ENDED
OCTOBER 31, 2013**

	Actual	Budget	\$ Variance	% Variance
Operating Revenues	\$ 30,687,140	\$ 29,562,255	\$ 1,124,885	3.8%
Operating Expenses:				
Terminal operations	15,194,124	13,278,362	(1,915,762)	-14.4%
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Total operating expenses	32,127,967	30,149,581	(1,978,386)	-6.6%
Operating income (loss)	(1,440,827)	(587,327)	(853,500)	145.3%
Non-operating revenues (expenses)	(1,395,171)	(1,412,643)	17,472	1.2%
Capital contributions and transfers	3,182,008	3,244,518	(62,510)	-1.9%
Increase (decrease) in Net Assets	\$ 346,010	\$ 1,244,549	\$ (898,539)	-72.2%

- ***The overall results show an increase in Net Assets of \$346 thousand which is \$900 thousand below budget***

**PORT OF VIRGINIA
 CONSOLIDATED INCOME STATEMENT FOR THE FOURS MONTHS
 ENDED OCTOBER 31, 2013**

	Actual	Budget	\$ Variance	% Variance
Operating Revenues	\$ 120,115,766	\$ 122,809,565	\$ (2,693,799)	-2.2%

- ***Actual container volume was 455,167 vs. 444,402 budget, a 2.4% increase***
- ***Continued shift in volume mix towards rail and additional incentives contributed to lower than budgeted revenue***

**PORT OF VIRGINIA
CONSOLIDATED INCOME STATEMENT FOR THE FOURS MONTHS
ENDED OCTOBER 31, 2013**

	Actual	Budget	\$ Variance	% Variance
Operating Revenues	\$ 120,115,766	\$ 122,809,565	\$ (2,693,799)	-2.2%
Operating Expenses:				
Terminal operations	57,516,522	54,117,373	(3,399,149)	-6.3%
Terminal maintenance	18,805,802	19,668,297	862,495	4.4%
General and administrative	15,229,969	14,813,379	(416,590)	-2.8%
Facility Rental	17,625,257	16,712,288	(912,969)	-5.5%
Depreciation and amortization	15,780,720	15,762,987	(17,733)	-0.1%
Total operating expenses	124,958,270	121,074,324	(3,883,946)	-3.2%

- **Terminal operations expense was \$3.4 million over budget**
- **Approximately \$1.3 million of this was due to volume increase with the remainder due to rail mix and higher than budget premium pay**
- **General and administrative expense was higher than budget due primarily to a one time unbudgeted expense**
- **Facility rental expense was higher than budget due to a change in estimate**
- **Lower than budgeted terminal maintenance expense partially offset the above increases in expenses**

**PORT OF VIRGINIA
CONSOLIDATED INCOME STATEMENT FOR THE FOURS MONTHS
ENDED OCTOBER 31, 2013**

	Actual	Budget	\$ Variance	% Variance
Operating Revenues	\$ 120,115,766	\$ 122,809,565	\$ (2,693,799)	-2.2%
Operating Expenses:				
Terminal operations	57,516,522	54,117,373	(3,399,149)	-6.3%
Terminal maintenance	18,805,802	19,668,297	862,495	4.4%
General and administrative	15,229,969	14,813,379	(416,590)	-2.8%
Facility Rental	17,625,257	16,712,288	(912,969)	-5.5%
Depreciation and amortization	15,780,720	15,762,987	(17,733)	-0.1%
Total operating expenses	124,958,270	121,074,324	(3,883,946)	-3.2%
Operating income (loss)	(4,842,504)	1,735,241	(6,577,745)	-379.1%

- ***The combination of lower than budgeted revenue and higher than budgeted expenses have resulted in an operating loss of \$6.6 million below budget***

**PORT OF VIRGINIA
CONSOLIDATED INCOME STATEMENT FOR THE FOURS MONTHS
ENDED OCTOBER 31, 2013**

	Actual	Budget	\$ Variance	% Variance
Operating Revenues	\$ 120,115,766	\$ 122,809,565	\$ (2,693,799)	-2.2%
Operating Expenses:				
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Depreciation and amortization	15,780,720	15,762,987	(17,733)	-0.1%
Total operating expenses	124,958,270	121,074,324	(3,883,946)	-3.2%
Operating income (loss)	(4,842,504)	1,735,241	(6,577,745)	-379.1%
Non-operating revenues (expenses)	(4,539,706)	(4,748,155)	208,449	4.4%
Capital contributions and transfers	12,204,876	12,978,072	(773,196)	-6.0%

- ***Non-operating expenses consist primarily of interest expense which is lower than budget due to bond refundings and negotiation of lower interest rates on MELPs***
- ***Capital contributions consist primarily of Commonwealth Port Fund Revenue which is currently approximately \$773 thousand below budget***

**PORT OF VIRGINIA
CONSOLIDATED INCOME STATEMENT FOR THE FOURS MONTHS
ENDED OCTOBER 31, 2013**

	Actual	Budget	\$ Variance	% Variance
Operating Revenues	\$ 120,115,766	\$ 122,809,565	\$ (2,693,799)	-2.2%
Operating Expenses:				
Terminal operations	57,516,522	54,117,373	(3,399,149)	-6.3%
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Total operating expenses	124,958,270	121,074,324	(3,883,946)	-3.2%
Operating income (loss)	(4,842,504)	1,735,241	(6,577,745)	-379.1%
Non-operating revenues (expenses)	(4,539,706)	(4,748,155)	208,449	4.4%
Capital contributions and transfers	12,204,876	12,978,072	(773,196)	-6.0%
Increase (decrease) in Net Assets	\$ 2,822,666	\$ 9,965,158	\$ (7,142,492)	-71.7%

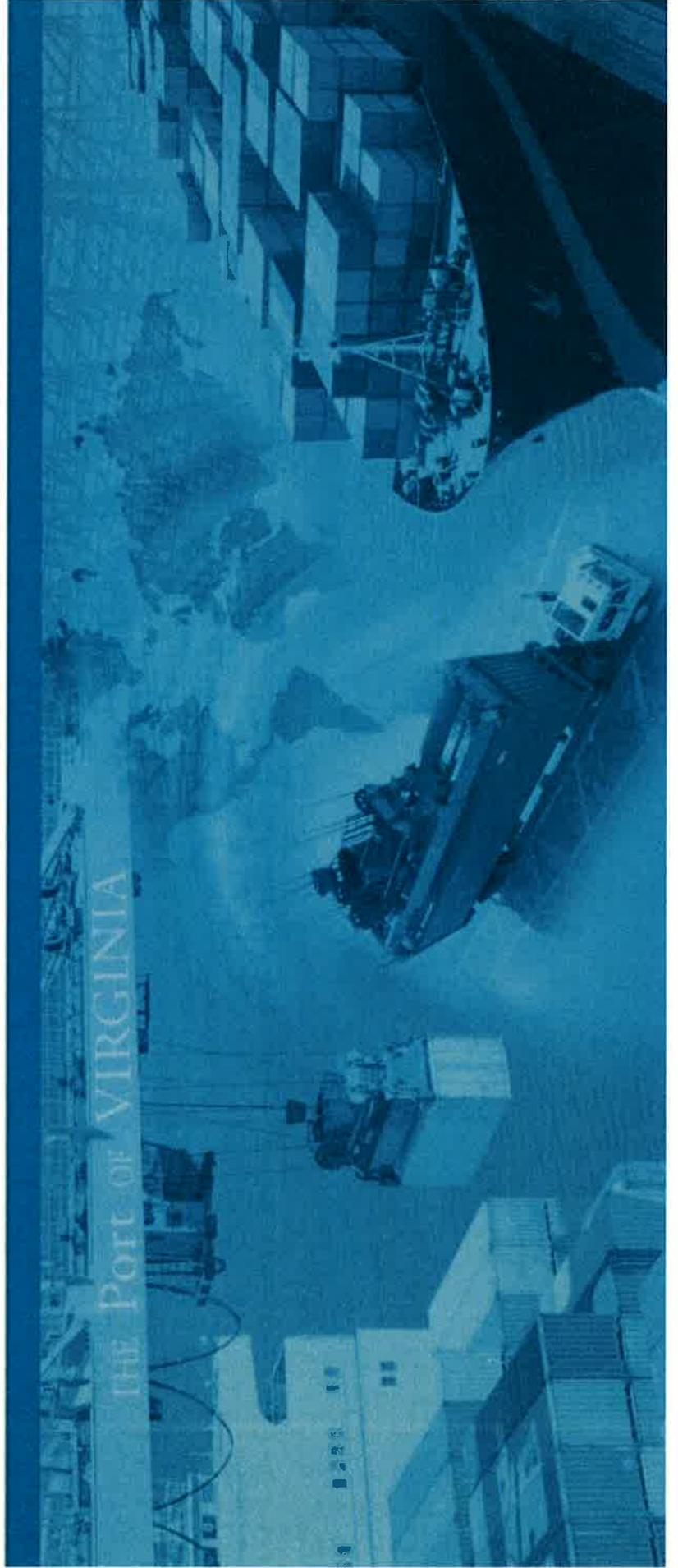
- The overall result is an increase in Net Assets of \$2.8 million which is \$7.1 million below budget***



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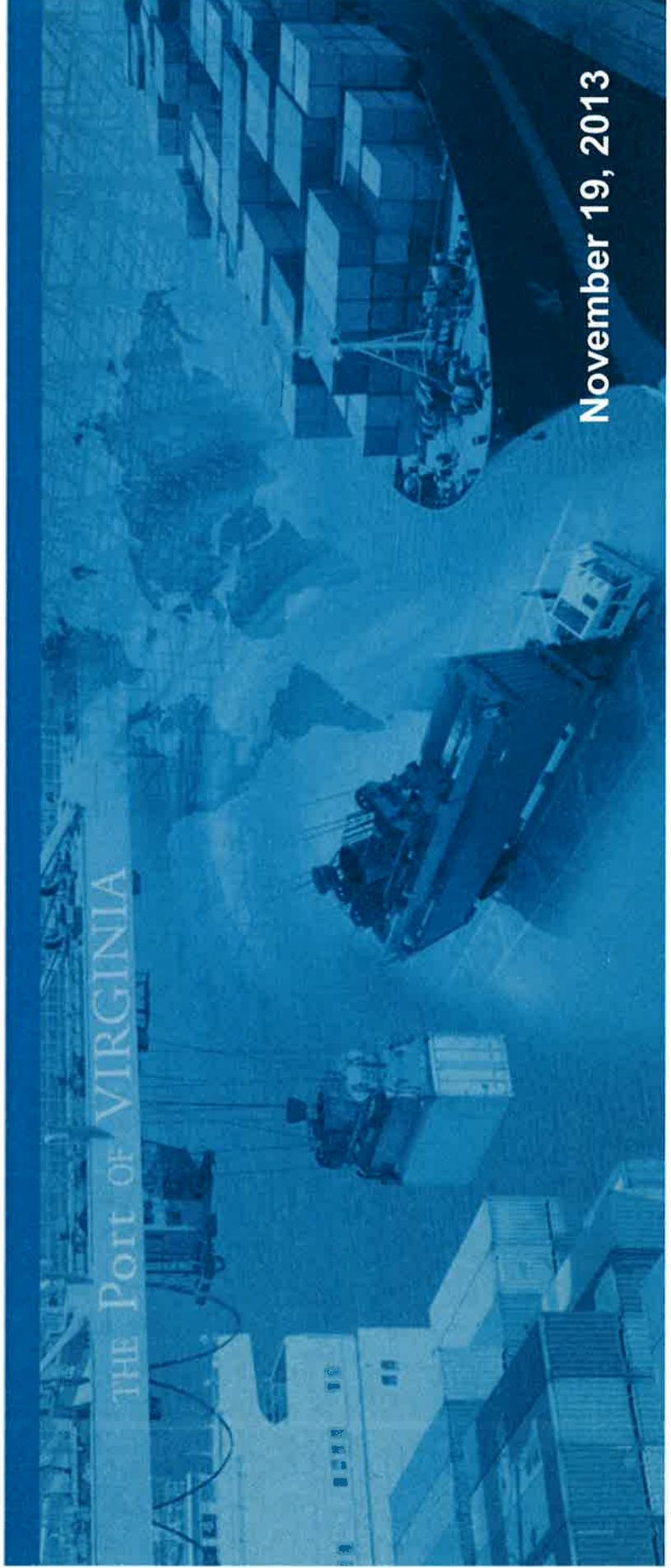


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VIT Due Diligence Review Summary





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Overview

The Board of Commissioners initiated a Due Diligence Review of the Virginia International Terminals Corporation further to the direction of Governor McDonnell and subsequent to the decision to restructure the Virginia Port Authority and the Virginia International Terminals Corporation in lieu of proceeding with the unsolicited Public Private Partnership offer.

The accounting firm of KPMG was selected to conduct the review after evaluation responses to a detail RFP.

The following ad hoc Audit Steering Committee was appointed by VPA Chairman William Fralin in May, 2013.

- **Scott Bergeron, VPA Commissioner (Committee Chairman)**
- **Greg Whirley, VDOT Commissioner**
- **Craig Coy, VPA Commissioner**
- **Richard Steinke, Port Practice Lead, Moffatt & Nichol & Former Executive Director of the Port of Long Beach**



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Background

VPA Board / Fralin Letter to Governor McDonnell – March 26, 2013

As part of this corporate restructuring, the VPA Board will request its outside accounting firm, Clifton Larson Allen LLP, to conduct a comprehensive audit of VIT. Given the proposed new structure of VIT, it is imperative that the Board identify any supplemental issues as it assumes total responsibility and liability over the port's operations. Such audits are a routine part of any private sector acquisition or merger, and it is important that the Board conduct due diligence as part of the restructuring. Further, these audits can, and typically do, involve recommendations that can improve financial practices and lead to further cost savings.

Governor Letter to VPA Board / Fralin – April 2, 2013

Third, as part of the corporate restructuring, the comprehensive audit of VIT referenced in your letter must occur. We have had much success with such audits of other state agencies. It would be inappropriate for a state entity to assume all operational liabilities of what is technically a private entity (VIT) without first conducting such a review. Equally important, this audit may help identify additional ways to improve performance and reduce costs.



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Audit Purpose

The purpose of the due diligence review was to ensure that the financial management procedures are efficient, effective, economic and conducted in a manner that are in the best interests of the Commonwealth.

The review also sought to ascertain that financial disclosures and information regarding financial operations are accurate, reliably presented and transparent with regard to assets, liabilities, source and use of revenues, expenses, incentives and subsidy practices.

All contractual liabilities including incentives and subsidy practices (whether contractual or not) were to be identified.

Results of the due diligence review are to be used to identify areas that need additional analysis and review.



Audit Objectives

The Committee defined the due diligence review to include, but not be limited to, the following activities:

Revenue Growth - Review of business practices / polices that generate revenues for services rendered; examine major categories of revenue;

Cost Control - Examine means and methods to adjust for the volatility in demand for services that minimizes cost while providing a quality service that meets time and quality performance metrics; examine major categories of cost;

Procurement / Contracting Practices – Verify that processes used to procure goods and services yields the best value for the Commonwealth’s port operations; examine contract compliance on a sample basis;

Human Resource Practices - Verify that processes used to hire, retain, motivate, and dismiss employees, are consistent, effective and appropriate;

Monitoring Performance - Evaluate performance metrics that serve as guides / targets for operations; determine if there are other comparable port operations in other states that may be used for bench marking/best practices;



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Audit Objectives (continued)

Trend Analysis and Key Business Ratios – Analyze trends to identify opportunities for improvement; analyze key business ratios to identify areas for further analysis;

Incentives - Review the effectiveness of incentives designed to increase cargo volume and profitability;

Financial Integrity – Identify key business processes; examine the internal controls to ensure financial resources and assets are safeguarded and the reliability and accuracy of information reported; conduct transaction testing on a sample basis; and

Transparency / Accountability - Examine the operating agreement and reporting practices to ensure that VIT and the Authority are providing the governing board information needed to develop policy and guide the operations and that identifies potential areas in this relationship that may be improved; examine operations to determine that VPA has appropriate oversight and governance.



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Summary

Findings	Plan of Action
Inconsistent Goals & Objectives between VPA & VIT	Restructure, resulting in alignment. Clearly communicate goals and objectives.
Dysfunction in relationship, communication and leadership between VPA & VIT	Restructure and appoint new executive leadership.
Lack of Effective Internal Controls	Clear, effective procedures. Appointment of Internal Auditor that reports to VPA Board.
Performance Monitoring & Communications with VPA Inadequate	Establish: 1. Concise and standard measurements and reporting; 2. Decision making policy; and 3. Clear procedures and action plans.
Loose Procurement Practices	Develop comprehensive procurement and contracting policies, establish roles and internal control functions
Ineffective Contract Administration, Billing & Invoicing Procedures	Develop coherent and objective based policies. Implement system changes.
Difficulty is assessing monitoring and control of Union Labor, Poorly designed incentive/reward compensation for non-union personnel	Establish metrics and monitoring controls. Consider third party monitoring. Establish effective reward/motivation policies.
Liberal Liability Valuations	Apply GAAP, FASB and/or GASB recommendations to operating arm as appropriate and with consistency
Unclear Business Strategy & Objectives Resulting in Inconsistent Business Applications and Poor Financial Performance	Restructure, Leadership, Communication of Objectives, Development of Coherent Strategy, Procedures, Consistent Application & Measurement

Recently approved legislation (2013 session) authorized VPA's exemption from the Department of General Services' approval of VPA's procedures for the procurement of goods and services. Said approval is authorized so long as the Board of Commissioners adopts procedures and only so long as such policies and procedures remain in effect. The legislation also provides the same authority for procedures associated with the sale of surplus property, real estate and capital outlay. Real estate and Capital Outlay procedures will be drafted and presented for the Board's approval at another time, however procedures for Purchasing and Surplus Property are addressed in the proposed revised and renamed Procurement and Surplus Property Manual.

A summary of those changes is as follows:

- Title changed to Procurement and Surplus Property Manual
- Added Surplus Property procedures to the manual
- Updated the date from November 2004 to September 2013

Introduction

- Responsibilities for purchasing activity and maintaining the policies and procedures manual changed to Director of Contracts & Real Estate and his/her staff (was the Director of Finance and his/her staff).

Chapter 1: Ethical Standards of Conduct

- Questions regarding procurement ethics issues should be directed to CFO & Treasurer (was Executive Director).

Chapter 2: Overview of Procurement Policies

2.1 VPA Procurement

- Procurements over \$1,000,000 will require Board of Commissioners approval (was \$5,000,000)
- The Board of Commissioners designates final authorization for all procurements under \$1,000,000 to the Executive Director (was \$5,000,000).
- The Executive Director may designate final authorization for all procurements of \$100,000 or less to selected Contracting Officer Representatives (CORs) (was \$1,000,000)
- Procurement and Surplus Property Manual will be maintained by the Director of Contracts & Real Estate (was Director of Finance).
- Training will be provided by VPA Purchasing Department (was Finance Department).
- Vendor disputes, appeals and resolutions will be handled by CFO & Treasurer (was Director of Finance)

2.2 VPA Purchasing Authority

- Contracting Officer Representatives (COR's) have been updated. They now include the CFO & Treasurer, the Director of Contracts & Real Estate and the Procurement Manager.
- Use of the Small Purchase Credit Card (SPCC) added to the policy section.
- Procurement Manager's approval authority increased to \$50,000 (was \$10,000).

- Director of Contracts & Real Estate's signature authority is reduced from \$1,000,000 to \$100,000.

Chapter 3: Standard Procurement Methods

3.1 VPA Supply Room

- Title of Administrative Clerk changed to Procurement Clerk.

3.4 Sole Source

- Procedures for processing payment have been streamlined (**also applies to sections 3.6, 3.7, 3.8, 5.3, 5.8**).
- Posting advertisement of a solicitation on VPA website has been removed. This is now done on the Commonwealth's electronic system known as eVA.

3.6 Informal Solicitations

- This method is used for procuring goods and services estimated to cost between \$10,000 - \$100,000 (was \$10,000 - \$50,000). This increase coincides with changes made by the Department of General Services in 2011.

3.7 Formal Bids (IFB's, Competitive Sealed Bids)

- This method is used when the total expenditure level is \$100,000 or more (was over \$50,000 or more)

3.8 Competitive Negotiations/Request for Proposals (RFPs)

- This method is used when the total expenditure level is \$100,000 or more (was \$50,000 or more).

Chapter 4: Specific Authorizations and Rules

4.1 Advertising, Marketing and Promotional Items

- Removed unnecessary reference to Commerce Advertising Code 5320200

4.2 Airline Tickets

- Employees will follow State Travel Regulations (was VPA Travel Regulations)

4.3 Computer Hardware, Software and Related Services

- Telecommunications Services has been added to this section.

4.4 Services (Professional)

- Procedures for Professional Services between \$10,000 and \$30,000 have been increased to the range of \$10,000 and \$100,000.
- Procedures for Professional Services over \$30,000 has been changed to over \$100,000.
- Added the requirement for the Small Business Subcontracting Plan to the procedures for Professional Services over \$100,000.

4.5 Real Estate and Construction

- CFO & Treasurer added to be responsible for the review and approval of all contracts for real estate or construction services.
- Added as a reference the DGS, Division of Real Estate Services Policies and Procedures for guidance on Real Estate Contracts. (This will change once VPA adopts its own procedures).

4.6 Telecommunications

- This section has been removed (now a part of Section 4.3)

Chapter 5: Internal Controls and Record Keeping

5.2 Procurement Documentation

- Added the Document Management System and the section of the Code of Virginia that refers to electronic format of documents being acceptable.

5.3 Purchase Orders

- Increased the Purchase Order threshold to \$10,000 (was \$2,000).

5.4 Contracts

- Added notifying the Director of Contracts & Real Estate of vendor/contractor performance issues.
- Increased the starting dollar value for Contracts to \$100,000 (was \$50,000).

5.6 Procurement Advertising/Award Notice

- Advertisement of procurement solicitations will begin at \$100,000 (was \$50,000). This corresponds with the rest of the Commonwealth's agencies.

5.9 Audit Reviews

- Added ISO Internal Audits to this list, and changed Auditor of Public Accounts to External Auditor.
- Added Quality Assurance Manager for authorization for internal audits

Chapter 6: Other Considerations

6.2 Vendor Insurance, Performance Bonds, Bid Bonds section changed to correspond with updated limits used by the Commonwealth

- The need for vendors to maintain insurance coverage was increased to \$100,000 (was \$50,000)
- Commercial General Liability was increased to \$1,000,000 occurrence (was \$500,000)
- Automobile Liability was increased to \$1,000,000 per occurrence (was \$500,000)

6.4 Vendor Appeals, Disputes, and Remedies

- Vendor appeals should be referred to the CFO & Treasurer (was Director of Finance).
- CFO & Treasurer shall be notified if a vendor attempts to withdraw from a binding quotation or fails to perform in accordance with contract specifications (was Director of Finance)

6.5 Surplus/Unclaimed Property

- Procedures were added.

Appendix A: Forms

- Added hyperlinks for access to each form

Appendix B: Procurement Guidance Table

- Removed the “Under \$10,000” category
- \$10,000 - \$50,000 category changed to \$50,000 and less
- \$50,001 - \$999,999 category changed to \$100,000 and less
- \$1,000,000 - \$4,999,999 category changed to \$1,000,000 and less
- \$5,000,000 and over category changed to over \$1,000,000

Appendix C: Small Business Subcontracting Plan

- This section and the plan was added to the manual