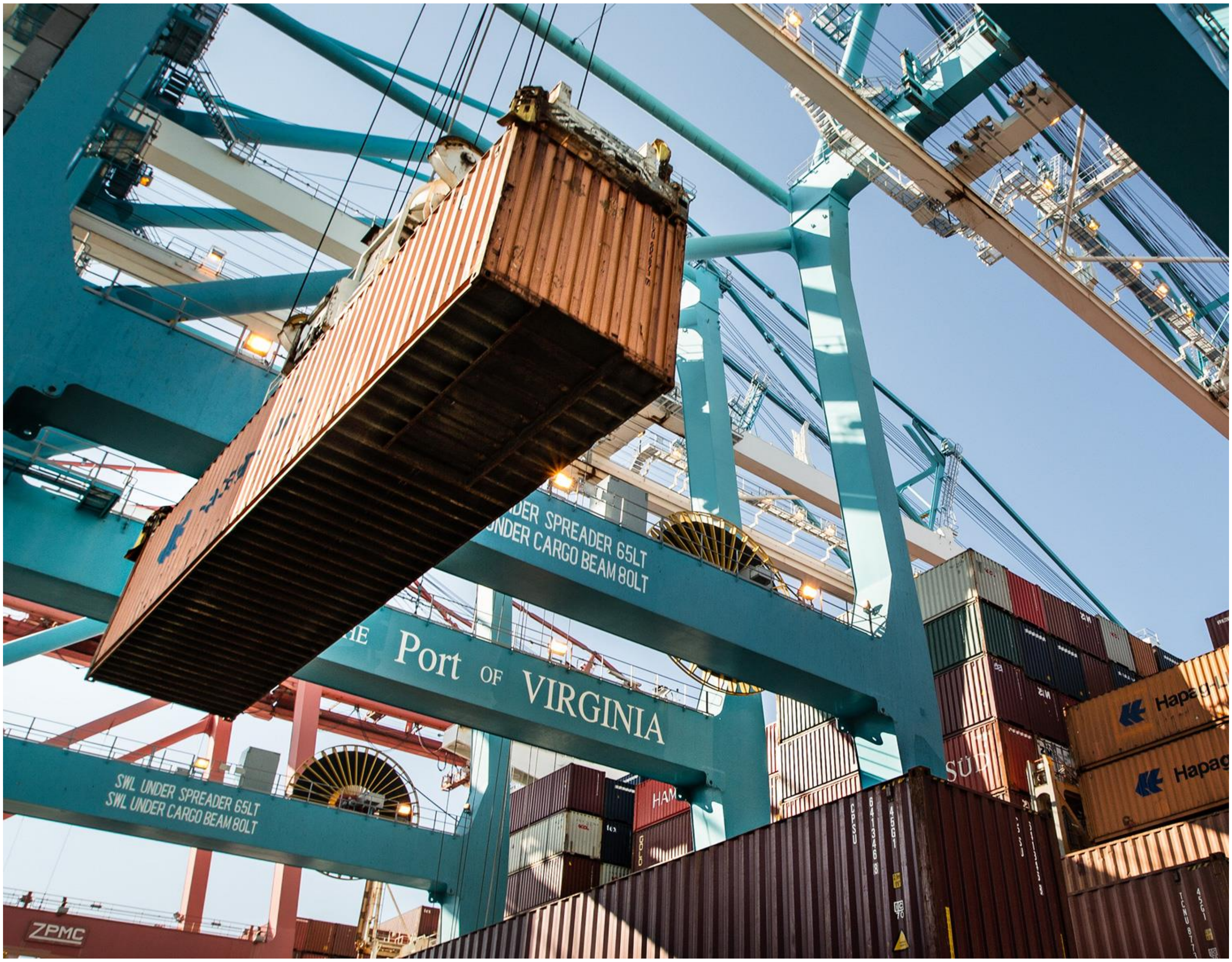
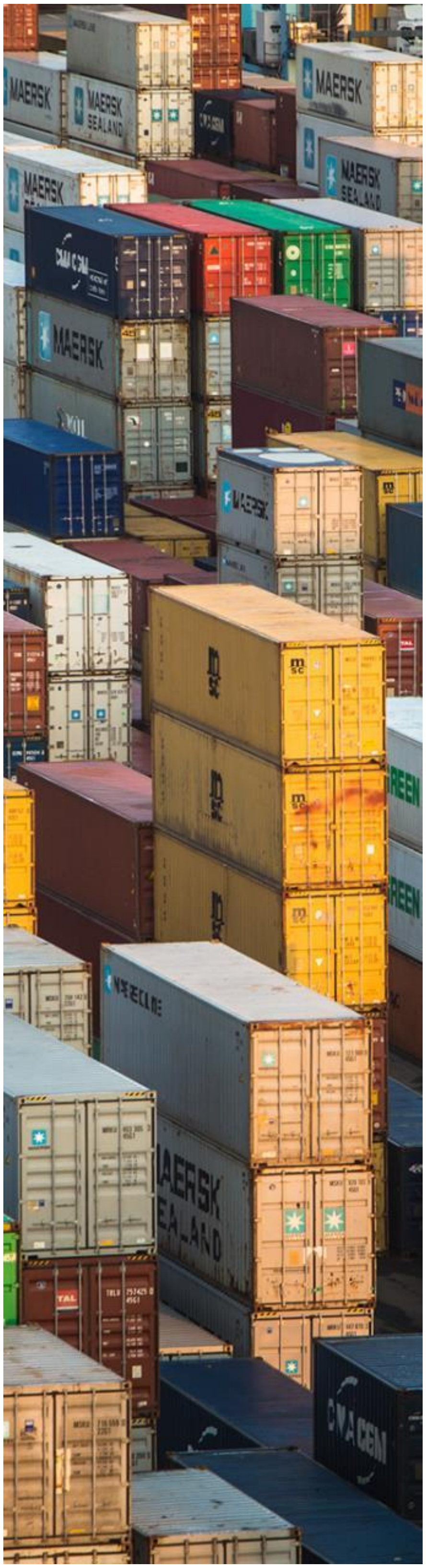


FY 2017 Budget Assumptions



Contents

INTRODUCTION

This document has been assembled to outline the overarching business assumptions that are built into the Fiscal Year 2017 budget. Budget expectations for The Port of Virginia (VPA, VIT, and HRCP II) are included in this document.

RISKS CONSIDERED

It must be noted that the majority of budget assumptions are driven by the volume forecast and therefore the accuracy of these volume statistics are paramount. In addition, the volume mix between gate, rail, and barge is the primary driver of terminal labor and operational expenses; therefore, if the volume forecast mix deviates from actual the financial results could vary significantly from what has been budgeted. Other areas that have been identified and as risks, and addressed to the extent possible, are

- Volume distribution between the shipping lines can lead to differences in revenue, for example if one of the large Beneficial Cargo Owner's changes shipping carrier then this potentially changes container unit rates

- Shipline mergers, acquisitions, and/or changes in alliances

- The impact of terminal construction on operational efficiency

- Partnership risk associated with our federal, state, and business partners

- Terminal closure due to factors within and outside our control such as weather, environmental, IT or regulatory

VOLUME

- FY17 volume forecast at 1,537,439 containers, an increase of 5.0% from an estimated 1,464,288 containers for FY16
- FY16 estimate of 1,464,288 containers represents an increase of 1.5% from FY15
- Developed based on U.S. and global economic conditions and market and industry insight for volume shifts between Port of Virginia and other ports
- US economic growth for CY 2016 is projected at lower than 2015 levels; stronger economic growth expected in CY 2017
- Opening of the Panama Canal expansion is expected to bring additional volumes to the East Coast and Port of Virginia in the second half of FY2017 as carriers look to upgrade vessels

Terminal	FY 2016 (projected)	FY 2017	Percent Change
Total Containers	1,464,288	1,537,439	5.0%
NNMT	43,348 vehicles	44,448 vehicles	2.5%
	99,252 breakbulk tons excluding vehicles	118,191 breakbulk tons excluding vehicles	+19.1%
VIP	41,000 containers	41,000 containers	-
RMT	15,883 containers	25,242 containers	58.9%

REVENUE

- China Shipping-COSCO merger recognition included
- CMA acquisition of APL effective July 1, 2016
- Richmond Marine Terminal (RMT) revenue per forecast in the RMT masterplan
- No SOLAS impact
- Schedule Of Rates (SOR) increase of 2.5% (50% of a 4% ILA rate increase and 50% of a 1% CPI-U increase) for October 1, 2016

GRANT REVENUE

Grant	Amount in $
SG – Hampton Roads Barge Operations	**3,100,000**
FG – Hampton Roads Barge Operations	**600,000**
Green Operator Grant (GO Vessel and GO Trucks)	**2,000,000**
FG – Port Security	**100,000**

EXPENSES

Operating

- 4% labor increase effective October 1, 2016
- PMT to remain as a hybrid operation
- ILA dray with Hustlers from PMT to/from CSX Pinners Point and PPCY
- Seasonal Sunday evening rail work
- Current berthing schedule
    - Current trends in ST and OT for vessel arrivals is maintained
    - Any service changes will be netted out with service movements
- Blended ST dollar per hour from FYTD2016 used for labor costing
- NNMT - keeping the labor ratio the same for next year as it is for this year
- Gate Hours
    - VIG: 0500-2359
    - NIT: 0600-1800
    - PMT: Seasonal: 0800-1700, 0700-1800, 0700-1900,0700-1900 1Q,2Q,3Q,4Q respectively
- CBP 559 funded with $1.5M to support gate hours
- Workers Compensation increasing due to rate increase and labor hour increase

Stevedore Cost Assumptions:

- Cost based on existing Stevedore contracts and 280k moves

Labor Hour/Cost Assumptions (RMT):

- POV starts operating terminal as of November 1, 2016
- Barge operates on Monday, Wednesday and Friday (with at least one Saturday or Sunday per month)
- Grain volumes are seasonal (July-November)

Maintenance

- Maintenance expenses include Capital Budget allocation to upgrade the RMG cranes at VIG
- RMT maintenance starting November 1, 2016
- VPA operational maintenance related to the barge are offset against the respective grant revenue
- VPA maintenance includes $2 mil for Go Vessel and Go Truck offset by the respective grant revenue

General and Administrative

- Wage increases of 2.5% effective October 1, 2016
- VIG Rent – new lease expected to start October 1, 2016. Rent amount for FY17 per lease term sheet. Current presentation reflects rent payments as expense but does not reflect lease accounting that will be applicable if the lease is consummated

POV Colleague Assumptions

- No additional positions budgeted for FY17

DEBT SERVICE COVERAGE

- The current FY17 budget provides an all-in 1.55 DSC ratio assuming the new VIG deal is executed (see additional note 1 below). The 1.55 ratio is up from the forecast for 2016 of 1.29 but below the 1.68 ratio without the new VIG deal.

	Forecast 2016	(1) Budgeted 2017	Existing Lease Terms Budgeted 2017
Pledged Net Revenue Coverage (1.1x test)	2.38	2.70	2.88
Pledged Adjusted net Revenue Coverage (1.35x test)	2.61	3.51	3.14
MELP DSC Covenant (1.0x test)	***1.29***	***1.55***	***1.68***

(1) Calculation does NOT include new flow of funds, debt service coverage, or VIG capital lease treatment

CAPITAL OUTLAY

- VPA Capital Budget Projects:

Project	Funding
NIT South Facility Optimization	350,000,000
VIG Phase II Expansion	320,000,000
VIP Rail Expansion	31,205,000
VIG Phase I RMG Upgrades	7,000,000
NIT North Gate Information Technology Additions	6,000,000
Container Handling Equipment (unrelated to expansion projects)	9,380,000
Other Information Technology additions	3,000,000
Replace and Consolidate Financial Systems	2,500,000
Other Equipment and Improvements	2,500,000
NNMT Berth Dredging	2,000,000
Building Renovations	2,100,000
Business Intelligence Hardware/Software	1,200,000
Data Warehouse Development	750,000
NNMT Heavy Lift Crane Upgrades	500,000
Computer Aided Dispatch	325,000
NNMT Warehouse Improvements	250,000
Total	**$ 738,710,000**

- Funding Sources:

Source	Funds
State Bond	350,000,000
VIG Partner	320,000,000
CPF Paygo	12,625,000
TR Paygo	6,300,000
State Grant	22,073,000
Federal Grant	14,832,000
Uncommitted VPA Bond Proceeds	12,880,000
	$ 738,710,000

- VIT Capital Budget Projects:

TERM	ITEM DESCRIPTION	TOTAL COST
VIG	N4 Implementation	$ 6,000,000
Multiple Locations	Reservation System	$ 500,000
Multiple Locations	Navis Breakbulk Module	$ 250,000
Multiple Locations	CRM and Customer Service Phase II/ACD	$ 161,000
NIT	NIT DGPS Vessel implementation	$ 160,400
Multiple Locations	Remote Access Improvements	$ 75,000
NIT	IKE decommission: recoding ILA Labor	$ 75,000
Multiple Locations	POV/VIT New Hire equipment	$ 60,000
FSC	Upgrade Dynamics GP v 10 to2015	$ 40,000
Multiple Locations	Small equipment, building, and infrastructure improvements	$ 2,753,960
		$ 10,075,360

OPERATING INCOME

Operating income for FY 2017 for The Port of Virginia is budgeted at $2.2 million, an increase of $.9 million from the forecast for FY 2016.