JLARC
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION

Review of Recent Reports on the Virginia Port Authority's Operations

Senate Finance Subcommittee on Transportation
Briefing: January 16, 2013

Study Mandate
(Letters to JLARC Chair)

- Review recent reports on VPA and VIT operations (House Appropriations Chair, 11/08/2012)
  - Did they fairly and accurately assess successes and shortcomings?
  - Were comparisons to ports in other states fairly made?
  - Are current structures sustainable or do they hinder market position?
- Review executive compensation levels (JLARC Vice-Chair, 11/21/2012)

VPA = Virginia Port Authority; VIT = Virginia International Terminals

Research Activities

- Structured interviews
  - VPA and VIT staff and VPA Board members
  - Shipping lines and shippers
- Analysis of container cargo volume, financial, and salary and benefits data
- Document and literature review
  - Consultant reports
  - Credit agency reports
  - Research literature
- Consultation with expert

In Brief

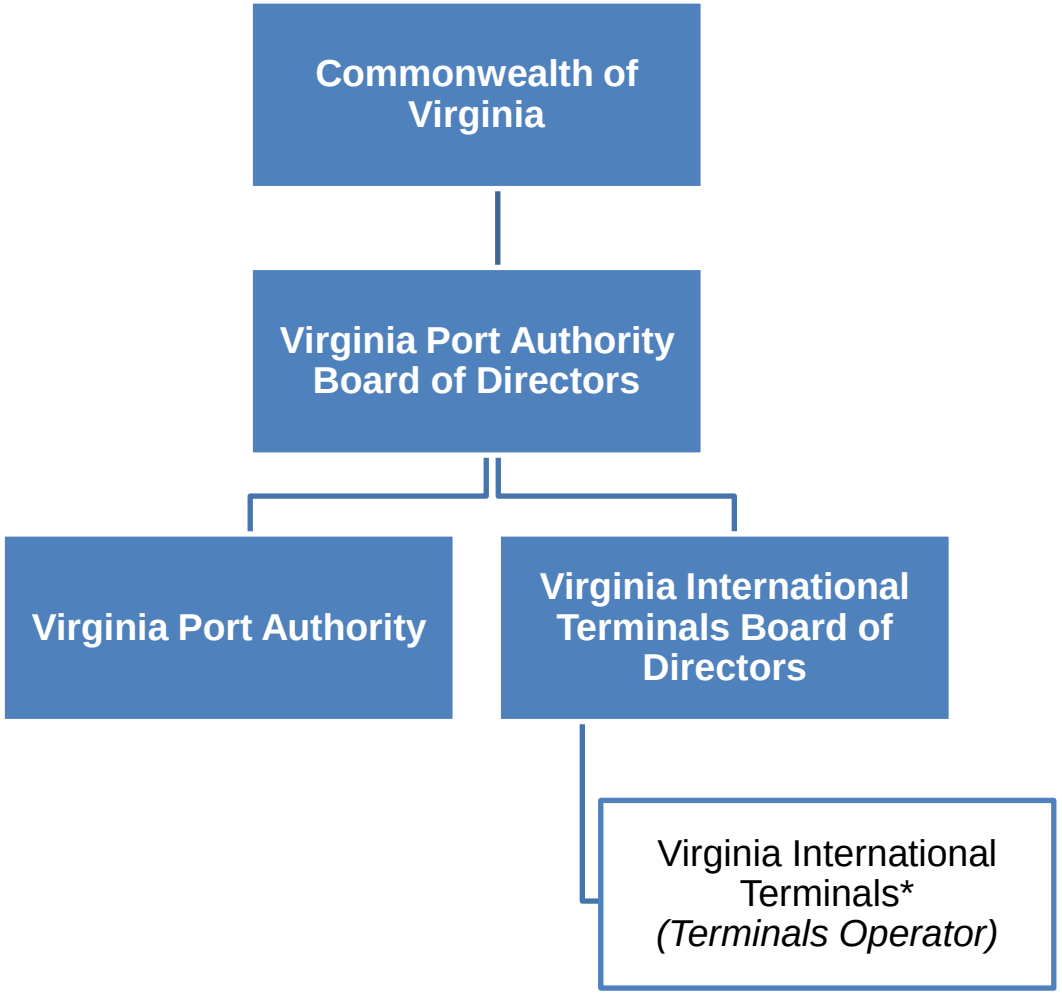
VPA's market performance and outlook appear to be more positive than consultant report suggests.

VPA does not appear to be financially unsustainable and is positioned to generate a net profit during the next 5 years.

Administrative expenses could be reduced by eliminating duplication.

VIT and VPA executives are compensated at levels higher than most U.S. port authority executives.

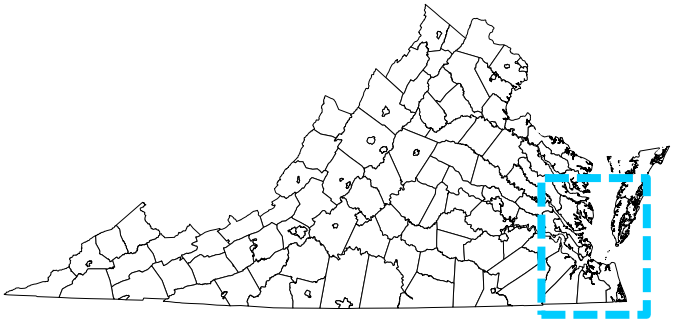
VPA/VIT Organizational Structure

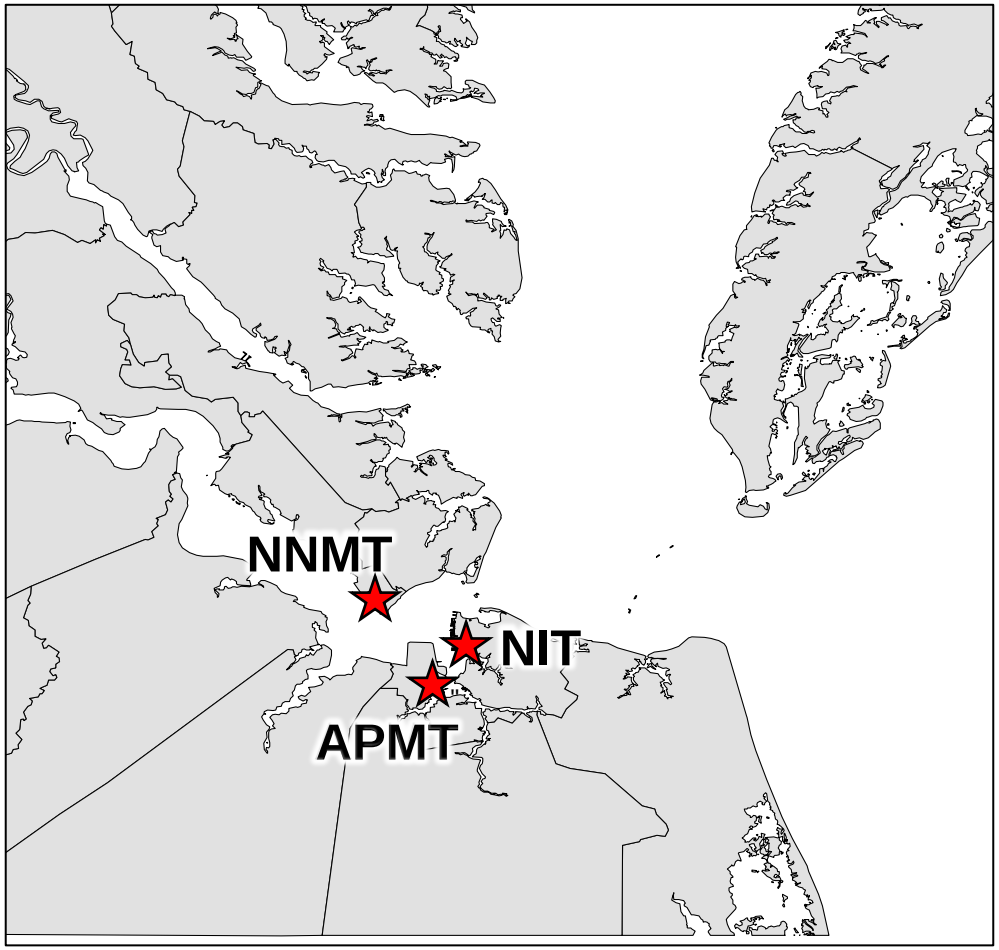


*VIT is a private, non-stock, non-profit company.

VIT Currently Operates Three Terminals in Hampton Roads Region

- Norfolk International Terminal (NIT)
- Newport News Marine Terminal (NNMT)
- APM Terminals (APMT)





Consultant Reports on VPA's Operations Have Limitations

- Methodologies used did not ensure comprehensive, definitive, and reliable findings
  - Drewry study reached broad-based conclusions but did not involve first-hand contact with VPA and VIT staff
- Comparisons to other ports are not easy to accomplish

Successes Identified in Reports Were Confirmed

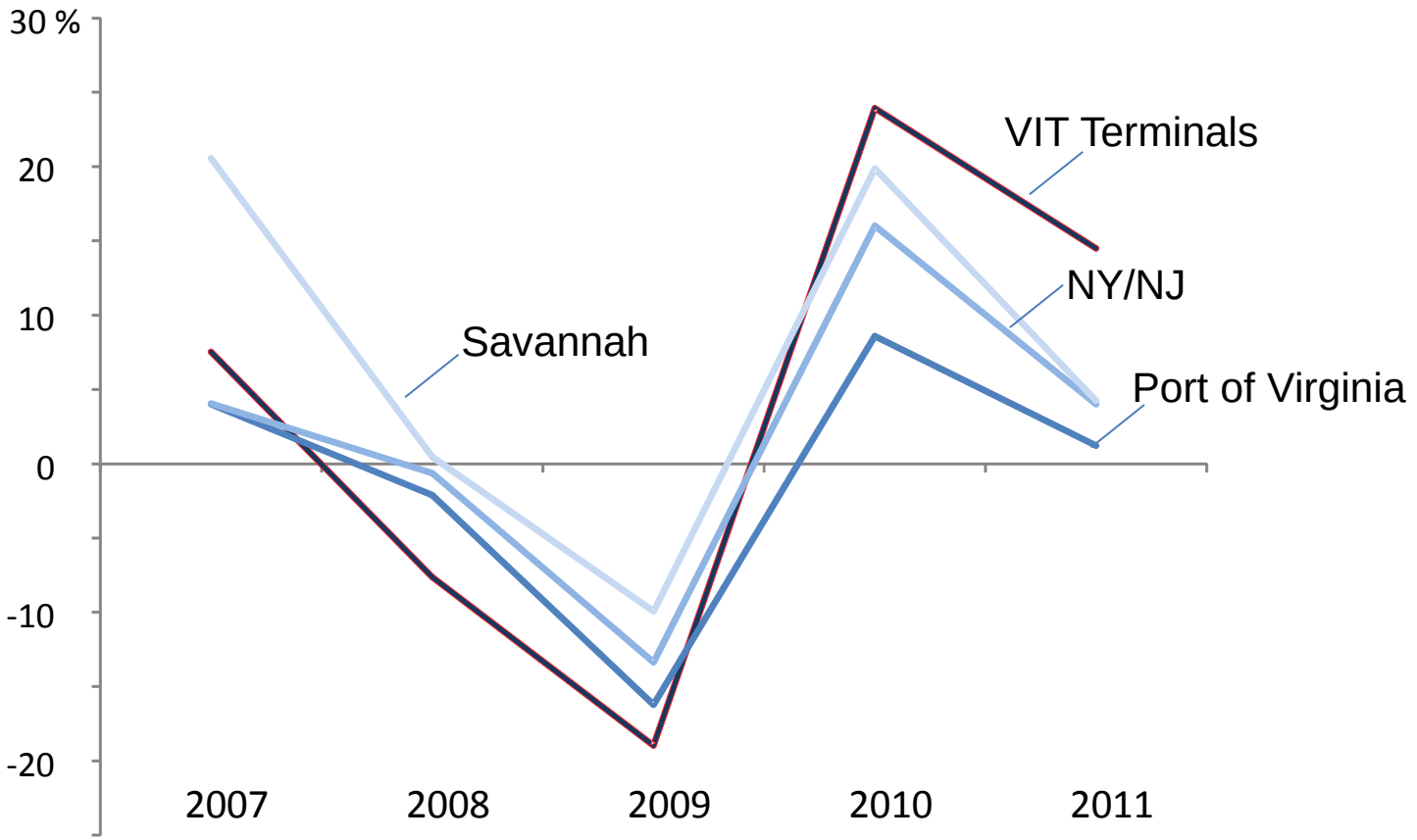
- JLARC staff interviews with major VIT customers confirmed
  - prices offered are competitive
  - facilities and services provided are high quality
- Rated one of most productive ports in U.S. by MARAD*
- Securing long-term contracts from most major shipping lines was significant accomplishment
- VPA is well positioned to handle substantial cargo volume growth without additional significant capital investment

*Maritime Administration of the U.S. Department of Transportation

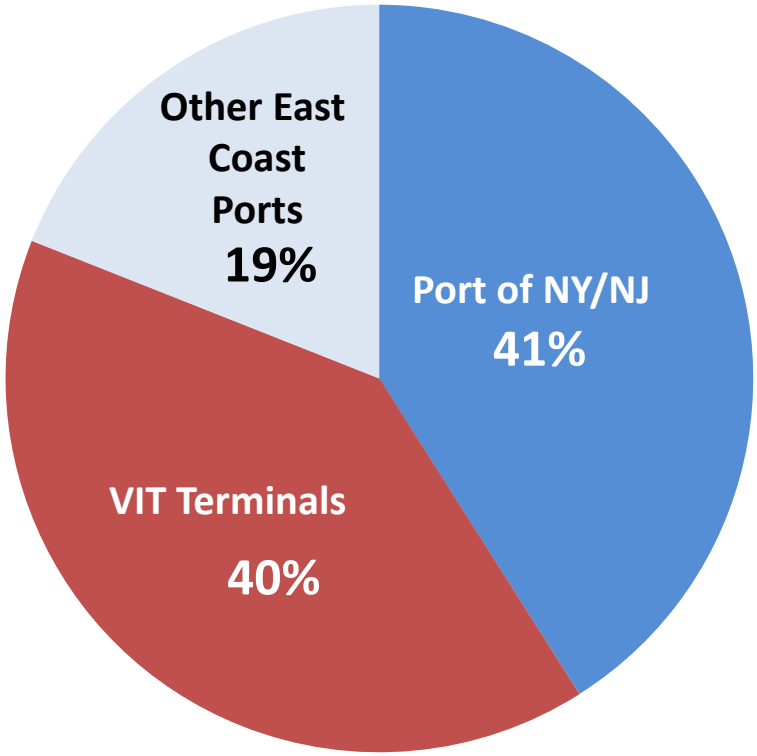
VPA Market Performance and Outlook More Positive Than Suggested

- VIT Terminals performed better than ports of Savannah and New York/New Jersey after recession
- Contrary to Drewry finding, VPA appears to be well-positioned in rail market
- Report does not discuss recent positive trends in performance or positive factors that appear to place VPA in strong competitive position

VIT Terminals Fared Worse During Recession but Recovered More Quickly Than Other Ports

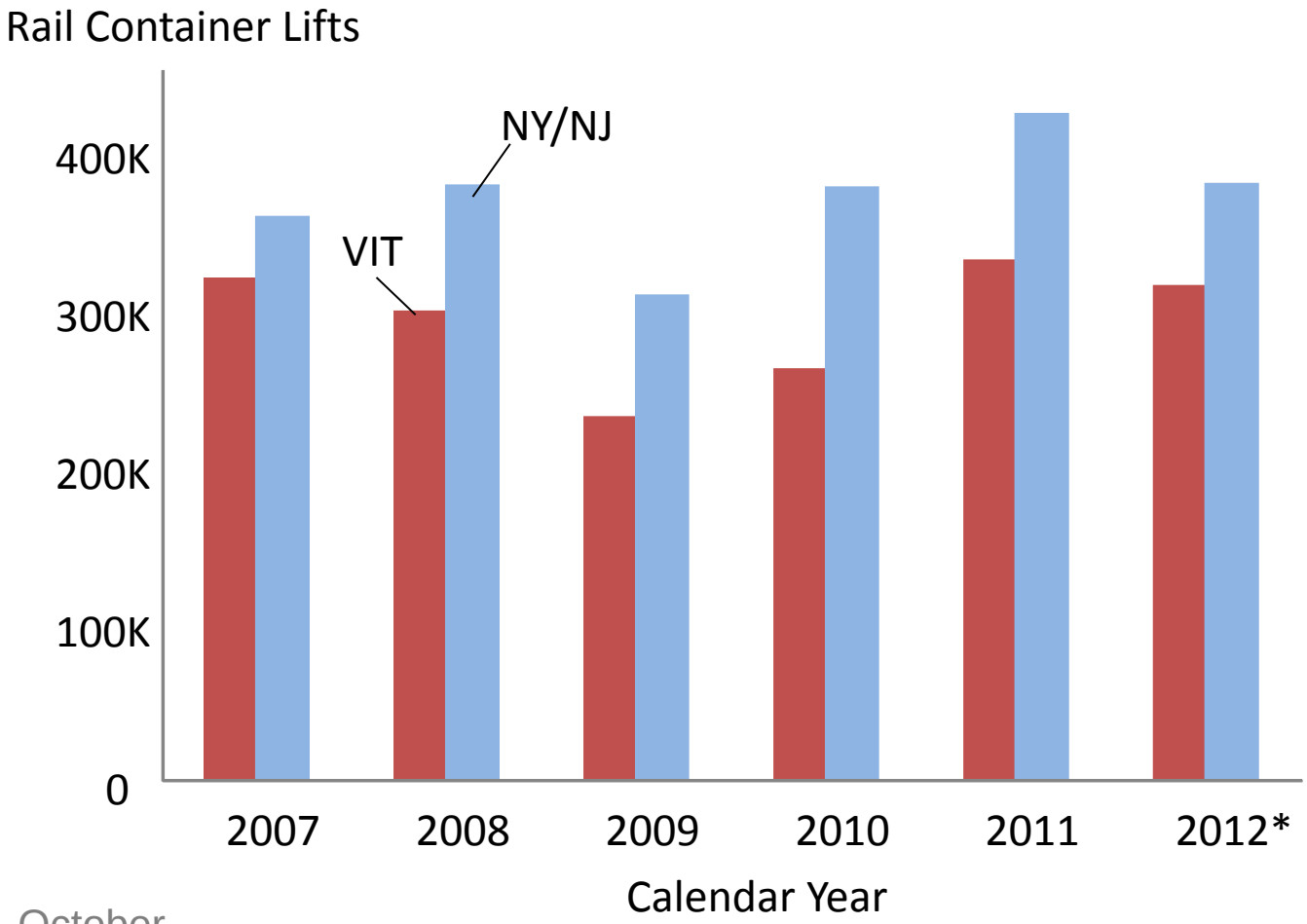


VIT Terminals and Port of NY/NJ Have Comparable Share of Midwest Market (2010)



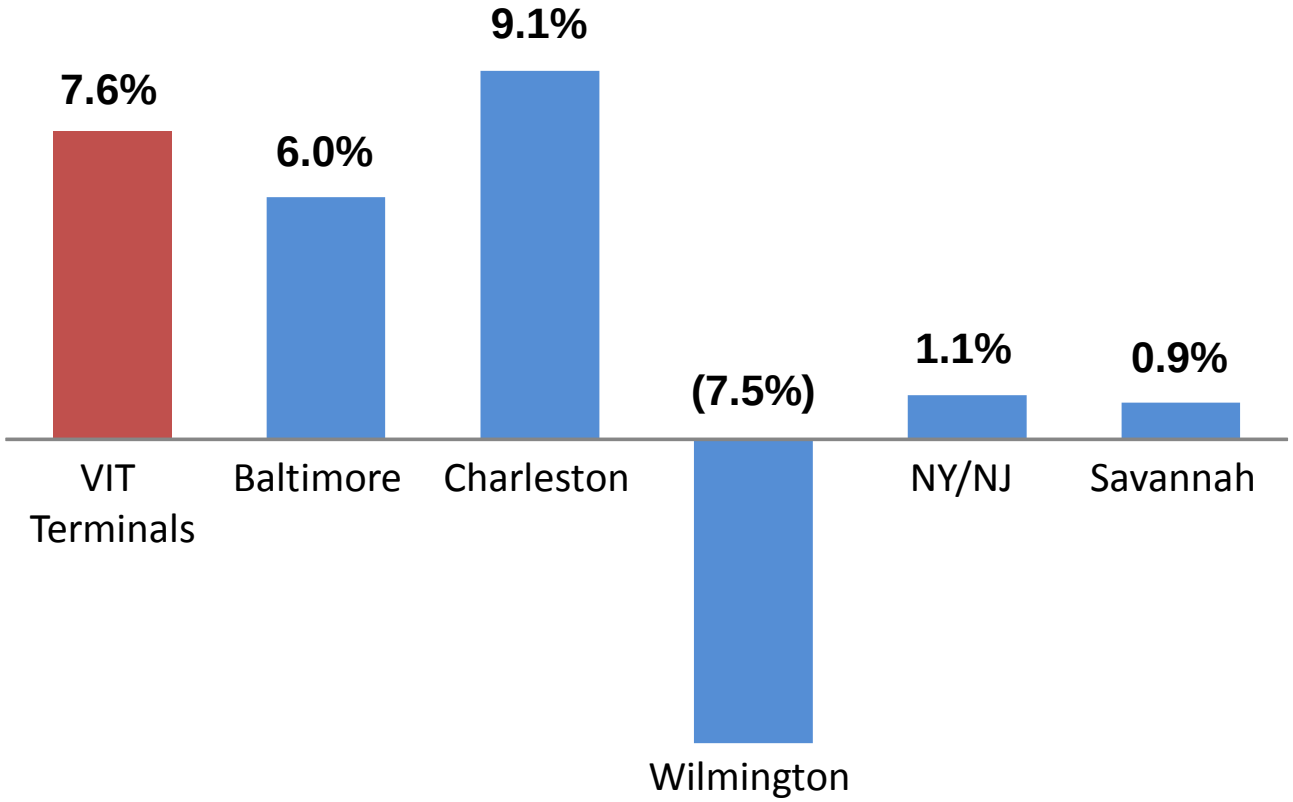
NY/NJ = New York and New Jersey
Midwest = Ohio, Illinois, Michigan, and Missouri.

VIT Terminals Are Competitive With Port of NY/NJ in Total Rail Volume



*January - October

VIT Terminals' Growth in 2012* Has Exceeded That of Most Other U.S. East Coast Ports



*Jan. to Oct. 2012

NY/NJ = New York and New Jersey

Finding About Lack of Focus on Attracting Distribution Centers Overlooks Some Factors

- VEDP and VPA work together for opportunities
- 141 new distribution centers have been announced since 2000
  - Targeted industry of VEDP
- Differences in access to undeveloped land and interstate limit comparison to Port of Savannah

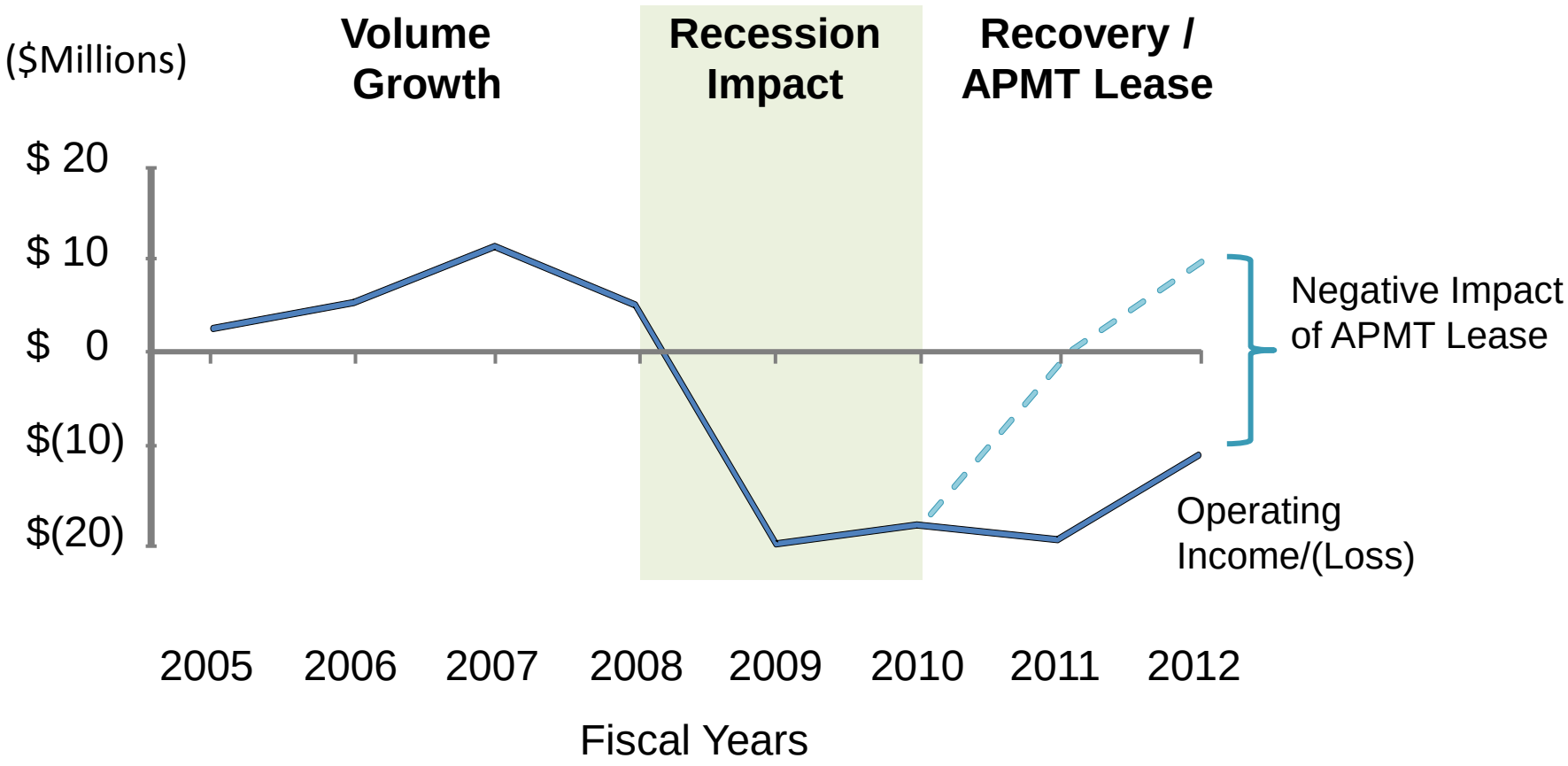
Recession Caused Significantly Lower Profits in FY09-10

- Downturn in shipping industry and loss of 2 customers to APM Terminals reduced revenues by 20%
- Variable terminal expenses cut significantly, but fixed costs not easily reduced
- VIT administrative expenses increased

Post-Recession Recovery Masked by Negative Impact of APMT Lease in FY11-12

- Revenue increased by 50% since FY10
  - Gained Maersk and regained Evergreen business
  - Market recovery
- Cost efficiencies achieved at APMT
- Revenue gains more than offset by cost of leasing APMT

Past Financial Losses Do Not Suggest Chronic Profitability Issues



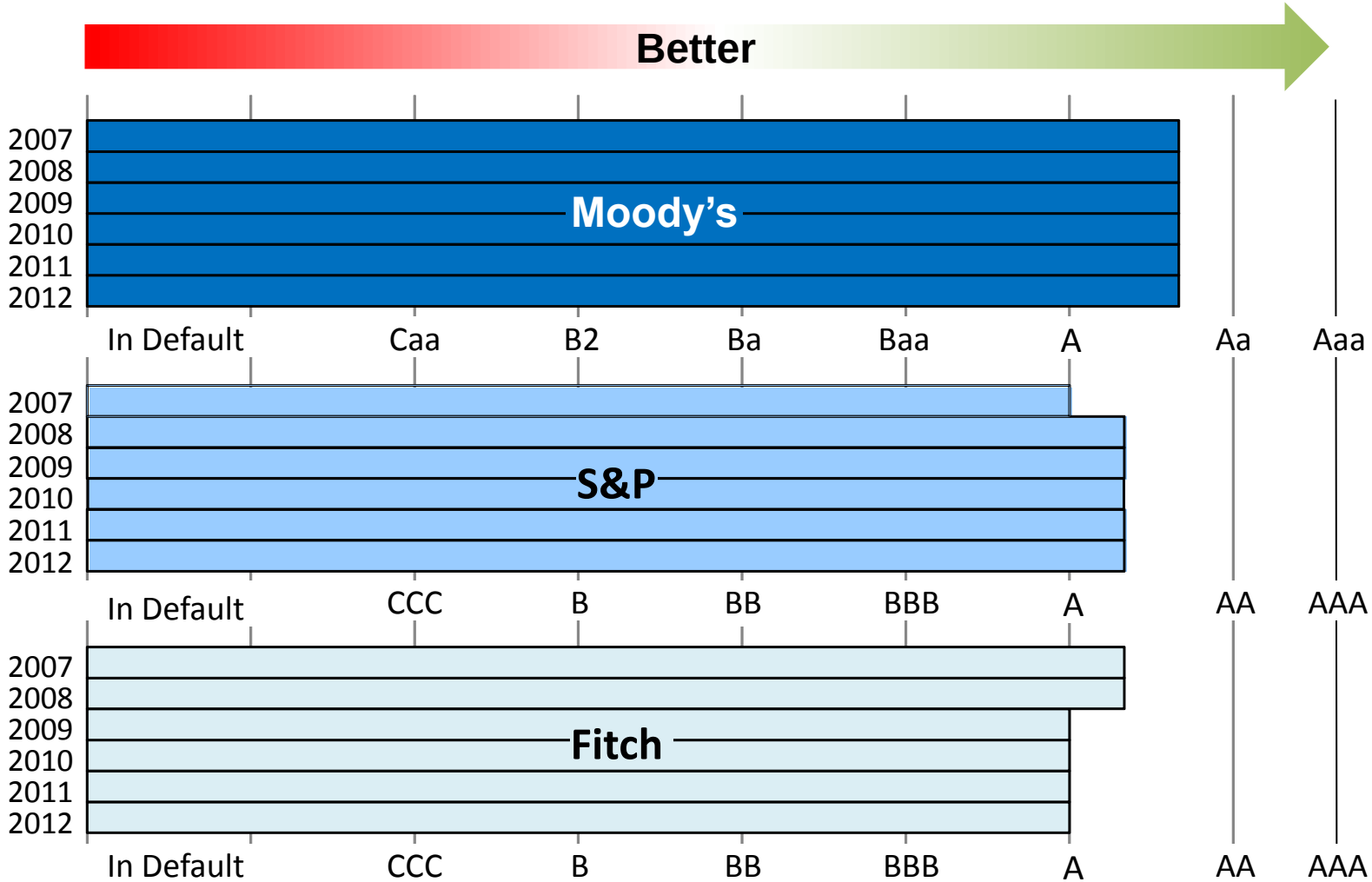
VPA Positioned to Generate Profit in Next 1 to 2 Years, Depending on Volume Growth

- Consensus that VIT volume will increase due to port's unique advantages
- VPA forecasts positive operating margin beginning FY14, assuming 5% growth or more & high cost efficiencies
  - Even with 3% growth and limited efficiencies, operating margin could be positive by FY15

Bond Agency Ratings Show Confidence in Financial Strength of Terminal Operations

- Bonds have low default risk and VPA has strong capacity to meet financial obligations
  - Strengths noted: market position, response to recession, future capacity
  - Challenges: liquidity, competitive East Coast market, Moody's negative outlook
- Ratings comparable to other East Coast port authorities

Strong Ratings of Terminal Revenue Bonds Have Remained Stable Over Time



Administrative Expenses Could Be Reduced by Eliminating Duplicative Functions

- 9 VPA/VIT executives collectively made $2.9 million in FY12
- Other VPA/VIT staff perform similar functions (human resources, finance)
- Consultant reports saw opportunities to reduce (1) general & administrative and (2) maintenance costs

Concerns About VPA/VIT Structure Are Not Well Supported

- Current organizational structure does not appear to have been a major contributor to financial challenges
  - Duplicative structure has contributed to financial losses, but only to minor extent
- Conclusion that structure has adversely impacted market and economic development not supported
- More explicit division of responsibilities would ensure better alignment of missions and greater accountability

Cash Compensation for VIT Executive Staff Totaled $1.6M in FY 2012

Position	Base Salary	Bonus	Total Cash Comp. *
President & CEO	$537,379	$192,335	$754,330
EVP & COO	252,170	54,847	309,391
VP, Global Sales & Marketing	207,423	51,856	261,451
VP, Admin. & Finance	195,013	48,753	243,766
FY 2012 Totals	**$1,191,985**	**$347,791**	**$1,568,938**

*Also includes the president & CEO's annual car allowance, and membership in private business club for three of the positions.

President's Compensation Is Higher Than for Comparable Positions in Public Sector

- Base salary (2012) 47% higher than highest-paid public port agency director in U.S.*
- Total compensation (2011) higher than any State employee except certain State-supported university employees
- $488,990 bonus in FY10 (105% of base salary)

*According to survey by the American Association of Port Authorities

VIT President Received Supplemental Retirement Benefit (SERP)

- SERP provided along with generally available defined benefit and deferred compensation plans
- Discontinued in 2010 for tax reasons, and president received $3.7M payout (present value of benefit) over 3 years
- President will also receive annual benefit from VIT defined benefit plan at age 65 ($127K / year)

Cash Compensation for VPA Executive Staff Totaled $1.3M in FY 2012

Position	Base Salary	Bonus	Total Cash Comp.*
Executive Director**	$350,000	$68,250	$418,250
Sr. Deputy Executive Director	246,313	36,947	295,760
Deputy Director	185,979	27,896	226,375
Deputy Director	165,944	24,891	203,335
Deputy Director	164,370	24,656	192,526
FY 2012 Totals	**$1,112,606**	**$182,640**	**$1,336,246**

*Includes an executive allowance for all positions except the Executive Director.
**Reflects compensation of previous Executive Director.

VPA Executive Director's* Salary Is High Compared to Other Public Sector Employees

- 3rd highest salary of U.S. port authority directors** (2012)
- Higher than all other State employees, except former VRS CIO and certain high-level university employees (2011)
- Senior deputy salary (2012) highest of all port authority deputy directors in the U.S.**

*Reflects compensation of previous Executive Director.
**According to survey by the American Association of Port Authorities.

JLARC Staff for This Report

Hal Greer, Deputy Director and Project Leader

Drew Dickinson

Joe McMahon

Ellen Miller

Nathalie Molliet-Ribet

Christine Wolfe

For More Information

http://jlarc.virginia.gov (804) 786-1258