

# 2014-16 Executive Progress Report

Commonwealth of Virginia  
Secretary of Transportation

Virginia Port Authority

## At A Glance

It shall be the duty of the Authority (The Port of Virginia), on behalf of the Commonwealth, to foster and stimulate the commerce of the ports of the Commonwealth and related facilities by serving as the United States Eastern Seaboard gateway for the global import and export of freight throughout the world, to promote the shipment of freight through the maritime and inland ports, to seek to secure necessary improvements of navigable tidal waters within the Commonwealth, and in general to perform any act or function that may be useful in developing, improving, or increasing the commerce, both foreign and domestic, of all maritime and inland ports of the Commonwealth and related facilities.

Staffing 95 Salaried Employees, 1 Contracted Employees, 215 Authorized, and 81 Wage Employees.

Financials Budget FY 2015, \$168.04 million, 0.57% from the General Fund.

Trends ↑ Container Volumes

➔ Facility Utilization

➔ Maintain Favorable Bond Rating

Legend ↑ Increase, ↓ Decrease, ➔ Steady

Key Perf Areas

↑ Container volume

↑ Financial

➔ Container facilities use

Productivity

Legend

↑ Improving, ↓ Worsening, ➔ Maintaining

For more information on administrative key, and productivity measures, go to [www.vaperforms.virginia.gov](http://www.vaperforms.virginia.gov)

## Background and History

### Agency Background Statement

The Virginia Port Authority is the leading agency for international transportation and waterborne commerce in the Commonwealth. The Authority's primary responsibilities are to foster and stimulate the commerce of the Ports of the Commonwealth, to develop and optimize port facilities and infrastructure, to improve operating efficiencies and to manage port assets in a fiscally responsible way. The Virginia Port Authority manages, on behalf of the Commonwealth, the four state-owned facilities located in Norfolk, Portsmouth, Newport News and Front Royal and leases the Virginia International Gateway Terminal in Portsmouth and the Port of Richmond.

The Virginia Port Authority is committed to operational excellence, fiscal responsibility, and sustainable growth resulting in greater economic impact generated for the Commonwealth. The Port of Virginia consistently ranks as one of the nation's leading ports and is currently the 3rd largest container port on the East Coast and the 5th largest container port complex in the U.S.

### Major Products and Services

The Virginia Port Authority, through its terminal operator Virginia International Terminals, Inc., provides container and non-container handling services for companies involved in international trade. The Authority's main services include the following:

- To promote the use of the state-owned and leased general cargo facilities by increasing container volume and general cargo tonnage from existing and new customers.
- To maintain and improve port and facility infrastructure to ensure future capacity and long-term viability of port assets.
- To promote sustainability and ensure that port development and terminal operations are in compliance with government regulations.
- To provide grant funding to local governments to support port capital and preservation needs for existing ocean, river, or tributary ports within the Commonwealth of Virginia through the Aid to Local Ports program.

- To facilitate the lawful flow of commerce through Port of Virginia facilities; to safeguard life and property, and to maintain law and order at those facilities.
- To issue debt and lease-purchase financing to support the Agency's capital investment in port development projects and equipment acquisition.
- To inform and provide information to customers, partners and the general public on the services the VPA offers.

## Customers

### Customer Summary

The Virginia Port Authority works with ocean carriers, importers and exporters, and international freight forwarders who ship cargo through the port facilities. Other customers and partners include supply-chain companies in the trucking, railroad, barge and warehousing sectors who provide cargo services on-site and off-site the port facilities. The Agency works in partnership with many local, regional, state and federal agencies to promote sustainability and emergency preparedness and to ensure the lawful flow of commerce through the Port's terminals. Key Port stakeholders include local port communities, citizens of the Commonwealth, and the port's labor force.

### Customer Table

Predefined Group	User Defined Group	Number Served Annually	Potential Number of Annual Customers	Projected Customer Trend
Transportation	Shiplines	35	35	Stable
Transportation	Importers/Exporters	10,000	90,000	Increase
Transportation	International Freight Forwarders/Custom House Brokers	60	400	Increase
Consumer	General Public/ U.S. Population	70,000,000	155,000,000	Increase
State Agency(s),	State and Federal Agencies (potential only includes agencies necessary)	20	20	Stable
Transportation	Members of Maritime Community	10	10	Stable
Consumer	Foreign Market Consumers (billion)	5	7	Increase

## Finance and Performance Management

### Finance

#### Financial Summary

The Virginia Port Authority has the following funding sources:

#### Terminal Revenues:

The VPA receives (net) terminal revenues from VIT on a monthly basis. In addition, VPA generates a small amount of revenue from other sources (security surcharge per container or breakbulk ton, license agreements, advertising, special security detail, etc.) Terminal revenues fund all operating expenses for the VPA as well as certain capital expenditures.

#### Commonwealth Port Fund:

The VPA receives 4.2% of Transportation Trust Fund taxes collected on a monthly basis. The allocation is called the "Commonwealth Port Fund". Tax collections allocated to the Transportation Trust Fund are derived from a half percent of the Commonwealth's retail sales and use tax, motor vehicle sales and use taxes, motor fuel taxes, and motor vehicle registration fees. As required by statute, CPF revenues are used by the VPA to pay for capital projects, terminal maintenances expenses, and aid to local ports. The VPA often utilizes CPF revenues to support the issuance of bonds to finance capital projects.

#### Other Sources:

The VPA periodically receives funds from the federal government, primarily in the form of port security grants, though environmental grants are common too. The grant funding is used to fund capital equipment, construction and studies pursuant to the award criteria. The VPA also periodically receives pass-through appropriation from the Commonwealth

## Fund Sources

Fund Code	Fund Name	FY 2015	FY 2016
0100	General Fund	\$950,193	\$950,227
0200	Special	\$126,584,342	\$144,636,390
0471	Transportation Trust Fund	\$3,100,000	\$3,100,000
0474	Commonwealth Port Fund	\$34,406,419	\$34,406,419
1000	Federal Trust	\$3,000,000	\$3,000,000

## Revenue Summary

Though the Authority has no taxing abilities, Commonwealth Port Fund Allocations are based on tax revenues collected by the Commonwealth, hence the detailed revenue sources noted above represent the components of the CPF Allocation. The major revenues of the Authority are collections for services provided by the operations of the terminals through our operating company.

## Performance

### Performance Highlights

The Port of Virginia finished fiscal 2014 with record-setting volume numbers, which came on the heels of another record-setting volume year in fiscal 2013. For FY 2014, the Port handled 2.3 million TEUs, an increase of 6.5% over fiscal 2013 volumes. Both truck and rail segments of the port's cargo grew significantly in fiscal year 2014, with truck cargo up 5.6% and rail, up 8.8%, over the previous year.

In April 2014, the Port re-opened Portsmouth Marine Terminal, PMT, with a short-term opportunity to handle Chrysler automobiles for export to China. The Authority handled over 6,700 automobiles at PMT between April and June 2014; automobiles were railed from Ohio to Norfolk Southern's rail yard in Chesapeake and delivered to PMT via convoys and auto carriers to be loaded on vessels for export.

The Authority, along with its operating arm, Virginia International Terminals, has undertaken several initiatives to improve operational efficiencies and increase cargo velocity at its terminals in recent months. The Agency is already seeing improvements in operational processes and continues to work on gaining greater efficiencies. Major initiatives in this area include:

- Formation of a Motor Carrier Task Force to focus on improving the throughput of truck freight through the Port of Virginia,
- Implementation of an appointment system at Norfolk International Terminals for motor carriers to help meter the flow of trucks in and out of the facility
- Launch of the Navis N4 terminal operating system at Norfolk International Terminals, NIT, to replace a 25-year-old legacy Terminal Operating System and improve efficiencies at that facility.

The Port of Virginia has secured several new vessel services with weekly calls and expanded vessel capacity at the Port Authority-controlled terminals in 2013 and 2014, including the following:

- ZIM Integrated Shipping Services revised the port rotation of its ZCP service in June of 2013 to include a stop at The Port of Virginia. This new service offers Port of Virginia customers with another weekly service option to/from China and Korea.
- The members of the CKYHE alliance launched a new Asia/USEC service with a weekly call at the Port of Virginia in June 2014. The new service named All Water Express 8, AWE-8, deploys vessels with 8,000/8,500 TEU capacity.
- Mediterranean Shipping Company will bring a new direct link between India and the U.S. East Coast to The Port of Virginia starting in July 2014.
- The realignment of the G6 transatlantic vessel-sharing alliance, which accounts for more than one-third of the container business at The Port of Virginia, brought significant opportunities to develop new business for the port in 2014: Four-out-of-the-five realigned services now call the port with vessel capacity increasing from 5900 TEUs to 8500+ TEUs.

Activity at the Port of Richmond has increased with the start-up of a bulk grain transload operation in the fall of 2013.

## Selected Measures

Measure ID	Measure	Alternative Name	Estimated Trend
M407AG12002	Container Throughput	Container volume	Improving
40769900.003.001	Operating Income (Loss) met or exceeded.	Financial	Improving
407.0007	Container facilities use	Container facilities use	Maintaining
407.0002	Coordinate and participate with federal, state, and local port partners in annual training events and exercises	Training events and exercises	Improving
407.0004	Virginia Inland Port and Port of Richmond Volume	Port of Virginia inland facilities volume	Improving
407.0009	Container facilities use	Container facilities use	Maintaining

## Key Risk Factors

The following factors will have an impact on the Agency over the next several years:

### Increasing size of vessels and vessel capacity consolidation:

2013 marked the beginning of vessel capacity consolidation in the shipping industry, as ocean carriers began entering into larger alliances and longer-term vessel sharing agreements. These larger alliances are looking to minimize operating costs by deploying larger vessels, achieving higher vessel utilization on the larger ships, making fewer port calls and servicing a wider geographic area per port call. Implications for ports, including The Port of Virginia, are the need to have the necessary infrastructure and operating processes to allow an efficient handling of the surge of cargo per vessel call. The Port of Virginia is already handling some of these larger vessels and continues to make improvements to our infrastructure and processes to increase terminal operating efficiencies.

### Financial Risk

The Virginia Port Authority receives the majority of its revenues from operating transfers from its operating entity, Virginia International Terminals, LLC (VIT). Those revenues are used to pay debt service, leases, and operating expenses for the Authority. Future revenues and expenses of VIT and the Authority are subject to a variety of economic and other factors and conditions, including without limitation a) the inability of facilities to meet future cargo demand, b) competition and/or unforeseen decreases in demand, c) impediments to the accessibility of VPA facilities, and d) unanticipated increases in operating and administrative expenses.

### Infrastructure

The Port of Virginia has aging infrastructure assets with state-owned facilities ranging from 25 to 40 years old which can present a risk if infrastructure is not maintained or updated to support current demand. With one of the state-owned terminals having been updated in the last decade, others are in need of major renovations. In addition, a large percent of terminal operating equipment at the state-owned terminals is approaching the end of its service life. The Port of Virginia needs to continue with capital maintenance and replacement of cargo handling equipment to ensure that the state-owned facilities remain safe and operational.

### Cyber Security

Cybersecurity threats continue to increase posing a challenge for government and private-sector companies alike. The Port of Virginia and its operating arm, Virginia International Terminals, are spending an increasing amount of time and resources to ensure that computer networks and telecommunication infrastructure are safeguarded against cyber-attacks and that the organization can effectively respond to cyber incidents.

### Regulatory Changes

Recent developments with regard to Federal air quality designations may result in future regulation of mobile source emissions. The Port of Virginia is working closely with the USEPA and ports around the nation to ensure any future standards or metrics related to emissions from port operations do not create competitive disadvantages among ports, stifle innovation or negatively impact operational efficiency.

## Agency Statistics

### Statistics Summary

## Statistics Table

Description	Value
Revenues from Operating Company (%)	73
Revenues from CPF Allocation (%)	24
Revenues from Grants (%)	3
Bond Issues in most recent Fiscal Year (count)	1
Air emission reduction in last decade (%)	50
Percentage of cargo moving by rail	34
Acres of land in operation at the Ports	1,630
Linear feet of Berth/Wharf	20,084
Linear feet of on-dock rail track	36,800
Weekly vessel calls to/from Asia	15
Value of exports produced by companies utilizing FTZ 20 annually (million)	430

## Management Discussion

### General Information About Ongoing Status of Agency

#### Agency reorganization

The port is undergoing a reorganization to bring together the Virginia Port Authority and its operating arm, Virginia International Terminals, to harmonize many functions of the two organizations, modernize the business and structural model and align them under the direction of a single brand: The Port of Virginia.

#### Facility optimization

The agency remains focused on optimizing available assets and making strategic investments to increase operating capacity and efficiencies across its facilities. The authority will do so in a fiscally responsible way to ensure the greatest return on investment on the Commonwealth's assets. The Agency will take a strategic approach to best utilize all available assets including the re-opening of Portsmouth Marine Terminals as a mixed-use facility, the development of the Port of Richmond and taking steps to secure the future development of additional capacity and deepening of our channels. The Agency remains focused on improving operational efficiencies at its terminal and implementing technology processes with the goal of increasing cargo velocity at the gate, rail and berth.

#### Industry and trade developments

Several developments in recent months will have a positive impact on future business at the Port of Virginia. The Authority looks to develop and capitalize on these opportunities in the future.

- The lifting of the Virginia poultry export ban and the ban on export of hardwood logs from Virginia to China will reopen an important export market for these commodities via the Port of Virginia.
- The re-organization of Port of Virginia's Foreign Trade Zone 20, FTZ, under the Alternative Site Framework (ASF) in early 2014 will streamline the process for companies applying for FTZ status and provides the Port of Virginia with another tool to attract new businesses to the Commonwealth.

The designation of the Port of Virginia as a certified delivery point on the ICE Futures U.S. Coffee "C" futures contract in July 2014 will have a positive impact on the Port of Virginia and the growth of the region's industry surrounding this commodity.

### Information Technology

Proper disaster recovery planning requires adequate data replication and online resilient systems that are tested on a consistent and predictable schedule. Disaster recovery processes are continually updated as new technological solutions provide consistently superior opportunities to provide high availability and almost zero downtime under proper conditions.

Projects are planned that will review important data retention policies and create new IT configurations that support the policies. Other initiatives are focused on centralizing data that controls physical access to the Ports facilities.

The Port has many opportunities ahead and all attainable in the next two fiscal years. Recently, the Port upgraded a 25-year old legacy Terminal Operating System at its Norfolk International Terminals facility. This foundational upgrade now allows for significant bolt-on systems that will improve the efficiency of the terminal. Those systems, slated for completion within fiscal 2015 include, but are not limited to, an automated truck gate, a differential global positioning system, and an integrated appointment system.

At the enterprise level, the Port may elect to standardize its document management systems, consolidate its accounting systems, move appropriate applications to Cloud-based solutions such as email and CRM, and continue to produce accurate and self-service reporting systems and putting the right tools in the hands of the Port's talented staff. One of the more interesting projects ahead is the development of a business intelligence tool that imports data from multiple disparate databases and presents data in a both numeric and graphical format with drill-down capability.

### **Workforce Development**

The VPA is faced with the challenges of creating a comprehensive workforce and a process for succession planning. Various job functions and processes are owned by a single employee. The first step in addressing these issues is to select new hires with strong skill sets to appropriately carry out their responsibilities. VPA will then provide continual training, resources, mentoring and the opportunity to cross-train and broaden their skill sets. VPA will use a systematic approach by creating and implementing an employee self-assessment that is aligned with the performance goals which will assist in the overall performance improvement strategy. Top performers will receive specific training and guidance to prepare them as our future leaders of the organization.

### **Physical Plant**

In order to expand capacity to meet current and future demand in a cost effective way, VPA will look to make modest investments in infrastructure and in container handling equipment.

In the near term, we will look to reopen Portsmouth Marine Terminal as a container/breakbulk mix-use facility. Improvements at Norfolk International Terminals in the near term to improve efficiencies include the deployment of an automated truck gate, a differential global positioning system and an integrated appointment system. Regarding the APM Terminal in Portsmouth, currently managed by Virginia Port Authority via a lease, the Authority will look to explore build-out options for that facility with the pending new owners.

The Virginia Port Authority will take necessary steps to plan for the development of Craney Island and the deepening of our channels so that once our facilities are fully expanded and utilized, the Port is prepared to meet future demand and volume growth.

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