

2016-18 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 118 Salaried Employees, 8 Contracted Employees, 215 Authorized, and 72 Wage Employees.

Financials Budget FY 2017, \$202.07 million, 0.49% from the General Fund.

Trends 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

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	23	23	Stable
Transportation	Importers/Exporters	10,000	90,000	Increase
Transportation	International Freight Forwarders/Custom House Brokers	650	986	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)	7	8	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 2017	FY 2018
0100	General Fund	\$1,000,000	\$1,000,000
0200	Special	\$150,278,020	\$157,634,095
0471	Transportation Trust Fund	\$3,100,000	\$3,100,000
0474	Commonwealth Port Fund	\$44,688,419	\$43,502,419
0947	Port Of Va Economic Infrastructure Devlpmt Grt Fd	\$0	\$0
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 set a record in fiscal year 2016 (FY16) moving more cargo than ever before. Utilizing trucks, barges and the East's two class-one railroads, the port handled 2.57 million twenty-foot equivalent units (TEUs) of import and export cargo. This is an increase of 2.5% over fiscal year 2015. The exports were bound for far-away destinations and the imports landed at warehouse, assembly plants and retailers throughout Virginia and the U.S. Midwest's manufacturing and population centers. Barge volume to Richmond was up 16 percent; rail cargo was up 10 percent; and truck traffic was down slightly at 1.4 percent when compared with last fiscal year. It is worth noting that the port's on-dock rail operation handled a record amount of rail cargo in August 2016 solidifying Virginia as the port handling more cargo by rail than any other U.S. East Coast port.

The cargo growth came aboard increasingly larger ships. In July of 2016, a ship named the MOL Benefactor was the first, and largest, container ship to transit the expanded Panama Canal and call Virginia. The arrival of that ship signaled the start of a new era for the port. Since then, dozens of ships larger than the MOL Benefactor have come to Virginia and even larger ones are on the horizon. In FY16, the port handled an increasingly diverse array of cargo including more than 36,000 vehicles, massive blades for use on power-generating windmills, coffee beans destined for regional roasting operations and boulder sized rolls of paper in addition to the goods stowed into millions of containers.

The growth in cargo equates to job creation, business investment, growth in taxable revenue and economic development across the Commonwealth. A modern and growing port attracts users that, in turn, invest or reinvest in their facilities. In FY16, the port helped to attract 39 business engaging in international trade that generated more than \$733 million in investment to Virginia. Additionally, the port is witnessing the "clustering of port users to create synergies and capitalize on growth and momentum of a Foreign Trade Zone (FTZ). One example is the region's burgeoning coffee roasting, packaging and handling industry. That industry is growing as a result of the port's section to be a delivery point, or exchange port, under the International Coffee Exchange (ICE) U.S. Coffee "C" futures contract that went into effect in September. The ICE designation allows owners of exchange-graded coffee imports coming to Virginia and stored in local, exchange-licensed warehouses to be delivered against the Coffee "C" futures contract.

With the port's growth comes increased sustainability and continued statewide economic investment. When fiscal year 2017 (FY17) began July 1, the port embarked on a plan to significantly expand the cargo capacity at two of the primary container terminals, Virginia International Gateway (VIG) and Norfolk International Terminals (NIT). The FY17 approved capital budget is \$739 million. In comparison, the port's capital investment in FY16 was \$135 million. At the time, it was the largest capital spending plan, in terms of actual dollar investment, in nearly seven years. In fiscal year 2015, the capital investment was \$31 million.

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

The world's ship lines have consolidated into three mega alliances and are deploying ultra large container vessels (ULCVs) to remain competitive and reduce costs. These larger vessels require channels deeper than 50 feet, when fully loaded. Virginia is among a small number of U.S. East Coast ports that can currently handle ULCVs and is in the best position to attract first-in, last-out services that require the deepest channels. The deepening of the channel to 55 feet is critical to Virginia attracting the first-in and last-out services over other East Coast ports. These services will play an important role in port-related business development throughout the Commonwealth of Virginia.

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 and future demand. 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 a capital improvement plan that ensures that the state-owned facilities remain safe, operational and adequate to handle current and projected demand.

Cybersecurity

Cyber security threats continue to be on the rise with significant increases in ransomware and industrial control system attacks. With the port in the first stages of the largest automation expansion in its history, the protection of the automation systems is paramount to our continued and future success. Networking, navigation infrastructure, control systems, and numerous integration points between multiple systems increase our target footprint. Adversaries, whether automated, interactive, or the Advanced Persistent Threat, can quickly, and with very little effort, take down a semi-automated or fully automated terminal; and the response and recovery time can be drawn out leading to the loss of millions of dollars in revenue from the incident, as well as a potential loss in cargo through diversions.

Regulatory Changes

Developments over the last two years with regard to Federal air quality designations may result in future regulation of mobile source emissions. The Port of Virginia continues to work closely with federal and state regulators as well as 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
Percent of POV waste in CY2016 that was recycled	42
Percentage of cargo moving by rail	35
Acres of land in operation at the Ports	1,864
Linear feet of Berth/Wharf	19,885
Miles of on-dock rail track	30
Weekly vessel calls to/from Asia	13
Value of exports produced by companies utilizing FTZ 20 annually (million)	540

Management Discussion

General Information About Ongoing Status of Agency

Facility optimization

The agency remains focused on optimizing available assets and making strategic investments to increase operating capacity and efficiencies across its facilities. It is with the support of the Governor, General Assembly, the Transportation Secretary and the Virginia Port Authority Board of Commissioners, the port entered an era of continued and sustainable growth in fiscal year 2016.

In June, the port will complete construction on the North Gate at NIT. The 26-lane gate will more than double the terminal's gate capacity and link with the I-564 Connector, a road project designed to give motor carriers faster access to market and cut emissions by reducing idle time in traffic.

In the fall of 2017, construction will begin at the south end of NIT — the port's oldest and largest facility. With the help of a \$350 million investment from the Commonwealth, the port will renovate and reconfigure the area to move cargo more swiftly, safely, and sustainably than ever before. When complete in 2020, the project will increase the terminal's annual capacity by 400,000 containers — or 46 percent — without adding an inch of real estate.

The state's investment at NIT enabled the port to negotiate a new historic, long-term lease of its Virginia International Gateway (VIG) terminal in Portsmouth that gives the port oversight and operating rights at the facility until 2065. As part of a \$320 million project, the port is developing 60 unused acres inside VIG's 231-acre footprint to add 26 automated stacking cranes and expand the container yard. To accommodate the largest container vessels working in the Atlantic, the pier will be lengthened, four ship-to-shore cranes added and the rail operation expanded. The project will maximize industry-leading technology and double VIG's annual capacity to 1.2 million containers.

In fiscal year 2016, we executed a 40-year lease with the City of Richmond for the operating rights at Richmond Marine Terminal (RMT). A federal grant also allowed us to purchase a new mobile harbor crane for use at RMT, replacing an older, less efficient piece of equipment.

With each new investment from the state or federal government, we work toward a more sustainable operating future. Ultimately, these investments in our network of terminals enable our port to meet the needs of the millions of Americans we serve daily across the Commonwealth and beyond. It is long range, responsible planning for expansion projects like the ones at VIG and NIT that open the door to even more cargo and sustainable growth.

Industry and trade developments

Several developments 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.

- Expansion of the Panama Canal was completed in the summer of 2016. In July of 2016, a ship named the MOL Benefactor was the first, and largest, container ship to transit the expanded Panama Canal and call Virginia. With this development, larger vessels are able to call the U.S. East Coast through both the Panama and Suez canals.
- CSX achieved double stack capacity throughout its entire network in December of 2016. This enables both class one rail roads that utilize the port to move twice the amount of cargo on each train.
- Consolidation of the major ship line alliances. Beginning in 2017, three new shipping alliances made up of eleven ocean carriers began transiting the seas. Together they control more than 90 percent of container capacity on major trade routes. Virginia will be among the busiest ports in North America, with twenty inbound and twenty outbound alliance calls per week. This is roughly equivalent to Savannah.

New York/New Jersey will see seventeen inbound and seventeen outbound calls per week. The ports of Los Angeles-Long Beach will see just one more inbound and outbound alliance service call than Virginia.

Information Technology

There are several strategic initiatives underway that will improve the port's operational and administrative abilities.

There are five initiatives that impact the port's operational facilities.

- The Terminal Operating System upgrade at Virginia International Gateway, PPCY empty yard and the Virginia Inland Port will combine the facilities under a common software version allowing for much more consistent reporting and support.
- The VIG II project will nearly double the size of the Virginia International Gateway facility expanding its throughput and rail capacity.
- The third project will optimize the Norfolk International Terminal yard and berth by implementing container stacks similar to those at the Gateway facility and increasing pier length allowing for larger container ships.
- The fourth project will open a new truck gate adding 26 new lanes that will link directly to I-564. This expansion increases access and will help to alleviate traffic congestion on local streets by taking many trucks per day off local roads.
- Lastly, IT has implemented a truck reservation system that creates a predictable arrival rate at the truck gate, improved turn times and container availability information to our business partners.

In addition to the operational projects, the IT department in concert with Finance will implement a new financial system. This project will combine the port's two aging finance systems into a single modern and robust system that will automate many manual processes, upgrade existing workflows and enhance financial reporting.

Workforce Development

Behind all of The Port of Virginia's economic and environmental activity stands a healthy and productive workforce. Our colleagues are our most valuable resource and it's those team members who develop more efficient programs, streamline internal processes and give back to their local communities. In short, they are the port's emotional quotient (EQ) — the human capital that makes The Port of Virginia truly sustainable in every sense of the word.

To foster such a team, we offer several engaging initiatives:

- Stewardship Recognition Program (SRP) - Through SRP, we highlight colleagues' work that promotes sustainability, be it environmental, financial or social. At The Port of Virginia, it's all about creating a culture that celebrates successes and fosters future growth for the Commonwealth. Launched in November 2015, SRP is a colleague-driven initiative highlighting excellence through living our values across the organization. Colleagues earn recognition from peers and supervisors via "high fives" and awarded points, which they can exchange for merchandise from an online store.
- Tuition Reimbursement Program - In fiscal year 2016, 23 port employees pursued their college degrees with the help of a reimbursement program, which offers port employees \$5,000 per year toward their studies.
- CDL Pilot Program - Launched in 2016 through a partnership with Tidewater Community College, our in-house commercial driver's license (CDL) training has enabled six port colleagues to obtain their CDL. As employees earn their CDLs, we can operate with greater flexibility and at a reduced cost to move cargo from one terminal to another.
- Wellness Program - Additionally, incentive programs offer employees the opportunity to earn rewards for completing important health screenings and participating in physical fitness activities. We also offer free annual flu shots, mobile mammography screenings and an onsite clinic, allowing team members to prioritize their health without taking costly time away from the job.
- Colleague Engagement Survey - Our annual survey helps us gauge team members' needs and solicit feedback on port processes. With a best-in-class response rate of 97 percent, the survey gives employees an avenue for making recommendations that enhance our culture, ultimately making the port more productive, more profitable and thus, more sustainable.

Physical Plant

The Port of Virginia is investing to ensure we are able to serve the vessels of any ocean carrier here at what is becoming one of the most modern and efficient container terminals in North America. Not only are construction projects commencing to expand the port's two largest container terminals to add one million additional containers worth of capacity, but the port is making investments to ensure the sustainability and versatility of its entire network.

When a vessel comes to The Port of Virginia, an extensive transportation system goes to work. At its core are trucks traveling interstates, trains headed to Virginia Inland Port (VIP) and the Midwest markets, and container barges moving up the Chesapeake Bay and James River.

Newport News Marine Terminal (NNMT) is best suited to handle rolling cargo (primarily cars), breakbulk, or non-containerized cargo, and massive, heavy-lift pieces. PMT, as a mixed-use facility, is uniquely equipped to handle diverse cargo from giant windmill blades to containers.

At VIP, in Front Royal, the port extends its operations 230 miles inland. Cargo owners can save 400-plus miles by stopping their trucks at VIP and loading to double-stack rail destined for the port's Hampton Roads' container terminals.

Though it accounts for just three percent of the total cargo movement, barge traffic represents the greatest area of growth in the port's fiscal year 2016 cargo. In fact, the port moved 16 percent more cargo by barge than the year before, equating to 32,000 fewer trucks on the roads.

The port recognizes the importance of versatility in order to drive a growing and diverse cargo mix at the port resulting in jobs and investment. As ships get bigger, this versatility will grow in parallel allowing the port to handle almost any cargo and move it efficiently to market.
