

2018-20 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 125 Salaried Employees, 11 Contracted Employees, 236 Authorized, and 72 Wage Employees.

Financials Budget FY 2019, \$218.32 million, 0.46% 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 Richmond Marine Terminal.

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 ensure necessary improvements to navigable tidal waters within the Commonwealth
- To promote sustainability and ensure that port development and terminal operations are in compliance with government regulations.
- To promote port-related economic development to bring investment and jobs to the Commonwealth
- 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, freight fluidity, 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	700	1,000	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)	8	9	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 maintenance expenses, capital lease payments, 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 pursues and regularly receives a mix of grant funding from the federal government, Commonwealth agencies, and metropolitan planning organizations. The grant funding is used to fund capital equipment, construction, port security, freight related transportation improvements, 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 2019	FY 2020
0100	General Fund	\$1,000,000	\$1,000,000
0200	Special	\$169,673,814	\$174,440,075
0471	Transportation Trust Fund	\$0	\$0
0474	Commonwealth Port Fund	\$44,643,733	\$44,643,733
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 include 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. Additional revenues include funds from the Commonwealth Transportation Bonds allocated to NIT construction and early work on the harbor channel project. The funding is recognized by the port as it is spent during construction. Further revenue is derived by grants received from the Federal Government and the Commonwealth, including VDOT Maintenance Funds used to support the Richmond Barge operation.

Performance

Performance Highlights

The Port of Virginia set a record in fiscal year 2018 (FY18) moving more cargo than ever before. Utilizing trucks, barges and the East Coast's two class-one railroads, the port handled 2.83 million twenty-foot equivalent units (TEUs) of import and export cargo. This is an increase of 2.4% over fiscal year 2017. 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 22.8 percent; rail cargo was down slightly at -1.7%; and truck traffic was up 4.7 percent when compared with last fiscal year. It is worth noting that the port's on-dock rail operation more cargo by rail than any other U.S. East Coast port for Calendar Year 2017.

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. The largest container ships to call on the East Coast continue to call Virginia. In FY18, the port handled an increasingly diverse array of cargo including more than 33,000 vehicles, massive electrical transformers bound for new power plants, 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 FY18, the port helped to attract 51 businesses engaging in international trade that generated more than \$1.4 billion in investment to Virginia. Additionally, the port continues to see the clustering of port users that create synergies and capitalize on growth throughout the throughout the Foreign Trade Zone (FTZ). Like the coffee exchange designation, the Port achieved in Achieved 2016, we have now also successfully passed the rigorous credentialing toto become a metal exchange port. We are in the process of onboarding new clients that will grow imports of metals and store them in local exchange-licensed warehouses for further delivery to manufacturing centers. The exchange port designation creates a center of gravity for all metals and raw materials as the designation is sought out as a "seal of approval" by international banks issuing letters of credit for commodities

With the port's growth comes increased sustainability and continued statewide economic investment. When fiscal year 2017 (FY17) began July 1, 2016, 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). These projects will continue through FY20 and are already showing results. The first additional capacity came online May 21, 2018 at VIG. The new rail system began operations a week later on May 28th, 2018. The first new cranes at NIT are projected to begin operations in September 2018. The completion of the VIG project is anticipated June 15, 2019. The NIT project is scheduled to complete June 15, 2020.

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	Improving
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	Improving

Key Risk Factors

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

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 ongoing increased use of technology in the port’s capacity expansion projects, the protection of the terminal operating software 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 technologically advanced 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.

Disaster Recovery

Should a significant weather event or natural disaster strike the Hampton Roads area, several Port of Virginia facilities could be impacted. The port relies heavily on local transportation and utility infrastructures, over which it has no control, to perform cargo operations. Following a disaster, the response and recovery time can be protracted, leading to the loss of millions of dollars in revenue, as well as a potential loss in cargo through diversions.

Agency Statistics

Statistics Summary

Statistics Table

Description	Value
Revenues from Operating Company (%)	74
Revenues from CPF Allocation (%)	23
Revenues from Grants (%)	3
Bond Issues in most recent Fiscal Year (count)	1
Percent of POV waste in CY2017 that was recycled	80
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	9
Value of exports produced by companies utilizing FTZ 20 annually (million)	455

General Information About Ongoing Status of Agency

The agency remains focused on optimizing available assets and making strategic investments to increase operating capacity and efficiencies across its facilities. 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, which has continued through fiscal year 2018.

In the fall of 2017, construction began 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 project also moves the major source of energy for cargo handling equipment from diesel fuel to clean electricity.

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. The first of the new automated stacking cranes began operations in May of 2018. The project is expected to be complete in June of 2019.

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. We have recently been awarded two Road Surface Transportation grants that will allow us to modernize this facility and increase its capacity and operating hours.

The Commonwealth has also authorized \$20 million for the preliminary engineering and design and \$330 million for the construction that will widen and deepen our harbor to accommodate the continuing evolution of ship sizes. This will allow two way commercial traffic in and out of our port and help drive first in and last out services that are a catalyst to attracting new businesses across the Commonwealth.

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. Currently 2 weekly services include 14,000 TEU ships, the largest class of ships that call the East Coast. These ships carry 40% more freight than the largest ships of 2016.

• CSX achieved double stack capacity throughout its entire network in December of 2016, with one way traffic through the Virginia Avenue tunnel in Washington DC. This enables both class one rail roads that utilize the port to move twice the amount of cargo on each train. CSX is continuing to expand that capability by making the Virginia Avenue Tunnel bi-directional double stack capable, decreasing transport costs for Port of Virginia customers.

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 continues to be among the busiest ports in North America, with twenty inbound and twenty outbound alliance calls per week. Consolidation continues with independent lines joining more closely collaborating with the alliances and larger shiplines purchasing the smaller. Each consolidation brings larger vessels into the Port. In FY18, as compared to FY16, with total container volume increasing 10%, ship calls declined 16%. Average interchange per vessel increase 30%.

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 PPCY empty yard and the Virginia Inland Port will combine the facilities under a common software version with the waterfront terminals, 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 increasing its 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 implementing GPS technology to support the operations.
- The fourth project, completed last June, opened a new truck gate adding 26 new lanes at NIT that link directly to I-564. This expansion increases access and has helped 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.
- Professional Development Programs – We offer several programs focused on developing our colleagues. Our approach is to provide the tools and knowledge that build self-awareness, so that one can in turn be more equipped with the competencies and strengths needed to better lead people and lead the organization.
- 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 deepen and widen the harbor and 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 6.2 percent more cargo by barge than the year before, equating to 49,000 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.