

**REPORT OF THE
VIRGINIA PORT AUTHORITY**

**The Port of Virginia -
Organizational Restructuring
and Reform Report**

TO THE GENERAL ASSEMBLY OF VIRGINIA



SENATE DOCUMENT NO. 5

**COMMONWEALTH OF VIRGINIA
RICHMOND
2014**



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January 7, 2014

General Assembly, Commonwealth of Virginia
1000 Bank Street
Richmond, VA. 23219

RE: Chapter 794 of the 2013 Acts of Assembly

Dear Members of the General Assembly,

Please find enclosed, a report entitled: The Port of Virginia – Organizational Restructuring and Reform Report. This report is submitted pursuant to Chapter 794 of the 2013 Acts of Assembly.

The Virginia Port Authority contact for this effort is Heather L. Wood, at (757) 683-2152, or at hwood@portofvirginia.com if any additional information is needed.

Sincerely,

Rodney W. Oliver
Interim Executive Director



***Organizational Restructuring and Reform Report
January 6, 2014***

PREFACE

By the 2013 Acts of Assembly, the Virginia General Assembly directed the Virginia Port Authority to

“...ensure all necessary and desirable changes, reforms, and reorganizations are promptly undertaken in order to ensure the effectiveness and efficiency of operation of Virginia International Terminals, Inc., including but not limited to the elimination of duplicative and redundant services, personnel, and positions. The Authority shall report to the 2014 Regular Session of the General Assembly actions taken to implement this undertaking.”

This report outlines the reforms and restructuring actions taken by the Virginia Port Authority and its Board of Commissioners beginning April 1, 2013 through January 6, 2014.

***The Port of Virginia – Organizational Restructuring and Reform Report
January 6, 2014***

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The Port of Virginia – Organizational Restructuring and Reform Report

January 6, 2014

EXECUTIVE SUMMARY

The Virginia Port Authority (VPA) was established by the General Assembly in 1952 by §62.1-128 of the Code of Virginia. In 1970, the VPA was charged with affecting the consolidation of the marine terminals owned and operated by the cities of Newport News, Norfolk, and Portsmouth to create a unified Port of Virginia complex owned by the Commonwealth of Virginia. In 1982, Virginia International Terminals (VIT), Inc. was created as a non-stock, non-profit operating company to operate the marine terminals. In 2013, VIT was converted to a Limited Liability Corporation and its administrative functions (Finance, Human Resources, and Operations) were merged with the Virginia Port Authority.

Today, VPA and VIT operate collectively in the marketplace with the trade name and service mark, “The Port of Virginia”. This report outlines the reforms and restructuring actions taken by the Virginia Port Authority and its Board of Commissioners beginning April 1, 2013 through January 6, 2014.

As provided in § 62.1-132.3 of the Code of Virginia, “it shall be the duty of the Authority, 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...”. The VPA is governed by the Board of Commissioners consisting of the State Treasurer, the Chief Executive Officer of the Virginia Economic Development Partnership, and 11 members appointed by the Governor, subject to confirmation by the General Assembly, who shall serve at the pleasure of the Governor. The Board of Commissioners appoints the Chief Executive Officer of the Authority, known also as the Executive Director, who serves at the pleasure of the Board. On May 25, 2013, the Board of Commissioners approved consolidation and restructuring of executive and administrative functions at the VPA to remove redundancies between VPA and VIT.

To provide direction and ensure effectiveness of the restructuring process, the Virginia Port Authority Board of Commissioners approved a Vision Forward Plan that was presented by Chairman Jeffrey D. Wassmer, on September 24, 2013, and subsequently presented to the entire VPA and VIT staff. The new structure realigns, consolidates, and removes redundancies within the Operations, Finance, and Commercial Divisions of the Virginia Port Authority and Virginia International Terminals, Inc. The Plan sets a broad vision that allows the VPA/VIT management team to execute, holds them accountable to the citizens of the Commonwealth (the Port’s “shareholders”), and provides oversight by the Board committees. Vision Forward Plan imparts three primary goals, “Excellence in Operations”, “Fiscal Responsibility”, and “Growth”.

The Port of Virginia’s restructuring reform and reorganization is proceeding according to its planned timeline with substantial restructure and re-organization of leadership completed within the first six months of FY2014. John F. Reinhart will join The Port of Virginia as Executive Director and CEO effective February 10, 2014.

The Port of Virginia – Organizational Restructuring and Reform Report ***January 6, 2014***

INTRODUCTION

The Virginia Port Authority (VPA) was established by the General Assembly in 1952 in §62.1-128 of the Code of Virginia as “...a body corporate and as a political subdivision of the Commonwealth”. The VPA operated as the Virginia States Port Authority until 1970 when a study by the Breeden Commission recommended that the city ports of Newport News, Norfolk, and Portsmouth be unified under one single port authority, and the agency’s name was changed to Virginia Port Authority. Under §62.1-133 of the Code of Virginia, the VPA was charged with the affecting the consolidation of the marine terminals within the above-named cities and overseeing the administration of those facilities. VPA was further charged with the duty “to foster and stimulate commerce and the shipment of cargo”. In 1982, the VPA formed a non-stock, non-profit operating company, Virginia International Terminals, Inc. (VIT), to unify, administer, and operate the marine terminals.

In 2013, in **Chapter 794 of the Acts of Assembly**, the Virginia General Assembly directed

“The Virginia Port Authority shall ensure all necessary and desirable changes, reforms, and reorganizations are promptly undertaken in order to ensure the effectiveness and efficiency of operation of Virginia International Terminals, Inc., including but not limited to the elimination of duplicative and redundant services, personnel, and positions.”

This report outlines the reforms and restructuring actions taken by the Virginia Port Authority and its Board of Commissioners beginning April 1, 2013 through January 6, 2014.

MISSION

As provided in § 62.1-132.3 of the Code of Virginia, “it shall be the duty of the Authority, 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.”

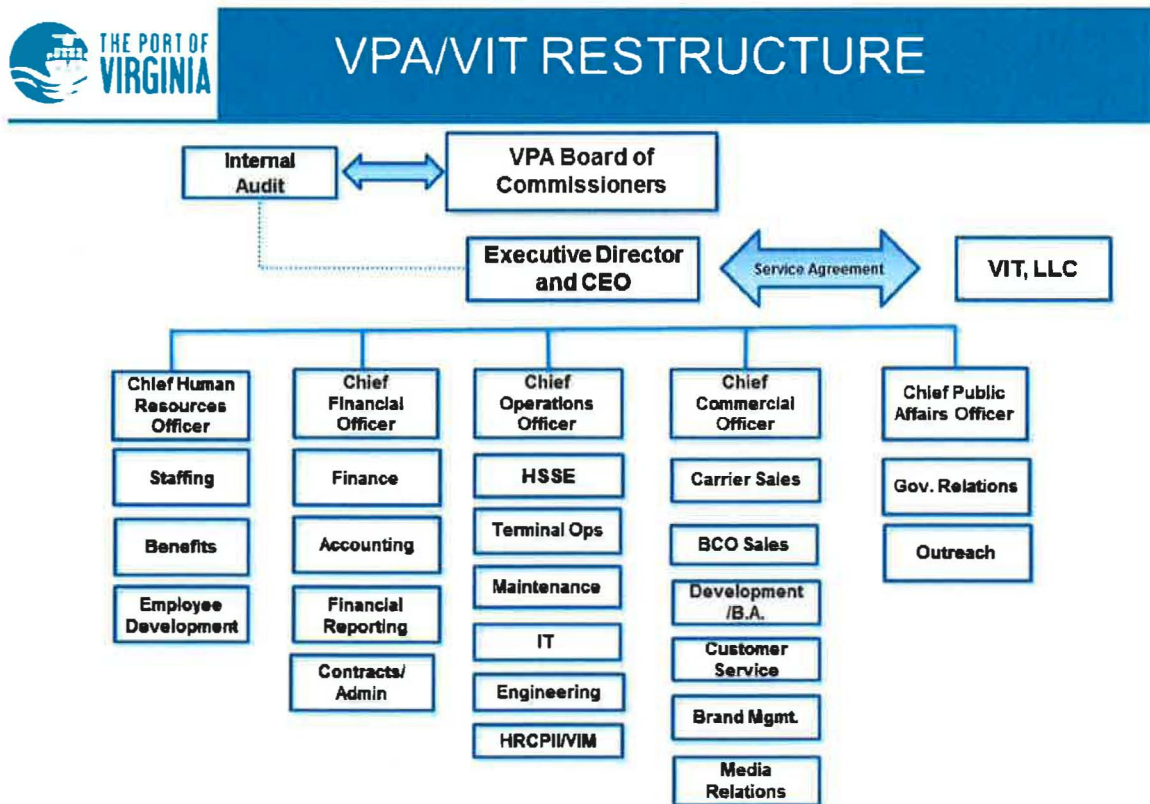
BOARD OF COMMISSIONERS GOVERNANCE and STRUCTURE

The VPA is governed by the Board of Commissioners consisting of the State Treasurer, the Chief Executive Officer of the Virginia Economic Development Partnership, and 11 members appointed by the Governor, subject to confirmation by the General Assembly, who shall serve at the pleasure of the Governor. The term of members of the Board of Commissioners is five years, with no member serving more than two consecutive terms. “Appointments shall be made by the Governor in such a manner as

to ensure the widest possible geographical representation of all parts of the Commonwealth....". As provided by §62.1-129 of the Code of Virginia, one of the members shall be a resident of the City of Portsmouth or the City of Chesapeake, one of the members shall be a resident of the City of Norfolk or the City of Virginia Beach, one of the members shall be a resident of the City of Newport News or the City of Hampton, and one of the members be a resident of Greater Hampton Roads, but not a resident of any of the above-mentioned cities. Additionally, one member shall be appointed from the City of Richmond or the County of Chesterfield, Hanover, or Henrico to serve as a nonvoting ex officio member representing the Port of Richmond, and one member shall be appointed from the City of Winchester or the County of Clarke, Frederick, or Warren to serve as a nonvoting ex officio member representing the Virginia Inland Port. Of the members appointed by the Governor, all members shall have executive level experience and represent one of the following industries: agriculture, distribution and warehousing, manufacturing, logistics and transportation, mining, marketing, legal, financial, or transportation infrastructure. The Board of Commissioners appoints the Chief Executive Officer of the Authority, known also as the Executive Director, who serves at the pleasure of the Board.

VIRGINIA PORT AUTHORITY and VIRGINIA INTERNATIONAL TERMINALS RESTRUCTURE

On May 25, 2013, the Board of Commissioners approved consolidation and restructuring of executive and administrative functions at the VPA to remove redundancies between VPA and VIT. The organization structure approved in May 2013 is provided below.



12/08/13

The new structure realigns, consolidates, and removes redundancies within the Operations, Finance, and Commercial Divisions of the Virginia Port Authority and Virginia International Terminals, Inc. Virginia International Terminals, Inc. has been converted from a corporation to a limited liability company and its Board of Directors dissolved. The VPA and Virginia International Terminals, LLC will operate collectively in the marketplace with the trade name and service mark, "The Port of Virginia". The Authority has filed the necessary applications for the trade name and service mark with the assistance of the Office of the Attorney General and is awaiting reply/approval from the Federal government.

In May 2013, the VPA offered an early retirement incentive to employees. The early retirement offering ended October 1, 2013, with five employees choosing retirement. VIT initiated an early retirement option on December 2, 2013, with retirements effective April 1, 2014.

On October 31, 2013, the VPA Board of Commissioners completed their search for an Executive Director and CEO for "The Port of Virginia", the VPA/VIT combined entity. John F. Reinhart will serve as Executive Director and CEO effective February 10, 2014. Rodney W. Oliver, currently serving as the Interim Executive Director and CFO will continue to serve as the Port's Chief Financial Officer.

As of December 2, 2013, the Operations and Commercial Divisions have completed the realignment process. Joseph P. Ruddy will head the Operations Division as the Chief Operating Officer and Thomas D. Capozzi will head the Commercial Division as Chief Commercial Officer. Realignment of the Finance Division was announced December 20, 2013 and is effective January 1, 2014. Cathie J. France will serve as the Chief Public Affairs Officer effective January 6, 2014. The search for Chief Human Resources Officer and Internal Auditor is ongoing.

Administrative cost savings of \$3.33M are estimated from reduction in personnel through attrition, early retirement, and consolidation of upper management roles and positions. To date, approximately \$1.7M in savings has been realized. The remainder will come to fruition as the early retirements from VIT are completed and the final organization structure is put into place during the third and fourth quarters of FY2014.

The Port of Virginia - Vision Forward Plan

To provide direction and ensure effectiveness of the restructuring process, the Virginia Port Authority Board of Commissioners approved a Vision Forward Plan that was presented by Chairman Jeffrey D. Wassmer, on September 24, 2013, and subsequently presented to the entire VPA and VIT staff.

The Board also approved amendments to the VPA Bylaws that define the areas of oversight for four Standing Committees of the Board – Executive, Financial, Growth, and Operations Committees. An ad-hoc Audit Sub-Committee was also created to serve under the Finance Committee. Within the VPA/VIT restructuring plan, an Internal Auditor position was included and that individual will be responsible for compliance and reporting duties to the VPA Board. In addition, the Board adopted revised procurement policies and guidelines further eliminating redundancies between VPA and VIT and ensuring like procurement practices.

The Plan sets a broad vision that allows the VPA/VIT management team to execute, holds them accountable to the citizens of the Commonwealth (the Port's "shareholders"), and provides oversight by the Board committees.

Prior to the development of the Vision Plan, the VPA Board conducted a Strategic Planning Session with VPA and VIT management staff, on July 30, 2013, and identified challenges, explored opportunities, and defined priorities that are critical to the Port of Virginia's success.

INCREASED BOTTOM LINE – THROUGHPUT – JOBS - ECONOMIC DEVELOPMENT

The Board defined three broad priorities and objectives:

Excellence in Operations

- 1.1 Safety First
- 1.2 Security Always
- 1.3 Environmental
- 1.4 Modernized Infrastructure
- 1.5 Organized for Efficiency
- 1.6 Competitive Cost Structure

Fiscal Responsibility

- 2.1 Execution in Accordance with Budget
- 2.2 Debt Service Covenants
- 2.3 Capital Investment Reserve
- 2.4 Bond Rating Aa or Better

Growth

- 3.1 Increased Volume 5.8%
- 3.2 Access
- 3.3 Capacity
- 3.4 Economic Development
- 3.5 Marketing Strategies

The Board instructed management staff to develop two or three action plans with specific metrics for each objective for review by the respective committees. Development and approval of those metrics and action plans will be agreed upon over the next several months.

CONCLUSION

The Port of Virginia's restructuring reform and reorganization is proceeding according to its planned timeline with substantial restructure and re-organization of leadership completed within the first six months of FY2014. Many of the reforms outlined by the Joint Legislative Audit and Review Commission (JLARC) in its reviews dated January 2013 and September 2013 have been implemented or will be completed before the end of FY2014. The VPA Board of Commissioners has established a "Vision Forward" for the Port (VPA/VIT) that aligns with the restructuring and reform plan. The VPA Board of Commissioners and the Executive Leadership Team are confident that the reforms and restructuring executed during FY2014 will solidify Virginia's competitive position as a world class port and promote excellence in operations, fiscal responsibility, and growth.

