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IRS Ruling on Bonds for Craney Island Results in Savings for VPA, Improved Market for Bonds

NORFOLK, VA – A recent Internal Revenue Service ruling will save the Virginia Port Authority (VPA) an estimated \$13 million in annual debt service on the bonds it will issue to build Craney Island. The IRS ruling said those bonds issued to expand Craney Island will not be subject to the federal Alternative Minimum Tax, or AMT.

Rodney Oliver, the VPA's finance director, this spring asked the IRS for a private letter ruling on whether the bonds used for creation of the land on which the fourth state-owned marine terminal will sit would be subject to the AMT. The IRS ruled that these bonds would be paid with money raised through "generally applicable taxes" and held in the Commonwealth Port Fund rather than operating revenues derived from shipline contracts, and therefore are not subject to the AMT.

"Because of the IRS' ruling, the bonds will not only sell at lower interest rates but will also be more attractive to a wider audience. This represents a significant savings on debt service for the VPA; approximately \$522,000 in average annual debt service savings," Oliver said.

Those bonds issued to build other components of the Craney Island Marine Terminal will not be subject to this IRS ruling.

The VPA plans to issue \$400 million in bonds covered by the ruling, \$155 million of which are expected to be issued in 2008.

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The Virginia Port Authority (VPA) is an agency of the Commonwealth of Virginia, reporting to the state Secretary of Transportation. The VPA owns and operates four general cargo facilities on behalf of the state: Norfolk International Terminals, Portsmouth Marine Terminal, Newport News Marine Terminal and the Virginia Inland Port in Warren County. The terminals are operated by Virginia International Terminals, Inc. (VIT) the non-stock, non-profit operating company. The VPA, through terminal earnings generated by VIT, is operationally self-sufficient. The VPA and correlating maritime industry is responsible for 165,000 jobs, \$762 million in business revenues and \$61 million in state and local taxes throughout the Commonwealth.