

Board of Directors Minutes

Virginia National Defense Industrial Authority
800 Connecticut Avenue N.W., Suite 500
Washington, D.C. 20006
May 25, 2006

The Honorable Joe R. Reeder, Chairman, called the meeting to order at 11:05 a.m. and welcomed all of the Authority Board members, staff, and guests in attendance.

Other Authority Board members present:

Gen. John N. Abrams, USA-Ret.
Mr. G. William Beale
Mr. Mark D. Betts
Ms. Reta R. Busher
Rear Adm. Robert R. Fountain, Jr. USN-Ret.

Mr. Stuart Heaton
The Honorable John W. Knapp, Sr.
Adm. J. Paul Reason, USN-Ret.
Mr. Cord A. Sterling
Mr. Kurt H. Tripp

Board Members Absent:

Mr. John B. Adams, Jr.
Chief Alfred M. Jacocks

Ms. Roseann O'Riley Runte
Mr. William L. Welch

The minutes of the Board's January 10, 2006 meeting were presented. There were no changes or additions noted. Chairman Reeder called for a motion to approve the minutes. Mr. Heaton made a motion to approve the minutes. General Abrams seconded and the minutes were approved by unanimous voice vote.

Chairman Reeder then presented the following proposed Authority Mission Statement:

“Support the mission, execution and transformation for the Virginia-based, U.S. Military and National Defense activities, collaborating with Virginia communities to identify and maximize opportunities that meet the needs of the military, local partners and associated industries.”

He then asked for comment. There being none the Chair called for a motion to approve the statement. Mr. Sterling made a motion to approve the Mission Statement.

Second: Mr. Knapp.

This motion was passed by the following vote:

Directors for:

Abrams
Beale
Betts
Busher
Fountain
Heaton
Knapp
Reason
Sterling

Directors against:

None

Directors absent at time of vote:

Tripp

Chairman Reeder pointed out that if Directors felt at a later date that the statement required additions or changes, the Board would consider such.

Chairman Reeder then presented the proposed Bylaws for the Authority. He then called for a motion to approve the Bylaws. Mr. Sterling made a motion to approve the Bylaws.

Second: Mr. Knapp.

This motion was passed by the following vote:

Directors for:

Abrams
Beale
Betts
Busher
Fountain
Heaton
Knapp
Reason
Sterling

Directors against:

None

Directors absent at time of vote:

Tripp

Chairman Reeder then introduced Pierre Chao, Senior Fellow and Director at Defense-Industrial Initiatives Group, who presented an overview of Department of Defense strategies, budgets and future growth.

Mr. Chao, discussing defense budgets and growth, pointed out that increases in U.S. defense spending are setting new records over the past year with an 11 percent increase in procurement, research, development, technology and equipment. Following the much publicized costs resulting from Hurricane Katrina damage, Mr. Chao predicts the end of dramatic military spending increases in FY 2008-2009. He reported a dramatic shift in the positions of lawmakers on Capitol Hill away from defense appropriations.

Inside the defense budget, he said spending is dramatically increasing for maintenance costs with very poor investments taking place. He reported explosion of DoD growth and personnel costs are beginning to make the defense budget resemble the federal government budget with lots of entitlement benefits and little flexibility.

He reported that for the first time since World War II, defense spending increases have not been matched by increases in investment. Internal pressures on defense budgets are increasing with old equipment increasingly more expensive to maintain and Iraqi War costs adding to the operations and maintenance bill.

DoD's principal area of growth is in information technology. However, convincing the private sector to work for the DoD's average 25 percent profit margins has been difficult. Traditionally, the lower risk associated with defense work has been enough to lure private sector investment. However, the defense industry today is just as volatile as the biotechnology market. Because of what Chao describes as a "glass ceiling" in profit margins which are difficult politically to change, he said the change must come from the volatility or risk side of the equation.

The result has been a focus on cash generation, minimizing risk and limiting capital investment. The DoD is increasingly dependent on smaller subcontractors for the bulk of its Research and Development contracts.

Mr. Chao also addressed the DoD's "acquisition reform," noting recent findings of the Defense Acquisition Performance Assessment Panel include a recommendation of a return of acquisition to the military and the creation of acquisition stabilization accounts and management reserves. Overall, Mr. Chao reported that the defense industry was still trying to resolve reform issues.

Finally, he reported on the globalization of the defense industry, which represents a substantial issue for the industry. With rising protectionist policies leading to legislated measures to ensure domestic defense material suppliers, the industry is realizing what Chao called a near disaster issue. U.S. allies in Europe, he reported, are deliberately designing out of American parts for defense systems. Further, the DoD must now have a guarantee from its contractors and subcontractors that all materials for defense systems are American made before payment will be

released. As a result payments are chronically held up for these companies which are exiting the defense industry because they no longer want to put up with these issues.

Chairman Reeder thanked Mr. Chao for his very informative presentation. He then announced that Authority Director David B. Ashe of Virginia Beach had been appointed by Governor Kaine to serve as Deputy Director of Professional Occupational Regulation, which had necessitated his resignation from the Authority's Board of Directors.

Reeder then introduced Terry Holzheimer, Director of the Arlington County Department of Economic Development, who reported the following facts on the status of the BRAC action on leased space in Arlington County: The BRAC 2005 impact on Arlington County will include about four million square feet of leased office space and about 17,000 jobs, which could double with the expected departure of the defense contractor community.

Over the last two years, while Northern Virginia has gained about 88,000 jobs, Arlington County has suffered a loss of about 8,000. Arlington County is more challenged, and the General Assembly does not seem to appreciate that fact.

In response to the BRAC 2005 order, Arlington County has created the BRAC Transition Task Force to review the redevelopment of office space and the impact on the county's workforce, small business community and other areas of economic development. The report from the Task Force to the County Board of Supervisors is due in June. The county's strategy is centered on a theme, "lose jobs, but keep the people." The affected workforce was described as well-educated. He said he hoped that Arlington would be able to work on the transportability of these workers to other federal jobs or local contractors.

The county would rely on the Authority to look at the state's incentive policies which could be applied to groups affected by BRAC. Because some of the DoD activities would likely not move until the last day stipulated by the BRAC order, the county was unable to proceed with redevelopment. Of the county's 41 million square feet of office space, 32 million square feet is leased to private industry. Of that, approximately 5 to 6 million square feet is occupied by defense contractors. The county hopes to stop relying on defense industry tenants and bring in more companies like the Public Broadcasting Service, the National Cooperative Bank and Conservation International, which Arlington has successfully recruited recently. He further reported that DARPA situation has not yet been resolved with the DoD. The county is also contending with location issues around the ONR and Homeland Security.

Mr. Sterling pointed out that the DoD has no BRAC military construction funding for these high-end research facilities and hoped that that would ease the county's concerns about the movement of these agencies out of their jurisdiction.

Chairman Reeder thanked Mr. Holzheimer for his report. He then introduced Eric Murdock, a partner in the Hunton & Williams law firm and lead attorney for the Commonwealth and the cities of Virginia Beach and Chesapeake in contending with the BRAC order regarding NAS Oceana.

Mr. Murdock summarized those actions taken by Virginia, Virginia Beach and Chesapeake to comply with this BRAC order:

1. Adopting state-mandated zoning controls for discretionary development in noise zones.
2. State legislation requires Virginia Beach to adopt local ordinances to establish a program to purchase or condemn incompatible use property in APZ-1, or otherwise convert such property to compatible use, and to prohibit new incompatible uses; and authorizes the city to exercise a limited power of eminent domain in furtherance of the program.
3. Adoption of APZ-1 Use and Acquisition Plan to buy undeveloped property, underdeveloped residential duplex lots and developed non-residential property.
4. Adoption of Oceana Land Use Conformity Program and related ordinances for conversion of non-conforming uses to conforming uses in APZ-1.
5. State legislation requiring the cities of Chesapeake and Virginia Beach to adopt such ordinances or take such other actions as recommended in the Joint Land Use Study.
6. Legislation to require Virginia Beach and Chesapeake to evaluate undeveloped properties in noise zones for rezoning classification to require compatible use.
7. Programs to purchase development rights in the inter-facility traffic area.
8. Created an Oceana-Fentress Advisory Council.

Mr. Murdock explained that the DoD Office of Inspector General (OIG) had just notified the President and Congress of its findings that Virginia and the cities of Virginia Beach and Chesapeake had not met all the requirements of the 2005 BRAC law regarding NAS Oceana.

DoD OIG review was part of the BRAC-directed process to potentially re-align the Navy's East Coast Master Jet Base functions. The 2005 BRAC law required the DoD OIG to certify to the President and Congress by June 1, 2006, whether specified actions had been taken by the Commonwealth and municipal governments by the end of March 2006.

The 2005 BRAC law specified six actions required by Virginia and local governments. Among them was the enactment of "state and local legislation and ordinances to establish a program to condemn and purchase all the incompatible use property located within the Accident Potential Zone 1 for NAS Oceana," known as BRAC criterion two.

In the report the DoD OIG found the Commonwealth of Virginia and the city of Virginia Beach took significant actions to address the criterion; however, the actions did not satisfy BRAC criterion 2, which was to create a program to condemn and purchase all the incompatible use property in APZ-1.

Mr. Murdock said Florida now has the opportunity to meet conditions that would allow the realignment of the jets from NAS Oceana to Cecil Field. To accomplish this, Florida must complete actions specified in the 2005 BRAC law by December 31, 2006. The DoD OIG certification on whether or not those actions have been completed would be due to the President and oversight committees of Congress by June 1, 2007.

He said that it is Virginia's intention to continue to maintain its defensive position to protect Oceana activities. He said that the Commonwealth and Virginia Beach believe what was

presented is a good program. The Navy has indicated that it likes the offer. He said Virginia and Virginia Beach have made commitments to the Navy, and if they don't live up to those commitments, then they will likely close Oceana in the next BRAC round.

Chairman Reeder asked if the process would accelerate if Florida is not interested in getting the Master Jet Base. Mr. Murdock said that while the DoD OIG is not precluded from issuing a decision ahead of schedule, he feels that Florida and the City of Jacksonville would have to submit a very strongly stated position opposing the realignment to Cecil Field for that to happen.

Chairman Reeder thanked Mr. Murdock for his presentation. He then introduced Philip Enquist, a partner at Skidmore, Owings & Merrill LLP, a planning and architectural firm and a leading member of the Belvoir New Vision Planners (BNVP). BNVP is the team awarded the government contract to lead the planning process to realign Fort Belvoir following BRAC 2005.

Mr. Enquist explained that major incoming commands to the base include the Washington Headquarters Service, the National Geospatial Intelligence Agency and portions of Walter Reed Army Hospital. He reported that in addition to the influx of new residents, traffic and environmental concerns will be addressed during the planning process.

He said that the team is working to produce a new standard of excellence for Federal urban design and development at Fort Belvoir. While supporting the Army in meeting its mission requirements at the Fort, the team intends to create a program for integration and development that is structured and proactive. The completion date is September 15, 2011. His firm is one of 18 companies engaged as team members for BNVP.

He said that there is pressure to get the larger plan in place quickly. He said that team members are interviewing all installation tenants to understand fully their needs and requirements.

BNVP is also evaluating opportunities and constraints within the region, the installation, the neighborhood and each building on base. Of the regional dynamics, he reported that transportation is the chief concern and said extending the Washington Metro system south to serve the installation is vitally important.

In land use planning, Mr. Enquist said the team will be evaluating a range of future uses throughout the siting period. He reported that once the identified land use plan is received and the Environmental Impact Statement analysis is initiated, the EIS schedule will be affected if any subsequent changes are made in the land use designations, particularly at the Engineer Proving Ground.

He said that the preliminary siting and summary of opportunities and constraints will be completed by June 30. The Fort Belvoir Master Plan is expected to be completed by May 2007. He encouraged Authority Directors to visit the BNVP website <http://www.belvoirnewvision.com> for information about the progress at Fort Belvoir.

Mr. Enquist noted that the Army carries the largest BRAC bill of all of the service branches. Because costs were underestimated in advance of the order, the funding for these actions may be challenged.

Chairman Reeder thanked Mr. Enquist for his presentation. He then introduced Bob Harper, Chairman of the Hampton Federal Area Development Authority (FADA), and W. Keith Cannady, Hampton City Chief Planner, for a presentation on Fort Monroe.

Mr. Harper introduced the FADA and its mission for the redevelopment of Fort Monroe. He said that the goal is to create a redevelopment plan that provides a unified vision, meets Federal and State requirements, promotes economic recovery for the region and mobilizes available support and investment for the project. Mr. Harper said that the FADA has partnered with the Commonwealth, the Federal government, Ft. Monroe and local residents and organizations to meet its goal.

Mr. Cannady said a Planning Steering Committee was formed to advise the FADA on redevelopment planning. Representatives from the city and state, as well as regional interests and stakeholders serve on this 30-member committee. The FADA also has engaged six consulting firms to provide services in town planning, environmental planning, architecture and preservation, economic analysis, housing analysis, engineering and transportation.

He explained that the planning process entails broad public input through a Charrette process. This began in April with the Pre-Charrette analysis which includes informational and goal-setting meetings between the FADA, city leaders, Fort Monroe staff, community organizations, key stakeholders and the Planning Steering Committee. The Charrette, a hands-on design session open to the public, is scheduled to be held July 21-27, and should produce three to four alternative plans for redevelopment of Fort Monroe which could be ready by early 2007.

Chairman Reeder thanked Mr. Cannady and Mr. Harper for their presentation. He then introduced Dennis Morris, Executive Director of the Crater Planning District Commission, and Jason Gray, Deputy District Director for United States Representative Randy Forbes (R-VA-4th District), who made a presentation on the BRAC 2005 impact on Fort Lee.

Mr. Morris explained that the mission at Fort Lee is to provide logistics doctrine, organizations, training, leader development and materiel solutions to sustain a campaign-quality Army with joint expeditionary capabilities during peace and war. He reported that the major units/tenants at Fort Lee include the Army Logistics Management College, the 49th Quartermaster Group, the Combined Arms Support Command, the Quartermaster Center and School, and the Defense Commissary Agency. Its current population is 3,292 military and 4,596 civilian personnel with 1,201 contractor personnel. The average daily population at Fort Lee exceeds 20,000. The average annual student load at the base is more than 33,000 people.

As a result of BRAC 2005, the following activities will move to Fort Lee:

- Ordnance Center School
- Ordnance Munitions and Electronics Maintenance School
- Transportation Center and School
- Air Force Transportation Training
- Defense Contract Management Agency (activities in leased space in Alexandria)
- DeCA Consolidation

➤ Air Force Culinary Training

The installation population more than doubles under BRAC 2005. Buildings, equipment and personnel will be necessary to train 5,910 additional students relocating from Fort Eustis; 13,565 from Aberdeen Proving Ground and 3,445 from Redstone Arsenal, said Mr. Morris. “Permanent party personnel” will increase by 4,214. It is estimated that 66 percent of this group is married and about 57 percent have children. Permanent Party civilians and contractors working on and around the installation similarly are estimated to be 58 percent married, with 80 percent of those having children. Based on these statistics, there will be an estimated 3,000 school-aged children joining the community, said Mr. Morris.

Environmental studies have been accelerated to a 12 month completion and are underway to prepare for construction contracts solicited for occupation by July 2009.

BRAC actions represent a great opportunity for Ft Lee and the greater Petersburg community. In September realignment teams from the area will conduct visits to communities with missions moving to Ft. Lee to welcome the new personnel and their families and answer any questions about housing, transportation, employment for spouses and education. Forums for contractors had already been held to encourage participation by local businesses. Congressman Forbes is leading a BRAC working group to address regional issues around the growth.

Chairman Reeder thanked Mr. Morris for his presentation.

He then presented four Administrative Resolutions. Mr. Sterling asked that the Board consider these resolutions together as a block. The Resolutions included the following:

“Be it resolved that the Virginia National Defense Industrial Authority in anticipation of funding from the Commonwealth of Virginia effective July 1, 2006, the proposed and attached operating budget totaling \$510,000 be adopted to provide basic guidance to the Executive Director in personnel and operating matters for the coming fiscal year July 1, 2006 – June 30, 2007. Further, the Board of Directors authorizes the Executive Director to begin hiring and providing for the operations of this Authority to fulfill its mission and responsibilities as outlined in the Code of Virginia, 1950, as amended. Board members will be notified of all key personnel and budgeting items exceeding \$10,000, prior to finalization.”

***Virginia National Defense Industrial Authority
Proposed Budget FY 07***

Budgeted Expenditures

<i>Compensation</i>	\$	412,000
<i>Advertising and Promotion</i>		-
<i>Meetings and Events</i>		7,500
<i>Travel</i>		26,500
<i>Services</i>		50,200
<i>Supplies and Materials</i>		2,000
<i>Grants and Pass Through Payments</i>		-
<i>Fixed Asset Purchases and Rents</i>		5,000
<i>Other Expenditures</i>		6,800

Total Budget \$ 510,000

“Be it resolved that the Virginia National Defense Industrial Authority (VNDIA) seeks to have the Virginia Economic Development Partnership (VEDP) act as the “fiscal agent” for VNDIA and that a Memorandum of Agreement (MOA) be executed describing how VEDP will provide support and to set a reasonable payment to VEDP for those services. This MOA will include, but not be limited to, such necessary services as information technology, human resources, fiscal and payroll, office space and usage of vehicles. Such MOA shall be prepared, and the Board of Directors hereby authorizes the Chairman, Vice Chairman and Executive Director of this Authority to execute this agreement upon their satisfaction for a period of time to be determined, but beginning July 1, 2006.

Such document will be shared with Directors prior to signing.”

“Be it resolved that the Virginia National Defense Industrial Authority requests that the Governor’s Office assist in amending the state statute establishing this Authority to allow Authority employees to be eligible for membership in the Virginia Retirement System and otherwise participate in all of the health and related insurance and other benefits, including premium conversion and flexible benefits, available to state employees as provided by law. This amendment would be prepared and introduced during the 2007 Session of the Virginia General Assembly.”

“Be it resolved that this Board hereby authorizes the Chairman, or in his absence, the Vice Chairman, to select the Executive Director of this Authority, assuming that funding is provided by the Commonwealth of Virginia. Consistent with the Code of Virginia, the Board understands that the Chairman intends to name, and hereby approves, David G. Dickson, to serve in this capacity at the pleasure of the Board in order to direct the day-to-day operations and activities of the Authority and carry out the powers and duties conferred upon him by the Board. The Executive Director shall be compensated in the manner provided by the Board, such terms to be negotiated by June 15, 2006.”

Chairman Reeder called for a motion to approve the four Administrative Resolutions by block vote. Mr. Sterling made a motion to approve the Administrative Resolutions.

Second: General Abrams.

This motion was passed by the following vote:

Directors for:

Abrams
Beale
Betts
Busher
Fountain
Heaton
Knapp
Reason
Sterling
Tripp

Directors against:

None

Chairman Reeder then recognized Mr. Sterling who presented a Congressional Update as follows: BRAC is still ongoing in the sense that other communities are pursuing activities currently housed at installations in Virginia. China Lake, California, the location of a Naval Air Weapons Station, is actively pursuing workloads out of the Naval Surface Warfare Center at Dahlgren.

A Connecticut delegation is investigating activities at the Norfolk Naval Shipyard and Joint Forces Command to see if any opportunities exist to lure operations away from these sites to Connecticut. Senator John Warner and his staff were aware of and working to block such efforts. He cautioned Authority Directors to urge Virginia to be vigilant about ways to insulate military operations from these efforts by making military communities the best they can be.

He pointed to Huntsville, Alabama which does an outstanding job of supporting military operations and military families. Northern Virginia, Fredericksburg and Petersburg all need to do this, as well.

Mr. Sterling next reported that tight military construction budgets will mean relocated commands may be forced into existing buildings that don't meet their needs. He said during the next BRAC round this will increase the likelihood that those commands will move again if they are still in unsatisfactory buildings. If these commands are placed in new, suitable buildings they will not push for a move.

The goal is to fund military construction projects in Virginia to avoid a negative scenario during the next BRAC round. Virginia wants to attract and keep high tech activities and commands. Virginia needs to look at what activities it can attract from other installations and work to anchor future command activities. In the next round of BRAC, Virginia should focus on protecting its shipyard and submarine base. Virginia communities do a good job of addressing BRAC impacts, but we need to look at the future and what we can do now to affect an offensive strategy.

Finally, the benefits of military installations and the need to provide support for these installations must be communicated to local governments.

Chairman Reeder thanked Mr. Sterling for his report and comments. He then recognized Executive Director of the Authority, David Dickson, for his report to the Board.

Mr. Dickson thanked the members of this Authority for their expressed confidence in him to serve as Executive Director. He said he looked forward to continuing to work with the Board on Virginia military matters and reported as follows:

The Authority budget approval remains in limbo. During the General Assembly session, he appeared before the Senate Subcommittee for Economic Development and pitched the VNDIA funding proposal and received full support from the Senate. On the House side, he was joined by Secretary Gottschalk to appear before the full House Appropriations Committee and lobbied each individual member of the Public Safety Subcommittee. While they received considerable verbal support, the Governor's amendment for funding was turned down by the House membership. This sent the VNDIA budget request to the House and Senate Conferees. The Governor has continued his active support for VNDIA funding during this time of the budget impasse. The total projected biennium state budget is approximately \$74 billion.

As to the BRAC Grant funding proposal, Mr. Dickson said Governor Warner recommended \$30 million in his budget submittal, Governor Warner's Regional Working Groups requested \$60 million less transportation considerations, and General Assembly individual members requested \$127 million. The Senate approved \$30 million and the House approved \$25 million. So this too is before the Budget Conferees.

The Governor's Budget for the Special Session includes \$510,000 in each year of the biennium for VNDIA and an amendment which places this Authority in the BRAC grant evaluation process.

Other General Assembly actions included the required Oceana land use measures; some various employment and taxation matters. Of a higher profile nature, Senator Puller had a resolution passed to study the needed rail and public transportation services to Ft. Belvoir and MCB Quantico. Delegate Suit pushed through the provision that dependents of active duty military personnel assigned to a permanent duty station in Virginia will receive in-state tuition to attend colleges and universities. This long term issue had to do with residency of choice by the military family.

Chairman Reeder thanked Mr. Dickson for his report and for what had been an extraordinarily informative and substantive meeting.

The meeting concluded at 3 p.m.