SUMMARY MINUTES
BUSINESS ADMINISTRATION COMMITTEE
MEETING OF FEBRUARY 15, 2012

Mr. Session chaired the Business Administration Committee Meeting on February 15, 2012.

He announced the presence of a quorum, with the following members of the Committee in attendance, in addition to himself: Mr. Brown, Mr. Carter, Mr. Conner, Mr. Crawford, Ms. Hall, Mr. Snelling, and Mr. Curto.

Helmets to Hardhats Program. Mr. Session introduced Darrell Roberts, Executive Director of the Helmets to Hardhats (H2H) Program. He described the program as a joint creation of the building trades' unions and various construction and employers' associations to help National Guard, Reserve, retired and transitioning active duty military members connect to quality career and training opportunities in the construction industry. The Airports Authority had adopted a resolution in 2010 supporting the employment of veterans.

Mr. Roberts commended the Authority for its commitment to veterans. He said he was an Army veteran, a Navy veteran, a construction worker, and a resident of Vienna. The H2H Program had been established because of a pending shortage of skilled labor, and a potential supply of quality employees from the military services. The organization was a national non-profit organization.

There were too many returning veterans who were not finding jobs, and the idleness led to many unfortunate conditions, including too much unemployment, PTS and even suicides among them. The Program was one of advocacy, linking the services with the best careers throughout construction trades. It had been supported by the building and construction trades and their management partners. It was in its ninth year, and had been highly successful. There was now a nationwide network, involving the Labor Department, the Defense Department and service organizations, such as the American Legion and Veterans of Foreign Wars. The effort was to make the veterans aware of careers in construction, with quality training, a three to five year apprenticeship, or with a company leading to a management position, all with health and retirement benefits. The veterans were used to the benefits in the military; the H2H Program showed they could continue them.

The candidates were excellent; he could tell the contractors and crafts that they were drug free, disciplined and leaders, and all had sworn to uphold the Constitution. Mr. Roberts noted that 80 percent of veterans joined the military single, and 80 percent left married, most with children. Between 200,000 and 250,000 transitioned out of the military each year; the number would increase as the military downsized. This meant a large influx of veterans into a weak economy.

In 2007 H2H had implemented a wounded warrior program to make sure this group of veterans was not overlooked. Program staff had gone to the military and veterans hospitals to speak to the veterans, and had leaned on contractors to hire wounded veterans as well. The Program had placed 100 veterans in immediate area of Virginia, and had 545 veterans registered in H2H within 100 miles of Dulles International. Unemployment was always higher for veterans.

Mr. Roberts summarized various facts about the H2H Program, referring to a handout he provided. The majority of veterans went to three to five year apprenticeships. The Program was recognized by the state and federal governments. Veterans in the program, in addition to their jobs, were eligible for additional resources under the GI Bill.

Roughly $33.6 million had been invested in apprenticeship training. Many of the activities of the Program had been going on for many years; the H2H name had been applied in 2007.

Mr. Crawford thanked Mr. Session for inviting Mr. Roberts, and Mr. Martire for helping the underemployed, especially veterans, from the District of Columbia. He noted that he was a disabled veteran himself, and was sympathetic to the plight of the veterans. He operated a 98-bed shelter in South East Washington, and was aware that unemployment and suicide rates were very high. He said the Board was very sensitive to the situation and would continue to support the employment of returning veterans

Mr. Martire said he had heard Governor McDonnell say, on the weekly Ask the Governor program, that there were 800,000 veterans in Virginia, and was inspired to get as many of them as possible onto the rail project. He had long known about H2H, and said it was an excellent response to the transition issue.

Ms. Reiley noted that she was a "military brat" and very concerned about veterans issues. She asked Mr. Roberts if he knew the difference between

veteran unemployment as opposed to national unemployment. He said he did not have the figures.

Mr. Brown said veterans' unemployment was much worse. He noted that he too was a veteran. There was currently considerable "cheap" political talk about supporting the troops, but the actual follow-up after they came home was not very good. He was grateful to learn of the H2H program, and gratified that the Authority was undertaking the program on the rail project.

Mr. Roberts added that the apprenticeship programs looked to prior training the candidates had in the military. Many came out with useful skills, such as electricians and operating engineers. This approach was being applied nationwide.

Mr. Session asked how H2H was funded. Mr. Roberts said that through 2010 it had been funded by DOD earmark, but all federal funding had been lost in 2011. It was now funded by private contributions and fundraising.

Mr. Session observed that there was a federal contracting preference for disabled veterans, and asked if H2H got involved with them. Mr. Roberts said the Program did not get involved in government contracting, focusing on transition issues. Mr. Session suggested there might be some entrepreneurs among the returning veterans.

Small Business Opportunities Report. Steve Baker, Vice President for Business Administration, said the presentation was in response to Director requests for a report on structure, roles and responsibilities of the Equal Opportunity Programs Department. He explained that the Disadvantaged Business Enterprise (DBE) program was for minority and women-owned business in construction when the Authority was spending Airport Improvement Program or Federal Transit Administration federal-aid funds, or was dealing with concessions. The LDBE program was a race and gender neutral program, used when Authority funds were spent, without any federal funds. This program had geographic limits and size standards. He then introduced Richard Gordon, Manager, Equal Opportunity Programs.

Mr. Gordon said his office was responsible for implementation of the Authority's two small business programs, DBE and LDBE. Under each program the office had four responsibilities: outreach, certification, contract compliance and reporting.

Outreach was focused on building relationships with DBE and LDBE firms. In 2011, the staff had participated in 24 outreach events attended by over 12,000 participants. Certification of firms to participate in the programs required examination of ownership, control, management, operations, owner status, personal net worth and company gross receipts. The staff maintained a list of 600 certified DBE firms and 1,760 LDBE firms.

Compliance work had two phases, pre- and post-award. More than 300 active contracts were being monitored. In pre-award, the work began with review of the solicitation papers, and included a review of the bidders to assure they met the requirements. Post-award compliance required the monitoring of contract performance, both from reviewing monthly invoices and from site visits, to see how the work was being carried out. Where firms did not make good faith efforts to comply, or substituted one firm for another, the office worked with the COTR on corrective actions.

Mr. Gordon then addressed achievements. Most LDBE participation was in the area of goods and services. The participation level for construction was $24 million, well in excess of the 25 percent goal. For goods and services, the amount was $61 million, 49 percent participation against a goal of 20 percent. In federally-assisted aviation construction, the dollar amounts had been smaller in 2011, but the participation rate had been 28 percent against a 25 percent goal. Stakes were higher on the rail project, where DBE firms did $142 million of work, or 17 percent, during the federal fiscal year that ended September 30, 2011.

The concessions participation at Reagan National had met a 29 percent goal with $28 million. At Dulles International, $61 million in DBE participation had been 31 percent of concession revenue, against a goal of 20 percent.

Mr. Snelling asked why the rental car concession record was so poor. Mr. Baker said the program did not work anywhere in the country. A change in the federal law would be required. The federal program set size standards and net worth levels that had long proved unworkable. Mr. Snelling asked if it would be possible for the Authority to set up its own program; the answer was no.

Mr. Carter asked whether there was any information in the files about non-compliance by the contractors. Mr. Gordon said it had not been a major problem for the Authority. The first effort was to correct non-compliance when it was found. The remedy typically was a matter of working with the

contractor to take measures to meet the goals. Mr. Carter said he had been approached by some contractors who had said they did not know the staff in the Equal Opportunity Department. Mr. Gordon said that in his experience any contractor who was not being paid managed to find the right people in the organization fairly quickly. If they knew only the contracting officer, they were very likely to be referred, as the Authority's contracting officers knew to refer them to the Equal Opportunity Programs Office. Nevertheless, the Office was making efforts to make itself better known.

Mr. Carter noted that the goal for the rail project had been 13 percent and the level achieved had been 17 percent. Of the $142 million that had been awarded, there was a requirement that a retail contract was not counted at 100 percent. He asked if the retail numbers in the total had been counted at 60 percent, the prescribed amount, or at 100 percent. Mr. Gordon said the number had been carefully reviewed. He said the matter was not simple; some materials were counted at less than 60 percent. Mr. Carter said he had heard from Dulles Transit Partners (DTP) that materials were reported at 100 percent. Mr. Gordon said they had been, but had been appropriately reduced. For this reason, Authority and DTP numbers often did not match.

Mr. Carter asked about the figures for the rail project. They showed $142 million of DBE achievements out of the $239 million total commitment, about 52 percent. Yet the project was 74 percent done. He was concerned that the DBE contributions were lagging, and might not be fully paid, as much of the work was service contracts. Mr. Gordon said his office had to make sure first that the commitments were valid, then that they were fully carried out. Mr. Potter noted that Mr. Nowakowski had reported that most of the station finishes would be done by minority firms. The stations in Phase 1, other than Wiehle Avenue, were still in raw condition.

Mr. Session noted attendance at outreach events had been good, with 12,000 attending, but there needed to be a lot of follow-up. Mr. Baker said that was part of the job. The names of attendees were added to a database, and the people began receiving e-mails about Authority opportunities. They also brought in specialized firms to meet with the appropriate staff within the Authority.

Mr. Session then asked about the car rental companies, which generated considerable revenues. When those revenues were combined with other concession revenues, the rental car amount had skewed the goal-setting

process. Mr. Gordon said the federal government had changed the program so that rental cars were not counted with other concessions. Setting separate goals for rental cars was difficult, as most of their expenses were for cars, which normally did not produce much revenue for dealers. When a DBE firm took over a car dealership, which did not happen often, it typically exceeded size standards after a few years.

Ms. Hall asked how many rental car companies were owned by DBE firms. Mr. Gordon said they had been researching the issue, and had found DBE firms only in Miami, with owners living outside the United States.

Mr. Crawford said that there would be a hearing before the District of Columbia Council the following week. The Authority's record with District firms and employees were quite poor. He noted over 800 had attended the Authority's last contracting session. There needed to be follow-up with the attendees.

Mr. Session observed that the LDBE program was a misnomer, as there were no requirements for the "disadvantaged" assumption behind the D.

Proposed Contracting Manual Changes to Support Phase 2 Design-Build Procurements. Phil Sunderland, Vice President and General Counsel, said the proposed changes were necessary to support the two-step procurement process discussed earlier in the Dulles Corridor Committee Meeting. There were five amendments. The first simply authorized the two-step process for a design-build contract. The second provided that the evaluation criteria and process would be described in the solicitation documents for both steps. A third amendment authorized the payment of a stipend in the second step to each of the short-listed teams, other than the prevailing firm. The fourth allowed a performance bond less than 100 percent of the design-build contract price. The fifth amendment provided that protest procedures were to be described in both the Request for Qualifications (RFQ) and Request for Proposals (RFP) steps. He asked the Committee to recommend that the Board adopt the proposed amendments.

Mr. Brown asked whether the manual set a formula for determining the stipends or left it to discretion. Mr. Sunderland said there were some criteria, but the amount was left to staff discretion. It would not be decided until the RFP stage. Mr. Brown asked if a short performance bond had even been done before. Mr. Sunderland said that the Phase 1 bond had been lower as well, but he was not sure whether the Authority or the Commonwealth had set it. Mr. Brown asked about the second amendment; didn't

the manual set the evaluation criteria for all contracts? Fred Seitz, Manager of Procurement Operations, said the manual provided examples of criteria. All procurements used somewhat different criteria, depending on their nature. The amendment would add some criteria particular to the design-build contract.

Mr. Snelling moved that the Committee recommend the proposed resolution to the Board.

Mr. Carter asked about the stipends. He asked if they were used to assure full competition. Mr. Sunderland said they were, noting that the bids were extremely expensive to prepare. The stipends were about 20 to 30 percent of the cost of a bid, and were based on a percentage of the contract value. Mr. Martire said the practice was common on projects of the same size.

Mr. Session asked about the possibility of a protest bond. Mr. Seitz said the Authority had not used a protest bond, though it could. It had not used a bid bond either, but was doing so in this case. Mr. Session said he did not have a view on either side of the issue, but was concerned about the burden of a protest on the Authority. He said that protests usually went up to the Board level, and asked how they would be handled on the rail contract. Mr. Sunderland explained that protests on contracts the Board had approved went to the Board; other contracts did not go beyond the CEO. The steps in the design-build contract would not be approved by the Board, so the protests would not come to the Board. Mr. O'Reilly said he did not think it advisable for the Board to become involved. The protesters could go to court more quickly without a Board review. Mr. Cobey and Ms. Reiley agreed. Mr. Sunderland suggested that time was a major issue; the Board rarely overruled the staff on a protest matter, but it did take a long while to resolve. Mr. Curto urged the staff to keep the Legal Committee fully informed of any protest activity.

Mr. Session asked for an explanation of the Federal Transit Administration (FTA) section of the Contracting Manual. Mr. Sunderland said the new chapter had to be added to comply with FTA grant standards, and drafts had been shared with the FTA. He expected the new chapter to be complete within about two months. Mr. Session said he had examined the Contracting Manual, and found it similar to federal procurement rules.

Mr. Brown asked that the amended criteria in the RFQ evaluation for the rail contract that added points for agreement to a PLA should be written down before the Board voted on them. He believed that they provided a

ten-point bonus. Mr. Sunderland explained that the bonus was ten percent of the underlying score. Mr. Snelling said an adequate record had been made of the Dulles Corridor Committee action. Mr. Brown suggested it had not been so clear, particularly the difference between ten points and ten percent. Other Directors disagreed, and Mr. Snelling called the question.

Mr. Snelling's motion carried unanimously.

Recommendation to Award a Contract for the Refuse and Recycling Services at Dulles International and the Dulles Toll Road. Chris Browne, Vice President and Dulles Airport Manager, presented a request to award a contract for refuse and recycling services at Dulles International and on the Toll Road. Four proposals had been submitted and evaluated; one had been deemed outside the competitive range. Con-Serv Industries of Sterling, Virginia had the highest score from the evaluation team. There were two contracts, for five years. The contract for the Airport would cost $5.3 million; the contract for the Toll Road $53,000. The LDBE requirement was 25 percent.

Mr. Carter said his question probably should have been raised at the pre-solicitation stage. He asked about the recycling element, noting that the disposal at a waste energy facility was a good idea. He asked if there was a recycling goal; Mr. Browne said there was not. Mr. Carter said the trend among public agencies was to require a rebate on recycled materials. The Authority should also be looking to share in the profits. He said that San Francisco Airport was a model for recycling. He asked that the contract be amended in the second year to set a standard and require a rebate. Mr. Browne noted that the contract did not cover construction debris, which was entirely recycled. The Airport also recycled the glycol used in aircraft deicing, and had received a $70,000 rebate in 2011. He agreed with Mr. Carter that the matter should be closely watched in the new contracts.

Mr. Snelling moved that the proposal be approved and recommended to the Board for final approval.

The meeting was thereupon adjourned, and the Committee then went into executive session to discuss broad plans for the concession program.

SUMMARY MINUTES
DULLES CORRIDOR COMMITTEE
MEETING OF FEBRUARY 15, 2012

Mr. Davis chaired the February 15, 2012 Dulles Corridor Committee Meeting. He first verified the presence of a quorum and noted that other Members of the Committee (Directors Conner, Martire, O'Reilly, Session and Curto, ex officio) were present. Director Snelling, also a Member of the Committee, was present. Mr. Davis noted that other Directors in attendance at that time were Carter, Cobey and Crawford. [Additional Members of the Committee, Directors Brown and Reiley, arrived shortly thereafter; Director Hall also attended.]

Dulles Corridor Metrorail Project Phase 1 Monthly Cost Summary and Project Update. The meeting began with the Metrorail Phase 1 monthly cost report. Pat Nowakowski, Executive Director of the Metrorail Project, reported that expenditures for the month of December had been $68 million, bringing the total to $1.7 billion for 2011. The budget was unchanged from $2.755 billion, but the estimated completion cost was now shown as $2.905 billion, including contingency.

In December 2011, $8.4 million of contingency had been used, spent chiefly on station finish allowances. With a total use of $260 million in contingency, $44.1 million remained. The completion date was still August 2013.

Dulles Corridor Metrorail Project Quarterly Update. Mr. Nowakowski said the Phase 1 project final design was 99 percent complete, utility relocation was 99 percent complete, and construction was at 64 percent. The total project was 74 percent complete, and rail cars would be delivered between 2013 and 2015.

Mr. Davis asked what would happen if the contingency allocation was exceeded. Mr. Nowakowski said all would contribute in accordance with the basic funding agreement, with Fairfax, Loudoun and the Authority paying their percentage shares. All were aware of the situation and prepared to pay, if necessary.

Mr. Davis asked about timing, whether weather delays had slowed the project. Mr. Nowakowski said the project would be open on time, in August 2013. Testing would begin soon; there would be enough time after project turnover for the Washington Metropolitan Area Transit Authority

(WMATA) to complete all necessary tests. The project was on time, and was not likely to slip, as nearly all work was above ground and not susceptible to weather delays.

On Phase 2, $70 million of $85 million available had been spent for preliminary engineering. The key upcoming events were the publication of the Request for Qualifications (RFQ) and the completion of preliminary engineering at the end of February, the short list of qualified firms and the issuance of the Request for Proposals (RFP) in May, the County opt-out date and the environmental work completion in June, and price bids and contract award in December.

Mr. Davis asked Mr. Nowakowski if he was comfortable that more than five firms would respond to the RFQ. He was. About 18 firms had inquired, but some had partnered with others for reasons unrelated to the project and others might not pursue the opportunity, so Mr. Nowakowksi was unable to make a meaningful estimate of the number.

Mr. Brown asked about the environmental work, which he now understood would not be done for four or five months. Mr. Nowakowski said the timing was up to the Federal Transit Administration (FTA), which was responsible for it. There would be a hearing, followed by a submission for action by the WMATA and Airports Authority Boards in April. Mr. Brown noted that there had been a fully approved environmental impact statement (EIS) for the project over a year before, and that none of the current environmental process efforts would have been necessary with the project's original alignment.

Mr. Nowakowski said there were two types of environmental updates. An environmental assessment (EA) was necessary for the aerial structure, which had required a formal amendment to the EIS. Mr. Brown said his point was that the underground station had been an approved part of the project, covered by the EIS, and that redoing the environmental process had added about a year of delay to the project. Mr. Nowakowski said the changed design had taken time as well, but that the design and environmental work had proceeded together. Mr. Brown pointed out that other proposed changes had been dismissed because environmental requirements would delay the project, while decisions urged on the Authority by local officials had caused significant delays in the environmental work.

Mr. Davis said the question was whether the overall project had been delayed. Mr. Brown said it had. Mr. Nowakowski said the project would take five years to complete from the award of the design-build contract.

Mr. Martire asked about the safety record. Mr. Nowakowski said it had been excellent. He said that the record had saved money, as well as assured the safety of the employees on the project. Mr. Carter noted that the Phase 1 project was 74 percent complete, with completion costs projected at $2.9 billion. He asked Mr. Nowakowski if he was confident the project would stay within the projections. Mr. Nowakowski said he was, noting that the $2.9 billion figure included contingency expenditures.

Mr. Nowakowski then introduced Larry Melton of Dulles Transit Partners (DTP), a veteran of eight years on the project and successor to George Morschauser. Mr. Melton would be responsible for the regular quarterly construction updates.

Dulles Corridor Metrorail Project Quarterly DTP Update. Mr. Melton began with safety issues; he reported there had not been any environmental enforcement actions brought against the project. Its lost time rate was .09 compared to an industry rate of 2.1, and its recordable incident rate was 1.5 compared to the industry rate of 4.0, on 9 million work-hours spent on the project from its inception. Though the record was good, Mr. Melton said the goal remained 0. All accidents could be avoided. In the next few months, the worksite would become more complex; there would be more subcontractors than direct hires.

As to utility relocations, the Authority's part of the work was 100 percent done; on their side, the utilities still had only minor work left that should be done by summer.

The design-build contract had been adjusted, particularly with WMATA changes, but was now on track for the August 2013 completion date. It was particularly important to get the station work and aerial structure work done, so track could be laid. An upcoming major effort was to tie in the new line to the WMATA K-Line, generally known as the Orange Line.

At the end of January, the project had employed 350 professional employees, and 1000 manual craft employees, including those of subcontractors. The manual craft figure had peaked in November 2011 at 1,245.

As of the end of December, a majority (54 percent) of the craft workers had been Hispanic or Latino, 18 percent black and 24 percent white. Most lived in Maryland or Virginia; substantially smaller delegations were from the District of Columbia and West Virginia.

Mr. Davis asked why so few employees were from the District of Columbia. He said outreach to District workers should be continued. Mr. Melton said there were many competing projects in the region. Ms. Hall asked if it would be possible to break down the ethnicity of the 350 professional jobs. Mr. Melton noted that the information was not available for subcontractors, but would be for Dulles Transit Partners employees, and that he would provide it.

Mr. Session pointed out that hiring Disadvantaged Business Enterprise (DBE) firms from the District would by itself bring more D.C. employees. Mr. Martire observed that transportation was often a problem for D.C. workers, many of whom did not own cars. He said that other projects in the region had provided shuttle services to bring them to a site.

Mr. Melton said the DBE goal for the project had been $176 million, or 10 percent of the contract value. He noted that the level had been exceeded, with $239 million in commitments. $138 million had already been paid out to DBE firms. Mr. Crawford asked for the locations of the DBE firms. Mr. Melton said he would provide it.

Mr. Carter asked what portion of the 74 percent of the work completed had been performed by DBE firms. Mr. Melton said that the construction work was 58 percent complete; the subcontracted work would be where the DBEs could be found. Much of their work was at the stations. Mr. Carter then asked how much of the $239 million commitment had gone to service contracts. Mr. Melton agreed to provide the information.

Mr. Melton then showed a series of photographs of recent work along the entire project. Mr. Carter and Mr. Session both urged Directors to visit the project site, as they had when they joined the Board.

<u>2011 Preliminary Financial Report – Dulles Corridor Enterprise.</u> Andy Rountree, Vice President and Chief Financial Officer, reported on the preliminary 2011 financials for the Toll Road. Revenues for the year had totaled $94.7 million, up 7.5 percent from 2010, but at 96.7 percent of budget. Expenditures had been $25 million for the year, down 4.7 percent from 2010, and only 89.9 percent of budget.

Mr. Davis asked how much the traffic had dropped on the Toll Road as a result of the January 2011 toll increase. Mr. Rountree said that question would be addressed in the January financial report, which followed.

January 2012 Financial Report – Dulles Corridor Enterprise. Mr. Rountree said the January revenues, at $8.2 million, had increased 12.8 percent over January 2011. They were about 95 percent of expected revenues. Mr. Brown asked what the forecast had been based on. Mr. Rountree said it was the 2009 Wilbur Smith study, as updated in 2010.

In January, there had been 8 million transactions, up 1.8 percent over 2011. That level, however, was about 97 percent of projected transactions. Mr. Davis said that traffic was moving much more smoothly on the east end with the completion of the hot lanes construction, which probably encouraged traffic. Mr. Potter noted that the weather had been good too.

Pre-Solicitation Terms for the Dulles Corridor Metrorail Project – Phase 2 Design-Build Package A (Rail Line, Station and Systems). Mr. Davis noted that Mr. Curto, consistent with his recusal on the Phase 2 contract, had left the room. Mr. Nowakowski said that the management was requesting Board concurrence in the procurement package, discussed before, for the large Phase 2 rail construction contract. "Package A" was for the design-build contract covering 11.5 miles track, six stations, traction power, train control systems and communications systems. As he had reported before, it did not cover any property acquisition, utility relocations, the rail yard, or the garages.

The approach was to solicit qualifications through an RFQ of all interested contractors. Mr. Nowakowski said he hoped for about eight submissions. After evaluating the qualifications, the staff would shortlist up to five teams, provide them with the design drawings for Phase 1 and the preliminary engineering for Phase 2, and ask them to provide technical proposals through an RFP. The responses would be due in September. Staff would then work with all of them to get their proposals up to acceptable levels. The teams that pass – presumably all that had been shortlisted – would then submit bids. The lowest bid would prevail. The bidders who did not prevail would be paid a stipend to cover part of their expenses in responding to the RFP.

Mr. Davis asked how a protest would be handled. Phil Sunderland, Vice President and General Counsel, said protests could be made at both

steps. A protest could come immediately after the issuance of the RFQ to challenge it. It would proceed as a normal procurement protest, with a decision first by the procurement manager, followed by an appeal to the Chief Executive Officer. A protest could also be filed after the decision of the evaluators. Other opportunities would arise to challenge the RFP, or at the conclusion of the RFP project from a shortlisted firm that failed its RFP submission.

Mr. Brown said he was surprised that throughout the discussions of the Phase 2 procurement he had not seen the procurement staff at Board and Committee meetings. He said he was concerned that lawyers were doing all the talking. He said he had always found the procurement staff to be technically competent. He did not mean to criticize lawyers, noting that he had a law degree himself, but until the present had never seen procurement discussions without the procurement officers present. Mr. Sunderland said consensus had been reached in a work group on all the issues, and the procurement office had been fully represented. He said the procurement officers could be called to the table. Mr. Davis said that would not be necessary; the issues were difficult and legal in nature. He was sure the procurement office had been involved at every step. Ms. Reiley said she had asked the same question Mr. Brown had and had been told they had been involved.

Mr. Session asked if there was opportunity for debriefings at both the RFQ and RFP stages. He assumed they would be offered before a protest was due. Mr. Sunderland said there was a relatively short time for a debriefing; the time for filing a protest would run from the debriefing.

Mr. Brown said there had been some discussion about the Board's oversight role in the current procurement. He asked at what steps of the process decision points would come back to the Board for action, and not as information items. For example, there had been concerns about the number of firms shortlisted. He said contractors were much more likely to make a serious bid when there were three competitors involved. The proposal was for up to five. He also thought the RFP should come back for Board discussion to understand exactly how the procurement selection would work. Mr. Davis said he expected the RFP would be brought back in May. Mr. Sunderland said staff would be happy to bring the RFP to the Committee.

Mr. Brown said that at the last meeting he had asked about the pass/fail on technical scoring followed by a bid, which he thought looked more like

design-bid-build, and was told the Board had approved it some time ago. He didn't believe the Board had fully understood what it had been approving. For that reason a full discussion about the whole process had become necessary for the day's meeting. He thanked Mr. Session for delaying the process a month. He said the Authority was heading down a procurement path that could turn out to be very expensive. The project was costly and under intense public focus and procurement, and subject to intense criticism over the costs.

Mr. Snelling said the Board had often reached conclusions that two or three Members disagreed with. Persisting with ambiguity after a decision was made put a cloud over it. He would like to hear a motion from those with different ideas so they could be dealt with.

Mr. Brown said that another project in the region, the Maryland Inter County Connector, had used a design-build approach, but had applied an "alternative technical concepts" approach. The offerors were given design documents, as the Authority would be doing, and they were allowed to present a proposal based on that design or offer a new proposal with their own design. He understood the process had saved a substantial sum. Authority management had ruled out such an approach.

Mr. Brown said he had understood a year before that the Phase 2 procurement would be a design-build process, where the offerors would do the design themselves, in effect saying they could do the project better than it had been proposed. He thought that a better approach.

Mr. Potter said Mr. Brown had brought up the issue before. He had met with several contractors who had participated in the Inter County Connector. The process used there would not fit on the rail project. The Dulles rail project had a defined right-of-way and rigid WMATA specifications, and had completed both preliminary engineering and value engineering. The project did not have the same options and latitude as a highway project, where entrances and exits, and the very location could still be determined.

Mr. Brown said that Mr. Potter's explanation that alternatives were not available on the rail project was a strong argument for a design-bid-build approach. He wondered how the current proposal had been developed.

Mr. Potter said there would be a robust competition, and that he expected there would be a competitive price when done. Now was time to act, with low interest rates and a competitive construction environment.

Mr. Brown said he had asked a month ago for a list of the five largest procurements the Authority had conducted, and had not received a response. Ms. McKeough said work had been done, and that the prior procurements had been in the $300 million range. Mr. Brown pointed out that the Phase 2 project would be five times the size of any prior procurement. Mr. Davis said that the Authority's partners had experience with procurements of that size. Mr. Brown said the partners were not managing the project and did not have a vote. It was the Authority's project to manage, and the Authority would rise or fall with its success.

Mr. Potter said that the proposals had been discussed with the principals the day before; they had outlined all that was being presented at the Committee meeting, so they could express any concerns.

Mr. Carter said he was concerned that the low bid step would still leave open the opportunity for large number of change orders that would increase the costs of the project.

Mr. Nowakowski said the cost problems on Phase 1 had not been from change orders. Contingency expenses had been driven by allowance items, changes in WMATA design standards, project management costs from the delayed start of construction, and utility relocation. Mr. Carter asked Mr. Nowakowski if he was confident the project would be protected from change orders. Mr. Nowakowski said he was.

Mr. Snelling said he wanted to make some observations. The Board had an absolute right to set policy and an absolute duty to monitor performance. He thought it mischievous in extreme for the Board to involve itself in management details when there was a good management team in place, including the staff sitting at the table and the rest of the staff not at the table. The team had gained his confidence; they readily answered questions. But basically the Board should set policy and let management manage. It was potentially damaging to meddle in details, particularly when a matter had already been decided. The Board should not try to run projects itself.

Ms. Reiley agreed with Mr. Snelling. She said the procurement method had been discussed thoroughly and resolved. It would be appropriate to

raise it again if something was missing, but it was the staff that had to build the project and the Board had accepted its recommendation.

Mr. Session said that some of the problems Mr. Snelling had identified resulted from the presence of three new Members of the Board. His own unreadiness went to Mr. Brown's point – he missed the opportunity for deliberation. The issue may have been discussed once, but the newer Members hadn't heard about it. He recognized that it was important to move forward. It did seem to him, however, that the process was getting closer to a straight bid. He expected that any of the bidders would be capable of building the project. He still had some questions about the process, but his point was that he always wanted to be thoroughly informed and to have the benefit of his colleagues' discussion.

Mr. Davis said that deliberation was being accomplished at the day's meeting, but noted that the process had been pretty clear at the January meetings as well. The bid after a winnowing process certainly had been clear. There was nevertheless more to discuss about the RFQ process and how it would lead to a shortlist.

Mr. Session asked whether the Authority had ever required protest bonds. Ms. McKeough said it had not. Mr. Session asked if it should for this project in order to deter protest. Steve Baker, Vice President for Business Administration, said such a bond was a tool the Authority had, but had not yet used. Mr. Session said it should be considered. Mr. Davis said the protest process was accelerated, and would not cause the kinds of delays encountered elsewhere. He urged Mr. Session to discuss the matter further with procurement staff.

Mr. Carter said he was still not comfortable with lowest bid price. The Authority wanted the best value for the best job, which was not likely to result with a low bid. Mr. Davis said it was not just low price; the firms had to prequalify. The lowest price firms, the kind Mr. Carter was thinking of, would not be qualified.

Mr. Sunderland said the fundamental difference between the usual low-bid approach and this procurement was that there would be two substantial "scrubbings" before the bids. The RFQ would bring in the top teams in the country; the three, four or five most capable would be selected for the next step in the first "scrub". The second scrub was on the technical issue; it was not an evaluation item, but a standard. Those teams that wouldn't meet the project specifications would not be allowed

to bid. The process was the same as used on other multi-billion dollar projects. The top firms were asked to bid against each other. Mr. Sunderland said it was theoretically possible for one of them to lowball the project, but that had not been the experience on other two-step procurements.

Mr. Carter said he had faith in the two-step process, and thought it appropriate. But the Authority could not get a 100 percent performance bond; at best it would be 50 percent. Mr. Sunderland said he understood the concern, and there was not much to be done about it.

Mr. Martire said there were other procurement methods, and cited one, where a fixed budget was set and contractors were asked to bid what they could build for that amount. The contractor would be responsible for any overages.

Michael Loulakis, procurement counsel, said that Mr. Martire was referring to a process known as "fixed price – best design", which was occasionally used, but not for risk shifting. The owner would solicit three different designs that would fit the budget. The process didn't eliminate change orders. Fixed price couldn't be used on the Phase 2 project.

As a general matter, change orders came from two general areas; first, geotechnical conditions that were not discovered in advance, and second, problems in the full design with flaws not discovered until actual construction. A design-build approach would take care of the second problem, as it makes the contractor responsible for design.

There had been about 15 years of history with design-build contracts in the public sector. It had started with 1996 legislation allowing federal agencies to use the two-step approach. The approach was quickly copied by states and municipalities. The short list was the core of the process. The difficulty had been how to evaluate competing firms under an RFP, a process the structure of which was very client-centric. Owners realized that there were some cases where there was not enough qualitative difference between bidders to be scored at the RFP stage. This supported the notion that price was the best final discriminator.

The Virginia Department of Transportation had faced the same issues using a best value approach for 70 percent of a procurement, with 30 percent based on price. The agency found it did not have enough discriminators, and therefore was considering a two-step low-bid approach.

Mr. Snelling moved that the Committee concur in the staff-recommended selection process.

Mr. O'Reilly thanked the staff for its presentation and the new microphones in the meeting room. He said he supported Mr. Snelling's motion, but wanted to make an amendment to the procurement process under discussion, that dealt with the Project Labor Agreement (PLA). He recalled that the Board had in April 2011 voted 11-2 to require a mandatory PLA agreement in the procurement process. It was done on the basis of the experience with the PLA in Phase 1, and was an effort to replicate the Phase 1 success in Phase 2. He said he had felt it was the right decision.

Since then, there had been some misunderstanding and some concern in the political community whether the Authority should be allowed to mandate a PLA. Mr. O'Reilly said he still supported the original decision. But he thought it possible to modify the approach, possibly getting the same result. He offered a modified version of the approach used by General Services Administration, a federal agency; it did not require PLAs in its procurements, but gave a 10-percent bonus to contractors who agreed to use one.

His proposal was to give a 10-percent bonus in the Phase 2 RFQ, under a new labor credit factor. If the prevailing contractor had agreed to a PLA, it would have to be executed before the contract award. He moved that the Phase 2 proposal be amended as he had described, and that the Board rescind Resolution No. 11-8, adopted April 6, 2011.

Mr. Snelling accepted Mr. O'Reilly's amendments to his motion. Ms. Reiley said she supported Mr. O'Reilly's approach. Mr. Session said he supported concurrence with the staff proposed solicitation. He was, however, still concerned about the composition of the review panel under the RFQ. He didn't know who would serve on the panel and was unsure the panel would fully understand the Board's policy approach, as set in the Committee meeting.

Mr. Potter said the Board's concerns would be shared with the review panel. He said he was more than happy to share with the Board who was ultimately selected to be on the panel. But the panel had not yet been selected. When it was, he would seek Board concurrence.

Mr. Davis said he was prepared to support Mr. Snelling's motion, as amended by Mr. O'Reilly. Mr. Carter said the decision showed that the Board was working hard together to bring everyone under the tent. The new approach to the PLA made good sense. Mr. Brown said he had questions about the mechanics of the PLA proposal. Would it be applied at both RFQ and RFP stages? Mr. Sunderland said it would apply only at the RFQ stage. For those teams that made the commitment, it would be contractual; they would have to enter into a PLA if selected. A firm that did not commit could not be forced to use a PLA.

Mr. Brown noted that the Committee had previously been told that the staff would negotiate the PLA and present it to the prevailing contractor. As now described, the contractor would be presenting the PLA to the Authority. Did this accomplish what was desired?

Mr. Sunderland said that there may be an Authority-negotiated PLA; if all firms on the shortlist agreed to a PLA, then it would be the staff's role to negotiate it. If not all agreed, the Authority could not set the agreement. In any event, the RFQ would not be silent; it would set the Phase 1 PLA as a standard for a Phase 2 PLA.

Mr. Davis then called J. Kenneth Klinge, a former Member of the Board who represented the Authority in Richmond, to speak on recent legislative developments.

Mr. Klinge said that two identical bills, HB 33 and SB 242, had each passed the respective branch of the Virginia General Assembly and had gone to "crossover" for action in the other house. They set a broad policy, not directly related to Phase 2, that mandatory PLAs could not be required in contracts funded by the Commonwealth. If they were, the penalty would be no funding from the Commonwealth.

Mr. Davis asked about a bill offered by Senator Dick Black. Mr. Klinge said that bill would have made it difficult to proceed at all with Phase 2. It had, however, failed in Senate 19-20, thanks to one Republican abstention. The bill would have consolidated all anti-Dulles rail and PLA bills, including a prohibition on using Toll Road revenues.

Mr. Davis then called the question on Mr. Snelling's amended motion.

Mr. Martire said that, despite advice from Authority counsel that he did not have a conflict, he was taking himself out of a vote on the PLA. It

had become a political football outside the Authority, and he was anxious to get the project moving.

Mr. Brown asked for clarification on the PLA scoring. He said he understood the bidders would get 10 percent or nothing, not less for a lesser PLA. He said he had additional questions, which he would raise at the Board Meeting that afternoon.

The Committee then voted on Mr. Snelling's motion, as amended by Mr. O'Reilly; Mr. Brown said he was voting against the procurement methodology, but announced that he agreed with the resolution. Mr. Curto was not present; otherwise all Committee members voted in favor of the motion.

SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF FEBRUARY 15, 2012

Mr. Conner chaired the Finance Committee Meeting on February 15, 2012. He announced Committee attendance: Mr. Curto, *ex officio*; Mr. Davis, Mr. Brown, Mr. Carter, Ms. Hall, Ms. Reiley, Mr. Session and Mr. Snelling. He added that it appeared all Board members were present that morning. He noted there was much to cover, and said he would proceed as quickly as possible.

Preliminary 2011 Financial Report – Aviation Enterprise Fund

Andy Rountree, Vice President and Chief Financial Officer, reported that the information provided was unaudited and preliminary, as rates and charges settlement had not yet been done. Settlement would change several figures, most notably debt service coverage, always of major importance. He said the coverage had been 1.29 times debt service at the end of December 2011, before settlement. The budgeted level had been 1.34. The final numbers for the year would be available in April.

January 2012 Financial Report – Aviation Enterprise Fund

Mr. Rountree noted it was difficult to interpret much from a one-month report. In January, with a $3.2 million operating income, coverage was about 1.33, compared to a budgeted level of 1.31. He also flagged the estimate of days of unrestricted cash on hand. The estimate was 461 days as of the end of January. By comparison, for AA category airports, the median was 606 days. For all airports, the median was 489.

Mr. Session asked for an explanation of settlement. Mr. Rountree explained that rates and charges for landing fees and terminal rents paid by airlines were based on actual costs. As the year began, the rates and charges are developed based on budget estimates. At the end of the year, a true-up is always done, to determine whether the set rates had exceeded or under-recovered the actual costs. This was the settlement process. If costs were over-recovered, rates for the next year would be reduced accordingly; if under-recovered, rates would be increased.

Financial Advisors' Report – Aviation Enterprise

Ken Gibbs of Jeffries began with an update on the 2012 financing plan. Market developments, all favorable, had major effects on the plan. Guy Nagahama said that uncertainty in the Euro zone had contributed to the

flight to quality trade. That had kept Treasury rates range-bound. As to the municipal market, the situation was robust demand and modest supply. In January, there had been $20 billion in reinvestment money that needed to be put to work, put back into the market, combined with ten weeks of inflows into municipal bond funds. In January, the supply had been less than $3 billion per week in municipal issues. The Authority's 10-year AMT borrowing rate had declined 35 basis points; at 20 years, it had declined as much as 45 basis points.

Going forward, activity was picking up. He said a number of airport transactions, including refundings that had been mandated in 2011, were on the calendar for February and March. In the next few weeks there would be a $3 billion mix of airport AMT and non-AMT refundings. He noted particularly a $450 million refunding for Dallas/Fort Worth posted for the next week. On the basis of a private IRS Letter Ruling, DFW was refunding AMT Skytrain debt on a non-AMT governmental basis. Mr. Snelling asked if a letter ruling was generic or specific to the DFW project. Mr. Nagahama said it was based on the DFW specifics, but that the reasoning might apply to other projects, including the Dulles AeroTrain. Legal analysis would be required, and the CFO has already asked Bond Counsel to advise the Authority on the issue.

Mr. Gibbs said that, with the market moving in the Authority's favor, the financing team was still proposing to issue $200 million in new money and over $300 million in refunding bonds. The team was also checking the structure of the Authority's debt, the coverage and the cost per passenger. The plan had been to look to the third quarter; now the team was reviewing market conditions to determine whether to do two instead of one issuance. The main considerations were the cost of two transactions versus one, and the fact that a significant part, $270 million of the $335 million of the possible refundings, was not current-refundable until early July. In addition, the structure of debt was being reviewed to determine whether it was best aligned with cost per passenger and coverage. The team was looking at a variety of options in the debt structure. Adjustments would ideally be done in conjunction with the refunding for savings. There would be recommendations by the end of the month.

One action was an RFQ to the underwriting community. Led by staff, it was put together not only with Aviation Enterprise Financial Advisor, but with Mercator and Frasca, the Corridor Enterprise Financial Advisors as well, and had been issued February 8, with responses due February 29. A recommendation would be available at the March meeting, as it would be useful to have the new team on board by April.

On March 12 and 13, the staff would be meeting with the rating agencies for an annual update. The issues mentioned above would be discussed with the agencies. In addition, in order to be in as strong a position as possible for going into the market soon, the disclosure and feasibility studies were being worked on. An issuance at the earliest would be in April or early May for a two-deal strategy.

Mr. Conner summarized that there was a need for new issuance money of about $200 million, and a very favorable market for refunding. The refunding savings varied every day, but were over $30 million, a substantial figure. The third piece was a possible restructuring of existing debt to increase coverage, retain ratings, and reduce enplanement costs. He said there had not been expectations of much aviation enterprise financial activity in 2012, but the market conditions were changing that expectation.

Financial Advisors' Report – Dulles Corridor Enterprise

Michael Wheet of Frasca & Associates, LLC presented a brief report on actions related to a fourth-quarter financing. The written report outlined the several steps; the process for adjusting toll rates would be discussed later in the day's meeting, along with the new traffic and revenue study. A next step prior to issuance of debt would be confirmation of the credit ratings. The design-build contract was also a necessary step. The advisors had participated in the RFQ for underwriters; a recommendation would be ready for the March meeting. He referred to a table in the documents that showed historically low interest rates. Mr. Davis asked how long the historically low rates would continue. Mr. Wheet said that there were many different views, but that there was an apparent consensus that there would not be a radical increase in rates before the end of the year. Jim Taylor of Mercator Advisors, LLC, noted that the advisors were also concerned about credit spreads, and that there were people who, regardless of how low rates went, wanted a premium when buying BBB debt (such as that of the Dulles Toll Road).

Mr. Brown asked about the report item on the Virginia Transportation Infrastructure Bank program. He noted that the City of Chesapeake had applied in December 2011 and received a substantial loan in January. He asked if the rail project would be a candidate for such a loan. Mr. Taylor said he had examined the application criteria; the project would not be a strong candidate, but that was not a reason not to apply. After the project was further along the process, with environmental work done, an application would be appropriate. Mr. Brown observed that the Gov-

ernor was very familiar with the project, and might look favorably on the application.

Mr. Brown then asked that the Board be advised of the schedule for interviewing prospective underwriters, as some Directors might wish to attend the interview sessions. Mr. Conner agreed to do so.

2012 Traffic and Revenue Study Update and Process for Establishing Toll Rates on the Dulles Toll Road

Mr. Conner introduced the issue by noting that there had been some objections to the study's forecasting, principally by a group from Reston. Directors had been provided a copy of CDM Smith's response to these objections, which was requested by Mr. Rountree from CDM Smith once the group from Reston issued its report. Mr. Conner suggested the responses be made public, so the public could see that the objections were taken seriously, and responses were provided by CDM Smith. Mr. Davis volunteered to meet with the Reston group; Mr. Potter said there had already been some discussion of planning to meet. Mr. Davis said he would be available for such sessions; there was considerable misinformation circulating about the tolls, as well as the traffic forecasts.

Mr. Rountree said the information paper being presented addressed the updated 2012 traffic and revenue study and the process for setting tolls. He said he would introduce a representative from CDM Smith to review its work, and the Mercator representatives would speak on behalf of the Co-Financial Advisors following CDM Smith in the presentation. He said the Authority had commissioned a 2012 comprehensive, investment-grade traffic and revenue study for two purposes: to support the upcoming bond sale in the fall or winter, and to provide more current data for the toll setting process. To clarify some misconceptions from the media, he said that CDM Smith, successor to Wilbur Smith Associates, the consultant, did not set toll rates; the Board would. The consultant, CDM Smith, provides a model that it used to address staff questions as to the results of a particular toll strategy. The model would show, for a given period, how many transactions and how much revenue would result under a given tolling scenario. The model would take into account whether a particular toll proposal would bring in more motorists or drive them away. These results would be taken back to the Financial Advisors to help determine whether the revenue stream would service the debt at the same time it would support operation of the Toll Road. Determination of actual recommended toll rates is an iterative process, requiring input from the Authority and Financial Advisors, using results from the modeling work of CDM Smith.

CDM Smith had been asked as a first step to take the tolling rate schedule discussed during the LaHood round of negotiations on the Memorandum of Agreement. This was called the alternate OS schedule. Thus, though there were not any new toll scenarios that have not already been seen by funding partners; there was a new analysis of what the same level of tolls would provide in the way of revenues.

Staff would be back in March to discuss toll policy considerations and April with recommendations for future tolls.

Jonathan Pagan of CDM Smith outlined the study. For such a comprehensive study, the firm had gathered substantial fresh data. Its people had been out on the roadway, gathering trip information and taking traffic counts. CDM Smith had also updated its traffic demand model using the latest Metropolitan Washington Council of Governments travel demand model, which included transit and hot lanes in the region. They had also reviewed the impacts of construction in the area.

A review of past work showed that the Wilbur Smith 2009 study had been very accurate in predicting the impact of the toll increases in both 2010 and 2011. The 2010 revenue had been 100.7 percent of the forecast, and the 2011 revenue had been 97.5 percent of the forecast. Given the two toll increases, the economic slowdown, the interference of construction and two bad winters, the forecasts had held up remarkably well.

Based upon the firm's independent economists' analysis, population and employment growth was likely to be a bit below prior forecasts to 2028, thereafter growing again. Mr. Davis asked if the firm had any data on traffic on the Access Highway lanes to the Airport. The figures were not readily available. Mr. Davis said he was interested on how toll increases affected traffic on the free lanes, and wondered whether tolls could be put on the Airport traffic. Mr. Martire suggested that one lane of the Access Highway might be used as a "hot lane" during the rush hour. He said the road was empty in the morning. Mr. Rountree said that such alternatives could be considered in the future. Mr. Snelling said he did not want to do anything that would compromise airport access. Mr. Potter said the center lanes were reserved for airport traffic, and any tolls collected there would have to be paid to the Airport. He said that was consistent with the Federal Lease of the Airports.

Mr. Pagan said his firm was not in the habit of responding to criticism, but noted that there were significant inaccuracies in the Reston critique.

He assured the Board that the firm had not used the most optimistic forecasts of population and employment in its studies. The Reston group's white paper had misinterpreted the content of the 2009 and 2005 reports. Ms. Reiley asked what CDM Smith had done to remedy the misconceptions. Mr. Pagan said at the request of Mr. Rountree, he had given a letter to Mr. Rountree in response to the Reston white paper, which he would share publicly with others if the Authority agreed. Mr. Conner said the CDM Smith response to the paper should be made public. While no one should look defensive, he would be happy to respond publicly, as this was the study on which the entire Corridor project funding would be based. In addition, the new underwriters would have to get up to speed on the study for due diligence. Mr. Snelling agreed that answer should be made openly. He suggested that the President be asked to work with CDM Smith on handling it. He noted that one of the Authority's weaknesses in the past had been the failure to answer falsehoods. Mr. Potter said he would arrange a full briefing for the Reston group so they could understand what had been done. Mr. Curto suggested the CDM Smith report be posted on the Authority website.

Mr. Pagan said the new study showed slightly lower revenues until 2028, thereafter more than previously projected on the alternative toll rate schedule Mr. Rountree had given them. As the same toll schedule had been used in both 2009 and 2012, the results showed useful comparison. But there was no major change in the outlook for the Toll Road. He noted that, in present value terms, the scheduled toll rates did not increase significantly after 2018. He then turned the presentation over to Mr. Taylor.

Mr. Cobey observed that the projected transaction levels looked low for an area he was convinced would continue to grow at explosive rates.

Mr. Taylor reminded the Board that CDM Smith did not set toll rates. He said he would try to explain the numbers set out in a table on page 6 of the presentation to prevent misunderstandings; the Board was not being asked to make any decisions that day. He said that the Board had approved new toll rates in 2009 for 2010, 2011, and 2012. Because the steps were relatively large, the ramp tolls had not been increased as much. The main line tolls had gone from $1 to $1.25 to $1.50; the ramp toll had seen a single increase, from 50¢ to 75¢. The table also identified a "trip cost" for the combined main line and ramp tolls. Nothing past 2012 had been set; the table beyond that year used figures developed for a sensitivity analysis for investor review in 2009. There had been several alternatives considered to meet different investor concerns: what if Phase 2 cost $3 billion; what if interest rates were higher; what if operat-

ing expenses were higher? Rather than developing tables for each question, the team had demonstrated that the toll scheme shown would be a sufficient order of magnitude to cover all the concerns.

In order to show what had changed since 2009, staff had asked CDM Smith to use the same toll schedule with the 2012 population and growth analysis. It turned out that the sample toll table could cover most eventualities, with or without $150 million from Virginia; at the higher end of the costs and revenue assumptions, the debt would be paid back later. At the lower end, it would be paid back sooner. There was no fixed relationship between costs and tolls. In fact, there was a range; the project cost and interest costs were not fixed, and the assumed toll table had enough cushion to cover uncontrollable variables.

Mr. Taylor analogized the situation to a mortgage scheduled for 30 years. If the price went down, the payment could be reduced, or the loan paid off in 20 years with the same payment. The Authority had the same sort of options on the financing side. CDM Smith had no involvement in the debt side; the firm would only say that, if this is the toll rate, this will be the revenue. On the financing side, the decisions had to be reached on what was the best for the rate-payers. In some instances, it was better to reduce the debt on the back end than keep the tolls low up front.

Mr. Brown said the new traffic study was very little different from the old traffic study, and the ballpark toll schedule presented before remains the same. These were the tolls that would cover the financing need. They still could require a $13 toll in 20 years and a $17 toll in 30 years. Mr. Carter said the hypothetical numbers had created a political nightmare. Mr. Taylor said the rates were not being set for 2020; it was possible they could be set lower in the future than the hypothetical figures suggested. Mr. Potter noted that the table figures assumed that there was no $150 million grant from the Commonwealth, and that the garages remained in the project. They would come out over time. The table rates were at the high end.

Mr. Taylor explained a sample chart showing the results of toll rates that the Board might select, depending on policy choices it made. Mr. Snelling asked if the chart showed a 2013 toll of either $4.50 or $2.75, depending on the availability of $150 million from Virginia. Mr. Taylor confirmed that it did. Mr. Snelling said the option should be widely publicized. Mr. Taylor noted that in the past, when alternative funding sources were being considered, the financial advisors had come up with a general rule: every $25 million would reduce the toll rate 5¢. The differ-

ence between $4.50 and $2.75 assumed using the Virginia money to pay debt service. This produced the lower toll in the near term.

Mr. Brown agreed that the point was critical: although the Virginia contribution was small, it could have a meaningful effect on toll levels in the near term. He noted that this effective use of the grant would also reduce the pressure on tolls in the future. Mr. Potter noted that the Commonwealth had been aware of this approach to financing, and had encouraged the Authority to look into it.

Mr. Brown asked for a similar table showing the effect of a $500 million grant; there was a proposal pending in the General Assembly at this level, which was more consistent with grants to other transportation projects. He thought a table showing the benefits would be helpful.

Mr. Taylor concluded his presentation by pointing out that the updated toll revenue projections were sufficient to support the finance plan for the rail project, with a number of variables. The projections were not, however, recommended toll rates. As other funding variables became clear, there would be opportunities to lower toll rates. Since several of the newer Directors had not been present for presentations in 2009 and 2010 on the toll road financing plan, he was prepared to redo them. There would be time for additional briefings before tolls needed to be set again. Finally, there would be a set of options for toll funding available for discussion in March.

Mr. Rountree reminded the Board that it had the exclusive right to set tolls, established in the agreement with Virginia to operate the Toll Road. In order to do that, the Authority followed its normal regulatory process. That meant public hearings on proposed tolls in the Dulles Corridor, with a report back to the Board. The toll road agreement also required consultation with the Dulles Corridor Advisory Committee, for the most part made up of elected and non-elected officials from the funding partners. Staff would report back to the Board on the consultations, after which the appropriate committee or committees could authorize the publication of proposed tolls. This would occur in mid-May; at the end of the month, the 90-day "opt-out" for Fairfax and Loudoun Counties would end. June and July would be the public comment period, and a recommendation for action would be made in August, with final action possibly in September. This would be followed by a report to the Dulles Corridor Advisory Committee.

Mr. Conner solicited the views of the committee members. Ms. Hall said that the Board had discussed a new communications vice president. In

order to deal with items such as the toll misunderstandings, she suggested following the White House model, where the President makes a statement and the press secretary holds the press conference, where everything is explained. Mr. Conner agreed that a single voice would be preferable. He also thought the presentation papers should be posted on the website. The facts were favorable, and they should be brought out.

Ms. Reiley said she would also recommend holding a press briefing, with papers distributed, to assure the reporters understood the issues. Mr. Brown said he supported the idea of three or five year toll plans. He noted that the original bond sales had been successful in large part because the process started with a commitment to three years of toll increases. It would be a profound mistake to do only a single year of toll increases; it would put the Board in a position of approving toll increases in a Virginia election year.

Mr. Crawford said that Board Members had not attended the hearings last time; they had been conducted by the General Counsel. He suggested that a Member chair the public hearings this time. Mr. Brown suggested Mr. Davis could do so. Mr. Crawford said that Mr. Davis would be most appropriate. He also said that it would be important to understand who was using the Toll Road when the possibility of structuring tolls with discounts for certain users was considered. Mr. Taylor said that information was available in the new study. Mr. Pagan confirmed that information on the users was available there and in the earlier study.

Mr. Curto said there was already an agreement to post committee documents on the internet on the Monday before the Board meetings. He asked Mr. Taylor what had been included in the estimates for the toll table. Mr. Taylor said the project costs had included the garages, but that removing them would have a minimal impact on the tolls.

Mr. Conner said the other agenda items would not be covered. The first item, on budget reprogrammings, simply reported that there had not been any. The second item, the Quarterly Investment Committee Report, would merit discussion at the next meeting.

SUMMARY MINUTES
STRATEGIC PLANNING AND DEVELOPMENT COMMITTEE
MEETING OF MARCH 7, 2012

Mr. Crawford chaired the first quarterly meeting of the Strategic Planning and Development Committee Meeting on March 7, 2012. He noted the presence of the following Members of the Committee: Mr. Carter, Mr. Cobey, Mr. Davis, Ms. Hall, Mr. Martire, and Mr. Curto, *ex officio*. In addition, Mr. Brown, Mr. Conner and Mr. Session were present, and Mr. Snelling participated by telephone.

Mr. Crawford said he had several goals for the Committee. He had met with Mr. Potter for over three hours, in which Mr. Potter addressed many of the issues the Authority had faced over the years. Mr. Crawford's own priorities were for the staff to develop a written strategic plan and vision for the organization, with short and long-term goals. He understood this had been discussed at the retreat, which he had missed. He also wanted the staff to identify ways in which the Airports could increase enplanements, manage expenses, and generate new sources of non-aeronautical revenues, so that the Airports could remain attractive to the traveling public and our airline partners. The Airports should continue to be a vehicle to generate economic development for the region, and to create job growth. He would like to look at the structure of the organization to see if it is best organized to accomplish future goals. He would also like to better understand what capital needs, other than the rail project, the Authority would have in the future. The Committee would update the asset management plan for facilities and better establish metrics for evaluating and measuring future investments in projects. Finally, the Authority would be managing the Toll Road for the next fifty years. A primary goal would be to better understand the Toll Road, and develop ways to minimize congestion. The Vice Chairman had identified this issue as a major concern.

Mr. Crawford said he had asked the Secretary to track the issues on behalf of the Committee. He then noted that this would be the first meeting he had attended without Ms. Reiley, whom he considered a great friend. She had always had the best interest of the Commonwealth at heart. She was a first-class individual; she never took things personally, and neither did he. He said new Board Members were welcome, as change was good.

Mr. Crawford said he personally believed the Dulles Metrorail station should have been underground. He had recently visited the project, and commended staff for an outstanding job on Phase 1. Phase 2 was now beginning, and coming in under budget.

He also reminded staff that adjustments should not be made to the agenda the morning of a meeting.

1. Adapting to a Changing Business Model

Introduction – Mr. Potter said he would begin with the most pressing strategic issue: revenue. The principal challenge to any business was revenue. Once costs were reduced, there was no other choice. To increase revenues, a business could raise prices or diversify. The Authority's greatest challenge was to find more revenue. For the Airports, there were major changes in the industry, some driven by the economy. Mergers were a first consideration. At the Authority, the concern was United at Dulles International. United had merged with Continental, and was making decisions about where its network would go, how it would funnel international passengers in and out of the country. Dulles International was competing with Houston and Newark. The Authority had to recognize it was in a competitive environment in domestic markets. There was also significant movement to low-cost carriers. The Authority would have to be able to provide what they need. Moreover the legacy carriers were beginning to act more and more like their low cost competitors. Throughout the nation, airports had made capital investments assuming more enplanements, bringing more passenger facility charges (PFCs), and a possible increase in the $4.50 PFC. These things were not happening; the PFC had become a stagnant revenue source that was not moving with inflation.

The Authority was facing rising costs in general, and had to decide how to fund them. There were other sources of revenues to do so. At the same time, government funding levels were going in reverse. The reliable Airport Improvement Program grants that had been around for so long were already shrinking. There was a need to find other sources of revenue to fund capital projects. There was a challenge to determine where passenger growth would come from.

The Authority operated two distinctly different Airports. Reagan National was growing, principally because of regulatory changes made by the

Congress. But its growth came at the expense of Dulles International, at the same time it faced competitive issues. The Airports were different in terms of opportunity too. There was plenty of land at Dulles International, and plenty of things that could be done differently. He expected to get aggressive about changes there.

A challenge at Dulles International was how to reduce costs per enplaned passenger (CPEs), which had jumped from $17 to $26 in two years, at a time when Dulles was competing with Houston and Newark for United traffic and with Atlanta, JFK and Miami for international passengers.

Mr. Brown said Chicago had been the big concern when discussing competition in the past. Was Chicago no longer a competitive threat? Mr. Potter said United was not strategically looking to Chicago anymore; its focus was Houston and Newark. The change was entirely United's decision.

Debt coverage had been as high as 1.7; the goal was 1.4; the coverage was currently 1.3. This was a historical negative trend.

Mr. Potter thanked Mr. Crawford for allowing the day's discussion, because revenue issues would feed into the Use and Lease Agreement, which would expire in 2014. The management would be looking to the Board for direction in negotiating the new Use and Lease Agreement; the day's discussion would focus on revenue growth.

Mr. Potter concluded by saying that the Airports had many strengths that would have to be managed, and that there were many growth opportunities. Dulles International in particular had land that could be developed without interfering with the Airport operations and development needs.

Financial Profile – Andy Rountree, Vice President and Chief Financial officer, said he would provide a backdrop for the rest of the day's discussion. Enplanements were the general measure of activity at the Airports. In 2011, there had been a record performance at Reagan National, for several reasons. At Dulles International, international service had been strong, but domestic had declined slightly, about 2 percent from 2010 to 2011. Projected forecasts were nearly flat.

The next chart set out historical and forecast CPEs. It showed both Airports at less than $20 through 2011. At that point, Dulles International

zoomed up to $26, where it would stay for some time. Rating agencies had pointed out that the CPE at Dulles International was high compared to peer airports, which they considered a negative. The ratings currently were Fitch AA-, Moody's AA3, negative outlook, and Standard and Poor's AA-. Debt service coverage was a measure of how many times over the Authority could pay its debt service after paying operating expenses. As mentioned, the figure had been 1.7 in 2000; since about 2010 it had been below the 1.4 goal, just above the legal requirement of 1.25. The debt service calculation was relatively set into the near future.

A third chart illustrated the application of PFCs. Mr. Rountree explained that the PFCs, a major source of capital funding, were committed well into the future. PFC revenues at Dulles International would be devoted to the AeroTrain, a $1.5 billion project, up to 2038. At Reagan National, PFCs from 2015 to 2022 were committed to the Metrorail project.

Mr. Davis asked if the chart meant that the construction of Tier 2 at Dulles International would have to be funded entirely by the airlines. Mr. Rountree said there were different ways to address that project. It could be bonded, like a regular project; there may be grants to pay part of it; and if PFC levels were ever increased, they could also contribute. Mr. Potter noted that the discussion was supposed to be about revenues, with capital discussion for another day. He pointed out, however, that there should not be an assumption that Tier 2 would be built. Building Tier 2 would not add any capacity. It may be that Tier 3 would be built first, or some other alternative. In discussing long-term plans, the airlines were suggesting that the Authority hold the line on significant capital investments.

Mr. Potter pointed out how interrelated the different revenue sources were, and how important it was to keep the passenger counts. If they went down, PFCs would go down, parking would go down, concession revenues would go down. With the PFCs fully committed, the situation would be very difficult. Thus it was important to keep CPEs down, so the carriers wouldn't take their service elsewhere.

Mr. Session asked how long it took for the government to process a PFC application. Mr. Rountree said an application first had to be discussed with the airlines, and then sent to the Federal Aviation Administration (FAA), which would hold a hearing at which the airlines could testify, after which the FAA would approve it. The process took about 4 to 6 months.

Mr. Brown noted that the chart showed the PFCs at Dulles International were committed to the AeroTrain for about 40 years. He recalled that the commitment had been only for a few years, with the later years shown as planning numbers. Now it was being shown as committed. Mr. Rountree said a PFC application had been approved by the FAA in 2009 showing the longer commitment. In the 35th Supplemental Indenture, the Authority was irrevocably committed to using PFCs on the AeroTrain debt through 2016. The Authority could change the use of the PFCs after that by submitting an amendment for FAA approval. Mr. Brown said this was an example of how the Board got "sandbagged" into a longer commitment. The PFC commitment was done deliberately to keep the enplaned passenger costs down and was not meant to be long term. Mr. Potter said it appeared the Board would have a decision to make in 2016. The PFCs were in effect reserved but not yet committed, and the financing could be changed, depending on changes elsewhere in revenues, perhaps in the relationship with the airlines through the Use and Lease Agreement. He had not been aware of the 2016 date. Mr. Brown noted that the PFC commitment was about $50 million per year, and asked how that amount would affect the CPE. Mr. Potter said he thought it would be about $4, and offered to calculate it more precisely.

Another chart illustrated the historic sources for aviation capital funding; bonds provided 67 percent; PFCs 22 percent and grants 11 percent. Over time PFCs would be frozen and grants would shrink. Bond funding would cause coverage and enplaned passenger cost problems.

Mr. Rountree then turned to the sources of budgeted revenues. About 75 percent of revenues were aeronautical and 25 percent non-aeronautical. Aeronautical revenues were by definition collected from the airlines, and were generally cost-based. All other revenues came from other sources. Parking was the largest, followed by rental cars and then food and beverage. Mr. Davis asked if the Authority collected any sales tax. Mr. Rountree said the Authority did not have any taxing authority. Mr. Davis said the law could be changed. Mr. Rountree said he expected it would have to be collected by a taxing authority, the Commonwealth or a County, and then paid to the Authority in a lump sum. Mr. Davis observed that the tax would not be on Virginians for the most part, so state legislation might be possible. He said the issue should be considered as the staff was looking at new revenue sources.

Mr. Brown said he understood that Dulles International CPEs were high, and said it would be helpful to see such costs from other airports. He noted how the chart had shown costs going to $26 and then staying there into the future. He understood that this was normal over time; the airport with the most recent capital program had the highest costs, but would be overtaken by another airport within a few years. There were currently a number of airport issues in the bond market, which suggested other airports would be exceeding Dulles soon. In the future, when the Authority's cost no longer appeared so high, it might be possible to add some of the AeroTrain costs to the rate base and free up some of the uncommitted AeroTrain PFCs.

Mr. Conner agreed with Mr. Brown that costs at other airports would surpass Dulles International costs, and said he had recently learned that the CPE was not a single figure, but was different for different airlines. Some carriers may have more reason to complain than others. The Financial Advisors were already analyzing the issue. Mr. Rountree said the airlines all paid the same rates and charges, but their costs were affected by the way they used their facilities. Mr. Potter offered an example: a carrier renting a gate may use it for two flights per day or seven, while paying the same amount to the Authority. The rates were the same, but the cost per passenger could be substantially different.

Mr. Potter, observing that Mr. Brown was correct, said that there were two markets for CPE competition. An airline serving Washington would prefer Reagan National, partly because its CPE was lower. Baltimore/Washington International (BWI) costs were even lower, at about $10. But looking at international gateway feeder airports, Dulles International was far better positioned than Newark or JFK, but not Houston, whose costs were also in the $10 range. That was the concern; staff was aware of how carriers looked at networks, and was aware that choices were being made. The Authority had to keep its Airports attractive to both airlines and passengers.

Mr. Brown said that, in addition to Mr. Conner's observation that CPE was different for different carriers, CPE was different at different airports. Not all costs showed up in published CPE figures. Some airports funded major capital projects with special facility bonds, the payments for which did not show up in CPEs. The Airports Authority had never used special facility bonds, but he believed Houston had. The staff needed to drill down into comparative CPE figures; the Financial Advisors could help. It

was important to understand whether the CPE numbers were a fair comparison. Mr. Potter agreed.

Mr. Potter said that Mr. Rountree had built a strong case for finding additional revenues. As 70 percent of revenues were from the airlines, Mark Treadaway, Vice President for Air Service Planning and Development, would make the next presentation, on how to grow what was already there, followed by Steve Baker, Vice President for Business Administration, who was responsible for non-aviation revenue.

Opportunities for Aviation Revenue Growth – Mr. Treadaway said he was a marketing and development person. The approach of the air service development team was to understand the rules and parameters and play the game to win. They traveled to deal with airlines, asking questions, providing them with analyses and data, preparing forecasts, and convincing airlines that their service at Dulles International would work and would be profitable.

The changes in the industry had already been mentioned. The big airlines were getting bigger, and, with American now in reorganization, all had restructured. The traditional low-cost carriers were steadily getting larger.

The team took the cost of fuel head on. Dulles International was next to a fuel pipeline the Airport had tapped into. Fuel costs were thus a few cents cheaper there, a substantial advantage for users of millions of gallons.

The economy was improving slowly nationwide, but Washington had been faring better. The team made it clear to the carriers that the region is first in low unemployment, first in household income, and second in regional gross product. These all point to a population that is employed, with disposable income, and able to fly.

Contrary to expectations, planes were currently flying full, without low fares. Airlines were cutting capacity, filling planes, raising fares and charging for services traditionally provided free. This meant most were making money.

International services were the most important globally and were growing. Dulles International was blessed with a wide array of international services, better than it had ever had in the past.

Reagan National was easy to sell; it was close in, near the population center, its market dominated by federal government-related customers: lawyers, consultants, lobbyists and legislators. As Mr. Potter had mentioned, a regulatory structure limited capacity and allowed a low-cost structure. Low-cost carriers were becoming a greater presence. JetBlue had been able to spend $2.5 million a slot for 16 slots, for eight new round trips, to start service at Reagan National. After the latest reauthorization, the FAA would be adding four new slot pairs, and allowing four old slot pairs to serve points beyond the 1250-mile perimeter. In 2011, Reagan National had served 181.8 million passengers, up 4 percent over 2010.

Mr. Brown asked where the JetBlue slots had come from and where the $40-million slot payment had gone; Mr. Treadaway said the Department of Transportation had received the payment; the slots had been carved out of the Delta-US Airways slot swap in 2011. They were permanent slots, not like some of the previous exempted slots. Mr. Potter said that if Mr. Brown's point was that the Authority should have received the $40 million, he agreed. Mr. Brown said that had often been discussed in the past, but it appeared nothing could be done about it. He also asked why the taxpayers did not benefit from the increase of the value of the slots over time. He thought slots should be public property.

Mr. Treadaway turned to Dulles International. He said the United-Continental merger was still underway, and the staff needed to go to Chicago to understand how the route planners were making decisions for the larger combined fleet. Staff had already influenced decisions on secondary European markets. It was important to keep in mind that every international flight required domestic feed. Staff was also working with the low-cost carriers that did not yet serve Dulles International. As beyond-the-perimeter flights grow at Reagan National, there would be some retrenchment at Dulles International. Eight such flights were expected in the next several months, and JetBlue had already taken out five flights at Dulles International in the coming summer. There were, however, some distant domestic markets not large enough to support Reagan National service, but fine for service at Dulles International, such as Tucson, Albuquerque, Sacramento, San Jose, El Paso and Reno. These were cities that need both to reach the capital and to connect internationally. Mr. Treadaway said he had agreed with most of the earlier discussion on CPEs. His team emphasized to carriers that they had opportunities to keep costs down at Dulles International. A carrier could do seven or eight turns at a gate, if it was so inclined.

Mr. Davis asked if Houston was a competitor as a European gateway. It seemed a long distance. Mr. Treadaway said it was a serious competitor for Latin American and some other services. He gave an example: United had been serving Dulles International – Accra – Lagos, and, wanting to provide more service to Lagos, decided to add a nonstop from Houston.

Ms. Hall asked who a carrier paid if it was sharing a gate. Did it pay the carrier who leased the gate from the Authority, or the Authority itself? Ms. McKeough said there were different situations. At Dulles International, the A-B gates were leased on a permit basis, and all charges were paid to the Authority on a per-usage basis. At Reagan National, airlines were assigned preferential use of the gates. They were required, however, to share a gate if there was time available, and the sharing airline would pay the primary airline for its use of the gate.

Mr. Carter asked if JFK was a major competitor as well. Mr. Treadaway said Dulles International competed with JFK on international services. When a new carrier was beginning transatlantic service, JFK almost always beat Dulles International. New York was the largest population center, and a traditional gateway that most international carriers felt they had to serve to serve the United States. But the Authority strategy "we are next and are not going away until you come here" had worked. There was one carrier – Ethiopian – that served Dulles International and not JFK.

Mr. Potter returned to the issue of why Houston and Newark were of concern. Forty-five percent of flights at Dulles International were operated by United. Continental had two major hubs at Houston and Newark. As the combined carrier recalibrated the two networks, it had to look at how to use the hubs. The Authority was arguing that United should stay at Dulles International, where there was room for growth and a strategic location. The larger east coast international markets, from Boston to Miami, were always a concern; the Houston issue arose only because of the merger.

Mr. Session suggested a graphic that showed the strategic routes of the major carriers, and how the mergers affected the Washington market. This would be useful for the Use and Lease Agreement. Mr. Potter noted that over the past 20 years, many airports had become dependent on a single hub carrier. At BWI, 80 percent of flights were operated by Southwest. Reagan National and Dulles International did not quite have

that problem, but United was concentrated at Dulles International and US Airways was at Reagan National.

Mr. Session asked what the prospects were for increasing long-distance flights at Reagan National. Mr. Potter said the issue was an important policy matter. Because the Authority operated a two-airport system, the Board had long opposed relaxation of the Perimeter Rule there, and had so testified before the Congress. The idea was that long-distance service had to serve Dulles International. Times had changed; BWI had grown competitive. The Perimeter Rule did not make as much sense any more, and Mr. Potter said he did not expect it to be in place in the future. Mr. Davis pointed out that the original rule had a noise basis too, as the long-range aircraft were heavier and noisier. They were now quieter. Mr. Potter said the important point was that the Perimeter Rule was not within the Authority's control.

Mr. Treadaway said, in further response to Mr. Session, that the current FAA reauthorization ran to 2015, and there was not likely to be any further changes in the Perimeter Rule until then. Mr. Brown pointed out that as Reagan National remained capacity limited, adding long range flights meant cancellation of shorter-range flights, which had Members of Congress behind them as well. There might be a balance short of complete repeal of the Perimeter Rule.

Mr. Brown then said that the fourth runway at Dulles International meant airside capacity was beyond current use. Did airlines understand that they could push off at Dulles International without waiting in long lines at the end of the runway, as they did at Newark? Was this a competitive advantage? Mr. Treadaway said it was, although there were still airspace congestion problems. It didn't matter as much to the airlines as the revenue potential and costs; operational issues came third.

Mr. Treadaway next turned to international successes. Three new airlines had announced services at Dulles International. On April 16, Porter Airlines would begin three daily roundtrips to Toronto City Airport; on May 21, Aeromexico would begin daily Mexico City service, and on March 31, 2013, Etihad would begin daily Abu Dhabi service. United would be adding service to Manchester on May 1 and Dublin June 7. On May 1 United would add Doha to its existing Dubai flight. Finally, United was going to overfly Chicago and Los Angeles with a daily non-stop to Honolulu, beginning June 7.

The Board had already approved a United maintenance facility (MRO), and there was some opportunity for more. These were very important facilities, where airlines could make quick repairs and system checks to keep aircraft in the air. For the Authority, they meant revenue potential, more flights, and air service growth.

On the cargo side, anything over 64 inches tall still had to go to another airport, as it would not fit as belly freight and there were not yet any all-cargo freighters operating at Dulles International. Competition for cargo was with Atlanta, O'Hare and JFK. The problem was that there was not much produced in the region for shipment. The challenge was to get traffic heading in trucks for other gateways diverted to Dulles International. There had been some success; Ethiopian was delivering at least two tons of flowers at Dulles International every Wednesday. The business was expected to grow, perhaps leading to a freighter. One all-cargo carrier had announced its interest in Dulles International: Silk Way Airlines of Baku, Azerbaijan would be starting twice weekly with a freighter early next year. They had already leased office space, and were currently working with Cargolux, but would be flying its own aircraft next year. Mr. Potter said it was a good story. Silk Way would lease vacant space, would lease cargo space before it begins to fly, and would aggregate at Dulles International. It would be the first dedicated cargo plane into Dulles International. Mr. Treadaway concluded the cargo segment by pointing out that with cargo, far more interested parties were involved. As cargo increased, all businesses serving it would grow as well.

Reagan National was thriving; the focus was on Dulles International. There was a plan which the staff would be bringing to the Committee. Mr. Crawford applauded Mr. Treadaway and his team, including Ann Pina, whom he credited with important work at Addis Ababa. He hoped that some Directors would be able to attend the dinner at the Ethiopian Embassy. He asked if staff was still working on cargo activity to Europe and areas of the third world. Mr. Treadaway said Europe was difficult because there was so much belly capacity across the Atlantic. But the team was still working those markets as well.

Mr. Carter said it would make sense to develop a cargo hub at Dulles International, and that to do so it would be important for the staff to build relations with trucking firms. Mr. Treadaway agreed, noting that in addition to truckers there were freight forwarders, consolidators, and integrators like FedEx and UPS. There was a freighter incentive program under which the Authority would provide matching funds for a freighter that

could be used for trucking costs. Mr. Davis said there was some light manufacturing that could be combined. Mr. Treadaway said Amazon was a kind of consolidating shipping place that could work. Mr. Potter said that, in addition to the on-airport facilities, the roadway system was critical to freight; staff was working with Loudoun County on the local road system, particularly Route 606 and access to I-66 going west. Staff was actively engaged with Loudoun County and Commonwealth planners to make sure they considered the Airport. The Authority and Loudoun County had hosted a site selection event for firms that needed on-airport or near-airport locations. The site selectors had been stunned; they had no idea that the Dulles International opportunity existed.

Non-Aviation Revenue Development Opportunities – Steve Baker, Vice President for Business Administration, said he would explain what was going on at both Airports, as well as other airports with respect to non-aeronautical revenues. Aeronautical revenues for the most part recovered costs; non-aeronautical revenues brought new money to the table. That meant non-aeronautical revenues could be increased, which meant an increase to discretionary income, or net remaining revenues, that could be used to do things to attract passengers that otherwise could not be done. These revenues also contributed to coverage, thereby reducing the costs of debt, thus allowing a reduction in costs to the airlines. The revenues could also be used to make the airports more attractive to customers. It was important to remember that passengers, depending on where they lived, usually had the choice of several airports. Connecting passengers to international destinations often had several choices of where they could connect. Non-aeronautical revenues also provided a level of insulation against declines in the business.

Over the past 25 years, non-aeronautical revenues had become increasingly a more important part of the airport cost structure nationwide. In 1990, these revenues had been less than 15 percent of an airport's total revenue. Today, worldwide, the average was 45 to 50 percent. The Airports Authority had gone from about 47 percent in 2007 to 26 percent in 2012. Non-aeronautical revenues had in fact gone up; but airline costs and revenues had gone up much more because of the capital development.

Mr. Brown noted the entire cause had been the inclusion of the AeroTrain and International Arrivals Building in the rate base. Mr. Baker agreed.

Mr. Baker said that staff was looking to recompete the fee manager concession for retail and food and beverage. This would allow the concessions to be refreshed. Staff was aware that the current mix was stale, and when that was the case, customers just walked by. The new fee manager would allow for new concessions, with higher revenues.

Advertising had been rebid about two years before, and revenues at $12 million per year had already reached the level promised for 2018. Mr. Baker showed some photographs of advertising displays in the terminals and concepts of advertising in the AeroTrain. There was also a representation of a proposed floor advertisement, awaiting approval from the Virginia Historic Preservation Officer, that could generate $750,000 a year.

Mr. Davis observed that the Washington Metropolitan Area Transit Authority had gotten into some difficulties with politically troublesome advertisements. Mr. Baker said the Authority reserved the right to approve all advertising, and had not allowed any political advertising. Mr. Potter said there were advantages in this regard to using a contractor to deal with the advertisers. Mr. Cobey said he was astonished to hear that historic preservation approval was required inside the Dulles Terminal. Mr. Potter said he was as well. Mr. Crawford said it was the Nation's capital.

Mr. Martire said he had noticed in Europe that on entering an airport, information would appear on his smartphone that would help in way finding. It also contained advertising from the concessions, which was profitable to the airport as well. He asked if the staff had been considering such a service. Mr. Baker said the staff had already spoken to Google and other service providers. The staff focused on the items with greatest revenue potential and was busy with more profitable matters, such as advertising, retail, and food and beverage. Although the service did not provide as much revenue potential, it was still important to attract passengers. Mr. Potter said the constraint was the limited infrastructure available. In the coming year, it was hopeful that Reagan National would make the top 10 in a magazine evaluation of airport IT capability. It would then be possible to build on that platform. The service would be tested at Reagan National.

Ms. Hall asked if the Authority had ever tried a "Taste of USA" event at Dulles International. She had just taken a close look at Union Station stores and found them very busy and very attractive. She noticed there and in the Time-Warner building that nothing looked stale. Mr. Baker said Union Station had been going through what the Authority expected

to go through with a new fee manager. He said that the Airport concepts were ten to twelve years old. A comprehensive plan would be necessary to update them. He said he hoped Ms. Hall would be talking about the vibrant concessions at Dulles International in a few years. She said she had been talking about concessions at Detroit Airport, her home town, which were quite good.

Mr. Carter said he understood about $190 million was generated from food and retail concessions. He asked if a revenue goal had been set that could be used in a solicitation. The current solicitation was for the fee manager to provide management services; the generation of concepts would come later. The fee manager was selected for price. Once selected, it would then develop a solicitation for the service providers. Mr. Potter said there would be goals. The fee manager approach meant the more the revenues grew, the more the fee manager would benefit as well. Mr. Carter said the Board should have a clear idea how much revenue was expected. Mr. Baker said the effort was to increase the "spend per passenger" rate.

Ms. Hall asked who the advertising concessionaire was; Mr. Baker said it was JCDecaux, an advertising company. Mr. Session said he had represented the firm before he joined the Board, and he knew about its strategy. He was encouraged by its efforts, and suggested that the company should be brought into a committee meeting to explain its efforts.

Mr. Baker then turned to land development. The Authority controlled two office buildings at Dulles International. A third would come back in 2017. As the market has begun to rebound, a broker had been engaged to market them. Last year was the first that they had provided revenue. At Reagan National, a new parking control system had been installed, allowing passengers different ways to pay. There were hopes that more structured parking could be provided at Reagan National so that surface parking areas could be opened up to other uses, such as a gas station. At Dulles International, there was one gas and convenience station that generated $1.8 million per year. There were long lines, and it appeared that not only passengers, but limousines and cabs were using it. A competitive second station was warranted. Opportunity for a freestanding food service also existed; many Airport workers drove down Route 28 just to purchase sandwiches.

In 2011 the Board had concurred in a solicitation for a second hotel at Dulles International. The Request for Proposals was under review and

would be going out soon. As a second gas station would, a second hotel would provide competition to improve overall service levels. Staff hoped to encourage Marriott to upgrade its facility, which currently produced $1.4 million.

Mr. Carter asked if there was a possibility of paying for parking by cellphone. It was a new trend, and something the Authority should look into.

Western Lands – Mr. Potter said that Dulles International had a unique opportunity in that it had a large tract of land that was not committed to aviation uses on the Master Plan. It was all located to the west of runway 1L-19R. The site was ideal for businesses that needed access to a ramp, such as integrators and other cargo operations, just-in-time fulfillment centers and repair operations. He had learned about it from the site selection committee that had visited. They described what had happened in Louisville. Business had appeared all around the UPS Worldport because they could do fulfillment, repair or whatever and drive it through the fence and put it on an airplane. There were two parts to the land. Immediately adjacent to the runway was an Airport Support Zone. West of it was the Western Land Area, without the immediate access. Mr. Potter said that Philadelphia Airport was planning a new runway that would go through a large 200-acre UPS facility. UPS was not interested in the alternate site Philadelphia offered. Mr. Potter had called the CEO of UPS and discussed the land next to the runway without much traffic, 200 acres there, and another 400 in the Western Land Area. The CEO was interested. That firm, like FedEx and UPS, was looking at the long term. Space was difficult to come by, and UPS had sent its engineers down to look at the site. Mr. Potter could offer a long-term lease. Before the matter was reported at the day's Committee meeting, he had called the President of FedEx to advise him that the UPS matter would be discussed. FedEx was disturbed, and was now also considering a large facility at Dulles International.

An anchor tenant was necessary in order to support development of the roadways and other infrastructure. UPS or FedEx would draw other businesses. He offered an example: an aircraft parts fulfillment operation already functioning in Loudoun would do much better on the airfield, as much of its business was emergency parts. The Authority would be prepared to speak to anyone interested; the opportunities were outstanding.

Mr. Cobey asked if there was room for both UPS and FedEx; Mr. Potter said there was enough land for both of them, and for more. He said that the effort at present was not to change the Master Plan. There were plenty of businesses that would be interested in runway access.

Human Capital Initiatives for a Changing Business Model – Arl Williams, Vice President for Human Resources, said there were four goals for initiatives to support the changing business model. They were (1) stability through responsive programs and services, (2) enhanced employee communications, (3) motivation through performance management and (4) leadership development to assure the availability of critical management skills.

For the first goal, the challenge was to retain the skills the Authority workforce already had. Employees should have reason to stay and make the maximum contribution throughout their careers. The primary response was to initiate an annual survey of the workforce to provide feedback on services provided. One such survey had already shown that employees lacked confidence in the Employee Assistance Program, which had been in operation for twelve years. Staff had developed a new program under contract with Inova Health.

The second goal was enhanced communications. The employees should feel they understand and own the new business model. New communications tools were being introduced, and old ones refreshed. The employee newsletter, On Good Authority, was now online, which could be distributed instantly. All supervisors were assembled quarterly to spend a half day discussing strategies, programs and issues for the changing business model. They had also established an employee suggestion program, inviting employees to make suggestions to improve the economy or efficiency of operations, with awards of up to $500 for adopted suggestions. A blog, HR Connects, had also been introduced; there was already employee feedback.

The third goal was performance management. The existing Performance Management Partnership system had worked for 12 years, but had grown in complexity so that the benefit was outweighed by the burden of filling out the form. The program had lost its value as a motivational tool. The revamped program would now focus on what employees accomplished and how they behaved. The changes would be introduced immediately for all jobs not covered by collective bargaining.

The last goal was to assure the availability of critical management skills to continue operations. With the workforce average age of 42 years, the Authority could expect the normal attrition to have an impact on the availability of leadership skills. The response has been to develop a leadership management program. The first component was ongoing identification and assessment of skills required for mission-critical jobs. The second was developing and implementing proven methods of candidate assessment and development. The third was competency-based hiring for managerial and supervisory positions, including selection panels.

These were long-term objectives that would assure that employees would understand where the Authority was trying to go and how it would get there. With some luck, the employees would feel a part of this, and buy into the new business model, and understand that it connects to what they were doing.

Mr. Potter then said the presentation was finished, and that the team had tried to cover as many of the issues he had discussed with Mr. Crawford as possible. He looked forward to working on the next quarterly meeting.

Mr. Snelling said the report was initially very sobering, but at the finish he had felt very exhilarated. Many Boards he had belonged to did such a session every year. The Board in the past had acted more or less like the airport business would run itself. He thought there would be some real rewards for the effort. He added that he and some other Directors had pressed very hard to get those additional western lands when condemnation was under way for the western runway, and he was pleased it was turning out to be fruitful.

Mr. Crawford thanked Mr. Potter for the meeting, and said that Mr. Potter had proved himself a man of action. He also thanked all the presenters, and again commended Ann Pina.

Ms. Hall noted Mr. Crawford had asked for comments at the start, but she had some now. She would like to see a master plan of time for accomplishing all the goals.

Mr. Crawford said he had asked for a written strategic plan, which he believed would address Ms. Hall's concern.

Mr. Session complimented Mr. Potter and staff for the presentation.