FRASCA & ASSOCIATES, L.L.C. MERCATOR ADVISORS LLC

**JANUARY 2012**
**DULLES CORRIDOR ENTERPRISE**
**REPORT OF THE FINANCIAL ADVISORS**

The Airports Authority established the Dulles Corridor Enterprise Fund to segregate the financial activity associated with the operation, maintenance and improvement of the Dulles Toll Road and construction of the Dulles Corridor Metrorail Project (the Rail Project) from the financial operations of the Airports. This report provides an update on the status of capital financing activities and other issues related to the Enterprise Fund.

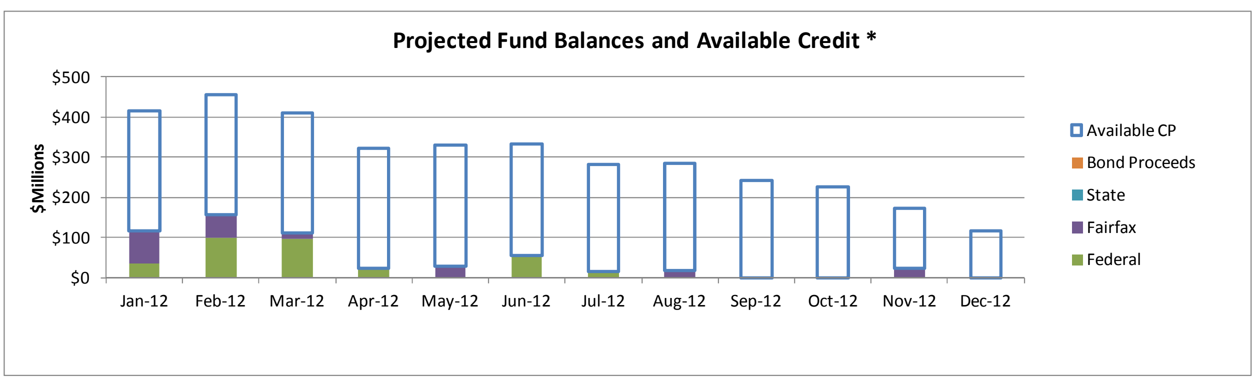
## Action Items

No Action Items to Report

## Informational Items

***2012 Plan of Finance and Preliminary Cash Flow Estimates.*** The Airports Authority's Dulles Corridor Enterprise Budget for 2012 includes approximately $813 million of expenditures for the Rail Project. As of December 31, 2011, the Airports Authority had $172 million of cash-on-hand for Rail Project expenditures and $299.5 million of additional available liquidity in the form of undrawn commercial paper (CP) capacity. The available cash and credit, together with expected receipts from Fairfax County and the federal government, are sufficient to fund the projected expenditures for 2012.

Finance Staff and the Financial Advisors are working with the Rail Project Office to update and refine cash flow projections that will help determine the optimal size and timing for potential bond issues. The table below shows the projected fund balances and cash / credit available for 2012. Based on these preliminary projections, it may be prudent to consider issuing additional debt in the fourth quarter of 2012. We are prepared to initiate a solicitation for underwriters (potentially including either a Request for Qualifications or a Request for Proposals) at the direction of the Committee.




*This forecast is based on preliminary estimates and assumptions; it will be revised as the data are refined.*

The 2012 Budget also includes $45.7 million for capital improvements related to the Dulles Toll Road (DTR) and $6.19 million for DTR renewal and replacement (R&R) projects. Bond proceeds and other funds currently available in the Capital Improvement Program (CIP) Fund and the R&R Fund are sufficient to cover those budgeted expenditures.

- ***S&P Credit Ratings Affirmed with Stable Outlook.*** On January 4, Standard & Poor's Ratings Services affirmed its 'A' long-term rating on the First Senior Lien Dulles Toll Road Revenue Bonds, its 'BBB+' long-term rating on the Second Senior Lien Bonds, and 'BBB' long-term rating on the outstanding Subordinate Lien Bonds. The outlook on all ratings is stable.

  In its press release, S&P said the stable outlook reflects "our assessment of demonstrated demand for the DTR and the favorable demographics that support the increased tolling of the road." The outlook also reflects an assumption that the capital plan for Phase 2 will be supported by the revenue forecasts and financial plans.

- ***Dulles Toll Road Traffic and Revenue Study Update.*** Wilbur Smith Associates (WSA) is completing its quality control review of the traffic model and preparing a report on the preliminary results of the updated comprehensive traffic and toll revenue study. The updated traffic study incorporates the latest Metropolitan Washington Council of Governments (MWCOG) travel demand model (adopted November 2011), new socio-economic projections, and assumptions for the most recently approved future transportation improvements including the impacts of the various HOT lanes projects and Metrorail expansion.

  Finance Staff and the Financial Advisors will review the WSA work when it is completed and prepare an initial analysis of the potential impacts of the results on the finance plan for the Rail Project.

- ***Toll Rate Increases on the Dulles Toll Road and Other Facilities in the Region.*** On January 1, 2012, the toll rate at the Main Toll Plaza on the <u>Dulles Toll Road</u> was increased by 25 cents to $1.50 (for two-axle vehicles). Toll rates at the ramps were not changed and remain at 75 cents. The Board approved the 2012 toll rate increase in November 2009 as part of the funding plan for the Toll Road and the Rail Project.

  Toll rates on the <u>Dulles Greenway</u> were also increased on January 1, 2012. The maximum base toll for automobiles increased 30 cents to $4.00. The Congestion Management Toll (applicable only to weekday traffic in the peak period and direction) increased from $4.50 to $4.80.

  Toll collection resumed on the <u>Maryland Intercounty Connector</u> on December 5, 2011. According to press reports, daily traffic averaged approximately 21,000 vehicles after the tolls were instituted, which is slightly more than expected. For a full length trip (approximately 16 miles), drivers of cars and light trucks with E-ZPass pay $4.00 during peak hours, $3.20 during off-peak, and $1.60 overnight. Notices are sent to the registered owners of the vehicles that do not have valid E-ZPass accounts.

**Comparison of Toll Rates in Metropolitan Washington**

| | | Toll for Full Length Trip | Length (miles) | Toll per Mile |
|---|---|---|---|---|
| Dulles Toll Road | | $2.25 | 13.4 | $0.17 |
| Dulles Greenway [1] | *Peak Hours* | $4.80 | 14 | $0.34 |
| | *Off-Peak* | $4.00 | 14 | $0.29 |
| Maryland InterCounty Connector | *Peak Hours* | $4.00 | 16 | $0.25 |
| | *Off-Peak* | $3.20 | 16 | $0.20 |
| I-495 Capital Beltway HOT Lanes [2] | | $5.50 | 14 | $0.39 |

[1] Toll rates do not include 75 cents collected on behalf of the Airports Authority for access to the Dulles Toll Road.

[2] Scheduled to open in December 2012. Project sponsors expect cost of average trip to be between $5.00 and $6.00. Toll rates will range from $0.20 per mile in off-peak to $1.00 in peak period on high demand sections.

- ***Transportation Infrastructure Finance and Innovation Act (TIFIA) Program.*** The Airports Authority submitted a TIFIA Letter of Interest (LOI) for the fiscal year 2012 funding cycle on December 30, 2011. The U.S. Department of Transportation (USDOT) will review the LOI to confirm the project's eligibility and readiness to apply for credit assistance. Last year, the review process took approximately four months and USDOT invited eight of the thirty-four project sponsors that submitted an FY2011 LOI to apply for a TIFIA loan.

- ***Interstate 95 High Occupancy Vehicle/High Occupancy Toll (HOV/HOT) Lanes Project Advances.*** On December 6, 2011, Governor McDonnell announced that the Virginia Department of Transportation (VDOT) and Fluor-Transurban had come to an in-principle agreement on the major commercial terms to build the I-95 HOV/HOT Lanes Project in Northern Virginia. The project is being financed and constructed under Virginia's Public-Private Transportation Act with $843 million expected to be financed by Fluor-Transurban, with financial close targeted to occur in mid 2012. The state contribution for advance construction activities is $97 million. In addition, the Commonwealth will provide $200M for transit and parking improvements associated with the project. Sources of the state funding have not been identified publically.

  On December 15, 2011, Senators Jim Webb and Mark R. Warner of Virginia announced that $20 million had been awarded to the I-95 HOV/HOT Lanes project under the USDOT's competitive Transportation Investment Generating Economic Recovery (TIGER) program. TIGER grants were awarded to 46 projects in 36 states in a competitive process that drew 828 applications. The I-95 HOV/HOT Lanes Project was the only project in Virginia to receive TIGER funding. No projects in Maryland or the District of Columbia received grants. Virginia Transportation Secretary Sean T. Connaughton told reporters that the state will use the TIGER grant to support a TIFIA loan of $150 million to $200 million.

- ***All-Electronic Tolling Feasibility Study.*** In January 2011, the Pennsylvania Turnpike Commission (PTC) initiated a feasibility study to explore how converting to a cashless, all-electronic tolling (AET) system would impact its customers and operations. The study team (McCormick Taylor and Wilbur Smith Associates) released a progress report in December 2011 that describes the benefits and challenges associated with implementation of an AET system, customer feedback from focus-group meetings, preliminary cost estimates, and an initial revenue impacts evaluation. The report concludes that, based on the assumptions and data collected to date, conversion to AET on the Pennsylvania Turnpike is feasible from both a financial and physical perspective.

  The final feasibility report, scheduled for completion in early 2012, will provide recommendations on the specific type of toll-collection system that will best serve PTC customers and operations. It will include a schedule, plan and estimated costs to design, construct and operate an AET system. The report notes that even with the most aggressive implementation schedule, the conversion would take several years to design and complete.

## Recent Transactions

A number of tax exempt transportation credits were priced in December prior to the holidays. All were in the AA rating category. A few of note include North Carolina GARVEEs (2.10 percent yield in 2023), Michigan State Trunk Line (4.05 percent in 2036), Oklahoma Turnpike (3.94 percent in 2031) and Connecticut Special Tax (4.00 percent in 2031).