SUMMARY MINUTES
AUDIT - LEGAL COMMITTEE
MEETING OF JANUARY 4, 2012

Ms. Hall chaired the Audit Committee on Wednesday, January 4, 2012. As is customary, the entire meeting was held in executive session. Valerie Holt, the Vice President for Audit, presented the Calendar Year 2012 Risk Assessment and Audit Plan. Ms. Holt also presented and discussed several reports on construction activities for both the Aviation and Dulles Corridor Enterprises.

SUMMARY MINUTES
BUSINESS ADMINISTRATION COMMITTEE
MEETING OF JANUARY 18, 2012

Mr. Session chaired the Business Administration Committee Meeting on January 18, 2012.

He announced that the following Members of the Committee were present, in addition to himself: Mr. Conner, Ms. Hall, Mr. Snelling, and Mr. Davis. He announced that a quorum was present.

Pre-Solicitation Paper for Lease of a Vacant Rental Car Facility at Dulles International

Chris Browne, Vice President and Dulles Airport Manager, reported that the staff was recommending terms and criteria of an Invitation for Bids for the vacant seventh rental car concession area. The other six rental car concession contracts would expire June 30, 2013; a solicitation for all of them would be issued late in 2012. The seventh area, 170,000 square feet, had been unoccupied since the last contract had begun because two vendors had cobranded on a single space. There were now other firms and cobranded interests that would be interested in the vacant area. The award would be for a six-year term, so that it would terminate with the other six areas. The annual value would be about $750,000; the terms would replicate the current contracts on the other firms. The final award would come back to the Committee. The Committee unanimously concurred in the terms.

Recommendation to Award an Airside Snow Removal and Ice Control Services Contract at Dulles International

Mr. Browne said the staff was recommending a contract award to Atlantic Contracting, Inc., of Upper Marlboro. The contract was for snow removal on the ramps, not the runways or taxiways. The area covered 7 million square feet of ramp and gate area, and the company would be on call at all times. Four bids had been received; the proposals were evaluated with a blend of technical and price scores. Atlantic would have the contract for five years and would be paid $12 million. The firm was a 100 percent Local Disadvantaged Business Enterprise (LDBE). It had done work on the Airport before.

Ms. Hall asked what the payment was based on. Mr. Browne said it was for 15 inches of snow per year. If there was more, the Airports Authority would pay more. In light years, the Airports Authority did better.

Mr. Session asked about new snow melting techniques. Mr. Browne said the contract required the use of the new generation of snow melters. The contract would be awarded after Board approval, but would not take effect until November, giving the firm until then to acquire custom-made new equipment. The Committee then voted unanimously to recommend the contract award to the Board.

Recommendation to Award Two Contracts to Purchase Multi-Function Snow Removal Equipment for Dulles International

Mr. Browne reported that Dulles International had a robust employee-run snow removal operation on runways, taxiways and some roadways. Staff was recommending the award of a contract for high-speed multi-function equipment, a growing technology used at many airports. The need for more productive snow removal arose after a new runway opened; the snow teams, made up of employees throughout the organization, were not growing, while the area they covered was. A study done by Landrum and Brown had identified the steps to take. Some new snow plows had already been acquired. The current procurement was for two purchases, one for 17 tow-behind snow brooms and the other for 9 high-speed 4x4 plow trucks. This acquisition would allow Dulles International to comply with the Federal Aviation Administration 30-minute rule. "High speed" meant 40 miles per hour, as opposed to 15; the snow brooms allowed one driver to do two functions, so the job could be done with fewer employees.

The Committee then unanimously agreed to recommend the Board approve the two contracts.

Recommendation to Award a Contract for Taxicab Dispatch at Reagan National

Paul Malandrino, Vice President and Reagan National Airport Manager, reported the staff was recommending the award of the taxicab dispatch contract to Technical and Professional Services, Inc., of New Windsor, Maryland, the incumbent. The Committee had heard a pre-solicitation report in September 2011. The contract was for a three-year base period with two one-year extension options. The DBE goal had been 20 percent, but the prevailing firm was 100 percent DBE. The firm would receive a management fee of $96,000 in the first year, for a maximum of $509,675 over the five years. Over those five years, the Airports Authority would be paying $153,990 less than under the current contract, which expired February 29.

Mr. Session asked if there had been any problems. Mr. Malandrino said there had not been. The firm had been dispatching at Reagan National since March 2002 and at Dulles International since February 2007. There had not been any complaints from drivers in 2011, and there had been over 2000 compliments from passengers. Mr. Session asked how passengers could complain. Mr. Malandrino said they could send a card, or file a complaint on the Airports Authority website, which would go to the contracting officer. Mr. Session asked what they had done to improve passenger flow. Mr. Malandrino explained how they had solved the credit card problem two years ago.

The Committee then unanimously agreed to recommend approval of the proposed contract to the Board.

Recommendation for Airport Shuttle Bus Procurement at both Airports

Mr. Malandrino said the staff was undertaking a multi-year upgrade of shuttle bus fleets at both Airports. The Dulles International fleet consisted of 43 diesel buses, with an average age of nine years, and fourteen years at the oldest. At Reagan National, there were 20 diesel buses and 6 compressed natural gas (CNG) buses, with an average age of ten and a half years, and fifteen years at the oldest. After considerable analysis of alternatives, the staff had concluded that clean diesel would be best, given the substantial infrastructure projects required at both Airports to allow for other types of propulsion. In 2012, the plan was to acquire seven buses for Reagan National and twelve for Dulles International. The best purchase option was the Metropolitan Washington Council of Governments purchasing agreement with New Flyer of America, Inc., with delivery in December. The contract had been awarded by Fairfax County after a competitive selection process. Purchase through such a pooled contract was authorized in the Airports Authority's Contracting Manual. The cost for the first set of buses would be $8.5 million, or $425,000 for each bus, a savings of approximately $27,000 per bus. The staff recommended Board approval.

Mr. Davis said he had an acquaintance who was donating a number of buses to various jurisdictions. He could inquire whether some might be available to the Airports, if they were interested.

Ms. Hall asked the cost of other alternative buses. Mr. Malandrino said CNG buses cost about $475,000, hybrid buses over $500,000, and electric buses even more. The main issue was the cost and timing of facility modifications necessary for the alternatives. The current CNG fueling station at Reagan National could not handle more than five buses. Mr. Browne said Dulles International was considering sites for a CNG station, but that it was not practicable to wait two or three years for the construction of a major CNG facility.

Mr. Snelling said that airports were using propane buses all over the country. He said that he did not have any financial interest in propane, though he did have an emotional interest. These did not require elaborate charging stations and were both safe and green. He asked if the staff had considered them. Mr. Browne said he was not familiar with them. Mr. Snelling said he was surprised, and urged the airport managers to look at them. Mr. Malandrino said he was aware of the technology, but did not know of a propane bus manufacturer that made 40-foot buses. Mr. Snelling said he would send them some information.

The Committee then unanimously agreed to recommend the Board approve the purchase.

Mr. Session then suggested that the proposed Contracting Manual Changes to Support Phase 2 Design-Build Procurement be deferred to a special meeting on February 15, before the February Board Meeting. The committee agreed.

Pre-Solicitation Terms for the Airport Telecommunications Contract

Margaret McKeough explained that the Airports Authority operated a telecommunications system that served both Airports Authority offices and tenants. The system was supported by a telecommunications contractor, currently Verizon Federal, Inc., under a contract expiring in May 2012. The plan was to begin a solicitation for award of a restructured contract. The current contract was about 60 percent of the cost of operating the system at the Airports. Currently it was a fixed-cost contract, with little ability to affect staffing levels. The new contract would include a 30 percent LDBE requirement. The first term would be 14 months, to allow for a transition, if necessary, followed by four one-year options. The contract was for labor only; there was no equipment required. The Committee concurred in the report.

SUMMARY MINUTES
DULLES CORRIDOR COMMITTEE
MEETING OF JANUARY 18, 2012

Mr. Davis chaired the January 18, 2012 Dulles Corridor Committee Meeting.

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 November 2011 had been $51 million, bringing the total to $1.636 billion for the year to date. The estimated completion cost was still the budgeted $2.755 billion. Some mitigation efforts would be required to achieve that; some now appeared more difficult than previously expected.

In November 2011, $1.6 million of contingency had been used, spent on three items: a design change in storm drains, guideway retaining wall access, and bonding and testing of piers. Of the original $260 million in contingency, $52.5 million remained. The completion was still August 2013. Some contractor reports had indicated a later date; they had since been corrected. Rail service would begin by the end of the year.

Mr. Davis asked whether, if the project was turned over in August 2013, it was clear the Washington Metropolitan Area Transit Authority (WMATA) could do enough testing to begin operations by December. Mr. Potter said he would bring up the question at the next partners' meeting

November 2011 Financial Report – Dulles Corridor Enterprise. Andy Rountree, Vice President and Chief Financial Officer, reported November 2011 Toll Road revenues had reached $87.1 million, year-to-date, up 7.3 percent from 2010. The increase was principally from the January toll increase. At 97.1 percent through the year, revenues were at 89 percent of budget, trailing by 2.9 percent. Mr. Davis asked if the construction had caused the shortfall. Mr. Rountree said construction had been one factor, in addition to the slow economy. The shortfall would be addressed by the Wilbur Smith traffic and revenue study. Expenses were at $22.7 million year-to-date, down 5.7 percent. They were at 81.6 percent of budget. For the year-to-date, there had been 93.3 million transactions, down 3.3 percent. Electronic toll collection was used by 74 percent of the customers, up 3.3 percent. This high usage might enable open road tolling.

Mr. Davis asked for an explanation of open road tolling. Mr. Rountree said it was toll collection without stopping, allowing motorists to maintain speed. It eliminated the toll booths. Reading would be by electronic collections, such as E-Z Pass, or by bill, taken from a photograph of license plates. Mr. Potter noted that the Intercounty Connector, a toll road recently opened in Maryland, had no toll booths. Those without an E-Z Pass were billed at a premium rate, based on a license plate reading.

Mr. Rountree said there were 866 days cash on hand in November 2011, necessary for work on the road.

Recommendation to Revise the Dulles Toll Road Highway Traffic Noise Policy. Frank Holly, Vice President for Engineering, said that in February 2011 the Board had approved the original Toll Road noise policy, with the understanding that it would be subject to amendment after review by the Federal Highway Administration and possible changes in the Virginia Department of Transportation policy. Both had occurred, and amendments had been prepared to comply with the federal and state directions. Mr. Davis asked if the amendments would cost the Airports Authority more or less. Mr. Holly said the staff had not accepted all changes.

Steve Smith, Deputy Vice President for Engineering, explained the amendments in detail. They had been fully documented in the papers prepared for the day's Committee meeting.

Metrorail Project Phase 2 Value Engineering Update. Mr. Potter said that the value engineering report had been discussed with representatives of the partners on the project. Airports Authority representatives had gone through the items in great detail and had reached agreement on them.

Mr. Nowakowski explained that staff had brought in a consultant to brainstorm on value engineering adjustments to the project, to provide an independent look. The consultant had seen current engineering documents, now at 97 percent, but had not addressed the Memorandum of Agreement (MOA) items that had already been taken out of the project. There had been 32 recommendations, three of which the partners had accepted unanimously to include in the project. Of the three, two had already been agreed to in the MOA: privatizing the garages and reducing the station canopies. The third was to shorten the track at the end of the line for train storage. Seven of the recommended changes would require engineering analysis. They addressed such matters as design and specification recommendations, and deviations from structural standards. They were all reasonable on their faces, but needed further analysis. The other 22 recommendations were not accepted. They were for major alignment changes, major redesign, and major environmental programs. Some had been proposed for Phase 1, and were rejected again.

The value engineering contract had cost $130,000; the savings for the accepted changes (the tail track) were $5.2 million, and the 7 subject to further review could save as much as $48 million.

Phase 2 had been at $3.2 billion; after the MOA savings, it stood at $2.86 billion.

Mr. Brown said he would like to discuss an idea about the Dulles station. He had discussed it with Messrs. Holly and Nowakowski over the past few months, as well as a few Directors. He noted that the Memorandum of Agreement provided that all should continue to work at cost savings. Recently there had been some discussion of a renewed interest in bus rapid transit. He believed his idea should also be given some consideration.

The best transportation alternative for the Airport would provide direct access to the terminal; the Board had given it up for good reason. Directors had learned from political process that there were really two projects in the Dulles Corridor: the Airports Authority has long thought the project was rail to Dulles; others think it's an economic development project. Mr. Brown said he was therefore suggesting two projects, the first rail to Dulles, built and owned by the Airports Authority, the other an economic development project for everybody else, still managed by the Airports Authority.

Mr. Brown's proposal would eliminate the rail station and loop route at the Airport, and run the Metrorail line direct down the Toll Road and Greenway to the Loudoun stations. Route 28 would become the airport station; the Airports Authority's people mover would run from the Route 28 station to the terminal. From preliminary discussions last fall, it appeared the people mover could be built on the same timetable as the Phase 2 project.

This approach would provide superior transportation service. Passengers would change trains at Route 28 instead of changing modes at the North

Garage station. The Route 28 station would be put back into the project, which would save Fairfax County the cost of developing it. Fairfax County could then request that its Route 28 Transportation Infrastructure Finance and Innovation Act (TIFIA) allocation be transferred to the Airports Authority. Operating costs of the people mover would be a problem, but could be paid in large part by the residual toll revenues left after all Toll Road obligations were met.

The cost savings of the new Metrorail alignment would be $50 to $100 million greater than the $240 million Airports Authority share of the project. Thus the Airports Authority's 4.1 percent share could be withdrawn and used to build the people mover, still reducing the burden of costs on the partners and the Toll Road. In addition, Loudoun County users would enjoy a substantial time savings without the slow transit of the Airports Authority loop.

Mr. Davis asked where the station would be compared to the rail station at Thurgood Marshall Baltimore/Washington International (BWI). Mr. Brown said he did not know. Mr. Potter said that Mr. Brown's proposed rail line would run adjacent to the Saarinen terminal.

Mr. Brown then showed the locations involved in his proposal on a large aerial photograph. He noted that there would someday be a southern terminal at Dulles International; the Metrorail line would never reach it, as its basic route ran east-west. The people mover, however, could be extended south to reach a southern terminal; the passengers would not have to get off at the Saarinen Terminal.

Mr. Brown said the big advantage would be that the Airports Authority would have full control over service at the Airport. With the Metrorail project as it currently was, the Airports Authority had to serve many masters, which was fair because it was part of the Metro project.

Ms. Reiley said Mr. Brown's proposal was a creative idea, but it did not provide rail to Dulles International. It was not satisfactory, even though it would go all the way to the terminal. The Board needed to remember that the rail line would serve the entire region. Transit users from Arlington and Alexandria would not agree with this approach. It might have worked 15 years ago, but it was not what the Airports Authority had labored for.

Mr. Potter said similar proposals had been discussed with the partners, WMATA, the two Counties and the Commonwealth. There had been multiple suggestions in the value engineering package along lines of Mr. Brown's proposal. Mr. Potter had particularly liked one option for the Airports Authority to build its own rail, with five stops on the airport property, serving the rental car area and the remote parking lots. That option would cost $100 million more than the current plan. The partners were concerned about transfer at the Route 28 station, the footprint of the people mover there. They also were concerned about what would happen to the Record of Decision for the current project; changing it could cause up to a year of delay. He said there had been a good dialogue, but particularly given the fear of delay, the consensus was against the proposal, without the Airports Authority representatives voting.

Mr. Davis agreed; the people mover alternatives had been considered as part of the proposed value engineering savings. $100 million was the top savings identified, for a bus alternative. Several options had been considered, including different monorail alternatives through the Airport.

Mr. Potter said there had been many different opinions, and that the alternatives would require considerable engineering work, a new Record of Decision, and delays. There were also concerns about the transfer.

Mr. Snelling said that Mr. Brown had brought the proposal to him several months before. He had asked staff to look at it. He though the proposal would bring many financial risks to the Airports Authority, without major benefits to the passengers. He could not recommend it.

Mr. Brown said he was not seeking a vote at this meeting. He just wanted the staff to do the same analysis they had done in the value engineering process and look at this particular project to see what the numbers would be. He noted that the value engineering had come up with $100 million in savings; he could not imagine this kind of change to the project would cause a serious problem with environmental analysis or the Record of Decision. The people mover would all be on federal property. The Airports Authority shouldn't let a few months delay raise concern; this was a long-term project. Changing at Route 28 was easier than going down two levels to walk a quarter mile to the Terminal. All that was needed was a bit more information to persuade the skeptics. The MOA had urged the parties to leave no stone unturned in looking for further savings. This proposal could save $50 to $100 million and should at least be considered.

Mr. Nowakowski said the value engineer had come up with a long loop people mover, which had increased the cost $70 million. A short loop direct to the Terminal, which did not serve the economy parking lot or the rental car area, would save $70 million. The third on-airport option, a recommendation to build a bus rapid transit route from the station to the Airport would save $5 million; the fourth, just run a shuttle bus service on existing roadways, would save $100 million.

Mr. Potter said the proposals raised serious questions of how many people would use it, given the transfer. The people mover might be underutilized. There had not been an extensive study or analysis, but there was no excitement about the opportunity. He did not want to make too much of the review; there had been 39 items to consider, and all had offered their best judgments.

Mr. Brown said he understood Mr. Nowakowski's estimate to suggest that his proposal would save $70 million. Part of the acceptability of the proposal would depend on how it was marketed. BWI had its own name on the Amtrak-MARC rail station, which wasn't near the airport. There would be problems at the North Garage station too; passengers would not like the walk, and there may be ridership issues there as well

Mr. Potter noted that bus service would be provided from the North Garage station.

Mr. Davis asked whether it would be more attractive to end the Metrorail line at the Airport than build Mr. Brown's people mover if Loudoun County dropped out of the project.

Mr. Potter said he would not like to speculate. All he said was on what had been offered to the partners, and how it had been received.

Mr. Brown said he was only asking for additional analysis on the proposal, and that it be brought back to the working group which he did not believe had understood the structure of his proposal. He would be willing to speak to the group to make sure they fully understood it. They needed to understand how the entire line and its windings through the Airport drop out of the project. The airport station has always been the most expensive station in Phase 2 by far. The Airports Authority had saved $300 million in project costs by abandoning the tunnel station, but the aerial station was still by far most expensive in the project. It would be built up on trestles, with expensive steelwork, and a station in the air. The new proposal was entirely at grade, and was the least expensive; it would take out the most expensive station, which ultimately would not be a good transportation solution.

Mr. O'Reilly said the proposal was not a good idea, and that staff should not waste time working on it. It would have made sense 10 years ago, but not currently. It was too late to talk about moving and changing stations.

Mr. Snelling said he used the tunnel from the North Garage about once a month and did not find it objectionable; it included elevators and moving walkways. The walk was perfectly ordinary compared to airports elsewhere in the world, most notably Paris.

Mr. Brown observed that the Airports Authority was looking at value engineering options that could provide $5 million in savings, and doing engineering analysis on items that could produce at most $52 million more. His proposal could save a great deal more, but it appeared the Board did not want staff to address it. He said he was also interested in looking at it with the partners; he was convinced they did not understand it fully.

Mr. Snelling said that the staff had been looking at it for three months. Mr. Curto asked what level of scrutiny the value engineering consultant had given the proposal. They must have had some information to come up with a $70 million savings. Mr. Nowakowski said they had seen the cost estimates, and considered how much track would be removed. The costs of such items were known. They also had estimates for the cost of people mover systems. Mr. Curto also asked if they had estimated the costs of operation in the future. Mr. Nowakowski said they had not.

Mr. Potter said they had assumed whatever was built on the Airport would be part of the project. Mr. Brown's financial proposal had not been laid out before the partners. They had considered radical alternatives, such as one Loudoun station instead of two. They had considered all kinds of alternatives; nothing was dismissed out of hand.

Ms. Reiley asked if the proposal would affect the Fairfax special tax districts. Mr. Potter said that if the station was built in the County, it would not affect the tax district.

Mr. Davis said he had the sense the Board was content where it was.

Mr. Session said Mr. O'Reilly had raised the issue of staff burden. He wanted to weigh the benefits of additional staff time against the potential of a creative and thoughtful money savings proposal.

Mr. Potter said that, as Mr. Snelling had mentioned, the proposal had been around about three month, and staff work had been done and shared with Mr. Brown and Mr. Snelling. He said the first concern was whether the Board wanted a station at airport; if that was the priority, then the Airports Authority would plan other rail projects out from that station.

But past discussions had not addressed the financial consequences of canceling the Airport station and line. Would the project bear the cost of the on-airport proposal, or would the Authority drop its contribution and build the project itself? The assumption had been that the project would pay the cost.

Mr. Brown agreed that the work necessary to elevate the proposal had been done. He simply wanted not a lot of staff time, but that the idea be taken back to the partners with the financial structure he had proposed, where the people mover was an Airports Authority responsibility, but it would be relieved of its current 4.1 percent share.

Mr. Potter said this would mean an additional cost to the Airports Authority, and that the aviation partners would need to consider it.

Mr. Martire said Mr. Brown should present his idea to the partners.

Mr. Davis asked if there were any objection to Mr. Brown talking to the partners. Mr. Martire said that would be a good idea. Mr. Davis asked whether, if Loudoun pulled out of the project, there would be a major problem with thousands of Loudoun people coming to the Airport to take the train.

Mr. Potter said they would be welcome to park at Airport rates; there were thousands of parking spaces available and room to build more. He said he would work out a presentation with Mr. Brown.

Pre-Solicitation Report for the Dulles Corridor Metrorail Project Phase 2. Mr. Nowakowski described the scope and nature of the main proposed solicitation package for Phase 2. It would be a two-step process. First, in a Request for Qualifications (RFQ) potential firms would be asked to present their qualifications for evaluation. The qualifications would be scored, and the evaluation would result in a ranking of the firms. Up to five firms on the resulting shortlist would be asked to provide technical proposals. The technical proposals would be evaluated on a pass-fail basis. Next the firms that pass would be asked to provide a price, and the lowest price offeror would be awarded the contract. Other firms that passed would be given a stipend of about $1.5 million.

Mr. Nowakowski then described the schedule. Committee concurrence would be obtained that day; the Contracting Manual would have to be amended in February. Then the RFQ would be issued. The shortlisted teams would be selected by May. The RFP would be issued promptly to the shortlisted teams, with technical proposals due in September. The staff would work from September to December getting the technical proposals to an acceptable level. Then they would be asked for price proposals, due in December. The contract would be awarded in January 2013.

Mr. Nowakowski then summarized the evaluation criteria for the RFQ stage. In descending order of importance, they were performance history, the management plan, qualifications of key personnel, description of project challenges and a safety plan.

In addition to the evaluation factors, there were also minimum requirements for a submission. They must show bonding capacity. A project labor agreement was not a scored item, but a requirement. A DBE goal was yet to be established, as there were questions for the Federal Transit Administration (FTA) on how it would be determined under TIFIA. In any event, it would not be a scored item, but a requirement.

The necessary Contracting Manual amendments would address several items. The Manual required 100 percent bonds; bonds of that size were not available on the market today for a project so large. The staff had arranged a maximum probable loss study by Wells Fargo, the Airports Authority's insurance provider. The firm had recommended 35-50 percent of the value of the contract, or a $500-750 million bond on this project. Another issue was the others use of stipends, which would have to be authorized. The evaluation process for the RFQ ranking was also new. There were also amendments to the protest procedures. All would be on the Business Administration Committee agenda.

Mr. Nowakowski asked for authorization to move ahead with the process.

Mr. Session said he had many questions. It was an important matter; staff was asking for a go-ahead to write a solicitation. If was important to understand that the project labor agreement was a factor to be considered. He thought it should be weighted, as should the Disadvantaged (DBE) requirement. Both should be evaluated to determine who was better at dealing with those issues. The best practices at other airports assigned weight to companies that will perform well, or have performed under a project labor agreement or with DBE experience. Point assignments for these items can determine the result among similarly qualified firms. He wanted to conduct more due diligence so the Board could hear about best practices elsewhere. He was not ready to approve the procurement approach yet.

Mr. Nowakowski said the project labor agreement was to be negotiated by the Airports Authority and handed to all teams. Each bidder would not have its own project labor agreement. Mr. Davis said the project labor agreement would be unique; it was very unusual for such an agreement to respect right-to-work laws. Best practices in this area were not relevant. Mr. Session said the staff will be making a subjective determination on the issue; part of the ranking should be how a firm had dealt with a project labor agreement. Mr. Davis asked if a bidder should get punished if it had never been party to a project labor agreement before. Mr. Session said it should, just as a firm would be disadvantaged if it had not had any airport experience before. Mr. Davis said the point was important and politically charged; it was not fair in a right-to-work state to punish those that didn't have the project labor agreement experience.

Mr. Snelling said he had long promoted this particular project labor agreement, which had been skillfully woven into the MOA. The Board should be thoughtful about how the Authority pursued it so as not to be perceived as aggressive or unfriendly. It should not go out of its way to antagonize people it needed to work with.

Mr. Curto said he understood that the RFQ provided that bidders must agree to comply with the language that Mr. Potter had negotiated with the Commonwealth and had been agreed upon for Phase 2. The matter was not controversial. Mr. Sunderland said that the bidders would be informed in part A, mandatory components, that there will be a project labor agreement that the prevailing firm would have to participate in. Mr. Curto said the Airports Authority had gone to great measures with the Commonwealth, agreed to language unique to the circumstances of Phase 2, that would comply with Virginia law. Mr. Sunderland said the project labor agreement would be modeled on the Phase 1 agreement, which had been Virginia-specific. The Phase 2 project labor agreement would have even more agreed-upon principles included. Mr. Curto said the Board had agreed to that specific language.

Mr. Brown asked in what respect the Phase 2 project labor agreement would go beyond the Phase 1 agreement. Mr. Sunderland said only that it stated principles that the agreement would comply with Virginia law, and specifically with the right-to-work law. Mr. Brown said everything the Airports Authority did complied with Virginia law. Mr. Sunderland said there had been a concern that the project labor agreement would not. There was an understanding that the Phase 1 project labor agreement was compliant with Virginia law as well, and should therefore be a fine model for Phase 2.

Mr. Brown said that he had had an e-mail exchange with Mr. Sunderland about when the project labor agreement itself would be available to the bidders. He understood that it would be at the RFP stage, so that the shortlisted firms could take it into account when working their pricing. Mr. Sunderland agreed.

Mr. Session asked whether the solicitation language and the ultimate contract language would have the project labor agreement imbedded in it. Mr. Sunderland said the signed contract would include a commitment to Attachment 19, which would be the project labor agreement. Mr. Sunderland then turned to the DBE issue. He said it was a subfactor in the performance history and management plan factors. It was thus evaluated in two different aspects: past performance, and commitment to the future.

Mr. Davis said the Virginia concern was for best value and lowest cost, not employment policy. The more the procurement was loaded up with benefits for one group or another would increase the costs. The Board should focus on best value, keeping the costs down. Of course the contract would comply with federal law, and that no one was cheating. He suggested that there was a philosophical difference with other Directors.

Mr. Session agreed that there was a difference. Mr. Davis asked if he meant best value shouldn't drive the project. Mr. Session said it should, but that DBE does not compromise best value. He had seen many projects where this had been so, and moreover it was national policy determined by the contract. Nothing said the Airports Authority should follow a minimalist approach.

Mr. Martire said he thought it would be better to have DBE as a separate criterion. He asked if that could be done.

Mr. Nowakowski said it could be done, but DBE was already a key subfactor under two principal criteria.

Mr. Session it had been done before at other airports. He asked to defer a decision on the solicitation until the February meeting so he could bring in people who had used DBE as a principal criterion, as opposed to a minimalist approach. He mentioned Atlanta as an airport that had gone beyond what was proposed for Phase 2.

Mr. Davis asked if deferring a decision to February would delay the procurement.

Margaret McKeough said the staff was developing the documents to publish the RFQ in February. Mr. Potter said if all could agree that February 15 was a decision meeting, there would not be a problem. If the discussion were ongoing, however, there would be major problems.

Mr. Session said the committee had been asked to make a decision on something it had just received. There was supposed to be deliberation, and the Committee should deliberate. If it wouldn't delay the project, the Committee should not make a decision on the spot.

Mr. Curto suggested that the Committee move forward with the framework as proposed, except for the DBE element. Mr. Session could work with the procurement team to reach a consensus on DBE components. Mr. Davis volunteered to work on the issue as well. Mr. Curto said it appeared the documents had not given Mr. Session enough time to get into the issue in depth. Mr. Session agreed.

Mr. Davis said he understood Mr. Session's sensitivity. His sensitivity was to getting the best value, not inadvertently driving up costs, and not driving out competitors.

Mr. Session said he understood. But the devil was in the details. He had seen many subcontracting plans that looked good on paper, but were empty in content. It was important to have a robust subcontractor program, and it was possible to bring in right minds and right skillsets to have the best program possible.

Mr. Davis said the Airports Authority was meeting and exceeding all DBE requirements on Phase 1 without robust requirements. He did not want to slow the project down.

Mr. Conner said that when Mr. Session spoke of "robust" he meant qualitative matters, as the quantities had been set by the federal government. Mr. Session disagreed; the federal program was a methodology, based on many considerations, not a particular number. There was a process for getting to a number that must be approved by the FTA for this project. The robustness was in the plan.

Mr. Sunderland said he agreed with Mr. Session. When the staff put together a DBE plan to submit to the FTA, it would have to be as strong and robust as it could be. That would be done before issuing the RFP in May. The DBE contract goals and program requirements would be in the RFP. This was not necessary for the RFQ.

Ms. McKeough said the number used would have to be based on a plan agreed to by FTA. The staff would develop a robust plan, and hold a public hearing before seeking FTA concurrence. The Airports Authority could always exceed the goals, if the market brings that; it cannot be required.

Ms. Hall said she was concerned about how diverse DBE was. She said it excluded only white males, and asked if the Airports Authority was dealing with a large number of white females. She said a breakdown of DBE contractors would be informative.

Mr. Davis asked Mr. Session to meet with him before the RFP, and approve the solicitation.

Mr. Session said there was still some due diligence to be done, to determine what was done at other places.

Mr. Potter said he understood the only current issue to be a criterion for DBE, in addition to the subfactors in the RFQ, which had to be decided in February. The numerical issue would not appear until the RFP.

Mr. Snelling said there was no need to delay to accomplish what Mr. Session wanted to accomplish. The Airports Authority had been handling DBE issues for many years. For now, the process should keep moving.

Mr. Davis said he was not averse to using DBE as a sixth criterion, but said there was still a question of the weight to be applied.

Mr. Martire asked if an RFQ evaluation had ever been done with the funding partners participating. Mr. Potter said it had been done, but the outsiders did not have a vote. Mr. Martire asked if Directors could participate on the panel. Mr. Potter said if they did, they could not vote on the matter when it reached the Board.

Mr. Brown said there had been considerable discussion about the dangers of tainting the process. He noted that the partners, who were outsiders, even if they paid some of the bills, and could have contacts with contractors.

Ms. McKeough said they were all appointed by career officers, as the Airports Authority employees were, and all signed the same confidentiality pledges. They did not get copies of the proposals.

Mr. Snelling moved that management be authorized to continue, understanding that some discussion would be going on.

Mr. Curto said that the discussion would be with the procurement team on whether DBE should be pulled out of the two subfactors to be made into its own criterion in the RFQ. There would be a vote at the February 15 committee meeting, if necessary.

Mr. Brown said he understood that the weighting of criteria could not be discussed in public. He asked if the weighting might favor the incumbent contractor on Phase 1.

Mr. Nowakowski said they couldn't. At the RFQ stage, five firms would qualify. After that point, low price determined the winner.

Mr. Davis said he was comfortable with the screening criteria that would produce the shortlist of five. The DBE discussion was worth having, but he did not think it would damage the procurement either way.
Mr. Brown said the action was on a pre-solicitation paper, the normal format for delegated procurements. Did the staff intend that this would

be the last time the Board would see the procurement before it produced a winner.

Ms. McKeough said that was correct, except for the DBE treatment in the RFQ.

Mr. Brown said that sometimes there were concerns that the Board was too involved in procurement. The paper said the contract was for $1.5 billion. He wanted a list provided at the next meeting of the five largest Airports Authority contracts to date. Mr. Davis said the partners are involved because they had done large procurements.

Mr. Brown asked if it was the sense of the Board that there would not be any more oversight of the contract. Mr. Session said he thought the RFP would have to be reviewed and approved.

Ms. McKeough said approval of the RFP was not required, but the Board could do so, if it wanted to.

Ms. Reiley said there should be a full briefing before the procurement documents were issued.

Mr. Brown asked if the Board would know who was on the shortlist. Mr. Potter said it would. He said he would tell the Board whatever it wanted to know.

Mr. Curto said he hoped for a consensus on the RFQ criteria, and that the RFQ should be brought back to the Board. Mr. Sunderland said that it would be brought back if it changed. Only the Contracting Manual required Board action at the February meeting.

Mr. Davis said that once five firms had qualified, the final selection was by price. He asked if there were any problems with that.

Mr. Potter said he should not overlook the pass-fail step.

Mr. Session said he was troubled as the use of RFP, a term used for a negotiated procurement, when the more serious decision was being made at the RFQ stage.

Mr. Davis said there were many forms for a procurement; his point was that once five had been selected, there should not be any objections.

Mr. Session said he didn't want to be surprised by the contents of the RFP. There was time for discussion; he wanted to make sure the prerogatives discussed that day would be in it.

Mr. Curto said he did not see a problem. There would be a second discussion in May before the RFP was issued.

Mr. Brown asked when the technical submission became pass-fail. The project looked to him like design-bid-build. A pass-fail on technical step is the same as a sealed bid on a competitively bid project.

Mr. Nowakowski said that, when the Board approved the approach in 2009, low bid had been set as determinative. There were two types of procurement -- this or best value, where values were assigned to technical proposals and price proposals. The current approach was still design build, with the advantage of having the constructors participating in the design.

Mr. Sunderland said that in March 2011 the issue had been brought to the Board with long papers on the qualifications and price determination.

Mr. Brown asked if the staff selection committee members for the RFP review would be brought back for Board approval.

Mr. Davis there was a CEO to handle these matters. The Board didn't need to get into them.

Mr. Snelling then moved the question, a privileged motion. Mr. Davis called for a vote, which passed. The Committee then adopted the pending motion authorizing the staff to proceed.

SUMMARY MINUTES
EXECUTIVE AND GOVERNANCE COMMITTEE
MEETING OF JANUARY 4, 2012

Mr. Curto chaired the Executive and Governance Committee Meeting of January 4. He began by identifying the members of the committee: Messrs. Carter, Davis, Session, Snelling and Curto.

Gregory Wolfe, Counsel to the Board, first presented a simple amendment to the Bylaws to change the Board Meeting schedule from the first Wednesday of each month to the third, consistent with the Chairman's proposal to do most Board business in a single day each month. He pointed out the drafted amendment kept a 9:00 a.m. start time for the Board Meeting, and noted that the Committee might feel otherwise about the time.

Mr. Curto said his plan had been to begin the meeting day with committee sessions, followed by the Board Meeting. Mr. Davis asked if it made more sense to hold the committee meetings in the afternoon. Mr. Snelling said that the afternoon Board Meeting would allow matters addressed by the committees to be acted on, if prompt action was necessary, at the following Board meeting rather than waiting a full month. Mr. Cobey suggested that 9 a.m. be struck to allow Board meetings to be scheduled at either time. Mr. Brown said there was an advantage to a fixed-time morning meeting, in that Directors would be able to attend and participate fully, while they might be drawn away later in the day. Another reason to keep the 9 a.m. schedule was to allow the staff time to respond to committee concerns, sometimes making changes to a proposal before the Board would vote on it. He was concerned that an afternoon Board meeting would undercut the committee system, where the Directors did most of their work.

Mr. Curto responded that committee work done in the morning would not be reported to the Board until the following month. Mr. Snelling agreed, noting that reducing the work to a single day, cutting back trips to the Airports Authority offices was very economical.

Mr. Potter said the staff would only be asking for a one-day review on rare occasions, similar to the kind already dealt with that day with an early morning special pre-Board Meeting committee session.

Mr. Davis said removing the fixed start time would allow more flexibility to adjust to Members' schedules. Mr. Brown observed that the one-day per month schedule was of great benefit to Mr. Cobey, Mr. Snelling and himself, the three non-local members who lost an entire day in travel each time they came to meetings. For the Directors who were local, he was concerned that some attendance issues could arise. The commitment would now be for a full day instead of two half-days. He urged that attendance under the one-day approach be monitored, to see whether some Directors had a problem. Mr. Curto then called for a vote, and the Committee voted unanimously to recommend the amendment to the Board, without a fixed hour for the Board Meeting.

Mr. Wolfe then presented a status report on efforts to date that he and the Secretary, Quince Brinkley, had taken on more substantive amendments to the Bylaws. He said that they had received some outside advice. The Honorable Joe May, Chairman of the Transportation Committee of the Virginia General Assembly, had provided a number of suggestions, particularly that the recent Washington Metropolitan Area Transit Authority (WMATA) bylaws be carefully examined. This had been done. The Office of Inspector General auditors from the U.S. Department of Transportation had impressed on the staff how difficult it was for the audience at Board and committee meetings to understand what was going on. For example, when the meetings run together one after another, it was difficult for them to tell who served on which committee.

In general, the first set of amendments could, if necessary, include the amendments required by the recent federal legislation. That is, the number of Directors would change from 13 to 17, Directors could no longer serve past the end of their terms, and supermajority requirements would change. There was a possibility of additional changes agreed to by Virginia and the District as they amended the charter legislation. In any event, the statutory amendments would be ready to enact at any time.

The other amendments being prepared related more to transparency. Mr. Wolfe observed that the Airports Authority Bylaws were not bad, and compared favorably to other agency bylaws in the region. The executive session rules were similar to those of WMATA, other agencies, and Virginia law. The issue was thus more how the Airports Authority used its Bylaws for more than what they provided. One issue was open here; it was the extent to which the annual budget should be discussed in executive session. Budgets were commonly discussed in public session by public agencies. Further, the Bylaws should require better explanation to the public of what happens in executive session. The Board had already begun to move in that direction, reading the provision of the Bylaws applicable to an executive session before it begins, or just explaining what will happen in the executive session, which Mr. Conner and now the Chairman were already doing.

Another transparency issue involved publication of various records on the Airports Authority website. Minutes were already being posted there. On the WMATA website, one could find the minutes, schedules, bylaws, and lists of committees. This sort of publication was not necessarily a Bylaws issue, but there was considerable improvement that the Airports Authority could make in this direction. There was also a possibility of including provisions on the finality of decisions and on relations with the media.

The Chairman said that a set of amendments would be available at the next committee meeting on January 18. Mr. Brown observed that the WMATA Board met much more frequently than the Airports Authority, usually weekly. He said the Board should not use less frequent meetings to limit transparency. Executive sessions were serious matters and should be limited.

SUMMARY MINUTES
EXECUTIVE AND GOVERNANCE COMMITTEE
MEETING OF JANUARY 18, 2012

Mr. Curto chaired the Executive and Governance Committee Meeting on January 18. He began by observing that the presence of Messrs. Session, Snelling and himself constituted a quorum. He then announced that the Committee would first meet in executive session to consider a personnel matter.

When the Committee reconvened in public session, Gregory Wolfe, Counsel to the Board, said the Committee Members had before them a copy of the Bylaws showing in red several amendments intended to increase transparency of Board operations. He offered to explain them. The Chairman summarized the amendments. They would:

- Reflect the Airports Authority's responsibility for the rail project;
- Define the role of the Chairman beyond the list of the Chairman's powers;
- Clarify the powers of the committee chairmen;
- Require the Secretary to post on the internet:
  a. The Bylaws
  b. The Committee list
  c. Board meeting schedules
  d. Agenda and public papers for each meeting
- Require Board Meetings to start at the scheduled time
- Require scheduling of executive sessions so as not to interrupt regular meetings
- Reiterate that Directors must be present to vote, but may participate in meetings by telephone
- Require the presiding officer, the Chairman or committee chairman, to state the subject to be discussed in executive session
- Provide that outsiders may attend executive sessions, at the discretion of the presiding officer
- Provide that most of the Annual Budget should be discussed in open session

Mr. Curto said he believed these provisions were a step towards enhanced transparency. Over the next month, work would be done on possible webcast of the Dulles Corridor Committee, and the development of a Board-specific webpage. He then called for a vote on the proposed Bylaws amendments, and the Committee unanimously agreed to recommend them to the Board for action at the February Meeting.

Mr. Wolfe next described the Board consensus on the establishment of a Nominations Committee. The issues for the day were to assure the consensus still existed and to determine how to establish the committee – in the Bylaws, in a Resolution, or by order of the Chairman.

The basic rule for a nominations committee was that the chairman of an organization should never appoint its members. Under the Airports Authority Bylaws, all committee members were appointed by the Chairman. Thus the membership of the new committee would have to be specified. Agreement had been reached that it would consist of the senior member of each group of Directors appointed by the same officer, that is, the Mayor of the District of Columbia, the Governors of Maryland and Virginia, and the President. If a delegation preferred to send a different member, it could do so by internal agreement. The Committee would oversee the nomination of officers, which was done once a year, and attempt to come up with a single panel.

He added that another issue remained: the role of the Chairman, who would under the Bylaws serve as an *ex officio* member. In most years, there would be no problem; in a year where the Chairman wished to run for reelection and faced a challenger, there might be a problem with his participation in the committee. This could be handled by the Chairman's recusal.

The Committee then moved to recommend the establishment of the Nominations Committee to the Board.

SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF JANUARY 18, 2012

Mr. Conner chaired the Finance Committee Meeting on January 18, 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 all Board Members were welcome to participate.

Mr. Conner then said that it would be important to have a meeting on how the original finance plan for the Dulles rail project had been put together. He added that some information had been handed out at the last meeting about Virginia's contribution to the overall Dulles rail financing. By his count, the Commonwealth's additional $150 million would bring its total to $425 million. Those numbers, however, overlooked that the Commonwealth had contributed the Dulles Toll Road, which provided 54 percent of the financing over the life of the project, more than $4 billion. Virginia could have used its revenues elsewhere in the Commonwealth. The Committee would have a session on the financing plan; the financial advisors would be providing an analysis. He had done some research, and found a letter from Mame Reiley when she was Chairman that said turning over the Toll Road would allow the Commonwealth to spend scarce transportation funds elsewhere. Mr. Brown said he agreed that there was enormous value in the Toll Road. He asked that the financial advisors also quantify and include the value of the right-of-way the Airports Authority had contributed to the project, which he put at $1 to 2 billion. He added that a study of the corridor's history would show that it had been agreed public policy, in Richmond and the Counties, through administrations of both parties, for over 20 years that revenues of the Toll Road would remain in the corridor. Mr. Conner agreed that had been the policy, but reiterated the Commonwealth could have diverted the revenues elsewhere. Mr. Snelling disagreed, noting that he had researched the question himself. The Airports Authority's lease of right-of-way to the Commonwealth precluded use of revenues outside the corridor.

Information on Exercising the Third Option Year for Airport Consultant Services

Andy Rountree, Vice President and Chief Financial Officer, asked the Committee's concurrence in exercising the final one-year extension option of the Airport Consultant contract with LeighFisher, Inc., for a total of five years. The company provided several services, most notably the Report of the Airport Consultant, a feasibility report that accompanied bond issuances. They also provided support for the airline rates and charges support, and conducted *ad hoc* analyses, including concessions reviews and financial modeling. To date, the firm had been paid $1.2 million.

There were two firms that dominated the business: LeighFisher, Inc. and Ricondo & Associates. Since August 2010, 32 airports had retained airport consultants. LeighFisher had been selected 50 percent of the time; Ricondo & Associates 41 percent. The two firms had been the only ones to respond to the Airports Authority's RFP in 2007.

He said the firm had been responsive, had met delivery schedules, and had done accurate forecasting. If there were not any objections, staff would therefore exercise the option year, and issue an RFP for a new contract later in 2012.

Mr. Brown observed that the industry had become very concentrated because of its limited market. He asked if any of the firms in the business, including two smaller firms, were minority or women-owned. He did not have any problem with LeighFisher, but hoped there would be more than two bids next time.

Mr. Conner said the Committee did not have any objections, and that the staff should proceed.

November 2011 Financial Report for the Aviation Enterprise

Mr. Rountree explained that the November report would have been given at the mid-December committee meeting, which had been canceled, and that the year-end report was always held open into the New Year. He was therefore reporting that as of the end of November, revenues had reached $561.2 million. The increase over the same period in 2010 had been 10.6 percent, driven by rents and landing fees, which were in turn rate-driven. The increase had thus not been a surprise. Revenues were at 87 percent of budget, 91.7 percent through the year.

Expenses were at 81.9 percent, in the amount of $503.5 million, up 2.5 percent over 2010. Operating income was at $57.7 million, compared to $16.4 million in 2010. Debt service coverage was unchanged from October, at 1.31, below the November 2010 level of 1.44. The budgeted level for the year had been 1.34; the required level was 1.25. Operating liquidity was at 471 days of unrestricted cash-on-hand at the end of November, up from 437 days in October. The November figure exceeded the December 2010 level of 439 days.

Mr. Session asked about the significant change in operating income. Mark Tune, the Controller, said that expenses had been held in check, and that income had increased from higher rates.

Aviation Enterprise Financial Advisors Report

Ken Gibbs of Jefferies set out the matters the finance team would be working on during the year. The topics included sizing for new money, looking at the variable rate portfolio, looking at the swap portfolio, examining refinancing opportunities, talking about status with the rating agencies, and thinking about the underwriting team.

As to sizing on new money needs, the amount would be modest, about $200 million. With approximately $250 million of commercial paper on the shelf, there was flexibility in meeting the new money needs. The Airports Authority's cash position was strong with respect to the capital program.

On the variable rate programs, he pointed out that they were subject to expiring bank facilities. They typically lasted three to five years, and then had to be rolled over. Rolls were not scheduled in 2012, but over $.5 billion were scheduled to roll in 2013. It would be prudent to see what actions could be taken cost-effectively in 2012 to reduce the roll in 2013.

As to the swap portfolio, monitoring continued. In past years, there had been a discussion over reversing swaps or terminating them. In the current low rate environment, either outcome was unlikely.

In the lower rate environment, there was significant opportunity for refinancing. The major indices had dropped about 60 basis points since late 2011. Current rates quoted for the Airports Authority would be about 4.5 percent, even on an AMT basis, well below what any airport executed last year. There was thus a possibility of over $15 million in present value savings on the refunding of about $300 million. This would be monitored carefully.

As there had been some discussion already, the team was paying close attention to annual strategy for dealing with the rating agencies. Moody's had the Airports Authority on negative outlook, the lowest level in the AA category; any slip would be to the single A category, which would be material.

The schedule was being coordinated with toll road advisors, so that the execution of a new money financing would be likely in the third quarter.

On the aviation side, the team of underwriters had been selected five years before, with an expiration date in June 2012. The Advisors would be working with staff to proceed with a Request for Qualifications (staff mistakenly stated Request for Proposals at the meeting) for the underwriting community.

Mr. Conner said he thought the staff should proceed with the RFQ, preparing and presenting a draft at the next Finance Committee meeting.

Mr. Session asked when an RFQ would be issued. Mr. Gibbs said they would be drafting currently, if so directed, and could either circulate a draft for comments or bring it to the next committee meeting. Mr. Rountree said the plan was tentatively for a third-quarter financing, so the co-managers would need to be in place soon. Mr. Session asked what was necessary to give the staff a green light. Mr. Conner said that should be done at the day's meeting. He suggested that the draft be circulated for comment, if there was a need to get it out before the next meeting. It would then be brought to the Committee meeting. Mr. Rountree said there was considerable overlap between aviation and toll road teams, so the RFQ should seek both kinds of expertise. Mr. Conner said the RFQ should be submitted for the next Committee meeting.

Mr. Brown asked whether the committee members would interview the candidate underwriting firms. Mr. Conner said he would prefer that the staff do the interviewing; individual members could sit in on the staff interviews.

Mr. Brown said that while it may or may not have been a good idea twenty years ago, the procurement of the finance team had always been explicitly reserved to the Board, and never managed by the staff. If that were to change, a broader discussion would be appropriate.

Mr. Conner said the delegations would not change; the Board would still be making the appointments. The Airports Authority had professional management and advisors that it paid for advice; that is what they would provide in this case. The delegation would not change; the only issue was whether the Board should do the interviews, which it could do if it so chose.

Mr. Snelling said he believed that it was the usual practice in most organizations that management should make the recommendations after a process conducted by management.

Mr. Brown said the Committee had always had the advice of its professionals; the financial advisor and staff always sat in on the interviews, sometimes the bond counsel as well.

Dulles Corridor Enterprise Financial Advisors Report

Jim Taylor of Mercator Advisors, LLC, reported that the charts in the January report showed projected fund balances and available credit for the Dulles Corridor Enterprise. It was for the rail project expenditures. There was a separate fund for improvements in the Dulles Corridor and for renewal and replacement. In the past, the report had shown three months of financial data to demonstrate sufficient liquidity for the rail project. Now the report made projections for a full calendar year. In the future, it would go out through 2013. There were over 20,000 line items in the rail project expenditures. This required caution in making projections.

Based on the preliminary work in progress, the advisors thought it prudent to go back to the long term market in the fourth quarter; this worked well with the aviation financing in the third quarter.

Michael Wheet of Frasca & Associates, LLC said periodically rating agencies update a rating regardless whether the agency sells debt. Standard & Poor's had done so with regard to the Dulles Toll Road Revenue Bond Credit and reaffirmed its ratings – an A long-term rating on the first senior lien bonds, BBB+ long-term rating on the second senior lien bonds and BBB on the subordinate lien bonds. In the text accompanying the ratings the firm said they were based on the favorable demographics of the area, which would support further toll increases.

The Wilbur Smith traffic report was being developed. The advisors were working with the firm on a parallel path with the plan of finance.

Mr. Snelling said damaging legislation was pending in the Virginia General Assembly and asked what impact it might have on existing and future bonds? Mr. Taylor said investors were used to such developments, and would not worry until such legislation passed. At that time counsel would have to disclose it. The Airports Authority's documents with Virginia had provisions for adverse legislation on unwinding the transaction while protecting bondholders. He noted that no one could predict what the legislation would provide. But one of the risks bondholders assumed was legislation that might undermine the agreements in place, and there was a fairly complicated process setting forth obligations of the Airports Authority and the trustee to deal with the situation.

Mr. Session asked when the Wilbur Smith study would be complete. Mr. Rountree said the finance team was working closely with the firm. There would be a report ready for the February meeting. Mr. Session asked what the study would accomplish. Mr. Rountree said there had been toll rate schedules published in the past, which had been attached to the Memorandum of Agreement. The important question the study would answer was whether there would be much, if any, change from the last study. The next phase with Wilbur Smith would be to consider other toll collection schemes, such as open road tolling, and different rate structures, such as charges by distance.

Mr. Davis said that traffic on the Toll Road seemed to be down recently. He asked if Mr. Rountree thought that had been caused by the January 1 toll increase or construction, and if there were any preliminary January data. Mr. Rountree said he did not yet have any January traffic counts, but said that the first month after a toll increase usually caused a decline, followed by the traffic bouncing back. He said the numbers would be available in February.

SUMMARY MINUTES
SPECIAL JOINT DULLES CORRIDOR AND FINANCE COMMITTEE
MEETING OF JANUARY 4, 2012

Mr. Conner chaired the Special Joint Dulles Corridor and Finance Committee Meeting on January 4, 2012, which was held in executive session to discuss the Dulles Metrorail Project Phase 2 Financing – Request for Information.

SUMMARY MINUTES
SPECIAL JOINT FINANCE AND DULLES CORRIDOR COMMITTEE
MEETING OF JANUARY 18, 2012

Mr. Conner chaired the Special Joint Finance and Dulles Corridor Committee Meeting on January 18, 2012. He said that the special committee would be considering a matter previously discussed in executive session, a topic with respect to which the Chairman had recused himself, and had in fact left the room. Mr. Conner said the issue was a very important one, and consistent with the Airports Authority's efforts to be increasingly transparent on all elements of issues of importance to the public and our constituencies, it should be discussed in public. The issue was whether to issue a design-build or a design-build-finance Request for Proposals for the Dulles Corridor Rail Phase 2 contract.

He said that the financial advisors for the Dulles Corridor Enterprise and staff had been asked for information and analysis at the last meeting, and would be presenting their conclusions. He added that he would gavel speakers to silence so that all would have an opportunity to speak their turn. Finally, he noted that there had not been a recommendation at the last meeting, intentionally, so that a full discussion could be held.

As to a quorum at a combined special meeting, Mr. Conner noted that the only Members who were not on either committee were Mr. Carter, who was not present, and Messrs. Crawford and Cobey, who were participating by telephone. The Chairman had recused himself and left. All other Members were present.

Recommendation on the Consideration of Private Financing Proposals in the Design-Build Procurement for Phase 2 of the Dulles Corridor Metrorail Project

Andy Rountree, Vice President and Chief Financial Officer, said that at the last meeting staff had briefed the Committee in executive session on the Request for Information (RFI) that had been sent to firms in the construction industry, requesting information on whether any would be interested in providing financing along with a bid on the design-build project. There had been a healthy number of responses, providing a good gauge of the contracting community.

Jim Taylor of Mercator Advisors, LLC summarized the themes of the responses to the RFI. He said it was a standard device for soliciting the views of potential bidders. The responses suggested that Phase 2 was not an obvious candidate for privately-sourced financing. There was already $1.3 billion outstanding debt on the pledged revenue. An investor would have to take full revenue risk, without being able to control the tolls. The Airports Authority would retain that power, and could not transfer the operations and maintenance risk on either the road or the rail, which made it more unusual. There was not any precedent for private financing for more than 20 years without a transfer of operations and maintenance responsibility. It was also clear that the finance requirement would impact bidding, positively or negatively, depending on the team.

The Board had asked for an analysis on how much better private financing could be than current authority tax-exempt financing. The answer turns on size of a loan and the repayment terms; the larger the amount and the longer it took to repay, would determine the impact on toll rates.

In United States, privately-sourced construction financing was usually short-term, three to six years. A five-year financing would need an interest rate 100 basis points below the tax exempt market to reduce toll rates 5¢. A fifteen-year financing would have to be 50 basis points lower, currently 5.25 percent, assuming the same risk as a bond investor, for a 10¢ reduction in tolls.

The financial advisors were prepared to make a recommendation: given lack of precedent and the potential impact on cost and schedule, they did not recommend seeking private financing as part of the phase 2 procurement.

Sovereign wealth or global infrastructure funds would still be available separate and apart from the procurement, which are purely financial institutions with more flexibility for longer term and ability to deal with unique situations than banks that support private contractors could provide.

Mr. Conner asked if the staff agreed. Mr. Rountree said the staff was very much in agreement, for the reasons Mr. Taylor had articulated.

Mr. Session asked Mr. Taylor what he had meant when he said the financing requirement may impact competition. Mr. Taylor said that if the Board had said it wanted private sector financing, the design-build teams would have to bring on new partners or reconfigure themselves to meet that requirement. Several had said they might not want to go to the expense of finding financial partners and preparing such a bid. One team, however, had said that its specialty was design-build-finance, and that such an approach would very much interest it.

Mr. Session said it seemed to him, with the scope of this project, that it would be competitive to send the firms out to find financing partners. Mr. Taylor cautioned that at this stage of the procurement, no one would say they could not comply. The question was how high to set the level for participation. If at $1 billion, for example, a limited number of firms could raise that much money. At any level, some firm would have trouble finding a partner to provide the financing.

Mr. Session asked why such an approach would, in Mr. Taylor's view, skew the competitive mix. Mr. Taylor said such a problem would arise any time something hard to be made objective was added to the items that must be bid. There would be considerable risk transfer as a part of any package. Bidders would have to decide whether to put the time and energy into their bid to meet the financing challenge

Mr. Rountree said that almost across the board, most firms responding had said private financing would be more expensive than tax-exempt municipal debt.

Mr. Conner said that when the Board talked about limiting competition, it focused on construction, because that is where the greatest cost savings can be realized through the competitive process. Shouldn't the Airports Authority think about limiting the financing option by design-build-finance, where few parties could do both? The Airports Authority wanted the best deal on both construction and financing sides, without asking any firm to change its business model. There presumably would be other sources of private financing.

Mr. Taylor said that at some point the Airports Authority would have to pick its finance plan; the preference now was for Transportation Infrastructure Finance and Innovation Act (TIFIA). That could probably beat any form of private financing. The further the Airports Authority goes down one financial path the more it would foreclose other options.

Mr. Snelling said the Committee had asked for policy recommendations, and that he was ready to make motion to set policy. He had heard recommendations that he was prepared to accept.

Mr. Conner said that he believed there should be more discussion, to make sure all could speak.

Ms. Reiley asked where Mr. Potter, Ms. McKeough and the business administration staff stood on the matter.

Mr. Potter said the management had proceeded with the request for information, thinking it the best route to take. They all agreed with Mr. Taylor. They had shared the RFI with Fairfax and Loudoun Counties, the Commonwealth and the Washington Metropolitan Area Transit Authority. Mr. Potter had reported on it at the partners' meeting last week. All agreed with Mr. Taylor, based on their own extensive experience.

Mr. Davis asked if any of the partners were present. They were not. He noted that when the Airports Authority opposed its partners, the consequences could be serious. Would it be the same in this case?

Mr. Potter said the reaction he reported was from the career officers, not the politicians.

Mr. Davis asked if the responses to the RFI could be categorized.

Mr. Taylor said there were eight written responses from design-build firms, and three from financial institutions that couldn't bid on the project. The teams were not required to identify themselves, but it was obviously a mix of U.S. and international firms, some of the largest and best known design-build contractors. This suited the purpose, which was to get as broad a response as possible.

Most respondents expressed perplexity about why the Airports Authority was soliciting views on private financing when it had ready access to the municipal tax-exempt market, and expressed concerns about how a financing requirement would be implemented. One firm said it would welcome a financing option.

Ms. Reiley asked about the potential impact on TIFIA, whether private financing would preclude it. Mr. Taylor said that, with only one revenue stream to pledge, it would be complicated to structure deals with several creditors. There would have to be inter-creditor agreements on who gets to decide what. With private financing, it would be difficult to put TIFIA below creditors or in between them.

Mr. Brown agreed that such a deal would be complicated, but inter-creditor agreements could always be worked out. TIFIA was always subordinate to private financing. He characterized Mr. Taylor's argument as a red herring. He then turned to the main question. The Committee was concerned about imposing requirements on bidders that would limit competition. No one had proposed that bidders were required to provide financing. Most respondents had said they would respond if they didn't have to provide financing; one said it would respond only if there was an opportunity to provide financing.

Mr. Brown said he did not understand why the Airports Authority could not issue a procurement document with an option for a financing proposal that could be evaluated against its own financing alternatives. He said he had favored tax-exempt financing for several decades, and agreed that it was usually the best alternative for a public agency to finance public works. That would be the case against most alternative private financing. In this case, however, there was one potential proposer of other financing that might not be a market-based source of funds, and may be highly competitive. The Airports Authority had just heard from that entity in the past week, and it was premature to cut it off. That bidder had said it would only bid if it could bid for the entire work. This looked like an opportunity; why would it be cut off?

Mr. Session asked if such an approach would unduly complicate the procurement document.

Mr. Rountree said there was nothing to preclude continuous exchange of information with the potential bidders, up to the publication of the Request for Qualifications (RFQ).

Mr. Session asked what burden would be put on the solicitation documents if Mr. Brown's option were pursued. Mr. Taylor said that to the extent there was any interest in the option, it would be necessary to determine how to value such a financial proposal. There were two stages to the procurement. At the RFQ stage, how big or how small, and how firm should the proposal be? There would therefore be some time and costs selecting a threshold. With the RFP, any proposal received would have to be evaluated, which could not be done casually. If the low construction bidder also gave a financing proposal that was not counted, there could be challenges because it was not clear. The procurement could not be in a gray area.

Mr. Brown said that no one had proposed to be uncertain in the procurement; the Committee had asked staff to find a clear route to consider these options. All wanted to maximize competition.

Ms. Hall said she had a major concern about challenges. She asked how there could be consistency in a fluid method of procuring what the Airports Authority wanted. There needed to be consistency in the procurement to face challenges.

Mr. Potter agreed. He said he saw a complex situation with a financing proposal, with a substantial risk of challenges. He added that throughout the process, the staff had tried to get the party interested in financing to be definitive, to give an idea of how competitive they would be. Mr. Taylor had shown there would have to be significant betterment to make the proposal worthwhile: there was no commitment to a 30-year financing, no commitment to a low rate. All the firm would say was that it would be competitive. In the absence of a commitment, the Airports Authority would have to consider the likelihood of getting a better interest rate before taking the risk.

Mr. Davis observed that it would be hard to evaluate apples and oranges. All would like to pursue the with-or-without financing procurement in a perfect world. The proposal may force some firms good at construction to find a finance partner.

Mr. Potter said the combined option procurement was complex, not impossible. He did not see a clear way of doing it. The problem was difficult to define; in his view, the Airports Authority would have to have some confidence that it had some chance of a better interest rate. There had not been any indication that would happen.

Mr. Brown said the process would determine that answer. The Airports Authority did not know whether construction costs will match or beat its cost estimates; the procurement process would determine that. Likewise it could show if an interest rate was better than the Airports Authority's own, just as it could show a better price.

Mr. Potter said the process had also included follow-up discussions from the RFI. There had been two follow-up meetings to pin the issue down. There had also been some follow-up letters that didn't provide any assurance of anything.

Mr. Brown agreed that the most recent letter had not been clear. But it had asked for the opportunity to conduct some due diligence. Mr. Brown suggested the Chinese be allowed to visit and make some credit decisions. The Airports Authority could then be more insistent that they provide more details. If the response was still unclear, then the proposal should be over.

Mr. Martire said that time should be allowed to flesh out the proposal. The Airports Authority's goal was lower tolls, and to avoid challenges. The staff needed to explore the proposal, and employ its procurement experts to make sure the procurement was done right. The Airports Authority should explore all options that would lower tolls; to kill an option that could do so would be a mistake, if done just because the Airports Authority hadn't done it before.

Ms. Hall said the project should have strength on both sides, construction and finance. It appeared combining the two would weaken one side or the other. If the Airports Authority did not have a clear request, contractors would scurry to get the weaker side up to par.

Mr. Snelling said it did not appear that the Board was listening to what all the consultants and management were saying. He had been enthusiastic to flesh out the combined design-build-finance option, and had wanted to do such a deal. The experts, however, had just explained that uncertainty would require those who want to bid and didn't want to finance. It was too difficult to match projects with financed and unfinanced bids.

Mr. Conner agreed with Mr. Snelling, noting that the Airports Authority needed to complete the project in the most cost-effective way it could, to reduce the toll rates imposed on the users.

Mr. Conner said the Airports Authority was starting with an excellent financing plan. If the Airports Authority followed the route of a combined RFQ, asking for both financed and unfinanced bids, it would limit the opportunity for those who just wanted to build the project, but did not want to find a finance partner. It would also limit the Airports Authority from seeking other private equity financing or sovereign financing. If the selection were reduced to the two or three builders who could finance the project, competition would be lost. The Airports Authority could not ask people to change their business model. Finance people didn't build; build people didn't finance, in most cases. This would increase the chance of a protest; the project was very complicated, and it needed to get moving, or it would be lost. Mr. Conner said that he was increasingly of the mind that it would be lost. He said that the one party who wanted to do the project design-build-finance had never done it before; no one had ever done it before. There was not much precedent. He said it did not make rational sense to take a complicated, tenuous project and impose a level of risk on it through this procurement process.

Finally, Mr. Conner said there was little evidence there would be savings from financing. Savings were all on the construction side. The Airports Authority could solicit the world for financing. Choices wouldn't be limited.

Ms. Hall moved that the Airports Authority proceed with a procurement process that was solely design-build.

Mr. Davis asked whether there had been any discussions with the single design-build-finance candidate on the interest rates they could offer, or if there was just speculation.

Mr. Taylor said they had said they could be competitive with tax-exempt financing in the 15 to 20-year range.

Mr. Davis asked if that would be significant. Mr. Taylor said to impact toll rates, the interest rate had to be better than what the Airports Authority could obtain in the market, not just to be competitive.

Mr. Brown agreed; it would not make sense to negotiate for months with a private financing provider to save 10 basis points or be "competitive" with the market. He noted that Mr. Snelling and he were interested in "teasing" an offer out. He asked if there was any need to make the decision that day, with the pending Chinese request to visit and conduct due diligence. That could be followed by one more discussion with staff, at which they could be told the Airports Authority was not interested in 15 years or the same interest rate.

Mr. Davis said the decision was not in fact being made that day; the Committee was making a recommendation for decision at the February Board Meeting. There was time for the Chinese due diligence. Mr. Conner agreed.

Mr. Potter asked what should be done with the other interested parties; Mr. Brown said they should be permitted to come in as well. Mr. Davis agreed. He then said the motion would not address further discussions. If things changed, the decision could change.

The Secretary said Ms. Hall's motion did not have to go to the Board; the Committee only needed to reach consensus.

Mr. Conner said it appeared to be a consensus of the joint committee that the staff should proceed with design-build solicitation, but remain open to reevaluation on the basis of any information that develops.

Mr. Brown asked what would happen to the Chinese request for a due diligence visit. It needed to happen quickly.

Mr. Potter asked Phil Sunderland, Vice President and General Counsel, if that would raise any problem. Mr. Sunderland said further discussions could raise more complications for the procurement, opening up possibilities of challenge.

Mr. Brown said the Chinese request was not different from any other discussions in the context of the RFI.

Mr. Conner said there had been a clear consensus of the Committee. The staff should proceed with an RFQ on a design-build basis.