SUMMARY MINUTES
AUDIT - LEGAL COMMITTEE
MEETING OF JUNE 19, 2013

Ms. Hall chaired the June 19 Audit – Legal Committee Meeting, calling it to order at 11:53 a.m. She noted that a quorum was present – Mr. Adams, Ms. McConnell, Mr. McDermott, Ms. Merrick, Mr. Session, Ms. Wells and Mr. Curto, *ex officio*. Mr. Carter, Mr. Chapman, Mr. Gates, Mr. Griffin, Ms. Lang, Mr. Session and Mr. Williams were also present,

Valerie Holt, Vice President for Audit, stated that the Office of Audit conducted audits to provide confidence to the Board of Directors, management and the public that risks are being managed, management and delivery capacity are being maintained, control is being exercised, and appropriate results are being achieved. The Office of Audit produced reports to provide the Board and management with the results of these audits. Ms. Holt explained that in some instances, the audit process resulted in a determination that management should enhance compliance, improve internal control and mitigate risks. The reports prepared as a result of these audits focused on providing concise and insightful recommendations about observations and actions needed for improving results going forward. Ms. Holt noted that a robust audit process that routinely identified areas requiring improvement is beneficial to the furtherance of the Authority's mission and strategic objectives.

Compliance Review for Change Orders of the Dulles Metrorail Project – Phase 1

Ms. Holt reported that this audit determined whether the change order process is in compliance with established policies and procedures of the Authority and Federal Transit Administration (FTA) requirements. She noted that a change order is used to implement changes in the scope of work agreed to by the Authority and a contractor, and can be initiated by either.

Ms. Holt reported that the Audit staff had concluded that change order policies and procedures are in place and being appropriately followed. She noted that all change orders tested had included the required documentation with the appropriate approval signatures. Additionally, estimated costs for equipment rentals were properly proposed and adequately supported. Ms. Holt stated that keeping up with change orders is a very important activity on such large projects and noted that all change orders had been closed in 2012. There were no recommended changes going forward.

Public Parking

Ms. Holt stated that this audit obtained reasonable assurance that the statement of net receipts is free of material misstatement and evaluated contract compliance, disadvantaged business enterprise participation, performance guarantee and insurance coverage. She noted that public parking is the Authority's largest source of non-aviation revenue. Ms. Holt reported that the Authority hired firms to manage the public parking at Dulles International and Reagan National Airports. Authority staff is responsible for oversight of the contractors and the parking operations.

Ms. Holt reported that the Audit staff had concluded that controls over accounting and reporting are generally adequate to ensure accurate and timely reporting of reimbursable expenses. In 2010, new managers with substantial industry experience had been hired and staff had improved contract administration, revenue monitoring and expense control of the parking operation. Ms. Holt reported that "exception" transactions had substantially declined resulting in fewer delays in exiting and a reduced risk of lost parking revenue.

Mr. Chapman inquired whether the Authority is involved with parking at the Udvar Hazy facility, to which Ms. Holt responded negatively. She noted that the Authority's parking activities are audited yearly because the parking operation is such that it lends itself to vulnerability. Since 2009, Ms. Holt reported that staff had made tremendous progress in tightening controls and closely monitoring the revenue and exploring options to prevent losing revenue.

In regard to contract change orders, Ms. McConnell asked if a follow up is conducted to determine if contractors initially misinterpret the scope of a project and later request a number of change orders to meet its actual scope. Ms. Holt responded that change orders are reviewed in accordance with FTA guidelines. By following these guidelines in regard to the documents required for change orders, staff believes that it can minimize the risk that unnecessary change orders are approved.

Ms. McConnell noted that the difference in contractors' bids for Phase 2 is minimal and asked how the change order process would be controlled. Ms. Holt explained that because this contract is design build, it is different than other types of contracts that typically result in a project with a low cost that increases through change orders. She said that it is important for staff to be aware of "scope creep" and be vigilant in its monitoring process.

The public parking audit had received an outstanding audit recommendation.

Audit Follow-up Report for 2012

Ms. Holt reported that the Office of Audit conducted an annual follow-up audit to review management's success in implementing recommendations included in prior year audit reports. The Audit staff report obtains and reviews reports to learn about actions taken by each office. Interviews and reviews of supporting documentation are conducted to ensure that the recommendations have been implemented. Ms. Holt reported that 88 of the 118 recommendations from prior year audits had been closed. An additional 25 recommendations had been noted whereby substantial progress had occurred; five recommendations remained incomplete, and 15 of the 31 recommendations had been completely closed, which are included in this audit. Ms. Holt noted that these recommendations referred only to the progress of internal audits.

Proposed Policy on the Authority to Settle Claims Presented in Litigation Against the Airports Authority and Certain Other Matters

Mr. Adams, Co-Chair of the Audit-Legal Committee, recalled that last December Directors had inquired about the amount of authority that the General Counsel and the President and Chief Executive Officer should possess regarding settlement of claims. Mr. Adams reported that he and Directors McDermott and Wells had formed a Committee working group, supported by Phil Sunderland, Vice President and General Counsel, to develop a proposed policy to define and assign this authority.

Mr. Sunderland presented two subject areas that the proposed policy addressed. The first pertains to the settlement of claims in litigation brought against the Authority, officials or employees of the Authority. The proposed policy states that if the amount to be paid to the plaintiff(s) in relation to the claims is $200,000 or less, the authority to settle the claims on behalf of the Authority is delegated to the General Counsel. If the amount is greater than $200,000, the authority is delegated to the Audit - Legal Committee to approve the settlement.

Mr. Sunderland stated that the proposed $200,000 threshold had been modeled from the Authority's Federal statute which includes requires procurements above $200,000, in order to proceed without full and open competition, to obtain Board approval. He explained that the working group believed that this statutory $200,000 threshold, though in a different setting, serves as an appropriate measure of the claims requiring Board or Committee approval. Mr. Sunderland had collected similar types of information from other airports, which the working group had reviewed. He referred to an attachment to the Committee paper that addressed the "settlement authority" policies of nine airports which, overall, represented a broad spectrum of delegations.

The second part of the proposed policy addressed agreements reached outside of litigation by the Authority with employees who, as part of the agreements, are ending their employment with the Authority. The proposed policy states that when an agreement between a departing employee and the Authority is reached, which involves a payment by the Authority of $200,000 or more, the agreement would be presented to the Committee for review and comment. Under the proposed policy, the President and CEO would ultimately make the final decision whether to move forward and sign the agreement. Mr. Sunderland and the working group believed that agreements of this nature, which involve the termination of employment with the Authority, incorporate personnel decisions, which are the responsibility of the President and CEO to make.

Mr. Gates noted that he believed the approach is a reasonable one. He asked Mr. Sunderland if he would, by practice, present settlements less than the threshold that raised novel issues or are of strategic importance to the Board. Mr. Sunderland responded affirmatively and noted that this concept is expressly addressed in the proposed policy. Mr. McDermott then added that the provision had been included so that the General Counsel could present a settlement lower than $200,000 to the Board for its consideration if it were believed that the settlement would raise issues of particular interest to Board members.

Mr. Curto asked whether this provision applied to threatened litigation. Mr. Sunderland responded that it would not be applicable unless it related to employment separation agreements. He explained that if threatened litigation presented matters or issues of importance to the Board members, it would be wise for him to seek input from or to convey information to the Committee.

At Mr. Curto's request, Mr. Adams explained the rationale that the working group had used to determine that the Audit-Legal Committee would approve settlement claims in excess of $200,000, rather than the entire Board. Mr. Adams explained that it was the intent to seek Board input when litigation may garner public attention and press without becoming too involved in the General Counsel's role. The decision to have the Audit-Legal Committee make the decision was part of an effort to streamline the reporting structure.

Mr. Curto asked whether any issues regarding policy's interrelationship to the Authority insurance policies should be considered, to which Mr. Sunderland responded negatively.

Ms. Hall asked about the decision structure for separation agreements, noting that, under the proposed policy, the Audit-Legal Committee would provide comments on the agreements but the President and CEO would make the final decision. Mr. Adams noted that if an employee settlement is greater than $200,000, it is likely an issue involving senior staff, which would be of importance to the Board.

Mr. Carter asked Mr. Potter if he was comfortable with the with the $200,000 threshold, to which he responded affirmatively.

Mr. Williams expressed his concern with page 2, item 3 of the policy paper that stated that the threshold is not a "hard and fast rule". He noted that one concern is that although the existing General Counsel and President and CEO may be in agreement, considerations should be made for future personnel. Mr. Adams also noted that the working group had been satisfied with the threshold because of the Authority's litigation history.

Mr. Williams also expressed concern with the exclusion of the President and CEO from the settlement process. Mr. Potter explained that the General Counsel reported to the President and CEO; historically, the General Counsel reviews settlements with the President and CEO. Mr. Curto and Ms. Hall also expressed concern with the proposed approach. After discussion on this matter, Mr. Griffin recalled a process he had used as County Executive and then suggested adding a requirement in the policy that the General Counsel obtain the President and CEO's written approval/concurrence for all settlements under $200,000.

Mr. Curto inquired whether the policy should require the General Counsel to present to the Board a settlement of litigation that would result in a large payment even if the Authority is insulated by its insurance deductible and only paid an amount less than the $200,000 limit. Mr. Sunderland explained that such a settlement would most likely be presented to the Board because it would involve a considerable payment and would very likely involve circumstances of interest to the Board. The Committee decided against requiring committee approval in these situations.

Mr. Williams asked if the settlement is applicable to all employees, to which Mr. Sunderland answered affirmatively. Mr. Curto stated, however, that the policy should not apply to the three employees that do not report to the President and CEO.

The Committee thereupon agreed to recommend the proposed policy, with the following amendments, to the Board of Directors:

1. Addition of a requirement that there be the written concurrence of the President and CEO for all settlements that are less than $200,000; and
2. Clarification that the policy's provisions regarding employee separation agreements does not apply to the three employees that answer to the Board directly -- the President and CEO, the Secretary, and the Vice President for Audit.

<u>Status Report on KPMG's Performance Audit of the Dulles Corridor Metrorail Project – Phase 1</u>

Mr. Potter reported that at the request of the Audit Committee, KPMG had been engaged to assess whether current project management processing tools are working as intended. The report had concluded that the controls are working as intended and that they are appropriate for the size and complexity of the project. However, Mr. Potter noted that 20 recommendations had resulted from the KPMG Report, of which 16 had been completed.

Mr. Potter reported that the Authority is moving into a challenging period of the Silver Line with the transition from Phase 1 to Phase 2. Successful close out of Phase 1 would require preparation to deal with claims settlement, invoice finalization, rail car delivery, rail yard construction and transfer of financial records to the Washington Metropolitan Area Transit

Authority. All of this would be achieved as the Authority begins to ramp up with Phase 2. Mr. Potter noted that the Authority would enhance staffing to ensure the continued control and implementation of new processes and systems.

For Phase 1, Mr. Potter noted that Prism had been used for project reporting and Ross/Oracle for financial reporting. The Commonwealth had used Prism when it initiated the project and the Authority continued its use. For Phase 2, Mr. Potter indicated that Oracle would serve as the Authority's system of record and allow staff the ability to retrieve information. Oracle will be the single system used to enhance controls and provide easy document digital retrieval capability.

From a staffing standpoint, Mr. Potter reported that a Rail Project Controller would be added to the Phase 2 project team. He noted that Mark Tune, the Authority's current Controller, was directly involved in the transition to Oracle and is well experienced. Mr. Tune would become the Rail Project Controller and report directly to Andy Rountree, Vice President and Chief Financial Officer. As the new Rail Project Controller, Mr. Tune will be the single point of contact for financial information and audit coordination at the rail office. Additionally, new staff positions at the rail office would include a lead accountant budget analyst and grant accountant. Mr. Potter noted that once Mr. Tune assessed the workload, staff would decide whether to fill the grant accountant position. Due to the additional contracting responsibilities, a second contracting officer position, responsible exclusively for Phase 2, would also be added; the incumbent would continue focus on closing out Phase 1. Mr. Potter reported that a an internal controls and compliance position would also be dedicated at the rail office to ensure that staff adheres to document management and procurement standards; all charges to the project follow established coding structure and review procedures; timely and accurate reports are produced from oracle; routine training is conducted; compliance is maintained; and identify any concerns with the financial systems and how they are operating.

At 1:07 p.m., the Committee went into executive session to discuss a Summary Report on Indirect Cost Audits; Management Letter for the Calendar Year 2012 Financial Statement Audit; and Pension Audit for Regular Employees and Police and Firefighters.

The meeting was thereupon adjourned at 1:30 p.m.

SUMMARY MINUTES
BUSINESS ADMINISTRATION COMMITTEE
MEETING OF JUNE 19, 2013

Mr. Session chaired the June 19 Business Administration Committee Meeting, calling it to order at 8:58 a.m. A quorum was present: Mr. Adams, Mr. Carter, Mr. Griffin, Ms. Hall, Ms. Lang, Ms. Merrick, Ms. Wells, Mr. Williams and Mr. Curto, ex officio. Mr. Chapman. Mr. Gates, Ms. McConnell and Mr. McDermott were also present.

Mr. Session noted that Committee concurrence is needed for the pre-solicitation terms for maintenance and repair services of the vertical and horizontal pedestrian conveyance systems at Dulles International. Additionally, Committee approval is required for the recommendations to award (1) a sole source contract for support of common use airline equipment, software licensing and software maintenance services at Dulles International and (2) taxicab concession contracts, also at Dulles.

Pre-Solicitation Terms for Maintenance and Repair Services of the Vertical and Horizontal Pedestrian Conveyance Systems at Dulles International. Chris Browne, Vice President and Airport Manager, requested the Committee's concurrence with the issuance of a Request for Proposals (RFP) for maintenance and repair services for elevators and escalators. He noted that the contract would provide on-site support services 24 hours a day, 365 days per year to ensure a 99-percent reliability rate of 250 conveyance units at Dulles International. These services would be an integral part of the electronic and monitoring capabilities of Lift Net, which automatically detects elevator and escalator outages and transmits the information so that a work order can be issued for timely repair. The contract would also include all scheduled preventive maintenance and inspections; necessary labor, materials and repair; and a 15 to 20-minute response time. Mr. Browne noted that the incumbent, Schlinder Elevator Corporation, employed approximately 14 full-time employees. The existing contract would expire in June.

Mr. Browne reported that the proposed solicitation, expected to exceed $4.1 million annually, for a two-year base period with five one-year options, would include a 30-percent Local Disadvantaged Business Enterprise participation requirement (typically fulfilled by technicians). He reviewed the blended evaluation criteria and stated that robust competition is expected. (At the conclusion of the discussion of agenda item II, Mr. Session once again noted that the pending procurement required the

Committee's concurrence.) The Committee thereupon unanimously concurred with the terms of the pending procurement.

Recommendation to Award a Sole Source Contract for Support of Common Use Airline Equipment, Software Licensing and Software Maintenance Services at Dulles International. Mr. Browne reported that the Authority had introduced and built its first "Common-use Airline Gates" in 1998 as part of the capital construction and expansion of the B Concourse at Dulles International. He noted that these gates, which provided maximum flexibility and efficiency, are designed to support multiple airline users at different times throughout the day. When irregular operations occur, as a result of weather or other causes, common-use gates allow carriers to move between gates. Mr. Browne explained that in order for carriers to share and cooperatively use the same gates, they must use specialized equipment and software embedded into the ticket and gate counters referred to as Common Use Terminal Equipment (CUTE). This equipment used supporting software that permits the airlines to connect to their proprietary software. Mr. Browne noted that the CUTE system hardware is supported by the proprietary vMUSE software, which had been installed in 1998 by ARINC, Inc. as part of a competitive bid process. The ARINC-hosted CUTE system is widely used throughout the world; the system at Dulles International has 356 workstations, which requires onsite support and monitoring. Mr. Browne reported that more of the airlines are advancing their systems with the CUTE capabilities.

Due to the proprietary nature of the procurement, Mr. Browne reported that changing the vMUSE service would require the Authority to replace the entire CUTE system and cost 30 airline users a maximum of $30,000 each. Whenever a new system is purchased, proprietary licensing with a new contractor, similar to the existing arrangement, would likely be required. With the retention of the existing contractor, Mr. Browne reported that the Authority would incur costs only for licensing and maintenance of existing products and allow uninterrupted services to continue. Additionally, the annual software and licensing costs would decrease to $206,000. The term of the contract is timed to coincide with the likely replacement of the entire CUTE/vMUSE system once it reached its expected service life, at which time the contract would be competitively bid. As required by the Contracting Manual, a notice of the intended sole source award had been published on the Authority website for the required time period; no queries of interest had been received. Mr. Browne reported that the contract term consists of a five-year base period with five one-year option periods for a total amount of $2.8 million.

Ms. Lang inquired whether opportunities existed for subcontractors to become engaged in the proprietary arrangement. Mr. Browne recalled similar, separate contracts that had been recently awarded for electronic systems at Dulles International, but noted that the CUTE/vMUSE system did not lend itself to competition.

Ms. Merrick noted that the projected lifespan of the proprietary system is approximately 25 years and inquired whether the manufacturer is current with the system's upgrades to ensure greater efficiency for the airlines and their passengers. Mr. Browne responded affirmatively and stated that the system is built for the merging needs of the airlines. Additionally, he noted that while the contract term provides for a total of 10 years, he anticipated that an entire new system would be procured prior to the contract's expiration. Ms. Merrick also inquired whether ARINC, Inc. is the market leader for the requested services. Mr. Browne stated that while other firms existed, they did not view the pending procurement as an opportunity; none had expressed interest by responding to the notice of intent to award a sole source contract posted on the Authority website.

Mr. Carter abstained from participating in the Committee's recommendation to award a sole source contract for support of Common Use Airline Equipment, software licensing and software maintenance services at Dulles International. The Committee thereupon approved staff's recommendation to award the contract to ARINC, Inc. Mr. Session noted that although the contract award is less than $3 million, the matter would be referred to the Board for its approval because it is a sole source contract.

<u>Recommendation to Award Taxicab Concession Contracts at Dulles International</u>. Mr. Browne was joined by Mike Stewart, Manager of Airport Administration at Dulles International, and Gary Davis, Manager, Landside Contracts Division. He presented the staff recommendation to award three contracts with terms of three years and two one-year options to operate taxicab concessions at Dulles International, effective October 1, to Checker Airport Taxi, Inc. (CAT) of Baltimore, MD; Dulles Airport Taxi, Inc. (DAT) of Falls Church, VA; and Regency Cab, Inc. (Regency) of Gaithersburg, MD. Mr. Browne noted that CAT, DAT, and Dulles Taxi Systems, Inc. presently provide inbound and outbound taxi services under the Washington Flyer trademark. They had generated more than $15 million over the contract term.

Mr. Browne noted that nine proposals had been received and evaluated, three of which had been deemed outside the competitive range. CAT, DAT and Regency had received the highest overall scores and are expected to generate more than $23 million during their contracts.

Ms. Wells asked how a taxicab concession computes its financial offer. Mr. Browne responded that the RFP had limited the number of taxicabs that each concession can operate and had required each of them to bid a minimum of $1000 per taxicab.

Ms. Merrick observed that the new contract is similar to the existing one but noted it is expected to generate substantially more revenue. Mr. Stewart responded that the increased revenue would result from the contractors' bids and the new fees that would be charged. He explained that with the existing contract, a fee had been incurred with only outbound trips. The new contract would impose fees for inbound trips, as well. Additionally, the inbound and outbound trip fees would increase to $2.65 per fare.

Ms. Wells commented that the condition of the fleets had likely been a major factor in the concessions' selection. Mr. Browne stated that the taxicabs concession at Dulles International benefitted from the Washington Flyer trademark, which imposed strict standards, including vehicle age and driver appearance. He noted that all three concessions would be almost identical in appearance and standards.

Mr. Adams noted that one of the unsuccessful bidders had been an incumbent and asked if staff is confident that it had followed all procurement procedures. Mr. Browne responded affirmatively and noted that all three concessions can meet the financial and operational requirements.

Mr. Session recalled that several months ago Ms. McKeough had reviewed some of the differences between the taxicab systems at each Airport. He asked Mr. Browne to recap some of them, noting that Dulles International used a closed system, while Reagan National used an open one. As he had reported earlier, Mr. Browne stated that travelers who had pre-arranged inbound trips with other taxicab concessions were permitted to be dropped off at the Airport. However, the only taxicab concessions that can pick up passengers at Dulles International are those contracted under the Washington Flyer brand, which are controlled by strict standards. Mr. Browne referred to the reciprocity agreement and noted that a Washington Flyer taxicab driver was not permitted to enter the District and pick up a fare unless it had been pre-arranged. He noted that the closed arrangement had been used to ensure that sufficient taxicabs would be available during the hours they are needed. While Reagan National used an open system, Mr. Browne noted that taxicab concessions were still required to adhere to vehicle and driver standards.

Mr. Session recalled that the initial pending procurement had included four taxicab concessions to ensure a sufficient taxi fleet. The recent increase in passenger traffic at Reagan National had impacted the traffic at Dulles International, which had resulted in a revised procurement of only three taxicab concessions. Mr. Session inquired about the increased revenue that is anticipated from the taxicab concessions. Mr. Browne explained that the Authority would receive $2.65 each time that a Washington Flyer cab is dispatched for a fare to Dulles International. He noted that the Authority used a tracking system to monitor the taxicab concessions' inbound and outbound activities, which had been beneficial.

Ms. Merrick inquired about the frequency in which customers are surveyed regarding the performance of taxicab concessions. Mr. Browne responded that Widener-Burrows & Associates, Inc. (Market Research) conducted an annual survey which includes a thorough section on the taxicab usage. He also noted that surveys are conducted annually through focus groups; "secret shoppers" are sometimes used to test customer satisfaction; and social media is another emerging method to measure the concessions' operations.

Mr. Williams inquired whether Dulles International's closed taxicab system generated more revenue than the open system used at Reagan National, to which Mr. Potter responded affirmatively. He noted that management had no intentions to switch the system, and that the Board could propose a fee adjustment to increase taxicab concession revenue at Reagan National.

The meeting was thereupon adjourned at 9:42 a.m.

SUMMARY MINUTES
DULLES CORRIDOR COMMITTEE
MEETING OF JUNE 19, 2013

In Mr. Davis's absence, Mr. Griffin chaired the June 19 Dulles Corridor Committee Meeting, calling it to order at 9:42 a.m. Mr. Adams, Mr. Chapman, Ms. Hall, Ms. McConnell, Mr. McDermott, Ms. Merrick, Mr. Session, Ms. Wells, Mr. Williams and Mr. Curto, *ex officio*, were present. Mr. Carter, Mr. Gates and Ms. Lang were also present.

Dulles Corridor Metrorail Project Phase 1 Monthly Cost Summary and Project Update. Pat Nowakowski, Executive Director of the Metrorail Project, reported that $22.1 million had been spent in April 2013, bringing total expenditures up to $2.432 billion. The total project budget forecast remained at $2.905 billion.

He also reported that $393 million in contingency funds had been used through March 2013; approximately $4.2 million in contingency funds had been used in April 2013. Contingency use through April 2013 had been $397.2 million, with $65.1 million remaining unobligated. Mr. Nowakowski reported that the substantial completion date for Phase 1 remained September 2013.

Mr. Griffin inquired about the September 2013 substantial completion date. Mr. Nowakowski stated that the contractual date is September 9. Mr. Griffin recalled a recent report, whereby a comment had been made that the date would be the end of September. Mr. Nowakowski said that when issues arise near completion of a project, there is less time to resolve them; it is a concern with all projects. Presently, staff continues to project that the substantial completion date of September 9 will be met.

Mr. Potter reported that he, Frank Holly, Vice President for Engineering, and Mr. Nowakowski had met with the contractor on June 17 as a result of the recent report. As of June 17, the contractor had reported that September 9 is the substantial completion date. Mr. Potter noted that numerous tests are being conducted throughout the system. If all of these tests produced perfect results, September 9 is achievable. However, if remediation is required as a result of any of the tests, additional time may be needed. Everyone involved with the project is working diligently to complete the project by September 9.

Regarding the recent report, Mr. Potter stated that the individual who had been interviewed had indicated that he had responded to a hypothetical question about the impact on revenue if a delay occurred. The interviewee had stated that 90 days would be added to the date once the project is substantially complete and turned over to the Washington Metropolitan Area Transit Authority (WMATA) for testing and a system break-in period. Mr. Potter stated that the individual should have had a more precise dialogue and reiterated that all involved are working toward the September 9 substantially completion date.

Mr. Griffin inquired about Mr. Potter's response to Peter Rogoff, Administrator, Federal Transit Administration (FTA). Mr. Potter reported that a key system for any rail project is a train control system. The train control system for Phase 1 had been installed by Alstom. During the oversight of the installation, the Authority had discovered that Alstom had not followed protocol regarding some changes it had made to the system and with testing. As a result, Authority staff and the contractor had met with Alstom and had demanded full documentation of any changes that had occurred and notified them that changes to testing would not be made without prior approval. Mr. Potter noted that all testing conducted prior to the meeting date had been disregarded. The Authority is now working with the contractor, WMATA and FTA in overseeing the train control system to ensure that changes to the system are properly documented and tests are conducted appropriately. Mr. Potter reported that he had first notified the Administrator verbally. Mr. Rogoff had then sent a letter to Mr. Potter, to which he had responded. Mr. Potter noted that a written plan to have the issue resolved before September 9 is in place but this issue, as all others do, have the potential to extend the September 9 date, if timely remediation did not occur.

Mr. Chapman inquired about the process that would be used to inform the public of any change to the September 9 substantial completion date. From a contractual point, Mr. Nowakowski said that the Authority and the contractor would need to go through an administrative process to reach an agreement on an extended date. Mr. Potter noted that staff presents a monthly update to the Dulles Corridor Committee on the contractual completion date and any adjustments to the date, and their causes, would be reported at that time.

Mr. Potter reported that WMATA has requested 90 days post-contract termination to begin revenue service. During the 90 days WMATA would conduct its required testing and trial runs. In an effort to maximize testing and expedite activity that would occur during that period, the Authority is allowing WMATA to participate in all tests as they are conducted. Mr. Potter reported that in many cases, WMATA was accepting these tests in lieu of conducting the tests after the Authority turned over Phase 1 to them. The Authority wanted to ensure that it was turning over a safe system to WMATA in an expeditious manner.

Mr. Session inquired whether the contractor expected to exhaust the remaining contingency. Mr. Nowakowski responded that the contractor is still expected to finish Phase 1 within its projected budget.

<u>Recommendation for Approval of a Lease for the Dulles Corridor Metrorail Project – Phase 2 Office</u>. Mr. Nowakowski reported that the Committee had approved pre-solicitation terms for a lease of office space for Phase 2 of the Dulles Corridor Metrorail Project in February and a Request for Proposals had been advertised in March. The Evaluation Committee had shortlisted seven of the twelve proposals received, visited the office spaces, ranked them and then reduced the shortlisted firms to three. The Evaluation Committee had scored office space in the Herndon Metro Plaza II, located at 198 Van Buren Street in Herndon, Virginia as the highest-rated proposal. Mr. Nowakowski reported that a total of 52,385 rentable square feet are available, and the five-year lease would begin August 9. He reviewed the evaluation criteria – financial considerations; lease terms and conditions; schedule for occupancy; and location. Because it had been successful for the contractor in Phase 1 to co-locate with the Authority, the same arrangement for Phase 2 would occur. Mr. Nowakowski reported that staff had identified space in the same building and in an adjacent building for the contractor, who had agreed to co-locate and had made its own lease arrangements.

Mr. Carter inquired about the anticipated completion date of Phase 2 of the Dulles Metrorail Project. Mr. Nowakowski responded that Package A for Phase 2 would require five years for completion; the projected completion date is July 2018. The five-year lease would accommodate any close-out work necessary at the completion of most contracts. Ms. Hall inquired about the distance between the office space for Phase 1 and Phase 2. Mr. Nowakowski responded that the distance is approximately eight miles. He noted that a similar procedure had been used for leasing office space for Phase 1. The current landlord for the Phase 1 office space had competed for the contract for the Phase 2 office space. The location of the office space and the Phase 2 rail alignment had been one of the evaluation criteria. Mr. Nowakowski noted that the office space at

198 Van Buren Street is adjacent to the Herndon metro station. Mr. Potter stated that the new leased space would require minimal build-out expenses; the biggest costs would be for telephone and information technology systems.

The Committee unanimously approved the recommendation for approval of a lease for the Dulles Corridor Metrorail Project – Phase 2 office. As Mr. Nowakowski had noted earlier, the recommendation would be considered by the Board later that day.

Ms. Merrick stated that because the integration plan between the Authority and WMATA may not be apparent to all Directors and to the public, she believed it would be helpful for Mr. Potter to provide additional details at future Board Meetings. Mr. Potter said that monthly meetings were held with all the principals – Virginia Department of Transportation, the Commonwealth of Virginia, WMATA, Fairfax and Loudoun Counties, and the Project Team. Since a critical period is underway with closing out Phase 1 and beginning Phase 2, meetings or teleconferences are held bi-weekly. Mr. Potter said he would provide details of information resulting from the bi-weekly communications at future Board Meetings.

<u>May 2013 Financial Report — Dulles Corridor Enterprise.</u> Mark Adams, Deputy Chief Financial Officer, was joined by Mark Tune, Comptroller. Mr. Adams reported that year-to date Toll Road revenues had been $51.9 million, at 40.7 percent of budgeted revenues through 41.7 percent of the year, which had reflected an increase of 22 percent from the same period in 2012. Similar to April, the 40.7 million toll transactions for the period had decreased 2 percent for the same period, but are 2.5 percent higher than the amount forecasted for 2013; toll road collections had been up 5.1 percent for a total of 81.3 percent.

Mr. Adams reported that Toll Road expenditures of $10.6 million year-to-date had increased 9.9 percent from the year before.

The meeting was thereupon adjourned at 10:10 a.m.

SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF JUNE 19, 2013

In Mr. Conner's absence, Mr. Curto chaired the June 19 Finance Committee Meeting, calling it to order at 8:38 a.m. A quorum was present: Mr. Carter, Mr. Chapman, Mr. Griffin, Ms. Lang, Mr. McDermott, Ms. Merrick and Mr. Session. Mr. Adams, Mr. Gates, Ms. Hall, Ms. McConnell, Ms. Wells and Mr. Williams were also present.

Financial Advisors' Report - Aviation Enterprise

Ken Gibbs of Jefferies commented that he and other Financial Advisors had been reporting about the execution of the Plan of Finance. Immediately after this presentation, staff would present the proposed resolution and documents that require Committee and subsequent Board approval to enter into the market. Mr. Gibbs reported that present market conditions are not the best, noting that a significant sell off in the fixed income markets had caused an increase in interest rates. However, with the execution of the potential refunding, the Authority could achieve approximately $17 million in present value savings. Mr. Gibbs noted that an execution of an all-in cost at a blended rate of approximately 4.6 percent, which is less than the existing 4.76 percent blended cost, would also be realized during the transaction. A good execution is expected.

Guy Nagahama, also from Jefferies, reported on the terms of the structure of the refunding. He said that the financing team had been working on a strategy so the Authority would receive much of its savings in advance, which is similar to the one pursued for the 2012 refinancing. Subject to the Committee and Board approval, Mr. Nagahama reported that the Preliminary Official Statement would be mailed the following day; the marketing process would begin immediately; and prepare to execute the sale as early as June 27, depending upon market conditions. He noted that meetings had been held with all three rating agencies on June 11-12. Results from the meetings were expected later that day or on the following day.

Recommendation to Approve the Authorizing Issuance of Airport System Revenue and Refunding Bonds, Series 2013A-C

Andy Rountree, Vice President for Finance and Chief Financial Officer, presented the refunding transaction and the non-refunding revenue bonds, which the Financial Advisors had just described. He reported that the Finance Committee would approve and recommend to the Board later that day in an effort to enter the market as quickly as possible the proposed resolution to approve substantially completed bond documents; authorize the issuance of Airport System Revenue and Refunding Bonds in a not to exceed amount, which is larger than the issuance amount originally planned that will be controlled by the delegated Directors to provide for opportunities in the market; and provide delegations to the Chairman or Vice Chairman and the Chairman of the Finance Committee regarding approval of final bond structure on the day of pricing. Mr. Rountree identified the substantially completed documents: forty-fourth supplemental indenture; bond purchase agreement; preliminary official statement, including an updated Report of the Airport Consultant (Appendix A); and form of a refunding agreement for each series of refunded bonds.

Mr. Rountree reported that the resolution would authorize up to $360 million in Airport System and Revenue and Refunding Bonds. He noted that the materials provided for the day's Meeting had reflected a $276.4 million approximate par amount. The authorization also included $75 million in new money. Upon reviewing the materials for the meeting, Mr. Rountree noted that the refunding opportunities previously identified had been $22.8 million net present value savings. However, based on current market conditions, that amount had decreased to approximately $17 million. The referenced amount would fluctuate daily until the Authority entered the market. Mr. Rountree reported that the resolution would provide delegations to the Chairman of the Finance Committee, with concurrence of the Chairman or Vice Chairman, for the following: par amounts of Series 2013A-C Bonds; interest rate(s); maturity dates; redemption provisions; credit enhancement; debt service reserve requirement; purchase price; and issuance of taxable bonds. He then reviewed the proposed schedule, noting that the closing would occur in July.

The Committee unanimously approved the substantially completed bond documents; authorized the issuance of the Airport System Revenue and Refunding Bonds in an amount not to exceed $360 million; and provided delegations to the Chairman or Vice Chairman and the Chairman of the Finance Committee regarding approval of final bond structure. The Board would consider the recommendation later in the day's Meeting.

Financial Advisors' Report - Dulles Corridor Enterprise

Bryan Grote of Mercator Advisors reported that the Authority is making progress in the TIFIA process. He noted that a meeting had been held June 14 with Department of Transportation (DOT) advisors and staff to discuss the traffic and revenue study. Finance staff from the Authority, Loudoun County and Fairfax County, along with their respective financial advisors, are scheduled to make a formal credit presentation to the TIFIA office on June 21. He said that the TIFIA process was a lengthy one and that process was moving forward.

Mr. Grote also reported on a recent decision in Portsmouth, Virginia where the court had ruled that certain provisions of an agreement between Virginia DOT and a joint venture of the Midtown Tunnel Project violates the state's constitution. Mr. Grote said that the familiar argument that tolls are taxes and that the setting of tolls is not consistent with the Virginia constitution had been revisited.

Mr. Session inquired about the timeframe that the TIFIA process had been expected to conclude. Mr. Grote stated that two of the total 30 requestors had been recently invited to submit an application for the TIFIA loan. He said that it is the intent to respond to all of DOT's questions regarding the Authority's credit and the net toll revenues to be pledged to secure the TIFIA loan during the summer. While no commitments from the TIFIA Office currently exist, Mr. Grote said that tentative discussions had occurred regarding the next step to submit a formal application during late summer or early fall. He noted that DOT has to officially invite the Authority to submit the TIFIA loan application once all of its inquiries regarding credit have been satisfied, which was the most difficult and most important step of the process. Mr. Potter reported that the Authority's process was more complex than most because there are three applicants, including Fairfax and Loudoun Counties, for one application. Mr. Grote noted that there are three distinct loans for one project which was why the June 21 meeting would include staff and Financial Advisors from the Authority and both Counties.

Mr. Session inquired about the timeframe once the Authority had been formally invited to submit the TIFIA loan application. Mr. Grote responded that unlike the old process, DOT staff expected that the process should go quickly because the credit documents would have already been submitted and verified.

Michael Wheet of Frasca & Associates noted that another one of its clients had recently been invited to submit a formal TIFIA loan application with an expected closing of August. It appeared that the process would go much quickly once an entity was invited to submit a formal application.

May 2013 Financial Report – Aviation Enterprise

Mr. Rountree was joined by Mark Tune, Controller. Mr. Rountree reported that year-to-date revenue was $280.9 million, an increase of 7.1 percent from the same period in 2012. He noted that non-aeronautical revenues were also performing well. At 41.7 percent through the year, the Authority had earned 41.5 percent of budgeted revenue. Year-to-date expenses were $232.4 million, an increase of 1.7 percent from 2012. The Authority had incurred expenses at 39.1 percent of its budget.

Operating income was $48.5 million, compared to a prior year operating income of $33.8 million. The debt service coverage estimate was 1.35x, which is very strong, especially compared to the prior year.

With respect to the Dulles Toll Road toll rates, Chairman Curto recalled that in November 2012, the Board had adopted a set of toll rate increases on the Dulles Toll Road, to be effective on January 1, 2013, and another set of increases, to become effective January 1, 2014. They had been adopted following a public hearing and comment process that the Authority had conducted earlier in 2012 on proposed toll increases for 2013 and 2014, as well as 2015.

When adopting these toll rate increases for 2013 and 2014, the Board had deferred a decision on the 2015 toll rate increases, and it expressly reserved its ability to later proceed with those increases based on the 2012 public hearing and comment process. However, upon the advice of counsel at that time, Chairman Curto noted that the Board had reserved that ability only until June 30, 2013.

For a number of reasons, the Chairman said that he believed there is no reason for the Board, at this time, to make the decision it deferred last November and establish 2015 toll rate increases.

The Chairman noted that as previously reported, Authority staff, together with Loudoun and Fairfax rail partners, are in discussions with the US DOT in an effort to secure a TIFIA loan financing of the maximum that may be available for the rail project, which is potentially $1.9 billion, and the TIFIA loan requested would be approximately $1.3 billion. In addition, as you also know, the Commonwealth had recently enacted a new transportation financing program, and it provides $300 million in grant funding for the rail project over the next three fiscal years. Based on the hope for TIFIA loan financing and the Commonwealth's $300 million grant, Authority staff and the Finance Committee believe there is no need to establish a toll rate increase in 2015 at this time, thereby allowing the 2014 rates to continue in effect.

However, in the event this TIFIA loan and Virginia funding do not become a reality, Chairman Curto reported that toll rates will quite likely need to be increased in 2015. In that case, the Authority would need to conduct a new public hearing and comment process on a set of proposed new rates for 2015. If this process becomes necessary, the Chairman said it would likely take place during the summer and fall of 2014.

At this point, Chairman Curto reported that the Authority has every reason to be hopeful that new TIFIA and Virginia funding will make toll rate increases in 2015 unnecessary. Nonetheless, the Board will not be in a position to reach finality on the question of 2015 toll rates until it has finality on the TIFIA and Virginia funding.

Chairman Curto said that the Authority is thankful for the funding from the Commonwealth and that staff will continue to monitor the situation.

The Committee was thereupon adjourned at 9:00 a.m.

SUMMARY MINUTES
STRATEGIC PLANNING AND DEVELOPMENT COMMITTEE
MEETING OF JUNE 19, 2013

Mr. Chapman chaired the Strategic Planning and Development Committee Meeting of June 19, calling it to order at 11:18 a.m. He noted that a quorum was present – Mr. Carter, Mr. Davis, Mr. Griffin, Ms. Lang, Ms. McConnell, Mr. McDermott, Mr. Williams and Mr. Curto, *ex officio*. Mr. Adams, Mr. Gates, Ms. Hall, Ms. Merrick, Mr. Session and Ms. Wells were also present.

Quarterly Air Service Development Report. Mark Treadaway, Vice President for Air Service Planning and Development, reported that Southwest Air will add new service from Reagan National to Houston Hobby on August 4. He noted that the new service would use the two Department of Transportation-awarded slots returned by Spirit Airlines last August.

He then reported that the merger between American Airlines (AA) and US Airways (US) is still expected to occur in the third quarter of this year. Approvals are still needed from the federal government through the Department of Justice (DOJ) and subsequent approval by a majority of shareholders. As Mr. Potter had previously reported, a U.S. Senate hearing would be held later that day.

Mr. Treadaway reported that the biggest impact from the airline merger would occur at Reagan National since the new airline will have a total of 68 percent of daily departures and 60 percent of total seats, with two overlapping markets: Nashville and Raleigh/Durham. He stated that aviation analysts have suggested the large concentration of slots at Reagan National might result in slot divestiture, which would be a possible requirement in the approval decision by DOJ. This process is being closely monitored, and staff will keep the Board informed of any changes. The Airports Authority will work closely with AA and US to accommodate facility requests and operational needs.

Mr. Adams inquired whether the Authority has any strategic concerns about the large concentration from one carrier. Mr. Treadaway responded that the separate airlines presently have a combined 40-percent hub operation at Reagan National. He noted that the new airline could become a larger hub at a regulated airport, such as Reagan National. The increased hub operation could ultimately displace seats of travelers who would either originate at Reagan National or chose it as its final destination. Mr. Adams expressed concern and inquired whether the new American could either engage in an ongoing commitment at Reagan National or participate in an effort that clearly identifies the sizable hub operations at the Airport. Mr. Potter responded that establishing a hub operation at Reagan National would be the airline's decision. With respect to operational alternatives, the Authority would need to determine how to effectively respond. He noted that the Authority is already engaged with US about the movement of its buses and the size of its hold rooms. Once a decision about the merger is reached, the Authority would become further engaged to determine any impact on existing plans. Mr. Potter stated that the outcome of the operational impacts would be included in the new Use and Lease Agreement.

With respect to new airlines at Dulles International, Mr. Treadaway reported that Etihad Airways (Etihad) had begun daily service to Abu Dhabi on March 31. As a result of its success thus far, Etihad will increase its aircraft size, which will add 50 seats per flight. As Ms. McKeough had previously reported, Brussels Airlines (Brussels) had held its inaugural flight, which had been full and timely, the prior evening. Mr. Treadaway reported that Brussels had been pleased with its bookings thus far.

Mr. Treadaway reported that the Board Office staff had recently distributed several articles relative to cargo. He stated that leading analysts are predicting that cargo will remain stagnant over the next six to twelve months, noting that air cargo relied heavily on the global economy. As a positive note, Mr. Treadaway noted that the perishable air cargo market is increasing and that work is underway to pursue potential markets at Dulles International.

Several promotional activities had been included as part of the monthly report. Mr. Treadaway reported that the Authority had initiated a program with Destination DC to help promote emerging and new international markets at Dulles International. He noted that the Authority also partnered with Capital Region USA, which is a regional coalition of DC, Maryland and Virginia. Together with Destination DC and United Airlines, the Authority had held a series of trade events in Dublin and Manchester, which had been attended by top customers and travel agents. Mr. Treadaway noted that the Authority hopes to gain some outbound business on the relatively new flights in Dublin and Manchester. Through Destination DC and United, a successful joint sales mission had been held. The Authority had also partnered with Etihad Airways to promote passenger and cargo service in several cities. Lastly, Mr. Treadaway reported that the U.S. Travel Association hosted an annual premiere travel event called International Pow Wow (IPW), formerly known as Pow Wow, where the United States and the Destination Travel Association invite international tour operators to visit the U.S. and gather in one central location to observe thousands of travel organization exhibits. For the first time, the IPW would host the large tradeshow in Washington, DC at the Convention Center Hotel in 2017.

Mr. Treadaway reported that on May 15 selected radio stations had begun airing advertisements to promote all the travel opportunities available at Dulles International. Ms. Wells inquired about the geographical area covered by the radio advertisements. Mr. Treadaway responded that the stations cover the metropolitan statistical area and some of the Maryland suburbs including Baltimore. Mr. Adams shared recent experiences where friends had inquired about the radio advertisements, which led to one of them using Dulles International for travel to Europe.

Mr. Curto inquired about the preparatory efforts associated with attracting new service, such as Brussels Air. Mr. Treadaway explained that staff has been conversing with the airlines for approximately three years. During that period, staff had traveled to Brussels three times and had held approximately seven meetings, working closely with the Director of Route Planning to provide forecasts. Additionally, staff had conducted an analysis illustrating the expected revenue that would be generated for a new airline similar to Brussels Air - that estimate is approximately $1.2 to $1.4 million annually.

Mr. Curto stated that it was helpful for the Board to understand the steps involved in the long, competitive process in bringing new service to the Authority.

Information Report on MWAA Support to Regional Transportation Planning Efforts. Frank Holly, Vice President for Engineering, introduced Bill Lebegern, Manager of the Planning Department, to provide the Authority's history of involvement in regional transportation issues, especially as they affect Dulles International. Mr. Lebegern explained that over the last twenty years, the Authority's position regarding highway access to Dulles International had evolved. Decades ago, regional transportation projects were often argued as a necessity without which Dulles International would fail. Mr. Lebegern stated that for the past two decades, the Authority has supported highway projects as an opportunity to capitalize on Dulles International as an asset to increase overall economic benefit and growth; the Dulles operation could survive successfully without these improvements, but it would not reach its full potential.

Mr. Lebegern explained that the Authority has participated in state and local transportation policy setting and local planning processes on an ongoing basis as a member of regional organizations such as the Metropolitan Washington Council of Governments' Transportation Planning Board; as a participant in groups established for specific projects, such as the Silver Line; and in its capacity as landlord of the Access Highway and the Connector Road; and owner of Dulles International with major roads (Routes 28 and 606) that run through it.

An example of the Authority's participation in regional transportation planning could be observed in the planning around western access to Dulles International. Mr. Lebegern provided a history of western access to the Airport. He explained that plans for two outer beltways had been removed but remnants of those plans for the first outer beltway can be found in a portion of the Fairfax County Parkway in Virginia and the Inter-county Connector in Maryland. Interest in the second outer beltway concept was resurrected in the late 1980s when Maryland and Virginia decided to conduct an Environmental Impact Statement (EIS) looking at bypasses around Washington. One of the findings from the EIS was that the proposed Western Bypass routes would be well trafficked, not by bypass trips, but by trips that at either their beginnings or ends (or both) in the Washington metropolitan region. This insight prompted a number of subsequent studies of a Western transportation corridor.

Mr. Lebegern reported on the Authority's participation in the Tri-County/Bi-County Connector. He noted that the Authority had focused on access to and around Dulles International; the Dulles Loop has been an important effort. Several years ago, the Authority had contributed 25 percent of necessary funding for assistance with the master plan for Routes 50 and 606, which represent major pieces of the Loop. Currently, the Authority is contributing a third of the cost needed to conduct the preliminary engineering with Loudoun and the Virginia Department of Transportation (VDOT) for the widening of Route 606 from two to four lanes.

Mr. Lebegern noted that the Commonwealth Transportation Board had recently identified a new Corridor of Statewide Significance – the Northern Virginia North-South Corridor of Statewide Significance--that aligned with the western transportation corridor concepts. This newly designated corridor was the first corridor of statewide significance designated for a completely new road, not an existing one. Mr. Lebegern reported that this action validated that the Commonwealth clearly understands the importance of the Corridor to Virginia's economy. He then referred to several resolutions the Board had adopted demonstrating that the Authority's policy on transportation development had been consistent over the years.

Mr. Lebegern reported on the Dulles Loop, which consists of 18 miles around Dulles International, made up of Routes 606, 28, and 50. He provided an update on the widening of each route on in the loop.

Mr. Lebegern referred to the Corridors of Statewide significance map and explained that they are routes of enormous economic importance to the Commonwealth. He noted that the Northern Virginia North-South Corridor of Statewide Significance, listed as G on the map, connects Loudoun County and the Dulles area with Prince William County and the I-95 and I-66 corridors to the south. Several pieces of this Corridor are actively under study including the Tri-County Parkway and a "connector" from the corridor to the Dulles Loop. A number of people believe that this connection from the corridor to the Dulles Loop is a vital link to make the North-South Corridor attractive and economically viable. Mr. Lebegern noted that a master plan study on the overall North-South Corridor is also being conducted by the Commonwealth, with the Virginia Office of Intermodal Planning and Investment heading the master plan effort.

The four sections of the North-South Corridor of Significance are Route 234 in Prince William County; the Tri-County Parkway; a segment between Route 50 and Route 7; and a western highway connection to Dulles International. The planned location of the Tri-County Parkway had moved over the years and one of the studied alignments gave rise to the Loudoun County Parkway. For the Tri-County Parkway, VDOT has an on-going EIS, which has not concluded principally because intergovernmental agreements are still being negotiated between VDOT and the National Park Service regarding Manassas Battlefield. Given that the overall master planning of the North-South Corridor, and the individual environmental studies of the Tri-County Parkway and the connector to the Dulles Loop created "process confusion" for many, Mr. Lebegern reported that a public hearing had been conducted recently by the Commonwealth to explain the different studies. In that meeting and in subsequent press coverage, the Authority was pulled into the story as one of the principal economic reasons for the highway.

In addition to the efforts Mr. Lebegern had described in the day's presentation, he reported that there are numerous other processes in which the Authority participated regarding transportation, including the Dulles Corridor Advisory Committee.

Mr. Potter reported that the Authority would continue to support road construction that improves access to Dulles International.

The meeting was thereupon adjourned at 11:50 a.m.