SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF JULY 17, 2013

Mr. Conner chaired the July 17 Finance Committee Meeting, calling it to order at 9:30 a.m. A quorum was present: Mr. Davis, Mr. Gates, Mr. Griffin, Ms. Lang, Mr. McDermott, Mr. Session and Mr. Curto, *ex officio*. Mr. Adams, Ms. Wells and Mr. Williams were also present.

<u>Financial Advisors' Report - Aviation Enterprise and the Report on the Sale of $245,615,000 Series 2013A-C Airport System Revenue Refunding Bonds</u>. Guy Nagahama of Jefferies reported on the prior week's successful sale of approximately $247,000,000 Series 2013A-C Bonds. Mr. Nagahama reported that the proceeds were used to refund $200 million of outstanding bonds for debt service savings, which had led to achieving $40 million in debt service savings over the term of the refunded bonds. He noted that $25 million of that savings will be taken over the first five years as the Authority continues to realign its debt service. In total, the recent savings represents $13.7 million on a net present value basis. In addition to the refunding, Mr. Nagahama reported that proceeds were used to fund approximately $80 million of new money needs to meet ongoing capital expenditures and capitalized interest through June 2014. In total, the successful financing meant that the Authority's outstanding cost of capital was reduced from 4.74 percent to 4.68 percent, which represented weighted costs capital of all outstanding indebtedness.

Mr. Nagahama reported that as a part of this issuance process, Standard & Poor's and Fitch had reaffirmed the Authority's aviation enterprise credit at the "AA-" level. Moody's had downgraded the Authority from "Aa3" to "A1", but had upgraded its outlook to stable. He reported that Moody's had assigned a negative outlook as part of its rating in 2010, noting that although it had acknowledged the strong underlining fundamentals of the Authority, Moody's had been more focused on the financial metrics than the other rating agencies.

Mr. Nagahama spoke about the existing financial market conditions, which represented a challenging time. On behalf of the financing team, he thanked the staff and the Board for their flexibility in the recent approach to allow the team to capitalize on a recent brief window of opportunity in the financial markets.

Mr. Nagahama reviewed a chart that illustrated tax exempt rates over the past couple of months, which had shown an increase in trend rates since May. After the June 19 Committee Meeting, the Federal Open Market Committee had released a statement and Chairman Ben Bernanke had held a press conference regarding the uncertainty of the federal commitment to the bond buying program. Since these actions had led to a spike in interest rates and an increase in volatility, a number of scheduled transactions had been canceled or downsized on June 20. As a result of close coordination with the delegated members of the Board and the financing team, a decision had been made to monitor the market for several days while considering deferring the pricing to July but to continue the preparation to take advantage of any market opportunities near the end of June. Mr. Nagahama reported that on June 26 the market had briefly recovered a sizeable portion of its prior losses, at which time the financing team was able to enter the market on June 27 and achieve the results he previously summarized. Since the June 27 pricing the market had continued in an upward trend and its fragility had been highlighted by the June Department of Labor's job report, which had been released July 5; another significant rise in interest rates had occurred.

Mr. Nagahama then reported that the Authority has a $250 million Letter of Credit with JPMorgan to support its commercial paper program for the aviation enterprise, which is scheduled to expire in March 2014. He stated that the financial advisors and financial staff had discussed soliciting banks' interest to renew or extend that credit facility by the end of 2013. Additional details would be provided at the September Finance Committee Meeting.

Mr. Conner commended Siebert Brandford Shank & Co., LLC (Siebert) for its expertise and ability to advise the Authority to take advantage of the recent opportunities offered in the financial market. Mr. Curto also congratulated Siebert on a job well done and commended Mr. Conner for his leadership and devotion to a successful transaction. Mr. Davis said that he appreciated staff's guidance and Mr. Conner's leadership.

Mr. McDermott noted that the Leigh Fisher information, which had been included in the materials previously distributed, represented a substantial amount of historical information and current data that provided summaries of many of the issues presently being discussed.

Financial Advisors' Report - Dulles Corridor Enterprise. Jim Taylor of Mercator Advisors LLC reported on the continued progress on the Transportation Infrastructure Finance and Innovation Act (TIFIA) Letter of Interest (LOI) process. With respect to the due diligence phase, Mr. Taylor reported that Andy Rountree, Vice President for Finance and Chief Financial Officer, manages the process and ensures that any information that the United States Department of Transportation (USDOT) requests from the Authority is treated as a priority. He stated that the USDOT had received TIFIA LOIs for 31 projects seeking credit assistance in FY 2013-14. Two of the projects, located in the Chicago area, had advanced to the application stage. Mr. Taylor noted that the Authority's LOI is in a group of 15 that is moving forward and making progress.

Doreen Frasca of Frasca & Associates, L.L.C. reported that the Authority had issued a Request for Proposals (RFP) to the Dulles Corridor Enterprise approved syndicate of underwriters for future and remaining bond and TIFIA-related financing for the Dulles Corridor enterprise. She announced that staff and financial advisors would review the [draft] Plan of Finance with pool members after the day's Board Meeting.

Mr. Adams noted that he sometimes viewed the TIFIA process as a deliberate one and asked Mr. Taylor about his comfort level with the TIFIA progress. Mr. Taylor explained that USDOT staff is working on several projects and noted that additional USDOT advisors were being added to provide assistance. He noted that the LOI submitted for the rail project is part of a complicated, prolonged process, and noted Fairfax and Loudoun Counties' involvement.

Mr. Adams inquired about the financial advisors role that would be involved in the RFP process on which Ms. Frasca had previously reported. Ms. Frasca responded that Frasca & Associates, L.L.C. and Mercator Advisors LLC would serve as advisors through the process. The current syndicate, consisting of approximately 11 firms, would be eligible to participate. Mr. Adams inquired whether the Board would approve the underwriter selection, to which Mr. Rountree responded affirmatively.

To provide further comfort regarding the TIFIA LOI process, Ms. Frasca reported that Frasca & Associates, L.L.C. served as one of the financial advisors for one of the Chicago projects, which had recently advanced to the application process. She noted that the TIFIA LOI process for this project had begun in February and that the TIFIA loan is expected to be formally approved in August. Ms. Frasca reported that the process was a lengthy one, which included many meetings and extensive credit review.

<u>Recommendation to Award a Contract for Traffic and Revenue Consulting Services for the Dulles Corridor Enterprise</u>. Mr. Conner reported that the Committee and Board would consider the recommendation.

Mr. McDermott said he had been advised on a certain subject and wanted to make a declaration. For the record, he noted that CDM Smith, Inc. is a business that may be affected by this agenda item and the later Board agenda item, is a client of his law firm, K&L Gates, LLP. He said that he did not personally represent the business. Mr. McDermott stated that the revenue his firm derives from CDM Smith is less than 3 percent of the firm's gross revenue. As a consequence of the appearance of this agenda item, Mr. McDermott said that he had read the Authority's Ethics Code and consulted the Ethics Officer and the General Counsel and that he is comfortable that he does not have what is defined as an actual conflict of interests. However, due to the firm's relationship with CDM Smith, Mr. McDermott said that he has what the Ethics Code characterizes as an apparent conflict of interests in this particular agenda item. Therefore, the Code permits a director to participate in a matter if she/he believes that she/he is able to participate in the matter fairly and objectively. Mr. McDermott said that he believes that to be the case, and that he is therefore able to state that, notwithstanding his firm's work for CDM Smith, Inc. he believes he is able to participate fairly and objectively in the interest of the Authority, in the upcoming decision whether to approve the staff recommendation for award of a contract for the Dulles Toll Road Traffic and Revenue Consultant services.

Mr. Rountree reported that the retention of a Toll Road consultant is a requirement under the current Master Indenture of Trust and Supplemental Agreements. The Finance Committee had concurred with staff's recommendation to issue an RFP for traffic and revenue consulting services for the Dulles Corridor Enterprise at its March meeting. The RFP had been issued in April and two firms had submitted their bids in May. Mr. Rountree reported that the evaluation criteria included price; experience and qualifications of the firm; experience and qualifications of the personnel; and management plan. The proposed contract term would be a three-year base plus two one-year options and include a 25 percent Local Disadvantaged Business Enterprise (LDBE) program participation requirement, with which CDM Smith, Inc. would comply, and an annual not-to-exceed amount of $2 million. Mr. Rountree noted that because the term of the entire contract would exceed $3 million, Committee and Board approval is required.

Ms. Wells inquired about the process used to establish the annual not-to-exceed limit. Mr. Rountree responded that staff estimated the fees that would be incurred for the types of services to be provided and also included an additional amount to satisfy unknown tasks that may be required. He said that he did not expect that the Authority would spend $2 million annually for the services that CDM Smith, Inc. would provide.

Mr. Session inquired about the types of services that the LDBE firms would provide. Mr. Rountree stated that the LDBE firms would provide overall support to the Toll Road consultant, including economic data, highway data collection and analysis, traffic and revenue analyses, Metrorail market research data and analysis, and support for accounting issues associated with toll and revenue audits and violations.

The Committee approved the staff recommendation and recommended that the Board approve the award of a contract to CDM Smith, Inc. later that day.

<u>June 2013 Financial Report – Aviation Enterprise</u>. Mr. Rountree was joined by Chris Wedding, Acting Controller. Mr. Rountree reported that year-to-date revenue was $338.3 million, an increase of 6.7 percent from the same period in 2012. At halfway through the year, the Authority had earned 50 percent of budgeted revenue. Year-to-date expenses were $279 million, an increase of 1.6 percent from 2012. The Authority had incurred expenses at 46.8 percent of its budget.

Operating income was $59.4 million, compared to a prior year operating income of $42.3 million. The debt service coverage estimate was 1.36x, which is very positive, compared to the prior year.

The Committee was thereupon adjourned at 9:50 a.m.

[NOTE: The details from this Meeting were included with the Committee Report presented at the July 17 Board of Directors Meeting.]