SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF DECEMBER 10, 2014

Ms. Merrick chaired the December 10 Finance Committee Meeting, calling it to order at 8:29 a.m. A quorum was present during the Meeting: Mr. Curto, Co-Chair, Mr. Adams, Mr. Chapman, Mr. Kennedy, Mr. Session, Ms. Wells and Mr. Conner, *ex officio*. Mr. Caputo, Mr. Gates, Mr. Griffin, Ms. Hanley, Ms. Lang and Mr. Williams were also present. Mr. McDermott joined the Meeting by phone.

<u>Financial Advisors' Report – Aviation Enterprise</u>. Guy Nagahama of Jefferies presented an update on certain outstanding bonds that are callable in 2015 and 2016, for which the Authority received a proposal to extend call dates. Mr. Nagahama stated that a number of different scenarios had been evaluated and that financial advisors had recommended to staff that the Authority proceed with the modification on those certain bonds callable in 2016. He reported that this transaction is expected to generate approximately $12 million of present value savings in the current market. Additionally, the transaction would lock in the savings now rather than waiting for the future call date, which will avoid the risk of exposure to rising interest rates on $180 million. Additionally, Mr. Nagahama recommended that the Authority not proceed with refinancing the bonds callable in 2015. Although these bonds would generate approximately $5 million in savings in the current market due to less interest rate risk exposure, the Authority would have more capacity in 2015 to restructure these bonds and be able to generate up-front savings that will benefit the rates and charges at Dulles International in 2015. Mr. Nagahama reported that negotiations are underway and that counsel is drafting substantially final documents to present to the Committee and Board for approval at the January 2015 meetings for quick execution in order to take advantage of the current market.

Mr. Chapman inquired about the motivation in the bond market to present an unsolicited proposal, as Mr. Nagahama had described. Mr. Nagahama explained that there are a number of different market charts. Although interest rates were expected to continue to rise throughout the year, interest rates in the municipal market had declined by a maximum of 100 basis points over a 12-month period. Mr. Nagahama further explained that because of accounting regulatory issues, bond holders preferred continuing to hold these bonds rather than having monies returned to them for reinvestment purposes.

Mr. Chapman asked if a premium rate was associated with the 2015 bonds or if flexibility is being preserved going forward. Mr. Nagahama stated that the willingness to pay the premium is capped, and the numbers are being reviewed at the cap level. The maximum amount that an entity could pay to the Authority would not offset the Authority's flexibility. Ken Gibbs of Jefferies noted that the financial advisors had determined that these bondholders were different than ordinary bondholders because they have taken a leveraged or funded position.

Mr. Gibbs presented an update on recent meetings at which staff had informed the rating agencies of the Authority's changes to the Use and Lease Agreement. He reported that there had been specific events that had challenged the Authority's financial position in managing situations beyond its control. Mr. Gibbs stated that the changes to the Use and Lease Agreement and the negotiations with the airline partners had strengthened the Authority's financial structure with regard to coverage and the cost per enplaned passenger at Dulles International in advance of some of the Authority's future capital objectives. He stated that Reagan National and Dulles International are among the best-rated airports in the country and these recent changes should be viewed as fairly unprecedented, unique and represent a strong recognition of quality management.

Mr. Conner asked if the rating agencies had reacted to the three-year term for the agreement at Dulles International. Mr. Gibbs stated that he believed the rating agencies recognized the strategy. Mr. Potter stated that staff had presented the terms up front and had noted that the airlines at Reagan National wanted to make capital investments to catch up to the growth that had occurred at the Airport, which drove the Use and Lease Agreement to a 10-year and three-year term deal.

Mr. Curto noted that another rating agency, other than the three the Authority had historically used, existed and inquired about peer airports using this different rating agency and the competition among the rating agencies. Mr. Gibbs stated that the fourth agency entrant into the market is the Kroll Bond Rating Agency, which had assigned ratings to Dallas/Fort Worth and Columbus Regional Airports.

<u>October 2014 Financial Report – Aviation Enterprise</u>. Mr. Rountree was joined by Chris Wedding, Controller. He reported that the year-to-date revenue was $567.9 million, which was 1.7 percent lower than the prior year-to-date. Year-to-date expenses were $481.7 million, an increase of 1.4 percent compared to the prior year-to-date. The operating income was $86.1 million, compared to the prior year operating income of $102.5 million. The debt service coverage estimate was 1.43x at the end

of October. Mr. Rountree reported that the official estimate of 1.39x coverage is expected to be near 1.40x by the end of the year.

Financial Advisors' Report – Dulles Corridor Enterprise. Mr. Rountree was joined by Bryan Grote of Mercator Advisors LLC and Michael Wheet of Frasca & Associates, LLC. Mr. Grote reported that Loudoun and Fairfax counties were scheduled to finalize their TIFIA loans within the next couple of weeks. Mr. Rountree noted that the Authority is unable to draw on its TIFIA loan until the two counties had closed their loans. Mr. Grote reported that Fairfax had finalized its plan to fund the Herndon and Innovation Center garages by issuing parking system revenue tax bonds. He noted that the transaction was part of its negotiations with the Department of Transportation (DOT) that is contingent on executing its TIFIA loan.

Mr. Wheet explained the difference between Aviation and Dulles Toll Road debt structure. He noted that a substantial amount of the debt for the Toll Road is non-callable and/or taxable and that a penalty would be incurred for bonds redeemed prior to maturity.

Mr. Curto inquired whether the process for the counties to finalize their TIFIA loans was different than the one used for the Authority. Mr. Rountree stated the only difference was linked to the nature of the underlying credit in which case the Authority's is tolls and the counties is taxes. Mr. Grote noted that from the beginning, DOT had to conduct an appropriation credit risk assessment for Fairfax and Loudoun counties. He stated that there is a moral obligation to appropriate, and because the Authority has non-recourse toll revenues, DOT was more familiar with its type of credit risks associated with the TIFIA loan.

Mr. Session asked whether the Authority would possibly make its first TIFIA draw down as early as January 2015 provided the Loudoun loan was executed by the end of the month. Mr. Rountree responded affirmatively and presented the details of the draw down process. He stated that thirty days before making the request, detailed receipts had to be submitted to the TIFIA office to validate eligibility. Once those receipts had been approved, an actual draw request could be submitted by the first day of any given month. Mr. Rountree explained that the Authority had already submitted eligible receipts, many of which had been approved, so the Authority would be in a position to draw down on the loan once both counties had finalized their loans. Consistent with the agreement, the Authority would receive its payment by the 15th of each month.

In some instances, the same expenditure that the Authority submitted early and sought approval from TIFIA would be used to bill the counties for their share of the Project. The counties would then use those approved receipts and request their draws, under their respective loans so that they can pay the Project Office. Mr. Grote added that the TIFIA process is more complex because of multiple partners with separate loans for the same project.

Mr. Adams inquired about the counties' process for submitting their reimbursements for TIFIA draws through the Authority. Mr. Rountree explained that as the builder of the Project, the Authority makes all payments. He stated that the Authority's payments are the results of invoices it paid, which includes all of the details required by TIFIA. Some of the details would be used to support the Authority's TIFIA loan and others would be to support a bill that the Authority would present to the two counties, separately, to allow them to draw down from their respective loans so that they can pay the Authority for their portions. Mr. Rountree reported that the Controller for the Dulles Corridor Metrorail Project Office tracks the process to ensure compliance.

<u>October 2014 Financial Report – Dulles Corridor Enterprise.</u> Mark Adams, Deputy Chief Financial Officer, reported that year-to-date Toll Road revenue was $125.1 million, 17 percent higher than the prior year-to-date. Toll Road transactions totaled 81.1 million year-to-date, 2.4 percent lower than prior year-to-date and 1.2 percent higher than forecasted year-to-date. Electronic toll collections were up 3 percent at 83 percent. Toll Road expenditures were $22.4 million year-to-date, 5.4 percent higher than prior year-to-date.

Mr. Chapman referenced the Toll Road transactions and inquired whether the higher than forecasted amount had occurred as a result of price sensitivity. Mr. Adams stated that the forecast had been updated midway through the year as part of the submittal for the TIFIA loan and that the Toll Road transactions were now consistent with the forecasted amount.

The Meeting was thereupon adjourned at 9:04 a.m.