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

MARCH 2014
DULLES CORRIDOR ENTERPRISE
REPORT OF THE FINANCIAL ADVISORS

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

Action Items

No Action Items to Report

Informational Items

- ***Transportation Infrastructure Finance and Innovation Act (TIFIA) Program.*** On February 24, 2014, the United States Department of Transportation (USDOT) invited the Airports Authority, Fairfax County, and Loudoun County to submit applications for TIFIA credit assistance.

  The supporting documentation required for a complete TIFIA application is extensive. Staff and advisors for the Airports Authority and the Counties are working together to ensure that everything is submitted as soon as possible.

  By statute, USDOT must inform each applicant whether its application is complete, or if not complete identify additional materials needed for completion, within 30 days of receiving the application. No later than 60 days after issuing a notice that an application is complete, USDOT will inform the applicant as to whether the application is approved or disapproved.

  The time required to close an approved TIFIA loan depends on many factors. In addition to negotiating the final terms of the TIFIA loan agreement, the Airports Authority will need to secure investment grade ratings for the TIFIA loan from at least two nationally recognized rating agencies and obtain confirmation from the Federal Transit Administration that the Airports Authority is in compliance with all applicable federal requirements.

- ***2014 Plan of Finance.*** The Finance Team continues to prepare for the issuance of long-term DTR revenue bonds in the first half of 2014. Current tasks include drafting key transaction documents and planning rating agency presentations. Over the next few weeks, Finance Staff and the Financial Advisors will also work with the three investment banking firms selected to negotiate a potential TIFIA anticipation note transaction to develop structuring options for Committee and Board consideration.

- ***Parking Garages at the Loudoun Metrorail Stations.*** On January 23, 2014, the Loudoun County Board of Supervisors officially notified USDOT that it intends to finance and construct three parking facilities at the two Metrorail stations to be located in the County. The commitment is contingent upon USDOT providing the County with the requested TIFIA credit assistance.

  The County Board of Supervisors has also directed its staff to continue to evaluate four proposals submitted by private developers on October 30, 2013, in response to a request for proposals to develop the parking facilities under the Commonwealth's Public Private Transportation Act of 1995 (PPTA). A staff recommendation to begin negotiations for the garages could be presented to the County Board of Supervisors in June 2014. Negotiations are anticipated to take up to 12 months depending on the number of firms selected to participate in the negotiations.

Relevant News Items

- ***Tolling of the Elizabeth River Crossings.*** Toll collection on the existing Midtown and Downtown Tunnels between the cities of Norfolk and Portsmouth, Virginia, began on February 1, 2014. The toll revenue will help fund a $2.1 billion project that is being developed under the PPTA by Elizabeth River Crossings LLC (ERC), a joint venture of Skanska Infrastructure Development and Macquarie Group Limited. ERC is constructing a new two-lane tunnel under the Elizabeth River parallel to the Midtown Tunnel, renovating the Downtown Tunnel, and extending the MLK Expressway in Portsmouth to I-264.

  On January 15, 2014, the Commonwealth Transportation Board approved $82.5 million of additional state funding for the project which enabled ERC to reduce peak hour toll rates from $1.84 to $1.00 and off-peak toll rates to $0.75 from $1.59.[1] Drivers without an E-ZPass transponder are charged a processing fee that is capped under Virginia law at two times the base toll rate.

[1] Peak period is Monday through Friday from 5:30 am eastern time to 9:00 am eastern time and 2:30 pm eastern time to 7:00 pm eastern time.

Pursuant to its agreements with the Commonwealth, ERC can increase toll rates by 25 cents on January 1, 2015 and January 1, 2016. Beginning January 1, 2017 (or upon substantial completion of the new Midtown Tunnel), ERC can increase toll rates every year at a rate equal to the greater of the change in the consumer price index or 3.5 percent.

This is the second time the Commonwealth has allocated additional state funding to the project in order to delay or reduce toll collections. In June 2012, the Commonwealth increased its total financial commitment from $308 million to $420 million in exchange for ERC deferring the commencement of tolling from September 2012 to February 2014.

- ***Dulles Greenway Toll Rate Investigation and Proposed 2014 Toll Increase.*** On January 30, 2014, the Hearing Examiner appointed by the Virginia State Corporation Commission (SCC) to investigate complaints regarding the toll rates charged by the private operator of the Dulles Greenway toll facility released a 67-page report that includes summaries of the legal briefs, expert testimony and public comments submitted over the past year regarding the operation and toll rate structure of the Dulles Greenway.

  One of the key findings in the report is that the SCC's authority to modify or reduce current rates on the Dulles Greenway is constrained by state legislation enacted in 2008 that explicitly permits annual toll adjustments from 2013 through the year 2020 if the increase is limited to the greater of the consumer price index plus one percent, real GDP growth, and 2.8 percent.

  Arguments made by Virginia Delegate David Ramadan and Loudoun County that the toll rates are unlawful because they materially discourage use of the Greenway and are unreasonable in relation to the benefit obtained by users were generally found not to be persuasive. The Virginia SCC Hearing Examiner did agree, however, that off-peak toll rates for multi-axle vehicles are too high and should be reduced by 16 percent based on a cost benefit analysis. A recommendation was also made that the SCC reconsider the process it uses to determine the authorized rate of return on the private investment in the Greenway and direct the owners to perform a feasibility study for a distance-based toll structure.

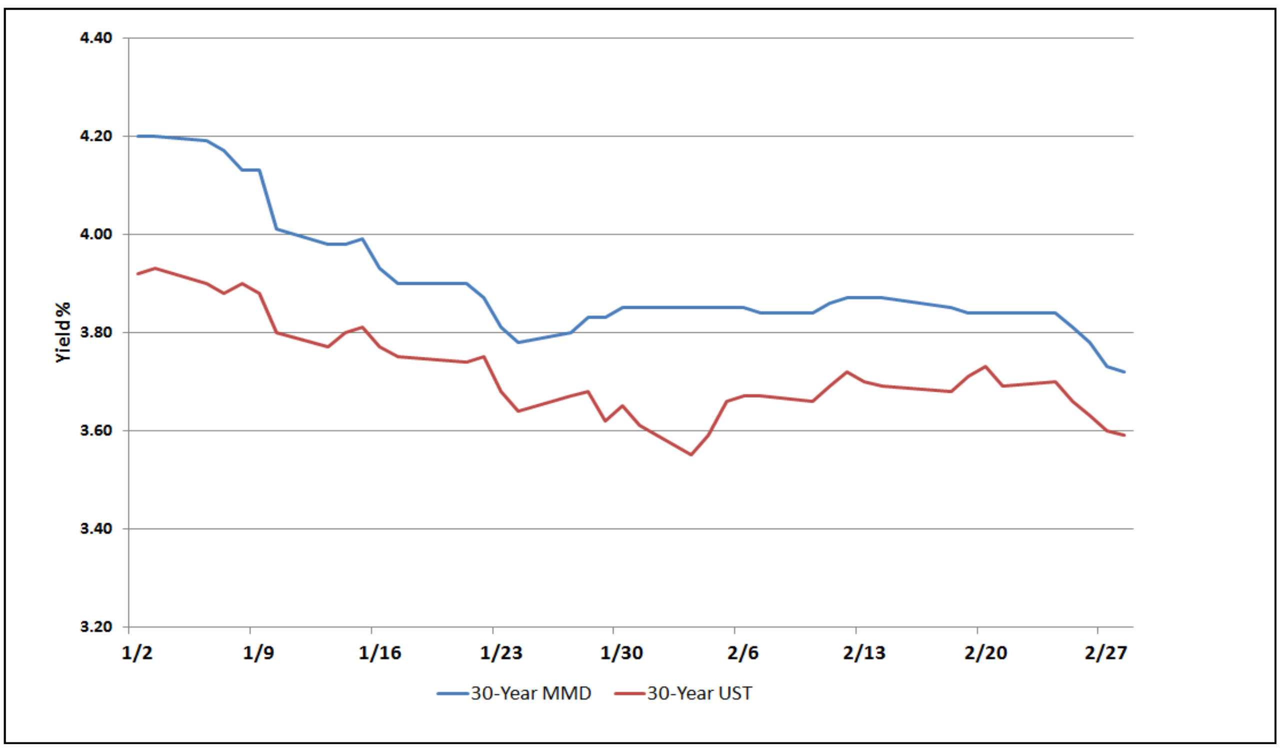
  The SCC is currently considering a request from the owner of the Greenway to increase toll rates by 2.8 percent in 2014. If the request is approved, the toll rate for 2-axle vehicles will increase 15 cents, from $4.10 to $4.25, and the Congestion Management Toll (applicable only to weekday traffic in the peak period and direction) will increase 20 cents from $4.90 to $5.10. The proposed toll rate increase includes a 3-cent surcharge to offset a portion of an approximately 24 percent increase in local property taxes paid by the private operator to Loudoun County and the Town of Leesburg in 2013.

<u>Market Update</u>

When the Federal Reserve merely hinted in May of last year that it might be getting close to tapering, Treasury bond prices plummeted in anticipation of the impact it would have on their value. The financial press seized on the notion that bonds were more volatile than stocks, and by mid-December, investor sentiment regarding Treasuries was the most bearish it had been in at least seven years. January and February seemed to open a new chapter. Treasuries yields steadily declined in January – a rally that began after the Federal Reserve's announcement that tapering would commence in January - and continued through February even after it confirmed $10 billion of tapering, with probable maintenance of that pace in the months to follow. It appears that investors, nervous about stock market performance and concerned about events in emerging markets, believe that bonds are a safe haven, after all.

The municipal market experienced a strong rally in tandem, with the 30-year MMD index declining by about 50 basis points from where it stood at the start of the year. A very light supply of bonds has facilitated the decline in rates. As tax filing time approaches, there may be an uptick in rates as bonds are liquidated to pay taxes causing an unfavorable supply-demand dynamic. Two major toll road issues sold during the month – Illinois Toll Road and the New York State Thruway, both higher grade (viz., mid-A rated or higher) credits.

Treasury Rates and Municipal Market Data (MMD) Index – January and February 2014



On March 4, 2014, the interest rate for a 35-year TIFIA loan was 3.59 percent.

MONTHLY UPDATE: OUTSTANDING DULLES CORRIDOR ENTERPRISE DEBT

SHORT-TERM NOTES AND LOANS

Commercial Paper Notes. As of March 1, 2014, the Airports Authority has issued the entire $300 million of Dulles Toll Road Second Senior Lien Commercial Paper Notes, Series One. There is no additional capacity available to draw under the program.

Program	Authorized Amount	Letter of Credit Provider	Dated Date	Expiration Date
Commercial Paper Series One	*Up to $300 Million*	*JP Morgan*	*August 1, 2011*	*August 11, 2014*

The following tables show the rolling three-month averages of the Commercial Paper Notes and the Securities Industry and Financial Markets Association (SIFMA) Index on a monthly basis for 2014 and the rolling 12-month averages for previous years. [2]

2014 Variable Interest Rates (3-Month Rolling Average)

Monthly	CP 1 JPM	SIFMA	Spread
February 2014	0.13%	0.04%	0.09%
January 2014	0.13%	0.05%	0.08%

Previous Years Variable Interest Rates (12-Month Rolling Average)

Calendar Year	CP 1 JPM	SIFMA	Spread
2013	0.15%	0.09%	0.06%
2012	0.20%	0.16%	0.04%
2011 [3]	0.18%	0.15%	0.03%

[2] The SIFMA index is a national rate based on a composite of approximately 250 issuers of high-grade, seven-day tax-exempt variable rate demand obligation issues of $10 million or more.

[3] 08/11/11 through the end of the calendar year

FFGA Notes. On December 17, 2012, the Airports Authority issued $200 million of fixed rate notes secured by the remaining Federal funding anticipated to be received pursuant to a Full Funding Grant Agreement (FFGA) with the Federal Transit Administration for Phase 1 of the Rail Project.

Program	Amount Issued	Rate	Lender	Dated Date	Scheduled Final Maturity
FFGA Notes, Series 2012	***$200 Million***	***2.16%***	***Bank of America***	***December 1, 2012***	***December 1, 2016***

DTR Subordinate Lien Revenue Notes. On November 22, 2013, the Airports Authority sold $150 million of Dulles Toll Road Subordinate Lien Revenue Notes, Series 2013. The Notes bear interest at a fluctuating rate per annum equal to the SIFMA Rate plus 0.24 percent. An additional $150 million has been authorized but not issued.

Program	Authorized Amount	Purchaser	Dated Date	Scheduled Final Maturity
DTR Subordinate Lien Revenue Notes, Series 2013	***Up to $400 Million***	***JP Morgan Chase Bank***	***November 22, 2013***	***November 19, 2014***

MONTHLY UPDATE: OUTSTANDING DULLES CORRIDOR ENTERPRISE DEBT

DULLES TOLL ROAD REVENUE BONDS

The total par amount of outstanding Dulles Toll Road Revenue Bonds as of March 1, 2014 is $1,305,906,518.[4] The tables below provide details on each series of bonds.

Structure and Credit Ratings

SERIES [5]	2009A	2009B	2009C	2009D	2010A	2010B	2010D
DATED DATE	8/12/2009	8/12/2009	8/12/2009	8/12/2009	5/27/2010	5/27/2010	5/27/2010
LIEN	First Senior	Second Senior	Second Senior	Second Senior	Second Senior	Second Senior	Subordinate
STRUCTURE	Tax-Exempt Current Interest Bonds	Tax-Exempt CABs	Tax-Exempt Convertible CABs	Taxable Build America Bonds	Tax-Exempt CABs	Tax-Exempt Convertible CABs	Taxable Build America Bonds
ORIGINALLY ISSUED PAR AMOUNT	$198,000,000	$207,056,689	$158,234,960	$400,000,000	$54,813,219	$137,801,650	$150,000,000
AMT OUTSTANDING as of 03/01/2014	**$198,000,000**	**$259,654,084**	**$211,744,259**	**$400,000,000**	**$70,047,473**	**$175,296,377**	**$150,000,000**
MOODY'S RATING	A2	Baa1	Baa1	Baa1	Baa1	Baa1	Baa2
S&P RATING	A	BBB+	BBB+	BBB+	BBB+	BBB+	BBB
CREDIT ENHANCEMENT [6]	None	$188,266,435 Assured Guaranty	$158,234,960 Assured Guaranty	None	None	None	None

[4] The par amount does not include approximately $159 million of net accreted value on outstanding capital appreciation bonds and convertible capital appreciation bonds. Interest on those securities is not paid currently. It accretes from the date of issuance and is compounded semi-annually on each April 1 and October 1 until the maturity date, or if applicable, the conversion date, whereupon interest will be payable semi-annually.

[5] Series 2010C was authorized but not issued.

[6] Bonds insured by Assured Guaranty are rated “AA-” (stable outlook) by S&P and “A2” (stable outlook) by Moody’s.

Interest Rates and Call Provisions

SERIES [7]	2009A	2009B	2009C	2009D	2010A	2010B	2010D
AMT OUTSTANDING as of 6/1/2013	**$198,000,000**	**$254,772,314**	**$200,754,159**	**$400,000,000**	**$66,344,484**	**$166,197,038**	**$150,000,000**
LIEN	First Senior	Second Senior	Second Senior	Second Senior	Second Senior	Second Senior	Subordinate
STRUCTURE	Tax-Exempt Current Interest Bonds	Tax-Exempt CABs	Tax-Exempt Convertible CABs	Taxable Build America Bonds	Tax-Exempt CABs	Tax-Exempt Convertible CABs	Taxable Build America Bonds
PRINCIPAL AMORTIZATION	2030-2044	2012-2040	2038-2041	2045-2046	2029-2037	2040-2044	2042-2047
YIELDS [8]	5.18% to 5.375%	3.50% to 7.91%	6.50%	7.462% (4.85% net of subsidy)	6.625%	6.500%	8.00% (5.20% net of subsidy)
CALL PROVISIONS [9]	October 1, 2019 at Par	Non-Callable	October 1, 2026 at Accreted Value	Any Business Day at Make-Whole Redemption Price	Non-Callable	October 1, 2028 at Accreted Value	Any Business Day at Make-Whole Redemption Price

Refunding Opportunities

The Series 2009A First Senior Current Interest Bonds may be refunded in advance of the 2019 call date. Under current market conditions, a refunding transaction would not generate any debt service savings due to significant negative arbitrage in the required refunding escrow.

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[7] Series 2010C was authorized but not issued.

[8] The all-in interest cost for the Series 2009 and 2010 bond issues is 6.044 percent and 6.154 percent, respectively, which results in an overall average cost of capital to date of 6.073 percent.

[9] The Make-Whole Redemption Price is the greater of (i) 100 percent of the principal amount of the Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the adjusted Treasury Rate plus 50 basis points, plus accrued and unpaid interest on the Bonds to be redeemed on the redemption date.