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

SEPTEMBER 2013
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

- ***Potential Selection of Senior Manager(s) for DCE Financings.*** On August 9, 2013, the Airports Authority received ten responses to a request for proposals issued to members of the Dulles Corridor Enterprise underwriting syndicate soliciting ideas and recommendations for financing the remaining Rail Project costs allocated to the DTR.

  In accordance with the procurement process outlined in the Contracting Manual, an Evaluation Committee was established to review and score the proposals. The Evaluation Committee has completed its work and recommends that the Finance Committee select senior manager(s) for the upcoming DCE Financings.

Informational Items

- ***Transportation Infrastructure Finance and Innovation Act (TIFIA) Program.*** Staff and advisors for the Airports Authority, Fairfax County, and Loudoun County continue to make progress in responding to follow-up questions and other due diligence information requests from the United States Department of Transportation (USDOT) and its advisors.

  When the credit review has been completed, the next stage in the process will be submission of a formal TIFIA application (by USDOT invitation only) and negotiation of the specific terms and conditions for the proposed TIFIA loans. Given the substantial amount of analysis done during the credit review, USDOT estimates that an application can be approved within 90 days after receipt. If an application is approved, credit and business terms for the financing are negotiated and the loan agreement is drafted. The estimated timeframe for execution of a credit agreement, on terms acceptable to the Secretary of Transportation, is approximately 60 days from approval of the application.

- ***Sequestration Reduction on the Build America Bonds (BABs) Subsidy.*** The automatic spending cuts under the Balanced Budget and Emergency Deficit Control Act included mandatory reductions of 8.7 percent in the federal subsidy payments to issuers of BABs.

  The Airports Authority has issued $550 million of taxable BABs to fund the Rail Project. Semi-annual interest payments on those bonds total $20.924 million and are payable on April 1 and October 1 of each year. The Airports Authority received the entire 35 percent direct federal subsidy of $7,323,400 for the April 1, 2013, interest payment because it filed the applicable paperwork before the March 1, 2013 effective date of the sequester.

  The federal credit payment for the October 1, 2013, interest payment on the outstanding BABs will be reduced by $637,135.80 (8.7 percent of $7,323,400). That amount will now be paid from toll revenue. The reduction will not have a material effect on the DTR operating cash flow or the toll revenue bond credit, and staff advises that the 2013 Budget has sufficient flexibility to cover this added cost without adjustment. The effective annual subsidy rate on the BABs after the reduction will be approximately 33.48 percent instead of the anticipated 35 percent.

  Whether the Federal Government reinstates the full subsidy or continues to apply sequester reductions in future years depends on future budget and/or tax legislation.

Relevant News Items

- ***State Funding for Maryland Purple Line.*** On August 5, 2013, Governor Martin O'Malley announced that the State of Maryland will provide $400 million to fund construction of the $2.2 billion Purple Line project, the proposed 16-mile light rail link between Bethesda in Montgomery County and New Carrollton in Prince George's County. The new funding is in addition to $280 million of state funding previously committed to complete right-of-way acquisition and final design of the project.

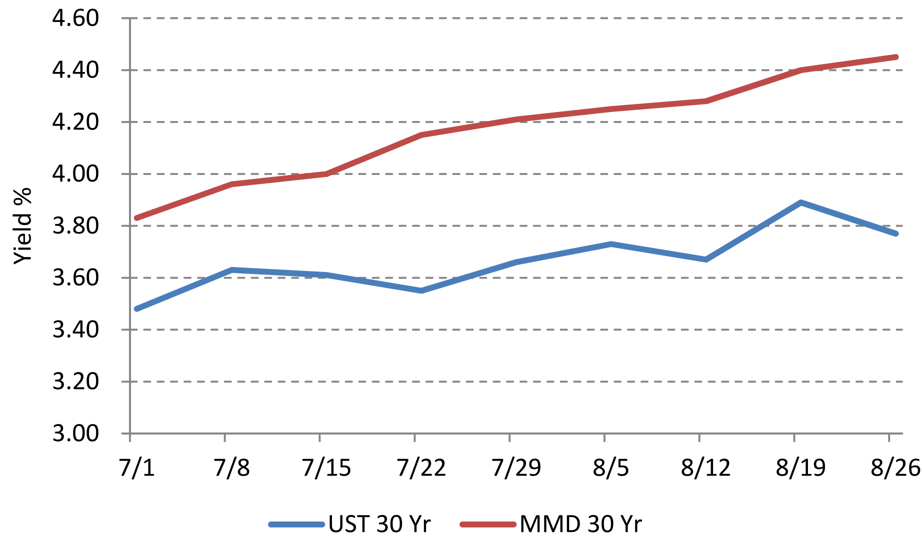
  The State is seeking federal transit grants for 50 percent of the Purple Line capital cost and expects the remainder to be paid for with a combination of state and local financial contributions and private investment. The Purple Line will be delivered under Maryland's new public-private partnership statute (HB 560). Maryland DOT and the Maryland Transit Administration will use a competitive solicitation process to select a private partner to complete design, construct, operate, maintain and provide a portion of the financing for the project in exchange for annual payments over a 30 to 40-year contract.

- ***Second TIFIA Loan for Chicago.*** On August 21, 2013, the City of Chicago executed a credit agreement for a $288 million TIFIA loan that will fund up to 33 percent of the eligible costs of various improvements at O'Hare International Airport, including construction of a consolidated rental car and parking facility and an extension of the automated transit system. The budget for the entire project is approximately $817 million, excluding financing costs, and the Chicago Department of Aviation anticipates the project will be completed in 2016. The City of Chicago previously closed a $99 million TIFIA loan in June 2013 that will help fund the Chicago Riverwalk Expansion / Wacker Drive Reconstruction Project. That loan was the first to close under the newly-expanded TIFIA program enacted by Congress in 2012 in the Moving Ahead for Progress in the 21st Century Act (MAP-21).

- ***USDOT Update on TIFIA Requests.*** As of August 19, 2013, USDOT reports that it has received 34 Letters of Interest (LOIs) from project sponsors seeking TIFIA loans since enactment of MAP-21 last summer: Two have resulted in executed credit agreements (for the Chicago projects noted above); three projects are in the application review stage (one in Louisiana and two in California); thirteen projects, including the Dulles Corridor Rail Project, are in the creditworthiness review stage; four projects are in the initial eligibility review stage; nine projects are on hold pending completion of environmental, legislative, procurement or other requirements; two projects have been declared not eligible for TIFIA assistance; and one project has been withdrawn from the TIFIA process.

Market Update

From the beginning of July to mid August, better than expected economic data and a strong employment report caused Treasury rates to rise as investors speculated about the timing of Federal Reserve action. On August 21, the Federal Open Market Committee (FOMC) minutes were released which outlined a path for the Federal Reserve Board to begin tapering Quantitative Easing (QE) at the September FOMC meeting, barring a weak August labor report. On the tax exempt side, 30-year MMD increased 62 basis points from the beginning of July to the end of August, as municipal bond funds continued to face persistent outflows.



On August 25, 2013, the interest rate for a 35-year TIFIA loan was 3.75 percent.

MONTHLY UPDATE: OUTSTANDING DULLES CORRIDOR ENTERPRISE DEBT

SHORT-TERM NOTES AND LOANS

Commercial Paper Notes. As of September 1, 2013, 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 table shows 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 2013 and the rolling 12-month averages for previous years. [1]

2013 Variable Interest Rates (3-Month Rolling Average)

Monthly	CP 1 JPM	SIFMA	Spread
August 2013	0.15%	0.06%	0.09%
July 2013	0.17%	0.10%	0.07%
June 2013	0.17%	0.14%	0.03%
May 2013	0.16%	0.15%	0.01%
April 2013	0.16%	0.13%	0.03%
March 2013	0.17%	0.10%	0.07%
February 2013	0.18%	0.11%	0.07%
January 2013	0.20%	0.14%	0.06%

[1] 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.

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

Calendar Year	CP 1 JPM	SIFMA	Spread
2012	0.20%	0.16%	0.04%
2011 [2]	0.18%	0.15%	0.03%

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***

[2] 08/11/11 through the end of the calendar year

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 September 1, 2013 is $1,305,906,518.[3] The tables below provide details on each series of bonds.

Structure and Credit Ratings

SERIES [4]	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 6/1/2013	**$198,000,000**	**$260,223,544**	**$205,080,262**	**$400,000,000**	**$67,801,547**	**$169,778,574**	**$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 [5]	None	$188,266,435 Assured Guaranty	$158,234,960 Assured Guaranty	None	None	None	None

[3] The par amount does not include approximately $145 million of 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.

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

[5] 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 [6]	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 [7]	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 [8]	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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6 Series 2010C was authorized but not issued.

7 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.

8 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.