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

JULY 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 (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

- ***Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan.*** As a separate agenda item, Finance Staff and the Financial Advisors will request that the Finance Committee recommend to the Board approval of a resolution that authorizes the issuance of up to $1,278,000,000 Dulles Toll Road Junior Lien Revenue Bonds TIFIA Series 2014.

  The proposed resolution also authorizes and directs the Chairman of the Board of Directors to execute several documents associated with the transaction, including the TIFIA Loan Agreement with the United States Department of Transportation.

- ***TIFIA Anticipation Note.*** On November 13, 2013, the Board authorized the Finance Staff, with assistance from the Financial Advisors, to engage in negotiations with three investment banking firms qualified to provide short-term construction financing for the Rail Project secured in whole or part by the TIFIA Loan.

  After extensive analysis of the information provided by the three firms in May 2014 in response to a request for additional information, the Financial Advisors recommend that this solicitation be cancelled. The rationale for not pursuing a TIFIA anticipation note transaction at this time is based on:

  - Insufficient Savings with a Fixed Rate Structure - Under current market conditions, a single fixed rate note transaction with a term longer than four years will not produce savings relative to drawing on the low-cost TIFIA Loan directly. To enhance potential savings, the firms proposed to reduce the size and term of the fixed rate notes and issue one or more series of variable rate notes. The proposals are creative, but result in added complexity and risk. In addition, the Airports Authority can achieve similar results with its existing commercial paper program.

- <u>No Near-Term Reduction in DTR Toll Rates</u> - Given the constraints on the use of net toll revenue under the TIFIA Loan Agreement, any potential savings generated with TIFIA anticipation notes could enable the Airports Authority to pay off the TIFIA Loan a little more quickly. But the transaction would not impact DTR toll rates prior to the final maturity of the TIFIA Loan.

The efficacy of TIFIA anticipation notes can be re-examined periodically. Key considerations will be short-term interest rate levels, refinements to projected expenditures, and the efficiency of the process established for draws on the TIFIA Loan.

<u>Informational Items</u>

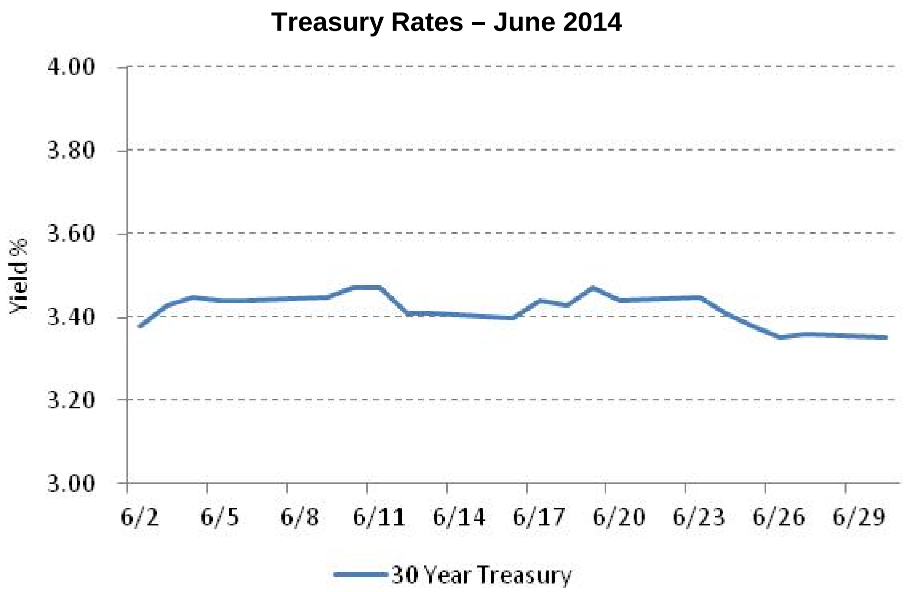
- ***Commonwealth of Virginia Funding for Phase 2***. On June 26, the Airports Authority received $100 million of the $300 million state grant for the Rail Project that was authorized by the Virginia General Assembly during its 2013 session. Pursuant to the funding agreement with the Commonwealth, another $100 million will be delivered on or before June 30, 2015, and the remaining $100 million by June 30, 2016.

- ***Amendments to Existing DTR Commercial Paper Program***. On July 1, the Reimbursement Agreement with JPMorgan Chase Bank, National Association, was amended to increase the aggregate principal amount of Commercial Paper Notes that can be issued to $300,000,000, which means the Airports Authority now has the flexibility to draw an additional $185,545,000 under this program. In addition, the Letter of Credit Expiration Date was extended to August 11, 2015.

- ***Parking Garages at the Loudoun Metrorail Stations.*** On June 18, the Loudoun County Board of Supervisors (Board) instructed Loudoun County staff to enter into negotiations for a comprehensive agreement with Comstock Partners for the design, construction and operation of the parking garage at the Route 772 North Metro station in Loudoun. The Board also directed Loudoun County staff to enter into negotiations for a comprehensive agreement with Nexus Properties for the design, construction and operation of the parking garage at Route 772 South and the parking garage that will serve the Route 606 Metro station.

Market Update

For June, Treasuries moved in different directions amidst mixed feelings on comments from the Fed and various economic releases. By the end of the month, long term Treasury rates decreased by 12 basis points from the high point of the month.



The interest rate on the TIFIA loan is based on the State and Local Government Series (SLGS) rate. SLGS are special purpose securities that the Treasury issues to state and local government entities. The interest rate on the TIFIA loan is 1 basis point higher than the 30-year SLGS rate, which is available on a daily basis. On July 1, the interest rate for a 35-year TIFIA loan was 3.38 percent.

MONTHLY UPDATE: OUTSTANDING DULLES CORRIDOR ENTERPRISE DEBT

SHORT-TERM NOTES AND LOANS

Commercial Paper Notes. On June 23, the Airports Authority issued $60,000,000 of Dulles Toll Road Second Senior Lien Commercial Paper Notes, Series One. This brought the outstanding balance of Commercial Paper Notes to $114,455,000 as of June 30, 2014.

On July 1, the Reimbursement Agreement with JPMorgan Chase Bank, National Association, was amended to increase the aggregate principal amount of Commercial Paper Notes that can be issued to $300,000,000, which means the Airports Authority can draw an additional $185,545,000 under this program. In addition, the Letter of Credit Expiration Date was extended to August 11, 2015.

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, 2015***

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 2014. [1]

2014 Variable Interest Rates (3-Month Rolling Average)

Monthly	CP 1 JPM	SIFMA	Spread
June 2014	0.09%	0.08%	0.01%
May 2014	0.09%	0.07%	0.02%
April 2014	0.10%	0.06%	0.04%
March 2014	0.12%	0.04%	0.08%
February 2014	0.13%	0.04%	0.09%
January 2014	0.13%	0.05%	0.08%

[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.

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 May 22, the Airports Authority refunded $150 million of Dulles Toll Road Subordinate Lien Revenue Notes, Series 2013, with proceeds of the Series 2014A Bonds. As of July 1, no Subordinate Notes are outstanding. $250 million of Subordinate Notes 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 July 1 is $1,727,666,518.[2] The tables below provide details on each series of bonds.

Structure and Credit Ratings

SERIES [3]	2009A	2009B	2009C	2009D	2010A	2010B	2010D	2014A
DATED DATE	8/12/2009	8/12/2009	8/12/2009	8/12/2009	5/27/2010	5/27/2010	5/27/2010	5/22/2014
LIEN	First Senior	Second Senior	Second Senior	Second Senior	Second Senior	Second Senior	Subordinate	Second Senior
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	Tax-Exempt Current Interest 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	$421,760,000
AMT OUTSTANDING as of 07/01/2014	**$198,000,000**	**$258,108,269**	**$216,210,236**	**$400,000,000**	**$71,552,802**	**$178,994,313**	**$150,000,000**	**$421,760,000**
MOODY'S RATING	A2	Baa1	Baa1	Baa1	Baa1	Baa1	Baa2	Baa1
S&P RATING	A	BBB+	BBB+	BBB+	BBB+	BBB+	BBB	BBB+
CREDIT ENHANCEMENT [4]	None	$188,266,435 Assured Guaranty	$158,234,960 Assured Guaranty	None	None	None	None	None

[2] The par amount does not include approximately $167 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.

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

[4] 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 [5]	2009A	2009B	2009C	2009D	2010A	2010B	2010D	2014A
AMT OUTSTANDING as of 7/1/2014	$198,000,000	$258,108,269	$216,210,236	$400,000,000	$71,552,802	$178,994,313	$150,000,000	$421,760,000
LIEN	First Senior	Second Senior	Second Senior	Second Senior	Second Senior	Second Senior	Subordinate	Second Senior
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	Tax-Exempt Current Interest Bonds
PRINCIPAL AMORTIZATION	2030-2044	2012-2040	2038-2041	2045-2046	2029-2037	2040-2044	2042-2047	2051-2053
YIELDS [6]	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)	4.40%
CALL PROVISIONS [7]	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	April 1, 2022 at Par

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 sufficient debt service savings to pursue a transaction due to significant negative arbitrage in the required refunding escrow.

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

[6] The all-in interest cost for the Series 2009, 2010 and 2014A bond issues is 6.044 percent, 6.154 percent and 4.824 percent, respectively, which results in an overall average cost of capital of 5.843 percent.

[7] 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.