



METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

REPORT TO THE FINANCE COMMITTEE

2014 BUDGET UPDATE SUBMITTED TO THE FINANCE COMMITTEE

November 2013



Budget Highlights

Draft - October 16, 2013

Update - November 13, 2013

Aviation Operation & Maintenance (O&M) Expenses

2.9 percent overall O&M decrease (including debt service)

No change from October 16, 2013 Draft

2014 Salary Adjustments

\$3.2 million for pay for performance program (compensation increases)

No change from October 16, 2013 Draft

Benefit Programs

- Health Insurance estimated at 12.7 percent increase
- Pension funds are funded at annual required contribution levels

Health insurance estimate at 12.2 percent increase, reflecting a \$104 thousand reduction to estimated cost

Personnel

- Eight Aviation Enterprise Positions
- Three Dulles Corridor Positions

No change from October 16, 2013 Draft

Service Contracts Cost Escalation

\$1.3 Million cost escalations

No change from October 16, 2013 Draft

Utilities

Reductions are expected based on the Airport continued participation in the electric cooperative, stable natural gas prices and usage

No change from October 16, 2013 Draft



METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

Budget Highlights *(continued)*

Draft - October 16, 2013

Update - November 13, 2013

Use of PFCs for Debt Service for the AeroTrain

\$40 Million funded with PFC revenue

No change from October 16, 2013 Draft

Aviation Operating Revenues

1.4 percent decrease

1.0 percent decrease

Aviation Capital, Operating & Maintenance Investment Program New Authorization

Prior year COMIP was being reviewed for potential closeout
New authorization for COMIP was under development

\$35.2 Million new authorization funded by
\$32 Million Net Remaining Revenue (NRR)
from 2013 and \$3.2 Million from
reprogramming

Capital Construction Program New Authorization

Prior year CCP was under review and appropriately scaled
with limited debt added to Dulles International

\$44.4 Million new program authorization
is offset by closed-out project balances of
\$43.7 Million for a new increase to the
total CCP of only \$744 thousand

Dulles Corridor Enterprise Budgets

Operation and Maintenance Program \$28.1 Million
Renewal and Replacement Program \$1.4 Million
Capital Improvement Program \$2.3 Million

No change from October 16, 2013 Draft



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Aviation Cost Per Enplanement and Coverage

					Feasibility Report	
					2012 Official Statement FY 2013	2013 Official Statement FY 2014
	Actual 2012	Budget 2013	Budget 2014	Increase (Decrease) 2013 vs. 2014		
<u>Signatory Airline Cost Per Enplanement</u>						
Reagan National	\$12.27	\$14.73	\$11.32	(\$3.41)	\$13.17	\$12.87
Dulles International	\$25.84	\$27.30	\$26.24	(\$1.06)	\$27.49	\$27.79
<u>Debt Service Coverage</u>						
Reagan National	1.51	1.32	1.51	0.19		
Dulles International	1.29	1.30	1.31	0.01		
Combined	1.35	1.31	1.36	0.05		



METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

Aviation Activity Forecast

('000)	Actual 2012	Budget 2013	Projection* 2014	% Change 2013 vs. 2014
<i>Reagan National</i>				
Enplanements	9,788	10,190	10,460	2.6%
Landed Weights	12,846	13,517	13,435	-0.6%
<i>Dulles International</i>				
Total Enplanements	11,517	11,125	11,270	1.3%
Domestic	8,293	7,709	7,701	-0.1%
International	3,224	3,416	3,569	4.5%
Landed Weights	18,625	17,965	18,964	5.6%
<i>MWAA Systemwide</i>				
Enplanements	21,305	21,315	21,730	1.9%
Domestic	18,081	17,899	18,161	1.5%
International	3,224	3,416	3,569	4.5%
Landed Weights	31,471	31,482	32,399	2.9%

* Source: Series 2013ABC Official Statement - Report of the Airport Consultant



METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

2014 Budget Airports Authority New Authorization Programs

Aviation Enterprise Fund	Amount
Aviation Operation and Maintenance (O&M) Program	\$650.6 million
Aviation Capital, Operation and Maintenance Investment Program (COMIP)	\$35.2 million
Aviation Capital Construction Program (CCP)	\$44.4 million

Dulles Corridor Enterprise Fund	Amount
Dulles Corridor Operation and Maintenance (O&M) Program	\$73.8 million
Dulles Corridor Renewal and Replacement Program (R&R)	\$1.4 million
Dulles Corridor Capital Improvement Program (CIP)	\$2.3 million



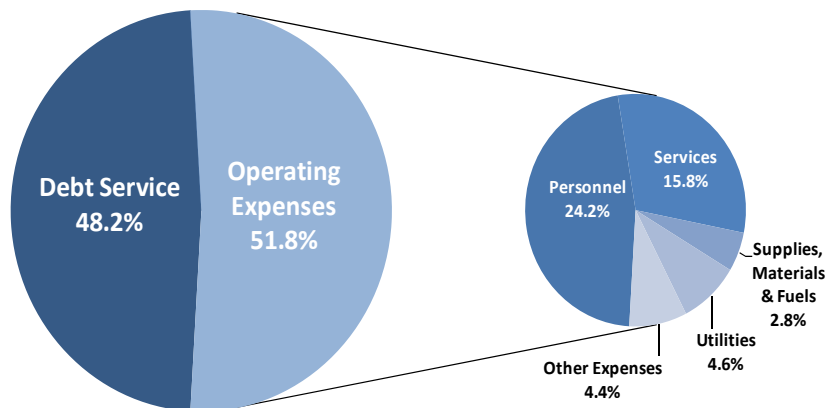
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Aviation Operation and Maintenance (O&M) Program

<i>(dollars in millions)</i>	Budget 2013	Budget 2014		Budget 2013	Budget 2014	% Change
Reagan National	10.5%	10.0%		\$ 70.1	\$ 65.3	-6.9%
Dulles International	21.4%	21.8%		143.2	142.0	-0.8%
Consolidated Functions	11.4%	11.8%		76.7	76.5	-0.3%
Public Safety	8.6%	8.2%		57.3	53.4	-7.0%
Total Operating Expenses	51.8%	51.8%		\$ 347.4	\$ 337.1	-2.9%
Debt Service	48.2%	48.2%		\$ 322.8	\$ 313.5	-2.9%
Total O&M Program	100.0%	100.0%		\$ 670.2	\$ 650.6	-2.9%

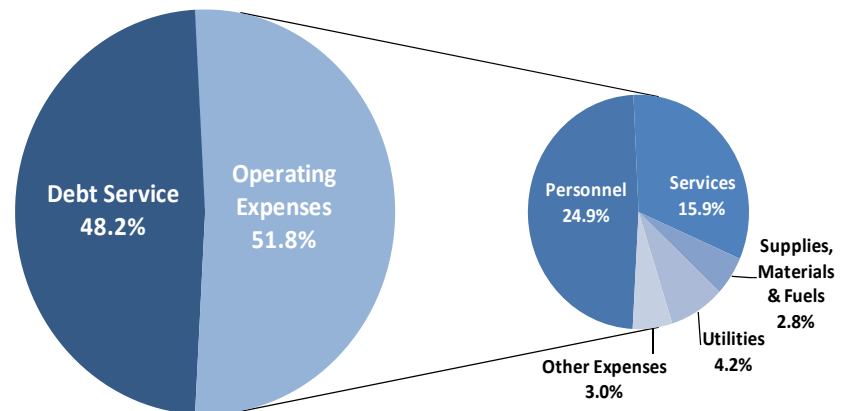
2013 Budget - \$670.2 Million

2013 Budget Operating Expenses
\$347.4 Million



2014 Budget - \$650.6 Million

2014 Budget Operating Expenses
\$337.1 Million





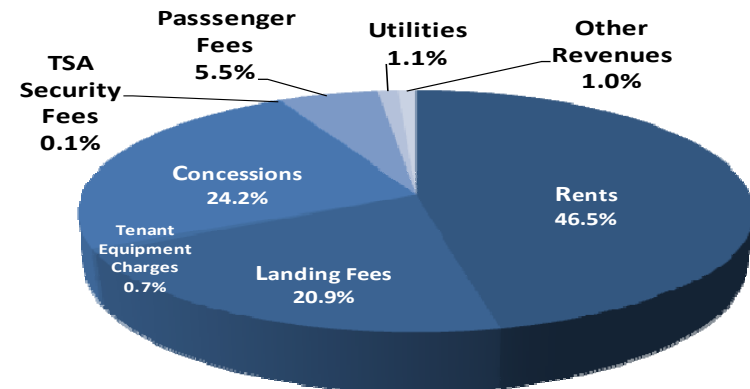
Aviation Operating Revenues*

(dollars in millions)	TOTAL AIRPORT SYSTEM		
	Budget 2013	Budget 2014	Percent Change
Rents	\$ 346.8	\$ 334.5	-3.6%
Landing Fees	156.1	153.6	-1.6%
Tenant Equipment Charges	4.4	4.6	4.3%
Concessions	180.7	196.8	8.9%
Rental Cars**	30.3	36.5	20.4%
Inflight Kitchen	7.4	8.5	15.9%
Parking	68.9	73.9	7.4%
Fixed Base Operator	12.0	12.5	3.9%
Food & Beverage	18.1	19.2	6.0%
Retail & News	12.4	10.9	-12.1%
Services	11.2	8.2	-26.7%
Display Advertising	6.2	12.6	103.6%
Other	14.2	14.5	1.7%
TSA Security Fees	0.8	0.2	-78.8%
International Arrivals Building Fees	23.8	20.4	-14.0%
Passenger Conveyance Fees	17.6	17.3	-1.2%
Utilities	8.3	7.7	-7.5%
Other Revenues	7.2	8.1	13.0%
Total	\$ 745.6	\$ 743.3	-0.3%

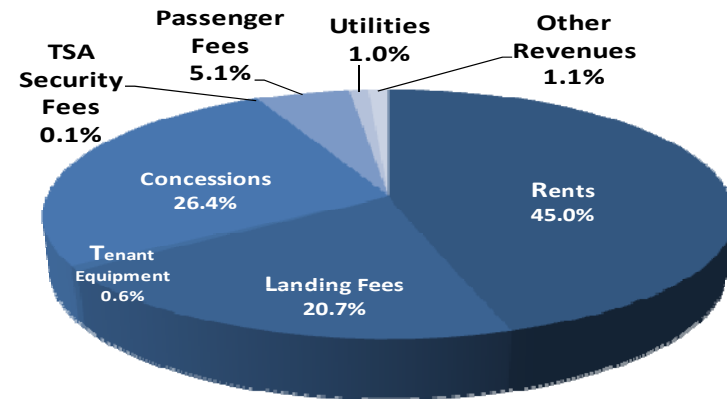
*Funded by revenues from: Airlines Terminal Rents, Landing Fees, Tenant Equipment Charges, International Arrivals Building and Passenger Conveyance Fees are generated on a cost recovery basis and Airport tenants and concessionaires (i.e., parking, rental cars, etc.)

**Includes Customer Contract Fee

2013 Budget Revenues - \$745.6 Million



2014 Budget Revenues - \$743.3 Million





METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

Aviation Capital Operating and Maintenance Investment Program

2014 New Program

(dollars in thousands)

Consolidated Functions

Technology - Infrastructure	\$	2,558
Technology - Business Collaboration		3,950
Consultant (Use and Lease Agreement)		750
CF Equipment 2014		32
Total Consolidated Functions		\$ 7,290

Reagan National

Terminal A Facility Start Up	\$	350
Redundant Power Feed for Airfield NAVAIDs		450
Security Identification Display Area (SIDA) APC Panel Replacement		300
Supplemental Radiation System (SRS)		50
DCA Security Enhancements		700
South Hangar Line Bay Doors Rehabilitation		500
Passenger Loading Bridge (PLB) Rehabilitation		850
ARFF Vehicle Replacement		1,100
DCA H12 DFS Line Replacement		350
North Boat House Demolition		350
Dedicated Fire System/Domestic Water - Williams Hydrant		50
Commercial Program Investment		150
Warehouse Complex Renovation		200
Replace Terminal A Gas Fired Boiler		600
Terminal A Curbside Rehabilitation		250
DCA Equipment 2014		580
PSD-DCA Equipment 2014		1,493
Total Reagan National		\$ 8,323



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Aviation Capital Operating and Maintenance Investment Program *(continued)*

2014 New Program

(dollars in thousands)

Dulles International

Airfield, Pavement Maintenance and Joint Sealing	\$ 3,000
Elevators, Escalators and Moving Walks Rehabilitation	190
JP Morgan Chase Fire Alarm System Replacement	100
Dulles East Building Fire Alarm System Replacement	100
Landside Roadway Rehabilitation	600
West ARFF Road Split	75
Authority-Owned Podiums, Gates, Gate Areas, & Jet Bridge Modifications	800
Automated Passport Control System	1,250
Public Parking Operations Enhancements	470
Main Terminal Pedestrian Door Sensor Replacement Phase I of II.	100
Concourse B Holdroom Modifications	275
Parking Operations Shuttle Buses	2,000
Bus Maintenance Facility Improvements	250
Dulles East Building Boiler and Chiller Replacement	445
Roadway Signage Rehab	325
Lift Net Installation at Concourse A Bridge and Concourse C FIS	300
Ultraviolet Infrared (UVIR) Fire Detection Retro-Commissioning of Z-Gates, Concourse A:	50
Dulles East Building Perimeter Fan Coil Unit Replacement - Ph. I	495
Concourse C/D HVAC Building Automation System (BAS) Network	100
Roof Top Unit (RTU) Replacement Program	300
Carpet Replacement	200
LFT F Water Lateral/ Hydrant/ Cistern Connection	50
MWAA MetroRail Contribution for Non-PFC Eligible Costs	5,000
Commercial Vehicle Lane Curbside Enhancements - Main Terminal	500
IAD Equipment 2014	1,124
PSD-IAD Equipment 2014	1,535

Total Dulles International \$ 19,634

Total Metropolitan Washington Airports Authority \$ 35,247



Aviation Capital Operating and Maintenance Investment Program *(continued)*

The 2014 new program authorization for the COMIP is 35.2 million, \$32 million of which is funded by NRR from the prior year and \$3.2 million is funded by reprogrammings.

(dollars in thousands)

Reprogrammed From:

Consolidated Functions	\$ (6,497)
Total Identified to be Reprogrammed	\$ (6,497)

Reprogrammed To:

Technology Project Initiatives	\$ 3,270
Balance used for 2014 New Program Authorization	\$ 3,227
Total Reprogrammed	\$ 6,497



METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

Aviation Capital Construction Program

2014 New Program			
(dollars in thousands)	Amount	Estimated Funding	
		Bonds	Grants/PCs
<u>Reagan National</u>			
Taxiway and Taxilane Resurfacing Program	\$ 11,505	\$ 11,505	\$ -
DCA Special Systems (i.e., camera upgrades, MUFIDS, etc.)	1,600	1,600	-
Hangar 7 Roof Replacement	1,500	1,500	-
Runways Overlay Program: 1-19, 15-33, and 4-22	8,092	2,023	6,069
Modify Dedicated Fire Service (DFS) System	650	650	-
Total Reagan National	\$ 23,347	\$ 17,278	\$ 6,069
Total Reagan National Closed-out Projects	\$ (12,645)	\$ (12,645)	\$ -
Total Reagan National Net Increase	\$ 10,702	\$ 4,633	\$ 6,069



METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

Aviation Capital Construction Program *(continued)*

2014 New Program			Estimated Funding	
(dollars in thousands)	Amount		Bonds	Grants/PCs
<u>Dulles International</u>				
Hydrant Fueling Cathodic Protection System (Concourse A/B)	\$ 600		\$ 600	\$ -
Cargo Building 7 Apron (GA Parking)	7,100		7,100	-
Airfield Pavement Panel Replacement	5,905		5,905	-
Concourse Modifications for Airbus 380	120		120	-
Concourse C/D Rehabilitation - Hydrant Fueling	2,437		2,437	-
Parking Revenue Control System Replacement	4,915		4,915	-
Total Dulles International	\$ 21,077		\$ 21,077	\$ -
Total Dulles International Closed-out Projects	\$ (31,035)		\$ (31,035)	\$ -
Total Dulles International Net Decrease	\$ (9,958)		\$ (9,958)	\$ -



METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

Aviation Capital Construction Program *(continued)*

2014 New Program		Estimated Funding	
<i>(dollars in thousands)</i>	Amount	Bonds	Grants/PCs
<u><i>Metropolitan Washington Airports Authority</i></u>			
Total Metropolitan Washington Airports Authority New Program	\$ 44,424	\$ 38,355	\$ 6,069
Total Metropolitan Washington Airports Authority Closed-out Projects	\$ (43,680)	\$ (43,680)	\$ -
Total Metropolitan Washington Airports Authority Net Increase (Decrease)	\$ 744	\$ (5,325)	\$ 6,069



METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

Aviation Capital Construction Program *(continued)*

Reagan National *(dollars in thousands)*

- ***Taxiway and Taxilane Resurface Program (\$11,505)*** – Rehabilitation of portions of the taxiway network
- ***Special Systems (\$1,600)*** - Project provides improvement to certain system technologies including flight information display systems, security systems, crashnet phone and others requiring improvement
- ***Hanger 7 Facility Rehabilitation (\$1,500)*** - Project includes design and construction of several major components of the hangar facility. Work includes replacement of the lower roof. This is a multi phase rehabilitation effort
- ***Runway 1/19, 15-33 and 4-22 Overlays (\$8,092)*** - Project funds the balance to complete design and construction
- ***Dedicated Fire Service Modification (\$650)*** - Project addresses modifications to the fire service to improve water surge and pressure issues



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Aviation Capital Construction Program *(continued)*

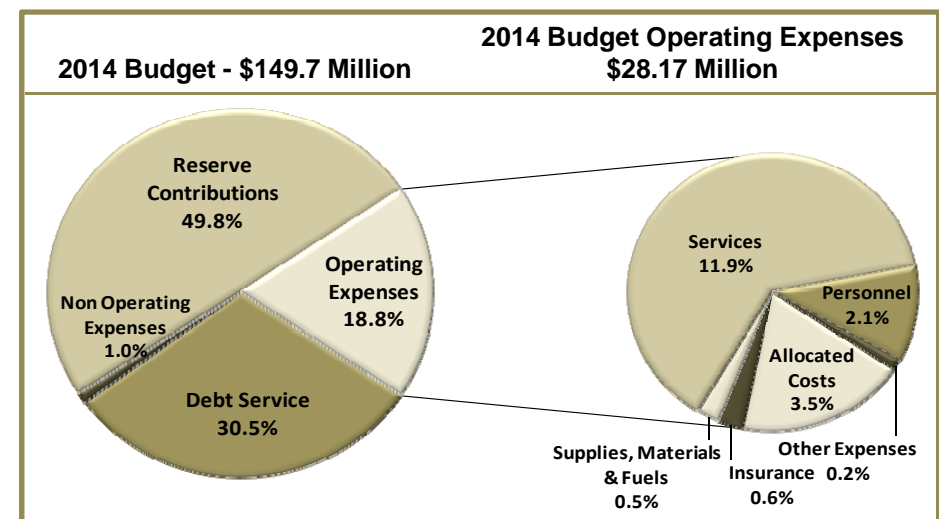
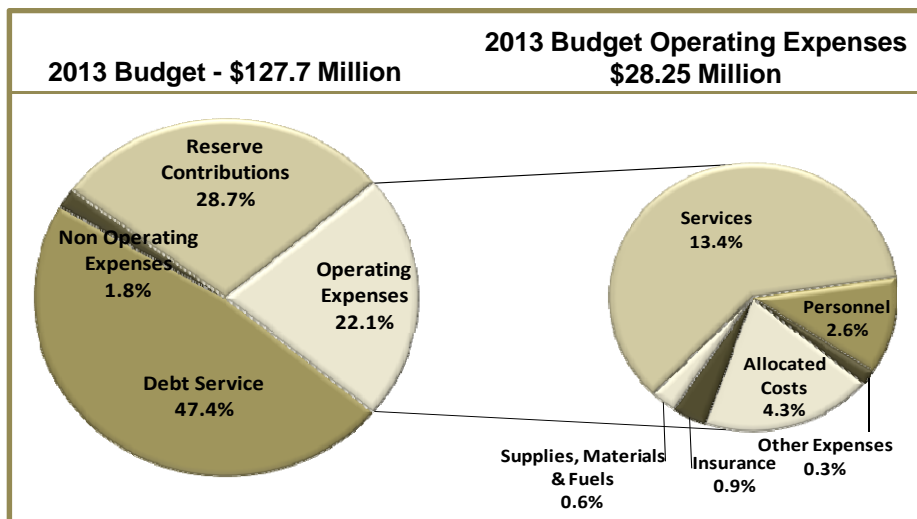
Dulles International *(dollars in thousands)*

- **Hydrant Fueling Cathodic Protection System (\$600)** - Project provides for improvements to ensure the integrity of the fuel distribution system
- **Cargo Building 7 Apron (\$7,100)** – Project provides for design and construction of pavement for aircraft parking
- **Airfield Pavement Panel Replacement (\$5,905)** – Project provides for the reconstruction of various sections of taxilane and taxiway pavements.
- **Concourse Modification for Airbus 380 (\$120)** - Project provides funding to complete modification to Concourse A to accommodate the airbus 380
- **Concourse C/D Rehabilitation Hydrant Fueling (\$2,437)** - Project provides improvements to the aircraft fueling system
- **Public Parking Revenue Control System Replacement (\$4,915)** - Project will complete the new public parking revenue control system



Dulles Corridor Enterprise

<i>(dollars in thousands)</i>	Budget 2013	Budget 2014
Operating Revenue from Tolls	\$ 127,542	\$ 149,595
Non Operating Revenue	122	136
Total Operating Revenue	\$ 127,664	\$ 149,731
Operating Expenses	\$ 28,245	\$ 28,169
Debt Service	60,509	45,634
Subtotal O&M Program	\$ 88,754	\$ 73,803
R&R	\$ 2,285	\$ 1,425
Reserve Contributions	36,625	74,503
Total Operating Expenses	\$ 127,664	\$ 149,731
Remaining Toll Road Revenue Fund	\$ -	\$ -





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Dulles Corridor Renewal and Replacement Program

2014 New Program

(dollars in thousands)

Bridges, Structures and Canopy Repairs	\$ 350
Guardrail, Traffic Barrier and Fencing Rehabilitation	100
Landscape Maintenance	100
Cameras	50
Planning and Programming	75
Utility Survey and Rehabilitation	250
Claim Reserve 2014 Contribution	200
Emergency Snow Removal Reserve 2014 Contribution	300
Total Dulles Corridor Renewal and Replacement Program	\$ 1,425



METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

Dulles Corridor Capital Improvement Program

2014 New Program

(dollars in thousands)

Dulles Corridor Improvements (Other Than Rail)

Sound Wall Replacement Phase 2 (Construction)	\$ 1,900
Environmental Engineering Services	200
Geographic Information System (GIS)	150
Total Dulles Corridor Improvements (Other than Rail)	\$ 2,250



Draft Resolution

Authorize to be expended form the Aviation Enterprise Fund in 2014:

- (a) \$ 650,597,000 for the Aviation Operations and Maintenance Program (Including \$313,453,000 for debt service);
- (b) 77,095,000 for the Aviation Capital, Operating and Maintenance Investment Program: and
- (c) 199,193,000 for the Aviation Capital Construction Program

\$926,885,000

Authorize to be expended from the Dulles Corridor Enterprise Fund in 2014:

- (a) \$ 73,803,000 for the Dulles Corridor operation ad Maintenance Program (including \$45,094,000 for debt service);
- (b) 7,665,222 for the Dulles Corridor Renewal and Replacement Program;
- (c) 730,708,993 for the Dulles Corridor Capital Improvement Program (\$87,440,938 for Corridor Improvements and \$643,268,055 for the Dulles Rail Project); and
- (d) 74,503,000 to be transferred to reserve accounts within the Dulles Corridor Enterprise Fund, as identified in the 2014 Budget to the Corridor Capital Improvements Reserve and DCE Reserve and Toll Rate Stabilization Fund

\$886,680,215

Authorize new and expanded projects identified in the 2014 Budget in the amount of:

- (a) \$ 35,247,000 within the Aviation Capital Operating and Maintenance Investment Program;
- (b) 44,424,000 within the Aviation Capital Construction Program;
- (c) 1,425,000 within the Dulles Corridor Renewal and Replacement Program; and
- (d) 2,250,000 within the Dulles Corridor Capital Improvement Program pertaining to no Rail Corridor Improvement

\$ 83,346,000



Board Schedule

November 13

- 2014 Budget Update Presented to the Finance Committee

December 4

- 2014 Budget Distributed to the Finance Committee and Board

December 11

- Finance Committee Recommendation for Approval of 2014 Budget
- Board Approval of 2014 Budget



Ronald Reagan Washington National Airport



Dulles Corridor Metrorail Project



Dulles Toll Road



Washington Dulles International Airport



METROPOLITAN WASHINGTON
AIRPORTS AUTHORITY



DRAFT

December , 2013

Mr. Frank M. Conner III
Chairman, Finance Committee
Metropolitan Washington Airports Authority

Dear Mr. Conner:

The recommended 2014 Budget for the Airports Authority for the period January 1 through December 31, 2014, is herewith presented to the Board of Directors (Board). This submission is consistent with the presentation at the September 2014 Board Budget Workshop and the *Draft* 2014 Budget presented in October to the Finance Committee. The 2014 Budget includes annual budgets for both the Aviation Enterprise Fund and the Dulles Corridor Enterprise Fund (DCE). The Aviation Enterprise Fund accounts for activity at Ronald Reagan Washington National Airport (Reagan National) and Washington Dulles International Airport (Dulles International) (collectively, the Airports) while the DCE Fund accounts for the activities related to the Dulles Corridor Metrorail Project (Metrorail Project) and the operations, maintenance, and improvements of the Dulles Toll Road (Toll Road) and the Dulles Corridor.

Both business Enterprises contribute to the economy of the Washington, DC, region. Reagan National and Dulles International generate an estimated 179,600 jobs and \$17.4 billion in economic activity annually. The Metrorail Project – Phase 1 construction has employed approximately 1,800 people at its peak and Phase 2 will also generate significant employment opportunities.

Aviation Enterprise

The 2014 Aviation Enterprise Budget supports the operations of the Airports, Public Safety and Corporate functions with prioritization on safety, security, efficient operations and quality customer service standards.

The 2014 Budget is developed using forecasted airline activity levels, concession revenues, expenses for operating programs and infrastructure maintenance expense requirements, and review of the economic outlook of the region and the overall airline industry. As a result of the nearly completed Aviation Capital Construction Program (CCP), the Airports Authority's debt levels are relatively high. Accordingly, the 2014 Budget promotes a balanced utilization of financial resources with respect to both operating and capital programs.

Dulles Corridor Enterprise

The 2014 DCE Budget includes the Toll Road operations, Phase 1 and Phase 2 of the Metrorail Project, and other Dulles Corridor and Toll Road improvements. The DCE Fund Budget was prepared based on forecasted toll revenues, operating expenses, and capital requirements.

The budget document contains considerable detail about the two Enterprise Funds. The **Budget Summary** sections for the Aviation and Dulles Corridor Enterprise Funds describe budget highlights.

AVIATION ENTERPRISE FUND

The 2014 Budget for the Aviation Enterprise Fund consists of three Programs:

- The **Aviation Operation and Maintenance (O&M) Program** provides for the day-to-day operation and maintenance of the Airports Authority's facilities, including public safety services and an allocation of corporate expenses. Included in this program are operating expenses, debt service, facility projects and equipment expenses. The Aviation O&M Program is funded from airline rates and charges and nonairline revenue, including concession and other revenues. The 2014 Budget operating expenses, excluding debt service are projected at \$337.1 million, 2.9 percent under the 2013 Budget. *This is net of a reduction of \$9.5 million for allocation of overhead and other indirect costs for the Airports Authority that is initially paid from the Aviation Enterprise Fund but is appropriately allocable to the Dulles Corridor Enterprise Fund.*
- The **Aviation Capital, Operating and Maintenance Investment Program (COMIP)** provides for repair work, equipment and projects, planning, improvements, snow program, and certain operating initiatives. The COMIP budget is funded with the Airports Authority's share of net remaining revenue (NRR) from the prior year along with any reprogrammings. The 2014 new program authorization for the COMIP is at \$35.2 million, \$32 million of which is funded by NRR from the prior year, and \$3.2 million of which is funded by reprogramming.
- The **Aviation Capital Construction Program (CCP)** provides for the planning, design, and construction of major facility improvements at the Airports. The CCP is funded from bond proceeds, passenger facility charges (PFCs) and grants. The 2014 new program authorization for the CCP is \$44.4 million. This is offset by closed-out project balances of \$43.7 million for a net increase to the total CCP Program of only \$744 thousand.

2014 Aviation Planning Assumptions

Economic Outlook

In 2013 the U.S. economic recovery continued with moderate employment gains and small increases in the pace of consumer spending. The 2014 U.S. economic outlook projects continued modest growth near 3 percent. Overall, the Washington Metro region leads the national average for the highest real income and spending power among the top 12 major metropolitan regions in the U.S. The Washington Metro region economy remains one of the strongest in the U.S. over the last four years with over 8.5 million people in the Capital Region, and over 10 million people within a two-hour drive. The Washington Metro region economy continues to grow despite the decrease in federal employment due to diversification into technology, bioscience and other industries.

The U.S. airline industry remains profitable in 2013 as airlines continue restructuring flight routes based on demand, exercising capacity discipline, declining fuel prices and continued passenger fees.

Enplanements and Landed Weights

Table 1-1				Percent Change
	Actual 2012	Budget 2013	Projection* 2014	2014 Projection vs. 2013 Budget
<u>Reagan National</u>				
Enplanements	9,800,765	10,190,000	10,460,000	2.6%
Landed Weights	12,811,694	13,517,000	13,482,638	(0.3%)
<u>Dulles International</u>				
Total Enplanements	11,248,162	11,125,000	11,270,000	1.3%
Domestic	8,169,655	7,709,000	7,700,000	(0.1%)
International	3,078,507	3,416,000	3,570,000	4.5%
Landed Weights	17,820,608	17,965,000	18,964,390	5.6%
<u>MWAA Systemwide</u>				
Domestic	17,970,420	17,899,000	18,160,000	1.5%
International	3,078,507	3,416,000	3,570,000	4.5%

* Enplanement and Landed Weights' from the 2013 Official Statement, Report of the Airport Consultant. Landed Weights include Signatory, Non-Signatory and General Aviation.

Airports Authority Airline Activity

System-wide enplanements are projected to increase 1.9 percent in 2014 over 2013 budgeted enplanements. Enplanements are projected to increase 2.6 percent in 2014 at Reagan National over 2013 budgeted enplanements. Additionally, actual 2014 enplanements at Reagan National are expected to be at

a historical high for the third consecutive year. Dulles International's domestic enplanements are projected to decrease .1 percent in 2014 below the 2013 Budget, while international enplanements are projected to increase 4.5 percent above the 2013 Budget. The combined domestic and international enplanement projections at Dulles International are 1.3 percent above 2013 budgeted enplanements.

American and US Airways Merger

On February 14, 2013, American and US Airways agreed to merge, subject to customary shareholder and regulatory approvals. Based on traffic, revenue, capacity, and fleet size, the merger would create the largest U.S. airline. Many analysts expect that the merged carriers would reduce capacity, thereby contributing further to industry capacity tightening. The Justice Department filed a lawsuit in August 2013 seeking to block the merger. The Justice Department has agreed on mediation to settle the government's lawsuit.

Airline Use Agreement and Premises Lease

The current Airline Use Agreement and Premises Lease (Airline Agreement) will expire September 30, 2014. The Airports Authority and the Airlines are currently negotiating a new airline agreement. The 2014 Budget is developed reflecting the financial structure of the Airports Authority's current airline agreement.

2014 Aviation Enterprise Fund Program Budget Highlights

Operating Revenues

Comparison Revenues

Table 1-2 (dollars in thousands)	Budget 2013	Budget 2014	Dollar Change	Percent Change
Reagan National	\$243,346	\$245,912	\$ 2,566	1.1%
Dulles International	502,232	497,338	(4,894)	(1.0%)
Total	\$ 745,578	\$ 743,251	\$ (2,327)	(0.3%)

Airline revenues including terminal rentals, landing fees, and passenger conveyance fees are generated on an actual cost recovery basis. Total operating revenue, including transfers for 2014, is forecasted at \$743.6 million. Based on current estimates, revenue is expected to decrease approximately 0.3 percent from the 2013 Budget based on reduced expenses. Concession revenue is projected to increase 6.0 percent above the 2013 Budget primarily due to increased income at Reagan National relating to the increased passengers and increased foreign currency revenue at Dulles International.

In 2014 a comprehensive food and retail redevelopment program was initiated at Reagan National and Dulles International Airports will bring new and inviting choices to airport travelers and will be implemented in five phases over the next 30 months. An initial slate of 25 new and redesigned offerings

serving travelers at Reagan National and Dulles International is the first phase of delivering a world-class food and retail lineup for our passengers. The redevelopment program will culminate in the most extensive food and retail makeover in our history leaving a lasting, positive impression on air service travelers.

Airline Cost and Net Remaining Revenue

Total Net Remaining Revenue (NRR) is budgeted at \$110.6 million for 2014, an increase from the \$86.8 million budgeted in 2013. The increase to NRR is due to increased passenger activity and concession revenue at Reagan National. Under the Airline Use Agreement and Premises Lease (Airline Agreement), NRR is allocated between the Airports Authority and the Signatory Airlines according to an established formula. The Signatory Airlines' share, in 2013, of NRR (transfers) included in the 2014 operating revenue is estimated at \$72.0 million.

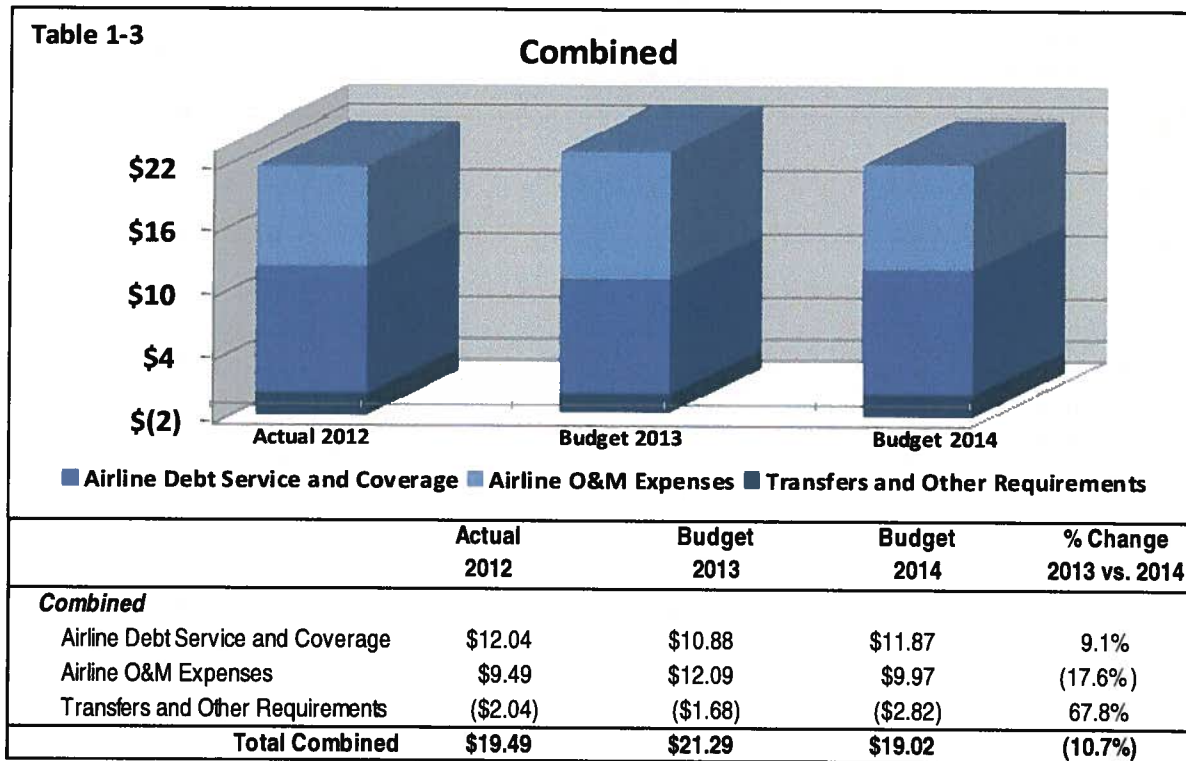
Funding of Debt Service AeroTrain Costs

The 2014 Budget proposes to use \$40 million of available PFCs for debt service for the AeroTrain consistent with the approved November 2008 Finance Committee paper, *PFC Restructuring, Recommendation to Approve Amending the Passenger Facility Charge Applications for the AeroTrain and the International Arrivals Building and subsequent Board Resolution No. 08-21*. The 2014 debt service for the AeroTrain is estimated at \$100 million, and the 2014 Budget assumes \$40 million of this debt is funded with PFC revenue. Previous 2010, 2011, 2012, and 2013 Budgets allocated PFCs for AeroTrain debt service totaling \$82 million, \$60 million, \$40 million, and \$42 million respectively.

Cost Per Enplanement Comparison by Year

The 2014 Budget results in an average airline cost per enplanement (airline costs divided by enplaned passengers) of \$11.32 at Reagan National and \$26.24 at Dulles International. At Reagan National the decrease of 23.2 percent from 2013 in cost per enplanement is reflective of the projected 2.6 percent increase in enplanements and the recommended decrease in operating expenses. At Dulles International, the cost per enplanement decrease of 3.9 percent from 2013 results from a recommended decrease in operating expenses and a projected 1.3 percent increase in enplanements. The use of PFCs will offset debt service at Dulles International. The chart below compares combined signatory airline cost per enplanement broken into subcategories of cost for debt service and debt service coverage; airline O&M expenses; and airline transfers and other requirements. The 2014 Budget assumes a 10.7 percent decrease in the signatory combined airline cost per enplanement.

Signatory Combined Airport Airline Cost Per Enplanement Comparison



Aviation Operation and Maintenance Program

Cost Allocation

The 2014 Aviation Budget includes a reduction of \$9.5 million of overhead and other indirect costs for the Airports Authority that is initially paid from the Aviation Enterprise Fund, but is appropriately allocable to the Dulles Corridor Enterprise Fund as costs associated with the operation of the Toll Road, or as costs of the Metrorail Project. Of the \$9.5 million, \$5.3 million is budgeted to be allocated to the Toll Road. The remaining \$4.2 million is budgeted to be allocated as administrative overhead to the Dulles Rail Project. Annually, a true-up of costs is prepared by an external cost allocation consultant.

Cost Allocation

Table 1-4		Budget
(dollars in thousands)		2014
Aviation Prior to Cost Allocation	\$	346,690
Cost Allocation - Road		(5,300)
Cost Allocation - Rail (Phases 1 and 2)		(4,244)
Total Aviation		\$ 337,146

With opportunities to drive efficiencies and cost savings, the 2014 Budget program reflects current resource requirements resulting in a 2.9 percent decrease from the 2013 Budget for both operating expenses and debt service.

The total 2014 operating expenses including debt service are projected at \$650.6 million, which is a 2.9 percent decrease from 2013. The 2014 operating expenses, excluding debt service, are projected at \$337.1 million; this is also a 2.9 percent decrease from the 2013 Budget. Total gross debt service is \$353.5 million, a decrease of 3.1 percent from 2013. Of this debt service amount, \$100 million is for the AeroTrain, and \$40 million will be funded through PFCs. Accordingly, net debt service is \$313.5 million.

Comparison Expenses with Cost Allocation Applied

Table 1-5	Budget	Budget	Dollar	Percent
(dollars in thousands)	2013	2014	Change	Change
Consolidated Functions	\$95,820	\$91,256	\$ (4,564)	(4.8%)
Reagan National	86,720	81,951	(4,769)	(5.5%)
Dulles International	164,823	163,938	(885)	(0.5%)
Total Operating Expenses	\$ 347,363	\$ 337,145	\$ (10,218)	(2.9%)
Debt Service	\$ 364,829	\$ 353,453	\$ (11,376)	(3.1%)
Less: PFC Commitment	42,000	40,000	(2,000)	(4.8%)
Total Annual Debt Service	\$ 322,829	\$ 313,453	\$ (9,376)	(2.9%)
Total	\$ 670,192	\$ 650,598	\$ (19,594)	(2.9%)

Personnel Compensation

Excluding debt service, employee salaries and benefits constitute the largest component of the Airports Authority's operating budget. The 2014 Budget includes a total of \$3.2 million for incumbent staff compensation increases through the Performance Management Partnership (PMP) program for the performance period January 1 through December 31, 2013, reflecting an average increase of 2.5 percent pay adjustment for employees with the potential for an additional pay range adjustment for those

employees in the lower quartiles of the pay scale. Actual salary increases for employees in 2014 are based on the parameters of the PMP program. The PMP program establishes specific goals and performance factors for individuals and encourages productive communication between supervisors and employees. The PMP program evaluates employees based on performance, with salary adjustments based on achieving performance goals and factors.

Personnel expenses reflect a \$2.9 million decrease for overtime based on historical usage and current overtime policy. An additional funding of \$314 thousand is included for an enhanced special achievement program. Budgeted personnel expenses reflect annualizations and actual staffing projections.

Personnel Benefits

The Airports Authority's 2014 budget for employee health insurance will increase 12.2 percent with no significant changes to plan coverage. Employee paid premium levels for health insurance coverage for 2014 will increase an average of 9.2 percent.

Funding of the Government Accounting Standards Board (GASB) Statements No. 43 and No. 45 in 2014 for post-retirement health and life insurance liabilities increased by \$1.1 million based on the current actuarial estimate. The Airports Authority's annual pension contributions, based on actuarially determined annual required contributions, will decrease by \$1.5 million. The recommended 2014 Budget fully funds the actuarially determined annual required contribution.

Staffing is proposed to increase by eight positions. Detailed position descriptions are included in the Airports Authority's staffing section of the 2014 Budget.

Table 1-6	New Positions 2014
<u>Consolidated Functions</u>	
Executive Vice President and Chief Operations Officer	
Emergency Planner	1
Office of Finance	
Contracting Manager (Phase 2)	1
Business Analyst - Internal Controls and Compliance	1
Office of Technology	
Deputy Vice President of Technology	1
Business Intelligence Specialist	1
Enterprise Architect	1
Total Consolidated Functions	6
<u>Dulles International</u>	
Physical Security Technician	1
Heavy Equipment Mechanic (Shops 1 and 2)	1
Total Dulles International	2
Total Metropolitan Washington Airports Authority	8

Travel

Travel expenses for all offices were reduced by a minimum of ten percent. Total travel expenses are reduced by \$173.4 thousand for a decrease of 16.2 percent in 2014.

Air Service Development

In 2014, the marketing of Dulles International air service will be promoted through local radio advertising. The COMIP includes \$500 thousand for this program.

Technology Investment

The Airports Authority continues focus on improving the customer experience with improved technology. Customer centric technology applications will enable both airports to connect with our customers through enhanced digital communications and an improved website experience.

Customer Service

New automated passenger passport control system for expedited processing will be installed in the International Arrivals Building and Federal Inspection Station at Dulles International.

Utilities

Based on continued participation in an electric cooperative purchasing program, usage and stable natural gas prices, and utility costs are reduced by \$3.5 million. Electricity costs are reduced by \$1.7 million and natural gas is reduced by \$1.8 million based on price reductions and usage.

Other Highlights

Maintenance of facilities, including the airport terminals, concourses and buildings, is accomplished with a balance of both in-house and contractual personnel. Service contracts were increased by \$1.3 million for various cost escalations which is offset by reductions in utilities. Security and safety requirements such as airport access control systems, police overtime and costs for the guard services are included in the 2014 Budget.

Operating insurance and risk management costs, including claim accounts are estimated to remain at the 2013 budget levels.

2014 Capital, Operating and Maintenance and Investment Program Budget Highlights

The 2014 new program authorization for the COMIP is at \$35.2 million, \$32 million of which is funded by NRR from the prior year, and \$3.2 million of which is funded by reprogramming.

A total of \$6.5 million is available in COMIP funds from previously authorized projects, \$3.2 million will be used to fund new authorization, \$3.3 million will be used for technology initiatives.

The 2014 COMIP includes \$4.7 million for replacement of various equipment at Reagan National and Dulles International. This includes \$3.2 million for fire-fighting equipment at the Airports. The 2014 COMIP includes \$6.5 million for technology enhancements, including \$2.5 million for common technology infrastructure platform projects and \$4.0 million to maximize the Enterprise Resource Project Oracle investment. An additional \$950 thousand is programmed for enhanced web technologies for passenger-centric services.

2014 COMIP New Authorization – Consolidated Functions

Table 1-7

(dollars in thousands)	New Authorization
<u>Consolidated Functions</u>	
Technology - Infrastructure	\$ 2,558
Technology - Business Collaboration	3,950
Consultant (Use and Lease Agreement)	750
CF Equipment 2014	32
Total Consolidated Functions	\$ 7,290
<u>Reagan National</u>	
Terminal A Facility Start Up	\$ 350
Redundant Power Feed for Airfield NAVAIDS	450
Security Identification Display Area (SIDA) APC Panel Replacement	300
Supplemental Radiation System (SRS)	50
DCA Security Enhancements	700
South Hangar Line Bay Doors Rehabilitation	500
Passenger Loading Bridge (PLB) Rehabilitation	850
ARFF Vehicle Replacement	1,100
DCA H12 DFS Line Replacement	350
North Boat House Demolition	350
Dedicated Fire System/Domestic Water - Williams Hydrant	50
Commercial Program Investment	150
Warehouse Complex Renovation	200
Replace Terminal A Gas Fired Boiler	600
Terminal A Curbside Rehabilitation	250
DCA Equipment 2014	580
PSD-DCA Equipment 2014	1,493
Total Reagan National	\$ 8,323
<u>Dulles International</u>	
Airfield, Pavement Maintenance and Joint Sealing	\$ 3,000
Elevators, Escalators and Moving Walks Rehabilitation	190
JP Morgan Chase Fire Alarm System Replacement	100
Dulles East Building Fire Alarm System Replacement	100
Landside Roadway Rehabilitation	600
West ARFF Road Split	75
Authority-Owned Podiums, Gates, Gate Areas, & Jet Bridge Modifications	800
Automated Passport Control System	1,250
Public Parking Operations Enhancements	470
Main Terminal Pedestrian Door Sensor Replacement Phase I of II.	100
Concourse B Holdroom Modifications	275
Parking Operations Shuttle Buses	2,000
Bus Maintenance Facility Improvements	250
Dulles East Building Boiler and Chiller Replacement	445
Roadway Signage Rehab	325
Lift Net Installation at Concourse A Bridge and Concourse C FIS	300
Ultraviolet Infrared (UVIR) Fire Detection Retro-Commissioning of Z-Gates, Concourse A and C-30	50
Dulles East Building Perimeter Fan Coil Unit Replacement - Ph. I	495
Concourse C/D HVAC Building Automation System (BAS) Network	100
Roof Top Unit (RTU) Replacement Program	300
Carpet Replacement	200
LFTF Water Lateral/ Hydrant/ Cistern Connection	50
MWAA MetroRail Contribution for Non-PFC Eligible Costs	5,000
Commercial Vehicle Lane Curbside Enhancements - Main Terminal	500
IAD Equipment 2014	1,124
PSD-IAD Equipment 2014	1,535
Total Dulles International	\$ 19,634
Total Metropolitan Washington Airports Authority	\$ 35,247

Airports Authority's Metrorail Contribution for Non-PFC Eligible Costs

The Airports Authority has agreed to contribute 4.1 percent of costs of the Metrorail Project – Phase 1 and 2. PFCs are planned as the source of the Airports Authority's contribution to the Metrorail Project. However, in the event PFC eligibility requirements prohibit PFCs from being used to cover the full amount; \$5 million was programmed in both the 2012 and 2013 COMIP budget as an initial installment for any non-PFC eligible cost and an additional \$5 million is included in COMIP for 2014. Additional installments will be recommended in future budgets as deemed necessary to meet the Airports Authority's commitment.

Capital Construction Program

The Airports Authority continues the emphasis on program management, including cost and schedule control, construction safety, and quality assurance of its capital program. The CCP is periodically reviewed by the Airports Authority based on facility needs and financial feasibility. The new program authorization for the CCP is \$44.4 million. This is offset by closed-out project balances of \$43.7 million for a net increase to the total CCP Program of only \$744 thousand.

New CCP authorization for projects at Reagan National is \$23.4 million and includes estimated grant funds of \$6 million. Projects include taxiway and taxilane resurfacing, flight information display upgrades, electronic security enhancements, and Crash Net communications systems improvements. Funding is also included for runways repairs, modifications to the dedicated fire service system, and roof replacement.

The CCP new authorization at Dulles International is \$21.0 million. Projects include upgrades to the hydrant fueling system, apron construction to accommodate wide-body aircraft, airfield pavement panel replacement, concourse modification for Airbus 380 passenger boarding bridges and Concourse C/D hydrant fueling rehabilitation. An additional \$4.9 million is included to complete the replacement of the parking revenue control system which once completed will provide significant gains in parking revenue control and customer service.

2014 CCP New Authorization

Table 1-8		New Authorization		Estimated Funding	
(dollars in thousands)				Bonds	Grants/PCs
<u>Reagan National</u>					
Taxiway and Taxilane Resurfacing Program	\$	11,505	\$	11,505	\$ -
DCA Special Systems (i.e., camera upgrades, MUFIDS, etc.)		1,600		1,600	-
Hangar 7 Roof Replacement		1,500		1,500	-
Runways Overlay Program: 1-19, 15-33, and 4-22		8,092		2,023	6,069
Modify Dedicated Fire Service (DFS) System		650		650	-
Total Reagan National		\$ 23,347	\$	17,278	\$ 6,069
<u>Dulles International</u>					
Hydrant Fueling Cathodic Protection System (Concourse A/B)	\$	600	\$	600	\$ -
Cargo Building 7 Apron (GA Parking)		7,100		7,100	-
Airfield Pavement Panel Replacement		5,905		5,905	-
Concourse Modifications for Airbus 380		120		120	-
Concourse C/D Rehabilitation - Hydrant Fueling		2,437		2,437	-
Parking Revenue Control System Replacement		4,915		4,915	-
Total Dulles International		\$ 21,077	\$	21,077	\$ -
Total Metropolitan Washington Airports Authority		\$ 44,424	\$	38,355	\$ 6,069
Total Authorizations Recommended Closed-out Projects		\$ (43,680)	\$	(43,680)	\$ -
Total		\$ 744	\$	(5,325)	\$ 6,069

DULLES CORRIDOR ENTERPRISE FUND (DCE)

The 2014 Budget for the Dulles Corridor Enterprise Fund consists of three Programs:

- The ***Operation and Maintenance Program*** is the financial plan for operating the Toll Road. It also includes debt service and contributions to reserves. The operation and maintenance program is funded from Toll Road revenue. The total 2014 operating revenue is \$127.5 million. This is an increase of 18.3 percent over 2013 reflects the approved increase in the toll rate effective January 1, 2014. The 2014 operating expenses estimate, excluding debt service requirements and other reserve contributions, is \$28.2 million. This is a decrease of 1.7 percent over 2013.
- The ***Renewal and Replacement Program*** for the Toll Road addresses major maintenance requirements including overlays, sound wall repairs, bridge deck replacements, erosion and drainage control, and other maintenance projects. The Renewal and Replacement program is funded from Toll Road revenue. The 2014 new program authorization is \$1.4 million.

- The **Dulles Corridor Capital Improvement Program** funds Dulles Corridor Capital Improvements related to the Toll Road, its ancillary ramps and interchanges, the Metrorail Project, and other corridor improvements. The Capital Improvement Program is funded from bond proceeds, Federal Transit Administration grants, and contributions from Fairfax County and the Commonwealth of Virginia (Commonwealth). The 2014 new program authorization is \$2.3 million for other corridor improvements.

Operation and Maintenance Program

The DCE Fund budgeted revenues are \$149.6 million. Budgeted operating expenses of the O&M Program are \$28.16 million, a decrease of 0.3 percent. The 2014 revenue estimate assumes a toll increase of \$0.75 at the mainline plaza and no increase at the ramps, effective January 1, 2014. Budgeted non-operating expenses category includes \$1.4 million additional authorization for Renewal and Replacement Program expenses. Debt Service is budgeted at \$45.6 million, which is a 37.6 percent reduction from 2013. The debt service estimate for 2014 is decreased because of a \$150 million grant from the Commonwealth of Virginia, \$30 million of which will be applied to pay debt service in 2014 for the Dulles Toll Road Revenue Bonds. The grant is intended to offset required increases in toll rates. There is \$74.5 million budgeted in contributions to the Dulles Corridor Capital Improvements Reserve and DCE Reserve and Toll Rate Stabilization Fund.

2014 Dulles Corridor Operating Revenues and Interest Income

Table 1-9 (dollars in thousands)	BUDGET 2013	BUDGET 2014	Dollar Change	Percent Change
Electronic Toll Collection	\$ 88,776	\$ 116,072	\$ 27,296	30.7%
Cash Toll Revenue	38,047	32,738	(5,309)	(14.0%)
Violations Fee Collection	719	785	66	9.2%
Total Operating Revenues	\$ 127,542	\$ 149,595	\$ 22,053	17.3%
Interest Income	\$ 122	\$ 136	\$ 14	11.5%

2014 Dulles Corridor Operation and Maintenance Program

Table 1-10 (dollars in thousands)	BUDGET 2013	BUDGET 2014	Dollar Change	Percent Change
Operating Expenses	\$ 28,245	\$ 28,169	\$ (76)	(0.3%)
Debt Service	60,509	45,634	(14,875)	(24.6%)
Total O&M Program	\$ 88,754	\$ 73,803	\$ (14,951)	(16.8%)

Dulles Toll Road Renewal and Replacement Program

The 2014 Renewal and Replacement Program expenditures include \$7.7 million for various previously authorized projects including sound-wall replacement, environmental engineering services and geographic information system, bridge, structures and canopy repairs, guardrail, traffic barrier and fencing rehabilitation, landscape maintenance, cameras, planning and programming utility survey and rehabilitation. The 2014 estimate for new program authorization is \$1.4 million.

2014 Renewal and Replacement Program

Table 1-11		New
(dollars in thousands)		Authorization
<i><u>Renewal and Replacement Program</u></i>		
Bridges, Structures and Canopy Repairs	\$	350
Guardrail, Traffic Barrier and Fencing Rehabilitation		100
Landscape Maintenance		100
Cameras		50
Other Planning and Programming		75
Utility Survey and Rehabilitation		250
Claim Reserve 2014 Contribution		200
Emergency Snow Removal Reserve 2014 Contribution		300
Total Dulles Corridor Renewal and Replacement Program		\$ 1,425

Dulles Corridor Capital Improvement Program

Dulles Corridor Metrorail Project

Progress on the Metrorail Project continues with construction nearing completion along the 11.7 mile alignment of Phase 1 of the Metrorail Project from the East Falls Church Metrorail Station through Tysons Corner to Wiehle Avenue on the eastern edge of Reston. All five of the Phase 1 stations are under construction four in Tysons Corner and the Wiehle Avenue Station. Phase 1 of the Metrorail Project is expected to be substantially complete in 2013 in preparation for the Washington Metropolitan Area Transit Authority (WMATA) to begin acceptance testing. WMATA will announce the revenue service date, the date the rail line begins carrying passengers. Opening is expected in early 2014.

Preliminary engineering for Phase 2 of the Metrorail Project is 100% complete. Phase 2 of the Metrorail Project is 11.4 miles and consists of six stations and runs from Wiehle Avenue through Dulles International and into Ashburn in eastern Loudoun County. A design-build contract was awarded in May 2013 and notice to proceed was issued in July. Geological testing, survey and design work, as well as drilling at utility location is now underway in the median of the Dulles Airport Access Highway and along parts of the Dulles Greenway. The estimated construction completion period is 60 months with targeted completion in July 2018.

Phase 1

The Airports Authority is constructing an extension of the WMATA Metrorail system from West Falls Church station through Tysons Corner to Wiehle Avenue (Phase 1) and through Dulles International to Route 772 in Loudoun (Phase 2). Included in Phase 1 is the procurement of 64 railcars. The total project cost of Phase 1 is currently estimated to be \$2.906 billion, including the cost of roadway-related improvements being constructed concurrently with the Project. This current project cost includes the addition of \$150 million provided in Resolution No. 12.17 Amending the 2012 Budget for the Dulles Corridor Enterprise Fund. Phase 1 received a commitment of \$900 million in New Starts funding from the Federal Transit Administration (FTA). Fairfax County will provide a fixed contribution of \$400 million for Phase 1 which will subsequently be adjusted to cover their full-funding obligation on a percentage of total cost of both Phases. The Commonwealth (Commonwealth) provided \$51.7 million in Virginia Transportation Act (VTA) 2000 revenues from 2004-2007, an additional \$125 million of Commonwealth Transportation Board (CTB) Bonds, and \$75 million of other Commonwealth funds/Surface Transportation Program (STP) funds toward the cost of Phase 1. The remaining Phase 1 project costs is being provided by the Airports Authority through a combination of bonds, or other financing agreements as the Airports Authority deems necessary, secured by a pledge of Toll Road revenues.

Phase 2

The Metrorail Project – Phase 2 is the 11.4 mile completion of the Metrorail Project from Wiehle Avenue to Route 772 in eastern Loudoun County. Metrorail Project – Phase 2 includes six new stations, including a station at Dulles International, and a maintenance yard located on Dulles International's property. Included in this second phase is the procurement of an additional 64 rail cars.

The Metropolitan Washington Airports Authority Board has approved a resolution ratifying a Memorandum of Agreement that will ensure the continuation of the Dulles Rail Project extension to Loudoun County. The Memorandum of Agreement is a multi-party agreement that outlines federal, the Commonwealth, and Loudoun and Fairfax Counties' fiscal responsibilities. Additionally, the Commonwealth has pledged an additional \$150 million which is being used to mitigate toll increases. The revised budget authorization for Phase 2 of the Metrorail Project, including contingency, is \$2.8 billion. Approximately \$315 million is excluded for project elements that may be developed by Loudoun and Fairfax Counties.

Using full and open competition, the Airports Authority selected five teams to proceed to the final major step of the competitive procurement process to design and build the rail line, stations and systems for Phase 2 of the Metrorail Project. Included are new stations at Reston Town Center, Herndon Innovation Center, Dulles International, Route 606, and Route 772. Additional procurement process steps included the submission of a technical plan and pricing. The award was made to the offeror submitting an acceptable technical proposal and lowest price with the award in May 2013. Notice to proceed was issued in July 2013. The procurement process is underway for construction of the rail yard and maintenance facility for WMATA at Dulles International. The completion of construction for Phase 2 is anticipated for mid-2018. Future budget adjustment may be necessary to further align the budget to reflect the final determination of project elements to be developed by Loudoun and Fairfax Counties.

Staffing is proposed to increase by three positions to support the Metrorail Project Office for Phase 2. Detailed position descriptions are included in the Airports Authority's staffing section of the 2014 Budget.

New 2014 Dulles Corridor Positions

Table 1-12		Total Positions 2014
<u>Dulles Corridor</u>		
Metrorail Project Office		
Lead Accountant		1
Financial project Manager		1
Controller		1
Total Dulles Corridor		3

Other Dulles Corridor Capital Improvements

The new authorization for capital improvements related to the Dulles Corridor other than Rail is \$2.3 million.

2014 Capital Improvement Program

Table 1-13		New Authorization
(dollars in thousands)		
<u>Dulles Corridor Enterprise - Capital Improvement Program</u>		
<u>Dulles Corridor Improvements (other than Rail)</u>		
Sound Wall Replacement Phase 2 (Construction)	\$	1,900
Engineering, NEPA Studies, CM Services		200
Geographic Information System		150
Total Dulles Toll Road		\$ 2,250
Total Dulles Corridor Enterprise		\$ 2,250

A new Toll Revenue Collection System for the Dulles Toll Road will be installed to replace the legacy Transcore System and link the operations of the toll transaction equipment to a central monitoring unit. The total project is estimated at \$19.5 million. The project was previously authorized and additional funds of \$13.5 million are reprogrammed as part of the 2014 Budget to fully fund the Toll Revenue Collection System.

SUMMARY

The 2014 Budget as developed continues to manage resources during high debt levels through cost containment, using best value procurement for critical out-sourced service contracts, including health care costs.

The prudent management of the Airports Authority's operating expenses, over the last several years, has made it possible to weather the past years' economic volatility and maintain our financial strength. The Airports Authority's outstanding airport system bonds continue to be rated among the highest in the aviation industry by the independent rating agencies of Moody's, Standard and Poor's, and Fitch¹. Management continues to believe in the strategic importance of air service to the Washington region and is cautiously optimistic about the aviation industry in 2014.

The Airports Authority's commitment to building a world-class rail line to Dulles International and into Loudoun County will assure greater public access and enhance the future competitiveness of the Dulles Corridor including Dulles International.

The Airports Authority has initiated new or revised policies and procedures governing its financial operations including the Freedom of Information (FOI), code of ethics, contracting practices, travel parameters, revisions to Board by-laws and establishment of an internal controls and compliance division, and revised its procurement and human resource programs, which are expected to be completed in the coming months. Core to the Airports Authority's continued success is continual improvements to our business operations processes which embrace best practices. Additionally, the Airports Authority has either closed out or is well on the way to completing work on all of the Department of Transportation Inspector General's (IG) recommendations from the 2012 audit.

This 2014 Budget presents a realistic approach to funding the operating and capital requirements necessary to support the activity and the needs of the Airports Authority. Management continues to focus efforts on defining business strategies to maximize our non-airline revenue including concessions, advertising, cargo, and in-fill site development at Dulles International. The management team is committed to effectively balancing our immediate and long-term objectives while looking to provide operational, technological, and capital improvements. We will be disciplined in monitoring the Airports Authority's financial performance throughout the year and if necessary, adapt to changing circumstances to ensure our financial stability.

¹ As of the date of this Budget, the underlying ratings on the Airport System Bonds assigned by the rating agencies are "A1" by Moody's, "AA-" by S&P, and "AA-" by Fitch.

As we look ahead, we acknowledge the Board's leadership and partnership with management to ensure that the Airports Authority remains ready to respond to future challenges and opportunities. We will, of course, be pleased to provide assistance to the Board as it reviews this proposed budget.

Sincerely,

John E. Potter
President and Chief Executive Officer