

SUMMARY MINUTES
AUDIT - LEGAL COMMITTEE
MEETING OF MARCH 20, 2013

Ms. Hall chaired the Audit – Legal Committee Meeting of March 20, calling it to order at 8:03 a.m. She noted that a quorum was present – Mr. Conner, Ms. McConnell, Mr. McDermott, Mr. Session, Ms. Wells and Mr. Curto, *ex officio*. Mr. Carter, Mr. Davis and Mr. Griffin, who were not members of the Committee, were also present.

In executive session, Kelly Thornton of PricewaterhouseCoopers provided an update on the Financial Statement Audit for Calendar Year 2012.

The meeting was thereupon recessed at 8:22 a.m.

At 10:16 a.m., Ms. Hall reconvened the Audit – Legal Committee Meeting. An additional Committee Member, Ms. Merrick, joined the reconvened Meeting. All other attendance was the same as the day’s first session, held in executive session.

In regular session, Valerie Holt, Vice President for Audit, stated that the Office of Audit conducted audits to provide confidence to the Board of Directors, management and the public that risks are being managed, management and delivery capacity are being maintained, control is being exercised, and appropriate results are being achieved. The Office of Audit produced reports to provide the Board and management with the results of these audits. Ms. Holt explained that in some instances, the audit process resulted in a determination that management should enhance compliance, improve internal control and mitigate risks. The reports prepared as a result of these audits focused on providing concise and insightful recommendations about observations and actions needed for improving results going forward. Ms. Holt noted that a robust audit process that routinely identified areas requiring improvement is beneficial to the furtherance of the Authority’s mission and strategic objectives.

Status Update on Plans to Enhance Internal Controls

Andy Rountree, Vice President for Finance and Chief Financial Officer, reported on the status of the Authority’s efforts to improve the internal controls. He explained that since his presentation in January, the majority of the action items had been completed on or before their due dates. Many of the control enhancements were from issues that lingered from the implementation of the Enterprise Resource Planning system.

All action items had been completed with the exception of the preparation and review of the Comprehensive Annual Financial Report, which is on track for implementation by April 30, the target completion date. Ms. Hall acknowledged Mr. Rountree and his staff for their hard work to close out the action items.

In Flight Food Catering

Ms. Holt presented a follow-up audit of the in-flight catering concessionaire that provided catering services at both Airports. The audit had been conducted to determine if the concessionaire and the Authority had complied with recommendations made in earlier audit reports. The review resulted in two recommendations, both of which management had implemented. A fee adjustment, in the Authority's favor, had also been made.

Sole-Source Contract Compliance

Ms. Holt explained that the Authority has a number of requirements, which must be met, when it executed sole-source contracts. The Sole-Source Contract Compliance audit examined sole-source contracts that had been procured from January 1, 2011 to March 31, 2012 to determine if they were compliant with the key requirements. The audit had revealed that four contracts were not in compliance and there were recommendations for improvement. Ms. Holt reported that two recommendations made to management had been implemented and a third one is underway. She stated that she expected all contracts to be fully remediated prior to the approval of the new contracting manual.

Luggage Cart Services

Ms. Holt then reported on the audit of the vendor that provided self-service luggage carts. The purpose of audit was to determine whether the vendor had complied with contract requirements for 2005 to 2012. The audit revealed that vendor payments were accurate, and the vendor had complied with most material requirements. This audit resulted in recommendations that had been fully implemented by management.

Retail Concession Fee Manager

The Office of Audit had conducted a compliance audit of the retail concession fee manager to examine how gross receipts are reported. Staff examined Disadvantaged Business Enterprise (DBE) requirements and insurance coverage for the 2011 audit period. Auditors also tested contract compliance for several terms and found that noncompliance had

occurred and identified opportunities for improvement in three areas. The compliance audit resulted in recommendations, to which management agreed; they would be implemented with the rollout of the new concession fee manager contract since the existing contract had expired. Ms. Holt informed the Committee that another brief audit would be conducted to close out the old contract.

Employee time off less than five days

Ms. Holt reported that auditors had conducted a review of individuals in sensitive positions to determine if they are taking five consecutive days of vacation leave. It has been reported that taking five consecutive days off is good practice from both an employee's health and well being and internal controls perspective. Ms. Holt explained that the majority of Authority employees had taken at least five consecutive days of vacation leave. The audit resulted in the recommendation for management to consider whether a formal vacation policy should be established. Management had recently begun discussions with senior staff regarding developing such a policy.

Mr. Carter asked about the Authority's legal options if contractors did not comply with minority participation goals. Ms. Holt explained that while a process was in place, she was unsure whether it was legally binding. Mr. Davis then inquired if the LDBE standard is a requirement, quota, or goal. Steve Baker, Vice President for Business Administration, responded that LDBE parameters are established by the Board. The LDBE is a race and gender neutral program. He noted that when a contractor did not meet its LDBE requirement, the contract can be terminated. The federal DBE program is somewhat different as goals are set based on the availability of ready, willing and able entities to participate in individual contract opportunities; the program has a "best effort" requirement. If contractors fail to meet the DBE requirement and an organization can prove that best efforts had not been conducted, the contractor can be referred to the Federal Aviation Administration or the contract can be terminated. Mr. Baker said he was not aware of any similar actions with Authority contracts, but noted that there had been instances in the industry where an organization had pursued termination or removal. Mr. Carter asked if he could assume that all contractors had been in compliance. Mr. Baker responded affirmatively, noting that contractors had made best efforts federally and had complied with LDBE requirements. Ms. Holt noted that the audit reports are based on no best effort evidence. With regard to the specific audit being discussed, Ms.

Holt stated that the LDBE requirement should have been achievable as it had occurred as a result of negotiations by the subcontractor, who had selected the prime.

Mr. Carter asked if any instances of fraudulent activity had occurred with DBE involvement. Mr. Baker responded that he was aware only of inquiries that had been made; he did not know of any contract terminations because of fraudulent activity.

The Chairman then asked Ms. Holt if she was comfortable that the audit recommendations that have not been implemented will be addressed in a reasonable timeframe. Ms. Holt responded affirmatively.

Mr. Session asked if the Authority had an employee “use or lose” policy. Ms. Holt responded affirmatively and stated a process existed to deal with exceptions. Mr. Session then asked for clarity regarding the possibility of fraud when employees did not take five consecutive days of leave. Ms. Holt explained that fraud examiners found that in organizations with mandatory leave policies an instance of fraud is more likely to be uncovered more promptly and therefore minimize risk. Mr. Potter noted that the audit had not been conducted to determine if fraud existed; it had simply reviewed best practices.

Mr. McDermott extended compliments to the audit staff and management for the crisp description of the audits and management’s responses; it was valuable to the Committee.

At 10:35 a.m., the Committee went into executive session to discuss an information security audit.

The meeting was thereupon adjourned at 10:58 a.m.

[NOTE: The Audit – Legal Committee Report provided at the March 20 Board Meeting included details of the Committee’s March 20 Meeting.]

SUMMARY MINUTES
BUSINESS ADMINISTRATION COMMITTEE
MEETING OF MARCH 20, 2013

Mr. Session chaired the Business Administration Committee Meeting of March 20, calling it to order at 9:57 a.m. He announced the presence of a quorum, with the following members of the Committee in attendance, in addition to himself: Mr. Carter, Mr. Griffin, Ms. Hall, Ms. Merrick, Ms. Wells and Mr. Curto, *ex officio*. Mr. Conner, Ms. McConnell, Mr. Davis and Mr. McDermott were also present.

Recommendation to Approve the Fourth Edition of the Contracting Manual

Andy Rountree, Vice President for Finance and Chief Financial Officer, expressed appreciation to Mark Adams, Deputy Chief Financial Officer; Rick Myrah, Acting Manager, Procurement and Contracts Department; Phil Sunderland, Vice President and General Counsel; Johnna Spera, Assistant General Counsel; and other staff for their help in completing the Fourth Edition of the Contracting Manual. He briefly introduced Lizbeth Bryan, Manager of the Procurement and Contracts Department and noted that Mr. Potter would provide a more formal introduction later that day.

Mr. Rountree presented the recommendations for changes to the Fourth Edition of the Contracting Manual. He requested that the Committee recommend that the Board approve the changes at its meeting later that day.

Mr. Rountree reported that in October 2012, the Board had approved issuance of the Third Edition of the Contracting Manual, primarily meeting the requirements of the Federal Transit Administration (FTA). He noted that shortly thereafter, the Office of the Inspector General (OIG) had issued its report in November 2012 with specific recommendations related to the Contracting Manual.

In December 2012, staff had presented a draft Fourth Edition of the Contracting Manual to incorporate the changes requested by the OIG. The Committee had consented to staff proceeding with its due diligence and public comment period. Mr. Rountree reported that multiple comments had been received, but that there were no significant changes to the original draft other than additional clarity and detail, as requested.

Mr. Adams reported on the significant changes to the Fourth Edition of the Contracting Manual. He explained that the Contracting Manual did not previously define acquisitions that the Authority recognized as procurement contracts. The Fourth Edition will define acquisitions that are not considered contracts such as grants, real estate transactions, memberships and subscriptions, that are no longer subject to the Contracting Manual. Mr. Adams stated that the Fourth Edition eliminates the concept of “categorical exceptions” and procurements that apply to the Manual will fall into two categories: “full and open competition,” and “other than full and open competition.” Mr. Adams presented brief summaries of the significant changes to the Manual, as follows:

Ethics in Procurement incorporated the employee and Board of Directors’ ethics codes in the Manual that were adopted in September, requiring regular ethics and “procurement integrity” training for contracting officers and other staff involved in procurement and contract management activities on a continuous basis.

Task Order contract changes to the Manual require fair opportunities to all firms under multiple task orders. The procedures will be established by the procurements and contracts department. The Manual will contain a policy on how different departments should conduct fair opportunities for bids.

Change Orders in price or terms may be authorized by the contracting officer after reviewing the circumstances and determining that the change is justified under the general scope of the contract. The Manual will contain more justification from the procurement office to ensure that change orders and fair opportunities are adequately needed.

Procurement Planning and Reporting changes are reflected in the quarterly acquisition report, previously reported to the Committee in December 2012 and February 2013. The next report will be presented in May 2013 identifying quarterly acquisitions made by the Airports Authority; contracts awarded; dollar amounts of the awards; and whether the competition was full and open. These reports will be submitted to the Board and the U.S. Secretary of Transportation.

Mr. Rountree reiterated that there would be a significant increase in transparency in upcoming procurements and their status in the quarterly reports. He stated that with the elimination of categorical exceptions, all sole-source contracts above \$200,000 will require Board approval.

Mr. Rountree recommended that the Business Administration Committee adopt the Fourth Edition of the Airports Authority Contracting Manual, and recommend it to the Board later that day for approval.

Mr. Carter congratulated Mr. Rountree, Mr. Sunderland and staff for their work on completing the Contracting Manual. He inquired about the authority given to the Contracting Officer regarding change orders. Mr. Myrah stated that other controls and procedures exist regarding change orders and noted that they must be reviewed by the Manager of the Procurement and Contracts Department. He explained that "red flags" are triggered for requests up to 150 percent of the original contract amount to determine the reasons for the change orders.

Mr. Session inquired if limits beyond \$50,000 would be reviewed by the Board or at staff's discretion. Mr. Adams stated that change orders over \$50,000, as well as modifications and new contracts, will be included in the quarterly acquisition reports.

Mr. Rountree noted that if staff determined that a modification does not fall within its general scope or reaches a point whereby the dollar limit required a new procurement depending upon the threshold and the type, the contract would either come back to the Board or to the delegated authority for approval.

Ms. Wells suggested that Board Members also be invited to participate in the training sessions scheduled for employees to become more familiar with the Manual.

Mr. Carter confirmed that staff is not required to seek Board approval for contract modifications. Mr. Rountree agreed, but noted that if a modification is determined to be out of scope or exceeded a significant dollar amount, it may require a new procurement and would therefore require Board approval.

Ms. Hall congratulated Mr. Rountree on the completion of the Contracting Manual. She inquired about a measurement to determine the active participation of a Disadvantaged Business Enterprise. Mr. Rountree re-

sponded that DBE participation requirements are driven from the guidelines in Chapter 10 of the Contracting Manual, which tracked closely with the federal requirements. Steve Baker, Vice President for Business Administration, explained that the requirements are set based on the expected levels of DBE and LDBE participation. He stated that the monitoring process helped to ensure that contractors are performing as required and receiving payments accordingly.

Mr. Session added that parts 49, 23 and 26 of the Code of Federal Regulations defined how the DBE would participate and required that the DBE perform a “commercially useful function” that determines the quality of participation the DBE will have in the procurement. The Contracting Manual referenced that federal rule, which will determine the scope and quality of the DBE participation.

Mr. Carter noted that minority participation requirements were consistently set at 25 percent and stated that he is hopeful that it is not being used as a standard and that there would be opportunities to increase it.

Mr. Session inquired if the quarterly report included forecasts. Mr. Rountree responded that the requirement to provide forecasts is now included in the Contracting Manual and forecasts for the next quarter are included in the quarterly reports. Mr. Session noted that these forecasts would be critical to the Equal Employment Opportunity office to inform staff of upcoming procurements to assist with outreach efforts throughout the LDBE and DBE community.

Mr. Curto congratulated staff for its work in completing the Contracting Manual and stated that this is a significant milestone in addressing the IG’s recommendations. The Committee unanimously approved the Fourth Edition of the Contracting Manual.

The meeting was thereupon adjourned at 10:15 a.m.

[NOTE: The Business Administration Committee Report provided at the March 20 Board Meeting included details of the Committee’s March 20 Meeting.]

SUMMARY MINUTES
DULLES CORRIDOR COMMITTEE
MEETING OF MARCH 20, 2013

Mr. Davis chaired the March 20 Dulles Corridor Committee Meeting, calling it to order at 8:50 a.m. Other Committee Members present were Mr. Conner, Mr. Griffin, Ms. Hall, Ms. McConnell, Mr. McDermott, Ms. Merrick, Mr. Session, Ms. Wells and Mr. Curto, *ex officio*. Mr. Carter was also present.

Frank Holly, Vice President for Engineering, thanked the Directors who had participated in the construction tour of the Phase 1 Metrorail Project the preceding day.

Mr. Davis requested an update on the tunnel issue relative to Phase 1 of the Dulles Metrorail Project. Pat Nowakowski, Executive Director of the Metrorail Project, reported that the Authority had received the survey report and engineering analysis performed by Dulles Transit Partners (DTP), which revealed that no issue or problem presently exists with the tunnel. He noted that the Authority had not completed its due diligence to ensure that it concurred with DTP's findings. Mr. Davis indicated that he had received media inquiries about the issue. Mr. Nowakowski stated that the Authority is sharing DTP's report with the Washington Metropolitan Area Transit Authority (WMATA) and other parties. Mr. Davis asked when the report would be shared with Directors. Mr. Nowakowski responded that the results would be provided to Directors in approximately one week when staff's due diligence should be completed. He explained that the tunnel required a minimum clearance area, which had been met at all locations in the tunnel according to the report.

Dulles Corridor Metrorail Project Monthly Cost Summary and Project Update. Mr. Nowakowski reported that \$40.4 million had been spent on Phase 1 in February, bringing total expenditures up to \$2.332 billion. The forecasted completion remained a \$2.905 billion.

About \$382 million in contingency funds had been used or obligated through December 2012; approximately \$3.7 million in contingency funds had been used in January, most of which had been for the West Falls Church Yard. Contingency use through January had been \$385.7 million, with \$76.6 million unobligated. Mr. Nowakowski reported that staff had just completed its negotiations on weather-related issues, and the new forecasted completion date is presently September 4 (different

than the August date included on the PowerPoint displayed at the Meeting).

Mr. Davis inquired whether WMATA is providing timely information on issues, including fare card machines and spare parts, and whether the Authority would incur any fees resulting from delays. Mr. Nowakowski stated that there is a tremendous amount of testing and coordination underway. He reported that WMATA had provided a copy of its rail activation list, which identified actions that needed to be accomplished prior to staff making its recommendation to the Board. He also reported that staff had visited the manufacturer of the fare collection machines that week to ensure that deliveries would be timely. The machines would be installed once the Authority achieved substantial completion during WMATA's start-up period.

Mr. Nowakowski reported that there was no change in the rail car delivery status. The pilot car will be manufactured in Japan. The 64 production rail cars, which will be manufactured in Nebraska, would likely be delivered monthly over a year's period.

Mr. Davis requested a more thorough update in the coming months and suggested that a WMATA representative attend the Committee Meeting in either April or May.

Mr. Nowakowski noted that testing is underway and that trains are now visible on the Silver Line.

With regards to Phase 2, Mr. Nowakowski reported that staff had received proposals from all short-listed teams. Evaluations, which should conclude by the first week in April, are being conducted. Teams will then be notified about their price submittals. Mr. Nowakowski said that he was comfortable with the process and that the bidders appeared satisfied. Staff was pleased with the competitive environment it had achieved.

February 2013 Financial Report – Dulles Corridor Enterprise. Mark Adams, Deputy Chief Financial Officer, reported that Toll Road revenues year-to-date had been \$19.5 million, up 20.1 percent from the same period in 2012. The 15.4 million toll collections for the period had been down 3.4 percent compared to the same period for the prior year. Mr. Adams noted that the toll collections represented 1.3 percent more than the 2013 forecast. Electronic toll collections had increased 5.1 percent for a total of 81.7 percent.

Mr. Davis inquired whether the Authority studied traffic routes once passengers exited the Toll Road. Mr. Adams responded that those routes and other diversions were studied by the Virginia Department of Transportation. Mr. Davis requested that a copy of the Traffic and Revenue Study be provided to Loudoun and Fairfax County officials. Mr. Adams noted that the data had been previously shared with all funding partners; it is also posted on the Authority's website. Mr. Griffin added that the data has also been shared with the funding partners at their monthly meetings.

Mr. Adams reported that Toll Road expenditures of \$4.4 million year-to-date had increased 2 percent from the year before, and had reached 15.5 percent of budgeted expenditures at 16.7 percent (two months) through the budget year.

The meeting was thereupon adjourned at 9:05 a.m.

SUMMARY MINUTES
EXECUTIVE AND GOVERNANCE COMMITTEE
MEETING OF MARCH 20, 2013

Mr. Curto chaired the Executive and Governance Committee Meeting of March 20, calling it to order at 9:06 a.m. The Chairman noted that a quorum was present -- Mr. Carter, Mr. Davis, Mr. McDermott, Mr. Session and Ms. Wells. Other Members present were Mr. Conner, Mr. Griffin, Ms. Hall, Ms. McConnell and Ms. Merrick.

Proposed Amendment to the Bylaws Regarding the Indemnification Policy. Phil Sunderland, Vice President and General Counsel, provided background on three issues, risk; immunity; and insurance, relative to indemnification, which is the protection that the Authority provides to Directors. He compared the risk factor for Authority Directors to those who serve on corporate boards of public companies and noted two favorable distinctions – the Authority has no shareholders and therefore is not subject to derivative suits, and the Authority is not subject to the same range of financial regulatory rules as publicly-held corporations. With respect to immunity, Mr. Sunderland said that as a result of the District of Columbia and Virginia statutes, which form the Authority compact, Directors are given broad immunity from personal liability. Finally, Mr. Sunderland noted that insurance provides assurance to Directors that the Authority will stand behind its word and be in a position to provide financial assistance and deliver on its promise to indemnify.

Mr. Sunderland reported that the current indemnification policy in the Bylaws had been in effect for more than 20 years. As a result of a recent experience with the policy, it required revisions to provide clarity and substantive guidance. A working group, consisting of Chairman Curto and Directors Conner and Session, with assistance from staff and outside counsel, had composed an amended policy. Mr. Sunderland reviewed its major features, general coverage and removal coverage. Under the policy's general coverage, whenever a Director is made a defendant to a proceeding in his/her role as a Director, the Authority will automatically provide legal representation and will indemnify for any personal liability arising from a judgment, subject to two qualifications – exclusions and standard of conduct. Mr. Sunderland noted that general coverage represented a major distinction compared to the existing policy where the Director is required to obtain his/her own counsel and will be indemnified for the cost of that counsel at the end of the proceeding. With the proposed amendment, the Authority would provide legal representation, selected by the General Counsel, to Directors; the internal review of the Counsel relationship would consist only of financial oversight. Under the proposed policy, Mr. Sunderland explained there is an exclusion for

criminal conduct; thus, if a criminal proceeding is brought against a Director, the Authority will not provide legal representation or indemnification of a criminal fine. However, he noted that an exception to the exclusion provides that the Authority will provide indemnification of a Director's legal costs in a criminal proceeding if the Director prevails in the proceeding and satisfies the standard of conduct. As to the standard of conduct, Mr. Sunderland explained that if a Director is a party to a suit, he/she will receive legal representation and be indemnified for the amount of any judgment, subject to satisfying the standard of conduct was in good faith and with reasonable belief that he/she was acting in the interest of the Authority. In those instances where a Director does not exercise good faith, he/she would be asked to reimburse the Authority for the costs it incurred in providing legal representation and would not receive indemnification of any personal liability. Mr. Sunderland also reported that the proposed policy would establish a process for coverage in case of a Director's removal from the Board. The proposed process includes: 1) Director requests indemnification of legal costs; 2) Board selects independent counsel for consideration of request; 3) Counsel conducts an inquiry, makes a determination whether indemnification would be in the best interest of the Authority, and prepares a written report with a recommendation for the Authority; and 4) Panel comprised of Chairman, Vice Chairman and General Counsel decides whether to accept or reject the Director's indemnification request, which, if granted, would be subject to standard of conduct.

Mr. Davis moved the approval of the proposed amendment and requested that Directors have 30 days to provide additional comments.

Chairman Curto thanked Mr. Sunderland and Directors Conner and Session and noted that outside counsel had provided expertise.

Mr. Conner recalled that historically a Director had never been sued, and stated that two removal actions had occurred involving Directors. He said that the proposed amendment is an effort to balance the interests of the Authority and Directors. He noted that the Bylaws provided for indemnification only. While a resolution, adopted years ago, provided legal representation, there is no correlation with the Bylaws. It was important to develop a policy.

Mr. McDermott inquired whether criminal activity would exclude coverage. Mr. Sunderland noted that it would initially, but if a Director was

proven innocent, indemnification of legal costs would occur. Mr. McDermott then asked if the Authority could consider whether certain criminal statutes should be exempted from this general exclusion for criminal conduct. Mr. Sunderland responded that he was unaware of any model statutes or corporate policies on indemnification that contained such an exemption but that he would conduct due diligence.

Ms. Hall inquired whether the Chairman of the Legal Committee should be a member of the Panel to decide whether to accept or reject the indemnification request. Mr. Conner said that consideration could be given to include the Legal Committee Chairman on the Panel if the Director making the indemnification request was the Chairman or Vice Chairman.

The Committee approved the proposed amendment, which would be considered by the Board at its April Meeting.

Proposed Amendment to the Freedom of Information Policy. Mr. Sunderland stated that because the Authority is not governed by federal or state statutes, it has its own Freedom of Information (FOI) Policy, which defines certain categories of records that are exempt from and may be withheld from disclosure. In the existing Policy, the appeal process, which had been used only once in the past, instructed requestors dissatisfied with the FOI Officer's decision to appeal to the Chairman of the Legal Committee. The November 2012 Office of Inspector General (OIG) Report recommended that the Authority create an external appeal process. Mr. Sunderland explained that the amendment would establish a two-step appeal process. Step 1 would remain the same – appeal to the Legal Committee Chairman. Step 2 would be an appeal external to the Authority. An FOI Appeals Panel, consisting of three retired judges selected by the Chairman of the Legal Committee and the General Counsel, would be established to hear Step 2 appeals. If a requestor is dissatisfied with the Step 1 decision of the Chairman of the Legal Committee, he/she could notice a Step 2 appeal, which would be followed by the requestor and the General Counsel selecting one of the three panel members to hear the appeal. The requestor and Authority staff would submit a position paper to the selected judge to assist in deciding the appeal. The selected judge would issue a written decision, which would represent the Authority's final decision. Mr. Sunderland noted that historically, there had not been many requestors dissatisfied with the Authority's administration of the FOI Policy or the FOI Officer's decisions regarding the disclosure of documents. He noted that the Federal Accountability Officer

and other Department of Transportation staff had reviewed the amendment and did not have any concerns.

Mr. Davis asked how a FOI external appeal process was handled in other agencies. Mr. Sunderland responded that once dissatisfied requestors exhausted their internal agency reviews, they usually had the ability to obtain a review by the court, which, in his opinion, was not an “external” appeals option available to the Authority. Mr. Davis inquired about the costs associated with the services provided by the retired judges. Mr. Sunderland stated that they would be paid by the Airports Authority on an hourly basis for work performed associated with an appeal; no costs would be incurred if there are no appeals.

The Committee approved that amendment to the FOI Policy, which would be considered by the Board later that day.

Recommendation to Approve a Proposed Authority Business Expense Policy. Andy Rountree, Vice President for Finance and Chief Financial Officer, introduced Julia Hodge, Department Manager, Financial Strategy & Analysis Acting Manager, Internal Controls & Compliance, who had been instrumental, along with her staff, in developing the proposed policy. Historically, the travel expense and business expense guidelines had been included in one policy. In December 2012, the Board had approved a Travel Policy, which had intentionally excluded business expenses to ensure that the travel expenses remain separate, clear and distinct. The proposed policy would provide guidelines regarding other types of reimbursable expenses. Chairman Curto noted that the recommendation to separate the policies had also been in collaboration with the Federal Accountability Officer. Mr. Rountree added that Lynn Deavers, the Federal Accountability Officer, had also reviewed the proposed business expense policy. He reported that staff had reviewed the federal government’s rules for business expenses, as well as those for peers and similar organizations, in an effort to incorporate best practices and provide guidance on common purchases. The Policy would provide specific guidance related to reimbursement for: employee meals during a working meeting (specific requirement and criteria have to be met), including specific limits; office and Authority-wide functions (hosted by the Board or sponsored by the President and Chief Executive Officer; meals with Directors or outside individuals for business purposes, including specific limits by type of meal, and alcohol, which is not reimbursable unless the expenses meet strict criteria; and official gifts issued by the

Authority. Mr. Rountree noted that the Policy also provided guidance about non-allowable expenses and the approval process, which is similar to the one used for the recently-adopted Travel Policy.

Chairman Curto noted that the Business Expense Policy is a policy of the Board rather than a Directive, as noted on the draft document. Mr. Rountree clarified that once the Board approved the Policy, Mr. Potter would execute a directive to implement it, which would apply to Authority employees and to Board Members, in the same manner as the Travel Policy.

The Committee approved the Authority Business Expense Policy, which would be considered by the Board later that day.

Proposed Amendment to the Statement of Functions. Mr. Potter noted that Resolution No. 01-20 stated that the Board reserved the right to approve any change in the functions of Officers who reported to him or to the Executive Vice President and Chief Operating Officer. He requested the addition of the Internal Controls, Compliance and Financial Strategy Department in the Office of Finance and reviewed the expanded duties of the Office. Mr. Potter also noted that an editorial correction would be made to the introduction of the Statement of Functions to correct the 13-Member Board to 17 Members.

Ms. Wells inquired about reporting relationships for employees in the new department. Mr. Potter responded that the Manager of the Department of Internal Controls, Compliance and Financial Strategy reports to Mr. Rountree. The Internal Controls and Compliance Division of this Department will consist of a Manager and ultimately two subordinate employees. Ms. Wells requested an organization chart be provided.

The Committee approved the proposed amendment to the Statement of Functions, which would be considered by the Board later that day.

The meeting was thereupon adjourned at 9:55 a.m.

[NOTE: The Executive and Governance Committee Report provided at the March 20 Board Meeting included details of the Committee's March 20 Meeting.]

SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF MARCH 20, 2013

Mr. Conner chaired the March 20 Finance Committee Meeting, calling it to order at 8:25 a.m. A quorum was present – Mr. Carter, Mr. Davis, Mr. Griffin, Mr. McDermott, Ms. Merrick, Mr. Session, and Mr. Curto, *ex officio*. Ms. Hall, Ms. McConnell and Ms. Wells were also present.

Mr. Conner noted that Ms. Hall had recessed the day's Audit – Legal Committee Meeting. She would reconvene the Meeting later in the day.

Financial Advisors' Report – Dulles Corridor Enterprise

Jim Taylor of Mercator Advisors LLC reported that the Authority had issued taxable Build America Bonds in 2009-2010, for which the interest subsidy payments from the federal government are potentially subject to sequester. Interest payments for these bonds are payable on April 1 and October 1 annually. Fortunately, staff had filed the April payment in February prior to sequester so the Authority had already received its full funding federal subsidy of 35 percent. Mr. Rountree noted that if the sequester is not changed by September 30, there would be a small impact on the Authority's October 1 payment.

Mr. Taylor reported that the Authority had provided all requested information to-date regarding the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan and that an announcement regarding its entry into the next phase of review is expected soon. Mr. Potter noted that staff is anticipating the next steps and will be prepared to respond quickly once the TIFIA announcements are made.

Mr. Davis noted that a change in the administration could impact the outcome of the TIFIA award and inquired about the timeframe of the decision. Mr. Potter stated that staff had informed the Department of Transportation about the Authority's intention to award the Phase 2 contract as scheduled in May and that the Authority is pressing for a TIFIA decision before that time. He said that he had personally expressed his hope to Secretary LaHood that he would be able to act on the TIFIA award before he left office.

The Chairman inquired whether the next step in the TIFIA process would be to submit an application. Andy Rountree, Vice President for Finance and Chief Financial Officer, stated that several key steps remained that

can't be completed until notified that the project will be considered for TIFIA, including obtaining a preliminary or indicative rating specifically for the TIFIA loan from a credit rating agency.

Mr. Davis noted that recent changes had been made to the Board and to Authority procedures based on the premise that the Authority would be awarded a TIFIA loan. He said that some accommodations had also been made to the Commonwealth, which had kept its bargain, including the recent award of the \$300 million Full Funding Grant Agreement. Mr. Davis said that he hoped that the administration would also follow through. Mr. Potter stated that one outstanding item remained with the Commonwealth, noting that Governor McDonnell had not signed the legislation. With respect to the federal government, Mr. Potter said that all conversations had been positive.

Mr. Conner reported that Phase 2 represented a much clearer financial transaction than Phase 1, noting that \$150 million had been committed, followed by an additional \$300 million included in the Commonwealth's budget. The Authority remained hopeful that a sizeable TIFIA loan for Phase 2 would also be awarded, which could possibly occur by May. Mr. Conner noted that the Authority is scheduled to award the Phase 2 construction contract in May, as well. As a result of both actions, the cost of the Phase 2 Project may be determined and it would be clearer whether it would be necessary for the Authority to enter into the bond market later in the year for a small amount of financing.

Mr. Davis and Mr. Conner discussed the impact on the toll projections as a result of existing reduced interest rates for future financings compared to those transactions executed in the past. Mr. Potter clarified that future toll projections reflected the environment for existing interest rates; old data had not been used. Mr. Taylor stated that flexibility could be optimized as the Authority moved forward with Phase 2.

Pre-Solicitation Terms for the Traffic and Revenue Study Consultant for the Dulles Toll Road

Mr. Rountree reported that staff was seeking Committee concurrence to issue a Request for Proposals (RFP) for the pending procurement. He noted that the Master Indenture of Trust and Supplemental Agreements stated that the Authority had to retain a Toll Road consultant, defined as "a firm or firms of national recognition with expertise and experience re-

garding the operation, management and financing of, and the collection of revenues from, toll roads.” The former contract with CDM Smith (formerly Wilbur Smith & Associates) included a 25 percent Local Disadvantaged Business Enterprise (LDBE) requirement. Mr. Rountree reviewed the services to be provided by the consultant, including: 1) providing certificates and opinions related to annual reviews, proposed changes in toll rate schedules or toll classifications, and periodic bond issuances; 2) developing and periodically updating traffic and revenue projections for the Dulles Toll Road, as requested, supported by written analysis; and 3) preparing evaluations, studies and opinions as necessary to determine recommended toll rates and periodic toll rate adjustments for the Dulles Toll Road. The proposed solicitation contract term would be a three-year base with two one-year options; it would include a 25 percent LDBE requirement and an annual not-to-exceed amount of \$2 million. Mr. Rountree noted that the entire amount was not necessarily required to be spent annually because it would be a task order contract.

Ms. Wells inquired about the number of interested firms that would bid on the RFP. Mr. Rountree responded that very few firms with this specialty were known nationally and noted that eight firms had prepared 63 traffic and revenue consultant reports for financings since 2010.

Mr. Carter asked whether any elements had been learned from CDM Smith that should be incorporated into the new RFP. Mr. Taylor said that the existing scope of work had worked well, but that opportunities would exist for the selected firm to incorporate new ideas.

Mr. Conner noted that although CDM Smith’s term has recently been completed, the firm had recently updated the Authority’s Traffic and Revenue Study so another report may not be needed immediately. Mr. Taylor stated that the new firm would be helpful in responding to inquiries relative to the TIFIA review process.

The Committee concurred with the pre-solicitation terms for the pending procurement.

Financial Advisors’ Report – Aviation Enterprise

Mr. Rountree introduced Patti Grant-Wilkinson of Jefferies, who provided a brief update regarding the upcoming financing. The financing team is working on a bond issuance to refund certain outstanding bonds to gen-

erate debt service savings; new money opportunities may also be considered. Ms. Grant-Wilkinson reported that work had already begun with the preparation of bond documents and meetings or calls with all three rating agencies would also be scheduled. Bond documents would be considered by the Committee and Board in June and July, respectively.

Mr. Conner reported that a decision would need to be made whether a new feasibility study (a.k.a. Report of the Airport Consultant) should be conducted. This study, which is comparable to the traffic and revenue study, would typically add one month to the bond transaction process. If the study is conducted, Mr. Conner said that the Committee would request that the Board consider the bond transaction on the same date as Committee approval. By doing so, the transaction could occur approximately the same time as if the study had not been conducted.

Mr. Rountree noted that Kirsten McGrath, also of Jeffries had joined Ms. Grant-Wilkinson.

February 2013 Financial Report – Aviation Enterprise

Mr. Rountree was joined by Mark Tune, Controller. Mr. Rountree reported that year-to-date revenue was \$110.3 million, an increase of 6.6 percent from the same period in 2012. The end of February represented 16.7 percent of the calendar year, at which point the Authority had earned 16.3 percent of budgeted revenue. Year-to-date expenses were \$4.6 million, an increase of 1.5 percent from 2012. The Authority had incurred expenses at 15.7 percent of its budget.

Operating income was \$15.6 million, compared to a prior year operating income of \$10.2 million. Debt service coverage had remained consistent at 1.33 compared to the same period in the prior year. Mr. Rountree noted that the monthly coverage represented an estimate. Debt service coverage had been estimated at 1.36 for January.

The meeting was thereupon adjourned at 8:50 a.m.