SUMMARY MINUTES
AUDIT COMMITTEE
MEETING OF APRIL 18, 2012

Ms. Hall chaired the Audit Committee Meeting on April 18, 2012. Kelly Thornton, the PricewaterhouseCoopers (PwC) Engagement Partner, presented the results of the Calendar Year 2011 financial statement audit. Ms. Thornton stated that the firm expected to issue an unqualified opinion with an emphasis of matter paragraph to alert readers to adjustments made affecting prior periods. She noted that the Report to Management would be presented at the June Audit Committee Meeting.

Valerie Holt, the Vice President of Audit, also presented the results of audits and reviewed a component of the Disadvantaged Business Enterprise program, a major services contractor, and subcontractor indirect cost proposals. The Committee also received a briefing on a Performance Audit of the Rail Project, Phase 1.

SUMMARY MINUTES
BUSINESS ADMINISTRATION COMMITTEE
MEETING OF APRIL 18, 2012

Mr. Session chaired the Business Administration Committee Meeting held on April 18, 2012.

He announced the presence of a quorum, with the following members of the Committee in attendance, in addition to himself: Mr. Brown, Mr. Carter, Mr. Conner, Ms. Hall, and Mr. Curto, *ex officio*. Mr. Davis and Mr. Stottlemyer were also present.

Award of a Contract to Provide IT Service Desk and End-User Support Services.

Syed Ali, Acting Vice President for Information and Telecommunications Systems, said the staff was recommending an award to Digital Intelligence Systems Corporation ("DISYS"), a minority business enterprise from McLean. The contract would be effective June 1. In November 2011, the Business Administration Committee had reviewed the proposed Request for Proposal (RFP) terms; the RFP had been issued in January 2012.

The service desk would support end users with Enterprise Resource Planning (ERP) and non-ERP related issues, including desktop, laptop, printer and miscellaneous IT equipment and application training. Twelve firms had responded to the RFP; DISYS had received the highest combined technical and price evaluation score.

The contract would be for one year, with two one-year extension options; the overall cost would be $4,689,036, with a 30 percent Local Disadvantaged Business Enterprise (LDBE) requirement.

Mr. Stottlemyer asked if the contract would be fixed-price; it would be. He asked if service levels had been included; they had.

Mr. Session asked what part of the contract would be LDBE; Mr. Ali said the staffing of the work desk. Mr. Carter asked if the LDBE would be determined after the award. Mr. Ali said the firm had already selected the subcontractor and was working with it. The subcontractor would be TISTA, of Rockville.

The Committee then unanimously agreed to recommend the contract to the Board.

SUMMARY MINUTES
DULLES CORRIDOR COMMITTEE
MEETING OF APRIL 18, 2012

Mr. Davis chaired the March 21 Dulles Corridor Committee Meeting. He first verified the presence of a quorum, consisting of Mr. Brown, Mr. Conner, Ms. Hall, Mr. O'Reilly, Mr. Session, Mr. Stottlemyer and himself. Mr. Carter, Mr. Cobey and Mr. Curto were also present.

Dulles Corridor Metrorail Project Phase 1 Monthly Cost Summary. Pat Nowakowski, Executive Director of the Metrorail Project, reported that expenditures for the month of February had been $44.1 million, bringing the total to $1.81 billion, against the budget of $2.755 billion. The forecast completion cost remained at $2.905 billion, including a $150 million contingency reserve. Mr. Davis asked if the $150 million reserve, over the budgeted level for the project, had been the same figure discussed for the past several months. Mr. Nowakowski confirmed that it had been; he described the amount as his "worst case scenario". Mr. Brown asked for an explanation of the figures. The budgeted $2.755 billion had included $312 million in contingency costs. As much as an additional $150 million could be required. The project budget would at some time have to be increased.

Mr. Nowakowski said the increase was not required immediately; when the need for contingency funds was established, they were moved to other line items in the budget. In February, $31 million of contingency had been used. With a total use of $300.9 million in contingency, $11.4 million remained. The completion date was still August 2013. Mr. Brown asked where the projected additional $150 million would come from. Mr. Rountree said it would increase the cost of the project overall. It would thus go through the funding formula, with the partners paying their share and the rest left to the Toll Road.

Mr. Davis pointed out that the reasons for the $150 million had been discussed for some time; the costs were the result of changed Metro safety standards and other unexpected items, not cost overruns on the project. Mr. Nowakowski said the largest item had been the bids on allowance items, followed by $80 million of the Metro standards and utility relocation work along Route 7, about $70 million. Mr. Potter said the numbers had been shared with the funding partners, who had been surprised to see additional costs of less than 5 percent on a $3 billion project. They had been aware of the problems. There had been a known risk factor with the contingencies when the Phase 1 contract had been signed, and the costs had not turned out as some may have hoped.

Mr. Davis pointed out that there had only been one bidder for Phase 1; the problems should be fewer on Phase 2. Mr. Potter agreed; negotiations with the single contractor had produced some unsatisfactory numbers for certain elements of the project, such as the station finishes, that were far off in time.

They were left to be bid at a time closer to their construction. This was hardly mismanagement. The partners had been closely involved and understood the nature of the decisions.

Mr. Stottlemyer asked if the recent Traffic and Revenue Study had included the Toll Road share of the $150 million in its toll tables. Mr. Potter said that it had. Mr. Rountree said there had been very little impact on the toll levels. Mr. Carter was encouraged to hear of the partners' involvement, and urged Mr. Potter to keep out front on the issue.

<u>March 2012 Financial Report – Dulles Corridor Enterprise.</u> Mr. Davis said it appeared that the recent toll increase had not had much of an impact on Toll Road use. Mr. Rountree agreed, noting that traffic was close to projections. The year-to-date March revenues, at $25.1 million, had increased 9.8 percent over the same period in 2011. The forecast had been for 10.3 percent. Revenues were at 23.2 percent of budget for the first quarter.

Mr. Davis asked if increases could be tracked to the completion of construction on the I-495 Hot Lanes project, which had complicated driving on the Toll Road. Mr. Rountree pointed out the larger increase in transactions in March, to 24.6 million. The decrease from 2011 had been .02 percent, very close to projections.

Mr. Davis asked if more E-ZPass gates could be added; it appeared that many E-ZPass holders had to use the cash lines. Ms. McKeough said the matter was under consideration. Mr. Stottlemyer asked if there had been any analysis of the effect of greater electronic toll collection. Mr. Potter said a consultant was looking at the impacts of all-electronic tolling. From information about other toll road operators with all-electronic tolling, it appeared that a substantial percentage of users of such highways did not pay tolls. There would have to be some interstate reciprocity agreements to allow for enforcement. Such agreements did not currently exist. Thus the Authority would stand to lose more than it would gain if it implemented all-electronic tolls currently.

Mr. Davis asked if peak-hour tolling was being considered. Mr. Potter said it was, and the staff was also considering different prices for electronic and cash tolls, and more precise distance-based tolling.

Mr. Rountree reported that expenses year-to-date had been at $6.3 million, up 3.3 percent from 2011. Expenses were at 21.9 percent of budget. Days of unrestricted cash-on-hand were at 874, a figure increasingly meaningless for the Toll Road, as rates were set to finance the rail project.

SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF APRIL 18, 2012

Mr. Conner chaired the April 18, 2012 Finance Committee Meeting. All members of the Committee attended: Mr. Brown, Mr. Carter, Mr. Conner, Mr. Davis, Ms. Hall, Mr. Session, Mr. Stottlemyer and Mr. Curto, ex officio. Mr. Cobey and Mr. O'Reilly were also present.

Policy Considerations for Setting Near-Term Dulles Toll Road Rates

Andy Rountree, Vice President and Chief Financial Officer, said the schedule for Dulles Toll Road rates had first been discussed in February. Within the proposed schedule, several things had to occur before 2013, if the rates were to change in 2013. When the Board had first assumed responsibility for the Toll Road, it had set toll increases for three years, through January 2012. Further increases would require Board action. There were several steps to get there: first, the Finance Committee would provide a recommendation, followed by discussion with the Dulles Corridor Advisory Committee, and then public hearings in accordance with the Authority's regulations policy. Finally, the proposal would be brought back to the Finance Committee and the Board for approval.

There were two policy issues for the Board to decide, the amount of toll increases and how far in advance they should be set. The first time the Board had set tolls, they had been for three years. There were positive impacts from setting tolls for the long term: they provided certainty for selling bonds, and looked good to the market. But three years was not necessary, and certainly should not be exceeded, primarily because there were too many uncertainties in the next three years.

If the time period was less than three years, did one or two years make sense? The actual bids on the Phase 2 project would certainly affect toll levels; at present, the Authority did not know if Loudoun County would opt out; there was no firm grasp on the size and timing of the Commonwealth's contribution; it was not yet settled how the existing Transportation Infrastructure Finance and Innovation Act (TIFIA) grants would be allocated; and no one knew about future TIFIA loans, grants, or revenues from other sources. In addition, there were other more practical matters that would take time to implement. These included peak-period pricing, E-ZPass differentials, and distance-based pricing. With these considerations, a shorter toll setting period might make more sense.

The next issue was the sizing of toll rate adjustments. Jim Taylor of Mercator Advisors, LLC said that the toll schedule provided in February had covered 50 years, with about a two-dollar increase every year. This was a planning schedule, offered just for thinking about the issue, and designed to show an order of magnitude of what rates needed to be to finance the project as it was currently understood.

The uncertainties Mr. Rountree had mentioned went to how long to lock in rates. In the near term, however, the Authority had considerable flexibility. Financing for the project would not all be done in one year, and consequently all rate changes did not have to be done at one time.

By the next month's meeting the staff and the Financial Advisors would show how the plan could be adjusted to allow lower rates for the next year or two. The plan had the trip toll going to $4.50 in 2013, but the actual could be lower. From a policy perspective, a lower toll in the short term might be advantageous.

After about five years, when all the debt had been issued, the toll would need to be around $6.75 for total trip cost. How to get there from the current $2.25 would be the Board's decision.

Mr. Davis suggested the choice was "pay me now or pay me later." Mr. Taylor said it was less so for the first five years. The debt had not yet been issued. If the tolls went to $4.50 for 2013, that would produce the maximum flexibility to issue current-pay bonds. If the tolls did not climb that fast, the impact would be small, as the amounts were relatively minor over time. Mr. Davis said it would be possible to put the money in the bank. Mr. Taylor agreed, and noted that the faster schedule would take advantage of the current low-rate environment.

Mr. Session said the decision was basically political, and that the timing and the public explanation of the decisions were critical. Mr. Davis said he hoped the Board could be a management body and less a political one.

Mr. Brown said that, among other considerations, the Authority should keep an eye on the Virginia election calendar. The tolls could easily become an election issue. The process would take months, and would be very public. A one-year increase would require another increase for 2014 in the middle of the 2013 Virginia state and local elections. He asked when the toll would begin on the Beltway Hot Lanes, and when the Greenway tolls would go up again. The Board needed to know the status of toll rates elsewhere in the community.

Mr. Taylor said the Hot Lanes would open in December 2012, with a typical trip costing $4 to $5. The Greenway toll would go up in July 2012 under an agreement with the State Corporation Commission, which regulated the Greenway like a utility, with rates set through 2020. The Traffic and Revenue Study had included these assumptions in its model, but had not addressed the perception of rate increases everywhere.

Mr. Brown said the necessary information was the toll rate per mile from all the other projects in the area, which would show the Toll Road was "comparatively less unattractive" than the other projects. He asked whether, if no more debt were issued, would there have to be another increase. Mr. Taylor said that without further debt, the toll would need to reach $4.50 in 2016. Mr. Brown said that every year the rate covenant required a revenue-debt coverage calculation. Mr. Taylor said that was so, and that it would be possible to skip one year's increase without a problem. But unless there was some policy for not going to $2.75, that should be the minimum increase to reassure the market. Mr. Brown agreed; he wanted to know the bottom line. He said there were few toll authorities who did a three-year toll schedule, and it had been impressive that the Authority did it for its first bond issue. This action had proved a major asset when reporting to the rating agencies.

Mr. Brown said Mr. Rountree had mentioned how the toll policy played into new debt. He asked, given the balances for construction in the bond funds and other accounts, and based on current and past spending rates, how long it would be before more debt issuances would be required. Mr. Rountree said that would depend on the speed of Phase 2, probably the earliest in February 2013.

Mr. Brown said it would not be possible to spend a dollar on Phase 2 in 2012, given the current delays. Mr. Taylor said there would be a need for $200 to $300 million in 2013. These figures were updated every month, as actual expenditures often did not match projected expenditures, so there would not be any scramble for construction funds when Phase 2 gets underway. It was clear that the Commercial Paper would cover through January or February of 2013. There would also be a need for about $200 million for Phase 1, to cover the rest of the $900 million federal grant, which would not be appropriated until construction was completed, possibly as late as 2016.

Mr. Carter observed that the plan didn't include the anticipated revenue from the partners. Mr. Taylor said the numbers had been run with and without the additional $300 million discussed from Virginia. If $150 million did not come from the Commonwealth, the base case would not have to be changed.

Mr. O'Reilly asked by what time the Board would have to make a decision that would be effective in 2013, and how long the process would take. Mr. Taylor said there was a detailed schedule in the papers prepared for the day's meeting. General discussions were in April; options would appear in May; by June the options would be narrowed. Comments would be received over the summer, with a proposal sent to the Finance Committee in September for Board approval in October.

Mr. Stottlemyer asked if it would help with the financing if the Board set long-term tolls. Mr. Taylor said it would. He added, however, that the planning study should make the markets comfortable, and that rating agencies would understand the shorter term because of the changing conditions. He did not think there would be a negative impact from a shorter term this time.

Mr. Rountree agreed; he said that the three-year tolls set at the start had impressed the rating agencies. Now they would, however, understand the dynamics if a shorter term were selected.

Mr. Stottlemyer said the primary concern was the overall cost of the project, including the cost of capital. But rates were going to be higher five years from now, and if they could be quantified, it would be an advantage to predict them. He asked when the staff would return with recommendations on the alternative pricing models.

Mr. Rountree said some analysis was expected to be available in the next month. Staff would be looking at timelines for implementing changes with the engineers. Ms. McKeough noted that the current revenue control system had functional limits and would require modifications to handle more complex fare structures.

Mr. Session asked about the impact on rating agencies. He noted that Mr. Rountree had first said three years of tolls had been a good thing, but given the current dynamics, a one-year toll would not cause a problem. Mr. Rountree said the rating agencies would not object, although they would still say a longer term was better.

Mr. Brown said he was an advocate of a multi-year toll increase. While it might have been a different universe three years ago, before the Authority became so visible and subject to criticism. More importantly than the rating agencies, the institutional investors made their own evaluations, and it would makes a very effective statement to them if, regardless of the other problems, the Authority was willing to do what it takes, even if it was the unpopular thing. The tolls could be tweaked later on, if something changed in the financing. For the next three years as the debt was being ramped up, the better course would be to set increases for three years.

Mr. Brown suggested that debt issuance would be more affected by the uncertainties than the toll rates would. He said he did not recall why the first issuance had been $300 million of commercial paper. Mr. Taylor said it had been a market call; $300 million was what the market would provide at an attractive cost. Mr. Brown said he believed February was close. Some issues would come up, including how much of the cost was falling on the Toll Road credit. He said the staff should work through the spring and summer to see if more commercial paper could be issued, to provide a wider window on the time it would be necessary to go to the long-term debt market.

Mr. Davis said he agreed with Mr. Brown; the approach should be businesslike. Every year was an election year in Virginia, sometimes there were two elections. Long-term toll setting would be fair to developers, homebuyers, and job seekers in the area so they could know what it will cost to get to their properties, homes, or jobs. The Board should be transparent and proactive in setting tolls; they could always be tweaked later. The Board had to be the grownup in the room. It certainly shouldn't follow the Virginia model for funding transportation; that model had been woefully inadequate and very political. The Authority had been stuck with the project because the Commonwealth was incapable of building the project and setting tolls.

He then asked if was possible to tap into the Commonwealth's AAA debt. Mr. Taylor said the issue had been considered before, when all revenue sources were being evaluated. It might be possible; the Toll Road itself had been backed by the Commonwealth, and funded with AAA bonds. Mr. Davis asked if such backing was better than TIFIA. Mr. Taylor said it wouldn't be, as TIFIA was more flexible. But a guaranty could bring about a savings of 100 to 200 basis points, a dramatic change. There were ways for the Commonwealth to assist, through a guarantee or its new transportation infrastructure bank. Mr. Davis said such possibilities should be kept alive for discussion. Mr. Taylor said the Commonwealth had many resources, and that a motivated partner could find ways to help.

Mr. Rountree pointed out that nothing would keep the Commonwealth from backing a TIFIA loan, which would stretch the loan. Mr. Davis asked if Virginia support would make a TIFIA loan award more likely. Several agreed. Mr. Stottlemyer said the alternatives should be pursued; a couple of hundred basis points were not inconsequential.

Mr. Conner then summarized the Committee's position. It did want to follow the proposed toll setting schedule, to follow a deliberate and transparent approach. This would not be a political process, even though it would be in a political environment. He agreed with Mr. Davis that there was a transportation funding problem, not just in Virginia, but throughout the country, where people did not want to have a permanent source of funding to pay for infrastructure. The Board would have to be thoughtful, transparent and deliberate. Though a decision was not yet timely, he believed that discussion should begin with at least two years. It would benefit the public and give comfort to the market. There needed, however, to be a transition; he was concerned about causing a deviation from the Toll Road to local roads. He added that the correct message was "pay me now or pay me more later". While there was some flexibility in the short term, the Board should remember that one of the reasons it got the job was that it would do the right thing from a business and financial perspective as opposed to what is easy.

Appointment of the Co-Senior Managers and the Senior Bookrunning Manager for the Airport System Refunding Bonds, Series 2012

Mr. Conner said that on April 13, Mr. Brown, the Financial Advisors, financial staff and he had met with eight of the nine members of the aviation enterprise syndicate to consider selection of senior managers. He said the Authority was fortunate to have the quality of bankers who wanted to have a role in its financings. Many had worked with the Authority for a long time, and had done a remarkable job. The Committee had tried to balance loyalty, commitment and contribution with giving new firms and people who haven't worked with the Authority an opportunity in the rotation. The balance did not make everyone happy, but the Committee tried to do the best, and do it on a fair basis.

Mr. Rountree asked the Committee to appoint as co-senior managing underwriters Barclays Capital Inc. and Loop Capital Markets LLC, with Barclays Capital as the senior bookrunning manager for the next transaction. Mr. Brown moved the proposed resolution that would do so.

Mr. Session asked what a bookrunning manager did. Mr. Rountree said that someone has to run the show, taking the orders, keeping the books on what's sold. Typically the desk of the bookrunning manager performed these functions. Mr. Conner said the efforts were to deal with realities of history with the practicalities of running a deal. More important were lead credit and compensation. The interviewers had wanted a meaningful role for the co-manager not running the books.

Mr. Carter said a lot of hard work had been done. He was pleased to see that minority firms were getting opportunities, in that Loop Capital was designated a co-senior manager.

The Committee then unanimously agreed to the proposal.

March 2012 Financial Report – Aviation Enterprise Fund

Mr. Rountree reported that as of the end of March, year-to-date revenue had been $157.7 million, up 6.5 percent from the first quarter of 2011, at 24.2 percent of budget. Expenses for the same period had been $137.7 million, up 1.6 percent, at 23 percent of budget.

Operating income for the first quarter had been $20 million compared to $12 million in 2011. Mr. Rountree noted that corrected information regarding the debt service coverage had been distributed at today's meeting. Debt service coverage at the end of March had been 1.27, compared to 1.33 at the end of February and 1.37 at the end of 2011. 427 days of unrestricted cash on hand as of March 31 had indicated a healthy operating liquidity.

Mr. Conner said the discussions with the eight bankers in the previous week had addressed at some length the cost of enplanements and debt coverage ratios. They had agreed cost of enplanements was a misnomer; yields were a bigger issue that would have to be analyzed. Debt coverage should be higher. Moody's might choose to downgrade the Authority for this and for other reasons. Mr. Conner said worse had happened before, and there had not been an impact on operations.

Financial Advisors' Report – Aviation Enterprise Fund

Ken Gibbs of Jefferies said the meetings with the potential senior managers had shown that the team was diverse, with different strengths that would serve in a variety of markets, with many firms who would bring different expertise to the table. Ideas had come from those meetings that had already been included in the financing plan.

The market had been volatile over the last month; since the last Committee meeting, one-third of the savings anticipated for the next financing had gone away and come back again. It therefore made sense to move expeditiously. At the next meeting, staff would present the structure of the transaction; documentation would also be presented.

Two topics might be at issue, not only the current refunding, but also a potential advanced refunding of $32 million, of bonds not callable until 2013 or 2014. The issue here was not just savings, but market exposure. At more than 8 percent, the savings would be significant, but there was negative carry or a cost in the refunding in advance of the call dates. The break-even interest rate would be an increase of over 1 percent. It might turn out to be more advisable to wait.

As had been mentioned before, the Authority had a significant amount of credit facilities, banks supporting floating rate paper, and counterparty exposure on its swaps. The rating agencies, particularly Moody's, had indicated that downgrades were coming for a range of these institutions. The Financial Advisors had been tracking the situation for the Authority, and were expecting a decision in mid-May. They had advised the Authority that it was in a comfortable position, but should be prepared for some changes. Some interesting ideas for savings had been presented by the syndicate members, with some proposals providing capacity to allow replacement of downgraded institutions, and also limiting rollover or extension risks. Next month the Financial Advisors may be recommending facilities for replacement.

Mr. Carter asked, hypothetically, if the Authority could go forward currently with refinancing, what the savings would be. Mr. Gibbs said the most recent estimate had been over $31 million, a net present value, for the current refunding, and $2.8 million for the advance refunding.

Financial Advisors' Report – Dulles Corridor Enterprise Fund

Bryan Grote of Mercator Advisors, LLC noted the firm had been providing support to the Authority in dealing with its funding partners, including the Commonwealth, providing any types of analysis they needed. It had also been following the partners' activities. Fairfax and Loudoun Counties had posted everything to their websites, including the papers the Authority had provided. Loudoun had posted an analysis by Robert Charles Lesser of the financial impact of Phase 2. It included a parking analysis that said the proposed garages were right-sized, and would not need County subsidy.

Governor McDonnell had recommended that the Commonwealth Transportation Board contribute $100 million to deter tolling during construction of the midtown tunnel corridor project until 2014.

With respect to all-electronic tolling, the Maryland legislature was already considering a toll-evasion reciprocity bill.

Mr. Brown asked if the $100 million that would go to the tunnel project was in addition to the $360 million contributed to the capital costs. Mr. Grote said it was additional, to obviate tolls until 2014. Mr. Brown pointed out that a previous report had shown the privatized tunnel project was receiving 25 percent of its capital cost from the Commonwealth. The additional $100 million would bring its share closer to 1/3, while its contribution to the Dulles rail project was about 5 percent.

Doreen Frasca of Frasca and Associates, LLC reported on the market. March had been a rocky month, as issuers began to take advantage of low rates. April had been better. The Atlanta Airport had sold $474 million of AMT and non-AMT bonds, with a spread of 45 basis points between the two. The rates had been 3.44 percent on non-AMT and 4.45 percent AMT on 30 years. This augured well for the Authority.

The Elizabeth River Crossing and the Pennsylvania Turnpike had also been in the market. The Elizabeth River had sold $664 million, 5.5 percent at par in 2042. A triple-A supported transaction, like one supported by the Commonwealth's credit, was at 3.5 percent; a triple-B- at 5.5 percent. The Pennsylvania Turnpike, AA3, enhanced by motor vehicle fees, was at 3.94 percent in 30 years. The Turnpike's subordinate A3 credit sold at 4.46 percent.