

SUMMARY MINUTES
BUSINESS ADMINISTRATION COMMITTEE
MEETING OF MAY 16, 2012

Mr. Session chaired the Business Administration Committee Meeting held on May 16, 2012, calling it to order at 11:25 a.m.

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

Revisions to the Contracting Manual and the Airport Purchasing Policies and Procedures.

Fred Seitz, Manager, Procurement Operations, reported that during a procurement system review, Federal Transit Administration (FTA) auditors had asked that the Contracting Manual be updated to address FTA grant requirements. These revisions had been prepared, and the FTA had approved them. In addition, changes had been developed to deal with the Enterprise Resource Planning program and to harmonize the Manual with the Freedom of Information Policy. There were also some amendments to reflect the special procurement procedure for the Dulles Metrorail Phase 2 design-build contract, which had been approved by the Board at its February Meeting. If these changes were approved by the Committee, they would be published for public comment.

The schedule was as follows: May 16 – committee approval; May 18 – open public comment period; June 18 – close public comment period; July 18 – submitted for Board approval; and August 15 – begin staff training in the new provisions.

The Airport Purchasing Policies and Procedures, which apply to purchases of less than \$50,000, also had to be amended to meet FTA standards.

Mr. Session asked if the Contracting Policy should be deferred in light of the Inspector General report, especially since there would be some further changes. Ms. McKeough said the current amendments were the result of over a year's discussions with the FTA, and it was important that they be made final before the Phase 2 procurement. She said it was understood there would be another comprehensive view of the Contracting

Manual before very long. Amendments resulting from that review could be made later.

Mr. Session then moved that the amendments be approved, and the Committee unanimously agreed.

Pre-Solicitation Report for Specialized Electronic Systems Operations and Maintenance Services at Dulles International. Chris Browne, Vice President and Dulles Airport Manager, said the contract required 24-hour support and covered many different electronic devices. He added that any time a screen carrying a message malfunctioned, it was covered by the contract. The incumbent firm was ARINC of Indianapolis, with a contract expiring in June 2013. The proposed contract would be for two years, with the possibility of three one-year extension options. It would include a 25 percent Local Disadvantaged Business Enterprise requirement, and would cost, if it ran the full five years, \$5 million.

Mr. Session called for approval of the report, and the Committee unanimously agreed.

Mr. Session then announced that the Committee would go into executive session to consider personnel and organizational matters. He said the Committee would not take any actions, and would not come back into public session.

At the conclusion of the executive session, the meeting was adjourned at 12:40 p.m.

SUMMARY MINUTES
DULLES CORRIDOR COMMITTEE
MEETING OF MAY 16, 2012

Mr. Davis chaired the May 16, 2012 Dulles Corridor Committee Meeting, calling it to order at 10:08 a.m. He first verified the presence of a quorum, consisting of Mr. Brown, Mr. Conner, Ms. Hall, Mr. Martire, Mr. Session, Mr. Stottlemeyer and Mr. Curto, *ex officio*.

Dulles Corridor Metrorail Project Phase 1 Monthly Cost Summary. Pat Nowakowski, Executive Director of the Metrorail Project, reported that expenditures for the month of March had been \$46 million, bringing the total to \$1.861 billion, against the budget of \$2.755 billion. The forecast completion cost remained at \$2.905 billion, including a \$150 million contingency reserve.

Contingency usage had shown a net gain of \$500,000. To date, \$300.4 million had been used or obligated, leaving a balance of \$11.9 million. Future contingency need was for an additional \$150 million, which would be addressed later in the meeting.

Ms. Hall asked who owned the Toll Road. Mr. Potter said the land the Toll Road is built on was part of Dulles International, leased to the Authority by the federal government. But a cost-free easement on the land had already been granted for 100 years to the Commonwealth of Virginia to build the Toll Road. The Toll Road was in effect leased back under a permit to the Authority for about 50 years, to be used for funding the rail project. When that lease was over, in 2058, the Toll Road would return to the Commonwealth. Mr. Davis asked what would happen when the original 100-year lease expired. Phil Sunderland, Vice President and General Counsel, said it would revert to whoever owned the right-of-way, the federal government, the Authority, or some other entity.

Dulles Corridor Metrorail Project Quarterly Update. Mr. Nowakowski reported that design on Phase 1 was 99 percent complete, with just a few touch-up matters short of full completion. Utility relocations were also nearly done. Construction had reached the 70 percent level. The total project, a combination of the other figures, was 79 percent complete. The rail cars would be delivered 2013-2015.

As to costs, the budget was still at \$2.775 billion, the completion cost was \$2.905 billion, and \$1.861 billion had been spent so far.

As to Phase 2, the budget was at \$121.4 million, of which \$71.5 million had been spent. These costs were chiefly for preliminary engineering.

Mr. Nowakowski then identified key events in the project. Preliminary engineering had been completed at the end of February. Issuance of the Request for Qualifications Information (RFQI), originally scheduled for May, had been moved to June. The review period for the Counties would expire July 4. Review of the RFQI submissions would be concluded, with a short list, three months after issuance of the RFQI. The environmental process had been noticed, and a public hearing would be held in June. The conclusion of the environmental process was expected by October. Price proposals could be received as early as the first quarter of 2013.

Mr. Brown asked if the environmental process was about the change in the station location. Mr. Nowakowski confirmed that it was. Mr. Brown asked if the environmental work had been proceeding on a separate path, with an assumption that the new location would be acceptable. Mr. Nowakowski agreed. Mr. Brown said he continued to hear that if Loudoun County dropped out, the additional environmental work would take a long time. He said that the additional work would not materially delay the project. Mr. Nowakowski said it could take time, as there would have to be a new project, with a new funding agreement.

Mr. Potter said several decisions would have to be made if Loudoun dropped out. Parking facilities would be different, with different environmental impact. There could be major changes to the project. Mr. Brown said he had not heard anything to support the argument that Loudoun's withdrawal would seriously delay the project. Mr. Davis said there would be costs to Loudoun anyway. Mr. Nowakowski said Loudoun had been told that, under the Transit Authority compact, if the Airport rail station was built, Loudoun would still be responsible for an operating payment, as the station would be located in Loudoun County. Mr. Brown pointed out that Loudoun drivers would be paying the tolls without the benefit. Mr. Davis agreed. Mr. Brown noted that the project would save about \$300 million without Loudoun, whose share under the current agreement was about \$300 million. The project could go on, but Loudoun would lose the benefits. Mr. Davis pointed out that they included the benefit of economic development around the stations.

Mr. Session said he was concerned about the timing if Loudoun left. He thought the environmental analysis would cause the delay, but was hearing differently. Mr. Nowakowski said that taking off two stations meant taking off 5000 parking spaces in two parking garages and several bus bays. Some of the ridership would most likely find its way into the other stations. The project would have to be substantially redefined, which would take time. Mr. Potter said a ridership study would have to be done. The area around the surviving stations would have to be redesigned, as well as possible major changes on the Airport. Mr. Session said he was concerned mainly about the timing. He had hoped to have some sense of how much damage delay would cause. Mr. Potter said the estimate was 18 months, if all could agree, but that he doubted agreement could be reached easily on a new project. It could take as long as three years.

Mr. Davis said that, if Loudoun missed this time, it could not come back ten years later. Mr. Martire said Mr. Potter had told the Loudoun Board that the line would end at Dulles if Loudoun dropped out. Mr. Potter said that the Authority had been involved in the project for one reason only: to get a station at the Airport. There had been some concessions made in the quality of that station, but the station at the Airport was essential. Mr. Conner said that the Authority was a regional body, and should do its upmost to encourage Loudoun to stay in the project. The project was important to the entire region. Mr. Potter said he had only been addressing the charge that the Authority would drop out if Loudoun dropped out. Ms. Hall said the information about Loudoun was new to her, and that Loudoun should be made aware of the continuing obligations if it did drop out. Mr. Potter said that the Transit Authority had already made that point to the Loudoun Board.

Dulles Corridor Metrorail Report on Phase 1 Construction. Larry Melton of Dulles Transit Partners (DTP) gave the quarterly presentation on construction in the Corridor. Since March 2009, there had not been any environmental enforcement actions. At 0.08, the lost time rate was well below the national rate of 2.1. The recordable incident rate, after 9.8 million man-hours, stood at 1.49, compared to the national rate of 4.0.

As to the design-build schedule, the mitigation plan to offset the previously forecast schedule impact of Transit Authority changes had completely succeeded. It would be a major year for construction, with most facilities complete and systems being installed. As of March, the project had been 79 percent complete.

Mr. Davis asked if there had been any problems with subcontractors; Mr. Melton said DTP had been very happy with the subcontractors' performance. He noted that the subcontractors were included in the safety report he had made earlier. Project staffing was at 305 professionals, including engineers, construction supervisors and support staff. There were 1150 craft workers, including both DTP and the subcontractors. As the heavy construction was completed, the craft mix would change. Many electricians would be brought on, to about 350.

The data on the residence of craft workers now included both DTP and subcontractors. Most workers were from Virginia, then Maryland, then the District of Columbia. Mr. Davis pointed out that there were almost as many from Ohio, Pennsylvania and West Virginia as from the District. Mr. Session asked why that had happened. Mr. Melton said it was difficult to get D.C. craft workers to come to Virginia, especially when there were opportunities closer to home. He hoped more D.C. workers would come to the project after the rail line opened to Wiehle Avenue. He added that some workers would say they were from the District, where they may have grown up or where their families still were, but actually lived in nearby Maryland. Other D.C. workers might take an apartment in Virginia for the duration of the project. Mr. Melton said he did not know the extent of this phenomenon, but did feel the numbers based on current address did not tell the entire story. Mr. Martire observed that the workforce was a moving target; when the work had been tunneling, most of the skilled tunnel workers were from the District.

Mr. Carter said it was important to develop an analysis of the economic impact of the project on the community.

Mr. Melton then addressed the race and ethnicity of the workforce, noting that Hispanics and African-Americans made up 64 percent.

With respect to the 10 percent Disadvantaged Business Enterprise (DBE) goal of \$176.9 million, Mr. Melton reported that commitments to DBE firms, at \$229.8 million, had exceeded the goal substantially, and that \$136.6 million had already been paid out to DBE firms. That payout constituted about 77 percent of the goal and 60 percent of the committed amount. A large part of the commitments were to firms doing station finishes, which were currently under way.

Mr. Melton then presented photographs of current construction work on the project. At the end of the presentation, Mr. Holly advised the Board that Mr. Melton had replaced George Morschauser as Executive Project Director.

April 2012 Financial Report – Dulles Corridor Enterprise. Mr. Davis asked if the actual revenues were matching the forecasts. Andy Rountree, Vice President and Chief Financial Officer, said the forecast had been for 10 percent growth, and the actual had been about 9 percent. At 33.3 percent of the year, revenues were at 31 percent of budget. The number of transactions was down 1 percent from 2011, against a forecast that they would be flat. Mr. Davis observed that there was some elasticity in the tolls; Mr. Rountree agreed, noting that any toll increase causes some reduction in transactions, but that the traffic tended to come back over time if the toll remained the same. Mr. Davis asked if the reductions in transactions were consistent with the forecasts; Mr. Rountree said that they were. Ms. Hall pointed out that revenues were up. Mr. Davis said the issue was where the traffic was going on the local road network.

Expenditures, at \$8 million year-to-date, were 3.3 percent below the 2011 level, at 27.9 percent of the budget. Days of cash-on-hand continued to be favorable.

Mr. Brown said that the suggestion that the Authority would not be complying with Virginia law in its proposed project labor agreement (PLA) was widespread. He passed out to the Directors a draft agreement negotiated with the Commonwealth on PLA language that would assure consistency with Virginia law. The agreement had been fully negotiated, but not executed on the Virginia side. Mr. Potter added that the Memorandum of Agreement had also stated that any PLA on Phase 2 would comply with Virginia law. Mr. Sunderland agreed. Mr. Brown said he would offer the language in the form of a resolution to make clear to the public and Virginia officials that the Authority intended to comply in every respect with Virginia law. He then read the highlighted text from the proposed resolution, a copy of which is attached, and moved its adoption.

Mr. Davis said he thought the matter should be discussed later; there had not been any notice, and that three Directors were not present. He moved that consideration of the proposed resolution be deferred. Mr. Curto said the Board was unanimous in its intention to comply with the Virginia right-to-work laws. He said the proposed resolution appeared to

be prompted by mischaracterization by voices in the public and the media. The Authority's view had always been clear; the Commonwealth may have changed its mind. He did not see the purpose of the proposed resolution.

Mr. Brown said he was proposing committee action so that it could come before the entire Board, when all Members were present. He agreed with Mr. Curto that the Authority's position had always been to comply with Virginia law. But he noted that the Governor had repeated in public appearances and in radio interviews that the Authority was not complying with Virginia law. The Board might know it was complying, but it needed to say so, loudly and clearly. He believed a resolution would be an appropriate way of stating the Board's position. He added that the resolution was a policy statement, and did not have any bearing on whether the PLA preference might be repealed at a future Board meeting.

Mr. Davis said he would oppose the proposed resolution. He said it was an attempt to embarrass the Governor, and that he understood the politics. It would not be helpful with the funding partners, and was not a mature and professional way to handle the issue. He said he had voted with the Board on the PLA preference, even though he was philosophicaly opposed to it, in order to work out an accommodation to move the project along. He said the proposed action was polarizing, and urged a vote on his motion.

Mr. Curto offered to bring the proposed resolution up at the upcoming Special Board Meeting. He did not think it would have to be vetted by a committee, as it simply stated the Board's current position. Mr. Davis said the proposed resolution had not been noticed for the meeting, and asked the parliamentarian if unanimous consent was required to consider it. Mr. Brown said a simple majority was necessary. Mr. Curto suggested that Mr. Brown should withdraw his motion on the proposed resolution.

Mr. Stottlemeyer said the resolution should be deferred. He noted the Board had recently received a letter from Governor Baliles, Governor Robb, Senator Warner and Governor Holton who had a different point of view on the PLA issue.

Mr. Conner said he was only interested in a motion to remove the PLA preference, because it was a major impediment to Loudoun proceeding with the project and the receipt of \$150 million. To entertain the pro-

posed resolution was an invitation to refight old battles again. He would oppose it. The Board needed to move quickly on the PLA issue.

Mr. Davis called for the yeas and nays on deferring consideration. Mr. Martire asked to make a statement before voting; Mr. Davis said debate was not appropriate during the vote. He then allowed Mr. Martire to state that he would vote on PLA matters because he had been advised by counsel that he did not have a conflict of interest under the Code of Ethical Responsibilities. Mr. Davis then polled the members of the committee and declared action on the proposed resolution had been deferred. Mr. Brown asked for assurance that the proposed resolution would be on the agenda for the next Board Meeting.

The meeting was thereupon adjourned at 10:00 a.m.

**AGREEMENT BY AND BETWEEN THE COMMONWEALTH OF VIRGINIA AND
THE METROPOLITAN WASHINGTON AIRPORTS AUTHORITY CONCERNING
PROJECT LABOR AGREEMENTS FOR
PHASE 2 OF THE DULLES METRORAIL PROJECT**

This Agreement concerning Project Labor Agreements (PLA) for Phase 2 of the Dulles Metrorail Project (Phase 2) by and between the Commonwealth of Virginia (Virginia) and the Metropolitan Washington Airports Authority (MWAA) is made and executed as of the _____ day of _____, 2011.

WHEREAS, the United States Department of Transportation (US DOT), Virginia, Fairfax County (Fairfax), Loudoun County (Loudoun), the Washington Metropolitan Area Transit Authority (WMATA), and MWAA have reached agreement on the terms of a Memorandum of Agreement (MOA) which sets forth their mutual understandings, expectations and commitments concerning the completion of the Dulles Corridor Metrorail Project, and in particular Phase 2 of the Project; and

WHEREAS, Section 3.9 of the MOA provides that Virginia and MWAA have reached a separate agreement on the matter of PLAs for Phase 2, and further provides that any PLA contemplated for the Project shall be consistent with applicable Federal statutory and regulatory requirement and Virginia law; and

WHEREAS, Virginia and MWAA have reached verbal agreement concerning the necessary provisions for this separate agreement, and wish to memorialize their agreement in writing;

NOW, THEREFORE, in consideration of the covenants and agreements hereinafter set forth, the mutual benefits of the Project, and other good and valuable consideration, the sufficiency of which is hereby acknowledged, it is agreed and bound between the parties hereto as follows:

Any PLA for Phase 2 will comply in all respects with Virginia law, including but not limited to the Virginia Right to Work Laws, Title 40.1 Chapter 4 of the Code of Virginia, as amended (§§ 40.1-52 *et seq.*) (Virginia's Right-to-Work Laws); in addition, the following principles and requirements will apply to any Phase 2 PLA and/or to Phase 2 generally:

(1) no prime contractor or subcontractor, at any tier, shall (i) require any individual who is working or seeking to work on Phase 2 to be or become a member of a labor union or (ii) prohibit any such individual from being or becoming a union member;

(2) no prime contractor or subcontractor, at any tier, working or seeking to work on Phase 2, shall be discriminated against based upon its affiliation with one or more labor unions or its lack thereof;

(3) no prime contractor working or seeking to work on Phase 2 shall be required, in order to secure or maintain a phase 2 prime contract, to become a party to any labor agreement other than the Phase 2 PLA; and

(4) no subcontractor working or seeking to work on Phase 2, at any tier, shall be required, in order to secure or maintain a Phase 2 subcontract, to become a party to any agreement with one or more labor unions, including the Phase 2 PLA.

MWAA further agrees that MWAA, and all contractors and subcontractors performing any work on Phase 2, are subject to the requirements set forth in Virginia's Right to Work laws and are subject to all remedies for non-compliance set forth therein, in addition to any other remedies that may be available under Virginia law. MWAA agrees to include in any and all solicitation documents and in any contract awarded for Phase 2, (i) language contained in this Agreement, and (ii) language requiring any entity awarded a contract for Phase 2 to include language contained in this Agreement in its agreements with subcontractors.

IN TESTIMONY THEREOF, the parties have caused this Agreement to be executed, each by its duly authorized officers, all as of the day, month, and year hereinabove first written.

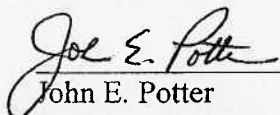
COMMONWEALTH OF VIRGINIA

Sean T. Connaughton
Secretary of Transportation

Thelma Drake
Director, Department of Rail and Public Transportation

Gregory A. Whirley, Sr.
Commissioner of Highways

METROPOLITAN WASHINGTON
AIRPORTS AUTHORITY


John E. Potter
President and Chief Executive Officer

SUMMARY MINUTES
EXECUTIVE AND GOVERNANCE COMMITTEE
MEETING OF MAY 16, 2012

Mr. Curto chaired the Executive and Governance Committee Meeting of May 16, 2012, calling it to order at 11:15 a.m. He began by observing that the presence of Mr. Davis, Mr. Session and himself constituted a quorum.

Gregory Wolfe, Counsel to the Board, said the issue for the day was a revised Freedom of Information Policy. He said it was the next in a series of changes designed to bring the Authority to a greater transparency. The Authority had for some time had such a Policy, a "garden variety" version based on the federal Freedom of Information Act and freedom of information practices of the District of Columbia, Virginia and Maryland. The problems with the existing Policy were not substantive; the policy had not been easy for outsiders to use and had not been administered uniformly internally. The revised Policy attempted to address the problems and simplify the procedures.

It also made clear that a freedom of information request was not required to obtain information from the Authority. The Authority had already been fairly open with its documents, and as part of the transparency program had put many key documents onto its website. These included Board papers, minutes, resolutions, the charter legislation, the Lease with the United States, and other basic documents. The first part of the new Policy listed the documents available on the internet without any special request.

The second part of the Policy suggests that anyone who cannot find a particular document on the website should call to find out where it is available, and if it is available without further ado.

The third part set out new freedom of information procedures. The important innovation here was the establishment of a Freedom of Information Officer and a single office that would deal with and respond to all freedom of information requests. This Officer, based in the Board Office, would receive the requests, find the documents, and respond to the requester. The General Counsel's Office would provide support.

The standards for documents that do not have to be released were not changed. A reference was added, however, to the Contracting Policies, which had its own separate standards for procurement records. Appeals of decisions of the Freedom of Information Officer not to release a record could be taken to the Chairman of the Legal Committee, whose decision would be administratively final.

Mr. Curto suggested that, in light of the Inspector General's interim report, which had been received the day before, the Policy be reviewed one more time.

Mr. Carter asked about a minimum charge of \$200 for providing documents. Mr. Wolfe said the Policy did not mandate a fee; it only allowed one to be charged where a request was costly to respond to. The schedule of fees could be used when complying with a request that was estimated to exceed \$250. Mr. Carter said he was not comfortable with charging a fee for documents that were publicly available. He agreed that the Policy should be deferred.

Mr. Session also agreed to defer acting on the Policy. He said a federal freedom of information request had to fit a standard format, including consent to any fees, and asked if there were such a requirement in the Policy. Mr. Wolfe said there was not; if charges were to be imposed, the Officer would notify the requester before incurring them. He added that the option for charges was important for the cases where a requester wanted a great deal of information assembled. Phil Sunderland, Vice President and General Counsel, said the most costly requests were those that required a major search. Fees were always cost-based, and not used to deter requests. He also said that the fee provisions were common in most freedom of information rules.

Mr. Session asked if a requester could go to court after a final decision of the Legal Committee Chairman and, if so, which court. Mr. Wolfe said court review was possible, and that he expected it to be in a Virginia court, as was the review of Authority regulations.

The Committee Meeting was thereupon adjourned at 11:26 a.m.

SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF MAY 16, 2012

Mr. Conner chaired the May 16, 2012 Finance Committee Meeting. All other members of the Committee attended: Mr. Brown, Mr. Carter, Mr. Davis, Ms. Hall, Mr. Session, Mr. Stottlemeyer and Mr. Curto, *ex officio*. Mr. Martire was also present.

Authorization of the Airport System Revenue Refunding Bonds, Series 2012A-C

Mr. Conner said the refunding bonds would, as of the last analysis, produce about \$40 million in net present savings. To accomplish this, the Authority would have to get to the market as soon as possible. Andy Rountree, Vice President and Chief Financial Officer, said the staff was asking the Committee to recommend action at the Board Meeting later that day. The documents for approval were substantially complete. The proposed resolution would authorize the issuance of the Series 2012A-C revenue refunding bonds in an amount not to exceed \$425 million, and provide delegations to the Chairman or the Vice Chairman and to the Chairman of the Finance Committee for approval of the final bond structure. The delegation method had been used in similar situations in the past.

The documents provided for approval included the 43rd Supplemental Bond Indenture; the Bond Purchase Agreement between the Authority and the underwriters; the preliminary offering document, a draft of the Official Statement; and a form of the refunding agreement for each of the series of refunded bonds. The refunding opportunities included a current refunding of "AMT" debt, debt for which the interest paid was subject to the alternative minimum tax, in an amount not to exceed \$375 million. The second opportunity was for an advance refunding non-AMT debt, not to exceed \$50 million. Those two issues were designated Series 2012A and B. The Series 2012C option would be for taxable debt, which could be used in the event the rate on taxable debt was exceeded by the rate on tax-exempt AMT debt.

The current opportunity was for about \$36.8 million, net present value, in savings, or about 11.5 percent, subject to a more current update. Series 2001A, 2002A and 2002D would be the prior debt refunded. There was also an advance refunding opportunity for approximately \$34 million of bonds, with a net present value savings of \$3 million, or 9.9 percent.

There would be some negative arbitrage, which would have to be carefully watched. The targeted series was 2003A; 2004A was being monitored, but was currently not worth doing.

The schedule assumed that the authorization would be adopted later in the day, followed by a due diligence session with senior management, publication of the Preliminary Official Statement by May 21, with rating agency response expected by the May 25. Pricing would occur around June 4 or 5, and the transactions would close just before July 4.

Mr. Conner said the transaction was a routine one, and that there was nothing to lose, other than from a change in the market. At the time of pricing, there would be conference calls for Committee Members who wished to participate.

The Committee then unanimously voted to support the proposed resolution authorizing the transactions.

Near-Term Tolling Policy Options and Process for Adjusting Toll Rates on the Dulles Toll Road

Mr. Conner said the next item was another step in determining future toll rates. He said there had been a lot of public rhetoric about the tolls, including heated rhetoric. The day before, the Inspector General had reported on Board oversight and activities, and most of the report had been well-intended and constructive. In the process of the debate, many facts had been confused. There was misperception of the management of Dulles Rail; issues of Board activities have reflected on the rail project, even though they had nothing to do with it.

He said the project had been very well managed throughout Phase 1, and to say otherwise was dismissive of the people working on the project for seven or eight years who have done a remarkable job under very difficult circumstances. The criticism also went to the credibility of the finance plan. Sometime in the near future, after Loudoun had made its decision, someone would have to try to sell another \$2 billion in bonds at the lowest price for the lowest toll costs, in addition to the \$1.4 billion already sold. That would be difficult to do under a cloud of suspected management problems on the project. In addition, the toll payers would have to know that the Authority had done everything reasonably possible to keep the toll rates low.

Mr. Conner addressed the history of the rail project. He said that the Authority had not asked to take it over. In 2005, under a statutory scheme, Virginia had received five proposals to privatize the Dulles Toll Road. If that had happened, revenues would have gone to private purposes. More importantly, the opportunity would have been lost to fulfill the vision of the people who had built Dulles International to provide transit down the median of the Access Road to the Airport. It had been shown in the 1964 master plan. For over 40 years, no one had been able to bring this about. At the last possible opportunity, the Airports Authority stepped in and said it would manage the project to assure that Dulles International had the rail service any airport serving an international capital should have. That was the Authority's only goal.

Turning to Phase 1, Mr. Conner pointed out that there had not been any fatality or serious injury on the project, which compared to other projects in the region had been remarkable. Some had alleged that the project was behind schedule. But only 23 days had been added to the July 31, 2013 delivery date in the forecasts; it still might even be possible to finish early.

The project was potentially \$150 million over the 2009 budget. Half of that amount came from upgrades to meet new Transit Authority safety standards. The problem with allowances had long been explained, but without the safety issues, the project was between 2 and 2.5 percent over, a small amount.

In 2011, the Chairman of the Dulles Corridor Committee had commissioned an independent performance audit of the project rail office. The audit report, prepared by KPMG, had been received April 17 and had been made publicly available. Mr. Conner read from the KPMG report: "We conclude that the current processes and controls implemented by the Airports Authority project rail office are working as intended to allow for effective management of the project. The project rail office has developed policies and procedures, controls and tools for managing the stage 1 project that are considered appropriate for the size and complexity of the project." Having said that, KPMG had suggested some improvements, which will be incorporated into Phase 2.

With respect to Phase 2, Mr. Conner said there was lore that Phase 2 had a firm budget of \$2.5 billion. That had never been true; the \$2.5 billion figure had been a good faith estimate, made by Virginia, not the Authority, and done without the benefit of preliminary engineering. When the preliminary engineering was nearing its conclusion, the forecast had

come to \$3.8 billion. Authority management had realized that this cost would not be sustainable, long before anyone else, and began to look for savings. Authority engineers had first reduced the design of the tunnel station at Dulles, bringing the overall forecast from \$3.8 billion to \$3.5 billion. Management next looked at about nine different alignments on the Airport, settling on the elevated section with a station at the parking garage. This ultimately saved an additional \$300 million. Reductions to the rail yard saved \$80 million, and revision to the station canopies \$30 to \$50 million. All these savings were identified by the Authority construction team during preliminary engineering; no outsiders had told them anything was wrong.

The Authority owed a great deal to Secretary LaHood for convening all parties to reach a consensus on savings to the project. He had offered up some financial incentives, including the transfer of responsibilities for building the five station garages, which took \$400 million out of the project scope. This did not reduce costs, but taking them out of the project did relieve pressure on the tolls. The Authority was to agree to the elevated station. Combined with reductions the Authority had already found, this effort would bring the overall forecast from \$3.8 billion to \$2.8 billion. Mr. Conner said he had been an early supporter of the relocated station, but had recognized that from a transportation perspective the tunnel station was a far better alternative. It was the one the partners had long agreed to, from the very beginning of the project, one that would have lower maintenance costs and would be more convenient to the passengers. But the political and financial conditions did not allow pursuit of that option. After a long fight and many discussions, the Authority gave in.

As to the project finances, \$1.3 billion in bonds had already been issued. The finance plan was actually an evolving plan; it would evolve over 40 years. The current plan was quite conservative, including high estimated interest rates for financing costs. It was not a plan to set tolls, but to show cash flows that would be obtained with certain toll levels. It related to the Toll Road's ability to finance the project. Thus the toll rates shown for the more distant years were not projected toll rates, but simply sample rates that could provide sufficient revenues to support bonds. There was a very good chance the actual rates would be lower.

What would impact the tolls? The first element would be the cost of the project. Second would be the interest costs. Historically, it was currently an ideal time to finance. If Loudoun County dropped out, the greatest tragedy would not be that the County would not be a part of the Metrorail

system, though that would be a great disservice to Loudoun residents. The downside would be the 12 to 18 months required for re-scoping and renegotiating the project. The time required could cause the loss of a very good construction market, as well as the low financing costs. The third factor was government funding. Currently the funding partners – Loudoun, Fairfax and the Authority – were contributing about 25 percent, regardless of its total cost. Virginia and federal contributions were fixed, currently at about 20 to 23 percent, leaving the Toll Road to cover about 50 to 53 percent. No one had expected the Toll Road to pay that much, though it could. More government support was necessary. When the project had been set up, Virginia was not expected to pay more. Circumstances had changed. The critical need was for Transportation Infrastructure Finance and Innovation Act (TIFIA), flexible loans from the federal government. There was a serious question of why TIFIA was not currently available to the project.

Another factor was the reserves required by the bond indentures, which would be built up in later years of the financing. The rate covenants required 200 percent coverage for certain series of debt, 120 to 135 percent for others. What happened to the excess funds in reserve? There was a flow of funds, with 17 “buckets” the money ran through. These included capital development within the corridor, such as sound walls or redesigned intersections, and the Dulles Corridor Enterprise and Toll Rate Stabilization fund, which would reduce future tolls. Re-financings, as the Authority was currently doing on the aviation side, would also bring about savings in debt service.

The Committee would be going through toll scenarios at its current meeting, based on the CDM Smith Study, as recently updated. The study, prepared by a nationally known consultant, was very complex. The Authority believed the consultant’s work was reasonable, and the Inspector General’s report had said so too. For the last three years, the forecasts in the CDM Smith Study had been quite accurate.

The scenarios set out in the papers prepared for the day’s meeting assumed the receipt of \$150 million from the Commonwealth. Mr. Conner said he was confident that grant would be received, if the Board made certain decisions. He said it would not make sense to consider alternatives without the Virginia money, since if there was a reason it was not available, other events would happen for the same reason, events that could end the project.

He said his account had been his sense of the history of the project. He hoped it would help build some credibility for the finance plan.

Mr. Brown commended Mr. Conner for his remarks, especially with respect to the importance of the credibility of the Authority as the manager of the project. The Authority was the agency with the assignment to build the project, and it was the agency the credit markets, investors and rating agencies looked to before buying bonds. It was good to point out that those who criticize the Authority without any evidence only drove up financing costs and tolls.

He offered one amendment to Mr. Conner's account: the five privatization proposals in 2005 proposed only to build Phase 1. The Authority not only kept substantial revenues from going into private hands, it had also promised to build all the way to Dulles International. He added that during the euphoria about going all the way to the Airport, he was not sure the finance staff had worked out all the implications to fund the project 80 percent locally, substantially on the back of the Toll Road. This approach has always been very unusual. He seconded Mr. Conner's suggestion that more government support was needed.

Mr. Davis said he had been intimately involved in funding the project as a Member of Congress. As he recalled, Phase 1 had not qualified for Federal Transit Administration funds. It had required a special Act of Congress to allow it, and the transit load at Tysons Corner had provided the justification. Contingency costs had been developed to keep the price down. These considerations would not be present in Phase 2. Since then, the Authority staff had done an excellent job in bringing the project in on time and on budget. The availability of \$150 million was up to the Board, in deciding whether it would comply with Virginia law.

Ms. Hall said she appreciated the historical overview, and wished that she had heard it when she first joined the Board a year before. She felt she had caught up. She said she now understood that the Authority was building the rail project, the Transit Authority would operate it, and tolls would be used to pay a substantial part of the rail debt. She asked if any part of the rail fares were committed to pay the construction debt. Mr. Conner said it was not. She also asked who would maintain the project; the answer was the Transit Authority.

Mr. Stottlemeyer said he appreciated hearing the history and said that Mr. Conner had shown a reasonable approach. He wished to clarify that Virginia was paying more than \$150 million. That was the Commonwealth's

share, but including the Counties and the Toll Road users' contributions, Virginians were paying about 80 percent. Mr. Conner noted that the Commonwealth's share had actually been about \$425 million, including its contribution to Phase 1.

Mr. Davis said the original funding arrangement for Phase 1 had assumed the federal government would provide 50 percent of the project, the Counties and the Authority 25 percent and the Commonwealth 25 percent from Toll Road revenues. The Toll Road revenues had been counted as a Virginia contribution all along.

Mr. Rountree said that at the past meeting the staff had outlined the options for toll setting. That would continue at the day's meeting, with more refinements. A decision was not required, just feedback and further guidance to the staff. In June there would be a proposal to the Committees to approve the options for public discussion and with the Dulles Corridor Advisory Committee.

At the day's meeting, the base case from the draft traffic and revenue study would be presented, as well as scenarios for using the \$150 million Virginia grant to mitigate tolls. An additional scenario would change the underlying financial assumption to show different results.

Jim Taylor of Mercator Advisors began by explaining the "Base Case", which he characterized as hypothetical, not a recommendation. For planning purposes, toll rates at this level would be sufficient to allow the acceleration of the project to take care of current market conditions.

The Base Case, shown graphically in the related PowerPoint presentation, responded to the Board's request to look to toll rates for the next two or three years. The numbers shown were "trip costs", including both the main toll and the ramp plaza toll. Currently the trip cost was \$2.25; the chart showed taking it to \$4.50 in 2013 and to leave it there for three years.

Mr. Brown asked what toll levels had been shown in the offering documents for the bond sales. Mr. Taylor said the documents had shown two schedules; the current Base Case had been the alternate schedule used for the stress test. The first schedule had gone to \$2.75. It had assumed some TIFIA and a budget of \$2.5 billion, both of which were out of date.

In the next chart, in scenario 1, the toll was shown as \$2.75 for 2013, \$3.50 for 2014 and \$4.50 for 2015. This scenario had been used in the

Memorandum of Agreement in November 2011; it had shown how tolls could be reduced with a \$150 million contribution from the Commonwealth and the scope reductions in the project.

Mr. Davis asked for the net revenue that the current alternative would produce; Mr. Taylor said he could provide it, but that the current effort was to present the possible alternatives, and determine if there were others. A full presentation of alternatives and revenue results would be available in June. He noted that the June presentation would also include different alternative splits between main line and ramp tolls.

The third chart showed trip tolls growing to \$3.50 in 2013 and remaining there for three years. This approach would work if the \$150 million were contributed in 2015.

The next alternative was based on a different plan of finance. Tolls would be increased 25¢ per year, to \$3.25 in 2015. The gross revenue reduction would be about \$65 million. That could be offset by converting \$150 million of the bonds from current pay to capital appreciation bonds (CABs); they would be paid back with accrued interest in 40 years, and would have a higher yield. This shift would cost about \$1.6 billion over the life of the debt. There would be opportunities to refinance or otherwise lower the costs, but this would be one device to keep tolls lower.

Mr. Brown said the CAB alternative did not make sense. The cost for saving \$65 million in the next few years with an enormous payback later on was way out of line. Mr. Taylor said it was prepared as a sensitivity analysis; it was not a recommendation. Mr. Conner said it was an illustration of the pay-me-now or pay-me-a-lot-more-later. Mr. Davis observed the Board's reaction to a scheme that deferred current increases at great expense in the future illustrated why it should be making the decision instead of elected officials.

Responding to Mr. Davis's earlier question, Mr. Taylor said the \$2.25 trip cost would generate about \$100 million; \$4.50 would produce \$160 million; \$2.75, \$125 million; and \$3.75, \$150 million. More details would be provided at the June committee meeting.

Mr. Taylor said it was important to understand that the users were paying tolls for time savings. Many compared the toll rate per mile; the issue was more the value received. He showed a table with toll rates from nearby highways. The Greenway, regulated by the State Corporation Commission, had an approved formula for raising tolls. The table showed

the current toll rates as \$4.00 off-peak and \$4.80 peak. This did not include the 75¢ the Greenway collected at its main toll plaza for the Toll Road. The 495 Express Lanes, opening at the end of the year, was shown as \$5.50.

Mr. Taylor pointed out that both facilities were privately operated and did not show what their tolls would be in the future. The Authority, as a public agency, had to operate differently. Mr. Brown pointed out that doubling the Toll Road trip cost to \$4.50 would put the Toll Road in the middle of the other two toll facilities with respect to per-mile rates.

The Loudoun County Board of Supervisors had asked the Transit Authority to provide the transit fares for the Metrorail extension. A trip from Dulles to Tysons Corner would cost \$4.80 in peak hours, \$3.50 in off-peak hours. Mr. Taylor said the rail fares should not guide the road tolls; the table just showed that there were costs to all forms of travel in the Corridor.

Mr. Davis noted that, although the discussion concerned Phase 2, there would be toll increases to pay for Phase 1, even if Phase 2 were not built. Mr. Taylor agreed. He suggested the documents show what the increase would be without Phase 2. Mr. Taylor said he would provide it.

Mr. Conner noted more information that the Committee needed: toll rate increases without a Phase 2; total revenues under each scenario; and the diversion of traffic under different toll rates, which was already available in the CDM Smith Study. He then asked for comments.

Mr. Session asked for a description of the procedures for adopting toll rates. Mr. Rountree said the Authority had gone through the process once before in setting the current toll rates. First, the joint Finance and Dulles Corridor Committees would authorize the toll rate regulation setting process to begin with proposed rates. Then, staff would hold joint public sessions in the Corridor, where staff representatives were available to explain, accept comments and answer questions, both at the public sessions and through the internet. A presentation would also be made to the Dulles Corridor Advisory Committee, which had been established when the Permit and Operating Agreement for the Toll Road was signed, whereby the Airports Authority would seek advice regarding the toll rates. It was made up of the chief executive officers of Loudoun and Fairfax County, the Chairman and President of the Airports Authority, the Virginia Secretary of Transportation and the Virginia Director of Rail and Public

Transportation. The proposed toll schedule would be presented to them as well, also for comment.

The feedback from the public sessions and the Dulles Corridor Advisory Committee would be accumulated and brought back to the Finance and Dulles Corridor Committees. At that point, the Committees would consider the public input and recommend to the full Board a resolution setting forth final tolls.

Mr. Session asked how long it would take; Mr. Rountree said that in June the staff would ask the Committees to authorize the toll proposal for public discussion. The public process would be complete by September, when the staff would return with a final proposal. The Committees should at that time be ready to make a recommendation, with tolls effective in January 2013.

Mr. Stottlemeyer said the Committee had a business decision to make, and would then need to explain it. It would be helpful to show the total cost of ownership, present value, measured with the expected financing costs. Obviously keeping the rates too low in the near term would increase the cost of ownership over the long term. This would be helpful in explaining the decision. He then asked if there had ever been any discussion of collecting tolls on the Dulles Access Highway. Mr. Conner said it had been discussed. Mr. Potter said there were limits in the Lease with the United States, which would allow tolls, but would require that they be devoted to airport functions. Mr. Stottlemeyer suggested the rule might be changed, as Access Highway users were benefiting from the rail project as much as Toll Road users.

Mr. Martire asked about the possibility of peak hour pricing. Mr. Rountree said the consultant CDM Smith had been asked to consider several differential tolls, including peak hour pricing and E-ZPass differentials. It would be difficult to introduce any such changes in 2013; they may be possible in 2014.

Mr. Martire asked how much the Commonwealth had contributed to the I-495 "hot lanes"; Mr. Taylor said \$400 million to the capital costs. Mr. Martire asked if any strings had been attached; Mr. Taylor said he was not aware of any.

Mr. Brown asked if the schedule contemplated a final rate approval at the October Board Meeting. Mr. Rountree said that it did. Mr. Brown asked if two months was required to prepare administratively for January 1.

Mr. Rountree said that was a reasonable amount of time to prepare and to inform the public. Mr. Brown asked if the staff intended to go to the market before the toll rates were set, specifically after the Committee's September recommendation. Mr. Rountree said that would be appropriate. Mr. Brown said that in 2009 the Authority had approved a multi-year rate increase at the recommendation of the finance team, and asked if the multi-year schedule had been important to the investors and there had been a benefit in the market. Mr. Rountree said the Toll Road had been a new credit, and it had been very important to show that the Authority was committed to raising the revenues necessary to support the bonds. The Toll Road itself had never been a stand-alone credit. There was more flexibility this time, now that the Authority's record has been proved. But the further the Authority went in setting rates, the better for the market. Mr. Brown said a multi-year schedule would be a strong statement about the Authority's effectiveness and stability currently, and recommended a three-year approach. Mr. Stottlemeyer said he agreed, and noted that the advantage of the decision would have to be quantified and explained.

Mr. Brown asked if the toll rate the Board would be setting would be a maximum rate instead of just a fixed rate, so that if the rate tended to produce more revenue than necessary it could be reduced without further rulemaking. Mr. Sunderland said that depended on how the rate was set; if the rule provided that it was a maximum and could be reduced, it could work that way. He noted that the existing rates were not time-limited; if they were not changed, they would remain in effect at current levels.

Mr. Brown said he would suggest a dual-track ratemaking to show what tolls would be without the \$150 million Virginia contribution, and another to show what it would be with the contribution, so that the community could understand how much difference the contribution would make, and the rates could be lowered when it was received.

Mr. Conner said that five pieces of information were still needed: total capital costs; revenues generated under each scenario; toll rates without Phase 2; diversion of traffic under the different scenarios; and a discussion of the better way to set tolls structurally, fixed or maximum.

He noted that there seemed to be a preference for setting multi-year tolls; a preference to favor the balance in limiting the total cost of the project rather than limiting the tolls; and limiting diversion of traffic. He said he hoped that would be enough direction for the staff. Mr. Rountree said it was very helpful.

Mr. Conner said he would dispense with the rest of the agenda, and asked Mr. Rountree for a quick financial report.

April 2012 Financial Report – Aviation Enterprise Fund

Mr. Rountree reported that as of the end of April, year-to-date revenue had been \$207.8 million, up 1.8 percent from April 2011. Revenue and expenses were both slightly below budget, but were not a matter of concern.

Operating income year-to-date had been \$22.6 million compared to \$17.5 million in through April 2011. A challenge for 2012 had been to keep coverage levels above the legal limit. By the end of the year, the level should be 1.30. Year-to-date coverage was at the limit of 1.25; there would be some variation in the calculated coverage figure over the year. He noted that airline rates would be set for July. Mr. Stottlemeyer asked what “post-settlement” meant as shown on the debt service coverage table “as of December 2011 coverage (post-settlement).” Mr. Rountree said that the airlines paid actual costs, which went into the ratemaking process. Rates were first based on cost estimates; at the end of the year actual revenues were compared to the actual costs. Adjustments were then made.

Mr. Conner said time was short, and suggested the other reports on the agenda be accepted without further discussion.

SUMMARY MINUTES
JOINT FINANCE AND DULLES CORRIDOR COMMITTEES
MEETING OF MAY 16, 2012

Mr. Davis chaired the May 16, 2012 Joint Meeting of the Finance and Dulles Corridor Committees, calling it to order at 11:10 a.m. He first verified the presence of a quorum, consisting of himself, Mr. Brown, Mr. Carter, Mr. Conner, Ms. Hall, Mr. Martire, Mr. Session, and Mr. Stottlemeyer, and Mr. Curto, *ex officio*.

Amendment of the 2012 Budget and Reprogramming for the Dulles Corridor Enterprise Fund.

Andy Rountree, Vice President and Chief Financial Officer, said that the Board had been hearing for some time that an additional \$150 million would have to be added to the budget for Phase 1 of the Metrorail project. The number had not changed over several months, so the staff was proposing a budget amendment to account for it. The current budget for Phase 1 costs shared among the funding partners was \$2.756 billion. The recommendation was to increase that budget authorization by \$150 million.

Mr. Carter asked if the amendment was to authorize the money needed for the contingencies; Mr. Potter confirmed that it was.

The joint committees unanimously approved and recommended the proposed resolution to the Board.

The meeting was thereupon adjourned at 11:15 a.m.

SUMMARY MINUTES
STRATEGIC PLANNING AND DEVELOPMENT COMMITTEE
MEETING OF JUNE 6, 2012

Mr. Crawford chaired the second quarter meeting of the Strategic Planning and Development Committee Meeting on June 6, 2012, calling it to order at 9:30 a.m. The entire Committee was present: Mr. Crawford, Mr. Carter, Mr. Cobey, Mr. Davis, Mr. Martire, Mr. O'Reilly and Mr. Curto, *ex officio*.

I. PMC Quarterly Capital Construction Program Report

Bern Seals, Program Manager, Parsons Management Consultants, presented a quick report on where the aviation construction program stood and an update on safety performance. To date in 2012, there had been 140,000 hours worked, with a reportable incident rate of 1.4, against a national average of 3.8. The lost time injury rate had been 0, compared to the national average of 2.2.

At Reagan National, current projects were related to runways. The 300-foot runway safety area extension to Runway 1-19 had been completed in May. This had involved moving the perimeter roadway and the approach lighting fixtures. The repaving of Runway 1-19 had also been completed.

The approach lighting system with new nav aids required by the Federal Aviation Administration was well under way and would be completed in July. Mr. Crawford asked about the completion date for the runway work, noting that the temporary change in air traffic was still bringing noise impacts to Southeast Washington. Mr. Seals said the repaving had been completed; only the nav aids were still being worked on. The work was done at night, with the runway closed from 1 a.m. to 6 a.m., and diversions only during those hours. Mr. Potter said the closings had originally started at 11 p.m., but because of concerns raised by the D.C. Delegate, Eleanor Holmes Norton, and residents of Alexandria and Arlington, the timing had been pushed back. Only one or two aircraft now arrived after 1 a.m.

At Dulles International, the projects included renovation of the C-D concourse and construction of the new high-speed baggage explosive detection system (EDS) in the south baggage basement. The construction was complete, but some EDS equipment still needed to be installed. A new

tunnel and additional space had to be created in the east baggage basement to allow better access by tugs and greater capacity for handling the bags of other airlines. Most of the other work was related to C-D rehabilitation and Taxiway E repair. A glycol recovery area improvement had also just been completed. In C-D, the restrooms had been retiled and were being upgraded.

Frank Holly, Vice President for Engineering, added that the projects described were all on time and under budget.

II. Quarterly Air Service Development Report

Mr. Crawford commended Mark Treadaway, Vice President for Air Service Planning and Development, on recent articles in the Washington Business Journal on expansion at Dulles International. Mr. Potter thanked Mr. Treadaway for his extended assignment serving as Acting Vice President for Communications; the Board applauded. Mr. Cobey asked if the Air Service Development Report needed to be discussed in executive session. Mr. Treadaway said it did not. Mr. Crawford said the strategic plan was not addressed in the report. Mr. Treadaway said a confidential written report had been provided to the Directors; it should not be further distributed. The PowerPoint presentation for the meeting would always be public.

Mr. Treadaway reported that aviation was still in a state of change, and that the Authority's airport system was growing. There was an ongoing shift of domestic traffic from Dulles International to Reagan National. The four roundtrips beyond the Reagan National perimeter, provided in the Federal Aviation Administration reauthorization act, were underway, and should be fully operational in September. There would be some good opportunities at Dulles International; staff was trying to build domestic traffic and continue the international growth. Southwest was expanding at Houston Hobby, which could lead United Airlines to shift some traffic to Dulles International.

Mr. Crawford noted that Reagan National in 2011 had its highest level of enplanements, and that Dulles International had grown 1.6 percent. The trend was expected to continue through 2012.

The Committee Meeting was thereupon adjourned at 9:45 a.m.