SUMMARY MINUTES
AUDIT - LEGAL COMMITTEE
MEETING OF JULY 18, 2012

Mr. O'Reilly called the July 18 Audit - Legal Committee Meeting to order at 9:15 a.m. He announced the presence of a quorum, with the following members of the Committee in attendance, in addition to himself: Mr. Cobey, Ms. Hall, and Mr. Curto, ex officio. The entire meeting was held in executive session. Phil Sunderland, Vice President and General Counsel, and Stuart Raphael of Hunton & Williams LLP provided an update on recent litigation. Upon completion of the litigation report, Ms. Hall then chaired the audit half of the meeting, where Thomas Rey of CliftonLarsonAllen presented a report on the employee and police and firefighters pension funds. Valerie Holt, Vice President of Audit, and Andy Rountree, Vice President and Chief Financial Officer, presented a review of a plan to address the recommendations presented in the 2011 Report to Management.

The meeting was adjourned at 9:40 a.m.

SUMMARY MINUTES
AUDIT – LEGAL COMMITTEE
MEETING OF SEPTEMBER 5, 2012

Mr. O'Reilly chaired the September 5, 2012 Audit – Legal Committee Meeting, calling it to order at 1:15 p.m. in the Boardroom on the second floor. A quorum of the Committee attended: Mr. Cobey, Mr. Conner, and Mr. Curto, *ex officio*. Mr. Davis, Mr. Brown and Mr. Session were also present. Ms. Hall participated by phone.

The entire meeting was held in executive session. The Committee received a status update on the Inspector General Report, as well as a report on pending litigation and related matters. No actions were taken.

SUMMARY MINUTES
BUSINESS ADMINISTRATION COMMITTEE
MEETING OF JULY 18, 2012

Mr. Session chaired the Business Administration Committee Meeting held on July 18, 2012, calling it to order at 12:55 p.m.

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. Cobey and Mr. Stottlemyer were also present.

Dulles Corridor Metrorail Project Phase 2 Disadvantaged Business Enterprise Goal.

Steve Baker, Vice President for Business Administration, introduced Richard Gordon of the Equal Opportunity Program office and Gregory Jenifer, President and CEO of the Armand Resource Group, which had developed the analysis for the Disadvantaged Business Enterprise (DBE) goal.

Mr. Baker said he was requesting that the Committee approve a 25 percent DBE goal for the Phase 2 Metrorail project, and authorize the staff to seek public comment on the goal. If the staff did not receive any negative comments during the 45-day comment period, the goal would go directly to the Board for approval.

Mr. Gordon said the Federal Transit Administration required that the Authority establish an overall DBE goal for the Phase 2 project. As in Phase 1, the goal would last through the entire Phase 2 contract. The process for choosing a goal had been to assess the relative availability of DBEs in the market area, and then to identify the firms ready, willing and able to work. The process had assumed a potential Transportation Infrastructure Finance and Innovation Act loan amount of $1 billion, which would mean $250 million in DBE participation.

The Department of Transportation also required a public process. The goal would therefore be advertised in local newspapers. Comments would be received for 45 days, counted from the next Sunday. Staff would also speak to organizations familiar with the availability of DBEs. The goal would also be advertised on www.mwaa.com.

Mr. Carter observed that a lot of work had gone into the goal setting, and thanked all who had worked on it.

The Committee then unanimously approved the staff recommendation.

Mr. Session announced that the 2012 Workforce profile, shown as the next agenda item, would be deferred until the next meeting.

<u>Recommendation to Award Electronic Security Maintenance Services Contracts at Both Airports.</u>

Chris Browne, Vice President and Dulles Airport Manager, said the proposal was to award two contracts, one for each Airport, to Tyco Integrated Security, formerly ADT Federal Systems, for electronic security maintenance services. The contract would be effective in October.

The Committee had concurred in a pre-solicitation report in March 2011. Initial responses to the Request for Proposals (RFP) revealed omissions in the original statement of work that needed clarification. The procurement process was therefore cancelled and a new RFP with a revised statement of work was issued in March 2012.

The contract would require the maintenance, repair, modification and expansion of the entire Electronic Security Services Systems. Each system was extremely complex, supporting thousands of access control and alarm monitoring points. There were numerous computer servers and work stations, integrated with the Pass and ID offices and the Public Safety Command Center to control and monitor employee access through doors and vehicle gates. In addition, the contract covered over 3500 closed circuit television cameras with recording capabilities and other features.

A blend of technical and pricing scores was used the make the selection. The term for both contracts was a two-year base with three one-year extension options. The five-year combined cost would be $23,180,128.

Mr. Carter asked if the Board would be notified before the extension options were exercised; Mr. Browne said they would.

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

The meeting was thereupon adjourned at 1:05 p.m.

SUMMARY MINUTES
BUSINESS ADMINISTRATION COMMITTEE
SPECIAL MEETING OF SEPTEMBER 5, 2012

Mr. Session chaired the Special Business Administration Committee Meeting held on September 5, 2012, calling it to order at 9:45 a.m.

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, Mr. Crawford, Ms. Hall, and Mr. Curto, *ex officio*. Mr. Cobey, Mr. Davis, Mr. O'Reilly and Mr. Stottlemyer were also present.

Recommendation to Award a Fee Manager to Contract, Lease, Market and Manage Food/Beverage and Retail Concessions at both Airports.

Steve Baker, Vice President for Business Administration, introduced Kathleen Verret, Manager of Revenue Development. The staff recommendation was to award a contract for concession management services at both Airports to MarketPlace Development of Boston, Massachusetts.

The contract would cover the management, leasing and management of all food services, specialty retail and news services, as well as the monitoring of customer satisfaction and recommendations to improve the customer experience. The contractor would also be responsible for maximizing revenue to the Authority. The most recent pre-solicitation report had been reviewed by the Committee in March 2012.

Ms. Verret said the Request for Proposals had been issued April 6 in full and open competition. Three proposals had been received June 12 to be evaluated by a five-member evaluation committee. The proposals were scored and ranked; MarketPlace had the highest score in all three categories of the evaluation: the financial offer; development and implementation plans; and property management, which included marketing, advertising and promotion of the Airports. The contract would take effect January 1, 2013 or sooner; its term would be five years, with the possibility of two two-year extensions. It also included a ten percent Local Disadvantaged Business Enterprise requirement.

Mr. Carter said that the contract was an important one, and that Directors were concerned that the Airports did not have quality concessions.

He asked Ms. Verret to make him feel confident that improvements would result.

Mr. Baker said part of the current problem had been an inability to move forward with a new contract, which had left the facilities dated. He said this was not a reflection on the current operator, but just the result of an extended passage of time while the contract was pending renewal. The new contract would provide an opportunity for new concepts. In the past, staff had pointed out that the program at both Airports was stale, and that the passengers perceived them as stale. This meant they would walk past the concessions without seeing them, because they had seen them so many times before. There was a particular challenge in Terminal A at Reagan National and in Midfield Terminals C and D at Dulles International, where available space was insufficient for necessary food services. The goal was to provide adequate services without clutter. MarketPlace had come in with an innovative and believable program to deal with these issues, at the lowest cost. The MarketPlace fee was lower than the current fee, and would result in a greater share of revenues to the Authority.

Ms. Verret said the MarketPlace proposal had been the best, particularly with respect to rapid development and implementation. The firm had focused on the Authority's two priorities, Terminal A at Reagan National and Midfields C and D at Dulles International, all of which had to be addressed immediately. The proposal had identified how to improve the merchandising mix, and leverage both pre- and post-security operations. An interesting proposal was to immediately raise rental rates on fully-amortized leases. This would provide immediate new revenue until new leases were done.

Mr. Carter said he understood MarketPlace operated at LaGuardia and Philadelphia Airports. He asked if Ms. Verret could describe any specific concepts the firm could offer. Ms. Verret said that at LaGuardia MarketPlace had made better use of the holdrooms, as customers used concessions while waiting. At Dulles International, with the growing international presence, the firm proposed to bring in luxury brands, in a selection attuned to particular international flights.

Mr. Session noted that Mr. Conner had recused himself and left the room. He was not sure, but thought it possible that he may have a conflict with MarketPlace.

Mr. Crawford noted that it was important for Board Members to travel, to observe some of the improvements at LaGuardia, for example. He said the concessions there were well designed and welcoming.

Mr. Session asked what steps would be taken after the Board approved the contract. Mr. Baker said the staff hoped to see the transition before December 15. If it took longer, it would have to be postponed until January 2013 so as not to interfere with the holiday business. Mr. Session asked what the major transition issue would be. Mr. Baker said the transfer of the individual vendor contracts was the largest item, as well as other contracts, such as custodial services.

Mr. Session asked what the LDBE requirement was for, given the Airport Concessions Disadvantaged Business Enterprise goals that applied to the vendors. Mr. Baker said the LDBE standards applied to the management, while the ACDBE goals applied to the leases. Ms. Verret said the ACDBE goal was 35 percent for food and beverage, and 25 percent for newsstands and retail. Ten percent of the overall fee had to go to an LDBE firm, which MarketPlace had already identified.

Mr. Session asked what concessions could be expected at Terminal A. Mr. Baker said the space would not be available until it was fully built out. Staff was working with the construction planners to provide services in the interim. For example, a major problem for Terminal A had been provision of a fully ventilated food site. A previous retail location would be converted, as its location was suitable for temporary ventilation. This in turn would require a new location for retail. Staff would work jointly with MarketPlace.

Mr. Carter asked if all the vendor leases had expired; Ms. Verret said only the newsstand and retail leases had expired, at both Airports. The top priority was to redo newsstands and retail at Terminal A and at Dulles International.

Ms. Hall said she understood the rental rates would be raised to provide more revenue, and asked whether, if business was flat, the Authority should assume it had been flat because the program was stale. Mr. Baker said the point was that the costs had been fully amortized. When new contracts were issued, there would be new amortization costs. He noted that the food issue was one of location; customers would always seek out food services. The immediate problem was that they could not get to them.

Mr. Curto encouraged the staff to make the transition as soon as possible.

The Committee then unanimously voted to recommend the Board approve the contract.

The meeting was thereupon adjourned at 10:03 a.m.

SUMMARY MINUTES
DULLES CORRIDOR COMMITTEE
MEETING OF JULY 18, 2012

Mr. Davis chaired the July 18 Dulles Corridor Committee Meeting, calling it to order at 11:45 a.m. Mr. Brown, Mr. Conner, Ms. Hall, Mr. O'Reilly, Mr. Session, Mr. Stottlemyer and Mr. Curto, *ex officio*, were present. Mr. Carter and Mr. Cobey, who were not members of the Committee, were also present

Dulles Corridor Metrorail May Cost Summary and Project Update. Pat Nowakowski, Executive Director of the Metrorail Project, reported that $38 million had been spent on Phase 1 in April, bringing total expenditures up to $1.946 billion in a total project budget of $2.905 billion. The forecast was that the project would be finished within the new budget amount.

Mr. Davis asked if there was a schedule for turning the project over to the Washington Metropolitan Area Transit Authority (WMATA) for testing. Mr. Nowakowski said there was a turnover schedule and that WMATA staff were currently working with Authority staff. He added that the Authority would do considerable testing with WMATA staff as witnesses. Most of the testing would be done as part of the project; WMATA would test its control systems for about three months after turnover.

Mr. Davis asked when service could begin. Mr. Nowakowski said the turnover was still scheduled for August 2013, so the service startup was still expected before the end of that year.

Proposed Contract to Purchase Electricity from Dominion Virginia Power for Startup Testing on the Dulles Corridor Metrorail Project. Mr. Nowakowski said the contract was for interim electrical power for the rail project, to support testing of the traction power system that was required before turnover of the project to WMATA. The Authority already had contracts for power to both Airports and the Toll Road, under special rates for public agencies. The cost for the interim power was estimated to be $10.1 million from July 2012 through December 2013. The amount had already been budgeted. In accordance with the Contracting Manual, the contract would not require competition, as Dominion Virginia Power was the exclusive provider of power in the area.

The Committee voted unanimously to recommend the Board approve the proposed contract award.

Proposed Contract Award for an Architectural/Engineering/Planning Consultant for Task Planning Services on the Toll Road. Steve Smith, Deputy Vice President for Engineering, asked the Committee to approve the award of the subject contract to the HNTB Corporation. The Committee had concurred in the issuance of a Request for Qualifications Information (RFQI) in March 2012; the RFQI had been issued April 3, and five responses had been received on May 1. A review of the qualifications produced a shortlist of three. After interviews, the staff committee had recommended HNTB. The contract was for one year with two one-year extension options. There was an annual $2 million limit and a 35 percent Local Disadvantaged Business Enterprise requirement. The Committee unanimously agreed to recommend the contract award to the Board.

Dulles Corridor Enterprise June 2012 Financial Report. Andy Rountree, Vice President and Chief Financial Officer, asked Mark Adams, his deputy, to give the June report. Mr. Adams reported that Toll Road revenue year-to-date through May had been $51.2 million, up 8.2 percent from 2011. At midpoint of the year, 49.7 percent of budgeted revenues had been collected. Transactions year-to-date were at 50.2 million, a decrease of 1.3 percent from 2011. The target had been to maintain the same level. Electronic toll collections were up 3.1 percent for the period, at 77 percent.

Expenditures, at $12.8 million year-to-date, were up 5 percent from 2011. They were still well below budget. The unrestricted cash-on-hand level was high, at 1,033 days.

Mr. Stottlemyer noted the high use of E-Z passes, and the desirability of all-electronic operations in the future. He asked if the Authority had initiated any discussions with surrounding jurisdictions on reciprocity to make that possible. Ms. McKeough said discussions were already underway because of the upcoming opening of the hot lanes on the Beltway. The Authority could learn more about it and perhaps become involved.

The meeting was thereupon adjourned at 12 noon.

SUMMARY MINUTES
EXECUTIVE AND GOVERNANCE COMMITTEE
MINUTES OF THE SEPTEMBER 5, 2012 MEETING

Mr. Curto chaired the Executive and Governance Committee Meeting of September 5, calling it to order at 10:15 a.m. All eleven sitting Directors were present. The meeting began with a series of public statements.

Mr. Curto's Statement
Mr. Curto said his fellow Board Members were aware that a bright light of scrutiny had been focused on the organization. The Authority's sponsoring bodies were questioning whether the Board was doing all it could do to insure the Authority's professionalism, integrity and cost-effectiveness. Given the unique responsibility the Authority had for operating Reagan National and Dulles Airports, as well as for completing the construction of the Dulles rail system, it was understandable that every action of the Authority was carefully analyzed and passionately debated. To Secretary LaHood, Governors O'Malley and McDonnell, Mayor Gray, and Congressman Wolf, he wanted to make clear that the Board took their questions and concerns very seriously. The Board Members appreciated the consistent support they had given to the Authority over the years and understood that they wanted the same things the officers who appointed them wanted: a well-run, efficient and transparent organization.

Since January it had been his privilege to serve as Chairman of the Authority. As he started his tenure as Chairman, he had laid out three priorities for the organization: increased cooperation with the regional partners, especially the Commonwealth of Virginia; greater transparency for management and Board operations; and the timely and cost-effective completion of the Dulles rail system. While it was true that the Authority had made its share of mistakes, and that there were a number of issues yet to be adequately addressed, he believed the Authority's harshest critics would also acknowledge that it had made significant progress on the key objectives he had outlined. For example, revised Bylaws had been adopted in February to clarify rules for executive sessions and Board Meetings, and to make additional Board meeting information available on the Authority website. Minutes of meetings of the Board and its committees were now posted on the website shortly after each meeting. Materials to be used at Board meetings were now posted on the website ahead of each meeting. Similarly as part of the enhanced transparency initiative the Board had adopted a new freedom of information policy and appointed a freedom of information officer to assure timely and transparent responses to requests by the public regarding Authority business.

On May 31, shortly after the preliminary report had been issued by the Inspector General and in response to many of the concerns raised in that report, he had issued a statement on behalf of the Board announcing a thorough review of the Authority's travel policies. While that review was under way, he had suspended all international travel. There had been no international travel by Board Members in over a year, and domestic travel had been *de minimis.* In that same May statement, he had announced the establishment of an internal control group to review compliance with Authority policies and procedures. He had directed Mr. Potter, the President and CEO, to initiate a complete review of the Authority's policies relating to sole-source contracts. He had also asked for the records of contracts relating to retention of former Board Members.

Finally, he had accelerated the ongoing review of the Authority's disclosure and ethics policies. At that time he and his fellow Board Members had instructed the CEO and management team to begin to do everything to accelerate the ongoing efforts to address and resolve initial issues raised by the audit, understanding that a full audit report would still be forthcoming. The Board's view on the matter was clear and unambiguous: the Directors wanted the Authority to be as well run as any public entity and were prepared to achieve this objective.

Meeting that day, the Chairman and fellow Board Members were prepared to make difficult decisions. Accordingly, the Board would consider a new travel policy for all personnel, one that was modeled on the best practices of the airport industry and the federal government. They appreciated the assistance on that front of the accountability officer appointed by the Secretary of Transportation. There would be continued collaboration with her regarding the Authority's ethics policies, contract and procurement guidelines, administrative procedures and human resources and hiring policies. The Board would that day hear a presentation on the proposed revisions to the ethics policies for both employees and Board Members. He was confident that the public presentation and subsequent discussion would lead to the Board's consideration of a new ethics code at its next scheduled meeting on September 19.

With respect to contracting and personnel matters, most notably relating to sole-source contracts, and those involving former Board Members, the Authority had already terminated a number of those contracts and was moving forward to terminate others. Competitive bidding would be used to reacquire those services, as necessary. He had asked Jack Potter to take the lead with respect to the contracting matters. He then turned to Mr. Potter for an update on actions taken to date.

Mr. Potter's Statement
Mr. Potter, on behalf of the men and women of the Airports Authority, assured the Members of the Board, the Secretary of Transportation, the two Governors and the Mayor, the Congress, other elected officials and the public that the organization was committed to providing the very best in transportation services for the Metropolitan Washington Region. They were working hard to assure that Authority policies, practices and procedures represent best practices in industry and government. Since the interim Inspector General's report, the management had been reviewing contracting practices in every office and department, with particular emphasis on sole-source contracts. They were working to assure that the contracting manual guidelines were clear and precise and that they maximize the use of competitive bids in contract award. They were looking at how contracts were awarded and administered to assure compliance with both the letter and the spirit of the guidelines. With respect to sole source contract, he had issued a directive in August suspending the use of "categorical exceptions" to the competitive bidding rules for professional service contracts in the areas of legal, financial, auditing and government relations. They were closing out all sole-source contracts in those areas, and would ensure that contracts for these services were competitively bid in the future.

The Inspector General's interim report had made reference to lobbying and other contracts with former Board Members. These contracts had been or were in the process of being closed out. They were also looking at the employment of former Board Members, and in accordance with the letter from the Secretary and the elected leaders, would terminate these relationships in the most fair, appropriate and lawful manner. However, he did want to note that these contractors and employees had done an excellent job and have provided excellent work and value to the Authority. The quality of their work had never been an issue; the issue was the internal Authority process for bringing them on.

They were reviewing the other employment practices as well. The goal was to make sure that all human resources policies, such as hiring and compensation practices, were representative of the very best in industry and government. They would ensure fairness and an applicant's family and business relationships would not be a factor in the hiring process. Further, they were working across the Authority to strengthen all oversight, construction, planning and management programs to reduce costs and make sure the Authority was providing the best value and the highest level of service in all the Authority did.

In this regard, he was committed to working with the partners: the Federal Transit Administration, Fairfax County, Loudoun County, the Commonwealth of Virginia and the Washington Metropolitan Area Transit Authority (WMATA) to construct the Silver Line project. Their participation had driven Phase 1 results and would assure a successful Phase 2. He welcomed the contribution and oversight of Kimberly Moore, the Department of Transportation-designated accountability officer. She had been very helpful, providing input in the formulation stage of some of the policies the committee would hear about later that morning. A policy only works when people are properly trained and there was accountability for compliance. As the new policies were rolled out, he would assure there was a window for training of all who would be affected. As mentioned earlier, a "ramping up" of an internal control group to assure that all Authority policies and procedures were followed. The Authority had been entrusted with the management of key regional transportation assets. It was committed to assuring that it continues to earn that trust in all that it did.

Before closing, Mr. Potter acknowledged the good work being performed by the Authority's employees, the people at the Airports, on the Toll Road, in the rail office, at the construction sites, who kept the Authority operations safe and efficient and provided high quality services. They had remained focused on their work, serving the traveling public. He would like to salute them and thank them for all their efforts.

The Chairman said all the points he and Mr. Potter had just outlined reflected the Authority's commitment to strengthen effective and ethical leadership in this important organization. Later in the day, the Board would meet in executive session to receive a briefing on important legal matters. The Authority had recently asked the courts to clarify important legal issues relating to the removal of Board Members, to insure that the Authority followed the proper path in addressing such situations. There would be an update on that litigation and on matters relating to indemnification of Board Members involved in litigation. Executive sessions would be held only when necessary, as outlined in the Bylaws. Matters involving litigation of course qualified. Decisions would not be made in executive session; they would all be voted on publicly in open session.

Mr. Davis's Statement
The Vice Chairman, Mr. Davis, thanked the Chairman for his leadership, and the President for working cooperatively with the Department of Transportation. There would be a new era at the Authority, conducting its business openly, and awarding contracts on a competitive basis. He observed that the proposed post-employment restrictions were stricter than the federal government's. The Board worked without compensation; no one was here to get rich. The Members were here because they wanted to finish the Silver Line and construct better Airports. Hopefully with the greater transparency the Board could put the past behind and move forward. He looked forward to the timely adoption of the changes.

Mr. Session's Statement
Mr. Session commended the Chairman and the President and CEO for initiating the steps towards strengthening the Authority's procurement practices, travel policy and ethics code. He embraced and supported these remedial measures, and he was sure his colleagues on the Board did as well. He was committed to exercising his fiduciary duties in a responsible manner, which necessarily included educating himself on industry best practices, engaging his peers at other airports and being well-informed on federal aviation public policy. To that end, legitimate travel to conferences sponsored by national trade associations such the Airports Council International (ACI) and the Airports Minority Advisory Council (AMAC) should be encouraged. Board members should not and must not govern in a vacuum.

Regrettably, much of the gratuitous criticism being directed at the Board by state and federal officials, a Member of Congress, the media, and outside groups, has been either factually inaccurate, out of context, or incomplete.

For example, the Board had recently been criticized for having entered into an employment agreement with one of its former Members shortly after her resignation from the Board. The fact of the matter was that the agreement had never been presented to or considered by the Board as a whole for review or for a vote. Most of the Directors - himself included - had not had any knowledge of the agreement, let alone its terms and conditions. He had been informed that the arrangement had been negotiated by a single Member of the Board, with the full knowledge, consent, and perhaps even influence of certain public officials in Virginia. Indeed, none of the contracts awarded to former Board members had been before the Board for approval. The Board had long ago delegated contracting authority below $3 million to staff.

Still another example was that the Board has been routinely maligned in the press for inclusion of a project labor agreement (PLA) in Phase 2 of the Dulles Metrorail Project. The fact was that the Board had reached a consensus to adopt a PLA only after an agreement had been struck with Virginia officials that expressly stated that the PLA would be consistent with Virginia's right-to-work laws. Indeed, it was not until the PLA had been politicized by lawmakers in Richmond that it became a lightning rod issue and fodder for critics of the Board. It was important to note that Phase I of the Metrorail Project, which included a voluntary PLA, would be delivered on-time and within a respectable margin of error costwise.

In closing, Mr. Session said the Authority had been created as a Congressionally-authorized independent regional authority through an interstate compact between Virginia and the District of Columbia. In transferring the Airports to the Authority, Congress had expressly stated that it must be independent of the Commonwealth of Virginia and its local governments, the District of Columbia and the federal government. It had been strongly believed that an independent authority was necessary to avoid negative influence on the contracting process, to facilitate necessary but unpopular decisions related to the airports, and to ensure the protection of revenue generated by the airports. Accordingly, it was essential that this independence be maintained and the principle of regionalism between Maryland, the District of Columbia and Virginia be promoted. He looked forward to continuing to work cooperatively with his colleagues on the Board, the Authority's senior management, and with the stakeholders in Virginia. He then asked that his statement be included in the minutes.

Ms. Hall's Statement

Ms. Hall said the Board had recently been vilified in the media, an uncomfortable position for her personally. She said she would share what she knew. She had heard on a number of occasions that the Governor of Virginia did not want Mame Reiley on the Board any longer. The Board did not have any issues with Ms. Reiley; her leadership on the Dulles Corridor Committee had been outstanding. But she had finally resigned from the Board. It had been curious to Ms. Hall that the Authority had taken the step of hiring her. The Governor of Virginia has indicated that the Commonwealth had realized a profit in its budget, and that if the Governor wanted Ms. Reiley off the Board, the Commonwealth should have hired her. Given that the Authority was experiencing negative press on many different issues, hiring Ms. Reiley had not been the proper move to make. Ms. Hall had not been privy to the decision. It was clear a few Board Members had been aware; she took it that they were Virginia Members. There had never been a vote. It appeared there was a shadow Board operating, where certain Members knew what was going on, while others did not know. It appeared to be an old boys' network, where certain Virginia Directors had known the Governor's wishes and had followed through on them, and a decision had been made accordingly. She was deeply troubled that the media spin on the issue was that the Board had approved Ms. Reiley's hire. She had known nothing of the matter until reading it in the newspaper. Further, the same officials who had agreed to Ms. Reiley's hire were attacking the Board as dysfunctional in making the decision, which had never come before the Board. Trust on the Board was waning.

She said Mr. Potter had made some management decisions that were inconsistent and she was anxious to hear from him the reasons why. Earlier in the year a senior IT employee had been removed without informing the Board. But finalists for the Vice President for Communications position had been shared. Then a former Board Member had been hired without informing the Board. Mr. Potter had allowed the media to run a story falsely accusing the Board of approving Ms. Reiley's hire without making a correction. She differed with the Virginia elected officials who continuously expressed great confidence in the skills of management, though she believed Mr. Potter had done well in many areas of his responsibilities. In this case, he had "thrown the Board under the bus" by not admitting that he had made this major management decision without bringing it before the Board. She asked Mr. Potter to explain the rationale for hiring a former Member who had resigned for health reasons, and then hired full time to a position with more stress, and to explain why he had let the media continue to run a false story without correcting it.

Mr. Potter said he took full responsibility for hiring Mame Reiley. Her position did not require that he come to the Board for approval. The only approval he was required to obtain was for managerial positions, the Vice Presidents. He had followed that rule for the Vice President for Communications, as well as for the removal of the Vice President for Information and Telecommunications Systems. He was fully responsible for hiring Ms. Reiley; he had hired her because of her skill set. She knew a great deal about rail, and she had many connections in the area with people both in government and in business. He viewed her as an asset to the institution. She had helped him through a thought process on the largest issue at the Airports Authority: how to generate new revenues from the assets at Dulles. The biggest asset, currently underutilized, was the real estate asset. He had spent the last months with Ms. Reiley, meeting with numerous people in industry, including architects, developers, land use experts, hotel operators, and entrepreneurs in general, to discuss where the Authority was and where it needed to go with land use development at Dulles. He looked forward to the next Strategic Development and Planning Committee meeting where he could share the results of those efforts. In addition, he was very concerned about the customers, and had been working with Ms. Reiley on ways to structure the staff to address those concerns and assure that there was a voice for the consumer in all the Authority did, including those using the Toll Road and those using the Airports.

In hindsight, Mr. Potter said he should have been more aware and made a better judgment. As to news articles, whenever he was asked, he had said the hire had been his responsibility. Perhaps there should have been a press release. He took responsibility for it in any event. As to current status, he had agreed on a termination date with Ms. Reiley; her contract provided for a year's severance. Ms. Reiley would be finalizing some work she had been doing, but by October 1 would no longer be working for the Authority.

Mr. Carter said no one on the Board would ever question her loyalty, commitment or intelligence. Mr. Potter certainly had the authority as CEO to hire employees that he chose. He was concerned about the poor judgment. Ms. Reiley had left the Board on a Friday and gone to work on Monday. Anyone looking at this would assume she had been paid off to leave the Board of Directors. There needed to be an acknowledgement for the record that the Board did not have any knowledge that Ms. Reiley was being employed. She had been an excellent Director for nine years, but had also been a lightning rod in Virginia. He believed the hiring had not helped the Authority's cause. Mr. Potter agreed, noting that it had been a lapse in judgment on his part.

Mr. Crawford said he had served with Ms. Reiley for nine years, and had been Vice Chairman when she chaired the Board. He had another comment: Mrs. Crawford suffered from the same disease the Ms. Reiley had, breast cancer. He was extremely sensitive to that. However, he thought a terrible mistake had been made. He asked Mr. Potter whether he recognized that a number of members of his staff had a serious disease that affects them as they come to work every day. Mr. Potter said he recognized, in hindsight, that the hire was not a good move. There were employees who were critical of it. Mr. Crawford said he wondered how employees felt when the Board spent hours debating over a proposed 1 percent wage increase, which the Board had refused to support.

He agreed with his colleagues from the District of Columbia that the incident had damaged the Authority. This was an example of an issue he was asked about when he had no knowledge. He had created the Dulles Corridor Committee and appointed Ms. Reiley Chairman of it. Others had not agreed with him. But he had pointed out that the rail system was not going up U Street. The District of Columbia should not be making decisions on a rail line in Virginia. He had therefore put all Virginia members of the Board on the committee. The Board then accepted the recommendations of the committee. Virginia had always controlled the Silver Line. He pointed out that everyone knew that a rail line built above ground would always be exposed to the elements. The Board had been convinced by Ms. Reiley and other Virginians that the rail should go underground. The Board had voted publicly to support Virginia. This had not been fully understood; it appeared to some that the District of Columbia was calling the shots on development of the rail line. Virginians had in fact always taken the lead. He was glad to discuss the matter in public.

Mr. Crawford said one other issue bothered him. It was well established that Members of the Board could only vote when present at a Board

Meeting. The former Chairman had decided to have a straw poll, changing the protocol. The Board Members knew that the purpose was only to give the Chairman a comfort level on the selection of a CEO. But no one had spoken up to correct the situation. Mr. Crawford said a racial remark had been attributed to him, but he had actually said nothing. It was important to clarify this point, as it had caused the Board to look like fools in the media. He added that he had insisted on employing Mr. Klinge and Mr. Calhoun, the former Directors who had represented the Authority in Richmond. They were very well recognized Virginia members of the Board. He knew as Chairman that he could not represent the Authority in Richmond. The two had been valuable assets, and should not be terminated.

Mr. Curto thanked Mr. Potter for his remarks and asked if there were further comments.

Mr. Crawford asked how it happened, if the Authority was such a backward organization, that the richest country in the world had hired its last CEO. Mr. Bennett was a smart man, and in hindsight Mr. Crawford said he applauded him. He knew what he was doing; he had a connection with every jurisdiction, with every member of the state and city legislatures. That needed to be stated for the record. The old Members – not the new Members – owed the man an apology.

He was sorry the Authority was in such a state; he thought it very discouraging and disgusting. This Board had become everything it should not be. It had been politicized. He thought the organization had been created so that management of the airports would not be politically hamstrung.

1. PROPOSED AUTHORITY TRAVEL POLICY

Andy Rountree, Chief Financial Officer, introduced the agenda item. He said it was intended to improve transparency, responsiveness and accountability, and to reflect industry "best practices" and to a degree federal government practices. It would apply to Board Members, all employees and others traveling on behalf of the Authority, such as job candidates, external procurement panel members and contractors. It replaced two separate policies, one for the Board and the other for the staff.

There were three elements to the policy:

a. What occurs before travel – travel authorization,
b. What occurs during travel – allowable costs, and
c. What occurs after travel – the process for reimbursement.

The policy would require travel authorization in advance, approved by a designated "Approving Official", except for travel related to routine Board and Committee meetings and scheduled Authority business meetings. The Approving Official would be responsible for ensuring in advance that travel would be reasonable, in compliance with the policy, and funded adequately in the budget. The policy included a list of officers who needed to approve the authorizations. The key point for staff travel was it all had to be approved by a Vice President or higher.

With respect to allowable costs, the policy included the usual set of allowable items. It included:

- Round trip mileage to and from the point of common carrier transportation;
- Standard parking, or valet if the only option;
- Taxi fare to and from the point of common carrier transportation or work location, shuttle bus fares, or other common carrier transportation;
- Car rental;
- Conference or meeting fees
- Daily Expenses – "Actual expenses incurred by the Traveler on a daily basis while in a travel status. Allowable Daily Expenses could include the traveler's meals and incidentals, transportation, lodging (including internet connectivity fees, business center fees, and related expenses) and parking."

With respect to air travel:

- Travelers would be required to obtain discount fares to the extent possible and to purchase economy class tickets.
- For travel outside the 48 contiguous States, the next higher class over economy would be permitted, unless it is first class. The Approving Officer could make an exception.
- "Blanket authorizations" could be made only for economy-class accommodations.

With respect to hotel accommodations:

- A "host" hotel for events should be used, when available. If not available, every effort should be made to find a room at a comparable cost or at the lowest possible rate (government, conference, or corporate).
- Non-standard, premium or deluxe suites or upgrades would only be reimbursed at the standard or conference rate level.

With respect to meals and incidentals:

- "Incidentals" constituted daily expenses and include fees and tips given to porters, baggage carriers, hotel staff and staff on ships.
- Meal claims would be based on actual receipts, should be reasonable and may not exceed $71.
- In the alternative, a per diem of $25 could be claimed without receipts.
- Alcoholic beverages would not be reimbursable.

Reimbursement requests would have to be approved, much as travel authorizations were. Finally, the policy would require the Finance Division to provide quarterly reports of all travel to the Board Office. The Office of Audit would audit all travel expenses and present the results to the President and to the Executive and Governance Committee of the Board.

Mr. Davis said the policy was a good one. There had been a travel policy for some time, but apparently, as the Inspector General had said, it had been abused. He suggested that, instead of going through the biennial freedom of information requests from the media, the travel records should be posted on the Authority website on a quarterly basis. He recommended it be included in the policy.

Ms. Hall said the policy seemed to be modeled on the Government's travel policy, and asked if there was a two-tier policy for the Government. Were Secretaries and other senior appointees bound by the same travel policies as employees? Mr. Rountree said the policy had been reviewed by the Accountability Officer, who made recommendations to make the policy fairly consistent with the General Services Administration federal travel policy. Mr. Rountree said the federal system employed a sliding scale for per diem levels, different for every city. If a traveler were traveling at a certain time of the day, the full per diem would not be available. There was also a separate schedule for foreign travel. The Authority $71 cap matched the highest federal per diem.

Mr. Potter said that at the Postal Service, the Board of Governors was on actual expenses, but employees followed the federal policy. Ms. Hall said she had understood the federal government had a two-tiered policy, and suggested the same approach for the Authority policy. She based the suggestion on the thought that the Directors were not working for the Government. They were independent of the Government; their lifestyle was not based on government employee lifestyle. A policy could recognize the way the Directors spend funds. Mr. Potter said the Accountability Officer was in the room and could respond.

Ms. Moore said the Secretary of Transportation did have different rules, partly because of security issues, partly because of government aircraft and frequent international travel. There were other blocks of funding for international events. In general, everyone else, including the management, followed the federal standards. Mr. Curto said the $71 dollar limit was the highest federal limit, for cities like New York and Chicago. He observed that Board Members most often traveled to conferences that provide breakfasts and lunches. Mr. Potter said the Authority policy had adopted the federal cap, but noted that federal travelers were on per diem and were paid whether they spent up to the per diem level or not. The Authority policy went with receipts, in part to avoid the many pages of rules on per diem issues in the federal policy.

Mr. Stottlemyer said the Board should lead and set an example for the employees. The other boards he had served on had set the board travel standards the same as the employees. He asked if the Board and staff policies were close. Mr. Potter said they would now be identical.

Mr. Brown said he was troubled by the use of both receipts and caps. The Directors were not feds. There were times he would spend $20 on a dinner, and on another occasion $90. The belt and suspenders approach wouldn't allow this. It didn't make sense to have a cap for each day. He could live with either approach, but did not see the point of both.

Mr. Brown's more serious objection was to the Chairman's approval of non-routine travel. He said it was a violation of a Director's fiduciary duty to cede powers to another member. It was a mistake for the Directors to impose on themselves a duty to get approval from another member, even if it was the Chairman. He had no problem with expenses being approved by whoever needed to approve them. But every Member should make his own decision on how he does his job. A rigid approval system was unwise.

Mr. Curto said the policy had been modeled on federal policy, and also best practices of airport authorities nationwide. Most of them had pre-approval processes.

Mr. Brown said that was not surprising; at other airports, the Chairman's slot was often filled directly by the appointing authority. The Airports Authority was *sui generis*. He pointed out that Members of Congress did not have to obtain the Speaker's permission to travel. Mr. Davis said the Speaker's permission was required for international travel, but not domestic. Mr. Brown said that if a Director's travel became too much, or otherwise troublesome, it could be referred to the Executive and Governance Committee.

Mr. Curto pointed out that a Director who did not get the Chairman's approval had a right to appeal to the Committee.

Mr. Brown said the process was cumbersome. He said that federal directors had a different travel problem – they had to travel. For example, he recently traveled from his home in Cleveland to attend a hearing in Fairfax Circuit Court, and had to file travel expenses. The Vice Chairman had told him he would not have approved the travel; Mr. Brown considered it part of his fiduciary responsibility as a Director.

Mr. Session said he had the same uneasiness about the approval process. How would one deal with the arbitrary decision of a future chairman? An appeals process was not the best and fairest way to go. The policy should not discourage travel. A lot was going on in the aviation business, and some travel was necessary to keep up with it. One could not sit at a desk and learn about aviation policy in a vacuum. While travel policy made sense, he did not want to overcompensate by giving a Chairman carte blanche, or by discouraging travel that was important to the learning process.

Mr. Curto said Mr. Session's point was valid, but that he did not see that provisions of the policy would actually discourage travel. The purpose was to insert some procedural prudence, so that travel, which he agreed should be undertaken, would be done within the parameters of the stated policy. He said Mr. Brown's concerns were unique to the federal members, and that a Chairman should understand those travel needs. He did not believe anyone on the Board would want to limit a federal Director's ability to meet his fiduciary duties. He added that most Directors agreed that travel, particularly to aviation conferences, was quite useful.

Mr. Crawford said the Board Members should not compare themselves to cabinet officers, or even Assistant Secretaries. The Secretary of Transportation had his own jets – they were parked at Reagan National. The policy should be modified to allow travel by business class on longer trips, and the Authority should encourage travel. The policy should also allow for medical needs. Mr. Rountree said that business or first class could be approved for medical situations. Mr. Crawford said that it would not be appropriate to take an airline executive out to McDonald's. The policy should allow the Chairman to make that kind of adjustment. Mr. Curto said such situations would be pulled out and handled separately. Mr. Crawford applauded the Chairman for all the work he put into it.

Mr. Conner said he did not travel much, so he had not paid close attention to the travel issues. But the policy was critical to restoring the credibility of the Board and should be advanced. He said the Authority had what was perceived as a permissive travel policy. It did have a self-policing mechanism, so that each Director would be prudent in his travel expenses. Some believed the Directors were not policing themselves, but taking advantage of the rules. Some criticism was fair, some not, but the policy was needed, a result of the criticism. He proposed a minor change: add language that the Chairman's approval would not be unreasonably withheld, and that he would apply the policy on a consistent basis from Director to Director.

Mr. Curto said he would not have any trouble with that proposal.

Mr. Carter said the documentation related to travel was long overdue. In some instances, the policy was overreacting to the criticism. He asked why the Chairman should have to get the Vice Chairman's permission to travel. Mr. Curto said it was just procedural prudence. Mr. Stottlemyer said his entire board had to get approval from its CFO. Mr. Carter noted that he did not have to get permission from his CFO.

Mr. Cobey then moved approval of the policy, with the amendments offered by Mr. Conner.

Mr. Brown suggested that the policy be amended to provide that the $71 be reviewed every year, as the federal government did. He also noted that the policy did not mention airline club membership, which he believed had been prohibited in the past, as well as flight upgrades offered to Directors. He thought the staff got similar upgrade offers. Mr. Potter said the issue was addressed in the Ethics Code.

Mr. Brown then said the reasonableness amendment was fine, but was unsure about how it would work. He said his difference with the Vice Chairman over his trip to the Fairfax court was not bad faith, but based on a different view of a Director's responsibilities.

Mr. Brown said the policy should move forward, it should be explicit, he had agreed it should be the same as for employees, and he was in favor of most of the policy. But he could not agree to the provisions ceding authority to the Chairman to authorize travel, particularly for federal Directors.

The Chairman called for a vote, and the Committee unanimously agreed to recommend the policy to the Board.

2. Proposed Code of Ethics for Members of the Board of Directors

Phil Sunderland, Vice President and General Counsel, said there two codes of ethics, one for the Board, the other for the staff, on the agenda. He said Venable LLP had been retained a few weeks before to assist in redrafting the Code.

The Board policy was designed to accomplish three things. First, it responded to the Inspector General's interim report, which commented on the existing ethics policy. Second, it incorporated common elements from the codes of ethics of Virginia, the District, Maryland, the Washington Metropolitan Area Transit Authority (WMATA) and some other airports. The idea was to identify some "best practices". Third was a response to the August 13 letter from the Secretary of Transportation, co-signed by the Governors of Maryland and Virginia and the Mayor of the District of Columbia, that said Authority policies should mirror to some degree the federal policies.

Mr. Sunderland said he had provided the staff code of ethics to the Accountability Officer, who had provided useful comments that still had to be worked out. She had also reviewed the proposed Board Code of Ethics; she would add some comments in the next few days. The current drafts were thus still working drafts, not final proposals.

Mr. Sunderland turned to the purpose of a code of ethics. He asked the Directors to imagine a triangle, divided into four parts. The top part, at the pinnacle, was the goal: trust. Every organization strove for trust. The second segment was the characteristic of the organization that leads to trust: integrity. If the organization had integrity, it could reach the pinnacle. Integrity included many components: fairness, impartiality, honesty, and selflessness.

The ethics policy belonged in parts three and four. The third part was a series of areas that the ethics code addresses in order to insure that the organization has integrity. There were five areas of a code of ethics: conflicts of interest; use of position; gifts; disclosure of interests; and post-service restrictions. The fourth part of the triangle was the accountability infrastructure: training, annual review, an ethics officer and an enforcement policy.

Mr. Sunderland then introduced the Venable attorneys who had prepared the proposed code. Larry Norton, former General Counsel of the Federal Election Commission, had spent much of his career dealing with all aspects of ethics issues. Janice Ryan was an associate who dealt in governance and ethics issues with non-profit clients.

Mr. Curto asked Mr. Sunderland to discuss the process for developing the proposed code. Mr. Sunderland said he, Gregory Wolfe, Board Counsel, and Quince Brinkley, the Secretary, had worked together on an RFP for legal support, which had resulted in the selection of Venable. Venable had produced a draft addressed at two or three meetings, in which Mr. Wolfe participated by telephone. The current draft reflected the views of the Authority participants.

Mr. Norton said the effort had started with a review of other institutions that were as similar to the Airports Authority as could be found. They included WMATA, the Port Authority of New York and New Jersey, the Dallas/Fort Worth International Airport and other organizations with appointed boards, most or all of whose members served without compensation. What they found in every case was that the agencies drew their codes from their parent jurisdictions. Therefore the guidance for the revised policy came from the ethics codes of the federal government, the Commonwealth of Virginia, the State of Maryland, the District of Columbia and WMATA.

The draft did not borrow indiscriminately; for a code to work, it had to be practical and tailored to the functions of the organization and the responsibilities of the members. The proposed code was tough, but would allow the Board to carry out its mandated functions. The team has sought to draw bright line rules, so that Members' obligations and responsibilities were guided by clear rules not high-minded words. Finally, they had thought it important to establish mechanisms for administering and enforcing the code. It retained a clear role for providing advice and added a provision identifying when a Director could rely on that advice. It provided an intake point for reviewing alleged violations, and also some penalty provisions for violations of the code of ethics.

He began a review of the proposal with conflicts of interest. Directors were currently obliged to recuse themselves if the Director, a spouse or a minor child had a substantial financial interest in a current or prospective contractor, or an aviation-related company. Substantial financial interest included both direct and indirect income above certain thresholds. This concept was retained. It included from the old code a direct conflict from a client personally represented by a Director, regardless of compensation received. Debts and ownership interest in properties above certain thresholds had been added.

The revised code also contained other sources of conflict. It now included a substantial interest in any business that could not be directly involved with the Authority, but would be significantly affected by a Board action. This had been borrowed from the Virginia rules.

The revised code also allows for recusal when there was an appearance of a conflict. This provision was common in all other codes.

Two kinds of interests were prohibited, where recusal would not be enough. First a Director, spouse and minor children could not acquire an interest in a contractor or prospective contractor during the Director's term of service. This was found in federal and D.C. rules. Second, Directors and their immediate families could not be employed by or have contracts with the Authority during the term of service. That would include businesses that were wholly or more than 50 percent owned by the family.

The Inspector General's report had observed that it was not clear when and how a Director should engage in recusal. The proposed code provides that the Director can remain in the room during public session, but must leave the table. For an executive session, the Director would have to leave the room. A public record would be made of the recusal.

As to financial disclosure, the requirements were based on the conflicts section of the code. While not as broad as the federal requirements, it was broader than current requirements. It gets out in the open all the interests that could cause conflicts, including employment of the Director and immediate family, as well as any outside positions the Director may hold as trustee, director or partner of a business. As currently, the financial disclosure report would be made annually, and the code proposed that the currently required amendments for changes in holdings be made within 10 days of a change. The financial disclosure report also would require accounting of reimbursements from the Authority and gifts from prohibited sources in excess of $350.

There were two new post-service rules. First was a cooling off provision of two years during which the Director and immediate family could not be employed by the Authority. Nor could a business 50 percent or more owned by the Director or immediate family members contract with the Authority during this period. Second, there was a two-year time-out on representation of third parties before the Authority.

Next, the "use of position" provision was similar to the current code. It barred using a Director's position for personal gain, or for private gain of partners, immediate family, or persons with whom a Director has a business relationship, or a non-profit. Under the revised code, a Director also could not ask an Authority contractor to hire a friend or relation.

The proposed code included a nepotism provision that applies to hiring decisions and contracts when hiring relatives, in this case a longer list than "immediate family", a list reaching grandchildren and grandparents, uncles, aunts, siblings and parents.

The last major area was the gift section. The revised code addressed gifts from contractors and aviation interests, as did the existing code, and added from gifts from parties that could be affected by Authority decisions. A number of exceptions to the general prohibition of gifts are set out in the appendix. They were meant to match the employee code. Two items were borrowed from WMATA: a $75 limit on a single gift, reduced from the $100 in the existing code, and a $200 limit in gifts from a single source in a calendar year.

The exception for gifts of air services would apply only when the same were offered to others, such as the use of frequent flyer miles, or discounts at airport concessionaires that were offered to all employees.

The procedures and internal controls were very important. The initial proposal was that the President appoint an ethics officer, with the approval of the Board. The ethics officer would distribute, receive and review annual disclosure statements. The officer would give the policy to all Members and collect certification that they had read it. The officer would also provide advisory services; no Director could be held to violate the code if the ethics officer had so advised the Director after full disclosure of the relevant facts. Ethics charges would first go the Chairman or Vice Chairman, then to the ethics officer for an initial review. The officer would then make recommendations to a special ethics review committee of the Board, which could hold a hearing and recommend further action. The ethics officer would also work with the Secretary and the General Counsel in an annual review of the code. The officer would also schedule annual training.

The Board would be ultimately responsible for taking action on an ethics violation, after a basic hearing process. It could take whatever action deemed appropriate. Three examples were provided: a public reprimand, notice to the appointing authority, and taking action with respect to any contract related to the violation.

Mr. Cobey said he hoped the ethics officer would be designated from existing employees, as the proposed code appeared to contemplate. Mr.

Sunderland said that was intended. Mr. Cobey said that his experience on a number of boards had shown him that there were different understandings about what might constitute an "appearance" of a conflict of interest. How could the Board make sure a Member recognizes an apparent conflict before the Board's trust was compromised? Mr. Norton said the greater reporting requirements would help with this problem. The proposed policy also put some burden on contractor and proposed contractors to identify interests in them of Directors and their immediate families. Mr. Norton said he did agree, however, that the appearance of a conflict was often in the eye of the beholder. Nevertheless, it was a part of every code, including the current Authority code. Mr. Cobey asked if any sanctions were imposed on contractors if they did not disclose a Director's involvement. Mr. Norton said that sort of provision would have to be addressed in the contracting policy. Mr. Sunderland said that if there was a failure to report, there would be a contract remedy.

Mr. Stottlemyer asked about implementation; whether it would be prospective. Mr. Sunderland said the effective date would be the first of the New Year, with training in October and November and other implementation, including the appointment of an ethics officer. He thought the Board might not need the three-month lag time contemplated for the new staff code.

Mr. Conner asked whether a partner in a firm with another partner representing a firm that may be involved with the Authority would not have to be disclosed if it did not exceed 3 percent of the firm's revenues. Mr. Norton said he was correct.

On the substantial financial interest issue, Mr. Conner asked if the standard was $50,000 from a firm that had to be disclosed. Mr. Norton again agreed.

Mr. Davis asked how the rule would apply to an employee of a firm, as opposed to a partner. Mr. Sunderland said the three percent rule would apply.

Mr. Carter asked if a Director made public statements discrediting the Authority would be violating the proposed ethics code. Mr. Norton said it would not; Mr. Carter asked why not. Mr. Norton said that such speech alone would not constitute an ethical violation; it may, however, be part of an appearance problem, depending on the nature of the statement.

Mr. Sunderland said the issue had come up often. But a point of view brought to a board discussion does not constitute a conflict unless it was grounded in a financial interest. An appearance could arise because, for example, a firm owned by a cousin of a Director was up for board action. There would be a perception of bias, even if none existed.

Mr. Session said there were often agreements about non-disparagement of a firm one has just left. Referring to Mr. Sunderland's triangle, he said that a Director criticizing the Board went right to the top, to the public trust in the Authority. It undermined the moral authority of the organization. Could the ethics policy be enlarged to include a non-disparagement provision? Mr. Sunderland pointed to language in the preamble of the proposed code to the effect that Directors not "bring discredit upon the Authority." It was not a conflict, but a notion that everyone was pulling together.

Ms. Hall asked how the code would characterize the unauthorized release by a Director of confidential information, even though it would not be a conflict. Mr. Norton said that would in fact be a violation of the "use of authority position" if it should be used for private advantage. Mr. Session said the release of confidential information could go to the disparagement of the Authority, undermining its moral integrity. The Authority's ability to govern was undermined if confidential information could not be kept confidential. Mr. Sunderland said he would work on the issue.

Mr. Conner said the problem went to whistle-blowing. Directors had a fiduciary duty to raise issues, either in public or in private. If in public, it could not employ confidential information. But a release of information provision should be carefully drafted; it could go too far.

Mr. Brown said he agreed with Mr. Conner, though they would probably disagree on who the whistle-blower might be.

Mr. Crawford said that as he read the policy, nearly every Director would be in violation of it. He said that he had represented one of the neediest wards in the District of Columbia, and admitted that he had made numerous recommendations for employment, chiefly for summer jobs that paid $8 an hour. He would be leaving the Board soon, but was still concerned that the policy was pushing the members into a corner. He also said he had asked for contributions for political purposes from other Directors and for charitable purposes. He thought much of the policy was an overreaction. He was speaking for the benefit of those who would remain on the Board. All he did by way of referring people was to introduce them and leave the room. The District was underrepresented on the staff.

Reacting to the disclosure of confidential information discussion, Ms. Hall said whatever the issue may be and whatever the opinion may be, it should first be brought to the table, not to the outside world.

Mr. Davis said he noticed that employees could not recommend friends, and asked whether that rule applied to Directors as well. As a Director, many approached him about employment at the Authority. He simply referred them to the CEO. People asked for recommendations all the time; did the rules mean that a Director could not be used as a reference? He understood relatives, but "friends" was a broad category. Directors were not in the hiring chain of command.

Mr. Sunderland said the rules were strict with respect to relatives; a Director could do nothing to influence a decision. As to others, a Director should not use his or her position to favor any person. In general, a Director should not call a contractor and ask that firm to hire a person. Mr. Davis suggested Directors should be able to recommend talent to the Authority.

Mr. Davis noted that the unauthorized use of confidential information provision went to private gain. It should not be used to police speech; a Director in the minority should always be allowed to speak out.

Mr. O'Reilly said he agreed with Mr. Davis on the disparagement provision, but framed it differently. He wanted the code to preserve his right to criticize any and all of his fellow Directors. He then asked about the sanctions for violation of the codes; he thought that more than one of the proposed sanctions could be used in a given case.

Mr. Session said the code felt somewhat like a strait-jacket. In any given situation in this town, a Director would know someone who knew someone who knew a contractor. Some balance needed to be struck. Washington was a town built on relationships.

Mr. Sunderland said he would consider the points, but asked the Directors to focus on the idea that they should not "unlevel" the playing field in the employment area. There needed to be a degree of "hands-offness," to avoid favoritism.

Ms. Hall said her experience had been with a firm where the summer program was considered a benefit for employees. She knew the code was based on a federal model; she was speaking of a private model. Mr. Sunderland agreed, but noted that the movement was to a level playing field for summer employment, without allowing employee connection tipping the balance.

Mr. Potter said the summer program was now relying on designated high schools to provide candidates. This approach got past personal relationships, and would make sure the program served disadvantaged candidates. Mr. Sunderland said this program was based on a policy of the Authority, not on one-on-one relationships.

Mr. Curto asked if under the proposed policy the Board could as a matter of policy open up the summer program to employee references, as Ms. Hall had experienced elsewhere. Mr. Sunderland said there was no preclusion on the employment side, no bar on hiring an employee's relatives.

Mr. Carter said he had a copy of notes made by Board Counsel, and asked Mr. Wolfe to comment. Mr. Wolfe said he did not think that would be helpful; he had prepared a summary of the changes to the policy, with some comments. Mr. Brown asked if Mr. Wolfe's comments had been incorporated; Mr. Wolfe said that they had been. Mr. Carter asked him to read a concluding paragraph. Mr. Wolfe said the paragraph made the point that if one looked at public agency codes, they read somewhat like criminal code, and that the proposed code included an enforcement procedure. He did not believe that this was inappropriate, but it was the direction the code was going in. In a private sector code of ethics, or in the original Authority code, the obligation to comply was put on the Directors to behave honorably, not with a lot of details about how much a gift was worth, or whether it came from here, there, or somewhere else. What the paragraph did not say, however, was that in looking through the proposed policy, which he called a very sound document, there were many new points in the policy that had in effect been violated by Directors in the past. Mr. Carter asked if he had been working with the drafters; Mr. Wolfe said he had.

Mr. Session said he hoped all the Member's comments would be considered. Mr. Brown said the ethics code was a remarkable exercise in self-flagellation. The Authority had been criticized for many things that the Board had nothing to do with. For example, the abuse of the summer program was abused by the staff as much as, if not more, than by the Directors. He believed a stronger code was appropriate, but agreed that the proposed code did have a punitive tone, suggesting that anyone who would serve on this Board was not a worthy human being and should be watched with a skeptical eye.

Mr. Brown objected to the selection of the ethics officer by the President. He thought it a big mistake. He asked Mr. Wolfe if he had been the ethics officer when he served as the Secretary; Mr. Wolfe said he had held the position *de facto*, as the code had designated the Secretary for advisory services and record keeping. He pointed out that many of the functions of the ethics officer in the proposed code had been performed, and still were, by the Board Office. Mr. Brown said he objected to an ethics officer appointed outside the Board; the code should designate the Secretary. Mr. Davis said he believed the ethics officer should not be on the Board payroll; an outsider strengthened the process.

Mr. Brown asked about the employee policy; Mr. Sunderland said it was the next item on the agenda. Mr. Brown said the Board had historically delegated enormous power to the President and staff; the potential for abuses was far greater among the staff. He did not suggest any had occurred among the staff, or was likely to occur. He did not think they had occurred in the Board either, but draconian policies were being proposed for the Board. The press had ignored that the many contracting errors the Inspector General report had found been made at the staff level, where almost all contracting decisions had been delegated. He wondered if the Board's ethics policy should apply to the President as well, with the separate code for the people that report to him.

Mr. Curto said Mr. Potter would not object to being covered by the Board ethics code. He was already subject to the employee code. Mr. Sunderland pointed out that one of the criticisms had been that the employee and Board codes were not in sync. They would be brought closer together.

Mr. Brown noted there was nothing about airline clubs; he assumed it didn't come up often. Mr. Sunderland said it was covered as a gift. It would be acceptable if offered to all employees. Mr. Brown said it should be prohibited to all if it comes from an airline.

Mr. Brown said he thought the senior staff should have the same restrictions on nepotism as the Board. Mr. Curto said that was a valid concern.

Mr. Curto then said the current draft was a working draft; many elements were being considered. There would be additional drafts before the next meeting.

The meeting was thereupon adjourned at 1:00 p.m.

SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF JULY 18, 2012

Mr. Conner chaired the July 18, 2012 Finance Committee Meeting, calling it to order at 12:40 p.m. A quorum of the Committee attended: Mr. Brown, Mr. Carter, Mr. Conner, Ms. Hall, Mr. Session, Mr. Stottlemyer and Mr. Curto, *ex officio*. Mr. Cobey was also present

June 2012 Financial Report – Aviation Enterprise

Andy Rountree, Vice President and Chief Financial Officer, reported that year-to-date revenues had been $317 million, up 4.1 percent over the same period in 2011, and, as usual, had been driven primarily by increases in rates and charges. The amount had constituted 48.6 percent of the budgeted level, halfway through the year.

Year-to-date expenses had been $274.6 million, a decrease of 3 percent, at 45.4 percent of budget. Operating income to date had been $42.3 million; in 2011 it had been $21.3 million. Coverage was up to 1.33x, a bit better than the 1.31forecast, and unrestricted cash on hand had declined slightly to 427 days.

Financial Advisors Report – Aviation Enterprise

Guy Nagahama of Jefferies said that he had previously reported on the Moody's review of 17 global banks and securities firms. On June 21, Moody's had completed its review and downgraded 15 banks. As it related to the Airports Authority, two letter-of-credit banks, three swap counterparties and an index floater counterparty had been downgraded. It did not appear there would be any additional cost to the Authority.

The next steps would be to look toward the upcoming new money issuance and potential bank refinancings. The staff hoped to be issuing a bank solicitation by the end of the week. Responses would be due in mid-August, with recommendations to the Committee in September. The financing documents would be on the agenda for approval in October, with execution by the end of that month.

Financial Advisors Report – Dulles Corridor Enterprise

Mike Wheet of Frasca & Associates, LLC reported that two actions would be taken to implement the Plan of Finance. First, a Request for Proposals would be issued to the bankers in the pool of potential senior managers for the Toll Road financings to execute a securitization of the Federal Transit Administration Full Funding Grant Agreement. Payments from that grant would be made in 2013 through 2015; the securitization would make them available currently. The second would be a drawdown from the $300 million in commercial paper approved last year. The funds from these transactions would finance construction costs on the Toll Road.

Mr. Brown asked why it was necessary to advance the grant funds. Mr. Wheet said the action would be opportunistic, because rates were currently very low. The cash funding requirements did not match the total available from the two transactions; it was just a good opportunity to take out cash and bank it. Mr. Rountree said the transactions would save financing costs, as the proceeds would not come from long-term debt but from short-term debt backed by grants. Mr. Brown observed that the transactions looked like a lot of work for an already busy staff. Bryan Grote of Mercator Advisors, LLC said they were light and easy alternatives.

Mr. Grote reported that staff had negotiated an agreement with the Commonwealth on the $150 million grant, and that a grant agreement would be completed in a month or two. He also reported that recent federal legislation had included a dramatic increase in Transportation Infrastructure Finance and Innovation Act (TIFIA) availability, effective October 1. He expected the Department of Transportation would be issuing guidance on the program; the new legislation had also taken away the discretionary criteria, mandating a rolling first-come, first-served award process. $750 million in new TIFIA authority would be available; applying the usual 10-1 loan to funding ratio, that would amount to $7.5 billion. An additional $1 billion would be available in Federal Fiscal Year 2014 for $10 billion in loans. Under the new procedures, project readiness was key, and the Authority was well positioned in that regard.

Mr. Session asked for an explanation of the application process. Mr. Grote said a letter of interest was still required, to be followed by an application. But the application would now be focused on creditworthiness and technical eligibility, not the policy elements that had been used in the past. The new rules included a 60-day deadline for the Department to respond. The goal was to make the process more transparent.

Mr. Brown asked what the Authority's maximum TIFIA eligibility would be under the new program based on program size. Mr. Grote said the contribution rate had changed from 33 to 49 percent. He noted that the

Authority had argued that the rail project consisted of two parts for grants, but one for a TIFIA application. The Department had not yet accepted the single project argument, so its limit for Phase 2 would be about $1.5 billion. Mr. Brown said the rail project was generally considered a single project, and that the Authority should press the argument. If that agreement was successful, the TIFIA contribution would be $2.5 to $3 billion, covering all the remaining borrowing on the project. Savings would be substantial, with TIFIA at about 3 percent and the normal BBB bonds at about 8 percent.

The meeting was thereupon adjourned at 12:55 p.m.

SUMMARY MINUTES
JOINT FINANCE AND DULLES CORRIDOR COMMITTEES
MEETING OF JULY 18, 2012

Mr. Conner chaired the July 18 Joint Meeting of the Finance and Dulles Corridor Committees, calling it to order at 12:00 p.m. He said the purpose of the meeting was to begin the formal process of seeking public comment on Toll Road rate increases for 2013 and 2014, and perhaps 2015 as well. He said this was the second time the Board had needed to set tolls, and would be repeated many times in the future. Before the tolls had been raised in 2009 for 2010 through 2012, the tolls had not increased for 25 years. The primary reason for toll increases in 2013 and 2014 was to meet Phase 1 costs [debt service].

There had been justifiable public focus on the toll rates. Early in the Authority's administration of the Toll Road, when the Authority was dealing with rating agencies and investors, a debt service capacity plan had been developed to show what revenues the Road was capable of generating under certain assumptions. It showed two things that were probably not interpreted accurately. First, increasing toll rates throughout the life of the project would take tolls to significant levels, but it's likely that tolls will not have to increase as significant as shown in the plan which is conservative by its nature; two, the plan showed substantial reserves, particularly beginning in 2025. The indenture would require more revenue than required for debt service, up to approximately 133 percent. The static model was not fully understood; commenters suggested the reserves be reinvested. But the reserves would actually never exist; they would be used for various expenses, such as building capital improvements on the Toll Road, stabilizing rates, and possibly buying back debt.

There were many uncertainties ahead. Mr. Conner said that had led him to concentrate on 2013 and 2014, even though there would be rating agency benefits to addressing 2015 as well. Uncertainties included further government funding, Transportation Infrastructure Finance and Innovation Act (TIFIA) or grants; financing costs; interest rates; types of securities issued; construction costs; and the traffic and revenue study.

He agreed with Mr. Stottlemyer that the Toll Road should convert to total electronic tolling as soon as possible. It would improve the ride, and help improve on the traffic and revenue study projections.

Finally, the Authority should be working on the capital improvements that would be made over the next five years. They would have a major impact on determining the needed Toll Road reserves.

Proposed Amendments to the Regulation Establishing Toll Rates for the Dulles Toll Road. Andy Rountree, Vice President and Chief Financial Officer, presented a course of action for the toll setting. He said the staff was asking the joint Committees to authorize the publication of proposed amendments to the Authority regulations setting the toll rates. They also sought concurrence in public hearings in the Dulles Corridor to provide comments on the proposals. A meeting of the Dulles Corridor Advisory Committee would also be convened. He was, however, not yet asking the Committee to set toll rates. That would occur after the public sessions in October.

Toll rate adjustments had been developed for the next three years, at the most. The Board would have the option of setting rates for two or three years. The specific proposal for public discussion was as follows.

Effective January 1, 2013, there would be 25¢ increases at the main toll plaza and at the ramps, bringing the cost of a total trip from $2.25 to $2.75. A year later, there were still two options of where to add 75¢, either all at the main plaza or to split the increase between plaza and ramps. In any event, the total trip cost for most users would be $3.50. For 2015, the proposal would be to add $1.00 to the total trip cost for a total of $4.50, with an optional split between the plaza and ramps.

Mr. Rountree noted that the printed table included multiple rates for larger vehicles, mainly different classes of trucks. These would be increased by the same amounts as the 2-axle class. Mr. Stottlemyer asked if the differential for truck rates was similar to those on other toll roads. He noted that the most wear and tear on a highway came from the trucks. Mr. Rountree said that the Authority's large vehicle rates were on the low side, but those vehicles were a small percentage of the Toll Road traffic. Mr. Stottlemyer suggested that the staff consider increasing the large vehicle rates, if only to make them fairer. Mr. Potter said that to consider such an adjustment, it would have to be added as an alternative to the current proposal. Mr. Davis agreed, suggesting that the proposal should show the highest options under consideration. It would be much easier to adopt a final rule with rates lower than those in the proposal.

Mr. Rountree said the next step would be the collection of comments. There would be at least three public meetings in the corridor. There would also be virtual public meetings on www.mwaa.com, where the information would be posted and the public could comment. The comment period would run for 30 days; staff would submit a report in October for the Committee to make a recommendation to the Board, which would take final action in November. The proposed rates would be taken to the Dulles Corridor Advisory Committee to seek advice in advance of a final Board vote, and new rates would take effect in January 2013.

Jim Taylor of Mercator Advisors, LLC said the Board had been talking about toll rates since February, and many questions had arisen in those discussions. Mr. Taylor was prepared to respond to those questions, but noted time constraints would limit his responses, and urged any Director interested to schedule an informal session for further discussion with him through Mr. Rountree.

Mr. Taylor first addressed the traffic and revenue impact of the near-term toll policy options. There had been three alternatives. First, the "Base Case" would have set a trip cost of $4.50 for 2013-2015. Scenario 1 was the current proposal, as discussed above, with trip costs of $2.75 for 2013, $3.50 for 2014 and $4.50 for 2015. Scenario 2 would set a trip cost of $3.50 for all three years.

The Base Case would have covered situations where Virginia did not contribute $150 million, or where Phase 2 costs came in much higher than expected. Scenario 1, the current proposal, minimized diversion of traffic in the near term and produced sufficient revenue to take advantage of the current low rates. The $150 million from Virginia was spread out over several years to maximize the savings it offered. The gross debt service reduction from the Virginia grant would total about $500 million. That happened because there would otherwise have been a premium cost to the capital appreciation bonds. Virginia and its financial advisors had agreed that the best use of the $150 million was to apply it to debt service during construction.

There were some questions about why toll rates needed to increase over the years, rather than remaining the same, similar to a mortgage. Setting level rates was not an appropriate way to fund a toll road; what was being provided was time savings. Time savings currently would not be worth the same as they would be 20 years in the future. There was also a policy issue; if $3 billion in debt was being applied to the road, it would not be appropriate to apply the full load to the current users. Costs would be allocated over time. A table in the Committee papers illustrated how the debt service would be paid.

Mr. Session asked about the public process on the proposed toll regulation. What would happen if there were overwhelming objections? How were the comments factored into the decision-making process? Mr. Rountree said it would not be easy. There was a debt that had to be paid. Nevertheless, the public might have some ideas that would make sense. Or, for example, the public might prefer one measure that was of no consequence to the Authority, so that it could easily be adopted. In the end, the Board had a fiduciary responsibility to pay the debt service.

Mr. Carter said he understood the Authority had absolute authority to set the rates. Mr. Rountree said that was the case.

Mr. Brown asked what the original 2010-2012 increases had been; Mr. Taylor said the increases had all been 25¢. In the first year, both the plaza and ramps had been increased; thereafter only the plaza rates. Mr. Brown said he supported the three-year option; past experience had shown the long-term approach helpful. He was mindful of the uncertainty Mr. Conner had mentioned with respect to 2015, but suggested the developments of further grants or TIFIA loans would allow the 2015 toll to be reduced, to everyone's political advantage. Mr. Brown then suggested that the proposed adjustments be smoothed out, for example, to 50¢ per year at both plaza and ramp. Mr. Potter said the Commonwealth had participated in the structure of the current proposal because of its $150 million contribution. Mr. Brown said his proposal got to the same place; it simply took advantage of the general recognition that tolls would be going up to start with a larger increase than the proposed Scenario 1.

Mr. Stottlemyer again urged that the truck rates be increased. He noted that the New Jersey Turnpike had a 6-axle rate that was 400 percent of the 2-axle rate, while the differential was just 57 percent on the Toll Road. Second, he noted customers disliked toll roads for two reasons: they don't like to pay, and secondly they don't like to pay and then not move. This was a problem on the Toll Road where there weren't enough toll electronic lanes. Third was the issue of who pays and why. The Access Highway traffic to the Airport should contribute to the tolls. Fourth, there would be questions asked about why the transit users would not be contributing as well. Finally, he said it would be easiest to raise tolls after the rail was operating.

Mr. Brown said that there had been a general understanding that tolls should be raised in 25¢ increments. If all tolls were electronically collected, the amounts need not be so limited. Electronic tolls would also allow differential peak hour charges.

Mr. Davis moved that the staff be authorized to proceed with the public process as outlined in the supporting papers and staff presentation. The Committee unanimously agreed.

The meeting was thereupon adjourned at 12:35 p.m.

SUMMARY MINUTES
STRATEGIC PLANNING AND DEVELOPMENT COMMITTEE
MEETING OF SEPTEMBER 5, 2012

Mr. Crawford chaired the third quarter meeting of the Strategic Planning and Development Committee Meeting on September 5, 2012, calling it to order at 8:00 a.m. The entire Committee was present: Mr. Crawford, Mr. Carter, Mr. Cobey, Mr. Davis, Mr. O'Reilly and Mr. Curto, *ex officio.*

Mr. Crawford began by acknowledging that Frank Holly, Vice President for Engineering, had recently suffered a death in his family, and said he hoped Mr. Holly's participation in the meeting could be limited.

When Mr. Curto had been elected Chairman, Mr. Crawford said he had advised him that he would not be attending too many meetings. He explained he would chair one committee, Strategic Planning and Development, which met quarterly, and would often participate in Board and other committee meetings by telephone. He had done so. In addition, he would not attend as frequently as before.

Mr. Crawford said that when he had joined the Board, he had been a "pre-senior citizen". Now he was a senior citizen and felt it. It had been an enjoyable experience to attend meetings, but now the feeling was not there. He did not have it in his "gut". The Authority had some of the most outstanding employees. He had worked with some of the most honorable people, former elected officials, and very successful citizens. There were times when there were differences, but they were nothing like the current ones. The Directors had learned some lessons over the last three years, and there were a number of things they would never do again. A Presidentially-appointed Member should never be elected Chairman; the Chairman should always be a local Member. The local Members had to live with the citizens they represent.

He said the Authority's principal mission was to run the Airports. At the committee meeting today, the Directors would spend about an hour or so doing what they were appointed to do: operate the Airports for the flying public. In the past few months, the Board had spent 90 to 95 of its time doing something else.

In three months, Mr. Crawford said, he would be gone. About the same time, Mr. Cobey would also leave, unless reappointed. Mr. Snelling was gone. Ms. Reiley was gone. He did not understand all the current contention; the Board was practically new. The unfortunate press coverage was now addressing matters he and other Directors had no part in. It was hard to explain to friends and constituents what was wrong when the accusations had nothing to do with the Board Members. He had told the Mayor that he knew nothing about the matters reported in the *Washington Post.* He did participate by telephone, and had heard some awful things. They simply must stop. He had served with many accomplished people on the Board. He remembered only one Member who was very angry; he did not understand what the problem was, and the Directors had ignored him.

He repeated that he would be gone soon, along with others as soon as the District compact legislation was amended. He wished all well. The Authority was a fine institution. He asked that the Board note an August 31 *Wall Street Journal* article about several airports that were experimenting with different methods of comforting the public. He had flown out of Reagan National several times and it had been truly discouraging, not what one would expect of a world-class airport. Dulles International was fine. There was, however, a lot of work to do for the other Airport serving the Nation's Capital. He hoped the staff and the new concession developer would work closely together in improving the situation at Reagan National.

He encouraged the Directors to look at LaGuardia and Phoenix Airports, as well as others that were experimenting. Reagan National should be comparable to or better than the other airports. He hoped the management issues on the Toll Road could be wrapped up soon, so that the Authority could focus again on the Airports.

Mr. Crawford then called on Mr. Holly.

1. Revised Management Structure for the Aviation Capital Construction Program

Mr. Holly said that he appreciated the condolences he had received over the past few days, and that he would continue to get the work done.

His purpose was to inform the Committee of the changes made, after careful planning, over the past three years to the capital construction program management structure. The new format would allow the staff to be more efficient and get the work done. The purpose was to reduce costs and the overall need for consultant support.

He explained the program through several slides. The program management support services consultant team had been large in the past, brought on to support the limited engineering staff. The consultant team had overseen the work throughout the capital program.

Mr. Holly said the program support had always been adjusted to the amount of work, to make sure there was no overspending. The staff had always worked within the budget; the consultant reported to the staff. The workload had varied, peaking in 2007, when over $600 million in construction work had been under way. In 2007, $56 million had been spent under the program management contract for consultants. There had been 25 active construction projects, which had required inspectors, resident engineers, safety engineers, and a lot of other program support. From that high level, management had started reducing contract support to keep costs commensurate with amount of work being done. The cost level in 2012 was down to $17 million; before long it would be down to around $10 to $12 million.

The contract, currently held by Parsons Management Consultants ("PMC"), called for the engineering staff to prescribe the level of support in accord with workload. The next slide showed the planned shift of responsibilities to the engineering staff. The 2011 Budget had allowed for five new positions, covering project controls, safety and quality assurance. He had already reduced workload of PMC considerably; the work had been brought in house. He was now turning to filling in the new positions for 2013, when the Authority would assume responsibility for essential oversight. The main work required from the consultant would be for design and construction support; the other functions would then be taken over by the staff.

The organization would be streamlined, to be implemented before the start of 2013. The PMC contract would be extended for another year in January 2013 to get everyone in place, and the new personnel oriented. Through the year, the PMC contract would be drawn down to the $10-$12 million level. Only huge new projects that would be too much for the size of the expanded staff would result in a requirement for more contract assistance. The planned approach was good, would be implemented, and would reduce the cost of capital projects.

Mr. Crawford asked whether the staff was being restructured; Mr. Holly said it was not; the plan was to add staff to take on the additional responsibilities. The PMC contract was task-based, and the level of effort was being reduced.

Mr. Session asked how the new staff would be recruited. Mr. Holly said he would work with Human Resources; the positions would be advertised publicly, and open to any candidates. They would be interviewed. Mr. Session asked about the necessary skill sets. Mr. Holly said that he was mainly looking for general engineers, but with certain skill sets, such as safety oversight, or experience with large programs. Scheduling and estimating were important, with a broad range of experience, not necessarily with great depth. Candidates would have to understand the scope of the project fully, have some experience in the types of work the Authority did, but not necessarily on airport jobs.

Mr. Carter asked if Mr. Holly was comfortable that the five employees would be enough for the tasks they were taking on. Mr. Holly said he was; the work had been thoroughly thought out over several years, the staff was fully on board, and the CEO had been fully briefed. The issue would be the quality of the people hired; there was quite enough time for the transition. The only qualification would arise if there were more $500 million projects. If the PMC contract was rebid after 2013, it would include a requirement that the services provided could be expanded or contracted easily.

Mr. Stottlemyer asked about certification of project managers, specifically if the Authority used any such standards in hiring. Mr. Holly said there were several organizations that gave such certifications; they would be a plus for a candidate, would be given weight, but would not be determinative. Mr. Carter asked if the new positions were included in the approved Budget; Mr. Holly said they were. He would be requesting they be funded in 2013. Mr. Carter asked if reductions in the contract costs would cover the costs of the new staff. Mr. Holly said staff could do the job less expensively, and the overall cost would be reduced.

2. Reagan National Update

Mr. Potter reported on the recent external events affecting Reagan National, specifically the recent US Airways – Delta slot swap and the ensuing auction of eight slot pairs to JetBlue, plus the Federal Aviation Administration (FAA) Reauthorization legislation that had created eight slots beyond the 1250-mile nonstop perimeter, four converted from existing inside-the-perimeter slots and four additional new slot pairs. All of this was affecting the Airport and the passenger experience.

Mr. Potter said it was in part a good story in a weak economy, with more seats leaving the Airport, and more passengers. More passenger transfers and increased screening requirements, however, were problematic in the short run.

First, with respect to the industry in general, Mr. Potter noted that there were continuing mergers. The Continental – United merger had affected the Airport already. The Air Tran – Southwest merger had brought Southwest to Reagan National. The Northwest – Delta merger had led to the slot swap. Currently American and US Airways were cooperating, and considering a merger. That merger would also be important to Reagan National. Finally, he noted that low cost carriers were continuing to grow.

In general, the industry was focused on profits. There had therefore been little growth in the numbers of flights, and seat capacity at most airports had been flat. The airline goal was to fill as many seats as possible. The August 2012 OAG report showed that the number of seats being flown in the United States was the lowest in the past ten years. Growth was therefore stagnant.

Reagan National looked good against this backdrop; with four percent growth, it was bucking the national trend. But the story at Dulles International would be different; it would be presented at the next Strategic Planning and Development Committee meeting.

The decrease in seat capacity was driving fares up, and formerly free ancillary services, such as baggage, were increasingly charged to the passengers. The decrease in the domestic capacity was allowing the carriers to shift aircraft to the more lucrative international routes, which did tend to help Dulles International.

Passenger Facility Charges (PFCs), a major help for capital projects, were staying at $4.50, despite requests for an increase from all major airports. At a minimum, airport grant funding would be stagnant, which meant it was at least not likely to be reduced. Airport costs were nevertheless rising; the Authority would have to keep the costs per enplaned passenger down.

Dulles International was experiencing strong international growth, as were other international airports, but it was also beginning to lose some domestic services. The reduction appeared to be caused in part by Reagan National growth. The passenger counts at Reagan National were at a record level, largely a result of the slot increases and ownership changes; if the Authority only operated one airport, the problems would all be positive. The Authority would have to spend money to deal with the growth.

Mark Treadaway, Vice President for Air Service Planning and Development, speaking from an air service development perspective, said that Reagan National was one of the strongest airports in the United States, for several reasons. Geography was important; its location could not be more convenient for serving the metropolitan area. It was close to the city center, close to where people both work and live. It was also close to the must-see tourist destinations. With a horizontal alignment and many entrances, the terminal was easy to access. It was connected to the Metrorail station, which had the highest ridership of any airport transit station. Of departing passengers, 19.5 percent used the Metro; 26.7 percent of arriving passengers used it as well. Parking was also convenient.

Mr. Brown observed that the Authority had in the past used 16 or 17 percent for transit ridership, and asked if it had changed. Mr. Treadaway said transit use had been rising, especially on the deplaning side.

Mr. Treadaway continued, pointing out that Reagan National was a high-demand airport, given its limited capacity. Whenever slots became available, they were oversubscribed. The federal slot system kept Reagan National a very successful airport.

Costs paid a role in Reagan National's growth; costs per enplanement were at an average $12.74, a very positive number. Dulles International was at $24.80. The cost structure allowed low-cost carriers – Southwest, JetBlue, Frontier and Virgin America – to grow at Reagan National.

In the recent slot transactions, US Airways had purchased 42 slot pairs from Delta, increasing its presence at Reagan National and allowing it "to hub," flowing passengers through the Airport, which raised different facility issues.

In the transaction, Delta dropped service in 17 different markets and US Airways picked up 11 new markets and added service in 6 existing markets. As part of the transaction, Delta was required to carve out eight slot pairs, which were auctioned. JetBlue submitted the highest bid, $40 million, in June, which allowed them to start service.

Mr. Brown asked if Delta had paid for the slots that were auctioned. Mr. Treadaway said they had been provided decades ago to Delta by the federal government.

Mr. Crawford related a story about a recent flight he had taken from Reagan National, where an attendant had struggled for 20 minutes to connect a jet bridge to the aircraft. He asked who was responsible. Mr. Potter said the operator was an airline employee. With the changes, there were many new airline employees, many still in a learning mode.

Mr. Treadaway said the FAA reauthorization act had changed the texture of air service at Reagan National. Eight pairs of slots had been provided for beyond-perimeter flights. Four were converted from existing within-perimeter slots; four were new. Incumbents with a limited number of flights at the Airport and new entrants were eligible for the new slots. One pair had gone to Alaska Airlines, one to Southwest, one to JetBlue and one to Virgin America. Beyond-perimeter flights required longer-range aircraft, which also were larger, increasing the number of available seats.

Mr. Treadaway summarized the air service trends: there would be more commercial flights, with larger aircraft and more seats. Beyond-perimeter flights would mean more baggage and longer stays, with longer times in the parking lots. High load factors would continue. There would also be more aircraft "turns" on individual gates. In addition, the merged airlines were much larger.

Margaret McKeough said the discussion would shift to the impact on operations and facilities. Change was not unusual, but the changes at Reagan National, a constrained airport, were rapid and unprecedented. The main terminal had opened in 1997 and was now 15 years old. It had shown considerable flexibility in adjusting to airline change. The type of change happening now was challenging the facility.

She reminded the Board that from the beginning there had been plans for expanding Terminal A, but that the time had never been right. Currently the increase in activity levels was leading to a reconsideration of doing so. The short-term result was passenger inconvenience in the terminals. She noted that the 2012 Budget had included funds for projects to deal with the changes, as they were originally forecast. It now appeared more significant projects would be required; they would show up in the 2013 Budget.

Paul Malandrino, Vice President and Reagan National Airport Manager, said he would review the impacts of the changes, beginning with parking. In 2012, the economy lot had already filled up 61 days, twice the rate of 2011. In the summer, the B-C daily garage had closed twice, using up all the 1410 spaces added in 2010. There were some short-term solutions. A new parking revenue control system had gone into operation the past weekend; it included electronic signs indicating when floors of the garages were full, as well as a more convenient payment system. For the long term, more parking would have to be constructed.

Within the terminals, US Airways had grown into a significant hub for its mid-Atlantic operation, growing from 177 to 219 daily departures. Additional aircraft parking spaces were needed for commuter aircraft, and there were also increased passenger movements between US Airways gates on the North and Center Piers.

US Airways commuter operations had increased from 78 to 107 daily. This meant there were multiple flights in short time periods. The commuter aircraft needed 14 instead of 12 positions, which had meant some planes had to park on asphalt. In the summer heat, aircraft wheels had sunk into the pavement. The staff had resolved this problem by laying steel plates over the asphalt. The US Airways' hold room for all its commuter flights at Gate 35A had quickly become overcrowded. To solve this problem, the holdroom had been expanded by 55 percent.

US Airways currently operated seven gates on the Center Pier and 11 gates on the North Pier, including Gate 35A. With the enhanced hub, passenger traffic between the piers had increased 50 percent between 7 and 10 a.m. and 1:30-3:30 p.m. Passengers currently had the choice of riding a US Airways commuter bus on the airfield or exiting the pier they had arrived on and going through security to get to the other pier, further burdening the screening system.

The short-term solution was greater customer awareness of the bus and better access for the disabled. US Airways was also increasing the frequency of the shuttle buses and maximizing gate assignments.

In the South Pier traffic was up substantially, with larger aircraft. Both United and Delta operated in tight windows. Passenger screening lines' wait times were increasing. The airlines had available 1,236 departing seats from 6:00 a.m. to 6:59 a.m., substantially in excess of the screening capacity of 900 passengers per hour. Flights beyond the perimeter and checked baggage fees had also led to more carry-on luggage, which in turn, further slowed screening. A single screening lane had been reserved for pre-check, but only 8 percent of passengers were able to use it. The special lane therefore amounted to a loss of a full screening lane.

In the short term, the Delta counter had been relocated to allow more space for screening and a larger, improved exit from the pier. The Authority and the airlines could both encourage greater use of the pre-check screening. The Transportation Security Administration (TSA) had already agreed to allow crew members to use the pre-check lane.

Six carriers, including low-cost carriers JetBlue and Southwest, operated in Terminal A. This Terminal now faced larger aircraft, higher load factors and more baggage. The nine gates were limited; the jet bridges on them and the ramp areas were built long ago for narrow-body aircraft. The jet bridges were museum pieces; they only moved up and down. Ticket counters and screening lanes were inadequate, and the baggage capacity was exceeded outbound and inbound. Appearance and functionality would be upgraded.

A modern jet bridge had been added, brought from JFK. Now for the first time 737 aircraft could be used there. An expanded screening checkpoint was under design and would soon go under construction. A new outbound baggage facility was being built, which would allow for curbside check-in. The lobby would be fully upgraded.

Ms. McKeough said it was difficult to stay "ahead of the curve" with all the changes in the airport and in the airlines business models. The 2012 Budget contained $45 million for the short-term improvements Mr. Malandrino had described. But the situation was still evolving, with some of the new slots just being flown in August. Mr. Holly would address the needed long-term planning.

Mr. Holly emphasized that the current work effort was still studies. A few projects could be ready for 2013 funding. Most, however, were long-term solutions to the developing problems. None of the options he was describing was ready for approval yet.

In Terminal A, the plan was to assure the near-term solutions fit into a longer term solution. A design concept for a major new structure had been developed in some detail in 2000. Planning studies were addressing the best aspects of that proposal. The design would be a major improvement for passengers, but the main benefit would be the ability to use all nine gates independently. At present, it was not possible to use all gates at once.

In Terminal B-C, the plan was to construct a connector between the Center and North Piers. This would end the requirement to leave security and re-enter at the next pier. The options included an internal walking connector, an underground passageway, and a major structure that would support additional concession space as well.

For the commuter operations, the studies were addressing a substantially expanded Gate 35A hold room, with concession space. More parking positions for the commuter aircraft would also be provided.

Providing additional automobile parking would be difficult; it was not possible to expand the existing garages any further. One option under consideration was building a structure on the site of the existing economy lot on the south end of the Airport. It would be a good use of the land, and covered parking would be welcomed by the customers. Shuttle bus service to the terminals would be required.

Ms. McKeough said most of the projects Mr. Holly had discussed were not yet part of the capital plans for the Airport, nor were they contemplated in the Use and Lease Agreement with the airlines. To proceed with the projects, airline consultation would be necessary. The current use agreement would expire in 2014, unless terminated sooner. Thus the airline discussions were already under way.

David Mould, Vice President for Communications, reported that Congress had recently enacted the FAA reauthorization act, effective through 2015. It had effectively frozen airport funding for the next three years. Passenger Facility Charges remained at $4.50, where they had been for the past 12 years.

If the threatened sequestration were to occur, it could severely limit funding for both the FAA and the TSA. The expansion of services at Reagan National was dependent on the functions of those two agencies. Sequestration could also delay the implementation of NextGen, the next generation of air traffic control technology, which would help prevent future congestion problems, an important issue for the region.

The Government Accountability Office was finishing a study of the High Density Rule, which limited the number of flights at Reagan National. Staff had provided information, emphasizing the physical limitations of Reagan National and the potential harm to Dulles International, particularly from the exceptions to the perimeter rule at Reagan National if the rules were dropped.

There was likely to be continued Congressional interest in changing the rules at Reagan National to add more flights beyond the perimeter. In the last three reauthorization bills, the Congress had added or adjusted 40 slot pairs for 20 flights beyond the perimeter. Discussions on the 2015 reauthorization would begin well in advance of the current law's expiration date.

Mr. Crawford asked how long the facility planning studies would take. Mr. Potter said there were a number of studies, and that they would be worked on for about a year. The priority was resolving the transfer problem between the North and Center Piers. Mr. Crawford said he recalled an off-airport valet parking service and asked if one could be established again. Mr. Potter said he would look into it.

Ms. Hall said the session had been very informative. She asked if there was any means of monitoring airlines to assure they were operating the equipment they needed to carry out the schedules they advertised. On a regular basis, US Airways did not have an aircraft to take the waiting passengers. There were different explanations: a weather problem or a mechanical problem. Mr. Potter directed the question to Mike Monro of US Airways, who was seated in the audience. He offered to provide performance tables for Reagan National to support their on-time record. He added that airspace around Washington was limited, particularly during adverse weather conditions, and that when a flight had to be canceled, it was usually one flown with smaller aircraft.

Ms. Hall said the lower ceiling in Terminal A was a major cause of the congested feeling there, and asked if it could be lifted. Mr. Malandrino said the ceiling could not be raised, but it would be painted. New lights were being added, and skylights above the information desk would be uncovered. The plan was to make it as bright as possible.

Ms. Hall then asked if a parking structure could be built on the economy lot. Ms. McKeough said that was the only place to add parking and was being studied. The existing garages could not be expanded.

Mr. Stottlemyer asked if the Authority measured passenger satisfaction. Ms. McKeough said the Authority had done customer polling for many years, on a quarterly basis. He then asked if there was a way for the Authority to incentivize use of the pre-check security line. Ms. McKeough said the staff could work with TSA and Customs and Border Patrol, giving them a presence on site for easier enrollment. The problem was that not enough travelers were familiar with the program. Some promotion had already been done on the North Pier; it was being done currently on the South Pier and at Dulles International.

Mr. Stottlemyer said that many firms in the region were laying off employees and cutting back on travel. The federal government was also cutting back on travel. Regardless of who was elected in November, and regardless of the possibility of sequestration, the region was expecting further cutbacks in federal spending. Was there any concern about building more capacity and then facing a major drawback in business and federal travel? Mr. Potter said that the issue was an important one to monitor. About 20 percent of the passengers at Reagan National had a federal connection. It was hard to predict, however, whether airlines would change destinations and try to draw passengers from Dulles International and BWI. Reagan National had always been able to weather the storm of downturns in the economy. The Airport was strong, driven by the regulations.

Ms. McKeough said the projects that had just been discussed did not provide for significant growth; they were more an adjustment to the facilities to accommodate the services the airlines were now providing.

Mr. Session said he had used the BWI parking garages, where lights would direct cars to vacant parking spots. He asked if the Authority had considered installing the system, and if so, what the cost implications would be. Ms. McKeough said the management had looked at the system a number of times. It appeared to be a unique situation, where the vendor had given BWI very favorable terms. The system was very expensive and did not generate a return on investment. The new parking and revenue control system had included signs that state the number of available places on each level of the Reagan National garages.

Mr. Session then asked what the Authority could do to make up for the failure of the Congress to increase the PFC level over $4.50. Ms. McKeough said every airport operator had the same problem. The airport organizations were working on the issue to increase the levels.

Mr. Potter said the Authority did all it could to maximize non-aeronautical revenue sources. If the PFCs did not increase, the cost burden would fall on the airlines.

Mr. Brown said he was mystified what the airlines were doing, as they had always resisted PFCs in the Congress, even though the revenue shortfall would be shifted back to them. They even printed on the tickets that the PFCs were not part of the cost of the ticket.

He then said that Reagan National was one of the smallest major airports, and did not really have room to expand. The airside could not be expanded; the runways would always be the same for the next 50 years. He was concerned that the parking problem should be outsourced, rather than building a garage on the limited space of the airport reservation. There may be more pressing aviation needs for the small acreage that should be built on the Airport.

At other airports, substantial parking was provided by off-airport companies. He understood the need for developing revenues, but there might be better uses for little acreage left. He added that the traditional approach for high demand parking lots was to raise rates, and asked if that had been done. Mr. Potter said the rates had gone up that day. Mr. Brown said the impact of the rates would be interesting to follow. He also noted that the transit usage by airport customers was the highest in the nation. He said the Authority should look at a bigger transportation picture, rather than just adding parking.

Mr. Brown said he wondered about the new entrant airlines, such as Alaska, and asked how many flights that carrier operated at the Airport; Mr. Malandrino said two. Virgin America operated one, and JetBlue 19. Mr. Brown said most airlines were interested in concentration of their market shares. He did not understand why the smaller airlines were operating at Reagan National. Mr. Potter said he did not understand their motivation, but pointed out they would not be at Reagan National unless they were making money.

Mr. Brown then said it was a mistake to be allowing the Airport to become a hub. Reagan National should be an O&D airport, with the hub operations at Dulles International.

Mr. Potter agreed that the issue should be studied, which would be done as the new service patterns developed.

3. The Proposed Amended Cooperative Promotional Program

Mr. Treadaway said the Coop program had been very effective since 1992 in providing matching funding to carriers to promote new or expanded services. The amended program would increase domestic service funding at Dulles International and end the promotion at Reagan National. The Committee unanimously agreed to the changes.

4. Quarterly Air Service Development Report

Mr. Treadaway said the Air Service Development Report was included in the Board package and stood on its own. It contained much new information about the successes of the past few months. He asked the Committee to accept the report, which the Committee unanimously did.

The meeting was thereupon adjourned at 9:45 a.m.