FRASCA & ASSOCIATES, L.L.C.

MERCATOR ADVISORS LLC

**APRIL 2012**
# DULLES CORRIDOR ENTERPRISE
## REPORT OF THE FINANCIAL ADVISORS

The Airports Authority established the Dulles Corridor Enterprise Fund to segregate the financial activity associated with the operation, maintenance and improvement of the Dulles Toll Road and construction of the Dulles Corridor Metrorail Project (the Rail Project) from the financial operations of the Airports. This report provides an update on the status of capital financing activities and other issues related to the Enterprise Fund.

## Action Items

No Action Items to Report

## Informational Items

- ***Dulles Corridor Enterprise Underwriting Syndicate.*** On March 21, the Finance Committee selected eleven firms to serve in the underwriting syndicate for the Dulles Corridor Enterprise:
  - Bank of America/Merrill Lynch
  - BB&T Capital Markets
  - Fidelity Capital Markets
  - Goldman Sachs & Co.
  - Janney Montgomery Scott LLC
  - J.P. Morgan Securities LLC
  - Loop Capital Markets LLC
  - Morgan Stanley & Co. LLC
  - Piper Jaffray & Co.
  - RBC Capital Markets, LLC
  - Siebert Brandford and Shank

  A brief organizational meeting with representatives from each firm has been scheduled for April 18, following the Finance Committee meeting.

- ***Dulles Corridor Advisory Committee (DCAC) Meeting.*** The DCAC, which has eight members (two representatives each from the Airports Authority, Fairfax County, Loudoun County, and the Commonwealth of Virginia) met on March 29, 2012, at the Fairfax County Government Center. The primary purpose of the meeting was to hear status reports from Airports Authority staff on the construction of the Rail Project, the 2012 traffic and revenue study update, and Dulles Toll Road operations.

- ***Fairfax County Participation in Phase 2 of the Rail Project.*** On April 10, 2012, the Fairfax County Board of Supervisors confirmed the county's participation in Phase 2 of the Rail Project. Fairfax County will provide funding for 16.1 percent of the total cost of the Dulles Rail (Phase 1 and 2) and it has agreed to make its best efforts to secure approximately $235 million of funding for construction of the Route 28 Station and two parking garages.

Fairfax officials sought public input prior to making the decision. The Fairfax County Department of Transportation hosted four public meetings (March 12, 14, 15 and 19) and held an online discussion of the project cost estimates and financing plan. In addition, the Fairfax County Board of Supervisors held a public hearing on Phase 2 on March 20. Meeting transcripts and related information are available at:

http://www.fairfaxcounty.gov/fcdot/dullesmetro/

- ***Loudoun County Review of the Rail Project.*** At the request of the Loudoun County Board of Supervisors, the Local Funding Agreement between the Airports Authority and Fairfax and Loudoun Counties was amended to extend the 90-day review period established for Phase 2 by an additional 30 days. As a result, Loudoun County has until July 4, 2012, to review the costs estimates for Phase 2 and other project information and to determine whether it will reaffirm its participation in the Rail Project. To facilitate its deliberations, the Loudoun County Board of Supervisors has scheduled nine work sessions and public outreach meetings on the Rail Project over the next three months. The schedule and the topics for each session are available at:

  http://www.loudoun.gov/index.aspx?NID=2100#worksessions

## Relevant News Items

- ***Downtown Tunnel/Midtown Tunnel/ MLK Extension Project.*** Standard & Poor's (S&P) and Fitch Ratings (Fitch) have assigned preliminary credit ratings of 'BBB-' to approximately $675 million in tax-exempt private activity bonds (PABs) to be issued by the Virginia Small Business Financing Authority for the Downtown Tunnel/ Midtown Tunnel/MLK Extension Project. The PABs will be issued on behalf of Elizabeth River Crossings LLC (ERC), a joint venture of Skanska Infrastructure Development and Macquarie Group Limited. S&P and Fitch also assigned a preliminary 'BBB-' rating to a $422 million TIFIA loan that will be secured by a second lien on the net toll revenue generated by the project.

  Tolls will be imposed on two existing facilities (the Midtown and Downtown Tunnel), a new two-lane tunnel under the Elizabeth River parallel to the existing Midtown Tunnel, and an extension of the MLK Expressway to I-264. Net toll revenue collected during construction of the new improvements is expected to total $125 million. According to Fitch, the concession agreement with ERC was recently amended to give VDOT the right to delay toll implementation until substantial completion in response to objections from local elected officials. If VDOT were to exercise this right it would be required to compensate ERC for lost revenues.

- ***Maryland Transportation Authority All-Electronic Tolling (AET) Conversion and Prioritization Study.*** In early 2011, the Maryland Transportation Authority (MdTA) initiated a feasibility study of a potential transition to All Electronic Tolling (AET) at seven toll plazas - two tunnels, four bridges and the John F. Kennedy Memorial Highway (I-95). With AET, cash toll collection is eliminated and toll collection is entirely comprised of electronic methods, such as E-ZPass® and video tolling.

  MdTA has already implemented AET on the Intercounty Connector (ICC)/MD 200 and will use AET for the I-95 Express Toll Lanes, 8-mile segment of the interstate north of Baltimore that is scheduled to open in 2014. MdTA cited several reasons for considering a transition to AET at the other toll plazas, including reduced travel times for customers, increased safety, a potential reduction in long term toll collection and maintenance costs, and the ability to implement variable tolling.

The first phase of the MdTA study focused on the operational, cost, and revenue impacts of converting from a toll barrier system to an AET system. In a recent status report to the MdTA Capital Committee, the study team concluded that AET conversion is technically feasible and would improve traffic operations near the toll plazas, but would not address traffic bottlenecks or other operational constraints on the adjacent roadways.

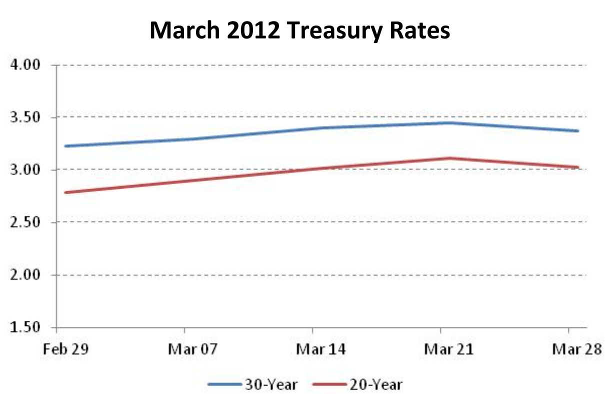
The MdTA study team prepared preliminary cost estimates for the full and partial demolition of the seven existing toll plazas, taking into account highway reconstruction that may be required for AET, provision of AET infrastructure and equipment, and integration and testing to tie into MdTA's existing toll collection system. The estimated capital cost for total conversion to AET is $150 to $180 million.

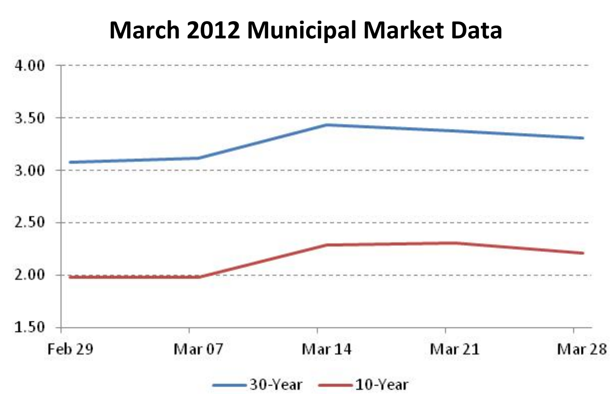
MdTA staff and consultants are proceeding with the next phase of the AET study which includes determining how AET would be implemented in terms of marketing and education, transitioning and retraining staff, and reusing and maintaining MDTA's building structures.

**<u>Market Update</u>**

The rally in the municipal market over the first two months of the 2012 abruptly changed course in March, with 30-year Municipal Market Data (MMD) rates rising by about 30 basis points and maturities in the mid-section of the yield curve by about 40 basis points. The primary reasons were a parallel reaction in the tax-exempt market to the rise in Treasury yields and a sharp increase in municipal bond supply as more issuers crowded into the market to take advantage of low interest rates.

In the last week of March, issuance volume abated as the rise in yields trimmed the number of debt refinancings and a less volatile Treasury market exerted a calming influence on the tax exempt market. The 30-year MMD improved by 6 basis points in that week.



There were no lower rated toll road issues in the market in March. Maine Turnpike and the New York State Thruway, both rated in the double-A category, were priced with yields below 3 percent. The final maturities for both bond issues are approximately 20 years.