FRASCA & ASSOCIATES, L.L.C. MERCATOR ADVISORS LLC

SEPTEMBER 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 (DTR) 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

- ***Potential Securitization of the Full Funding Grant Agreement (FFGA).*** The Airports Authority received ten responses to the request for proposals issued to members of the Dulles Corridor Enterprise underwriting syndicate regarding the potential securitization of Federal funding that may be received over the next four years pursuant to the FFGA for Phase 1 of the Rail Project. One of the primary reasons for considering an FFGA transaction is to preserve commercial paper capacity for Phase 2 expenditures which will provide additional flexibility with regard to the size and timing of the next issuance of long-term Dulles Toll Road revenue bonds.

  After reviewing the proposals and the responses to additional questions, staff and the Financial Advisors believe that negotiating a fixed rate direct loan with Bank of America Merrill Lynch (BAML) may best benefit the Airports Authority. The direct loan approach eliminates the need to obtain credit ratings - a time-consuming and relatively expensive process - and it does not require preparation of an official statement or a marketing period to educate potential investors. The indicative rate offered by BAML is attractive and the direct loan can be structured to provide flexible repayment provisions to accommodate the uncertainty associated with the timing of FFGA receipts.

  Staff and the Financial Advisors are seeking Finance Committee consent to enter into negotiations with BAML. If the negotiations are successful, transaction documents could be provided to the Finance Committee at its October 17 meeting with consideration by the full Board in November. If acceptable terms cannot be negotiated with BAML, other financing options will be developed for Finance Committee consideration.

Informational Items

- ***Funding from the Commonwealth of Virginia.*** Staff and General Counsel have drafted an agreement with the Virginia Department of Transportation and the Virginia Department of Rail and Public Transportation regarding the $150 million of state transportation funding to be used to mitigate future DTR toll rate increases. The agreement is expected to be finalized and executed this month.

- ***Transportation Infrastructure Finance and Innovation Act (TIFIA) Program.*** U.S. Transportation Secretary Ray LaHood held a press conference on July 27, 2012, to encourage states and cities across the country to submit letters of interest for the TIFIA program, which provides direct loans, loan guarantees, and standby lines of credit to major infrastructure projects. The recently enacted surface transportation bill - *Moving Ahead for Progress in the 21st Century Act (MAP-21)* - provides $750 million of funding for TIFIA in 2013 and $1 billion in 2014, up from about $120 million annually in recent years. The Secretary explained that each dollar of federal funds can support approximately $10 in TIFIA credit assistance which means there is a potential for $17 billion in TIFIA loans over the next two years.

  Pursuant to MAP-21, the TIFIA application process will now be conducted on a rolling basis instead of annual solicitations by DOT. A project sponsor that previously submitted a Letter of Interest (LOI) for a prior fiscal year's funding, but has not been asked by DOT to submit an application, must submit a new LOI to participate in the new TIFIA program going forward. A draft LOI for the Dulles Corridor Metrorail Project has been prepared and shared with the funding partners. It is anticipated that the Airports Authority will submit the LOI for FY2013 to DOT prior to the October 1, 2012, date on which the new TIFIA program funding and other provisions take effect.

  DOT will review each LOI to determine whether the proposed project meets basic eligibility requirements. If the initial review is positive, DOT will then request additional information to supplement the LOI and complete its eligibility determination. DOT will also request a preliminary rating opinion letter and charge the project sponsor $100,000 to cover the cost of DOT's financial and/or legal advisors. After concluding its review of the LOI and related information submitted by the project sponsor, along with the independent financial analysis report from DOT's independent financial advisor, DOT will permit the sponsor to submit a complete application.

- ***Commercial Paper Drawdown.*** An additional $149 million of Dulles Toll Road Second Senior Lien Commercial Paper Notes, Series One, was issued on August 6 leaving approximately $150.5 million of undrawn commercial paper capacity. Interest rates on the amount advanced are reset every day.

Relevant News Items

- ***95 Express Lanes Project.*** On July 31, 2012, the Virginia Small Business Financing Authority issued $241,950,000 of Senior Lien Revenue Bonds on behalf of 95 Express Lanes LLC, the private concessionaire selected by VDOT to develop, design, finance, construct, operate, and maintain high occupancy toll (HOT) lanes along Interstate 95 within the existing high occupancy vehicle (HOV) corridor south of Washington, D.C. Vehicles traveling within the HOT lanes with 3 or more people with a valid transponder will travel for free, while all other vehicles will be required to pay a toll (buses, motorcycles and /official emergency vehicles are exempt).

  Proceeds from the senior bonds, including an original issue premium, will provide $253 million (approximately 27 percent) of the $924 million total project cost, which includes interest during construction, deposits to required reserves, and financing expenses. VDOT will contribute $71 million (7.7 percent) and the concessionaire will invest $292 million (31.6 percent). The remaining amount, approximately $300 million (33 percent) is expected to be funded with proceeds from a TIFIA loan that has not been executed yet. If for some reason the TIFIA Loan does not close by March 31, 2013, or is less than $300 million, VDOT and the concessionaire will cover the shortfall. If the project does not receive any TIFIA funding, VDOT may have to contribute another $224 million (subject to appropriation by the General Assembly and allocation by the Commonwealth Transportation Board) and the concessionaire would invest another $78 million.

95 Express Lanes LLC is a special purpose vehicle created for the project that is 90 percent owned by the DRIVe USA Investments LLC fund and 10% by Fluor Enterprises Inc.

- ***Dulles Greenway.*** On August 30, 2012, Macquarie Atlas Roads (MQA), which holds an estimated 50 percent economic interest in the ownership of the Dulles Greenway, reported that gross toll revenue for the six-month period from January through June 2012 was 9.2 percent higher than the same period last year. (Toll rates on the Dulles Greenway were increased by approximately 8 percent on January 1, 2012, in accordance with a toll rate structure approved by the Virginia State Corporation Commission.) Average daily traffic on the Dulles Greenway for the first six months of this year was 0.5 percent higher, reflecting milder winter conditions and an extra weekday compared to the corresponding period in 2011.

  MQA also reported that the trustee for the holders of Dulles Greenway project revenue bonds had authorized the use of approximately $34.3 million of cash reserves to repurchase bonds scheduled to mature between 2018 and 2021 at an average yield of 7.8%. The cash had been "locked up" by the trustee because debt service coverage in 2011 was only 1.17x, which triggered a prohibition on equity distributions for at least 12 months.

  All of the project debt for the Dulles Greenway is in the form of insured fixed rate senior revenue bonds: $35 million of current interest bonds and $944.7 million of zero coupon bonds with various maturities extending to 2056. S&P, Moody's and Fitch maintain underlying credit ratings on the debt of BBB-, Ba1 (negative) and BBB- (stable) respectively.

- ***Transit-Oriented Development in Loudoun.*** On July 25, 2012, Comstock Partners, a privately held real estate development enterprise, announced that Starplex Cinemas will be the anchor entertainment tenant at Loudoun Station, a development under construction on the north side of the planned Route 772 Metro station in Ashburn, Virginia. Starplex, headquartered in Dallas, Texas, operates 22 theaters around the United States. Loudoun Station is planned for 1 million square feet of Class A office space, 300,000 square feet of restaurants and shops, a hotel and about 1,500 homes. The development's nearly complete first phase, BLVD, includes 357 apartments, and 62,000 square feet of retail and restaurant space.

Market Update

July was another good month for issuers of fixed income securities, particularly tax exempt bonds. A rally that began in late June continued until the end of July with 30 year MMD reaching historic lows (2.79 percent) on July 25th. Rates edged up slightly in August as the equities market rallied and Treasury Bonds weakened. By the last week of the month, both Treasuries and Municipals had regained lost ground with the 30 year Treasury ending the month at 2.68 percent and MMD at 2.89 percent. Inflows into Municipal Bond Funds continued at a pace of about $800 million per week and new issuance volume was robust throughout the summer.

Surface transportation transactions during these two months included approximately $242 million for the I-95 Express Lanes Project described in the prior section. The Senior Lien bonds for the I-95 Express Lanes were rated "BBB-" by both Standard & Poor's and Fitch Ratings. Structured as two term bonds maturing in 2034 and 2040, the bonds were priced to the 2022 call date to yield 4.35 percent and 4.45 percent, respectively**.**

Also in Virginia, the Commonwealth Transportation Board issued $120.6 million of Federal Transportation Grant Anticipation Notes (GANs) maturing annually in March and September, from 2013 through 2027. Yields for this Aa1/AA/NR transaction ranged from 0.20 percent to 2.65 percent. The Pennsylvania Turnpike Commission (Aa3/A+/A+), the New Jersey Turnpike Authority (A3/A+/A), and the Grand Parkway Toll Authority (Aa1/NR/AA+) in Texas also sold debt during this two month time period.