SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF OCTOBER 18, 2017

Mr. Speck chaired the October 18 Finance Committee Meeting, calling it to order at 9:13 a.m. A quorum was present during the meeting: Mr. Adams (Co-Chair), Ms. Lang, Ms. Merrick, Mr. Mims, Mr. Sudow, Mr. Tejada, Mr. Uncapher, Mr. Williams, and Mr. McDermott (*ex officio*). Mr. Griffin, Ms. Hanley, Mr. Lazaro, Mr. Pozen, Mr. Session, and Ms. Wells were also present.

Prior to the consideration of the first agenda item, Mr. Speck restated that he had an apparent conflict of interest with Wells Fargo Bank due to the purchase of his business, from which he was now retired, by Wells Fargo Advisors, a separate nonbank affiliate of Wells Fargo and Company. Mr. Speck reiterated that he believes he is able to participate fairly and objectively in the interest of the Airports Authority in matters affecting the Wells Fargo Bank, one of the members of the pool from which the Airports Authority would choose an underwriting syndicate. Notwithstanding this apparent conflict, Mr. Speck stated that he had consulted the Ethics Officer, who concurs in this course of action.

Additionally, Ms. Wells and Mr. Pozen stepped away from the table.

<u>Recommendation to Concur with the Issuance of a Limited Competition Request for Proposals within the Underwriter Pool to Select the Underwriting Syndicate for the Airport System Revenue and Refunding Bonds, Series 2018</u>. Andy Rountree, Vice President for Finance and Chief Financial Officer, reported that the 2018 Plan of Finance would include another refunding or refinancing of approximately $414 million of two different sets of series of bonds on a current refunding, forward delivery or taxable basis, depending upon market conditions. The Plan of Finance would also allow the issuance of new money for Capital Construction Program needs, if necessary, as well as monitoring the entire debt portfolio for potential opportunities to enhance the Airports Authority's portfolio. Mr. Rountree reported that the Board has reserved to itself the selection of underwriters in accordance with Resolution No. 01-20. He advised that a couple of years ago the Board had selected 15 investment banking firms to form an underwriter pool for a term of three years or longer at the discretion of the Airports Authority. He shared a slide that listed all of the firms, which had been provided for the day's meeting. Mr. Rountree stated that staff recommends initiating a limited competition Request for Proposals (RFP) among the members of that

underwriting pool to solicit proposals to evaluate firms for selection of a Book-running Senior Manager, Co-Senior Manager (if desired) and Co-Managers over the Series 2018 Bonds' issuance. He further stated that staff is recommending the same selection criteria, which Mr. Rountree reviewed, that was used in 2016 when underwriters were last selected from the pool, which worked well. Mr. Rountree reviewed the proposed schedule noting that the RFP would be distributed to the 15-member Underwriting Pool on October 30, which would provide proposing firms an opportunity to talk to staff and Directors before the black-out period begins. The Technical Evaluation Committee (TEC) would make its recommendation for the underwriting syndicate to the Finance Committee and Board on January 18, 2018. Mr. Speck stated that he and Mr. Adams would contact Members to learn about those interested in serving on the TEC, and those Members would likely conduct interviews.

Ms. Merrick observed that the Airports Authority has had a substantial number of refundings and refinancings over the last five years. She recalled that the Finance Staff often provides data on the amount of refunding savings from the bond transactions. Ms. Merrick inquired as to the average amount of refundings annually. Mr. Rountree reported that the total value of bonds refunded for each year in 2016 and 2017 was approximately $400 million, and another $400 million is estimated for next year, in 2018. Valerie O'Hara, Debt Program Manager, stated that the Airports Authority was pleased with its accomplishments of refunding more than $3 billion since 2010.

The Committee concurred with the pending procurement.

Mr. Rountree stated that he would distribute a note to Directors informing them when the RFP is issued so that they would be aware of the black-out period.

Ms. Wells and Mr. Pozen returned to the table.

Draft 2018 Budget. Mr. Rountree was joined by Rita Alston, Budget Manager, for the presentation of the draft 2018 Budget. He stated that staff would present the recommended 2018 Budget to the Committee in November, which would be considered by the Board in December, and become effective January 1, 2018. Mr. Rountree presented the draft budget that includes steps the Airports Authority has taken to improve its competitive position.

Mr. Rountree reported that the Use and Lease Agreement negotiation has allowed revenue sharing from Ronald Reagan Washington National Airport (Reagan National) to Washington Dulles International (Dulles International) to help with the Cost per Enplanement (CPE) structure at Dulles International, which hugely impacts the Airports Authority's competitive position. He stated that there has been increased emphasis on the non-airline revenue generation over the past few years as staff and functions have been focused around that effort.

Mr. Rountree stated that the current market interest rates have resulted in a low cost of capital available in the market for refunds or new money borrowing. Rate abatements applied across the board have helped with CPE at Dulles International. Mr. Rountree added that many people worked collaboratively with the Commonwealth of Virginia (Commonwealth) to obtain a $50 million grant that would be expended over two years; 2018 would be the second year of benefit from $25 million of that grant. With the significant decrease in CPE at Dulles International, Mr. Rountree referenced a chart reflecting the benefits of the grant beginning in 2017.

Mr. Rountree reviewed highlights from the 2018 strategic priorities that had been shared with the Board at its 2018 Budget Workshop. He reported that competitive rates and charges which drive CPE, customer service, safety, security, emergency preparedness and protocols are clearly the focus. Mr. Rountree noted that succession planning, strong bond ratings and fulfilling the necessary obligations needed to secure the remainder of the $50 million grant from the Commonwealth are key strategic priorities in drafting the 2018 Budget.

Mr. Rountree also reviewed the 2018 key budget development considerations which included the need for adequate funding for both Airports consistent with the expected passenger activity, the second $25 million installment and the "Project Journey" construction at Reagan National where additional personnel is needed for any ancillary issues that might occur. With regard to non-airline revenue generation, Mr. Rountree shared that a decision had been made several months ago to compete the fixed based operator contract at Dulles International, which resulted in a significant increase in estimated revenue for 2017. He noted that real estate development remains a focus at Dulles International. Additionally, transportation initiatives are changing the landscape for the Airports Authority, and staff continues to observe how the mix and the dynamics between parking and Transportation Network Companies are shaping the concession revenue expected in 2018.

Mr. Rountree shared that Pay for Performance (PfP) is always an important item for the organization that is factored into the budget. The 2018 Budget must also anticipate forecasted activity levels over 2017 with approximately 1 percent and 2.3 percent at Reagan National and Dulles International, respectively. Mr. Rountree noted that the referenced chart was created earlier in the year by the Airport Consultant for the bond transaction process. Since that time, the activity of the two Airports is growing at a faster pace than expected in 2017 which provides positive results for CPE. Mr. Rountree expects a re-forecast of 2018 to show even more activity, which will benefit the CPE calculation.

Mr. Rountree reviewed the key budget fundamentals. He reported that charges to the airlines are on a cost recovery basis (plus debt service coverage), and explained that expenses have to be determined before estimating the approximate amount of revenue to be received from the airlines in 2018. Mr. Rountree noted that Net Remaining Revenue (NRR) benefits both Airports and the airlines. He stated that the Airports Authority uses its share of NRR to fund its Capital Operating Maintenance Investment Program (COMIP) budget, and the airlines benefit from it because it offsets the following year of rates and charges.

Mr. Rountree reviewed the structure of the budget. He reported that the Airports Authority has two separate and distinct enterprise programs, each of which has three separate and distinct budget programs aligned between the two enterprises. The Aviation Enterprise Fund has an Operation and Maintenance (O&M) Program, a COMIP, and a Capital Construction Program (CCP). The Dulles Corridor Enterprise Fund has an O&M Program, Renewal and Replacement (R&R) Program, and a Capital Improvement Program (CIP). Mr. Rountree reviewed the budgetary comparisons of 2017-2018 for both Airports for the expenses consisting of Consolidated Functions (CF) and Public Safety, as well as Debt Service for both Airports.

With regard to operating expenses, Mr. Rountree stated that the subtotal of the change from 2017 to 2018 is 1.8 percent (excluding debt service). He reiterated that when reviewing forecasts the Airport Consultant assumes a 3 percent increase annually, but that the percentage would be replaced by the 1.8 percent growth which is better than what the forecast shows. Mr. Rountree emphasized that staff would continue to work on the draft for another month, at which time the final Recommended Budget would be submitted to the Finance Committee. He shared that debt service increased to a total of 4.8 percent for the two Airports combined. Although debt service had increased over the last several years, a great deal of refinancings had occurred. As a result, that number is actually 10 percent less than it otherwise would have been. Mr. Rountree reported that a lot of the savings targeted through refundings would occur in 2019. He continued to review and breakdown the factors regarding operating expenses and debt service.

Mr. Rountree reported that personnel costs for the organization are up by a total of 2.3 percent budget over budget (or $4.2 million), noting that the largest portion of those costs is for compensation and benefits. He stated that an average 3 percent would be used for PfP [or Performance Management Partnership] increases for employees. Mr. Rountree reported that health insurance and life insurance were the largest increases in terms of percentages. He explained that with respect to non-personnel expenses, the 1.3 percent increase in operating expenses constitutes approximately $2.2 million of the total increase. Mr. Rountree noted that more than $2 million of that increase would be used for new leases for the Corporate Office Building and the Data Center.

Mr. Rountree reported that there was approximately $500,000 in management support related services, the majority for Human Resources Programs. There was an increase of $385,000 in repairs and maintenance requirements offset by decreases in utilities for energy consumption at both Airports and repairs and maintenance requirements at Dulles International.

Mr. Rountree reviewed the O&M non-personnel expense budgets for Reagan National, which increased by 1.1 percent; decreased 1 percent at Dulles International; increased by 6.2 percent for CF; and decreased 1.5 percent in Public Safety. He stated that the 2018 Budget included 14 new full-time career positions, as well as 15 non-career term positions that were converted to full-time positions. Mr. Rountree advised that although the forecast for the converted non-career employees shows $2.3 million on an annual basis, only an additional $188,000 was added to accommodate the conversion as these employees are already in place as non-career employees.

With regard to the estimated operating revenue, Mr. Rountree shared that the airline revenues year-over-year continue to decrease as a result of the expenses being recovered. The airline revenue is budgeted to decrease because 2017 and 2018 would be offset by the $25 million grant and money being transitioned from Reagan National to Dulles International.

Mr. Rountree reported that the non-airline revenue is greater than 50 percent for the first time. He stated that airline revenues are a smaller percentage because they are offset by the $25 million grant received for 2018, as well as offset by the transfer of NRR from Reagan National. Mr. Rountree shared that parking revenue is expected to decrease 7.5 percent budget over budget and that ground transportation is expected to increase approximately 62 percent budget over budget, which would help to offset the reduction in parking. The change in ground transportation revenue is reflective of how the traveling public accesses the Airports. Mr. Rountree advised that for the first time, food and beverage is fourth on the list and ground transportation is third, in order of the magnitude of revenue estimated.

With regard to the COMIP, Mr. Rountree shared that Reagan National has $19 million and Dulles International has $34.7 million that will be new authorizations under the COMIP for 2018. The third and final piece of the Aviation Fund budget is the CCP. Mr. Rountree reported a total of $46 million in new authorizations for the Reagan National CCP, noting that $32 million would be funded from grants. Presently, there are no new authorizations for the Dulles International CCP.

As Mr. Rountree began to present the three draft budgets regarding the Dulles Corridor Enterprise, Mr. Speck recessed the meeting at 9:43 a.m. so that the Board Meeting could begin on schedule.

Mr. Speck reconvened the Finance Committee at 10:20 a.m. A quorum was present during the meeting.

<u>Draft 2018 Budget (cont'd</u>). Mr. Speck expressed the importance and relevance of the Airports Authority's Budget. He observed that the Airports Authority is quite successful when it enters the bond market and that financial institutions that loan money to the Airports Authority, as well as those who buy the bonds, consider variables, such as the CPEs, the overall budget, and the management of debt. Mr. Speck stated that staff was reviewing the significant item fairly quickly, and he inquired whether Directors would be interested in attending a Budget Workshop. Mr. Rountree stated that a pre-Budget Workshop had been held to lay the foundation for the draft 2018 Budget, and that staff would be happy to answer any questions either formally or informally.

Mr. Session stated that one of the highlights of the day's presentation had been that for the first time during his tenure, and perhaps since the beginning of the Airports Authority, non-airline revenue had exceeded 50 percent. He further stated that he believed that the creation of the Office of Revenue had made a huge impact. Additionally, the development of real estate, which is also under the purview of the Office of Revenue, would contribute to non-airline revenue. Jack Potter, President and Chief Executive Officer, stated that he felt compelled to comment. He further stated that the success of the Airports Authority is about balance and not just one group that produced favorable results. Mr. Potter reiterated the day's theme of recognition, and stated that the Airports Authority's success is the result of a team effort with contributions and sacrifices from many employees throughout the organization, including expense reductions, grant attainment, Use and Lease Agreement results, and refinancing results to name a few.

Mr. Speck referenced the chart that illustrated the decrease in CPEs at Dulles International. He observed that the chart illustrates that the CPE would increase each year until 2022, and inquired about the expected decrease in 2022. Mr. Rountree speculated that the 2022 decrease would be the result of the Airports Authority amortizing debt off the books or simply the way debt service was structured. Mr. Speck stated that there would be lots of other things to influence the CPE by 2022. Mr. Rountree stated that the 2018 Budget presentation in November would include a significant improvement to the $19.68 CPE that is presently forecast for 2018 in the latest Report of the Airport Consultant. He further stated that since the $19.68 projected CPE did not consider future refunding opportunities in 2018 and beyond, the curve would continue to change over time.

Mr. Uncapher observed that the Airport Consultant projects a growth of 3 percent in expenses and 1.4 percent in enplanements. He inquired whether a projection using the Airports Authority's historical expense data, which had not been 3 percent, had been prepared. Mr. Rountree stated that when the Finance team prepared the plan to support the Commonwealth grant, the Airports Authority was committed to not increase expenses by 3 percent. Therefore, the existing plan submitted to the Commonwealth currently incorporates the lower expense projections that Mr. Uncapher requested. Mr. Rountree noted that the Commonwealth was satisfied with the Airports Authority's efforts to mitigate expenses going into the future.

Mr. Rountree then reviewed the three Dulles Corridor Enterprise fund budgets. He reported that the revenues from tolls are basically expected to be flat in 2018. Mr. Rountree stated that the Airports Authority has done a good job of keeping operating expenses flat noting the .5 percent decrease. He reminded everyone that the CIP is used to fund the Dulles Corridor Metrorail Project. Mr. Rountree reviewed the current financing plan noting that it always included increased tolls for 2019 so staff would begin discussing tolling options for 2019 within the coming year.

Mr. Rountree reported that approximately $3 million of items would be added to the R&R Program budget. He explained that the Airports Authority is required to have an external consultant perform a life cycle cost report and to recommend additions. Ms. Hanley observed the $3 million amount for the R&R Program and the $19 million amount for the CIP. She inquired whether the two amounts represented the total number in each of those programs. Mr. Rountree stated that both of those amounts ($3 million and $19 million) represented new authorizations that would be added to an existing five-year plan included in the 2017 Budget. Ms. Hanley stated that she believed that it would helpful for staff to circulate the total budgets for the R&R Program and CIP as she believed that they are most scrutinized by residents in the Corridor and that Directors representing Virginia may receive occasional inquiries and need to be able to understand them. Mr. Rountree stated that staff would be happy to provide the updated plan, as Ms. Hanley had requested. He reminded everyone that tolls fund the R&R and CIP Programs. Mr. Rountree reported that the new authorizations for the CIP included programmable signage, which Mr. Griffin observed could be used as toll increases are considered. He further reported that there is no increase to the 2018 CIP budget for the Dulles Corridor Metrorail Project; it remains at $5.76 billion.

Mr. Rountree reviewed the takeaways for the 2018 Budget – no anticipated Dulles Toll Road toll increases through 2018; investing in non-airline revenue generation; continuing investment in employees through PfP; continuing the investment in facilities and equipment; mitigating the required increases in debt service through anticipated refunding opportunities; continuing to fund airport safety, security, and emergency preparedness protocols; enhancing customer service initiatives; alignment with activity levels at each Airport; minimizing the cost charged to the airlines for competitive rates and charges; and the implementation of Workday – Software as a Service to replace the existing Human Capital Management and Financial systems.

Mr. Rountree reported that the CPE for Dulles International for inclusion in the recommended 2018 Budget would be less than $18.50. The 2018 CPE for Reagan National would also be less than projected. In the event that the 2018 CPE changed from the time that the draft 2018 Budget was presented until the November meeting, Mr. Rountree advised that the 2018 CPEs were intentionally not included in the draft 2018 Budget.

Ms. Hanley observed a decline in the 2018 Public Safety budget and asked for confirmation that the decline was not related to any coverage or decreased personnel, but rather due to operational savings. Margaret McKeough, Executive Vice President and Chief Operating Officer, responded affirmatively. She stated that the Office of Public Safety had recently brought some of its activity in-house which had been outsourced in the past.

After reviewing the budget and other various financial documents, Mr. Sudow observed that with regard to the concession line item that sometimes net revenue was used and at other times, gross revenue was used. Mr. Rountree stated that when staff presents monthly financial statements, it follows Generally Accepted Accounting Principles, which require the use of gross revenues and gross expenses. With respect to the budget, it more closely aligns to the way the Airports Authority builds its rates and charges for the airlines and deals with remaining revenue. Therefore, the numbers in the budget show net revenue. Mr. Rountree reported that the full 2018 Budget document would include the gross revenues and the expenses to represent the net revenues.

Financial Advisors' Report – Aviation Enterprise. Ken Cushine of Frasca & Associates, LLC provided updates on the Series 2010D and 2011B credit facilities and the refunding opportunity for the 2018 transaction. He reported that the Airports Authority had successfully closed on both credit facilities that the Board had approved in October. Mr. Cushine advised that the Series 2008A and 2009C Bonds would be callable on October 1, 2018 for a refunding opportunity for the 2018 transaction. He reported that the transaction would total approximately $428 million in outstanding bonds available to be refunded for savings. Based upon current market rates, Mr. Cushine noted that a hypothetical tax exempt refund would generate approximately $67 million of present value savings. He explained the use of the word hypothetical, which is tied to the current market rates that change daily. Since the current tax law does not allow the refunding of these bonds on a tax-exempt basis until July 23, 2018, the Airports Authority is unable to presently take advantage of those savings. On a taxable basis the savings would only be approximately $42 million.

As previously reported by Mr. Rountree, Mr. Cushine reiterated that the selected underwriting team would have the ability to accelerate or choose the appropriate timing for how the Airports Authority proceeds with the refunding opportunity. He advised that the financial advisors would provide monthly updates of the potential savings to the Finance Committee.

Financial Advisors Report – Dulles Corridor Enterprise. Jim Taylor of Mercator Advisors LLC (Mercator) stated that he had provided the status of the traffic and revenue study at the October Board Meeting. Mr. Taylor noted that the current focus is on calibrating the regional traffic model, in particular replicating the Dulles Corridor. As supported by surveys, customers use cash and E-ZPass to currently pay tolls. Mr. Taylor advised that it would be one to two months before results would be available to begin preparing a forecast. He noted that Mercator reviews all transportation developments and stated that several local news items had been highlighted in the report provided for the day's meeting.

September 2017 Financial Report – Aviation Enterprise. Mr. Rountree was joined by Anne Field, Acting Controller. He reported that total revenue through September was $575.1 million, 1.8 percent lower than prior year, and 0.1 percent lower than forecast. Mr. Rountree stated that airline revenue was 3.7 percent lower than forecast. He noted the airline revenue is settled at the end of the year with respect to actual cost recovery. Mr. Rountree reported that non-airline revenue was up 4.3 percent and is 3.5 percent higher than forecast. He stated that O&M expenses through September totaled $273 million, 1.5 percent higher than last year, and 8.9 percent lower than forecast, which was mostly attributed to weather. Mr. Rountree reported that debt service coverage is very healthy at 1.84x through September.

September 2017 Financial Report – Dulles Corridor Enterprise. Ms. Field reported that revenue totaled $114.3 million year-to-date, .6 percent higher than the prior year, and 1 percent lower than forecast. She stated that Toll Road transactions were 73.2 million year to date, .3 percent lower than prior year, and 2.1 percent lower than forecast. Electronic toll collections are .9 percent higher than last year. Ms. Field reported that total expenditures are $20.9 million year to date, 3.2 percent lower than prior year, and 7.5 percent lower than forecast. As in prior meetings, Ms. Hanley commented on the decline in Dulles Toll Road usage.

The meeting was thereupon adjourned at 10:52 a.m.