

SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF OCTOBER 16, 2013

Mr. Conner chaired the October 16 Finance Committee Meeting, calling it to order at 10:55 a.m. A quorum was present during the meeting: Mr. Carter, Mr. Chapman, Mr. Davis, Mr. Gates, Mr. Griffin, Ms. Lang, Ms. McConnell, Mr. McDermott, Ms. Merrick, Mr. Session and Mr. Curto, *ex officio*. Ms. Hall and Ms. Wells were also present.

Financial Advisors' Report - Dulles Corridor Enterprise. Doreen Frasca of Frasca & Associates, L.L.C. reported that the Board had authorized the Finance Staff, with the Financial Advisors' assistance, to engage in negotiations with three firms qualified to provide construction financing of the Rail Project. She noted that their findings and recommendations from the negotiations had been included in materials that would be discussed at a meeting later that day [in executive session].

Bryan Grote of Mercator Advisors LLC reported that the Transportation Infrastructure Finance and Innovation Act credit review process continued to progress. He noted that the Department of Transportation (DOT) had brought on a legal advisor in anticipation of the Authority completing its credit review process, which is a positive indication.

As expected, Mr. Grote reported that the Authority had received notice from the Internal Revenue Service that the interest on the federal subsidy bonds would be subject to a sequestration reduction of 7.2 percent in the federal payments it received annually in April and October. While the reduction is not material (in relation to the total debt service budget), Mr. Grote reported that taxable Build America Bonds (BABs) would be subject to the haircut as long as sequestration occurred. Mr. Conner inquired whether he is correct that the repayment of the haircut on the federal subsidy would require authorization by Congress once the sequestration concluded and that despite sequestration, the Authority is still not authorized to call the affected bonds, to which Ms. Frasca confirmed. Mr. Grote noted that [even with current sequestration cuts] the federal subsidy remained favorable and that it is not affecting the economics [to the point where the Authority would want to call the bonds].

With respect to the interim financing, Andy Rountree, Vice President for Finance and Chief Financial Officer, noted that no action is requested at

the day's meeting. An update would be presented later that day in executive session.

Financial Advisors' Report - Aviation Enterprise. Guy Nagahama of Jefferies reported that Finance Staff and the Financial Advisors will meet in December to develop the outlines of the 2014 Plan of Finance for the Aviation Enterprise, including the consideration of timing, size and form of a potential new money transaction, as well as \$500 million outstanding callable bonds. As in past years, Mr. Nagahama noted that the results of the outline would be presented to the Committee in the first quarter of 2014.

Mr. Nagahama reported that the Commercial Paper (CP) Program for the Aviation Enterprise provides revolving flexible interim financing to allow the Authority access to capital on an as-needed basis, similar to a home equity Line of Credit (LoC). During the height of the Authority's Capital Construction Program (CCP), the Authority had authorized a CP Program of up to \$500 million. Mr. Nagahama noted that a traditional CP Program requires that it be supported by a bank facility. Presently, the Authority has LoCs of up to \$420 million. As a result of the decrease in the CCP, a result in the CP Program had also occurred; the current level is \$271 million. Mr. Nagahama reported that the Financial Advisors and the Finance Staff had recommended that the Authority solicit proposals from financial institutions to replace the expiring JPMorgan facility and potentially also replace the LBBW facility.

Pre-Solicitation Terms for Interim Financing Support for the Aviation Enterprise. Mr. Rountree reported that Finance Committee concurrence is needed on pre-solicitation terms for a Request for Proposal (RFP) for an LoC and/or revolving loan to replace an expiring facility. Mr. Rountree noted that presently the CP Program for the Aviation Enterprise consisted of a \$250 million LoC provided by JPMorgan Chase (CP One), which would expire in March 2014, on which action is required. Additionally, another LoC provided by LBBW (CP Two) will expire in December 2015. Mr. Rountree noted that once staff gathered the results of the RFP, it could determine whether to replace the LBBW credit facility early or allow it to continue until its expiration in 2015. He explained that the CP Program would continue to provide short-term liquidity for the Aviation Enterprise program. In addition to replacing the expired facility, Mr. Rountree noted that the proposed RFP would downsize the CP One from \$250 million to \$200 million. He then reviewed the evaluation criteria, proposed schedule and efforts to publicize the RFP.

Mr. Nagahama noted that the existing CP authorization could be used to replace the expiring facility if an LoC is selected to provide interim financing. However, if a revolving line of credit is selected, a separate authorization would be required.

Ms. Merrick inquired about the Authority's potential savings as a result of the transaction. Mr. Rountree estimated approximately \$500,000 annually, which was affirmed by Mr. Nagahama, who added that it could potentially go up to as high as \$700,000 as a result of the reduction in downsizing the CP Program and the decreased fees associated with the transaction.

The Committee concurred with the pending procurement.

September 2013 Financial Reports – Aviation Enterprise. Mr. Rountree was joined by Chris Wedding, Acting Controller. He reported that year-to-date revenue was \$516.2 million, an increase of 7.2 percent from the same period in 2012. At 75 percent through the year, the Authority had earned 76.3 percent of its annual budgeted revenue. Year-to-date expenses were \$420.9 million, an increase of 0.1 percent compared to the prior year. At 75 percent through the year, the Authority had incurred expenses at 69.5 percent of its annual budget.

Mr. Rountree reported that operating income was \$95.3 million, compared to a prior year operating income of \$61.2 million. The debt service coverage estimate was 1.45x, which is expected to be lower after the year end is finally settled.

Mr. Conner inquired whether the federal government shutdown or sequestration had had any effect on the Authority's revenue. Mr. Rountree responded that other than the impact on the BABs that was previously discussed, grants to the Authority may be delayed, but that revenue would continue to accrue.

Draft 2014 Budget. Mr. Rountree was joined by Rita Alston, Budget Manager, and Teri Arnold, Rates and Charges Analyst. Mr. Rountree reported that the draft budget, as presented, is still in the developmental stage. Staff would present the President's recommended budget at next month's Committee meeting. Mr. Rountree noted that the figures included in the draft document represent a budget-to-budget comparison. Prior to developing the budget, Mr. Rountree explained that staff must determine the level of activity to be supported, as identified in the forecast.

Mr. Rountree noted that the Authority's budget is divided into two separate funds – the Aviation Enterprise Fund, which supports the Airports' activities, and the Dulles Corridor Enterprise Fund, which supports the operation of the Dulles Toll Road and the construction of the Metrorail Project. The Aviation Enterprise Fund includes the Aviation Operation and Maintenance (O &M) Program; Aviation Capital, Operation and Maintenance Investment Program (COMIP), which includes smaller equipment and capital projects, as well as replacement projects; and the Aviation Capital Construction Program (CCP) used primarily for larger projects funded by bonds, grants or Passenger Facility Charges (PFCs). The Dulles Corridor Enterprise Fund includes the Dulles Corridor O&M Program; the Dulles Corridor Renewal and Replacement Program; and Dulles Corridor Capital Improvement Program, which includes Phase 1 and Phase 2 of the Dulles Corridor Metrorail Project and items regarding the Corridor. Mr. Rountree referred to the PowerPoint, which is available on the Authority's website, and reviewed some of the 2014 Aviation O&M highlights, including the operating expenses; 2014 personnel compensation adjustments; personnel benefits program; new positions; travel; service contracts; utilities; use of PFCs for debt service for the AeroTrain (\$40 million); and debt service. He also reviewed the aviation operating revenues, including rents; landing fees; and concessions. With respect to the Aviation Capital Programs, Mr. Rountree reported that staff is continuing to review prior year authorizations for projects in the COMIP and CCP and, a staff recommendation will be included in the budget to be presented in November. During the brief review of the Dulles Corridor Enterprise Fund budget, Mr. Rountree identified the changes in the total operating revenue on a budget-to-budget comparison, impacted primarily by the increase in the DTR toll rates that will be effective January 1, 2014. He reviewed the 2014 New Program projects for the Dulles Corridor Renewal and Replacement and Dulles Corridor Capital Improvement Programs and reported on new positions, as previously identified by Mr. Potter. The 2014 recommended budget would be presented to the Finance Committee at its November Meeting, and the Board would consider the approval of the Budget in December.

The meeting was thereupon adjourned at 11:30 a.m.

[NOTE: At the conclusion of the Business Administration Committee Meeting, the executive session held earlier that morning resumed to conclude confidential discussions regarding two agenda items relative to the Audit – Legal Committee and the information paper regarding the selec-

tion of interim financing for the Dulles Corridor Enterprise. For the record, Mr. Conner had recused himself earlier that day and was not present during the session for the discussion of the interim financing for the Dulles Corridor Enterprise.]