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

JANUARY 2013

DULLES CORRIDOR ENTERPRISE

REPORT OF THE FINANCIAL ADVISORS

The Airports Authority established the Dulles Corridor Enterprise (DCE) 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 DCE Fund.

Action Items

No Action Items.

Informational Items

- ***Full Funding Grant Agreement (FFGA) Notes, Series 2012.*** On December 17, 2012, the Airports Authority issued $200 million of fixed rate notes secured by the remaining Federal funding anticipated to be received pursuant to the FFGA with the Federal Transit Administration (FTA) for Phase 1 of the Rail Project. The direct loan was negotiated with Bank of America, N.A., and the effective interest cost for the transaction is 2.25 percent based on the scheduled debt service payments through the final maturity of December 1, 2016. The notes can be prepaid or redeemed prior to maturity without penalty after one year.

- ***Annual Surveillance by Rating Agencies.***

    - ***Moody's Ratings Affirmed.*** In its annual surveillance of the Toll Road credit, Moody's has maintained its ratings of A2 for the Airports Authority's first senior bonds; Baa1 for the second senior bonds, and Baa2 for the subordinate lien bonds. The "Stable" outlook has also been maintained.

    - ***Standard and Poor's*** will be conducting its annual surveillance within the next several weeks.

- ***Funding from the Commonwealth of Virginia (Commonwealth).*** A proposed agreement with the Commonwealth concerning the provision and use of the $150 million of state transportation funding for the Rail Project will be discussed by staff as a separate agenda item.

- ***Transportation Infrastructure Finance and Innovation Act (TIFIA) Program.*** The TIFIA Letter of Interest (LOI) submitted by the Airports Authority, Fairfax County, Loudoun County and the Commonwealth (Funding Partners) is still under review by the U.S. Department of Transportation (USDOT). In a December 21 letter to the Airports Authority, the TIFIA Joint Program Office requested additional information about certain program elements, specifically: the loan amounts being requested by each jurisdiction; the impact on TIFIA assistance on toll rates; clarification of TIFIA's lien position and structuring assumptions about TIFIA debt; and "project readiness" if the Airports Authority is asked to submit an application. In the letter, the Airports Authority was advised that its LOI did not present a compelling justification for sizing the TIFIA loan in an amount greater than 33 percent of project costs. Staff and the Financial Advisors are working with the Funding Partners to prepare the requested additional information and expect to meet with the TIFIA Joint Program Office to review this information expeditiously as possible.

- ***2013 Plan of Finance.*** Current construction fund balances and undrawn commercial paper (CP) capacity are sufficient to fund the projected capital expenditures for Phase 1 of the Rail Project in 2013. The monthly funding requirements for Phase 2 are not anticipated to be significant before the Phase 2 design-build contract is awarded in May 2013, but it may be necessary to secure additional funding for Phase 2 expenditures in the second half of the year.

  The Comprehensive Traffic and Revenue Study performed by CDM Smith is being updated to reflect the Board approved toll rates for 2013 and 2014. The updated version will be considered final, and should be completed prior to the end of January.

  The size and timing of any issuance of DTR revenue bonds will depend primarily on the availability of TIFIA credit assistance. It is anticipated that USDOT review of the TIFIA LOI will be completed in the first quarter of 2013. If the Airports Authority and the Funding Partners are invited to submit a TIFIA application, it will likely take several weeks to negotiate and close a transaction.

  Staff and the Financial Advisors met on January 9 to discuss the 2013 Plan of Finance and how to engage underwriting syndicate members to help refine it, and assist the Airports Authority on upcoming transactions for the DTR credit including potential interim funding options for Phase 2.

<u>Relevant News Items</u>

- ***The American Taxpayer Relief Act and Municipals.*** The American Taxpayer Relief Act, whose principal provisions set tax rates for individuals and estates and provide a permanent Alternative Minimum Tax (AMT) patch, was signed by the President on January 2, 2013. The Act also delays Sequestration's automatic spending cuts by two months. In addition, several programs that extend favorable funding for qualifying municipal projects were extended for a year or more, including Empowerment Zones. At this point, the news for municipal issuers and investors in tax exempt bonds is much better than had been feared. The establishment of a top bracket of 39.6 percent for single filers earning $400,000 or more, and married joint filers earning $450,000 or more, as well as an increase in the capital gains rate to 20 percent should enhance the appeal of municipal bonds. However, while the interest exemption for municipal bonds was not changed in the Act, the subject could come up again during discussions of Sequestration spending cuts over the next two months.

Transportation Funding in the New Year. Transportation issuers must also closely follow these discussions of spending cuts to make sure that transportation funding, which is not subject to the sequester (Highway Trust Fund accounts and TIFIA, for example), is not suddenly made part of the debate. Surface Transportation programs have been funded at $105 billion for FYs 2013 and 2014. The Transportation appropriation for the first half of FY 2013 is provided by a continuing resolution that funds all of government through March 27, 2013. The obligation limit for federal-aid highway funding has been set at $39.14 billion for the full year, about $550 million less than the MAP-21 transportation reauthorization. The new Congress will initiate a new appropriations process.

No one held out much hope of any relief for airports with regards to the AMT, and indeed interest on bonds issued by airports for "private activities" continues to be an item of tax preference for those subject to the AMT. The good news is that the AMT will not apply to single filers with less than $50,600 of Adjusted Gross Income (AGI) and for married filers with $78,750 of AGI. These thresholds will be indexed for inflation on a going forward basis, providing a "patch." It is estimated that approximately 30 million taxpayers will no longer be subject to the AMT. While this sector of the buyer base is not automatically associated with the purchase of tax exempt bonds, in 2008, (the last tax year for which the IRS provides information) more than half of the 5.5 million tax returns reporting receipt of tax-exempt interest were filed by taxpayers with AGI below $100,000. It remains to be seen if AMT bonds will now become more popular with this sector of the retail buyer base, and if, over time, the AMT penalty will ease.

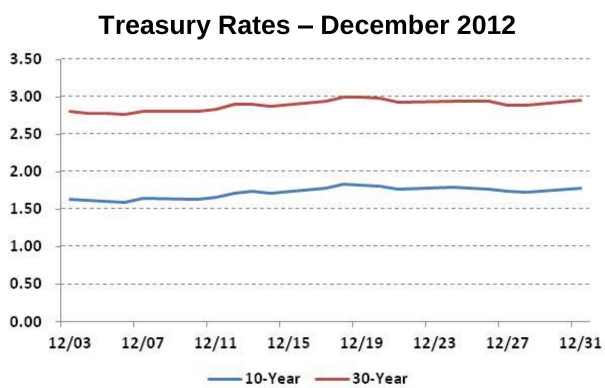
- ***TIFIA Loan for Dallas Area Rapid Transit (DART).*** On December 14, 2012, U.S. Transportation Secretary Ray LaHood approved a $119.9 million TIFIA loan that will enable DART to advance construction on the third phase of its $397 million light rail Orange Line extension project. The extension, which will connect Irving, Texas, with Dallas Fort Worth Airport, is part of a long-term effort to create a 90-mile light rail network to serve the Dallas metropolitan area. DART submitted its letter of interest for TIFIA credit assistance in December 2011.

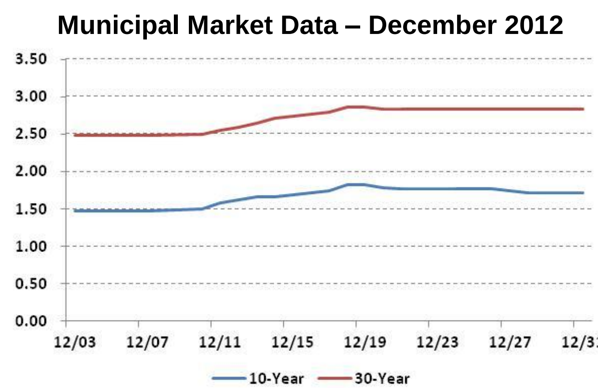
- ***New York Thruway Adopts Budget without Proposed Toll Increases.*** In August 2012, the New York Thruway Authority (Thruway Authority) held three public hearings on a proposal to increase toll rates on vehicles with three or more axles by 45 percent. The additional revenue was needed to fund a major capital improvement program and to help maintain the Thruway Authority's credit ratings. On December 17, 2012, the Thruway Board adopted a budget for 2013 that does not include any toll increases. According to the Thruway Executive Director, the proposed toll hike was avoided when the Governor of New York agreed to have the state cover the $60 million annual cost of providing state troopers to patrol the 570-mile Thruway system. In addition, the Thruway Authority will eliminate over 360 positions, reduce overtime and travel, freeze the pay of managers, and reduce its capital program.

  The Thruway Authority also selected a design and a design-build contractor (Tappan Zee Constructors, a consortium of: Fluor Enterprises, Inc., American Bridge Company, Granite Construction Northeast, Inc., and Traylor Bros., Inc.) for the new Tappan Zee Bridge. The winning design uses more steel and less concrete than the other two short-listed designs which reduces the weight of the structure and minimizes the number and size of the bridge foundations. As a result, the estimated construction cost of $3.14 billion is lower than the competing proposals and significantly below the $5.2 billion Thruway Authority project budget, which includes additional costs for management, oversight and contingencies. The Thruway Authority submitted a TIFIA letter of interest for the Tappan Zee Bridge project in September 2012.

Market Update

Rates on municipal bonds which had declined throughout November (reaching a low of 2.47 percent in the 30 year Municipal Market Data (MMD) index) increased sharply in mid-December in the face of significant issuance and fears about potential tax law changes in 2013. At the end of the month, 30 year MMD stood at 2.83 percent, a 36 basis point increase over its low. The run-up in municipal rates reflected increases in Treasury Bonds which, while less dramatic, were still pronounced.





- ***Route 460 Funding Corporation of Virginia.*** Of relevance to the Airports Authority is the issuance of $293.4 million Toll Road Senior Lien Revenue Bonds by the Route 460 Funding Corporation of Virginia on December 11. The bonds provide a portion of the funding for the section of U.S. Route 460, a 55-mile, four lane, limited-access highway from Suffolk to Prince George County with seven interchanges, paralleling the existing U.S. 460 (which will remain open as a free road). Project cost, including toll collection set up, is $1.396 billion.

  In 2003, the General Assembly passed a law requiring VDOT to procure the project under the Public-Private Transportation Act of 1995, which allows the Commonwealth to partner with the private sector to design, build and finance transportation improvements. US 460 Mobility Partners (comprised of Ferrovial Agroman, S.A. and American Infrastructure) will design and build the project with VDOT oversight during construction. The Route 460 Funding Corporation, a not-for-profit entity, will be responsible for collecting tolls, adjusting future rates and managing the toll collection system over the course of 40 years. VDOT will retain all potential excess revenues of the project and will set the initial toll rates.

  VDOT is providing up to $903 million (which could be reduced if TIFIA funding is received) and the Virginia Port Authority is contributing up to $250 million (also dependent on the amount of TIFIA) with $243 million (net) from the sale of tax-exempt bonds by the Corporation this month. The bonds were structured as two term maturities in 2049 and 2051 at yields of 4 percent and 4.10 percent, respectively. The spread to MMD was +1.52 and +1.62 percent. Ratings on these Senior Lien bonds are Baa3/BBB-/NR, which is lower than the ratings on the Authority's Subordinate Lien.

When the road opens in 2018, tolls will begin at approximately 7 cents per mile ($0.067) for cars and 21 cents per mile ($0.213) for trucks equating to $3.69 and $11.72, respectively, for the entire 55 miles. There will be no manual toll collection; only E-ZPass and license plate video.

OUTSTANDING DULLES CORRIDOR ENTERPRISE DEBT

Short-Term Notes and Loans

As of January 1, 2013, the Airports Authority has issued $149,550,000 of Dulles Toll Road Second Senior Lien Commercial Paper Notes, Series One, leaving up to $150,450,000 of additional liquidity available.

Program	Authorized Amount	Letter of Credit Provider	Dated Date	Expiration Date
Commercial Paper Series One	*Up to $300 Million*	*JP Morgan*	*August 1. 2011*	*August 11, 2014*

On December 17, 2012, the Airports Authority issued $200 million of fixed rate notes secured by the remaining Federal funding anticipated to be received pursuant to a Full Funding Grant Agreement (FFGA) with the Federal Transit Administration for Phase 1 of the Rail Project.

Program	Amount Issued	Lender	Dated Date	Scheduled Final Maturity
FFGA Notes, Series 2012	*$200 Million*	*Bank of America*	*December 1, 2012*	*December 1, 2016*

Dulles Toll Road Revenue Bonds

The total par amount of outstanding Dulles Toll Road Revenue Bonds as of January 1, 2013 is $1,305,906,518.[1] The table on the following page provides details on each bond issue.

[1] The par amount does not include approximately $119 million of accreted value on outstanding capital appreciation bonds and convertible capital appreciation bonds. Interest on those securities is not paid currently. It accretes from the date of issuance and is compounded semi-annually on each April 1 and October 1 until the maturity date, or if applicable, the conversion date, whereupon interest will be payable semi-annually.

Refunding Opportunities

There are no currently callable bonds outstanding. The Series 2009A First Senior Current Interest Bonds may be refunded in advance of the 2019 call date. Under current market conditions, a refunding transaction would not generate any debt service savings due to significant negative arbitrage in the required refunding escrow.

TABLE 1
Summary of Outstanding Dulles Toll Road Revenue Bonds

SERIES [2]	2009A	2009B	2009C	2009D	2010A	2010B	2010D
DATED DATE	8/12/2009	8/12/2009	8/12/2009	8/12/2009	5/27/2010	5/27/2010	5/27/2010
ORIGINALLY ISSUED PAR AMOUNT	$198,000,000	$207,056,689	$158,234,960	$400,000,000	$54,813,219	$137,801,650	$150,000,000
AMT OUTSTANDING as of 1/1/2013	**$198,000,000**	**$252,671,750**	**$196,599,068**	**$400,000,000**	**$64,945,965**	**$162,757,867**	**$150,000,000**
LIEN	First Senior	Second Senior	Second Senior	Second Senior	Second Senior	Second Senior	Subordinate
STRUCTURE	Tax-Exempt Current Interest Bonds	Tax-Exempt CABs	Tax-Exempt Convertible CABs	Taxable Build America Bonds	Tax-Exempt CABs	Tax-Exempt Convertible CABs	Taxable Build America Bonds
PRINCIPAL AMORTIZATION	2030-2044	2012-2040	2038-2041	2045-2046	2029-2037	2040-2044	2042-2047
YIELDS [3]	5.18% to 5.375%	3.50% to 7.91%	6.50%	7.462% (4.85% net of subsidy)	6.625%	6.500%	8.00% (5.20% net of subsidy)
CALL PROVISIONS [4]	October 1, 2019 at Par	Non-Callable	October 1, 2026 at Accreted Value	Any Business Day at Make-Whole Redemption Price	Non-Callable	October 1, 2028 at Accreted Value	Any Business Day at Make-Whole Redemption Price
MOODY'S RATING	A2	Baa1	Baa1	Baa1	Baa1	Baa1	Baa2
S&P RATING	A	BBB+	BBB+	BBB+	BBB+	BBB+	BBB
CREDIT ENHANCEMENT [5]	None	$188,266,435 Assured Guaranty	$158,234,960 Assured Guaranty	None	None	None	None

[2] Series 2010C was authorized but not issued.

[3] The all-in interest cost for the Series 2009 and 2010 bond issues is 6.044 percent and 6.154 percent, respectively, which results in an overall average cost of capital to date of 6.073 percent.

[4] The Make-Whole Redemption Price is the greater of (i) 100 percent of the principal amount of the Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the adjusted Treasury Rate plus 50 basis points, plus accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

[5] Bonds insured by Assured Guaranty are rated “AA-” (stable outlook) by S&P and “Aa3” (review for possible downgrade) by Moody’s.