FRASCA & ASSOCIATES, L.L.C.

MERCATOR ADVISORS LLC

JULY 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

- ***Authorization to Solicit Public Input on Potential Dulles Toll Road Rate Adjustments.*** As a separate agenda item, Finance Staff and the Financial Advisors will recommend that the Finance and Dulles Corridor Committees authorize the President and Chief Executive Officer to publish notice of a proposed amendment to the regulation that establishes toll rates for the use of the Dulles Toll Road and to conduct public hearings in the Dulles Corridor on the proposed amendment over the next few months. Management will also brief the Dulles Corridor Advisory Committee on the proposed toll rate adjustments.

  A comprehensive report on the public hearings and the submitted comments will be presented at a joint Dulles Corridor and Finance Committee meeting in October 2012. A resolution to modify the DTR toll rates could be considered by the full Board in November 2012.

Informational Items

- ***2012 Plan of Finance.*** Staff and the Financial Advisors are prepared to request proposals from members of the Dulles Corridor Enterprise underwriting syndicate to securitize Federal funding that may be received by the Airports Authority over the next four years pursuant to the Full Funding Grant Agreement ("FFGA") for the Rail Project. Under the FFGA, which was executed in March 2009, the Airports Authority will receive up to $900 million of federal funding for Phase 1. As of July 1, 2010 the FFGA appropriations to date, including the federal fiscal year 2012 funds, total $611,114,364. Subject to future appropriations by Congress and the continuing compliance by the Airports Authority with the terms and conditions of the FFGA, the Airports Authority expects to receive $96 million per annum in federal fiscal years 2013, 2014 and 2015 with a final appropriation of $885,636 in federal fiscal year 2016.

  The primary objective of the proposed FFGA transaction is to secure at least $150 million of proceeds (net of transaction costs and any required reserves) at the lowest all-in cost of funding over the life of the transaction. An RFP will be issued to the syndicate pool for the Dulles Corridor Enterprise on July 16 with responses due on August 13. A summary of the proposals submitted and recommendations for next steps will likely be provided to the Finance Committee in September 2012. We expect to bring the transaction to the Finance

Committee in October and to the Board in November with a sale and closing expected to occur in the fourth quarter of 2012.

- ***Commercial Paper Drawdown.*** Staff is contemplating the drawdown of approximately $150 million of its authorized $300 million Dulles Toll Road Second Senior Lien Commercial Paper Notes, Series One to fund Project cash flow needs. The Airports Authority would issue these notes prior to the close of this calendar year. Staff will provide additional detail as it continues to evaluate Project cash flows and options.

- ***Commonwealth Funding of $150 million.*** Staff and General Counsel are working with the Virginia Department of Transportation and the Virginia Department of Rail and Public Transportation to finalize a grant agreement for $150 million to be used to mitigate DTR toll rate increases. Staff expects that the agreement will be completed prior to September 2012 as requested by the Board.

- ***Loudoun County Participation in the Rail Project.*** On July 3, 2012, the Loudoun County Board of Supervisors voted to proceed with its funding participation with in Phase 2 of the Rail Project under the July 19, 2007 "Agreement to Fund the Capital Cost of Construction of Metrorail in the Dulles Corridor" as amended per the Memorandum of Understanding executed on December 30, 2011. A motion was also passed stating that the agreement to participate "be null and void if a mandatory Project Labor Agreement is required of the general contractor for Phase II, or any type of labor preference is used during the procurement process."

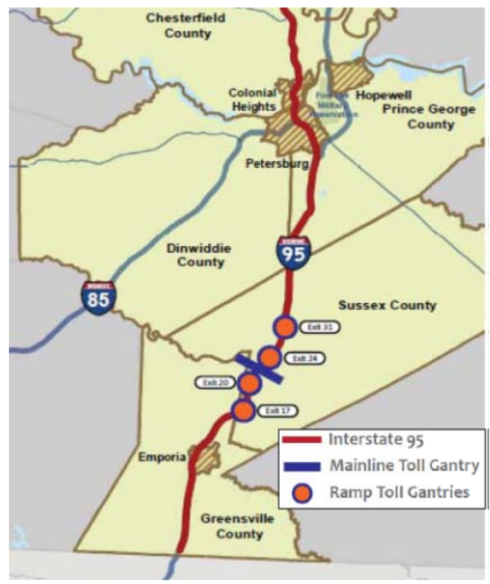
<u>Relevant News Items</u>

- ***Federal Surface Transportation Authorizing Legislation.*** On June 29, 2012 Congress finally passed legislation to reauthorize the federal highway, transit and safety programs. The President signed the bill (H.R. 4348) called *Moving Ahead for Progress in the 21st Century ("MAP-21")* on July 6. The current law was enacted in 2005, expired in 2009 and extended 10 times while Congress debated policy reforms and funding provisions. MAP-21 generally funds the federal programs at current (federal fiscal year 2012) levels through September 2014, at which time new legislation will once again be required. It also consolidates many of the dozens of existing individual programs and contains significant environmental streamlining/project acceleration provisions. Of particular interest is a dramatic expansion of the TIFIA loan program - annual funding for which increases from $122 million under current law to $750 million in 2013 and $1 billion in 2014. This increased funding level is expected to enable the U.S. Department of Transportation (USDOT) to provide loan assistance to major projects totaling about $10 billion per year by 2014, an eight-fold increase over current law. MAP-21 funds the Federal Transit Administration's *Fixed Guideway Capital Investment Grants ("New Starts")* program at $1.9 billion per year, approximately the same as under the current law.

  The expansion of the TIFIA loan program is welcome news for the Airports Authority, which might be able to obtain additional loan commitments for the Dulles Corridor Metrorail Project. But there likely will be intense competition for these additional funds.

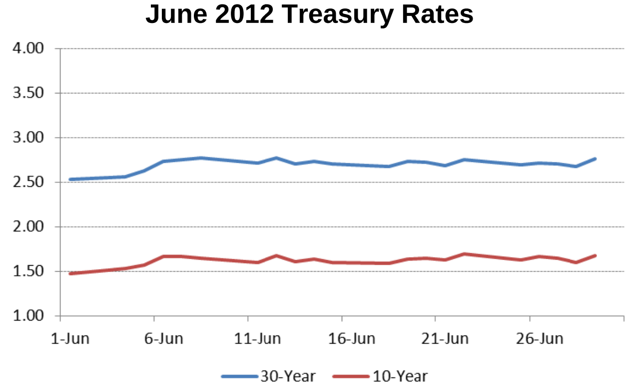
- ***District of Columbia Streetcar System.*** The District of Columbia Department of Transportation (DDOT) has issued a Request for Information (RFI) regarding a potential solicitation for private parties to deliver an urban streetcar system under a design, build, finance, operate and maintain framework. The estimated cost to build the initial 22-miles of the streetcar system is $1.2 billion, including the procurement of approximately 50 vehicles. DDOT is also seeking industry feedback on the potential private sector delivery of a bus system within the District. The DDOT RFI is similar to ones issued by the Airports Authority in that it is an inquiry only and does not initiate a formal procurement. The information contained in the responses to the RFI will help DDOT advance planning and development efforts for the projects.

- ***Virginia Interstate 95 Corridor Improvement Program.*** On June 20, 2012, the Commonwealth Transportation Board (CTB) was briefed on potential strategies for tolling Interstate 95 to generate funds to reconstruct and upgrade the highway. After analyzing potential toll rates ranging from $0.02 to $0.15 per mile collected at a variety of locations, the Virginia Department of Transportation (VDOT) is currently recommending that one toll plaza be constructed near Emporia, Virginia, which is approximately 45 minutes south of Richmond near the border with North Carolina. An initial mainline toll rate of $4.00 for cars ($12.00 for 5-axle vehicles) is expected to generate gross annual toll revenue of $35 to $40 million. The preliminary VDOT analysis assumes future toll rate increases would be indexed to inflation. VDOT will hold public hearings on the tolling proposal in Fall 2012.

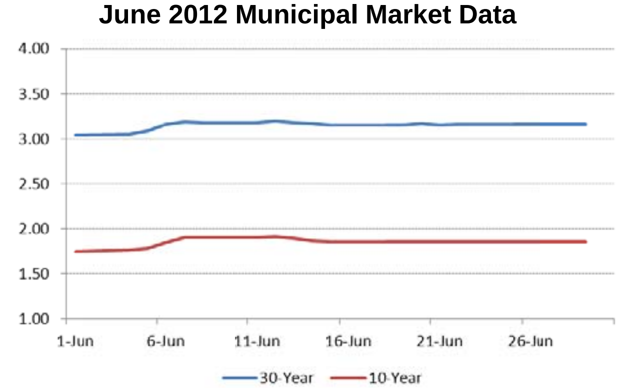


Market Update

June 2012 Treasury Rates



June 2012 Municipal Market Data



The municipal bond market held reasonably steady, after a bump upwards in early June in reaction to weaknesses in Treasuries. The supply of bonds to the municipal market increased as many refunding transactions continued to capitalize on low rates, generating savings. In fact, volume was up 63 percent for the first six months of the year versus the comparable period in 2011. Refundings were up a staggering 137 percent.

Surface transportation transactions during the month included two New York issues that exceeded $1 billion in size: $1.12 billion for NYS Thruway, rated A1/A+/NR, structured as serial bonds from 2014-2042 at yields ranging from 0.548 percent to 4.01 percent, and the Metropolitan Transportation Authority which issued $1.3 billion A2/A/A rated bonds at yields ranging from 1 percent in 2014 to 3.70 percent in 2032. While the buyer base for exempt NY paper seems bottomless, these credits have been in the news lately. S & P reduced the outlook for NYS Thruway bonds from Stable to Negative because of concerns about debt service coverage issues, and the MTA announced the issuance of yet another billion of bonds for its capital plan later this summer. It was encouraging to see the market absorb nearly $2.5 billion of transportation bonds brought to market within the span of a few days. Oregon DOT offered roughly $300 million Aa1/AAA/AA+ taxable and tax-exempt refunding bonds earlier in the month, and San Francisco Municipal Transportation Authority rated Aa3/A/NR issued $65 million of revenue bonds yielding 3.81 percent in 2042.