BOARD OF DIRECTORS MEETING

Minutes of February 20, 2013

The regular meeting of the Board of Directors was held in the first floor Conference Rooms 1A, 1B and 1C at 1 Aviation Circle. The Chairman called the meeting to order at 10:30 a.m. Fifteen Directors were present during the meeting:

Michael A. Curto, Chairman
Thomas M. Davis III, Vice Chairman
Earl Adams, Jr.
Richard S. Carter
Lynn Chapman
Frank M. Conner III
Anthony H. Griffin
Shirley Robinson Hall
Barbara Lang
Elaine McConnell
William Shaw McDermott
Caren Merrick
Warner H. Session
Nina Mitchell Wells
Joslyn N. Williams

The Secretary and Executive Management were present:

John E. Potter, President and Chief Executive Officer
Margaret E. McKeough, Executive Vice President and Chief Operating Officer

The Chairman welcomed everyone to the February meeting of the Metropolitan Washington Airports Authority Board of Directors.

With the new Members who had joined the Board in January, the Chairman noted that the Board is now very close to its full membership; 16 of the authorized 17 Members were now in place. The President of the United States would appoint one more federal Member to the Board.

Jack Potter and other Authority staff would report on a very successful 2012 in terms of business and passenger growth at the Airports, as well as progress on the Silver Line project. The Chairman noted that an update on the continuing and significant progress made in addressing the recommendations of the Department of Transportation (DOT) Inspector General's (IG) audit would also be presented at the day's Meeting.

The Chairman noted that Phase 1 of the Silver Line project remained on track to be substantially completed in the late summer. For Phase 2, the Authority remained on schedule to award the primary design-build contract in the spring of 2013.

The Authority is also making excellent progress toward securing additional government funding assistance for the rail project, which would help mitigate future toll rate increases on the Dulles Toll Road.

The Chairman reported that the Authority's application for assistance under the federal Transportation Infrastructure Finance and Innovation Act (TIFIA) program is moving forward, and the Authority is receiving $150 million in assistance from the Commonwealth of Virginia that was approved last year.

In addition, the Virginia Legislature is now considering Governor McDonnell's transportation plan, which includes additional assistance for the rail project in the years ahead.

I. MINUTES OF THE JANUARY 16, 2013 BOARD OF DIRECTORS MEETING

The Chairman called for the approval of the Minutes of the January 16 Board of Directors Meeting, which were adopted.

II. COMMITTEE REPORTS

a. <u>Audit – Legal Committee</u> – Shirley Robinson Hall, Co-Chairman

Ms. Hall reported that the Audit – Legal Committee last met to consider audit-related matters on January 16. [Mr. Adams would present a separate report for the day's Audit – Legal Committee Meeting.]

Andy Rountree, Vice President and Chief Financial Officer, and staff had provided a status update on plans to enhance internal controls. Two of the action items listed on the plan had been changed to be completed in February: 1) Reconciliation Performance and Review Should be Adequately Evidenced and 2) Controls Over Accounting, Monitoring, Reporting of Inventory Activity Should be Enhanced. Staff had underestimated the amount of time required to complete the required reconciliations and related transactions.

Valerie Holt, Vice President for Audit, had reported that parking is the Authority's largest non-revenue source. She had reviewed one of the audits regarding parking cashier activity. The audit results had revealed that the parking company had maintained effective internal controls over hiring, managing and monitoring cashiers. While Ms. Holt had reported that there had been some recent challenges regarding this function, the improved results had been positive news for the Authority.

Ms. Holt had also reviewed the audit for the shuttle bus services for the public and employee parking lots. The objective of the audit had been to ensure that the contractor was in compliance with the service delivery requirements. The audit results had revealed that the contractor had been in compliance of all areas, except a critical requirement of a Global Positioning System (GPS) to monitor and report shuttle bus activity. Ms. Holt had reported that management is working to ensure that a cost effective GPS would be installed as soon as possible. Staff had also issued a letter to the contractor demanding a plan to procure and install a new GPS. Ms. Holt said that a price adjustment for the contract option years may occur to reflect the cost of the required GPS. Margaret McKeough had affirmed that the Authority is committed to enforcing all of its rights under the contract, including the possibility of not renewing it.

Ms. Holt then reviewed the subcontractor indirect cost audit. She had reported that federal law required that the Aviation and Dulles Corridor enterprise be audited and that staff review the indirect cost rates. Staff had identified that bonus expenses had not been fully supported by a qualified bonus plan and that expenses from prior and future years had been incorrectly included in the rate. The firm's overhead had been reduced and the contracting officer would recoup the difference.

Ms. Holt had reviewed the process used to report violations on the Dulles Toll Road and the manner in which the payments from the violators are collected. Management had agreed it was necessary to obtain complete detailed processing information for each transaction, which would assist in the completion of a more comprehensive analysis. Ms. Holt had clarified that present reports were unable to determine if uncollected toll violations existed or if false readings indicating violations had occurred. Ms. McKeough had noted that compared to industry standards, the 1.5 percent rate of violations on the Dulles Toll Road is very minimal.

The Committee had also met in executive session pursuant to Article IX, Section 3(g) of the Authority Bylaws to discuss airport security and information security audits.

Because Mr. Adams was not present at the time, Ms. Hall then reported that the Audit – Legal Committee had met in executive session prior to the day's Board Meeting to review the Pending Litigation Report. As provided for in the Bylaws (Section 3(e)), the Board and its Committees can move into executive session for consultation regarding pending or potential litigation. Mr. Adams returned to the Meeting as Ms. Hall concluded the Committee report.

b. Dulles Corridor Committee – Tom Davis, Chairman

Mr. Davis reported that the Dulles Corridor Committee had last met January 16.

He noted that as part of the normal process to allow for year-end close, financial reports had not been presented at the January meeting. Staff would present Preliminary 2012 and January 2013 financial reports later at the day's Committee Meeting.

For the monthly Phase 1 Metrorail Project Cost Summary, Pat Nowakowski, Executive Director of the Metrorail Project, had reported that Phase 1 expenditures had been $35.3 million in November 2012, bringing the total up to $2.255 billion, with the total project budget remaining at $2.905 billion.

About $380.8 million in contingency funds had been used through November 2012; $81.5 million in contingency had remained unobligated.

Mr. Davis reported that the Committee had next heard the Dulles Corridor Metrorail Quarterly Report. All Phase 1 design had been completed; one permit for a kiss and ride lot still needed to be secured and work also continued regarding the as-built drawings. Construction was 86 percent complete through the end of November 2012; total project completion was 94 percent.

Mr. Nowakowski had reported that the Washington Metropolitan Area Transit Authority (WMATA) is furnishing the rail cars for the Project at the Project's cost. The four pilot cars for the Project would be delivered in February 2014. After an extensive testing period by WMATA, it would authorize the contractor to proceed with the production cars; they would be delivered between August 2014 and June 2015. Mr. Nowakowski had reported that WMATA had committed to using its existing rail cars for the initial service of Phase 1. He said that in compliance with federal requirements, WMATA could not use only new rail cars on a specific line; they would be used throughout the entire line.

Mr. Nowakowski had reviewed the details of the inspection and turnover activities associated with Phase 1. The contractor's substantial completion activities were scheduled to be finished on August 29, with the exception of the West Falls Church Yard, scheduled to be completed December 20. The operational readiness date, which would be determined by WMATA, would succeed the contractor's substantial completion activities. After the operational readiness activities had been achieved, WMATA would need approximately 90 days to formally accept the Project. At that time, the property and facilities would be conveyed to WMATA and the revenue service date would be established.

As to Phase 2, $84.7 million had been spent thus far. Mr. Nowakowski had reviewed the key events that had occurred in 2012 and had reported that price proposals would be due in April and the contract award is anticipated in May.

The Committee had also received the Metrorail Project Quarterly Dulles Transit Partners (DTP) Construction Report. Larry Melton, the DTP representative, had reported on the Project's outstanding safety records. Lost time and recordable incident rates had continued to be much lower than the rest of the industry.

Mitigation measures were still being undertaken to make up for delays due to weather-related events. If they could not be mitigated, the delays would be included in the next schedule update. Actions that needed to occur for project turnover and closure had been discussed. Presently, Phase 1 is 96.8 percent complete.

Mr. Melton had reported that staff levels in January were about 1,300. The statistics regarding craft workers by residency and race/ethnicity had not changed significantly. Directors expressed their concerns about the low representation of employees from the District of Columbia on Project 1. Mr. Davis had noted that once Phase 2 contracts had been awarded, contractors should make efforts to conduct outreach in the District of Columbia.

The DBE project goal, at the end of November 2012, had been $183.9 million, ten percent of current contract value. At the end of November 2012, $181.8 million had been paid out. Commitments had reached $248 million.

Mr. Melton had reviewed the construction milestones and had reported that the first WMATA test train had successfully traversed the entire alignment of the Silver Line. Additional testing would occur in February and in the summer, where as many as four multi-car trains would be on the track simultaneously.

Mr. Davis noted that a Committee meeting would be held later that day; additional details would be discussed.

c. Finance Committee – Frank M. Conner, Chairman

Mr. Conner reported that the Finance Committee had last met on January 16. The Financial Advisors for the Aviation and Dulles Corridor Enterprise had presented their reports; no actions had been taken. Finance plans for both enterprises had been discussed.

III. INFORMATION ITEMS

a. President's Report

Mr. Potter said that he would provide reports on two developments in the airline industry that could affect Reagan National and Dulles International; as well as a Silver Line update, including progress in securing additional funding for the Silver Line for toll mitigation; and the Authority's ongoing effort to address the recommendations of the Department of Transportation Office of Inspector General.

With respect to the Airport developments, Mr. Potter congratulated American Airlines and U.S. Airways on reaching an agreement on a proposed merger, which would impact operations at Reagan National. He stated that U.S. Airways is the dominant carrier at Reagan National, operating 56 percent of all arrivals and departures. Currently, American Airlines has 11.5 percent of all Reagan National activity. If slot assignments are left unchanged by the regulators, the combined airline would operate 67.5 percent of all flights at Reagan National.

Mr. Potter noted that press reports indicated that the percentage of operations by the proposed new carrier at Reagan National would be reviewed by the Justice Department and consideration would be given to divestiture of some existing slots. The situation would be monitored very carefully, and the Authority would be ready to accommodate the outcome of the merger.

At Dulles International, a non-regulated Airport, American Airlines and U.S. Airways each operate 3 percent of all flights. Therefore, a regulatory issue does not exist at Dulles International.

Mr. Potter noted that airline mergers typically take months to be approved, and several years to fully adjust operations. Both airlines would continue to operate independently for the immediate future, which means very little near-term impact at Reagan National and Dulles International. However, over the long term, when the merger is completed, it will most likely affect gate assignments and passenger flows at Reagan National and possibly result in divestiture of some slots. Authority staff would remain in close touch with the airlines as the merger progressed, and would keep the Board informed on future developments.

With respect to Capitol Hill, Mr. Potter noted that budget sequestration was only days away if Congress failed to act. Operations of both the Transportation Security Administration (TSA) and the Federal Aviation Administration (FAA) are critical to the operation of both Airports – and they greatly impact the customer experience as passengers move through our facilities. Both the TSA and FAA had raised concerns that budget sequestration would negatively impact their operations and create potential inconveniences for the traveling public.

While the Authority hoped that this would not occur, staff would work closely with the TSA and FAA as they dealt with budget limitations going forward. Authority staff would do what it could to keep the traveling public informed of developments to assure that they are not inconvenienced by changes that may occur as a result of budget sequestration. Mr. Potter stated that the federal government is a strong user of both Airports noting that almost 20 percent of passengers who used Reagan National and Dulles International were federal employees or people flying on government-related business. Therefore, as federal budgets are tightened, Mr. Potter reported that sequestration may also have an impact on the number of travelers at our Airports.

With respect to rail, Mr. Potter reported that the Authority continued to make excellent progress on the Silver Line construction and remained on schedule to substantially complete Phase 1 late this summer. Once substantial completion of construction occurred, the Silver Line would be turned over to WMATA for testing prior to its final acceptance and the start of revenue service.

In the interim, Dulles Transit Partners (DTP) would be performing a significant amount of contractually required testing to assure that the installed systems perform to contract specifications. Mr. Potter reported that the Authority is working closely with DTP and WMATA to coordinate all the testing. All are committed to complete as much testing as early as possible and, where practical, to work in parallel to speed final acceptance and avoid redundant testing.

As stated earlier, Mr. Potter said that a period of significant testing of the Phase 1 project would begin in the coming months. During this time, it would be important to remain cognizant that while all hoped that the construction and system installments are perfect the reality is that there would likely be some issues that would need remediation. He committed that all would react to issues raised by the testing and to quickly remediate any problems. Project staff and DTP are committed to working as a team to conduct timely testing and to fix any issues that might arise in a calm and business-like manner. Presently, Mr. Potter said that he was unaware of any issues that would impact the existing schedule.

Mr. Potter reported that the Authority continues to follow the schedule approved by the Board regarding award of the Phase 2 rail construction contract. The final RFP had been issued the prior week to five construction teams previously selected to participate in the RFP process. Mr. Nowakowski would review the schedule in detail during the Dulles Corridor Committee Meeting later that day. Mr. Potter stated that the financing plan for Phase 2 is critical to keeping tolls as low as practical. Authority staff had been actively engaged in securing additional funding from the Commonwealth and had been working with Fairfax and Loudoun Counties to secure a federal TIFIA loan for the project. The Authority's application for federal assistance under the TIFIA program is being processed by the Department of Transportation, and the Authority remains optimistic about a positive outcome. The favorable interest rate and payment schedule flexibility afforded by a TIFIA loan would help to mitigate toll increases. Staff hoped to learn about the outcome of the Authority's TIFIA application in the near future.

Mr. Potter also reported that supporters of the Rail Project in Richmond, including the Governor, are working to secure additional funding assistance from the Commonwealth of Virginia. He noted that he had joined Governor Robert McDonnell and other leaders at a media briefing on February 11 at the Dulles Toll Road Administration Building. At that briefing, the Governor had emphasized that $300 million for the Silver Line had been designated in his transportation plan proposal for the express purpose of lowering projected toll increases. Both Houses in Richmond had passed their versions of the transportation plan, and both bills included money for the Silver Line.

On February 14, Mr. Potter had met with several Senate and House members, including the Speaker, in Richmond. On behalf of the Authority and all toll road users, he had had expressed gratitude that Silver Line funding had been included in both bills. Mr. Potter had also strongly encouraged that, as the two versions of the bill are reconciled in conference, that the funding remain in the final legislation for the benefit of the Dulles Toll Road customers. He said that he had hoped to have the outcome of the conference for the day's meeting; however, it had been extended by one day.

Mr. Potter said that the Authority is grateful to the leaders in Richmond and DOT for listening and responding to the concerns of the communities served by the Dulles Toll Road.

In the area of administration, Mr. Potter reported that the Authority is moving forward in its efforts to fill the key positions of Vice President of Human Resources, Vice President of Information Technology, and Manager of Procurement. There had been an impressive level of interest from highly-qualified candidates for these positions. Mr. Potter stated that staff had completed the interviews for a Procurement Manager and a selection would soon be announced. Interviews for the Vice President of Human Resources are presently being scheduled. Staff would receive a report later that day from its recruiter on the Vice President for Information Technology.

Mr. Potter reported that the Authority had continued to make steady progress on the implementation of the IG recommendations. He noted that the Business Administration Committee and the entire Board had received a draft of the revised Contracting Manual in December 2012. The Manual had also been sent to a number of agencies for their comments and suggestions. Mr. Potter reported that the FAA and the Government Accountability Office had advised staff that they had no comments at this time. Constructive comments had been received from the Federal Transit Administration and the IG. Mr. Potter noted that staff had originally planned to finalize the draft for this Board meeting, but more time had been taken to ensure that the comments received had been properly incorporated. A revised Contracting Manual, addressing these agency comments, would be presented to the Business Administration Committee and the Board for approval in March. Andy Rountree, Vice President for Finance and Chief Financial Officer, would provide more details on the Contracting Manual later that day in the Business Administration Committee meeting. Mr. Potter said that the Authority's revised Contracting Manual would close out several of the issues raised in the IG audit.

Mr. Potter reported as part of an effort to improve the procurement process, the Authority is instituting mandatory Procurement Integrity training throughout the organization, for all employees actively engaged in procurement activities. Over 200 employees had been identified for this training to be held in early March, which is based on the Federal Procurement Integrity Act. This program would be a precursor to training for the same group of employees on the revised Contracting Manual, which will occur in late March. The newly-adopted Contracting Manual and associated training will help assure that the Authority's procurement process reflects the best practices of government and industry.

At the day's Business Administration Committee Meeting, staff would present the first complete Quarterly Acquisition Report, which includes details about contracts awarded during the fourth quarter 2012, such as the dollar value, extent of competition, and the name of each contracting officer who entered into the contract. The Report also includes contract modifications and task orders issued during the fourth quarter 2012. As recommended by the IG, the Quarterly Acquisition Report also includes a report identifying contract actions approved by the Board during the fourth quarter 2012; planned procurements for second quarter 2013; and a report identifying all employees with contracting authority, including dollar limits to their authorities. Mr. Potter reported that staff had shared the Quarterly Acquisition Report with DOT, and the IG believed that the Authority had fully met this recommendation to enhance transparency in the procurement area.

Mr. Potter reported that all active employees required to file financial disclosure forms under the new Authority Code of Ethics had submitted their forms. Additionally, certifications from all Contracting Officers certifying that they have no conflicts of interests in the contracts they award or administer had been completed.

Mr. Potter also reported that in January the Authority had received confirmation from the IG that the Authority's Revised Travel Policy sufficiently addressed the recommendation and that the IG considered the finding to be closed. He stated that staff is closely tracking its progress on each of the IG recommendations, as demonstrated by the materials included in the mailing for the day's meetings. Mr. Potter reported that the Authority is presently on track to meet its original schedule.

With respect to operations, Mr. Potter reported that the Authority had been well prepared for January's presidential inauguration. As the press had reported, the crowds this year were lighter than those associated with the previous inauguration. However, on the day after the inauguration, Mr. Potter reported that about 36,000 outbound passengers, which were far more than usual, had passed through the checkpoints at Reagan National. Staff had pitched in to help guide people through the Airport, to answer questions, to distribute snacks and water to those waiting in line and to ensure their inaugural experience ended positively at the Airport. The TSA and airline employees had also performed in an outstanding manner. Mr. Potter said that a few complaints and issues had been addressed, but quite a few compliments were received from passengers. He thanked everyone who had helped make it a good day.

Lastly, Mr. Potter reported that the Authority had set two records regarding passenger activity in 2012. At Reagan National, an all-time record for number of passengers had been set with over 19 million passengers served. Additionally, Dulles International remains the gateway to the world from the Washington, D.C. metropolitan area. A new all-time record high for international passengers had been set with over 6 million people arriving and departing on international flights. The only blip had been a decline in domestic passengers at Dulles International. As had been reported throughout the year, Mr. Potter said that the decline had been largely due to the slot changes at Reagan National. Overall, passenger traffic had increased in 2012 at both Airports.

Mr. Adams said that he had been at Reagan National on the day after the inauguration and that he had been impressed with the overall operations. He spoke about the placement of additional ticket kiosks that had greatly benefitted the passengers. Mr. Adams congratulated Authority staff and TSA on their performance.

Ms. Hall congratulated the Communications staff on its new format used to distribute daily news articles and other important information. Mr. Potter said that David Mould, Vice President for Communications, had led the effort to upgrade the existing process.

Mr. McDermott stated that while he realized it was the airlines' responsibility to inform passengers about any changes that may result if sequestration occurred, he inquired whether the Authority had considered a form of communication to inform passengers about impacts in the event of sequestration. Mr. Potter said that all remained hopeful that sequestration would not occur, but he noted that the Authority would work closely with TSA and the Customs and Border Protection. It would be important to communicate with the airlines, all other agencies, and the media to discuss potential challenges regarding staffing, as had been done for the recent inauguration. Because of the logistics of Reagan National, Mr. Potter said that politicians would likely use the Airport as a platform to discuss information about airlines' impacts due to sequestration. He also noted that Dulles International was the first Airport in the nation to provide passengers with real-time information on security line wait times, which were displayed in the terminals. This information regarding real-time security line wait times could also be accessed on the Authority's website and on mobile devices. Mr. Potter said that the Authority was very concerned about the potential impacts but that he remained hopeful that a decision would be reached to prevent a negative impact on the economy.

b. Executive Vice President's Report

Ms. McKeough reported that information on December 2012 activity levels had been included in the materials for the day's meeting, but she thought it would be more relevant to review the year's activity. She then reported that the Authority's combined system had concluded 2012 with a positive growth rate of nearly 1 percent. For combined activity at Reagan National and Dulles International, there had been more than 42 million passengers served in 2012. Throughout the U.S. aviation industry, there had been a slight increase in activity of .10 percent in 2012, which had indicated a flat year of growth. Ms. McKeough reported that a record level of growth had occurred at Reagan National in 2012. More than 19.7 million passengers had been served at the Airport, which had been 800,000 more than 2011. Ms. McKeough complimented the Airport staff for handling the tremendous increase in passengers throughout the year. At Dulles International, Ms. McKeough reported that total passenger activity had declined approximately 3 percent in 2012 compared to the prior year, noting that more that 22.6 million passengers had been served at the Airport. She noted that Dulles International had marked its tenth year of consecutive growth of international activity. In 2012, international activity had increased almost 2 percent while the domestic activity had decreased more than 4 percent. Overall, the total 2012 cargo tonnage activity had declined about 11 percent from the prior year, which had resulted from a 6 percent decrease in domestic cargo service and nearly 15 percent decrease in international cargo service. As had been reported throughout the year, Ms. McKeough noted that the majority of the cargo was bound for international and European destinations. The recent economic challenges had attributed to the annual decline in cargo service. Ms. McKeough also reported that there had been some recent change in aircraft sizes at Dulles International, which also provided for less cargo opportunity.

Mr. Adams recalled discussion about a plan to increase cargo activity and inquired about its status. Ms. McKeough responded that staff was working aggressively to secure a freighter airline that would be used exclusively for cargo at Dulles International, but no commitments had been identified thus far. She also reported that staff is working to reposition Dulles International more strategically in the cargo market as an Airport of growth and opportunity. Ms. McKeough noted that a substantial amount of cargo is transported on trucks via local interstates and that a full-time employee is dedicated to aggressively pursue cargo opportunities. Mr. Potter reported that available cargo space at Dulles International is decreasing. The facility, which is currently 90 percent occupied, is an indication that airlines are taking advantage of cargo opportunities at Dulles International. A decision would soon need to be made to determine if the Authority should partner with other facilities for cargo opportunities or construct an additional cargo facility.

IV.NEW BUSINESS

There was no any new business.

V. UNFINISHED BUSINESS

There was not any unfinished business.

VI. OTHER BUSINESS & ADJOURNMENT

The Meeting was thereupon adjourned at 11:08 a.m.

Respectfully submitted:

Quince T. Brinkley, Jr.
Vice President and Secretary

Approved 3/20/13