SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF JUNE 20, 2018

Mr. Speck chaired the June 20 Finance Committee Meeting, calling it to order at 9:15 a.m. A quorum was present during the meeting: Mr. Mims (Co-Chair), Mr. Adams, Mr. Griffin, Ms. Hanley, Ms. Lang, Ms. Merrick, Mr. Pozen, Mr. Tejada, Mr. Uncapher, Mr. Williams, and Mr. Session (ex officio).

Before Andy Rountree, Vice President for Finance and Chief Financial Officer, began his presentation, Mr. Speck asked if Mr. Session and Finance Committee Co-Chair, Mr. Mims, who attended the bond sale, would like to provide comments on the overall experience.

Mr. Mims commended Jack Potter, President and Chief Executive Officer; Mr. Rountree and staff, Valerie O'Hara and Giedre Ball, Debt Managers; and Frasca and Associates. L.L.C. (Frasca) for their excellent efforts in the success of the process. He shared that this was his first bond experience in New York, and he was very impressed that the Airports Authority's bonds had sold in less than an hour. Mr. Mims stated that the transaction saved the Airports Authority $63 million in present value. He then congratulated Ms. O'Hara on her upcoming retirement.

Mr. Session concurred with Mr. Mims' comments. He stated that the recent transaction had been his second time participating in the process and he found both to be great learning experiences. Mr. Session thanked Mr. Rountree, Ken Cushine of Frasca and the Barclays Capital Inc. (Barclays) team for the experience.

Mr. Speck shared that the complexity of the transaction, at its simplest level, consists of buyers, sellers, borrowers and lenders. He stated that after entering the market to secure the loan, the transaction was subscribed almost four times over, which is indicative of how the Airports Authority is received in the investor-buyer community.

<u>Report on Series 2018A Bonds Transaction Results</u>. Mr. Rountree provided additional details to transaction details that Mr. Potter shared earlier. He invited Ms. O'Hara to join him in the presentation as it would be the last transaction she participated in before retiring. Mr. Rountree reiterated that the Airport System Revenue and Refunding bonds are not

affiliated in any way with the Dulles Toll Road bonds; they are totally separate.

Mr. Rountree stated that he would review the details of the transaction, the pre-pricing efforts and the results. He noted that the Board selects the Senior Bookrunning Manager, the Co-Managers, and the Co-Senior Managers for the transaction. Mr. Rountree acknowledged the representatives from each member of the Aviation Enterprise Underwriting syndicate in attendance. He reported that the transaction was authorized in May for refunding $413.9 million of bonds, in addition to approximately $200 million of new money. The transaction was estimated at a net present value savings of $52.8 million. Mr. Rountree reported that the transaction timeline began as early as January. Staff met with the rating agencies, received results, posted the Official Statement, and the transaction priced on May 31. Mr. Rountree thanked Mr. Session and Mr. Mims for attending the pricing and Co-Chair Mr. Speck for participating by phone.

As part of the process, Mr. Rountree reported that the rating agencies affirmed the Airports Authority ratings, all with stable outlook -- Moody's Investors Services (Moody's), Aa3; Standard & Poor's, AA-; and Fitch Ratings, AA. He noted that the Airports Authority's ratings are among the highest ratings that airports receive from the key or major rating agencies. Mr. Rountree stated that one of the factors that the rating agencies review is the aggregate Cost per Enplanement (CPE). He noted that although the CPE for Ronald Reagan Washington National Airport (Reagan National) and Washington Dulles International Airport (Dulles International) are still highly leveraged with the CPE on the high side, there has been a tremendous effort in decreasing it which was recognized by Moody's last year, when the Airports Authority was upgraded to the Aa3 rating with stable outlook. Mr. Rountree stated that the coverage ratios are expected to decline as capital programs are added, but they will remain very strong. He reviewed the Series 2018A transaction summary, including the issuance of par-value of bonds for approximately $558.4 million and the all-in true interest cost of 3.61 percent with an average maturity of a little less than 15 years. Mr. Rountree reported that new money financing was $199.5 million, refunded par of $413.8 million, and the amount issued par value totaled $356.6 million. As previously reported by Mr. Potter, Mr. Rountree noted that there were orders totaling $2.4 billion, which were subscribed by over four times, or stated differently, oversubscribed by more than three times. He reported that the transaction netted a gross savings of $81.5 million with a net present value savings of $63.3 million, representing 15.3 percent of the refunded par.

Mr. Rountree advised that the investor outreach to create demand for the sale of the Series 2018A Bonds included 52 internet roadshow views; 25 specific one-on-one investor meetings and/or calls. Eleven of those investors who were directly marketed placed orders totaling $836 million.

Mr. Rountree reviewed the top 20 bond holders for the Airports Authority bonds and with this specific bond offering significant orders had been placed by many of those bond holders, including Black Rock Advisors, T. Rowe Price Associates, and Nuveen Asset Management as part of the deal. He shared that there were $2.2 billion of total orders from a total of 42 investors, including $191 million from seven new investors as a result of re-pricing and awarding outstanding bonds or bonds available. Mr. Rountree recalled that long-term rates increased slightly in February, but as time neared for the bond deal, those rates decreased. Ultimately, the Airports Authority entered the market exactly at the lowest point since February 2018. Mr. Rountree observed that the long-term rates have once again begun to increase since the May 31 pricing. He stated that after consulting with Barclays and others, the decision to enter the market a week earlier saved the Airports Authority approximately $2.1 million.

Mr. Rountree thanked the Frasca team for its support of the transaction. Additionally, he thanked Ms. Ball and congratulated her on assuming the responsibilities that Ms. O'Hara will relinquish upon retirement. Mr. Rountree then thanked Ms. O'Hara for all of her efforts for the current transaction and accomplishments throughout her career at the Airports Authority.

Ms. O'Hara noted that the bond transaction process is a three to six-month process that involves an entire team -- the Board, Senior Management, and the Airports Authority's Departments of Finance, Engineering and Revenue. She stated that the team involves as many as 50 people who contribute to accomplishing the end results, which were remarkable. Ms. O'Hara further stated that that she really enjoyed the opportunity to work with everyone involved in the process.

Mr. Uncapher recalled that last year there were some maturities that were not in demand although cumulatively there was a demand several times the actual issuance. He asked if the same occurrence had happened with the recent issuance. Mr. Rountree responded that there was over demand across the board as all the maturities were sold in the orders, as reported.

Financial Advisors' Report – Dulles Corridor Enterprise. Jim Taylor of Mercator Advisors LLC (Mercator) stated that Mr. Tejada had asked for examples of how other toll authorities and toll agencies handle toll increases. He presented two very recent examples of toll agencies that are working on toll increases for 2019. Mr. Taylor reported that the West Virginia Parkways Authority (WVPA) is doubling toll rates. Tolls would increase at three main plazas from $2 to $4 for an 88-mile long facility. Based on the assumptions, Mr. Taylor reported that WVPA expects to lose approximately 13 percent of its traffic because of the toll increase, while receiving a less than 20 percent increase in revenue. As part of this process, WVPA is also switching to a process allowing commuters to receive unlimited travel for three years for $24, which would result in a revenue loss. Mr. Taylor advised that commuters interested in the program would have to sign up for the new process by the end of the year. He observed that this kind of nuance is one of the factors to consider when comparing it to the Dulles Toll Road.

Mr. Taylor stated that the Washington State Transportation Commission (Transportation Commission) had solicited public input on a number of potential tolling options. He further stated that variable toll pricing would not occur on the two-mile tunnel; however, the Transportation Commission is considering charging different tolls for travel at different hours of the day. Mr. Taylor reported that the Transportation Commission is seeking public opinion on beginning with high tolls, with small increases each year or beginning with low tolls, with large increases each year. He advised that the Airports Authority's process is very consistent with other authorities. Mr. Taylor stated that the focus is to determine the best method for tolling, solicit input from the community, and implement the process for future planning. He further stated that he would provide more information over the next couple of months. Mr. Taylor noted that Directors should inform the Board Office to request additional information about any financial interests reported in the news.

During the assessment of other toll authority processes, Ms. Merrick inquired whether other systems are similar to the Airports Authority's in the sense that their revenue is used to fund additional projects not directly related to the operation or the maintenance of their toll road.

Mr. Taylor stated that the Airports Authority is probably the only tolling authority with one single toll road funding another project. He further stated that the Pennsylvania Turnpike generates over $400 million a year for transit throughout the state, and New York has tolls collected that are transferred for the use of transit. Therefore, the Airports Authority is not unique in that regard; however, the Airports Authority is unique as it operates one toll road asset with fees dedicated to one specific rail project.

Mr. Tejada thanked Mr. Taylor for his efforts in comparing how other authorities and toll agencies handle toll increases. He stated that the information he shared provides the public with a point of reference for comparison purposes. Mr. Taylor further stated that the report was available on the Airports Authority website and future updates would be included in the Financial Advisors' report.

Mr. Speck inquired about the economic benefits of a three-year single fee discount program for $24. Mr. Taylor responded that a lot of travelers from other states use the West Virginia Turnpike, but the local commuters do not normally travel far enough to break even if they purchase the pass for the discount program. He stated that the goal of the WVPA is to collect the toll revenue increase from out-of-state travelers who do not participate in the single fee discount program. Mr. Taylor advised that unlike the Airports Authority, a number of other toll agencies are changing to the implementation of future automatic toll increases without receiving public input.

Ms. Hanley asked if there are any projections of the amount of money that the different choices would generate, and how the amount relates to the overall funding. Mr. Taylor stated that while projections are available, the revenue projection would not be available to the public because WVPA is interested in receiving public feedback on its single fee discount program tolling plan. He further stated that WVPA has already closed the public hearing process and would implement the new toll policies on January 1, 2019. Mr. Taylor advised that the Transportation Commission would close its public comment period on July 17. He further advised that the Transportation Commission would select a combined tolling option and hold a public hearing prior to making a decision in September or October.

Ms. Hanley observed the different tolling options for the Transportation Commission noting that the time of travel is considered with variable pricing that reflects much more stability. Mr. Taylor stated that the varying options are different enough to elicit some reaction. He further stated that in addition to the toll rates, different options for future toll increases at 3 percent every two years or 5 percent every four years would also be considered.

Mr. Griffin asked if the Transportation Commission officials are elected or appointed, to which Mr. Taylor responded that they are appointed at the state level. He stated that he is unsure about WVPA's appointment and election processes, but he would provide the requested information. Mr. Taylor observed that public agencies vary with regard to terms of appointment and election processes, which can make a difference in the decisions.

Mr. Speck added that the types of examples that Mr. Taylor presented are interesting and very helpful to the Board.

<u>Financial Advisors' Report – Aviation Enterprise</u>. Mr. Cushine reviewed some of the key terms as they relate to variable rate debt. He stated that there are two types of variable rate debt: 1) where the rates change based on market conditions; and 2) a more formulaic approach, where there is a predetermined index change. Mr. Cushine presented an example of variable rate demand obligations (VRDOs) that are typically long-term debt, often 30 years, similar to a bond where a principal amortization schedule exists. He explained that the difference is that the interest rate varies on a short-term basis which could be daily, weekly, or monthly. VRDOs have flexibility, are marketed to investors, and are supported by a Letter of Credit from a highly-rated financial institution to provide liquidity support.

Mr. Cushine reported that the London Interbank Offered Rate (LIBOR) and the Securities Industry and Financial Markets Association (SIFMA) are the two most commonly used benchmarks. LIBOR is a taxable rate representing an incredibly large market and is used for municipal and corporate securities and debt all throughout the world. Mr. Cushine stated that there is an effort to phase out LIBOR over the next few years. He reported that Frasca would monitor the efforts very closely, collaborate with the Airports Authority and the legal team, as well as the facility providers. Mr. Cushine observed that LIBOR is still a very commonly-used benchmark. He explained that since LIBOR is a taxable rate, the Airports Authority would typically pay a percentage of LIBOR in some of the actual securities, which is converted into an effective tax-exempt rate. Mr. Cushine stated that SIFMA is the tax-exempt benchmark that is basically comprised of a portfolio of high-quality VRDOs.

Mr. Cushine provided brief descriptions of various key terms, including interest rate swap, commercial paper, index floaters, floating rate notes, bond anticipation notes, and direct-funded products. He noted that although some of the terms are not currently part of the Airports Authority's existing portfolio, the key terms are part of the terminology associated with variable rates.

Mr. Cushine reviewed the Airports Authority's variable rate debt portfolio, including the different series, types of debt, and amounts currently outstanding. He reported that the Airports Authority has approximately $780 million of outstanding variable rate debt representing approximately 17 percent of the total debt outstanding for the Aviation Enterprise.

Mr. Cushine reviewed the variable interest rates chart, reflective of tax exempt variable rate debt from 1990 to the present. He stated that as the Federal Reserve has increased the federal funds rate, the market has reacted, and rates have continued to increase since 2016. Mr. Cushine explained the reason and benefit of the Airports Authority maintaining variable rate debt. He stated that the variable rates are used with the existing swap portfolio, which is performing well, and achieving what is intended in terms of synthetic fixed rates. Mr. Cushine further stated that the cost of unwinding the swap portfolio would be very expensive at approximately $112 million, which is derived based upon market rates. He advised that Frasca monitored this year's transaction, as well as those of prior years, to determine whether viable opportunities to unwind swaps existed. However, it is not currently cost-effective to unwind the swaps.

Mr. Cushine reviewed the variable rate debt, which is part of managing the overall balance sheet that includes assets and liabilities. He stated that one of the Airports Authority's strengths is the amount of unrestricted cash and liquidity available, which is a key asset that the rating agencies and investors consider.

Mr. Griffin asked why plans are underway to phase out LIBOR. Mr. Cushine stated that there had been various news reports about LIBOR being manipulated. He further stated that in terms of international finance, the industry consensus is that LIBOR is not a representative benchmark and does not provide a true measure of a risk-free, short-term rate. As a result of the investigations, fewer banks are participating in the use of LIBOR; therefore, banks are searching for alternative products to provide a more accurate and reliable benchmark.

Mr. Griffin asked how the LIBOR indexes are created and approved. Mr. Cushine stated that there are a variety of regulatory agencies throughout the nation, and LIBOR rates exist for different terms and different currencies. He further stated that the international financial and regulatory communities create the indexes to replace each of the LIBOR benchmarks.

Mr. Speck reiterated that all of the information Mr. Cushine reviewed at the day's meeting is to position the Airports Authority for financial success and for it not to be dependent upon one scenario. He stated that when he and Mr. Mims became Finance Committee Co-Chairs, they discussed the use of tutorials. Mr. Speck stated that the tutorials are intended to introduce information so that Directors become familiar with some of the financial terms and concepts. He invited Directors to share any thoughts that would help to plan future tutorials for the provision of additional background that could be beneficial when making decisions.

Mr. Griffin asked if information from the tutorials could be compiled and included in orientation materials provided to new Board Members. Monica R. Hargrove, Vice President and Secretary, stated that plans are underway for the tutorials to be incorporated into the orientation materials for future Board Members.

With regard to the pre-solicitation terms for credit facilities associated with the Aviation Enterprise's Variable Rate Portfolio, two Directors made statements. Mr. Pozen stated that he and the Ethics Officer had determined that he has an apparent conflict of interests in matters affecting Wells Fargo Municipal Capital Strategies, LLC, one of the current credit facilities and a wholly-owned subsidiary of Wells Fargo Bank, N.A. As he had previously stated, Mr. Pozen reported that Wells Fargo Bank, N.A., is one of his clients. He also reported that he had already executed a recusal agreement for matters directly affecting it. To avoid any suggestion of partiality on his part, Mr. Pozen stated that he would not participate in the Finance Committee consideration of pre-solicitation terms for credit facilities. Mr. Pozen announced that he was stepping back from the Board table while the matter was considered.

Mr. Speck reported that as he had previously stated, he has an apparent conflict of interests with Wells Fargo Municipal Capital Strategies, LLC, due to the purchase of his business, from which he was now retired, by Wells Fargo Advisors, a separate, non-bank affiliate of Wells Fargo & Company. He stated that he believes that, notwithstanding this apparent conflict, he is able to participate fairly and objectively in the interests of the Airports Authority in matters affecting Wells Fargo Municipal Capital Strategies, LLC, a wholly owned subsidiary of Wells Fargo Bank, N.A. Mr. Speck stated that he had consulted the Ethics Officer who concurs in this course of action.

<u>Pre-Solicitation Terms for Credit Facilities Associated with the Aviation Enterprise's Variable Rate Portfolio</u>. Mr. Rountree stated that the topic regarding variable rate debt covered by Mr. Cushine was selected to provide insight for the pre-solicitation terms for credit facilities associated with the Aviation Enterprise's variable rate portfolio. He further stated that he would present staff's request for the Finance Committee to concur with the issuance of a Request for Proposals (RFP) to the financial institutions interested in providing either a Letter of Credit or direct-funded loan, line of index floater notes, and possibly other variable rate products to replace or extend the two expiring credit facilities totaling approximately $234 million. Mr. Rountree reviewed a chart that illustrated that in addition to the $200 million commercial paper program, there is $778.7 million in credit facilities for the provision of credit enhancement and/or liquidity for the variable rate bonds, or service direct variable rate loans. He reported that two of the credit facilities would expire this year.

Mr. Rountree stated that the Airports Authority would reserve the right to select multiple credit facility providers. He reported that using the proposed technical evaluation criteria negotiations would occur with the highest-rated proposers. In the event the negotiations are unsuccessful, the Airports Authority would reserve the right to begin negotiations with the next-highest-rated proposers. Mr. Rountree stated that the focus is to attract primarily commodity-type instruments that are fee driven with the lowest cost. He further stated that the RFP would be posted on the Airports Authority's website, advertised in the *Bond Buyer* publication, as well as distributed to banks that offer credit facilities. He advised that the proposed schedule includes a very quick distribution timeline, as soon as the following day, if the Finance Committee concurs with the issuance of the RFP. Mr. Rountree stated that proposals would be due on July 9, and the recommendation would be presented to the Finance

Committee and Board of Directors for approval at the September meetings.

Mr. Adams raised the issue of ensuring that the Airports Authority is taking full advantage of the range of existing financial institutions. He emphasized the importance of the Airports Authority being vigilant about using all of the types of institutions, regardless of size, as well as those that are minority-owned or otherwise. Mr. Adams agreed with the issuance of the subject solicitation. He requested staff feedback on the Airports Authority's local depository program. Mr. Rountree stated that the update on the deposits with all institutions is included in the Quarterly Investment Committee Report. He advised that the RFP for the pending solicitation would be distributed to all eligible institutions that offer the required financial products.

Ms. Merrick inquired as to when the quarterly report would be presented to the Finance Committee, to which Mr. Rountree responded that it would be presented in September.

The Committee concurred with the terms of the pending procurement as presented and discussed.

<u>May 2018 Financial Report – Aviation Enterprise</u>. Mr. Rountree stated that he was joined by Anne Field, Acting Corporate Controller. He provided financial information for the Aviation Enterprise. Mr. Rountree reported that revenue through May was $314.1 million, 1.6 percent higher than forecast. He also reported that airline revenue was $145.0 million, which was 3.6 percent lower than forecast. Airline revenue through 2018 was 1.0 percent higher than forecast. Non-airline revenue was $169.2 million, 6.5 percent higher than prior year, and almost 2 percent higher than forecast. Mr. Rountree reported that O&M expenses were $159.7 million, 6.5 percent higher than prior year, and 7.0 percent lower than forecast. He advised that the legal requirement for debt service coverage is 1.25x. Through May, the debt service coverage estimate was 1.80x, which is a very strong coverage level. Mr. Rountree stated that the projection is to end 2018 at approximately 1.62x, which is tracking ahead of the forecast.

<u>May 2018 Financial Report – Dulles Corridor Enterprise</u>. Ms. Field reported that Toll Road revenue totaled $62.2 million year to date, .4 percent lower than prior year to date, and 1.8 percent lower than forecast. She also reported that Dulles Toll Road transactions were 39.6

million, 1.3 percent lower than prior year to date, and 2.6 percent lower than forecast. Ms. Field stated that electronic toll collections were at 89.7 percent. Dulles Toll Road expenditures year-to-date are $12.4 million, 10.3 percent higher than prior year, and 4.6 percent lower than forecast.

With regard to the Toll Road, Ms. Merrick observed that transactions are 1.3 percent lower than the prior year and 2.6 percent lower than the forecast. She recognized that it was a small decrease but asked about the contributing factors. Ms. Field stated that 2017 benefitted from favorable weather; however, January, February and March were flanked with school and federal government closures due to weather. She noted that April was slightly over forecast and May was very close to forecast.

Due to the transition to the new financial system that would occur later this month, Mr. Rountree advised that staff would need to close the month of June early and would not prepare June financial statements as a result. He reported that the year-to-date report through August would be presented at the September Finance Committee meeting.

The meeting was thereupon adjourned at 10:12 a.m.