SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF NOVEMBER 14, 2018

Mr. Speck chaired the November 14 Finance Committee Meeting, calling it to order at 11:04 a.m. A quorum was present during the meeting: Mr. Mims (Co-Chair), Mr. Adams, Mr. Dwoskin, Mr. Griffin, Ms. Hanley, Mr. Lazaro, Mr. Pozen, Mr. Sudow, Mr. Tejada, Mr. Uncapher, Mr. Williams, and Mr. Session (ex officio).

<u>Recommended 2019 Budget</u>. Andy Rountree, Vice President for Finance and Chief Financial Officer, was joined by Rita Alston, Budget Manager. He stated that he had presented the 2019 draft budget for each of the Aviation and Dulles Corridor Enterprise fund budget programs in October. As a reminder, Mr. Rountree restated that there are three budget programs in each of the two enterprise funds, and they are set up as two separate enterprise funds to create the financial firewall between the two separate enterprises. He advised that the draft budget presentation included the Airports Authority's strategic priorities and budget objectives and the key budget development considerations. As previously advised at the October Committee meeting, Mr. Rountree stated that the day's presentation would provide an opportunity to identify any differences between the 2019 draft budget and the recommended 2019 Budget. He reported that there were no changes in the day's presentation. The 2019 recommended budget is exactly the same as the 2019 draft budget presented in October, with the exception of authorized positions. Mr. Rountree advised that the 2019 recommended budget includes a further reduction of three career positions for a total of five positions and four non-career positions for a total of 42 positions.

Mr. Rountree reviewed the highlights of the 2019 recommended budget for the Aviation Enterprise in comparison to the 2018 Budget. He stated that the Operation and Maintenance Program (O&M) total 2.8 percent reduction was a combination of total debt service reduction in the budget of 10 percent, offset by a 4 percent increase in other operating expenses. The 2019 operating revenues would increase 2.9 percent above the 2018 Budget to a total of $728.4 million comprised of a 0.3 percent increase in airline revenue and 5.5 percent increase in non-airline revenue. Mr. Rountree reiterated that the Airports Authority uses a cost recovery process with airline revenue and this budget keeps Cost per Enplanement (CPE) relatively flat. He stated that the Capital, Operating and Maintenance Investment Program (COMIP) new authorization of $64.6 million includes $22.7 million for Ronald Reagan Washington National Airport (Reagan National) and $41.9 million for Washington Dulles International Airport (Dulles International). The Capital Construction Program (CCP) new authorization is $59.2 million: $10.2 million at Reagan National and $49.1 million at Dulles International.

With regard to the comparison of the 2019 recommended budget to the 2018 budget for the Dulles Corridor Enterprise, Mr. Rountree reported that the O&M expense increase of 28.5 percent to a total $201.2 million is the result of the increase in debt service. He advised that the operating revenue increase of 28.5 percent, or $201.2 million in total revenue, will be a direct result of the Board's approval to increase the Dulles Toll Road toll rates in 2019. Mr. Rountree noted that there are no new recommended budget authorizations for the Renewal and Replacement Five-Year Program. The Capital Improvement Program (CIP) Five-Year program has a new recommended authorization of $6.4 million coming online.

Mr. Rountree reported that the 2019 recommended budget achieves an estimated CPE of $16.98 for Dulles International and $12 for Reagan National. He stated that the CPEs for both Airports in 2018 are expected to be under the budgeted CPE for 2018. Mr. Rountree advised that the new authorizations by program as they relate to the budget would be detailed in the 2019 budget resolution.

Mr. Rountree thanked Ms. Alston, her staff, and all the Airports Authority offices for their timely budget submissions to the Finance Department so that the 2019 recommended budget could be presented.

Mr. Session asked if there is an opportunity once the budget is approved to reprogram funds or consider a supplemental budget. Mr. Rountree responded that certain authority is granted to the President and Chief Executive Officer within annual budget resolutions to achieve reprogrammings within each of the program budgets as long as the net impact is zero. He noted that if a certain threshold is reached, the budget reprogrammings are reported to the Board on a quarterly basis. Mr. Rountree reported that the Board also has the ability to consider a budget amendment at any point during the year should circumstances change.

Mr. Speck expressed appreciation to the staff for their work on the 2019 recommended budget. He stated that when a budget of such consequence is presented without any controversy it is the result of quality work performed by numerous people. Mr. Speck noted that a similar budget process would begin again for the 2020 budget shortly after the recommended 2019 budget is approved.

Mr. Sudow had several inquiries about parking. He asked about the parking revenue at each Airport; whether any changes in parking trends had occurred; if free parking affected the revenues at Reagan National; if the decrease in parking revenue at Reagan National was recovered by the parking revenue at Dulles International; and the process used to account for increased parking. Mr. Rountree stated that from a revenue standpoint, the budget forecast for ground transportation categories includes parking, rental cars, transportation network companies, and taxis. Ms. Alston stated that the 2019 recommended budget for parking revenue at Reagan National is $37 million compared to $38 million in 2018. At Dulles International, the 2019 recommended budget for parking is $52 million compared to $50 million in 2018.

Mr. Sudow also inquired if a separate line item for veriScan is included in the technology initiatives in the 2019 recommended budget that would identify the potential progress. Mr. Rountree stated that a very conservative budgetary basis was used for veriScan, which included no budget revenue expectations; therefore, all revenue derived would be more than anticipated. He noted that the 2019 recommended budget included a $2.4 million authorization to generate revenue from veriScan. Mr. Rountree state that the technology line item would be tracked closely and information on revenue produced from veriScan would be provided in the future.

The recommended 2019 Budget was approved and the resolution would be presented at the December 12 Board meeting.

<u>Financial Advisors' Report – Aviation Enterprise</u>. Marvin Sun of Frasca & Associates, L.L.C. reported that the Request for Proposals for underwriting services had been distributed on October 18, and the responses are due on November 16. He stated that the plan is to have the Technical Evaluation Committee review and evaluate the proposals timely so that the recommendations could be considered by the Finance Committee and Board in January 2019.

Mr. Sun reviewed the slide presentation on the major capital programs at large hub airports around the country and the financial impacts that the Airports Authority will have in the future in terms of airlines' CPEs. He advised that many large hub airports had announced major multibillion-dollar capital programs during the last 10 years, which will have impacts on future financial metrics.

Mr. Sun shared highlights of the selected large hub airports with CIPs over $1 billion, including Project Journey at Reagan National. He noted that the airports with the largest capital programs include Los Angeles International Airport (LAX), Chicago O'Hare International Airport (ORD), and the New York airports. Mr. Sun provided details of each of the capital programs. He reported that LAX has a $12 billion airport rebuild program, of which half would be financed with general airport revenue bonds as well as other financing methods. Additionally, ORD is near completion on its large capital program to reconfigure the airfield for runways, and it is also embarking on a large capital program for terminals. Mr. Sun reported that The Port Authority of New York and New Jersey used numerous private developers and private operators to assist with their major programs at LaGuardia Airport, which is significant when comparing their existing CPEs to future projected CPE levels based on feasibility reports.

Mr. Griffin inquired about the low CPE levels at Charlotte-Douglas International Airport (CLT). Mr. Sun responded that CLT has an American Airlines' hub that provides the airport with the advantage of a larger number of enplanements. He noted that CLT's modern terminal buildings were built when there was no competition with its capital programs. Mr. Sun stated that another advantage is that CLT has a much lower cost for construction because of its location which contributed to keeping its CPE levels low. He noted that Hartsfield–Jackson Atlanta International Airport is the busiest airport and its costs are spread over many more enplanements than other airports. Mr. Rountree added that CLT also has very little outstanding debt.

Mr. Sun shared that Margaret McKeough, Executive Vice President and Chief Operating Officer, also observed that some airports, including the New York airports, highlight the airline CPEs which represent only the charges for each of the airlines operating at the airports, and they do not include a lot of the direct costs that are incurred by the airlines that vary by different airports based on their financial framework.

With regard to other United Airlines' (United) hubs, Mr. Sun reported that the large capital programs in LAX and at San Francisco International Airport would result to the CPE increasing to $30 and $27, respectively. He advised that Denver International Airport's $2 billion issuance earlier in the year led to an increase of more than $15 in CPEs. Mr. Sun noted that Houston Airport was similar to the New York airports where United has incurred substantial special facility debt in addition to debt that contributes to the CPE levels.

At the summary and conclusion of the presentation, Mr. Sun stated that the current large hub medians for CPEs of $10 - $12 are likely to increase quite significantly over the next several years with the capital programs. He noted that the CPE levels represent what the airports are charging each of the airlines, and do not include many of the direct costs. In addition to other reasons, Mr. Sun shared that the CPE levels are expected to vary over a wider range.

Mr. Sudow stated that he would be interested in knowing how Reagan National and Dulles International compared with other airports in regard to the current and projected CPEs. Mr. Rountree advised that the requested information is included in the latest rating agency report on the airport industry which was previously circulated.

Mr. Tejada referred to the Current and Projected CPEs and observed that Miami International Airport (MIA) was the only airport listed where the amount of the projected CPE was expected to decrease and requested an explanation. Mr. Sun stated that MIA does not have a great deal of official debt. Since it is paying off debt, MIA's debt levels are decreasing, resulting in a lower CPE.

Mr. Uncapher inquired about airports combining CPEs and their airlines direct costs. Mr. Rountree stated that combining the costs is a struggle for airports across the country in order to ensure a fair CPE comparison. Although all airports generally do not interpret debt the same way, approximately 90 percent of them are consistent in the manner by which they interpret debt in their CPE calculations.

<u>Financial Advisors' Report – Dulles Corridor Enterprise</u>. Jim Taylor of Mercator Advisors LLC reviewed an informational item regarding a litigation update about a recent lawsuit filed concerning the use of Dulles Toll Road toll rates, on which Airports Authority had prevailed. He reported that the owner of the Dulles Greenway had released toll revenue

and traffic statistics for the third quarter, which revealed that the average daily toll revenue and traffic had declined. Mr. Taylor also reported that Transurban had released traffic data for the 495 Express Lanes and the 95 Express Lanes for the third quarter that revealed that traffic remained fairly consistent.

Quarterly Report on the Investment Program (Quarter Ended September 30, 2018). Mr. Rountree was joined by Nancy Edwards, Manager, Treasury Department. Ms. Edwards reported that the total portfolio had increased in the third quarter of 2018 by $296.9 million from June 30 through September 30 [which is comprised of] an increase of $285.3 million in the Aviation Enterprise fund and an increase of $11.6 million in the Dulles Corridor Enterprise fund. She reviewed the details that impacted the Aviation Enterprise portfolio noting that the vast majority resulted from the issuance of the Series 2018A Bonds which provided approximately $200 million of new funds that increased the construction balances. Ms. Edwards noted that throughout the quarter, funds are set aside in preparation for the annual October 1 principal and interest payments.

With regard to the Dulles Corridor Enterprise, Ms. Edwards reported that the $11.6 million was mostly from the interest account set-aside for the October 1 payment and approximately $24.2 million in construction spending. Mr. Speck noted that Attachment A, Economic Conditions and Outlook as of October 31, included useful information.

October 2018 Financial Report – Aviation Enterprise. Mr. Rountree was joined by Chris Wedding, Controller. Mr. Rountree noted that since the December Finance Committee meeting would be held one week earlier than normally scheduled, the November Financial Reports for both enterprises would be presented in January 2019. He reported that total revenue for October was $649.1 million, 1.2 percent higher than the prior year and 2.2 percent higher than forecast. Mr. Rountree stated that airline revenue was $293.6 million, 4.8 percent lower than prior year and 0.3 percent higher than forecast. Non-airline revenue was $355.5 million, 6.7 percent higher than the prior year and 3.8 percent higher than forecast. Mr. Rountree reported that O&M expenses through October were $317.4 million, 4.2 percent higher than prior year and 5.9 percent lower than forecast. The debt service coverage for October was 1.85x, which is much better than had been anticipated as budget expectations were 1.62x.

Mr. Adams inquired as to whether Mr. Rountree had any concerns regarding the aviation outlook. Mr. Rountree stated that financial results are driven by activity. Since the Aviation Enterprise total revenue is higher than forecast, it will help to drive down CPEs going forward. Mr. Rountree stated that there are obvious concerns about a potential recession or increases in interest rates, noting that the Finance Staff is watching refunding opportunities carefully. He advised that there are potentially no benefits in entering the market early because of penalties that would be incurred. Mr. Rountree stated that it is very important to select the underwriting team for the next bond financing transaction promptly. Mr. Adams observed that Mr. Rountree's observations are the larger macro issues which cannot be controlled and that staff would have to remain vigilant.

With predictions of a recession in 2019 that will affect numerous industries, Mr. Sudow inquired how the Airports performed during past recessions, as well as the potential impact for the 2019 budget. Mr. Rountree stated that Reagan National and Dulles International had fared well in 2008. He observed that a decrease in activity had occurred and that it had taken several years for all airports across the country to resume normalcy. Mr. Rountree stated that the Airports' financial forecasts for 2019 are conservative. Mr. Sudow then asked if the Airports Authority has controllable costs that could be potentially managed. Mr. Rountree stated that limited controllable costs existed. He further stated that approximately half of the Aviation Enterprise debt is uncontrollable and is linked to refinancing opportunities and that the remaining half is associated with personnel and contract-type costs. Mr. Rountree reported that in the past Airports Authority staff has reviewed various contracts to determine whether the full scope of services is needed or if an opportunity existed to scale back and reduce costs.

Mr. Speck observed that a lot of speculation is under way about the future outlook of the finance industry. He stated that he believed that the Airports Authority continues to work to identify an appropriate balance between taking advantage of an opportunity without jeopardizing its financial security.

<u>October 2018 Financial Report – Dulles Corridor Enterprise</u>. Mr. Wedding reported that total revenue was $127.2 million year to date, revenues were 0.5 percent lower than last year and 1.5 percent lower than forecast. He stated that transactions year to date are 81.0 million as of October, trending 0.8 percent lower than last year and 2.2 percent

lower than forecast. Mr. Wedding stated that electronic toll collections remain steady at 89.65 percent. Toll Road expenditures were $24.4 million year to date, trending 4.5 percent higher than last year this time and 2.5 percent lower than forecasted for the year.

Budget Reprogrammings for the Second Quarter of 2018 (Quarter Ended September 30, 2018). Staff confirmed that no budget reporogrammings occurred for the second quarter.

The meeting was thereupon adjourned at 12:12 p.m.