SUMMARY MINUTES
FINANCE COMMITTEE
MEETING OF JUNE 19, 2019

Mr. Mims chaired the June 19 Finance Committee Meeting, calling it to order at 9:40 a.m. A quorum was present during the meeting: Mr. Speck (Co-Chair), Mr. Adams, Ms. Batty, Mr. Dwoskin, Ms. Hanley, Mr. Lazaro, Mr. Pozen, Mr. Sudow, Mr. Tejada, Mr. Uncapher, and Mr. Session (ex officio).

Report on Sale of Airport System Revenue and Refunding Bonds and Dulles Toll Road Refunding Bonds. Andy Rountree, Vice President for Finance and Chief Financial Officer, was joined by Giedre Ball, Debt Program Manager. He reported that copies of the final documents for the Airport System Revenue and Refunding Bonds, Series 2019B and Dulles Toll Road First Senior Lien Revenue Refunding Bonds, Series 2019A are available in the Board office. Mr. Rountree expressed appreciation for the efforts extended by Nic Malas and the team from Jefferies, Senior Manager, and Jon Kirn and the team from Siebert Cisneros Shank & Co., L.L.C. (Siebert), Co-Senior Manager, for the aviation transaction, and Guy Nagahama and the team from Ramirez & Co., Senior Manager, for the Dulles Toll Road transaction.

Mr. Rountree reported that the Board of Directors authorized the refunding transactions in May. He stated that one of the transactions was a refunding of approximately $183 million of Series 2009B Bonds and new money financing primarily for the continued construction of Project Journey. Mr. Rountree reviewed the transaction schedule, which began early this year, and included meetings with potential investors and the three rating agencies to provide updates and share financial, market, and economic data. He stated that the rating agencies had affirmed the Metropolitan Washington Airports Authority's (Airports Authority) ratings of Aa3 (Moody's Investor Service) and AA- (Standard & Poor's and Fitch Ratings) each with stable outlook. Mr. Rountree reported that the net present value savings totaled $32.3 million and $48.0 million for the Airport Revenue and Refunding Bond Series 2019AB and Dulles Toll Road Bond Series 2019A, respectively, both of which had exceeded the anticipated savings. He advised that the closings and deliveries are scheduled for July 3 for the aviation transaction and July 10 for the Dulles Toll Road transaction.

Mr. Rountree shared several of the credit positives that demonstrated the Airports Authority's strengths that led to the ratings, including strong service areas, strong market position, strong track record, financial profile, improved competitive position, and extremely strong governance and management evidenced by a deep and experienced team.

Mr. Rountree reviewed the aviation transaction summary, investor outreach, and Airports Authority System bondholders who placed orders. He reported that the total par value issued was $388 million, with an All-in True Interest Cost of 3.14 percent, which was a record low interest rate for the Aviation Bonds with an average maturity of 14.3 years. Mr. Rountree also reported that the aviation orders totaled $863 million. He explained that since all of the orders could not be fulfilled, it provided an opportunity to achieve a better interest rate. Mr. Rountree reported that demand was very strong, and the total subscription was 2.2x subscribed or 1.2x over subscribed. He advised that the market's preference was non-AMT bonds. Some maturities were unsubscribed at the end of the pricing period. Mr. Rountree reported that the Airports Authority was pleased with the leadership that Jefferies' displayed by underwriting $66.5 million worth of bonds that were not sold on the day of pricing. He stated that the bonds would become part of Jefferies inventory and included on its balance sheet. Mr. Rountree reported that the gross savings totaled $36.7 million, which is almost $32.3 million of present value savings. As previously noted, the outreach to create demand for aviation bonds included 64 unique roadshow views and 18 institutional investor meetings or calls. Mr. Rountree advised that 10 of the investors that the Airports Authority met with had placed orders totaling $296 million, four of whom were new investors. He further advised that eight of the top 20 Airports Authority Airport System bondholders placed orders. Of the $863 million total aviation orders placed by 44 institutional investors, $217 million was from orders placed by 23 new investors.

With regard to the DTR, Mr. Rountree reported that the credit ratings on the First Senior Lien were affirmed -- A2 (stable outlook) from Moody's Investors Service and A- (stable outlook) from Standard & Poor's. As the Airports Authority was aware, he stated the DTR credit ratings were an entirely different credit than the aviation credit ratings. Mr. Rountree shared some of the strengths recognized by the rating agencies, such as mature commuter toll facility more easily forecasted from the traffic and toll revenue history, independent toll setting ability, relatively low toll rates for the service area [that allow for expected future toll rate increases], and strong management oversight by a professional management team, including the Board and executive management. He reviewed the DTR transaction summary, investor outreach to create demand, and the top 20 DTR bondholders who placed orders.

Mr. Rountree indicated that the transaction resulted in a total par issued of $163 million. He reported that the true interest cost was 3.58 percent on an average maturity of 19.5 years. The refunded par of $198 million was accomplished through a refunding par of $163 million. Mr. Rountree stated that the total priority and retail orders were in huge demand at 7.6x subscribed or 6.6x over subscribed. He advised that the underwriters had approached the Airports Authority team on the morning of the pricing with a recommendation that the order period remain open for an hour, which is rare. Mr. Rountree reported that the bonds were sold in 10 minutes. The gross savings totaled $76.5 million at $48 million net present value savings. Since all of the bonds were sold, Ramirez did not have to directly underwrite any unsold bonds. Mr. Rountree advised that there were 65 roadshow views and 18 investor meetings (the same as with aviation). He reported that nine of the investors who were directly marketed with meetings or calls, six of whom were new, had placed orders totaling $461 million. Mr. Rountree also reported that nine of the top 20 DTR bondholders placed orders. He noted that the total DTR orders were $1.2 billion from a total of 58 investors, including $668 million from 30 new investors.

Mr. Rountree noted that Jack Potter, President and Chief Executive Officer, had earlier provided details about the Airports Authority's refunding history. He stated that since 2010, the Airports Authority's gross savings totaled more than $758 million in aviation bonds. Mr. Rountree reiterated that the 2019 DTR transaction represented the first refunding opportunity.

Mr. Rountree thanked Ms. Ball, and Mary Helou, Debt Analyst, for their hard work; as well as Phil Sunderland, Vice President and General Counsel; financial advisors; and underwriters. He extended special thanks to Mr. Session and Mr. Speck, Co-Chair of the Finance Committee, for their participation at the bond pricing. Mr. Rountree advised that having them in New York for pricing made it much easier to accept the transaction deals as designees of the Board.

Mr. Adams congratulated the entire Finance team. He asked if there were any lessons learned from the recent experiences that could be applied to future refunding opportunities and transactions. Mr. Rountree stated that he believed that the Airports Authority achieved much more than was expected. In terms of meeting with investors, he also stated that he initially thought that personal meetings with potential investors may be an imposition to them but that he had learned over the years that they have come to appreciate those opportunities.

Mr. Speck shared that the preparation for the bond sales in the two weeks prior to the transaction events was a collaboration of meetings working to address questions prior to the sale. As Mr. Rountree previously stated, the Finance team was fairly confident about the aviation transaction. As recognized by Mr. Rountree, Mr. Speck stated that selecting banking teams with appropriate underwriting capability is an integral part of the process. He recalled the events of the DTR transaction with the recommendation that the order period remain open for an hour only to have the deal completed quickly [with the bonds being sold out in 10 minutes]. Mr. Speck observed that the sale of revenue bonds can sometimes present challenges but that the total bonds sold speak to the Airports Authority's overall operation of the organization and its management capability. He stated that the upcoming tutorial, which was very impressive, would provide details about the bond pricing process.

Mr. Mims thanked Mr. Rountree and his team for a job well done, and they received a round of applause.

<u>Financial Advisors' Report – Aviation Enterprise</u>. Marvin Sun of Frasca and Associates, LLC (Frasca) provided a detailed information report on the bond pricing process. He reported that the preparation for 2019 bond transactions for both the Aviation and DTR sales started at the beginning of the year with discussions about the preliminary Plan of Finance and engagement of the consultants. Mr. Sun stated that additional processes are the development of the bond documents by bond counsel and the rating agency process. As previously reported, the aviation transaction will conclude on July 3 and July 10 for the DTR transaction. The bond sales occurred on June 4 and June 6 for the aviation and DTR, respectively. Mr. Sun noted that during the week of the bond sales, the Finance team, Mr. Rountree, Ken Cushine of Frasca, Mr. Session, and Mr. Speck, Co-Chair of the Finance Committee, were active participants present and supporting the transactions. With regard to pricing, Mr. Sun reported that Mr. Rountree and the Finance team worked with underwriters in marketing the bonds.

Mr. Sun reported that in addition to the many meetings and calls with institutional investors, pricing activities occurred prior to the sales to assist the Airports Authority in making sure the best possible pricing investment and lowest possible bond cost would be achieved. He presented an illustration of the recent DTR transaction and sale, in which two days prior to the bond sales of the total bonds, Ramirez, the Senior Manager, requested a price list from the members of the underwriting syndicate. All firms provided the price views on the total bonds, expressed as a spread to the Municipal Market Data (MMD) AAA index for price views aggregated by Ramirez and presented to the Airports Authority and the financial advisors. The next step was a conference call to allow the syndicate members to discuss the market conditions and provide comments on the price views. Mr. Sun stated that on the day before the pricing, Ramirez released a pre-marketing structure wire and provided information to the Investment Committee on the preliminary amortization structure and pricing levels. The process then allowed the Senior Manager to provide initial thoughts, get feedback from the Investment Committee, and provide that feedback to the Airports Authority.

Mr. Sun reviewed the activities that occurred on the day of the pricing. The Senior Manager provided the latest market update for any necessary adjustments to be made to the pre-pricing levels. Mr. Sun advised that no adjustments were needed, and the market was stable. Ramirez produced a pricing wire with the preliminary amortization schedule and the specific interest rate for one-year maturity levels to go into the market, at which time retail and institutional investors placed their orders for the bonds. He advised that a live streaming system allowed the Airports Authority and the financial advisors to track the order sales, including the type and name of investors, amount of the order, and selected maturity levels for the orders that were placed.

Mr. Sun reported that $1.2 billion of total orders were placed for approximately $160 million of bonds, which amounts to more than 7x times the subscription level. At this point, Ramirez reviewed the order book and presented a formal offer with formal pricing levels for the bonds. Once the Airports Authority and the financial advisors reviewed the order book, the Board Chairman and Co-Chair of the Finance Committee officially accepted the offer.

Financial Advisors' Report – Dulles Corridor Enterprise. Jim Taylor of Mercator Advisors LLC (Mercator) reported that there were no action items. He presented two information items that included an update on the extension of the I-495 Express Lanes north to the American Legion Bridge and the developments of the Maryland traffic core relief plan. Mr. Taylor stated that next month's Financial Advisors' Report will highlight additional local developments which are general ideas that promote mobility in the region and help to develop the DTR. He further stated that Directors can always submit inquiries to Mercator through the Board Office.

Mr. Mims asked Mr. Taylor to provide some insight on the details of the developments of the Maryland traffic core relief plan. Mr. Taylor reported that there are three components - two on I-495 and one on I-270. He advised that there are concerns from the community. To address those concerns, Maryland Governor Larry Hogan has decided to begin with I-270 because it is environmentally advanced and then work would commence on I-495. Mr. Taylor noted that Governor Hogan does have the authorization to pursue a Public Private Partnership (P3) for the improvements to I-495 and I-270.

Ms. Hanley asked about how the American Legion Bridge is being addressed in the P3 process. Mr. Taylor stated that information about the American Legion Bridge is highlighted in the Financial Advisors' Report. He advised that people are concerned about extending I-495 [by approximately three miles from the DTR interchange to the vicinity of the American Legion Bridge]. Ms. Hanley inquired whether Virginians are concerned. Mr. Taylor reported that a public hearing had been held in Virginia questioning the benefit of an expansion on the Virginia side of I-495 before the American Legion Bridge was expanded. Mr. Taylor observed that the Virginia Department of Transportation (VDOT) would likely get criticized if nothing is done in preparation for the American Legion Bridge expansion. He stated that there is currently more concern with Virginians regarding investing and expanding I-495 that will result in increased traffic without a firm plan for expanding the American Legion Bridge. Mr. Taylor shared that the issues with Marylanders focused more on losing property and advocating transit options versus expanding highway capacity. Ms. Hanley stated that she understood those issues. Mr. Taylor stated that he will keep the Board abreast of any updates.

Mr. Sudow stated that some of the Virginia concerns, with regard to the source, should not be over generalized. He shared a thought about the National Park Service and some resistance about utilizing a portion of the George Washington Memorial Parkway in that right-of-way to facilitate the extension of the Fast Lanes. Mr. Taylor agreed that both projects are environmentally based, which has resulted in numerous skewed issues. He stated that the concerns will be adjudicated during the environmental process. Mr. Sudow noted that there are complicated dynamics involved with regard to terms of starting a process in Virginia, concurrently with some movement in Maryland, which ultimately will result in development. With respect to the terms of the DTR clarification progressing, work at some of the shortcuts and tolling structures have created issues on Route 7 that are currently being addressed by VDOT and Fairfax County. Mr. Taylor agreed and noted that public meetings would be held that month and more information will be included in the July Financial Advisors' Report.

Mr. Rountree shared that he had provided the Board Office with a small publication entitled "Airport Finance 101" to be distributed to the Directors. He advised that the publication has a lot of concepts that have been discussed in workshops for the budgets, bonds, and use and lease agreements over the years. Mr. Rountree advised that Directors could contact him if they have questions about the information included in the publication.

In consideration of time, Mr. Rountree offered the option for the Finance Committee to accept the May 2019 Financial Reports for the Aviation and Dulles Corridor Enterprises, as submitted.

Ms. Hanley referenced pages 2 and 3 of the May 2019 Financial Report for the Dulles Corridor Enterprise (Tab 16). She stated that the DTR revenue was higher because of the increased DTR toll rates. Ms. Hanley also stated that she was pleasantly surprised with the number of Toll Road transactions, observing the minimal reduction in transactions. She asked staff to share their views. Mr. Rountree stated that he was not surprised by the data, noting that it generally takes a few months for the plan to materialize. He further stated that the actual forecast in the Traffic and Revenue Study showed a decline in transactions and the 0.1 percent reduction is an improvement from the prior month.

[In the absence of further discussion, the May 2019 Financial Reports were accepted as submitted.]

Mr. Sudow inquired about the schedule for completing the changeover in the tolling system at Springhill Road. Roger Natsuhara, Vice President for Engineering, stated the first two lanes on the main toll plaza going westbound should reopen with the next two days. He further stated that work will be performed on two lanes concurrently and that it should take 10 to 14 days per two lanes. Work would begin immediately on the eastbound lanes once the westbound lanes were complete.

Mr. Speck reviewed the Request for Proposals process used for the recent underwriting pool and how the syndicate was selected, noting that several firms could not meet the capitalization requirement. He noted that information will be provided at a future Board Meeting on a small working group's efforts to facilitate banking relationships to assist with the development of small firms and their possible inclusion in work for the Airports Authority. Mr. Speck added that the size of the Airports Authority and the number of deals that are negotiated provides for opportunities in other areas of employment, business or concessions to engage the large banking community to help boost the small firms into a larger group of bankers that can be considered.

Mr. Sudow indicated that Airport Finance 101 included a great deal of useful information. He stated that the recent tutorials included as part of the Finance Committee Meetings have been helpful. Mr. Sudow observed some of the references in the Airport Finance 101 publication and suggested that the Finance Committee consider organizing workshop tutorials that include competitive positions of airports using Cost per Enplanements and other measurements, a discussion of use lease agreements, and different structures for dealing with airlines as part of the strategic planning initiative. He stated that he believed the tutorials would help Directors to understand what is evolving in terms of competitive positions of airports and how these improvements are being financed across the country.

The meeting was thereupon adjourned at 10:21 a.m.