BOARD OF DIRECTORS MEETING

Minutes of January 3, 2007

The regular monthly meeting was held in the Board Conference Room at 1 Aviation Circle and was called to order by the Chairman at 9:00 a.m. Seven Directors were present during the meeting:

Mame Reiley, Chairman
H.R. Crawford, Vice Chairman
Robert Clarke Brown
William W. Cobey Jr.
Michael David Epstein
Charles D. Snelling
David G. Speck

The Secretary and the following Officers were present:

James E. Bennett, President and Chief Executive Officer
Margaret E. McKeough, Executive Vice President and Chief Operating Officer
Edward S. Faggen, Vice President and General Counsel

In the temporary absence of a quorum, the Chairman called the meeting to order at 9:00 a.m. and began with the Committee Reports.

I. COMMITTEE REPORTS

a. <u>Planning Committee</u>

Mr. Cobey noted that Mr. Hazel had been unavailable and that he had again chaired the Planning Committee. It had met at 8:30 that morning with a short agenda. The first item, the November Capital Construction Report, had again shown that costs remained under control.

The Committee had then heard the reports that were being presented to all Committees: the first on the status of the 2006 Business Plan, the second on the draft of the 2007 Business Plan.

b. Finance Committee

Mr. Snelling said that the Finance Committee had last met on December 20. The first item had been the Financial Advisors' Report, which had addressed the successful December 6 closing of the Series 2006 B-C Bonds.

II. NEW BUSINESS

a. Authorization to Apply for a Transportation Infrastructure Finance and Innovation Act ("TIFIA") Loan

The Chairman interrupted the Finance Committee report to take up action to authorize a "TIFIA" loan application for the Dulles Corridor rail. She explained that a quorum was temporarily available, as Mr. Crawford would have to leave soon to attend the inauguration of Mayor Adrian Fenty.

Mr. Snelling thereupon explained the need for the Board authorize the application for a TIFIA loan as part of the financing of the Dulles Corridor Metrorail extension. He said that application to the U.S. Department of Transportation by January 16 would indicate to the Federal Transit Administration that the Authority had the financial capacity in various forms to pursue the project. He then moved that the loan application be authorized, and the motion was unanimously adopted.

I. b. Finance Committee, continued

Mr. Snelling then continued with the Finance Committee report. He said that sale of the Series 2006 B-C Bonds had reduced the Authority's weighted cost of capital of fixed rate obligations to 5.03 percent. In addition, a guaranteed investment contract ("GIC") for the debt service reserve had been purchased with an investment rate of 5.013 percent, 63 basis points higher than the arbitrage rate on the bonds.

The staff and Financial Advisors were developing a 2007 Plan of Finance, which would include financial plans for the Dulles rail project.

The Committee had also heard a report on accomplishments under the 2006 Business Plan and had reviewed the 2007 Business Plan, but had not recommended any additions or amendments.

The financial report for November had shown operating revenues of $40.5 million for the month and $427.4 million for the year-to-date. While the year-to-date figure had been $9.7 million less than the same period in 2005, it had exceeded all other prior years. The decrease continued to be in cost-based airline revenues: rents were down $2.7 million and landing fees down $5.2 million.

Expenses for November had been 37.6 million, with year-to-date expenses at $380.6 million. Expenses had been up $12.5 million, with materials and supplies up $8.3 million, salaries and related benefits up $1.8 million and depreciation up $2.5 million from 2005. Operating expenses had included $3.3 acquisition costs attributable to the Dulles Corridor project, funds expected to be reimbursed from future toll road revenues.

Year-to-date operating income had been $46.8 million, $22.2 million less than 2005. Net income had been $93.7 million, including $49.8 million in grant proceeds. Cash receipts for November had been $49.8 million, the sixth highest month in receipts in the Authority's history.

Eleven months into the year the Authority had reached 83.1 percent of its budgeted revenue and expended 81.4 percent of its budgeted expenditures. Net remaining revenues were estimated at 124 percent of the budgeted amount.

Construction activity for the month of November had been $63.5 million, and year-to-date construction activity had reached $613.7 million. While the construction budget for the year was $720.6 million, as of November 30 there had been $804.6 million in outstanding construction and design commitments.

c. Strategic Development Committee

Mr. Brown reported that the Strategic Development Committee had met twice on December 20, both before and after the Committee of the Whole. The Committee had first heard the regular air service development report, including the competition for the China frequencies. The news had been that American Airlines had tried to change its application after the docket had closed. Authority staff had pointed out that in a prior filing American had made a very telling argument in a previous case that such dockets should not be reopened.

The United States had withdrawn its proposal for liberalizing foreign ownership of U.S. carriers, which had resulted in a breakdown of the open skies negotiations between the U.S. and the European Union. The Committee had also discussed the USAirways proposal to acquire Delta rather than have it emerge from bankruptcy court.

The Committee had received the final version of the Comprehensive and Annual Air Service Plan for 2007, which Mr. Brown had discussed at the December meeting. All Directors had received a copy, and he recommended that all read it.

Jonathan Gaffney, Vice President for Communications, had presented the Legislative Strategic Plan for the year. It appeared that the High Density Rule, also known as the slot rule, and the Perimeter Rule were likely to undergo reconsideration in the Congress in 2007. The Perimeter Rule would particularly be subject to attack. The Government Accountability Office had been studying the High Density Rule and its report would be completed soon.

d. Audit Committee

Mr. Speck said that the Audit Committee met on December 6. Valerie Holt, the Vice President for Audit, had discussed audit results for revenue producing activities and the effectiveness of controls and business processes. She had noted improvements in both categories.

III. INFORMATION REPORTS

a. President's Report

Mr. Bennett said that the spring would be very busy. With respect to the Toll Road, he noted that the Chairman and he had executed the two Toll Road agreements the previous Friday, December 29. The documents would be posted on the VDOT and the Authority websites within a day or two. The Commonwealth had planned to hold a public briefing on the agreements the following Friday afternoon. There would be a separate briefing for members of the General Assembly.

The signing of the agreement was a critical milestone, but just the first step in a long process ahead to acquire the Toll Road. Mr. Bennett compared the agreements to a purchase agreement for a house, with a closing in the spring. There was always much to be accomplished between those two events.

In Richmond, it appeared that the General Assembly session would focus on transportation issues, and many transportation bills had been prefiled. The Authority would be holding its annual briefing for Members of the General Assembly on January 26.

With respect to China, the Department of Transportation had not yet made a decision. Mr. Bennett was expecting the decision at any moment, as the prevailing carrier would have to begin service at the end of March, and would need to start advertising and selling seats quite soon.

Virgin America, a new, low-fare domestic carrier, had considered a headquarters at Dulles two years before, but had decided on New York and San Francisco. About a week before, the Department of Transportation had rejected the carrier's application for an operating certificate, expressing concerns about its ownership, which had to be U.S.-owned in terms of equity and U.S.-controlled. Foreign ownership could not be more than 25 percent. Virgin American had already bought aircraft and was testing them with the FAA, and would have to appeal or restructure its ownership structure.

Dulles construction had benefitted from mild winter weather, and projects had not yet had to shut down. The next major event was scheduled for January 15, when all the mobile lounges, which had been operating from the east side of the terminal, would be shifted to the west side. The new location would be on top of the west half of the peoplemover station. Once the move was made, work would begin on the east half of the station.

Mr. Bennett then reported, to general applause, that Concourse G had at last been demolished.

Mr. Speck asked about an article in FORBES indicating that Reagan National was the second most expensive airport for parking. He asked if it were true. Mr. Bennett said he was sure only that it was the second most expensive among the airports the magazine had surveyed. Mr. Snelling asked which airport was first; Mr. Speck said it was Chicago O'Hare. He then asked if the new rates had any impact on parking demand; Mr. Bennett said the new rates had been set in mid-November and there had not been any significant decline in parking. For the Christmas period, parking had been down nearly 2 percent, but revenues had increased 17 percent. The new rates were probably not high enough to affect the business peaks that fill the garages mid-week. Mr. Epstein asked when construction would begin on the new parking decks, and whether an entire floor of parking would be lost during construction. Mr. Bennett said construction would probably begin in the summer and that it would be sectionalized, so that only a portion of the current upper level would be lost at a given time.

Mr. Snelling said he had been shocked when the concierge at his hotel had remarked that the Metrorail would never happen because no one could agree on it. He said he thought the Authority should engage in an educational campaign so that the public would know what needs to happen, what would happen and when it would happen. Mr. Bennett said he was not surprised with Mr. Snelling's anecdote, but that the public was for the most part well informed on the project. In a poll the Authority had commissioned before proposing to take over the Toll Road, over 80 percent of the respondents had said the rail extension project was the most important transportation project in Northern Virginia, and that they would pay extra to get it done. He added that utility relocation would begin in the spring, with the possibility of heavier construction in the fall.

Mr. Speck then raised the experience of passengers at the baggage claim, which he had brought up at a December committee meeting, and asked how to continue the discussion. Mr. Bennett said that Chris Brown, Vice President and Dulles Airport Manager, had met constructively with United about service issues, raising the ones from the focus groups. The new station manager at Dulles had come from the marketing office of the carrier, and was sensitive to customer service concerns.

Mr. Speck asked about slow baggage delivery at Reagan National. Mr. Bennett said he had heard complaints about the lack of concessions on the baggage level at Reagan National, but slow delivery of baggage did not appear to be a problem there.

Mr. Speck said there should be further discussions, as there might be a role for the Authority at the baggage claim. He noted that more passengers were checking baggage, it was taking longer to be delivered from the aircraft, there was no information about the process, and no amenities. In the case of Reagan National, there was not enough seating. Moreover, the passengers who grumbled about the problems did not blame the airlines. Mr. Bennett said he shared the concerns.

b. <u>Executive Vice President's Report</u>

Ms. McKeough reported first on the holiday traffic. She said traffic had been heavy, but had been handled smoothly. At both Airports the busiest time had been several days before the actual holiday weekend. The TSA wait lines had been reasonable; the situation had been improved especially at Dulles. Parking was busy at Dulles, with the use of an overflow lot for economy parking. At Reagan National, economy spaces had been closed for three days, and over 600 patrons had been accommodated at economy rates in the garages.

With respect to November statistics, Reagan National had served over 1.5 million passengers, up 40 thousand from November 2005, a 2.6 percent increase. Most of the increase could be attributed to USAirways. At eleven months through the year, the Airport was heading for an annual total exceeding 17 million.

At Dulles, for the first time in many months, November showed an increase, only 4000 passengers, but a reversal of the long trend line of declines from 2005. United Airlines alone had shown a 20 percent growth rate. International traffic had grown 14 percent. For the year-to-date, Dulles had served over 21 million passengers. December statistics would show another strong month.

Cargo had increased 26 percent at Dulles; freight alone was up 30 percent, 53 percent internationally.

IV. UNFINISHED BUSINESS

There was not any unfinished business

V. OTHER BUSINESS AND ADJOURNMENT

The meeting was thereupon adjourned at 9:40 a.m.

Respectfully submitted:

Gregory Wolfe

Gregory Wolfe
Vice President and Secretary

approved, February 7, 2007