BOARD OF DIRECTORS MEETING

Minutes of January 8, 2003

The regular monthly meeting was held in the Board Conference Room at 1 Aviation Circle and was called to order by the Chairman at 8:55 a.m. Eight Directors were present:

Norman M. Glasgow, Jr., Chairman
H.R. Crawford
Anne Crossman
Mamadi Diané
John Paul Hammerschmidt
William A. Hazel
David T. Ralston, Jr.
Mame Reiley

The Secretary and the following Officers were present:

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

The Chairman first called for the election of a Vice Chairman.

I. ELECTION OF A VICE CHAIRMAN

Mr. Crawford nominated David T. Ralston, Jr. There were not any other nominations, and Mr. Ralston was elected unanimously.

II. MINUTES OF THE DECEMBER 4, 2002 MEETING

The Chairman then called for the approval of the Minutes of the December 4, 2002 Meeting. They were unanimously approved.

III. COMMITTEE REPORTS

The Chairman announced that, in order to allow any Directors who needed to leave early to do so, each action recommended by a Committee would be taken up immediately after that Committee's report.

a. Planning Committee

Mr. Hazel reported the Planning Committee had met that morning. In executive session, it had heard the regular air service development report. The principal news since the last meeting had been the United Airlines bankruptcy filing on December 9. Staff had remained optimistic that United services at Dulles would hold up.

Staff had reported that US Airways would be restoring its large-airplane service between Reagan National and Fort Myers, and would add regional service to Birmingham.

The U.S. Department of Transportation was still conducting a procedure to reallocate six inside-perimeter slots given up by Spirit and Midway airlines. The perimeter was 1250 miles, which meant that flights could go as far as Chicago, Kansas City, Oklahoma City, or Tulsa. Applications had been filed to serve all those points, as well as some others.

The Committee had also discussed the 2003 Business Plan, which the Board would be voting on later in the meeting.

b. Business Administration Committee

i. Report

Mr. Crawford reported the Business Administration Committee had last met on December 18. It had first considered a proposed list of one new and eight incumbent members to be confirmed for the Employee Relations Council.

The Employee Relations Council provided dispute resolution services under the Authority's Labor Code. It was made up of three panels: Impasse, Representation Matters, and Unfair Labor Practices. Members were selected by agreement between the President and Chief Executive Officer and labor organizations representing Authority employees.

All had agreed to the list presented to the Board. Mr. Crawford then moved approval of the selections, and the Board unanimously adopted his motion.

Mr. Crawford continued with his report, noting that the Committee had also heard an "advance review" report on plans for a solicitation for information technologies services Authority-wide. The current contract would expire December 9, 2003. As the new contract was estimated to cost over $5.5 million, it would require Board approval. It would include a 28 percent Local Disadvantaged Business Enterprise ("LDBE") requirement. The Committee had been satisfied with the proposed approach.

Mr. Crawford said the most important item on the agenda had been the Revised Contracting Manual, which had been in preparation for several years. He noted that he had joined the Board after most of the discussions on the Manual, particularly a General Accounting Office report that had taken issue with several Authority procurement practices.

Major issues had been discussed in the Business Administration Committee in March 2002. Since then, the Manual had been subject to an extensive public process, and had been favorably received. The staff had provided a full explanation of all changes, and had laid out which outside recommendations it had followed.

The Committee was still expecting a new procedure for the appeal of contract protests.

Like all Committees, the Business Administration Committee had reviewed the 2003 Business Plan. It had not made any significant changes.

The Committee had also seen the Parsons Management Consultants quarterly slide presentation of construction under way, most of it at Dulles.

Finally, the Committee had reviewed the monthly construction cost report. As adjusted for inflation, the project costs were consistent with authorizations.

ii. Approval of the Revised Contracting Manual

Mr. Crawford then moved the following proposed Resolution, which was unanimously adopted, by eight affirmative votes:

WHEREAS, The Lease between the United States and the Authority requires "[i]n acquiring by contract supplies or services for an amount estimated to be more than $200,000, or awarding concession contracts, the Airports Authority to the maximum extent practicable shall obtain complete and open competition through the use of published competitive procedures."

WHEREAS, The Board last adopted published competitive procedures nine years ago as the Contracting Policies and Procedures Manual, in Resolution No. 93-29;

WHEREAS, Detailed procurement guidance has been provided in the internal 1998 Contracting Procedures Manual, which however did not apply to concessions contracts;

WHEREAS, The staff has prepared a new comprehensive Revised Contracting Manual, incorporating and updating prior procedures, including concessions, and improving and reinforcing the Authority's commitment to competitive procedures;

WHEREAS, The proposed Revised Contracting Manual has been circulated for public comment to all interested parties, including the U.S. Department of Transportation and the General Accounting Office, and reflects the concerns of the commenters;

WHEREAS, The Proposed Manual authorizes under limited circumstances the award of contracts with less than "complete and open competition" that would otherwise require individual Board approval; and

WHEREAS, The Business Administration Committee completed its review of the Manual at its December 18, 2002 meeting and is satisfied with the final draft of the Manual; now, therefore, be it

RESOLVED, That the Revised Contracting Manual, as presented to the Board in a Final Draft dated January 8, 2003, is hereby adopted and approved for publication, with an affirmative vote of at least seven Members; and

RESOLVED, That, except with respect to contract protest decisions, the Revised Contracting Manual supersedes the 1993 Contracting Policies and Procedures Manual and the 1998 Contracting Procedures Manual in their entirety, effective, by its own terms, to solicitations commenced after February 28, 2003.

c. Finance Committee

i. Report

In the absence of Mr. Brown, Mr. Hammerschmidt reported the Finance Committee had last met December 18.

The November Financial Advisors' Report had addressed several important issues, the first of which had been the potential investment of the debt service reserve accounts for the Series 2002 C and D Bonds. On November 14, the staff had received bids for forward purchase agreements and collateralized guaranteed investment contracts, but none had reached target rate set by the investment committee, and all had been rejected. Current plans were to solicit new bids when interest rates increased.

The investment committee had been asked to prepare a paper for the January Finance Committee meeting explaining what risks were being addressed by the use of two separate target rates, one 10 years and under, the other for over 10 years.

The Committee had also heard a full discussion of the "swap" transaction entered into in August 2001 to guarantee the Authority would pay an interest rate of less than five percent. Discussion focused on the accounting treatment of the swap, which is reported in financial statements to show a gain or loss, sometimes substantial, depending on current rates. Such gains and losses, based on rates for a particular period, were not in fact realized, and were understood by the financial community, particularly the rating agencies, as not representing a current gain or loss. In addition, the swap values were not of concern to the airlines, as they were not included in rates and charges.

The staff had also provided the quarterly report of investment activity, and had been asked to provide further details on the investment of the Series 2002 C and D Bonds.

The Retirement Committee's investment consultant, Wilson Wyatt, had completed a review of the pension plans investment results and had conduced an asset/liability study. As a result, it had recommended several changes to the Investment Policy.

The Committee had reviewed the changes, and recommended their approval. The proposed amendments included changes in responsibilities and objectives, a change in asset allocation to seventy percent equities and thirty percent fixed income, and modification of the strategic targets for various security types approved for equity investments.

The Retirement Committee had approved the amendments at its November 6 meeting.

The Finance Committee had also reviewed the 2003 Business Plan, and had asked that it be revised to show a revised budget process. A draft budget would be presented at the October Committee meeting, and final review and recommendation would be taken at the Committee's November meeting. As usual, the Board would approve the Budget in December.

From the November Financial Reports, Lynn Hampton, Vice President and Chief Financial Officer, had reported that year-to-date airport operating income had been $111 million, ahead of 2001 by $3 million, but behind 2000 by $8 million. Capital construction year-to-date had reached $256 million, and was expected to be $295 million by year end.

ii. Amendments to the Investment Policy for the Retirement Plans

Mr. Hammerschmidt then moved the following proposed resolution, which was unanimously adopted:

> WHEREAS, The Staff Retirement Committee has proposed amendments to the "Statement of Investment Policy for the Metropolitan Washington

Airports Authority Retirement Plans" based on recommendations of Wilson Wyatt, the Committee's Investment Consultant;

WHEREAS, The Amendments would both clarify and establish parameters for the accomplishment of investment goals and objectives; and

WHEREAS, The realization of investment goals and objectives would promote the financial needs of the plan, deal with appropriate risk tolerance, and provide clearer standards and guidelines for the investment managers; now, therefore, be it

RESOLVED, That the amended Statement of Investment Policy, as presented to the Finance Committee December 18, 2002, and to the Board today, is hereby adopted.

Mr. Ralston asked if the Finance Committee had made a final decision on how the Authority would treat the unrealized gain or loss from the swap in its financial statements. Ms. Hampton responded that there was only one way to account for the swap under Financial Accounting Services Board standards, which the Authority was obliged to follow. She explained that alternative accounting treatments of swap transactions had been possible before the adoption of Government Accounting Standards Board Statement No. 34, but only one was now permitted.

d. Audit Committee

The Chairman said that the Chairman of the Audit Committee, Mr. Thompson, had asked him to deliver that Committee's report. He said the Audit Committee had last met December 4 and considered several audit reports. The Committee had met eight times in 2002, had reviewed and accepted the Authority's risk assessment and audit plan, and had addressed the major audit areas during the year.

e. Approval of the 2003 Business Plan

Mr. Glasgow noted that the proposed 2003 Business Plan had been before all Committees. He moved that it be approved as presented, and the Board unanimously agreed.

IV. INFORMATION ITEMS

a. <u>President's Report</u>

Mr. Wilding said that holiday traffic had flowed smoothly at both Airports. There had been two snow events during the period, but they had been handled routinely. One had occurred Christmas Day, and had resulted in about 30 diversions to Dulles, a few of which had to remain overnight.

December 31 had been the deadline for the Transportation Security Administration ("TSA") to have checked baggage screening devices in operation. All the equipment had in fact been delivered at both Airports, and trained workforces had been there to operate them. Mr. Wilding pointed out, however, that considerable experience would be necessary for both passengers and TSA operators to get used to the new system, so the process might be uneven for a month or two.

Mr. Wilding noted that United had filed for Chapter 11 bankruptcy since the last Board meeting, leaving the Authority with about $2.7 million in pre-petition debt, about a month's rent. The Authority had therefore appeared as the 19th of the 20 creditors in the list United had been obliged to file. Other airports were in worse situations.

The Virginia General Assembly went into session the day of the meeting. Mr. Wilding said that the Authority would host its annual legislative breakfast on Friday, January 31.

With respect to construction, Mr. Wilding said that the project to build a canopy over the north end of the Metrorail station was progressing smoothly. The Washington Metropolitan Area Transit Authority was doing the work; the Airports Authority would pay the cost, as it had for the north farecard plaza some years before.

At Dulles, the new north parking garage was substantially complete, but would not open until the tunnel connecting it with the Main Terminal was complete, most likely by March. At the end of January, the temporary commercial roadway and tunnel construction site in front of the Terminal would be cleared away.

Bombardier Transportation's protest of the Board decision to award the Dulles People Mover contract to Sumitomo was progressing through the process. Two days before, the head of the procurement division had issued the initial decision, upholding the award to Sumitomo. The next appeal would be to the President and Chief Executive Officer.

Mr. Wilding said that, since the discussion of rail to Dulles at the December meeting, the Commonwealth Transportation Board had unanimously endorsed the Metrorail alternative as the preferred alternative. The relevant state and local governments and agencies were now unanimous.

Mr. Diané asked what would happen after Bombardier appealed to the President. Mr. Wilding said he would respond, after which the protester could then appeal to the Board. Mr. Diané asked whether the process would cause a delay. Mr. Wilding said the project had already been delayed. Mr. Hammerschmidt asked how long Bombardier had to ask Mr. Wilding to review; the answer was seven business days.

b. Executive Vice President's Report

Mr. Bennett reported that the Dulles flagpole had been replaced over the holidays. He also said that 22 new police officers had been sworn after graduation from the Northern Virginia Criminal Justice Academy. The positions had been authorized in the 2002 Budget.

In the November traffic statistics, Reagan National had increased 73.5 percent over November 2001, compared to a month when the Airport was subject to limitations on the number of flights. At Dulles, the increase had been 2.7 percent. Compared to November 2000, however, Reagan National had been down 21.5 percent and Dulles down 14 percent. Both Airports had outpaced the U.S. industry as a whole, which had only grown 2.6 percent in November.

International passengers at Dulles had grown over 32 percent, exceeding the industry-wide rate of 23 percent.

Mr. Bennett said the November figures were particularly encouraging because the Thanksgiving holiday traffic had occurred so late in the month. Much of the return traffic had actually occurred in December.

V. UNFINISHED BUSINESS

There was not any unfinished business.

VI. NEW BUSINESS

All "New Business" had been acted on during the Committee Reports.

VII. OTHER BUSINESS AND ADJOURNMENT

The meeting was thereupon adjourned at 9:25 a.m.

Respectfully submitted:

Gregory Wolfe

Gregory Wolfe
Vice President and Secretary

approved February 5, 2003