BOARD OF DIRECTORS MEETING

Minutes of March 6, 2002

The regular meeting was held in the Board Conference Room at 1 Aviation Circle and was called to order by the Chairman at 9:40 a.m. Ten Directors were present during the meeting:

Norman M. Glasgow, Jr., Chairman
Robert Clarke Brown
Robert L. Calhoun
Mamadi Diané
William A. Hazel
John Paul Hammerschmidt
David T. Ralston, Jr.
Robert M. Rosenthal
Jeffrey Earl Thompson
Robert B. Young, Jr.

The Secretary and the following Officers were present:

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

I. ELECTION OF A VICE CHAIRMAN

The Chairman called for nominations for Vice Chairman. Mr. Ralston nominated Mr. Calhoun. As there were not any other nominations, the Chairman called for a vote. Mr. Calhoun was elected, Mr. Thompson dissenting.

II. MINUTES OF THE FEBRUARY 6, 2002 MEETING

The Chairman then called for the approval of the Minutes of the February 6 Meeting. They were unanimously approved.

III. COMMITTEE REPORTS

a. Planning Committee

Mr. Hazel reported that the Planning Committee had met that morning. It had heard the regular air service development report, and had reviewed the proposed 2002 Business Plan, which it urged the full Board to adopt. Mr. Wilding had briefed the Committee on the Dulles Corridor transit project, and there had been a discussion on a lease extension for the Greenway.

b. Business Administration Committee

Mr. Calhoun reported that the Business Administration Committee had last met February 20. The Committee had discussed the proposed Business Plan, and had focused on the "security initiatives". They included a consultant contract to conduct a threat assessment, already awarded to SAIC; guard contracts for both Airports; and a contract for the maintenance of security systems, gates, doors, and other hardware systems.

The Committee had discussed the extension of the Authority's Lease with the federal government and a business continuity plan. It had also reviewed the Disadvantaged Business Enterprise ("DBE") concession goals required by the Federal Aviation Administration ("FAA"). Mr. Calhoun said the way the Government counted participation gave a misleading impression of the Authority's program, which he characterized as one of the best in the Nation. He said he would offer a resolution later in the meeting to continue with the ten percent goal, as recommended by the Committee.

Parsons Management Consultants ("PMC") had made its periodic report on construction progress at both Airports. So far, the Authority's financial situation had apparently not slowed projects under way; they remained on time and on budget. Mr. Calhoun recommended that more Directors see the PMC slide presentation, and suggested that it be presented at a Board Meeting. He said the photographs of work in progress were very illuminating.

Mr. Young asked if there had been an award of a sole-source contract for the threat assessment contract. Mr. Wilding said the contract had been competitively awarded; it had not come to the Board because the cost fell below the $3 million level.

c. Finance Committee

Mr. Brown reported that the Finance Committee had last met on February 20. It had also reviewed the Business Plan, and had suggested a number of clarifications.

The Financial Advisors had presented their monthly report, and the Committee had reviewed a number of issues, including an increase in the capacity of the commercial paper program by an additional $100 million. The Committee had discussed the rating agencies reaction to the downturn in air traffic, the effect of the rescoping of the Capital Construction Program, and the timing of a spring bond sale.

Issuance of the new series of commercial paper had been delayed a week while the 2001 audited financial statements were completed. They had been slowed in part because of the implementation of new Governmental Accounting Standards Board ("GASB") Statement 34.

With respect to rating agencies, Mr. Brown reported that Moody's had removed the Authority from its "Watchlist" in February, affirming the AA3 rating and putting the Authority on its "negative outlook" list. Later in the month, Standard & Poor's had adjusted its rating from "AA- with negative implications" to "A+ with a stable outlook". Standard & Poor's had downgraded several other airports that same day, as well as before then. The action had not been unexpected; at A+ the Authority remained one of the higher-rated airport operators. Fitch had the Authority on "Rating Watch" since the fall, but had not changed the underlying rating.

The timing of the spring bond sale would depend on changes in the Capital Construction Program as a result of the recent decline in air travel. Management was near a proposal; it would be discussed at an evening meeting in March.

Mr. Brown said the staff had presented the quarterly investment report. He noted that a review of the investment committee had been added to the internal audit program.

The preliminary unaudited year-end financials had been updated with the $40 million received from the federal government.

Finally, Mr. Brown reported that revenues in January had been at 7.5 percent of budget, and expenses had been at 7.0 percent, after 8.3 percent of the calendar year.

IV. INFORMATION ITEMS

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

Mr. Wilding reported that traffic continued to grow at Reagan National. On March 1, the authorized number of flights had increased from 65 percent to 77 percent of the pre-September 11 levels. As of the day's meeting, flight levels had reached 71 percent. Although that increase had been the last one officially announced, Secretary of Transportation Norman Y. Mineta had spoken publicly the week before to say that he would have a plan to reach 100 percent within the next thirty days.

With respect to air service, JetBlue had announced in February that it would be serving both Oakland and Long Beach from Dulles twice a day. United had moved its daily Düsseldorf flight from Chicago to Dulles. Both Lufthansa and Air France were adding back their second transatlantic flights, to Frankfurt and Paris respectively. United and British Airways had each announced they would add a daytime round-trip to London, starting in the spring. Dulles would then enjoy eight London round trips per day, with United operating four, British three, and Virgin Atlantic one.

Mr. Wilding reported that he had been in Europe the week before to visit six carriers that provided transatlantic service to Dulles. He was pleased with their view of the Dulles market. They were concerned, however, about the continuing delays in the Dulles federal inspection services, particularly from the shortage of Immigration and Naturalization Service ("INS") inspectors.

Since his return, Mr. Wilding had participated in a meeting with INS officials held by Frank Wolf, Chairman of the Subcommittee on Commerce, Justice, State, the Judiciary, and Related Agencies of the House Committee on Appropriations. He said he left the meeting optimistic that the problem would be resolved soon. Quick resolution was important, as international passengers were already missing connections, and the problem would become worse with the seasonal increase in international traffic.

With respect to the airport activities of the new Transportation Security Administration ("TSA"), Mr. Wilding reported that the agency had taken on all 1700 former FAA security employees. On February 17, the TSA had assumed line responsibility for all airport security checkpoints.

Mr. Hammerschmidt asked where the 1700 employees were deployed. Mr. Wilding said they were, in effect, spread nationwide. The growth to about 50,000 employees was yet to come.

As to construction, Mr. Wilding said that the first parking garage at Dulles would open Monday, March 18. A dedication ceremony would be held on March 15.

Renovation work at the older midsection of the Saarinen Terminal at Dulles was continuing. In midsummer, the east end would be opened.

Mr. Wilding reiterated that, by the end of the month, staff would be prepared to discuss the changes to the Dulles *d2* program.

In view of the recent General Accounting Office ("GAO") audit of the Authority's procurement practices, Mr. Calhoun asked for a briefing on the status of the development of a new procurement code. Mr. Faggen said that staff was conducting a comprehensive update of the procurement handbook, not just responding to the specific GAO recommendations. Mr. Wilding suggested that it would be available for the April Business Administration Committee meeting. Mr. Calhoun said the issue should be addressed at a joint meeting with the Legal Committee.

Mr. Diané asked if the INS had committed to providing more inspectors at Dulles. Mr. Wilding said they had advised Mr. Wolf that they would have a plan for him within a few days, and that the problems would be fixed almost immediately. The plan would necessarily provide for more inspectors.

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

In the absence of Mr. Bennett, Mr. Wilding reported that January traffic at Reagan National was down about 37.5 percent from January 2001. The number of flights for the month, however, had been down 44 percent, indicating that the passengers were returning faster than the aircraft. At Dulles, January traffic was down 10.3 percent, about half a percent better than the record in December. Baltimore/Washington International Airport was down 14.6 percent; nationwide, the figure was 14.2 percent.

Mr. Calhoun observed that the increase in flights at Reagan National had led to an increase in his noise complaint mail. He asked if others were receiving such mail, and how it was handled.

Mr. Wilding observed that he and the Chairman had met with Eleanor Holmes Norton to discuss the matter. Aircraft noise was again becoming an issue. Part of the problem had been the change in flight paths to the north, and the increased thrust used on both north and south departures. Both of these changes had been occasioned by the security concerns and were part of the package that allowed Reagan National to be reopened in the first place. It was difficult to tell airport neighbors how much easing there might be of the operational rules, given the security concerns. He believed that ultimately there would be more flexibility in the thrust levels than in the flight tracks.

V. UNFINISHED BUSINESS

There was not any unfinished business

VI. NEW BUSINESS

a. 2002 Concession Disadvantaged Business Enterprise Goals

Mr. Calhoun moved the adoption of the following Resolution, which was unanimously adopted.

> WHEREAS, The Federal Aviation Administration, under the Airport and Airway Improvement Act, requires airports to develop and submit goals for the participation of Disadvantaged Business Enterprises (DBEs) in airport concession contracts;
>
> WHEREAS, There will be at least three concession offerings solicited by the Authority during federal Fiscal Year 2002 that will provide opportunities for DBE participation; now, therefore, be it
>
> RESOLVED, That the goals for DBE participation in the concessions program for Federal Fiscal Year 2002 shall be at least 10 percent of the annual gross receipts of concessions at both Reagan National and Dulles Airports.

b. Adoption of the 2002 Business Plan

Mr. Hazel moved the approval of the proposed 2002 Business Plan. Mr. Thompson asked about the item covering the proposed procurement policy and procedures manual. He was concerned, from the *Washington Post* article the previous Sunday, about the allegations the GAO had made about Authority procurement. He asked if evaluation criteria had been changed after proposals had been received. Mr. Faggen said it was not, because the implication of the newspaper article had been that the Authority had a policy of doing such things. The Authority did not. In one instance, there apparently had been a modification of evaluation criteria. When it had been called to his attention, Mr. Faggen had said it should not have happened, and that it was not Authority policy. If it had happened at all, it had been an aberration.

Mr. Thompson said he understood Mr. Faggen's point from a policy perspective, but wanted to know if the procurement the GAO had identified had been a major one. Mr. Faggen said that, when the procurement had been reviewed, it had been clear that the outcome would not have been changed by the action taken. Frank Holly, Vice President for Engineering, said that the procurement had been for the construction of Concourse A, the regional airline terminal at Dulles. The cost had been about $9 million. Mr. Thompson asked Mr. Holly if the criteria had in fact been changed after the offers had been accepted. Mr. Holly said that was the GAO's interpretation; he did not agree. Mr. Faggen said in reviewing the process, he had concluded that there had not been any impropriety.

Mr. Thompson said the incident had reflected poorly on the Authority, the Board of Directors, and management. The Authority had historically taken steps to operate in a fair manner to all bidders. He thought the issue had given the Authority a "black eye", and was concerned that the promulgation of revised procedures had been delayed. The new procurement manual needed to be moved to the forefront. Steps needed to be taken to send the message to the GAO, the Congress, and the contracting community that the Authority was serious about reform. He noted that the GAO report had said the agency did not believe that the Authority would take the steps to implement reform.

Mr. Faggen said that he was concerned about the allegation that the Authority did not run a fair procurement process. The implication that the Authority had changed procurement criteria routinely was absolutely false. He had agreed with GAO that, if it had happened once, it never should have happened, and should never happen again. But a new procurement manual would not change the basic rule that was already in place.

Mr. Thompson said the contract in question had been for $9 million, and the incident had indicated a serious breakdown in management controls that should never have happened. He said GAO's sample of contracts to review had been very narrow, and asked if the sample were broadened, what else might be found?

Mr. Ralston asked if there had been a bid protest on the Concourse A contract. There had not. Mr. Ralston then observed that the Business Plan process had been developed about five years before as a useful planning device, to provide an opportunity for management to lay out its agenda for the year, and for the Board to have a dialogue with management to get a sense in advance what they considered to be the primary items and to have an opportunity to add to or amend that agenda. He believed the process had worked well. Even though the Board at times gave only passing interest, he said the process was valuable, and had served both Board and management well. The process was also designed to keep Board and management focused "on the ball", on the Business Plan as the agenda for the next year. If the Authority accomplished what was in the Plan, the Board could look back at the end of 2002 satisfied that the job had been well done. To the extent the Board on a month-to-month basis deviated from or added to the agenda without amending the Plan, it would detract from the ability to accomplish that sense of satisfaction. He said he had mentioned this point because there had been a tendency in recent months to go off in various different directions. The Board should stick to the Business Plan agenda.

The Chairman noted that there would be quarterly updates on the Plan. He then called for the vote on the Business Plan. It was unanimously adopted.

VII. OTHER BUSINESS AND ADJOURNMENT

The meeting was thereupon adjourned at 10:20 a.m.

Respectfully submitted:
Gregory Wolfe
Gregory Wolfe
Vice President and Secretary

approved May 1, 2002
GW