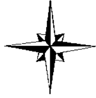


BOARD OF DIRECTORS MEETING

Minutes of April 6, 2005

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. Eight Directors were present during the meeting:

Mame Reiley, Chairman
H.R. Crawford, Vice Chairman
Robert Clarke Brown
Anne Crossman
Norman M. Glasgow, Jr.
William A. Hazel
Charles D. Snelling
David G. Speck

William W. Cobey Jr., nominated by President Bush but not yet confirmed by the Senate, and Leonard Manning, nominated by Mayor Williams but not yet confirmed by the District of Columbia Council, were also present.

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

1. MINUTES OF MARCH 2, 2005

The Chairman called for action on the Minutes of the March 2, 2005 Meeting, which were unanimously approved.

The Chairman then called on the Vice Chairman to introduce Mr. Manning, who would soon be confirmed to replace Jeffrey Earl Thompson. Mr. Crawford did so, noting that Mr. Manning was a successful minority entrepreneur in the District of Columbia. He had served on the D.C. Convention Center board, and played a vital role in the D.C. Lottery program. He welcomed Mr. Manning to the Board.

II. COMMITTEE REPORTS

a. Planning Committee

Mr. Hazel reported that the Planning Committee had met that morning to hear the Parsons Management Consultants ("PMC") report, which he said showed how the Authority's million dollars a day were spent on construction. He said he had asked Bruce Swanson, the PMC Project Manager, to be mindful of two things: first, any slippage in the construction schedule, and second, how the construction team would deal with the substantial inflation that would occur in the construction sector in the next year.

b. Business Administration Committee

Mr. Crawford reported that the Business Administration Committee had last met on March 16, chaired in his absence by Ms. Reiley. The Committee had heard a report from the General Counsel on the acquisition of 830 acres of land near Dulles, which had closed the day before. The cost had been $56 million.

Keith Meurlin, Vice President and Dulles Airport Manager, had presented his last report. It had addressed a proposed Request for Proposals for unarmed guard services at both Airports. Although the current guard contract covered both Airports, the staff had decided to award a separate contract for each. Changes in the Local Disadvantaged Business Enterprise ("LDBE") size standards had led them to set aside the Reagan National contract for 100 percent LDBE. As Dulles had become a much larger operation, it would require a larger contract. The contract there would be awarded after full and open competition. The Committee had agreed with this approach.

Fred Seitz, Manager, Procurement and Contracts, had reported that the largest contract awarded in February had been for the Dulles Concourse B 12-gate expansion

project. At $3.7 million, it had been awarded to Clark/Shea, a joint venture, of Bethesda. Thirty-three percent of the work would be done by LDBE subcontractors.

Frank Holly, Vice President for Engineering, had presented the construction program cost reports. Cost estimates had been adjusted 2.99 percent for inflation. This had increased the authorized budget amounts at Dulles by $80 million.

Finally, Mr. Crawford noted that in February the Committee had concurred in the selection of a panel of arbitrators for the Employee Relations Council. The actual confirmation would occur later in the meeting.

c. Finance Committee

Mr. Snelling reported that the Finance Committee had last met March 16. He said that on March 10 a substantial delegation, including Jim Bennett, Margaret McKeough, Lynn Hampton, Frank Holly and himself, had traveled to New York for "marathon" sessions with the rating agencies, Fitch, Moody's and Standard and Poors. A week later, the Authority had received confirmation of the bond ratings. Fitch had confirmed an AA- rating, and Moody's and Standard and Poors had both upgraded the Authority to a "positive outlook."

In addition, Standard and Poors had given the Authority a score of "DDP One" on its swap transactions, the lowest risk category in the firm's new swap rating system.

As he had told the Committee, Mr. Snelling announced that he intended to hold regular monthly Financial Committee meetings through the summer, even though the July and September Board Meetings had been canceled. If the members of the Committee did not wish to attend, he would at any event come to Washington to discuss pressing issues with the President and the Chief Financial Officer.

The monthly financial advisors' report had addressed the March 9 closing, with JP Morgan, of an additional $70 million for the commercial paper program. Commercial Paper Series One now totaled $220 million, and would be used as the primary funding source for ongoing construction. It would be regularly replenished with long term debt, either fixed or variable. After the JP Morgan transaction, the overall commercial program totaled $420 million. Staff and the financial advisors would be working to increase that amount to $500 million in the interest of additional liquidity.

The Committee had also discussed the plans for the sale of the Series 2005A, B and C Bonds, which had in fact been held the prior week. Under the delegation adopted at the March Board meeting, Mr. Crawford and Mr. Snelling had approved the final details of the sale by telephone. The three issuances had totaled $387 million, and had broken down as follows: Series 2005A, a tax-exempt series subject to the alternative minimum tax – 4.9 percent; Series 2005B, tax-exempt refunding bonds – 4.31 percent; and Series 2005C, taxable – 5.79 percent. Mr. Snelling said the underwriting had been very successful, and all involved had worked well together as a team.

Mr. Snelling called for remarks on the sale from Mike Lexton of Bear Stearns, Kevin Rotty of Morgan Keegan and Lynn Hampton, Vice President and Chief Financial Officer, which each delivered.

Mr. Snelling then reminded the Directors of the Resolution they had approved in March to expedite any possible swap transactions. Because speed was important in view of the anticipated rise in interest rates, the Resolution had delegated authority to a two-member committee, consisting of the Chairman or Vice Chairman and the Chairman of the Finance Committee. At the March Finance Committee meeting, the staff and financial advisors had recommended hedging a portion of expected future borrowing for the construction program with a forward rate swap. The amounts would be $100 million for 2006 expenses and $200 million for 2007, for a total amount well within the $400 million the Board had authorized. The financial advisors had recommended that the swaps should go ahead as long as the forward swap rate did not exceed 4.5 percent. Since then, the Authority's swap documents had been given out to swap insurers and potential counterparties.

Mr. Snelling noted that there had been some press on the continued viability and future use of auction rate products. This had happened because corporations had recently been required to carry such products as short-term investments instead of cash equivalents. It could not be determined if there were adverse effects until the tax season was over. So far, there had not been any. The Authority had about $150 million out in auction rate securities, so the staff and financial advisors would continue to monitor developments.

The Committee had also discussed the potential use of synthetic call options, which had been proposed by one of the Authority's bankers. Financial advisors and staff

would be reviewing the products in some detail to help the Board determine whether they would be a useful addition to the financing program.

In her regular monthly financial reports, Lynn Hampton had advised the Committee that February revenues of $36.7 million had continued the steady financial performance of 2004. Operating expenses had been $31 million, in line with expectations. Consolidated operating income for February had been $4.8 million; in February of 2004, it had totaled $800,000. The current February figures had shown a slight drop from January, a normal February phenomenon resulting from its 28 days.

The second half of the Finance Committee meeting had been devoted to a review of the 2005 bond series with bond counsel. Later in the day, underwriters' counsel had conducted a due diligence session on the bonds with the Chairman, the Chairman of the Finance Committee and senior staff.

d. Strategic Development Committee

Mr. Brown reported that the Strategic Development Committee had last met March 16. Much of the meeting had been devoted to the Air Service Development Program, which was customarily conducted in executive session. The Committee's focus was on the international area because of the complexity of the bilateral international relationships, as well as questions of carriers desiring to provide new services.

The Committee had heard about particular developments in the European Union ("E.U."). The United States over the last two decades had negotiated "open skies" bilateral agreements with almost every European country. The exceptions were Spain, Ireland and Greece. There was some question whether the E.U. would invalidate those agreements as it undertook to negotiate aviation agreements with the United States on behalf of all members. If the invalidation actually happened, no one could predict accurately what might result with existing agreements and services.

The Committee had learned of new domestic services. At Reagan National, American Eagle would serve Nashville three times daily; Northwest would add service to Madison, Wisconsin and Grand Rapids and Lansing, Michigan. At Dulles, Independence Air would begin services to five west-coast cities; San Diego on

March 14, and Los Angeles, San Francisco, Seattle and San Jose in April. Introductory fares were $99 each way.

As to international services, Lufthansa would begin to operate a daily round trip to Munich on May 2, doubling the daily service already provided by United. South African Airways had announced that it would start operations in July with four round trips a week between Dulles and Johannesburg, via Accra, with a 747-400.

The Committee had also heard a report on the Authority's involvement in regional tourist development activities, which was an important job generator for the entire area. The Authority was an important player, and its air services obviously provided important support.

There had been some discussion on the difficulties foreign visitors faced in obtaining visas to come to the United States. Mr. Brown said that he and Mr. Bennett had heard about the problem a year before when visiting Beijing. One of the speakers had pounded the podium and shouted during a presentation on the matter. The visa problem was discouraging both business and tourist travel to the United States. Generally, the United States required visitors to appear personally at a consular office to pick up a visa. China had a population of 1.3 billion and only 2 U.S. consular offices. The Committee had discussed what the Authority could do about it, and had concluded that U.S. airports together should develop some strategy to address the problem.

Finally, the Committee had heard a briefing on federal government relations and all the work that Authority did to interact with the Administration and Congress, which was important to operations, both from a regulatory and legislative standpoint.

The next Committee meeting, on April 19, would continue the discussion of the interrelated slot and perimeter rules at Reagan National, a discussion that had begun earlier this year in the Planning Committee. The Committee would also hear a briefing on regulatory filings responding to various regulatory actions. Much of that work was ministerial; in most cases, it needed to be done very quickly. On some occasions, however, a proceeding raised major policy issues.

Mr. Snelling asked about the "open skies" issues with Europe. He said he understood that the E.U. was restricting its own member countries and that it did not have any

jurisdiction over the United States. Mr. Brown agreed, but noted that invalidation of a particular nation's agreement with the United States would affect the ability of U.S. carriers to schedule flights to that country.

e. Audit Committee

Mr. Speck reported that the Audit Committee had met on March 16. Representatives of PricewaterhouseCoopers, the external auditors, had been present to discuss the preliminary results of the 2004 financial audit.

III. INFORMATION ITEMS

a. President's Report

Mr. Bennett began by welcoming Messrs. Cobey and Manning to their first Board meeting.

Mr. Bennett reported that the House Committee on Government Reform, chaired by Tom Davis, would be holding a hearing at Reagan National Terminal A on the return of general aviation. Mr. Bennett and Signature Flight Support had been asked to testify; government witnesses had not yet been confirmed. There had been rumors that the Transportation Security Administration ("TSA") would allow general aviation to return in July. Mr. Bennett said he would be interested to see what conditions would be included, but said that motion seemed to be in the right direction. He added that there was some possibility that the hearing would be canceled.

The US Airways bankruptcy court had the prior week approved a financing package under which Wexford Capital would invest $125 million in the carrier. Wexford Capital owned Republic Airways, which did business as Chatauqua Airlines. With a similar investment of $125 million from Air Wisconsin, it appeared US Airways had obtained the $250 million it needed to emerge from bankruptcy in the coming summer. But the Wexford agreement included a provision that US Airways would have to raise an additional $100 million. In addition, the carrier was trying to delay its exit from bankruptcy because of the increasing costs of fuel.

Mr. Bennett reported that the TSA would begin enforcing its new cigarette lighter ban on April 14. Staff had worked with concessionaires to assure that they would not be

selling any more lighters in the terminals. Mr. Bennett said he was concerned about the confusion that the new rule would engender, as well as the impact on international travelers connecting at Dulles. The United States was the only country thus far to ban the lighters.

With respect to air service developments, Mr. Bennett reported that the South African Airways service would begin with a promotional coach fare between Washington and Johannesburg of $807 round trip. He also reported that United would in the fall begin another frequency to São Paolo. He called it a defensive move; other airlines had been trying to obtain United's dormant authority to Brazil.

Independence Air had reported the day before that its March load factor had reached 70.7 percent, a major improvement. Restructuring of services and the introduction of larger aircraft had brought this about. Mr. Snelling asked what level the carrier needed to survive. Mr. Bennett said load factors in the mid-70 percent range would be necessary, but noted that the increased cost of fuel made that assessment less certain.

The Government had just announced new passport requirements for crossing the Canadian and Mexican borders.

The fifth annual District of Columbia Schools art display had been set up in the baggage claim area. The display would run through May; Mr. Bennett said the quality of the art was "amazing".

The Chairman recounted that she had recently flown from Reagan National to Aruba via Miami. Her departure had been scheduled for 6 a.m., and passengers had been told to arrive by 4 a.m. The Chairman had complied, and had been checked in by 4:15. The TSA inspectors did not arrive, however, until 5 a.m. For 45 minutes, passengers had stood in a very long line, and complained about it. Those who arrived later had to wait longer. She asked if the timing could be better coordinated. Ms. McKeough noted that concessions did not open until 5 either. Mr. Bennett said he was not optimistic that he could persuade the TSA to start its screening any earlier.

b. Executive Vice President's Report

Ms. McKeough first reported on the newly revised rules on disadvantaged business enterprise ("DBE") participation in concession programs. Some of the changes would apply to the Authority; a full briefing would be developed for the Business Administration Committee. Ms. McKeough cited two particularly important changes. For the first time, the concession program would have a personal net worth value size limit to qualify an applicant to be certified as a DBE. This would affect many concessionaires as soon as the end of April. The size limit was the same as had been used for some time in the construction programs: $750,000, with some exclusions. The second change would be to the methodology for goal setting. In the future there would be two goals, one for the rental car industry and the other for other types of concessions. The new goal methodology would take effect next year.

Ms. McKeough said that both Airports had held up well through the spring break period. At Reagan National, parking had recorded an occupancy rate of 86 percent. The garages, however, had been full on several days, usually on Tuesday and Wednesday. Passengers had been directed to the economy lot, where spaces were still available. On the Wednesday and Thursday before Easter, all lots and garages had been full, and passengers had been inconvenienced as they waited 15 to 20 minutes for a space to become available. At Dulles, the capacity was available for the 50 percent increase in parking over the same period last year.

With respect to the February statistics, both Airports had exceeded the domestic industry averages. Reagan National had served just over 1.2 million passengers, a 6.6 percent increase over February 2004. The U.S. average for the month had been 1.8 percent. For the first two months of the year, 2005 levels had been about 10 percent over 2004. Dulles had served 1.9 million passengers, 50 percent over February 2004. International traffic had been up 10.5 percent, compared to the U.S. average of 8.9 percent. Cargo activity had been down, freight almost 4 percent. International freight had been up, almost 5 percent.

Mr. Snelling asked about plans for increasing parking at Reagan National. Ms. McKeough said she and Mr. Bennett had just spent some time with the planning group, and would have a presentation for the Board shortly. Mr. Snelling asked if the presentation would include an air rights analysis; Ms. McKeough said that it would.

IV. NEW BUSINESS

Confirmation of Nine Members of the Employee Relations Council

Mr. Crawford moved confirmation of the following members of the Employee Relations Council, all to serve two-year terms expiring January 31, 2007:

Leon B. Applewhite
Louis Aronin
Irwin Kaplan
Robert B. Lubic
Jerome H. Ross
Joseph M. Sharnoff
Seymour Strongin
Stacy J. Williams
Donald S. Wasserman

The nominees were unanimously confirmed.

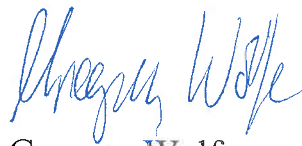
V. UNFINISHED BUSINESS

There was not any unfinished business.

VI. OTHER BUSINESS AND ADJOURNMENT

The meeting was thereupon adjourned at 9:45 a.m.

Respectfully submitted:



Gregory Wolfe
Vice President and Secretary

approved May 4, 2005