BOARD OF DIRECTORS MEETING

Minutes of May 4, 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 9:10 a.m. Nine Directors were present during the meeting:

Mame Reiley, Chairman
H.R. Crawford, Vice Chairman
William W. Cobey Jr.
Mamadi Diané
Norman M. Glasgow, Jr.
Weldon H. Latham
Leonard Manning
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

I. MINUTES OF APRIL 6, 2005

The Chairman called for action on the Minutes of the April 6, 2005 Meeting, which were unanimously approved.

II. COMMITTEE REPORTS

a. Planning Committee

In the absence of Mr. Hazel, the Committee Chairman, Mr. Ralston reported that the Planning Committee had met that morning to consider runway overrun issues and the efforts of staff to deal with them.

b. Business Administration Committee

Mr. Crawford reported that the Business Administration Committee had last met on April 19, chaired in his absence by Mr. Snelling. The Committee had first heard an "advanced review" report on a proposed Request for Proposals for the operation and maintenance of inbound and outbound baggage systems at Dulles, as well as inbound systems for Terminal B/C at Reagan National. The estimated cost was $2 million per year; the Committee had concurred in the staff's approach.

The Committee's main issue and only action item had been the report of a selection panel on a contract to market, lease and manage all food service and retail concessions at Reagan National. The proposed contract was a major change, following one made at Dulles in 2004. In the past, the Authority had employed two "developer" contracts at each Airport – one for retail and the other for food and beverage. Under the new approach, the responsibilities would be combined under a single developer at each Airport.

The panel had recommended Westfield Concession Management, Inc., for a five-year term with two one-year extension options. In 2004 the combined revenues for the Authority from both food and retail had been $5.5 million. The Committee had concurred in the award; Mr. Crawford said he would offer a resolution later in the meeting.

In the quarterly Disadvantaged Business Enterprise contracting report, staff had told the Committee that minority businesses had won $26 million in contracts, or about 14 percent of the $192 million spent in the first quarter of 2005. Women-owned businesses had won $5.8 million, or 3 percent. $58 million, 28 percent of the total, had been awarded to Local Disadvantaged Business Enterprises.

In the capital construction cost report, Frank Holly had noted that two major Dulles projects, the Z gates and the long-term Main Terminal rehabilitation project, were being closed out. He did not report any major changes to the cost estimates.

c. <u>Finance Committee</u>

Mr. Snelling reported that the Finance Committee had last met April 19 and had first heard the regular monthly financial advisors' report. The report had addressed the Series 2005 A, B and C Bonds, which had closed April 12. They had funded the recent land purchase at Dulles, added $117 million to available construction cash, refunded all but $20 million of the outstanding Commercial Paper and refunded $19 million of the Series 1997A Bonds. As a result of the transactions, the Authority had good liquidity for the construction program.

Mr. Snelling recalled that in March the Board had approved a resolution allowing the Authority to proceed expeditiously with swap transactions. The resolution had delegated authority to a two-member committee consisting of the Chairman or the Vice Chairman and the Chairman of the Finance Committee to select counterparty firms and execute a swap.

All the work on the documents had been completed; the swap would hedge bond issuances the Authority would need in 2006 and 2007. AMBAC had been selected to provide swap termination insurance as well as insurance for the bonds to be issued in 2006 and 2007. The staff and financial advisors were currently negotiating termination provisions with AMBAC. The swaps would be bid the following week, after the termination provisions had been settled. A number of providers would be bidding, and staff expected that the bids would be very competitive.

The Committee had again discussed auction-rate products. It appeared possible that their interest rates could change to the Authority's disadvantage, given that corporations had recently been required to carry such products as short-term investments instead of cash equivalents. How much was not clear. At the most recent auction, the rate received had been 50 basis points above other variable rate products, which may have been the result of the tax season.

Mr. Snelling added that the Authority had about $150 million out in auction-rate securities. He said he had asked the staff and the financial advisors to continue to monitor developments in the auction-rate products to determine if they remained competitive. They would report back to the Committee on the issue.

The 2004 Comprehensive Annual Financial Report had also been presented to the Committee. It served as the Authority's bond disclosure document and contained 10 years of financial history. Preliminary 2004 financial results discussed in prior meetings had not changed. The Report therefore showed the following for 2004: revenues of $442.3 million that had increased 13.5 percent or $27.9 million over 2003, including a 19.1 percent increase in concession revenues; expenses of $378.3 million, increased 3.6 percent or $13 million over 2003, including a $11.2 million increase in depreciation; and operating income of $64 million, increased 163 percent, or $39.7 million over 2003.

The regular monthly financial reports had shown that first quarter revenues of $114.0 million had exceeded those of the first quarter of 2004 by 12.8 percent. First quarter operating expenses had been $99.6 million, up 12.3 percent, in line with expectations. Consolidated operating income for the first quarter had been $15.5 million, an increase of $14.4 million over first quarter 2004.

Finally, Mr. Snelling reported that he had asked the staff to report on accounts receivable, including Passenger Facility Charges and other airline accounts receivable, beginning with the monthly financial reports for April.

Mr. Ralston said he had bought some of the 2005C Bonds, and had found the pricing much more aggressive than he had anticipated.

d. <u>Strategic Development Committee</u>

In the absence of Mr. Brown, the Committee Chairman, Mr. Speck reported that the Strategic Development Committee had last met April 19. Almost the entire meeting had been held in executive session, which left little to report. The meeting had been devoted chiefly to the discussion of slot and perimeter rules at Reagan National.

There had also been a briefing on new services, which had included increased use of the A319 jets by Independence Air, notably replacing seven regional jets serving Charlotte. United would begin daily São Paolo service on October 31. Alitalia would begin summer service to Milan on May 1 with an MD 11 Combi; the back third of the main deck would be devoted to cargo.

Finally, the Committee had briefly discussed the regulatory filings the Authority makes from time to time, principally with the U.S. Department of Transportation. Staff would report on them in greater detail and discuss the policy issues in advance of filing when there is time to do so.

e. Audit Committee

Mr. Speck reported that the Audit Committee had met on April 19. Representatives of PricewaterhouseCoopers, the independent accountants, had been present to discuss the results of the 2004 financial statement audit. The firm had noted that the implementation of changes in the closing process had produced positive results. In addition, the accountants had made recommendations to improve certain processes and controls in the finance and information technology areas and updated the Committee on the implementation of prior year recommendations. The Committee also had discussed planned improvements to the materials management processes and controls at Reagan National.

III. INFORMATION ITEMS

a. President's Report

Mr. Bennett introduced Donna Pasteur, the Principal of Sandburg Middle School, one of the Authority's school partners, and her assistant Elaine Jones. Ms. Pasteur said she thought the Board Meeting was Mr. Bennett's version of a faculty meeting. She said she was proud of the 15-year partnership, noting that it had exceeded all expectations. The Authority's relationship with Sandburg was the school's longest; moreover, only one other school in Fairfax County had a relationship that had lasted longer. She very much appreciated the Authority's energy and enthusiasm in support of the school; as Mr. Bennett had said at Sandburg, the Airports had become part of the School's culture. She noted that parents did not want to go back to middle schools, not even for middle school plays, and parents were not as active in the middle school years. The Authority volunteers, however, were very strong and very visible. Sandburg was a very diverse school, with a large second language population and a large special education population. As the Airports received the world, Sandburg represented the world. Most importantly, the Authority supported student achievement, the School's primary goal. She thanked Shirley Nagelschmidt for continuing liaison work, which had steadily increased over the years. Jonathan Gaffney would be speaking at the honor roll celebration the next day, and Mr. Bennett would again be serving as principal-for-a-day on May 16. At the end of the school year, Ms. Nagelschmidt would honor students who are recognized for citizenship awards. In November 2004, Authority staff had again helped with the annual career education program. Student art was on display in the Authority office building.

Mr. Bennett observed that serving as principal-for-a-day could be a frightening experience. He also noted that student musicians and choral groups had performed in the Reagan National terminal.

Mr. Bennett then reported that with the Chairman and Bob Brown, he had joined Virginia Governor Mark Warner and Mineo Yamamoto, President and Chief Executive Officer of All Nippon Airways, at an event in Tokyo. Mr. Yamamoto had expressed pleasure with the flight the carrier operates to Dulles and his experiences working with the Authority. After that event, the Chairman and Mr. Bennett had traveled to Hiroshima to visit the Mitsubishi Heavy Industries factory that would be building the cars for the Dulles people mover. A mockup of a Dulles car was on display; it would be moved to Dulles later in the year. They had also had an opportunity to ride on a car built for the Singapore Changi Airport train system on a test track, and had been very impressed with the technology. The factory would soon start work on the first of 29 cars in Phase 1 of the Authority's order.

Some of the drivers in the Dulles taxi system had been expressing concerns about the solicitation currently under way for the taxi concession. As had occurred in the past, drivers were using the solicitation process to attempt to influence some of the provisions of the contract for operating the system. Two days before, several drivers had met with the General Counsel to voice their concerns. Mr. Bennett noted that a taxi advisory panel, chaired by Mr. Faggen, had been established at the time of the last contract award. It was designed to give drivers the opportunity to bring any of their concerns about operations to the Authority. This time they were complaining about insurance requirements the Authority imposed through the contract, credit card processing fees, dispatcher problems, high fuel costs, low meter rates, and general dissatisfaction with the current contractor's operations. He said there had not, however, been any disruptions to cab services, and the advisory panel would meet May 18. Mr. Faggen said the drivers had made clear they wanted to influence the outcome of the selection process, and that he had made clear to them that they would not be able to do so. He had told them, however, that some of their economic concerns were valid, and that the Authority would look into whether they could be addressed in the next contract.

The Chairman asked if anything could be done about a fuel surcharge. Mr. Faggen said the issue could be addressed, but pointed out that rates were set by the Washington Metropolitan Area Transit Commission. The taxicab operator had applied to the Commission for a $1.25 surcharge per trip, and the Authority had supported it. Approval was likely. Mr. Faggen said the drivers would appreciate the surcharge, but were more interested in a general meter rate increase.

Mr. Latham noted that few of the current Directors had been members the last time the Dulles taxicab contract had been awarded. He said the process had been difficult, with many front page stories, chiefly about the incumbent contractor's mistreatment of the drivers. The publicity had generated a great deal of mail, much of it alleging the Authority was complicit in the mistreatment. It was important for the Authority to emphasize that all drivers should be treated fairly and equitably.

Mr. Crawford said the District's problem was that drivers would carry passengers all the way to Dulles, but would then have to return empty. He said that practice seemed unfair.

Mr. Ralston asked if there would be much competition for the contract. Mr. Faggen said there had been a preproposal conference at which several companies had appeared. He did not know how many would actually make proposals. Mr. Ralston observed that the drivers should have learned at the time of the last selection process that the protests had produced few dividends for them, and that they had paid a heavy price.

Mr. Snelling said that the guiding principles should be that the Board should support management, and that the Authority should "keep with the market." All were allowed to bid , and the marketplace controlled who bid and what the Authority did with the offers.

Mr. Bennett reminded the Board that the solicitation had already been published, with criteria the Business Administration Committee had agreed to some months before. Directors might receive telephone calls from interested parties.

Mr. Bennett then reported that Southwest Airlines had been promoting the elimination of the Wright Amendment, a federal statutory provision that established a perimeter restriction around Dallas Love Field. As he had predicted, Southwest Chairman Herb Kelleher had for the first time proposed linking the Wright Amendment to the Reagan National perimeter rule to build political support to eliminate both. There still was not any legislation pending that would eliminate either rule.

United Airlines had reached an agreement with the Pension Benefit Guaranty Corporation that would allow the carrier to complete its plan to come out of bankruptcy. United would turn over its defined benefit pension plans to the federal agency. The total amount of this pension liability was about $9 billion, of which about $6.6 billion was unfunded. The unions had threatened to strike over this event.

US Airways was in the news because of a possible merger with America West. Mr. Bennett said it was difficult to come up with any details about the discussions between the carriers, but it appeared that they were in an advanced stage.

Finally, Mr. Bennett reported that there had been considerable activity in the Congress the prior week on the return of general aviation to Reagan National. The House Committee on Transportation and Infrastructure had marked up a bill that would require the Transportation Security Administration ("TSA") to allow the return. Previous legislation had given TSA 180 days; the new provision would reduce the period to 60 days. Don Young, Chairman of the Committee, threatened to use subpoenas if the deadline was not met.

Mr. Speck said that in his previous service on the Alexandria City Council he had dealt with taxicab issues over ten years. Certain fundamental problems would never be resolved. For example, drivers never liked the contracts they lived under. He noted that many of the drivers were recently arrived immigrants working under tight margins. If they could not adjust to fuel costs, they would be hurt. In Alexandria, the City Manager could authorize a surcharge when fuel costs reached certain thresholds. Items like this could have a major impact on the drivers. He said that the Authority was obviously seeking the best contract it could get for the benefit of its customers, but should keep in mind how that impacted the people who actually provided the service. He was surprised that the Dulles drivers had not yet received a fuel surcharge, given the recent increases in the cost of gasoline.

Mr. Faggen said that most jurisdictions had granted surcharges over the last several months. In the case of the Washington Flyer cabs, the Authority could not set the rates. A process was already underway at the Transit Commission. He observed that the drivers, although happy to get a surcharge, made the point that it would only be five to ten dollars per day. Other cost items were more significant.

Mr. Speck said most of the drivers lived on tight margins, and would welcome an additional $60 per week. Mr. Faggen agreed, but noted that other issues were of more importance to the drivers. Mr. Diané asked what the Authority could do; Mr. Faggen said it had already filed in support of the surcharges. The Chairman asked what the process was for surcharge approvals. She said the issue was important because it could be changed; other costs, such as insurance, could not be adjusted. Mr. Faggen said the taxicab company had filed for the surcharge, and that the Authority had supported it. He said it appeared the company had delayed filing because it was not clear fuel costs would stay up. Mr. Faggen said the Authority had attempted to keep Flyer taxicab rates in the middle ranges compared to surrounding jurisdictions. From the passenger standpoint, a cab trip from Dulles was already relatively expensive. This had led to some hesitancy in proceeding with the surcharge. As to insurance, he said it was clear insurance was necessary, but that the amount could be reconsidered.

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

Ms. McKeough said that the annual conference of the American Association of Airport Executives ("AAAE") had just been held in Seattle, and noted that Mr. Crawford had participated with a number of Authority staff. The Association had presented its annual AAAE Chair's Award, its highest honor, to Mr. Bennett. The presenters had noted that Mr. Bennett had devoted 25 years to the Association. The Board applauded.

She reported that the TSA would be deploying new "trace portal devices" at the Airports. These would improve detection, particularly of explosives. They would not replace the metal detectors, and would be used for secondary screening.

In March, passenger levels had been strong at both Airports, setting a new record at Reagan National, with slightly over 1.6 million passengers for the month. This increase was 15.8 percent, compared to the industry rate of 6.8 percent. For the year, Reagan National was tracking at a growth rate of about 12.5 percent, well above the national domestic growth rate of 5.4 percent. At Dulles, March had been an additional month exceeding 15 percent growth, with 2.4 million passengers, for a 52.3 percent increase over March 2004. International traffic had been 11.5 percent, just below the rate for the nation at 16.4 percent. Cargo had been down 7.8 percent at Dulles; freight alone was down nearly 10 percent.

Mr. Snelling said he had noticed in a recent contracting report letter that a contract had been awarded for about $6 million on an estimate of about $10 million. He said this raised questions about the estimating process, and asked for a compilation of estimates compared to bid prices for the past year. He observed he was more used to bids that were over estimate. Ms. McKeough said she would look into the issue; she said she had not observed many contracts coming in so far under the estimates.

Mr. Speck said he had noticed some airlines whose traffic at Reagan National had dropped drastically, and others whose traffic had increased just as suddenly. He cited Mesa and Comair. Ms. McKeough explained that Mesa was a regional carrier supporting US Airways, which had taken over the services Mesa had provided as an "express" carrier. Mr. Speck noted Mesa had gone up 1000 percent at Dulles; Ms. McKeough said that figure reflected Mesa's expanded role as a United Express carrier. Mr. Speck noted that Comair had increased 150 percent at Dulles, while declining 30 percent at Reagan National. Mr. Bennett said that what that meant was that at Dulles Delta was shifting from mainline flights to regional jet flights operated by Comair. Mr. Speck asked what might be learned from these changes; Mr. Bennett said the regional business shifted all the time.

Mr. Latham said it appeared to him that Reagan National security lines were moving smoothly, while they seemed to be backing up at Dulles, and asked if his perceptions were accurate. Mr. Bennett said there continued to be problems at both Airports, particularly at peak periods. Even with the new peak traffic levels at National, TSA was not adding more screeners. This meant longer delays at certain peak periods.

Mr. Ralston observed that the situation at the United G gates at Dulles had become intolerable with the continued growth. He observed that the Authority received much of the blame. Mr. Bennett said that he had heard many complaints, but unfortunately there was not any easy solution available.

IV. NEW BUSINESS

a. Selection of a Firm to Market, Lease and Manage the Food Service and Retail Concessions at Reagan National

Mr. Crawford moved the following resolution, which was unanimously adopted:

> WHEREAS, A competitive evaluation of firms to market, lease and manage the food service and retail concessions at Reagan National resulted in the designation of Westfield Concession Management, Inc.; and
>
> WHEREAS, The Business Administration Committee is satisfied with the results of that competitive evaluation, presented to it at its April 19, 2005 meeting; now, therefore, be it
>
> RESOLVED, That Westfield Concession Management, Inc. is selected to market, lease and manage the food service and retail concessions at Reagan National; and
>
> RESOLVED, That the President and Chief Executive Officer is authorized to negotiate and enter into a contract with Westfield Concession Management, Inc., consistent with the terms presented to the Business Administration Committee April 19, 2005.

Mr. Snelling said he understood and agreed that the Board would be working as a Committee of the Whole on the airline use and lease negotiations. He asked that the Chairman make a call for information sometime in the next few months, as he had a number of items he would like to have covered in the negotiations. The Chairman said she had asked Mr. Ralston to manage that debate, and suggested that such information be passed to him.

V. UNFINISHED BUSINESS

There was not any unfinished business.

VI. OTHER BUSINESS AND ADJOURNMENT

The meeting was thereupon adjourned at 10:05 a.m.

Respectfully submitted:

Gregory Wolfe

Gregory Wolfe
Vice President and Secretary

approved June 1, 2005
GW