BOARD OF DIRECTORS MEETING

Minutes of June 1, 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
Robert Clarke Brown
William W. Cobey Jr.
Anne Crossman
William A. Hazel
Leonard Manning
David T. Ralston, Jr.
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

The Members first met in Executive Session as the Committee of the Whole to discuss the terms of a proposed contract with Piedmont Hawthorne Aviation. When this business was concluded, the Board meeting began with the customary review of the minutes.

I. MINUTES OF THE MAY 4, 2005 MEETING

The Chairman called for action on the Minutes of the May 4, 2005 Meeting, which were unanimously approved. The Chairman then announced that New Business would next be taken up, out of order, because the principal pending action required a vote of at least eight Directors and some would be obliged to leave the meeting early.

II. NEW BUSINESS

a. Authorizing Amendments to the Piedmont Hawthorne Fixed Base Operator Concession Contract at Dulles

Mr. Snelling moved the adoption of the following resolution:

WHEREAS, The Fixed Base Operator Concession Contract at Dulles with Piedmont Hawthorne Aviation, Inc. expires on August 31, 2005 and contains a five-year extension option;

WHEREAS, Changed circumstances have made clear that continuation of the existing contract, given its current financial terms, would not be in the Authority's best interests;

WHEREAS, The planning process addressing growth of the general aviation areas on the west side of the Dulles reservation, now under way, should be completed before a solicitation of the second fixed base operator contract on the customary long-term basis is undertaken;

WHEREAS, Piedmont Hawthorne Aviation, Inc., has offered substantially improved financial terms better to reflect current market rental rates;

WHEREAS, The amended financial terms would by operation of the terms of the existing contract continue through a five-year extension period; and

WHEREAS, The management has recommended that the amended terms be accepted and the contract extension option exercised, in order to allow for orderly planning of future general aviation facilities and to improve the Authority's financial return; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized to amend the fixed base operator contract with Piedmont Hawthorne, in accordance with the terms presented to the Committee of the Whole on June 1, 2005, and to exercise the five-year extension option in the existing contract.

Mr. Ralston said he would like to hear the reasoning for the action and a letter that had been sent to Piedmont Hawthorne. The Chairman asked the President to respond. Mr. Bennett said that the decision had been driven by a planning issue facing the Authority with respect to general aviation facilities at Dulles. Because general aviation had been unable to use Reagan National facilities since September 11, 2001, demand had grown substantially at Dulles. Mr. Bennett said he expected the demand to continue into the future.

Existing Dulles general aviation facilities were limited. In December 2004, the Planning Department had provided an initial briefing on the plans for the future, including projected demands, existing capacity, and expected deficiencies. It had become apparent that a long-term view should include a reassessment of where on the Dulles reservation general aviation activities should occur. This uncertainty about the future, which could not be resolved by August when the Piedmont Hawthorne contract would expire, made it unwise to advertise the fixed base operator contract, customarily a multi-year contract, as initially planned. Mr. Bennett therefore recommended exercising the first five-year extension in the existing contract, which would provide enough time to complete the planning process. It would take about a year to finish up the planning; if a completely new site would be required, preparations would include budgeting and site development work, followed by a request for proposals to develop a new fixed base operations site.

Mr. Bennett asked that the Board approve the five-year extension of the Piedmont Hawthorne contract with the set of economic terms outlined in the staff paper on the proposal. If the Board approved, staff would advise Piedmont Hawthorne of the planning exercise the Authority would undertake, and that once a different location had been designated, the Authority would go through a competitive process for a developer of that site. Piedmont Hawthorne would be welcome to participate. The proposal was to exercise the extension option already in the Piedmont Hawthorne contract, based on the amendments to the terms and conditions.

Mr. Ralston asked if it was likely five years would be necessary for the planning effort. Mr. Bennett said it would take about a year to get the planning done, and then some time for the Authority to provide infrastructure at a "green field" site, which would be the likely outcome. The solicitation process would take some time, as well as the construction of the new facility. This could probably all be accomplished within the five years. Mr. Ralston asked if the pricing proposed was comparable to or better than prevailing market conditions. Mr. Bennett said that the staff had previously retained a consultant to assist in understanding the market; the economic proposal presented for the extension exceeded the consultant's estimate of the market at Dulles. Mr. Ralston said that the proposed resolution should refer to the "existing contract *as amended*". Mr. Snelling accepted the amendment. The single "resolved" clause of the proposed resolution then read:

> RESOLVED, That the President and Chief Executive Officer is authorized to amend the fixed base operator contract with Piedmont Hawthorne, in accordance with the terms presented to the Committee of the Whole on June 1, 2005, and to exercise the five-year extension option in the existing contract, as amended.

The Chairman called for a vote. She announced that there were eight votes in favor of the resolution, and noted that Mr. Hazel had abstained because of a personal financial interest in the parent company of Piedmont Hawthorne.

b. Approval of the Grant of Amended Easements to the Commonwealth of Virginia at three locations along Route 28

Mr. Hazel introduced the following resolution, which was unanimously adopted:

> WHEREAS, Route 28 is constructed on an easement granted to the Commonwealth of Virginia;
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> WHEREAS, The Virginia Department of Transportation ("VDOT") has constructed and will construct interchanges and access roads that will require the amendment of existing easements to cover three small additional pieces of land for a total of 6.894 acres;

WHEREAS, The easement that includes the intersection of Routes 28 and 606 needs to be modified to add .41 acres to reflect more precisely the location of a ramp;

WHEREAS, The easement that includes the intersection of Route 28 and McLearen Road needs to be modified by the exchange of approximately four acres under easement back to the Authority to provide space for the eventual construction of a South Utility Building, in return for a six-acre easement to construct a planned highway ramp; and

WHEREAS, In the area of Barnsfield Road, VDOT requires an easement of approximately two acres to construct a road to allow new access for the public to the Sully Plantation from Barnsfield Road and necessary access for the Authority to reach its 60 acres of property south of the Plantation; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized to grant modification of existing easements with the Commonwealth of Virginia, as presented to the Planning Committee June 1, 2005.

c. Extending the Authorization for Refunding Bonds Authorized under Resolution No. 05-7

As the Board was addressing New Business, Mr. Snelling asked permission to introduce the following resolution:

WHEREAS, Resolution No. 05-7 authorized the issuance until June 15, 2005, of Airport System Revenue Refunding Bonds in an amount not to exceed $75,000,000 to refund certain "Refunded Bonds" comprising up to $59,070,000 in principal amount of the outstanding Airport System Revenue and Refunding Bonds, Series 1997A, Series 1998A and Series 2001B;

WHEREAS, Only a portion of the Refunded Bonds have been refunded, and the responsibilities of the Board that Resolution No. 05-7 delegated to the Chairman or the Vice Chairman and the Chairman of the Finance Committee will therefore expire unless extended; and

WHEREAS, The Authority desires to extend the time for which the refunding authorization is valid; now, therefore, be it

RESOLVED, That the actions authorized under the Third "Resolved" clause of Resolution No. 05-7 may be taken until September 15, 2005, including the issuance of Bonds in one or more series to refund the remaining Refunded Bonds.

He explained that volatile conditions in the markets were likely to make suddenly and temporarily favorable the refunding of certain maturities of bond series previously authorized for refunding. The current authorization would expire June 15. To maintain flexibility, the new resolution would extend the authorization to September so that the Authority, with the approval of the Chairman or the Vice Chairman and the Chairman of the Finance Committee, could refund the bonds on short notice.

He explained that two votes would be necessary; first, to waive the notice requirement for the resolution, which had not been sent out with the meeting call, and second, to adopt the resolution itself.

Mr. Snelling then moved the waiver of the notice requirement, which motion was unanimously adopted. He then moved adoption of the resolution. The Chairman announced that all nine Directors had voted in favor.

III. COMMITTEE REPORTS

a. Audit Committee

Mr. Speck reported the Audit Committee had met May 18 to discuss internal and financial controls for three large concession contracts. It had also considered recommendations to improve data retention.

Because he had to leave, Mr. Speck brought up the 2004 Annual Report, which he called outstanding work. Other Directors agreed. Mr. Bennett credited Margaret Bishop with producing it.

b. Finance Committee

Mr. Snelling reported that the Finance Committee had last met May 18. The financial advisors' report had included the results of two forward swaps that had been priced on May 13. The purpose of the swaps was to hedge a portion of future capital needs. Eight bids had been received for both swaps. According to the financial advisors, the market price for the $200 million 2007 swap had been 3.5 percent. The winning bids had been received from Wachovia and the Bank of Montreal at 3.550 percent. Wachovia had been awarded $125 million and the Bank of Montreal $75 million.

Bids had then been received on the $100 million 2006 swap. The market price had again been estimated at 3.50 percent; the winning bid from Wachovia had been at 3.50, with the next lowest bid from the Bank of Montreal at 3.504 percent. With negotiations, both firms had agreed to lower their bids to 3.4975 percent. On the 2006 swap, Wachovia had been awarded $65 million and the Bank of Montreal $35 million. The final documents were to be signed after the day's Board Meeting.

Although there had been eight bids, Mr. Snelling said he had learned that some counterparties had not been able to bid because the authorizing resolution had not permitted counterparties to qualify by posting collateral if they did not have at least one AA- rating. In omitting this provision, the authorizing resolution had been inconsistent with the Board's Policy on Derivative Financial Products. Mr. Snelling said he had asked Lynn Hampton, the Chief Financial Officer, to investigate the problems and report back to the Finance Committee.

The Committee had also discussed the plans for the fall financing. The form and scope of the financing were still being considered by the Committee, the staff and the financial advisors. With respect to the Passenger Facility Charge notes, Ms. Hampton had reported that she had been successful in negotiating an expansion to $500 million and extensions to 2017. The Committee had agreed that Ms. Hampton should continue to negotiate the terms of the notes. In the near future, the Board would be asked to approve the final terms.

The quarterly report on investment activities showed performance that was tracking benchmarks. Nancy Edwards, Manager of the Treasury Department, reported that $530.3 million of investments were rated in the safest risk category by the Government Accounting Standards Board. The remaining $4.5 million in investments were held as certificates of deposits in banks with outstanding Community Reinvestment Act ratings. In 2004, the Authority had earned $15.9 million on its investment portfolio. The Committee had discussed the benchmarks used to evaluate investment activities, and Mr. Snelling had asked Ms. Hampton and the financial advisors to report in greater detail on those investment benchmarks, in particular discussing their appropriateness.

In reporting on the regular monthly financial results, Ms. Hampton had advised that the year-to-date revenues of $153 million through April had again exceeded the same period in all prior years. Revenues had been right at expectations, at 33.3 percent of the Budget. Operating expenses for the four months of 2005 had been $130.3 million, also in line with expectations at 31 percent of the Budget. Consolidated operating income had been $22.8 million, continuing to exceed all prior years. Accounts receivable had reached a record low, with delinquencies of over 60 days at 2.67 percent of monthly billings. Construction activity year-to-date, including the purchase of land at Dulles, had been $175.2 million, tracking the construction budget. Mr. Snelling said it was clear the Authority was enjoying an exceptionally strong performance in meeting the needs of the public in a difficult and competitive air transportation market, with appropriately strong financial results for the Authority as a consequence.

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

Mr. Brown reported that the Strategic Development Committee had met on May 18. It had first heard a report on the many marketing activities going on in the current year and what they were costing. The presentation had piqued the interest of Directors present, particularly the newer ones, in the WASHINGTON FLYER MAGAZINE and its cost. The rest of the meeting was held in executive session. With respect to air service, there had not been any new services to report. The staff had visited three airlines in India – Air India, Jet Airways, and Air Sahara – but there had not been any new developments. A visit to South African Airways had produced the information that the carrier's bookings, particularly cargo, for its June 2 start at Dulles were very good. Mr. Brown noted that in April, the Chairman, Mr. Bennett and he had joined the Governor of Virginia to call on the Chief Executive Officer of ANA in Tokyo.

The Committee had again discussed the regulatory filings the staff made in support of air service development. The filings were generally in accordance with the policy identified in the annual air service plan to promote service at both Airports. The Committee would be looking at a report on the regulatory and court filings made over the past twelve months.

Finally, the Committee had continued its discussion on the slots and perimeter rules, this time focusing on the ownership of slots. Mr. Brown said the sessions had been excellent tutorials on the rules, and recommended any interested Directors to attend any future sessions.

IV. INFORMATION ITEMS

a. President's Report

Mr. Bennett noted that each Director had a copy of the 2004 Annual Report, in a new format, and thanked Margaret Bishop for producing it. Ms. Crossman added that she considered the report truly extraordinary among the many she had seen.

Mr. Bennett said the International Association of Machinists and Aerospace Workers ("IAM") had the day before reached a tentative agreement with United Air Lines on new contract terms that had averted a strike. That day had been set by the bankruptcy court for a decision on whether United could abandon the contract, which would have caused the IAM to walk out. In addition, the mechanics had also approved a contract with United the same day. The only remaining labor issue was the flight attendants' union appeal of the bankruptcy court decision canceling the flight attendant retirement plan. It nevertheless appeared United would emerge from bankruptcy later in 2005.

Mr. Bennett noted that US Airways and America West Airlines had agreed to merge, with headquarters in Tempe, Arizona. The combined airline would operate as US Airways, even though it would be managed by the America West management team. The US Airways bankruptcy court had the day before approved a plan under which investors could submit rival reorganization plans. The court had also approved a provision under which, if either airline walked away from the deal, the rival would have to pay a $15 million breakup fee. After bankruptcy court approval, the plan would still require the approval of the Departments of Justice and Transportation. The ironic outcome would be that US Airways, managed by America West, would become a low-fare carrier and the largest carrier at Reagan National.

The Transportation Security Administration (TSA) had announced the week before that it would reopen Reagan National to general aviation. The plan for doing so was extremely burdensome for most general aviation operators. It was, however, an important first step in bringing general aviation back to the Airport. Mr. Bennett recalled that after September 11, regular commercial service had been reintroduced under a restrictive program that took some time to reach former levels. Initially, flights from only eight airports could operate into Reagan National, and special security protocols had to be observed. The new general aviation plan was similar. It would start with twelve "gateway" airports through which all general aviation flights would have to travel. Full screening of the passengers and contents of the aircraft would be required, as well as background checks of the pilots. Mr. Bennett said he was not sure how popular general aviation flights to Reagan National would be under the proposed rules, but said he thought it a good first step.

Mr. Brown asked the regulatory status of the program. Mr. Bennett said the TSA had not yet issued a rule, and that it was consequently not clear what might be required of the Authority. Generally, the requirements for the general aviation community were clear. The procedure would be the issuance of an interim final rule, followed by a 60-day comment period. Mr. Faggen said the start date would be at least 90 days after the announcement.

Mr. Bennett said that the advisory panel on taxicabs at Dulles had met May 18 to review and discuss matters raised by the drivers. They included dispatch practices, fuel surcharges, credit card processing fees, insurance requirements, and a proposed medallion system. The drivers were not particularly interested in the fuel surcharge that was pending a decision by the Washington Metropolitan Area Transit Commission. They did not believe another $1.25 per fare would generate enough revenue, and argued it would annoy the customers, who would in most cases deduct the surcharge from intended tips. As to the other issues, there would be continuing discussions with the drivers, especially the issue of insurance.

An appeal of the "Wright Amendment," as Mr. Bennett had mentioned before, was being actively pursued by Southwest Airlines. That amendment limited flights to and from Dallas Love Field, similar to the Reagan National perimeter rule. A week before, Texas Representatives Sam Johnson and Jeb Hensarling had introduced a bill to repeal it. The Texas delegation was divided on the issue, and a companion bill had not yet been introduced in the Senate. Mr. Bennett said he did not expect the bill to proceed far on its own, but that it could easily be attached to other aviation bills later in the session.

Finally, Mr. Bennett noted that Ken Mead, Department of Transportation Inspector General, in testimony before the Aviation Subcommittee of the Senate Commerce Committee about congestion and delay at domestic airports had identified Dulles as one of six airports likely to develop problems during the summer. The Chairman asked if there were any indication TSA would provide staff to handle the increased demand. Mr. Bennett said that he thought staffing had been adequate recently, but noted that the sheer volume of people flying and the security protocols meant that delays could occur nonetheless. Mr. Snelling said that the TSA, having taken over the screening function as a federal responsibility, had a duty to travelers and airports to do it right.

b. Executive Vice President's Report

Ms. McKeough said that both Airports had fared well over the Memorial Day weekend, as expected. The economy parking lots at Reagan National had been full for two days over the weekend, but it had been possible to direct the overflow to other parking facilities. No one had been turned away. At Dulles, demand had been up over 50 percent from the same weekend in 2004. The Dulles economy lot had reached 96 percent of capacity. TSA lines had been long, but reasonable. The longest had been at the center pier at Reagan National. Checkpoints there were already being expanded.

The summer student program, which had continued at a low level through the year, had again been increased for the summer peak. The students, wearing yellow Authority shirts, were to help keep the security lines moving.

For the month of April, traffic had been strong at both Airports. At Reagan National, passenger levels had been up 9.2 percent over April 2004, compared to industry growth of less than one percent. Year-to-date, Reagan National's traffic had increased 11.5 percent over the same period in 2004. All carriers had experienced growth, with US Airways and American showing the highest numbers.

At Dulles, the April growth over April 2004 had been 39 percent; for the first four months of the year, the increase had been 49 percent. International service had been up 3 percent, with United growing 9 percent. The industry benchmark had been 10 percent. Delta had been showing the most decreases at Dulles, down 30 percent for the month of April. Mr. Brown asked why the international growth had been trailing. Ms. McKeough said there had been changes in frequency, particularly Air Canada. British Airways traffic had also declined somewhat.

Numbers were not available for BWI; staff estimates were an eight percent decline for the month of April.

Cargo activity at Dulles had been down 3.7 percent in April.

V. UNFINISHED BUSINESS

There was not any unfinished business.

VI. OTHER BUSINESS AND ADJOURNMENT

The meeting was thereupon adjourned.

Respectfully submitted:

Gregory Wolfe

Gregory Wolfe
Vice President and Secretary

approved August 7, 2005
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