# BOARD OF DIRECTORS MEETING

Minutes of June 2, 2004

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:

Norman M. Glasgow, Jr., Chairman
Mame Reiley, Vice Chairman
Robert Clarke Brown
Anne Crossman
John Paul Hammerschmidt
William A. Hazel
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

## I. MINUTES OF THE MAY 5 MEETING

The Chairman called for action on the Minutes of the May 5, 2004 Meeting, which were then unanimously approved.

## II. COMMITTEE REPORTS

### a. Planning Committee

Mr. Hazel reported that the Planning Committee had met that morning at 8 a.m. The Committee had first heard the regular air service development report. He said the next major event at Dulles would be the June 16 inauguration of service by Independence Air, which would initially provide low-fare service to ten cities: Chicago, Newark, Boston, Raleigh-Durham, Atlanta, White Plains, Portland, Norfolk and Columbia. The new carrier's toughest challenge might come from the Transportation Security Administration ("TSA"), which could have trouble handling the crowds generated by the new carrier.

The air service development staff had continued to work on several foreign air carriers, including Aeromexico, South African, TAP Air Portugal and THY Turkish. Mark Treadaway, Vice President for Air Service Planning and Development, would be accompanying Virginia Governor Mark Warner on a business development trip to China later in the week. The Governor was expected to participate in efforts to encourage Air China to serve Dulles.

The Committee had also heard a report on the progress in acquiring additional land at Dulles. The Authority, as Directors were aware, had the power of eminent domain, and might on occasion have to use it.

Finally, the Committee reviewed the proposed selection of Parsons Management Consultants to provide program management support services for the capital construction program. The Committee had accepted the staff recommendation, and was recommending that the Board approve it.

### b. Business Administration Committee

Ms. Reiley reported that the Business Administration Committee had last met on May 19, and that Mr. Crawford, the Committee Chairman, had asked her to report for the Committee in his absence.

The Committee had first considered an "advanced review of business decisions" item on a snow removal contract for Dulles. Because of the complexity and scope of snow removal there, some of the work was contracted out. Airport staff focused on the more sensitive work, such as plowing the runways. The airfield contract covered the work around some of the gates, taxiways and hard stands, at a cost of about $1.6 million per year for the removal of up to 14.99 inches of snow. Snowfall over that level would cost extra. The Committee had been satisfied with the terms of the procurement and concurred in the issuance of the RFP.

With respect to containing healthcare costs, Ms. Reiley said that the Committee had heard a report on four general approaches the staff had been considering. They were: joining a coalition of employers to offer healthcare insurance; using a separate pharmacy benefit manager to purchase drugs in volume and dispense to employees; employing a specialized audit firm to review claim payments by CareFirst, the firm that administers the Authority's health insurance plan; and selecting from several programs for dealing with chronic illnesses. The staff would report back after further analysis, at the time it submitted the health insurance program for approval in the fall. Staff would also look into a survey that had suggested a relatively high level of chronic illness among Authority employees and their covered dependents.

Finally, Ms. Reiley said that Frank Holly, Vice President for Engineering, had again reported that capital construction program costs were well under control. He had also discussed the status of major construction projects. Three major projects would be finished at Dulles in 2004: the tunnel from the Main Terminal to Concourse B; the multi-year Main Terminal rehabilitation project; and the upgrade of the utility building. Contracts would be awarded in 2004 for parts of the underground people mover, including the vehicle maintenance building and major tunnel and station excavation work.

c. <u>Finance Committee</u>

Mr. Ralston reported that the Finance Committee had last met May 19. The Financial Advisors had brought the Committee up to date on recent financing activity and plans for the rest of the summer. The closing of the "new money" portion of the bonds, Series 2004B, had been held May 18. The bonds sold to refund a portion of the Series 1994A bonds, the Series 2004C-1 Bonds, would close on July 7. Approximately $97 million of the Series 1994A Bonds and $14 million of the Series 1993A Bonds had not been refunded.

The Financial Advisors had reported on a new bond sale scheduled to close before the January 2004 swap "went live" on August 30. There were at least four options for the sale; staff and the finance team would keep all options open until closer to the sale date. Mr. Ralston said he was sure the Committee would examine the issues carefully.

Jim Henn of Lehman Brothers, the senior underwriter on the transactions, had reported on the recent bond sales. He had noted that the Authority bonds had been well received, and had sold well in all categories. Approximately $10 million in bonds had been sold at retail.

Mr. Ralston said the Committee had also heard the quarterly report of the staff Investment Committee. At the Committee's request, the staff had reviewed minority and women-owned banks for possible inclusion in the linked deposits program. Staff had been asked to follow up with banks that were not currently participating to explain the investment program and solicit interest in doing business with the Authority. The Investment Policy allowed the staff to do business only with banks that have an "outstanding" Community Reinvestment Act ("CRA") rating. While there had been a suggestion that the standard be lowered, the Committee had not seen any reason to change it.

With respect to the April financial reports, Lynn Hampton, Vice President for Finance and Chief Financial Officer, had reported that year-to-date revenues of $137.8 million had exceeded all prior years. Year-to-date operating expenses had been $118 million, slightly less than 2003, but more than 2000 through 2002. Four months into the year, operating expenses had reached 32.7 percent of Budget, while revenues had reached 31.4 percent. Consolidated operating income year-to-date had been $24.7 million.

Mr. Ralston said an historical report on the funding of terminal facilities had been deferred to the June Committee meeting, and that the briefing on the use and lease agreement would continue after the Board Meeting.

## III. INFORMATION ITEMS

### a. President's Report

Mr. Bennett began with an update on the situation with the TSA screeners. He said he had discussed staffing levels with TSA staff, and learned that the agency would at least temporarily maintain a large portion of the national mobile screening force already stationed at Dulles to supplement the permanent screeners. TSA had also announced that it would add 100 additional screeners at Dulles. Mr. Bennett had been concerned that the 100 new screeners would simply replace the 100 mobile screeners, who would be deployed elsewhere. He now understood that most of the mobile screeners would remain, which would result in an increase in staffing levels. The remaining problem was that the 100 new screeners had not yet reached the training program, and it was not clear when they would become available. The Virginia Congressional delegation had sent a letter to Tom Ridge, Secretary of Homeland Security, expressing concerns about both TSA and Customs and Border Protection staffing levels at Dulles. They had asked the Secretary to brief the delegation on the summer traffic problem and TSA plans to deal with it.

The staff was taking several steps to improve the situation. Several students had been hired into a "summer ambassador" program, and more were being trained. They would actually manage the screening lines, attempting to inform and assist the passengers in dealing with the screening process. Many travelers, especially in the summer, would not be used to the screening process. Mr. Speck asked how the students would be identified. Mr. Bennett said they would wear bright yellow shirts with the Authority name and logo. They would all be trained, and introduced to the TSA, airline and Dulles staff, not just sent out on their own. Other options to facilitate the flow of passengers included, at Reagan National, providing the passengers with small plastic bags for their change, keys and other small items. At Dulles, a video screen system showing passengers in line what they would have to do at the screening point would be installed.

Atlantic Coast was in transition from a United Express carrier to an independent carrier, with its service as Independence Air starting in two weeks. United was shifting its connecting traffic over to different express carriers and would be opening its new temporary terminal within a week.

As to construction, Mr. Bennett reported that a contract had been awarded for the first set of tunnels for the people mover the week before. The west tunnels and the B Concourse station excavation would be undertaken by Clark/Shea, A Joint Venture. He noted that the complete reconstruction of runway 12/30 was progressing. All of the old pavement had been removed, and most of the subbase had been reinstalled.

Within a week repaving would begin. The target for reopening the runway remained the close of business on August 19.

Virgin USA had "shortlisted" the cities it was considering for headquarters. Of the original three – Washington Dulles, San Francisco and Boston – only San Francisco remained. New York City had been added.

Mr. Bennett said the Authority had received a bill from the District of Columbia Water and Sewer Authority ("WASA") for more than $800,000. It appeared that, since 1966, WASA had been billing the Airports and several other jurisdictions in the area at the wrong rate. Staff was reviewing the records. In addition, WASA had increased current fees for water about 80 percent, from $1000 to $1789 per million gallons.

The Authority had received notice that WDT, the former Dulles taxicab operator, had filed with the Supreme Court a petition for a writ of *certiorari* to the Court of Appeals for the Fourth Circuit in its case against the Authority over the award of the contract several years ago. Mr. Snelling asked if WDT had presented a substantial Constitutional question. Mr. Faggen replied that the petition was not very strong.

Mr. Bennett noted that four plastic panda statues, named Directions, William Shakesbear, Panda Dynasty and Bright Panda, had been positioned at Reagan National. They were part of an arts program that placed similar, individualized pandas throughout the District. He thanked Leslie Berkowitz for her role in the program.

Mr. Speck asked if there had been any news with respect to general aviation at Reagan National. Mr. Bennett said there had not been. TSA had developed a general aviation plan, which had gone into a security review process at the White House. There it remained. Mr. Speck asked if the Authority should keep the political pressure going. Mr. Bennett said it appeared that Members of Congress had been persuaded that general aviation should not return to Reagan National in the near term.

Mr. Speck asked how Mr. Bennett would know if the mobile screeners were taken from Dulles to other airports. Mr. Bennett said there was no assurance that such reassignments would not happen. Mr. Speck then asked about the possibility of legislation to allow the Authority to employ private screeners as a supplement to the TSA operation. Mr. Bennett said the only development had been the announcement from John Mica, Chairman of the Subcommittee on Aviation of the House Committee on Transportation and Infrastructure, that he was advocating reprivatization of the screeners. Mr. Speck said the idea of adding private sector screeners to the existing complement seemed so simple a solution that it should not be difficult to obtain legislation, even on a temporary basis. He was frustrated that nothing was happening with a proposal. Mr. Hammerschmidt said that the law would have to be changed first, then a source of funds identified. Ms. Reiley said that there was not enough time to accomplish the legislation before the summer growth in demand. Mr. Speck said he understood private screeners were available and ready to work. Mr. Hammerschmidt said he had gathered from Mr. Mica's statement that he wished to move in that direction, and that legislation would have to come from Mr. Mica's Subcommittee.

Mr. Speck said he still could not understand why most airports would not be pursuing such an obvious solution, facing an emergency, as many of them did. He said any legislature could move quickly when faced with a crisis. Mr. Bennett said he believed the problem was part of a much larger political question. Mr. Snelling quoted Jonathan Swift: "It's not possible to change by reason alone things that were not determined by reason in the beginning."

Mr. Ralston asked about the status of the new United regional terminal at Dulles. Mr. Bennett said it should open the following week, but no later than June 16. Mr. Ralston asked about Dulles ramp control, which was provided by the Authority, after the new services were introduced. Mr. Bennett said the Dulles staff was working on the matter, trying to figure out how to provide a tower facility for the new building; in the meantime, four additional controllers had been authorized. A temporary tower would be possible; until the main point was resolved, several cameras would be used.

b. Executive Vice President's Report

Ms. McKeough reported that the first of two annual meetings with the property representatives of the airlines serving both Airports had been held May 20. Attendance had been good, and the meeting had been successful. Several issues had been discussed, and the staff had presented an update on the capital construction program.

She observed the Directors might recall the dispute over the award of the duty free concession contract the year before. Internally, the challenge by the unsuccessful incumbent bidder had been formally resolved by the Chief Executive Officer, and the contract had been awarded to Duty Free America. Externally, the incumbent had taken the issue of Authority certification of the Duty Free America DBE partner to the U.S. Department of Transportation. The Department had provided a written ruling upholding the Authority's decision on the DBE certification.

Usage of the two parking garages at Dulles was continuing to grow. In May, a peak daily usage level of 57 percent usage had been reached. The current annual average usage was 42 percent, a significant increase over the previous year. The covered walkway canopy from Daily Garage 2 had been completed.

As to April air traffic statistics, Ms. McKeough said the trend line was up for the fourth consecutive month. At Reagan National, the April increase had been 17.7 percent over April 2003, for a total just short of 1.5 million passengers. At Dulles, the increase for the corresponding period had been 22.2 percent. Both Airports had surpassed the industry-wide level of 11.9 percent. Year-to-date, Reagan National had increased 15.2 percent over the same period in 2003, and Dulles was up 14.6 percent, compared to the industry-wide figure of 5.7 percent. International and transborder traffic at Dulles had been up 30.8 percent over last year's figures as well. She noted that predictions that the Airports would take three to five years to recover from the September 2001 events appeared to be correct. Three years had passed, and the recovery trend was clear. She pointed out that the growth reported so far did not take into account the increased service planned for the summer by Independence Air and others.

Mr. Ralston mentioned that he had failed to report that Kathryn Mikells, Vice President – Corporate Real Estate at United Airlines, had met with the Board on May 19, and had reaffirmed United's commitment to Dulles as a vital part of its business growth program.

## IV. UNFINISHED BUSINESS

There was not any unfinished business.

V. NEW BUSINESS

a. Selection of a Firm to Provide Management Support Services for the Capital Construction Program at Both Airports

Mr. Hazel moved the adoption of the following resolution. Mr. Brown said adoption of the resolution in his view did not reflect the thorough kind of oversight the Board should give a contract of such importance. He announced he would vote against it. He said it was one of the Authority's largest, at about $35 to $40 million annually, and one of the most lucrative. It had been held by the same contractor almost since the Authority began operations. The contract had been a constant source of concern by the Board and management as to how to create appropriate incentives to control its costs and thereby control the Authority's costs. The Board had had the internal auditors looking carefully at the contract.

In the Planning Committee that morning, those attending had learned that there were a number of improvements to the new contract. That information had come out in response to questions, in a somewhat half-hazard and random way; none of it had been explained in a briefing paper. Staff present at the beginning of the meeting had been unable to answer questions about the particulars of the contract; the responsible staff had to be called in to respond.

He said his concerns were not with the contract itself, but with the process, and the Board's failure to exercise its oversight responsibilities. The Planning Committee, at its meeting earlier that morning, had decided to have the staff prepare a *post-hoc* report summarizing how the contract would work. In his view, that was not how the Board should exercise its responsibilities. Moreover, the deficiency could easily be remedied by extending the contract for 30 or 60 days while the Board went through appropriate processes. The new contractor was the same as the incumbent, and there were not any transitional issues to manage.

The Chairman noted that the Capital Construction Program had been delivered on time and on budget from the beginning. As there were not any further questions or comments, he then called for the vote. The resolution was then adopted; Mr. Brown asked that his negative vote be recorded.

WHEREAS, The contract for program management support services has been treated as an Architectural/Engineering design and consultant services contract under the Contracting Manual;

WHEREAS, The Planning Committee concurred in the initial selection of Parsons Management Consultants at its December 2003 Meeting;

WHEREAS, The staff has since negotiated a long-term agreement with Parsons Management Consultants, a joint venture of Parsons Transportation Group Inc., Parsons Brinckerhoff Construction Services, Inc., Delon Hampton & Associates, Chartered, and DMJM Aviation;

WHEREAS, The Planning Committee is satisfied with the terms of the new contract, as presented at its June 2, 2004 meeting; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized and directed to enter into a contract with Parsons Management Consultants, in accordance with the terms presented to and endorsed by the Planning Committee at its June 2, 2004 meeting.

## VI. OTHER BUSINESS AND ADJOURNMENT

The meeting was thereupon adjourned at 10:45 a.m.

Respectfully submitted:

Gregory Wolfe

Gregory Wolfe
Vice President and Secretary

approved July 7, 2004