BOARD OF DIRECTORS MEETING

Minutes of June 4, 2003

The regular monthly meeting was held in the Board Conference Room at 1 Aviation Circle and was called to order by the Chairman at 9:50 a.m. Nine Directors were present during the meeting:

Norman M. Glasgow, Jr., Chairman
David T. Ralston, Jr.
Robert Clarke Brown
H.R. Crawford
Mamadi Diané
John Paul Hammerschmidt
William A. Hazel
Mame Reiley
Jeffrey Earl Thompson

Weldon H. Latham and Charles D. Snelling, nominated by the President but not yet confirmed, were not present, but participated by telephone. Directors may so participate with the Chairman's consent, but may not vote and do not count towards a quorum.

The Secretary and the following Officers were present:

James E. Bennett, President and Chief Executive Officer
Edward S. Faggen, Vice President and General Counsel

I. MINUTES OF THE MAY 7, 2003 MEETING

The Chairman then called for the approval of the Minutes of the May 7, 2003 Meeting. They were unanimously approved.

II. COMMITTEE REPORTS

a. Planning Committee

Mr. Hazel reported that the Planning Committee had met just before the Board Meeting. Staff had reported that traffic appeared to be picking up again; the New York shuttle trips had been restored, and United was bringing back its daytime flight to London. USAirways had indicated that it would acquire 170 new regional jet.

Mark Treadaway, Vice President for Air Service Planning and Development, had advised the Committee about plans to solicit a new aviation consultant to support his Office, and Frank Holly, Vice President for Engineering, had reported on plans for a competitive process for selecting a program management consultant. Finally, the Committee had heard a brief report on multilingual signage at Dulles.

b. Business Administration Committee

Mr. Crawford reported that the Business Administration Committee had last met May 21. It had first heard an update on the recent procurement for custodial services at Reagan National. All bids had come in over budget, largely because of expanded cleaning responsibilities and the new "living wage" requirement. The management had decided to withdraw the solicitation, refine the scope of the contract, and readvertise. They were confident that they could do so without compromising cleaning standards. Because of timing considerations, the Committee had agreed to recommend that the Board extend the old contract. Mr. Crawford said he would offer a resolution later in the meeting.

Mr. Crawford said a second contract extension would be necessary for the duty free contract. As most Directors were aware, a disappointed offeror had protested the award of a new contract, and the next step in the protest process would be a decision of the President and Chief Executive Officer. Mr. Crawford said he would offer a resolution on the matter.

The Committee had also discussed the structure of the new custodial services Request for Proposals, focusing chiefly on the impact of the minimum wage policy the Board had adopted last December. Methods of encouraging or requiring health insurance for service workers were put off for future consideration.

Mr. Crawford said that Mr. Holly had reported that there had not been any significant cost increases in the capital program. The three most recently completed projects at Dulles – the Terminal B Extension and the two parking garages – had all closed within estimates.

c. Finance Committee

Mr. Brown reported that the Finance Committee had last met May 21. Staff had presented the April Financial Reports. The first third of the year had been difficult for both operations and construction. Expenses had been higher than expected because of heavy snowfall, which had also depressed revenues. The weather conditions had also slowed the construction program, which was running behind expected expenditure rates. The operations program was being managed by several measures, including a hiring freeze and increases in parking rates. The Committee would get a more detailed report on the adjustments to operating expenses at its June meeting.

The Committee had heard the quarterly report of the investment committee. Approximately half the Authority's investments were in money market funds, principally because of the five-month operating reserve, and also because much of the bond proceeds were invested for short periods.

Twice a year the staff reported on banking relations. There had not been any changes in the ratings of the banks the Authority did business with. Some were "CRA" banks, which were often smaller banks with slightly lower credit ratings. All funds not in the CRA banks had been placed in Category 1 investments, the safest under the Government Accounting Standards Board rules.

Investment earnings in 2002 had been $13.3 million, down significantly from $17.5 million in 2001. The decline in interest income had, of course, been balanced by a reduction in interest expense because a significant portion of the investment portfolio was in short-term variable-rate debt.

The Financial Advisors' Report had addressed the funding requirements for the construction program in 2003 and the consequent needs for bond funding. The finance team had recommended deferring the bond deal that had been under way for several months. The current expectation was that the Authority would be entering the market in September.

Rates were still very good; part of the deals scheduled for September were refunding, and would provide substantial savings. The Committee had also asked the staff to look at options for synthetic advance refunding of the Series 1994 Bonds, which could not otherwise be refunded for 16 months.

Mr. Thompson said he had raised major concerns about controlling expenses at the last Finance Committee meeting. The staff was to report back in detail; it was important to end the year in the black. Mr. Brown reiterated that the report would be provided.

The Chairman said he wished to proceed with new business.

III. NEW BUSINESS

a. Proposed Extension of the Custodial Contract at Reagan National

Mr. Crawford moved the following resolution, which was unanimously adopted, with all 9 Directors present voting in favor:

> WHEREAS, Because of the state of the air carrier industry, the Authority is facing tight budget conditions for the foreseeable future;
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> WHEREAS, In the recent solicitation process to select a firm to provide custodial services at Reagan National the successful offeror's price exceeded the budget amount by $4.5 million, and the staff now wishes to readvertise with a reduced scope of work;
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> WHEREAS, The current custodial contract for Reagan National will expire June 30, 2003, before a new solicitation process could be completed; and
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> WHEREAS, A contract extension not provided for in a contract constitutes a sole-source award, requiring the approval of the Board of Directors by seven affirmative votes; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized to extend the custodial services contract at Reagan National through December 31, 2003.

b. Proposed Extension of the Duty Free Concession Contract for Both Airports

Mr. Crawford moved the following resolution, which was unanimously adopted, with all 9 Directors present voting in favor:

WHEREAS, The Nuance Group (Washington DC) LLC has protested the proposed award, after a competitive selection process, of the duty free contract to Dulles Duty Free, and has also challenged the certification of the prevailing offeror's Disadvantaged Business Enterprise partner;

WHEREAS, The current duty free contract will expire, after a 12-month extension granted under Resolution No. 01-20, on May 31, 2003, and may require an additional extension before the Nuance protest and challenge can be resolved; and

WHEREAS, Any further contract extension will constitute a sole-source contract award, requiring the approval of the Board of Directors by seven affirmative votes; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized to extend the duty free contract on a month-to-month basis for a period not to exceed June 1, 2004.

c. Proposed Selection of External Auditors

Mr. Brown said he would offer a resolution on the selection of external auditors, as the Chairman of the Audit Committee, Mr. Thompson, had not participated in the selection process because of the appearance of a conflict of interest. He noted that this was one of the few selections reserved to the Board itself, and that a direct relationship between the external auditors and the Board was very important. He then moved the following resolution, which was unanimously adopted, with Mr. Thompson abstaining:

> WHEREAS, The Audit Committee has comprehensively reviewed the submissions of candidate firms for independent financial audit services, considered the advice of the Vice President for Audit, and has interviewed the candidate firms; and
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> WHEREAS, The Committee has unanimously agreed on the selection; now, therefore, be it
>
> RESOLVED, That PricewaterhouseCoopers, L.L.P. in association with Bert Smith, is hereby selected to provide professional audit services for 2003, 2004 and 2005, with the option of an extension for two additional years; and
>
> RESOLVED, That the President and Chief Executive Officer is authorized to enter into a contract with PricewaterhouseCoopers for these services.

IV. INFORMATION ITEMS

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

Mr. Bennett cited a WASHINGTON POST article quoting Jürgen Weber, at the time Chairman and Chief Executive Officer of Deutsche Lufthansa AG, on a 3-hour wait in the federal inspection services at Dulles. Mr. Bennett said that representatives of the Authority and the Washington Airports Task Force had been working with Congressman Frank Wolf and the Department of Homeland Security to resolve the problem. He observed that one of the reasons for the long lines had been the return of international traffic.

Both Delta and US Airways had recently announced that they were restoring a full hourly schedule on their LaGuardia and Boston shuttles. Parking and taxicab dispatches were up at both Airports, approaching pre-September 11 levels.

Mr. Bennett noted that efforts were underway to control High Occupancy Vehicle ("HOV") rule violations on the Interstates in the area. Many of the single-passenger cars on Interstate 66 were driven by "backtrackers" who went through Dulles, taking advantage of the exemption for airport traffic. The Authority police were participating with Virginia and Maryland officials on increased enforcement of the HOV rules.

Over the prior weekend, the Transportation Security Administration had reduced the alert level from orange to yellow. In addition, "fixed" law enforcement presence at the security checkpoints had been discontinued in favor of the "flexible response" procedure that had been standard at airports nationwide before the recent tightening of airport security.

The following week, on June 12, Air France would be delivering a Concorde at Dulles for the National Air and Space Museum Extension.

Dulles had received the Balcher Award for snow removal during the past winter. Two days before, the Authority had sponsored for the fourth time the annual United Way Charity Golf Tournament, raising $37,000. In four years, the event had generated over $140,000.

Korean Airlines had announced that it would increase its Seoul service at Dulles from 3 trips weekly to daily, starting July 19, for the summer season.

With respect to April traffic, at Reagan National it had increased almost 9 percent compared to April 2002. At Dulles, traffic had been off 5 percent. On a year-to-date basis, Reagan National had been up 15.5 percent, and Dulles had been down 2.5 percent. Compared to 2001, however, Dulles had been off 18 percent for the month of April, and Reagan National had been down nearly 20 percent.

Domestic traffic at both Airports, however, had outperformed the rest of the industry. In April, U.S. domestic traffic had fallen 6.3 percent. Internationally, traffic had been off 8.6 percent at Dulles, but globally traffic had been off 11 percent.

Finally, Mr. Bennett noted that regional traffic at Reagan National had increased 74 percent, and at Dulles 52 percent.

Mr. Diané said that his friends at the World Bank had been shifting their flights from Dulles to JFK because of the delays in the inspection services. He asked what was being done. Mr. Bennett said a task force working with Frank Wolf's office had been seeking appropriate levels of staff. The problem was twofold – first, there was a 25 percent shortage of inspectors, and second was that processing time had increased with the increased focus on verifying credentials. The task force was urging that Homeland Security either pay overtime or bring in inspectors from other airports until the vacancies could be filled.

Ms. Reiley asked why the same problem didn't exist in New York. Mr. Bennett said the issue was chiefly staffing. Keith Meurlin, Vice President and Dulles Airport Manager, said that veteran immigration and customs officers had been detailed from Dulles to headquarters to work on special problems, and their slots had not been filled.

V. UNFINISHED BUSINESS

There was not any unfinished business.

VI. OTHER BUSINESS AND ADJOURNMENT

The meeting was thereupon adjourned at 10:30 a.m.

Respectfully submitted:

Gregory Wolfe

Gregory Wolfe
Vice President and Secretary

approved August 6, 2003