BOARD OF DIRECTORS MEETING

Minutes of June 7, 2006

The regular monthly meeting was held in the Board Conference Room at 1 Aviation Circle and was called to order by the Chairman at 9:30 a.m. Eleven Directors were present during the meeting:

Mame Reiley, Chairman
H.R. Crawford, Vice Chairman
Robert Clarke Brown
William W. Cobey Jr.
Anne Crossman
Michael David Epstein
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

I. MINUTES OF THE MAY 3AND MAY 17, 2006 MEETINGS

The Chairman then called for action on the Minutes of the May 3, 2006 Meeting and the May 17, 2006 Special Meeting, both of which the Board approved unanimously.

II. COMMITTEE REPORTS

a. Planning Committee

Mr. Hazel reported that the Planning Committee had met that morning. It had first heard the report of a selection panel on the award to URS of a contract for design services on building modifications necessary for in-line baggage screening at Reagan National. The project would put the baggage screening machines out of sight, taking them off the ticketing level.

The Committee had also heard and agreed with pre-solicitation terms for the implementation of an Authority-wide geographical information system.

Most of the session had been devoted to the ten-year forecast for the Capital Construction Program. There had been a number of adjustments to the plan since the Board had last approved it in 2000, and many elements had been suspended since September 11, 2001, which meant a new look at the program was warranted, before the projects showed up in the annual budget.

b. Business Administration Committee

Mr. Crawford reported that the Business Administration Committee had last met on May 17. The Committee had first heard the recommendations of two selection panels for insurance broker services that had come up with the same selection. The first had been for a broker for the operational insurance program, the several liability policies the Authority held. That panel had recommended Aon Risk Services.

The second panel had considered broker candidates for the owner-controlled wrap-up program, which provided insurance for all the Authority's construction contractors. This panel had also recommended Aon Risk Services. The Committee had agreed with the results, and had recommended that the Board approve the award of the two contracts later in the meeting.

Mr. Crawford said that "mutual aid" among police, fire and other emergency services by definition required the crossing of jurisdictional lines. That in turn raised questions about the authority and liability of officers from a given jurisdiction when working on an incident in another jurisdiction. The problem was more acute in the Washington region, where there were three state-level jurisdictions, each with a different immunity scheme for its own officials.

The Metropolitan Washington Council of Governments ("COG") had prepared an interagency agreement on mutual aid that would solve the jurisdictional problem. Under it, the liability rules that applied to officers in their own jurisdictions would also apply when they were providing mutual aid in neighboring jurisdictions.

Most COG jurisdictions had already signed the agreement, and it was already in effect. The Committee recommended that the Board adopt a resolution allowing Mr. Bennett to execute the agreement on behalf of the Authority.

Mr. Crawford then turned to the federally-mandated Disadvantaged Business Enterprise ("DBE") program for concessionaires. Under new federal rules, the Authority was required to provide DBE participation goals for three years. The staff had sought Committee approval of the proposed goals, on which they would then obtain public comment, written and at a public hearing. When that process was complete, the Board would be asked to approve the goals formally.

For the first time in 2006, airports would not have to include rental car revenues when setting DBE concession goals. Thus, while the Authority had previously been obliged to set a combined 10 percent goal at each airport, staff was currently proposing a goal of 28 percent at Reagan National and 19 percent at Dulles. There would now be a separate 10 percent goal for the rental car operators, who would meet it by making purchases from DBE firms.

The Committee had also reviewed a draft request for proposals for natural gas supplies at Reagan National and had concurred in its issuance. Staff had also presented the regular monthly contracting report for April.

Finally, Mr. Crawford invited all Directors to join him at a breakfast with the Washington business community on June 13.

c. <u>Finance Committee</u>

Mr. Snelling said that the Finance Committee had last met May 17 and had begun with the regular monthly Financial Advisors' Report. The staff and financing team were continuing to develop a comprehensive plan of finance that would evaluate recommendations for the appropriate use of debt and non-debt financing alternatives for the Capital Construction Program ("CCP"). The plan when completed would include a 10-year horizon of planned financing activities and would include recommendations for the use of non-debt financing, derivatives, and fixed and variable-rate debt. The revised draft plan of finance would most likely be presented at the June Finance Committee meeting.

After consultation with the finance staff and considering recent expenditure patterns, updated CCP expenditure forecasts for 2006 and beyond, expected future borrowings and unique market opportunities, the financial advisors had recommended certain changes to the existing 2006 Plan of Finance to include: (1) delaying the sale of the Series 2006B Bonds to November; and (2) executing hedges for a portion of future borrowings. Specifically, the existing 2005 forward starting interest rate swaps would be used to hedge $300 million of the November Series 2006B Bonds; new hedges for up to $300 million of 2009 borrowings and for up to $250 million of 2010 borrowings would be executed.

The plan revisions had been discussed at a special Finance Committee meeting that morning. The revisions would lock in known future financing costs for a large part of the CCP while giving due consideration to the need for future financial flexibility and ability to respond to future contingencies. Mr. Snelling said he would offer a resolution to authorize potential hedges later in the meeting, consistent with the Committee's recommendation of that morning.

Staff had reported at the May meeting that the Authority's 2006 financial performance had slowed in comparison to 2005, although it continued to track better than 2004. Operating revenue through April 2006 had been $147 million, about $6 million lower than the same period in 2005, while over $9 million higher than 2004.

Operating expenses through April 2006 had been $140 million, an increase of $5.6 million over April 2005. Utility costs had accounted for over a third of the increase. April year-to-date net income of $66 million had been $43 million greater than in April 2005, principally a result of increases in the non-operating income category: passenger facility charges, federal grants and interest.

With one-third of the year past, operating revenue had reached 29 percent of budget while operating expenses had reached 30 percent. Construction activity for the year to date had been $174 million, slightly lower than budget expectations.

Mr. Ralston asked if the ten-year plan of finance would be available at a July Finance Committee meeting; Mr. Snelling said that there would not be a July meeting in any event, and that he was not sure the plan would be ready in August.

d. Strategic Development Committee

Mr. Brown then reported that the Strategic Development Committee had last met on May 17, as usual in executive session. Most of the meeting had been devoted to the Dulles Toll Road acquisition and Dulles rail construction. Mr. Brown mentioned he had been at a Dulles Corridor Rail Association event the night before where the Chairman and the President had received an award for the Toll Road initiative amid enthusiastic testimonials lauding the Authority for the project.

With respect to air service development, Mr. Brown said it was not surprising that there had not been any new service announcements, given that the summer schedules had already been put in place. The Committee had discussed the long-term prospects for certain destinations, particularly China, a very large market with unused frequencies belonging to Chinese carriers. There was, however, nothing concrete to report.

The Committee had learned that there had not been any progress in the U.S.- China bilateral discussions, as major issues remained about visas for Chinese coming to the United States. There had not been much progress in the U.S. - E.U. negotiations; the issue there was foreign investment in U.S. airlines.

e. Audit Committee

Mr. Speck reported that the Audit Committee had also met on May 17. It had first received the management response to the comments of the external auditors, PricewaterhouseCoopers, on internal controls. Valerie Holt, Vice President for Audit, had also presented a summary of audit and governance policies for several local governments and two airport authorities with respect to the audit of pension funds. The Committee had then decided that pension funds should be audited for 2006 at the same time as the financial statement audit.

Ms. Holt had also reported on controls over certain aspects of the Authority's inventory management program and parking operations at Dulles.

III. INFORMATION ITEMS

a. President's Report

Mr. Bennett reported that many staff were working with the Commonwealth on the planned transfer of the Dulles Toll Road. Andrew Rountree, Deputy Chief Financial Officer, was heading this extensive project. In the meantime, there was an effort under way to evaluate whether tunneling the Metrorail line under Tysons Corner was the preferred alternative. The Commonwealth had appointed an independent review panel to study the issue quickly; it was chaired by the American Society of Civil Engineers. Frank Holly, Vice President for Engineering, was a member of the panel. It was not clear when the panel would start, but the review was supposed to last about 60 days. Mr. Bennett pointed out that the decision on a tunnel remained one for the Commonwealth to make, before the Authority assumed responsibility for the project.

The Commonwealth had already made application to the Federal Transit Administration ("FTA") to proceed with final design, but that agency had put off action until the evaluation panel had completed its report on tunneling. The outcome of that report could require new design documents, as well as otherwise affect the rail project, particularly as to scheduling.

Over the Memorial Day holiday weekend, passengers had flowed smoothly through the terminals at both Airports. Passenger and checked baggage screening had proceeded well. Mr. Bennett said he nevertheless had serious concerns about the Transportation Security Administration ("TSA") staffing levels and its ability to keep up with the growing demand. He said that airports, as well as airlines and their trade associations had made the point at all levels of the TSA. He added that Customs and Border Protection was facing the same staffing challenges at Dulles.

As to the Capital Construction Program, work was under way on the fourth runway. Necessary environmental work to clear the site for excavating and grading had already begun. Those preparations would be completed soon, with the heavy work starting right after. At the other side of the airfield the tunnel boring operation was proceeding well; the second tunnel boring machine would break through into the station site at the B Concourse later in the day, after a 1500-foot journey from the south end of the property. The boring should be completed in August.

The cell phone lot at Reagan National was under construction, and was expected to be ready for use within few weeks.

General aviation rules for Reagan National had changed: the TSA had designated three gateway airports in addition to the 12 from which general aviation aircraft could fly to Reagan National. The new gateways were Dallas Love Field, Memphis and Milwaukee. General Aviation operations had already increased to 2 or 3 per week.

There had in fact been one new service announcement, made since the mid-May Committee meetings. United would operate three flights per week between Dulles and Kuwait City, beginning in the fall. It would be the first middle-eastern service for Washington.

Mr. Bennett noted that Harlan Byers, Acting Airport Manager at Reagan National, was retiring after 40 years. Janie Guthrie, Assistant to the Airport Manager, would be leaving for Abu Dabi. Ford Larsen, Manager, Air Carrier Relations, was retiring to move to Sacramento.

Finally, Mr. Bennett reported that James T. Murphy, Jim Wilding's predecessor as Director of the Metropolitan Washington Airports for the FAA during the 1970s, had died the previous weekend.

Ms. Crossman asked about maintenance problems with the moving walkways at Reagan National, noting that as soon as one was repaired, another would break down. Mr. Bennett said the staff was well aware of the problem, and was addressing it as a high priority. Mr. Snelling asked if maintenance contractors were evaluated before a contract was awarded. Mr. Bennett said there were performance standards in the existing contract, and that the issue was being reviewed by counsel and contracting staff.

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

Ms. McKeough presented the April passenger statistics. At Reagan National, traffic had continued to grow, with just under 1.7 million passengers for the month. This had been a 6.5 percent increase over April 2005. USAirways, the largest carrier at Reagan National, had increased its traffic over 10 percent.

At Dulles, the April passenger count had been about 1.9 million; although a decrease of over 15 percent from 2005, the number had still exceeded April of all other years. International traffic had grown 12 percent. Year-to-date, Dulles was down 18 percent compared to 2005. Dulles cargo had been particularly strong, however, having increased 19 percent for the month, chiefly reflecting an increase in international cargo.

Ms. McKeough noted that the reductions caused by the demise of Independence Air masked substantial increases by United, both domestic and international, and the major transatlantic carriers.

Mr. Speck asked if there was any way the Authority could supplement the TSA workforce. Mr. Bennett said the Authority was doing what it could, relieving the TSA of non-screening type duties, such as providing summer students to manage the lines and to assist in recovering bins at the check points. The airlines had taken their own baggage service people off the ticket counters and assigned them to load bags into the security screening machines, replacing TSA staff. Discussions were under way with TSA to determine if the agency would reimburse the Authority for hiring baggage handlers to assist in the screening process. In sum, Mr. Bennett said, the Authority was subsidizing the federal government. The total would approach $2 million if the baggage handling contract were worked out.

Mr. Speck asked how many TSA employees were assigned to screening at Dulles. Christopher Browne, Dulles Airport Manager said that TSA was operating at about 20 percent below authorized levels. Attrition rates were exceeding its ability to hire new screeners. Mr. Bennett said that options the Authority might pursue to deal with the problem would be discussed soon in the Strategic Development Committee. Mr. Speck asked if there were any stopgap measure the Authority could take to get through the summer. Mr. Bennett said there was not, other than keeping pressure on the TSA to assign more screeners. Mr. Speck said that passengers who could not get to their planes in time were likely to blame the airport instead of the screeners. Mr. Bennett agreed, and said that it would be better for the airport to control the process.

Mr. Epstein asked if the Authority could take any action to relieve the tedium of the passengers standing in long lines. Mr. Bennett pointed out that there were television monitors with video messages about the screening process.

IV. NEW BUSINESS

a. <u>Selection of a Firm to Provide Design Services for Building Modifications to Accommodate In-Line Baggage Screening at Reagan National</u>

Mr. Hazel moved the following resolution, which was unanimously adopted as Resolution No. 06-11:

> WHEREAS, A competitive evaluation of firms to provide architectural/engineering design services for building modifications to accommodate in-line baggage screening at Reagan National resulted in the designation of URS Corporation; and
>
> WHEREAS, The Planning Committee is satisfied with the results of the competitive evaluation of firms to provide these services, based on the Request for Qualifications, interviews, and analysis presented at its June 7, 2006 meeting; now, therefore, be it
>
> RESOLVED, That the President and Chief Executive Officer is authorized to negotiate and enter into a contract with URS Corporation for these architectural/engineering design services, consistent with the documentation of the proposal presented to the Planning Committee at its October 5, 2005 and June 7, 2006 meetings; and
>
> RESOLVED, That the President and Chief Executive Officer is further authorized to negotiate and enter into a contract with the second ranked firm identified to the Planning Committee for these services in the event negotiations with URS Corporation are not successfully concluded within a reasonable period of time.

b. <u>Selection of an Insurance Broker for both the Owner-Controlled Wrap-Up and Operational Insurance Programs</u>

Mr. Crawford moved the following resolution, which was unanimously adopted as Resolution No. 06-12:

> WHEREAS, The Business Administration Committee is satisfied with the reports of two selection panels on insurance brokers, one for the

Owner-Controlled Wrap-Up Insurance Program and the other for the Operational Insurance Program, as presented at its May 17, 2006 meeting;

WHEREAS, Both panels recommended the selection of Aon Risk Services, Inc. of Washington, D.C. ("AON Risk Services"); now, therefore, be it

RESOLVED, That Aon Risk Services is hereby selected to provide insurance broker services for both insurance programs; and

RESOLVED, That the President and Chief Executive Officer is authorized to negotiate and enter into two three-year contracts, each with two one-year extension options, with Aon Risk Services, for these services, consistent with the proposal to the Business Administration Committee May 17, 2006.

c. Authorizing Execution of the National Capital Region Mutual Air Agreement

Mr. Crawford moved the following resolution, which was adopted unanimously as Resolution No. 06-13:

WHEREAS, The inter-jurisdictional nature of emergency response in the National Capital Region requires cooperation among agencies of Virginia, Maryland and the District of Columbia;

WHEREAS, Law enforcement and emergency personnel must have full authority to operate in adjoining jurisdictions, and should be subject to the same immunity from liability afforded them in their home jurisdiction;

WHEREAS, The Metropolitan Washington Council of Governments has presented a proposed National Capital Mutual Aid Agreement for adoption by the jurisdictions of the Region; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized to execute the National Capital Mutual Aid Agreement, substantially as presented today, on behalf of the Authority.

d. Authorizing the Execution of Swap Agreements

Mr. Snelling moved the following resolution:

WHEREAS, The Metropolitan Washington Airports Authority (the "Authority") is authorized to issue revenue bonds, notes and other obligations under the Virginia Acts of Assembly, Chapter 598, as amended, and the District of Columbia Regional Airports Authority Act of 1985, as amended (collectively, the "Acts") to finance or refinance capital improvements at Ronald Reagan Washington National Airport and Washington Dulles International Airport (collectively, the "Airports") and to do all acts necessary or convenient in connection with the issuance of its bonds;

WHEREAS, The Authority intends to issue one or more series of bonds (the "Bonds") under the Amended and Restated Master Indenture of Trust, dated as of September 1, 2001, as amended and supplemented (the "Master Indenture"), during 2006, 2007, 2008, 2009 and 2010 to finance or refinance certain capital improvements at the Airports;

WHEREAS, The Authority desires to enter into or revise one or more interest rate swap agreements with counterparty firms to be determined in the manner described in this Resolution (the "Swap Agreements") in connection with the anticipated issuance of the Bonds in order to reduce the interest cost of a portion of the Bonds issued in 2006 and to hedge the interest cost of a portion of its financings in 2007 through 2010;

WHEREAS, The Authority now desires to authorize the Swap Agreements, if not executed under prior authorization, and the execution or revision of the Swap Agreements, subject to compliance with all provisions of the Master Indenture applicable thereto and in accordance with conditions herein; and

WHEREAS, There have been presented at this meeting the forms of the following documents, subject to completion in accordance with the conditions herein, that the Authority proposes to execute or revise, if not executed under prior authorization of the Authority, in connection with entering into the Swap Agreements described above, copies of which documents were or shall be filed with the records of the Authority:

(a) an ISDA Master Agreement in the form executed by the Authority in connection with its prior swap transactions (the "Master Agreement");

(b) a Schedule to the Master Agreement (the "Schedule");

(c) a Confirmation (the "Confirmation");

now, therefore, be it

RESOLVED, That the proposed form of Master Agreement, Schedule, and Confirmation presented to the Authority at this meeting, with such changes as may be approved as provided in this resolution, the terms and provisions of which are incorporated herein by reference, are hereby approved;

2. That the Chairman or the Vice Chairman and the Chairman of the Finance Committee are hereby appointed as Authority Representatives with respect to the execution of the Master Agreements, Schedules, and Confirmations;

3. That the Authority Representatives are authorized and directed to execute the Master Agreements, Schedules and Confirmations, in substantially the form of the documents presented to the Authority at this meeting, with such changes that the Authority Representatives may approve;

4. That the Authority Representatives are delegated the authority and directed to select one or more firms from the list of firms included in Exhibit A attached to this Resolution or any other firm selected by the Authorized Representatives with whom the Authority will enter into

Swap Agreements in connection with the anticipated issuance of the Bonds (each a "counterparty"); provided, (i) any counterparty, or the guarantor of any such counterparty, has a long-term senior unsecured credit rating of at least "Aa3" or "AA-" by one of the nationally recognized rating agencies and is not rated lower than "A3" or "A-" by any nationally recognized rating agency or (ii) the counterparty posts collateral consistent with the Authority's derivatives policy referenced below;

5. That the Authority Representatives are delegated the authority, until September 7, 2006, to approve the final terms and conditions for execution of the Master Agreements, Schedules, and Confirmations, or revisions to existing Master Agreements, Schedules, or Confirmations and forward swap insurance commitments, with such changes as they may approve including the notional amount of each Swap Agreement, amortization, nominal effective date, final maturity date, pricing, the designation of the series of Bonds to which each Swap Agreement relates, and the designation of the swap documents as senior or junior lien indentures under the Master Indenture, with or without swap insurance, and any other documents necessary to enter into or amend Swap Agreements with the Counterparties; provided that (i) the Swap Agreements comply with the derivatives policy approved by the Authority on November 5, 2003, (ii) execution of the Swap Agreements is consistent with the financial objectives set forth in Exhibit B to this Resolution which is approved and incorporated herein by reference, (iii) the aggregate notional principal amount referenced in the Swap Agreements relating to the Bonds to be issued in 2006 or in 2008, as any such existing agreements may be revised, does not exceed $300,000,000, the aggregate notional principal amount referenced in the Swap Agreements relating to the Bonds to be issued in 2009 does not exceed $300,000,000, and the aggregate notional principal amount referenced in the Swap Agreements relating to the Bonds to be issued in 2010 does not exceed $250,000,000, (iv) the fixed swap interest rate related to the notional principal amount in each Swap Agreement does not exceed 7 percent per annum, (v) the maximum term for any Swap Agreement shall not exceed 35 years, and (vi) the floating interest rate shall be based on an index estimated to correspond to the expected interest rate of the underlying Bonds;

6. That each Master Agreement, Schedule, and Confirmation shall be in substantially the forms previously executed or submitted to the Authority at this meeting, which are approved, with such completions, omissions, insertions, revisions and changes necessary to reflect the notional amount and other terms of the Swap Agreements and as otherwise may be approved by the Authority Representatives executing them, their execution to constitute conclusive evidence of their approval of any such completions, omissions, insertions, revisions and changes;

7. Each Authority Representative is authorized to do all things necessary to effect the execution and delivery of new or revised Master Agreements, Schedules and Confirmations and any other documents necessary to enter into swap transactions with each of the Counterparties, including the execution and delivery of any other documents or certificates deemed by such Authority Representative to be necessary or desirable in connection therewith, such approval to be conclusively evidenced by the execution of each such document or certificate by an Authority Representative;

8. That any authorization herein to execute a document shall include authorization to deliver it to the other parties thereto; and

9. That all other acts of the Authority Representatives that are in conformity with the purposes and intent of this Authorizing Resolution and in furtherance of the Swap Agreements are hereby approved, ratified and confirmed.

EXHIBIT A
to
Resolution No. 06-14

Bank of America Securities LLC
Bear, Stearns & Co. Inc.
Lehman Brothers
Merrill Lynch & Co.
Morgan Keegan & Company, Inc.
Morgan Stanley
Siebert Brandford Shank & Co., LLC

UBS Financial Services Inc.
Wachovia Bank, National Association

Mr. Brown asked for assurance that the lowest bidders would perform at the bid price. Guy Nagahama, First Albany Corporation, asked if the question was whether the clearing price would be the low bid or there would be some kind of "dutch auction". Mr. Brown said that question should be answered as well. Mr. Nagahama said the clearing price would be the low bid. Mr. Brown said the Finance Committee had supported a specific bid process, while the proposed resolution allowed greater discretion. He sought an understanding that the delegation to the authorized representatives was to execute the swaps at the bid price. Mr. Snelling said that was his understanding, although the broader language was available in the event of unexpected developments.

The resolution was then unanimously adopted with the affirmative vote of all eleven Members present as Resolution No. 06-14:

V. UNFINISHED BUSINESS

There was not any unfinished business.

VI. OTHER BUSINESS AND ADJOURNMENT

The meeting was thereupon adjourned at 10:20 a.m.

Respectfully submitted:

Gregory Wolfe
Vice President and Secretary

approved August 2, 2006