BOARD OF DIRECTORS MEETING

Minutes of May 4, 2011

The regular meeting of the Board of Directors was held in the Board Conference Room at 1 Aviation Circle and was called to order by the Chairman at 9:07 a.m. The following ten Directors were present during the meeting:

Charles D. Snelling, Chairman
Thomas M. Davis III, Vice-Chairman
Robert Clarke Brown
Richard S. Carter
Frank M. Conner III
Michael A. Curto
Shirley Robinson Hall
Dennis L. Martire
Mame Reiley
Warner H. Session

The Secretary and Executive Management were present:

E. Lynn Hampton, President and Chief Executive Officer
Margaret E. McKeough, Executive Vice President and Chief Operating Officer

I. MINUTES OF THE APRIL 6, 2011 BOARD OF DIRECTORS MEETING AND THE APRIL 20, 2011 SPECIAL BOARD OF DIRECTORS MEETING

The Chairman called for approval of the Minutes of the April 6 and April 20 Meetings. Mr. Conner asked to change the Summary Minutes of the Dulles Corridor Committee Meeting of April 6, where a remark attributed to him that "[the Phase 2 project's] ability to be completed was not in jeopardy" should have read "*may not be* in jeopardy." Ms. Reiley requested a change in the Summary Minutes of the Dulles Corridor Committee Meeting of April 20, where she was reported as saying "[s]he had seen an opportunity to save money, but she realized that the engineering staff had to live with the contract packages as they are implemented. She said she had seen merit on both sides, and had decided to support the staff proposal." She would change it to read: "She had seen an opportunity to save money by having more than one large contract, but she had realized that ultimately the engineering staff was responsible for implementing the contracts, so she had deferred to the staff's recommendations." The Board concurred in the two amendments to the Summary Minutes, and then unanimously adopted the Minutes of the April 6 Meeting and the April 20 Special Meeting.

II. COMMITTEE REPORTS

a. Audit Committee

In the absence of Mr. Cobey, the Chairman reported that the Audit Committee had met April 20 to hear from PricewaterhouseCoopers on its 2010 audit of the Airports Authority. The firm would be issuing an unqualified opinion, with some highlights on adjustments made affecting prior periods. The Committee had met again that morning to hear a series of audit reports covering concessionaires, parking issues, a major service contract at both Airports, and access to the LiveLink system.

b. Business Administration Committee

In the absence of Mr. Crawford, Mr. Session reported that the Business Administration Committee had last met April 20. The Committee had first heard the regular monthly report of Steve Baker, Vice President for Business Administration. In March, contract awards had totaled $44.5 million. Of that amount, Local Disadvantaged Business Enterprises (LDBEs) had received $17.2 million, or 22.8 percent of the non-federal contracts. Disadvantaged Business Enterprise (DBE) firms had won $5.2 million, or 16.9 percent of the federally funded contracts.

The next report had concerned pre-solicitation terms for High Speed Multifunction Snow Removal Equipment for Dulles International. Chris Browne, Vice President and Dulles Airport Manager, had described a Request for Proposals ("RFP") for about $7.9 million to acquire the latest in snow removal technology, nine complete machines and eight partial units. The high-speed devices had been used at other airports on the east coast, and staff had great confidence in their efficacy. The Committee had concurred in the RFP terms.

The Committee had next considered a proposed contract award to purchase electricity for all Airports Authority facilities from Dominion Virginia Power through the Virginia Energy Purchasing Governmental Association. The arrangement would save the Airports Authority approximately $810,000 for the first year of a three-year contract. The second and third years of the contract would be renewal options; it would be possible for the Airports Authority to procure electricity elsewhere, should market conditions warrant. The Committee had agreed to recommend the Board approve the contract; action would be required later in the meeting.

The Rental Car Concessions Contract at Reagan National had been the next issue; it came up regularly every five years. In a consistent process, rental car operators bid minimum annual guarantees ("MAGs"), and pay the Airports Authority ten percent of gross or the MAG, whichever is more. Bidders were ranked by their MAG bid for the choice of facilities. With the business downturn over the past few years, companies had been paying MAGs instead of ten percent. For 2011, all had bid smaller MAGs. The winners were, in rank order, Hertz, Avis, Vanguard (which operates Alamo and National), Budget and Enterprise. Action would be required later in the meeting.

Finally, the Committee had heard an update on the status of the Enterprise Resource Planning program. The go-live date had been changed to June, based on a readiness assessment. The conversion process was well under way.

Mr. Carter said he had noted that the electric contract had included a 9 percent surcharge. He asked what would happen if the price dropped during the first contract year. Ms. Hampton said the rate would be locked in, but noted that it was a negotiated government rate, lower than any businesses would pay. The Airports Authority could still opt out of the contract if the commercial rate fell below the government rate, but that would be an unlikely event.

c. Dulles Corridor Committee

Ms. Reiley reported that the Dulles Corridor Committee had last met on April 20. The meeting had begun with the Phase 1 Metrorail Cost Summary and Project Update. Pat Nowakowski, Executive Director of the Metrorail Project, had reported that the final design of Phase 1 was 90 percent complete; that utility relocation was 99 percent complete; that construction was at the 35 percent level; and that the rail cars had been procured by the Washington Metropolitan Area Transit Authority (WMATA), with delivery in 2013 and 2014. Expenditures had reached $1.2 billion, and the project had thus far remained on budget.

As to Phase 2, Mr. Nowakowski had advised the Committee that preliminary engineering would be completed in July and that the Request for Qualifications, the first step in selecting a contractor, would be out in July as well. A notice-to-proceed had been set for the spring of 2012, with completion by 2017.

George Morschauser of Dulles Transit Partners ("DTP") had presented the regular illustrated construction status report on the Phase 1 project. The safety record was still outstanding, and the project was catching up on time lost in the early stages.

Mr. Morchauser had also reported on DTP's experience with its project labor agreement. From DTP's point of view, it had saved a lot of money. It had assured ready availability of laborers with the necessary skills, and 24-hour shift work without overtime. It had also allowed subcontracting to non-union and merit shop contractors. The agreement had not had any impact on rates paid for the work; the benefit for workers had been steady and regular employment, uninterrupted by disputes between unions and/or subcontractors.

The Committee had next considered contract packaging options for the Phase 2 project. Ms. Reiley reported that she had understood that there would be an opportunity to save money through more than one large contract, but she had realized that ultimately the engineering staff would be responsible for administering the contract, and had therefore deferred to the staff. The Committee had faced a choice between a single large design-build contract, where one contractor would be responsible for assembling the entire project, and a series of eight to ten smaller contracts, where the Airports Authority staff would be responsible for complex oversight. The question had presented, for the first time in Ms. Reiley's experience, an open debate between two Airports Authority offices, Engineering and Procurement, and outside experts in rail construction. She had commended the staff for its openness, and was again particularly commending Lynn Hampton, the CEO. The Committee had agreed to support what Ms. Hampton had characterized as the "middle option", which would have a single large design-build contract for the rail system and stations, with separate contracts for the control systems, rail yard and utilities.

The Committee had also been briefed on the selection process for the large Phase 2 contract. In an approach not used since the Reagan National Terminal contract, the process would narrow the choices in three steps, first by a review of qualifications, second by a review of past performance, and finally by price. Because of the very high cost of bidding the project, firms reaching the final step would be paid a stipend. The Committee had been satisfied with the plan.

Finally, Phil Sunderland, Vice President and General Counsel, had presented a report on the complicated construction projects around the Wiehle Avenue station at the end of the Phase 1 project. Fairfax County had started first with a joint project with Comstock Partners. Infrastructure required for that project would have to be built immediately adjacent to an infrastructure the Airports Authority was obliged to build as part of the Phase 1 project. Some items, particularly roadway improvements, were in both programs.

Rather than setting up competing contractors to work in the same space, Mr. Sunderland had proposed a sole-source contract with Fairfax to build the Airports Authority's share of the related projects. According to him, staff had negotiated a favorable deal with the County, with substantial savings from the project cost estimates, and was therefore seeking an exemption from the Board to allow a contract award without competition. Ms. Reiley had asked if the contract would be consistent with Federal Transit Administration regulations, and Mr. Sunderland had said that it would. The Committee had agreed with the sole-source approach.

Mr. Davis asked if the Phase 1 project was still within budget, including the contingencies. Ms. Reiley said it was, but that there was a limited amount of contingency funds remaining. Mr. Davis asked for more detail. Mr. Nowakowski said there was about $120 million left in the contingency fund. About $80 million had been obligated for known future events, leaving about $40 million. Mr. Nowakowski noted that several allowance items had not yet been bid; their cost could not be estimated. Mr. Davis asked what the major remaining allowance items were; Mr. Nowakowski said there were still some station finishes items that needed to be bid, as well as the West Falls Church yard shop and a sound box over the loop track there.

Ms. Hampton said another concern was weather. The weather days had already been used; further weather problems would cause delays. Mr. Carter asked how far the project was behind; Mr. Nowakowski said seven days, with the gap still closing.

Mr. Carter noted that $179 million had been committed to DBEs; to date about $72 million had actually been spent, about 40 percent of the total. He asked how the goal would be met, and whether progress was being monitored. Mr. Nowakowski said he did not know precise numbers, but he was confident from reports that the goal would be met. Ms. Hampton pointed out that construction was at 35 percent, which suggested the DBE expenditures were slightly ahead of schedule. She said the goal would be met or exceeded.

Mr. Conner asked if Phase 1 had been fully financed. Ms. Hampton said she thought $40 to $50 million remained for future bond issues.

d. Executive and Governance Committee

Mr. Snelling reported that the Executive and Governance Committee had met on April 20 to consider some minor amendments to the Bylaws. They were to change the date of the annual meeting and to require an affirmative vote of eight Members to select a new President and Chief Executive Officer. The Committee agreed to the amendments. Because a Special Board Meeting had been scheduled for that day, and because the entire Board had been present, the Members had agreed to consider the amendments as an additional agenda item and had then unanimously agreed to adopt them.

The Committee had met immediately before the day's Board meeting on a proposal to establish a Nominating Committee. Mr. Snelling said the Committee had considered the proposal and then deferred action until the proposal had been discussed further at the retreat then scheduled for June 1.

e. Finance Committee

Mr. Brown reported that the Finance Committee had last met April 20. It had heard from the financial advisors for the Aviation Enterprise on the $55 million Merrill Lynch 2002 swap that would be moved from Merrill to Bank of America as the counterparty.

The 2011 financing plan had been discussed; about $215 million in new money was anticipated to be issued not later than September 1. It would be synchronized with the October 1 effective date of the remaining $125 million forward interest rate swap agreement.

The financial advisors for the Dulles Corridor Enterprise had reported that a Request for Proposals had been issued to the underwriting team for an irrevocable direct pay letter of credit to support the issuance of up to $300 million commercial paper notes secured by Toll Road revenues. It had also solicited alternative ideas. Attractive bids had already been received.

The Committee had also heard a report on the Transportation Infrastructure Finance and Innovation Act ("TIFIA") low-interest loan program, administered by the Department of Transportation. The Airports Authority had applied for a $1.7 billion TIFIA loan for the funding cycle beginning March 1. The Airports Authority's request was the largest among 34 other letters of interest; the total of all requests had been $14 billion.

The Committee had heard a preliminary report on the Comprehensive Annual Financial Report, or CAFR, which was expected to be issued with the PricewaterhouseCoopers audit by April 30. The final CAFR would be distributed at the May Committee meeting.

The financial reports for the Aviation Enterprise Fund had indicated at 25 percent through the year, revenues had been at 22.9 percent of budgeted levels, and expenses had been at 23.2 percent. Landing fees had been higher than in 2010, but slightly less than budgeted levels. Rental car revenue was up; parking and terminal concessions had been down. Debt service coverage was at 1.38 through February.

The Committee had also heard the semi-annual report on banking relationships. The Committee had asked that the next report include a discussion of the Board's policy on the Linked Deposit Program and the criteria used for it.

f. Planning and Construction Committee

Mr. Martire reported that the Planning and Construction Committee had last met April 20. Frank Holly, Vice President for Engineering, had presented the monthly capital construction cost report, which had included eleven new projects at Reagan National for an additional $114 million. Few projects would reach construction, as most would be in the planning and design stages. At Dulles International, sixteen projects had been added, totaling $92 million.

As the forecasts, Reagan National projects would be $9.3 million, or 1.4 percent, below budget; Dulles International projects would be $2.8 million below budget.

The Committee had then heard the Parsons Management Consultants (PMC) illustrated status report on projects at both Airports, including projects under construction and those still under development. For another quarter there had not been any lost-time incidents at either Airport. Mr. Martire noted that the safety record was repetitious, but was still important news.

Mr. Holly had reported that the AeroTrain contract with Sumitomo was being closed out. During the last six months under the contract, Sumitomo had met the operations requirements, maintaining 99.8 percent of operations, against a 99.5 percent standard. The operations were now the Authority's responsibility.

The Chairman asked if the performance of the AeroTrain would still be monitored, and if it was still meeting the standard. Mr. Martire said that it was.

g. Strategic Development Committee

Mr. Conner reported that the Strategic Development Committee had last met on April 20. Part of the meeting had been held in executive session, where the Committee had heard a legislative report on the federal aviation reauthorization bill, a report on the cargo expansion program at Dulles International, and an update on the next steps for the new Use and Premises Lease Agreement.

In public session, the Committee had heard a report on the Sister Airport Program. There were two parts to it: Vienna International and Accra airports.

Staff would be reporting further on them at the next meeting. Action was not required.

III. INFORMATION ITEMS

a. President's Report

Lynn Hampton reported that over the previous two weeks three meetings had been held with the bond rating companies, to update them on both the Aviation and Dulles Corridor Enterprises. These would not result in a long-term rating for either Enterprise, but there would be a short-term rating on the commercial paper planned for the Dulles Corridor.

Ms. Hampton said she and staff had met with the local Virginia Congressional delegation to discuss the reauthorization language mentioned before, as well as the customs lines at Dulles International. The average lines there were already long, and would get worse when Air France began its 380 service in June. The problem was not one of physical capacity; many available booths were not being used because of staff shortages.

With respect to cargo development, she had met with Virginia economic development staff and the Vice President for Cargo, Korean Air, and had planned meetings with shippers and Ethiopian Airlines' cargo officials. The basic cargo issue remained the same: Dulles International received considerable inbound cargo but needed to provide more outbound cargo on the returning flights.

Groundbreaking for the $1 billion mixed-use Wiehle Avenue development had taken place April 5; the project was under way.

The day before staff had conducted a "GEM" (Going the Extra Mile) pep rally to bring in corporate office staff into the customer service program.

Finally, Ms. Hampton pointed out that "honor flights" for World War 2 veterans had begun again with the spring weather. She introduced a two-minute staff-produced DVD about them to give the Board some idea of what the honor flights events were like.

Mr. Session said he understood the staff had developed some language for the reauthorization bill and asked how it would benefit the Airports Authority. Ms. Hampton said that, in view of the proposals to change the slot and perimeter arrangements at Reagan National, the language would permit the Airports Authority to treat its two Airports as one airport system, so it would hold harmless any financial disruption caused by the slot rule changes. The Chairman said the proposed amendments were very important.

Mr. Brown noted that the AeroTrain had long had an exhibit at Dulles International before the train had opened for service. He suggested a model of the proposed Metrorail airport station be constructed to promote it. The Chairman said he would discuss the matter with the Secretary and the CEO.

b. Executive Vice President's Report

Margaret McKeough reported that the current go-live date for the ERP program would occur in mid-June. She noted that free Wi-Fi had been introduced at both Airports, producing unsolicited thanks from customers. During May, significant airfield work would begin at Reagan National. It would begin with a runway safety area, followed by an overlay of Runway 1/19. The projects were very sensitive, as both were on the main runway.

With respect to new air service at Reagan National, Ms. McKeough reported that Sun Country had begun service to Lansing on April 1, and that Spirit would begin service to Myrtle Beach the following day. At Dulles International, Icelandair would begin a brand new service in two weeks, and Air France would introduce A380 service on its Paris route on June 6. The latter would be a major event at Dulles International, and the engineering division and Airport staff were working hard to prepare for it.

Passenger traffic had been up in March for the entire U.S. industry, with an average 2.6 percent growth. At Reagan National, the growth in March had been 3.3 percent, with 1.6 million passengers, 53,000 more than in 2010. Dulles International, however, had lost about 55,000 passengers, reducing its total to 1.9 million.

The growth of Jet Blue and Delta at Reagan National had been reflected in reduced domestic services at Dulles International. Seats at Reagan National had been up 12 percent, while Dulles International had seen a 2 percent decline.

For the first quarter of 2011, Reagan National had seen 8.5 percent growth, while Dulles International had only 2.5 percent. Cargo had been down 5 percent, a relatively positive figure, given that it was down 11 percent elsewhere. Both FedEx and United Airlines cargo was down; Ms. McKeough said the situation would be monitored closely.

Ms. Hall asked if the staff had any idea of what routes would serve Reagan National after the Southwest – Air Tran merger. Ms. McKeough said there was no information available yet.

IV. NEW BUSINESS

a. Authorization to Contract with Dominion Virginia Power to Purchase Electricity for Both Airports and the Dulles Toll Road

Mr. Session moved the adoption of the following resolution:

WHEREAS, The Airports Authority has since 2009 purchased electricity from Dominion Virginia Power at rates negotiated by the Virginia Energy Purchasing Governmental Association;

WHEREAS, The initial contract with Dominion Virginia expired April 30, 2011;

WHEREAS, Contracting through the Governmental Association will save the Airports Authority approximately $810,000 over commercial rates during the first year of a new contract;

WHEREAS, Dominion Virginia is the sole provider of electricity in the region in which all Airports Authority facilities are located, and there are not any alternatives to the Governmental Association terms; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized and directed to purchase electricity from Dominion Virginia Power, consistent with the terms presented to the Business Administration Committee at its April 20 meeting.

With Ms. Reiley abstaining, the other nine Members voted unanimously in favor.

The final resolution filed in the Board of Directors office includes a copy of the staff recommendation paper.

b. Authorization to Award Contracts to Five Rental Car Concessions at Reagan National

Mr. Session moved the adoption of the following resolution, which was unanimously adopted:

RESOLVED, That the following five rental car companies are selected to operate rental car concessions at Ronald Reagan Washington National Airport for five-year terms:

The Hertz Corporation
Avis Rent A Car System, Inc.
Vanguard Car Rental USA, LLC, dba Alamo and National
Budget Rent A Car System, Inc.
Enterprise Rent-A-Car

RESOLVED, That the President and Chief Executive Officer is authorized to enter into concession contracts with the five rental car companies listed above, consistent with the terms presented to the Business Administration Committee at its April 20, 2011 meeting.

The final resolution filed in the Board of Directors office includes a copy of the staff recommendation paper.

c. Contract Packaging Options for Phase 2 of the Dulles Corridor Metrorail Project.

Ms. Reiley moved the adoption of the following resolution:

WHEREAS, The Dulles Corridor Committee has aired three different proposals for contract packaging for the Phase 2 Metrorail Project, from the engineering staff, the procurement staff, and outside consultants;

WHEREAS, The Committee has respected the views of all three participants, and the willingness of the management to discuss its internal differences openly;

WHEREAS, The President and Chief Executive Officer has recommended a middle position, with a single design-build contract for the rail lines, stations and systems, and several smaller contracts for the rail car shop and maintenance yard, parking garages, utility relocation and property acquisition; now, therefore be it

RESOLVED, That the President and Chief Executive Officer is authorized and directed to proceed with her proposal for contract packaging, as presented to the Dulles Corridor Committee at its April 20, 2011 meeting.

Mr. Brown said the proposal should not be described as a middle ground. Instead, it authorized a large single contract, despite advice of procurement staff and outside engineering experts, that several smaller contracts would have produced substantial savings. The proposal could also reduce competition. Mr. Brown stated that he hoped that the staff would be successful in finding the four bidders staff states are the minimum number of bidders necessary to ensure adequate competition. He noted the project would be too big to bond completely, while at the same meeting the Board had expressed concerns about a bond on a $6 million project. Mr. Brown also characterized the resolution as a vote of no confidence in the staff, as it reflected a sense that the staff could not handle three or four contracts. He regretted that was the situation. Ms. Reiley said that she did not agree. The staff had successfully managed enormous projects, particularly at Dulles International. She said there were times when the Board should rely on the staff's judgment on the best way to proceed. She was confident the staff would find more cost savings.

The resolution was then adopted, with Mr. Brown voting in the negative.

d. <u>Authorization to Award a Sole-Source Contract for the Construction of Improvements Related to the Wiehle Avenue Metrorail Station</u>

Before moving the resolution, Ms. Reiley asked Mr. Sunderland to respond to several questions about the project previously raised by Mr. Carter.

Mr. Sunderland said performance and payment bonds were not required in the Airports Authority's contract with Fairfax County, but that the construction project was fully bonded in the contract between Comstock Partners and Davis Construction. He said that was sufficient. Mr. Sunderland also stated that there had been a question about DBE goals in the project, of which there was none. He said that the Phase 2 project overall had obligated over 20 percent to DBEs, in excess of the project goal; the lower number discussed earlier was for expenditures, not contracted amounts. The third question related to an independent cost analysis. The County had not done a full analysis, but had reviewed the contractor's costs. The Airports Authority had done such a review, as required under FTA rules, coming up with an $8.2 million cost for the Project's requirements. The Airports Authority contract with Fairfax was for $6.9 million.

Mr. Martire asked if the parking garage at Wiehle Avenue had originally been part of the project. Mr. Sunderland responded affirmatively, but stated that it had been taken out as Fairfax worked out the station area development and turned it over to the County. Mr. Martire asked how it had been taken out. Mr. Nowakowski said it had been an allowance item in the Full Funding Grant Agreement, and was still there, but no longer required funding. Mr. Martire noted that the construction contract had already been awarded by the County, and observed that the Board should not be asked to approve such contracts after the fact. Mr. Nowakowski said there would not be any similar situations on the project in the future.

Ms. Reiley then moved adoption of the following resolution:

> WHEREAS, Under the Full Funding Grant Agreement for Phase I of the Dulles Corridor Metrorail Project, the Airports Authority is required to undertake, among other things, a series of improvements identified in the Federal Transit Administration Record of Decision for the Metrorail Project at the Wiehle Avenue Metrorail Station, including roadway improvements and utility relocation work;
>
> WHEREAS, Fairfax County is constructing a 900,000 square foot mixed-use development at the Wiehle Avenue Metrorail Station and is also required to construct certain improvements, similar to those required of the Airports Authority;
>
> WHEREAS, The improvements required of both Fairfax County and the Airports Authority are located in the same general area, will be constructed at the same time and, in some cases, will overlap with one another;
>
> WHEREAS, The staff recommends that one contractor design and construct all of the these improvements;
>
> WHEREAS, The staff recommends that Fairfax County undertake these improvements using the same contractor that is constructing other transit-related improvements in the same area, including the parking garage and kiss-and-ride facility for the Wiehle Avenue Metrorail Station;
>
> WHEREAS, The staff has negotiated a contract with Fairfax County, at a price consistent with the Airports Authority's independent cost analysis; and
>
> WHEREAS, The Dulles Corridor Committee had concluded that, under these circumstances, full and open competition is not practicable, and is satisfied that the award of the contract to Fairfax County without competition is in the best interests of the Airports Authority and the Dulles Corridor Metrorail Project; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized, without competition, to enter into a contract with Fairfax County for the design and construction of certain roadway improvements and utility relocation work near the Wiehle Avenue Metrorail Station required of the Airports Authority by the Federal Transit Administration for the Metrorail Project.

The Chairman called for a show of hands, and reported that eight Members had voted in favor of the resolution and noted that two had abstained.

The final resolution filed in the Board of Directors office includes a copy of the staff recommendation paper.

V. UNFINISHED BUSINESS

There was no unfinished business.

VI. OTHER BUSINESS & ADJOURNMENT

There being no further business, the meeting was adjourned at 10:10 a.m.

Respectfully submitted:

Quince T. Brinkley, Jr.
Vice President and Secretary

Approved 6/8/11