BOARD OF DIRECTORS MEETING

Minutes of September 4, 2002

The regular meeting was held in the Board Conference Room at 1 Aviation Circle and was called to order by the Chairman at 9:00 a.m. Eight Directors were present during the meeting:

Norman M. Glasgow, Jr., Chairman
Robert L. Calhoun, Vice Chairman
Robert Clarke Brown
William A. Hazel
Weldon H. Latham
David T. Ralston, Jr.
Jeffrey E. Thompson
Robert B. Young, Jr.

The Secretary and the following Officers were present:

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

In the temporary absence of a quorum, the Chairman proceeded with the Committee reports.

I. COMMITTEE REPORTS

a. Planning Committee

Mr. Hazel reported that the Planning Committee had met that morning. In executive session, the Committee had heard the regular Air Service Development Report, and had discussed US Airways and United. It appeared that both airlines would strengthen their positions in Washington, particularly US Airways at Reagan National. United remained committed to Dulles.

There had been some new services announced. Skyway Airlines, operating as Midwest Express Connection, would restore service between Reagan National and Grand Rapids on October 1. Virgin Atlantic had announced it would add a second permanent Dulles-Heathrow round trip in June 2003.

The Committee had also heard a report, requested by Mr. Young, on Loudoun County's land use development practices for properties near Dulles. It appeared that there were adequate buffer areas, and that developers were complying with the requirements that they notify prospective homeowners of the extent of aviation noise in the area. The Authority held avigation easements on the close-in properties.

Mr. Calhoun asked if Loudoun County required soundproofing in new construction in the area. Mr. Hazel said that it did, and that the soundproofing was advertised to the buyers. The easements were in the deeds.

Mr. Young noted that about 5,000 homes were being built at the Brambleton development. While the developer was doing more than most, the noise disclosures would not occur until some time in the future, when approximately 100 homes within the noise contour were actually sold.

b. Business Administration Committee

Mr. Calhoun reported that the Business Administration Committee had last met August 21. It had first heard the report of a panel on the selection of a firm to provide unarmed guard services at both Airports, and had agreed to recommend that the Board approve the contract award to Securiguard, Inc. of McLean. The base one-year price was \$3.4 million, with a three-year total, assuming all options were exercised, of \$10.5 million.

Mr. Calhoun explained that, in response to the General Accounting Office comments, it was now normal practice to price out the option years.

The Committee had also discussed at some length the Signature Flight Support plans for developing additional general aviation hangars at Dulles. Mr. Calhoun reported that general aviation activity at Dulles had continued to grow, and Signature wanted to build some exclusive-use hangars for corporate fleets. Staff had briefed the Committee on the business approach and the locations of the proposed facilities. After discussing how the use of the property could be restricted to aviation purposes, the Committee had been satisfied with the general proposal and proposed contract language, and had agreed that the staff should proceed.

Finally, Parsons Management Consultants had presented its regular information slide show on construction in progress, particularly at Dulles.

As Mr. Brown had not yet arrived, the Chairman turned to the President's Report.

II. INFORMATION ITEMS

a. President's Report

In the absence of Mr. Wilding, Mr. Bennett reported that Christopher Browne, Vice President and Manager of Reagan National, had been recognized as the Virginia airport manager of the year at the recent Virginia Aviation Conference.

The Transportation Security Administration (TSA) would begin the transition to federal screeners at Reagan National the next week. The complete process would take about a month. Transition at Dulles was likely to begin in October. Under the Aviation and Transportation Security Act, the TSA was required to have the federal screening force in place nationwide by November 19.

Plans for checked baggage screening had not yet been approved for either Airport; TSA and its consultants were still studying the situation. Several plans had been considered for both Airports, but none had yet been approved. The statutory checked baggage screening deadline was still set for December 31, but the House of Representatives had already passed a one-year extension in its version of the homeland security bill. More recently, the TSA had been suggesting that some flexibility in allowing extensions of the deadline at certain airports would be appropriate. The Senate would soon be taking up the debate on homeland security, and was also likely to adopt some adjustment to the checked baggage screening deadline.

About a week before, the Authority had received a "finding of no significant [environmental] impact" for a large part of the Dulles *d2* program, covering the terminal area and people mover system, but not the expansion items, such as the two new runways. The Federal Aviation Administration had not yet completed its full environmental impact statement on the new runways.

Mr. Bennett reported that management had met the week before with the rental car industry to discuss the issue of "dual branding", the term for a company holding two "brands", formerly independent companies, of rental cars. The principal proponent was ANC, owner of National and Alamo. Avis was purportedly planning to buy Budget, which would establish a second dual brand company. The question for the Authority was whether to treat a dual-brand company as one or two entities under its rental car concession program. Current contracts prevented dual branding. The matter would be discussed by the Business Administration Committee, and a decision would be reached, to be reflected in the invitation for bids for the Dulles rental car concession.

Mr. Bennett recalled that he had reported in August that National Airlines would return to Reagan National on October 3. The airline had since abandoned plans to serve Reagan National because the Air Transportation Stabilization Board had denied its requested $60 million loan guarantee. The airline would, however, continue its two round trips between Dulles and Las Vegas.

United Airlines had engaged a new chairman and chief executive officer, Glenn Tilton. He had been the chairman and chief executive officer of Texaco, then the vice chairman after Chevron and Texaco had been combined. Mr. Bennett said he and Mr. Wilding would seek a meeting with Mr. Tilton soon. Mr. Latham said that Mr. Tilton had been a good friend and client, both at Texaco and Chevron-Texaco, and offered to help.

US Airways had announced a major schedule change on November 2, when the carrier would cut about 300 daily flights out of its route system. The Authority would benefit from the change; Reagan National would pick up some additional flights, and Dulles would pick up five daily shuttle flights to LaGuardia with regional jets.

With respect to July traffic, trends were still negative. At Reagan National, passengers had been down 21 percent for the month, and 26 percent for the year-to-date figures. At Dulles, traffic had been down 9.7 percent, 9.5 percent for the year to date. Cargo traffic, however, had been up 13.5 percent, the second monthly increase.

Dulles continued to outperform the domestic market: the national domestic market had been down 10.3 percent in July. International traffic at Dulles had been down 5.1 percent, while the comparable national figure had been 7.2 percent. United's international service at Dulles had increased for the second consecutive month, up 5.2 percent.

Airlines had shifted some of the mainline traffic to regional aircraft, so July regional traffic had been up 6.5 percent at Reagan National and 70.8 percent at Dulles over July 2001.

Mr. Thompson asked how the July traffic figures compared to May and June, month to month. Mr. Bennett said that traffic varied month to month in a "normal" year. For example, September traffic was always lower than August traffic, as vacations were over. The more meaningful comparison was to the same period of the prior year. Mr. Thompson said that, given the impact of September 11, he thought showing the month-by-month trend would be very significant. Mr. Bennett said the report contained charts showing 12 months of data by airline. Mr. Thompson said a simple chart was all that was required. Mr. Bennett said the meaningful comparisons would appear with the October data, when both 2001 and 2002 data would be post-September 11. Mr. Thompson said that, coming out of a recession, the Authority should track the month-to-month changes. Mr. Bennett agreed to provide the chart.

III. MINUTES OF THE AUGUST 7, 2002 MEETING

The Chairman then called for the approval of the Minutes of the August 7 Meeting, which were unanimously approved.

IV. UNFINISHED BUSINESS

There was not any unfinished business.

V. NEW BUSINESS

a. Selection of a Firm to Provide Unarmed Guard Services at Both Airports

Mr. Calhoun moved the following resolution:

> WHEREAS, The Business Administration Committee is satisfied with the results of the competitive evaluation of firms to provide unarmed guard services at both Airports, presented to it at its August 21, 2002 meeting; now, therefore, be it
>
> RESOLVED, That Securiguard, Inc. is selected to provide unarmed guard services at Ronald Reagan Washington National and Washington Dulles International Airports; and
>
> RESOLVED, That the President and Chief Executive Officer is authorized to negotiate and enter into a contract with Securiguard, Inc., consistent with the terms presented to the Business Administration Committee August 21, 2002.

Mr. Thompson observed that the contract was a 100 percent Local Disadvantaged Business Enterprise ("LDBE") set-aside. He asked if Securiguard was an LDBE firm. Mr. Young said it was, and that it was owned by a woman.

The Secretary reported that Mr. Latham's office had asked him to announce that the law firm of Holland & Knight, where the Chairman and Mr. Latham were partners, had represented one of the competitors in the procurement. Mr. Calhoun asked how it would affect the vote if the Chairman and Mr. Latham abstained. The Secretary responded that approval of the contract required a quorum of seven Directors attending the meeting and a majority of the Directors voting.

The resolution was thereupon adopted, with the Chairman, Mr. Latham and Mr. Young abstaining.

b. <u>Resolution Supporting the Adoption of the Sales and Use Tax Referendum for the Northern Virginia Regional Transportation Program</u>

Mr. Young moved the following resolution, which was unanimously adopted:

> WHEREAS, The Commonwealth of Virginia, in Chapter 853 of the 2002 Virginia Acts of Assembly, has directed that a referendum be conducted in Arlington County, Fairfax County, Loudoun County, Prince William County, the City of Alexandria, the City of Fairfax, the City of Falls Church, the City of Manassas, and the City of Manassas Park to determine whether an additional sales and use tax of one-half of one percent should be imposed in those jurisdictions;
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> WHEREAS, The additional tax revenues would be allocated to the Northern Virginia Transportation Authority for expenditure on a defined set of transportation projects important to the free flow of commerce as well as private travel in the region;
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> WHEREAS, The projects are important to help the region reach attainment designation under the Clean Air Act; and
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> WHEREAS, Projects that would be funded by the new revenues would be of major significance to the users of Washington Dulles International Airport, particularly the Dulles Corridor Transit project, improvements to Route 28 along the Dulles eastern boundary, and construction of the

Loudoun County Parkway, providing access to Dulles from the west, now, therefore, be it

RESOLVED, That the Airports Authority endorses the approval by the voters of the November 5, 2002 sales and use tax referendum.

c. Amendments to the Retirement Savings Plan Definition of "Normal Retirement Age"

Mr. Brown moved the adoption of the following resolution. He characterized the amendments it would make as technical, noting that they had been recommended to the Finance Committee by the Retirement Committee.

WHEREAS, The Authority's Retirement Savings Plan allows plan participants to make up for contributions not made in the past during each of the last three consecutive years before Normal Retirement Age, which is set in the Authority's retirement plans at age 60 for general employees and age 55 for police officers and firefighters, with "catch-up" payments;

WHEREAS, The Internal Revenue Code permits a broader definition of Normal Retirement Age for the purpose of exercising the "catch-up" rights in the savings plan;

WHEREAS, Setting Normal Retirement Age as a range between 60 and 70½ will permit employees in late career who choose to work beyond the existing standard normal retirement age to use the catch-up provisions beyond that current age limit; and

WHEREAS, A change in the Normal Retirement Age will enhance the Authority's retirement savings program without additional cost to the Authority; now, therefore, be it

RESOLVED, That Section 2.14 is amended to read as follows:

"'Normal Retirement Age' shall mean for employees covered under the MWAA Retirement Plan sixty (60) years of age with five (5) years of service and for employees covered under the MWAA Retirement Plan for Police Officers and Firefighters fifty-five (55) years of age with five (5) years of service or fifty (50) years of age with twenty-five (25) years of service provided, however, for purposes of the 'Catch-up Limitation' in

Section 4.4(b) of this Plan, the Normal Retirement Age shall be no later than seventy and one-half (70½) and no earlier than the earliest age that a Participant may retire under either the MWAA Retirement Plan or the MWAA Retirement Plan for Police Officers and Firefighters, absent the consent of the Employer and receive immediate retirement benefits without an actuarial or similar reduction because of retirement before a specified date."

and

RESOLVED, that Section 218(b) is amended to read as follows:

"Catch-up Limitation. For each of the last three (3) taxable years ending before a Participant's attainment of Normal Retirement Age, or with respect to a Participant who continues to work beyond the Normal Retirement Age, the Normal Retirement Age shall be that date or age designated by the Participant, but such date shall not be later than the age of seventy and one-half (70½) years of age or the age at which the Participant separates from service with the Employer ....".

Mr. Thompson asked if there would be any cost to the Authority. Mr. Bennett said there would not be any. Mr. Brown said the amendments provided an opportunity for employees to add to their own savings accounts, without any matching payment from the Authority.

The resolution was thereupon unanimously adopted.

I. COMMITTEE REPORTS, continued

c. Finance Committee

Mr. Brown said that the Finance Committee had last met August 21. The Authority had conducted the $100,000,000 Series 2002C fixed-rate bond sale on August 14 to refund the outstanding Series One Commercial Paper Notes. This action had freed up the tax-exempt line of credit capacity to support the construction program. It had been the first bond sale for which the Authority had selected a minority firm, Siebert Brandford Shank & Company, to serve as senior manager. The firm had done an outstanding job, especially under the unusual market circumstances. The week the bonds had been priced, US Airways had announced its bankruptcy filing. That same week United had publicly discussed the possibility of its own bankruptcy filing. Siebert Brandford had actually recommended that the sale be made a day earlier than planned to take advantage of a favorable fluctuation of the market. The result had been a true interest cost of almost exactly 5 percent, the best true interest cost in the history of Authority financing.

The Authority had also closed on the $250,000,000 Series 2002C Variable Rate Refunding Bonds. The Series had refunded the Series 1992A bonds, the last relatively high-coupon bonds outstanding. The bonds had been the second part of the refunding effort, which had begun with the synthetic advance refunding, or "swap", the previous summer. That swap had "gone live". Combined, the 2002C bonds and the swap cost 4.9 percent, saving about $26 million in the refunding. UBS PaineWebber was the underwriter and remarketing agent for the variable rate bonds. Both issues had been insured by FSA, the first time for the Authority with that firm. Dexia had provided the liquidity facility.

The Committee had also discussed the construction forecast. As most Directors were aware, Mr. Brown said, the Committee had been working with the staff to revise the forecast of construction spending so it could be dovetailed with financing. The Engineering Division had reduced its forecast for the rest of the year, in part because of delays in the contract for the Dulles people mover contract.

The Retirement Committee had reported on the current status of the retirement plans in view of the recent declines in the stock market. Many defined benefit retirement plans in the private sector had been required to redo their actuarial assumptions, and in many cases had become significantly underfunded. The Authority remained overfunded, but would be increasing contributions to the plans in the next year.

Mr. Thompson asked how much the plans were overfunded; Edward Cousins, Manager of the Benefits, HRMS and Payroll Department, said about 25 percent, or roughly $12 million. Mr. Brown pointed out that the amounts were relatively small because the Authority was still a relatively new agency.

Mr. Brown said the staff and financial advisors had also reported on alternative investment products for the several funds restricted under the bond indentures. The Authority had about 750,000,000 in cash out for investment, most of it in restricted categories. Tax issues and indenture issues, as well as market issues, affected the investment decisions.

In the July financial reports, the year-to-date operating income had been $71 million, $2.3 million lower than the corresponding period in 2001, largely because of reduced activity at Reagan National. Dulles had actually been ahead of 2001 by $12.7 million.

Mr. Calhoun observed that the traffic statistics presented earlier in the meeting showed reduced traffic levels at both Airports, and asked if the figures meant that the same number of flights were being flown. Mr. Brown said the figures were operating income, net of expenses. Mr. Bennett said that two trends had affected the operating income: tight controls on expenses that remained in place, and increased concession revenues resulting from passengers spending more time in the terminals.

Mr. Calhoun said it had appeared to him that the airlines had not significantly reduced the number of flights, particularly at Reagan National. Mr. Bennett said there had been significantly fewer flights with the larger aircraft. The large air carriers had operated about 207 domestic daily departures in July. In July 2001, they had operated 284. At Dulles, large airlines had operated 321 daily departures in July 2002, compared to 407 in July 2001.

VI. OTHER BUSINESS AND ADJOURNMENT

The meeting was thereupon adjourned at 9:45 a.m.

Respectfully submitted:

Gregory Wolfe
Vice President and Secretary

approved October 2, 2002