BOARD OF DIRECTORS MEETING

Minutes of September 8, 2004

The regular monthly meeting was held in the Airport Manager's Conference Room B at Washington Dulles International Airport and was called to order by the Chairman at 9:00 a.m. Nine Directors were present during the meeting:

Norman M. Glasgow, Jr., Chairman
Mame Reiley, Vice Chairman
Robert Clarke Brown
Anne Crossman
John Paul Hammerschmidt
William A. Hazel
David T. Ralston, Jr.
Charles D. Snelling
David G. Speck

The Secretary and the following Officers were present:

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

I. MINUTES OF THE JULY 7 MEETING

The Chairman called for action on the Minutes of the July 7, 2004 Meeting, which were then unanimously approved.

II. INFORMATION ITEMS

a. President's Report

Mr. Bennett welcomed the Board to Dulles. He then reported that Runway 12/30 had reopened August 18. The target date had been August 19, and the reopening had provided a welcome increase in capacity, with the continuing increase in flight activity, particularly that of Independence Air. Mr. Bennett thanked Frank Holly and the engineering staff, Keith Meurlin, Vice President and Airport Manager, and the Dulles staff, Parsons Management Consultants, Lane Construction, and the Federal Aviation Administration for their efforts in getting the runway reopened on time. Mr. Hazel congratulated the staff for its courage in bidding the contract with an incentive clause, a single project for the entire runway, instead of breaking it into increments, as had originally been scheduled. He said it had demonstrated how procurement methods could be adjusted to serve the Authority's best interests. He also said the Authority had benefited from a good contractor.

Mr. Bennett reported that on the prior Saturday evening a squirrel had caused a major power outage at Dulles, shorting out a feeder cable that put a Virginia Power transformer out of commission. Power supplying part of the Main Terminal and the fuel farm hydrant system had been lost. Dulles electricians had worked all night on the problem and had restored the fuel pumps by Sunday morning. Some emergency generators had been moved into place in the event of another failure while more permanent repairs were being made.

A different fuel supply problem was growing at Dulles, as traffic had begun to exceed the pre-2001 levels. The hydrant fueling system was supported by about 14.1 million gallons of fuel storage capacity at the fuel farm along Route 28. That facility was in turn supplied by pipelines operating in the area. Airlines purchased the fuel and contracted with the pipeline companies to deliver it to Dulles. The problem was that the fuel pipelines feeding the fuel farm could not meet the demand. About 1.2 to 1.3 million gallons were pumped to the aircraft every day, while the pipelines could deliver only about 1.1 to 1.2 million gallons per day. The long-term solution would be for the airlines to contract with their fuel suppliers to build a larger supply line from the main pipelines into the Airport. The airlines had been planning to do so before September 11, 2001, and the pipeline companies had already designed a new line, but the airlines had suspended the project after the precipitous decline in traffic.

Mr. Speck asked how long the connecting pipeline would be. Mr. Bennett said it would depend on which pipeline it would come from. Fuel at Dulles came from two locations: one at Newington, the other from Pickett Road in Fairfax. A larger trunkline about three miles away could also be tapped and brought into the Airport. All three options were being explored.

Ms. Reiley asked what the cost would be. Mr. Meurlin said the current estimate was about $18 million. Mr. Bennett reiterated that the airlines would pay for it. He noted that the airlines purchased fuel from companies all over the world and paid to have it shipped through the pipeline. Mr. Brown asked if the Authority marked up the fuel; Mr. Bennett said that the Authority did not sell air carriers any fuel. The fuel farm and hydrant distribution system were leased to a consortium of the airlines. They paid the cost of maintaining and operating the system, and the Authority recovered the cost of building the system through rates and charges.

In the short term, it might become necessary to conduct a tankering operation with trucks delivering fuel to the fuel farm. The Authority and the airlines were also looking to see if it would be possible to upgrade the size of the pumps and allow more fuel to be delivered from the pipelines. The ultimate solution would be to build a new pipeline. The Chairman asked if additional right-of-way would be required. Mr. Bennett said that it probably would. If it did, there would have to be environmental studies. Mr. Glasgow asked if the pipeline companies had condemnation powers. Mr. Bennett said he believed they did not. Mr. Glasgow asked if the Authority could use its condemnation power to assist on such a project. Mr. Faggen said he thought it likely, but would have to consider the matter more closely. Mr. Snelling said that Buckeye Pipeline, a company he was associated with, did have condemnation powers, and that he believed others did as well. Mr. Faggen said he understood Plantation and Colonial, the two lines serving Dulles, did not have such powers.

Mr. Brown asked if the Authority could finance the new pipeline, as it could do so at a lower cost than the pipeline companies, and recover the costs through rates and charges. Mr. Bennett said he had offered to help the airlines in any way possible, and would certainly entertain the possibility of financing, if it were appropriate. Mr. Snelling said he was more concerned about the power situation. He noted that all hospitals had power generators that automatically came on when the normal supply was interrupted, and said he thought the Airports should be energy-independent in the short run. He asked if generators were available to assume all the essential loads in the event of a major power dislocation. Mr. Bennett said that emergency generators instantaneously powered airfield facilities. Other generators served emergency systems to protect life and safety. The demand for power in the Airports generally was enormous. The Authority would in effect have to have its own power generating plant to have a full backup system. Mr. Snelling said the staff should determine what it would take to assure the Authority could support its own internal fuel systems. Mr. Bennett said a backup system already existed for the fuel hydrant system. At the time of the incident, however, it had been out of order and awaiting repairs.

Mr. Speck asked the total capacity of the fuel farm. Mr. Bennett said storage capacity was about 14.1 million gallons, 11 million usable. Mr. Speck asked if the pipeline companies pumped 24 hours into the storage facilities. Mr. Bennett said they did. Keith Meurlin said that of the two lines, only one ran for 24 hours; the Plantation line was limited by the Star Plantation plant in Fairfax. This was another troublesome issue for the airlines in getting fuel to the fuel farm. Mr. Speck observed that the size of the lines was not the only problem. Mr. Bennett said if a larger line could be connected to the Colonial pipeline, the flow could be sufficient. Mr. Meurlin noted that some of the problem went all the way to the other end of the pipelines, at the Gulf of Mexico. Mr. Bennett described that problem: the same pipeline that carried airline-owned jet fuel also carried heating oil, diesel fuel and gasoline for other consumers. Mr. Meurlin said another continuing problem was that vehicle fuel was far more profitable than jet fuel. In the Washington area, there was an additional issue with the annual requirement for oxygenated fuel in the winter. He said that the Authority had both enough storage capacity and enough hydrant capacity to deliver to the aircraft. For the time being, the supply was the principal concern.

Mr. Brown asked how the airlines determined which would get fuel if not enough arrived in a given day. Mr. Bennett said the airline consortium used an allocation formula, which was revised every quarter or so. Mr. Brown asked if some aircraft left with less fuel, reducing the safety margin. Mr. Bennett said the carriers would tanker additional fuel in; they would never leave with less than the amount of fuel prescribed for a flight. In addition to matters already discussed, the pipeline companies were considering new pumps, which would increase the pressure and output. The airlines, when they know they have a problem refueling at a given destination, will carry more fuel from their origination point. The extra weight made this alternative expensive, but the airlines do it when they need to.

Mr. Bennett then reported that staff would hold a public hearing at the Dulles Hyatt that evening on the proposed changes to the regulations governing the carriage of weapons on Authority property. A staff recommendation reflecting the comments received would be brought back to the Legal Committee in time for action at the October Board Meeting. The proposal was to limit the weapon prohibition to more closely match the Virginia state gun laws. It would resolve a serious problem around Dulles where weapons were prohibited on Route 28, the Greenway, the Dulles Access Highway and the Dulles Toll Road, where they would otherwise be permitted under Virginia law. Under the proposal, weapons would be prohibited only in buildings with access to the secured areas, more consistent with the Virginia law. Mr. Brown asked if weapons would be prohibited in the terminal buildings; Mr. Faggen said they would, except when packed for traveling. Mr. Snelling asked if the staff knew who would take serious exception to the new rules. Mr. Faggen said the proposal had been published in THE WASHINGTON POST and other papers and had not generated a large response. Mr. Snelling said he believed extremists on both sides of the right to bear arms debate could agree with the proposal. Mr. Faggen said that had been the object, while at the same time protecting the aviation security interest.

Mr. Bennett reported that the Authority had begun to distribute plastic bags at the screening checkpoints at Reagan National; they would be available later at Dulles. Passengers could put keys, coins and other small items into them before going through passenger screening, thus speeding up the process of refilling ones pockets at the other end. Mr. Bennett passed out samples to the Directors.

III. COMMITTEE REPORTS

a. Finance Committee

Mr. Ralston reported that the Finance Committee had last met July 21. In executive session, it had been briefed on the analysis of the Authority's use agreement and premises lease with the airlines.

The Financial Advisors had reviewed the results of the refunding of the unhedged portion of the Series 1994A Bonds with a face value of $111.5 million. The new bonds had been sold on July 8, and had produced a savings of 3.1 percent, or a total of $3.4 million. The Financial Advisors had also updated the Committee on options to refund the remaining $219 million Series 1994A Bonds that had been hedged by the swap that closed in January 2004.

June year-to-date revenues of $211.1 million had exceeded all prior years. Year-to-date operating expenses of $175.8 million were $1 million lower than the same period in 2003. At the halfway mark of 2004, operating expenses had been at 45 percent of budget, while revenues had reached 50 percent of budget. Staff had explained that the expenses associated with the busing of United Airlines passengers to and from temporary Concourse G and the marketing initiative for Independence Air were being absorbed in the original budget authorization.

At the July Meeting, the Board had authorized the refunding of the remaining $316 million in outstanding Series 1994A Bonds: $219 million "hedged" in the January swap and about $97 million that were unhedged. The refunding resolution had granted discretion to the Chairman or Vice Chairman and the Chairman of the Finance Committee to approve both the form and details of any issuance, in order to take advantage of any favorable market conditions quickly and without calling a special Board meeting. At the July Meeting, the Board had also extended the authorization to refund the $13.7 million remaining Series 1993A Bonds, should that prove advantageous. On July 8, the day after the Board meeting, the Authority had sold $115.5 million in Series 2004C-2 Bonds, the second step in refunding the 1994A Bonds.

Although the Finance Committee did not meet in August, Wall Street had not been closed for the month, and the Authority had been able to sell $232.5 million in bonds, closing out the 2004 series. During August, staff and the Financial Advisors had been monitoring financial markets to determine when the criteria for the alternative approaches to addressing the 1994A Bonds would be met. Depending on the interest rate environment and the amount of savings that could be achieved, various options would have been valid.

The unhedged 1994A Bonds, as well as the remaining $13.7 million in Series 1993A Bonds, were callable at any time.

Beginning on July 30, the markets had reacted to oil price increases and employment news. Interest rates on the 10-year Treasury had dropped from 4.6 percent on July 27 to 4.2 percent on August 6. The savings on refunding the $13.7 million Series 1993A bonds had increased 3.7 percent to $509,000. Therefore Mr. Ralston and the

Chairman had authorized the marketing of the Series 2004A Bonds on Monday, August 9.

The savings in the hedged $219 million Series1994A Bonds had reached $14 million and had exceeded the $12.5 million criteria for refunding all the 94A Bonds with fixed rate bonds. The swap had been wrapped up by issuing the Series 2004D Bonds, and making a required payment of $3.66 million. The savings of $14 million had been net of the swap payment. Mr. Ralston and the Chairman had authorized the 2004D Bonds to be sold on Wednesday, August 11. As these decisions were reached, staff had kept the Chairman, the Vice Chairman and the entire Finance Committee abreast of the changes in the value of the refunding, and many Members commented on the situation as the issue progressed. As of August 26, all the 2004 Series of Bonds – A, B, C1, C2 and D – had been closed. The total savings for those series had been $21.7 million, net of the swap payment.

II. INFORMATION ITEMS, continued

b. Executive Vice President's Report

Ms. McKeough reported that the Authority was required every three years to test disaster preparedness at both Airports. Dulles had held a disaster preparedness drill a few months before, which some Directors had attended. Reagan National would hold its drill on September 25.

Both Airports had been very busy through the summer. In both June and July, Reagan National growth had exceeded the industry average of 4.8 percent. Reagan National had grown 12.7 percent in June from the same month of 2003 and 10.5 percent in July, but still had remained about 3 percent below the high levels of 2001. Dulles had set a new record, making it again the busiest of the three Airports serving the Washington area. In June, the Airport had been up 21 percent, just 50,000 passengers behind Baltimore/Washington International ("BWI"). In July, Dulles had exceeded the 2-million-passenger level, with a 33.2 percent increase to 2.2 million. International service had been up about 15 percent in June and 11.8 percent in July. Year-to-date international growth had been up about 20 percent. In the face of this extraordinary growth, facilities had functioned quite well throughout the summer.

It was too early to note a trend line, but in July BWI had reported a 2.3 percent decline in Southwest Airlines traffic, after years of double-digit growth. Mr. Snelling asked if this reduction had been the result of Southwest's competition with itself at Philadelphia. Ms. McKeough said it could have been, but noted that four or five other carriers at BWI had reported declining passenger levels in July. Ms. Reiley asked if Independence Air had affected the Dulles figures. Ms. McKeough said it had; the carrier's first full month of operations had been July. She also said that in July, Independence Air had not yet begun to operate its full schedule. Ms. Reiley asked why the increase had been over 33 percent. Ms. McKeough said the statistics showed increases for several carriers at Dulles, not just Independence Air. Mr. Bennett said that the introduction of Independence Air had created a very competitive market, which meant that the other airlines had been competing on price and service. Ms. Reiley asked if the effect would be temporary. Mr. Bennett said the traffic would ultimately "settle out", but would do so at much higher levels than before. Mr. Hammerschmidt asked the implications of the substantial decreases in freight during June and July. Mark Treadaway, Vice President for Air Service Planning and Development, said that the increased passenger numbers meant a reduction in freight, as most freight was carried in passenger aircraft and was therefore replaced by passenger baggage.

IV. UNFINISHED BUSINESS

There was not any unfinished business.

The Chairman then adjourned the meeting so that the Planning Committee could meet and discuss the proposed Strategic Business Initiatives. If the Committee agreed, the Board would reconvene briefly to adopt the Initiatives.

V. NEW BUSINESS

At the conclusion of the Planning Committee Meeting, the Board reconvened to consider new business.

a. Approving the Strategic Business Initiatives

Mr. Hazel offered the following resolution, which was unanimously adopted:

WHEREAS, The Board in Resolution No. 98-6 adopted the Authority Purpose and Mission Statements;

WHEREAS, The Performance Management Partnership approach to compensation and the Annual Business Plan, developed at about the same time, should be linked to those Statements;

WHEREAS, The Board considers the process of strategic planning vital to the future success of the Airports Authority;

WHEREAS, The President and Chief Executive Officer has presented a program of Strategic Business Initiatives for developing annual action plans that will form the basis of the Annual Business Plan and the Performance Management Plan;

WHEREAS, The Planning Committee has reviewed the Business Initiatives and recommends their approval; now, therefore, be it

RESOLVED, That the Strategic Business Initiatives as presented to the Planning Committee on September 8, 2004 are hereby approved.

VI. OTHER BUSINESS AND ADJOURNMENT

The meeting was thereupon adjourned at 11:15 a.m.

Respectfully submitted:

Gregory Wolfe

Gregory Wolfe
Vice President and Secretary

approved October 6, 2004
GW