BOARD OF DIRECTORS MEETING

Minutes of October 2, 2002

The regular meeting was held in the Board Conference Room at 1 Aviation Circle and was called to order by the Chairman at 9:25 a.m. Eleven Directors were present:

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

The Secretary and the following Officers were present:

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

I. MINUTES OF THE SEPTEMBER 4, 2002 MEETING

The Chairman then called for the approval of the Minutes of the September 4 Meeting. They were unanimously approved.

II. 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. The principal news had been that Saudi Arabian Airlines would operate four freighters per week at Dulles, relocating its existing service at J.F. Kennedy International.

On November 1, Delta Connection services would begin to eight new destinations, including Charleston, S.C.; Huntsville; Jacksonville; Orlando and Tampa. At the end of October, United would begin service to São Paolo and Buenos Aires.

The Committee had also heard a report of a selection panel recommending the award of a contract to HNTB to provide on-call planning and programming services to the Engineering Division. A resolution would be offered later in the meeting.

The Committee had also been briefed on the security assessment study of both Airports in the wake of the September 11 events.

Finally, there had been an extensive discussion about Dulles Corridor transit. A resolution on the Board's recommendation to the Commonwealth Transportation Board and the Metro would be prepared for the next Board meeting.

b. Business Administration Committee

Mr. Calhoun reported that the Business Administration Committee had last met September 19. It had heard a detailed briefing on the final distribution of the $40 million in federal relief funds for the Authority and its tenants at Reagan National. The distribution had been close to the tentative allocation the Board had adopted in January. Some of the original figures had been estimates, and had been changed slightly when actual activity levels came in.

The final results had been $6.46 million for four months of rent abatement to concessionaires; $2.5 million for the waiver of minimum monthly guarantees; about 1.26 million for cash payments to concessionaires, based on ten percent of average sales for the 41 days Reagan National had been closed; $3.9 million credit to the landing field cost center to avoid an increase in 2002 landing fees; $6.7 million credit to the ground transportation cost center to cover reduced parking revenues; $2.5 million for salary increases for Authority staff; and $16.7 million to replenish the Authority's reserve accounts.

The Committee had also considered a proposed sole-source award of a contract for providing travel assistance at the information/assistance counters at both Airports. Previously the Committee had asked the staff to solicit for competition to the incumbent provider, Travelers Aid; the staff had done so, but no eligible competitors had expressed interest.

Staff had therefore recommended a sole-source award to Travelers Aid, the volunteer organization that had been providing the service at both Airports since they were opened.

Finally the Committee had held an exchange of views among itself, the staff, and the officers of Dulles Taxi Systems, Inc. ("DTS"), operator of the Dulles cab concession, on its performance. The report from staff had been favorable.

The principal complaint had been the occasional reluctance of drivers to accept credit cards because of the fees they must pay. A second problem had been inappropriate use of cell phones. DTS was committed to dealing with these situations.

The contract included a provision requiring that some non-Virginia cabs be dispatched, a response to concerns that District of Columbia cabs had been unduly limited in serving Dulles. The goal had been 15 percent of the total Washington Flyer fleet; the achievement had been 16.3 percent. Disadvantaged Business Enterprise participation under the contract had been 25 percent, against a goal of 15 percent. Mr. Calhoun observed that the extension option for the contract would have to be exercised in February.

The Committee had heard a report on the new "Pay & Go" parking system scheduled to begin operation at Dulles the second week of October. The system was already commonly used in Europe. Customers would pay for their parking as they left the Terminal, taking with them the validated parking ticket which would then be used to open an unattended exit gate, saving the handling of money and staff required at the gates and expediting the exit process. Those who forgot to validate their tickets could still use a staffed exit gate. Staff had undertaken a public education campaign to inform the users.

Mr. Calhoun noted that Mr. Young had asked for a report on the "license plate recognition system". This involved a digital photograph of the back of each car as it entered a parking lot, to be used to match cars with their parking tickets as they leave. The system, already in use at Dulles, would be even more important to administration of the new system. Privacy considerations are taken into account; the photographs are not be used for other purposes, and are to be periodically purged from the system.

Finally, Mr. Calhoun reported that the Authority would conduct its Thirteenth Annual Business Opportunity Seminar, this time at the Marriott Wardman Park Hotel in the District the afternoon of November 6. Mr. Crawford would represent the Board.

c. <u>Finance Committee</u>

Mr. Brown said that the Committee had last met September 18. The underwriters had reported on the sales of the 2002C Bonds, the variable rate issue sold against the swap that had been executed in 2001. UBS PaineWebber, the underwriter and remarketing agent, had reported that the bonds had been well received among institutional investors. Dexia had provided liquidity for the bonds.

The September Financial Advisors' Report had covered several matters, in particular a briefing on auction rate securities. A request for qualifications had been issued several months before, and the staff was still exploring the option. Auction rate securities offered several advantages, broadening the investor network to high-net-worth individuals, who were not interested in the standard variable rate product. It also would not require the use of bank liquidity facilities, which complicated financings. A good example had occurred in the most recent variable rate financing, when changes had to be made to meet bank requirements. Further, one of the Authority's liquidity providers, JP Morgan, had recently been downgraded.

Additional financings in the next year, in addition to new money financings, could include refunding of the Series 1993A and B Bonds. Also in 2003, the liquidity facility that supported the Series B Commercial Bond Anticipation Notes would expire and would not be renewed on the current terms.

The construction activities forecast used to identify funding requirements had again been adjusted downward for the current year, from \$370 to \$303 million. The cause had principally been delays in the awarding of the package 6 and people mover contracts at Dulles.

Staff had also reported on the yields on the restricted bond funds, comparing them to the arbitrage yields. Mr. Brown said he expected to see additional data in the next Committee package.

The Committee also had heard a report on alternative investment product options for the debt service reserve accounts. Staff had narrowed its own research, and with Financial Advisors were seeking bids on a forward purchase agreement for the reserve funds on the recent Series 2002C and D issues.

There had been a report on business interruption insurance coverage for the impacts of September 11. Staff had reported that, in its judgment, the Authority was ineligible to receive any additional compensation from insurance carriers, both because of limitations in the policies and the receipt of \$40 million in federal relief funds.

August financial reports showed operating income year-to-date \$2.8 million lower than the comparable period in 2001, reflecting a \$17 million decline at Reagan National and a \$14 million increase at Dulles.

Mr. Latham said he had not heard an explanation of how the \$40 million in federal funds had precluded any insurance claims. Mr. Brown said that had been the staff's conclusion. The Chairman said he believed that the matter had been dealt with by other than the staff. Edward Faggen, Vice President and General Counsel, responded that Authority's business interruption insurance policy had an offset for compensation received from collateral sources. The government payment, he noted, more than offset the loss, so it negated any possible recovery from the insurance company. Mr. Thompson asked if there were a definition of "collateral source". Mr. Faggen said the policy covered recovery from any source. Mr. Thompson asked if the staff had relied on outside consultants. Mr. Faggen said the decision had been based on the advice of outside counsel, as well as internal staff analysis. Mr. Thompson asked if staff had considered that, as some of the federal payment had been paid to concessionaires, not all $40 million had gone to the Authority. Mr. Faggen said that all had been aware of that. Mr. Thompson asked for a copy of a report on the business interruption insurance issue.

d. Legal Committee

Mr. Latham reported that the Legal Committee had met October 1, with all members of the Committee participating, as well as Mr. Young. The Committee had first considered amendments to the Code of Ethical Responsibilities for Members of the Board of Directors. The substantive amendments were basically the same ones the Board had previously agreed to on a temporary basis. They would raise the dollar amount of a personal holding that would give rise to the appearance of a conflict to $25,000, and set the test for conflicts arising from the clients of a Director's professional partners at 3 percent of a firm's annual billings.

The Committee had agreed that the language of the Code was confusing and difficult to follow, and had asked the staff to rewrite the entire Code in plain English. The Legal Committee would continue to oversee the project.

The Committee had reviewed a report provided by the General Counsel on the law firms the Authority had used over the past two years and the fees paid them. The total cost had been $6.3 million since January 1, 2000.

The General Counsel had also provided the regular litigation report. New items had included 35 notices of claims based on the September 11 flight into the Pentagon, and seven September 11 lawsuits already filed with the Authority as one of the defendants.

Finally, Mr. Wilding, Margaret McKeough, Vice President for Business Administration, and Arl Williams, Vice President for Human Resources, had brought the Committee up to date on the Authority's efforts to promote diversity. Future reports would be made every six months.

Mr. Thompson asked for an explanation of the 3 percent ethics rule. The Secretary responded that it applied when, for example, a Director's law firm represented, in any context, a client that wished to do business with the Authority. If that client provided more than 3 percent of the firm's annual revenues over the past two years, then the Director would have a conflict and could not participate in a decision affecting the client. Mr. Thompson observed that 3 percent could be a large number at a large law firm. The Secretary agreed, but pointed out that, if the firm's representation of client had anything to do with Authority business, then the Director could not participate, no matter the amount of the fee.

III. INFORMATION ITEMS

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

Mr. Wilding first noted that the new air services Mr. Hazel had mentioned were unusual in that they were at Reagan National instead of Dulles. Part of the reason appeared to be the Department of Transportation decision to discontinue, as of November 1, the waiver of the "use-or-lose" slot rule at Reagan National, a rule it had suspended since September 11. Under the waiver, the number of flights at Reagan National had recently been about 85 percent of the number of slots.

The Department of Transportation was conducting a proceeding to determine the reassignment of special "beyond the perimeter" slots originally allocated to National Airlines for Las Vegas service. National had given up the route. Six different airlines were competing to provide service to four different cities.

Two weeks before, operation of the first passenger screening check point at Reagan National had been taken over by new Transportation Security Administration ("TSA") employees. On October 1, two more had federal staff. At Dulles, three of the five checkpoints would be converted the following week.

At the same time, the TSA had been obliged to impose a hiring freeze because the new federal fiscal year had begun without appropriations. Continuing resolutions, which were the preferred temporary solution to appropriations impasses, typically set spending levels at the prior year's average rate. For the TSA, which had begun operations in 2002, that did not provide enough funds to continue operations. In addition, Harold Rogers, Chairman of the House Appropriations Subcommittee on Transportation and Related Agencies, had been insisting that the TSA needed no more than 45,000 employees, while that agency estimated its needs at 67,000. TSA thus faced both appropriations shortfall and a legislative cap on hiring.

As to baggage, there was still a federal statutory deadline that all checked baggage be screened by December 31. Pending legislation would allow the TSA to exempt itself from that deadline at up to 40 airports for up to a year. While likely to pass, the legislation remained bottled up.

Airport staff had been working closely with TSA officials at both Airports, and Mr. Wilding said he remained confident that the deadline could be met at Reagan National. At Dulles, however, it was likely that the machinery and building modifications required would mean that compliance could only be reached after the deadline.

A major construction award, for a large aircraft parking apron, had been made the previous week at Dulles. Within a few days, an award for Package 6, the contract that included the Dulles Main Terminal people mover station, would be awarded. In addition, the contract for finishing the pedestrian tunnel from the Main Terminal to Concourse B was also about to be awarded.

Mr. Calhoun asked whether, with the creation of the TSA, the cost of passenger screening had been shifted from the air carriers to the federal government. Mr. Wilding said the cost had been borne by the airlines, and the original plan in the Aviation and Transportation Security Act had been for the airlines to turn over to the federal government a cash payment equal to what they had been spending on screening, then estimated at $750 million per year. That figure was now disputed, with the airlines contending that they are still spending about $300 to $400 million per year on security. TSA costs for screening were about $6 to $7 billion per year.

IV. NEW BUSINESS

The Chairman then turned to new business, so that any Directors who needed to leave because of the relatively late hour could do so.

a. Proposed Selection of an On-Call Consultant for Planning and Programming Services at Both Airports

Mr. Hazel moved adoption of the following resolution, which was unanimously adopted, with the Chairman, Mr. Latham and Mr. Ralston abstaining.

> WHEREAS, A competitive evaluation of firms to provide on-call planning and programming services for both Airports resulted in the designation of HNTB;
>
> WHEREAS, The Planning Committee is satisfied with the results of the competitive evaluation of firms to provide these services, which was based on Request for Qualifications, development of a short list, and interviews, as presented at its October 2, 2002, meeting; now, therefore, be it
>
> RESOLVED, That the President and Chief Executive Officer is authorized to negotiate and enter into a contract with HNTB for these services,

consistent with the documentation of the proposal presented to the Planning Committee at its October 2 meeting; 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 HNTB are not successfully concluded within a reasonable period of time.

b. Establishment of a 2003 Disadvantaged Enterprise Goal for Federally-assisted Contracts

Mr. Calhoun moved the adoption of the following resolution. He noted that DBE goals for federal-aid projects were adopted annually by resolution to satisfy Department of Transportation requirements.

WHEREAS, The Federal Aviation Administration, under the Airport and Airway Improvement Act, requires airport proprietors to develop and submit annual goals for the participation of Disadvantaged Business Enterprises (DBEs) in federally-assisted contracts;

WHEREAS, An annual DBE participation goal was last set for 2002 in Resolution No. 01-18;

WHEREAS, The Business Administration Committee in July approved the proposed goal of 25 percent participation for public comment; and

WHEREAS, Public comment was supportive of the 25 percent goal; now, therefore, be it

RESOLVED, That the 2003 goal for DBE participation in federally-assisted contracts shall be at least 25 percent of the total contracting dollars for such contracts.

The resolution was unanimously adopted.

c. Proposed Sole-Source Selection of a Firm to Provide Travel Assistance at Both Airports

Mr. Calhoun moved the adoption of the following resolution to select Travelers Aid to provide travel assistance at both Airports. Mr. Thompson asked if the staff was satisfied with Travelers Aid services. Mr. Wilding said that experience with them had been very good, noting that services were provided by hundreds of volunteers managed by a small paid staff.

WHEREAS, Travelers Aid has provided outstanding volunteer travel assistance services at both Airports since they were opened to the public;

WHEREAS, The staff has solicited, to no avail, from private and public organizations expressions of interest in providing the same or similar services;

WHEREAS, The Authority could not economically provide the same services with staff; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized to enter into a sole source contract with Travelers Aid International for one base year and two option years, consistent with the proposal of September 19, 2002 to the Business Administration Committee.

The resolution was unanimously adopted, with all 11 Directors present voting.

d. Amendments to the Code of Ethical Responsibilities for Members of the Board of Directors

Mr. Latham moved the adoption of the following resolution, with the understanding that the entire code would be redrafted and simplified.

WHEREAS, The Code of Ethical Responsibilities for Members of the Board of Directors, adopted in Resolution No. 87-40, and last amended by Resolution No. 92-9;

WHEREAS, Certain provisions limiting Director participation in Authority decisions have become obsolete; and

WHEREAS, The appearance of conflict for Directors who are partners in large law firms have required refinement of the existing rules; now, therefore, be it

RESOLVED, That the Code of Ethical Responsibilities as proposed in the draft submitted by the Legal Committee and dated October 2, 2002 is hereby adopted; and

RESOLVED, That the Code adopted in this Resolution supersedes the previous Code, but does not affect the validity of actions taken under it.

The resolution was unanimously adopted.

III. INFORMATION ITEMS, Continued

b. Executive Vice President's Report

Mr. Bennett reported that in August passenger traffic at Reagan National had been down about 21 percent, and down 25 percent on a year-to-date basis. Passengers had declined 10.4 percent at Dulles for the month, and 9.6 percent for the year-to-date. On an industry-wide basis, domestic passenger traffic had been down in August 10.2 percent. August international traffic to and from other U.S. airports had declined 5.3 percent; at Dulles, it had decreased 5.1 percent.

Cargo traffic at Dulles had been up 6.7 percent for the month, the third consecutive month of cargo increases. International freight had increased over 16 percent. Regional traffic was up 9.5 percent at Reagan National, and 40.1 percent at Dulles, reflecting the trend of some of the major carriers to substitute smaller regional jet aircraft operated by affiliated regional carriers on many of their routes.

Mr. Bennett pointed out that the monthly reports now included new charts showing three months of activity at both Airports compared to both 2000 and 2001. He also reported that the Pay & Go parking system would begin October 8 in the hourly lots and parking garage at Dulles; the economy lots would be added some weeks later. Finally, he reported that the Virginia Aviation World's Fair, planned for Newport News-Williamsburg International Airport, had been canceled when the Commonwealth of Virginia had withdrawn its support for budgetary reasons.

V. UNFINISHED BUSINESS

There was not any unfinished business.

VI. OTHER BUSINESS AND ADJOURNMENT

The meeting was thereupon adjourned at 10:15 a.m.

Respectfully submitted:

Gregory Wolfe

Gregory Wolfe
Vice President and Secretary

approved November 6, 2002
GW