BOARD OF DIRECTORS ANNUAL MEETING

Minutes of November 6, 2002

The Annual Meeting was held in the Board Conference Room at 1 Aviation Circle and was called to order by the Chairman at 9:30 a.m. All twelve Directors were present:

Norman M. Glasgow, Jr., Chairman
Robert L. Calhoun, Vice Chairman
Robert Clarke Brown
H.R. Crawford
Mamadi Diané
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. ELECTION OF OFFICERS

The Chairman first called for the election of officers for 2003. Mr. Young moved that the Board elect Norman M. Glasgow, Jr. Chairman; Robert L. Calhoun Vice Chairman; and Gregory Wolfe Secretary. The Chairman asked for further nominations, and there were none. The three officers were thereupon unanimously elected.

II. MINUTES OF THE OCTOBER 2, 2002 MEETING

The Chairman then called for the approval of the Minutes of the October 2 Meeting. They were unanimously approved.

III. 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. While new services at Reagan National had brought flight levels back to normal, at Dulles United Airlines had announced it would discontinue services to Milan and Düsseldorf. United's new services between Dulles and São Paolo and Buenos Aires had begun, however, on October 29, and would continue.

The Committee had also reviewed the Annual Air Service Development Plan. The plan for the year was to seek to retain existing services and build up new services from that base. The staff would remain flexible, to take advantage of any and all opportunities that may appear.

Mr. Hazel said the Committee's main issue had been the recommendation of the selection panel on the design-build-operate-maintain contract for the Dulles automated people mover. The project would be essential to the future of Dulles, and the procurement had been going on for over a year.

He said that most Directors had attended a special evening meeting on November 4 for a detailed briefing on the selection process, and expressed the view that all technical, legal and practical questions had been addressed. Mr. Hazel then congratulated the staff of a difficult job well done, and for its excellent presentations.

b. Business Administration Committee

Mr. Calhoun reported that the Business Administration Committee had last met October 16. He said the Committee had first revisited the controversial rental car issue of "double branding". It had been raised nationwide by ANC, the parent company of

National Car Rental and Alamo Rent a Car, which wanted to operate both "brands" under a single contract at the airports they served.

Dual branding had been prohibited in rental car contracts at both Airports, but had become an issue as the Authority prepared to readvertise the Dulles contract. Staff had discussed the issue with the Committee some months before, and had returned with a recommendation to permit the practice. The Committee had agreed, and a new request for bids would be issued soon.

Mr. Calhoun noted that employee health and dental insurance policies were renewed annually, and the renewals required Board approval of the premiums. For 2003, the same two carriers would be used, and both had increased their rates.

CareFirst BlueCross BlueShield provided both PPO health and dental programs; its rates would be up 12.4 percent. Rates for the Kaiser Permanente HMO program would increase 24.4 percent. The overall increase in cost would be 14.4 percent, or $1,236,669 for the next calendar year. The Authority paid 80 percent of total medical plan costs and 45 percent of the dental plan costs.

During 2003, the staff would be investigating means of limiting costs, including redesign of the plans. Mr. Calhoun said he would offer a resolution to approve the 2003 rates.

He also reported that the Committee had discussed the operational insurance policy renewals. Liability insurance issues had come up before, and the staff had anticipated higher rates after the September 11 events. It had become difficult to get any insurance at all in some categories, and there had been substantially higher rates in others.

Mr. Calhoun said the staff had done an excellent job in a difficult market to obtain the coverages the Authority needed. Terrorism coverage had not been available, but that problem was a national one, and would probably be addressed by the Congress in its lame duck session. Auto liability quotations had not been cost-effective, so the Authority had to do more self-insurance on its vehicles. Public official and law enforcement liability coverage had to be shifted to the airport liability policy at a higher rate. Overall, premium increases had been up 38 percent, to a total of $3.8 million. Board approval of the renewals was not required.

c. Finance Committee

Mr. Brown reported that the Committee had last met October 16. In executive session, the Committee had discussed the Board's statutory authority to elect a Treasurer and the upcoming solicitation for an airport consultant. He said this had been one of the first cases under the most recent delegations resolution under which selected procurement actions were referred first to the appropriate Committee for guidance and direction, which the Finance Committee had provided in this case.

In the public session, the financial advisors had explained the mechanics of the Authority's single "swap" transaction, which had just gone "live", particularly how the monthly payments were handled. They had also advised that both Fitch and Moody's had downgraded JP Morgan, the bank providing the liquidity facility supporting the Series One Commercial Paper. The Committee had therefore discussed the exposure the Authority had subjected itself to by using bank credit facilities. That commercial paper series was no longer outstanding, having been refunded by the Series 2002D fixed rate bonds.

Staff and the financial advisors had previewed the work to be done in the coming year; in 2003, the Series 1993A and 1993B Bonds would become refundable. If rates remained low, there would be some savings from refunding them. Action would have to be taken with the credit facility supporting the Series B Commercial Paper, the original bond anticipation notes, which would expire on October 2003. The Authority would have to refund them or find a new liquidity facility to replace the expiring one, which could not be renewed at its current rate.

The line of credit for the Passenger Facility Charge notes would have to be replaced or the notes refunded with bond proceeds. There was also some need of additional short-term debt capacity. In addition, the financial advisors had recommended that Goldman Sachs and Morgan Stanley be selected as underwriters for any auction rate bonds the Authority might choose to issue.

Staff would be seeking bids, for the first time, on a "forward purchase agreement", this time for the investment of the 2002C and D Bonds reserve funds. The decision had been the result of staff and Committee review of alternative investment products that would improve the yield on some of the Authority's restricted funds.

The Committee had also heard a report on the yield on restricted fund investments in the past, and would be looking at an additional report at the November meeting.

Finally, the Committee had reviewed the September financial reports. Year-to-date operating income had been $92 million, almost exactly the same as for the same period in 2001, $5 million lower than it had been in 2000. Year-to-date financial reports beginning with September reflected the results of September 11, 2001, and would therefore be compared to the 2000 results as well as the 2001. Concession revenue at both Airports had been improving, so the year-end estimate of net remaining revenues had increased from $58 million to $68 million.

Mr. Thompson asked about the effect of the swap transaction, then shown as a negative $28 million on the income statement. Mr. Brown said the staff would be reporting on it at the next Finance Committee meeting. Mr. Thompson said the transaction had been of great concern to him because it required booking a loss of $28 million. He could not understand why the Authority had undertaken such a debt. Mr. Brown said the staff would look at the risks of the swap transaction, as well as the accounting treatment of it. He said it was not an actual loss, and that it appeared that there might be alternative ways of accounting for it.

d. <u>Audit Committee</u>

Mr. Thompson said that the Audit Committee had met October 2 to discuss the selection of external auditors, as the incumbent firm's term was nearly up. The staff was reviewing proposals, and would report back to the Audit Committee. Other Members of the Board would be invited to participate in discussions on the selection.

IV. NEW BUSINESS

The Chairman then said he wished to take advantage of the full attendance and turned to New Business.

a. <u>Endorsing the "Metrorail" Alternative for the Dulles Corridor Transit Project</u>

Mr. Hazel moved the adoption of the following resolution:

WHEREAS, The Authority has long supported and participated in the development of rapid transit along the Dulles Access Highway to provide service to Washington Dulles International Airport;

WHEREAS, After review of the Federal Transit Administration Dulles Corridor Rapid Transit Draft Environmental Impact Statement, the Commonwealth Transportation Board (the "CTB") and the Washington Metropolitan Area Transit Authority (the "Transit Authority") are to select a "Locally Preferred Alternative" in November, 2002;

WHEREAS, Their decision will be made from the five alternatives analyzed in the Draft Environmental Impact Statement and the recommendations of the jurisdictions and agencies with responsibilities for the project;

WHEREAS, The CTB and the Transit Authority have requested the Airports Authority's position on the Locally Preferred Alternative;

WHEREAS, The Authority is willing to make available the Dulles Access Highway median for the transit right-of-way, provided suitable arrangements are made to protect the Authority's interests;

WHEREAS, The transit line will be critical in providing access to the ever-growing demand of air passengers and employees at Washington Dulles; now, therefore, be it

RESOLVED, That the Airports Authority adopts the "Metrorail" alternative, providing heavy rail service through the entire corridor, as essential to the region's and its own interests, and urges the CTB and the Transit Authority to adopt it as the Locally Preferred Alternative.

Mr. Young asked if it was the appropriate time to add mention of a spur to the resolution. Mr. Calhoun said there was a design issue whether, at the point on Route 28 at which the proposed Metrorail line left Dulles Airport, a spur route could be built to the south, either to Interstate Route 66 or just to the Smithsonian Air and Space Museum Annex. Mr. Young asked William Lebegern, Manager of the Planning Department, whether the current plan included a southern spur. Mr. Lebegern said that the alignment had been discussed in the past, but had not been included in the project alternatives examined in the environmental impact statement ("EIS"). Mr. Calhoun observed that if such a project were to be undertaken in the future, a separate EIS could be done. He asked the President to report at a future meeting what steps would be necessary to advance the scheme. Mr. Young asked if the proposed resolution should include a reference. Mr. Wilding said it should not, noting that he shared Mr. Young's concern that the system, if built, should from the start include provision for this and any similar branches or extensions.

The resolution was then unanimously adopted.

b. Selection of a Firm to Design, Build, Operate and Maintain the Dulles Automated People Mover

Mr. Hazel then moved the adoption of the following resolution:

> WHEREAS, A competitive evaluation of firms to design, construct and install the Automated People Mover System at Dulles, as well as operate and maintain it for five years, has been conducted in a process that began with a Request for Proposals issued May 1, 2001;
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> WHEREAS, The results of that evaluation were presented in detail to Members of the Board of Directors at a Special Meeting on November 4, 2002, and to the Planning Committee for formal action at its regular meeting this morning; and
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> WHEREAS, The Planning Committee is satisfied with the results of the competitive evaluation, as presented at its November 6, 2002 meeting; now, therefore, be it
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> RESOLVED, That the President and Chief Executive Officer is authorized to negotiate and enter into (1) a $164,951,437 fixed price contract with Sumitomo Corporation of America to design, install and test the Dulles Automated People Mover System, and (2) a $34,145,364 contract, to be adjusted in accordance with the terms of the Request for Proposals, for the operation and maintenance of that System for five

years, consistent with the documentation of the proposals presented at the November 4 and November 6 meetings.

Mr. Diané said he was concerned about the local disadvantaged business enterprise ("LDBE") participation in the contract, noting that the minimum level should have been greater than 11.4 percent. Mr. Thompson said he agreed with Mr. Diané, and that he was not satisfied with the low level of participation. He said it was a matter of great concern to him, given the number of capable small firms available in the local disadvantaged community. In similar procurements in the future, he hoped that measures would be taken to increase LDBE participation, even in the people mover contract itself, to be sure that the dollar levels are achieved, and that the numbers were not just goals.

Mr. Crawford said he wished to emphasize that most of the Directors were fairly successful, and had not joined the Board just to "dress windows". The District of Columbia Members had "marching orders" from their jurisdiction, from the Mayor, and had been told to be certain to be equitable in all our actions, and to give the LDBE program great emphasis. He said that the other Members had heard the D.C. Members' concerns that morning, and he hoped the staff had heard them too. Directors could not afford simply to vote on a matter, they would have to build on what is fair and equitable.

Mr. Brown said he had noted during the Monday night presentation that the procurement was a highly complex and technical one, probably one of the most complex done at the Authority. He asked if consultants had been used to prepare the request for proposals, to evaluate the responses, or to augment the staff. The staff, he believed, although highly competent, were plowing new ground.

Mr. Wilding said outside consultants had been used, and that Mr. Brown's characterization of them as "augmenting the staff" had been a good one. He said he believed that the staff had itself already built up considerable expertise in the area. The principal consultant had been Lee+Elliot, the leading firm in the industry, which had worked on the planning for the system for several years and had helped draft the Request for Proposals. Parsons Management Consultants had also provided expertise from its constituent firms, had also helped with the RFP, and had provided a member of the evaluation team.

Mr. Hammerschmidt said it would be helpful for Mr. Wilding to reiterate the broader perspective on the LDBE issue that he had presented earlier in the Planning Committee meeting. Mr. Wilding said that the extensive people mover system was actually made up of several contracts. The contract under consideration covered the train, the control systems, the guide way over which the trains would travel, and closely related items. Separate contracts would be awarded for stations and for tunnels. A $184 million contract had just been awarded for the Main Terminal station, the largest on the system, with a 25 percent LDBE participation level. Similar levels would prevail on other station and tunnel contracts. For the train itself, the opportunity for small businesses had been limited. The RFP required 11.5 percent LDBE, and offered up to 50 "bonus" points to encourage proponents to exceed the 11.5 percent. Sumitomo had proposed almost 15 percent participation, which was quite high for such work. The participation levels for the entire system would, however, exceed 20 percent, perhaps reaching 25 percent.

Mr. Thompson asked why the level had been set so low for the train contract. Mr. Wilding said that the analysis had addressed the portion of the contract that involved work in the region, which consisted of installing the train, as opposed to manufacturing it. He reiterated that the part of contract with 15 percent participation was only for the manufacture of the train and its installation. The part of the contract for operating and maintaining the system for five years had a 25 percent LDBE level.

Mr. Thompson asked again how the level had been set at 11.5 percent. Mr. Wilding said all the engineers and consultants had analyzed the various work efforts that would go into performing the contract, and had identified the skill levels that were susceptible to LDBE participation. The 11.5 percent had been based on this analysis. The prevailing firm had responded to the point incentive, and had offered nearly 15 participation.

Mr. Thompson asked how much of the $165 million system cost was actually for installation. Staff planners and engineers discussed the matter in the background. Mr. Rosenthal observed that $45 million was the cost of the cars, made in Japan. Mr. Wilding said that, in addition to the cars, the contract included a complicated, high-priced control system.

Mr. Thompson asked again how much of the contract was for installation. Mr. Wilding said he would have to ask staff to provide precise numbers, but that he estimated it at about $20 million. Mr. Thompson said he had heard the explanation, but said he remained concerned that the level had been so low, and said that staff should make sure Sumitomo was held accountable on its proposal. As the people mover project continued, the goal should exceed 25 percent. Mr. Wilding said he had received the message.

Mr. Latham said that members of his law firm, Holland & Knight LLP, could not vote on the matter because of a conflict. He wished to state, however, particularly for Mr. Crawford's benefit, that he did not think the LDBE matter was a jurisdictional one. The entire Board had shown great strength in supporting the concept of minority business and LDBE. As a policy matter, he supported the conceptual position of Mr. Thompson and others. He then announced that he recused himself from the vote, and was leaving to catch an airplane.

The Chairman then called for the vote. After a voice vote, he reminded the Board that he too was a partner at Holland & Knight, and that he had therefore abstained. Mr. Thompson asked for a show of hands. Messrs. Diané and Brown said that they were abstaining. The Chairman asked if anyone had voted against the Resolution. Mr. Thompson said that he was still not satisfied with the LDBE participation, and voted against the award. The Chairman then called for a show of hands. He counted seven affirmative votes, one negative, and three abstentions (Mr. Brown, Mr. Diané and himself).

c. Proposed 2003 Medical and Dental Insurance Rates

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

> RESOLVED, That the President and Chief Executive Officer is authorized to renew contracts for calendar year 2003 with CareFirst Blue Cross/Blue Shield for its Preferred Provider Organization and Dental Programs, and Kaiser Permanente for its Health Maintenance Organization Program, consistent with the premium rates and documentation of the proposal recommended by the Business Administration Committee for action at this meeting.

d. Proposed Selection of Broker-Dealers for Auction Rate Securities

Mr. Brown moved the following resolution, noting that auction rate bonds might be used on the next financing in the spring. A decision on the type and size of issue would be made on the basis of a market and needs assessment, closer to the time for issuance. Mr. Thompson read from the briefing paper, noting that auction rate bonds would be priced through a "Dutch auction" process. He asked for an explanation, given that rates were so low. Mr. Brown reiterated that the decision would be made at the time of issuance, and explained that the method could diversify the Authority's investor base. A completely different type of investor would be interested in auction rate securities. As the program grew from the approximately $2 billion in bonds currently outstanding to as much as $3 billion over the next three or four years, it was important to make sure the investor base was diversified to avoid paying a rate penalty. Variable rate debt in the total capital structure was recommended by the credit rating agencies as a prudent way of managing exposure to the market. The resolution was then unanimously adopted.

> RESOLVED, That Morgan Stanley and Goldman Sachs are selected to serve as broker-dealers for any issuances of auction rate bonds.

V. INFORMATION ITEMS

a. President's Report

Mr. Wilding noted that flight activity at Reagan National had continued to improve, the latest spurt of growth occasioned by the reimposition of the "use-or-lose" provision of the High Density Rule. In particular, Delta had added 20 departures per day on November 1, using slots that had previously been idle. The Airport was then at 758 flights per day, compared to 796 just before September 11, 2001. General aviation had still not been restored.

With respect to security, he said the Transportation Security Administration ("TSA") was working to meet the two statutory deadlines at both Airports. As to passenger screening, the deadline was November 19 to convert passenger screening from a contract operation to one conducted entirely by federal employees. At Reagan National, the transition was complete. At Dulles, TSA employees were operating all the primary screening checkpoints, but the agency was still using contract employees at the secondary points. Conversion would be complete on November 12. In short, the TSA would meet its passenger screening deadline at both Airports.

As to baggage screening, which would involve installation of massive machines, TSA plans had just been approved. At Reagan National, they would be deployed in the lobby. There would be about 12 machines installed, in time for the December 31 deadline. At Dulles, some machines would be in the lobby, but most would be below in the bag rooms. While they would not be in a good position, their location would be better than in the lobby. Prospects of meeting the December 31 deadline were not as good at Dulles.

By the end of the year, TSA would be employing between 1500 and 2000 people at the two Airports, well over the number of people employed by the Authority. Mr. Ralston asked how the number compared to the former private contractor operation. Mr. Wilding said three to four times, but observed that the entire bag screening process was new. Mr. Hammerschmidt asked if all the costs were included in TSA's own budget. Mr. Wilding said that they were.

Mr. Ralston asked if the machines would remain in the Reagan National lobby for a long while. Mr. Wilding said he believed so. Ultimately there would be a different long-term solution at both Airports known as the "in-line" approach, which would require substantial construction in the Reagan National bag rooms. Bags would go down the same belt they did currently and would pass through the screening machine along the way. At Dulles, though the machines were already in the bag room, substantial construction would be required to connect them with the baggage system. Mr. Rosenthal asked about the bag screening machines. Mr. Wilding said the technology was in its infancy; the machines were as large as the Board table and weighed over 10,000 pounds. At both Airports, the total requirement was about 50 machines.

Mr. Wilding then said that the annual Business Opportunity Seminar would be held that afternoon. It was an effort to bring together local minority and women-owned businesses and the local contracting community. The session would be held at the Wardman Marriott, and over 1000 had registered. Many of the firms doing business with the Authority had been introduced through such seminars in the past.

He mentioned two major construction issues at Dulles. About half of the old part of the Main Terminal interior, which had been under construction for several years, had been completely rebuilt and had opened the week before. The rest of the old section would now be reconstructed. A $184 million contract for the Main Terminal people mover station had just been awarded to Turner Construction. Work on the five-year project would begin in a few weeks.

Finally, Mr. Wilding mentioned that the Committee for Dulles would be holding a black-tie gala on November 8 to celebrate the Airport's 40th anniversary. Keith Meurlin, Vice President and Dulles Airport Manager, would receive the Committee's Tower of Dulles award.

Mr. Calhoun said that traffic exiting from the main parking lot at Dulles had to merge with high-speed traffic coming from the Main Terminal, and that he had seen several near-accidents. He urged that some action be taken to improve the situation.

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

Mr. Bennett reported that the "Pay and Go" revenue control system at Dulles had become operational a few weeks before. Passengers could now pay for their parking in the Terminal, and thereby pass through the exits more rapidly. Over 30 percent of the customers were using the system already, and numbers were climbing. Construction was still underway on the exit plazas at the hourly and economy lots.

Parking demand was returning to pre-September 11 levels at Reagan National. The economy lot was often full on the weekends, and the daily garages were often full mid-week. He also reported that the Washington Metropolitan Area Transit Authority was building a canopy over the north half of the platform on the Reagan National Metrorail station and improving its signage on the platform. Mr. Calhoun asked if the Airports Authority was paying for the project; Mr. Bennett confirmed that it was. Mr. Calhoun suggested that project signs should indicate that the Authority was paying.

Mr. Bennett observed that September traffic figures would be skewed because of the traffic anomaly of September 2001. At Reagan National, the increase was 147.3 percent over September 2001, chiefly because the Airport had closed September 11 and not reopened that month. At Dulles, traffic had increased about 24.6 percent. On a year-to-date basis, traffic was down about 19 percent at Reagan National and down about 7 percent at Dulles. Compared to 2000, September traffic at Reagan National was down 21.2 percent. Dulles was off 12.3 percent from September 2000. Mr. Bennett reminded the Board that some of the Reagan National traffic had shifted to Dulles in September 2001; that traffic had returned to Reagan National later on. On a year-to-date basis, Dulles traffic continued to outpace both domestic and international traffic elsewhere. Mr. Rosenthal asked about BWI. Mr. Bennett said that BWI had seen a greater drop than Dulles, but it had started at a higher base. BWI traffic exceeded Dulles by about 50,000 passengers in September 2002; the two Airports figures were getting closer.

VI. UNFINISHED BUSINESS

There was not any unfinished business.

VII. OTHER BUSINESS AND ADJOURNMENT

The meeting was thereupon adjourned at 10:30 a.m.

Respectfully submitted:

Gregory Wolfe
Vice President and Secretary

approved December 4, 2002