BOARD OF DIRECTORS MEETING

Minutes of December 7, 2005

The regular monthly meeting was held in the Board Conference Room at 1 Aviation Circle and was called to order by the Vice Chairman at 9:10 a.m. Eight Directors were present during the meeting:

Mame Reiley, Chairman
H.R. Crawford, Vice Chairman
Robert Clarke Brown
Anne Crossman
William W. Cobey Jr.
Leonard Manning
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. INFORMATION ITEMS

In the absence of a quorum, the Vice Chairman first called for the executive reports.

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

Mr. Bennett began with the status of the cell-phone lot at Dulles. He noted the Board was aware that staff had been developing an area where drivers could await a cell-phone call from the friend or family member they had come to pick up, and could then proceed to the curbside. Because there had been so much roadway work under way at Dulles, it had been difficult to designate a location that drivers could easily get in and out of. Major roadway work had been completed, and a lot had been identified about a mile from the Main Terminal, reachable in three or four minutes. The lot would be commissioned December 21.

Mr. Bennett then turned to the Transportation Security Administration ("TSA"), which had recently issued new security protocols for the screening checkpoints. The agency was using a more risk-based approach, which Mr. Bennett said was an improvement. The standards for prohibited items would be changed; screeners would no longer have to search for small metal items. Instead, they would focus attention on explosives, which appeared to constitute a higher threat than scissors or small penknives. In addition, the TSA would be raising the profile of other security procedures, including introducing a degree of randomness to the process. A certain number of people might be selected for secondary screening, regardless whether they had set off alarms or had been carrying something suspicious in their bags. Such measures were used in other countries. The changes would take effect December 22, just before the holiday travel period.

Later that morning, Mr. Bennett reported, the House Committee on Homeland Security would be holding a press conference to announce legislation to reform the Aviation and Transportation Security Act of 2001. In addition, some of the Democratic leadership, particularly on the Senate Committee on Commerce, Science and Transportation, would be holding hearings on prohibited items on aircraft, questioning the risk-based approach. These might result in legislation specifically prohibiting certain items, as the Congress had previously done in prohibiting cigarette lighters.

With respect to the Independence Air bankruptcy, Mr. Bennett reported that statements of interest on purchasing all or part of the carrier had been due in bankruptcy court on December 1. There had been reports that several proposals had been received, but the process for considering them was confidential. Mr. Bennett said that final proposals were due December 16, and asked the General Counsel to explain further. Mr. Faggen said between December 1 and 16 the court would be qualifying bidders. An auction process would proceed between the 16^{th} and the 29^{th}. The approval process would then continue in the court.

In the meantime, Mr. Bennett said, the market reaction at Dulles to the Independence Air situation was encouraging. AirTran had announced new services, including Boston and Orlando with several flights a day; JetBlue would start six flights a day from Dulles to Boston; and United had announced a number of new flights, most new frequencies on existing routes.

The pedestrian tunnel to the B Concourse, which had recently been closed for water damage, was still the subject of a study to determine the cause. Temporary repairs had been made, and the tunnel was open to passengers again.

At Reagan National the day before, a water main break in Arlington County had shut off water for several hours at midday. Mr. Snelling asked if there was a reserve supply for fire protection; Harlan Byers, Acting Airport Manager, said that there were two storage tanks for fire protection. He added that design was nearly complete for a second water main from Crystal City.

Mr. Bennett concluded with a report that Police Chief Leo Rossiter would be retiring at the end of the year, after nine years with the Authority.

Mr. Speck said he had noticed when he had come to the Authority offices the day before that the parking garages had been full. Mr. Bennett said that the situation was common; during regular business weeks, the garages filled up on Tuesday and stayed full through Thursday. On the weekends, it was not unusual to run out of economy parking.

Mr. Brown said an article in USA TODAY the day before had reported that airlines were discontinuing services with smaller gauge aircraft, particularly regional jets, and had used Dulles as an example, where the number of available seats had decreased by about 20 percent. Mr. Bennett said the main impact had come from Independence Air reductions from 300 to 104 departures a day. He noted, however, that the load factors of the other carriers had been climbing, so the reduction in passengers had not been as great as one might expect.

Mr. Snelling observed the November financials were still strong, and the reductions were not translating to adverse financial results. Mr. Brown said his point was that flights leaving Dulles were increasingly crowded and uncomfortable for the passengers. Mr. Bennett said that the announced new services would add between 3 and 4 thousand seats per year.

Mr. Brown said he had been asked about access for the disabled, and inquired what facilities the Authority offered. Mr. Bennett said each parking facility had designated facilities for the disabled; in the garages, they were at the exit points or adjacent to the elevators.

b. Executive Vice President's Report

Ms. McKeough first reported on the Thanksgiving holiday traffic. Parking garages had not run out of empty spaces at Reagan National, though the economy lots had been full. The TSA had been fully staffed during the period, and had kept all screening lanes open. Waits at both Airports had been minimal. Parking use at Dulles had been 14 percent below the same period in 2004. Operations overall had been successful for the holiday period.

Ms. McKeough then addressed the October traffic statistics. At Reagan National, the passenger count had been over 1.5 million passengers, an increase of 4 percent over October 2004; the industry average for the same period had been a decline of 2.5 percent. Year-to-date, the increase at Reagan National had been 12.2 percent.

At Dulles, the October total had been 2.2 million passengers, a 9 percent decline, but growth stood at 25 percent year-to-date. International traffic had declined slightly for the month, with 6.6 percent growth year-to-date. Cargo had been down 4 percent.

II. MINUTES OF THE NOVEMBER 2, 2005 ANNUAL MEETING

The Vice Chairman then called for action on the Minutes of the Annual Meeting, held November 2, 2005, which were unanimously approved.

III. COMMITTEE REPORTS

a. Planning Committee

In the absence of Mr. Hazel, Mr. Cobey reported that the Planning Committee had met that morning. The Committee had heard the Capital Cost Report on construction costs, which remained within budget, and had briefly reviewed the list of 2006 Contracting Actions Affecting the Traveling Public, which had been presented to all Committees. None of the contracts listed had been for the Planning Committee.

The Committee had then gone into executive session to consider a draft memorandum of understanding on the Dulles Corridor Metrorail Project and to discuss further the private sector proposals to take over operation of the Dulles Toll Road.

b. Business Administration Committee

Mr. Crawford reported that the Business Administration Committee had last met on November 16. It had considered two pre-solicitation reports on upcoming contracts, one on the maintenance of elevators, escalators and moving walkways, the other on the maintenance of electronic security systems. The Committee had concurred in both solicitations, and they were expected to be advertised soon.

The Committee had also considered Disadvantaged Business Enterprise goals for federally-assisted contracts. These applied principally to construction contracts financed with Federal Aviation Administration grants. The staff had once again proposed a goal of not less than 25 percent participation, and had presented it at public meetings in September and October, where it had found general support. The Committee had agreed, and recommended that the Board adopt the goal later in the meeting.

The annual medical and dental insurance programs were up for annual renewal, and the Committee was satisfied with the results. Cost increases had been held to 5.3 percent, for a total of $14 million. Of the total, the Authority would pay 80 percent of medical and 45 percent of dental charges, so the increase for employees would be 4.7 percent. The program also included efforts to encourage healthier behavior and better directed claims, rather than reducing overall benefits. Mr. Crawford said he would offer a resolution later in the meeting.

c. Finance Committee

Mr. Snelling said the Finance Committee had last met November 16. The Financial Advisors' Report had focused on the proposed Series 2006A Bonds and two special reports requested by the Committee. On the proposed winter financing, he recalled that the Board had in November approved the issuance of up to $300 million in Series 2006A Bonds. These Bonds would refund outstanding commercial paper and provide some money for new construction. The sale had been rescheduled to January 12 to assure that the feasibility report will contain the latest information on anticipated significant changes for airlines and passenger traffic.

At the Committee's request a report containing an evaluation of current investment policies and procedures had been presented. The Financial Advisors had concluded that Authority practices were consistent with more sophisticated practices of municipal issuers. They had, however, recommended improvements to investment bench marking practices and codification of current practices. The staff had agreed to all recommendations, and had already updated the procedures to reflect them.

A second report addressed non-callable bonds, an instrument investment bankers had often proposed to lower the cost of capital. Staff and the Financial Advisors had developed an analysis of the pros and cons, and the Finance Committee had concurred that the non-callable bonds should not currently be under regular consideration.

The flexible-term Passenger Facility Charge ("PFC") notes had closed November 16. The staff had immediately drawn $250 million, which had then been available for construction. Staff and the Financial Advisors had considered an alternative strategy of using commercial paper and the PFC notes interchangeably, but had rejected the alternative because of numerous legal and regulatory requirements.

Mr. Snelling reported the Committee had also reviewed the proposed 2006 Budget. It had been the third opportunity to comment; the proposed budget had been discussed at a September workshop, and in greater detail at the October Finance Committee meeting. It was now ready for Board approval.

The Budget proposed an Operations and Maintenance Program of $440.9 million, a Capital, Operating and Maintenance Investment Program ("COMIP") at $34.9 million and Capital Construction Program consisting of expenditures of $713.2 million and new authorizations of $1.1 billion. The Operations and Maintenance Program level reflected tremendous growth in activity at both Airports. Excluding debt service, there was a 6.1 percent increase in operations and maintenance, reflecting the impact of significantly higher fuel costs, 17 new positions, and maintenance costs for

Concourse G at Dulles. Debt service would increase 10.9 percent to $196.5 million in 2006.

The COMIP funded equipment replacement, extraordinary snow removal costs, and major maintenance projects. New projects in the Capital Construction Budget included at Reagan National an additional parking deck and at Dulles expansion of the international arrivals building, a fuel settling tank and the design of Tier 3. Mr. Snelling said he would offer a resolution to adopt the 2006 Budget later in the meeting.

The Committee had also reviewed the report on contract solicitations affecting the traveling public, and had asked that a report be prepared for the December Committee meeting on the airport consultant contract, which had two remaining option years.

The third quarter report on investment activity had indicated that the recent increases in interest rates had brought the operating portfolio weighted average yield from 3.17 percent to 3.51 percent. Most of the investment portfolio consisted of operating and debt service funds. Investment performance had been reported by benchmarks for all funds and target arbitrage yields for bond funds.

The staff had also presented the semi-annual report on banking relations. There had not been any changes in the ratings of the banks the Authority did business with.

The October financial results showed revenues for the month had exceeded $40 million for the third time in 2005. At ten months through the year, year-to-date revenues of $397.8 million had reached 86 percent of budget. Monthly operating expenses had declined in October, while year-to-date operating expenses at $334.5 million nevertheless had exceeded prior years. They had reached 77.6 percent of budget. Net remaining revenues had been estimated at 134 percent of budget.

Year-to-date net income had been $88.6 million, exceeding the same period last year by $6.7 million. Construction activity year-to-date, including the land acquisition at Dulles, had been $401.2 million.

d. Strategic Development Committee

Mr. Brown reported the Strategic Development Committee had last met November 16, as usual in executive session. The Committee had received the final version of the 2006 Comprehensive and Annual Air Service Plan, which had included the Committee's recommended changes. He said the document was very informative, now included an executive summary, and should be of interest to all Directors.

The Committee had spent the rest of the session discussing the various toll road privatization proposals.

IV. NEW BUSINESS

a. Selection of a Firm to Provide Unarmed Guard Services at Dulles

The Vice Chairman moved the adoption of the following resolution, which was unanimously adopted:

> WHEREAS, The Board on November 2, 2005 adopted Resolution No. 05-26 selecting OMNISEC Security Solutions, Inc., to provide unarmed guard services at Dulles;
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> WHEREAS, OMNISEC has since withdrawn its proposal;
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> WHEREAS, the Business Administration Committee remains satisfied with the results of the competitive evaluation of firms to provide unarmed guard services at Dulles presented to it at its October 12, 2005 meeting and recommends that the award be made to the second-ranked firm; now, therefore, be it
>
> RESOLVED, That Securigard, Inc. is selected to provide unarmed guard services at Washington Dulles International Airport; and
>
> RESOLVED, That the President and Chief Executive Officer is authorized to negotiate and enter into a contract with Securigard, consistent with the terms presented to the Business Administration Committee October 12, 2005.

b. <u>2006 Disadvantaged Business Enterprise Goal for Federally-Assisted Construction Contracts</u>

The Vice Chairman moved the following resolution, which was unanimously adopted:

> 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;
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> WHEREAS, The Business Administration staff in August and September sought public comment on a proposed goal of at least 25 percent participation; and
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> WHEREAS, Public comment was supportive of the 25 percent goal; now, therefore, be it
>
> RESOLVED, That the 2006 goal for DBE participation in federally-assisted contracts shall be at least 25 percent of the total contracting dollars for such contracts.

c. <u>2006 Medical and Dental Insurance Program</u>

The Vice Chairman moved the following resolution, which was unanimously adopted:

> RESOLVED, That the President and Chief Executive Officer is authorized to renew contracts for calendar year 2006 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. 2006 Budget

Mr. Snelling moved the following resolution:

RESOLVED, That the 2006 Budget as presented to the Finance Committee on November 16, 2005 is hereby adopted effective January 1, 2006;

2. That there is hereby made available for expenditure in 2006 for the care, operation, maintenance, construction, improvement, and protection of Ronald Reagan Washington National and Washington Dulles International Airports a total of $1,195,216,500, consisting of:

(i) $440,892,000 for the Operation and Maintenance Program, including $189,351,000 for debt service;

(ii) $41,097,500 for the Capital, Operating and Maintenance Investment Program;

(iii) $713,227,000 for the Capital Construction Program;

3. That projects identified in the Budget in the amount of $34,876,400 for the Capital, Operating and Maintenance Investment Program and $1,069,475,000 for the Capital Construction Program are hereby authorized;

4. That the President and Chief Executive Officer is authorized to modify or adjust expenditures under the Budget in a manner consistent with the 2006 Budget within the levels approved for each of the above three programs; and

5. That this Resolution provides funding for expenditures for (a.) capital projects authorized in this Budget, (b.) other programs or projects authorized by Resolution, or (c.) otherwise approved in accordance with delegations to the executive staff.

The Chairman said she hoped that the Budget would take care of the firefighters and police, to the extent their salaries did not match those of surrounding jurisdictions.

The resolution was then adopted by the unanimous vote of all 8 Directors present.

V. UNFINISHED BUSINESS

There was not any unfinished business.

VI. OTHER BUSINESS AND ADJOURNMENT

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

Respectfully submitted:

Gregory Wolfe

Gregory Wolfe
Vice President and Secretary

approved January 4, 2006
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