BOARD OF DIRECTORS MEETING

Minutes of July 6, 2011

The regular meeting of the Board of Directors was held in the Board Conference Room at 1 Aviation Circle and was called to order by the Chairman at 9 a.m. Twelve Directors were present during the meeting; H.R. Crawford participated by telephone for part of the meeting.

Charles D. Snelling, Chairman
Thomas M. Davis III, Vice-Chairman
Robert Clarke Brown
Richard S. Carter
William W. Cobey Jr.
Frank M. Conner III
Michael A. Curto
Shirley Robinson Hall
Dennis L. Martire
Michael L. O'Reilly
Mame Reiley
Warner H. Session

The Secretary and Executive Management were present:

E. Lynn Hampton, President and Chief Executive Officer
Margaret E. McKeough, Executive Vice President and Chief Operating Officer

I. MINUTES OF THE JUNE 8 AND JUNE 22, 2011 BOARD OF DIRECTORS MEETINGS

The Chairman called for approval of the Minutes of the June 8 and June 22 Meetings, which were unanimously adopted. He then advised the Board that Mr. Crawford was connected to the meeting through the telephone system in the Board Room.

II. COMMITTEE REPORTS

a. Audit Committee

Mr. Cobey reported that the Committee had met June 22, entirely in executive session. The Committee had received the 2010 Management Letter from PricewaterhouseCoopers, the results of the A-133 audit from Bert Smith & Co., and audit results on both the employee and the police and fire pension funds from

Clifton Gunderson. Valerie Holt, Vice President for Audit, had presented reports on recent internal audit activities, including audits of four concession contracts and several indirect cost reviews.

b. Business Administration Committee

In the absence of Mr. Crawford, Mr. Carter reported that the Business Administration Committee had last met June 22. Steve Baker, Vice President for Business Administration, had presented a report of Disadvantaged Business Enterprise (DBE) and LDBE contract awards. Mr. Carter said he had some questions about the numbers and had asked the staff to explain them before he reported them to the Board.

Mike Natale, Manager, Risk Management Department, had provided a full report on the recent selection process for insurance services. Staff had selected Wells Fargo Insurance Services USA, Inc. to provide broker services for the operational casualty and owner-controlled wrap-up insurance programs for a four-year base period with two one-year extension options at a cost not to exceed $2,534,000.

The staff had also selected AON Risk Services of Washington, D.C., the incumbent, to provide broker services for the property insurance program, also for a four-year base and two one-year extension options. The cost was not to exceed $654,000. The Committee had reviewed the process in some detail, and had agreed to support both awards. Mr. Carter reported that resolutions would be offered later in the day's meeting.

Staff had also provided the Committee with the results of a selection process of a Risk Management Information System to support the risk management process. Origami Risk had been selected for a four-year base period, effective August 1.

George Ellis, Vice President for Information Systems and Telecommunications, had given a brief report on the current status of the Enterprise Resource Planning (ERP) program. The go-live date had been changed one last time to June. Funds had been set aside to cover unseen circumstances, and the cutover was well under way. The new system had actually gone live June 27. Mr. Carter then asked management for the latest information.

Ms. McKeough said the staff had completed one full week using the new Oracle software and ERP system after over a decade of work. Checks were being cut and procurement documents were being assembled using the system, which was functioning well. There was still a learning curve; for the next two months, the contractors would be on-site to assist the staff's adjustment to the new system.

Mr. Carter then reported on plans to deal with the fixed base operation at Dulles International. The fixed base operators would ultimately be moved to the area west of the new runway. In the meantime, extensions would be made to their contracts so they would align with the Airports Authority's efforts to proceed with the development. In addition, the Dulles Jet Center contract was being considered for direct leasing with the Airports Authority instead of with Signature Flight Support. This would facilitate permanent financing of the snow-damaged structure.

Changes to the Airport Layout Plan would be proposed, and would require approvals from the Planning and Construction Committee and the Board.

c. Executive and Governance Committee

The Chairman reported that the Executive and Governance Committee had last met June 22, solely to consider the proposal to establish a Nominations Committee. The proposal had been changed, and discussion had focused on the changes, which provided a different method of selecting members of such a committee. The Committee had agreed to defer further discussion of the proposal to the next Board retreat, but also agreed to make sure the matter would be dealt with before the Annual Meeting in November.

d. Finance Committee

Mr. Brown reported that the Finance Committee had met on June 22. It had received a report on the 2011 Aviation Plan of Finance, which was still a work in progress. There were four essential elements. First was the need for new money. Despite the focus on the rail project, aviation-related construction was continuing. About $215 million in new money would be required. A forward interest-rate swap would go live in November, and variable rate bonds in the amount of $125 million would probably be issued against the swap, as it made the most economic sense. The additional $90 million of new money would fund construction.

The Committee had also considered outstanding variable rate debt supported by bank liquidity facilities that would expire in the next year or so. The finance team was recommending that they be refinanced, $58 million in Series 2009A supported by a Landesbank Baden-Württemberg ("LBBW") liquidity facility expiring in March 2012 and $182 million of the Series 2002C supported by a Dexia facility expiring in August 2012.

Finally, in the continuing low interest rate environment, there were several fixed-rate bonds past their call date that could and probably should be refunded for savings.

To move towards the sale of the new money and refunding bonds, the finance team had asked the Committee to select a product and provider for issuance of the hedged and unhedged variable rate new money bonds and a plan to replace the outstand bank facilities expiring in 2012. After considering seven proposals, the staff recommended:

(1) that the Airports Authority issue up to $239 million of Index Floaters, at 72 percent LIBOR plus a spread, to Wells Fargo as a direct purchase of $125 million hedged new money Series 2011 Bonds against the forward-starting swap; $56 million to refund a portion of the Dexia-supported Series 2002C Bonds; and $58 million to refund the LBBW-supported Series 2009A Bonds.

(2) that the Airports Authority also issue up to $217 million of Index Floaters, at SIFMA plus a spread, to Citi as a direct purchase. $127 million would be unhedged bonds to refund the remaining portion of the Dexia-supported Series 2002C Bonds and $90 million unhedged new-money Series 2011 Bonds, if a decision is reached to do so.

The financial advisors for the Dulles Corridor Enterprise had also reported at the meeting. The 2011 Plan of Finance would be presented at the July meeting, including a request for the authorization of the issuance of up to $300 million of Dulles Toll Road Second Senior Lien Commercial Paper Notes, Series One. This would be the beginning of a commercial paper program for the Metrorail project. There had long been such a program on the aviation side; it was very important to ensure that large construction programs could be continued through difficult market situations. The construction program would be driven by many things, such as weather and other complications, but it should not be driven by financing difficulties. Adding commercial paper for the Metrorail program would therefore be advantageous.

Mr. Brown reported that staff and financial advisors had worked “incredibly” hard at providing numbers and analysis for the discussion between Secretary of Transportation Ray LaHood and the local funding partners.

Andy Rountree, Vice President and Chief Financial Officer, had presented the May Financial Report for the Aviation Enterprise Fund. Year-to-date through May, 42 percent through the year, revenues had reached 39 percent of budget and expenses 38 percent. Revenues based on airline rates and charges were higher than 2010, as expected, but slightly lower than budgeted. With respect to key revenue sources, airline rents were 3.5 percent under budget; landing fees were about 13 percent under budget; parking revenue was 4 percent under budget; terminal concessions were 21 percent under budget; and rental car revenue was 3 percent over budget.

The debt service coverage level for May had been 1.36. The Committee watched this figure closely; while running below the desirable level, it had been comfortably above the requirement in bond documents. The May figure was up from April's 1.35 and the May 2010 level of 1.33. Days of unrestricted cash on hand had declined slightly to 447 from the April level of 463, still a comfortable level. Finally, Mr. Brown noted that there would not be any financial reports available for the July Committee meeting because of the ERP implementation.

e. Planning and Construction Committee

Mr. Martire reported that the Planning and Construction Committee had last met June 22. Frank Holly, Vice President for Engineering, had advised the Committee that it would be receiving a plan for land use in the area west of the new runway at Dulles International at its August meeting. He had then presented the monthly Capital Construction Cost Report, which had shown that the forecasts of project costs at both Airports remained below authorized levels. Reagan National projects were $9 million under budget; Dulles International projects were $3 million under.

The safety record had remained outstanding. In over 250,000 labor hours, there had not been any lost time accidents or recordable incidents. The excellent 2010 record was continuing.

The Committee had been urging the staff to report on contractor performance, and Mr. Holly had given some examples. Cooperation had been quite good; Archer Western, the contractor responsible for paving the runway safety areas at Reagan National, had come up with a different approach to the project that would save several months, completing it before the complications of winter weather. At Dulles International, Clark Construction had finished the International Arrivals Building expansion two months early, and so had been able to remove and replace skylights over the operating section of the building.

At that meeting, Ms. Hampton had reported that she had gone over all cost changes on Phase 1 with Mr. Holly and the rail project staff, confirming that all change orders had been identified and built into the forecasts. Mr. Martire noted that the Committee had asked for a breakdown of change orders between contractor requests and Airports Authority requests, but that it had not yet been received.

The Committee had then considered the proposed award of a contract for Architectural/Engineering services for Reagan National Runways 4/22 and 15/33 runway safety enhancements. As required on federal-aid projects by the Brooks Act, the selection had been made through a Request for Qualifications process, without considering price. The prevailing firm, after a thorough evaluation, had been Jacobs Inc. The Committee had ultimately accepted the recommendation. Mr. Martire reported that he would offer a resolution later in the day's meeting.

The Committee did have a philosophical discussion on whether the Airports Authority should take bids on architectural and engineering contracts, but the process used had been required by federal law. Moreover, the Committee had been reminded that the staff would be presenting a full discussion of the Airports Authority's contracting practices at the July Business Administration Committee meeting. Mr. Martire added that he had suggested a full briefing on the Master Plan and planning process be offered as soon as it could be arranged.

The Chairman then said that it was with pride, joy and sadness that he celebrated the fact that, after a long and distinguished career of service to the Airports Authority, extraordinary service that the Directors had benefited from enormously, he acknowledged that this would be the last meeting at which Lynn Hampton was the President and Chief Executive Officer of the Metropolitan Washington Airports Authority. Jack Potter would be taking over on July 11. He would be working with Lynn for a bit, but he would then be President. He thanked Ms. Hampton personally for a long association with the Board and with him. Ms. Hampton thanked the Chairman. After extended applause, she thanked the Board for the privilege of leading the Airports Authority, and thanked her colleagues who made things happen. She recalled a major crisis a year ago when the electricity had gone out. She had seen Ms. McKeough, Paul Malandrino, Vice President and Reagan National Airport Manger, and his staff at work. Ms. Hampton said that it had been an amazing fourteen months.

III. INFORMATION ITEMS

a. President's Report

Ms. Hampton then reported that Reagan National had celebrated its 70^{th} birthday in June. Next year would be the 50^{th} anniversary of Dulles International and the 25^{th} of the Airports Authority.

The Federal Aviation Administration (FAA) reorganization bill had been extended again, through July 22, and there were no prospects for resolving the issues that were holding it up. It was particularly difficult for the employees of the FAA, who had to work month-to-month.

In June, the Airports Authority had been the site of the regional meeting of the National Organization of Black Law Enforcement Executives. Major Gary Hart, who headed the force at Reagan National, had been the host.

Tara Hamilton, Public Affairs Manager, on June 22 had received the 2011 Ted Bushelman Award for Creativity and Excellence from her peers on the Airports Council International – North America Marketing and Communications Committee.

Finally, the Airports Authority was making progress with the Fischer Avenue neighborhood near I-66, where a train control box would be located for the Metrorail project, over the objections of the neighborhood. The design had been improved, and Pat Nowakowski, Executive Director of the Metrorail Project, was still working with the neighbors.

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

Margaret McKeough reported that the semi-annual June 23 meeting with the airline corporate representatives had been well attended. They had been briefed on the Airports Authority's financial situation and on the capital construction project, both on airport and on the Metrorail project. There had not been any significant issues raised by the airlines.

The second in-line baggage system at Dulles International was progressing, with the benefit of Transportation Security Administration funding. The second project, the East Baggage Basement, would begin soon, eliminating the parking area at that end of the Main Terminal.

The industry in May had experienced nearly 4 percent growth in passenger levels. The growth at Reagan National had continued at 8 percent, to produce a May record for the Airport with 1.7 million passengers. At Dulles International, activity levels were consistent with May 2010. There had been a slight decline in domestic passengers of about 2 percent; international passenger levels had continued to climb, at a 3 percent rate for May. Year-to-date traffic at Reagan National had grown 7 percent; at Dulles International, the growth had been about 1 percent over 2010. Air freight was down about 14 percent, both domestic and international. It appeared from review of the data that the freight business peaked in 2010 as companies restocked in anticipation of the end of the recession.

The Chairman then noted that the Annual Report was being distributed throughout the Metropolitan area. He urged members to look at the report; he said it carried a message. He also thanked Margaret Bishop, Community Relations Program Manager, for her work on it.

Mr. Crawford then acknowledged Mr. Ellis for his work with the implementation of the ERP. He said that it would save the Airports Authority millions of dollars over future years. At that time, there followed a spontaneous applause for Mr. Ellis.

The Chairman then turned to New Business.

IV. NEW BUSINESS

a. <u>Recommendation on the Award for Broker Services for the Casualty Insurance Program</u>

After the Chairman had called for a vote on the broker services contract, Mr. Carter asked permission to deliver the corrected portion of his report for the Business Administration Committee. The Chairman consented.

Mr. Carter reported that Mr. Baker had reported that there had been $17.5 million in new contracts awarded in April and May. The total amount of awards to LDBE firms year-to-date had been $26.3 million, or 28 percent of the non-federal contracts. DBE firms had won $5.5 million, or 17 percent of the federally funded contracts for the same period. Because of the ERP implementation, the next contracting report would be presented at the September Committee meeting.

Mr. Carter then moved the adoption of the following resolution, which was adopted unanimously:

> WHEREAS, The broker services contract for the casualty program will expire July 31, 2011;
>
> WHEREAS, The Business Administration Committee in December 2010 concurred in the issuance of a Request for Proposals to provide these services for both the Aviation and the Dulles Corridor Enterprises;
>
> WHEREAS, An Evaluation Committee has reviewed the competing proposals and has recommended the selection of Wells Fargo Insurance Services USA, Inc.; and
>
> WHEREAS, The Business Administration Committee is satisfied with the results of the competitive procurement process, as presented at its June 22, 2011 meeting; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized and directed to enter into a four-year contract, with two one-year extension options, with Wells Fargo Insurance Services USA, Inc. for broker services for the casualty program for both enterprises, at a cost not to exceed $2,534,000 over six years, consistent with the proposal to the Business Administration Committee.

The final resolution filed in the Board of Directors Office includes a copy of the staff recommendation paper.

b. Recommendation on the Award for Broker Services for the Property Insurance Program

Mr. Carter moved the adoption of the following resolution, which was adopted unanimously:

WHEREAS, The broker services contract for the property program will expire July 31, 2011;

WHEREAS, The Business Administration Committee in December 2010 concurred in the issuance of a Request for Proposals to provide these services for both the Aviation and the Dulles Corridor Enterprises;

WHEREAS, An Evaluation Committee has reviewed the competing proposals and has recommended the selection of Aon Risk Services, Inc.; and

WHEREAS, The Business Administration Committee is satisfied with the results of the competitive procurement process, as presented at its June 22, 2011 meeting; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized and directed to enter into a four-year contract, with two one-year extension options, with Aon Risk Services, Inc. for broker services for the property program for both enterprises, at a cost not to exceed $654,000 over six years, consistent with the proposal to the Business Administration Committee.

The final resolution filed in the Board of Directors Office includes a copy of the staff recommendation paper.

c. <u>Providing for Direct Loan and/or Letter of Credit for Variable Rate Airport System Revenue Bonds, Series 2011</u>

The Finance Committee Chairman, Mr. Brown, moved the following resolution, which was unanimously adopted by all 12 Directors present:

WHEREAS, The Metropolitan Washington Airports Authority (the "Airports Authority") is preparing to issue its Variable Rate Airport System Revenue Bonds, Series 2011 (the "Series 2011 Bonds"), which may be issued in one or more series or subseries in an aggregate principal amount not to exceed $456,000,000 to finance and refinance the costs of certain capital improvements at Ronald Reagan Washington National Airport and Washington Dulles International Airport;

WHEREAS, The staff of the Airports Authority issued a request for proposals and bids from financial institutions (the "RFP") interested in (A) providing for the direct purchase of the Series 2011 Bonds (a "Direct Loan"), the interest on which initially would be based on the SIFMA Index or 72 percent of the LIBOR Index ("Indexed Floaters"), or (B) providing a letter of credit for the Series 2011 Bonds (a "Letter of Credit");

WHEREAS, Wells Fargo Bank, National Association, acting as lead arranger and administrative agent, PNC Bank, National Association, and Union Bank, National Association (the "Wells Fargo Group") submitted a joint proposal in response to the RFP to provide (A) a Direct Loan issued as Indexed Floaters based on 72 percent of the LIBOR Index for a term not exceeding five (5) years, and (B) a Letter of Credit for a term not exceeding three (3) years (the "Wells Fargo Proposal");

WHEREAS, Citibank NA ("Citibank") submitted a proposal in response to the RFP to provide (A) a Direct Loan issued as Indexed Floaters based on the SIFMA Index for a term not exceeding five (5) years, and (B) a Letter of Credit for a three (3) year term (the "Citibank Proposal");

WHEREAS, The staff has reviewed the proposals submitted by the proposers including the Wells Fargo Group and Citibank and has deemed the Wells Fargo Proposal and the Citibank Proposal to have the most advantageous costs to the Airports Authority; now, therefore, be it

RESOLVED, That the Wells Fargo Group and/or Citibank will provide a Direct Loan and/or a Letter of Credit in connection with the Series 2011 Bonds, pursuant to their respective proposals, in each case subject to negotiation of final terms determined by the Vice President for Finance and Chief Financial Officer to be in the best interest of the Airports Authority; and

2. That the Vice President for Finance and Chief Financial Officer is authorized and directed to execute any document necessary to accept such proposal or proposals on behalf of the Airports Authority and the execution of such documents shall constitute conclusive evidence of acceptance by the Board of Directors of the proposals.

The final resolution filed in the Board of Directors Office includes a copy of the staff recommendation paper.

d. Award of a Contract for Architectural and Engineering Services for Runway 4-22 and Runway 15-33 Runway Safety Area Enhancements at Reagan National

The Planning and Construction Committee Chairman, Mr. Martire, moved the following resolution, which was unanimously adopted:

WHEREAS, The Runway Safety Areas for Runways 4-22 and 15-33 at Reagan National do not meet current Federal Aviation Administration criteria, and must do so by 2015;

WHEREAS, The staff proposed to engage an architectural/engineering firm to produce the necessary construction documents to remedy the problem;

WHEREAS, The staff presented a pre-solicitation paper to the Planning and Construction Committee in October 2010; and

WHEREAS, The Planning and Construction Committee is satisfied with the results of the competitive procurement process, as presented at its June 22, 2011 meeting; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized and directed to enter into a contract with Jacobs, Inc. for design services for the Runways 4-22 and 15-33 Runway Safety Area Enhancements, at a cost not to exceed $3,627,000, consistent with the proposal as presented to the Planning and Construction Committee.

The final resolution filed in the Board of Directors Office includes a copy of the staff recommendation paper.

V. UNFINISHED BUSINESS

There was no unfinished business.

VI. OTHER BUSINESS & ADJOURNMENT

At 9:30 a.m. the Board went into executive session to discuss contractual matters related to the Dulles Corridor project.

Respectfully submitted:

Quince T. Brinkley, Jr.

Quince T. Brinkley, Jr.
Vice President and Secretary

Approved 9/21/11