



BOARD OF DIRECTORS MEETING

Minutes of December 3, 2003

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

Norman M. Glasgow, Jr., Chairman
David T. Ralston, Jr., Vice Chairman
Robert Clarke Brown
H.R. Crawford
Anne Crossman
John Paul Hammerschmidt
William A. Hazel
Weldon H. Latham
Mame Reiley
David G. Speck

Charles D. Snelling, nominated by the President but not yet confirmed, was also present.

The Secretary and the following Officers were present:

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

I. MINUTES OF THE NOVEMBER 5, 2003 ANNUAL MEETING

The Chairman called for the approval of the Minutes of the November 5, 2003 Annual Meeting, which were unanimously approved after a minor amendment.

II. COMMITTEE REPORTS

a. Planning Committee

Mr. Hazel said that, in the regular air service development report presented that morning, Mark Treadaway, Vice President for Air Service Planning and Development had reported on recent staff trips to several points in Asia, Brussels and Mexico City.

The Committee had then considered a staff request to extend the program management support services contract for six months to allow a new contract to be negotiated with the apparent successful offeror. Mr. Hazel said he would offer a resolution on the extension later in the meeting.

b. Business Administration Committee

Mr. Crawford reported that the Business Administration Committee had last met on November 19.

The first item of business had been the second request from staff to extend the Reagan National custodial contract. The Board had first extended the contract last summer because offers responding to the original Request for Proposals (“RFP”) had been too high. After the scope had been adjusted and the RFP reissued, offers on the second round varied so much that the staff had concluded that there had been a misunderstanding of the RFP.

Mr. Crawford said a new RFP should straighten out the details and correct all the items in question. He would offer a resolution to extend the existing contract later in the meeting.

Margaret McKeough, Vice President for Business Administration, had presented two upcoming contracts for possible Board review in the category of “Contract Solicitations Affecting the Traveling Public,” part of the “advanced review” policy. Committees could select for Board review important contracts that would otherwise be delegated to the staff for final action.

The contracts were for food and beverage concessions at Reagan National, and for the pay telephone concession at both Airports. Both contracts were candidates for

major structural change. The Committee was confident in the direction the staff was taking, and agreed that it should proceed with the contracts without further Board review.

Mr. Crawford said the Committee had next reviewed the Business Administration sections of the proposed 2004 Business Plan. Just as the other Committees, the Committee had been asked to suggest additions or deletions from the draft plan. The Committee had not discussed the plan at length, and the staff had agreed to bring it back in December.

Frank Holly, Vice President for Engineering, had presented the October capital construction cost report with newly updated budget figures that made the report consistent with bond documents and the annual budget. In earlier reports, the original budget numbers had not been escalated for inflation.

In addition, a review of the projects had let to an overall \$80 million decrease in current cost estimates. Other than the two adjustments, there had not been any significant changes to the numbers. Mr. Holly had also agreed to make some adjustments to the contents of the report to make it more useful.

c. Finance Committee

Because Mr. Ralston, newly appointed Chairman of the Finance Committee, had been unable to attend the Committee's November 19 meeting, Mr. Glasgow had chaired the meeting and delivered the report. He said that the Committee had discussed in detail the proposed 2004 Budget, and that it was ready for approval by the Board.

The Committee had also received a report from the financial advisors, and had discussed the proposed synthetic advance refunding of part of the Series 1994A Bonds. A special meeting on the same subject had been held that morning, just before the Board Meeting.

Staff had also reported on the financing plan for the proposed US Airways regional concourse at Reagan National. The Board would be kept apprised of the progress of the negotiations with the carrier.

In January, there would be a public hearing under the Tax Equity and Fiscal Responsibility Act on the next phase of the Capital Construction Program.

The Committee had heard a quarterly report on the investment program and a report on the laddered portfolio investments in the Series 1998B construction fund. There was also a report reviewing the Authority's banking relations.

In reviewing the 2004 Business Plan, the Committee had suggested two amendments. Finally, the Committee had reviewed a report on the ground lease for the National Air and Space Museum Udvar-Hazy Center at Dulles and had heard the October financial reports.

d. Legal Committee

Mr. Latham said that the Legal Committee had previously reported, after its September 30 meeting, that it had reviewed a revised Code of Ethical Responsibilities for Members of the Board of Directors. That revision was ready for Board action. He explained that the Secretary had restructured the Code to make the provisions less confusing. The draft would simplify filing requirements; Directors would not have to file annual disclosure forms. Instead, they would make full public disclosure at the time they joined the Board and at times when the Board was taking specific actions that might create the appearance of a conflict. Directors would get prior notice of upcoming actions and would be able to recuse themselves.

Mr. Latham added that ethics rules were important to every Director, and that the Legal Committee was prepared to deal with any concerns with the new draft.

III. INFORMATION ITEMS

a. President's Report

Mr. Bennett reported that the holiday season had been busy at both Airports. Parking had held up well. At Reagan National, the lots had been filled for several days the week before Thanksgiving, with a combination of early holiday departures and last-minute pre-holiday business travel. Lines at the ticketing counters and security checkpoints had moved well, even though they were at times long.

With nearly 4,000 taxicab dispatches, the Monday after Thanksgiving at Dulles had been the highest dispatch day since 2001.

The Thirteenth Annual Business Opportunity Seminar had been held November 20. Mr. Crawford had been unable to attend because of laryngitis, so Mr. Speck had represented the Board and welcomed the attendees. About 1,400 had registered, representing over 800 firms. There had been considerable interest in the Dulles program, and participants asked good questions about the Authority's procurement practices.

On November 19, Atlantic Coast Airlines had unveiled Independence Air, the name the firm intended to use for the low-cost carrier it planned to operate. Atlantic Coast had also announced details of its plans; it had ordered 25 Airbus A319 and A320, large aircraft. Delivery would be in the fall. Independence Air would be launched, however, in June 2004, making Dulles the largest low-fare hub in the United States in terms of scheduled daily departures.

The dispute over the Federal Aviation Administration reauthorization bill had been resolved, and a conference bill had passed both the House of Representatives and the Senate. The air traffic control privatization language had been removed. It was then awaiting the President's signature.

Mr. Bennett reminded the Board that the legislation contained 20 additional slots for Reagan National, 12 beyond the perimeter and 8 within. It also included a redefinition of a commuter aircraft from 56 seats or less to 76 seats or less, which would allow US Airways to operate larger aircraft with its commuter air carrier slots at Reagan National. In addition, the bill extended from 2004 to 2008 the Authority's obligation to appear at oversight hearings in the Congress. For all airports, the bill provided for 90 percent federal-aid funding for all in-line baggage screening systems. Both Dulles and National would be installing such systems.

The Herndon Town Council had the night before voted 6-0 to reject a proposed special tax district to help fund the rail to Dulles project. A majority of the property owners in the Dulles corridor had signed a petition to establish such a tax district. With the Herndon action, it had become unlikely that the project would progress, at least in the near term. There was a limited period in which mass transportation

projects could be submitted for Congressional funding in a 6-year reauthorization bill. Without the local share of funds, the Dulles corridor wouldn't qualify.

Mr. Brown asked what portion of the tax district would have been in Herndon. Mr. Bennett said about \$60 million in properties out of \$500 million in the entire district were located in Herndon. Mr. Brown said the Herndon share seemed a relatively small part of the total. Mr. Bennett pointed out it would cause a serious equity problem and would discourage participation by others.

Mr. Bennett reminded the Board that the Authority's position had been that local funding for the entire project would have to be in place before it would grant access to the Dulles Access Road median right-of-way. The Authority would need some assurance the project would ultimately go all the way to Dulles.

Mr. Bennett said that the annual meeting with the Mayor and Council of the District of Columbia would take place the following day. It was the equivalent function to the annual Virginia legislative breakfast held in January.

Mr. Latham asked if a similar event was scheduled for Maryland. The Chairman said inquiries had been made in the past, but the state government had not been interested. Mr. Latham suggested that an event be scheduled for Montgomery and Prince George's Counties.

Mr. Speck asked about the general aviation provision in the reauthorization bill. Mr. Bennett said that it would direct the Secretary of Homeland Security to develop and implement a plan to allow general aviation to return to Reagan National. But the provision would also allow the President to overrule the plan.

Mr. Speck then asked when the Airports Advisory Committee would be on the agenda. Mr. Bennett said he expected to have some recommendations for the January Business Administration Committee meeting.

Mr. Bennett reminded the Directors that the Wright Memorial Dinner, this year celebrating the 100th anniversary of the first flight, would be held in the Signature hangar at Reagan National on December 12. John Glenn would be honored. More than 1,000 would attend. Mr. Bennett added that the National Air and Space Museum Udvar-Hazy Center would be opening at Dulles on December 15.

Mr. Bennett then turned to the October traffic reports. At Reagan National, traffic had increased just over 10 percent. At Dulles, it was up .6 percent. October traffic at Reagan National had been the highest since September 11, 2001. Both Airports had outpaced the U.S. industry; the overall domestic rate had been down .9 percent. As to international/trans-border service, growth had been 2.6 percent at Dulles; nationwide, there had been a .3 percent decrease. Airports with low-fare carriers were rebounding stronger than others. In any event, there was a trend in the right direction throughout the industry. The press was now suggesting that airlines would restore about 4 to 5 percent of capacity in 2004.

IV. UNFINISHED BUSINESS

There was not any unfinished business.

V. NEW BUSINESS

a. Extension of the Custodial Contract at Reagan National

Mr. Crawford moved the following resolution, which was unanimously adopted by affirmative votes of all ten Members present:

WHEREAS, In the initial solicitation process to select a firm to provide custodial services at Reagan National the potentially successful offeror's price exceeded the budget amount by \$4.5 million;

WHEREAS, The Board on June 4, 2003, in Resolution No. 03-12, granted an extension of the current custodial services contract to December 31, 2003 so that the scope of the next contract could be reduced and a Request for Proposals reissued;

WHEREAS, The second solicitation process produced widely divergent offers, leading to the conclusion that the offerors had divergent understandings of the solicitation requirements;

WHEREAS, The staff has concluded that the Request for Proposals must be clarified and reissued; and

WHEREAS, A contract extension not provided for in a contract constitutes a sole-source award, requiring the approval of the Board of Directors by seven affirmative votes; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized to extend the custodial services contract at Reagan National through June 1, 2004.

b. Extension of the Program Management Support Services Contract

Mr. Crawford moved the following resolution, which was unanimously adopted by affirmative votes of all ten Members present:

WHEREAS, The contract for program management support services has been treated as an Architectural/Engineering design and consultant services contract under the Contracting Manual;

WHEREAS, The process for selection of firms providing such services requires the negotiation of terms and prices after an initial selection;

WHEREAS, The current contract for program management support services expires December 31, 2003;

WHEREAS, Under the selection process begun June 22, 2003, negotiations with an apparent selected firm will begin in January;

WHEREAS, A contract extension not provided for in a contract constitutes a sole-source award, requiring the approval of the Board of Directors by seven affirmative votes; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized to extend the program management support services contract through June 30, 2004.

c. 2004 Budget

Mr. Ralston moved the following resolution, which was unanimously adopted by affirmative votes of all ten Members present:

RESOLVED, That the 2004 Budget, as presented to the Finance Committee on November 19, 2003, is hereby adopted, effective as of January 1, 2004;

2. That there is hereby made available for expenditure in 2004 for the care, operation, maintenance, construction, improvement, and protection of Ronald Reagan Washington National and Washington Dulles International Airports a total of \$730,783,000, consisting of:

(i.) \$359,250,000 for the Operation and Maintenance Program, including \$146,450,000 for debt service;

(ii.) \$21,601,000 for the Capital, Operating and Maintenance Investment Program; and

(iii.) \$349,932,000 for the Capital Construction Program;

3. That projects identified in the Budget in the amount of \$18,623,000 for the Capital, Operating and Maintenance Investment Program and \$306,385,000 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 2004 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

d. Authorizing the Synthetic Advance Refunding of the Series 1994A Bonds

Mr. Ralston first moved that a resolution authorizing the synthetic advance refunding be added to the agenda for consideration. The motion was unanimously adopted. Mr. Ralston then moved a resolution authorizing the transaction. Michael Cheroutes of Hogan & Hartson, Bond Counsel, asked to review the document and make any necessary adjustments.

The Board then turned to the Code of Ethical Responsibilities.

e. Revised Code of Ethical Responsibilities for Members of the Board of Directors

Mr. Latham said that the Legal Committee had been making changes to the Code of Ethical Responsibilities over the past year. He said the Committee had noted that it was usually after a transaction had taken place that it appeared that not enough action had been taken to protect the Board. The Committee therefore undertook to clarify the Code. A number of Directors worked for large organizations where the Director might not even know a conflict existed. Disgruntled bidders, however, were always very effective at finding out technical conflicts. The Committee had therefore come up with an informal approach, where prior to Board and Committee meetings Members would be notified of upcoming conflicts. Members would then have an opportunity to recuse themselves. In addition, some of the Code language had been unclear. The Secretary had been instructed to rewrite the Code for simplification and clarity.

Mr. Latham mentioned that he had overlooked a provision of the Code that he recommend be stricken. Section 7, Continuing Disclosure Obligations, subparagraph (c), which would require Directors to send a letter on each potential conflict. Although he did so himself, he did not think the practice was necessary for others, particularly because disclosures were amply covered in the Minutes. He moved adoption of the draft Code presented at the Meeting, after striking Section 7(c).

Mr. Ralston observed that under the rules, if a firm doing business with the Authority were a client of a Director, the relationship would constitute a “direct financial interest,” whereas if such a firm were a client of the same law firm as the Director, the relationship would be an “indirect financial interest,” assuming it met certain tests.

As amended, the Code of Ethical Responsibilities for Members of the Board of Directors was thereupon adopted unanimously.

The Chairman then called for a discussion of the dates for a proposed retreat. Ms. Reiley reported that she was considering two possible dates: January 8 or February 5, both a day after a Board Meeting, from 10 to 4 at the Ritz Carlton in Pentagon City. The Board agreed January 8 would not work. Ms. Reiley asked Directors to respond to her later in the day, both as to the date and the possible agenda.

Mr. Crawford suggested that a task force be established to consider appropriate memorials for James A. Wilding and Carolyn Boone Lewis.

d. Authorizing the Synthetic Advance Refunding of the Series 1994A Bonds, continued.

Mr. Faggen, having conferred with Bond Counsel, read a proposed resolution to the following effect:

RESOLVED, That the Chairman and the Chairman of the Finance Committee are jointly authorized to approve a synthetic advance refunding of the Series 1994A Bonds (“Refunding Transaction”) on such terms and conditions as are approved by the Finance Committee and both Chairmen, or are otherwise consistent with this Resolution;

2. That the Refunding Transaction shall meet the standards of the Derivatives Policy adopted November 5, 2003 and shall include substantially the same terms as the 2001 Swap Agreement for the Refunding of Airport System Revenue Bonds, Series 1992A;

3. That the Authority obligations may be guaranteed by insurance; and

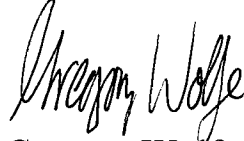
4. That the maximum notional amount is 430 million and the maximum fixed interest rate is 5 percent.

After a discussion of the terms, the resolution was adopted unanimously by the affirmative votes of all ten Members present.

VI. OTHER BUSINESS AND ADJOURNMENT

The meeting was thereupon adjourned at 10:50 a.m.

Respectfully submitted:



Gregory Wolfe

Vice President and Secretary

approved February 4, 2004