BOARD OF DIRECTORS MEETING

Minutes of October 5, 2011

The regular meeting of the Board of Directors was held in the first floor Conference Rooms 1A, 1B and 1C at 1 Aviation Circle and was called to order by the Chairman at 9:05 a.m. Ten Directors were present during the meeting; Mame Reiley participated by telephone.

Charles D. Snelling, Chairman	H.R. Crawford
Robert Clarke Brown	Michael A. Curto
William W. Cobey Jr.	Shirley Robinson Hall
Frank M. Conner III	Dennis L. Martire
Richard S. Carter	Warner H. Session

The Secretary and Executive Management were present:

John E. Potter, President and Chief Executive Officer
Margaret E. McKeough, Executive Vice President and Chief Operating Officer

In the temporary absence of a quorum, the Chairman began the meeting with the first of the Committee reports.

I. COMMITTEE REPORTS

a. Business Administration Committee

Mr. Crawford reported that the Business Administration Committee had last met September 21. He said that the Committee had spent some time reviewing the solicitation terms for the Reagan National taxicab dispatch contract to understand how it worked. The contractor collects annual and per-trip fees from the cab operators. The contractor then deducts its costs and pays the rest of the proceeds to the Airports Authority. As an incentive, the contractor could receive up to 2.2 percent of the gross fees for outstanding performance. The job was not simple; the dispatchers at the curb had to deal with 1700 cabs from seven jurisdictions. After a full explanation, the Committee had concurred in the solicitation. Mr. Crawford said he hoped the same approach could someday be used at Dulles International.

Mr. Crawford next reported that the Committee had heard a report from a selection panel on the award of a contract for elevator, escalator and moving walkway maintenance and repair service at Reagan National. He noted that the contract terms had been tightened in order to assure that repairs were made as soon as problems were detected instead of after a later repair order. This explained a higher cost for the new contract.

After a close review of the selection panel's scoring, done in executive session, the Committee had voted to recommend that the Board approve the award to Schindler Elevator Corporation, the incumbent firm. The value of the contract was $2.3 million for the first year and $12 million for five years. It included a 20 percent Local Disadvantaged Business Enterprise (LDBE) participation requirement.

A second selection panel report had addressed the award of two contracts for landscape maintenance, one at Dulles, paid with aviation revenues, the other on the Toll Road, paid with toll revenues. The contracts had been the subject of a single procurement, and were to be awarded to the same contractor. Both contracts were for two years with three one-year extension options. The Dulles contract, which included snow removal from 3 miles of sidewalk, would cost $5.7 million, while the Toll Road contract would cost $2.2 million. In this case the LDBE requirement was 50 percent, and the contracts included the $13.30 living wage requirement. The Committee had unanimously agreed to the awards to Blake Landscapes Inc., of Leesburg.

Finally, the Committee had considered a report on the award of recurring contracts over $50,000. There were not any concerns about the contracts listed.

II. MINUTES OF THE SEPTEMBER 7, 2011 BOARD OF DIRECTORS MEETING AND THE SEPTEMBER 21, 2011 SPECIAL BOARD OF DIRECTORS MEETING

The Chairman then called for approval of the Minutes of the regular September 7 Meeting and the Special September 21 Meeting. Both sets of Minutes were unanimously approved. The Chairman then resumed with the regular agenda.

III. COMMITTEE REPORTS, continued

b. Audit Committee

Mr. Cobey reported that the Audit Committee had last met September 7, as always in executive session. The members had discussed the results of a review of inventory controls for a major asset class, and had received reports on audits of two revenue-producing contractors, one of which would have to pay additional revenue. Audit staff had also provided a review of property acquisition, utility relocation payments, and indirect cost rates for two Dulles Rail project subcontractors.

c. Dulles Corridor Committee

As Ms. Reiley was participating by telephone, Mr. Brown presented the Dulles Corridor Committee report, noting that it had last met September 21. The Committee had first heart the Metrorail Phase 1 Cost Summary and Project Update. Pat Nowakowski, the rail project manager, had reported that the project had spent $33 million in August, for a year-to-date total of $1.4 billion. The forecast completion cost had remained at $2.746 billion, against a budget of $2.755 billion.

Contingency use in August had been $3.7 million, including $4 million in credits from past savings. So far $228 million of contingency funds had been used, leaving $84 million remaining. The project was scheduled to be complete in August 2013.

Mr. Brown noted that there had been some discussion in the press about the schedule for the project, but staff had assured the Committee that the project would be completed in 2013, and that it was likely to be finished within the budget.

Next, Andrew Rountree, Vice President and Chief Financial Officer, had presented the June and July Toll Road financial reports. The reports had been delayed because of the Enterprise Resource Planning (ERP) system implementation. Toll Road revenues had been up about 7.7 percent from 2010, chiefly because of the January toll increases. At $55.2 million, the revenues were slightly below expectations because traffic was slightly off; they were balanced, however, by expenses that were more than 5 percent below the 2010 levels.

The number of toll transactions, 59 million, was down 3 percent from 2010, not unexpected with a toll increase, but slightly more than the

1 percent the traffic consultants had forecast. Mr. Brown said he believed the weak economy had affected the results. Mr. Rountree had also reported that 74 percent of toll transactions had been electronic, the most efficient way to collect tolls.

In executive session, the Committee had heard the President's brief summary of continuing negotiations on Phase 2 scope and funding.

d. Executive and Governance Committee

Mr. Snelling reported that the Executive and Governance Committee had last met September 21. In executive session, the Committee had discussed proposed legislation to expand the Board of Directors, then pending in the Congress.

e. Finance Committee

Mr. Brown reported that the Finance Committee had last met September 21. It had first taken up a recommendation from the staff and the retirement committee to amend the defined benefit retirement plans and the retirement savings plan. Arl Williams, Vice President for Human Services, had offered three recommendations from the retirement committee, each to the retirement plan for general employees, the retirement plan for police officers and firefighters, and the retirement savings plan.

The first would amend the plans retroactively to 2007 to comply with mandatory requirements of the Heroes Earnings Assistance and Relief Tax ("Heart") Act of 2008. The law required employers to treat an employee who dies during qualified military leave of absence as if the employee had died under employment and eligible for the retirement plan's preretirement death benefit. Plan actuaries had advised the cost would be minimal.

Mr. Brown noted that there may have been a glitch in the drafting of the plan. The second amendment was to prevent an adverse impact on retirement benefits as a result of periods of service-connected injury or qualified military leave. It would allow such periods of absence to be ignored in calculating an employee's "high three" years of earnings used in the computation of the annuity benefit. The actuaries again advised the impact would be minimal.

The third amendment was to the retirement plan for general employees. It would add service credit to five Dulles Corridor Metrorail Project employees to match time they had spent working on the project on the Virginia payroll without qualifying for the Commonwealth of Virginia Retirement Plan before transferring to the Airports Authority payroll. The Committee had agreed to all three amendments.

The Committee had next heard the Aviation Enterprise financial reports for June and July. Once again, the reports had been delayed by ERP system implementation. August and September reports would be presented in October, after which the monthly reporting schedule would return to normal. As of July 31, year-to-date revenues had been at $356 million, a 12.3 percent increase over 2010, driven largely by rents, which had increased 13.8 percent. At 58 percent of the year, revenues had been at 56 percent of budget. Expenses had been at $319 million, up .4 percent from 2010, and 51 percent of budget. Operating income had been $37 million, comparing quite favorably to last year's operating loss of $700,000.

Debt service coverage had been at 1.39, up from 1.36 in June, but still below 1.4 of July 2010. Mr. Brown noted that the rating agencies carefully watched coverage levels, which were an important part of the analysis for entities with ratings as high as the Airports Authority's. The days of unrestricted cash on hand had reached 533 by July 31, exceeding the 450 days in June and 439 days at year end 2010.

The Committee had also heard a report on the credit ratings, which had been reviewed recently because of the bond sale. Despite the difficult economy, the Airports Authority had retained double-A ratings in all three categories. Fitch had downgraded its rating a bit, but as it had been higher than the others, consequences were not serious. All the ratings were effectively the same, and all the outlooks were stable.

Mr. Brown then turned to the recent bond sale, the variable-rate components of which, Series 2011AB, had closed as of the meeting date, and the fixed-rate components, Series 2011BC, had been priced September 20 to close September 29. He said the 2011 plan of finance for the airport side had now been effectively completed.

The Series 2011A Bonds had been "index floaters", directly placed with Wells Fargo, essentially as a loan of $234 million; the rate had been LIBOR plus a spread, starting out at 0.94 percent. The proceeds were being applied to refinance a SWAP agreement and to refund liquidity facilities with Dexia and Landesbank Baden-Württemberg ("LBBW") that had to be replaced.

The Series 2011B Bonds had also been an index floater, $208 million placed with Citibank. The loan rate was SIFMA based, plus a spread; the initial rate had been .71 percent. It would be used to refinance the remaining portion of the Dexia facility and provide $90 million in new money.

Preliminary results of the sale, priced by JP Morgan September 20, on fixed-rate refunding bonds had also been presented. The Series 2011C Bonds were $185 million subject to the alternative minimum tax (AMT); the Series 2011D Bonds were a small non-AMT component of $10 million. The all-in rate was 4.02 percent, but, Mr. Brown noted, the series were 20-year final maturity, 10-year average life, not the 30-year new money issues. The present-value savings had been $20 million, and better than expected.

The Committee had heard the Financial Advisors' Report on the Aviation Enterprise, which had gone through the delegations on the bond sales Mr. Brown had just reported on. In the Financial Advisors' Report on the Dulles Corridor Enterprise, Jim Taylor had reported that the Enterprise had sufficient fund balances for the Metrorail project to cover construction expenses through the rest of the year. There would not be any call on the recent commercial paper until the first half of 2012. The next fixed-rate financing for the project had not yet been set.

Michael Wheet had reported on significant toll increases reported on facilities of the Port Authority of New York and New Jersey and the Illinois Tollway. The Committee was watching the experiences of other toll authorities, as the Airports Authority would have to increase the Dulles tolls in the future. Staff would also be monitoring highway tolls collected in Virginia, particularly the tidewater tunnel and the Beltway "hot lanes".

In executive session, staff disclosed confidential information regarding the Airports Authority sponsored retirement plans.

f. Strategic Development Committee

Mr. Conner reported that the Strategic Development Committee had last met on September 21, initially in executive session to hear the air service development report. Scandinavian and Turkish Airlines had both enjoyed strong bookings at Dulles International and would be increasing their winter schedules.

In public session, the Committee had heard a recommendation from the staff to approve a Memorandum of Understanding with the Vienna Airport Corporation, operator of Vienna International Airport. It would be the next step in the sister airport program, which had been initiated in 2008.

IV. INFORMATION ITEMS

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

Mr. Potter first thanked the Board Members for the time spent the day before at a master plan workshop. He thought the discussion was good, as were the questions.

The renovation of Concourse C-D at Dulles International had begun; new carpeting was already being installed. The work should be completed by year's end. Over 20,000 neighbors had shown up for the Dulles plane pull the previous weekend; partners in the event had shown up with antique cars, helicopters and airplanes. Over $100,000 had been raised for the Special Olympics. He thanked all participants.

Internally, Mr. Potter said he had been working on the Board-commissioned L&L organizational study with the consultants who had produced it, and was meeting with all employees on the matter. He had spoken to over 500 of them already. The bottom line of the report was that the Airports Authority was a good place to work, and it could be better. He was also planning to roll out an enhancement of the employee assistance program. There would also be improvements to the employee performance plan, mainly because many employees said it did not encourage performance that advanced the Airports Authority's mission. In 2012, there would be a modified suggestion program that would go directly to the front office, bypassing the chain of command. Mr. Potter said he welcomed suggestions on raising revenue, efficiency improvements, communications and other enhancements to the effectiveness of the Airports Authority.

To improve internal communications, a computer newsletter called "On Good Authority Express" was being published weekly. After three issues, results were favorable.

The Reagan statue would be unveiled November 1 at a major event; traffic would be halted in the area.

On the rail project, staff was working hard to meet the project completion date of August 9, 2013. Mr. Crawford asked if the rail project was on time. Mr. Potter said it was. Mr. Crawford said that a project of this size could meet with complications at any time, and asked Mr. Potter to make a specific public statement on the current status. Mr. Potter said that, as of the day of the meeting, staff believed the project was on time and on budget. However, it was important to understand that any time such a statement was made that it was done with a lack of knowledge about unforeseen future events. He did not mean to say there were not risks as the project proceeded. No one knew what kind of weather might occur, no one knew of any other circumstances that might arise, but the staff was in any event managing the project to bring it in on time and on budget.

Ms. Reiley said there was still some outstanding business with Dulles Transit Partners (DTP) about delays resulting from the weather and from the time required to obtain permits from the localities. She asked the status of those discussions, noting that they had gone on for a long time and that a resolution had not yet been reported. She noted that the problem had arisen long before Mr. Potter's time, and that it needed to be resolved before going to contract on Phase 2. Mr. Potter said that the original schedule had been to complete the project by the end of July; the August 9 date reflected bad weather days. There were active discussions with DTP, who had assured Mr. Potter that the project could be brought in on time if all could work through certain issues. Ms. Reiley reiterated the importance of resolving the matter before Phase 2 was advertised.

Mr. Brown said it was important to remember that the contract with DTP was a benchmark along the road to a much larger objective: building Dulles Metrorail. The larger project had been split in two because of federal funding issues. Phase 1 was proceeding rapidly under contract, and Phase 2 was in preliminary engineering; there was, however, a single funding plan, a single plan of finance. That was what was being discussed with Secretary LaHood and the funding partners. It was important to bring the Phase 1 contract on time, but the Board should not lose sight of the real objective of completing that entire project through Dulles and beyond into Loudoun County.

Ms. Reiley observed that the lending institutions would take a more favorable view of the Airports Authority if the first phase were brought in on time. Mr. Snelling said that he had spent considerable personal time on the issues, and was satisfied that the management was handling it well in many respects, and was communicating openly and honestly with the Board. The project was enormous, and was being better managed than any other he knew of its size. He believed the Airports Authority had been open and honest communicators with the public. That was very important, and he believed that when the time came, some of the skepticism would resolve itself.

Mr. Brown said he had not been in a master plan workshop for some time, and had found the workshop held the day before a wonderful exercise in terms of the Directors understanding the major objectives of the Airports Authority in communication with the staff. He noted many Directors had found Mr. Potter an attractive candidate because he was an experienced executive, but did not come from the airport world. He was looking to Mr. Potter to ask unconventional and out-of-the-box questions. Mr. Brown then thanked Mr. Potter, Frank Holly and the rest of the staff for an excellent presentation.

b. Executive Vice President's Report

Margaret McKeough reported that air service had been level with August 2010 nationwide. Dulles International and Reagan National had been severely affected by Hurricane Irene, along with the rest of the East Coast. At Reagan National, over 1.7 million passengers had used the Airport, for a growth rate of less than 1 percent over August 2010. Many flights had been canceled and not rescheduled because of the late August hurricane.

At Dulles International, the passenger level had been about 2.2 million, down 4 percent from the year before. Most of the decline had been in domestic traffic, which had been down over 5 percent; international passenger counts had actually grown, but less than 1 percent.

The first eight months of the year had been consistent with an all-time record for Reagan National in 2011, growing nearly 6 percent from 2010 year-to-date. At Dulles International, Ms. McKeough said she expected the year to finish with no growth. Domestic traffic was essentially stagnant, though there was some growth in international. The industry nationwide was showing about 2 percent growth for the year.

As to cargo, August continued to show softening; activity was down about 14 percent, heavily on the international side. The cargo carriers were not reporting a particular downturn, but had identified some changes in shipping patterns.

In spite of the rain, the Reagan National runway project was able to catch up with its schedule so that it could be completed before the holiday travel season.

Finally, Ms. McKeough reported that over the next few days focus groups of frequent travelers would be scheduled to engage with an independent facilitator to discuss their experience with facilities and service issues at both Airports. The results would be carefully reviewed.

V. NEW BUSINESS

a. <u>Award of a Contract for Elevator, Escalator and Moving Walkway Maintenance and Repair Services at Reagan National</u>

The Business Administration Committee Chairman, Mr. Crawford, moved the following resolution, which was unanimously adopted:

> WHEREAS, The contract for elevator, escalator and moving walkway maintenance and repair services at Reagan National will expire October 31, 2011;
>
> WHEREAS, The Business Administration in March 2011 concurred in the issuance of a Request for Proposals for these services, which was issued on May 26;
>
> WHEREAS, An Evaluation Committee has reviewed the competing proposals and has recommended the selection of Schindler Elevator Corporation; and
>
> WHEREAS, The Business Administration Committee is satisfied with the results of the competitive procurement process,

as presented at its September 21, 2011 meeting; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized and directed to enter into a one-year contract, with four one-year extension options, with Schindler Elevator Corporation for maintenance services at Reagan National, consistent with the terms presented to the Business Administration Committee at its September 21 meeting.

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

b. Award of a Contract for Landscape Maintenance and Sidewalk Snow Removal at Dulles International and a Contract for Landscape Maintenance on the Dulles Toll Road

Mr. Crawford moved the following resolution:

WHEREAS, The landscape maintenance and sidewalk snow removal services contract for Dulles and the Toll Road will expire November 30, 2011;

WHEREAS, The Business Administration in January 2011 concurred in the issuance of a Request for Proposals for these services, including a single selection process for two contracts;

WHEREAS, An Evaluation Committee has reviewed the competing proposals and has recommended the selection of Blake Landscapes, Inc.; and

WHEREAS, The Business Administration Committee is satisfied with the results of the competitive procurement process, as presented at its September 21, 2011 meeting; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized and directed to enter into two one-year contracts, each with three one-year extension options, with Blake Landscapes, Inc., one for landscape maintenance and sidewalk snow removal services at Washington Dulles International Airport and the other for landscape services on the Dulles Toll Road, consistent with the terms presented to the Business Administration Committee at its September 21 meeting.

Mr. Martire asked whether E-Verify would be used on the project. Ms. McKeough said the workers would be badged for airfield access and that the badge standards were more stringent than E-Verify. The proposed resolution was then unanimously adopted.

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

c. <u>Amendment to the Defined Benefit Retirement Plans and the Retirement Savings Plan</u>

The Finance Committee Chairman, Mr. Brown, moved the following resolution, which was unanimously adopted:

WHEREAS, Management has requested technical amendments to the Retirement Plan for General Employees, the Retirement Plan for Police Officers and Firefighters and the Retirement Savings Plan; as specified below;

WHEREAS, The Heroes Earnings Assistance and Relief Tax Act of 2008 requires amendments to all three plans to provide certain benefits to employees on a qualified military leave of absence;

WHEREAS, The staff has proposed an amendment to both Retirement Plans that would prevent a work-related injury or military service from adversely impacting an employee's retirement annuity;

WHEREAS, The staff has proposed an amendment to provide five employees of the Airports Authority working on the Dulles Corridor Metrorail Project who transferred from the Commonwealth of Virginia and were not vested in the Commonwealth's retirement plan with vesting and benefit service credit in the General Employee Plan; now, therefore, be it

RESOLVED, That the Retirement Plan for General Employees, the Retirement Plan for Police Officers and Firefighters and the Retirement Savings Plan are hereby amended to address the matters cited above and in accordance with the presentation to the Finance Committee on September 21, 2011.

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

d. <u>Sister Airport Agreement Between the Vienna Airport Corporation and the Airports Authority</u>

The Strategic Development Committee Chairman, Mr. Conner, moved that the proposed sister airport agreement between the Airports Authority and the Vienna Airport Corporation be approved, as presented to the Strategic Development Committee.

Mr. Brown said he recalled when the sister airport proposal first came up in 2008, also a difficult time financially; it had been deferred because of cost issues. He asked if Mr. Conner would consent to an amendment to provide that the agreement terminate in three years, after which it would be evaluated before renewal, and that there would be annual review of the costs. He said there was likely to be considerable international travel back and forth, and that the arrangement could prove costly. Mr. Conner said he had no problem with the amendment, but that he had always assumed there would be an annual financial review of the program. He thought a three-year sunset was moving in the wrong direction. Mr. Conner stated that the program would generate a minimum of expense, just exchange of ideas and a little travel, but he had no objection to the amendment.

Mr. Crawford said the sister airport program had begun when he was the Chairman. He expected the program to be reviewed annually in the budget process, and did not expect major expenses. The Chairman said the moving member could decline the amendment. Then the amendment could be made by motion and there could be a vote on it. Mr. Conner, however, agreed to the amendment. Mr. Brown said the costs should be closely monitored. Mr. Carter said he was curious to know what the costs might be, now that the issue had been raised. Mr. Potter said the costs would not exceed $20,000 in the first year. The Board then unanimously adopted the motion as amended, and the Chairman promised to provide the final wording at the next meeting.

VI. UNFINISHED BUSINESS

There was no unfinished business.

VII. OTHER BUSINESS & ADJOURNMENT

At 9:55 a.m., the Chairman announced that the Board's business was done for the day, and that the Board would continue to meet in executive session to discuss an audit report. No action could be taken.

At the conclusion of the executive session, the meeting would be adjourned, and would be followed by a meeting of the Executive and Governance Committee in executive session.

At the conclusion of the executive session, the meeting was adjourned at 10:20 a.m.

Respectfully submitted:

Quince T. Brinkley, Jr.
Vice President and Secretary

Approved 11/2/11