BOARD OF DIRECTORS ANNUAL MEETING

Minutes of November 2, 2011

The twenty-fifth annual 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. All thirteen Directors were present during 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
H.R. Crawford
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:

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

As Ms. Reiley and Mr. Carter had not yet arrived, the Chairman announced that, without objection, he would move the first agenda item, election of the Chairman, Vice Chairman and Secretary, to the end of the meeting. He did so, and proceeded with the rest of the agenda in the order scheduled.

I. MINUTES OF THE OCTOBER 5, 2011 BOARD OF DIRECTORS MEETING

The Chairman called for approval of the Minutes of the October 5 Meeting, which were unanimously approved.

II. COMMITTEE REPORTS

a. Business Administration Committee – H.R. Crawford, Chairman

Mr. Crawford reported that the Business Administration Committee had last met October 19. The Committee had first heard a presentation from Robert C. Ashby, Deputy Assistant General Counsel for Regulations and Enforcement at the U.S. Department of Transportation. He had worked on the Disadvantaged Business Enterprise (DBE) program since it was new in the 1980s, and gave a full account of its history and current applicability. He had also recognized the Airports Authority staff for its considerable experience with DBE projects.

Mr. Crawford said that Mr. Ashby had addressed three important aspects of the DBE program. First, it favored race-neutral procurement. Agencies receiving federal aid first had to show that they could not produce representative participation without race-conscious measures.

Second, the goals set for a contract were not to be exceeded. If they were, the project would have to stop using race-conscious measures. This situation had already arisen on Phase 1 of the Metrorail project.

Third, the DBE goals could only be set on the amount of the federal aid in a project, not of the entire project. This did not make sense to several of the Directors, as the project conditions would be the same, regardless of the amount of federal funds in the project. He asked that the staff report back on the prospects for DBE participation in Phase 2 at the next Committee meeting.

Next, Steven Baker, Vice President for Business Administration, and Michael Natale, Risk Manager, had reported on the recent renewals of casualty and property insurance coverages, which had been quite favorable. Despite rising medical and wage costs, the Workers Compensation premium was down. The airport liability premium was down five percent, despite increasing coverage resulting from the larger aircraft operating at Dulles International. The property premium had increased $158,000 because of additional space covered, including the expanded International Arrivals Building, the security mezzanine and AeroTrain at Dulles International, and the additional level on the Reagan National parking garage.

The Airports Authority had lost a $335,000 "membership credit", a discount not provided in the coming year because the property carrier was having a less than fully successful loss year elsewhere. Thus the total premium cost for the year had grown only 0.5 percent, or $35,992, not counting the lost credit. The total cost would be $6.6 million. Mr. Crawford said the Committee had been quite satisfied with the results; action had not been required.

Mr. Crawford next reported that the 21st Business Opportunity Seminar would be held December 9 at the Renaissance Washington Hotel. It would provide the DBE and LDBE communities with information on Airports Authority contracting opportunities over the next year. The Committee had asked the staff to try to relate contract awards to participation at the Business Opportunity Seminars over past years.

Staff had also asked the Committee to recommend a one-year "sole-source" extension to the 10-year Duty Free Americas contract at Dulles International in order to develop a new duty-free shop promptly. The incumbent contractor, Duty Free Americas, would need the extra year to amortize the $1.2 million cost of a build-out. The new store would generate about $800,000 in new revenue per year, increasing the Airports Authority's annual revenue from duty free sales to $5.9 million.

Finally, the Committee had considered the premium rates for the 2012 medical and dental insurance programs. Employing a strategy it had presented to the Board five years ago, staff had succeeded in keeping annual cost increases below the level of similar sized companies and agencies in the area and nationwide. For 2012 there would not be any increase in the premiums. Overall, the program would cost $22.4 million, with the Authority paying $17.5 million and the employees paying $4.9 million through payroll deductions, co-pays and percentage shares. The employees had shown increasing satisfaction with the health program, and so had the Committee.

b. <u>Executive and Governance Committee</u> – Charles D. Snelling, Chairman

Mr. Snelling reported that the Executive and Governance Committee had met on both October 5 and October 19, both times in executive session. The Committee had discussed the future Board retreat at the October 5 meeting. At the October 19 meeting, the Committee had reviewed the

Virginia House Transportation Committee letter, heard updates on the pending Frank Wolf legislation, and discussed personnel matters.

c. Dulles Corridor Committee – Mame Reiley, Chairman

Ms. Reiley reported that the Dulles Corridor Committee had last met October 19. As she had not been able to attend, first Bob Brown and then Tom Davis had chaired the Meeting. Much of the meeting had been devoted to answering a set of questions she had submitted; she would summarize the answers.

The first question had concerned scheduling; the answer was that Phase 2 preliminary engineering (PE) was complete for off-airport work; the on-airport PE would be complete by the end of February.

As the PE progressed, the engineering staff was proceeding with the Request for Qualifications (RFQ) for the main Phase 2 contract. This effort would go on without reference to other activities; the RFQ itself would be issued before the 90-day period during which the funding partners may drop out of the project. The actual request for bids might be issued before that 90-day period was over, though a contract award could not be made until the process was complete.

At the same time, negotiations were continuing on the LaHood Memorandum of Agreement project cost reductions. There had been some suggestion it could obviate the 90-day review period, but that did not appear to be likely.

Because of the decision to change the station location at Dulles International, the original project environmental impact statement (EIS) and the historic preservation determination needed to be redone and reconsidered. The staff had already completed its part of this work; the Federal Transit Administration was actually responsible for updating these two items, and had not yet done so. Both would have to be resolved before the Airports Authority could go to bid.

In summary, Ms. Reiley concluded, there were four balls in the air: the preliminary engineering, the memorandum of agreement, the prequalification of bidders, and the federal EIS and historic preservation processes. They were all closely related, and all needed to come to the ground at about the same time. An updated schedule would be provided at the next Committee meeting.

The Committee had then heard the monthly cost summary on Phase 1. Pat Nowakowski, Executive Director of the Dulles Metrorail Project, reported that the September expenditures had been $58 million, with total expenses to date of $1.466 billion. The forecast completion cost was $2.748 billion; the budget $2.755 billion.

Finishing within budget would depend on mitigation efforts, chiefly with the Washington Metropolitan Area Transit Authority. If it assumed the costs of the betterments it had required to meet upgraded safety standards, the project could close within budget.

Contingency use for September had been $1.2 million, made up of small items. At the end of September, $229.5 million of contingency funds had been used, leaving $88.28 million remaining. The project was still scheduled to be completed in August 2013, and was still forecast to be completed within budget, assuming the mitigation could be agreed to.

Next, Phil Sunderland, Vice President and General Counsel, had presented a proposed sale of surplus property from the Metrorail project. The project had acquired 25,000 square feet near the Tysons 7 Central Station and no longer needed 13,000 feet of it. That small a lot was not buildable, and was valuable only to the adjoining property owner. The staff had negotiated a sale with that neighbor for $1.7 million, the original amount paid. The proceeds would go back to the project. The Committee had agreed to recommend that the Board approve the transaction.

Andy Rountree, Vice President and Chief Financial Officer, had again presented two months of Toll Road financial reports. They were for August and September, as the Enterprise Resource Planning (ERP) program had delayed reporting. Toll Road revenues had been up, about 7.5 percent from 2010, chiefly because of last January's toll increases. At $72.8 million at the end of September, they had been slightly below expectations; they were balanced by expenses that were more than 7 percent below budget.

The number of transactions, at 76.4 million, had been 3 percent lower than in 2010; predictions had been for a 1 percent reduction. The difference was small and not readily explicable.

Mr. Rountree had also reported that 74 percent of the toll transactions had been electronic. This figure was holding steady; it was a very good rate for toll roads generally.

d. Finance Committee – Robert Clarke Brown, Chairman

Mr. Brown reported that the Finance Committee had last met October 19. In accordance with longstanding practice, in its early stages the annual Budget had been discussed in executive session. It would be considered in open session at the November Committee meeting, before adoption by the Board.

The Committee had considered a staff proposal to correct the term "employee" in the retirement plans. Mr. Brown said there had been an apparent drafting error when the plans had been amended in 2000; the term had been defined to include part time and temporary employees, who would thus be eligible for pensions. The Committee had agreed that the plans should be amended to reflect the original, pre-2000 definition; Mr. Brown said he would offer a resolution to do so.

Mr. Rountree had given the August and September financial reports for the Aviation Enterprise Fund. At the end of September, three-quarters of the year, revenue had been $458 million, up 11 percent from 2010, driven largely by rents. Revenues were lagging behind the budget in the airline activity related areas. Landing fees and terminal concessions were 12 percent and 17 percent under budget, respectively. At the end of September, the Airports Authority had earned 71.3 percent of budgeted revenue.

Expenses, at $404 million, had reached 66 percent of budget, relatively flat in comparison to the same period in 2010. Operating Income had been $54 million, compared to $9.8 million in 2010. This increase, however, was not likely to carry through to the end of the year. Debt Service Coverage had been at 1.31 in September, down from 1.35 the month before. In September 2010, coverage had been 1.47. Days of unrestricted cash on hand had been 442 as of September 30, down from 553 day in July, largely attributable to the ERP, which had delayed many payments during the month of its implementation.

The Financial Advisors for Aviation had reported on the success of the 2011 Plan of Finance, and on their efforts with the Finance staff to develop a Plan for 2012.

The Dulles Corridor Financial Advisors had given a brief account of the cash position and liquidity status of the Dulles Toll Road construction accounts. After issuing $300 million of Commercial Paper in August, the Airports Authority had had $703 million of available funds and credit to fund Metrorail construction. There was enough available to finish the year with $511 left. Mr. Brown said he had emphasized that the Airports Authority should always be in a position that funds would not drive the schedule for construction, that funds should always be available to meet the construction schedule.

Finally, Mr. Brown noted that the updated Wilbur Smith Associates' Traffic and Revenue Study was on schedule, with deliverables expected in December.

e. Planning and Construction Committee – Dennis L. Martire, Chairman

Mr. Martire reported that the Planning and Construction Committee had last met October 19.

Frank Holly, Vice President for Engineering, had recommended the award of a contract for on-call architectural, engineering and planning services for both Airports. The selection panel had selected the incumbent, Ricondo & Associates, of Alexandria. The Committee had agreed with the process, and Mr. Martire would present a resolution for action later in the meeting.

Next, the Committee had considered a contract for architectural and engineering services for Terminal A near-term improvements at Reagan National. The services were needed to support the growing demand in Terminal A; the total amount expended under the contract would ultimately reach about $3 million. The Committee had agreed to award the contract to URS, of Hunt Valley, Maryland; a resolution to approve the award would be offered later in the meeting.

Mr. Holly had then presented an abbreviated monthly capital construction program cost report. There had been few changes, and all the changes had been positive. The Dulles Main Terminal AeroTrain station had been closed out at $382 million, $6 million below forecast. The International Arrivals Building expansion, forecast for years at $194 million, had been closed out at $161 million. The current state of capital projects was that Reagan National was $9.4 million below budget, and Dulles was $50 million below.

The Committee had next heard a report on alternative plans presented for the development of seven parcels at Dulles International known as the "collateral lands". Fourteen proposals had been made for development of these sites. Most developers had been interested in Site 2, adjacent to the Marriott Hotel. Staff proposed to use the site to develop another hotel.

The presentation was to familiarize the Planning and Construction Committee with the plan; staff would seek the concurrence of both the Business Administration Committee and the Planning and Construction Committee before issuing a Request for Proposals. The Committee was satisfied with the approach.

Finally, Bern Seals, Program Manager for Parsons Management Consultants, had presented the quarterly Capital Construction Program Update, the periodic illustrated review of capital projects currently under construction. As always, it had been an informative and useful presentation.

III. ELECTION OF OFFICERS

The Chairman then observed that all Members were present and called for the election of officers for the next calendar year. He asked for nominations for Chairman. Mr. Crawford nominated Mr. Curto; there were not any additional nominations. Mr. Curto was then unanimously elected. Ms. Reiley then nominated Mr. Davis to continue to serve as Vice Chairman. She noted that she did not always agree with him, but said that she respected him, that he had always done the right thing for the Airports Authority and the region, and that he had always enjoyed bipartisan support. Mr. Davis was unanimously reelected Vice Chairman. The Chairman then nominated Quince T. Brinkley, Jr. to continue to serve as Secretary. Mr. Brinkley was unanimously reelected.

IV. INFORMATION ITEMS

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

Mr. Potter reported on the proposed air traffic reservation or "slot" swap transaction at Reagan National. The Department of Transportation slot auction had been scheduled for eight slots in December. He said the staff was very concerned about how it could handle the resulting changes. The largest concern had been a disruption or interruption of service; Transportation Department staff had however assured that a series of leasebacks of gates to current airlines until the airlines receiving the slots could use them would resolve the problem. Staff was happy with the decisions, and would monitor the situation closely to assure a minimum impact on the traveling public and the Airports Authority's revenues.

The Department of Justice was still reviewing the impact of the slot swaps, focusing particularly on potentially anticompetitive aspects of the slots transferred to US Airways at Reagan National; it was not yet settled when the report would be complete. Mr. Potter added that the General Accountability Office had announced that it would be doing another review of slot and perimeter rule restrictions at Reagan National. This would be a critical issue in the coming year.

Mr. Potter concluded by noting that the unveiling of the Reagan Statue the day before had been a great success, with both Senators Dole and Secretary LaHood present. He commended the staff for organizing the event and keeping the public informed of the related road closures. Despite concerns, there had not been any traffic backups. Ms. Reiley thanked the staff, particularly the police, for an excellent operation. She said it was one of the nicest Airports Authority events she had attended. She noted that she had managed President Reagan's 70th birthday at the Watergate Hotel, and had also worked on the second inaugural. She commended both the Reagan Foundation and the Chairman for their part in the events.

Mr. Brown asked about the increased concentration of US Airways flights at Reagan National. He asked how much control the Airports Authority had over the slots, which the airlines liked to treat as property rights. Mr. Potter said he had not been on the job long, but as best he could tell, the Airports Authority did not have any control.

b. Executive Vice President's Report

Margaret McKeough reported that the heavy traffic season was beginning, a busy time at both Airports. She noted that the first, and unexpected, snowstorm of the season had happened the weekend before; she said both Airports and the Toll Road had been handled very well. There had not been major disruptions. Dulles International had again provided assistance, taking on seven diverted flights from the northeast, particularly the New York airports. She said that two of the diversions were from international airlines that did not serve Dulles International; this was more complicated than with carriers with stations there. Mr. Potter noted that Dulles International had the ability to unload passengers to secure hold rooms, or even run through Customs if necessary, while dealing with such diversions. Many other airports did not have that option. At Dulles International, passengers did not need to be held on the aircraft. Ms. Reiley said that when she was Chairman, Mr. Crawford had pushed to have that option available at Dulles International, responding to many reports at the time of passengers stuck for hours on delayed flights. Mr. Potter observed that the Airports Authority did not control where diverted flights were sent; an incident on a Jet Blue flight in Connecticut had been unfortunate on the past weekend, as Dulles International could have taken more flights.

In the month of September, Ms. McKeough reported, the U.S. aviation industry had seen a 1 percent growth rate. At Reagan National, 1.5 million passengers had constituted a 2 percent increase over 2010. At Dulles International, the number had been 1.9 million, about 9,000 fewer than 2010. Domestically, the decrease had been 1.5 percent, while international passengers had grown by about the same amount. Year-to-date, Reagan National still appeared to be setting a new annual record, with growth thus far at about 5 percent. She expected Dulles International to finish the year about 1 percent below 2010. Cargo at Dulles International continued soft, down 12.5 percent for the month of September, driven principally by a 17 percent drop in international cargo.

The Chairman then turned to New Business.

V. NEW BUSINESS

a. Extension of the Duty Free Americas Contract at Washington Dulles International

Mr. Crawford moved the following resolution:

> WHEREAS, Duty Free Americas has held the duty free concession contract since July 2003, under a contract scheduled to expire July 31, 2013;
>
> WHEREAS, Increasing international enplanements have created the need for an additional duty-free store;

WHEREAS, Duty Free Americas is prepared to invest $1.2 million to build-out such a new store, provided it is allowed three years to amortize the costs; and

WHEREAS, The current contract must be extended to accommodate the three-year amortization schedule; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized and directed to extend the Duty Free Americas' contract through July 13, 2014.

Because the contract extension constituted a contract award without competition, a "sole-source" award, a recorded vote was required. The Chairman announced that with a show of hands all Directors had voted in favor of the Resolution.

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

b. <u>Renewal of the Medical and Dental Insurance Coverage for 2012</u>

Mr. Crawford moved the following resolution, which was unanimously adopted.

WHEREAS, The Medical and Dental insurance coverage funded jointly by the Airports Authority and its employees requires annual renewal;

WHEREAS, The Management has proposed to renew existing coverage with a single program change: increasing emergency room co-pay from $50 to $100;

WHEREAS, The proposed renewals are with the same providers, at no increase in premiums from 2011; and

WHEREAS, The Business Administration Committee has recommended that the Board of Directors approve the modified program, at a cost of $22.4 million; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized and directed to enter into renewed contracts with Aetna Insurance Company and CVS Caremark to administer the Airports Authority's self-insured health and prescription drug services, respectively; to Kaiser Permanente for fully-insured health and prescription drug services; and to Metropolitan Life Insurance Company for the administration of self-insured dental programs; and

RESOLVED, That the program modification, as presented to the Business Administration Committee at its October 19 meeting, is hereby approved.

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>

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

WHEREAS, When adopted in 1988, the Retirement Plan for General Employees and the Retirement Plan for Police Officers and Firefighters defined a covered "employee" as a "permanent employee regularly scheduled for twenty (20) or more hours per week . . ." ;

WHEREAS, When the two Retirement Plans were restated effective January 1, 2000, the definition of "employee" was changed to "any employee who has completed at least one thousand (1,000) hours of service in a Plan year . . ." ;

WHEREAS, The change in the definition of employee made in the 2000 Restatements was apparently inadvertent and unintended;

WHEREAS, On August 18, 2011, the staff Retirement Committee proposed an amendment to the Retirement Plans to correct the definition of employee by restoring it to the definition in the original Retirement Plans; and

WHEREAS, Management under this amendment intends to continue to apply the 2000 definition to individuals who were "employees" under such definition, but only in connection with their employment between January 1, 2000, and October 31, 2011, and to apply the definition as amended by this resolution thereafter; now, therefore, be it

RESOLVED, That the definition of "employee" in the Retirement Plan and the Retirement Plan for Police Officers and Firefighters is hereby amended to the original 1988 version, as presented to the Finance Committee at its October 19, 2011 meeting; and

RESOLVED, That this amendment is effective as of November 1, 2011.

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

d. <u>Sale of Surplus Property Acquired for the Dulles Corridor Project</u>

Ms. Reiley moved the following resolution, which was unanimously adopted:

WHEREAS, In 2009, the Airports Authority, on behalf of the Dulles Metrorail Project, caused 25,279 square feet of land to be acquired for the construction of a pavilion for the Tysons Central 7 Station;

WHEREAS, Although useful during construction as a staging area, 12,956 square feet will be surplus on the completion of construction, and is too small under zoning law for independent development;

WHEREAS, The surplus property is therefore only of value to the owner of the adjacent property, NV Commercial Incorporated;

WHEREAS, NV Commercial Incorporated has agreed to acquire the surplus property at the same price the Airports Authority paid in 2009, $129 per square foot; and

WHEREAS, The Federal Transit Administration has approved the proposed sale of the surplus property; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized and directed to execute the contract for the sale of the surplus property to NV Commercial Incorporated, consistent with the terms presented to the Dulles Corridor Committee at its October 19, 2011 meeting.

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

e. Award of a Contract for On-Call Architectural, Engineering and Planning Services at both Airports

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

WHEREAS, The contract for on-call architectural, engineering and planning services will expire October 31;

WHEREAS, The Planning and Construction Committee concurred in the terms and issuance of a Request for Qualifications (RFQ) for this contract at its February 2011 meeting;

WHEREAS, A Technical Evaluation Committee has considered the firms responding to the RFQ and recommends the selection of Ricondo & Associates, Inc., of Alexandria, VA; and

WHEREAS, The Planning and Construction Committee is satisfied with the results of the competitive procurement process, as presented at its October 19, 2011 meeting; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized and directed to enter into a one-year task order contract, with two one-year extension options, with Ricondo &

Associates, Inc., consistent with the terms presented to the Planning and Construction Committee at its October 19, 2011 meeting.

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

f. Award of a Contract for Architectural and Engineering Services for Terminal A Near-Term Improvements at Reagan National

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

WHEREAS, Increasing passenger traffic in Reagan National Terminal A has required improvements to the terminal to provide space for ticket counters and check-in facilities, concessions, security screening checkpoints, and baggage systems;

WHEREAS, The staff has proposed the retention of a firm to provide task order architectural and engineering services to meet these needs;

WHEREAS, The Planning and Construction Committee concurred in the terms and issuance of a Request for Qualifications (RFQ) at its February 2011 meeting;

WHEREAS, A Technical Evaluation Committee has reviewed the firms responding to the RFQ and recommends the selection of URS, of Hunt Valley, Maryland to provide the services;

WHEREAS, The Planning and Construction Committee is satisfied with the results of the competitive selection process, as presented at its October 19, 2011 meeting; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized and directed to enter into a one-year task order contract, with two one-year extension options, with URS, consistent with the terms presented to the Committee at its October 19, 2011 meeting.

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

VI. UNFINISHED BUSINESS

There was not any unfinished business.

VII. OTHER BUSINESS & ADJOURNMENT

The Chairman announced that the Audit Committee would begin its meeting immediately after the Board Meeting adjourned. He congratulated Mr. Curto on his election as Chairman, and said the Board was fortunate to have the continued services of Mr. Brinkley.

Ms. Reiley congratulated the Chairman on a distinguished term of service during a very difficult time for the Airports Authority. She said he was ending his term at a high point, the selection of the best possible CEO. It was very important for the Airports Authority to have the right person at the right time. In addition, the Airports Authority had just gone through a troublesome time with the rail project. She said she had been proud to serve with Mr. Snelling.

Ms. Reiley then said that to be more transparent Board and Committee Meetings should be simulcast on the internet. This device was being used by local jurisdictions. The Board's new meeting space was still tight, and many citizens interested could not always be there anyway. If not all meetings, at least the Dulles Corridor Committee meetings should be simulcast. She would like the next Chairman to take that up.

The Chairman said he was already formally working on becoming more open with the new Chairman, Secretary, Board Counsel and the CEO. Ms. Reiley said the Board had been pleasantly surprised with the growing interest that developed with the rail project. The Airports Authority had erred in not moving more quickly in preparing for the increased interest, but there was still time to correct matters.