BOARD OF DIRECTORS MEETING

Minutes of June 2, 2010

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 9:50 a.m. The following Directors were present during the meeting:

Charles D. Snelling, Chairman
Michael L. O'Reilly, Vice Chairman
Robert Clarke Brown
William W. Cobey Jr.
Frank M. Conner III
H.R. Crawford
Michael D. Epstein
Jack A. Garson
Leonard Manning
Dennis L. Martire
Mame Reiley
David G. Speck

The Secretary and Executive Management were present:

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

I. MINUTES OF THE May 5, 2010 BOARD MEETING

The Chairman called for approval of the minutes of the May 5, 2010 Board Meeting, which were unanimously adopted.

II. COMMITTEE REPORTS

a. <u>Audit Committee</u>

The Vice Chairman reported that the Audit Committee had last met earlier that morning. He reported that Heather Plitt of Clifton Gunderson LLP had presented the results of the audits of the financial statements for the pension plans. Additionally, Kelly Thornton of PricewaterhouseCoopers had presented its Management letter on the 2009 financial audit. The Vice Chairman also reported that the

Vice President of Audit had presented the results of the travel reimbursements audit.

b. Business Administration Committee

Mr. Manning reported that the Business Administration Committee had last met on May 5 in executive session. He noted that the Committee had discussed the continued operation of the Dulles Jet Center.

c. Dulles Corridor Committee

Ms. Reiley reported that the Dulles Corridor Committee had met on May 5 and again earlier that morning.

Ms. Reiley said that the May 5 meeting had been held in executive session, and that the Committee had discussed concerns about the allocation of costs of the railcars for the Metrorail project. She noted that she had requested staff provide additional information on the issue.

Ms. Reiley reported that the Dulles Corridor and Finance Committees had met in a Special Joint Meeting earlier that morning. The Committees had approved the amendment to the Cooperative Agreement between the Washington Metropolitan Area Transit Authority (Transit Authority) and the Airports Authority. Ms. Reiley reported that the amendment provided for: 1) the purchase by the Transit Authority of 64 railcars for Phase 2 of the Project; 2) the funding of that purchase by the Airports Authority; and 3) the sharing, on a 50/50 basis, of certain railcar procurements costs by the Transit Authority and Airports Authority. She added that the Committees had also approved the amendment to the 2010 Capital Improvement Budget for the Dulles Corridor Enterprise Fund to add the Rail Phase 2 Vehicles (64 railcars) project, and to authorize an increase in capital expenditures for the Rail Phase 2 - Vehicles (64 railcars) project to fund the purchase by the Transit Authority of 64 additional rail cars.

Ms. Reiley said that she would offer a resolution later in the day's meeting on behalf of the Finance and Dulles Corridor Committees,

d. Finance Committee

Mr. Conner noted that the Finance Committee had last met on June 2 in a special joint meeting with the Dulles Corridor Committee that Ms. Reiley had just discussed. As she had reported, the joint committees had approved a recommendation regarding the purchase of rail cars relative to both Phase 1 and Phase 2 of the Metrorail Project.

Mr. Conner stated that the Committee had also met on May 5, when it had received an update on the Series 2010 Dulles Toll Road Revenue Bond issuance. He reminded the Board that at that time, the demand for the bonds had been high and market conditions had been stable. The Airports Authority had posted its Preliminary Official Statement and had received a higher rating on its subordinated lien than it had originally anticipated. Mr. Conner described the turbulent financial market that followed and noted the 1,000-point drop in the Dow Jones Industrial Average and the problematic Greek debt situation.

Mr. Conner said that the Airports Authority had originally considered entering the market on May 10 and 11. Given the volatility of the market, a decision had been made to withdraw. Mr. Conner reported that midway through the effort, a decision had been made to monitor the situation daily because of the belief that the long-term prospects for the Airports Authority to reenter the market were not ideal. He indicated that efforts had been dedicated to the preparation of appropriate documentation and, most importantly, getting the long-term investors to a point of decision.

The Airports Authority had taken the advice of its underwriters and financial advisors and had decided to test the market on May 18. As a result, a decision had been made to reduce the amount of the Build American Bond (BAB) issuance to $150 million, and had imposed an 8 percent coupon as a limit. Mr. Conner further stated that the Airports Authority had ultimately sold approximately $432 million in bonds.

Mr. Conner reported that the total interest cost of the entire financing totaled 6.13 percent, which, when compared to the previous year's deal, had been a good measure. The total interest cost from last year's deal was 6.026 percent. He cautioned the Board to recall that 44 percent of the 2010 deal had been completed with a subordinated lien. Mr. Conner also noted that the staff had continued to look at the issuance of additional BABs during the course of the year and would probably come before the Board later for full issuance authorization through the end of the year. He added that authorization would be sought in part because of the likelihood that the subsidy on the BABs would decrease to 32 percent, opposed to 35 percent last year, which would be better than the amount anticipated several months ago.

Mr. Conner reported that with the recent offering the Airports Authority had completed all financing for Phase 1, successfully raising more capital than anticipated in 2010. He cautioned that the Internal Revenue Service (IRS) would audit issuers with more than one BAB issuance to ensure that they were issued at appropriate pricing levels. Mr. Conner stated that the Airports Authority had conducted its due diligence, and that he did not expect any difficulties.

Mr. Brown stated that recent bond sale had demonstrated the benefits of the negotiated financing process the Airports Authority had used. Because of its flexibility, the bond sale had proven successful in a difficult market.

Mr. Epstein inquired about the IRS audits that Mr. Conner had previously made reference to. Mr. Conner explained that the IRS had been concerned that if bonds had been issued at a coupon that was too high, the federal subsidy of 35 percent would essentially be inappropriate and may be disallowed, if it was reflected in the secondary trading. He noted that while the IRS audit process was not appealing to the Airports Authority, the Airports Authority is prepared if an audit were to take place.

e. <u>Legal and Governance Committee</u>

Mr. Garson reported that the Legal and Governance Committee had last met on May 5, 2010 in executive session to discuss the selection of a new President and Chief Executive Officer.

f. <u>Strategic Development Committee</u>

Mr. Brown reported that the Strategic Development Committee had last met earlier that morning. He noted that the Committee had not met in April or May. He noted that in light of the amount of time since the last Committee meeting, and his scheduled absence from the June 16 Committee meeting, that he had requested the day's meeting, which had been held in executive session.

He reported that Mark Treadaway had presented the Air Service Development reports, which had covered several months of activity. The Committee had reviewed the Airports Authority's participation in the two principal airport associations—the American Association of Airport Executives and the Airports Council International, in which staff from many different departments are active. Mr. Brown stated that staff participation was a major contribution that the Airports Authority made to the industry and to other airports.

Mr. Brown reported that the Committee had also received a staff report on the legislative activities of the trade associations, as well as the professional development work that they perform. He noted that the associations play an advocacy role on national industry issues in the Congress, and that the Committee had discussed the Airports Authority's separate legislative representation through its government relations consultants, who provided direct support for specific issues of unique interest. Mr. Brown stated that additional discussion on government relations would occur in the future.

III. INFORMATION ITEMS

a. President's Report

The President and Chief Executive Officer reported that she and Margaret McKeough had prepared a written report for the Board, which included a comprehensive list of issues throughout the Airports Authority. Ms. Hampton noted that emphasis had been given to the customer service initiatives and to the environmental green team in response to the Board's request for management to increase its involvement in those activities. She reported that management is considering branding and expanding these elements and would report back to the Board.

Ms. Hampton reported that the Airports Authority had completed its first week of testing of the piers to be used on the Dulles Corridor that had been built at the time I-66 was constructed. The tests had been successful. Two additional weekends of testing had been scheduled, which would impact the Metro stations operations. Ms. Hampton reported that ultimately all 11 piers would be tested, noting that one of the piers would not require the Metro station closure because of its location on the side of the road. An oral update would be provided at the June 16 Committee meetings; a written report would follow.

The Chairman said that the President had ensured that the Board received essential information of the Airports Authority's operation. He noted that during executive session of an earlier meeting that the Board had agreed that the new President's collaboration, cooperation, abilities and general performance was outstanding.

b. Executive Vice President's Report

Ms. McKeough reported the Airports Authority continued to closely monitor the Transportation Security Administration's plans for the deployment of the Advanced Imaging Technology at the screening checkpoints at both Airports. While TSA had not announced specific plans, Ms. McKeough wanted the Board to be aware that it is engaged in the deployment process. Details would be forthcoming.

Ms. McKeough advised the Board that the Airports Authority had received a commitment from TSA for inline baggage screening funding at Reagan National. She stated that the process had been long overdue, noting that four inline baggage systems projects were underway in the capital programs at both Airports.

Ms. McKeough reported that the Airports Authority had, effective June 1, implemented the E-Verify program recently approved by the Board in connection with construction contracts. Also, effective June 4, the Airports Authority had implemented the Board policy for a commitment to the employment of veterans at the Airports Authority and its contractors; both programs included new business procurement arrangements.

Ms. McKeough corrected a misstatement she had made at the May Board meeting where she had underrepresented the funding for the Airports Authority's Summer Youth Program. She stated that the Airports Authority had kicked off the summer hiring program with a larger response than the previous year; approximately 65 students would be employed during the summer. Ms. McKeough reported that the Airports Authority would expend almost $400,000 to fund the program, rather than $100,000 that she had previously reported.

Ms. McKeough reported that approximately 1.6 million passengers had been served at Reagan National in April 2010. When compared to April 2009, the figures showed an increase of almost 1.4 percent. At Dulles International, approximately 2 million passengers had been served, which represented a 5 percent decrease compared to April 2009. Ms. McKeough noted that the decrease had been driven by the Iceland volcanic eruption and the resulting changes in international travel activity.

Ms. McKeough reported that cargo activity at Dulles International had increased by approximately 20 percent. Freight had increased both domestically and internationally, 12 percent and 27 percent, respectively. Year to date, Ms. McKeough reported that both Airports were tracking at an approximately one percent decline in passenger activity.

Mr. Garson inquired how the cargo activity had compared to similar airports around the country. Ms. McKeough answered that staff had as yet been unable to obtain monthly or year-to-date ATA airline stats.

Mr. Garson asked about the comparison of passenger activity at Reagan National and Dulles International to other airports. Ms. McKeough stated that a few airports, including Baltimore Washington International Thurgood Marshall, appeared to be increasing its activity, but that passenger activity at both Reagan National and Dulles International had remained consistent.

Mr. Garson asked whether the eastern coastal location of Reagan National and Dulles International exposed them to certain risks, such as the Icelandic volcanic ash situation, that did not impact some other airports around the country. Ms. McKeough stated that since one of the airports included an international component, it would be affected but that the Airports' geographical location otherwise served as an advantage.

Mr. Epstein inquired whether passengers were exposed to high radiation levels when the new TSA body scanner was used. Ms. McKeough indicated that she was unaware of any danger associated with the scanner. She also noted that while the TSA had contracted with several vendors, including Rapiscan, the Airports Authority did not presently use it. Mr. Snelling stated that he had recently participated in a Rapiscan demonstration, where participants had been told that the amount of radiation a passenger receives using Rapiscan is equivalent to the amount received at 30,000 feet altitude for three minutes. Ms. McKeough said that staff would investigate and report back to the Board.

Mr. Crawford noted that the 2010 Budget had been adopted under his Chairmanship and he then inquired how well the actual budget tracked to the approved budget. Ms. Hampton responded that the 2010 Budget had remained close to target. She indicated that the Airports Authority had not achieved the required March debt service coverage, so an increase in April landing fees had occurred. As a result of the increase, the debt service coverage level had reached 1.30.

Mr. Crawford reported that although Ms. McKeough had corrected the misstatement about the budgeted amount for the 2010 Summer Program, he said that it was important to note again that this year's budget for the Program is $400,000 instead of $100,000.

Mr. Crawford asked if Michael Brogan, who was acting on Arl Williams' behalf, was present at the day's meeting. Mr. Crawford indicated that Mr. Brogan's position was an important one and that all of the Directors should be acquainted with him. Ms. Hampton replied that Mr. Brogan would be present at the next meeting.

Mr. Crawford noted that the Reagan National taxi cab contract awarded several years ago was an important one. While the contract is up for renewal, Mr. Crawford stated that he was certain that it would not be extended. He said that he hoped that that the Airports Authority would solicit new bids since he believed the initial award had been questionable.

The Chairman thanked Margaret McKeough for her assistance in the seamless transition with the new President.

IV. NEW BUSINESS

a. Proposed Amendment to the WMATA Agreement and Related 2010 Budget Amendment for Dulles Corridor Enterprise Fund

Ms. Reiley reported that she would propose action on two related resolutions recommended by the Dulles Corridor and Finance Committees. The first resolution would approve the amendment to the cooperative agreement between the WMATA and the Airports Authority for the Dulles Corridor Metrorail Project. The second resolution would approve the amendment to the 2010 Budget relating to the purchase of railcars for Phase 2 of the Dulles Corridor Metrorail Project. She then moved the adoption of both resolutions:

RESOLUTION 1:

WHEREAS, in September 2007, the Metropolitan Washington Airports Authority ("Airports Authority") and the Washington Metropolitan Area Transit Authority ("Transit Authority") executed a Cooperative Agreement for the Dulles Corridor Metrorail Project ("Cooperative Agreement");

WHEREAS, under the Cooperative Agreement, the Transit Authority is responsible for the purchase of 64 railcars for Phase 1 of the Dulles Corridor Metrorail Project ("Project"), and the Airports Authority is responsible for funding the Transit Authority purchase of these cars;

WHEREAS, the Cooperative Agreement includes a budget for the purchase of Phase 1 rail cars of $189,490,000;

WHEREAS, in 2009, the Transit Authority undertook a consolidated railcar procurement;

WHEREAS, on May 10, 2010, to effectuate this consolidated railcar procurement, the Transit Authority Board of Directors, voted to award a railcar purchase contract ("Railcar Contract") to Kawasaki Railcar, Inc., which would include 64 railcars for Phase 1 of the Project, as well as an option for an additional 64 railcars for Phase 2, and to approve the sharing by the Transit Authority and the Airports Authority, on a 50/50 basis, of the railcar design and development costs;

WHEREAS, an amendment to the Cooperative Agreement ("First Amendment") has been presented to the Airports Authority Dulles Corridor and Finance Committees at a joint meeting of the Committees on June 2, 2010, that provides (i) for the purchase by the Transit Authority under the Railcar Contract of 64 railcars for Phase 1 of the Project and the exercise by the Transit Authority of an option to purchase an additional 64 cars for Phase 2, all at a projected cost of $395,358,200, (ii) for the Airports Authority's funding of the Transit Authority's purchase of these 128 cars, and (iii) for the even sharing between the Transit Authority and the Airports Authority of the approximately $102,000,000 of railcar design and development costs under the Railcar Contract;

WHEREAS, the Committees were satisfied that, were it necessary due to changed circumstances not to proceed with the purchase of the 64 Phase 2 cars, the Airports Authority could avoid the purchase without cost by timely notifying the Transit Authority not to exercise the option scheduled for August 2012 and, in the event the option were exercised, could cause the termination of the purchase under the termination for convenience provisions of the contract between the Transit Authority and Kawasaki Rail Car, Inc.; and

WHEREAS, the Committees have recommended to the Board of Directors that it approve the First Amendment, as amended at their direction;

NOW, THEREFORE, BE IT RESOLVED

1. That the First Amendment is approved;

2. That the Interim President and Chief Executive Officer is authorized to execute the First Amendment, in substantially the form as presented to the Board; and

3. That this Resolution shall be effective upon its adoption.

RESOLUTION 2:

WHEREAS, in Resolution No. 10-21, the Board of Directors approved and authorized the execution of a First Amendment to the Cooperative Agreement between the Washington Metropolitan Area Transit Authority ("Transit Authority") and the Metropolitan Washington Airports Authority ("Airports Authority") for the Dulles Corridor Metrorail Project ("First Amendment") which provides, among other things, (i) for the purchase by the Transit Authority of 64 railcars for Phase 1 of the Dulles Corridor Metrorail Project ("Project") under a Transit Authority contract with Kawasaki Rail Car, Inc., and for the exercise by the Transit Authority of an option to purchase an additional 64 railcars for Phase 2 of the Project (unless timely notified by the Airports Authority not to exercise this option), (ii) for the Airports Authority's funding of the Transit Authority's purchase of these 128 railcars by the Airports Authority, and (iii) for the sharing by the Transit Authority and the Airports Authority, on a 50/50 basis, of certain railcar design and development costs that the Transit Authority will incur as part of these railcar purchases ("Development Costs");

WHEREAS, in Resolution 09-41, the Board of Directors approved the 2010 Budget for the Airports Authority;

WHEREAS, under the approved 2010 Budget, the Capital Improvement Program for the Dulles Corridor Enterprise Fund ("CIP") provides sufficient authorization with respect to the Phase 1 railcar purchase addressed by the First Amendment (including an allocation to the "Rail Phase 1 - Vehicles (64 Railcars)" project of 50 percent, or approximately $25,500,000, of the Airports Authority's share of the Development Costs), but does not provide any authorization with respect to Phase 2 railcars;

WHEREAS, an amendment to the 2010 Budget ("Budget Amendment") (attached hereto) has been presented to the Dulles Corridor and Finance Committees which amends the CIP (i) by adding thereto a new project, "Rail Phase 2 – Vehicles (64 Railcars)," at a total project cost of $200,240,723 (which includes an allocation to this new Phase 2 railcar project of 50 percent, or approximately $25,500,000, of the Airports Authority's share of the Development Costs), and (ii) by providing for capital expenditures, in 2010, of $25,500,000 under the "Rail Phase 2 – Vehicles (64 Railcars)" project to fund the purchase by the Transit Authority of these Phase 2 cars;

WHEREAS, the Committees have reviewed this Budget Amendment, and have recommended that the Board of Directors approve it; and

WHEREAS, the Board of Directors is satisfied that the adoption of the Budget Amendment, as recommended by the Committees, is in the best interest of the Airports Authority;

NOW, THEREFORE, BE IT RESOLVED

1. That the Budget Amendment is approved, and the 2010 Budget is amended (i) by adding to the Capital Improvement Program for the Dulles Corridor Enterprise Fund a new project, "Rail Phase 2 – Vehicles (64 Railcars)," at a total project cost of $200,240,723 (which includes an allocation to this project of 50 percent, or approximately $25,500,000, of the Airports Authority's share of Development Costs under the Railcar Contract), and (ii) by providing for capital expenditures, in 2010, of $25,500,000 under the "Rail Phase 2 – Vehicles (64 Railcars)" project to fund the purchase by the Transit Authority of these Phase 2 railcars; and

2. That this Resolution shall be effective upon its adoption.

At Ms. Reiley's suggestion, the Vice Chairman noted that the General Counsel had concurred that the revised language regarding the termination for convenience be included in the proposed resolution for the Cooperative Agreement. He asked if the present motion included the revised language. The Chairman clarified that the motion as presented was in conformance with the amended version approved by the Committees.

The resolutions were thereupon unanimously approved by all twelve Directors present.

The final resolutions included in the Board of Directors Office include a copy of the staff recommendation paper.

Ms. Reiley acknowledged that the staff had worked hard in negotiations with WMATA, and she congratulated them in reaching a fair agreement to split the engineering costs. The Chairman commented that the Board had also played an important role.

V. UNFINISHED BUSINESS

There was not any unfinished business.

VI. OTHER BUSINESS & ADJOURNMENT

Mr. Speck informed the Board that he and Mr. Manning would attend a Security Conference in Israel and thus would not attend the June 16 Committee Meetings. The Chairman stated that he was sure that the Board would receive a good report from this very important trip.

Mr. Brown referred to a July 6 special meeting that had been scheduled and noted that he had not received a meeting notification. The Secretary reported that the meeting had first been announced the prior day and that a notification would be sent later that day to all Directors. The Chairman indicated that a Board Retreat was tentatively planned for August 2 and 3. He noted that he was working with Professor Gregory Shea of the Wharton School to facilitate the Board retreat. Mr. Shea would be addressing the ability to maximize the relationship between management and the Board. Several Directors indicated that they would not be available on the proposed retreat dates.

Mr. Speck noted that the September Board meeting would be held on the Wednesday before Labor Day and suggested that all check their availability to ensure that no conflicts would occur. The Chairman suggested that the Secretary poll Directors on their availability for the proposed July 6 and August Retreat meetings.

There being no further business, the meeting was adjourned at 10:20 a.m.

Respectfully submitted:

Quince T. Brinkley, Jr.
Vice President and Secretary

7/7/10
approved