BOARD OF DIRECTORS MEETING

Minutes of September 19, 2012

The regular meeting of the Board of Directors was held in the first floor Conference Rooms 1A, 1B and 1C at 1 Aviation Circle. The Chairman called the meeting to order at 8:07 a.m. Twelve Directors were present during the meeting:

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

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

The Chairman announced that the Authority would be meeting twice in September, and noted the extensive agenda for the Board and Committee Meetings. Before moving into the scheduled Committee Meetings, the day's agenda had been modified to address one critical issue. He asked for a motion to amend the agenda to consider a matter that had not been noticed for the day's meeting.

Mr. O'Reilly said his motion related to the pending litigation over the removal of Board Member Dennis Martire, and moved that the matter be considered. The Chairman called for a vote, and the Board unanimously agreed to consider the motion. Mr. O'Reilly then reported that agreements had been reached to settle the two pending lawsuits over Mr. Martire's removal, and moved that the Board approve the agreements and authorize the Chairman to execute them on behalf of the Authority. The Board unanimously agreed.

The Chairman then said that the Board had decided to reseat Dennis Martire and to permit him to participate as a full voting member of the Board of Directors. He asked Mr. Martire to come to the table.

Mr. Martire said he remained confident about the litigation. He also said that the lawsuits were, however, becoming too expensive for the Airports Authority, for him personally and for the taxpayers of Virginia. Second, the Authority needed the litigation resolved so that it could get back to its important work. Operating Reagan National and Dulles International Airports and overseeing the Silver Line construction were among the most important jobs in the region. Despite all the negative press, the Authority and its staff had performed these jobs quite successfully. Secretary of Transportation Ray LaHood had described the Silver Line project as a model for the rest of the country and had compared it to such historical projects as the Panama Canal and the Hoover Dam. The tremendous success of the project thus far made him optimistic that Phase 2, like Phase 1, would include a voluntary project labor agreement.

In summary, Mr. Martire said the agreement was the right thing to do, and that it would allow the Authority to complete its important work. He had also decided, in order to prevent further distractions to the Authority, that he would resign his membership on the Board at the end of October. In the meantime, he looked forward to working to improve the Authority. He thanked the Board Members who had supported him throughout the past several months. The Board had to call balls and strikes on what was best for the Airports, for the passengers and for the rail users. Such decisions were not always "politically correct". The Authority did have an obligation to listen to the views of elected leaders, but an obligation as well to do what it believed to be in the best interests of the public it served. He wished the Authority continued success in the future, and said that he planned to help the Authority any way that he could in the future.

The Chairman said the Board was pleased that agreement could be reached among Mr. Martire, the Commonwealth and the Authority. The agreement would bring all pending litigation to a close, and the parties would act expeditiously to dismiss the litigation as soon as practicable.

The Chairman then asked for a motion to recess the Meeting; Mr. Brown so moved and the Board unanimously agreed. The Meeting was therefore recessed at 8:12 a.m.

At 10:45 a.m., after meetings of the Audit-Legal Committee and the Executive and Governance Committee, the Board Meeting reconvened with the same attendance.

I. MINUTES OF THE JULY 18, 2012 MEETING AND THE SEPTEMBER 5, 2012 SPECIAL MEETING

The Chairman called for the approval of the Minutes of the July 18 Meeting and of the September 5 Special Meeting, both of which were unanimously adopted.

II. COMMITTEE REPORTS

a. Audit-Legal Committee, Part 1 – Shirley Robinson Hall, Audit Chairman

Ms. Hall reported that the Committee had met in Audit session twice since the July Board Meeting. On July 18, it had met in executive session to hear the report on the employee and fire and police pension funds. Valerie Holt, Vice President for Audit, and Andy Rountree, Vice President and Chief Financial Officer, had discussed remediation plans to respond to the recommendations of the 2011 Report to Management.

Earlier in the morning on September 19, the Committee had heard an update on the status of the remediation, and audit reports on various internal matters. In public session, the Committee had reviewed the selection process for the financial statement auditors for 2012, 2013 and 2014. Directors had participated in the process; Ms. Hall had chaired the technical evaluation committee. The Committee had reached a consensus on the award of the contract to PricewaterhouseCoopers. The contract would be for three years with the possibility of two one-year extensions. The annual cost would be $965,283 and the full five-year cost would be $4,826,415.

b. Audit-Legal Committee, Part 2 – Michael L. O'Reilly, Legal Chairman

Mr. O'Reilly reported that the Committee had met in Legal session both July 18 and September 5. The July meeting had been entirely in executive session to hear the litigation report. The September meeting had also been held in executive sessions, where the Committee had heard a litigation update on pending litigation and a status update on the Inspector General report.

c. Business Administration Committee – Warner H. Session, Chairman

Mr. Session reported that the Business Administration Committee had met twice since the July Board Meeting. Most recently, it had met in special session on September 5 to consider a single, very important item: the food service and retail concession management contract. Nearly all Directors had been present.

After an exhaustive review of the entire concession program, the Committee had agreed with the staff and had recommended the award of the contract to MarketPlace Development of Boston, Massachusetts. The Committee had reported at the Special Board of Directors Meeting that same day, and the Board had unanimously voted to award the contract.

At the Committee's July 18 meeting, it had taken two actions now ready for Board action. The first concerned a Disadvantaged Business Enterprise (DBE) goal for Phase 2 of the Dulles Corridor Metrorail Project. The Department of Transportation required that the Authority, as sponsor of the Metrorail project, set a DBE goal for the entire Phase 2 project.

The Committee had approved the proposed 25 percent goal, which then had to be published for public comment. Staff had since consulted with the three local state Departments of Transportation and local minority contractors associations, all of which had concurred in the 25 percent goal. As the Committee had agreed, the goal was now before the Board for final approval, without further review by the Committee. Mr. Session said he would offer a resolution to adopt the goal later in the meeting.

The second action item had been a proposed contract for electronic security maintenance services at both Airports. The contract would cover maintenance, repair, modification and expansion of all the secure doors and gates and over 3500 closed-circuit television cameras with recording capabilities. The staff had recommended awarding the contract to Tyco Integrated Security, formerly known as ADT Federal Systems. The term would be for two years, with three one-year extension options; the five-year cost would be $23.2 million. It would also be the subject of a resolution.

d. <u>Dulles Corridor Committee</u> – Tom Davis, Chairman

Mr. Davis reported that the Dulles Corridor Committee had last met July 18. It had first heard the regular Dulles Corridor Metrorail May cost summary and project update. Expenditures had been at $31 million for the month, bringing the total to $1.946 billion. The project was still forecast to be finished within its amended budget. Up-to-date figures would be available at the Committee meeting later in the day.

The Committee had also heard the Dulles Corridor Enterprise Financial Report for June. Revenues had been up 8.2 percent, but were slightly below the budgeted level. There had been a slight decrease in transactions from the prior year, though expectations had been that they would remain level.

The Committee had also covered two action items. One had been a proposed contract with Dominion Virginia Power for electric power to be used in startup testing on the Metrorail line. Because other providers were not available, the contract was technically sole-source, and the Board approved it at its Special Meeting September 5.

The second item was an architectural/engineering/planning consultant contract for task planning work on the Toll Road. The Committee unanimously agreed to award the contract to HNTB, the firm that had prevailed in a fully competitive process. This contract would be brought before the Board for action later in the meeting.

e. Executive and Governance Committee – Michael Curto, Chairman

Mr. Curto reported that the Executive and Governance Committee had last met September 5, just before the Special Board Meeting. In the course of a nearly three-hour meeting, the Committee had taken the next major steps towards enhancing the transparency of Authority operations.

The Committee had first considered a revised Travel Policy. For the first time, Directors and staff would be subject to the same travel rules. Also for the first time, Directors would require advance authorization for non-routine travel, except for events where all Members of the Board or a committee had been invited. Limits would be explicit on daily expenses, and all travel costs would be made publicly available.

Mr. Curto said he was confident that the new rules, though strict, would still allow Directors to make reasonable trips to educate themselves and to meet their fiduciary responsibilities to the Authority. The Travel Policy was approved at the Special Board Meeting immediately following the committee session. It was already in effect, for all travel beginning after September 5.

At the same meeting, the Committee had considered a revised Code of Ethics for the Board of Directors. This revision constituted a sweeping change, as it added to the original Code provisions reflecting best practices in surrounding governmental agencies, as well as at other major airports.

The proposed Code started with the statutory provisions that Directors and their immediate families may not own interests in aviation–related businesses or entities otherwise doing business with the Authority. The requirements had all been made clearer, and the restrictions extended to other members of a family. The Code would also, for the first time, include nepotism provisions, post-employment restrictions and an extensive set of limits on the receipt of gifts.

New standards on the "use of position" were included: Directors were not to use their positions with the Authority for personal gain, or to influence hiring decisions at the Authority or among its contractors.

The proposed Code also mandated the appointment of an Ethics Officer to administer it, and included an enforcement mechanism. Final decisions would be proposed by a special committee and made by the Board. Another new provision addressed the release of confidential information.

At the Committee's meeting earlier in the day, the Code had been reviewed in some detail, and the Committee had discussed some amendments that would be further reviewed by a special subcommittee he had appointed.

The Committee had also considered the employee code of ethics, and agreed to its amendments as well. Mr. Curto said he would offer a motion to approve both codes later in the meeting.

f. Finance Committee – Frank M. Conner, Chairman

Mr. Conner reported the Finance Committee had last met on July 18. The Committee heard a number of reports. The first was on the financial performance of the Aviation Enterprise. The financial advisors had reported on Moody's recent downgrade of global banks and securities firms, which had not yet had any impact on the Authority.

There had also been a report on the Authority's application for Transportation Infrastructure Finance and Innovation Act (TIFIA) support for the Metrorail project. Staff had also described a proposal for securitization of the Full Funding Grant Agreement for the project; that would be further discussed at the Committee meeting later in the day. Finally, there had been an update on the $150 million grant from the Commonwealth of Virginia, which would be used to pay down tolls.

g. Joint Finance – Dulles Corridor Committee – Frank M. Conner and Tom Davis, Co-Chairmen

Mr. Conner reported that the Joint Finance – Dulles Corridor Committee had last met July 18 to consider a single issue: to continue the toll setting process for 2013 through 2015.

The three-year staff proposal would increase the rates 50¢ in 2013, 75¢ in 2014, and one dollar in 2015. The Committee had authorized the staff to take the proposal to the Dulles Corridor Advisory Committee and to public meetings along the Corridor.

The staff was continuing to work on further grants or a TIFIA loan, which would have a dramatic impact on toll setting in the years to come.

h. Strategic Planning and Development Committee – H.R. Crawford, Chairman

Mr. Crawford reported that the Strategic Planning and Development Committee had held its third quarterly meeting on September 5. The Committee had first heard a report on organizational streamlining in the Engineering Division. For many years, Parsons Management Consultants (PMC) had served under contract as an extension of the engineering staff offices. This approach to contract management for the aviation capital construction program had been very successful, as the Authority had doubled the size of the Saarinen Terminal and had built a new midfield terminal at Dulles International, and an entirely new terminal building at Reagan National.

PMC staff could come and go as necessary, depending on the amount of work to be done. In 2007, when $600 million in construction was going on, PMC had reached a peak cost of $56 million. With the smaller program currently under way, the cost was about $17 million.

The new plan was to shift responsibilities from PMC to new staff employees. Slots had been authorized in the 2011 Budget, and would be funded in the 2013 Budget. The Committee was impressed with the plan and concurred in it. Frank Holly, Vice President for Engineering, had assured the Committee that such substantial contract support would not be necessary in the future, unless the Authority undertook another massive capital construction program.

The Committee had next heard a comprehensive update on plans for improving Reagan National. The plans were in response to the steady growth at Reagan National as the airlines carried out slot swaps and added larger aircraft for longer flights beyond the Airport's long-established perimeter rule. The long-range passengers also carried more baggage and parked more cars in the garages, where they also left their cars longer.

In addition, US Airways was increasing its hubbing operations, which required that many passengers pass between the Middle and North Piers, which they could not do without either riding a ramp bus or passing through security.

The results for the short term would be a number of enhancements to Terminal A and expansions where possible of security check areas. For the long term, planners were analyzing a possible new passageway for the US Airways hubbing passengers and additional parking spaces for all the new customers. Staff was also reviewing older plans for constructing a new Terminal A, with gates that could handle more flights at the same time.

Finally, the Committee had been advised that airline services had become a moving target at Reagan National, and that the Congress was likely to change the operating ground rules again in the future. Mr. Crawford said the Committee was quite satisfied that the staff was capable to deal with the problems of growth, and that the Committee, together with the customers, was looking forward to the implementation of the current plans.

Mark Treadaway, Vice President for Air Service Planning and Development, had presented several amendments to the cooperative promotional program, to increase support for domestic services at Dulles International and to eliminate the funding for Reagan National, all within current budgetary limitations. The Committee had concurred in the proposed revisions. The Committee had also accepted the quarterly Air Service Development Report.

Mr. Crawford said the Committee's next meeting, which would include a comprehensive Dulles update, would occur in December. It would probably be the last Committee meeting he would chair, as his term would expire in January 2013.

III. INFORMATION ITEMS

a. President's Report

Mr. Potter began by noting that Elmer Tippett, Vice President for Public Safety, could not be present and that Gary Hart was filling in for him. Mr. Hart had held senior police positions at both Airports, and had recently been promoted to Deputy Police Chief.

Mr. Potter then reported that the General Accountability Office (GAO) had issued its report on slot-controlled airports to the Senate Commerce Committee. The report was a result of the debate on the slot issues during the recent Federal Aviation Administration (FAA) Reauthorization Act. It addressed two areas: the FAA's administration of the slot rules at Reagan National and the three New York area airports, and the impact of the additional eight beyond-perimeter flights at Reagan National on services at all three Washington-area airports.

The GAO had recommended the FAA improve its administration of the slot rules, particularly requiring more detailed information from the airlines on slot usage. As to the additional flights at Reagan National, the GAO had concluded that "[t]he additional beyond-perimeter flights would have a limited effect on Reagan National, Dulles and BWI." As staff had reported to the Strategic Planning and Development Committee, they knew that the impact on Reagan National and Dulles had already been substantial. They had been invited to comment on the report and had submitted a formal response strongly disagreeing with the conclusions on the impact on the Authority's two airports. That response had been published in the final report, and the staff would be sharing it with local elected officials.

Mr. Potter said the staff was carefully monitoring the potential sequestration legislation for its impact on the Authority. The Office of Management and Budget had clarified two points. The Airport Improvement Program, the grant program supporting capital development, was exempt from sequestration. Other FAA offices, including air traffic control, and programs of the Department of Homeland Security and Customs and Border Protection (CBP), however, could be cut as much as 8 percent.

Three new programs being implemented at Dulles International with the Transportation Security Administration (TSA) would provide greater convenience for passengers. The first, never before tried, would provide travelers with real-time information on security lines at the two main screening points, so that they could select the line most convenient to them. The information would be on flat-screen televisions in the terminal, or through "smart phone" applications.

In addition, TSA pre-check procedures would be available to speed eligible and registered passengers through the screening lines. Dulles International was the first airport to offer a separate pre-check screening area; it would be located between the entrances to the security mezzanine entrances. To assist utilization, Dulles International would be the first airport to offer an on-site information and registration center immediately next to the pre-check area. The TSA and CBP would be present at the information center to promote both the pre-check program and the global entry program, which offered expedited customs clearance through self-serve kiosks.

With respect to air service development, Emirates Airlines had become the 23rd international carrier at Dulles International. It was flying a daily non-stop to Dubai, with connection opportunities around the globe. Dulles International now offered two daily non-stop flights to Dubai.

Saturday, September 22, would be the 20th Dulles Day plane pull to raise funds for the Special Olympics. The event would be an open house for the community, with activities for children and families, as well as the plane pull. Volunteer teams would compete to pull a FedEx aircraft across a finish line in the shortest time. In 2011, the event had drawn 11,000 visitors and had raised over $100,000 for the Special Olympics.

On the Dulles Access Highway, a new "flyover" ramp from the eastbound lanes to the I-495 Capital Beltway had opened on September 8. The ramp eliminated the challenging merger through eastbound Toll Road traffic to the Beltway exit. It would thus provide safety benefits for both airport users and toll road drivers.

With respect to noise walls along the Toll Road, meetings had begun with local groups. They had already been held in the Chatham Ford, Symphony Meadows, and Shouse Village neighborhoods. Each of these had been very concerned about noise issues, and each of which had not been identified as priority areas after a sound wall analysis. Dialogue would continue, and sessions would be held with other neighborhoods as well.

The 30-day comment period on the proposed Dulles Toll Road rate increases had just concluded. Outreach had included an on-line video on the Authority website and three community forums. The Chairman, Mr. Brown and Mr. Conner had each attended a forum. Nearly 170 members of the public had attended the forums, including several elected officials and their staff. About 580 comments had been received at the public forums and on-line. This compared to 226 comments received in 2009, the last time the tolls had been raised. The comments could be categorized broadly as raising issues of fairness to Toll Road users, of the impacts of diverting traffic to local roads, of operational issues with the EZ Pass, and of alternative approaches to avoid toll increases. The staff would make a full report on the public comment to the Board in October and would respond to all comments on the website. A final toll recommendation would also be presented.

On Phase 2 funding, Mr. Potter reported that a draft TIFIA application had been prepared and reviewed by the funding partners. A letter of interest would be filed by October 1, and would be based on the total project cost, including both Phases 1 and 2. Thus it would request the maximum contribution allowable under the program.

On the fee concession management contract, the staff had issued a notice to unsuccessful bidders, but it had been flawed, and had to be reissued. Thus the period for protest would end in the next week; the contract had not yet been awarded.

2012 was the 50th anniversary of Dulles International, which would be celebrated all year. The current *Washington Flyer Magazine* contained an insert on the Airport's history. It reviewed the history from the perspective of local business leaders and employees of the Airport.

The Chairman commended Mr. Potter and the senior staff on the three toll presentations. He said the quality and the setup had been excellent. Mr. Brown agreed, and said the way the public meetings had been arranged had been a very effective way to get the Authority's message out. He urged other Directors to participate at the next opportunity.

Mr. Martire asked Mr. Potter to provide a brief report on the Silver Line. Mr. Potter said everything the staff had reported in the past remained the same. The Phase 1 project was on schedule, except for a few weather delays that would not delay the August 2013 completion date. With the $150 million adjustment to the budget, the project would come in slightly below the revised budget. The adjustment was for less than 5 percent of the project cost.

As to Phase 2, teams had been formed, and responses to the Request for Qualifications Information were in. They were being reviewed. There were otherwise no changes from prior reports.

Mr. Martire asked about $220 million in no-bid contracts cited in the Inspector General report. He said he had not seen how the matter had been addressed, and asked if it had, why hadn't the contracts come before the Board? Mr. Potter said he had a rather long answer to the question. In short, the staff was changing contracting policies and procedures and moving forward.

Some of the contracts identified were not truly sole-source; some were for utilities or Council of Governments blanket contracts. It was apparently important to characterize contracts in a different way, and not mislabel as "sole-source" other kinds of contracts. For example, the air service promotional program made grants to airlines to support promotion of their new Washington services. Each grant had been treated as a "sole-source" contract, although there was no requirement to do so.

Mr. Potter said he had put out an order not to enter any further sole-source contracts. There always would be some, however, such as for utility services or proprietary spare parts for a piece of equipment that had been competitively procured. Staff was diligently working through the rules and regulations to characterize contracts in an appropriate way. The important change was to use sole-source only when absolutely necessary.

Mr. Martire asked whether the Authority was responding to a recent letter from Transportation Secretary Ray LaHood. Mr. Potter said the Authority would have an opportunity to provide a response to the Inspector General audit, which was expected by the end of October.

b. Executive Vice President's Report

Margaret McKeough said that the June-July passenger activity levels industry-wide had been stagnant. At Reagan National, however, there had been record traffic levels in both months, with over 1.8 million passengers. June and July passenger traffic levels had both increased 3 and 5 percent, respectively.

Dulles had seen positive growth in international traffic, but suffered an overall decline. Passenger levels had been over 2.1 million in both months. In June, total numbers had been down 1 percent; in July, they had been down 6 percent, with the entire decline on the domestic side. Cargo had declined 6 percent in June and 14 percent in July. Most international cargo was Europe-bound, and had been affected by the financial crisis there.

Year-to-date, U.S. aviation had seen just 1 percent growth. Reagan National had grown 2.3 percent, a trend that would continue, and Dulles International overall had been down 1 percent, another trend that would continue. The passengers were not lost to the system; a lot of traffic was being shifted from Dulles International to Reagan National.

Mr. Crawford said that he and Mr. Manning had met with the Mayor and Deputy Mayor for Employment Services. They had agreed to fund a cadet program for six to ten youths from the District at Reagan National. Mr. Potter said he was aware of the program; the Authority was waiting for the District Government to provide names.

Mr. Crawford then asked about congestion in Terminal A. He asked if the fire marshal had ever assessed the Terminal A situation. Mr. Potter said the fire marshals had looked at it, as well as US Airways parking on the commuter ramp. The area was crowded, but it was not a safety problem. As had been reported to the Strategic Planning and Development Committee, the neck on the "banjo" was to be expanded.

Mr. Crawford said that Detroit, Phoenix, LaGuardia and most other large airports provided wheelchair or motorized cart access for senior and other passengers too frail to negotiate the long corridors. The airlines paid for the service. He said the Authority did not have it and asked why. Mr. Potter said both Airports did have the service, that the airlines were obliged to provide it under the Use and Lease Agreement, and that the Authority was responsible for making sure that it was done. Mr. Crawford said that at most airports it was visible at the curb; at Reagan National a passenger had to request it. Mr. Potter agreed that the service had to be requested. Mr. Crawford said he had seen veterans and other disabled passengers waiting for assistance. He suggested that the airport staff post signs.

IV. NEW BUSINESS

a. Selection of Financial Statement Auditors

Ms. Hall moved the following resolution, which was unanimously adopted.

WHEREAS, the Audit Committee has unanimously concurred with the recommendation of the Technical Evaluation Committee that comprehensively reviewed the submissions of firms seeking to provide independent financial audit services to the Airports Authority; now, therefore, be it

RESOLVED, That PricewaterhouseCoopers, in association with Bert W. Smith & Company, is hereby selected to provide professional audit services to the Airports Authority for calendar years 2012, 2013, and 2014, with two one-year extension extensions; and

RESOLVED, That the President and Chief Executive Officer is authorized and directed to enter into a three-year contract, with two one-year extension options, with Pricewaterhouse-Coopers for these services.

b. Selection of a Firm to Provide Electronic Security Maintenance Services at Both Airports

Mr. Session moved the following resolution, which was unanimously adopted, with Mr. Martire abstaining.

WHEREAS, The current contract for Electronic Security Maintenance Services at both Airports has expired, and has been extended month to month;

WHEREAS, The Business Administration Committee in March 2011 concurred in the pre-solicitation report for the procurement of these services;

WHEREAS, An Evaluation Committee has reviewed the competing proposals and has recommended the award to Tyco Integrated Security of Alexandria;

WHEREAS, The Business Administration Committee is satisfied with the results of the competitive procurement process, as presented at its July 18, 2012 meeting; now, therefore, be it

RESOLVED, That the President and Chief Executive Officer is authorized and directed to enter into two two-year contracts with three one-year extension options, one for each Airport, with Tyco Integrated Security, consistent with the terms presented to the Business Administration Committee at its July 18 meeting.

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

c. Adoption of a Disadvantaged Business Enterprise Goal for Phase 2 of the Dulles Corridor Metrorail Project

Mr. Session moved the following resolution: