SUMMARY MINUTES
STRATEGIC DEVELOPMENT COMMITTEE
MEETING OF NOVEMBER 12, 2014

Ms. Lang chaired the November 12 Strategic Development Committee Meeting, calling it to order at 8:07 a.m. A quorum was present during the Meeting – Mr. Chapman, Co-Chair, Mr. Curto, Mr. Kennedy, Mr. Session, Mr. Williams and Mr. Conner, *ex officio*. Mr. Adams, Mr. Carter, Ms. Hall, Mr. McDermott and Ms. Wells were also present.

For the record, Ms. Lang stated that Jack Potter, President and Chief Executive Officer, would include information in his report on the September passenger growth that is occurring at both Airports. Ms. Lang reported that the Committee would take a more in-depth look at new passenger activity at next month's Meeting.

<u>Recommendation to approve a New Airport Use Agreement and Premises Lease for Reagan National and Dulles International</u>. Margaret McKeough, Executive Vice President and Chief Operating Officer, presented the outcome of the negotiated terms for a new Use and Lease Agreement (Agreement). She reported that the Agreement, which is the governing document that encompassed the core business terms of how the Authority interacted with the airlines from a business perspective, had been in effect for 25 years and had served the Airports well. Specifically, the Agreement governed how rates and charges were assessed to the airlines; how the airlines were authorized to use the Authority's space and equipment; and a comprehensive program for capital development of the facilities at both Airports. The Board had extended the Agreement, scheduled to expire on September 30, 2014, through December 31, 2014.

Ms. McKeough identified the Authority's priorities to be achieved during the negotiations: flexibility for the two-Airport system to share revenues between Reagan National and Dulles International; 2) the ability to make physical changes to the terminal space and landside operations at Reagan National to accommodate increased passenger levels that had resulted from recent changes in airline slot allocations; 3) flexibility and financial resources to mitigate impacts of future potential regulatory changes to slot allocations and the perimeter rule; and 4) ability to maintain a solid and strong financial structure at the conclusion of the negotiation process and not compromise the Authority's financial position and credit rating.

Ms. McKeough reviewed the significant modifications of the new Agreement: new Capital Construction Program (CCP) at Reagan National ($1 billion) to modify the existing facilities to better accommodate current airline operations and passenger levels and Dulles International ($142 million) for major maintenance of the airfield and existing infrastructure; best efforts commitment for the Authority to pursue a new Passenger Facility Charge application at $4.50 per passenger to help pay for the CCP at Reagan National; new financial provisions for airlines to pay additional coverage for outstanding debt in airline-supported cost centers and new revenue sharing agreements with airlines at Reagan National; the right to use Reagan National's net remaining revenues to help pay debt costs at Dulles International; ability to provide for an additional $1.5 million annual funding in response to negative impacts created from potential future regulatory changes to the perimeter rule at Reagan National; ability to reopen negotiation with the airlines if the perimeter rule is eliminated and to terminate the Agreement if renegotiation is unsuccessful; and revised term of the Agreement at each Airport (ten-year term at Reagan National and three-year term at Dulles International). She reported that the negotiation process had been an extensive, progressive one, during which the Airlines had dedicated a substantial amount of time to devote to the unique, complex issues involved.

Directors recognized and congratulated Ms. McKeough and others on the accomplishments they had achieved with the negotiated terms of the new Agreement for both Airports.

Mr. Session asked if there had been any indication of whether the perimeter rule would be adjusted. Ms. McKeough stated that staff had no direct knowledge of any future adjustments to the perimeter rule. However, she noted that some of the carriers at Reagan National had inquired about maximizing the use of slots that had been recently purchased. Staff anticipated that this issue would be discussed during the 2015 reauthorization bill of the Federal Aviation Administration. In light of the expansion of the CCP, Mr. Session inquired about the possible activation of the majority and interest clause, which is included as a part of the Agreement. Ms. McKeough explained that the majority and interest clause is a provision that could be enacted if a new capital program need arises during the term of the Agreement that had not been included as part of the original projects proposed. She stated that the Authority has the ability to proceed with additional needed projects related to safety and all projects under $40 million; 100 percent grantfunded; or paid by a particular airline without additional conversations with the carriers. In the event the project needed did not meet the defined criteria, the majority and interest process would be enacted and carriers would be required to be formerly engaged. Ms. McKeough noted that in the event the majority of the carriers were in opposition to the project(s), there would be a one-year waiting period before the Authority could proceed.

Mr. McDermott referenced the three-year term at Dulles International. As a result of the shorter term, he inquired about the process and timing when staff would resume negotiations for a continued agreement at Dulles International. He also asked whether staff anticipated any impact to the basic structure of the new Agreement. Ms. McKeough stated that she believed that the tools achieved through the Agreement and other projects to grow Dulles International would provide an opportunity to turn the cost structure around within the next couple of years, which would allow staff to work with the carriers to extend (amend) the Agreement for the remaining term.

Mr. Potter stated that the Authority had sought a three-year agreement at Dulles International because of the uncertainty at the Airport, particularly with the result of the Delta/US Air slot swap and the American merger and divestitures that had occurred. He presented a summary of the strategies that the Authority has taken to ensure positive growth at Dulles International.

Mr. McDermott noted that in the final year of the Agreement the airline-funded debt service coverage would be 25 percent. He inquired whether the next negotiation process would begin at the existing debt service coverage included in the Agreement that expires on December 31. Ms. McKeough responded affirmatively. She noted that it would give all parties a fair negotiation level.

Mr. Carter referenced the $40 million ceiling that could be used from net remaining revenues at Reagan National to pay outstanding debt service at Dulles International and inquired about how the amount of the ceiling had been reached and the process that would be used if additional funding is needed. Ms. McKeough stated that the Agreement included a 10-year commitment to use $40 million for three years; $35 million for one year; $30 million for one year; and $25 million for five years. She noted that forecasts had been used to determine the estimated net remaining revenue at Reagan National. Ms. McKeough explained that the ability to share more dollars with Dulles International could occur if perimeter rule changes occurred, which would allow the Authority to receive an additional $1.5 million per slot pair for every year that the slot pair existed during the term of the Agreement.

The Committee unanimously approved the new Agreement.

Recommendation to Award a Contract for Task Architectural/ Engineering/Planning Services at both Airports. Mr. Potter introduced Roger Natsuhara, Deputy Vice President for Engineering. Mr. Natsuhara reported that the Committee had concurred with the pre-solicitation terms in May, and a Request for Qualifications had been issued using full and open competition. Mr. Natsuhara presented the terms of the contract to be awarded to Ricondo & Associates noting that it would be one base year with two one-year options. It would also include a Local Disadvantaged Business Enterprise participation goal of 30 percent. Mr. Natsuhara reported that the annual contract ceiling would not exceed $2.5 million.

The Committee approved the recommendation.

The Meeting was thereupon adjourned at 8:47 a.m.