SUMMARY MINUTES
BUSINESS ADMINISTRATION COMMITTEE
MEETING OF OCTOBER 15, 2014

Mr. McDermott chaired the October 15 Business Administration Committee Meeting, calling it to order at 12:53 p.m. A quorum was present: Mr. Adams, Mr. Griffin, Ms. Hall, Ms. Wells, and Mr. Conner, *ex officio*. Mr. Chapman, Mr. Curto, Mr. Davis, Mr. Gates, Mr. Kennedy, Ms. Lang and Ms. Merrick were also present.

<u>Information Paper on Annual Operational Insurance Policy Renewals</u>. Jerome Davis, Executive Vice President and Chief Revenue Officer, was joined by Steve Baker, Vice President for Business Administration, and Frank Wojnar, Risk Manager. Mr. Davis stated that he looked forward to presenting an in-depth revenue report in the near future. With respect to the redevelopment program, Mr. Davis stated that it will include projected revenue along with real-time revenue in order to balance the future perspective in terms of how the investment is reviewed. In regard to Mr. Carter's inquiry [in the day's Finance Committee Meeting] regarding the relationship with MarketPlace services, Mr. Davis established that a more aggressive approach will be in place to accelerate what can be done with concessions as well as enhancing revenue over the length of the contract.

Mr. Baker summarized the annual renewal process of the operational and property insurance policies. He stated that the Authority's programs, processes and procedures are presented to its brokers, who exchanged and shared information with the market to obtain operational insurance coverage. Mr. Baker reported that the renewal process had resulted in a 5.6 percent reduction of approximately $350,000 in the Authority's premium cost.

Mr. Wojnar stated that no changes in coverage limits or retention had occurred. He reported that the Authority's three largest operational insurance premiums are property, airport liability and workers' compensation. Mr. Wojnar noted that the premium for workers' compensation had increased approximately 10.6 percent, which was largely attributed to an increase in insurance costs for medical care and wage replacement costs for employees injured on the job. He reported that the Authority's coverages also include nuclear, biological, chemical and radiological (NBCR). which are typically excluded under property insurance. Mr. Wojnar stated that the Authority had purchased NBCR and Public Officials Side A management liability insurance coverages for the first time last year. He noted that that the Authority also has coverages for network security and privacy liability.

Mr. Adams asked about private information that the Authority collected. Mr. Wojnar responded that in addition to the employee information collected through the Human Resources Information System, the Authority processes credit card information through its parking operations.

Ms. Wells inquired about the analysis used to determine what types of coverages were required and the review of existing contracts. Mr. Wojnar responded that the Authority's safety programs, aircraft operations, passenger traffic and its employees and the type of work they performed had been considered to determine the areas of exposure. Mr. Baker noted that although Mr. Wojnar had been recently promoted to his existing position, he has been employed with the Authority for 10 years. With regard to contracts, Mr. Wojnar stated that before a contract becomes active, staff reviewed the scope of work to assess the insurance needs and analyzed the certificates of insurance for compliance. He further stated that if issues occurred as a result of an airport liability, they are addressed from a legal perspective.

Mr. Kennedy inquired about the Experience Modification Rate (EMR) [which is related to workers' compensation insurance]. Mr. Wojnar reported that the Authority's EMR rate is .68 which is quite good. He notated that the EMR had been impacted by the Authority's increase in workforce and the projected use of non-career employees that are not covered by workers' compensation insurance. Mr. Wojnar explained that the EMR rate had increased from .63 to .68 because of the category the Authority is linked to regarding aviation. He noted that no changes had occurred in the Airport's liability, including primary and excess coverages, and the deductible per occurrence is $200,000. Mr. Wojnar stated that while the Authority has 55 different types of operational insurance policies, staff is always working with its insurance brokers and the industry to ensure that there are no gaps in coverage. The Authority did not engage the services of a coverage expert to help in this area.

Mr. Carter inquired about a previous reference that 26 percent of revenue was derived from concessions during the Draft 2015 Operations and Maintenance Budget presentation at the day's Finance Committee Meeting. Mr. Baker noted that a misalignment of how concessions are defined had occurred and reported that steps are being taken to categorize concessions consistently. He further explained that the number referenced in the budget may contain concessions, as well as revenue generated by MarketPlace. Mr. Baker stated that an alignment is being created internally to ensure that all staff understood the retail concept. Ms. McKeough explained that concessions are a broad category at the Airport, which includes some landside operations and other services that are not part of the contracts like Westfield or MarketPlace.

Pre-Solicitation Terms for Fixed Base Operator (FBO) Contract at Dulles International. Chris Browne, Vice President and Airport Manager, reported that two FBOs operate at Dulles International - Landmark Aviation (Landmark) and Signature Flight Support (Signature). The pending solicitation is for the contract currently held by Landmark. Mr. Browne noted that at the end of Landmark's contract term in August 2015 that the terminal and the adjacent hangars will revert to the Authority. At the end of the end of the proposed term for the new contract in 2022, the terminals will also revert to the Authority. Under the contract's terms, Landmark pays the Authority the greater of a minimum annual guarantee (MAG) or a percentage of gross receipts. Mr. Browne explained that FBOs are airport service centers that provide support primarily to general aviation aircraft and passengers. Landmark serves as the agent that collects landing and passenger conveyance and international arrival fees at Dulles International. It retains 20 percent and redeems the balance to the Authority. Mr. Browne reported that the MAG for the contract year ending in 2015 was estimated at $6.9 million. He noted that with the new solicitation, offerors will propose a MAG of no less than $7 million. Mr. Browne stated that the Authority is most interested in ensuring that when the properties revert back to the Authority that they are in a condition that would enable them to be leased and operated. He noted that any capital improvements that the Authority approves for the contractor to perform will include a Local Disadvantaged Business Enterprise (LDBE) participation rate of 25 percent for the design and construction of all capital improvements. Additionally, he explained that the contract will include an LDBE participation requirement of 20 percent applicable to all goods and services, other than fuel. Mr. Browne reported that this goal may be met by the inclusion of an LDBE joint venture partner or subcontractors.

After presenting the evaluation criteria, Mr. Browne responded to questions from Directors. With regard to the number of bidders expected, Mr. Browne stated it is expected that the incumbent will bid as well as several other FBOs that have expressed an interest in this important market.

He explained that there is no minimum on capital improvements; however, the Authority will be careful not to approve overspending on these facilities realizing that at some point the capital improvements would likely influence the revenue paid to the Authority. Mr. Browne stated that the retention rate would remain fixed during the seven-year term of the contract. He reported that the contract award will require Committee and Board approval.

The Committee concurred with the pending procurement.

Concessions Update – Redevelopment Program. Mr. Baker noted that Sandy Greene, Manager for Concessions and Business Development, would present the Update. He also introduced Clarence LeJuene, Executive Vice President of MarketPlace. Mr. Baker stated that the ultimate goal in terms of the overall objectives of the Redevelopment Program is to have a revenue-producing, innovative concessions program that provides opportunities for large and small businesses to compete to satisfy and anticipate passengers' needs.

Ms. Greene stated that revenue is a critical component of the Authority's goal, which is achieved through a MAG. She presented a comparison between the locations for Phases 1, 2 and 3 for 2013, which had resulted in a MAG of $10.7 million. Ms. Greene reported that the recent contract award of $24.5 million had resulted in an annual increase of nearly $14 million for the same locations. She noted that the Authority expected to realize an increase of $9 million annually in total revenues for the same locations used in 2013.

With respect to Airport Concessions Disadvantaged Business Enterprise (ACDBE) participation, Ms. Greene explained updates provided for the day's Meeting included Phases 1, 2, and 3 as planning, leasing, and implementation proceeds. In 2013, ACDBE participation totaled 34 percent. Based thus far on the awards of Phases 1, 2, and 3, the anticipated ACDBE participation is 43 percent.

Ms. Greene announced some of the brands open at both Airports, highlighting Ben's Chili Bowl, Five Guys, Legal Sea Foods and the return of Brooks Brothers at Reagan National. Brands open at Dulles International include Bistro Atelier, Estee Lauder and Burberry. Ms. Greene also reviewed brands that would be offered at the Airports in Phase 2 and 3.

Ms. Greene reviewed the steps involved in the interactive process involving planning, leasing and implementation, which she characterized as the most complex portion of the entire process. She reported that the management oversight for Phase 1 is underway for the brands that had opened. Brands included in Phases 2 and 3 are in the design and construction process. Ms. Greene reported that staff is in the leasing process for approximately 20 locations between the two Airports for Phase 4.

Ms. Greene reported that MarketPlace had hosted another outreach session on September 23. She noted that Mr. Session, in conjunction with the Department of Small and Local Business Development, had hosted an outreach session on October 8 that focused on attracting D.C. businesses.

Mr. Carter and Ms. Wells congratulated Mr. Baker, Ms. Greene and staff on their remarkable progress of changing the culture of the concessions. Ms. Wells asked how customer satisfaction will be gauged throughout the entire process. Mr. Baker reported that MarketPlace had performed a baseline study the prior year before the program had begun. Annual baseline studies would be ongoing. He noted that MarketPlace had also presented some innovative ideas on tracking customers' spending habits and using cell phones to monitor their movement throughout the Airports. Mr. Baker stated that staff is working to improve the baseline annually and explore new technology to obtain information about customers' spending habits.

Mr. Griffin noted that he did not use Reagan National regularly and inquired about the concessions' locations at the Airport. Ms. McKeough stated that the majority of the retail offerings in the main terminal are located pre-security. She noted that most of the food brands are actually located post-security; however, changes in the security layout at Reagan National are being considered as part of the new Use and Lease Agreement.

The Meeting was thereupon adjourned at 1:27 p.m.