SUMMARY MINUTES
STRATEGIC DEVELOPMENT COMMITTEE
MEETING OF MAY 21, 2014

Ms. Lang chaired the May 21 Strategic Development Committee Meeting, calling it to order at 9:15 a.m. A quorum was present – Mr. Chapman, Co-Chair, Mr. Curto, Mr. Davis, Mr. Gates, Ms. Merrick, Mr. Session, Mr. Williams and Mr. Conner, *ex officio*. Mr. Griffin, Ms. Hall, Ms. McConnell, Mr. McDermott and Ms. Wells were also present.

Approval of Easements to Dominion Virginia Power (Dominion) along Route 28 at Washington Dulles International Airport. Naomi Klaus, Associate General Counsel, presented information outlining the locations and details for the easements. She noted that Dominion's request will expand the capacity of the substation to provide power to the Silver Line, meet the increased demand from customers off the Airport and improve the reliability of its transmission system. As a result of staff working with Dominion to address the issues presented by this request, Dominion will relocate an access road across the easement property at its expense. Dominion has also agreed to reduce the width of the easement for the duct bank from 35 to 20 feet, making the total area of the easements approximately 4.5 acres. Ms. Klaus reported that Virginia Department of Transportation (VDOT) has confirmed that the plans for the duct bank will not conflict with its easements for Route 28. She stated that staff from the Rail Project planned to have Dominion construct a second duct bank to carry the two new circuits for the Silver Line, parallel to the first, which will be conveyed to the Washington Metropolitan Area Transit Authority once Phase 2 is completed. Ms. Klaus reported that the Federal Aviation Administration is reviewing Dominion's environmental assessment and staff expects a finding of no significant impact. She noted that Dominion has applied for a permit from the Virginia Marine Resources Commission because the duct bank will go under Horsepen Run. Dominion is a for-profit organization and will be charged $1.1 million as the fair market value price for the easements.

The Committee approved the staff request that it authorize the President and Chief Executive Officer, subject to the approval of the U.S. Secretary of Transportation, to execute the easements as described.

The Strategic Development Committee recessed its Meeting at 9:26 a.m. so that the day's Board of Directors Meeting could begin at its advertised time.

Ms. Lang reconvened the Strategic Development Committee Meeting at 10:28 a.m. A quorum was present.

Aviation Capital Construction Program Update. Ginger Evans, Vice President for Engineering, presented information on the safety performances, which were important metrics for insurance purposes and the safety of the workers, and the update on the 2014 construction projects at both Airports. She reported that the lost time incident rate was zero, compared to the national average of 2.0. The recordable incident rate was 2.02, compared to the national average of 3.5. She reviewed the status of active major construction projects, as well as those completed since the last update for both Airports, as illustrated in the materials provided for the day's meeting.

Pre-Solicitation terms for Task Architectural/Engineering/Planning Services for the Airports Authority. Ms. Evans reported that the task/architectural/planning services contract provided consultant support for the Planning Department's studies regarding improvements for growth or redevelopment at both Airports. She noted that the firm would conduct pre-design studies and conduct analyses to determine specific requirements for the Airports' design and construction program needs. The contract term would be one-year base with two one-year options; have an annual ceiling of $2.5 million; and require 30 percent Local Disadvantaged Business Enterprise participation. The current contract would expire in November 2014. Ms. Evans reviewed the evaluations criteria for selection, and noted that the proposals would be evaluated by a Technical Evaluation Committee. She reported that consistent with the Contracting Manual, once the top-ranked firm had been selected, the Evaluation Committee would submit a recommendation for approval to negotiate a contract. Ms. Evans explained that the negotiations would be based on standard industry rates and the project scope of work. If those negotiations were not successful, a proposal would be requested from the next highest-rated firm. Once negotiations had been successfully completed, a recommendation to award the contract would be presented to the Committee and Board for approval prior to award.

Ms. Wells inquired whether the firms had typically worked at other airports. Ms. Evans responded affirmatively and stated that the incumbent is a well-known national firm that provides services to a minimum of 12 major airports. She noted that in order for the planning firms to make full utilization of its specialized analyses, it had to have multiple clients.

Ms. Lang asked whether the current contract included option years and had they been exercised. Ms. Evans responded yes and noted that the firm is nearing completion of its second option year.

Mr. Session inquired about the length of the incumbent's services to the Authority. Ms. Evans responded that the first contract had been awarded in 2005 and again in 2008. The current contract had been awarded in 2011. She noted that another firm had also been awarded the contract three times in the past. Mr. Session stated that it is important that artificial impediments are not included in the solicitation documents and noted that he would defer specific concerns for Ms. Evans for a subsequent discussion.

Mr. Williams recalled that previous discussions had indicated management's reluctance to hiring additional staff until a reorganization had occurred. Mr. Potter reported that these firms provided specialized services that required the use of expensive computer models, for which the Authority would have to obtain licenses or to develop skills sets in order for its staff to conduct analyses. He stated that he believed that the vast majority of airports in America used consultants to perform the type of planning analyses required. Mr. Potter noted that the work that had been previously discussed could be performed by Authority staff, which could be supplemented by contractors. Ms. Evans stated that the Authority would always need to provide functions such as project control, managing design, quality control and safety and staff was working to ensure that they would be provided by Authority staff.

The Committee concurred with the pending procurement.

<u>Information Report on the 2012 Economic Impact Study.</u> David Mould, Vice President for Communications, presented the economic impact study which measures the Airports Authority's contributions to the National Capital region in jobs, tax revenue, visitor spending and other key indicators. He stated that the Study had been included in the meeting materials provided for the day's meeting. Mr. Mould reported that the Airports Council International is an airport industry trade association that combines the results of individual airport studies nationwide. The Authority's Study had been conducted by Willdan Financial and reviewed by Stephen Fuller of George Mason University. The Study had revealed that the Authority had contributed 4.5 percent of the regional Gross Domestic Product (GDP); 387,000 jobs; $15 billion in labor income; $3 billion in taxes; and $21 billion business revenue in 2012.

Mr. Mould introduced Molly McKay, Principal of Willdan Financial; Dan Hardy of Renaissance Planning Group; Chris Fisher of Willdan; and Steve Markinson, President of WB&A Research, to present the results of the Study. Ms. McKay presented the rankings of the Greater Washington region over the past 10 years and provided information on the Airports Authority's impact in the region. The Study provided specific information for the Commonwealth of Virginia, the District of Columbia and the State of Maryland with respect to jobs, labor income, visitor industry, tax revenues and state and local taxes. Ms. McKay reported that the construction of the Metrorail Project had generated a one-time 2012 tax benefit. She noted that visitor spending had been a key segment of the regional economy and that the Airports Authority had made a significant contribution.

Directors had questions about how some of the results from the Study had been derived with respect to specific jurisdictional breakdowns. Mr. Mould reported that both business and leisure travelers had been included as part of the impact of visitor spending. He stated that the vast majority of tourists would come to the District which added to its revenue and tax collections. Ms. McKay stated that the visitor spending data is based on the WB&A Research collected as part of in-airport passenger user surveys that contained detailed information including enplanements, passenger lodging, food spending and rental cars, etc. She explained that information had been extracted from that data based on the location of visitors' lodging arrangements within the study area. Mr. Markinson added that the Study captured where visitors spent their money and where the person serving the visitors resided. He referred to the Toll Road operations and the Silver Line construction as examples of how the regional impact had expanded as a result of materials and labor contributions from all of the jurisdictions. Information requests not provided in the PowerPoint would be researched and provided separately.

<u>Air Service Development Information Report.</u> Mark Treadaway, Vice President for Air Service Planning and Development, reported that jetBlue had announced it would use six of its 12 slot pairs for daily flights to Charleston, SC; Hartford, CT; Nassau, Bahamas; and Tampa, FL. Southwest would use its 27 slot pairs for daily flights to Akron-Canton, OH; Chicago Midway, IL; Dallas Love Field, TX; Houston, TX; Indianapolis, IN; and St. Louis, MO; Nashville, TN; New Orleans, LA; and Tampa, FL. Virgin America would use its four slot pairs for service to Dallas Love Field, TX. Mr. Treadaway referred to the information distributed for the day's meeting and reviewed the service that American Airlines (American) would eliminate in order to meet the Department of

Justice divestiture requirements. He noted that American would announce service reductions in other markets in the near future.

Mr. Treadaway referred to a graph, which reflected the passenger activity at both Airports, and noted that domestic activity at Reagan National had continued to increase. While domestic activity had continued to decrease at Dulles International, the international activity had increase in small increments. Mr. Treadaway explained the potential impact on Dulles International, resulting from the increased services at Reagan National.

Mr. Treadaway reported that Frontier had shifted some its flights away from its primary hub in Denver to create focus cities. It had announced ultralow carrier service, which offered fares for as little as $39 each way, and additional services, such as checking baggage and guaranteeing seats, were available to passengers for an increased fare. Mr. Treadaway reported that Frontier would offer 68 weekly flights from Dulles International to 14 domestic markets. Staff estimated that Frontier would result in 162,000 new enplanements for 2014 and 472,000 new enplanements on an annual basis with the existing schedule. Mr. Treadaway noted that changes are expected to Frontier's schedule in the near future.

Mr. Treadaway reported that Dulles International would offer new international service to Madrid, Spain from June 4 to September 6; weekend service to Nassau, Bahamas from June 7 to August 17; and four weekly flights to Beijing beginning June 10. He noted that additional international service is expected at Dulles International; announcements would be forthcoming.

Mr. Treadaway reported that additional service will be added to 12 markets presently available at Reagan National. He noted that Mr. Conner is looking forward to service being offered to Savannah Hilton Head International and suggested that other Directors advise him of other market interests.

<u>Process for Adoption of a Regulation Governing the Airports Authority's Financial and Operational Relationship with the Airlines Serving Reagan National and/or Dulles International Airports</u>. Ms. McKeough reported that the Authority's current airline business arrangement that is encompassed in a 25-year Use and Lease Agreement will expire in September 2014. Authority staff has been in discussion with the airlines for an extended period to establish the Authority's future arrangement. As the Authority approached its 90-day window before the existing

contract expired, staff wanted to present a report on its position and all available options. Ms. McKeough reported that since March 2014, negotiations had occurred with the airlines on a regular basis. While substantial progress had occurred, Ms. McKeough reported that a couple critical issues still remained unresolved. Although staff is optimistic that it can complete successful negotiations with the airlines, it wanted to present all the available alternatives in the event the Authority was not able to do so. Ms. McKeough reported that if staff did not reach successful negotiations with the airlines to present to the Committee this summer, the Authority would have the option to pursue a regulatory structure.

Phil Sunderland, Vice President and General Counsel, reported that a domestic airport operator establishes a bilateral relationship through a contract or an agreement. If an agreement cannot be reached, the Department of Transportation allows the airport operator to act unilaterally. With the respect to the Authority, it would adopt a unilateral agreement in the form of regulations if a bilateral agreement was not reached. Mr. Sunderland reviewed four components that defined the Authority's relationship with the airlines: 1) finances; 2) space; 3) capital construction; and 4) airport protections.

Mr. Sunderland explained the process to adopt a unilateral regulation if the Authority did not reach an agreement with the airlines. As with the ground transportation regulations that the Board had approved earlier that day, a regulatory amendment process would be required since the Authority would have to be amend existing regulations. A second independent process involving the Department of Transportation (DOT) would also be required since the Authority would elect to establish the terms of the airlines' use of its airport by regulation. Mr. Sunderland reviewed the steps involved in both of the processes, as outlined in the materials provided for the day's meeting. Ultimately, if the regulation process is used, staff would review comments from the public hearings; report on the consultation process with the airlines; and present a proposed regulation for the Strategic Development Committee and Board to consider for approval at the September meetings prior to the expiration of the existing Use and Lease Agreement at the end of September. Mr. Sunderland reported that if a conceptual agreement is not reached with the airlines during the next couple of weeks, staff will present a proposed regulation at the June Committee Meeting to begin each process. He noted that staff would also continue its efforts to reach successful negotiations with the airlines even if the proposed regulation is presented to the Strategic Development Committee.

Mr. McDermott inquired whether it would be an option for the Authority to reach an agreement for one Airport and impose regulations for the other, to which Mr. Sunderland responded affirmatively. He noted that the agreement included business terms, which are different for each of the Airports.

Mr. Session identified three methodologies, residual, compensatory and hybrid, which are used with Use/Lease Agreements. Mr. Sunderland stated that the three methods are relative only to the financial relationship between the Authority and the airlines. He explained that if negotiations were not successfully concluded and a regulatory process is used to establish the terms of the airlines' use, the Authority would be required to use a compensatory method. With this method, the airlines would pay only the costs they incur; the Authority would take a risk in using this method. With the residual method, the airlines take the risk of the Airport. The hybrid method, currently used by the Authority, provides that if a non-aviation profit results, the Authority shares it with the airlines.

Mr. Potter stated that the Authority's preference is to reach successful negotiations with the airlines so that a regulatory process is not needed.

The Meeting was thereupon adjourned at 11:55 a.m.