SUMMARY MINUTES
BUSINESS ADMINISTRATION COMMITTEE MEETING
MEETING OF JULY 16, 2014

Before the day's Meetings began, Mr. Conner reported that three executive sessions would be held. The Business Administration Committee would first discuss the Office of Technology Strategic Plan, followed by a personnel issue that had not been on the agenda for the Human Resources Committee. Mr. Conner reported that the 48-hour notice provision needed to be waived and the Members concurred. The Finance Committee would also meet in executive session to discuss Aviation Enterprise bonds. Mr. Conner reported that staff hoped that the first public session with the Finance Committee would begin about 9:00 a.m.

For the record, Mr. Conner read the information that permitted the Board and its Committees to move into executive session. [Pursuant to Article IX, Sections 3(c)(a), the Authority Bylaws permit the Board and its Committees to move into executive sessions for consideration of existing or prospective contracts, business or legal relationships to protect proprietary or confidential information of the Authority, any person or company; the financial interest of the Authority; or the negotiating position of the Authority, or reveal security-related confidential information. The Board and its Committees are also permitted to move into executive session for personnel matters, such as employment, appointment, assignment, promotion, demotion, performance appraisal, discipline, resignation, salaries and benefits, and interviews of Directors, officers and employees of the Authority and applicants for the same.]

Consistent with Mr. Conner's opening remarks for the day's meetings, the Business Administration Committee first met in executive session to discuss the Office of Technology Strategic Plan. Mr. Session chaired the July 16 Business Administration Committee Meeting, calling it to order at 8:05 a.m. A quorum was present: Mr. McDermott, Co-Chair, Mr. Carter, Ms. Wells, Mr. Williams and Mr. Conner, *ex officio*. Mr. Curto, Mr. Davis, Mr. Gates, Ms. Lang and Ms. Merrick were also present.

At 9:10 a.m. the Committee adjourned its executive session and recessed its meeting.

At 10:21 a.m., Mr. Session reconvened the Business Administration Committee Meeting. A quorum was present.

Recommendation to Award a Contract for Duty Free/Duty Paid Concession Operator for Dulles International and Reagan National. Steve Baker, Vice President for Business Administration, was joined by Sandy Greene, the Director of Concessions, and Liz Bryan, Manager of Procurement. Mr. Baker stated that a successful solicitation for the new duty-free contract at both Airports had been completed.

Ms. Greene acknowledged the tremendous support from staff that had helped with the solicitation. She provided a background summary about the incumbent contract, which will expire July 31, 2014. Ms. Greene noted that the 2013 Minimum Annual Guarantee (MAG) on the existing contract had been $3.7 million, and the contractor had paid 20 percent of its annual gross sales for operations of various locations at Dulles International and Reagan National. The total revenue paid to the Authority in 2013 had been $4.7 million.

Ms. Greene reported that a total of nine locations would be operated at the Airports. She provided an overview of the bid and evaluation process and reported that five bids had been publicly opened on July 9, which had resulted in Dulles Duty Free LLC having presented the best offer. The contract term would be August 1, 2014 through December 31, 2021. The annual revenue would be either 22 percent of total sales for operations of duty-free/duty-paid or the MAG in the amount of $12.9 million, whichever is greater. Ms. Greene reported that Concourse Concessions Inc. would serve as the Duty Free Americas' partner. She noted that Dulles Duty Free LLC had met the goal of 25 percent Airport Concessions Disadvantaged Business Enterprise participation.

Mr. Session expressed concern about the procurement and inquired about the 2013 revenue, which represented an increase of $12.9 million. Mr. Baker stated that the 2013 revenue had been $4.7 million instead of the MAG and explained that it was not uncommon for adjustments to occur as a result of the growth in international traffic at Dulles International, as well as serving as the duty free operator in the Nation's Capital.

Mr. Session asked about the consequences of a contractor under-performing and not meeting the required MAG. Mr. Baker stated that the contractor would be terminated. He further stated that historically only exigent circumstances, such as the closing of Reagan National or a massive move of airlines from one part of the Airport to another, resulting in the renegotiation terms because the Authority had caused the change or the shift, would have resulted in underperformance. Mr. Baker noted that because of the contract's structure, the MAG would automatically adjust if a decrease in international passengers occurred.

Ms. Bryan stated that a public solicitation opening usually resulted in increased competition throughout the industry. Ms. Greene added that staff had conducted due diligence to ensure the finalists' accuracy with regard to performance, revenue and business opportunities.

Mr. Carter had several questions about the percentage of a performance bond and bond protection for the Authority in the event of a contract dispute. Ms. Bryan explained that the type of performance bond that would be used for similar services is discretionary. She stated that she believed that a performance bond in the amount of at least $1 million would be appropriate. Mr. Baker noted that it was necessary to also consider the length of time that it would take staff to replace a defaulting operator. Mr. Carter agreed with Mr. Baker's assessment. Ms. Bryan explained that the terms of the contract include a dispute clause that allows the Airports Authority to reduce their participation or increase the cost to recover money. Mr. Baker noted that a performance bond required that a tenant perform in accordance to the terms of the contract, including payment. He stated that because the contract is premised on passenger enplanements, the audit process would be easier than most.

Mr. Carter recalled a discussion from a previous Board meeting involving a contract dispute. Mr. Potter acknowledged that the referenced contract is extremely complicated and that General Counsel staff is working to resolve it.

Mr. Potter congratulated staff for their efforts to increase revenue as a result of the new contract.

The Committee unanimously approved the recommendation. Mr. Session would offer a resolution later at the day's Board Meeting

<u>Recommendation to Award a Sole Source Contract for the AeroTrain System Operations, Maintenance and Rehabilitation Services at Dulles International</u>. Chris Browne, Vice President and Airport Manager, was joined by Brian Leuck, Manager, Dulles International Engineering and Maintenance and the Contracting Officer's Technical Representative (COTR) for the current contract, and Ms. Bryan.

Mr. Browne presented staff's recommendation for the Authority to enter into a 10-year sole-source negotiated contract with Crystal Mover Services Inc. (CSMI), the incumbent. The total contract value, which included about $31 million in Capital Asset Rehabilitation Program (CARP) costs, would be approximately $136 million. He noted that the Local Disadvantaged Business Enterprise requirement is 15 percent for the Operation and Maintenance (O&M) service portion of the contract. Mr. Browne stated that CSMI had operated and maintained the AeroTrain System since it began service in December 2009. The current fixed five-year contract would expire on November 30 and cost the Authority approximately $9.4 million in 2013.

Mr. Browne explained that staff had considered three procurement options in anticipation of the expiring AeroTrain contract: 1) full and open competition for all maintenance, operations and refurbishment; 2) the Authority would perform all maintenance, operations and refurbishment; and 3) negotiation of a long-term sole source contract with the manufacturer for the maintenance, operations and refurbishment with the manufacturer. Mr. Browne reported that Lea & Elliott, the design consultant for the AeroTrain System, had provided its analysis of the industry and best practices. He noted that staff had followed the appropriate protocol regarding the intended sole source contract and no expressions of interest had been received. Mr. Browne reported that Option 3 (negotiation of a long-term sole source contract with the manufacturer for the maintenance, operations and refurbishment with the manufacturer) is the most beneficial procurement method for the Authority. He reviewed the benefits, challenges and liability concerns related to each procurement option. Mr. Browne stated that staff believed that reliability, efficiency and operational benefits would be derived as a result of the sole source contract. He noted that CMSI had exceeded its performance standards in excess of 99.5 percent availability in 31 out of the last 35 months. Additionally, the incumbent has timely access to the needed parts that Authority staff or another provider would not necessarily enjoy, as well as relationships with other manufacturers that supply proprietary equipment supporting the AeroTrain System.

With regard to the negotiation of O&M contract costs, Mr. Browne reported that the incumbent had included a 10 percent escalation, totaling approximately $1 million over the existing contract amount expected to be paid in 2014. He stated that the negotiated contract compared favorably to similar contracts at other airports and noted that confidential materials provided for the day's Meeting included proprietary information, which supported the fair and reasonable price.

Mr. Browne explained that CARP is a manufacturer's minimum requirements needed to ensure the extended life of the AeroTrain System, which would include two major refurbishments and a minor overhaul during the next 10 years. Ms. Bryan reported that no historical data was available to perform an accurate financial analysis with the suggested CARP costs. She explained that the CARP costs, which would not exceed $31 million, would be dependent upon the vehicles' condition once they had been disassembled and the extent of the required maintenance determined.

Mr. Davis inquired whether the language included in the proposed resolution, "prior to any award, the co-chairs of the Business Administration Committee have reviewed the LDBE plan" is consistent with normal contract awards. Ms. Bryan stated that previous contracts had not included conditions related to the LDBE goals. Mr. Potter stated that he had recommended the conditional language because of concerns about the contractor's ability to meet the LDBE participation requirement. Due to the deficiency in the contractor's past performance, Mr. Potter stated that the conditional language would ensure that the contractor developed a viable plan that it must meet prior to the contract award. Staff answered questions from Directors about the contractor's vetting process. Staff concluded that the only difference in the process is that the Committee Co-Chairs will actually review the plan, and the prime contractor would be required to provide details about how it would achieve the LDBE participation goal. Mr. Potter noted that the contractor had had trouble in meeting the LDBE participation goal. It had since been adjusted for the second time to a goal that staff believed the contractor would now meet.

Ms. Lang sought clarity about the reduction in the LDBE participation goal for the existing contract. She inquired whether the LDBE participation goal had been reduced so that the incumbent could meet it or whether it had been incorrect measure from the beginning. Mr. Potter explained that the original contract had an unreasonable goal that seemed arbitrary at best. He reported that a market analysis had revealed that other similarly situated airports performed on average less than half of the designated goal for that contract. The contractor had concurred that the LDBE participation goal could be achieved, and it will be demonstrated in the plan during the contract award process.

Ms. Merrick inquired about staff's ability to advise sole source contractors on successful methodologies. Richard Gordon, Manager, Equal Opportunity Programs, stated that details about the original LDBE participation goal could not be identified. Going forward, staff identified potential subcontractor opportunities in advance of determining the LDBE participation goal.

Mr. Conner stated that the AeroTrain System is a sophisticated, very complex, software-driven system, and concerns had been expressed because it is a sole source contract award for a substantial amount of money. Since the maintenance and operation of the AeroTrain System could not be performed internally and no other contractor could perform the required functions, the contract would be awarded to the contractor that had performed extremely well. With respect to LDBE, Mr. Conner said that Directors would continue its efforts to develop a framework that the Board would agree to and then allow management to implement it on a consistent basis.

The Committee unanimously approved the revised staff recommendation. Mr. Session would offer a resolution later at the day's Board Meeting.

The Meeting was thereupon adjourned at 11:05 a.m.