

SUMMARY MINUTES  
STRATEGIC DEVELOPMENT COMMITTEE  
MEETING OF SEPTEMBER 17, 2014

Before the day's Meetings began, Mr. Conner reported that two executive sessions would be held. The Airline Use and Lease Agreement would be discussed in the Strategic Development Committee and the Report of Pending and Recently Closed Litigation Involving the Airports Authority would be discussed in the Risk Management Committee. Mr. Conner stated that the Committees would meet in consecutive executive sessions rather than adjourning and reconvening each time. He reported that no official actions would be taken during the executive sessions and that the first public session was scheduled to occur at the conclusion of the Risk Management Committee executive session at approximately 8:30 a.m.

Mr. Conner read the information that permitted the Board and its Committee to move into executive session. [Pursuant to Article IX, Sections 3(c)(e), 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 to consult with the Authority's legal counsel or staff, and/or with consultants, regarding legal issues or matters affecting or involving the Authority, including pending or potential litigation, pending or potential legislation and compliance with legal requirements.]

Ms. Lang chaired the September 17 Strategic Development Committee Meeting, calling it to order at 8:08 a.m. A quorum was present during the meeting – Mr. Chapman, Co-Chair, Mr. Curto, Mr. Gates, Mr. Kennedy, Ms. Merrick, Mr. Session, Mr. Williams and Mr. Conner, *ex officio*. Mr. Adams, Mr. Carter, Ms. Hall, Ms. Lang, Mr. McDermott and Ms. Wells were also present.

Consistent with Mr. Conner's opening remarks for the day's meetings, the Strategic Development Committee met in executive session to discuss the Airline Use and Lease Agreement.

The Committee recessed its meeting at 8:45 a.m.

Mr. Chapman reconvened the meeting at 9:11 a.m. A quorum was present.

Amendment to the Airline Use and Lease Agreement. Margaret McKeough, Executive Vice President and Chief Operating Officer, presented the staff recommendation that the Strategic Development Committee and Board of Directors authorize the President and Chief Executive Officer to execute a three-month extension (from September 30 to December 31, 2014) of the current Use and Lease Agreement

The Committee unanimously approved the amendment.

The Committee recessed its meeting at 9:12 a.m.

Mr. Chapman reconvened the Committee Meeting at 12:08 p.m. A quorum was present.

Informational Briefing on the Implementation of the Office of Engineering Management Plan. Ginger Evans, Vice President for Engineering, provided an update to the internal management plan presented to the Committee by her predecessor in September 2012. She stated that the goals were: to develop the in-house technical staff; reduce reliance on contractors; enhance operational efficiencies; and reduce the overall capital cost of projects.

Ms. Evans reported that staff had conducted a substantial amount of due diligence and had learned that program management (PM) and construction management (CM) costs ranged from 4 to 15 percent. Historically, the Authority's costs on similar contracts had been 13 percent.

Ms. Evans reviewed information provided for the day's meeting that illustrated that the Authority is changing the leads in key areas from consultants to engineering staff. She noted that historically, the program management contract had supported departments other than engineering, which had increased the cost. Going forward, offices would consult with the offices of human resources and procurement to fulfill their needs.

With respect to the management strategy, Ms. Evans reported that staff will directly manage project controls and safety while ensuring high-level quality, as well as establish policies and oversight procedures for staff

carried to complete its functions properly. She noted that in the event a large complex capital project began, a larger PM/CM services contract would be needed but that it would differ from past contracts because it would be managed in house and supported by an integrated team.

Historically, the Authority's PM/CM contract, which was comprised of smaller projects, had averaged approximately \$100 million. Ms. Evans reported that staff believed that it could easily manage the contract in house, using individual task order contracts in specific areas. She reviewed the ten-year forecast and provided a summary of how the task order contracts will be used to support the projects. She reported that Planning and Programming is a separate contract, presently held by Ricondo & Associates, that provides planning services that are very discrete from Program Management Services.

Ms. Evans presented a new organizational chart highlighting the new position of Deputy Vice President for Planning and Design and new office functions to link Phase 1 and 2 organizationally. She noted that rail would be reorganized into projects; Phase 1 was distinct from Phase 2 and Package B and Package A had separate dedicated teams. The reorganization had been coordinated with the Federal Transit Administration and staff had filled several key positions within the rail organization structure. In order to support the plan going forward, Ms. Evans estimated that 22 additional staff would be needed. These additional staff would be dedicated mostly in construction and project controls, which are the areas most relied upon for external support. Ms. Evans noted that the hiring of additional staff in place of a consultant would result in a cost savings of \$2.85 million annually.

Ms. Evans stated that she would pursue additional grant funds from the Federal Aviation Administration and the Federal Emergency Management Agency.

Ms. Evans reported that the Authority would host Industry Day on September 18 at the Dulles Marriott. At the outreach event, staff from procurement and equal opportunity programs would explain the new procurement procedures. Staff would also provide information on the new ethics policies and on upcoming contracts. Ms. Evans explained that based on the guidance received from the Office of the Inspector General, engineering staff will not meet individually with consultants.

Mr. Chapman noted that some of the strategy presented had begun prior to Ms. Evans' tenure at the Authority. He asked Ms. Evans if she believed it was the right approach, to which she responded affirmatively. She stated that she supported the internal management plan; believed it reflected the right steps for the capable Authority staff; and was glad to have the opportunity to move forward with it.

Ms. Evans shared her prior experience in managing large programs for other airports and noted that many of those services had been provided by Minority and Women-owned Business Enterprises (MBEs/WBEs) serving as prime contractors. She stated that she had been somewhat surprised to learn that the Authority had not progressed to that point where the community had not matured enough for MBEs/WBEs to have opportunities as prime contractors.

Mr. Adams stated that it is important that the Authority's policies and programs continue to create opportunities to ensure solid representation of MBE/WBE vendors. He hoped that the task order model that Ms. Evans described would allow greater MBE/WBE participation. Mr. Adams asked that staff track the activity to ensure good progress.

With regard to risk management, Ms. Wells inquired how the Authority's liability would be impacted as it migrated from external consultants to in-house staff. Ms. Evans responded that the existing coverage would remain unchanged. She noted that the existing contractor would finish two high-risk projects, runway safety area extensions and the east-west bag room, due to the extreme need for continuity. Ms. Evans reported that staff will conduct a future benchmarking exercise on insurance to ensure that contract terms and procedures are aligned accordingly with policies.

Pre-Solicitation Terms for Task Architectural and Engineering Services for Terminal B/C Long-Term Redevelopment Program at Reagan National. Although negotiations of the Use and Lease Agreement are ongoing and the CCP has not yet been defined, Ms. Evans noted that it is necessary to begin the procurement process because it would take six months for the contractor to be in place. She reported that it would be a three-year base contract with two one-year options. The value of the contract would not exceed \$75 million. The contract would also require a 25 percent Local Disadvantaged Business Enterprise participation goal in accordance with the overall program goals. Ms. Evans reviewed the evaluation criteria for the selection: experience and qualifications

of personnel; experience and qualifications and past performance of the firm; an understanding of the project; and a quality control and management plan. The proposals would be evaluated by an evaluation committee, which would result in a selected firm based on qualifications. The Procurement Office would conduct its due diligence to determine rates for similar services and the project scope of work prior to negotiating with the highest-ranked firm. If the negotiations were not successful, the same process would be used with the number two-ranked firm. Ms. Evans reported that once negotiations had been completed, staff would request that the Committee and Board consider the contract award.

The Committee concurred with the pending procurement.

Air Service Development Report. Mark Treadaway, Vice President for Air Service, Planning and Development, reported that a decision had still not been made regarding the award of a pair of slot exemptions previously owned by Republic Airlines. He recapped the activity that had occurred at Reagan National with the recent slot divestiture with American Airlines and US Airways. Mr. Treadaway reported that Southwest had prevailed in getting the most slots. By the time it begins its new schedule in November, Southwest would offer 43 daily departures to 13 different cities. It would be the second largest carrier at Reagan National. As a result of the slot divestiture, jetBlue had picked up 12 daily departures. When it begins its new service in December, jetBlue would operate 30 daily departures to 10 cities. Virgin America had gained four new daily departures and would increase its service to a total of five daily departures to two cities.

At Dulles International, Mr. Treadaway reported that Elite Airways, a small regional carrier, had begun providing service twice weekly to Melbourne, FL, on a low-fare basis. He noted that the introductory fares had been \$199 each way. As announced recently, Frontier Airlines (Frontier) had launched its new service on August 19. Once all of Frontier's new flights began at the end of November, it would operate 78 weekly departures to 18 cities. Mr. Treadaway noted that Silver Airways was transitioning from United Express and would increase its service to approximately 98 weekly departures beginning October 1.

Mr. Treadaway reported that once the new air service at Reagan National began at the end of the year, competition and overall seat capacity would increase. As Ms. McKeough had reported, there had been a gap in

services offered by the airlines affected by the slot divestitures, which had created a decrease in passenger activity at Reagan National. Mr. Treadaway reported that with all of the new services beginning soon, Reagan National was positioned for growth in 2015.

Mr. Treadaway also reported that a couple new international markets would begin in 2015; details had been included in the confidential staff paper provided for the day's meeting.

Ms. Lang referenced a recent interview with the Chief Executive Officer of Southwest Airlines. She noted that she, as well as Warner Session, had attended with several Authority staff. Ms. Lang reported that the interview would be rebroadcast on ABC on Sunday, September 21, at 9:00 a.m.

Ms. Hall noted that one of the attractions with Southwest Airlines (Southwest) at Baltimore Washington International (BWI) is the low fares. She asked whether fares to the same destinations Southwest offered at BWI would be comparable to those from Reagan National and Dulles International. Mr. Treadaway responded that Southwest's pricing model is generally very similar across the network and that he believed the fares would be similarly priced.

Mr. Chapman referenced the gap in services that occurred as the result of the slot divestiture and inquired when the decreased impacts would be reflected in the Airport's passenger activity. Mr. Treadaway stated that the July air traffic statistics had indicated that the new American had decreased 10 percent when compared to the previous twelve months. As previously noted, the passenger activity would rebound as a result of the increased activity once all the airlines began providing their new services by December 2014.

Mr. Chapman asked how the industry viewed the activities that had occurred at Reagan National and Dulles International. Mr. Treadaway stated that while he hesitated to speak for the airlines, he would suffice to say that Southwest is very happy as it had prevailed in the bidding process. Although the mix of carriers is a little more even at Reagan National, the new American is still a large carrier. Mr. Treadaway noted that the premium of the location at Reagan National should not be taken lightly so airlines remain interested in providing services and it engendered a substantial amount of competition. He stated that the

Authority is very fortunate to have two Airports in a region that is doing well and poised for growth.

The Meeting was thereupon adjourned at 12:50 p.m.

Mr. Conner announced that the October Meetings would be held at Dulles International.