SUMMARY MINUTES
BUSINESS ADMINISTRATION COMMITTEE
MEETING OF OCTOBER 21, 2015

Mr. McDermott chaired the October 21 Business Administration Committee Meeting, calling it to order at 9:13 a.m. A quorum was present during the Meeting: Mr. Adams, Co-Chair, Mr. Griffin, Mr. Mims, Mr. Pozen, Mr. Session, Ms. Wells, and Mr. Williams. Mr. Caputo, Mr. Gates, Ms. Hanley, Mr. Kennedy, Ms. Lang and Ms. Merrick were also present.

Pre-Solicitation Terms for Federal Aviation Administration-Approved Solid Runway Deicer Supply Contract at Ronald Reagan Washington National and Washington Dulles International Airports. Chris Browne, Vice President and Airport Manager, reported that the proposed contract term would be a two-year base period with three separately priced single-year option periods for an estimated total contract value of $11 million for the five-year period. He stated that both Airports are subject to winter operational requirements and must use a Federal Aviation Administration-approved solid runway deicer that meets all environmental regulations. He reiterated that the product, known as a sodium formate, would be used only to deice pavements. Mr. Browne reported that the contract would be awarded on the basis of the lowest price technically-acceptable method. He explained that the selected vendor must have the ability to deliver and demonstrate a distribution network within 500 miles of Tysons. Mr. Browne noted that robust competition is expected.

Mr. Mims recalled the winter several years ago when a fairly heavy snowfall had occurred and inquired whether the incumbent contract was in effect at that time. He asked how the product supply and budgeting are maintained in the event of heavy unexpected snow storms. Mr. Browne stated that the current contract will remain in place through June 2016 and noted that the product is fully stocked under the current contract. The new contractor is expected to provide amounts in excess of what might be estimated. Mr. Browne explained that after a robust winter season, budgets get very strained and every effort is made to reprioritize and stay within budget. However, if resources are not available in the internal budget, the Authority maintains a reserve to be used for similar purposes.

Mr. Pozen inquired about the distinction between runway and on-property uses compared to roadway uses. Mr. Browne reported that the deicing product would be used anywhere an aircraft operates, such as gate areas, taxiways and runways. He stated that the salt product cannot be used on the airfields because of its corrosive natures. Mr. Browne noted that the sodium formate product can be used in the structured parking garages at Dulles International without compromising the integrity of the structures.

Mr. Pozen inquired about the length of time a surplus supply could be used in the event a minimal amount of snowfall occurred. Mr. Browne stated that the product would last for multiple seasons and that the Authority has never had to dispense with product due to its age.

Mr. Caputo asked if a penalty would be assessed to the contractor if an ample supply of product is not available at the time a major storm occurs. Although Mr. Browne deferred to staff more familiar with the contract regarding penalties, he stated that the Authority had not encountered such an occurrence. Mr. Caputo stated that he believed the Board should know what the penalty would be in a hypothetical situation. Mr. Browne stated that he understood the concern and the requested information would be provided.

Mr. Kennedy inquired whether the Request for Proposals required a performance bond, to which Mark Adams, Deputy Chief Financial Officer, responded negatively.

The Committee concurred with the pending procurement.

<u>Recommendation to Award a Contract for the Unarmed Security Guard Services at Ronald Reagan Washington National Airport</u>. Paul Malandrino, Vice President and Airport Manager, Presented staff's recommended to award the contract to New Horizon Security Services. The maximum five-year contract term in the amount of $8,701,919.40, effective January 1, 2016, would include the minimum living wage of $13.64 per hour and a 100 percent Local Disadvantaged Business Enterprise participation requirement. Mr. Malandrino reported that the Transportation Security Administration (TSA) regulations and directives require an airport operator to control access to certain parts of its facility. He explained that access to these locations is controlled by ID card readers and unarmed security guards supported by Authority Police. Access points include, but are not limited to, airfield gates,

loading docks and pedestrian doorways. Additionally, unarmed security guards supported by the Authority Police patrol the Airport to ensure people in the secured areas have valid airport identification.

Ms. Wells inquired about the number of staff from the incumbent contract would be hired once the new contract is awarded. Mr. Malandrino responded that a two-month transition would occur and noted that similar contractors retained more than 50 percent of the current staff once the transition occurred with the new contractor. He stated that he would provide the requested information.

Mr. Adams noted that only two of 14 proposals (and one marginal) had been deemed acceptable during the evaluation process. He inquired whether there was any insight as to why such a disparity had occurred. Mr. Malandrino stated that most of the shortcomings resulted from a lack of past and present work experience that did not meet the size and scope of the requirement needed at Reagan National. Other noted weaknesses included project understanding, quality control and lack of detail in understanding the requirements in the Statement of Work. Mr. Adams inquired whether any type of pre-solicitation meeting had been held, to which staff responded affirmatively and noted that debriefings are also offered to assist firms in future competitions.

The Committee approved the recommendation. Mr. McDermott stated that he would offer a resolution later in the day's Board Meeting.

<u>Recommendation to Modify the Current Natural Gas Contract for Ronald Reagan Washington National Airport</u>. Mr. Malandrino reviewed the background regarding the Authority's participation in a Metropolitan Washington Council of Governments (COG) Invitation for Bid for the purchase and delivery of natural gas. He stated that the COG contract structure included two unpriced option years, which the Authority had not included in the executed 2012 contract because the financial implications could not be determined at the time of the award. Mr. Malandrino reported that Washington Gas Energy Services (WGES) has provided current rates for the two option years in the COG contract, which is approximately 3 percent less than the amount the Authority is currently paying. Considering the pricing that WGES is offering, it would be to the Authority's advantage to modify the WGES contract to include the two option years, which will allow the Authority to lock in the savings and to avoid the risk of market fluctuations that could arise in the event of an extreme winter. Mr. Malandrino reported that the additional two-

year cost for the purchase and delivery of natural gas is estimated at $2,108,000. In accordance with the Contracting Manual, when unpriced option years are exercised, it is considered as a sole source procurement, which requires Board approval.

Ms. Lang asked if the cost savings could be equated to real dollars. Ms. McKeough responded that the Authority would save approximately $100,000 by executing the two option years.

Mr. Mims inquired whether WGES planned to upgrade the infrastructure for the lines going into the Airport. Mr. Malandrino responded that he was not aware. Ms. McKeough noted that a number of upgrades were occurring in the area of Dulles International but noted that information would be researched for Reagan National.

Ms. Wells asked how the two-year option period would change in the event of a mild winter. Mr. Malandrino noted that the contract amount would be paid based on volume. Therefore, no adjustments would occur during a mild winter, but Mr. Malandrino explained that the cost could increase in the event of an extremely cold winter.

The Committee approved the staff recommendation. Mr. McDermott stated that a resolution would be offered later in the day's Board Meeting.

<u>Small Business Contracting Summary (As of June 30, 2015)</u>. Steve Baker, Vice President for Customer and Concessions Development, stated that the Authority operates two small business programs - the Local Disadvantaged Business Enterprise (LDBE) Program for non-federally funded contracts and the Disadvantaged Business Enterprise (DBE) Program for federally-funded contracts. He noted that the report represented the achievement of the Authority's LDBE Program for construction and goods and services, as well as the DBE achievements for the Aviation Enterprise and Phases 1 and 2 for the Dulles Corridor Metrorail Project (Project).

Richard Gordon, Manager of Supplier Diversity, summarized the Authority's contracting activity with small businesses. He reported that the LDBE requirement is 25 percent for construction contracts and 20 percent for goods and services contracts, which are applied to both Airports and the Dulles Toll Road.

Mr. Gordon reported that 40 percent LDBE participation, totaling $121 million, had been achieved in construction contracts during the first six months of 2015. With regard to goods and services, $97 million, or 22 percent, had been awarded to LDBEs.

Mr. Gordon also reported that $54 million in contracts, with DBE commitments of $9 million, had been issued under the DBE program for Reagan National and Dulles International. He noted that the $9 million commitment represented 17 percent of the DBE contract awards, which is below the 25 percent goal. Mr. Gordon stated that the DBE goal is a three-year goal, which will end in September 2016 [October 2016 was reported at the meeting]. He explained that two of the six projects under the DBE program accounted for 35 percent. One project was a sole-source contract so it had a 0 percent DBE goal because it was a sole-source contract, and the other contract was a highly-specialized contract with a 10 percent goal. Mr. Gordon reported that additional DBE projects in 2016 would provide an opportunity for the Authority to potentially increase the DBE goals in an effort to reach 25 percent by the end of September 2016.

With regard to Phase 1 of the Project, Mr. Gordon reported that the DBE goal was 13.24 percent applied to the $830 million in federal assistance, which translates into approximately $110 million in DBE participation. He stated that the Authority had achieved 39 percent DBE participation, for a total of $320 million, on Phase 1 of the Project.

Mr. Gordon reported that Phase 2 of the Project has a 25 percent goal that is applied to the federal assistance portion of $922 million, which is approximately $231 million in projected DBE participation. As of June 30, the contractors had reached a 20 percent participation level with 5 percent still required over the life of the Phase 2 of the Project.

Mr. Griffin asked how the federal share of $922 million on Phase 2 had been determined. Mr. Potter explained that the $1.8 billion that had been awarded to Phases 1 and 2 of the Project had been divided in half. The amount associated with Phase 2 had been identified as $922 million. The DBE percentage had been applied against $922 million resulting in a $200-plus million obligation.

With regard to the Phase 2 delays, Mr. Mims inquired about the approach Capital Rail Constructors (CRC) would use to address the impacts on its subcontractors. Mr. Potter reported that activity is moving forward and ongoing discussions were occurring. He stated that individual meetings are being scheduled with all of the subcontractors associated with the contract to continue working through the issues. Mr. Potter noted that CRC had met with approximately 80 percent of the subcontractors.

Ms. Hanley inquired about how the federal allocation for Phase 2 had been derived. Mr. Potter stated that the Authority had received a federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan for the entire Silver Line Project for approximately $1.8 billion. He explained that through the TIFIA office and the Federal Transit Administration, the Authority had participated in the analysis to determine the appropriate spend for DBE dollars for Phase 2. Mr. Potter explained that the amount had been calculated on 33 percent of the total Project cost. Since there is only an opportunity to spend going forward in Phase 2, half of the loan had been determined as the federal contribution to Phase 2.

Ms. Hanley sought clarity regarding the term "federal share" used on some of the charts for the day's presentation and expressed concern that the public would misinterpret the term as federal government funding rather than funds derived from the TIFIA loan for Phase 2.

<u>Concessions Redevelopment Program Update</u>. Jerome Davis, Executive Vice President and Chief Revenue Officer, was joined by Mr. Baker and Susan Drury of MarketPlace Development (MarketPlace). Mr. Davis congratulated the joint efforts of the concessions, internal engineering, and MarketPlace teams for the execution of the overall strategy. Mr. Baker also thanked the team for its work and stated that the presentation would cover what had been accomplished over the last few months. He noted that Mr. Session had attended the Authority's fifth outreach event earlier in the year when the presentation had been shared and thought it should be shared with the entire Board. In a brief summary, Mr. Baker stated that MarketPlace began its contract with the Authority in 2013, approved the merchandise plan, developed the phasing plan and began the actual solicitation in the fall of 2013. Since that time, a total of 85 new locations had opened at Reagan National and Dulles International; 43 locations had opened this year. He reported that revenue had increased $12.1 million over last year as a result of the new concessions.

Ms. Drury thanked the Authority for allowing MarketPlace to showcase all the great changes that have taken place at both airports. She reviewed the local brands that have joined the lineup of outstanding concepts over the past four development phases at both Airports -- &pizza; Ben's Chili Bowl; be right burger; Taylor Gourmet; Washington Informer; Lebanese Taverna; Cava Mezze Grill; and Capitol Grounds Coffee. Ms. Drury also shared the chef-driven concepts, including the Reservoir, which would soon open in Terminal A at Reagan National; Page, which had already opened; and Kapnos Taverna. Bar Symon and Chef Geoff's had opened at Dulles International. Ms. Drury reviewed the "better brands" that had opened at the Airports.

Ms. Hanley inquired about the logo that was included on the presentation. Mr. Baker explained that the logo had begun in the Concessions Program and that the Authority is working to use one unifying logo for the entire organization. At the conclusion of the presentation, Ms. Drury thanked the tenants and their staffs, Authority staff and her colleagues at MarketPlace.

Ms. Wells inquired about the process that the Authority would use to determine the concessions that the passengers enjoy. Mr. Davis reported that the results of the customer satisfaction survey for both Airports would soon be presented to internal Vice Presidents. He stated that a subsequent report would be presented to the Board in either November or December.

In order to allow the Board of Directors Meeting to begin its scheduled time, the Committee recessed its meeting at 10:00 a.m.

Mr. McDermott reconvened the Business Administration Committee Meeting at 11:20 a.m. A quorum was present: Mr. Adams, Co-Chair, Mr. Griffin, Mr. Mims, Mr. Pozen, Mr. Session and Ms. Wells. Mr. Caputo, Mr. Gates, Ms. Hanley, Mr. Kennedy, Ms. Lang and Ms. Merrick were also present.

Ms. Merrick inquired about the rate of growth; if staff had encountered challenges; what had been learned as a result of the challenges; and how lessons learned would be applied to future growth. Mr. Baker stated that the biggest challenge had been the demand on the labor force to build out the stores and not retaining quality contractors due to the expenses associated with working at the Airports. While these challenges had been associated with the operators, the results are displayed in the schedules and deliveries.

Mr. Adams inquired about vendor feedback with respect to the new opportunities at the Airports. Ms. Drury reported that from a leasing perspective, there had been tremendous interest. She noted that as many as 40 concessions had submitted proposals on one location at Reagan National in a high-volume location. Ms. Drury stated that MarketPlace had had a difficult, challenging task to select operators and brands because of the competitive nature.

Mr. Adams then asked what controls or policies are in place for those who are not successful to keep them engaged and provide guidance with regard to partners. Mr. Baker stated that some of the bigger locations lend themselves to joint ventures, are expansive and include multiple locations. There are others that are smaller with lesser capital investment that may lend themselves to a single operator of varying sizes. Mr. Baker explained that the Authority and MarketPlace share as much information as possible about the concession, including the location, the revenue expectation and investment requirements. With regard to offering information about joint ventures versus subcontractors, Mr. Baker stated that the Authority and MarketPlace are careful not to be placed in that role. With regard to lessons learned, Mr. Davis stated that efforts are underway with the Authority and MarketPlace to improve the communication gap with concessionaires not selected. Additionally, he noted that he and Mr. Baker often meet with four key concessionaires monthly to discuss potentially negative and positive issues and foster insight. Mr. Davis stated that the Authority relies on the Manager to ensure that communications with a concessionaire not selected are handled appropriately and that Mr. Baker and his team are working closely with MarketPlace to establish and ensure that correct protocol is occurring.

Mr. Adams also asked Ms. Drury about the process that MarketPlace used with unselected concessionaires. Ms. Drury stated that once it had made its recommendations and received approval from the Authority to proceed with a particular deal, MarketPlace sends correspondence and communicates personally. She noted that MarketPlace sometimes meets with a tenant or prospective tenant and debrief them.

Mr. Adams requested that staff provide a breakdown of current concessionaires and the percentage of tenants that partner with local participants. Mr. Davis stated that the information would be provided.

Mr. Session stated that Phases 1 through 5 of the Concessions Redevelopment had been an iterative process, with lessons learned though each successive phase. He noted that Mr. Potter had convened meetings with several Directors and MarketPlace to discuss future strategy. Mr. Session observed that communications had improved.

Additionally, Mr. Potter noted that the contractual relationship with the concessionaires is with MarketPlace. It is important that the Authority is mindful of the procurement process and its role in respecting the relationship between the fee concession manager and the concessionaire.

The meeting was thereupon adjourned at 11:37 a.m.