

SUMMARY MINUTES
STRATEGIC DEVELOPMENT COMMITTEE
MEETING OF JULY 19, 2017

Ms. Lang chaired the July 19, 2017 Strategic Development Committee Meeting, calling it to order at 9:00 a.m. A quorum was present during the Meeting: Ms. Wells, Co-Chair, Mr. Griffin, Ms. Hanley, Mr. Session, Mr. Sudow, Mr. Uncapher, Mr. Williams, and Mr. McDermott (*ex officio*). Mr. Adams, Ms. Merrick, Mr. Speck and Mr. Tejada were also present.

Recommendation to Award a Contract for Commercial Real Estate Brokerage Services at Washington Dulles International Airport. Jerome L. Davis, Executive Vice President and Chief Revenue Officer, provided background context on the process and strategic issues associated with staff's recommendation to award a contract for commercial real estate brokerage services at Washington Dulles International Airport (Dulles International), and to advise the Airports Authority on other real estate matters. He introduced Jim Poff, Manager, Business Development, who provided the report to the Strategic Development Committee.

Mr. Poff stated that the request of the Strategic Development Committee was for approval and recommendation to the Board of Directors that the Airports Authority enter into a contract with CBRE, Inc., to provide commercial real estate brokerage services at Dulles International and to advise the Airports Authority on other real estate matters. The proposed contract was for a five-year base period and five one-year option periods, for a total contract term of 10 years.

Mr. Poff advised as background that the Airports Authority had identified three parcels of land that are not required for Airport operations and would be suitable for commercial development. He stated that engagement of a commercial real estate brokerage service firm would allow the Airports Authority to fully expose the land parcels to the regional, national and international real estate markets over a multiple-year period and thereby maximize the financial returns.

Mr. Poff referenced the Strategic Development Committee's concurrence with staff's recommendation in March 2017 to issue, under full and open competition, a solicitation requesting proposals for commercial real estate brokerage services. He stated that the competitively-negotiated best value procurement method was used for the solicitation, and a Request for Proposals was issued on March 31, 2017. Mr. Poff stated that six firms submitted proposals for consideration, three of which were

deemed to be within the competitive range. He stated that oral interviews were conducted with the three firms on May 31, 2017; that best and final offers were requested from those firms on June 5, 2017; and that responses from those firms were received by June 14, 2017.

Mr. Poff stated that the Technical Evaluation Committee reviewed and evaluated the proposals based on the following criteria: qualifications and experience of assigned brokers; qualifications, experience and resources of the firm, including an assessment of each firm's policies regarding the attainment and/or presence of diversity within the firm's workforce, the actions of the firm to implement and achieve those policies, and the firm's performance under those policies; and, finally, the management and marketing plan.

Mr. Poff stated that the proposal submitted by CBRE was determined to be the best value for the Airports Authority. He further stated that the estimated cost of the contract ranges from \$3.9 to \$5 million, but would actually be determined by the economic value of the completed transactions and other factors. Mr. Poff reported that CBRE demonstrated its extensive experience in land and lease transactions in Northern Virginia, and particularly Loudon County, its industry-leading range of brokerage and consulting services, and its national and international market reach.

He stated that CBRE presented a well-developed program committed to diversity in its proposal, which included education of executives and managers, development of diverse talent, and placement of diverse talent through succession planning, recruiting, and advocacy. Mr. Poff further stated that CBRE monitors its progress through scorecards that are shared with its business leadership and executives.

Ms. Lang stated that she and Ms. Wells, as Co-Chairs of the Strategic Development Committee, were briefed by Mr. Davis and Mr. Poff on the matter previously and asked many questions, including focused questions on the minority participation on the CBRE team, because they thought that was important and wanted to ensure that a firm like CBRE had minority participation on the team. She stated that the Co-Chairs were satisfied with the responses they received about that issue.

Mr. Sudow asked about the type of leasing experience CBRE possessed. Mr. Poff stated that CBRE's experience included ground leases, which is not the common way of leasing, and that the majority of its experience was industrial leases to end users.

Mr. Sudow asked if the services would include transaction structuring support. Mr. Poff answered affirmatively, and stated that the Statement of Work included development work, transaction structuring and ground lease structuring, among other things. Mr. Sudow stated that based on his experience, when potential solicitation with large parcels are being considered, it is helpful to include in the solicitation a proposed structure of an arrangement that would help maximize revenues to the Airports Authority. Mr. Poff agreed and stated that he was sure that strategic work would be done.

Mr. Sudow asked whether CBRE had experience with other airports and/or airports authorities around the country with similar real estate holdings. Mr. Poff stated that CBRE was not asked that question directly although CBRE has a group called the Public Institution and Educational Services Group, which deals with many public entities. Mr. Davis stated that in certain situations he believes it is good to find that an organization has a very expansive portfolio of different companies, so that it can offer more creativity other than its dealings with transportation businesses and specifically airports. He further stated that it is important for such a company to be creative and innovative in order to provide the potential answers needed by the Airports Authority. Mr. Davis noted that his Office wanted to have an assessment of the ability of the company to go out and make deals and close them because that is considered the most important action to be taken.

Mr. Sudow asked whether the team identified by CBRE, including the team leader, has the needed experience in Loudon County. Mr. Davis answered in the affirmative.

Mr. Sudow asked that the three parcels be identified. Mr. Poff advised that they included the Western Lands, which is 416 acres on the western extreme of Dulles International, on Route 606; the metro 606 site, which is between 56 and 68 acres at the new Loudon Gateway Metro Station; and the 606 frontage, which is across from the Dulles Walmart.

Mr. Sudow asked if there was a plan to issue another solicitation to cover other parcels of land. Mr. Poff stated that the solicitation was issued to cover all three parcels of land identified. Mr. Potter stated that the CBRE contract could be used for other parcels.

Mr. Sudow suggested that the Strategic Development Committee be allowed to participate in another real estate brokerage solicitation for

other parcels of land, some of which might have a different focus, in terms of use.

Ms. Merrick commended Mr. Poff on the presentation. She shared that she had had some interface with CBRE in its women's network and noted that CBRE is nationally recognized by the economists for its diversity. Ms. Merrick stated that CBRE had won an award relative to diversity many years ago which speaks to its reputation. Ms. Lang added that she had raised the question because generally commercial real estate companies have not had the greatest reputation for diversity and promoting women so she was curious of the team's composition.

Ms. Merrick asked whether CBRE's success would be demonstrated by all three parcels of land being leased and developed with businesses within the first five years of its potentially long-term contract. Mr. Poff stated that the contract for commercial real estate brokerage services could lead to a long-term business relationship with two different types of properties. He noted that Western Lands would soon receive the federal National Environmental Policy Act (NEPA) approval, and success would be demonstrated by attaining ground leases over the next several years. With regard to the Metro station and the 606 frontage, Mr. Poff reported that the Airports Authority would identify a developer who would have a plan, pursue the federal approvals with the Airports Authority and identify partners for those properties. Mr. Davis added that the five one-year options would provide the Airports Authority the flexibility of ending the contract if productivity did not meet the established standards. He stated that the Airports Authority has to its advantage the nearly-completed NEPA, which would be beneficial for future work associated with a Request for Proposals (RFP) or task order contract. Mr. Davis reported that progress could accelerate fairly quickly when the right components are in place for the three parcels.

Mr. Griffin observed that a best value procurement method was used for the commercial real estate brokerage services contract. He stated that CBRE is the highest-priced offeror and inquired about the distinguishing factors that led to its selection. Mr. Poff explained that CBRE demonstrated an inventory of transactions that were achieved at a great pace. CBRE is well established in the marketplace and has a stable of institutional clients and has the ability to expedite transactions.

With regard to the terms and processing capability, Mr. Adams asked if there are any incentives built into the CBRE contract that addresses industry changes involving risks during any of the one-year option

periods. Mr. Poff responded negatively noting that ultimately, the monetary commissions serve as motivation. He stated that the Airports Authority would not continue with CBRE's services after the five-year base term contract concluded if it were not impressed with its performance standards. Mr. Poff explained that part of the RFP included listing agreement deal points, one of which included that the Airports Authority would set the performance. Mr. Adams then shared his experience with CBRE during his interaction in state government. At that time, CBRE was able to partner with a local Minority Business Enterprise firm to deliver the consultant services to the state. Mr. Adams stated that he was uncertain of a Disadvantaged Business Enterprise requirement associated with the Airports Authority's contract but noted that CBRE presented a singular bid. He asked how the Airports Authority would ensure that CBRE achieves the diversity representation. Mr. Poff stated that the commission structure and the brokerage service fees represented the majority share of the entire contract. He further stated that the Airports Authority is unaware of the consulting service assignments that would be required from CBRE so a significant amount of time had not been dedicated to a specific need. Mr. Poff noted that much of the focus was spent on the content of the team and a firm with diversity. Mr. Adams inquired why the focus was on a single firm instead of requiring a minority partnership. Mr. Poff noted that the CBRE teams had a presence of minority participation providing the confidence to the Airports Authority that there would be an ongoing effort for CBRE to outline individual responsibilities to provide support within the firm and the opportunities they can deliver.

Mr. Tejada commended Ms. Lang for outlining the diversity background and the mobility of women in highlighting CBRE's track record. He then inquired about acreage of the three main parcels of land in that area, specifically the 606 frontage. Mr. Poff stated that the 606 frontage is 45 acres and can be expanded to at least 150 acres.

Mr. Tejada shared thoughts that he believed that it would not be difficult to find developers interested in proposing projects in the discussed areas. He noted that it is attractive for many reasons, but particularly because it is located near the Metro, which is a magnet for growth. Mr. Tejada stated that there would be challenges since the property's master plan dealt with zoning in Loudoun and Fairfax Counties. Mr. Poff clarified that the discussed area is Airport property and not part of the Loudoun County zoning; however, a general plan had not been perfected. He stated that there has not been any internal speculation on the land use since it would be open to the market.

Mr. Tejada expressed thoughts about the potential use of land for affordable housing in the area and inquired whether CBRE would consider any discussions regarding affordable housing. Mr. Potter responded negatively. For the record, Mr. Potter stated that the Airports Authority has been aggressively trying to market the parcels of land. He noted that the Airports Authority decided to solicit an outside broker because no one has offered to rent or lease the property. Mr. Potter reported that the Airports Authority had learned of a requirement to complete a NEPA study, which would be completed by the end of the year. He stated that the timing is perfect to enter into a contract with CBRE. Mr. Potter further stated that the Airports Authority is not the sole owner of the parcels noting that there are three major owners. Since nothing is presently being developed on the land, Mr. Potter observed that it is a lost opportunity not only for the Airport, but also for the County since it is part of a special tax district that will help pay for the operation and maintenance of Phase 2 of the Dulles Corridor Metrorail Project once it becomes operable.

Mr. Tejada stated that he appreciated Mr. Potter's explanation regarding the use of a commercial real estate brokerage service. He observed that he understood Mr. Potter's desire not to elaborate on future residential development near Dulles International; however, he stated that some Directors may request future updates to see if a master plan has progressed. Mr. Tejada further stated that future opportunities may become available. He stated that he was fully aware of the potential issue that may be caused by residential housing near an airport, but that he believed it should be discussed to determine whether future opportunities, similar to a luxury business complex, may exist.

Mr. Potter advised that in consideration of future Airports Authority Board Members, he asked that residential properties not be considered in high noise areas, such as Dulles International. Mr. Tejada stated that Airport noise continues to cause major discussions, of which he was accustomed as a representative from Arlington. He observed that prior to his appointment on the Airports Authority Board that he had had the privilege to join Mr. Potter and other members of the Airports Authority at a Metropolitan Washington Council of Governments meeting. Mr. Tejada stated that he believed that airport noise should be dealt with accordingly. He further stated that if the appropriate opportunity arises with regard to residential development near Dulles International, then the topic should be addressed at that time.

Ms. Hanley observed that Reagan National had been in existence for as long as many of the homes in Fairfax County. She stated that thus far, Fairfax and Loudoun had maintained a restriction against building homes outside of Dulles International. Ms. Hanley further stated that numerous studies had been conducted regarding the flight paths and the noise contours. The studies concluded that the decision to restrict housing near Dulles International was an appropriate one -- not only for the comfort of the residents but also for the comfort of the airlines wishing to use Dulles International. Ms. Hanley stated that she agreed with the studies' results that residential development should not occur outside of Dulles International.

Mr. Williams referenced the qualification criteria regarding the attainment and/or presence of diversity within the firm's workforce. He stated that he was pleased that the Strategic Development Committee Co-Chair(s) had stressed the importance of minority participation in the commercial real estate brokerage services contract. Mr. Williams further stated that he hoped that the qualification criteria would become a standard criterion for future solicitations. Mr. McDermott stated that an ad hoc committee had looked at historical practices and that the diversity requirement has become one of wide applicability in Airports Authority contracts.

Mr. Session stated that while most of the questions he planned to ask had been answered, he clarified that consulting services would be among the factors used to help determine the economic value of CBRE's completed transactions. Mr. Davis affirmed Mr. Session's statement.

The Committee approved the recommendation. Ms. Lang stated that she would present the resolution later at the day's Board Meeting.

Ronald Reagan Washington National Airport Project Journey. Roger Natsuhara, Vice President for Engineering, thanked the Board Members who had participated in the Project Journey tour the prior day. He provided an update on the costs of enabling projects. Mr. Natsuhara reported that 42.4 million had been spent in May, most of which had been used for American Airlines' utilities. With regard to the scheduled activities, no changes had occurred. Mr. Natsuhara reported that the work associated with the demolition of Hangars 11 and 12, as well as the Corporate Office Building (COB), is continuing. He stated that the remediation work inside the COB had been completed, and the demolition would begin within the next couple of weeks.

Mr. Natsuhara also reported that approximately \$5.3 million had been spent on the New Commuter Concourse in June for construction of the site work and utilities. He stated that the design work for Package 2B – Apron had been completed, and construction bids are due the following week. Mr. Natsuhara reported that all other activities remain on schedule. He also reported that Turner had conducted a pre-bid meeting for the apron work on June 15; 47 subs/suppliers and 39 LDBEs had attended. Mr. Natsuhara noted that there was a fairly even representation of attendees from Virginia, the District of Columbia and Maryland.

Mr. Natsuhara reported that \$185,000 had been spent for design work on Secure National Hall in June. With regard to the scheduled activities, no changes had occurred. Mr. Natsuhara stated that the procurement for the construction is ongoing, and the construction is expected to begin in September.

Mr. Natsuhara provided an update on the VIP parking lot conversion to a construction area. He advised that the lot, which is fenced off, is no longer being used. Preparation is underway for construction.

Project Journey Airport Operations Plan. Margaret McKeough, Executive Vice President and Chief Operating Officer, also thanked Board Members for participating in the tour the prior day and taking time to get oriented to Project Journey.

As Mr. Natsuhara had stated, Ms. McKeough reported that the procurement phase of Project Journey would soon conclude, and construction of the two main projects, particularly the Secure National Hall, would begin in September or October. She stated that the entire Ronald Reagan Washington National Airport (Reagan National) team and Public Safety department are extremely cognizant that a substantial amount of construction would be underway in the mist of operating a very busy Airport.

Ms. McKeough reported that an interdisciplinary team from the Airports Authority has been developing a “Continuity of Operations Plan” to ensure that Airport operations are not negatively affected and to minimize any customer impacts.

Ms. McKeough reported that staff would provide operational updates at monthly Board Meetings frequently to advise how the operations are progressing and provide information on the different operational changes

that would occur to facilitate the construction at Reagan National over the next three to four years. She stated that a great deal of thought had been given to how to phase the construction to minimize the impacts to the customers. Ms. McKeough further stated that customers coming to Reagan National during the construction would use the Airport much like they currently do. She reported that customers traveling out of Terminal A would likely not have much impact. Construction would predominantly impact Terminal B/C. However, there would be little change for customers arriving at Reagan National to depart on an airline out of Terminal B/C.

Ms. McKeough noted that the planes that customers catch on the north side of the airfield might be parked in slightly different locations. Ms. McKeough explained that customers would see and feel the impacts of the construction once they arrived at the Airport on an aircraft, proceed to baggage claim, and out to the ground transportation curb to catch their preferred modes of transportation to exit the Airport. She stated that the Airports Authority will work diligently to minimize any delays to customers as they exit the Airport.

Ms. McKeough reported that there would be a great emphasis on traffic movement on the Airport, which is the essential focus of the Continuity of Operations Plan. She stated that the Airports Authority would close down various lanes throughout the project at the lower curb at the ground transportation area in front of Terminal B/C, and future traffic movement would differ from the existing traffic patterns.

Ms. McKeough also reported that some of the commercial ground transportation operators would be relocated to different locations. She stated that presently most of the existing commercial outbound vehicle movements occur at the lower level, but during construction some of the commercial vehicles would be reassigned to the ticketing level. Ms. McKeough advised that the construction and roadway changes would occur in phases. Most importantly, she reported that changes would not occur until there had been very thorough communications with Reagan National customers so that they can be oriented to the changes that they will experience on the roadway system and as they traverse the terminal.

Mr. McDermott stated that he would exercise his discretion to convene the meeting of the Board of Directors and take Tab 13, Unfinished Business first, at which time Paul Malandrino, Vice President and Airport Manager, Reagan National, would continue with the presentation on the Project Journey Operations Plan.

With that, Ms. Lang thereupon adjourned the meeting at 9:45 a.m.