RENO-TAHOE AIRPORT AUTHORITY BOARD OF TRUSTEES

FINANCE AND BUSINESS DEVELOPMENT COMMITTEE
Minutes from the Meeting November 8, 2011

In Attendance: Mark Crawford, Chairman, Finance Committee*
Rick Murdock, Trustee*
Dr. Kosta Arger, Trustee*
Jerry Hall, Trustee
Randi Thompson, Trustee
Adam Mayberry, Trustee
Steve Katzmann, Trustee
Bill Eck, Trustee
Marily Mora, Executive Vice-President/COO
Ann Morgan, General Council
Dean Schultz, Vice President of Planning/Engineering/Environmental Mgmt.
Tina Iftiger, Vice President of Airport Economic Development
Laurie Weeks, Manager of Concessions
Leah Williams, Manager of Accounting
Tony Osendorf, Manager of Finance & Budgeting
Joyce Humphrey, Manager of Purchasing & Materials Management
Marty Mueller, Director of Technology & Information Systems
Patrick North, Senior Internal Auditor
Gina Castellar, Accounting Specialist
Rebecca Marvin, Administrative Assistant
Tim Kretzschmar, Sr. Vice President, Q&D Construction
Bruce Boudreau, Director, Leigh Fisher
Bruce Feuer, Vice President of Business Development, The Paradies Shops
` Pat Murray, Executive Vice President, SSP America
Tim Czarnecki, Client Executive, Wells Fargo
Tony Belcastro, Managing Director, Wells Fargo
Laura Smith, Account Manager, Wells Fargo
Carol-Lynn Gaudio, Office Manager, Western Jet Aviation
*Denotes Finance Committee member

Note: The official minutes of the Finance Committee meetings are maintained on digital recorders used to record the proceedings. The following is provided as a reference to the subject matter and conclusions reached from the discussion.

<u>Topics Discussed:</u>

I. Review of meeting minutes from October 2011

The minutes from the meeting of the Finance and Business Development Committee October, 11 2011, were approved by the Committee.

II. Public Comment

None

III. Items to be presented to the Finance and Business Development Committee for review and recommendation to the Board:

#11(11)-74 A. AUTHORIZATION FOR THE PRESIDENT/CEO TO EXECUTE AN EXTENSION OF THE BROKER OF RECORD AGREEMENT WITH WELLS FARGO INSURANCE SERVICES USA, INC. FOR FY 2011-2012

The Reno-Tahoe Airport Authorities (RTAA) five-year agreement with Wells Fargo Insurance Services USA, Inc. as insurance broker of record expired June 30, 2010 and a one-year extension expired June 30, 2011. A Request for Proposal (RFP) for brokerage services was sent to the 11 largest brokers of U.S. Business. An evaluation team of RTAA staff and Trustee Hall were in the process of reviewing and grading proposals and were scheduled to select the "short list" of firms to interview during the week of September 26, 2011.

Due to the tragic accident that occurred at the National Championship Air Races on September 16, 2011, it is staffs recommendation that RTAA would be better served to stay with Wells Fargo Insurance Services on a one-year extension in order to maintain continuity on the insurance team. To introduce a new company to assist with insurance questions and hold them to a compensation proposal provided prior to the accident is not practical at this time.

By extending the current agreement one year, Wells Fargo Insurance Services USA, Inc. will continue to provide services to market and bind coverage to the RTAA through June 30, 2012. The decision to issue a new RFP will be determined after the placement of insurance for Fiscal Year (FY) 2012-13. The insurance carrier recommendation will be scheduled for Board action in June 2012.

Staff introduced Tim Czarnecki, Client Executive, and Tony Belcastro, Managing Director, from Wells Fargo.

Trustee Arger asked if any price increases were to be expected. Mr. Belcastro stated there had been a slight increase to Workman's Compensation premiums nationwide; however, they will know better after the first of the year if the rates will increase. Trustee Arger asked if the Wells Fargo Team is working on the changes. Mr. Belcastro confirmed that they have a team in Chicago monitoring any changes in the marketplace.

Trustee Murdock asked what an estimate of the Workman's Compensation increase would be. Mr. Belcastro stated he could not provide an estimate at this time; however, he was informed the increase in California had been 37%. Trustee Murdock asked if the Board were to move forward, would the Authority see an increase. Mr. Belcastro stated he was unsure if there would be an increase; however, it seemed to be the trend nationwide. Mr. Belcastro also stated the other lines of insurance were stable.

Trustee Hall asked if it was expected that there would be an increase to the General Liability coverage. Mr. Czarnecki stated it was possible; however, it would depend on what happens in the International marketplace and at this time it appears to be fairly stable.

Trustee Arger asked what would happen to the rates in the following year due to the events from the Air Races in September. Mr. Czarnecki stated it did not appear to have a large effect on the rates and would know more in December of 2011. Mr. Czarnecki also stated the insurance marketplace had leveled out and premiums had dropped significantly.

Trustee Murdock asked if the Authority renewed for one year, would it be renewing the contract that is currently in place. Staff stated the Broker of Record agreement would be renewed and Wells Fargo would take the insurance to the market for pricing. Staff also stated this would be brought to the board in June for FY 2012-13.

Chair Crawford asked if this would give the Authority a lapse in coverage and staff stated there would be no lapse in coverage.

The Committee unanimously recommended this item for Board approval on the Consent Agenda at the upcoming Board meeting.

#11(11)-78 B. AUTHORIZATION FOR THE PRESIDENT/CEO TO NEGOTIATE FINAL TERMS AND EXECUTE AMENDMENT NO. 8 TO THE GIFT AND NEWS CONCESSION LEASE BETWEEN THE PARADIES SHOPS AND THE RENO-TAHOE AIRPORT AUTHORITY TO EXTEND THE LEASE TERM FOR THE FIVE YEARS, FROM OCTOBER 1, 2019 THROUGH SEPTEMBER 30, 2024

On December 16, 2010 Resolution No. 504 was approved by the Board of Trustees. In that Resolution, the Board reached a consensus to move forward on a number of airport development plans, including refurbishment of the lower level terminal area, centralizing the security checkpoint and relocating the food court to the second level. These Airport Renewal Program Projects are now collectively referred to as the “Gateway Project”.

The Gateway Project improvements will displace the existing pre-security food court on the first floor. To meet the demands of passengers, meeters and greeters, and airport employees for a pre-security restaurant, a new restaurant will be constructed by SSP America where the Ponderosa Pines/Brighton store is currently located.

The proposed new post-security retail center, containing four new Paradies’ concepts, will be completed by March 2013 and will be located directly across from the new iconic restaurant/bar and McDonald’s on the second floor. These offerings consist of: CNBC News, InMotion, Brighton Collectibles, and No Boundaries.

The total proposed investment by Paradies for the new concepts and post-security improvements is in the amount of $1.23 million. In addition, Paradies would undertake a mid-term refurbishment program in Fiscal Year (FY) 2021/22 at a minimum of $50 per square foot (psf) to restore and refresh the appearance of Paradies’ leased premises, which represents another $164,000 investment midway through the proposed five-year extension period, for a total investment of $1.4 million.

Leigh-Fisher, the Reno-Tahoe Airport Authorities (RTAA) Concession Consultant, determined the annual amortization of the year-to-date unamortized investment by Paradies, plus the proposed new investment by Paradies of $1.4 million, would require a five-year extension of the current Lease term.

The proposed new terms with Paradies include the following:

1. Effective through November 30, 2011, the current Minimum Annual Guarantee (MAG) at $901,000 would continue to apply.
2. The current product categories would not change; however, effective December 1, 2011 until the opening of the four new post-security outlets or March 2013, whichever occurs first, the Concession Fee would be a flat 13% for all categories.
3. Effective December 1, 2011 until the opening of the four new post-security outlets or March 2013, whichever occurs first, the MAG would be reduced by 29% to $640,000 due to the loss of revenue from the closure of Ponderosa Pines, Brighton and Designs by Sue, after which the MAG would return to $901,000 subject to annual adjustments based on 85% of the preceding FY revenues paid to RTAA.

All Paradies year-to-date historical investment will be fully amortized by the end of the current Lease term on September 30, 2019. All new investments will be amortized over the proposed five year Lease term extension, from October 1, 2019 to September 30, 2024.

Leigh-Fisher estimates that Paradies' four (4) new outlets will generate approximately $1,984,000 in gross sales in the first 12 months of operations. Compared with current annual gross sales of Ponderosa Pines and Designs by Sue of $1,187,000, a first year gross sales increase of $797,000 is anticipated.

Overall estimated gross revenue for the proposed five-year extension period for all outlets is $41,460,763, which is an additional $3,769,160 in gross revenue compared with the anticipated yield of the existing program. Estimated RTAA net revenue for the proposed five-year extension period is $6,530,100, an increase of $593,700 over what the existing program is estimated to yield.

Staff introduced Bruce Feuer, Vice President of Business Development, from The Paradies Shops; Bruce Boudreau, Director, from Leigh-Fisher; and Pat Murray, Executive Vice President, from SSP America.

Trustee Arger asked if the extension excludes other retail competitors. Staff stated it does not exclude other retailers and there are specialty retail shops currently in the airport. Trustee Arger asked if additional retailers wanted to come in, would they have to go through Paradies. Staff stated that all concession agreements are non exclusive; therefore, RTAA could negotiate directly with the other concessionaires.

Chair Crawford asked the Board if they were aware that approval was contingent on the Board moving forward on the project that would be on the agenda in the Planning Committee meeting. Board members confirmed.

Trustee Arger stated the projections were amortized and asked if it was customary to go out ten (10) or fifteen (15) years. Staff stated it was not out of the ordinary due to the fact they are mid-term agreements.

Chair Crawford asked staff if we had assumed the revenue decline in the construction period in the budget. Staff confirmed.

The Committee unanimously recommended this item be approved for Board information, discussion and possible action at the upcoming Board meeting, pending the approval at the Planning Committee meeting.

#11(11)-79 C. AUTHORIZATION FOR THE PRESIDENT/CEO TO NEGOTIATE FINAL TERMS AND EXECUTE AMENDMENT NO. 3 TO THE NONEXCLUSIVE FOOD AND BEVERAGE CONSESSION EASE BETWEEN SSP AMERICA INC. AND THE RENO-TAHOE AIRPORT AUTHORITY TO EXTEND THE LEASE TERM FOR TEN YEARS, FROM OCTOBER 1, 2016 THROUGH SEPTEMBER 30, 2026.

As detailed in Memo # 11(11)-79 above, the Gateway Project, specifically the new Centralized Security Checkpoint of the Future project will displace the existing, pre-security food court. The new, pre-security offering would provide for a 1,830 square-foot (sf) sit-down restaurant and bar in the Terminal Lobby. The post-security offerings would include a 4,000 sf iconic sit-down restaurant and bar, an 1,150 sf McDonalds, and possible second post-security 1,150 sf quick-serve outlet; food and beverage capacity requirements to be reviewed when enplanements reach 2.5 million (space will be shelled out for possible alternate use until demand materializes)

Leigh-Fisher, the Reno-Tahoe Airport Authorities (RTAA) Concession Consultant, calculated both the current unamortized investment by SSP America and the proposed new capital investment to determine the appropriate lease term extension. The annual amortization of the year-to-date unamortized investment by SSP America in the current leasehold ending September 30, 2016, plus the proposed new investment by SSP America is in the amount of $5.1 million, would be $333,000 annually, which requires a 10-year extension of the current Lease term to fully amortize all investments.

The proposed new revenue terms with SSP America include the following:

1. Effective through April, 2012, the Concession Fee structure and the current Minimum Annual Guarantee (MAG) of $885,804 will continue to apply, subject to annual adjustments to an amount not less than 85% of the total revenue payments made by SSP America for the preceding fiscal year and never less than the current MAG.
2. Effective with the opening of the new pre-security Restaurant/Bar and the closure of the current food court on May 1, 2012, until the opening of the new post-security restaurant/bar and McDonald's on April 1, 2013, RTAA

will reduce the MAG associated with the pre-security restaurants in total by 35% to $575,775 for a period not to exceed 12 months.

3. Effective May 1, 2013, the Concession Fee on all food products is 8%.
4. Effective May 1, 2013, the Alcohol Concession Fee will be based on the following progressive scale:
   (a) 16.5% on gross sales up to an amount of $1,500,000
   (b) 17.0% on gross sales between $1,500,000 and $1,750,000
   (c) 17.5% on gross sales between $1,750,000 and $2,000,000
   (d) 18.0% on gross sales in excess of $2,000,000
5. All SSP America year-to-date historical investment will be fully amortized by the end of the current Concession Lease term on September 30, 2016. All new investments (including the addition of Peet's to the La Brea Bakery outlets in 2011) will be amortized over the extended Lease term, from October 21, 2016 through September 30, 2026.

SSP America will also invest in an addition of Peet's branded service to the La Brea Bakery outlets on each concourse, remodel of the Vista and Panorama Bars on the concourses and replace the Max's Eatz concepts on each concourse with a local pizza concept.

Total anticipated investment by SSP America for the proposed pre- and post-security construction and improvements above, not including the possible second post-security quick-serve outlet, is in the amount of $4 million.

In addition, SSP America would undertake a mid-term refurbishment program in FY 2020/21 at a minimum of $100 psf to restore and refresh the appearance of SSP America's leased premises. This represents another $1.1 million investment midway through the proposed 10-year extension period.

Other improvements (proposed by the RTAA and agreed to by SSP America) include a Mystery Shopper Program and a shift in responsibility of the janitorial services in the public eating areas from SSP America to the RTAA.

If approved, at minimum the RTAA would receive a MAG in the amount of $575,775 during the construction period and the amount of $885,804 following the construction period.

Leigh-Fisher estimates that SSP America will achieve $4,263,000 annual gross sales in the first 12 months. Compared with FY 201l gross sales of the current Brew Brothers, Greens and McDonald's of $3,243,000, a first year increase of $1,020,000 in gross sales is anticipated. However, staff estimates a 35% reduction in the MAG during the 12-month construction phase resulting in a revenue loss of approximately $310,000 in gross sales. Overall, estimated gross revenue for the proposed 10-year extension period for all outlets is $124,527,263 which is an additional gross revenue amount of $16,242,686 over what the existing program is estimated to yield.

Overall estimated net revenue to the RTAA for the proposed 10-year extension period is $12,577,400, which is an estimated $1,640,700 increase over the existing program.

Chair Crawford asked for confirmation that if the dates were to represent the construction period, and if the construction period is shifted or shortened, would the terms stand firm or would they shift and shorten with the actual construction of the complex. Staff stated that in working with Q&D, the construction schedule is in sync with the terms.

Trustee Katzman asked if there was opportunity for local food and beverage to come in and if they would have to go through the same process as the retail competition. Mr. Murray with SSP America stated they focus on local marketplaces and are currently researching local companies for inclusion in their program.

Trustee Arger asked if SSP tries to recruit local food outlets or if they rely primarily on a larger market. Mr. Murray stated they test both markets. Staff stated the size of the concourses constrain the options for variety.

Trustee Thompson stated the Authority likes the local appeal. Trustee Thompson asked if the mystery shopper program and the maintenance program are going to be implemented by the Authority. Staff confirmed the Authority would be taking over the janitorial services in the food court area and billing SSP back for the service.

Trustee Murdock asked if there was a food quality control program in place with the mystery shopper program. Staff confirmed it was in the contract. Mr. Murray also confirmed they have a quality control program within their company.

The Committee unanimously recommended this item be approved for Board information, discussion and possible action at the upcoming Board meeting, pending the approval at the Planning Committee meeting.

IV. Items presented to the Finance and Business Development Committee for Approval:

None

V. Items presented to the Finance and Business Development Committee for Discussion:

None

VI. Items presented to the Finance and Business Development Committee for Information:

A. Investment Portfolio Summary

Staff provided a brief market update which reaffirmed that the Federal Funds target rate will stay in the zero to 0.25% range. There were no major economist reports predicting interest rate increases in 2012. The goal for the Authority will be to maintain ample cash and keep the majority of investments under a two year horizon, while trying to add yield when opportunities present themselves.

The Authority currently has an investment portfolio of approximately $76M, and for the quarter ending September 30, 2011, the Authority earned a weighted average yield of 0.44% on the investment portfolio. The weighted average maturity is 139 days. The Authority's cash days on hand are currently 445 days which is well above the Authority's established minimum level of 330 to 365 days.

Agency securities comprise the largest investment group at 44.1 % with collateralized time savings accounts the second largest investment at 28.2% . The money market fund was reduced this quarter by the annual debt payment of $ 6 million dollars.

Trustee Arger inquired as to what agency securities were. Staff stated examples such as Fannie Mae and the Federal Home Loan Bank. Chair Crawford asked if Fannie Mae was truly a part of the airport's portfolio and stated he would like to look in to replacing Fannie Mae. Staff stated Fannie Mae was a small portion of the portfolio and noted the airport keeps a diversified portfolio, including Federal Farm Credit Banks, Heritage Bank, and Commercial Paper.

Trustee Thompson asked if the $30M received from bonds was included in the book value of $76M. Staff replied that was correct; however, the airport has only borrowed $15M to date.

B. Review of Operating Results through September 2011

Staff reported that the airport is 3.8% over budget in operating revenues and 9.6% under budget in operating expenses through September 2011. Total landed weights for the three-month period ending on September 30, 2011 are 2.0% over budget. Landing fees were budgeted and are currently collected at $2.55 per 1,000 lbs.

Airline terminal rents are over budget by 2.3% based on activity through September 2011. The budgeted average rental rate is $60.03 per square foot per annum (psfpa).

Non-airline revenues are 5.0% over budget. Staff noted that non-operating revenues were 47.3% over budget primarily attributed to higher than budgeted investment earnings.

The budgeted cost per enplaned passenger is $7.25, and based on actual activity through September 2011, the cost per enplaned passenger is $6.44.

Chair Crawford asked if the below budget on the personnel expenses is attributed due to vacant positions. Staff confirmed and also stated that because there are two months that have three pay periods the personnel budget is not budgeted in a straight line.

C. Review of Budget Transfers (if any):

Staff reported one (1) transfer of $11,733 from the Director of Facilities and Maintenance Contracted Services to Capital Project for the Canine Holding Facility.

D. Review of Contracts and Professional Service Agreements through October 2011:

Staff reviewed the Administrative Award of Contracts pursuant to Resolution #462.

D. Review of Legal Expenses through September 2011

Staff reported payments made toward legal costs were at 24.4% of the budget through September 2011. Staff noted the increase this month was due to the increased costs associated with the Reno Air Race incident and included $30 thousand for consultant fees and $40 thousand solely for the Air Race incident.

Trustee Thompson asked Chair Crawford if the committee could have a review of the Government Relations Contract in December. Chair Crawford agreed.

Trustee Hall stated that John Porter belonged to The Porter Group and remembered John Porter being employed with another firm and inquired if that was correct. General Council confirmed he was affiliated with other firms and has since terminated that affiliation. Mr. Porter is now with The Porter Group.

Trustee Hall asked if the contract was open ended. General Council confirmed. Chair Crawford asked why there was an open ended contract. General Council stated it was a contract the Authority could cancel at any time. Trustee Hall stated he felt the contract should come back to the board periodically for review. General Council stated if the rates changed it would come back to the board for review. Trustee Hall stated his concern for the billing rates now that John Porter is with another firm. Staff confirmed the budget amount had not changed and would note Trustee Hall's comments to the CEO.

Chair Crawford stated that he would like to see consistency within the legal contracts.

General Council stated monthly costs are below budget with the exception of the Air Race piece.

Trustee Murdock asked if John Porter is considered Government Relations in the budget. Staff stated Mr. Porter falls in to the Public Affairs portion of the budget.

Trustee Hall asked if Governmental Relations was exclusively lobbying. General Council stated anything with state or local government is considered Governmental Relations and is included in the flat retainer.

E. Review of Board Budget to date September 2011

Staff reported that the Board of Trustee's has expended 12.8% of their budget with 25% of the budget year expired.

VII. Public Comment

None

VIII. Adjournment

The meeting was called to order at 9:01 AM and was adjourned at 10:12 AM

MC:RG/gc/rm