



COMMONWEALTH PORTS AUTHORITY

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MEMORANDUM

Date: August 18, 2014

TO: CPA CHAIRMAN JOSE R. LIFOIFOI

CC: CPA BOARD MEMBERS

CPA EXECUTIVE DIRECTOR/ PORT MANAGERS

FROM: AD HOC COMMITTEE ON MASTER CONCESSION

SUBJECT: STATUS REPORT ON MASTER CONCESSION REVIEW

Your Ad Hoc Committee on Master Concession reports on the status of the review of the CPA Master Concession issue. Further to the June 30th meeting, CPA Management engaged Ricondo & Associates to undertake a financial and facilities assessment as to the existing concessions at our facilities.

On August 12-13 Mr. Rawley Vaughan of Ricondo arrived on Saipan and your Committee met with Mr. Vaughan relating to the Board's mandate on the master concession issue. Prior to his arrival Mr. Vaughan had received the financial and facilities data from CPA which provided background information on the existing concession agreements; the historical financial data; and the existing facilities footprint for Saipan, Tinian and Rota airports and seaports.

Your Committee discussed with Mr. Vaughan at the opening meeting the need to have as much data from the fieldwork necessary to be able to assist the Board determine what approach to take, in the exercise of its discretion and business judgment, as to the concession issue at CPA's facilities.

With that in mind, Mr. Vaughan met with Marianas Visitors Authority ("MVA") Managing Director Perry Tenorio. Director Tenorio provided a variety of data including passenger demographics including Japanese passenger arrivals. They discussed causes for the decreased arrivals due to Japan's economy, currency rate, and insufficient air service. MVA also informed on the casino project which would require an additional 2,000 rooms; the hotel occupancy rates; the visitor nationalities and travel patterns. MVA also expressed its view on CPA's need for improvement on the facilities; the challenges with the U.S. Customs and Border Patrol; the ongoing dialogue regarding parole authority of Chinese visitors; and the value of military ships and stops by cruise ships.

Mr. Vaughan also met with Saipan Chamber of Commerce ("Chamber") President Alex Sablan and Director Jill Arenovski. They discussed the current parole authority and its effects if it was lifted or removed. The Chamber elaborated on the economic outlook for the CNMI and the importance of the diversity of the tourists so that CNMI is not dependent on one group of tourist mix. They discussed the current markets expecting little growth from the Japan market but expecting growth within the Korean and Chinese markets. In the works is scheduled service from China.

In addition, Mr. Vaughan also met with DFS representatives Ms. Marian Aldan-Pierce and Mr. Jim Bieghley. DFS Management described the different concession options in relation to the CNMI statute, such as the lease term limitation on a retail concession compared to a master concession. They discussed the matter of benchmarks and the challenge with determining benchmarks for Saipan International Airport. DFS informed that liquor and tobacco are concessional at the Saipan Airport and the purchasing patterns of visitors to the CNMI as well as the passenger/visitor trends. They discussed the various options for concession agreements such as the "Minimum Annual Guarantee" or "MAG"; percentage of sales; or a per passenger modifier.

Mr. Vaughan also met with Mr. Shaun Christian of STAR Marianas Airline and had telephonic conferences with the Port Managers of Tinian and Rota. He will be soliciting information as needed from the Hotel Association of the Northern Mariana Islands as well as the other airlines.

Your Committee had an exit meeting with Mr. Vaughan wherein he summarized his meetings and indicated that he would prepare the facilities assessment and concession report within 2-4 weeks. Upon receipt of Mr. Vaughan's report your Committee will review the report, consider and discuss its findings and options/recommendations, and further report to the Board. For your consideration.



BARRIE C. TOVES