

# ✈ Metropolitan Nashville Airport Authority ✈

## Minutes of the Joint Meeting of the MNAA and MPC Finance, Administration & Properties Committees

**Date:** February 13, 2019      **Place:** Nashville International Airport Board Room  
Nashville, Tennessee

**Time:** 9:21 a.m.

**Committee Members Present:** Christy Smith, Chair; Bobby Joslin; Nancy Sullivan;  
Mayor's Representative, Matt Wiltshire

**Committee Members Absent:** Bill Freeman, Vice Chair

**Others Present:** Doug Kreulen; Cindy Barnett

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I. Call to Order

Chair Smith called the meeting of the MNAA and MPC Finance, Administration, and Properties (FAP) Committee to order at 9:21 a.m., pursuant to Public Notice dated February 8, 2019. Chair Smith called for a moment of silence to honor the passing of Commissioner Freeman's mother.

II. Approval of Minutes

Chair Smith called for a motion to approve the Minutes of the January 9, 2019, FAP Committee meeting. A motion was made by Chair Smith and seconded by Commissioner Joslin. The motion carried by vote of 4 to 0.

III. Chair's Report

Chair Smith had no Chair's Report.

IV. Items for Approval

A. Approval of State Capital Improvement Plan (ACIP) for JWN, MNAA Resolution 2019-01.

Marge Basrai, Chief Financial Officer, briefed the Committee on this item. Staff requested that the FAP Committee recommend to the Board of Commissioners that it:

- 1) approve the proposed JWN Capital Improvement Budget for fiscal year 2020 (July 1, 2019 through June 30, 2020), and JWN Capital Improvement Plan for fiscal years 2020 – 2024 (July 1, 2019 through June 30, 2024);

- 2) authorize the Chair and President and CEO to execute MNAA Resolution No. 2019-01; and
- 3) authorize that MNAA accept the grant(s) from the Federal Aviation Administration (FAA) for federally funded projects.

Background

Staff annually presents a five-year Capital Improvement Plan (fiscal years 2020-2024) and the forthcoming fiscal year's Capital Improvement Budget (FY20). MNAA is required to submit a five year Capital Improvement Plan to the State of Tennessee by March, and the recent grant for the Air Traffic Control Tower (ATCT) at JWN significantly changes the timing of projects.

The MNAA funding line represents funding for JWN provided under the current airline agreement in total, however, the amounts are allocated by year as the funding is expected to be utilized.

Impact/Findings

The Capital Improvement Budget for FY20 is \$16,511,728. The proposed Capital Improvement Plan is summarized below:

<b>JWN Summary:</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>TOTAL</b>
Terminal & Landside	\$8,959,728	\$0	\$1,960,000	\$0	\$0	\$10,919,728
Land Acquisition	0	0	0	0	0	0
Vehicles & Equipment	0	0	0	0	0	0
Airside Improvements	7,552,000	6,672,222	5,572,222	6,322,222	6,322,222	32,440,888
<b>Total</b>	<b>\$16,511,728</b>	<b>\$6,672,222</b>	<b>\$7,532,222</b>	<b>\$6,322,222</b>	<b>\$6,322,222</b>	<b>\$43,360,616</b>

<b>Funding Allocation:</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>TOTAL</b>
JWN Funding	\$1,508,573	\$839,222	\$1,628,222	\$692,222	\$626,222	\$5,294,462
MNAA Funding	442,000	458,000	474,000	480,000	496,000	2,350,000
BNA (TEF)	4,028,555	0	0	0	0	4,028,555
Federal (Entitlement)	329,845	150,000	150,000	150,000	150,000	929,845
State (ECD)	4,250,000	4,250,000	4,250,000	4,250,000	4,250,000	21,250,000
State (GA & Equity Funds)	5,952,755	975,000	1,030,000	750,000	800,000	9,507,755
<b>TOTAL</b>	<b>\$16,511,728</b>	<b>\$6,672,222</b>	<b>\$7,532,222</b>	<b>\$6,322,222</b>	<b>\$6,322,222</b>	<b>\$43,360,616</b>

All projects are contingent upon the approval and availability of the various funding sources. If State Economic Community Development Funds (ECD), State of Tennessee Equity Funds (TEF), JWN TEF funds, or BNA TEF funds are not available, MNAA will pursue bonds for the capital projects.

Mr. Robert Ramsey, Chief Operating Officer, provided an overview of the FY20-24 Capital Improvement Plan.

A motion was made by Mayor's Representative Wiltshire and seconded by Commissioner Joslin to recommend approval of MNAA Resolution No. 2019-01, Authorizing Resolution, pertaining to the State Capital Improvement Plan (ACIP) for JWN, MNAA Resolution 2019-01. The motion carried by vote of 4 to 0.

Mayor's Representative Wiltshire requested that if we use bonds to pay for JWN projects, we recognize impact to BNA.

Commissioner Joslin inquired about persons wanting to build their own hangar and if an Economic Development Grant would be needed. Doug Kreulen, President and CEO, confirmed that persons could build a hangar if so desired, and that request would go to Margaret Martin, Chief Development Officer. President Kreulen noted however, that if a private developer wanted to construct the entire available area, MNAA would need to negotiate what that would be. The main concern would be how to get the land ready to build and cost of such.

V. Information Items

A. Airline Use and Lease Agreement (AULA) Update

Ms. Basrai updated the FAP Committee on this item. Multiple meetings were held with Airline Affairs in May – December 2018. In early January, MNAA gave the Airlines a revised proposal, and the airlines submitted a counter-proposal on January 21, 2019.

Ms. Basrai reported at this point, staff made the decision to update the BNA Vision financing model with the most recent financial information to see if it could make this work without needing an amendment. Over the past few months MNAA reduced its need for help to only one year - FY22. The updated model indicates we can continue with the bond issuance and the financing without needing to amend our current agreement. This gives MNAA back their leverage going forward into a new agreement for FY23.

On February 8, staff, PFM and Landrum Brown met with Chair Smith to discuss what has been done so far and the options & recommended path forward. The next steps are:

- Confirm MNAA is able to meet its FY22 financial obligations under current AULA
- Continue negotiations with the Airlines for AULA to start in FY23
- Evaluate rates by ordinance
- Determine best path for MNAA

Ms. Basrai reported that it will be important to demonstrate to the rating agencies that MNAA is working toward a new agreement with the airlines, and working toward what would happen in FY23. MNAA wants to evaluate rates by ordinance since there is no legal regulation to actually have an airline agreement at the airport. MNAA can create its own rate base, but must meet FAA policy. Preliminary results show it is

feasible and MNAA can move forward again with financing. MNAA will continue to work to determine the best path forward.

Commissioner Joslin inquired as to which other airports use rates by ordinance structure. President Kreulen and Ms. Basrai stated they were aware of a few such as Orlando, Phoenix and Denver. President Kreulen explained that rates by ordinance are used by bigger airports and this is something MNAA will face in the future because of its growing financial strength.

Commissioner Wiltshire inquired as to how the rates by ordinance are approved and the possibility of additional revenue for MNAA through this structure. Ms. Basrai confirmed the rates would be negotiated with the airlines and approved by the Board of Commissioners.

Commissioner Wiltshire inquired as to the counter proposals and Ms. Basrai discussed the major points of contention are amending the current agreement vs. entering into a new agreement, a longer term agreement and revenue sharing.

Chair Smith stated that there are some items MNAA is at parity with the Airlines and staff have done a good job of making sure MNAA is getting the best deal on the table.

This item was presented for information purposes only with no action required.

#### B. Quarterly Retirement/OPEB Investment Report

Sharon Sepik, Director of Treasury, was welcomed by the FAP Committee and shared a little about her background. Ms. Sepik presented the Performance Report prepared by Wells Fargo for the 2<sup>nd</sup> Quarter of FY2019 (October 1, 2018 through December 31, 2018).

##### MNAA Retirement Plan

The quarter (three months) total portfolio return *gross* of fees was -8.17% compared to the designated Composite Benchmark of -7.82%. The three-month total portfolio return *net* of fees was -8.23%. The fiscal year-to-date (six months) total portfolio return *gross* of fees was -5.32% compared to the designated Composite Benchmark of -4.82%. The year-to-date total portfolio return *net* of fees was -5.44%. As of June 30, 2018, the Retirement Plan is 99% funded.

Asset Allocation, Asset Valuation and Pension reports were provided to the FAP Committee in the staff analysis.

##### MNAA OPEB

The quarter (three months) total portfolio return *gross* of fees was -8.91% compared to the designated Composite Benchmark of -8.59%. The three-month total portfolio return *net* of fees was -8.95%. The fiscal year-to-date (six months) total portfolio return *gross* of fees was -6.10% compared to the designated Composite Benchmark of -5.58%. The year-to-date total portfolio return *net* of fees was -6.18%. As of June 30, 2018, the OPEB plan is 70.1% funded.

Ms. Sepik reported that the market has recovered some from the 2<sup>nd</sup> quarter FY19 loss. Retirement market value as of 02/08/19 was up \$2.8MM compared to 12/31/18. OPEB market value as of 02/08/19 was up \$1.4 MM compared to 12/31/18.

This item was presented for information purposes only with no action required.

C. Quarterly Treasury Investment Report

Investment Report

Ms. Sepik presented the Quarterly Treasury Investment Report for FY2019 Second Quarter (Quarter ending December 31, 2018).

\$100,000,000 was transferred to PFM Asset Management LLC (PFMAM) in the second quarter

As of 12/31/18, total investments are \$247.4 MM, representing 87% of total available funds (as compared to 41% at 12/13/17)

- U.S. Treasuries: \$85.4 MM
- Cash in Demand Deposit Accounts (DDA): \$36.9 MM
- Commercial Paper (CP): \$30.9 MM
- Agency/Treasury Money Market Funds: \$131.1 MM

Total earnings from cash and investments for the quarter were \$1,253,664 (as compared to 2<sup>nd</sup> quarter FY18 earnings of \$531,900).

The Quarterly Treasury Investment Report staff analysis, a listing of all accounts with ending balances of December 31, 2018, and the PFMAM Investment Performance Review Report were provided to the FAP Committee.

Investment Program Update

Ms. Sepik provided an update of where we are with the Treasury Investment Program.

The following steps are in-process:

- Per the proposed Investment Policy, Money Market Mutual Fund allocation is over 25% threshold. As of December 31, 2018, 46.12% was allocated to Money Market Mutual Funds. Funds will be moved into the TN LGIP to remedy this over-allocation.
- Reduce the number of bank accounts for operational efficiencies and pool operating funds to maximize amount of MNA invested funds

Chair Smith inquired as to what the changes in the portfolio statistics would be, the duration and the process of moving the money out. A representative from PFM discussed what the projected funds and earnings might be.

This item was presented for information purposes only with no action required.

D. Board Review of Investment Policy

Ms. Sepik presented an update on the MNAA Investment Policy. MNAA Finance and Legal completed the initial review of the Investment Policy prepared by PFMAM, and then the Director of Treasury compared the policy to GFOA best practices and made changes to the policy in conjunction with PFMAM, CFO, AVP Finance and Legal. The policy will be approved by the CFO and the CLO in the next few weeks.

A summary of the changes made by the Director of Treasury to the initial policy prepared by PFMAM are as follows:

- Added money market mutual funds as a permitted investment
- Changed the performance reporting to a format that would not require MNAA to hire outside investment manager if we decide "in-house" investing is the best approach, language in the PFM proposed policy.
- Changed the allocation per Commercial Paper (CP) issuer from 5% to 10%, but will have an internal goal targeted to 5% per issuer for added operational flexibility and minimization of Direct Deposit Account (DDA) balances. MNAA will monitor the internal goal with a formal policy letter attached to the Investment Policy on the GRID.
- Detailed the internal reporting requirements and the Board reporting requirements
- Updated the safekeeping and custody section to today's standards, former language was very dated
- Changed the Investment Policy adoption requirements to being approved by the CFO and CLO, in line with GFOA best practices. Finance will review policy annually and discuss any changes with the Board for their input.

President Kreulen thanked Ms. Sepik, PFM and Ms. Basrai for a great job in their efforts getting MNAA in line with the investment policies.

Chair Smith asked Ms. Sepik if she thought there might be any more major changes after this last shift out of the money market. Ms. Sepik stated she felt MNA&A is at a good point and gives MNA&A a solid foundation for any change going forward. Chair Smith confirmed with Ms. Sepik that the focus now is on reducing the number of Direct Deposit Accounts (DDA) and doing an RFP for banking services to make sure we are getting the best investment choices possible.

This item was presented for information purposes only with no action required.

#### E. Fraport Transition Update

Margaret Martin, AVP, Business Development, provided the latest update on the Fraport Transition Plan. Ms. Martin reported:

- Fraport unveiled preliminary lease plan on 2/1/19 that included approximately 90 food, beverage, retail and service locations by 2023
- Operators selected represent significant local and ACDBE participation
- Development plan
  - o 30 locations beginning construction in 2019
    - 18 open for business by early October 2019
    - 1 open for business by early November 2019
    - Remaining 11 open for business February 2020
  - o 19 locations begin construction in 2020, and open for business throughout 2020 on a rolling basis throughout concourse A, B & C
  - o 9 locations will open for business in July 2020 on the new Concourse D
  - o Remaining 30+ locations will open in 2023
- Interim CRDC operational at 3 am on 2/1/19; Full launch 5/31/19. President Kreulen suggested the Board of Commissioners come out to BNA after the full launch to see how all the products are delivered and inspected.
- Sublease template approved by MNA&A
  - o Fraport beginning sublease negotiation from signed LOI state
- Fraport released ATM/Financial Services RFP and Vending RFP (all types) on 2/11/19

President Kreulen stated he appreciated what Ms. Martin has been doing along with Fraport. The goal is to have the names of the businesses and when they will start construction. All existing leases have been assigned to Fraport.

Commissioner Granbery asked how 501(c)(3) organizations would lease space and if those companies would need to go through Fraport. President Kreulen reported that community organizations would go through Ms. Martin.

This item was presented for information purposes only with no action required.

F. Economic Impact Study Update

President Kreulen gave an update on the Economic Impact Study. MNAA contracted with Martin Associates, Economic & Transportation Consultants on November 14, 2018 to determine what the economic impact the airport has to its surrounding community. The study objective is to quantify the economic impacts of BNA & JWN

- Jobs (direct, indirect, induced)
- Employee earnings (direct, re-spending, indirect)
- Business revenue and local purchases (total economic value)
- State, local and federal airport specific taxes

Martin Associates are about half way through their study and will be coming back to MNAA in March to present a draft of their findings. At that time, MNAA will present the draft report to the Board of Commissioners and hope to have it finalized sometime in May.

This item was presented for information purposes only with no action required.

G. ALERT Update

President Kreulen briefed the Board of Commissioners on the ALERT (Airline Lease Early Report Team) update. MNAA looks strong in those areas for passenger and economic activity. The FY19 Alert projection for passengers is 8.288M, an 11% increase. Landed weights are expected to be 9.5M pounds for FY19, a 10% increase.

President Kreulen discussed the EPAX Projections from the ALERT forecast, 2013 and 2018 master plans.

- 2013 Master Plan CY19: 6,473,400 (3.5% growth)
- 2018 Master Plan CY19: 7,801,699 (5% growth)
- 2019 ALERT FY19: 8,288,000 (11%)

President Kreulen then presented a financial snapshot for FY19 (BNA & JWN). The FY19 Operating Revenue Budget was \$158.1M and MNAA estimates being 5.7% above that at \$167.2M. The FY19 Operating Expense Budget was \$100.3 M and the preliminary FY19 numbers show MNAA should be at \$88.9 M, which 11.4% lower.

President Kreulen presented the NAE Fund (Cash Reserve) Balance. MNAA started at \$0 in FY15, ended FY18 at \$67.1M and projects an ending balance of \$81.1M for FY19. This gives MNAA more leverage in negotiating with the airlines.

President Kreulen added that it benefits the airlines if they get an agreement because it provides stability. Chair Smith asked what MNAA wanted in excess in terms of operations. President Kreulen stated MNAA



has three reserve accounts, in addition to the NAE fund, at this time. 1) One is for air service incentives, which MNAA uses to pay British Airways or any other airlines that wants to come to BNA. MNAA has \$6-7M in this account. The other two accounts, 2) O&M that covers 10 months and 3) a Renewal Replacement fund that covers 2 months. Those combined cover a year of O&M.

This item was presented for information purposes only with no action required.

VI. Adjourn

There being no further business brought before the FAP Committee, Chair Smith adjourned the meeting at 10:25 a.m.



Amanda C. Farnsworth, Board Secretary