Minutes of the Joint Meeting of MNAA and MPC Finance/Administration/Properties Committees

BNA Nashville International Airport

Date:	May 15, 2019	Place:	Nashville International Airport Board Room Nashville, Tennessee
Time:	9:30 a.m.		
Committee Members Present:			Christy Smith, Chair; Bill Freeman, Vice Chair, Bobby Joslin; Nancy Sullivan
Committee Members Absent:			Mayor's Representative
Others Present:			Doug Kreulen; Cindy Barnett; Angela Edwards; Jimmy Granbery, John Doerge, A. Dexter Samuels, Board Chair; and Trey Harwell, Board Vice Chair

I. Call to Order

Chair Smith called the meeting of the MNAA and MPC Finance, Administration, and Properties (FAP) Committee to order at 9:36 a.m., pursuant to Public Notice dated May 10, 2019.

II. Approval of Minutes

Chair Smith called for a motion to approve the Minutes of the April 10, 2019, FAP Committee meeting. A motion was made by Vice Chair Freeman and seconded by Commissioner Sullivan. The motion carried by vote of 4 to 0.

III. Chair's Report

Chair Smith has no Chair's Report other than to say she enjoyed spending time with everyone at the ACI Board of Commissioners Conference in San Francisco.

IV. Items for Approval

A. Approval of Allegiant Signatory Use and Lease Agreement

Ms. Margaret Martin, VP and Chief Development Officer, briefed the Committee on this item. Staff requested that the FAP Committee recommend to the Board of Commissioners that it approve a Signatory Use and Lease Agreement with Allegiant Air at Nashville International Airport (BNA).

Staff provided the FAP Committee a staff analysis for a Signatory Use and Lease Agreement with Allegiant Air prior to the FAP Committee meeting.

Ms. Martin stated Allegiant has been operating in Nashville since June 2018 with fourteen weekly departures. In June 2019 there will be at twenty-nine weekly departures. Based on quick growth and commitment to the Nashville market, they have expressed their desire to become a signatory airline. The signatory airline status includes the use of preferential space such as ticket office, ticket counters, hold room (B10) and corresponding ramp area, a portion of the baggage make-up room, as well as share in the joint use baggage claim area. The signatory agreement will begin June 1, 2019 and will be coterminous with other Signatory Airline Agreements which all expire June 30, 2022.

Chair Smith inquired as to what BNA has been receiving from Allegiant compared to the new agreement. Ms. Martin asked Josh Powell to address this question. Josh Powell stated non-signatory airlines pay a per use fee, have no commitment to the airport and can leave the airport at any time with a thirty day notice. Their fee is currently calculated by multiplying the number of times they fly into BNA by the number of available seats. They currently lease a small office.

President Kreulen stated there is also a 25% up charge for non-signatory airlines. Although BNA will lose a little on the 25% upcharge, Allegiant has now committed to stay until June 2022 and that is a huge benefit.

A motion was made by Commissioner Joslin and seconded by Commissioner Sullivan to recommend approval of a Signatory Use and Lease Agreement with Allegiant Air at Nashville International Airport (BNA). The motion carried by vote of 4 to 0.

V. Information Items

A. Fraport Transition Update

Ms. Martin reported that Fraport entered into an agreement with the airport in February 2019. That is the date that all current concession agreements were assigned to Fraport. They have since fully staffed their Nashville team and added a Lease Compliance Coordinator/Contract Administrator, an additional position in Nashville that had not been anticipated. This person is in charge of making sure that BNA's contract with Fraport gets tracked to ensure compliance on both sides. Fraport has released the first round of RFPs. All spaces through 2023 have been released for the first round including food and beverage, services, vending and ATM. Fraport launched the interim CRDC on time on February 1,

2019. They are scheduled to open that in full operational status on May 31. They held two contractor's expos to connect their future tenants of concessions spaces with contractors in the Nashville market to try to get those business relationships built before the tenants are required to submit designs for their spaces. Fraport, with support from MNAA, has established three processes. Those include a capital expenditure approval process, a liquor tax collection process and a utility fee collection process. MNAA holds the liquor and beer permits for the airport so the current processes for each individual tenant had to be transitioned to Fraport and that took a lot of work. MNAA pays the utility fees and look to Fraport to reimburse MNAA for those fees and Fraport has to collect utility fees from each individual tenant. They have initiated an hours of operation audit. The current operators were not opening and closing within the required contract times. MNAA had a lot of difficulty enforcing those times due to lack of manpower. Fraport is doing four random checks a month. They have issued over one hundred violations to operators. The next step will be fines. Fraport has initiated a street pricing audit which is 31% complete.

In March, staff reported to the Committee and Board that nineteen locations would be opening in 2019. There have been changes to that schedule. In April, MNAA learned that seventeen of those nineteen locations will be pushed to 2020. Ten of the seventeen have been impacted by BNA Vision design issues. Ms. Martin characterized that as a breakdown in communication. There were changes in design and design criteria which impacted lease exhibits going out to tenants. Fraport did not communicate sufficiently that those design changes were impacting those exhibits and slowing down the development schedule. Going forward, there will be much better communication and understanding how a delay impacts the bottom line. Three of the seventeen were impacted by Fresh Hospitality. Fresh Hospitality signed letters of intent on behalf of several operators in Nashville. When the operators were put in touch with Fraport to finalize sublease negotiations, the operators did not like the locations they were provided although those locations were in the letter of intent. Two of the seventeen have been impacted by BNA Vision construction schedules, specifically on baggage claim level. One of the seventeen, pre-security Starbucks, was impacted by HMS Host, who Host did not agree with the build out amount required. The minimum build out requirement is $350 per square foot. This is the only tenant that has stated they are not willing to pay that amount of money. Delaware North has stated the same but that is not a 2019 location, therefore staff would brief on that at a later date. One of the seventeen was impacted by Fraport phasing. They have a complex development phasing schedule with the four concourses. Part of this is ensuring that there are enough different types of locations open at any time with temporary service locations popping up where necessary.

Two of the nineteen will be opening in December 2019. That is Kijiji Coffee on B Concourse and Nashville Nails which will close to renovate their space and re-open. The seventeen locations impacted are being pushed to 2020. Ten of those will open in January/February 2020.

Commissioner Joslin inquired as to how many signed lease agreements were in place now. Ms. Martin replied there are no sub-lease agreements in place now. Ms. Martin said two subleases for three locations have been received. Fraport has proposed a revised development schedule. The revised development schedule will be tied directly to construction timelines, sub-lease approval dates and Metro codes review. MNAA has pushed Fraport to give dates tied to reality. MNAA staff will closely review the construction timeline to make sure the development schedule is realistic. Once the revised development schedule has been reviewed and approved, it will become an exhibit (G) to the contract. At that point, all parties are bound by those dates. If those dates slip, there will be contract penalties.

President Kreulen stated there is a two to five month delay. He and Ms. Martin have had two executive meetings with Fraport in the past two weeks. It was discovered that Fraport was not giving the tenants the full sub-lease because MNAA had not finished the final design criteria for that space. The tenants did not want to sign a sub-lease without a firm location and a specific design criteria. President Kreulen stated with the new Exhibit G in the lease, there are no more excuses for delays and Fraport will start paying penalties.

Commissioner Joslin asked Mr. Doug Sloan, Chief Legal Officer, if he had seen the leases. Mr. Sloan replied that he had seen some of the sub-leases. Commissioner Joslin inquired as to how many pages the lease contained and then stated he talked to someone in the community that told him the lease was ninety-five pages and it would cost $11K for a lawyer to review. President Kreulen stated the lease has to protect the airport and has been developed with Fraport. Both companies feel comfortable with what it contains. Mr. Sloan reported that as the sub-lease has been refined and redeveloped, staff has consistently asked Fraport what they are hearing from the small businesses and potential tenants and what the complaints have been. Fraport reported that one of the main complaints was the insurance requirements. Fraport, in turn, lowered the insurance requirements. They are being responsive when receiving feedback.

President Kreulen stated they have been getting feedback throughout the process and other than HMS Host not wanting to pay $350 per square foot to upgrade the Starbucks, everyone else seems to be working on it. Ms. Martin stated that she, along with the legal team, is reviewing every single sub-lease that comes through that has any change from the approved template. That also enables them to track issues coming up with the different provisions of the sub-lease.

Commissioner Joslin stated the Board was sold on the idea that with the change to Fraport everything would be local and that HMS Host and Delaware North were totally irresponsive to the Nashville experience. The Board was told the local business people would be managing their restaurants at the airport and they would hire their own people. HMS Host, Delaware North and Hudson will all still be at the airport running the same stores as before. Commissioner Joslin stated that the airport could have kept all the money in house that it will now be paying Fraport and kept total control over "local." Commissioner Joslin stated he does not know one person locally that will be coming to the airport to run their own business. He has been told that no one can do street pricing at the airport because of the fees they will be paying.

President Kreulen stated those people need to be directed to himself or Ms. Martin. Nothing has changed in terms. HMS Host, Delaware North and Hudson did win on average four to five concepts out of the eighty-seven. The rest of it is still coming in strong with minority firms and local firms. The airport will be light years ahead of where it was in terms of minority and local ownership. President Kreulen stated MNAA has clearly made its point to Fraport over the last two weeks that MNAA will enforce the contract and MNAA does not want to hear about any extensions or fees until they get things back on track. Fraport has been told they have to prove themselves on the basic contract first. Everything is being analyzed going forward. Design has been locked in with operations. It is now Fraport's duty to sub-lease, and the Committee and Board will start hearing from staff on that. Once they get the sub-lease signed, Fraport will turn in the design, staff will approve the internal design, that design goes to Metro, Metro codes approves it and construction will start.

Commissioner Joslin stated that Metro codes is backed up and inquired as to why the airport wouldn't use their own engineering to stack the plans or use an outside source. President Kreulen stated there are two options with Metro codes. The airport has a great relationship with them through Mr. Ramsey and Ms. Holton's team and the Chairman and President Kreulen have had positive support from the Mayor regarding getting through codes. Metro codes is actually waiting on the airport. There has been a lot of communication between staff and Metro.

Commissioner Granbery inquired as to the guaranteed $11M. Ms. Martin stated that is Fraport's minimum annual guarantee and that started February 1, 2019. They are paying the airport $916K per month and the revenue sales generated by the existing tenants they are now managing is being split

60%/40%. They knew they would lose money the first year, but it is to their benefit to get these new tenants in and operating. The airport is motivated because it wants to deliver to the community what it promised. Fraport is motivated to start generating revenue.

Commissioner Granbery asked Ms. Martin if Fresh Hospitality was completely out. Ms. Martin replied no, they still have locations that are still in the airport. Ms. Martin stated when Letters of Intent were signed, they had three locations, Hugh Baby's, Vui's Kitchen and Grilled Cheeserie, all originally located on AB food court. Those three have pulled out of AB food court and are now being solicited for new locations. It is now Fraport's job to find locations that will work for those three tenants.

President Kreulen stated Hugh Baby's did not want to go to AB food court and stated they wanted to go to C. Since that was not what was originally negotiated, Hugh Baby's may still come to the airport, but they might not partner with Fresh Hospitality. Essentially, Fresh Hospitality signed a document that committed their business partner to a certain location and their business partner backed out.

Commissioner Granbery stated he would like to see month over month the dollar amount the airport is collecting as progress continues. President Kreulen stated that one positive is that since Fraport took over the fifty plus contracts, third quarter sales have gone up in food and retail. Commissioner Granbery asked if there was a penalty in the new leases regarding violation of operating hours. Ms. Martin replied yes there is a monetary penalty per violation.

Chair Smith inquired as to the individuals mentioned, if it is their choice to continue a license agreement versus managing it themselves. Ms. Martin replied yes. MNAA's agreement with Fraport states there can be no national operator with more than 15% sales in a category. Once they have identified who will have that 15%, they can have a license agreement, but it will not count toward their local participation and it could negatively impact their national percentage in the contract. That is one of the things MNAA staff is reviewing when it receives a sub-lease. Staff has to understand the ACDBE percentages in that agreement and understand how the agreement effects the local owner/operator category. President Kreulen stated one of the compromises MNAA made when developing the contract was there were three options to tenants: 1) ownership could be 100%, 2) there could be a joint venture, or 3) the company could sell a license.

Chair Smith wanted to clarify that it is the operator's choice to choose to partner with other companies. Ms. Martin replied yes, however, if they wanted to partner with Delaware North and Delaware North already had 15%, that would violate the contract.

Ms. Martin stated she hoped to come back to the Committee and Board in June with an approved Exhibit G and a review of the 2020/2021 development schedule.

Chair Smith asked what the airport's relationship is with Fraport since there have been some people added and if the airport was comfortable with the relationship and infrastructure. Ms. Martin stated they have a professional relationship and talk multiple times a day via multiple ways of communication. Brett Kelly, Fraport, has returned and is focusing on getting this transition plan back on track. Ms. Martin stated she has confidence in the Fraport team. A SharePoint site that Fraport and MNAA have access to has been created by Fraport's IT team and includes all schedules, trackers, ACDBE calculations, sub-lease templates and all other relevant documents so that everything is accessible to both Fraport and MNAA.

Commissioner Sullivan inquired as to what would happen if the contract with Fraport did not work out. Ms. Martin stated there is an attornment provision in the agreement with Fraport and in all sub-leases and all agreements assigned to Fraport. If the contract with Fraport falls through for any reason, there is an agreement in place that those leases and agreements will be taken over by MNAA. President Kreulen stated that would be worse case scenario and doesn't feel the situation is anywhere near that point but if staff did come to the Board to ask for that, the airport would start over with another RFP. Commissioner Joslin stated there would be many takers, no doubt.

Commissioner Joslin inquired as to why ten of the seventeen were impacted by BNA Vision design. Ms. Martin replied that MNAA staff was continuing to tweak neutral concession space area which was affecting concession space lease lines.

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

B. CONRAC Update

Ms. Martin reported MNAA staff is working on a space re-allocation update to the Consolidated Rental Car facility. As background, a $4.50 Customer Facility Charge (CFC) is collected by the rental car companies (RACs) from customers for each rental car day. That money goes to the airport. The airport leases space within the CONRAC to on-airport rental car companies based on the percentage of the companies' market share at the time of signing the lease. The airport may re-allocate the space within the CONRAC if market share changes by more than 10% compared to the companies' first full agreement year. The airport also has the option to pay for the re-allocation of space with the CFCs collected.

Enterprise Holdings, Inc.'s market share has increased by more than 10% since signing the agreement. Staff is working with the rental car companies and a programming consultant to implement this re-allocation. This process started in February 2019 and MNAA staff continues to meet monthly with the rental car companies and the programming consultant to re-design the space. Work is anticipated to start in January 2020 and should take two to three months to complete.

Commissioner Joslin asked if this space re-allocation was only ticket counter space. Ms. Martin replied it is actual space in the CONRAC facility where the cars are parked. There is a new fuel dispenser being added to that space so there are some construction costs going into that facility but mostly moving of space and painting lines. Terminal counter is also being moved around because of BNA Vision but that is a separate step. President Kreulen added that if a rental car company is losing market share, they have less space to park cars and bring cars forward. Theoretically, that could mean poor customer service.

Ms. Martin reported that CONRAC is operated and maintained by a facility manager and fuel operator. MNAA is responsible for the selection of the facility operator and the rental car companies are responsible for selecting the fuel operator. That was done to minimize MNAA's liability due to possible environmental risk regarding the fuel. Cost for facility operator is borne 100% by the rental car companies. MNAA contracts with the operator and the rental car companies reimburse MNAA. The current fuel and facility operator is MVI Field Services. The current agreement expires June 2019. MNAA staff conducted a competitive solicitation for a facility operator. Four responsive proposals were received, MNAA staff ranked each proposal with MVI winning the bid. The new agreement will begin on July 1, 2019. It is a five year term with two 1 year extensions at MNAA's option. The cost of that agreement is 100% borne by the rental car companies. The annual operating budget is approximately $335K, the management fee is approximately $50K. MVI's management fee was by far the lowest of all proposals submitted. Because it is a cost reimbursed by the rental car companies, MNAA had a representative from the rental car companies sit on the selection committee as an advisor. The rental car companies selected MVI as fuel operator. That agreement will begin on July 1, 2019 and will run coterminous with the facility agreement.

Commissioner Sullivan inquired as to the possibility of a fuel spill and if the rental car companies had their own plan for such. Ms. Martin replied yes.

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

C. Air Service Development Update (JumpStart June 3-5)

Ms. Martin gave an update on air service development. Just as enplanements have increased in FY19, FY19 scheduled departing seats were up 15.5%. She presented a chart conveying how numbers have increased over the FY18 numbers for each month. Service to fourteen new cities began in FY19.

Commissioner Freeman inquired as to the numbers being a year over year increase. Ms. Martin stated the numbers shown on the chart were for scheduled departing seats and there has been an increase every month in FY19 over FY18. Ms. Martin went on to report every single city BNA services has seen an increase in departing seats.

Ms. Martin stated MNAA brought an air service development consultant on board in February 2019 to assist MNAA staff in developing a 5-year air service strategic plan. They have provided MNAA some very important data to analyze as air service development plans develop.

Nashville is host city to the JumpStart Air Service Development Conference June 3-5 at JW Marriott downtown. There is a BNA Host event at the Bridge Building on Tuesday, June 4th.

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

D. Quarterly Retirement/OPEB Investment Report

Ms. Sharon Sepik, Director, Treasury, reported the three month gross return for the retirement plan was 9.10% and YTD was 3.29%, compared to the benchmark of 8.77% 3Q19, 3.52% YTD with an increase in market value of $4.6M over the 12/31/2018 market value. As of June 30, 2018, the retirement plan was 99% funded.

The OPEB three month gross return was 9.52% and YTD was 2.84%, compared to the composite benchmark of 9.27% 3Q19, 3.17% YTD with an increase in market value of $2.3M over the 12/31/2018 market value. As of June 30, 2018, the OPEB plan was 70.1% funded.

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

E. Quarterly Treasury Investment Report

Ms. Sepik then reported on the Quarterly Treasury Investment Report, quarter ending March 31, 2019. As of March 31, 2019, total available funds were $299M. 93.8% of funds were invested as of 03/31/19 versus 87.1% invested December 31, 2018. Some of the invested funds include:

- U.S. Treasuries of $89.2MM
- Commercial Paper: $29.5MM
- Agency/Treasury Money Market Funds: $145.6MM
- TN Local Government Investment Pool: $16.2MM
- Cash in Demand Deposit Accounts (DDA): $18.5MM

PFMAM currently manages $100M of the portfolio. The combined yield for all funds was 2.25% as of March 31, 2019. PFMAM CORE Portfolio yield for 3Q19 was 2.84% vs the benchmark of 2.32% and MNAA Managed funds yield for 3Q19 was 1.94% versus the benchmark of 2.46%. Most of that is brought down from the cash in DDA accounts but most of those are restricted so there is not much staff can do at this point. Total earnings from cash and investments were $1.543M. Earnings for third quarter FY18 were $784K. As of third quarter FY19, the investment portfolio was in compliance and meeting policy objectives.

President Kreulen thanked Commissioner Farnsworth, Commissioner Freeman and Commissioner Smith for motivating him to hire Ms. Sepik to get someone on staff that knew what they were doing in terms of investing the money and encouraging staff to draw down the amount of cash sitting in DDA accounts. President Kreulen stated the results are showing.

Commissioner Freeman inquired as to what the earnings were this quarter in 2017. President Kreulen stated they were very low. Ms. Sepik stated she did not have that information readily available at that time. Commissioner Freeman stated staff had done great work.

Commissioner Smith inquired as to the restrictions on the DDA or money markets and a possible modification of the general bond resolution. Ms. Basrai, VP and Chief Financial Officer, reported MNAA cannot pool the money and there is not much staff can do at this point. As MNAA goes to the new market it will look at the master bond resolution and ordinance so there are more options in pooling and being able to invest more.

Ms. Sepik reported the 3Q19 focus was on:

- Minimizing cash in Demand Deposit Accounts
- Investing funds into the local government pool
- Reducing operating accounts; and
- Pooling cash as much as possible

Cash in Demand Deposit Accounts for 3Q19 was 6% of total available funds. 2Q19 was 13%.

A revised Investment Policy was signed by the CFO and CLO on April 16, 2019. Staff is continuing to evaluate/update the ERP system capabilities to efficiently record the pooled bank account transactions and allocation of investment earnings. Staff also continues to identify bank accounts that can be closed or consolidated by pooling funds. During 3Q19, nine bank accounts were closed. Staff is hoping to close a few more accounts in the last quarter of 2019 and first quarter of 2020. Staff is reviewing the General Bond Resolution for possible modifications with a focus on investing as much money as possible.

Commissioner Freeman inquired as to the money in the demand deposit accounts and whether those funds are insured. Ms. Sepik reported that most of that money is at SunTrust. Commissioner Freeman asked if those monies are limited to the FDIC insurance or in a brokerage account where the entire amount is insured. Ms. Sepik stated none of the funds are in a brokerage account. The money is FDIC insured. The other $3M balance is with Bank of New York which was for the 2008 and 2009 bonds both of which are maturing July 2, 2019. Commissioner Freeman inquired as to how much of a penalty MNAA would incur to move the SunTrust funds to a brokerage account. Ms. Sepik reported those funds cannot be moved because most of the cash is associated with debt service. That is the reason for staff looking at modifying the general bond resolution so that when MNAA goes to market with the new bonds it can do something more productive with the cash.

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

F. Economic Impact Study Update

President Kreulen briefed the Committee on this item. Staff received the draft report back in April. Staff is reviewing the final report this month. Staff will come back to the FAP Committee in June with the final document along with a public relations plan. He presented a chart showing the growth in impact in the local economy since 2012. The $7B in total impact and 67K total jobs is what staff continues to talk to Washington, D.C. and the state legislature about and why it is good for the airport to be investing and continuing to grow and bring in more business opportunities.

Commissioner Granbery inquired as to the 67K jobs and how many were construction related. President Kreulen stated it was a good percentage. Commissioner Granbery asked if the people in Washington have asked what happens to those numbers once BNA Vision is complete. President

Kreulen stated no one had asked that yet but with each BNA Vision project, the numbers are actually going to go up.

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 10:34 a.m.

by Angela Edwards /staff secretary

Amanda C. Farnsworth, Board Secretary