

Minutes of the BNA Vision Committee



Date: June 12, 2019 Place: Nashville International Airport Board Room
Nashville, Tennessee

Time: 10:00 a.m.

Committee Members Present: Bobby Joslin, Chair; John Doerge, Vice Chair; and Jimmy Granbery

Committee Members Absent: Nancy Sullivan

Others Present: Doug Kreulen; Cindy Barnett; A. Dexter Samuels, Board Chair; Bill Freeman; Trey Harwell, Board Vice Chair; Christy Smith; and Angela Edwards

I. Call to Order

Chair Joslin called the meeting of the BNA Vision Committee to order at 10:35 a.m., pursuant to Public Notice dated June 7, 2019.

II. Approval of Minutes

Chair Joslin called for a motion to approve the Minutes of the May 15, 2019, BNA Vision Committee meeting. A motion was made by Commissioner Granbery and seconded by Commissioner Doerge. The motion carried by vote of 3 to 0.

III. Chair's Report

Chair Joslin had no Chair's Report.

IV. Items for Approval

A. Approval of Hotel and Garage Development (Shortlist, RFP, and Work Product Amount)

Ms. Margaret Martin, VP, Chief Development Officer, briefed the Committee on this item. Staff requested that the BNA Vision Committee recommend to the Board of Commissioners that it:

1. approve a shortlist of respondents from the Request for Qualifications (RFP);

2. approve hotel solicitation assistance by Paslay Management Group (PMG); and
3. approve the work product amount for future purchase of intellectual property.

Staff provided the BNA Vision Committee a staff analysis of Hotel and Garage Development (Shortlist, RFP Development, Work Product Amount) prior to the meeting.

Ms. Martin presented a chart of five respondents to the Request for Qualification (RFQ) along with their scores given by the selection committee. The top three respondents were MCR, Chartwell Hospitality, and Matthews Southwest. They key factors of the top three respondents were:

1. Strength of team:
 - a. Design-builder
 - i. Experience in on-airport hotel design and construction
 - ii. Experience in relevant garage design and construction
 - b. Hotel developer/operator
 - i. Experience opening and managing upper-upscale hotels
 - c. Relevant, recent and successful comparable projects
 - d. Organization and quality of submissions
 - i. Answered/responded to every part of RFQ
2. The top three represented two different financing solutions. One is the traditional debt/equity structure and the other is financing via sale of tax-exempt bonds.
3. Experience designing, building, and operating upper-scale hotels
4. All three committed to meeting or exceeding ACDBE and SMWBE goals

The next step is to begin a collaborative dialogue with the top three respondents over the next several months. Business structure to be evaluated for the following:

- Branded or independent hotel
- Long-term ground or air rights lease or concession operating model
- Type of financing
- Length of agreement before MNAA assumes ownership
- Operation and Maintenance of the hotel

The design and technical considerations to be considered are:

- Nashville sense of place;
- BNA design criteria; and

- Construction phasing and scheduling

Commissioner Joslin asked if MCR was the same company that had been considered for a hotel a couple years prior but did not meet standards. President Kreulen stated MCR was eliminated years ago because they did not have the 4-5 star level hotel requirement. They had some 4-5 star hotels in construction at that time, but none were operational. Ms. Martin stated MCR's response was top notch and met the criteria set forth in the RFQ.

Ms. Martin reported the Board previously approved a contract amendment for PMG to assist in the hotel/garage solicitation. The Board requested an additional opportunity to approve continuation down this path. Staff recommends PMG continue to assist with the remaining steps of the solicitation process. This includes the collaborative dialogue meetings with the top three respondents, developing the RFP, review of proposals, and final agreement negotiations. President Kreulen stated the Board will continue to get updates and will have another opportunity for approval before the final RFP goes public.

Commissioner Granbery asked if the Committee was being asked to approve the top three at this meeting. Ms. Martin replied yes. Commissioner Granbery asked if MCR was chosen, was there potential for them to work with Westin. Ms. Martin reported MCR stated in the RFQ it wants to bring an independent brand to Nashville but MCR does work with other hotel brands. If staff decides there is a branding requirement through the RFP process, the proposers would need to bring a brand to the table.

Mr. Clay Paslay of PMG stated that Chartwell, for example, has a relationship with Hilton and Marriott, and they have relationships with all the big brands. Chartwell proposed who they thought was the right concept for this location. They proposed a Hilton versus a Marriott.

Commissioner Granbery inquired as to funding the companies for the work product. He stated since shortlist choice one and two were closely scored, he thought it may make sense to choose only one or two companies instead of three to save money. Ms. Martin stated the recommendation is to choose three companies because this is a long process. If one company falls out, that would leave only two companies to negotiate. MNAA wants to be sure there is flexibility.

Commissioner Granbery asked if MNAA was utilizing any third-party legal help other than Ms. Barnett, Board Counsel, to help out on the retail side. Ms. Carrie Logan, AVP, Legal Affairs, reported MNAA does have an outside firm for help on this particular contract to assist with drafting the contract and looking at proposals.

Ms. Martin stated the third item included in the approval would be the purchase of work product (PWP). MNAA needs to own the work product so it can use the different ideas from the respondents as part of the final RFP. Staff recommends a PWP amount of \$750K per respondent. Part of the requirement in the RFP is the successful respondent would be responsible for the combined PWP amounts for the two unsuccessful respondents as part of the successful respondent's financing. MNAA will not be out of pocket any money on this project. Staff brought this item to the Board for transparency purposes. If the deal fell apart, MNAA would be responsible for the PWP to all three respondents.

Commissioner Joslin asked what the timeline would be for the submittal of design and budget. Mr. Paslay stated this process is going to run through the first quarter of next year. He stated there needs to be a shortlist of three because it is not uncommon for one to drop out. Mr. Paslay explained a draft RFP and lease would be submitted to the three respondents. They will respond with questions. There will be one-on-one meetings with each of the respondents to go over financial issues, legal issues, lease issues, and the respondents will start bringing in their design concepts. MNAA and PMG will evaluate the designs, modify and go back to the respondents, and the whole process starts again with questions and meetings. It will take five to six months to go through the process. There will probably be three meetings that go through lease issues, and maybe four or five meetings on design as they continue to evolve the design. The objective is to have a business structure, a design and everything set, so MNAA is comfortable with all three proposals. At that point, the final RFP would be issued, the three respondents submit their final proposals, and if need be, a best and final offer step.

Commissioner Joslin asked if the hotel would open in 2023. President Kreulen responded yes. Mr. Paslay stated the draft RFP would go out in the next month or so if the Board approves. The final RFP would come in the November 2019 timeframe. President Kreulen stated he would like to see the final RFP approved by June 2020. That would give the winning respondent a year to finalize design and two years to build it and open in the fall of 2023.

Commissioner Freeman asked if there was any thought to choosing two respondents instead of three. He felt like it was a lot of money to bid on the work product. Chair Joslin stated the question was well taken and stated Mr. Paslay had answered that previously when he stated it was not uncommon for one to drop out, and if MNAA got stuck with one respondent, MNAA would be at their mercy. Mr. Paslay stated that \$750K is a lot of money but each respondent will actually spend close to \$2M putting these proposals together. This amount is written into the winning proposer's financing so there is no

out of pocket money from MNAA. It also shows MNAA's commitment to this effort which in turn gives the respondent the confidence to put the effort into developing a quality work product. The respondents are going to bring a lot of good ideas to the table and at the end of the day, MNAA will want to use the best ideas to incorporate into the final RFP or to select the winner.

Commissioner Granbery asked why the amount was \$750K per respondent. Mr. Paslay stated that was industry standard on a project this size. Commissioner Granbery asked if it would scare respondents off if the PWP was cut back to \$500K. Mr. Paslay responded he did not think it would discourage anyone from submitting, but the respondents would be more mindful of how much work they put into it. Commissioner Freeman asked if this is typically how it is done at other airports around the country. Mr. Paslay stated this project was a P3 best value approach. Not a lot of hotels are done this way. Usually the hotel owner sends out an RFP for a lease and it's just a ground lease deal. With the hotel being right in the airport's front door, MNAA will want to have as much influence as possible. Mr. Paslay stated it was worth doing in this situation. Originally, the airport was going to own the hotel and hire an operator to run it. That would be ideal, but financially that did not work for MNAA. This is the best way to address having the amenity at the front door but not having the capital investment in it.

A motion was made by Commissioner Granbery and seconded by Commissioner Doerge to recommend approval of the shortlist of three respondents from the RFP, approve hotel solicitation assistance by PMG and approve the work product amount of \$750K per respondent for future purchase of intellectual property. The motion carried by vote of 3 to 0.

V. Information Items

A. BNA Vision Program Budget Summary

Mr. Robert Ramsey, SVP, Chief Operating Officer, briefed the Committee on this item. Mr. Ramsey informed the Committee the BNA Vision Program Budget Summary will be briefed on a monthly basis. In April 2019, the Program Contingency was \$34.5M. In May 2019 the Program Contingency dropped to \$33M largely due to the Parking and Ground Transportation Center. The budget variance had been approximately \$10.5M last month. As the project close out began, additional items were identified and once it became operational, additional improvements had to be made. The total project contingency remaining is \$58M. The addition of that amount to the \$33M in program contingency gives a total of \$91M in program contingency to date.

Chair Samuels asked why the design build delivery method did not mitigate some of the overages in the budget. Mr. Ramsey stated he believed the progressive design build is inherent in that nature. There will be design progression and there are no final hard numbers. That is part of the reason project contingency is built into every project. The airport is an older facility, especially Project 3. As the projects progress, operational problems arise and designs have to change. Until the final CGMP is revealed, the numbers will vary. Concourse D and Terminal Wings project should be final in August which will give staff more certainty on budget.

Chair Samuels asked if the change order process was different with this delivery method than others. Mr. Ramsey explained that some change order numbers have been built into the owner's allowances at the different project levels for flexibility. Chair Samuels asked who approves the changes. Mr. Ramsey stated that he and President Kreulen approve the large items. Mr. Ramsey stated Project 1 will be bought out next month. Project 2 on the garage is at GMP. Therefore, two of the three projects will be bought out by August.

Commissioner Joslin asked if there should be any concern with the numbers related to where BNA is on the projects. Mr. Ramsey replied yes. Until there is a final guaranteed maximum price, there is always concern.

President Kreulen stated staff is committed to the \$1.249B as budgeted and there is no cause for alarm at this point. He reported that Ms. Basrai, PFM and Landrum Brown are preparing rate models to determine what the airport can afford to borrow without being downgraded. Staff will need to come back to Commissioners because gates will need to be added on Concourse A. As Alan A'Hara reported in the Master Plan Update, two lanes will need to be added to the outside arrival level and outside the departure level which has not been budgeted in the current BNA Vision.

Mr. Ramsey reported there have been no changes to the Vision Program Schedule since last month's report. Mr. Ramsey presented a series of pictures of work that is going on at the airport including demolition of existing Concourse D, the steel erection for the new Concourse D, the Central Utility Plant, Terminal Wing Expansion (North) Steel Erection, Baggage Claim Ceiling Demolition to prepare for baggage handling system replacement, Terminal Garage C and Airwave Canopy Foundations.

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

VI. Adjourn

There being no further business brought before the BNA Vision Committee, Chair Joslin adjourned the meeting at 11:11 a.m.



Amanda C. Farnsworth, Board Secretary