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

BNA Nashville International Airport

Date:	August 14, 2019	Place:	Nashville International Airport Board Room Nashville, Tennessee
Time:	9:20 a.m.		

Committee Members Present: Bobby Joslin; and John Doerge

Committee Members Absent: Amanda Farnsworth, Chair; and Bill Freeman, Vice Chair

Others Present: Jimmy Granbery; Mayor's Representative, Jamari Brown; Dexter Samuels, Board Chair; Doug Kreulen; Cindy Barnett; Angela Edwards

I. Call to Order

Commissioner Doerge called the meeting of the MNAA and MPC Finance, Administration, and Properties (FAP) Committee to order at 9:12 a.m., pursuant to Public Notice dated August 9, 2019.

II. Approval of Minutes

Commissioner Doerge stated there was no quorum of voting members present, therefore the July 10, 2019 Minutes from the Finance/Administration/Properties meeting would be deferred.

III. Chair's Report

Commissioner Doerge had no Chair's Report.

IV. Items for Approval

A. Approval of Revision of the Investment Policy for the Retirement Plan for Employees of MNAA and the MNAA OPEB Plan (Policy 41-011) – MNAA Resolution No. 2019-10

Ms. Marge Basrai, VP, Chief Financial Officer, briefed the Committee on this item. Staff requests that the Finance, Administration and Properties Committee (FAP) recommend to the Board of Commissioners that it:

1. Approve the revision of MNAA Policy 41-011, Investment Policy for the Retirement Plan for Employees of the Metropolitan Nashville Airport Authority and the Metropolitan Nashville Airport Authority Other Post-Employment Benefits Plan; and
2. Authorize the Chair and President and CEO to execute MNAA Resolution No. 2019-10

Staff provided the FAP Committee a staff analysis of Revision of the Investment Policy for the Retirement Plan for Employees of MNAA and the MNAA OPEB Plan (Policy 41-011) and a copy of MNAA Resolution No. 2019-10 prior to the meeting.

On May 14, 2019, the Retirement Committee met with MNAA's Investment Advisor, Wells Fargo, and Actuary, Findley, to discuss risk reduction, asset allocation, and the discount rate used on the retirement and OPEB plans. Based on those discussions, the Retirement Committee approved the following changes:

- Change the Retirement Plan's portfolio asset allocation from 60/40 (60% Equities / 40% Fixed Income) to a 50/50 asset allocation (50% Equities / 50% Fixed Income).

  The Plan is fully funded, so it was important to consider a more conservative asset allocation to help reduce the volatility of market returns. This is the second phase of the reduction. Last year, the retirement committee decided to reduce the allocation, but wanted to do it in two stages to not take the full hit in one year. The first reduction (65/35 to 60/40) was approved by the Board in April 2018.

- Reduce the Retirement Plan's current discount rate from 7.0% to 6.0%.

  The discount rate needed to be reduced to align with the expected long-term rate of return on the asset portfolio. The discount rate selected affects the pension liability – the decrease in the rate will increase the liability. This decrease in the rate, along with the remaining losses from the 2QFY19, causes a projected shortfall in the Plan (to be 100% funded) of $11.9M. MNAA contributed an additional $8.9M at the end of the fiscal year. When the Actuary reports are finalized for 6/30/19 it is expected to be 96-97% funded.

- Increase the OPEB Plan's discount rate from 4.0% to 5.0%.

  In prior years, the OPEB plan has not been highly funded, it was 41.3% funded as of 6/30/17. Government Accounting Standards require plans not funded to use the municipal bond rate for the discount rate. Now that the OPEB plan is more fully funded (70.1% as of 6/30/18), the expected rate of return can be used for the discount rate. Staff raised the discount rate 1%

to more closely align with expected returns. The discount rate selected affects the pension liability. The increase in the rate will decrease the liability. This increase in the rate, offset with the remaining losses from the 2QFY19, causes a projected shortfall in the Plan (if 100% funded) of $7.3M. MNAA contributed an additional $2M at the end of the fiscal year. When the Actuary reports are finalized for 6/30/19 it is expected to be 84-85% funded.

Based on those changes, the following revisions must be made to the Investment Policy:

- Add two tables to show the Asset Allocation category and subcategory ranges and Composite Benchmark for the Retirement Plan and OPEB Plan
  - The Retirement Plan will reflect the new 50/50 asset allocation (50% Equities / 50% Fixed Income).
  - The OPEB Table will remain at the 65/35 asset allocation.
  - In addition, the Investment Advisor recommended a reduction in the allocation for international equities in each plan, which are incorporated.
- Two minor wording changes to the Policy based on annual review:
  - Updated "CFO" to "Chief Financial Officer" to be consistent throughout
  - Updated to reflect proper name of Finance, Administration & Properties Committee

Ms. Basrai stated as the Plans become more fully funded, MNAA's goal is to protect assets and make continual changes each year. Commissioner Granbery inquired as to where the money came from to cover some of the shortfall. Ms. Basrai stated it was budgeted in the regular O&M expenses.

There was no quorum of voting members present, therefore the Approval of Revision of the Investment Policy for the Retirement Plan for Employees of MNAA and the MNAA OPEB Plan (Policy 41-011) – MNAA Resolution No. 2019-10 would be deferred.

B. Approval of Delta Air Lines Sky Club Expansion

Ms. Margaret Martin, VP, Chief Development Officer, briefed the Committee on this item. Staff requested that the Finance, Administration and Properties Committee (FAP) recommend that the Board of Commissioners approve the following items regarding the proposed expansion of the Delta Air Lines Sky Club at BNA:

1. Reimbursable Agreement between Delta Air Lines and MNAA;
2. Space Lease Letter of Agreement; and

3. Approval to proceed to the bond market for financing of the MNAA portion

Staff provided the FAP Committee a staff analysis of Delta Air Lines Sky Club Expansion prior to the meeting.

Ms. Martin reported Delta Air Lines has requested to expand their Sky Club from the current size of 3K square feet to approximately 15K square feet. This expansion is needed to keep up with Delta's growth in passengers in recent years and many years to come.

Delta is funding the approximately $24M in construction costs for the expansion. MNAA is participating in the build out of the shell space for approximately $11M. The $11M would be reimbursed to MNAA over the next ten years through the space lease rental rate. The expanded Sky Club would be added to Delta's Signatory Use and Lease Agreement. This agreement is set to expire, therefore a separate Letter of Agreement (LOA) will be entered into with Delta to ensure that they will continue to lease the entire club area for ten years. This will guarantee that MNAA will be entirely reimbursed for the $11M it is contributing for the shell space even if Delta Air Lines does not enter into a new Signatory Use and Lease Agreement once it expires. MNAA will finance this $11M with a 10 year bond. The total cost of the bond to MNAA over the ten year period with interest is approximately $16M. That $16M is the total amount MNAA will receive from Delta Air Lines. If this project is approved, it will be added to the FY20 BNA CIP budget.

Commissioner Doerge inquired how this project fits into BNA Vision. Ms. Martin replied the date of beneficial occupancy is March 2021 and was not anticipated at the start of BNA Vision, but it fits within the Vision because the space was not earmarked for anything else.

President Kreulen stated this is a good thing for the airport that Delta wants to increase the size of their club by 5 times the current space. Delta is going to build it and MNAA will inspect it. No gate spaces will be lost.

Commissioner Granbery inquired as to how the operating costs will be billed for this space. Ms. Martin stated the costs are written into the signatory lease rate.

There was no quorum of voting members present, therefore the Approval of Delta Air Lines Sky Club Expansion would be deferred.

C. Approval of Customs and Border Protection Lease Agreement (Gassaway)

Ms. Martin briefed the Committee on this item. Staff requested that the Finance, Administration and Properties Committee (FAP) recommend to the Board of Commissioners that it:

1. Accept the lease agreement between Metropolitan Nashville Airport Authority (MNAA) and the United States Government, Customs and Border Protection (CBP) that authorizes CBP to maintain their leased space at the Gassaway Building under a new lease for a term of five (5) years, and renewal option term of five (5) years, and;
2. Authorize the Board Chair and the President & CEO to execute the proposed agreement.

Staff provided the FAP Committee a staff analysis of Customs and Border Protection Lease Agreement prior to the meeting.

The Customs & Border Protection (CBP) is currently leasing space at the Gassaway Building located at 612 Hangar Lane. The CBP wishes to maintain this lease and enter into a new five year agreement with one option of the CBP to extend for an additional five years. The Gassaway building is approximately 5K square feet. The total annual revenue for the five year period is approximately $78K. There will be a rent escalation at the end of the first five year period if CBP wishes to continue leasing the space. Ms. Martin stated there were no material differences in the lease agreement.

There was no quorum of voting members present, therefore the Approval of Customs and Border Protection Lease Agreement (Gassaway) would be deferred.

D. Approval of Fraport Subleases

Ms. Martin briefed the Committee on this item. Staff requests that the Finance, Administration and Properties Committee (FAP) recommend to the Board of Commissioners that it approve five subleases for the terminal concessions program, so that all rights and obligations attorn to MNAA at the expiration of Fraport's master agreement.

Staff provided the FAP Committee a staff analysis of Fraport Subleases prior to the meeting.

Ms. Martin reported that in last month's FAP Committee meeting, the Committee was made aware of several tenants requesting locations have an operation term that extends past Fraport's master agreement expiration date. In order to permit this, MNAA must become a party to the sublease so that MNAA consents to this sublease term, and so that all rights and obligations of that sublease attorn to MNAA at the expiration of Fraport's master agreement. At this time, there are five tenants requesting that certain locations have this longer operational term, so there are five subleases for which MNAA is requesting approval as MNAA is a party to the sublease. President Kreulen stated these five subleases cover twenty-five locations. Pouring rights has become a topic of debate. MNAA has reserved the right to sell its pouring rights in the sublease. The national firms have already sold their pouring rights. The concern from some of the other tenants is if MNAA keeps its pouring rights in the sublease, it might cause some to renege or want to renegotiate. Staff hopes to have a resolution to this issue by the next Board meeting to move these subleases along. Staff will keep the Committee and Board informed as this issue progresses.

There was no quorum of voting members present, therefore the Approval of Fraport Subleases would be deferred.

V. Information Items

A. Fraport Transition Update

Ms. Martin briefed the Committee on this item. Ms. Martin reported there are six fully executed subleases representing twelve locations. There are seven additional subleases for twenty-eight locations in review with Fraport and the tenant. Five of those seven are pending with MNAA review/approval. Four subleases are anticipated by the end of August. From a design prospective, eight locations have been approved by MNAA for 30% design. Two locations are at 30% design and are in review by MNAA. Four are 95% design, currently in review status by MNAA. Once the design is at 95%, the tenant is also ready to submit to Metro Codes. Construction on C Triangle is set to begin September 2019.

Commissioner Joslin asked if the tenants were responsible for hiring their own contractors. Ms. Martin replied yes and Fraport approves the contractors selected by the tenants. Fraport is working on compiling a list of contractors that are familiar with the airport and ready and able to start work. Contractually, Fraport cannot require tenants to use a certain contractor.

There are seventeen local brands operated by the local owner. There are seventeen local brands operated by a Majority Local Joint Venture Partner. Twenty-eight local brands have chosen to be operated by a National or Majority National Joint Venture Partner. In the contract, there is a limit on the percentage of sales that a National operator can have in a program. Under FAA guidelines, MNAA is not permitted to require a certain percentage of locals. One local brand is operated by a local operator (non-owner). Two National Brands are operated by a Local Operator or Majority Local Joint Venture. Twenty-two National/Regional Brands are operated by a National Operator or a Majority National Joint Venture.

Ms. Martin then discussed a revised development plan with no changes to the timeline. Rite Aid Express is being replaced with a temporary location for Green Beans Coffee. Green Beans Coffee operated on the baggage claim level but had to shut down operations due to the construction impact, so they were happy to take the space. Christie Cookie is being replaced with 5 Daughters Bakery in C-Triangle. Two Old Hippies is a retail location and that space has been re-demised to add a space for a separate location for Jack Daniels. Time for a Shine will be moving to C-Triangle and will transfer to the Grand Hall in 2023. This accommodation will allow the tenant to remain operational through the construction process.

Fraport held a local financing event to help small and minority businesses be able to obtain capital if needed. Fraport partnered with Renasant Bank. The event was held on July 24, 2019. There were nine attendees which were ACDBE operators in addition to the bankers.

Fraport sponsored a supplier diversity meeting. It was very well attended. There were thirty-eight suppliers and twenty-five operators. This meeting put national operators in connection with ACDBE suppliers.

The Mystery Shop and Street Pricing RFP was released July 3, 2019. Three responses are under review by Fraport. There is a Shop-n-Dine brochure coming soon. These paper brochures will be located at various locations around the airport so passengers can see what is currently available at the airport and what is coming soon. WINGS is a customer service program of Fraport and the July winner was Cleryssa Casto of Fat Bottom Brewery.

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

B. Land Development Update

Ms. Martin briefed the Committee on this item. Tennessee Department of Transportation Aeronautics Division is currently located at BNA. They have an administration building along with a hangar for state planes. MNAA is currently under agreement with Tennessee Department of Transportation (TDOT) to build a new facility at John C. Tune Airport (JWN). TDOT has requested to enter into a new three year lease for continued use of the Hangar facility at BNA or until completion of the Air Traffic Control Tower at JWN (whichever occurs first). Atlantic Aviation has asked to use this space in their phased plan of development. Atlantic Aviation can accommodate a three year delay.

An RFQ will be released soon for on call commercial real estate consulting services to help with requests coming in for non-aviation development. Appraisers are on call for fair market value. The RFP for commercial real estate consulting services is to help with development/best use and brokerage services to ensure getting the best value for the airport. MNAA's procurement process will be followed for this RFP.

Ms. Martin then gave an update on parcels that are in some stage of active solicitation or negotiation.

The Briley Parkway Parcel is 8 acres. This parcel has been solicited via signage on the parcel for two years and in April 2019, was solicited on commercial real estate platforms. A broker has contacted MNAA with interest from a logistics and distribution company. MNAA has begun initial conversations to evaluate the lease potential. This parcel is for lease only and is not for sale. FAA regulations require an appraisal for fair market value of the land. An appraisal is underway at this time.

MNAA was alerted to the sale of Fly Away Parking sites on Murfreesboro Pike. It is approximately 8.45 acres and is listed for sale for $11M. MNAA is currently conducting an internal analysis of this opportunity. President Kreulen stated that across Murfreesboro Pike, MNAA had just spent $8.5M to fill in that space with pavement for employee parking.

Ms. Martin then updated the Committee on Hangar 14. This parcel is located next to the Tennessee Air National Guard. A Notice of Availability (NOA) was sent out for this parcel seeking general aviation development. Three proposals were received. Sky Harbor presented the most attractive proposal based on types of use and hangar development. A Letter of Intent (LOI) was received from Sky Harbor and MNAA staff is in the process of reviewing and responding to the LOI. The LOI came in with three preliminary concepts. There are two pieces still under review. Those are the impact of site design provided to MNAA if Sky Harbor chooses to self-fuel, and stormwater retention requirements for this parcel. Sky Harbor still plans to build corporate hangars that have an office attached.

An NOA was released August 2, 2019 for a thirty-two acre parcel south of Murfreesboro Pike. The parcel may be developed under all thirty-two acres or developed in minimum of three acre parcels. This is a challenging site to develop due to lack of infrastructure and utilities. The goal is to help developers partner together for those resources with the three acre parcels concept.

An NOA for Development was released June 13, 2019 for the seventy-five acre site west of Donelson Pike, north of Harding Place. This parcel is a non-aviation development and may be developed as one development or in smaller parcels. There have been two pre-proposal meetings with nine developers. Proposals are due October 24, 2019.

Based upon feedback from the Commissioners, staff is evaluating developing JWN's east side first. MNAA is anticipating releasing an NOA for multiple parcels for general aviation development in October 2019. Commissioner Granbery inquired as to a site beside Hangar 2 that could be developed into a Hangar and parcels to the south of the new hangars that could be developed. Mr. Ramsey stated his team will work with Ms. Martin's department to make the best use of all available space. Mr. Ramsey stated the capital funds at JWN are committed toward the tower. JWN will not be getting additional funds from the Tennessee Equity Funds for the hangars. The tower is in the design/build phase now. The target date for completion of the tower is December 2020.

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

C. Quarterly Retirement/OPEB Investment Report

Sharon Sepik, Director, Treasury, briefed the Committee on this item. The Retirement Plan 3-month gross return was 3.28% and YTD was 6.68% compared to the composite benchmark of 3.42% 4Q19, 7.06% YTD. The market value increased $1.2M over the 3/31/19 market value.

The 3-month gross return was 3.26% and YTD was 6.20%, compared to the composite benchmark of 3.43% 4Q19, 6.71% YTD. The market value increased $845K over the 3/31/19 market value.

Staff provided the FAP Committee a staff analysis for informational purposes only of the Quarterly Retirement/OPEB Investment Report prior to the meeting.

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

D. Quarterly Treasury Investment Report

Ms. Sepik briefed the Committee on this item. Staff provided the Finance/Administration/Properties Committee a staff analysis for informational purposes only of the Quarterly Treasury Investment Report prior to the meeting.

As of 6/30/2019, the total available funds were $320.2M. 92.1% of funds were invested as of 6/30/19. 4Q19 combined yield for all funds was 2.23%. PFMAM CORE Portfolio yield was 2.66% versus the benchmark of 2.27%. MNAA Managed funds yield was 2.03% versus the benchmark of 2.38%. Total earnings from cash and investments for 4Q19 was $1.84M versus 4Q18 earnings of $1.061M. FY19 total earnings was $5.74M versus FY18 earnings of $2.8M.

As of 4Q19, the investment portfolio is in compliance and meeting policy objectives. 4Q19 focus was on minimizing funds in demand deposit accounts, reducing operating accounts and pooling cash.

Cash in Demand Deposit Accounts (DDA) for 4Q19 was 8% of total available funds versus 6% in 3Q19. 4Q19 DDA cash increased due to debt service funding requirements to make July 1 debt payments. This meets the internal goal of 8% maximum in DDA accounts.

Staff is continuing to evaluate/update the ERP system capabilities to efficiently record the pooled bank account transactions and allocation of investment earnings. Staff identified operating accounts that can be closed or consolidated by pooling funds. During 4Q19, Treasury identified 16 bank accounts to close in 1Q20. Staff is reviewing the General Bond Resolution for possible modifications with a focus on maximizing invested funds.

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

E. FY19 Employee Performance Incentive

President Kreulen briefed the Committee on this item. A FY19 Employee Performance Incentive payout is planned for August 2019. Based on MNAA financial performance, individual job performance, completion of objectives and values (RISE), 298 employees will receive a Performance Incentive. The total FY19 Performance Incentive payout is $1.36M which averages 6.83% of salaries. This money was budgeted for by the Board of Commissioners for FY19 and FY20.

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

VI. <u>Adjourn</u>

There being no further business brought before the FAP Committee, Commissioner Doerge adjourned the meeting at 10:16 a.m.

Amanda C. Farnsworth, Board Secretary