

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



Date: October 9, 2019 Place: Nashville International Airport Board Room
Nashville, Tennessee
Time: 9:00 a.m.
Committee Members Present: Bill Freeman, Vice Chair; Bobby Joslin; and John Doerge
Committee Members Absent: Amanda Farnsworth, Chair
Others Present: Mayor's Representative, Jamari Brown; Christy Smith;
Nancy Sullivan; Doug Kreulen; Cindy Barnett; and Angela
Edwards

I. Call to Order

Vice Chair Freeman called the meeting of the MNAA and MPC Finance, Administration, and Properties (FAP) Committee to order at 9:00 a.m., pursuant to Public Notice dated October 4, 2019.

II. Approval of Minutes

Vice Chair Freeman stated there were no minutes to approve.

III. Chair's Report

Vice Chair Freeman had no Chair's Report.

IV. Items for Approval

A. Approval of Subordinate Airport Revenue Bonds – MNAA Resolution Nos. 2019-14, 2019-15, 2019-16, 2019-17, 2019-18, and 2019-19 and the Updated Debt Management Policy

Ms. Marge Basrai, VP, Chief Financial Officer, briefed the Committee on this item. Staff requested that the Finance, Administration and Properties Committee (FAP) recommend approval to the Board of Commissioners of the following resolutions and authorize the Chair and President and CEO to execute:

1. MNAA Resolution No. 2019-14, Initial Resolution, pertaining to the issuance of long-term revenue bonds to finance a portion of the Authority's Capital Improvement Program;

2. MNAA Resolution No. 2019-15, Master Subordinate Resolution, setting forth the terms and covenants upon which the Authority may issue indebtedness subordinate to its senior lien bonds and authorizing the issuance of subordinate airport revenue bonds to finance a portion of the cost of the Authority's Capital Improvement Program;
3. MNAA Resolution No. 2019-16, First Supplemental Resolution, authorizing the issuance of not to exceed \$1 billion subordinate airport revenue bonds, Series 2019, and setting forth the parameters for the issuance of such Series 2019 Bonds, and authorizing the execution and delivery of preliminary and final official statements and a bond purchase agreement between the Authority and the underwriters in connection with the sale;
4. MNAA Resolution No. 2019-17, Official Intent Resolution, pertaining to an issuance of subordinate airport revenue bonds to finance a portion of the cost of the Authority's Capital Improvement Program and directing the Authority to publish a notice of public hearing and to conduct such hearing in compliance with the United States Internal Revenue Code;
5. MNAA Resolution No. 2019-18, Twentieth Supplemental Resolution, authorizing certain amendments to the Master Senior Resolution to modernize its terms and add consistency with the Master Subordinate Resolution; and,
6. MNAA Resolution No. 2019-19, Debt Management Policy, updating the current policy to reflect the current debt structure and airline agreements, and to permit the issuance of balloon indebtedness.

Staff provided the FAP Committee a staff analysis of Subordinate Airport Revenue Bonds and a copy of MNAA Resolution Nos. 2019-14, 2019-15, 2019-16, 2019-17, 2019-18, 2019-19, the updated Debt Management Policy, and the approval letter from the State of Tennessee prior to the meeting.

Ms. Basrai introduced Lauren Lowe of Public Financial Management (PFM) and Cory Czyzewski of Bank of America Merrill Lynch (BAML). PFM serves as Municipal Advisor and BAML is the Senior Underwriter. Ms. Basrai also mentioned Board Counsel; Cindy Barnett is also a part of the bond financing team.

MNAA has been drawing on the Note Purchase Agreement (NPA) it has with BAML until the draws can be refinanced with long term debt. The bond financing is expected to price and close in December 2019.

The Bond Financing Team has been meeting for the past three months to discuss, analyze, and finalize the debt security and debt structure for this bond issuance. It has also been working on the preparation of a feasibility study, rating agency presentations, and the preliminary official statement.

The Bond Team includes Ms. Basrai, the AVP of Finance at MNAA, PFM and BAML along with five other underwriting firms that will serve as co-managers to help with the marketing and selling of the bonds.

There were two main areas the Bond Team needed to focus on; the first is the security for the bonds. In the past, the Authority has issued senior lien bonds that have a net revenue coverage requirement of 1.25x which means MNAA must generate enough net revenues to cover its debt service 1 ¼ times.

However, the organization has never undertaken a program the size of BNA Vision and beyond. As MNAA continues to add debt past the BNA Vision amount, the senior lien capacity will most likely be stressed putting pressure on the ratings. Airports mitigate this by issuing subordinate lien debt to fund their capital programs. Subordinate debt is one lien below the senior lien so subordinate debt has second priority to senior lien holders.

Current market conditions, due to the low historical rates, provides an opportunity to create a new subordinate lien position on MNAA's bonds that will have a coverage requirement of 1.10x debt service. This would help preserve MNAA's senior lien bond capacity to complete our capital program in the future.

The Bond Team has determined that the most optimal solution for the Authority for this bond issue is to issue them on a subordinate lien.

- Current market conditions are very favorable to issue subordinate lien bonds which are at historically low interest rates.
- Subordinate lien bonds are expected to price at credit spreads 5-10 bps over senior lien bonds. Typically, spreads are at least 15-20 bps.
- This issuance will create a new credit rating for the Authority. Subordinate debt usually rates one notch below the senior lien rating. This results in higher spreads during pricing, however, given the current market spreads of 5-10 bps, the effect on the overall borrowing costs are not significant.

- Most importantly, this will preserve MNAA's future bond capacity under its senior lien when interest rates may be higher or when the spread differential to issue subordinate bonds is higher.

The second topic the Bond Team discussed was the debt structure. The team determined that the best optimal structure for this deal is to structure the bond payments to "wrap" around the current outstanding bond payments with a final maturity of 2054 (35-year term). Current rates are at historic lows and the shape of the yield curve is flat which means long-term rates are not much more than short-term rates. By going from a 30 to a 35-year term, it allows MNAA to take advantage of the market, especially for longer-date maturities.

- There is demonstrated investor interest in recent airport transactions. Kansas City and Orlando recently sold bonds with 35-year maturities. Those bonds priced well.
- This structure will mitigate airline rate impacts in the early years. As compared to a 30-year maturity, issuing 35-year term bonds result in aggregate debt service that is approximately \$4M-\$7M lower in each year through 2045 (depending on par amount issued). This promotes stability to the airline rates.
- The 35-year term and the "wrap" provides more flexibility for future debt issuances. This establishes a level debt service profile upon which debt service for future issuances can be layered with maximum flexibility. For example, if MNAA does a little more longer-term bonds this round, if the yield curve goes back to normal and short-term rates are lower than long-term rates, MNAA can add more short-term maturities to future bond issuances.

Tennessee Code Section 9-21-134 defines Balloon Indebtedness as debt with a final maturity date of 31 or more years or debt that does not have substantially level or declining debt payments. Given the debt structure the bond team recommends, the 2019 Bonds would be considered Balloon Indebtedness. Governmental entities that propose to issue balloon indebtedness must submit a Plan of Balloon Indebtedness requesting approval from the Comptroller of the Treasury and must ensure that their debt management policy is updated to address the new law and the use of balloon indebtedness. On Sept. 19, 2019, PFM and Ms. Basrai met with staff from the Office of the Comptroller of the Treasury to present MNAA's capital program and its plan of finance for the Series 2019 Bonds. The bond team wanted to get any feedback or potential issues from the Comptroller's office prior to submitting the formal Plan. Based on their guidance, the bond team submitted its formal Plan of

Balloon Indebtedness and the draft updated debt management policy on Sept. 27, 2019. MNAA received the approval letter from the State on October 2, 2019.

MNAA's debt management policy hadn't been updated since 2011, so this new law was not included in the prior policy. The policy was updated for the following:

- Permits the issuance of balloon indebtedness to allow MNAA to maintain a stable level of airline rates
- A determination must be made that the structure is in the public's best interest
- Must ensure that the projected revenues securing the debt will pay for the debt and operating expenses during the life of the debt
- It now includes the process of submission to the Comptroller of the Treasury
- There were some other minor updates to modernize the policy to reflect MNAA's current debt structure and airline agreement.

There are six resolutions related to the authorization of the issuance of Subordinate Airport Revenue Bonds and update to the Debt Management Policy:

- MNAA Resolution No. 2019-14 - This is the Initial Resolution for the issuance of long-term revenue bonds to finance a portion of the cost of the Authority's Capital Improvement Program. It is required by Tennessee State Law and notifies the public of MNAA's plans to issue debt secured by its revenues. This will be published in accordance with state law following its adoption.
- MNAA Resolution No. 2019-15 - This is the Master Subordinate Resolution which authorizes the issuance of airport revenue bonds subordinate to bonds issued under the Authority's Master Senior Resolution and sets forth the terms and covenants on which MNAA can issue subordinate debt.
- MNAA Resolution No. 2019-16 – This is the First Supplemental Resolution that authorizes issuance of not to exceed \$1B Series 2019 Bonds; the first series of subordinate bonds under the Master Subordinate Resolution 2019-15 previously mentioned. MNAA will use \$300M-\$400M to pay off the NPA and will then have \$600M-\$700M to directly pay costs of the capital

improvement program. MNA originally planned on issuing \$350M in three tranches. However, MNAA wanted to take advantage of the historically low rates and issue more now. Also, with the strong possibility of other large capital projects that may need to start sooner rather than later (like a Concourse A expansion), MNAA wanted to fund more of BNA Vision upfront now and use the NPA next year on the additional projects that could be starting soon. The final par amount will most likely be less than the authorized amount, however, this provides some flexibility to upsize and take advantage of market conditions and/or investor demand should factors be favorable at the time of pricing.

- MNAA Resolution No. 2019-17 – This is the Official Intent Resolution pertaining to an issuance of subordinate airport revenue bonds to finance a portion of the Authority’s Capital Improvement Program and directing the Authority to publish a notice of public hearing and to conduct such hearing in compliance with the United States Internal Revenue Code. It is required by federal law and memorializes MNAA’s intent to reimburse itself for expenditures of its own funds by issuing long-term debt in the future. It allows Ms. Basrai to hold the public Tax Equity and Fiscal Responsibility Act (TEFRA) hearing. It is also required for private activity bonds. It notifies the public of MNAA’s plans to issue private activity bonds.
- MNAA Resolution No. 2019-18 – This is the Twentieth Supplemental Resolution which authorizes certain amendments to MNAA’s Master Senior Resolution to modernize its terms and add consistency with the Master Subordinate Resolution created in MNAA Resolution No. 2019-14 discussed earlier.
- MNAA Resolution No. 2019-19 – This resolution authorizes the updating of the Debt Management Policy to reflect the current debt structure, airline agreements, and to permit the issuance of balloon indebtedness.

Vice Chair Freeman complimented Ms. Basrai on the presentation and making it as easy as possible to understand. Vice Chair Freeman asked if the Committee had any questions regarding the proposed bond issuance. Commissioner Joslin stated he was very happy that MNAA is getting out in front of financing future projects and expansion. Commissioner Joslin stated he agreed with Vice Chair Freeman on the outstanding job Ms. Basrai and team had done. Vice Chair Freeman asked Ms. Basrai if there were any concerns from the Comptroller’s office. Ms. Basrai stated there were no concerns or additional questions from the Comptroller’s office, and she was happy to receive the approval letter within a few days after their meeting.

There being no further questions or discussions from Committee members, a motion was made by Commissioner Doerge and seconded by Commissioner Joslin to recommend approval of MNAA Resolution No. 2019-14 (Initial Resolution) and to authorize the Chair and President & CEO to execute said resolution. The motion carried by vote of 3 to 0.

A motion was made by Commissioner Doerge and seconded by Commissioner Joslin to recommend approval of MNAA Resolution No. 2019-15 (Master Subordinate Resolution) and to authorize the Chair and President & CEO to execute said resolution. The motion carried by vote of 3 to 0.

A motion was made by Commissioner Doerge and seconded by Commissioner Joslin to recommend approval of MNAA Resolution No. 2019-16 (First Supplemental Resolution) and to authorize the Chair and President & CEO to execute said resolution. The motion carried by vote of 3 to 0.

A motion was made by Commissioner Joslin and seconded by Commissioner Doerge to recommend approval of MNAA Resolution No. 2019-17 (Official Intent Resolution) and to authorize the Chair and President & CEO to execute said resolution. The motion carried by vote of 3 to 0.

A motion was made by Commissioner Joslin and seconded by Commissioner Doerge to recommend approval of MNAA Resolution No. 2019-18 (Twentieth Supplemental Resolution) and to authorize the Chair and President & CEO to execute said resolution. The motion carried by vote of 3 to 0.

A motion was made by Commissioner Joslin and seconded by Commissioner Doerge to recommend approval of MNAA Resolution No. 2019-19 (Debt Management Policy) and to authorize the Chair and President & CEO to execute said resolution. The motion carried by vote of 3 to 0.

B. Approval of Fraport Subleases

Ms. Margaret Martin, AVP, Chief Development Officer, briefed the Committee on this item. Staff requested the FAP Committee recommend to the Board of Commissioners that it approve two subleases for the terminal concessions program so that all rights and obligations attach 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 the two subleases up for approval extend past the term of the Master Agreement between Fraport and the Authority and are being brought before the Board because MNAA becomes a party to the subleases. Should the Master Agreement between Fraport and the Authority not be renewed in 2029, the lease will attach to MNAA. The Board approved five of these types of subleases in August 2019. The first sublease agreement is with Nashville Hospitality Partners, LLC, for five

locations and has 100% local operators. The second sublease agreement is with Nashville BNA Partners, LLC, a national operator with local partners, for four additional locations.

Commissioner Joslin inquired as to where Hudson, Delaware North and HMS stood on their subleases. Ms. Martin replied that Delaware North and Hudson have submitted letters to MNAA stating they would be signing the agreement (two of the five approved in August). HMS Host and Stellar are expected to submit letters soon. President Kreulen stated the CEO of Hudson submitted two different letters this week for two different LLCs they have created, each LLC having five locations. Delaware North's new CEO submitted a letter stating he endorsed what the previous CEO approved. The pouring rights issue has been tabled by MNAA.

A motion was made by Commissioner Doerge and seconded by Commissioner Joslin to recommend approval of two subleases for the terminal concessions program. The motion carried by vote of 3 to 0.

V. Information Items

A. Fraport Transition Update

Ms. Martin briefed the Committee on this item. Ms. Martin reported staff are working on seventeen subleases representing forty-five locations. There are nine tenant executed subleases for twenty-one locations. Fraport has sent six subleases for fifteen locations to subtenants for final execution. MNAA has two subleases for nine locations pending review/approval (those mentioned earlier). MNAA is currently reviewing six locations at 30% design. Fraport is finalizing thirteen locations to 95% design. Fraport has submitted four at 95% design, currently in review by Metro Codes.

Construction on C Triangle is set to begin October 2019. The plans have been approved by Metro Codes. Fraport selected Utopia for construction. Once the final construction contract is signed, Utopia will be responsible for obtaining the building permit. Dust wall installation begins October 13, 2019. The construction kick-off event is scheduled for October 25, 2019. The janitorial RFP and grease-trap RFP have both been issued by Fraport.

Commissioner Doerge inquired as to what the turn-around time will be for the current vendor to close its doors and the new vendor to start operating. The current vendor gets a one-month notice. Within 120 days, the new vendor is scheduled to be open and operating without contract penalties. The highest number of vendors out of operation at any one time is scheduled to be no more than

approximately 25%. MNAA's goal is to have news and gifts, coffee, and food and beverage on every concourse.

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

B. Assignment of JWN FBO Lease

Ms. Martin briefed the Committee on this item. Ms. Martin gave a brief background of the lease history of the FBO lease at JWN. In 2005, MNAA and Corporate Flight Management (CFM) entered into a new twenty-two year lease agreement. The new lease required CFM to spend approximately \$1.1M for improvements. The lease termination date was November 2027. In September 2019, CFM approached MNAA regarding assigning its lease to Modern Aviation.

Vice Chair Freeman inquired as to where MNAA is on the approximately \$1.142M in improvements and asked if MNAA had the absolute right to approve the lease and the absolute right to underwrite the new operator and to understand its financial condition and to approve or disapprove of the assignment. Ms. Martin replied that is correct. The current lease states if the lessee wishes to assign the lease, it is within MNAA's sole discretion. Therefore, if CFM comes to the Board and requests an assignment of its lease, it is the Board's sole discretion to make that decision. The current minimum standards at JWN were updated in 2017 and are very thorough as to what information is required for a new operator of an FBO, or in this case, an assignment to a different lessee such as ten years of financial history and a proforma. There is a lot of information MNAA staff expects to receive in order to be able to make a thorough recommendation to the Board.

Vice Chair Freeman stated JWN is a different airport than it was when the lease was signed in 2005. He stated the Board is going to do a thorough job examining the information provided by CFM, but it comes down to doing the best thing for JWN.

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

VI. Adjourn

There being no further business brought before the FAP Committee, Vice Chair Freeman adjourned the meeting at 9:30 a.m.



Amanda C. Farnsworth, Board Secretary