

✈ METROPOLITAN NASHVILLE AIRPORT AUTHORITY ✈

February 21, 2018– Minutes of the Joint Meeting of the MNA Board of Commissioners and MPC Board of Directors



Date: February 21, 2018

**Place: Nashville International Airport
Nashville, Tennessee**

Time: 1 p.m.

Board Members Present:

Bobby Joslin, Chair; A. Dexter Samuels, Vice Chair; Trey Harwell, Secretary; Dierks Bentley, John Doerge, Amanda Farnsworth, Bill Freeman, Kabir Sandhu, Christy Smith and Mayor's Representative, Matt Wiltshire

Board Members Absent:

None

Others Present:

Doug Kreulen and Cindy Barnett

I. Call to Order

Chair Joslin called the MNA Board of Commissioners and MPC Board of Directors meetings to order at 1:02 p.m., pursuant to the Public Notice dated February 16, 2018.

II. Approval of Minutes

Upon motion made by Commissioner Freeman and seconded by Commissioner Harwell, the Board voted to approve the minutes of the January 17, 2018, joint meeting of the MNA Board of Commissioners and MPC Board of Directors. The motion carried by a vote of 10 to 0.

III. Chair's Report

Chair Joslin welcomed Commissioners, staff, and guests.

IV. President's Report

President Kreulen recognized Commissioner Dierks Bentley who was recently named the recipient of the CRS 2018 Artist Humanitarian Award by The Country Radio Broadcasters. The CRS Artist Humanitarian Award was created in 1990 to honor country music artists who have exhibited exceptional humanitarian efforts during their career.

President Kreulen reported that on Thursday, February 15, 2018 Southwest announced its newest route with service to Atlanta five times daily Monday thru Friday and three times daily on the weekends. Service begins August 7, 2018. President Kreulen stated this was long sought-after service by the business community to bring competition and lower fares into this market.

President Kreulen reported that Frontier recently announced new service to Trenton, New Jersey three days a week (Sunday, Tuesday and Thursday) beginning April 8, 2018. This is a destination not currently served.

President Kreulen recognized Officer Steven Beard and Roman, a 5-year-old yellow Labrador, and Officer Jeff Eady and Jade, a 4-year-old Dutch Shepherd, of the MNAA Department of Public Safety. The two canine explosive detection teams assisted with safety and security at this year's Super Bowl: Both K9 teams were selected due to year-after-year 100% accuracy on national evaluations. There were 80 K9 teams from all across the U.S. assisting with this year's Super Bowl.

President Kreulen stated that MNAA's third annual Black History Month Music Series was well underway. The music series spotlights local bands and groups performing, commemorating and celebrating the sounds of the American Civil Rights Movement. Three of the four performances scheduled for this month have already taken place and the final performance in the series is February 28, 2018 and will feature Tennessee State University's Meistersingers.

President Kreulen invited the Board to attend Business Taking Off, MNAA's annual networking event for large and small businesses alike to learn more about doing business with MNAA and upcoming contracts on Friday, February 23, 2018 at 7:30 a.m. at the Airport Marriott.

President Kreulen reported that the ribbon cutting ceremony for the Interim IAB would be held on Wednesday, March 21, at 11 a.m., prior to the March board meeting with invitations to follow. He gave a preview of the new video that will play in the Interim IAB welcoming each passenger to Nashville. The video was designed to celebrate BNA's cultural diversity and features non-U.S. born BNA employees.

Economic Report

President Kreulen reported that this was the busiest January in the history of the airport with 1,016,892 total passengers. BNA's total passengers for January were up 7.7% and up 8.3% for FY2018. Passenger numbers have increased in 88 of the last 90 months.

News & Gift gross sales for December 2017 were up 21.6%, up 15.1% for January 2018, and up 15.4% for FY2018. Food & Beverage gross sales for December 2017 were up 9.8%, up 7.9% for January 2018, and up 7.4% for FY2018. Rental Car gross sales for December 2017 were up 7.8%, up 2.0% for January 2018, and up 6.5% for FY2018.

FAP Committee Review

President Kreulen provided a brief review of items discussed at the FAP Committee on February 14, 2018.

FY18 2nd Quarter Treasury Investment Report

President Kreulen stated the Treasury report was drafted by Marge Basrai, CFO, and himself. He reported that \$100M cash or cash equivalents had been invested on December 18-19, 2017 (increasing the amount of cash or cash equivalents invested from 47% to 70%) with a total return of \$533K (0.63%), including \$45,300 on the \$100M transferred the last two weeks of December.

FY18 2nd Quarter OPEB/Pension Investment Report

President Kreulen reported the Pension and OPEB Investment Reports were produced by Wells Fargo. The Retirement fund gross quarter returns were 3.92% (net 3.85%), compared to a benchmark of 3.95% and gross 6-month returns were 7.55% (net 7.42%), compared to a benchmark of 7.51%. OPEB gross quarter returns were 3.87% (net 3.981%), compared to a benchmark of 3.95% and the gross 6-month returns were 7.41%(net 7.32%), compared to a benchmark of 7.51%. President Kreulen stated that the Pension Committee membership was also being reviewed.

BNA Vision Comprehensive Plan of Finance

President Kreulen reported that he had executed an engagement letter with PFM to develop a plan of finance, debt funding analysis, proforma projections and financial analysis, PFC cash flow analysis and periodic reporting which was approved on February 8, 2018 and will be completed within 90 days.

Hotel Construction Cost – Financing Analysis #2

President Kreulen reported that PFM is performing extensive analysis for a hotel. Debt capacity analysis resulted in limited project funds and multiple years of interest only. Other debt service structures would likely

require the Authority to supplement the project cost, provide support for the debt, defer principal payments for several years, or decrease the level of debt service coverage.

Investment Policy Review and Cash Flow Analysis Review

PFM Asset Management was hired December 29, 2017, to analyze the Authority's current investment program, conduct portfolio analysis, evaluate and provide investment policy and reporting recommendations, prepare cash flow analysis, develop investment strategies, review adherence to GASB 31 and 40, develop benchmarks, internal controls review and enhancement and report to stakeholders by March 31, 2018.

CONRAC Refinancing

The FAP Committee also discussed the need to move forward with refinancing the existing CONRAC bonds. President Kreulen stated he would provide recommendations in the March time frame and request approval at the May Committee and Board meetings, with closing by the end of May 2018. It was discussed previously, and the opportunity still saves MNAA money, but not the \$5 million that was initially believed a couple years ago. MNAA will still save approximately \$3.8 million if we move forward.

President Kreulen confirmed that he had covered all items discussed at the FAP Committee meeting and Commissioner Freeman agreed.

Audit Committee Review

President Kreulen stated that Commissioner Farnsworth chaired the Audit Committee meeting on February 14, 2018. President Kreulen stated that at the Audit Committee meeting he reported that no calls were received on the Red Flag fraud reporting hotline.

President Kreulen reviewed the status of current audit findings which included 16 audits, seven of which were completed, three were in-progress, and six were scheduled during the 3rd and 4th quarters, including two travel related special audits. There were 134 open findings (118 in the first quarter and 43 new findings in the second quarter, and 27 findings were closed during the second quarter). 61% of the open findings were IT related, and 23% were Finance related.

President Kreulen stated that key corrective actions taken included "Tone at the Top" established by CEO through meetings and communications on September 27, 2017, November 29, 2017, December 15, 2017 and January 2, 2018. President Kreulen established policies for approval of CEO payroll and travel effective January 8, 2018; Dual Dissemination (Red Flag reporting) on January 2, 2018. President Kreulen reported that the Ethics, Code of Conduct and Conflict of Interest Policy were in review and expected approval by February 28, 2018. He stated that an updated travel policy was being drafted and expected approval by June

30, 2018. The remaining anti-fraud controls review findings in progress were time-clocks, p-cards, cash advances and vendor master file.

President Kreulen reported that he was looking into IT firms that could provide recommendations and that the number of audit findings may be related to expertise issues. He stated that it is to be determined if IT services are handled by MNAA, outsourced, or a mix, and that he would report back to the Board in the near future.

President Kreulen reported that the new management team was formed on January 2, 2018, and an executive retreat was held on January 31, 2018, where the team discussed the policies. He stated that there were 207 policies and at that time 87% of those policies were greater than 10 years old. He further reported that that percentage has decreased to 78%. Staff is working through the policies to update applicable policies or eliminate policies that are no longer applicable or have been replaced by policies in the Emergency Plan or the Certification Manual. He stated that his benchmark is that no policy is ever older than three years before it is updated.

Staff Reports

Operations Report:

Mr. Robert Ramsey, COO, reported that the unadjusted gross parking revenue from all five lots for January was up 16.0% and 13.2% for FY2018. System errors in the initial set-up of the Scheidt & Bachman Parking Revenue Control System caused a percentage of Short Term parking transactions to be billed and reported at the Long-Term A rate. This skews the year over year numbers. Please note that this does not include any adjustments after the issue was discovered.

For the month of January, air cargo was up 49.6%, with 5,114 total tons of cargo, an increase of 1,696 tons, and up 9.2% for FY2018.

BNA January fuel sales for Atlantic Aviation, Signature Flight, and private self-fueling hangars were down 12.1%, or 77,702 gallons less. Mr. Ramsey reported that weather in January contributed to the decrease in BNA fuel sales. For FY2018 YTD fuel sales increased 12.3% equating to 524,991 gallons more. JWN January fuel sales for Corporate Flight Management were up 7.4% or 6,9674 gallons more and for FY2018 an 18.6% increase equates to 144,149 gallons more.

Financial Report:

Ms. Marge Basrai, Chief Financial Officer, presented the January financial results and noted that BNA operating revenues were \$85.6 million or \$3.1 million above budget projections and \$9.8 million more than the prior year. Drivers of the increase in operating revenue year over year include migration of non-signatory airlines to signatory status and reduction in the revenue sharing credit (as per the airline agreement), driving

up signatory airline revenue by \$7.0M in the same period year over year. Parking also saw an increase year over year of \$3.6M driven by the parking rate increase and traffic growth. Operating expenses were \$45.4 million, \$8.8 million below budget projections and \$2.5 million more than last year. Ms. Basrai noted that expenses were down in the area of salaries and benefits due to approximately 15 to 20 open positions in the Department of Public Safety and other staffing issues with ABM. Operating income before depreciation was \$40.0 million, \$11.9 million above budget projections and \$7.2 million more than the prior year.

For JWN, operating revenues were \$516,000 which was \$27,000 above budget projections and \$29,000 more than the prior year. \$15,000 was in Fuel Flowage fees due to increased business and \$6,000 of reimbursable services related to auto fuel sales for fuel for the support trucks.

Operating expenses for JWN were \$418,000 which was \$3,000 below budget projections and \$77,000 less than the prior year. Operating income before depreciation was \$98,000 which is \$30,000 above budget projections and \$107,000 above the prior year.

For MPC, year to date operating revenues were \$1.8 million, \$4,000 below budget projections and \$108,000 more than last year. Operating expenses were \$816,000, \$496,000 below budget projections and \$117,000 less than the prior year. Variances were due to budgeted "break/fix" repairs that have not been necessary up to this time. Operating income before depreciation was \$1.0 million, \$492,000 above budget projections, and \$225,000 more than the prior year.

Business Diversity Development Report:

Ms. Donzaleigh Powell, Director of Business Diversity Development, briefed the Board on MNAA's SMWBE program for January 2018, by presenting the following information:

	Aspirational Participation %	Percentage	MWBE Expenditures	Total Expenditures	YTD Percentage	YTD MWBE Expenditures	YTD Total Expenditures
Professional Services (Includes all contract services, legal expenses external printing, and marketing)	12.44%	11.79%	\$ 398,905	\$ 3,382,279	12.37%	\$ 2,258,522	\$ 18,251,942
Goods & Services (Includes all office supplies and office equipment and other goods)	6.49%	1.45%	\$ 4,101	\$ 283,584	1.70%	\$ 27,763	\$ 1,635,071
Construction Non-Federal CIP (All non-federal Construction and professional projects)	10.49%	8.53%	\$ 583,609	\$ 6,838,666	12.28%	\$ 8,036,070	\$ 65,454,613
Construction Federal CIP (All Federal Construction and professional projects)	9.28%	0.95%	\$ 600	\$ 62,910	0.59%	\$ 600	\$ 101,942

V. Items for Approval:

A. Board Staff Officer Appointment

President Kreulen stated that in accordance with the Third Amended and Restated Bylaws of the Board of Commissioner of the Metropolitan Nashville Airport Authority, Article III Staff Officers, Paragraph 3.2 Selection, he would recommend the appointment of the following personnel to fill staff positions:

Staff Secretary	Terri Barnhart, Paralegal
Auditor/Independent CPA	Dixon Hughes Goodman LLP
Legal Counsel	Doug Sloan, Chief Legal Officer
Treasurer/CFO	Marge Basrai, Chief Financial Officer
Chief Engineer/COO	Robert Ramsey, Chief Operating Officer

Upon a motion by Commissioner Freeman and seconded by Commissioner Samuels to approve the recommendation of President Kreulen, the motion carried by vote of 10 to 0.

VI. Information Items:

A. FY18Q2 ALERT Update

President Kreulen provided information regarding MNAA performance for the second quarter of FY2018. He reported that for FY17 the \$23.2M true-up had been deposited in the Goldman Sachs investment NAE fund. FY18 began with an account balance of \$51.4M. An additional \$7.8M was budgeted for FY18 for a total of \$59.2M. Anticipated funding for FY18 is projected to be \$15.5M based on: \$6.1M operating revenue in excess of budget and \$9.4M operating expenses below budget. This is an additional \$7.7M for NAE account for a projected total of \$66.9M. The projected total will be reduced by the \$7.5 million expenditure for the catering facility and associated requirements to get British Airways operating, and a package in the near future for a \$3 million enhancement to the baggage handling system needed to keep our airlines fully functional. Those expenditures will likely lower the \$66 million by approximately \$10 million. All economic indicators from the city and the country look positive and he expected to be able to reach the targets presented. President Kreulen responded to the question if there was a standard industry practice in terms of what the percentage of cash reserves would be and how the total amount compares to peer airports, stating that he had discussed this and how it relates to the rate model formulation for BNA Vision with Ms. Basrai. Part of the PFM analysis of investment includes assisting in determining how much cash is available to invest --- MNAA should have 400 to 600 days of cash on hand, and we are building toward that goal. The NAE fund is in addition to two other accounts that we are working to build: two months of O & M and two months of Reserve and Replacement. Airports vary on their calculations, but as the new rate model is formulated, PFM will be able to provide a tracker and that he would provide the percentage comparison to the Board when it becomes available.

BNA Vision Cost Control Report

Mr. Ramsey provided an overview of the progress, expense and status of the BNA Vision including a Program overview, narrative of key projects and progress, program schedule, SMWBE status, and overall budget for the Program. Mr. Ramsey also provided an overview of individual projects that makes up the Program, narrative, current status, budgets, SMWBE and spend rates for all active construction and design projects underway as part of the BNA Vision. Mr. Ramsey stated that updates would be provided on a monthly basis.


Commissioner Samuels made a request of the Chair to go into executive session for the purpose of privileged communications with legal counsel Zan Blue and Cindy Barnett.

Chair Joslin acknowledged the request and closed the Board meeting for executive session at 1:40 p.m.

Chair Joslin reopened the Board meeting at 2:30 p.m. and stated there were no other items for discussion.

VIII. Adjourn

There being no further business before the Board, Chair Joslin adjourned the meeting at 2:30 p.m.


Aubrey B. Harwell, III
Board Secretary