METROPOLITAN NASHVILLE AIRPORT AUTHORITY

February 14, 2018 – Minutes of the Joint Meeting of the MNAA Finance, Administration, and Properties Committee and MPC Finance/Administration/Properties Committee

Date: February 14, 2018

Time: 9:00 a.m.

Place: Nashville International Airport
Nashville, Tennessee

Committee Members Present: Bill Freeman, Vice Chair; Amanda Farnsworth, Bobby Joslin, and Christy Smith

Committee Member Absent: Trey Harwell, Chair and Mayor's Representative, Matt Wiltshire

Others Present: Doug Kreulen and Cindy Barnett

I. Call to Order

Vice Chair Freeman called the Metropolitan Nashville Airport Authority (MNAA) and MNAA Properties Corporation (MPC) Finance, Administration, and Properties (FAP) Committee meeting to order at 9:00 a.m., pursuant to Public Notice dated February 9, 2018.

II. Approval of Minutes

Vice Chair Freeman called for a motion to approve the minutes of the December 8, 2017, meeting of the FAP Committee. A motion was made by Commissioner Smith and seconded by Commissioner Joslin. The motion carried by vote of 4 to 0.

III. Item for Approval

Vice Chair Freeman stated that there were no items for approval.

IV. Information Items

A. FY2018 2nd Quarter MNAA Treasury Investment Report

Mr. Doug Kreulen, President & CEO briefed the FAP Committee on this item. At the December 13, 2017, Board of Commissioners Meeting, the Board of Commissioners authorized the Interim President & CEO to immediately open investment accounts with Goldman Sachs to invest the Authority's funds.

Following that Board meeting the President & CEO met with Finance staff to analyze accounts and determine what portion of the funds that were held in cash and cash equivalents could be moved to additional money market accounts. Between December 18, 2017, and December 29, 2017, MNAA transferred $100,255,012 to new Goldman Sachs & Company money market accounts. As of December 31, 2017, the new asset allocation at the Authority was as follows:

Cash and Cash Equivalents	$	100,330,295	30.2%
Commercial Paper		17,886,176	5.4%
Agency/Treasury Money Market Funds		213,637,350	64.4%
Total Funds 12/31/17	$	331,853,821	

President Kreulen provided a summary of all accounts at December 31, 2017, as well as a history of the transfers made by MNAA beginning with the balances as of December 13, 2017 and the changes each day as transfers to the new Goldman Sachs money market accounts were completed.

The total portfolio return throughout the quarter was $531,900 or .63%. Included in that return was $45,300 earned on the $100.3 million transferred to the new money market accounts during the last two weeks of December.

This item was presented for informational purposes and required no Committee action.

B. FY18 2nd Quarter OPEB/Pension Investment Report

President Kreulen briefed the FAP Committee on this item. President Kreulen provided summary of the Performance Report prepared by Wells Fargo for the 2nd Quarter of FY2018. The Wells Fargo report covers the period from October 1, 2017, through December 31, 2017.

Background:

MNAA Retirement Plan

The quarter (three month) total portfolio return *gross* of fees was 3.92% compared to the designated Composite Benchmark of 3.95%. The three-month total portfolio return *net* of fees was 3.85%.

The fiscal year-to-date (six months) total portfolio return *gross* of fees was 7.55% compared to the designated Composite Benchmark of 7.51%. The year-to-date total portfolio return *net* of fees was 7.42%.

Asset Allocation Summaries – Retirement Plan (excludes Meridian)

Wells Fargo resets the asset allocations mid-month. As a result, market fluctuations may result in month-end allocations being temporarily and slightly outside of the limits established in the policy. On the next month's reset date, Wells Fargo brings all asset classes back into compliance with the Investment Policy and Process for the Retirement Plan for Employees of the Metropolitan Nashville Airport Authority and the Metropolitan Nashville Airport Authority Other Post-Employment Benefits Plan (stated Policy), effective August 17, 2016. All exceptions occurring during any quarter are reviewed by the Pension Committee and additional action is taken, if needed.

As of September 30, 2017, all but one of the asset classes were in compliance with the stated Policy, Section E, Asset Allocation. The Equities – Mid Cap category exceeded the maximum target allocation by .06%. *These allocation exceptions were due to market fluctuations occurring from the date of the mid-month allocation reset to the end of the month.*

Pension - Asset Allocation as of 10/31/2017 **(based on market values) (excludes Meridian)**

Category	Balance	Allocation	Policy 8/17/16 - Present Min-Target-Max	Compliance	Max Allocation	Allocation Variance
Cash and Cash Equivalents	$ 1,731,665.54	2.69%	0%-3%-100%	Yes	100.00%	97.31%
Bonds and Notes	$ 20,985,086.29	32.65%	0%-32%-37%	Yes	37.00%	4.35%
Equities - Large Cap[a]	$ 22,378,884.93	34.82%	0%-34.45%-60.14%	Yes	60.14%	25.32%
Equities - Mid Cap[a]	$ 5,884,704.87	9.16%	0%-9.10%-9.10%	*No*	9.10%	(0.06%)
Equities - Small Cap[a]	$ 2,840,258.03	4.42%	0%-5.20%-7.80%	Yes	7.80%	3.38%
Equities - International[a]	$ 10,457,850.32	16.27%	0%-16.25%-22.75%	Yes	22.75%	6.48%
Total	$ 64,278,449.98	100.00%				
(a) Total Equities (Large Cap, Small Cap, Mid Cap, Int'l)	$ 41,561,698.15	64.66%	0%-65%-75%	Yes	75.00%	10.34%

As of November 30, 2017, all but one of the asset classes were in compliance with the stated Policy, Section E, Asset Allocation. The Equities – Mid Cap category exceeded the maximum target allocation by .28%. *These allocation exceptions were due to market fluctuations occurring from the date of the mid-month allocation reset to the end of the month.*

Pension - Asset Allocation as of 11/30/2017 **(based on market values) (excludes Meridian)**

Category	Balance	Allocation	Policy 8/17/16 - Present Min-Target-Max	Compliance	Max Allocation	Allocation Variance
Cash and Cash Equivalents	$ 1,747,219.71	2.69%	0%-3%-100%	Yes	100.00%	97.31%
Bonds and Notes	$ 20,971,813.26	32.24%	0%-32%-37%	Yes	37.00%	4.76%
Equities - Large Cap[a]	$ 22,730,663.07	34.94%	0%-34.45%-60.14%	Yes	60.14%	25.20%
Equities - Mid Cap[a]	$ 6,101,130.34	9.38%	0%-9.10%-9.10%	*No*	9.10%	(0.28%)
Equities - Small Cap[a]	$ 2,926,573.78	4.50%	0%-5.20%-7.80%	Yes	7.80%	3.30%
Equities - International[a]	$ 10,574,524.85	16.26%	0%-16.25%-22.75%	Yes	22.75%	6.49%
Total	$ 65,051,925.01	100.00%				
(a) Total Equities (Large Cap, Small Cap, Mid Cap, Int'l)	$ 42,332,892.04	65.08%	0%-65%-75%	Yes	75.00%	9.92%

As of December 31, 2017, all but one of the asset classes were in compliance with the stated Policy, Section E, Asset Allocation. The Equities – Mid Cap category exceeded the maximum target allocation by .09%. *These allocation exceptions were due to market fluctuations occurring from the date of the mid-month allocation reset to the end of the month.*

Pension - Asset Allocation as of 12/31/2017 (based on market values) (excludes Meridian)

Category	Balance	Allocation	Policy 8/17/16 - Present Min-Target-Max	Compliance		Max Allocation	Allocation Variance
Cash and Cash Equivalents	$ 2,048,626.04	3.13%	0%-3%-100%	Yes		100.00%	96.87%
Bonds and Notes	$ 21,069,105.93	32.23%	0%-32%-37%	Yes		37.00%	4.77%
Equities - Large Cap[a]	$ 22,608,528.24	34.58%	0%-34.45%-60.14%	Yes		60.14%	25.56%
Equities - Mid Cap[a]	$ 6,009,773.20	9.19%	0%-9.10%-9.10%	*No*		9.10%	(0.09%)
Equities - Small Cap[a]	$ 2,930,693.22	4.48%	0%-5.20%-7.80%	Yes		7.80%	3.32%
Equities - International[a]	$ 10,706,180.77	16.38%	0%-16.25%-22.75%	Yes		22.75%	6.37%
Total	$ 65,372,907.40	100.00%					
(a) Total Equities (Large Cap, Small Cap, Mid Cap, Int'l)	$ 42,255,175.43	64.64%	0%-65%-75%	Yes		75.00%	10.36%

Asset Valuation Summaries – Retirement Plan

Below are the Asset Valuation Summaries for the second quarter of fiscal year 2018.

Asset Valuation Summary - MNAA & Meridian

Month	Cost	Market	Unrealized Gain/Loss
10/31/2017	$ 52,764,167.26	$ 64,340,164.75	$ 11,575,997.49
11/30/2017	$ 52,564,781.49	$ 65,096,781.42	$ 12,531,999.93
12/31/2017	$ 53,168,306.58	$ 65,417,763.81	$ 12,249,457.23

Asset Valuation Summary - MNAA (Excludes Meridian)

Month	Cost	Market	Unrealized Gain/Loss
10/31/2017	$ 52,701,010.02	$ 64,278,449.98	$ 11,577,439.96
11/30/2017	$ 52,523,502.30	$ 65,051,925.01	$ 12,528,422.71
12/31/2017	$ 53,127,027.39	$ 65,372,907.40	$ 12,245,880.01

Asset Valuation Summary - Meridian Only

Month	Cost	Market	Unrealized Gain/Loss
10/31/2017	$ 63,157.24	$ 61,714.77	$ (1,442.47)
11/30/2017	$ 41,279.19	$ 44,856.41	$ 3,577.22
12/31/2017	$ 41,279.19	$ 44,856.41	$ 3,577.22

Asset Valuation Summary – Meridian Only – 11/30/2017:

There was a distribution of $15,587.27 liquidated investments with an unrealized gain and a realized loss during the month of November 2017 as reported by Laurie Adams of Wells Fargo on 1/29/18.

When the assets were transferred to Wells Fargo, everything was liquidated for cash except for the Meridian assets, which could not be liquidated because of the Madoff issues. Meridian liquidations have been slow, but the Meridian account is dwindling. Wells Fargo put those funds in a separate account. When cash proceeds are received, they post to the Meridian account and then are transferred to the main account for investment as reported by Laurie Adams of Wells Fargo on 12/1/17.

Reconciliation Summary – Retirement Plan

Below is the Pension Reconciliation Summary for the second quarter of fiscal year 2018.

Pension Summary 2nd Qtr FY 2018 - MNAA (market value)

	10/31/2017	11/30/2017	12/31/2017	2Q FY-to-Date
Beginning Market Value	63,650,934.45	64,278,449.98	65,051,925.01	63,650,934.45
Total Cash Receipts	9,984.68	11,716.77	70,776.12	92,477.57
Total Cash Disbursements	(245,859.34)	(284,794.78)	(252,626.36)	(783,280.48)
Change in Fair Market Value	863,390.19	1,046,553.04	502,832.63	2,412,775.86
Ending Market Value	64,278,449.98	65,051,925.01	65,372,907.40	65,372,907.40

Pension Summary 2nd Qtr FY 2018 - Meridian (market value)

	10/31/2017	11/30/2017	12/31/2017	2Q FY-to-Date
Beginning Market Value	61,714.77	61,714.77	44,856.41	61,714.77
Total Cash Receipts	-			-
Total Cash Disbursements	-			-
Change in Fair Market Value	-	(16,858.36)	-	(16,858.36)
Ending Balance	61,714.77	44,856.41	44,856.41	44,856.41

Pension Summary 2nd Qtr FY 2018 - MNAA & Meridian (market value)

	10/31/2017	11/30/2017	12/31/2017	FY-to-Date
Beginning Market Value	63,712,649.22	64,340,164.75	65,096,781.42	63,712,649.22
Cash Receipts	9,984.68	11,716.77	70,776.12	92,477.57
Cash Disbursements	(245,859.34)	(284,794.78)	(252,626.36)	(783,280.48)
Change in Fair Market Value	863,390.19	1,029,694.68	502,832.63	2,395,917.50
Ending Balance	64,340,164.75	65,096,781.42	65,417,763.81	65,417,763.81

MNAA OPEB

The quarter (three month) total portfolio return *gross* of fees was 3.87% compared to the designated Composite Benchmark of 3.95%. The three-month total portfolio return *net* of fees was 3.81%.

The fiscal year-to-date (six months) total portfolio return *gross* of fees was 7.41% compared to the designated Composite Benchmark of 7.51%. The year-to-date total portfolio return *net* of fees was 7.32%.

Asset Allocation Summaries – OPEB

Wells Fargo resets the asset allocations mid-month. As a result, market fluctuations may result in month-end allocations being temporarily and slightly outside of the limits established in the policy. On the next month's reset date, Wells Fargo brings all asset classes back into compliance with the stated Policy, Section E Asset

Allocation. All exceptions occurring during any quarter are reviewed by the Pension Committee and additional action is taken, if needed.

As of September 30, 2017, all but one of the asset classes were in compliance with the stated Policy. The Equities – Mid Cap category exceeded the maximum target allocation by .05%. These allocation exceptions were due to market fluctuations occurring from the date of the mid-month allocation reset to the end of the month.

OPEB - Asset Allocation as of 10/31/2017 **(based on market values)**

Category	Balance	Allocation	Policy 8/17/16 - Present Min-Target-Max	Compliance	Max Allocation	Allocation Variance
Cash and Cash Equivalents	$ 467,599.92	2.92%	0%-3%-100%	Yes	100.00%	97.08%
Bonds and Notes	$ 5,231,042.88	32.64%	0%-32%-37%	Yes	37.00%	4.36%
Equities - Large Cap[(a)]	$ 5,554,239.79	34.66%	0%-34.45%-60.14%	Yes	60.14%	25.48%
Equities - Mid Cap[(a)]	$ 1,466,893.91	9.15%	0%-9.10%-9.10%	*No*	9.10%	(0.05%)
Equities - Small Cap[(a)]	$ 716,305.96	4.47%	0%-5.20%-7.80%	Yes	7.80%	3.33%
Equities - International[(a)]	$ 2,589,634.75	16.16%	0%-16.25%-22.75%	Yes	22.75%	6.59%
Total	$ 16,025,717.21	100.00%				
(a) Total Equities (Large Cap, Small Cap, Mid Cap, Int'l)	$ 10,327,074.41	64.44%	0%-65%-75%	Yes	75.00%	10.56%

As of November 30, 2017, all but one of the asset classes were in compliance with the stated Policy, Section E Asset Allocation. The Equities – Mid Cap category exceeded the maximum target allocation by .24%. These allocation exceptions were due to market fluctuations occurring from the date of the mid-month allocation reset to the end of the month.

OPEB - Asset Allocation as of 11/30/2017 **(based on market values)**

Category	Balance	Allocation	Policy 8/17/16 - Present Min-Target-Max	Compliance	Max Allocation	Allocation Variance
Cash and Cash Equivalents	$ 459,754.70	2.83%	0%-3%-100%	Yes	100.00%	97.17%
Bonds and Notes	$ 5,228,058.94	32.13%	0%-32%-37%	Yes	37.00%	4.87%
Equities - Large Cap[(a)]	$ 5,694,959.28	35.00%	0%-34.45%-60.14%	Yes	60.14%	25.14%
Equities - Mid Cap[(a)]	$ 1,520,462.32	9.34%	0%-9.10%-9.10%	*No*	9.10%	(0.24%)
Equities - Small Cap[(a)]	$ 738,036.40	4.54%	0%-5.20%-7.80%	Yes	7.80%	3.26%
Equities - International[(a)]	$ 2,632,135.61	16.17%	0%-16.25%-22.75%	Yes	22.75%	6.58%
Total	$ 16,273,407.25	100.00%				
(a) Total Equities (Large Cap, Small Cap, Mid Cap, Int'l)	$ 10,585,593.61	65.05%	0%-65%-75%	Yes	75.00%	9.95%

As of December 31, 2017, all but one of the asset classes were in compliance with the stated Policy, Section E Asset Allocation. The Equities – Mid Cap category exceeded the maximum target allocation by .01%. These allocation exceptions were due to market fluctuations occurring from the date of the mid-month allocation reset to the end of the month.

OPEB - Asset Allocation as of 12/31/2017 (based on market values)

Category	Balance	Allocation	Policy 8/17/16 - Present Min-Target-Max	Compliance	Max Allocation	Allocation Variance
Cash and Cash Equivalents	$ 489,765.99	2.99%	0%-3%-100%	Yes	100.00%	97.01%
Bonds and Notes	$ 5,343,622.41	32.57%	0%-32%-37%	Yes	37.00%	4.43%
Equities - Large Cap[a]	$ 5,656,026.40	34.47%	0%-34.45%-60.14%	Yes	60.14%	25.67%
Equities - Mid Cap[a]	$ 1,495,113.96	9.11%	0%-9.10%-9.10%	*No*	9.10%	(0.01%)
Equities - Small Cap[a]	$ 739,113.45	4.50%	0%-5.20%-7.80%	Yes	7.80%	3.30%
Equities - International[a]	$ 2,683,376.36	16.36%	0%-16.25%-22.75%	Yes	22.75%	6.39%
Total	$ 16,407,018.57	100.00%				
(a) Total Equities (Large Cap, Small Cap, Mid Cap, Int'l)	$ 10,573,630.17	64.45%	0%-65%-75%	Yes	75.00%	10.55%

Asset Valuation Summaries - OPEB

Below are the Asset Valuation Summaries for the second quarter of fiscal year 2018.

Asset Valuation Summary - OPEB

Month	Cost	Market	Unrealized Gain/Loss
10/31/2017	$ 14,581,723.99	$ 16,025,717.21	$ 1,443,993.22
11/30/2017	$ 14,587,019.27	$ 16,273,407.25	$ 1,686,387.98
12/31/2017	$ 15,171,288.12	$ 16,407,018.57	$ 1,235,730.45

Reconciliation Summary - OPEB

Below is the OPEB Reconciliation Summary for the second quarter of fiscal year 2018.

OPEB Summary 2nd Qtr FY 2018 - MNAA (market value)

	10/31/2017	11/30/2017	12/31/2017	2Q FY-to-Date
Beginning Market Value	15,804,069.04	16,025,717.21	16,273,407.25	15,804,069.04
Total Cash Receipts	11,414.87	8,632.81	96,848.14	116,895.82
Total Cash Disbursements	412.76	(9,293.64)	422.58	(8,458.30)
Change in Fair Market Value	209,820.54	248,350.87	36,340.60	494,512.01
Ending Market Value	16,025,717.21	16,273,407.25	16,407,018.57	16,407,018.57

Impact/Findings:

No action is required by the Committee as this report is presented for informational purposes only.

Strategic Objectives:

Develop and implement financial flexibility approach for MNAA.

- Focus on the Future
  - Ensure business continuity and sustainability
- Develop People
  - Foster an entrepreneurial and collaborative culture
- Critical Success Factors
  - Economically sustained services and facilities
  - High performing systems and processes

This item was presented for informational purposes and required no Committee action.

C. BNA Vision Comprehensive Plan of Finance

President Kreulen briefed the FAP Committee on this item. President Kreulen stated that he had previously informed the Board but wished to confirm that he had engaged PFM as a consultant. Previously Bill Reed & Associates had been engaged by he previous CEO to assist with MNAA's plan of finance. In December, Mr. Reed tendered his resignation and since that time his invoices have been closed out. Mr. Reed is expected to deliver some final information in response to questions by the new CFO. (By letter dated February 29, 2018, the contract with Reed and Associates was formally terminated effective January 13, 2018.). On December 27, 2017, MNAA engaged PFM to advise on BNA Vision Financing and to assist with rate model updates. A copy of the engagement letter for PFM was presented to the Committee which outlined the scope of work, with delivery date of May 2018. This will provide a better understanding of long term revenue and expenses, what is affordable, and a plan to go to the market to borrow the additional money needed for the BNA Vision.

In response to a question of the Committee, President Kreulen stated that Mr. Reed's invoices had been reviewed for legitimacy. Work invoiced had been accounted for, and those invoices were paid.

President Kreulen further stated that the previous engagement letter of PFM was 9 years and 10 months old. This was updated with a new engagement letter and PFM kept its fees the same as the previous agreement. There is also a section for special services if professional expertise is needed.

This item was presented for informational purposes and required no Committee action.

D. Hotel Construction Cost – Financing Analysis #2

President Kreulen reported that MNAA's desire would be to have a hotel on site for our customers. It has always been approached as a desire that the hotel would pay for itself. When MNAA initially began looking into constructing a hotel, the cost was estimated at $130 million. With implementation of construction phasing it was discovered the project needed to be pushed out approximately two years, which added missed escalation costs and brought the cost to approximately $158 million. The engineering team revised the plan to build a hotel to minimum specifications for a 4-star hotel, which reduced the cost to $124 million. President Kreulen asked PFM was to prepare an analysis of whether MNAA could afford to build a $124 million hotel that funds itself with a special facility bond. It was discovered that in its initial analysis JLL's assumption was for MNAA to finance through a GARB using airport revenue to keep the hotel afloat, which was never the plan.

PFM conducted an analysis using a special facility bond, which requires the hotel to support itself, a higher interest rate and higher debt service coverage to be met. PFM's analysis showed that if the cost of capital were 5½%, MNAA would only be able to fund $61 million which meant a hotel would not pay for itself. PFM concluded that other creative financing methods were available, but not without risk. PFM's report further stated that if a GARB was used, MNAA risked credit rating downgrades which would affect BNA Vision financing. President Kreulen stated that the option for MNAA to build a hotel itself did not look likely. The second option would be to market the hotel to the private sector. The third option would be to not build the hotel and continue with the BNA Vision, but seriously consider strengthening the parking garage enough to support a hotel in the future. This would cost only $5 million and would be a smart move for the future. Commissioner Freeman stated that there has been input from community leaders and people in the business. If it is decided to offer this project to the private sector, there are tax advantages that a private entity could enjoy and possibly afford to pay 20 to 40 percent more than MNAA. He suggested getting opinions and ideas from the private sector regarding how to pursue this opportunity. He further stated that he felt it was agreed that MNAA needs and wants the hotel but did not want to have a $60 million asset that cost $125 million.

Board Chair Joslin stated that for those on the Board, these are the frankest conversations and deliberations that have ever been had and what has been missing for the past ten years, and that stepping back and rethinking next steps was the right thing to do.

President Kreulen stated he appreciated the input as staff goes through thoughtful deliberation. Staff had received good input from outside investors and appreciated their questions which caused staff to begin rethinking the project.

This item was presented for informational purposes and required no Committee action.

E. Investment Policy Review and Cash Flow Analysis

President Kreulen briefed the FAP Committee on this item. He stated that this was a follow-up to the Treasury Report. He informed the FAP Committee that he engaged PFM on December 29, 2017, to review the investment policy and provide a cash flow analysis. He stated that Richard Pengelly of PFM is leading the team for this analysis with a report due back in 90 days which will provide investment recommendations. Mr. Kreulen provided the Committee with the scope of services and presentation which stated that based on PFM's review of qualified investments authorized by the general resolution of the Authority, the Authority could greatly diversify its variety of investments.

This item was presented for informational purposes and required no Committee action.

F. CONRAC Refinancing

President Kreulen briefed the FAP Committee on this item. He reported that an RFP for the CONRAC refinancing is drafted and that MNAA can still save approximately $5 million by refinancing, an opportunity that was not taken by the previous CEO approximately two years ago when it was recommended. President Kreulen stated that we are moving forward to refinance the CONRAC Bonds. He stated that it was anticipated that the CONRAC bonds would be refinanced by May of 2018, saving, at current rates today, about $3.8 million (when originally presented to the Committee this amount was estimated to be $5.2 million; the corrected amount of $3.2 million was provided at the February 21, 2018 Board meeting) which could then be invested. PFM understands that it is a priority to save money on MNAA's behalf.

Commissioner Freeman stated that time is of the essence with the bond market moving away. Commissioner Farnsworth concurred.

This item was presented for informational purposes and required no Committee action.

G. Miscellaneous

CEO Scorecard

President Kreulen stated that as the Board was aware, Doug Sloan, Marge Basrai, Robert Ramsey, Tom Jurkovich and he, formed the executive team on January 2, 2018. An Executive Retreat was held a week and a half ago. President Kreulen provided a summary of a draft CEO Scorecard, which had not been submitted to or approved by the Management Committee. He stated that the scorecard would show revenue and expenses, expenses by department, track investments, and air service. It also included new metrics not used before to show staffing levels and reflected MNAA was down 31 positions which was one reason for recent changes in Human Resources. It further reflected the number of outdated policies inherited, of which 78% were greater than three years old. President Kreulen stated that work is being done to bring those policies current. The CEO Scorecard also showed the number of audit findings which would be discussed at a later meeting, and also highlighted the CEO's community goals. President Kreulen stated that he would present a similar format to the Management Committee to assist in evaluating his and staff's performance.

Concessions

President Kreulen stated that the executive staff and he believe MNAA should change from a prime to developer concessions model, similar to the discussion regarding privatizing the hotel. The developer model guarantees more revenue than we are making, agrees to a long-term commitment, will invest capital, would triple the number of local businesses that participate and would triple minority participation. There are a lot of benefits to converting from a prime to developer concessions model. President Kreulen will continue to update the Committee.

This item was presented for informational purposes and required no Committee action.

V. Adjourn

There being no further business brought before the FAP Committee, Vice Chair Freeman adjourned the meeting at 10:17 a.m.

Terri Barnhart, staff secretary
Aubrey B. Harwell, III, Board Secretary

METROPOLITAN NASHVILLE AIRPORT AUTHORITY

February 14, 2018 - MNAA Audit Committee Minutes

Date: **February 14, 2018**

Time: **9:30 a.m.**

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

Committee Members Present: **Amanda Farnsworth, Chair; Bill Freeman, Dierks Bentley and Christy Smith**

Committee Member Absent: **Mayor's Representative Matt Wiltshire**

Others Present: **Doug Kreulen, Cindy Barnett and Bobby Joslin**

I. Call to Order

Chair Farnsworth called the meeting of the MNAA Audit Committee to order at 9:50 a.m. pursuant to Public Notice dated February 9, 2018.

II. Approval of Minutes

Chair Farnsworth called for a motion to approve the minutes of the November 8, 2017, Audit Committee Meeting. A motion was made by Commissioner Freeman and seconded by Commissioner Smith. The motion carried by vote of 4 to 0.

III. Item for Approval

Chair Farnsworth reported there were no items for approval.

IV. Information Item

A. Fraud Update

President Kreulen reported that there were no calls on the Red Flag reporting hotline.

B. Updated on Audit Findings

Ms. Julie Zwicknagel, Internal Auditor, reported that Internal Audit has completed seven audits this year including the Quarry Geothermal Audit, Avis Budget, Coordination of the External Audit, Anti-Fraud Controls Review, Investment Reviews, Travel Expenses (Special Audit) and Network Vulnerability Assessment. The Internal Audit Department is currently working on the ABM Payroll Billing, Hudson, and a special audit requested by the President & CEO (travel). In the 3rd Quarter, Internal Audit will initiate the CFC Review, PCI Review, Delaware North & IT Equipment Controls audits. In the 4th Quarter, the Maintenance Radio Controls and HMSHost audits will be started. With 2 special audits added to the plan this year, there will most likely have 2 carryover audits at year-end.

At the beginning of 2nd Qtr. FY 2018, there were 118 audit findings in process. An additional 43 audit findings were added in the 2nd Qtr. for a total of 161. 27 audit findings were completed leaving 134 open audit findings for the 2nd Qtr.

President Kreulen provided an overview of how the 134 open audit findings are distributed among the departments and the percentages of the total open audit findings.

Ms. Zwicknagel provided an update of key corrective actions including Tone at the Top established by CEO addressing fraud awareness and the fraud hotline open audit items and corporate expectations at team meetings on September 27, 2017, November 29, 2017 December 15, 2017 and January 2, 2018. CEO issued policy for approval of CEO payroll and travel on January 8, 2018. The dual dissemination (Red Flag reporting) policy was issued by CEO on January 2, 2018. Ethics, Code of Conduct and Conflict of Interest Policy drafted and in review by CLO with CEO approval expected by February 28, 2018. An updated Travel Policy drafted by CFO is due March 31, 2018, with CEO approval expected by June 30, 2018. The remaining Anti-fraud Controls Review findings to be addressed are time-clocks, p-cards, cash advances, and vendor master file.

C. Concessions Discussion

President Kreulen stated that staff is looking at whether MNAA should outsource its concessions program and whether to continue with the current model or move to a developer model overseen by a national vendor that may perform better than the current program. President Kreulen reviewed a list of airports that are using the developer model. President Kreulen stated Executive team would continue to analyze this possibility. The current Concession Agreement expires in January 2019, so there is a quick time table to make this change and this analysis is timely. President Kreulen reviewed the three developers that operate in the U.S. and the difference between developers and a team of operators. Chair Joslin noted that the program we have today is not working. President Kreulen provided an overview of benefits of the developer model, including investment in capital improvements and increased ACDBE participation. He further stated that he would like to put out an RFP by late March to early April with a target for making a selection in the June to July time period, which would provide six months for transition and avoid month to month contracts with the existing vendors. President Kreulen stated that the developer model would increase the ACDBE participation and also increase local participation that we have today. The developer would also invest capital in the program for renovation and updates and that the amount would vary with length of term.

Chair Farnsworth thanked staff for their reports.

V. Adjourn

There being no further business brought before the Audit Committee, Chair Farnsworth adjourned the meeting at 10:17 a.m.

Amanda C. Farnsworth
Board Secretary