

✈ METROPOLITAN NASHVILLE AIRPORT AUTHORITY ✈

July 30, 2018 – Minutes of the Joint Special Meeting of the MNAA Finance, Administration, and Properties Committee and MPC Finance/Administration/Properties Committee



Date: July 30, 2018

Place: Nashville International Airport
Nashville, Tennessee

Time: 2:30 p.m.

Committee Members Present:

Trey Harwell, Chair; Bill Freeman, Vice Chair; Amanda Farnsworth, Bobby Joslin, Christy Smith and Mayor's Representative, Matt Wiltshire

Committee Member Absent:

None

Others Present:

Doug Kreulen, Cindy Barnett, John Doerge and Kabir Sandhu

I. Call to Order

Chair Harwell called the special meeting of the Metropolitan Nashville Airport Authority (MNAA) and MNAA Properties Corporation (MPC) Finance, Administration, and Properties (FAP) Committee to order at 2:37 p.m., pursuant to Public Notice dated July 27, 2018.

II. Approval of Minutes - None

III. Items for Approval – None

IV. Items for Acceptance - None

V. Information Item

A. Lease and Concessions Agreement Update

Chair Harwell stated this meeting was for informational purposes only to gain a better understanding of the developer model and Fraport and to ask any addition questions on this matter.

Chair Harwell thanked the FAP Committee members, staff and guests for their time and interest. The Concessions contract is an important issue that will affect arriving and departing visitors, making a first

impression and last impression that we want to be positive. We want to ensure when visitors come to Nashville, they experience southern hospitality when they arrive and when they depart.

Chair Harwell stated that the FAP Committee had received a lot of information and heard a lot of discussion regarding this issue. Last week, there were a couple editorials, and he felt there was a little bit of a shift in the thought process as the Committee understands this concept, and also as the community understands it. He stated that the FAP Committee should look at the issue objectively and do what is in the best interest of the City and the Airport.

President Kreulen thanked Chair Harwell and the FAP Committee for the opportunity to come back to this special session to address any remaining questions that the FAP Committee may have. The FAP Committee last met on July 11, 2018. A decision was made to delay a vote on the Concessions Program until after a special session, which was initially scheduled for July 25, 2018. Commissioners received an email from President Kreulen on July 12, 2018, requesting questions be submitted by the end of business on July 13, 2018. President Kreulen received around 25 questions. On July 25, 2018, the Board received the responses to the questions Commissioners had submitted.

President Kreulen provided an overview of the progress, stating that several Board meetings ago, the Commissioners asked staff to do some additional research on the concessions contract and to consult with outside professionals on various issues. Professional consultants included Adams & Reese to investigate Fraport AG and U.S. operations; Kaplan, Kirsch and Rockwell to review our procurement process, Request For Proposals (RFP) and contract; Paslay Management Group to review the master plan; and Ricondo to assist with financial analysis. These firms were given information for assessments and recommendations, including information related to the procurement process, RFP, concession agreement and financial strength.

President Kreulen stated that the Board submitted 27 additional questions by July 13, 2018, and last week, he sent Commissioners an Executive Summary of those responses with 13 attachments and approximately 400 pages of supporting material. The cost of consulting services is estimated to be \$300K. President Kreulen stated that we have a good product and the additional research has made it better.

President Kreulen provided an overview of the draft agreement that will be brought to the FAP Committee on August 8, 2018. He stated that staff had worked with Fraport to capture in the contract the ability to have \$17.4 million capital investment over the 10 year term as described in their proposal with \$13 million escrowed and the additional \$4.4 million to be used by Fraport before the 2023 time period. This would be used to build out the Central Receiving and Distribution Center and improve A, B and C Concourses. The \$4.4 million will be used mainly for improvements to the food court area on Concourse C. We feel secure with \$13 million in escrow and the commitments to provide the additional \$4.4 million. The contract also provides for penalties

if Fraport doesn't spend that amount. Fraport also agreed to a Minimum Annual Guarantee (MAG) of \$11 million, or the higher of 85% of rent paid the prior year or 60% of actual revenue, secured by a letter of credit with Bank of America. Fraport's minimum net worth over \$11 million would be verified annually. Fraport has committed to increase ACDBE participation to 40.5%, which exceeds the 22.6% goal and it has committed to true local businesses. Fraport has received approximately 45 signed letters of interest from companies it has talked with about possibly working at BNA. Our combined goal is to keep the Nashville "Sense of Place". Fraport's training program Priority One will enhance customer service.

President Kreulen stated that in addition to working on the terms and contract, he had contacted the CEO's of the airports in Baltimore, Pittsburgh, Cleveland, and Jet Blue at JFK, to discuss Fraport and their level of satisfaction with Fraport USA. All of the airports were strongly behind their programs and believed it was one of the best decisions their airport had made. President Kreulen was pleased with the extra work that had been done in terms of the lease and concessions agreement developed for the Board's consideration next week.

President Kreulen provided an overview of the impact further delays would cause related to BNA Vision. He stated that the impact on the concessions transition plan would result in delays for agreements with new local operators and may require extensions for existing vendors agreements. The BNA Vision required the Central Receiving and Distribution Center (CRDC) be opened by Feb 1, 2019, and delays will result in additional capital to construct interim or permanent CRDC. This would also delay construction of North Ticketing Wing and Main Terminal. Currently, we are 30 days behind schedule.

Concourse D design and construction would be impacted, and we would incur additional design costs to meet final utility requirements, additional construction costs to meet final layout requirements and added cost due to multiple change orders with subcontractors.

In summary, staff has provided the information that the Commissioners requested by responding to the questions, developing more secure terms in the contract, and provided an explanation of the impact of additional delays.

Chair Harwell asked if the Committee members had an opportunity to review the responses to their questions? He opened the meeting for discussion. Commissioner Freeman asked if the final decision had been made on the term of the agreement, 10 years versus 15 years, and recalled that there had been discussion and that there were several million dollars involved. President Kreulen stated that when staff originally suggested the RFP, it went out with a 15 year term. Critique that we received from existing tenants, Fraport and others was that the 15 year term is better for them, but the Management Committee had concerns with the length of term being too long. To keep the process moving, we changed it to a 10 year term with two five year options.

President Kreulen stated that his recommendation to Commissioners would be to stick with the 10 year term and vote on that, leaving no room for protest, since that was the term presented in the RFP and proposals were based that term. Commissioners may make a motion at the FAP Committee meeting or the Board Meeting for the staff to take on an additional homework assignment to come back to report the pros and cons of going into a 15 year term. The 15 year term would bring in about \$11 million in additional capital. President Kreulen stated this would provide an opportunity for staff to visit other airports and benchmark off of them. President Kreulen stated he would like to see a change in some of the revenue sharing if a longer term deal was made. For now, we have done so much work on this with the 10 year term that we should execute the 10 year agreement and take on a homework assignment for the additional five years.

Commissioner Joslin stated that he has had a real struggle with this whole thing from the beginning. He stated that he had asked about the 10 best concessions programs and saw the response that stated ACI did not do 10 best concessions programs. In 2017 ACI there were 27 various award winners and he misstated what he was looking for. Out of the 27 ACI winners, there were 1st, 2nd, and 3rd place, only two happen to be major developers and that was Marketplace and Westfield, that he was aware of. HMS Host, Delaware North, SSP, and Paradise had won in several categories. Why is it Fraport is not listed in those 27, which was the concern he had. We want this to be the very best program in the country and maybe this will be Fraport's signature to carry their brand further across to other airports. He asked in the last five years, how many of these airports have gone to the major developer model, and there are probably three to five programs a year that come up for RFPs. When was the last time Fraport was awarded a major program?

President Kreulen stated that the challenge we had in answering this question was taking a literal look at the question regarding ACI and that's why we called ACI. There are numerous awards that are out there that different vendors qualify for and are awarded. So, it is difficult without going into every award program to see how they nominated, how they were selected and how was it put together. He provided a summary of awards won by Pittsburgh, Cleveland, and Baltimore. We evaluated the proposals to secure the best business deal, and we share the Board's goals. As we discussed in the January to February time period, when we looked at the passenger survey ratings, our food and beverage and retail services had some challenges. We are convinced that we have chosen a firm that will take us to the next level. Only time will tell, but we are confident this contract will make sure they perform.

Commissioner Joslin stated that he used the ACI as an example because the airport is a strong member of that organization and realized there are a number of different awards for different things.

President Kreulen stated that ACI is important, AAAE and Airport Revenue News are important, as well and there are lots of ways to evaluate how we perform. He stated his goal was to win those awards, and if not,

he is not doing his job and fulfilling his commitment to the Authority to get to that level. Commissioner Joslin stated that he feels very strongly about this and he knows there are safe guards. He had heard that you can't get a cup of coffee after 8:00 p.m. in the airport. President Kreulen stated he understood, and that we had pumpkin bread that was sold this morning that has mold on it. Commissioner Joslin stated that we are all in this together and he has a problem with the proposal appearing too good to be true and stated that it is important to get this right. President Kreulen stated that in negotiation with Fraport, he would assume they know their business deal and are trying to make sure that Fraport can deliver. President Kreulen is trying to make the best business deal for the Authority. Fraport believed that they are going to make a profit to cover the capital and the MAG. President Kreulen stated the extra homework that was done was good because it led to a stronger contract and guarantees. We want to achieve the goals the Commissioners are asking for and hope it shows in the next couple years. We are about to go through four years of renovation, but coming out of that we hope to be winning these awards. Chair Harwell stated that he and Commissioner Joslin share the same concerns but also the ultimate goal of what is in the best interest of the Airport, which is why we need to be sure we have an understanding and are comfortable. If we have the ultimate safeguards in place, then we have protections on this. He stated that with the time we have taken and really looking at this we have developed and continue to develop those safeguards.

Commissioner Joslin stated he expected penalties for not delivering and he didn't want to hear excuses years down the road. He stated that he thought President Kreulen and staff had covered it. This is a big deal for us, a 10 year deal, which may be normal in the airport business, but this is big for us to change from what we have been doing, the expectations are high, and we won't take any excuses if Fraport can't meet their commitment.

President Kreulen stated that Fraport and this leadership team understands that from both individual and business perspectives we have high expectations to meet.

Commissioner Joslin hoped that in two years we could bust a bottle of champagne on Concourse D. You have our commitment and we are expecting Fraport to deliver in return.

Commissioner Sandhu stated that looking from 30,000 feet, the three things that are important is the MAG that we are comfortable with, ACDBE participation that appears to be stellar and beyond what we are getting now, and capital investment. He assumed the \$17.4 million was based on an analysis of our current facilities and coming up with a value that seems appropriate to bring those spaces up to what Fraport is needing.

President Kreulen stated that there were two issues and referred to Commissioner Freeman questions. When we started this program, we looked at our capital needs at the end of BNA Vision, and when we build the new D Concourse our concern was that we didn't want A, B and C Concourses not to be as nice as the new

Concourse D. We came up with about \$6 million per concourse that we need and rounded up to \$20 million. That is really how we started. When we decided to throttle back from 15 years and \$20 million, we divided that out proportionally and that is how we arrived at 10 years and \$13 million. We were excited when Fraport happened to come in offering a little bit closer to what we thought we would need. If we are able to, down the road, go with a 15 year deal we would receive approximately \$28 million. We think there are additional improvements that need to be made to the flooring, restrooms and possibly bumping out additional space as we go forward, and that capital will help cover us. From their perspective they want to make capital improvements, to create nicer restaurants, better retail and more opportunity for those customers to spend money. Their success is built on being able to generate additional sales over what we do today. We think those investments will be used wisely.

Commissioner Sandhu stated that the majority of the \$17 million, \$13 million was in escrow. The BNA Vision will be completed prior to this contract expiring in 10 years. Is there a timeline of how soon the \$13 million must be spent?

President Kreulen stated that there is a draw schedule, and we will pull funds according to that schedule to fund renovation to the different Concourses. While BNA Vision is going on and as we make a transition from the current concessionaire program into new concessionaires, and we will determine when is the right time to make the improvements. So, we will be pulling down that money over the term. The goal is in 2023 when we cut the ribbon on the hotel, the marketplace and the new terminal, that A, B and C Concourses are as nice as D at that point. We are giving ourselves five years to complete these renovations.

Commissioner Freeman asked that since this was an informational item only would the committee meet again before the Board meeting or take the item directly to the Board without a recommendation. President Kreulen stated that he and Chair Harwell had discussed that this meeting is for information only to make sure we have answered the final questions from the Commissioners. Then we will come back to on August 8, 2018, FAP Committee meeting, and do a normal presentation to the FAP Committee with staff recommending approval by the FAP Committee and then the following week, on August 15, 2018, present to the full Board for approval.

Chair Harwell stated that it is important and there is a lot of information and encouraged Commissioners to take time to review the materials submitted in response to their questions and suggested to read the executive summary of the contract terms.

Commissioner Joslin asked who the guests are and asked them to introduce themselves. Mr. Jean-Pierre Tabet, Vice President of Business Development with Fraport, stated that he put the proposal together, and that he had been in the airport business 21 years and worked in different concessions programs in airports

on a global scale. Mr. Brett Kelly, Vice President in charge of the program at Baltimore and will be helping with the transition.

Deno Emili, Attorney for Fraport, and had worked as a consultant for Fraport since 1990. He has spent 38 years in commercial real estate and full time employee of Fraport for almost two years.

President Kreulen stated that Mr. Emili is the primary officer from Fraport that we engage with to make sure the legal language is acceptable to both parties. Jean-Pierre and his team are there to make sure they can live with the business arrangements that Mr. Emili, Mr. Sloan and Ms. Logan are including in the contract.

Mr. Tabet stated that he believed the Board is passionate about the project and he has no problem accepting all of the commitments and opening two bottles of Champagne two years down the road.

Mr. Kelly stated if he brings any expertise to the table today it is in creating the local and ACDBE partnerships. In Baltimore, this has been his entire life, working with community organizations to find local and ACDBE qualifiable subtenants. With Nashville being as diverse as it is, we can deliver on these promises, and if he were living here he would be extraordinarily comfortable going out into the community and bringing these businesses in to the airport. We have all the components necessary for Fraport to meet those commitments.

Ms. Jane Alvis, Fraport's local representative was also present.

Commissioner Doerge stated that in the agreement that Fraport would be able to decrease it payments based on a decrease in enplanements. That is a number that is constantly changing. What numbers are we using for the purposes of this contract?

President Kreulen stated that there was concern on Fraport's part as well as ours, if there is a downturn in economy. So, we ran a 26 year history of enplanements and there was only two years, after 9/11 and when the economy took a downturn in 2008, that enplanements decreased more than 10%. That is how we agreed Fraport would share the burden of any decrease in enplanements up to 10% and if it goes beyond 10% then we would discuss how to share that burden. This is something that Fraport has done at Pittsburgh, Cleveland and other places if there is something beyond their control. We provided them the history of enplanements, so they understood how we pulled those numbers together.

Commissioner Smith stated that from the financial piece she enjoyed the memo from Ricondo which broke down the different models, which the Commissioners requested. We have looked at the numbers and hopefully, the proactive approach in sales and service level that should parallel with an owner operated business, or a majority owner operated business, and she thought that it was a very reasonable model and very competitive compared across the other entities. She thought the models show that we are financially there, that we have safeguards on the downside, which legally is the attorney's job, and was very pleased

with the modifications to the agreement. Nothing is perfect, and nothing is guaranteed, but felt the Committee and Board had done the best job they can. Commissioner Smith stated that personally she is for the project and ready to move forward and felt that the financial piece is there.

Chair Harwell stated that this meeting was for informational purposes only and there was no other business before the Committee. He thanked everyone for their time.

IV. Adjourn

There being no further business brought before the FAP Committee, Chair Harwell adjourned the meeting at 3:18 p.m.



Amanda C. Farnsworth, Board Secretary