

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



Date: February 12, 2020 Place: Nashville International Airport Board Room
Nashville, Tennessee

Time: 9:30 a.m.

Committee Members Present: Amanda Farnsworth, Chair; Bill Freeman, Vice Chair;
Bobby Joslin; and John Doerge

Committee Members Absent: None

Others Present: Jimmy Granbery; Nancy Sullivan; Christy Smith; Board
Chair A. Dexter Samuels; Doug Kreulen; Cindy Barnett;
and Angela Edwards

I. Call to Order

Chair Farnsworth called the meeting of the MNAA and MPC Finance, Administration, and Properties (FAP) Committee to order at 9:28 a.m., pursuant to Public Notice dated February 7, 2020.

II. Approval of Minutes

Chair Farnsworth called for a motion to approve the Minutes of the January 15, 2020 FAP Committee meeting. A motion was made by Commissioner Freeman and seconded by Commissioner Doerge. The motion carried by vote of 4 to 0.

III. Chair's Report

Chair Farnsworth had no Chair's Report.

IV. Items for Approval

A. Approval of Assignment of JWN FBO Lease

Ms. Margaret Martin, VP, Commercial Development Officer, briefed the Committee on this item. Staff requested that the BNA Finance, Administration and Properties (FAP) Committee recommend to the Board of Commissioners that it approve the proposed assignment of the "Lease Agreement for Equipping and Operating a General Service Fixed Based Operation at John C. Tune Airport" from

Corporate Flight Management Inc. (CFM) to Gateway USA, LLC (Gateway), which is a wholly owned subsidiary of Modern Aviation Investments II LLC (Modern).

Staff provided the FAP Committee a staff analysis for the Assignment of JWN FBO Lease prior to the meeting.

Ms. Martin gave a brief background of the FBO lease which expires in 2027. Pursuant to the lease, CFM may not sublease or assign the lease without the prior consent of MNAA, which MNAA may withhold in its sole discretion. CFM solicited interest from a number of FBO operators, and Gateway was the only respondent willing to agree to meet the Minimum Standards for Operators of Aeronautical Activities at JWN ("Minimum Standards").

Staff performed an analysis to ensure that CFM was in compliance with the requirements of their lease agreement and are meeting each of the current Minimum Standards.

Requirements under the current Minimum Standards include:

- Land/Hangar Space – Must have at least 5 contiguous acres, at least 20,000 square feet of hangar space, and at least 3,500 square feet of terminal space
- Parking – Must have at least 25 paved aircraft tie-down spaces and at least 50 paved automobile parking spaces
- Fuel Storage and Dispensing – Must have at least two 10,000 gallon storage tanks for turbine fuel, one 10,000 gallon storage tank for AVGAS, one 1,000 gallon self-service fuel farm facility for AVGAS, and two metered filter-equipped mobile dispensing trucks
- Aircraft Service Equipment – Must maintain all required tools and equipment for servicing aircraft normally expected to be used at FBOs
- Hours of Operation – Must provide aircraft fueling and line services twenty-four (24) hours per day, seven (7) days per week
- Insurance
- Flight Training/Aircraft Rental
- Charter Services
- Airframe and Power Plant Maintenance
- Avionics Sales and Maintenance

CFM was found to be in compliance with the requirements of the lease agreement and the Minimum Standards. If the assignment is approved, Gateway will be held to the same requirements. Minimum Standards require all applicants to provide certain additional information to determine applicant viability. Gateway provided additional required information including:

- Experience - Gateway provided documentation that they have a minimum of 10 years of successful, continuous and recent experience in the operation of an FBO. Gateway has operated a full-service FBO at Boeing Air Field in Seattle, WA for 39 years. Modern (parent company) also operates full-service FBOs at Wilmington International Airport in Wilmington, NC (44 years) and Centennial Airport in Centennial, CO (13 years).
- Business Plan - Gateway included a written proposal detailing their plans to acquire and operate the FBO and flight school currently owned and operated by CFM. In its Business Plan, Gateway would subcontract to CFM the charter services as well as aircraft maintenance.
- Financial Statement - Gateway provided a current financial statement prepared in accordance with generally accepted accounting principles and certified by a certified public accountant. The financial statement was reviewed by the MNAA Controller and there were no concerns with the statement.
- Credit Report - Gateway provided a current credit report, and the credit report contained no negative information.
- Personnel - Gateway provided a list of key personnel and resumes for those personnel that will be assigned to the FBO. Matthew Ostermann has 9 years of airport experience and currently serves as the Director of FBO Commercial Operations for CFM at JWN. Adam Faile has been a CFM employee for 19 years and currently serves as a Line Service Manager.
- Insurance - Gateway provided evidence of insurance coverages required by the Minimum Standards.
- Commencement Date - The commencement date is TBD pending Committee recommendation and Board approval.

MNAA staff has evaluated assignment options and recommends approval of the assignment from CFM to Gateway.

Commissioner Freeman asked what the current rental rate would be if MNAA had possession and put it on the market. Ms. Martin responded that staff had not done that analysis. Commissioners Freeman and Farnsworth stated they thought it would be good information to have. Ms. Martin stated one of the reasons staff had not completed the analysis is that MNAA does not have the ability to force the lease to end early. She stated staff could do an analysis on what rental rates would be in 2027 when the lease agreement ends.

Commissioner Joslin stated that Commissioner Freeman hit on a very good point and that CFM is currently only paying \$4,900 per month. Ms. Martin stated CFM is also paying fuel flowage fees.

Commissioner Joslin stated the Minimum Standards are not acceptable and he thought they were short on mechanics because it is hard to find a mechanic there. Commissioner Joslin stated there are far better FBOs.

Commissioner Farnsworth stated the Minimum Standards were developed years ago when there were two Cessna 172s flying out of JWN.

Ms. Martin stated that increasing the Minimum Standards was a separate opportunity from this lease agreement. The staff and the airport set the Minimum Standards. The Board stated in previous discussions that the Minimum Standards need to be looked at again and ensure they meet what services are needed today. Ms. Martin stated that can happen whether this lease stays with CFM or is assigned. When staff and airport raise the Minimum Standards, the operators of the FBO must comply.

Commissioner Granbery stated that a couple of the Commissioners fly out of JWN to other private FBOs and wondered if anyone had toured any Gateway or Modern facilities. Ms. Martin stated the Chief Operations Officer and a Commercial Development staff person traveled to Boeing in Seattle to evaluate other operations and had the opportunity to check out this FBO's operations and reported it be clean, well run, and professional.

Commissioner Farnsworth asked if the FBO was run under a different name because she goes to Boeing and Centennial frequently. Ms. Martin stated Modern Aviation is the parent company and most parent companies set up separate LLCs for each airport they operate.

Commissioner Doerge asked if MNAA's relationship would be with Gateway, or Gateway through CFM, if the assignment is approved. Ms. Martin stated the relationship would be directly with Gateway.

Commissioner Farnsworth stated the Board has had several discussions over the years about another FBO Operator at JWN and there is a lot of interest in that. She stated she was surprised that Gateway was the only respondent and asked if Ms. Martin had read the Request for Proposal (RFP) put out by CFM. Ms. Martin stated she had not been provided a copy of the RFP.

Ms. Martin reported that in 2017, the airport put out an RFP for a second FBO operator at JWN and received no responses. Commissioner Farnsworth stated she would like to know what was in the RFP that CFM put out. Commissioner Farnsworth stated the personnel at JWN such as Matt and Adam do a fabulous job and no reflection on them, but there are big shortcomings at JWN. Commissioner Farnsworth stated once again that she found it hard to believe CFM only received one respondent. Ms. Martin said there were multiple respondents, but Gateway was the only respondent that would

comply with the Minimum Standards. Commissioner Farnsworth asked who the other respondents were, and Ms. Martin stated she did not know that information. Commissioner Farnsworth stated it seemed to her that there are a lot of things MNAA does not have information about and it would be important to know who responded and what the respondents were not happy with in the Minimum Standards.

Commissioner Joslin stated in 2017 when the RFP went out for a second FBO operator, JWN was selling approximately 600K gallons of fuel and now they are selling 1.2M gallons. From what Commissioner Joslin understands, FBOs have to pump at least 750K gallons to survive and he thinks JWN is a lot closer to supporting 2 FBOs.

Commissioner Farnsworth stated she may not be headed in the direction of 2 FBOs but would like to know how the RFP was written by CFM and what in the Minimum Standards the responding FBOs did not want to comply with.

Commissioner Freeman stated this decision was made by the Board years ago and the rental rate and lease terms were set at that time. CFM is complying with everything they are required to, and CFM has the right to ask for an assignment of its lease. From what Commissioner Freeman understood, CFM does a good job on many things. His experience with CFM is that they provide a great service to the planes landing at JWN and their corporate customers and it has been reflected with the growth in the numbers.

Commissioner Freeman stated the reality is CFM has the right to ask for an assignment. A lease was signed for a certain number of years. The rate would be much higher today, but the lease was signed years ago. Commissioner Freeman stated if the Committee and Board does not approve the assignment, with all that is going on with \$1.5B expansion and activities at BNA, it would take too much of the Board's time and energy and staff's time that it would not serve the Authority well. He stated he thinks that the Committee and Board should move ahead and approve the assignment and revisit the opportunity in 7 years when the lease expires.

Commissioner Joslin stated CFM was doing a better job today than they had ever done thanks to Matt and Adam. Commissioner Farnsworth agreed. Ms. Martin reported that both Matt and Adam have committed to Gateway that they would stay on at JWN if the assignment is approved. Commissioner Farnsworth asked if Matt and Adam had contracts. Ms. Martin replied she did not know that information.

Commissioner Granbery stated everyone had made great points but it would be nice to know what the going rate is for an FBO, but that is certainly something that could be done in the next 7 years. However, if MNAA negotiates with Gateway for a longer lease, it could get the increased rate now.

Commissioner Freeman stated the negotiation for a longer lease was not on the table today although it is a great point. Commissioner Freeman stated he thought the Committee and Board should approve the assignment for the next 7 years.

President Kreulen stated if the Committee and Board approves the assignment to Gateway, it gives MNAA staff the flexibility to negotiate added services, added capabilities, and to re-address what MNAA is not happy with in the current Minimum Standards and/or the current rent rate. If Gateway does not agree to the new terms, they will not receive an extension and MNAA will put out an RFP for a new operator. Gateway would need to agree to pay fair market value and to add capital investments at JWN for any type of extension. If Gateway was not agreeable to that, MNAA could stop negotiations for an extension at that point and put out an RFP for a new operator.

Commissioner Joslin stated he thought MNAA should give Gateway the opportunity to finish out the lease. Commissioner Farnsworth agreed. Commissioner Joslin also stated if Gateway does not do a good job and JWN is still needing mechanics, he would like to revisit this discussion in 18 months or 2 years. Commissioner Joslin stated he talks to Matt at JWN all the time and Matt stated they are struggling to get people in there to work. Ms. Martin stated she has heard that as well and it is challenging to hire mechanics at JWN.

Commissioner Farnsworth stated she thinks if negotiations fail, MNAA needs to develop a new RFP and move ahead. This allows for more time to negotiate with Gateway and to make sure MNAA is in agreement with what their plans are and move on. Commissioner Farnsworth asked the other Committee members if everyone was in agreement. No one spoke up in opposition. Commissioner Farnsworth opened the floor for a motion.

A motion was made by Commissioner Joslin and second by Commissioner Freeman to approve the proposed assignment of the "Lease Agreement for Equipping and Operating a General Service Fixed Based Operation at John C. Tune Airport" from Corporate Flight Management Inc. (CFM) to Gateway USA, LLC (Gateway), which is a wholly owned subsidiary of Modern Aviation Investments II LLC (Modern). The motion carried by vote of 4 to 0.

B. Approval of FY20 Commercial Insurance Policy Extension

Mr. Edward McDonald, AVP, Risk Management, briefed the Committee on this item. Staff requested that the Finance, Administration and Properties (FAP) Committee recommend to the Board that it authorize the payment of the four (4) month extension of Authority's annual insurance premiums by the President & CEO.

Staff provided the FAP Committee a staff analysis for the FY20 Commercial Insurance Policy Extension prior to the meeting.

Mr. McDonald stated the purpose of the extension is to align the Commercial Insurance Program to the budget cycle from a March 1 renewal to a July 1 renewal, and to allow staff time to budget for FY21 premiums. Willis Towers Watson (Willis) and partner, Alexander & Associates, provide broker services on the entire insurance program. Willis requested extensions or short-term renewals to align the coverage with the Authority's fiscal year. The premium for March 1, 2019 to February 28, 2020 was approximately \$929K. The premium for March 1, 2020 to June 30, 2020 is approximately \$505K. Total FY20 premium is approximately \$1.4M. The FY20 budget for the insurance premium was \$1.6M. MNAA would remain under budget by approximately \$183K if the Committee and Board approve the extension.

After questions and discussions, a motion was made by Commissioner Doerge and seconded by Commissioner Freeman to authorize the payment of the four (4) month extension of the Authority's annual insurance premiums by the President & CEO. The motion carried by vote of 4 to 0.

President Kreulen stated this item was brought before the Committee because of the dollar amount threshold.

V. Information Items

A. Real Estate Development Update

Mr. John Corbitt, AVP, Real Estate, briefed the Committee on this item. Mr. Corbitt updated the Committee on the Atlantic Aviation FBO proposal. Consideration for lease extension includes the capital investment in new and existing infrastructure and increased annual rent. Staff is currently negotiating business terms with Atlantic and anticipates a submittal for approval to the Committee and Board in March 2020.

Mr. Corbitt then discussed the 75-acre non-aviation development at BNA. Three proposals were under evaluation by the internal team; all proposed utilizing the full 75 acres. Interviews were conducted in January 2020. A Request for Information (RFI) was issued requesting current financial statements. Staff anticipates submittal to the Committee and Board for approval in April 2020.

Mr. Corbitt went on to discuss the 32-acre Aviation Development at BNA. 5 proposals were received. Interviews were conducted with 4 of the proposers to assist in evaluation. An RFI was issued in January 2020, and those responses are under evaluation. Staff anticipates submittal to the Committee and Board for approval in May 2020.

The last update was the 23.5-acre Aviation Development at John C. Tune Airport (JWN). The Notice of Availability (NOA) was issued in October 2019. 5 parcels (total of 23.5 acres) were available. 6 proposals were received. All interviews had been conducted as of February 3, 2020 and the internal team was currently evaluating the responses. Staff was also analyzing the potential for self-development. Staff anticipates submitting recommendations of next steps in March 2020.

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

B. Fraport Transition Update

Ms. Linda Macey, AVP, Revenue Development, briefed the Committee on this item. Ms. Macey stated 54% of the concepts have fully executed subleases. 82% of the concepts are in the final negotiation stages. 75 of the 91 concepts are substantially complete. "True to Tennessee" is opening today, following the Committee meeting, which brings the number of openings in February to 4.

Fraport is revising its construction schedule. The overall number of openings contemplated for the year will not change. The revision to the schedule allows a shift in resources to Concourse D to make sure those concepts are open in alignment with the opening of Concourse D. President Kreulen stated that Concourse D will be a turning point, and that we must not have too many locations closed for construction.

Tootsie's, the first 'sit down' restaurant under the new concept, is set to open in March. President Kreulen stated he toured the new space and thinks everyone will be impressed.

Ms. Macey reported that Fraport is delivering on their commitment to local impact on the community. 61 concepts have a local brand, 71 have some level of local ownership and 46.22% of the projected

sales are attributed to Nashville owners and operators by 2024. It is projected that over 43% of the sales will be ACDBE by 2024.

Fraport released an RFP for a janitorial contract and awarded the contract to ISS. Negotiations are ongoing and should be final by March. Street Pricing, Quality Service Monitoring (QSM), and Mystery Shopping third party contracts have been executed. Over 1K intercept surveys were completed to survey customers going through Nashville to see how they felt about the program thus far. When MNAA receives those results, staff will follow up on the results.

Ms. Macey stated MNAA continues to collect the Minimum Amount Guaranteed (MAG) each month from Fraport revenue. Ms. Macey presented a slide comparing 60% Revenue versus the MAG each month. Sales are exceeding Fraport's projections at this point. This equates to passenger growth.

Ms. Macey stated the feedback from the opening of the new concepts had been overwhelmingly positive. Commissioner Samuels inquired about personnel transitions at Fraport. Ms. Martin stated that Fraport's decision to add Matt Jennings to the team at BNA had resulted in positive change, as he has the skillset needed to get the project on track. After questions and discussions, Ms. Macey concluded her presentation.

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

C. Quarterly Retirement/OPEB Investment Report

Ms. Sharon Sepik, Director, Treasury, briefed the Committee on this item. The Retirement Plan had a 3-month gross return of 4.62% with an increase in market value of \$2.43M over September 30, 2019. YTD gross return was 5.26%. As of June 30, 2019, the retirement plan was 98% funded.

The OPEB had a 3-month gross return of 4.62% with an increase in market value of \$1.65M over September 30, 2019. YTD gross return was 5.26%. As of June 30, 2019, the OPEB plan was 86% funded.

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

D. Quarterly Treasury Investment Report

Ms. Sepik, Director, Treasury, also briefed the Committee on this item. As of December 31, 2019, total available funds were \$1,156.8M. Total investments as of December 31, 2019 were \$1,148M. 99.2% of available funds were invested. Ms. Sepik reported on the investment breakdown. The total for the

2QFY20 combined yield for all funds was 1.72%. PFMAM Core Portfolio yield was 2.12% and MNAA managed fund yield was 1.56%. PFMAM Debt Service Reserve, CAP-I and Construction funds yield was 1.68%.

Total earnings for 2QFY20 were \$2.258M versus 2QFY19 earnings of \$1.250M. As of 2QFY20, the investment portfolio is in compliance and meeting policy objectives.

The 2QFY20 focus was on minimizing funds in Demand Deposit Accounts (DDAs). MNAA moved all debt service accounts to US Bank (trustee) and the funds sweep into a Commercial Paper Investment Account. MNAA opened 3 portfolios with PFMAM for investing debt related funds. Cash in DDA for 2QFY20 was 0.76% of total available funds. MNAA worked with bond counsel to combine debt related accounts which allowed MNAA to close 16 debt related bank accounts in 2QFY20 with 48 bank accounts closed since March 2019. Additional funds invested with PFMAM in December 2019 totaled \$832.74M.

Chair Farnsworth thanked Ms. Sepik and Ms. Marge Basrai, VP, Chief Financial Officer, for all the hard work they have done to get the funds invested.

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

E. Information Technology Master Plan Update

Ms. Gale LaRoche, VP, Chief Administrative Officer, briefed the Committee on this item. Ms. LaRoche gave a brief history of the Information Technology Master Plan. Based on the results of the 2018 PCI audit, staff identified the need to develop an Information Technology Master Plan. A Request for Quote (RFQ) was issued for an IT Assessment in August 2019. The contract was awarded to the J.W. Group in October 2019. Staff interviews and analyses were conducted November 2019 through January 2020. Staff just received the initial results. Staff will review results of the assessment and those results will be used to create the Information Technology Master Plan. Staff will provide an update to the Committee and Board in the 4QFY20.

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

President Kreulen stated once the FAP Committee adjourned, there would be a Management Committee meeting. The Diversity and Workforce Development Committee would start at 10:45 a.m. and the BNA Vision Committee would start at 11:15 a.m.

VI. Adjourn

There being no further business brought before the FAP Committee, Chair Farnsworth adjourned the meeting at 10:22 a.m.

A handwritten signature in blue ink that reads "Amanda C. Farnsworth / Staff Secretary". The signature is written in a cursive style. Below the signature, the text "Amanda C. Farnsworth, Board Secretary" is printed in a standard black font.

Amanda C. Farnsworth, Board Secretary