

Minutes of the Joint Meeting of MNAA and MPC
Finance, Diversity & Workforce Development Committees



Date: June 15, 2022 Place: TDOT Aeronautics Hangar Board Room
Time: 9:30 a.m.
Committee Members Present: Jimmy Granbery, Chairman; Andrew Byrd, Vice Chair, Joycelyn Stevenson and Glenda Glover
Committee Members Absent: NONE
Others Present: Nancy Sullivan, Doug Kreulen, Lisa Lankford and Ginger Cork

I. Call to Order

Chairman Granbery called the Joint Meeting of the MNAA and MPC Finance, Diversity & Workforce Development Committees to order at 9:25 a.m., pursuant to Public Notice dated June 10, 2022.

II. Approval of Minutes

Commissioner Stevenson made a motion to approve the minutes of the May 11, 2022, Finance Committee Meeting and Vice Chair Byrd seconded the motion. The motion carried by vote of 4 to 0.

III. Chairman's Report

Chairman Granbery thanked everyone for coming out to John C. Tune today and hats off to everyone who pulled it together from where we were two years ago when the tornado hit.

IV. Items for Approval

A. FY23 Commercial Insurance Policies Renewal

Doug Kreulen, President and CEO, introduced Ms. Kristen Deuben, VP of Finance and Deputy CFO, to brief the Finance Committee on the FY23 Commercial Insurance Policies Renewal. Ms. Deuben started with background information. Marsh was hired in 2020 to market all lines of coverage, excluding special crime, pollution liability & contractor's pollution liability. MNAA contracted with Davidson Risk Consulting (DRC) in 2021, to review the current insurance policies and assist in the renewal process. All insurance premiums will eventually be moved back to a March 1st cycle, however, given the current

market conditions, Marsh is recommending several of the policies remain on a 12-month cycle of 7/1/22-7/1/23 for another year. The FY23 Proposed Program Premium is at a NTE \$4,001,026 which is a 77.5% increase over FY22. The key reasons for the increase over FY22 are outlined below:

- Property Insurance increased to \$2.56M (+80.5%)
 - Total insured value of assets increased from \$1.31B to \$2.16B due to the inflationary increase in the cost of construction materials & to bring up to replacement value
 - Coverage increases from \$800M to \$1.3B (+\$500M)
- Aviation General Liability increased to \$194k (+40%)
 - Based on enplanement growth of 78%
- Cyber Liability/Network Security increased to \$143k (+60%-100%)
 - Difficult market which may require us to raise our deductible
- Law Enforcement Professional increased to \$200k
 - Policy was added in FY22 for \$1M of coverage
 - Attempting to increase coverage in FY23 to \$4M

Ms. Deuben requested that the Finance Committee recommend to the Board of Commissioners that it:

1. approve the FY23 Commercial Insurance Policies at a NTE amount of \$4,001,026; and
2. authorize the Chair and President & CEO to execute the FY23 Commercial Insurance Policies

Vice Chair Byrd made a motion to approve as presented and Commissioner Stevenson seconded the motion. The motion carried by a 4 to 0 vote.

Following approval there was discussion about the increasing cost of insurance rates versus the cost of being self-insured. Vice Chair Byrd asked how much the previous tornado experience is affecting the cost of insurance coverage. President Kreulen stated that it is driving a good bit of it. Vice Chair Byrd said that while self-insuring is a good idea, it might be best to lay that risk on someone else since we seem to be in tornado alley. Commissioner Stevenson inquired about the reasoning behind the increases for both the Cyber Liability and Law Enforcement, and why the Law Enforcement is at \$4M. Ms. Deuben stated that is based off different areas and claims history, and Marsh felt that \$4M was an adequate coverage amount for when law enforcement gets sued. Last year the Law Enforcement

policy was at \$1M which was the most we could get because it was a new policy. As we have no claims and better loss prevention, we hope to have a good record and show the carrier that we are low risk. Chair Granbery asked about the deductible, and Ms. Deuben stated it was \$50K. President Kreulen said Ms. Deuben and her team would conduct an analysis of deductibles versus premiums.

Vice Chair Byrd asked if we have any umbrella policies or are these stand-alone policies. Ms. Deuben stated she believes they are stand-alone policies. Chairman Granbery asked if there was a cap on the cost-of-living increase. President Kreulen stated we developed our formula with no cap. Commissioner Freeman stated that while a 40% increase in cost sounds huge, that is actually a pretty good number right now. Chair Granbery said we should look at the rebuild cost and codes on all of our properties, and that all policies should go through expert legal review.

B. BNA Westside Hangar Development Lease Terms

Doug Kreulen, President and CEO, introduced Mr. John Corbitt, AVP Real Estate, to brief the Finance Committee on the BNA Westside Hangar Development. Mr. Corbitt reported the property is a 5.5-acre parcel located on the westside of BNA. The site previously was used by MNAA as a maintenance yard and the facilities have since been demolished. In April 2022 MNAA received an initial unsolicited Letter of Intent (LOI) from Scott Sohr, Trustee for Canary Ventures Trust. Policy 62-003, Land Development, Lease and Acquisition/Sale, Section II(A)(3) states that Commercial Development, after consultation with the President and CEO, can pursue development through a direct solicitation if the development is in the best interest of the Authority and the value exceeds market rate. Two Fair Market Rental Value (FMRV) appraisals were obtained, averaging \$0.70 psf -- ABS = \$0.55 psf IRR = \$0.85 psf., On June 9, 2022 a LOI was signed at \$1.20 psf (71% above average FMRV). If the LOI is accepted, the lease must be finalized by December 8, 2022. President Kreulen added that this area was our Westside Maintenance Facility, which previously stored our dump trucks, deicing equipment, mobile equipment, sheet metal and welding. This was all moved to the new \$10M Maintenance building off Donelson Pike. The existing site was demolished and so it is a flat site, but it is "as is".

Mr. Corbitt then discussed the Key Lease Terms of a 35-year base term with one 5-year option. The terms are listed below:

- \$287K Year 1 base rent (\$1.20 psf)
- 3% annual escalation
- Fair Market Value resets in Years 10, 20 and 30

- Property and Pavement Condition assessments every 5 years
- Triple net ground lease
- In the event of a lease assignment that is not to an affiliate or successor organization, MNAA receives a % of the gross transaction value

There is a \$15M minimum capital investment with an 18-month construction timeframe. Improvements include a fuel storage and hangar facility inclusive of space for aircraft storage, ground equipment, workspace, restrooms and lobby, and 70,800 sq ft new ramp/apron area. The premises shall be used for operation of aircraft storage hangar and directly related activities and the premises shall not be used for any purpose other than aviation use.

Mr. Corbitt then presented a slide showing the preliminary layout of the proposed facilities. One hangar is approx. 41,900 sq ft., the second hangar is approx. 23,300 sq ft. and a common lobby with an enclosed walkway is approximately 5,800 sq ft.

Mr. Corbitt requested that the Finance Committee recommend to the Board of Commissioners that it:

- approve the deal terms negotiated between MNAA and Canary Ventures Trust (“Canary”); and
- authorize MNAA staff to draft a ground lease agreement consistent with the negotiated deal terms; and
- authorize the Chairman and President and CEO to execute the ground lease

President Kreulen discussed the layout of the hangars and stated this unsolicited proposal would fill out the cul-de-sac. If we accept this, which we think is a good business deal – we are great. If we do not accept, we go back out on the market to see who else might want to bid for this area.

Commissioner Joslin asked if the LOI is from a private company or a semi small FBO type operation. President Kreulen stated these are his jets and whatever company he runs; he and his brother go wherever they need to go, and they are going to put their corporate airplanes inside. Vice Chair Byrd inquired about any type of environmental issues and if there has been any study done on the property. Mr. Corbitt stated no study has been done and the property is “as is”. They would need to do their due diligence and would do this while the lease is negotiated. President Kreulen added that our maintenance buildings have been on the land and have passed inspections throughout the years with minimal issues. Vice Chair Byrd asked if there is a reason why we would want to do this now because Nashville is continuing to grow, and groups are coming, and this will continue to be a significant increasing demand for this space overtime.

Chairman Granbery asked for a motion to approve as presented and Commissioner Stevenson made a

motion and Commissioner Glover seconded the motion.

President Kreulen asked Mr. Corbitt if there is anything that he would like to add. Mr. Corbitt stated the rent is 71% above FMV and that he feels it is a solid deal, and that the market could go up or down. President Kreulen added to answer Vice Chair Byrd question - there is no pressure to do this. We are not in a desperate need for cash but business wise, Mr. Corbitt started this out lower than where we ended up and we made the decision to get a second appraisal and then we put the Frist standard and Tune North Development standard to it. Canary Ventures said they wanted to get going and they have the money to make the investment. Vice Chair Byrd stated that he sees big groups like Amazon and Oracle coming in here and asked where they would go and what our ability to supply sites going forward would be. President Kreulen stated that we are going to develop 4 more sites on the south side of the tower and the option is to go to the west side on a 32-acre parcel off 2 Center that is available. On the west side we are working on a concept that President Kreulen shared with the Board a couple weeks ago, potentially for a massive cargo type operation or General Aviation if we choose to do so. President Kreulen added that we are continuing to chip away at the little parcels to the east side of 2Right; have all that land for the 5th runway; and are trying to slowly purchase everything up to the planned Harding Place extension so anything on the westside of that extension will be ours for corporate, huge manufacturing and cargo type operations as well. Long range wise we are lucky to be where we are at and have what we have invested - there is a lot of opportunity at BNA for expansion. It would cost a lot of money, but we are in a good spot. Vice Chair Byrd asked why we would lease instead of sell. President Kreulen explained we must maintain control of the property so that someone can't do something that is not conducive of aviation.

Chairman Granbery said he knows we have implemented the Frist model on the lease but specifically how does this \$1.21 compare to what the Frist's are paying for the old State site. Mr. Corbitt stated it was a whole lot higher than what Frist is paying. The Frist lease was also done by NOA. Chairman Granbery asked what the Frist was paying. Mr. Corbitt stated the Delta is paying \$0.53 sq ft which is a blended \$0.49 and \$0.55, and they have paid us back for the facility. Chairman Granbery added, like Commissioner Byrd said, he feels this is great and my only reservation is we had a lot of unsolicited offers that were not accepted here, and people are now starting to see what the number is, and we are running out of options. We have one site left – I think it is a great deal, I just have reservations not knowing what other bids could be. President Kreulen stated the staff have no problem with waiting. We have talked about it internally and we just wanted to bring this unsolicited proposal to the Board. There is no pressure to do this, and we have the time to go out with a NOA and see what the market

says. If you would rather us go out and see who else might be interested, we will do that too. Chairman Granbery stated we've never done it this way; we have always had multiple proposals. Vice Chair Byrd stated that we should bid it. Commissioner Joslin added that considering the economy and where we are and we don't know where we will be this time next year, I have no problem with this proposal – this is a good company. There are other opportunities at BNA to build additional hangars, if needed. Vice Chair Byrd added that usually when you take things into a public bidding process it will maximize their price.

Chairman Granbery stated we have a motion and a second - this is a committee vote. All in favor of accepting this staff recommendation say aye, no one spoke. All those opposed say no, all were opposed. Chairman Granbery added that is clear that the Finance Committee recommends the staff to issue a Notice of Availability on this 5.5-acre site.

V. Information Items

President Kreulen introduced Colleen Von Hoene, Associate Principal, Paslay Group, to give a status update on the BNA Concessions Program and the Satellite Concourse Concessions RFP.

A. BNA Concessions Program Update

Ms. Von Hoene reported that 9 of the 2022 locations are open for business and two locations that recently opened in May 2022 are Ole Red and Hudson Non-Stop, both of which are in the C triangle. There are 9 locations currently under construction, and we have concerns about two of these locations – TN Rickhouse and Titans Sports Bar. TN Rickhouse has not fully executed its sublease and is several months overdue and they have not progressed to 95% drawings. They have an August 28, 2022 construction start date, so we are disclosing that we believe there is some risk given how far behind they are. As for Titans Sports Bar, there is a signed sublease, but they have not been able to obtain a license agreement from the Titans. Fraport is working through this, but they are not going to be able to open this space under that particular sublease.

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

B. Satellite Concourse Concessions Program Update

Ms. Von Hoene reported the RFP 3rd and final addendum was issued on May 18, 2022. Proposals are due on June 24, 2022. We expect to have evaluations complete on July 12, 2022 and come back to the Board for review at the August 17, 2022 Board Meeting. Ms. Von Hoene also wanted to remind the Commissioners that we are in open solicitation, so please direct all questions to Procurement.

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

Chair Granbery asked to back things up to the Westside BNA site discussion. He asked if staff will proactively make sure prior unsuccessful bidders are aware of this NOA. President Kreulen said we will go back out and physically contact those unsuccessful bidders, so they are aware this is coming up.

C. Compensation Study Implementation

President Kreulen stated that given the information we will discuss, the public can stay but anyone who is not on the Executive Team will need to leave the room.

President Kreulen briefed the Committee on the Compensation Study that was led by Human Resources with a lot of help from Legal and Finance. We have benchmarked MNAA off multiple metrics. President Kreulen pointed out the Metro Nashville Police scale because we can lose officers really quick to them or any of the surrounding areas. We are comfortable with what we have done, and the Board has already approved the budget for next year. Ms. Basrai has already budgeted \$3.7M and basically the results show that after we make the changes the study recommends, we will spend \$3.4M out of the \$3.7M for salary increases. Commissioner Stevenson inquired about the vacancies and asked if some of the positions were being managed by other positions absorbing these roles. President Kreulen said yes, and he also talked about the All-team meeting that is coming up and how employees ask about outsourcing jobs. We have about 800 employees that are in contracted jobs that keep the airport open 24 hours a day, in addition to our 380 positions. The leadership team will be analyzing if we want to bring other functions, such as custodial inside the airport - it depends on whether we think we can do it better and for less money.

Commissioner Joslin inquired as to how many retirees are we looking at this next 6 months. President Kreulen stated they have been flowing out pretty good during the pandemic – he said he doesn't know of a wave coming.

President Kreulen reviewed the results of the survey with the Finance Committee that will be discussed with the employees. He added that Mercer's study says 27 of the jobs (which covers 92 people) should be one grade lower, but we are not moving them down a grade. Mercer's study said that 75 of the 154 jobs are in the right grade and we just need to adjust the salary a little bit – but the grade does not need to be changed. We found that 47 jobs were graded a grade or so lower and we are tweaking those to get them in the right grade and then there are some step scales that people moved to get into the right

grade. Overall MNAA has 154 different jobs and 380 employees, and we are basically showing you that we are accounting for all of those jobs and positions. The average increase for employees is 8%, but there are employees that are several dollars below market, and they will see an increase between 17% to 23% to just get them where they need to be, so they don't leave us for more money. Commissioner Glover inquired if we are adjusting to market or peers – what are we adjusting to. President Kreulen stated that we are adjusting to slightly above market and trying to see how close our employees are to the median of the salary grades – our intent is that nobody leaves us for \$2k or \$3k more money. Commissioner Glover inquired about the motivation behind this, and if this was because we are doing it from the goodness of our hearts or doing what is right within the industry or because our employees are thinking about leaving and we want to keep them. President Kreulen stated the motivation is that we had a real morale problem when he took over and we had not done this in 8 years prior. He took over in 2017 and there hadn't been a salary survey we were well behind on compensation review. A study was conducted right after he took over and his commitment to the employees was per the industry standard, we would do a survey every 3 to 5 years, and so this is what we are repeating. This is to make sure that we keep our jobs at or above market, and at or above airport industry. Commissioner Glover said word on the street is the best police officers get their training here at the airport and then sometimes they go to Metro or one of the surrounding counties and work for higher salaries after we train them. President Kreulen stated that the tough thing for our police officers is that we all do the same training - we all do state training in Blount County. Everyone that graduates in the state gets the same training, but once our police officers graduate, we send them to aircraft fire fighting school and they become a firefighter as well we pay for them to get an Emergency Medical Technician (EMT) license. We do good training, and we go above the Metro scales to do this. Some want to chase blue lights and be downtown where the rough action is, or they want to be fighting large building fires and maybe the airport isn't exciting enough for them. But we have people who leave us to get a \$5k pay raise in Franklin, Tennessee and they might live in Spring Hill, and they do it because they are closer to home and we are trying to make up and cover that, so we do not see a continued leakage of our officers. Vice Chair Byrd asked if we are using 2021 standards to set most of these salaries. President Kreulen stated we are using proposed 2023 metro scales, and the consultant aged other benchmarks to 2023 levels. The scales that we are planning to implement based on using \$3.4M of the \$3.7M budgeted will get everyone squared at FY23 which starts July 1, 2022. President Kreulen reviewed a chart that detailed the impact to the different departments. The minimum increase is 8% and some increases are as high as 39% - that is how far off we were in the different skill sets. Electricians are critical and are leaving left and right. We've got to get all jobs where they need to be paid to not leave.

We plan to use \$3.4M of the \$3.7M budgeted to make these adjustments to get our employees where they need to be on the FY23 salary scales. This is not an approval item since it was already approved in the FY23 budget. A condensed version will be presented at the Board meeting, and it will be released to all employees at the All-Team Meeting, which is the day after our Board Meeting. Each employee will receive a letter defining their job grade and increase. Commissioner Glover stated this is excellent work and very much a morale booster. Chairman Granbery inquired if there is any position that allows for remote work. President Kreulen stated that is a big discussion with us and at all the conferences as well – we have the flexibility and the technology to allow some people to work from home, but we want the employees in the office. If you were sick or have a childcare issue, you could work from home. The police, firefighters, operations, and all of maintenance – they cannot work from home and so we really emphasize to the administration team they need to be here to help the other 75% of the airport that cannot work from home. Chairman Granbery said it is a very competitive part of the world we live in today.

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

VI. Adjourn

There being no further business brought before the Finance Committee, Chairman Granbery adjourned the meeting at 10:21 a.m.



Jimmy Granbery, Board Secretary