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

BNA Nashville International Airport

Date: October 12, 2022

Time: 9:28 a.m.

Location: Metropolitan Nashville Airport Authority Tennessee Boardroom

Committee Members Present: Andrew Byrd, Chair; Dr. Glenda Glover, Vice Chair

Committee Members Absent: Jimmy Granbery

Others Present: Bobby Joslin, Nancy Sullivan, Joycelyn Stevenson, Doug Kreulen, Neale Bedrock, Lisa Lankford, Rachel Moore, and Trish Saxman

I. CALL TO ORDER

Chair Byrd called the Joint Meeting of the MNAA and MPC Finance, Diversity & Workforce Development (Finance) Committees to order at 9:28 a.m., pursuant to Public Notice dated October 7, 2022.

II. APPROVAL OF MINUTES

Chair Byrd made a motion to approve the minutes of the September 7, 2022 Finance Committee Meeting and Chair Byrd seconded the motion. The motion carried by vote of 2 to 0.

III. CHAIR'S REPORT

Chair Byrd had no Chair's report. He noted the importance of the upcoming bond issuance to the Board and to the airport's long-term commitment.

IV. ITEMS FOR APPROVAL

1. **Build FY24 Budget Using Terms from Airline Use & Lease Agreement (AULA) or Rates by Ordinance (RBO)**

   Doug Kreulen, President and CEO, introduced Marge Basrai, EVP, Chief Financial Officer, who briefed the Committee on Building the FY24 Budget Using Terms from Airline Use & Lease Agreement (AULA) or Rates by Ordinance (RBO).

Ms. Basrai introduced consultants assisting with the AULA, Dan Benzon, Benzon Aviation Consulting and Jeff Schulthess, Landrum & Brown; and members of the Bond Financing Team, Kevin McPeek, PFM and Cory Czyzewski, BofA Securities, Inc.

MNAA held a kick-off meeting with the signatory airlines of the Airline Airport Affairs Committee ("AAAC") to begin negotiations on a new AULA. At this meeting, MNAA stated their goals and objectives for the new AULA:

1) <u>Capital Program:</u>
    - Finalize the implementation of BNA Vision 1.0
    - Implement BNA Vision 2.0 and New Horizon (except runway extension)
    - Implement other major projects identified to meet operational demand
    - Continue ongoing repair and replace capital needs
2) <u>Operational:</u>
    - Maximize aircraft gate utilization (current and new gates)
    - Match terminal rates with level of service (e.g., future Satellite Concourse gates vs. other gates)
    - Maintain flexibility to accommodate changing needs/business models of all airlines serving BNA
3) <u>Financial:</u>
    - Maintain adequate debt service coverage
    - Maintain adequate liquidity
    - Maintain competitive airline costs
    - Maximize non-airline revenue opportunities

Initial airline discussions started in summer 2018 but ended in early 2019. No discussions took place in 2020 through early 2021, due to the COVID-19 pandemic. From September through December 2021, given that the negotiations were moving slowly, and the current AULA was set to expire on June 30, 2022, a 1-year extension to the current AULA was negotiated with the AAAC. This extension has an expiration date of June 30, 2023 and was approved by the Board in March 2022.

In January 2022, negotiations resumed on the new long-term AULA. Negotiations continued each month, however by the end of June, MNAA and the AAAC still had not reached an agreement. Given the upcoming deadlines to start creating an FY24 budget and the issuance of bonds in the 4th quarter of CY22, the CEO gave a directive to the staff to inform the airlines that we need to be in agreement with the material terms of a new AULA by September 30th, or we will go RBO. RBO is the rate-making methodology that legally can be used to assess annual rates and charges to the airlines if an AULA does not exist.

President Kreulen thanked the consultants for doing an outstanding job to get us to this point.

President Kreulen stated that by the end of September 2022, MNAA and the AAAC verbally agreed to the material terms of a new AULA. These terms meet the Authority's stated goals for a new AULA and is financially stronger than RBO. Over the next three to four months, MNAA and the AAAC will meet to review and approve the new lease document that sets these terms in a new AULA. While we will not have signed lease agreements until next year, we believe these will be the terms of the new agreement and would like to begin the budgeting process for FY24 using these terms.

Commissioner Joslin asked if any of the airlines were pushing back, and President Kreulen explained that Southwest is the head of the AAAC and lead negotiator for all airlines. Southwest agrees but is delaying due to certain words in the Memorandum of Understanding (MOU). Mr. Kreulen stated that staff is bringing this item to Commissioners today and next week to Board, but we believe the airlines will make the right decision.

Chair Byrd inquired whether AULAs or RBOs are the standard within the airlines industry, i.e., do the airlines tend to sign these types of agreements or get stone walled and move to RBO? President Kreulen stated that in the past, there were residual agreements, where the airlines had control over the airports. Several years ago, however, airports started moving towards compensatory agreements. Today, about half of CEOs deal with RBOs, while the other half have compensatory agreements or are moving in that direction. Commissioner Joslin discussed the problems with residual agreements.

Ms. Basrai said we expect to get the MOU signed this week. The key financial terms that have been negotiated with the signatory airlines of the AAAC are as follows:

1) **Term:**

   Eight years (FY24-FY31) with one 2-year mutual option.

2) **Landing Fee Methodology:**

   Residual Methodology. Materially unchanged from the current agreement except for the addition of rolling coverage.

3) **Terminal Rate Methodology:**

Commercial compensatory with a 50% percent airline floor on airline net terminal requirement in order to satisfy debt policy coverage of 1.50x and 1.25x. This gives us some certainty and helps with vacancy risk.

4) **Debt Service Coverage:**

Rolling debt service coverage will be incorporated into the rate calculations for all airline cost centers.

5) **Revenue Sharing Credits:**

Revenue Sharing Credits for Signatory Airlines that are Passenger Carriers will be provided from available In-Terminal Concession revenues based on the weighting of three factors: Net Remaining Revenues, In-Terminal Concessions, and a fixed share per enplanement

6) **Operating & Maintenance (O&M) Reserve Funds:**

Will increase from two months to three months of estimated fiscal year O&M expenses, phased in over a four-year period.

7) **Repair & Replacement (R&R) Reserve Funds:**

Will increase from an aggregate amount of $5 million to $10 million, phased in over a four-year period.

Amortization:

Included in rates (except landing fee) up to $1M (with 3% escalator) and $50M floor of MNAA cash on capital projects (increases to $75M if 11M enplanements by FY27). Ms. Basrai provided an example of a hold room project.

8) **Satellite Concourse Terminal Rate:**

2.5% discount from the main terminal rate, with the main terminal making up the difference.

9) **Reliever Airport Contribution:**

$500,000 with a 3% annual escalator. Ms. Basrai noted that many agreements are not getting reliever airport contributions included.

Vice Chair Glover asked how the R&R Fund is created and Ms. Basrai explained that MNAA has paid into the R&R Fund through our cash, as well as the O&M Fund. Vice Chair Glover inquired if we use O&M Funds first and Ms. Basrai explained that it depends on the nature of the work. MNAA uses O&M for operating and R&R for capital projects. Vice Chair Glover also inquired on the dollar amount in O&M Reserve. Mr. Schulthess stated approximately $25 - $30M, and it will fluctuate each year. President Kreulen explained that the O&M Reserve and R&R Funds assure the airport is solvent.

President Kreulen and Ms. Basrai discussed the MOU for the AULA terms. It gives the airport more security than RBO. If the MOU is not signed by the Board meeting, staff is prepared to build the budget with RBO. Ms. Basrai clarified that the approval is not for the AULA, and that all business terms will be brought to the Board for approval next spring once the agreement is finalized with the AAAC.

Ms. Basrai requested that the Finance Committee recommend to the Board of Commissioners that it direct Finance to create the FY24 budgets using the terms that have currently been negotiated during the AULA negotiations with MNAA's signatory airlines.

Vice Chair Glover asked when we start working on the FY24 budget and Ms. Basrai stated that we will be kicking it off in the next month or so.

Vice Chair Glover made a motion to approve as presented, and Chair Byrd seconded the motion. The motion carried by vote of 2 to 0.

2. Senior Airport Revenue Bonds, Series 2022

Ms. Basrai briefed the Finance Committee on the Senior Airport Revenue Bonds, Series 2022, and related resolutions.

Ms. Basrai provided the Finance Committee with the following background information:

MNAA has been drawing funds under its Note Purchase Agreement with Bank of America, N.A. on an interim basis until these draws can be refinanced through the issuance of long-term revenue bonds – expected November 2022. The Bond Financing Team has been meeting to determine debt security and debt structure, as well as to prepare a feasibility study, rating agency presentations, and a Preliminary Official Statement. Besides MNAA, the other members of the Bond team are as follows:

<u>Bond Team:</u>

Municipal Advisor:	PFM Financial Advisors LLC
Feasibility Consultant:	Landrum & Brown
Senior Underwriter:	BofA Securities, Inc.
Bond Counsel:	Hawkins Delafield & Wood LLP

Disclosure Counsel:	Kutak Rock LLP
Issuer's Counsel:	Adams and Reese LLP
Underwriters' Counsel:	Bass Berry & Sims PLC

Security for Bonds:

MNAA current outstanding bonds are secured by net airport revenues on two separate liens:

- Senior lien: coverage requirement (legal) of 1.25x debt service ($191.2M)
- Subordinate lien: coverage requirement (legal) of 1.10x debt service ($919.6M)

The senior lien status for the Bonds has been determined by the Bond team to be the most optimal to the Authority based on the following factors:

- The 2019 bond issue was done on a subordinate lien basis to preserve bonding capacity on the senior lien in the event the Authority needed to access the capital markets in the future during a time of higher interest rates and wider credit spreads. We are currently in that environment.

- The additional spread differential between senior lien and subordinate lien in the current market is approximately 15-20bps (issuances on a subordinate lien creating a higher cost to the issuer).

Debt Structure for Bonds – Not to Exceed:

Authorizes the issuance of not to exceed $1.25 billion Series 2022 Bonds as follows:

	(In Millions)	
Project fund deposits	$ 563.8	
Debt service reserve deposit	45.6	
Capitalized Interest	48.8	
Cost of issuance	3.8	
Total Anticipated Bond Proceeds	$ 662.0	
Allowance for potential bond upsizing	180.0	
Total Bond Proceeds with Upsizing	$ 842.0	
Reauthorize use of BofA Facility	300.0	
Potential to use bond funds for JWN	100.0	
Not-to-Exceed Amount	**$ 1,242.0**	**Rounded to $1.25B**

Ms. Basrai explained the first line in the yellow highlight is the total bond proceeds with upsizing to $842M; expecting to issue $662M. Included in that $1.25B is reauthorization of $300M to BofA facility which is what we are using to pay construction now, which is a State requirement. Ms. Basrai stated an example of using the bond funds for JWN would be the Tune tornado, but we did not have to use it for the reconstruction, we used cash funding instead.

Debt Structure:

The Authority is currently planning to issue fixed rate bonds, at a level debt service structure with a final maturity date of 2052 (30-year term).

The current market environment is dramatically different from late 2019 when the Authority last accessed the public capital markets. As investor demand is much more uncertain, it will be imperative for the Authority to maintain as much flexibility as possible when it comes to structuring the Series 2022 Bonds.

Alternative amortization structures are being considered:

1) Final maturity of up to 35 years – Results in lower annual debt service requirements since spread out longer
2) Debt Service that is Not Substantially Level or Declining – Should investor demand be strong for longer-dated maturities, the Authority may "wrap" the Series 2022 Bonds around outstanding debt service. This is not a fixed amount each year, but level overall debt.
3) Deferring Initial Principal Payment – Should investor demand in early maturities be light, could defer initial principal payment on the Series 2022 bonds

Balloon Indebtedness:

These alternate structures fall under balloon indebtedness, by Tennessee Code Section 9-21-134. The current planned debt structure for the 2022 bonds is not considered balloon indebtedness, however the alternate structures being modeled would be. The structure for the 2019 Bonds was considered balloon indebtedness as they were issued with a 35-year maturity and with a principal repayment structure that "wrapped" around current debt. If proposing to issue balloon indebtedness, local governments must request approval from the Comptroller of the Treasury. It is more complicated this year because the structure can change up to the day of pricing. On September 28, 2022, Ms. Basrai and representatives from PFM met with staff members from the Office of the Comptroller of the Treasury to present the Authority's capital program, plan of finance, and potential flexibility the Authority requires for pricing of the Series 2022 Bonds to receive feedback before the formal submission. Based on the feedback received, Ms. Basrai will submit a Plan of Balloon Indebtedness the week of October 10th. If the plan of Balloon Indebtedness is not approved before bond pricing, MNAA will price using the original plan of finance structure (30-year, level debt service).

Chair Byrd asked which alternative looks most likely today. Mr. Czyzewski responded that having options on table because the uncertainty involves volatility in the market, not necessarily strong investor demands – really a week-by-week. Right now, investors are pushing back on duration given where rates are, they don't necessarily want to take a long-term view on it. This will allow the flexibility to go off the market accordingly so we can make sure to drive the competition to maturity.

Chair Byrd asked if the wrap allows to level payments of principal and interest. Mr. Czyzewski responded the wrap would be an aggregate level. Chair Byrd asked if our 2019 Bonds remain outstanding, Mr. Czyzewski confirmed yes. Chair Byrd asked if this is additional debt, and Ms. Basrai confirmed yes.

Resolutions:

Ms. Basrai provided a description of each resolution:

1) MNAA Resolution No. 2022-10, Initial Resolution, pertaining to the issuance of long-term revenue bonds to finance a portion of the Authority's capital improvement program;

2) MNAA Resolution No. 2022-11, Twenty-First Supplemental Resolution, authorizing the issuance of not to exceed $1.25 billion of senior airport revenue bonds, Series 2022, and setting forth the parameters for the issuance of such Series 2022 Bonds, and authorizing the execution and delivery of preliminary and final official statements and a bond purchase agreement between the Authority and the underwriters in connection with the sale; and

3) MNAA Resolution No. 2022-12, Official Intent Resolution, pertaining to an issuance of senior airport revenue bonds to finance a portion of the cost of the Authority's capital improvement program and directing the Authority to publish a notice of public hearing and to conduct such hearing in compliance with the United States Internal Revenue Code.

Ms. Basrai requested the Finance Committee recommend approval to the Board of Commissioners of MNAA Resolution 2022-10, Initial Resolution; MNAA Resolution No. 2022-11, Twenty-First

Supplemental Resolution; and MNAA Resolution 2022-12, Official Intent Resolution, in connection with the authorization of the issuance of senior airport revenue bonds.

Chair Byrd asked if our primary underwriter is Bank of America. Ms. Basrai confirmed yes, and the others are five other co-managers, JP Morgan, Jefferies, Ramirez and Company, Luke Capital and HFM.

Vice Chair Glover made a motion to approve as presented, and Chair Byrd seconded the motion. The motion carried by vote of 2 to 0.

Ms. Basrai informed the Finance Committee that the three Rating Agencies (Moody's, Fitch, and Kroll) will visit BNA on October 24th – 26th. She noted that BofA did a great job of negotiating the standard fee saving the Authority approximately $204K.

3. Land Acquisition of 27.54 Acres on Pulley Road (2448 & 2522 Pulley Road Properties)

President Kreulen briefed the Finance Committee on 2448 and 2522 Pulley Road, two properties that staff recommends purchasing. These properties are located along the proposed future parallel runway to the east of 2R/20L. These properties are located adjacent to land currently owned by MNAA, with a potential for aeronautical use along the future runway. There is about 1,500 acres that the Authority does not own that would be west of the Harding Place extension. Over the next 10-20 years, as small parcels like the Pulley Road properties become available, and with Finance's approval and the use of capital in our savings account, staff will make similar recommendations. We have looked at the appraisals that we have for these two properties as well as the one we previously purchased, and overall, these purchases would have a rate of $57k per acres. The request is to purchase these two properties for a total of $1.35M.

The initial asking price for 2448 and 2522 Pulley Road was $1.75M ($75K/acre). The adjacent property at 0 Waggoneer Road was purchased June 29, 2022, for $135,000. Two appraisals were obtained for the Pulley Road properties in 2021 with an average value of $52.5K/acre:

- Integra: $45K/acre and $40K/acre
- Boozer: $65K/acre and $60K/acre (assumes rezoning for industrial use)

At 3% escalation, the average value of the two Pulley Road properties and adjacent Waggoneer Road property is $54K/acre. Mr. Kreulen reported that Ms. Basrai budgeted $1.79M for the three properties in February 2022.

President Kreulen requested that the Finance Committee recommend to the Board of Commissioners that it approve the purchase agreements for 2448 Pulley Road and 2522 Pulley Road and authorize the Chair and President & CEO to execute the purchase agreements.

Chairman Byrd asked for a motion to approve as presented and Vice Chair Glover made a motion and Chairman Byrd seconded the motion. The motion carried by a 2 to 0 vote.

V. INFORMATION ITEMS

A. BNA Concessions Program Update – Main Terminal

President Kreulen introduced Colleen Von Hoene, Associate Principal, Paslay Group, who briefed the Committee on the main terminal concessions program. One last of the 19 concessions scheduled to open in 2022 is under construction and may open by the end of the year. Progress continues on the twelve locations scheduled to open in January 2023, with 11 actively under construction and meeting their construction deadlines. Fifteen locations are scheduled to open in September 2023. Those locations are making good progress, with 9 having undergone a 30% design review, which is a construction milestone, and 3 more expected over the next month.

Ms. Von Hoene reported that Paradies kicked off the design of the satellite concourse concessions and is working with Paslay Group to integrate their design efforts. A 30% design review is expected in mid-November.

Vice Chair Glover asked what kind of business Tennessee Rickhouse is, to which Ms. Von Hoene responded that it is a small concession, with small plates, as well as alcohol. Chair Byrd asked how the Titans location was progressing, and President Kreulen reported that there have been challenges getting the lease signed.

VI. ADJOURN

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

Jimmy Granbery, Board Secretary