

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



Date: January 11, 2023 Location: Metropolitan Nashville Airport Authority
Tennessee Boardroom

Time: 9:43 a.m.

Committee Members Present: Andrew Byrd, Chair and Jimmy Granbery

Committee Members Absent: Dr. Glenda Glover, Vice Chair

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

I. CALL TO ORDER

Chairman Byrd called the Joint Meeting of the MNAA and MPC Finance, Diversity & Workforce Development (Finance) Committees to order at 9:43 a.m., pursuant to Public Notice dated January 6, 2023.

II. APPROVAL OF MINUTES

Commissioner Granbery made a motion to approve the minutes of the November 9, 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.

IV. ITEMS FOR APPROVAL

1. JWN North Development Parcels 2 and 3 Lease Terms – Lawrence Hangar LLC (Gaylon Lawrence)

Doug Kreulen, President and CEO, introduced Carrie Logan, Associate General Counsel, who briefed the Committee on two leases at JWN North Development. The first lease is for Parcels 2 and 3, Lawrence Hangar LLC, with rent commencing on an effective date between 2/1/2023 and- 3/15/2023. Staff are continuing to evaluate options on the engineering side of MNAA

work so we are adding some flexibility on the effective date with both tenants. However, rent would commence on the effective date. Because of the overlap of the MNAA work, we have a 2-year construction term, 30-year initial term, one 5-year renewal option with total potential of 37 years. Base rent is \$3.05 SF, 3% annual escalation, FMRV adjustments in year 10 and 20, the improvements will be a minimum of \$5M which, Ms. Logan believes they will meet easily at this point. It is a Triple Net Lease with Property Condition and Pavement Condition Assessments every 5 years. MNAA will receive an assignment fee based on the years left in the lease. Tenant has a right to sublease with written approval by MNAA and if approved, revenue share is 50% of excess of Tenant's base rent.

Commissioner Granbery asked if the tenants have their own fuel tanks, do they pay \$.06 a gallon. Ms. Logan replied, yes. Chair Byrd asked in year 10 and 20 is the maximum increase 10% over the prior year, which takes into consideration the 3% annual rent escalation. Ms. Logan replied yes, 3% through years 1-9, and year 10 the Fair Market Value Reappraisal ("FMRV") happens and that matches the rent for tenant. Chair Byrd asked if the 3% is simple or compounded. Ms. Logan replied that she believed it is simple – annual 3% escalation and FMVR reset in years 10 and 20. Ms. Logan stated the immediate revenue source is \$223,406.40 in year one and we will have a new asset in 32-37 years.

Ms. Logan requested the Finance Committee recommend to the Board of Commissioners that it approve the terms negotiated between MNAA and Lawrence Hangar LLC; and authorize the Chair and President and CEO to execute a lease agreement consistent with these terms.

Commissioner Granbery congratulated everyone involved and stated that he knows they are under construction. Chair Byrd noted that this is a ground lease and asked if they pay rent while under construction. Ms. Logan replied, yes. Commissioner Freeman asked if we are leasing the parcel to an LLC, what is that financial statement. He said he knows they have a huge financial statement, but he hopes it is not asset LLC. Chair Byrd agreed, single purchase entity with no asset. Ms. Logan stated yes, it is a single purchase entity, but the insurance requirements, should something happen, is the full replacement value. Chair Byrd asked who

is responsible for paying the lease obligations if for whatever reason the tenant defaults. Ms. Logan stated we would take control of the property, and there is no personal guarantee. Commissioner Granbery stated he heard there are some really good subcontractors working on this that are using quality machines, so it is plus \$10M asset.

Chairman Byrd asked for a motion to approve as presented and Commissioner Granbery made a motion, which Chair Byrd seconded. The motion carried by a 2 to 0 vote.

President Kreulen thanked the Board for their leadership over these past several years. President Kreulen remarked that MNAA started off with the Frist hangar and we made improvements when we went into the hotel deal with Chartwell Hospitality. We have learned to include benefits that protect us, and we are getting much smarter on the business side of these assets and these leases are setting the standards for building on MNAA parcels. Commissioner Granbery asked if floor of the original proposals was \$1.25. President Kreulen said we started there, but after further review of costs it went to \$1.85 as a minimum bid. When we went out on parcels, 6-10 it was at \$2.21. Metro got the floor bid because they are our neighbor, and others are bidding above \$2.21 to secure those parcels. Commissioner Granbery asked if we are going to own the Metro hangar and lease it over a term of 30 years. President Kreulen stated yes, it is our hangar and Metro is paying us back the construction costs over 30 years, plus ground fees, development and management fees.

2. JWN North Development Parcels 4 and 5 Lease Terms – V3 Realty LLC

Ms. Logan briefed the Committee on the V3 Realty LLC Lease terms. Rent commences on the effective date of 2/1/2023, with the base rent of \$2.00 SF for two parcels. Ms. Logan stated the remaining terms are consistent with the lease for parcels 2 and 3, except assignment fees. We receive an assignment fee as well as 50% of excess of tenant's base rent if subleased. Chair Byrd inquired as to why the spread \$3.05 for one and \$2.00 for the other. President Kreulen replied that when we went out on the North parcels the minimum bid was \$1.29. When the proposals were submitted, some were only at the low end and we only took the top five prices that came in, \$3.05, \$1.85 (dropped out), and this one at \$2.00. Those averaged

together came up to the new base of \$2.21, which is what Metro got and what was used for the Southern base. President Kreulen explained that with the 3% annual increases, along with the 10 year resets, we are staying ahead of our market all the way to the finish line.

Commissioner Freeman asked who owns V3 Realty. Ms. Logan replied V3 Realty is a local real estate company. President Kreulen stated that V3 Realty is a fairly successful it is a real estate company out of Brentwood and that we looked at their financial statements and team. Commissioner Joslin asked if it is part of Southern Land, to which President Kreulen stated no. Commissioner Granbery asked if the \$0.06 per gallon fuel flow comes to the airport, and if there is any estimation as to what this will equate to in dollars on an annual basis. Ms. Logan replied that we are just starting to receive details on how they intend to use the hangar, what type of planes will occupy the hangar. V3 Realty has given details of 15k to 20k gallon capacity. President Kreulen stated we are waiting to see the math on their usage, but by collecting this there is no disadvantage to us with them getting gas on their own or at the FBO. and They will have to comply with all the environmental requirements.

Commissioner Freeman stated he would like to see names of all the LLCs and President Kreulen stated that staff can easily do that. Chair Byrd asked where these fuel tanks will be located. Ms. Logan responded they will each have their own. Ms. Logan explained that there is a storm water line that runs through parcel 3 and on parcels 2 and 3, there will be a hangar and then the parking lot, so the tanks will be in the middle. Chair Byrd asked if they pay rent on those grounds that are between 4 and 3. President Kreulen stated yes, that is their parking and their part of the ramp that connects to our part of the ramp. Ms. Logan stated on the fuel tanks, they are looking at apron locations versus locations in between the hangars and the parking lot. Commissioner Joslin asked if they can be put on the ground. President Kreulen stated that they probably could, but it would be very expensive and would have environmental restrictions. Commissioner asked if the State hangar has a fuel tank and Ms. Logan said no.

Commissioner Granbery made a motion to approve as presented, which Chair Byrd seconded.
The motion carried by a 2 to 0 vote.

v. INFORMATION ITEMS

1. BNA Concessions Program Update

President Kreulen introduced Colleen Von Hoene, Associate Principal, Paslay Group, to brief the Committee on concession activity. Ms. Von Hoene stated that Tennessee Rickhouse on C Triangle opened December 26, 2022 and 12 locations are expected to open on January 24, 2023. In 2023, she continued, we have 15 locations expected to open in September. Fraport is making great progress on the September openings, with 14 of the September 2023 locations having already gone through 30% design approval and 9 having been approved to Metro for permit.

All 2022 locations are open, however five locations failed to open by the contractual Opening Performance Date, which is an Event of Default. To resolve the default, the Authority requires that Fraport provide flexibility to accommodate future projected growth by: 1) amending the MPC sublease, with the key provision adding a termination for convenience clause, and 2) increasing the lease and concession rent share to 70% from current 60%. We will be sending out those amendments to Fraport this week and we expect them to be returned in March. Commissioner Joslin asked why those were five locations failed to open. Ms. Von Hoene explained that the locations inability to open was based on a variety of reasons. replied it is a variety of things, some longer construction periods, but the bottom line is they did not meet the construction deadline. Commissioner Joslin stated that he gets compliments all the time on the operation of the concessions. Commissioner Joslin reminded the Committee that he was a huge critic of this contract, but acknowledged the improvements to the concessions program . He said he is proud of the concession program, and complemented Ms. Von Hoene for doing a great job, and complemented Matt Jennings for doing a good job as well. Commissioner Stevenson also agreed that she receives many compliments about our concessions and when we publicize them on social media, we get a lot of shares. She stated further that people comment all the time about how they appreciate having more options at various times of the day. President Kreulen stated yes, they were late by a couple of days, but this is what the contract provides, and

we are holding Fraport to that. We are also proud of how far our concessions program has come. Even though 5 were delayed, all opened. All 12 stores will be opened by January 26, 2023, with 15 more in construction, opening opened in September 2023. Pre-Covid there were 52 concession, all 52 closed from 2019 - 2021ed, and there will be 98 or 99 new ones by September 2023. Chair Byrd asked if that count includes the satellite terminal and when is the opening date. President Kreulen replied yes, and that it opens October 19, 2023.

Commissioner Granbery asked why those are not on the list? Ms. Von Hoene explained that they are in 30% design review, and it will be quiet until the spaces are actually turned over. Commissioner Granbery asked who the vendors are. Ms. Von Hoene stated Paradies is the master operator. Commissioner Byrd asked if the count includes the locations in the satellite concourse. President Kreulen stated yes, and explained Fraport will have over 90 stores and Paradies will have 7 of those stores out on the satellite. President Kreulen stated that Ms. Von Hoene had informed him that Metro has 7 electrical inspectors who cover the county and two of them have quit, so that may impact us. We hope that it does not, but this is something that we need to be aware of. Commissioner Granbery stated every project they are working on is delayed due to the electrical inspector shortage, and that Chair Freeman's son, Representative Freeman, is working on a bill that will allow a mechanism to move on with inspection using in-house engineers, which would be extremely helpful to airports and private businesses.

2. Project Funding Sources Overview

President Kreulen introduced Marge Basrai, EVP, Chief Financial Officer, who briefed the Committee on Project Funding Sources. The most common items are: 1) Bonds, \$1.7B as of December 31, 2022; 2) Federal and State Grants, FY22 received \$56.1M, examples are Airport Improvement Program (Federal) and Tennessee Equity Fund (State); and 3) MNAA funds. There are three main types of MNAA Funds – Airline Facility Investment Funds, Authority Facility Investment Funds and O&M Funds. Airline Facility Investment Funds are for airfield Capital Improvement Projects (“CIP”) projects that the airlines have approved and fund each year. There is \$7.8M in there currently and based on the approved FY23 CIP budget \$8.4M, or approximately \$700K/month, will be added to fund to pay for the projects that were approved FY23 CIP. Authority Facility Investment Funds are for

approved CIP projects that MNAA funds each year. Currently there is a \$37.6M balance and the FY23 CIP is budgeted at \$6.5M. O&M Funds are really all of our operating revenue and operating expenses which go into our Revenue Fund for paying out. It has a balance of \$151.4M.

President Kreulen replied that in the previous state funding on the equity funding it had been going down from \$6-7M a year to \$3M, and this year for \$22M out of that \$56M, approximately \$3M of that is from the State. Ms. Basrai explained the number is not what was awarded each year, but is actual constructed worked on projects and we get reimbursed from the State or Federal government based on the expenditures that we spend each year. You can get awarded funds and it may take you 2-3 years to spend it all, you only get the money once you actually spend and start working on that project. In FY22 we actually incurred expenses of that \$56.1M, of which \$29.5M was the Transportation Equity Fund ("TEF") money that had been accumulating several years' worth of awards and primarily used for the JWN hangar redevelopment. President Kreulen stated we used a large portion of funds we accumulated from the state for the redevelopment of the JWN's 100 hangars. In the FY23, the State budget we are getting \$33M which is not shown here. That is a single-year deposit versus the normal \$3M, and will be applied to the Satellite Concourse. We are making good progress and have some more meetings with State officials on February 25, 2023 to try to increase funding from the State.

Commissioner Joslin stated TDOT is trying to encourage bonuses to Superior to expedite their construction, and we ought to be on the same page doing it here. President Kreulen stated recently the FAA has given us authority in some of their documents to allow us to start doing that. Everyone is trying to push through and take the CARES and BIL funds and push it forward. Chair Byrd agreed that it is a good point and asked regarding bonds, if the \$1.7M in bonds is the are the only funds available or we have cash sitting on hand and available for investment in these capital projects. Ms. Basrai replied that is the total debt, not necessarily only cash, and if it was 2015 bonds, has been expended. Chair Byrd asked how much cash we have in addition to the \$1.7B bonds. Ms. Basrai stated she will get the exact amount of cash, which is included in that \$1.7B. We would have paid project expenses and paid all of our consultants out of that money and debt service bonds, Additionally, we must have debt service reserves. President Kreulen stated the Finance team provides quarterly treasury updates, showing the cash balance and what is invested. Chair Byrd asked about the amount in the short term credit facility with Bank of America. Ms. Basrai stated it is \$300M.

vi. **ADJOURN**

There being no further business brought before the Finance Committee, Chairman Byrd adjourned meeting at 10:15 a.m.



Andrew W. Byrd, Board Secretary