

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



Date: March 8, 2023

Location: Metropolitan Nashville Airport Authority  
Tennessee Boardroom

Time: 9:41 a.m.

Committee Members Present:

Andrew Byrd, Chair, Dr. Glenda Glover, Vice Chair, and Jimmy Granbery

Committee Members Absent:

Others Present:

Joycelyn Stevenson, Bobby Joslin, Bill Freeman, Nancy Sullivan, 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) Committee to order at 9:41 a.m. pursuant to Public Notice dated March 3, 2023.

II. APPROVAL OF MINUTES

Chair Byrd asked for a motion to approve the minutes of the February 8, 2023 Finance Committee Meeting and Commissioner Granbery made a motion and Vice Chair Glover seconded the motion. The motion carried by vote of 3 to 0.

III. CHAIR'S REPORT

Chair Byrd has no Chair's Report.

IV. ITEMS FOR APPROVAL

1. JWN North Development Lease Terms (Letter of Intent) ("LOI") – Parcels 6 & 7 – Jet Access Group

President Kreulen introduced Carrie R. Logan, Associate General Counsel, who gave an update on two JWN North Development Lease Terms. Ms. Logan stated that, relative to Parcels 6 and 7, there is an LOI with Jet Access Group for two parcels of land for a total of 1.68 acres. The rent commences upon execution, which will be on or before June 15, 2023. This will be an 18-month construction term, 30-

year initial term, and one 5-year renewal option with a total potential of 36.5 years. The bid base rent is \$2.75/SF, 3% annual escalation, FMRV adjustments in year 10 and 20 of initial term. Jet Access Group anticipates a minimum of \$6M of capital investment for a hangar facility of at least 20,000SF. This is a Triple Net Lease with the assignment fees we have incorporated into other leases. This will be an immediate revenue source of over \$200K in year one and a new asset that will vest in 31.5-36.5 years.

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

- Approve the terms negotiated between MNAA and Jet Access Group via LOI; and
- Authorize the Chair and President and CEO to execute a lease agreement with Jet Access Group, or future special purpose entity, consistent with these terms.

Commissioner Granbery asked for a motion to approve as presented. Chair Byrd seconded the motion. The motion passed with a vote of 3 to 0.

Chair Byrd asked who the principals are behind Jet Access. Ms. Logan stated she will get that information for next week. She shared that Jet Access is an aviation corporation that develops hangars and provides hangar leasing opportunities. Chair Byrd asked if they represent individuals in our community or if they are a nationwide group. Ms. Logan replied they are a nationwide group. Chair Byrd asked how their financial suitability was determined. Ms. Logan responded that they submitted information, including letters from their banks, which was reviewed by the MNAA finance department and which demonstrated their ability to obtain the financing for the development. President Kreulen stated that our contractors submit financials to our finance team for their review. For any contractors that we are dealing with if it pertains to small, minority or women owned businesses, Ms. Taylor's business diversity team conducts a similar review. Commissioner Granbery pointed out that MNAA's collateral is the \$20M hangar they are constructing on our property, which MNAA will own if they default.

Vice Chair Glover asked Ms. Logan to clarify the assignment rights. Ms. Logan explained that over the term of the lease, if they assign the lease, then MNAA receives a variable percentage of the gross transaction fee. MNAA intends to lease this entity for the next 31.5 to 36.5 years but if they do assign it in order to sell their lease and make money, we will receive a portion of that. Vice Chair Glover asked if the lease agreement expresses these terms when it is drafted. Ms. Logan replied yes.

President Kreulen stated that the FFA requires us to be self-sustaining and charge Fair Market Rental Value (FMRV), which we are reflecting in our contracts. He noted that is not how we used to do business. These are our standard terms, so if you want to develop hangars on our property with the option to assign it somewhere else down the road, then MNAA will ensure we make a profit as well. We want them to stay the whole lease. Chair Byrd asked if it is 20% of the net above the original lease or the gross transaction value paid in a lump sum or paid over the term of the lease. Ms. Logan stated if they assign it, it will be a lump sum. We have some that are the true gross transaction value and some that are phrased as the gross, minus the amortized value of the building.

2. JWN North Development Lease Terms (Letter of Intent) ("LOI") – Parcels 8 & 9 – JetRight Properties

Ms. Logan stated that JetRight Properties LLC has two parcels of land, Parcels 8 and 9, for a total of 1.68 acres. It has substantially the same terms as the Jet Access lease for the property description, effective date and terms. The base rent increased to \$3.00/SF with the same remaining terms on the improvements they anticipate a minimum of \$5M for a hangar of at least 20,000SF. This is a triple net lease with the same assignment provisions. This will be a revenue impact in year one of approximately \$220K and a new asset that will vest in 31.5-36.5 years.

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

- Approve the terms negotiated between MNAA and JetRight Properties via LOI; and
- Authorize the Chair and President and CEO to execute a lease agreement with JetRight Properties, or future special purpose entity, consistent with these terms.

Chair Byrd asked for a motion to approve as presented. Commissioner Granbery made a motion and Vice Chair Glover seconded the motion. The motion passed with a vote of 3 to 0.

Chair Byrd asked if the financials were reviewed as well. Ms. Logan replied yes. Commissioner Granbery stated as a point of clarification, a \$20M hangar is a 20,000SF hangar at \$5-\$6M in value so that is our collateral. It would be a 20,000SF hangar that we would now own plus the land. In response to Chair Byrd's question, President Kreulen informed the Committee that JetRight is on BNA today. They created themselves here, bought some old hangars, reinvested and have some beautiful hangars next to Signature. JetRight has so much business they want another hangar to operate some of the charter jets

out of JWN. It is someone who started a company here at BNA and now they are expanding themselves to also be at JWN.

V. INFORMATION ITEMS

1. FY23 O&M Budget Update

President Kreulen introduced Marge Basrai, EVP, Chief Financial Officer, who briefed the Committee on the FY23 O&M Budget Update. Ms. Basrai stated that the MNAA budget is built around the BNA FY23 enplanement projection established in mid-FY22 and approved in April 2022. We used the projection of 9.6M enplanements which is about 4-5% above FY22, however now FY23 is now projected to end at 10.5M enplanements, which is 14% over FY22. The budget is based on the moderate scenario—we have a moderate scenario, a strategic scenario, and an aggressive scenario. Actual enplanements are targeted between the moderate and the aggressive scenario, but we budget using moderate. The moderate scenario for FY23 would be 10.3M enplanements for a budget adjustment. Ms. Basrai presented a table as a reminder of what the Board approved for the FY23 budget for all three entities, and provided an update of financials at the end of January 2023. BNA's revenue is \$27.2M above budget. All revenue is 14% above the prior year, and we only budgeted 4%. Parking, ground transportation, car rental and airline revenue make up \$27.2M above budget. Right now, expenses for BNA are \$1.5M under budget, but we are over budget in contract services and utilities. We are slightly under budget right now because of salaries with the vacancies that we have. MNAA anticipates that by the end of the year our overall expenses will be over the full \$132M for BNA.

JWN's revenue is slightly \$59K above budget, and the expenses are \$14,800 over but have been decreasing over the past few months. MPC revenue is about \$203K over and the expenses are \$116K under budget. We anticipate returning to the Board in April to do a budget adjustment for BNA. We need more time to explore whether budget adjustments are required for JWN and MPC, which are both close to where our budget is.

Vice Chair Glover asked Ms. Basrai how she got down to 10.3M enplanements for the adjusted budget. Ms. Basrai replied when we look at our budget we target a range, and the range is anywhere from 10.3M up to 10.8M, and 10.3M is the lower estimate of the range. We are conservative in case there is some softening in the numbers from what we have seen the last 6-7 months, so we budget based on the lower range of 10.3M to 10.8M, targeting to hope to meet 10.6. Vice Chair Glover stated that the additional

budget was 9.6M and revised to 10.5M enplanements. Ms. Basrai stated the budget will go up to 10.3M, hoping to reach 10.5M enplanements.

Vice Chair Glover asked if something else determines the budget, since the projected enplanements are 10.5M. Ms. Basrai stated yes, generally what we do is we show a moderate which is what we budget on. Vice Chair Glover asked if that is 9.6M. Ms. Basrai stated no, the 9.6 was the moderate budget approved in April 2022, however the enplanements started coming in way above what we thought it would be. President Kreulen stated we think we are going to get to 10.5M enplanements, and Ms. Basrai is stating that conservatively we are willing to budget to 10.3M enplanements. Vice Chair Glover stated that she understood but wondered why it was 10.5M on the prior chart and 10.3M on this chart, and trying to understand the difference of those two numbers. Ms. Basrai stated, yes, 10.5M is the estimate if everything stays the way it has been going for the next few months. We try to be a little more conservative when we are actually looking at that budget, trying to allow for a little bit of softening that could occur in those few months. Everyone keeps talking about a recession to hit at some point, but no one knows, so we tend to budget slightly less. The final budget will be based on approximately 10.3M enplanements, which will be coming in April. President Kreulen stated just as an example, last year we ended up with 18.4M passengers. If we build the original budget this year and go by that 4% it will take us to 19.2M passengers. Ms. Basrai wants to change that budget and say what if we get to 20.6M passengers. We think if the Fed rate hikes do not slow anything down, we will actually get to 21M passengers, but only wants to budget us for 20.6M right now. As it looks expenditure wise, if Ms. Basrai adjusts our budget to 10.3M enplanements which will be 20.6M passengers, we are going to be able to pay all our expenses and still have some money left over. It is not a revenue problem right now; it is all of those contract services to clean garages and restrooms and the things that came up in the previous meeting that are running over budget right now. We also have forty plus vacancies we are trying to fill.

Vice Chair Glover asked about JWN. President Kreulen stated JWN is over about \$60K on revenue and their expenses are over a little bit as well He explained JWN is always a break-even airport and when we get these next ten leases going, JWN will go from breaking even to profitable. Vice Chair Glover asked if we are budgeting JWN to be over budget. Ms. Basrai replied those are the actuals right now through January and realizes we will need to do an adjustment for BNA and not sure if we will need to do an adjustment for JWN or MPC, we are doing more research to see if adjustments will be needed. Vice Chair Glover remarked on the profit for MPC. President Kreulen stated MPC has always made money, but the real money is at BNA and obviously all of that is going to debt services. Vice Chair Glover stated she realizes

we are doing well, and asked how we prevent being over budget. Ms. Basrai stated that is just operating revenue and expenses, for JWN also has the non-operating revenue for some of the ARPA and CRRSA money that they receive and that generally brings you back into balance. President Kreulen stated regarding JWN when we developed a good business model for how we are charging hangar rents now and, in the future, it brought JWN to breaking even. Those 100 hangars we built after the March 2020 tornado are going to start showing up next year as at least breaking even, and those 10 new ones on the North side will be operating like a business and make money which can then be reinvested on the West side.

## 2. Airline Use & Lease Agreement (AULA) Update

Ms. Basrai updated the Committee on the Airline Use & Lease Agreement (“AULA”). MNAA is still on track. Execution copies for the new agreement were sent last week to the two airlines, and we have one more exhibit to put together and trying to get the rest of them out this week. Southwest and Delta have indicated that they have all their internal approvals ready to go and are ready to sign. That would represent about 64.4% of our traffic. We are on track to bring the Agreement to the Board for approval in April for a July 1, 2023 implementation of the new rates and charges. We do anticipate that all the airlines will sign this agreement, however, to get through all their internal processes it does take some time so it will be over the next several months to get all the signed agreements back. President Kreulen complemented Ms. Basrai and her team for their efforts to get all these documents ready, and stated that next month you will also see a chart that will show you the airlines by percentage of business. Southwest is 52% and Delta is around 13%, so 65% of the airlines are ready to sign. This lease agreement is better than the last one in 2015. Some of the airlines, due to internal routing, will not have an executed document back to us until June or July 2023, but they will give us a Letter of Intent saying they understand we will charge them on the Board approved terms. MNAA did this last time and did not have any hiccups. Commissioner Stevenson asked once we send the Letter of Intent, how long it takes to get the final agreement. President Kreulen stated we had the final agreement maybe two or three months into the fiscal year, but by September 15th, we had them all, but they signed a letter willing to pay the new rates. When MNAA set harder deadlines this time, airlines will have had this agreement for 90 days and we are hoping they will all be back by June 30, 2023. Ms. Basrai said American Airlines signatory authority only meets quarterly, and when they meet could fall into the new fiscal year, but we will have a Letter of Intent. Vice Chair Glover asked about American Airlines’ market share? President Kreulen stated American Airlines 14%.

### 3. BNA Concessions Program Update

President Kreulen introduced Colleen Von Hoene, Associate Principal, Paslay Group, to brief the Committee on concessions activity. Ms. Von Hoene stated there are 15 locations scheduled to open in September 2023, of which 11 locations have been approved to Code, 1 location submitted 95% drawings in review and 3 locations are proceeding to 95% drawings and hope to come in the next few weeks. She is also planning to come back in April 2023 with the approval of Amendment 8 to the Fraport Lease Agreement and Amendment 1 to the CRDC Sublease Agreement. Paradies Satellite Concourse Concessions Program has 7 locations scheduled to open October 2023 with 95% drawings submitted February 24, 2023.

Regarding BNA Concessions Sales, from January 2022 the program ended up with nearly \$138M in sales which equated to \$13.75 per enplanement which is pretty common measurement for concessions programs. This is significantly higher than all of the prior year sales. The top performers with the highest average food and gift monthly sales are Tootsies, Ole Red, Southern Steak, Pyramids and Puckett's. The highest average news, gift and retail monthly sales top performers are Tennessee Trading Post, Evolve, West End News, District News and True to Tennessee.

Commissioner Granbery asked if the \$13.75 is common, how it compares to other airports. Ms. Von Hoene replied we only have data from 2021, and will provide 2022 data when available. The sales per enplanement is the average industry measurement of concession sales. Vice Chair Glover asked what the expectation is for 2023? Ms. Von Hoene explained the chart does not include the 12 locations we just opened and does not include the 15 that will be online in 2023. Vice Chair Glover asked if January is available. Ms. Von Hoene replied in January, they were only open for about one week, and the February sales will give us a better sense of how the 12 concessions did. President Kreulen stated Ms. Von Hoene has done an excellent job helping us get organized and for those that know how difficult it was to make the decision in 2019 to implement this concessions program from master to developer model. From 2019 to November 2022, we estimated the contract based on \$11 and then we had a pandemic in 2020. Seeing our recovery as number 1 in the nation and the top 50 over the last two years for recovery, this is exactly what we had hoped for. All 52 of those businesses that were here in 2019 closed and we have built 75 new businesses now, and we will be at almost 100 in October 2023. In a two-year period, we are really coming back and when those next groups open up, we do believe it will be record-setting for us. Ms. Von Hoene's

team does the market analysis, but when you look at our benchmark and see other airports, we are now up there with the big guys so we really have a strong and getting stronger concessions program. When Chair Byrd asked the question at the last meeting, of which concessions are doing well, we can look at how many are selling almost \$0.5M every month. Vice Chair Glover asked are there any more concessions opportunities available. President Kreulen replied we do not know of anyone who is backing out of our current program. Right now, we are 100% committed, and the next opportunity will be for Concourse D and then Concourse A. In October of this year, when the satellite opens, we will be right at 100. Our forecast to get us to 35M and those 70 gates is north of 120 to 130 stores. Concourse D and Concourse A will get us to 130 stores inside the airport. Commissioner Granbery stated it would be good to see what the coffee shops' sales are throughout the airport on a monthly basis, and asked how many coffee shops we have now. Ms. Von Hoene responded there are 8 and will add another one to the Satellite concourse.

VI. ADJOURN

There being no further business brought before the Finance Committee, Chair Byrd adjourned the meeting at 10:13 a.m.



Andrew W. Byrd, Board Secretary