

Minutes of the MNAA Management, Audit & Compliance Committee



Date: August 9, 2023

Location: Metropolitan Nashville Airport Authority
Tennessee Boardroom

Time: 10:02 a.m.

Committee Members Present:

Jimmy Granbery, Committee Chair; Masami Tyson,
Committee Vice Chair; Jack Johnson, Bobby Joslin

Committee Members Absent:

Stuart McWhorter

Others Present:

Tony Giarratana

MNAA Staff Present:

Doug Kreulen, Neale Bedrock, Lisa Lankford, Trish Saxman
Marge Basrai, Rachel Moore

I. CALL TO ORDER

Chair Granbery called the meeting of the MNAA Management Committee to order at 10:02 a.m. pursuant to Public Notice dated August 4, 2023.

II. APPROVAL OF MINUTES

Chair Granbery asked for a motion to approve the minutes of the July 12, 2023 MNAA Management Committee. Commissioner Joslin made a motion and Commissioner Johnson seconded the motion. Chair Granbery asked Ms. Saxman for a roll call:

Chair Granbery - Yes

Vice Chair Tyson - Yes

Commissioner Johnson - Yes

Commissioner Joslin - Yes

The motion was passed with a vote of 4 to 0.

III. PUBLIC COMMENTS

Chair Granbery stated there were no public comment requests received.

IV. CHAIR'S REPORT

Chair Granbery thanked everyone for attending and stated he looks forward to an update from our legal counsel.

V. ITEMS FOR APPROVAL

There were no items scheduled for approval.

VI. INFORMATION ITEMS

President Kreulen stated he will present the FY23 Employee Performance Results and provide the Committee with the FY23 CEO Performance Results and then bring back our legal team for the Executive Session.

1. FY23 Employee Performance Results

President Kreulen stated regarding the FY23 Employee Performance Results, every year the employees receive individual performance goals and objectives, which are aligned with the MNAA strategic goals and objectives. In addition to their personal objectives, employees must hit targets for expenses in their departments and the Authority must hit targets for revenue. All evaluations, which include these criteria as well as overall job performance, were completed in the month of July and now we know the results of everyone's evaluations. The results follow a normal bell curve for the most part, consistent with multiple years, plus or minus a percent or so. There are 337 employees that will qualify for a discretionary performance incentive based on their overall rating. Only one employee has an issue and will not qualify. MNAA budgets for these incentives. The FY23 budget was \$3M and if we pay out the performance bonus, which is President Kreulen's recommendation to the Board, it will be about \$2.2M. President Kreulen stated financially and from the CEO on the executive side of the house, his recommendation is that we go ahead and pay out the bonuses as soon as we get a clean audit in late September, early October time period. President Kreulen stated it does not require approval since the Board has already approved it in the budget, but he informs the Board because it is an expenditure, and he would like the Board to understand where we are at and will be glad to answer any questions. The Management Committee concurred with paying out the performance incentive in September or October.

Chair Granbery stated he had a great conversation with President Kreulen yesterday regarding the use of the remaining \$800K budgeted. The Management Committee discussed multiple options for how

to use the remaining \$800K budgeted. Chair Granbery challenged President Kreulen and the Finance team to determine what to do with the remaining \$800K. President Kreulen stated a decision would be made early enough so that if there are concerns on the Board's part, we pull back, regroup, and come back for approval. Chair Granbery stated we look forward to reviewing when completed.

2. FY23 CEO Performance Results

President Kreulen provided a handout to the Committee members of the FY23 CEO scorecard and pointed out that Marge Basrai, CFO and Lisa Lankford, CSO provide the inputs. He stated the CEO's performance evaluation has gone from narratives with subjective criteria and evolved over the last year or two to specific Key Performance Indicators ("KPIs") that the CEO had to meet. President Kreulen reviewed the KPIs on the one-page handout. Financial performance, provided by Ms. Basrai include: Operating Revenue is \$252.2M, the budget was \$232M and we exceeded the budget by \$20M; Operating Expenses came in at \$125M, \$18.1M under budget; Senior Debt Service Coverage is 18.93% and target was 1.5; Senior/Subordinate Debt Service Coverage is 7.68% and the target was 1.25%; Days Cash on Hand is 1,209 days and the target was 650 days; Pension Funding is 99.7% and the target was 90%; OPEB Funding is 145.2% with target 90%. Operational performance, provided by Ms. Lankford, includes passenger satisfaction and strategic goals. We do quarterly satisfaction surveys, by an independent contractor, and passengers have given us an overall 90% rating, which was the target. We achieved 89% of the strategic goals, which is at the 80-90% target. When you calculate all of that in with the formula approved by the Board, the CEO is eligible for 103.75% of the eligible performance incentive. President Kreulen stated he is open to any feedback or questions.

Chair Granbery stated MNAA signed a contract with President Kreulen about a year ago, a three-year contract that had some renewal capabilities in it. He challenged President Kreulen to look at it based on what is more automatic and what is more in the calendar year vs. fiscal year. Chair Granbery stated in the contract it also called for a 40% bonus, which could be bumped up based on performance numbers, which he would like to recommend to the Committee. Chair Granbery recommended President Kreulen be given a 5% Cost of Living Adjustment ("COLA") to his base salary and pay him the full bonus, plus 2% based on the performance, so it would be a 42% bonus. He would like to challenge President Kreulen to look at the salary we have him at now, which even with the 5% COLA increase is way below the median of his peer groups. President Kreulen's homework is to come back to the Board with where he needs to be for his base salary in order to pay him for what he is bringing to the table. Chair Granbery said President Kreulen's performance is exceptional, and all the financial

data is within budget. Vice Chair Tyson stated she has been in-house at major companies with comparable budgets and would like to say this is significant, what has been achieved, with being \$20.9M under budget and she commended President Kreulen and the staff for their achievement, and could not agree with Chair Granbery more. Vice Chair Tyson stated she would like to hear more about how the process is actually done, and if it is a matter of Ms. Lankford taking the numbers and values and getting results or if there is another process. Vice Chair Tyson said she would also like to understand the independent financial audit, including the process, who does it, and how long it takes. Ms. Lankford explained, starting with the operational performance for customer satisfaction, we have an independent company that does passenger satisfaction surveys randomly throughout the quarter. They cover all the shifts; days of the week and concourses and they provide a quarterly report that measures the various steps of the customer journey. The score that is reported on the KPIs is based on the overall satisfaction score and it is the percentage of top 2 boxes. Those are independent and they come to us with the detail behind it. The strategic goal score is reviewed two times a year at our staff retreats. We review where we are performing on them, and we have a semi complex formula because each of the strategic goals and objectives are weighted based on their complexity and their impact on the organization. As a group the senior and executive staff come to consensus on the completion status - completed; on track for completion; or behind. That is how the 89% score was developed and that data was provided to the Board in July.

President Kreulen stated when the Board wanted to get this, he did not want the Board to ever think that he was manipulating the data on that satisfaction survey. Though staff tries to attain a 100% score, what comes out of the independent assessment is a score President Kreulen shares with staff and the Board on a quarterly basis. If the restrooms are not clean, then that becomes a point and maintenance must resolve the issue, because in the end we want to get high scores here. The staff works to make sure the contractors are doing this. President Kreulen approves the goals that the staff comes up with and shares them with the Board. On the FY24 goal sheets, he does not rate these evaluations, the staff rates how they did. President Kreulen reiterated that he wanted the Board to know, and to be assured that he is not manipulating the data. That is why MNAA engages a third party to conduct passenger satisfaction surveys and an independent auditor for the financial side.

President Kreulen asked Ms. Basrai if she would like to talk about how finance manages revenue expenses and calculates coverages. Ms. Basrai stated the numbers you see on here are based on our fiscal year-end close. We are not 100% closed, yet, but at 99% so these are very good estimates of

where we will be at the end of the year. Kristen Deuben, Deputy CFO, takes all the numbers, puts together the financial statements and that is where you will see the operating revenues and operating expenses. For the debt coverage, there is a calculation that is used for that and those are numbers that are actually part of our bond requirements, one of our annual coverage calculations we must do, so that is just calculated based on our year-end numbers. Based on our debt, what we actually paid in the year, days cash on hand, and what our unrestricted cash is at the end of the year, divided by what our total expenses were for that year and that is how we came up with days cash on hand. The actuary provides the report on the pension from the OPEB funding.

President Kreulen stated based on the budgets that were approved by the Board for FY24, we created another document to track how we are doing for next year. Looking at the budget for revenue and expenses, the budget this past year for revenue was \$231M and we came in at \$252M. Next year's budget is \$280M so we must raise an additional \$30M and we are betting on our forecast to bring in additional people to help do that. The expenses for FY23 were \$140M and we came in at \$125M, and the FY24 budget is approximately \$165M.

Commissioner Joslin stated that MNAA is never at 100% on the passenger satisfaction survey; however, a year ago, we were at 60 - 70% because of the concessions program. He mentioned he gets more complaints about the off ramps coming into the airport. Ms. Lankford stated that 90% is the overall average satisfaction score. President Kreulen stated we will provide the Board with the overall scores, for example the concessions got as low as 40% and we brought it back to 80% and that restrooms are north of 90%. If we get a 40% on roads, he said, staff already knows where these limitations are that we are working on. We can have a really bad snowstorm that kills our revenue for 3 or 4 days, or 5 times a year. Or we can have a major meltdown inside the terminal, like air conditioners malfunctioning.

Ms. Lankford stated that the passenger satisfaction survey includes the complete passenger journey, starting with access into the airport and ending with your experience in baggage claim. She noted that since passengers take the survey inside the terminal, we ask them to rate baggage claim as their last experience. President Kreulen stated the Commissioners will know this because they may get some calls. We are open 24/7, 365 days a year, so passengers may take the survey at 11:00 p.m. or 4:00 a.m. Vice Chair Tyson asked whether the results of the survey are reported elsewhere since we are talking about this survey in the context of the CEO performance. Ms. Lankford replied, yes, we share

the results at MNAA's quarterly All Team Meetings where we share with the employees and President Kreulen includes it in his President Report for the Board. Vice Chair Tyson asked if it is shared externally. President Kreulen replied yes, we use it in our community presentations because it helps us talk with the local community. President Kreulen shared that the day after next week's Board meeting, he will have 4 All Team Meetings to get every shift, one at 6:30, 10, noon and 3. Every quarter, he explained, he is able to go tell the employees how we are doing on the assessments.

Chair Granbery stated we have concessions and different vendors who provide our valet and satellite parking services. He shared that a friend's car got hit in the valet, that the friend filed a report, and did not receive an immediate response. Chair Granbery happened to be with this person a couple of weeks later, saw his car and the dent and asked what happened and he said it happened at BNA. He immediately called President Kreulen to discuss the way we deal with the vendors who are under contract. The vendor actually had not responded in the required amount of time and was fined. The vendor actually sent a representative to Jackson, Tennessee to make sure this person's car was fixed swiftly. So, there are processes in place that protect President Kreulen and staff because some things are out of staff's control, and that is really a key part of it because most of our employees are not public-facing. We entered into a new contract about 3 years ago, after a horrible experience with our previous valet operator. We brought in an emergency vendor, put the solicitation back out, LAZ was awarded the contract and we have been satisfied with their performance. There are things that are out of our direct control, but because our team prepares our contracts so well, we are protected in the event the vendor breaches the contract.

Commissioner Giarratana stated the number that is puzzling is 89% on strategic goals. Ms. Lankford responded that is because our strategic goals are stretch goals. We must operate the airport at 100% or more, and these strategic goals are above and beyond the daily operation of the airport. Examples include putting in new HR programs and building above and beyond what the vision may require. Commissioner Giarratana said that is brutal. President Kreulen replied yes, what we have told people is that we can keep the lights on at the airport, but that is not good enough, we must figure out how to do these extra things every year and if we do a lot of them, then we are ok. The Board asked for recommendations when the KPIs were developed, and President Kreulen recommended if we get 80-90% of stretch goals then we are passing. The Board encourages staff to continue to improve. Chair Granbery stated President Kreulen is running this airport with 22M passengers and you are building a \$3B construction project, and there are going to be some pains. Chair Granbery stated MNAA has

done an incredible job to get to these numbers and in October when the Grand Hall is open there will be some new roads built.

Commissioner Joslin stated we also get complaints about baggage, and we do not have anything to do with baggage, as that is an airline issue. Chair Granbery stated FAA regulations are 45 minutes after lightning strikes, the handlers are not even allowed to get to the airplane. He and President Kreulen discussed, and they aspired to do public service announcements to let passengers know that based on FAA regulations your baggage may be delayed due to a lightning strike within so many miles, etc. Those are just things that the general public is not aware of. Commissioner Joslin stated we appreciate all this and what President Kreulen has done over the past 11 years. President Kreulen clarified that he has been with MNAA for 11 years, total, but has served as the CEO for 6 years. Commissioner Joslin stated he met President Kreulen on the first day he became CEO and the cash on hand at that time was less than 300 days, and so he has seen it evolve to what it is today. Commissioner Joslin said President Kreulen has passed the test of time, has delivered more than anyone he knows, and that he can't give him enough gratitude and support. He stated that he is amazed at where MNAA is today. Previously, we would argue for 5-6 months over the color of the carpet, the parking garage, and it took 6-months to approve the \$6-8M for CONRAC. Commissioner Joslin said we have come full circle and still have a long way to go. He also said he and Chair Granbery can't say enough, he is deserving of anything and everything that we can do for him. Commissioner Johnson stated this airport is almost as well run as the State of Tennessee.

Chair Granbery stated he would like to entertain a vote for a 5% COLA raise for CEO Kreulen and a 42% bonus based on his contract and based on performance. Commissioner Johnson motioned and Commissioner Joslin seconded. Chair Granbery asked Ms. Saxman for a roll call:

Chair Granbery - Yes

Vice Chair Tyson - Yes

Commissioner Johnson - Yes

Commissioner Joslin - Yes

The motion was passed with a vote of 4 to 0.

3. Executive Session

Chair Granbery asked for a motion to suspend the public portion of this meeting to enter into executive session to discuss Authority litigation. Following the executive session, he stated, the public portion of the meeting would resume. Commissioner Johnson made a motion to enter executive session and Commissioner Joslin seconded the motion.

The Committee entered into Executive Session at 10:44 a.m. and the Executive Session concluded at 11:21 a.m.

At the end of the Executive Session, Chair Granbery asked for a motion to exit the executive session and return to the public portion of the meeting. Commissioner Joslin made a motion to exit the executive session and Commissioner Johnson seconded the motion.

VII. ADJOURN

There being no further business brought before the Management Committee, Chair Granbery adjourned the meeting at 11:21 AM.



Masami I. Tyson, Board Secretary