

Minutes of the MNAA Management, Audit & Compliance Committee



Date: August 14, 2024	Location: Metropolitan Nashville Airport Authority Tennessee Boardroom
Time: 10:25 a.m.	
Committee Members Present:	Nancy Sullivan, Committee Chair; Joycelyn Stevenson, Committee Vice Chair; and Jimmy Granbery
Committee Members Absent:	None
Others Board Members Present:	Andrew Byrd, Glenda Glover
MNAA Staff & Guests Present:	Doug Kreulen, Neale Bedrock, Lisa Lankford, Trish Saxman, Marge Basrai, John Cooper, Adam Floyd Eric Johnson, Rachel Moore and Robert Ramsey

I. CALL TO ORDER

Chair Sullivan called the meeting of the MNAA Management Committee to order at 10:25 a.m. pursuant to Public Notice dated August 9, 2024.

II. PUBLIC COMMENTS

Chair Sullivan stated there were no public comment requests received.

III. APPROVAL OF MINUTES

Chair Sullivan asked for a motion to approve the July 10, 2024 Minutes of the Management, Audit & Compliance Committee meeting. Commissioner Granbery made a motion and Vice Chair Stevenson seconded the motion.

Chair Sullivan asked Ms. Saxman for a roll call:

Chair Sullivan – Yes

Vice Chair Stevenson – Yes

Commissioner Granbery – Yes

The motion was passed with a vote of 3 to 0.

IV. BOARD CHAIR'S STATUS REPORT

Chair Sullivan stated she is honored to be Chair of the Management Committee and looks forward to serving on this Committee.

V. ITEMS FOR APPROVAL

1. None

VI. INFORMATION ITEMS

1. FY24 CEO Performance Key Performance Indicators (KPIs)

President Kreulen stated the Commissioners each received a binder that has all of the supporting data related to the slides he will be presenting. Each binder has a four page summary, and the Commissioners can each take the binders home with them for review between now and the September Board meeting. Commissioner Glover asked if this should be done in an Executive Session. President Kreulen replied no, it does not have anything to do with litigation and all of this information is open to public records. Chair Sullivan stated this is for information and evaluation of the CEO Performance and will be considered for approval in September. Commissioner Glover asked if the performance evaluation should be done in Executive Session. Mr. Neale Bedrock, General Counsel, replied no, per Tennessee law, the Executive Session is limited to discussions with internal or external counsel including litigation.

President Kreulen stated the FY24 CEO Key Performance Indicators (KPIs) have been used for last 2 years when the Board wanted a more objective standard and established these KPIs. The KPIs are the metrics the Board judges the CEO's performance on. The scores the Board came up with to track the CEO's performance are 50% financial and 50% operational. The CFO, Ms. Marge Basrai, and CSO, Ms. Lisa Lankford, provide the data and the Board gets to interpret the outcome. The Finance team is still closing out the fiscal year, including calculating the airline true-up, so final financial numbers for revenue and expenses are not available. This is our best projection of where the scores will end up. MNAA will meet the Board approved revenue budget of \$302M, and as of right now it could be several million dollars or more. MNAA will be under the Board approved expense budget of \$178M, but do not have the final number today. In terms of the other financial metrics that the Board chose, MNAA is strong on debt service coverage, days cash on hand, pension funding, and then OPEB funding is well over 100%. Operationally the airport satisfaction survey is at 92% for overall passenger satisfaction. The overall goals and objectives were rated at 86.4%.

President Kreulen stated he would like to give additional background on the KPIs so you can see the growth of what we have been able to build here. Commissioner Byrd asked the 90% - 100% eligibility, what exactly do they reflect for bonus. President Kreulen stated right now his score shows that he will be eligible for 102% of the bonus, and the contract language states the bonus is at the Board's sole discretion. So, the Board can choose whatever it wants, and the Board approved KPIs provide the scores. Commissioner Byrd asked if it is the average of each of the scores. President Kreulen replied yes, based on the weight with the top half being worth certain points and the bottom half worth the other points. President Kreulen stated his tenure here and what MNAA has been able to do and what the Board has asked him to do for MNAA. He started as CEO at Christmas in 2017, and as you can see the revenue continues to grow especially coming out of the pandemic, and MNAA has been raising revenue almost \$50M a year. Over the 7 year period, MNAA has been adding \$40M of revenue every year. MNAA added \$40M of revenue in 2023, \$47M this year, and to hit next year's budget, the Board's goal is to raise another \$48M. Commissioner Byrd stated the revenue includes parking, landing fees and concessions. President Kreulen replied yes.

President Kreulen presented a chart showing revenue and expenses since FY17. The slope is a little greater on the revenue side rather than the expense side, which is part of the Finance team's 10-year model. President Kreulen presented a chart showing the NAE Fund (Cash Reserve) balances since FY16 and stated the historical perspective is in 2017, MNAA had \$28M cash on hand and when we get into this year, we have \$310M in our reserve account. In just the budget alone for next year we estimate that we could add another \$56M at the end of 2025. The odds are it may be more than that as long as we do not have sort of recession. Commissioner Glover stated that is great. Commissioner Byrd asked if the cash reserve is out of any bond reserves. Ms. Basrai replied yes. Commissioner Byrd asked if this is free cash. Ms. Basrai replied yes. Commissioner Glover asked what kind of liquid security it is in. President Kreulen stated 99.6% of all funds that are not used in day-to-day operations are invested in multiple types of investments. Commissioner Glover asked if most of it is liquid. Ms. Basrai stated you can get to all of our cash, and some is in different treasuries.

President Kreulen stated we want to work internally because the rating agencies are going to be asking the Finance team the same question regarding cash on hand. MNAA intends to use some of it to pay for some projects and not have to bond it out. We now know what New Horizon I looks like, and for New Horizon II, the Finance team may use some of the cash. Staff are researching it and we do not have a recommendation yet from the Finance team, but we are now getting financially strong enough to pay for some of these large projects ourselves without having to borrow the money. Commissioner Byrd asked if

the bond agencies are looking for 650 days cash on hand and noted MNAA has almost 2 years. Commissioner Glover stated that is excellent. President Kreulen stated 500 days cash on hand is in our official statement, and the Board came up with a policy of 550 – 650 days cash on hand as a target several years ago. Based on the KPIs approved by the Board, the CEO would only get 90% eligibility with the OS criteria, and 100% eligibility for 550 – 650 days cash on hand, and 110%+ eligibility for greater than 650 days cash on hand. Commissioner Glover stated that is too good. Commissioner Byrd asked what the operating expenses are. Ms. Basrai replied approximately \$175M. President Kreulen stated the Board budget for this year is \$178M and next year is \$195M. Commissioner Byrd asked if it includes our interest payments. Ms. Basrai replied it does not because that is not in operating expenses. Commissioner Byrd stated we would have \$310M in year 2024, so we basically have 2 years' worth of operating cash. Commissioner Glover stated it is 2.5 years and we could operate with nothing else for those years. President Kreulen stated next year's operating expenses are budgeted at \$195,704,000 so we could run this airport for a couple of years.

President Kreulen presented a slide and showing investment earnings the money over the years. The results of the last quarter were almost \$14M and MNAA made \$52.6M in FY24. Commissioner Granbery stated you made 125% of your operating expenses. President Kreulen stated that is with \$1.2B in assets invested. Commissioner Byrd stated that includes short term treasury basically, which is a 4.5% rate of return which is good but will not stay that way. President Kreulen stated as one matures, learns and grows in any position, he now really understands the hostility of the 2017 time period where we had no money saved and 0% invested. We are now 99.6% invested and the target to achieve that is to stay above 97% – 99% invested.

President Kreulen presented the Retirement Plan and OPEB Funding slide stating MNAA is 95% funded in the Retirement Plan and 169% funded in OPEB. Financially the results are very strong.

President Kreulen provided a chart of the Overall Airport Satisfaction survey and stated he is very proud. Pre-pandemic ratings were not this high due to our concession and retail programs. Coming out of the pandemic MNAA has been increasing over the last four years, and we are at 92% overall satisfaction. President Kreulen presented a slide showing FY23 vs. FY24 satisfaction throughout the customer journey. The majority of the ratings in FY24 are above FY23 performance and several are highlighted as significant improvement. This survey is conducted by an independent contractor, who is doing statistical analysis to identify significant shifts and changes in demographics. We are focused on the customers and making

significant improvements. The security rating is at 90%, which is directly related to TSA and how fast passengers go through security. President Kreulen noted that this information is included in the binder provided to each of the Commissioners, with details regarding the number of passengers that went through in under 10 minutes, in 11.5 minutes, and as long as 20 minutes. The Staff does not have a lot of control over that item, it is Federal work and TSA is undermanned. The Operations team does a great job of working with TSA, and when we have big days, TSA has to bring others to increase manpower, like for the spring and fall breaks. TSA does pull from other commercial airports in Tennessee (Chattanooga, Knoxville, Memphis) to keep up.

President Kreulen stated this is why any help the Board can get from the State or Federal level to help MNA improve our manpower would be great. Commissioner Glover stated she finds it interesting that the terminal facility is the highest scored area, the overall airport experience is 92%, and check in which is where many airports get the most complaints, and it is number 2 on this survey. That says a lot about how we are managing the airport. President Kreulen stated it is new and pretty simple, and if you do not need to check bags, you can go on through and it makes it easier for passengers to push through. Commissioner Glover mentioned the food and beverage and shopping is the lowest rated. President Kreulen stated that is a significant improvement, we have been in the 40s and 60s in prior years and keep going up. It really hurt everyone during the pandemic. Commissioner Glover asked what the difference is between the gate area and check in. President Kreulen replied check in is pre-security check in and gate area is where you are sitting at your gate ready to board. President Kreulen stated the Operations team has preventive maintenance checklists now to go in and check all sockets and charges, there is never enough spaces to charge passengers items and if they do not work, they complain. Commissioner Glover stated she is one of those, if she cannot connect, she sends an email.

President Kreulen stated you can put a charger on every panel and people have multiple devices and all are being used. Commissioner Granbery stated he knows there has been trouble with Customs and asked if that has improved any at all. A friend came in from Canada and he was able to stop in Kansas City instead of coming directly to Nashville because BNA is one of the only big level city that does not have direct customs. President Kreulen asked if that was on a corporate jet. Commissioner Granbery replied yes. President Kreulen stated Customs and Border Protection ("CBP") are struggling to get it manned. The Operations team is working on it as well.

Commissioner Granbery asked what passenger number the International Arrivals Facility (“IAF”) is designed for. President Kreulen replied 800 an hour, with the ability to expand to 1,200 an hour. Today we are doing 277 in an hour on the British Airways flight. The reason we are getting this information to the Congressional members that represent Tennessee and Washington DC is that we expect to land some international flights in the near future. And when that happens if they are all here on the ground at the same time, that will be bad. We have to find a solution to the CBP issues in the next 6 months. When an international announcement is made, it basically means the airline will start to sell tickets and 6 months later the first flight goes. The airline that picks us wants to make sure that they are going to be successful in Nashville and when that happens, we will need to double down on all efforts to get Customs running. Commissioner Granbery asked if there is any crossover between TSA and Customs. President Keulen replied no, they are separate. As of now there were 2 people on administrative leave in Customs that are supposed to be replaced now, and there are 6 more positions that are coming in the next couple of months to begin training. Commissioner Byrd asked if we could get some bullet points to circulate to various commissioners on what our need is. President Kreulen replied yes, and MNAA will share the letters that we have sent to DC.

President Kreulen presented a slide of the Airport Satisfaction showing the breakdown on Airport Satisfaction shows that we areas are making significant improvement. Commissioner Granbery stated it is impressive to note that the 80% on traffic flow and airport roadways is not nearly as bad as reflected in the newspapers.

President Kreulen stated when you look at the FY24 Strategic Goals & Objectives there are a lot of big items listed as Key Accomplishments (86.4%) such as executed the Airline Use & Lease Agreement (“AULA”) with all signatory airlines and Airline Operating Agreements with all non-signatory airlines; opened the Marketplace, IAF, Satellite Concourse, Hotel and 24 concessions locations; began Concourse D Extension and 2nd water line construction, Concourse A design and Terminal II/CONRAC siting study; executed 6 leases for 10 JWN parcels & completed MNAA construction of ramp, road, water, and power for JWN North Development area; met or exceeded all financial obligations; hired 100% of FY24 priority positions and 55 employees earned AAEE Certified Member (C.M.) accreditation.

President Kreulen stated the FY24 CEOKPIs are the metrics the Board established to judge his performance on. The CFO and CSO provide the data and the Board gets to interpret what the results are. The next steps are the Board of Commissioners will review and evaluate results presented Board of Commissioners, and

at their sole discretion will determine the bonus to award CEO, based on 1) CEO's ability to meet or exceed targeted expectations applicable to his position, and 2) in accordance with and subject to the terms of any applicable performance-based metrics, compensation plan or program. Board approval planned for September 18, 2024.

2. FY25 Strategic Goals

President Kreulen stated the FY25 Strategic Goals developed by Executive and Senior Staff and have been assigned to all employees throughout the Airport Authority. Staff are already working to accomplish the goals.

3. FY25 CEO Key Performance Indicators ("KPIs")

President Kreulen presented the proposed FY25 CEO KPIs. Operating expenses are \$199.8M, which includes BNA, JWN and MPC. Operating revenue is budgeted at \$350M across the 3 entities. As mentioned before, the CEO and Staff have to increase revenue by \$48M to achieve 95% eligibility. It is a goal that the Finance team and CEO feel comfortable that they will be able to achieve and will be the 4th year in a row. Vice Chair Stevenson stated that regarding FY25 KPIs, you mentioned a few years ago the Board determined that they wanted to change that from subjective to more objective. She asked if the Board or Management Committee wanted to discuss or talk about it, if it has to be approved by next month or if it is possible if the Board wants more information to figure out a new date. President Kreulen replied it can be an ongoing discussion, and it could be in September or at the October Board Retreat, or even in November. The biggest challenge would be that the ship is already sailing on all of those objectives for the staff. If the Board makes a radical change that is not known until January, there are only 6 months before the reporting period closes. He sees pros and cons either way. Vice Chair Stevenson stated yes, she just wanted to figure out how much time the Board has.

4. CEO Compensation Benchmarking

President Kreulen stated the CEO Employment Agreement states the CEO has to provide the Board with two documents on an annual basis, one now and one at the end of the year. The one document due now is a compensation study. In the Contract for the CEO, the CEO is not eligible for a Cost of Living Adjustment ("COLA"), so the Board must decide if they want to adjust the salary. MNAA has an outside agency that comes in and provides the Board with data from other airports and businesses. The study, which is included in the binder provided to the Commissioners, shows the CEO's salary is slightly more than the average airport and lower than the highest. It is calculated at the 87th percentile. When you look at

nonairport industries in Nashville that generate over \$350M in revenue per year, the average CEO salary is \$845K, the high is \$1.1M. The CEO's salary is in the lower quartile, at the 24th percentile. President Kreulen state he is not advocating anything in terms of the salary being adjusted or changed, and it is up to the Board to review.

Commissioner Byrd asked what is the maximum bonus. President Kreulen replied it is 40% of base salary and on the formula that you saw was at 102%. The Board could theoretically go above that or even about that or less than that. Commissioner Byrd stated it is at the discretion of the Board. President Kreulen stated yes, and it is in the binder the Board received, it is at your sole discretion. Commissioner Byrd stated he thinks it is fascinating to see the consumer satisfaction surveys and the experiences of passengers, and it is very useful information. Chair Sullivan stated the data looks good. President Kreulen stated the Staff is doing a great job, the airport is doing great, MNAA is financially strong, and we have a lot of challenges out in front of us but overall, he is very proud.

President Kreulen concluded the presentation of the informational items.

ADJOURN

There being no further business brought before the Management Committee, Chair Sullivan adjourned the meeting at 11:02 a.m.



Andrew W. Byrd, Board Secretary