

Minutes of the MNAA Management, Audit & Compliance Committee



Date: September 11, 2024

Location: Metropolitan Nashville Airport Authority
Tennessee Boardroom

Time: 10:10 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:

Bobby Joslin, Andrew Byrd, Glenn Farner

MNAA Staff & Guests Present:

Doug Kreulen, Cindy Barnett, Lisa Lankford, Trish Saxman,
Marge Basrai, Neale Bedrock, John Cooper, and Rachel Moore

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 September 6, 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 August 14, 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 had no Chair's report.

V. ITEMS FOR APPROVAL

1. FY24 CEO Performance Evaluation

President Kreulen stated the FY24 CEO Performance Evaluation is based on the Employment Agreement and the Commissioners received a binder last month with material showing his performance. President Kreulen presented a chart stating there are two changes based on the latest information from the Finance team. President Kreulen explained the way the KPIs were set up years ago is that Financial score is 50% and Operational score is 50%. The finance team received an income statement that came out yesterday and on the slide which is highlighted indicating updates. Commissioner Byrd stated he is not sure he followed that and asked President Kreulen to explain. President Kreulen stated the budget for last year was \$302M in revenue and if we generate \$302M in revenue the CEO is scored at 90% eligibility of the 25%, so how much can he earn based on that. We went over the budget in revenue generation by 5%, it would be greater than \$317M and that would give him 100% eligibility and if over by \$332M eligibility would be 110%. At the time MNAA gave the Commissioners the draft, we conservatively estimated revenue would be at budget. Now that the financial statements are confirmed, revenue is over budget resulting in an overall rating of 104.5%. Commissioner Byrd asked if these are budget figures before debt service. Ms. Marge Basrai, CFO, responded yes, it is your operating revenue and operating expenses. Commissioner Byrd stated if he meets the budget of \$302M revenue, it would be under budget at somewhere less than \$160M. Ms. Basrai replied correct.

President Kreulen stated MNAA did a great job with revenue and expenses and we do not manage by this, but we did not spend everything we had budgeted for in this category. None of the other ratings changed from last month in all the other financial reporting. The Operational score, Ms. Lisa Lankford, CSO completes, it shows that our overall satisfaction rating is at 90%, and the overall goals rating is 86.4%. It is still the Commissioners discretion and decision. Commissioner Granbery asked President Kreulen when he would have the final revenue number. Ms. Basrai replied this is the final revenue number. Commissioner Byrd stated these numbers do not have so much to do with the salary, it is for the bonus. President Kreulen replied yes, the salary is set and for the bonus, the Employment Agreement states that the CEO does not receive a COLA, and it requires the CEO to give you an outside firm looking at the salary, and the Commissioners received that document. This is for where you want to think the CEO performed based on the KPIs. Commissioner Byrd asked if the Employment Agreement references airports. President Kreulen

replied yes, we want you to have both to look at, airports versus businesses. The businesses are so you are aware of where we stand.

Chair Sullivan asked if President Kreulen could remind everyone how we evolved and what the KPIs are now. President Kreulen replied yes, he will be here 7 years in December, and when he took over, the Board were not doing a CEO evaluation and it was with a different Chair and had the CEO benchmark other airports our size and how the CEO was rated. MNAA benchmarked and shared how Memphis, Greenville and Dallas set their program and came up with a document that turned out to be 20 plus pages and was very subjective. The Board members were given the document every year, filled it out and the Chair with the help of Board Counsel pulled it into a concise subjective document and it was that way for 3-4 of the 7 years. At the time, Commissioner Freeman became Chair and stated the Board did not like something that was subjective, they wanted hard facts and KPIs. This is the 3rd year of KPIs, and the Board has asked the CEO, CFO and CSO how you go from subjective to metrics. They wanted it to be metrics based. At the time we had criteria that indicated the health of the airport, including scores for debt service coverage, cash on hand, generating revenues needed to pay back debt service. The Board decided they wanted the CFO to report on the financial numbers and the CSO to operational performance. The Board wanted it to not be all about money, with half of the scores to be on passenger satisfaction and goals. The Board also wanted us to grade ourselves on how we have done on expanding the airports and other requirements. I am flexible if the Board wants to change in the future.

Commissioner Joslin stated he has been here for these observations over the years and it used to be almost based on the personality type bonus and it was a horrible thing to do once a year with no numbers to back up anything. He stated the Board asked what the NES CEO made and what the hospital CEO made, and the Board had to go to metrics to justify how to be fair to the CEO with a raise or a bonus or a firing. Commissioner Joslin said it took a while, 2-3 years, to get it to this point and he feels really good about the KPIs, and if someone asked why the Board gave the CEO a \$5K bonus, then the Board has justification.

Vice Chair Stevenson asked the Chair if she would like her to save her comments for the 2025 KPIs as she has some thoughts she would like to share. Chair Sullivan stated she would like President Kreulen to finish his report on the FY24 performance first. President Kreulen stated for FY24, if the Board would like to discuss, the Staff and he can leave, and the Board Counsel can represent. He is presenting the results for FY24, and he talked with Vice Chair Stevenson about FY25. FY25 is not as critical to move forward as long as he has time to achieve whatever is determined for FY25. President Kreulen presented the FY24 results,

and noted the only change since the August meeting was the final income statement total that the Finance team finalized last night. It is the Board's call on how to move forward. Commissioner Granbery stated he would like to thank Vice Chair Stevenson who led the charge to put this new contract together with a very well-respected law firm and he thinks the performance speaks for itself.

Commissioner Granbery made a motion to approve the 104% bonus as per the Employment Contract. Vice Chair Stevenson seconded the motion.

Chair Sullivan agreed with Commissioner Granbery that President Kreulen does not need to leave the room and asked if any other Commissioners had opinions. Commissioner Byrd stated he thinks the Board is doing exactly the right thing. The Board needs to set the salary based upon what competitive salaries are in the industry and then the bonus of the executives always run about 40%. Then the question becomes what the KPIs are and even after going through all this stuff and reading all the material, he still is not sure what the KPIs are, he has seen a lot of different variations and a lot of information that he reviewed. He stated Bobby is exactly right, we do not need to set this based on personality, it needs to be based upon performance. So, we need to look at the 40% and he thinks it is a very rational approach with KPIs set at 50% financial and 50% operational. He stated that the financial break down makes a lot of sense. He thinks we do need to do a somewhat better job of what the operational KPIs are that we are going to be looking at and asked if customer satisfaction really a critical factor. He stated there are a lot of strategic goals and we have a lot going on at this airport and asked how we know that we are hitting our KPIs and that we are going to be successful over the next year. He thinks this was a good stab at it, this was a good first approach on setting these KPIs, but as a Board there needs to be some rational basis about what the standards are, and if we can talk about that for next year. President Kreulen replied yes. Commissioner Byrd stated he does not vote on this at Committee, so he does not need to be too involved, but at the same time, it certainly is something that he thinks is right to the heart of what they do as a Board.

Commissioner Farner said this predates him being on the Board and asked 104.5% of what. Commissioner Granbery replied base salary. Commissioner Byrd stated no, not base salary, of the bonus. President Kreulen replied his bonus is 40% of base salary, so he would receive 104.5% of the 40%.

Commissioner Granbery said correct him if he is wrong, in the Kornferry study, President Kreulen was

at a spot relative to his peers and with the bonus it actually brought him down, if his memory is correct. President Kreulen stated it is still above the midpoint among airports. Commissioner Granbery stated it still brought the CEO down to that upper third, as the other bonuses were of larger amounts which elevated them up. President Kreulen stated we are focused on these KPIs and you are coming up on the October Board Retreat where we are laying out 15 years of future projects and that will be how you evaluate what is coming. Commissioner Byrd stated that is what your KPIs should be.

Chair Sullivan stated there was a motion made by Commissioner Granbery 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.

President Kreulen presented the next slide confirming what the Committee just approved and stated he would like to point out that when the year is closed out by the Finance team it is great to see that we are generating a lot more revenue than we are spending. Staff's initial projections were that revenue would exceed expenses by \$125M, however the final number is \$144M. The projected deposits that will be made to our reserve account is \$121M, and our reserve will go to \$430M. Commissioner Byrd asked for verification that it is free and clear cash, with no claims from any reserve accounts or bond. President Kreulen stated Ms. Basrai has a plan so that we do not have to borrow in the future and will recommend spending some of that cash. Commissioner Farner asked if that already includes the debt service. President Kreulen replied no. Commissioner Granbery asked what the current credit facility rate is. Ms. Basrai replied the non-taxable portion is approximately 4.95% and the taxable portion is 4.8% and MNAA will bring a new credit facility approval to the Board next month. Commissioner Granbery asked if that is \$300M. Ms. Basrai replied \$400M next month.

Chair Sullivan thanked Ms. Basrai and the Finance team for their great work.

Commissioner Joslin mentioned that we did not say anything about 911. President Kreulen stated MNAA did a ceremony this morning at BNA with the Honor Guard and TSA, and it is posted on social media.

2. FY25 CEO Key Performance Indicators (KPIs)

President Kreulen presented the FY25 CEO Key Performance Indicators (KPIs) that were provided to the Management Committee and the Board last month and noted that the only revision as compared to FY24 are FY25 budget numbers for revenue and expenses. President Kreulen stated he had great conversations with Chair Sullivan and Vice Chair Stevenson. He presented an alternate version of the FY25 KPIs with a change to the operational section. In FY24, it was 25% customer satisfaction and 25% completion of strategic goals. Instead of 25% weight for passenger satisfaction, this version has 15% for passenger satisfaction and 10% for employee satisfaction. This is a quarterly survey for passenger satisfaction and an annual survey for employee satisfaction ratings. This is provided as a starting point for the Commissioners to establish the CEO's FY25 KPIs. Commissioner Joslin asked what the employee survey would be today. Ms. Lankford stated on the last survey it was 3.8% overall satisfaction. President Kreulen stated we really need to ask the questions of what the survey has, and if you look at the CEO rating it is 4.0% and the organization as a whole is 3.8%. Over the year, leadership takes action to solve pay, benefits, and recognition programs that employees have concerns with, we are doing everything we can to keep those up and focus on what the Commissioners want.

Vice Chair Stevenson congratulated President Kreulen and the MNAA Staff on the successful fiscal year. Vice Chair Stevenson stated her thoughts are that the Board has an obligation to do their due diligence and review the KPIs and confirm they are looking at the right numbers and strategies. She stated we went from a very subjective model to now very objective model and need to get somewhere in the middle. We have Finance and Operations providing independent reports that go to this and we have Mr. John Cooper, CAO, to now provide independent feedback just to make sure we are doing our job and looking at all the information from all sides. President Kreulen and the MNAA Staff are doing a great job, and she strongly encourages him as a CEO as he is looking at his evaluation and the staff under him, to make sure that he is incentivizing and awarding people appropriately in accordance with the great numbers that we are seeing. Vice Chair Stevenson stated with October coming up with all these new things that we are doing, there may be other things that we should be thinking about and looking at related to performance for the next year given the 5-year plan. She does not know if it is an October vote or how long we can go and push this out, but she wants to make sure that we are at least talking about it. If she is the only one who thinks they need to look at it, she is fine being the only one, but she at least thought this was the point and time to

talk about it and see if we can explain things and have it better laid out in light of where we are in our growth and numbers and doing appropriately by President Kreulen and the MNAA Staff related to these issues.

President Kreulen thanked Vice Chair Stevenson and said those concerns were all valid. His initial response is that he needs time to coordinate with his team, and this has been up to this point is 50% financial and 50% operational. He asked if the Board wanted to change it to 50% financial, 25% passenger, and 25% operational. Commissioner Byrd stated you get what you incentivize. President Kreulen replied exactly and we want to see those kinds of things improve. The Commissioners will have to decide and inform him of which way they think it should be. President Kreulen recommended the decision be made by January, and that will give the MNAA staff 6 months to achieve the revised expectations. If the Commissioners chose the employee satisfaction rating to be included, then MNAA needs to go back in and change the policy.

Commissioner Granbery asked Chair Sullivan if the Management Committee is going to table an approval of this item until further evaluation and maybe have a working session and approve by January 2025. Vice Chair Stevenson stated that is her recommendation. Chair Sullivan agreed and stated the Management Committee needs a framework to move forward and she is comfortable with the percentages that were presented here because she has met with President Kreulen, and she has had a longer time to think about it. She suggested it be pushed off for one month. Commissioner Byrd suggested the Committee redefine the strategic goals and get more criteria because there were a number of things that were presented in the package, there were 50 different standards that were being considered and rated. Perhaps even those strategic goals are loose criteria, and he would encourage the Management Committee to review, and Chair Sullivan think about 10 different criteria and KPIs. Commissioner Joslin asked if overall airport satisfaction includes parking issues, access to the airport, and concessions. President Kreulen replied all of those criteria are in the study. The study that is done quarterly includes criteria for when passengers get off I-40, arrival, check-in experience, power outlets, the whole journey in and out of the airport. We get a score on each individual item and then we get an overall satisfaction score of 92%. BNA is a very highly rated airport. President Kreulen presented the Strategic Goals sheet for FY25, and presented the Invest, Plan, and Prepare items, and stated he assigns all the highlighted items to his Executive team. And when we score this, we want to get a final score of 90%. Commissioner Byrd stated we can get 1.5% for each satisfactory and each criteria, so at the end of the year it is not just one lump sum to not disappoint anyone.

Commissioner Granbery stated last month President Kreulen presented the breakdowns and reminded the Commissioners that he spoke with the reporter about how satisfied people are with the access.

President Kreulen suggested that this be tabled, and he can formulate this between now and the October or November Board meeting. He will coordinate options through the Management Committee through either a publicized meeting or through Board Counsel and bring back in November for a decision on KPIs. Commissioner Granbery asked Cindy Barnett, if we need a motion to table this since it was a Board item agenda. Ms. Barnett replied yes, make a motion to defer.

Commissioner Granbery made a motion to defer the FY25 CEO Key Performance Indicators and Vice Chair Stevenson seconded the motion.

President Kreulen asked the Management Committee if they are OK with an October date. Commissioner Byrd replied he believed the November date makes sense and MNAA Staff can return to the Commissioners with the set of criteria that they can reasonably evaluate. Chair Sullivan stated she believed it is important not to drag out until January and that they do it as soon as possible. She stated in her company there is a lag time and the team has about 8 months to do their performance and no one likes that. President Kreulen stated he will get the Management Committee items by the October Board meeting.

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.

Commissioner Granbery stated last year there were some leftover dollars that were across the landscape to all employees and asked if that available. President Kreulen replied the bonuses for the entire staff are in the budget. The only thing lacking in executing the budgeted bonus for the staff is we have to by the end of September receive an affirmative response from the external auditors that we are clean. If clean, we can pay out the bonuses based on the Board approving the budget. Last year there was \$3M appropriated for bonuses for the entire airport and when we did everybody's ratings, \$2.5M was spent on bonuses and there was \$.5M left over which the Board wanted distributed during the holidays in

recognition of BNA Vision. Commissioner Granbery is asking now if there will be money left over this year, and the Finance team is reviewing that now. For example, today, if there is money left over in the bonus pool, hypothetically, a trigger would have to be defined and it would have to be something that is fair. Over time he worries about the long-range and if we establish something there needs to be a clear criteria and he does not have that framework yet. Commissioner Granbery stated he would like to see that analysis because he thinks the KPIs and President Kreulen's performance is exceptional and the MNAA Staff is also a great team and if there is money available he thinks it is important to award the staff. Chair Sullivan asked if the MNAA Staff's objectives the same as the President's KPIs. President Kreulen replied that there is one set of objectives, and each Executive member has between 5 and 7 and each one of those are weighted. President Kreulen stated we do have a great staff here as a whole and the airport is successful because of the staff we have. MNAA has done a compensation study that is coming out at the end of this year, and we are trying to be about midpoint on salaries, and we are considerably above benchmarks on benefits and bonuses.

Chair Sullivan stated that the employees and supervisors are doing satisfaction studies. President Kreulen stated we are graded as a whole on the employee survey. He can provide a copy if they want to see it. Commissioner Granbery stated this is a great team and you are no better than your team and vice versa.

Commissioner Joslin stated he would like to recognize Commissioner Granbery's birthday.

Commissioner Byrd asked how much supervision we are looking at regarding the Southwest Board right now. President Kreulen replied MNAA is tracking to make sure Elliott Management's actions over their Board and our financial team with PFM and Landrum and Brown are aware that we are exposed to whatever goes on with Southwest Airlines because they are 51.5% of our business. Commissioner Byrd stated we do not want to make the executive decision that American Airlines once made. President Kreulen stated when you look at Southwest Airlines top markets, BNA is number 8, and performing like number 2 and where they are adding flights.

VI. INFORMATION ITEMS

President Kreulen stated there were no informational items to be presented.

ADJOURN

There being no further business brought before the Management Committee, Chair Sullivan adjourned the meeting at 10:57 a.m.



Andrew W. Byrd, Board Secretary