Minutes of the Joint Meeting of MNAA and MPC Finance/Administration/Properties Committees

BNA Nashville International Airport

Date:	May 13, 2020	Place:	Nashville International Airport Board Room Nashville, Tennessee / Electronic Meeting
Time:	9:45 a.m.		
Committee Members Present:			Amanda Farnsworth, Chair; Bill Freeman, Vice Chair; Bobby Joslin; John Doerge; and Kevin Crumbo
Committee Members Absent:			None
Others Present:			Jimmy Granbery; Nancy Sullivan; A. Dexter Samuels, Board Chair; Christy Smith; Trey Harwell, Board Vice Chair; Doug Kreulen; Cindy Barnett; and Angela Edwards

I. Call to Order

Chair Farnsworth called the meeting of the MNAA and MPC Finance, Administration, and Properties (FAP) Committee to order at 9:50 a.m., pursuant to Public Notice dated May 8, 2020.

II. Roll Call and Open Meetings Act Announcement

Ms. Angela Edwards, Staff Secretary, read the Open Meetings Act Announcement as follows:

The Joint Meeting of the MNAA and MPC Finance/Administration/Properties Committees will be held in accordance with Executive Order No. 16, signed by Governor Bill Lee on March 20, 2020, as amended by Executive Order No. 34, signed by Governor Bill Lee on May 6, 2020, allowing a governing body to hold meetings by electronic or other means of communication without a quorum being physically present if the governing body determines that meeting by electronic means is necessary to prevent the spread of COVID-19 or other related epidemics to protect the health, safety and welfare of the public and members of the governing body. All votes taken during this meeting will be by roll call vote.

Ms. Edwards called roll of the members of the Joint Meeting of the MNAA and MPC Finance/ Administration/Properties Committees. All members were present.

III. Approval of Minutes

Chair Farnsworth called for a motion to approve the Minutes of the April 8, 2020 FAP Committee meeting. A motion was made by Commissioner Joslin and seconded by Commissioner Doerge. Ms. Edwards took a roll call vote and the motion carried by vote of 5 to 0.

IV. Chair's Report

Chair Farnsworth stated she had gone through lots of spreadsheets and information regarding the budgets prior to the meeting and thanked President Kreulen for the information.

President Kreulen presented an introduction of FY21 Budget by reporting on FY20 Pre-COVID O&M Expenses. President Kreulen stated staff had gone through seven iterations to come up with the FY21 O&M Budget that will be proposed today.

President Kreulen discussed the FY21 O&M Reductions, Airport Capital Reductions, and Airline Capital Reductions. Total reductions for FY21 were approximately $58M.

The financial team that has worked on the budget consisted of:

- MNAA staff
- Landrum & Brown (Airport Consultant)
- PFM (Financial Advisors)
- InterVISTAS (Air Service Consultant)
- Bank of America (Underwriter)
- Airports Council International

Four enplanement scenarios were discussed. The industry as a whole believes recovery will vary from 1 ½ – 3 years. President Kreulen presented a graph of the four different scenarios evaluated by the financial team. To prepare for the FY21 budget, staff used a 2 – 2 ½ year recovery period. President Kreulen discussed FY19 enplanements and compared those numbers to projected FY20 and FY21 enplanements.

President Kreulen reported his guidance to the finance team was to:

- Make debt service payments
- Maintain debt service coverage forecasted in the Official Statement (Maintain Credit Ratings)
- Preserve liquidity for future use (Protect Cash on Hand)
- Minimize impact on landing fees (Help our Customer)

- Use CARES funding ($55M) efficiently

President Kreulen then gave a FY21 Budget Summary which consisted of projected enplanement numbers presented in previous monthly president's reports since March 2020.

After questions and discussions, President Kreulen concluded his presentation.

V. Items for Approval

Ms. Basrai, Chief Financial Officer, reported BNA had received an approximately $55M grant through the federal government's CARES package. Ms. Basrai presented the CARES (Reimbursable Agreement) Breakdown of operating expenses and debt service coverage through FY22.

A. Approval of FY21 O&M Budget – BNA, MNAA Resolution No. 2020-02

Ms. Marge Basrai briefed the Committee on this item. Staff requested that the FAP Committee recommend to the Board of Commissioners that it approve the proposed operating budget for Nashville International Airport (BNA) for fiscal year 2021 (FY21) and authorize the Chair and President and CEO to execute MNAA Resolution No. 2020-02.

Staff provided the FAP Committee a staff analysis for the FY21 O&M Budget for BNA and a copy of MNAA Resolution No. 2020-02 prior to the meeting.

Ms. Basrai reported a decrease in non-airline revenue of approximately $68.7M which is $50.5M less than FY20. The decrease is due to a decline in passengers which affects parking revenue, in-terminal concessions, car rental revenue, and taxi-cab revenue. Revenue from TNC's is predicted to increase $2.5M due to the new fee instituted in January 2020. Other fees were reduced $3.2M due to lower landing weights predicted. There was an increase of $4M for the CARES fund reimbursement.

The signatory airline revenue was projected at $50.6M for a decrease of $562K from FY20. Landing fees decreased $8.1M ($2.95 in FY21 from $3.07 in FY20). This decrease was offset by a contractual increase of 2.5% for terminal rent for an increase of $3.2M. Baggage claim fees increased for new baggage handling project in FY21. There will be a reduction in airline credit for its share (50%) of in-terminal concession revenue of $1.1M.

Operating expenses budgeted for FY21 are $93.8M, a decrease of $16.1M over the prior year. FY21 baseline operating expenses were initially established using the annualized FY20 spend amounts. Each department was reviewed for additional changes.

- Salaries & benefits decreased $4.9M:
  - Removal of vacant positions, elimination of bonuses, reduction in overtime

- Contractual services decreased $7.7M:
  - $2.2M increase in janitorial services due to increased cleaning from COVID19 and new contract in April 2020 plus the addition of Concourse D and the new parking garage
  - $7.5M reduction in parking lot operations and shuttle bus services due to closing of surface parking lots
  - $1.7M reduced security services for low passenger volume
  - $777K reduced credit card fees due to less parking revenue
- Other expenses decreased $2.4M:
  - Reduction in travel/training, advertising, business development, and sponsorships

The Net Non-Operating Income (Expense) was $11.9M a decrease of $29.3M. Interest income increased $4.7M due to the additional cash from bond issue, offset by lower interest rates in the current economic environment. Other non-operating revenue increased $28M due to reimbursement of CARES funds for debt service payments. There was a decrease in Passenger Facility Charges and Customer Facility Charges from reduction of passengers. Interest expense increased $43.2M due to issuance of 2019 A&B Airport Revenue Bonds in December 2019.

Commissioner Crumbo excused himself from the meeting at 10:30 a.m.

After questions and discussions, a motion was made by Commissioner Joslin and seconded by Commissioner Doerge to approve the proposed operating budget for Nashville International Airport BNA for FY21 and authorize the Chair and President and CEO to execute MNAA Resolution No. 2020-02. Ms. Edwards took a roll call vote and the motion carried by vote of 4 to 0.

B. Approval of FY21 Capital Budget – BNA, MNAA Resolution No. 2020-03

Ms. Basrai briefed the Committee on this item. Staff requested that the FAP Committee recommend to the Board of Commissioners that it: 1) approve the proposed FY21-FY25 BNA Capital Improvements Plan, and 2) approve the proposed FY21 BNA Capital Improvements Budget, and 3) authorize MNAA to accept the grant(s) from the Federal Aviation Administration (FAA) for Federally funded projects and from the State of Tennessee for state funded projects, and to designate the President & CEO, or designee, as the authorized representative of the Authority, and 4) authorize the Chair and President & CEO to execute MNAA Resolution No. 2020-03.

Staff provided the FAP Committee a staff analysis for the proposed FY21-FY25 BNA Capital Improvements Plan, the proposed FY21 BNA Capital Improvements Budget, and a copy of MNAA Resolution No. 2020-03 prior to the meeting.

Ms. Basrai reported the proposed Capital Improvements Budget for FY21-FY25 was $1.3B. Given the current economic impact of COVID-19 and the unknown path of recovery, the Capital Improvements Budget for FY21 (FY21 BNA CIP Budget) has been reduced significantly to $15M. Major projects for FY21 include Concourse A Ramp Expansion (Design Only); Baggage Handling Modifications Phase I; and Concourse B, C, & AB Apex Terrazzo and Carpet. Funding allocation for these projects are derived from MNAA Authority Fund, MNAA Airline Fund, Federal Entitlement, and Bond Funds. All projects are contingent upon the approval and availability of the various funding sources. The projects and costs for FY22-FY25 are a planning tool and are only estimates at this time. Those numbers will be updated annually and presented to the Board.

A motion was made by Commissioner Freeman and seconded by Commissioner Joslin to: 1) approve the proposed FY21-FY25 BNA Capital Improvements Plan, and 2) approve the proposed FY21 BNA Capital Improvements Budget, and 3) authorize MNAA to accept the grant(s) from the Federal Aviation Administration (FAA) for Federally funded projects and from the State of Tennessee for state funded projects, and to designate the President & CEO, or designee, as the authorized representative of the Authority, and 4) authorize the Chair and President & CEO to execute MNAA Resolution No. 2020-03. Ms. Edwards took a roll call vote. The motion carried by vote of 4 to 0.

C. Approval of FY21 O&M Budget – JWN, MNAA Resolution No. 2020-04

Ms. Basrai briefed the Committee on this item. Staff requested that the FAP Committee recommend to the Board of Commissioners that it approve the proposed operating budget for John C. Tune Airport (JWN) for FY21, and authorize the Chair and President & CEO to execute MNAA Resolution No. 2020-04.

Staff provided the FAP Committee a staff analysis for the proposed operating budget for JWN for FY21 and a copy of MNAA Resolution No. 2020-04 prior to the meeting.

Ms. Basrai reported the FY21 Budget was $572K, a decrease of approximately $374K. Space rental/flowage fees decreased due to destruction incurred from the tornado in March 2020. There was an increase of $69K for CARES reimbursement.

Operating expenses were $847K for an increase of $177K. FY21 baseline operating expenses were initially established using the annualized FY20 spend amounts. The department was reviewed for

additional changes. $236K was added for consulting services to redevelop JWN and the budget was offset by decreases in other operating expenses (travel/training, utilities, etc.). Interest income was decreased to $500 for a difference of $28.5K over the prior year due to lower interest rates in the current economic environment. FY21 Income (Loss) before Depreciation, Grants and Transfers from MNAA was ($274,500). In March 2020 JWN did receive $3M as an advance in insurance recovery and that will help pay for the $274,500 loss.

After questions and discussions, a motion was made by Commissioner Freeman and seconded by Commissioner Joslin to approve the proposed operating budget for JWN for FY21, and authorize the Chair and President & CEO to execute MNAA Resolution No. 2020-04. Ms. Edwards took a roll call vote. The motion carried by vote of 4 to 0.

D. Approval of FY21 Capital Budget – JWN, MNAA Resolution No. 2020-05

Ms. Basrai briefed the Committee on this item. Staff requested that the FAP Committee recommend to the Board of Commissioners that it: 1) approve the proposed FY21-FY25 JWN Capital Improvements Plan, and 2) approve the proposed FY21 JWN Capital Improvements Budget, and 3) authorize MNAA to accept the grant(s) from the Federal Aviation Administration (FAA) for Federally funded projects and from the State of Tennessee for state funded projects, and to designate the President & CEO, or designee, as the authorized representative of the Authority, and 4) authorize the Chair and President & CEO to execute MNAA Resolution No. 2020-05.

Staff provided the FAP Committee a staff analysis for the proposed FY21-FY25 JWN Capital Improvements Plan, the proposed FY21 JWN Capital Improvements Budget, and a copy of MNAA Resolution No. 2020-05 prior to the meeting.

Ms. Basrai reported the total five-year plan is $29.9M. The FY21 budget is $10.1M. Given the impact of the recent tornado that caused damage at JWN, the current economic impact of COVID-19 and the unknown path of recovery, the Capital Improvements Budget for FY21 (FY21 JWN CIP Budget) consists of one project for $10,100,000; the Air Traffic Control Tower and Access Road. MNAA will be working with a consultant to create a development plan for JWN. Once the plan is completed and the amount of insurance proceeds from the tornado are known, the staff will recommend an amendment to the FY21 JWN CIP Budget, if needed.

A motion was made by Commissioner Freeman and seconded by Commissioner Joslin to: 1) approve the proposed FY21-FY25 JWN Capital Improvements Plan, and 2) approve the proposed FY21 JWN Capital Improvements Budget, and 3) authorize MNAA to accept the grant(s) from the Federal Aviation

Administration (FAA) for Federally funded projects and from the State of Tennessee for state funded projects, and to designate the President & CEO, or designee, as the authorized representative of the Authority, and 4) authorize the Chair and President & CEO to execute MNAA Resolution No. 2020-05. Ms. Edwards took a roll call vote. The motion carried by vote of 4 to 0.

E. Approval of FY21 O&M Budget – MPC, MPC Resolution No. 2020-01

Ms. Basrai briefed the Committee on this item. Staff requested that the MPC Finance, Administration and Properties (MPC FAP) Committee recommend to the Board of Directors that it approve the proposed operating budget for MNAA Properties Corporation (MPC) for FY21; and authorize the Chair and President & CEO to execute MPC Resolution No. 2020-01.

Staff provided the MPC FAP Committee a staff analysis for the proposed operating budget for MNAA MPC for FY21 and a copy of MPC Resolution No. 2020-01 prior to the meeting.

Ms. Basrai reported the MPC Operating Budget for FY21 is $2.8M which is a decrease of approximately $447K over the prior year. To estimate a potential reduction of revenue due to the current economic environment, leases set to expire in FY21 were assumed to not be renewed. Those leases were budgeted at $0 at expiration date.

Operating expenses are budgeted at just under $1.3M which is a decrease of $325K over the prior year. FY21 baseline operating expenses were established using the annualized FY20 spend amounts. The department was reviewed for additional changes. No additional adjustments were made to the baseline.

Interest income is expected to decrease by $21,300 due to lower interest rates in the current economy. Interest expense is expected to decrease by $4,600 due to the intercompany loan between MPC and BNA being paid off on April 1, 2021.

After questions and discussions, a motion was made by Director Joslin and seconded by Director Freeman to approve the proposed operating budget for MPC for FY21 and authorize the Chair and President & CEO to execute MPC Resolution No. 2020-01. Ms. Edwards took a roll call vote. The motion carried by vote of 4 to 0.

F. Approval of FY21 Capital Budget – MPC, MPC Resolution No. 2020-02

Ms. Basrai briefed the Committee on this item. Staff requested that MPC FAP Committee recommend to the Board of Directors that it: 1) approve the proposed FY21-FY25 MPC Special Projects Plan (FY21-FY25 MPC Capital Improvements Plan), and 2) approve the proposed FY21 MPC Special Projects

Budget (FY21 MPC Capital Improvements Budget), and 3) authorize MNAA to accept the grant(s) from the Federal Aviation Administration (FAA) for Federally funded projects and from the State of Tennessee for state funded projects, and to designate the President & CEO, or designee, as the authorized representative of the Corporation, and 4) authorize the Chair and President & CEO to execute MPC Resolution No. 2020-02.

Staff provided the MPC FAP Committee a staff analysis for the proposed FY21-FY25 MPC Capital Improvements Plan, the proposed FY21 MPC Capital Improvements Budget, and a copy of MPC Resolution No. 2020-02 prior to the meeting.

Ms. Basrai reported staff annually presents a five-year special projects plan. The total five-year plan is $7.2M. Given the current economic impact of COVID-19 and the unknown path of recovery, the MPC Capital Improvements Budget for FY21 is $0. The projects for FY22-25 are for window replacement.

A motion was made by Director Joslin and seconded by Director Freeman to 1) approve the proposed FY21-FY25 MPC Special Projects Plan (FY21-FY25 MPC Capital Improvements Plan), and 2) approve the proposed FY21 MPC Special Projects Budget (FY21 MPC Capital Improvements Budget), and 3) authorize MNAA to accept the grant(s) from the Federal Aviation Administration (FAA) for Federally funded projects and from the State of Tennessee for state funded projects, and to designate the President & CEO, or designee, as the authorized representative of the Corporation, and 4) authorize the Chair and President & CEO to execute MPC Resolution No. 2020-02. Ms. Edwards took a roll call vote. The motion carried by vote of 4 to 0.

Commissioner Joslin complimented Ms. Basrai on her work as CFO.

G. Approval of FY21 Corporate Insurance Policies Renewal

Mr. Edward McDonald, AVP, Risk Management, briefed the Committee on this item. Staff requested that the FAP Committee recommend to the Board that it authorize the renewal of the Authority's FY21 Corporate Insurance policies by the President & CEO.

Staff provided the FAP Committee a staff analysis of the FY21 Corporate Insurance Policies Renewal prior to the meeting.

Willis Towers Watson (Willis) and partner, Alexander & Associates, provide broker services for MNAA's insurance program. Their broker fees are commission-based and are included in the amounts to be discussed. The insurance rates vary per policy; however, the primary cost determinants include market conditions, risk exposures, and enterprise risk profile. The current global insurance market is firm; the

present environment creates little flexibility for negotiating lower rates. The Authority's risk exposures are at the aviation industry standard and will negatively influence the insurance rates this renewal. The Authority currently has two major claims due to the tornado and pandemic; these claims may have an adverse impact on renewal costs.

The worker's compensation profile for the Authority is excellent with a 0.69 Experience Modification Rate and the Authority received a reimbursement of $45,619.00 for that Rate. The following insurance policies have a global market projection greater than a 20% rate increase:

1. Property
2. Aviation General Liability
3. Directors and Officers (already renewed)

The expiring premiums for FY19-20 renewal are $1,438,322.09. The projected premiums for FY21 renewal are $1,873,644.54. The year-over-year renewal variance is a projected increase of $435,322.45. The percentage rate received by the broker is approximately 16% which would equal $250-300K. Mr. McDonald stated MNAA is looking at changing its brokerage structure to a flat rate versus a commission rate.

President Kreulen stated MNAA has never sent out an RFP for brokerage services. MNAA is currently working on an RFP for insurance services. MNAA is also looking at self-insuring to some degree in the future.

After questions and discussions, a motion was made by Commissioner Joslin and seconded by Commissioner Freeman to authorize the renewal of the Authority's FY21 Corporate Insurance policies by the President & CEO. Ms. Edwards took a roll call vote and the motion carried by vote of 4 to 0.

H. Approval of BNA Concessions Contract 3rd Amendment (Monthly MAG Calculation)

Ms. Margaret Martin, VP, Chief Development Officer, briefed the Committee on this item. Staff requested that that the FAP Committee recommend to the Board of Commissioners that it amend the Lease and Concession Agreement between MNAA and Fraport Tennessee, Inc., for the BNA Concessions Program.

Staff provided the FAP Committee a staff analysis of the BNA Concessions Contract 3rd Amendment (Monthly MAG Calculation) prior to the meeting.

The current BNA Concessions Agreement contains a provision for abatement of MAG (Minimum Annual Guarantee) based on annual comparison of actual enplanements over the lease year to the

projected enplanements set forth in the contract. Due to the financial impacts of COVID-19 on the concession program at BNA, Fraport has requested that this comparison be done monthly for a period of time instead of annually in order to reduce the MAG more immediately than would occur if there were an end of year credit due. Current enplanement projections from MNAA indicate that MNAA would owe Fraport a credit of approximately $4.5M at the end of the CY20 lease year due to decreased enplanements. CY2020 abatement is required if enplanements are less than 6.8M. CY2021 abatement is required if enplanements are less than 6.9M.

BNA concession sales have dropped, which directly impacts the ability of the concession operators to pay rent. Sales were as follows:

- February 2020: $7M
- March 2020: $3.5M
- April 2020: ~$275K

The adjustment of this calculation from annual to monthly will provide immediate financial relief to both Fraport and its BNA sub-tenants as Fraport is required to provide the same abatement to sub-tenants and has no negative financial impact to MNAA. This monthly reconciliation also means that MNAA can avoid a large financial credit at the end of CY2020 by providing that credit monthly.

This third amendment would apply on a monthly basis effective March 1, 2020 through December 31, 2021, or until new forecasted enplanements reach 90% or greater of 1/12th of the projected enplanements set forth in the contract, whichever first occurs.

After questions and discussions, a motion was made by Commissioner Joslin and seconded by Commissioner Freeman to amend the Lease and Concession Agreement between MNAA and Fraport Tennessee, Inc., for the BNA Concessions Program (Monthly MAG Calculation). Ms. Edwards took a roll call vote and the motion carried by vote of 4 to 0.

VI. Information Items

A. Quarterly Retirement/OPEB Investment Report

B. Quarterly Treasury Investment Report

These items were provided for information purposes only to the Commissioners prior to the meeting with no action required.

VII. Adjourn

There being no further business brought before the FAP Committee, Chair Farnsworth adjourned the meeting at 11:23 a.m.

Amanda C. Farnsworth, Board Secretary