

The regular monthly meeting of the Gallatin Airport Authority was held August 11, 2016 at 2:00 p.m. in the Airport Conference Room. Board members present were Ted Mathis, Carl Lehrkind, Kendall Switzer, Karen Stelmak and Kevin Kelleher. Also present were Brian Sprenger, Airport Director, Scott Humphrey, Deputy Airport Director, Troy Watling, Assistant Director of Finance, and Shannon Rocha, Recorder.

Ted Mathis, Board Chair, welcomed everyone to the regular meeting of the Gallatin Airport Authority Board and said members of the public are welcome to comment on a specific agenda item when it is being discussed. There is a sign in sheet if anyone would like to talk during the public comment period.

1. Open bids on Parallel Runway 11-29 Project

Mr. Sprenger called for bids.

The first bid was from Riverside Contracting of Missoula, MT, contractor registration number 7850. The bid bond of 10% was attached. The bid was signed by Dwayne Rehbein, President. Riverside Contracting bid \$5,961,269.00.

The second bid was from Nelcon, Inc. of Kalispell, MT, contractor registration number 6292. The bid bond of 10% was attached. The bid was signed by Sam Weyers, Vice President. Nelcon, Inc. bid \$5,980,695.00.

The third bid was from Montana Civil Contractors, Inc. of Belgrade, MT, contractor registration number 155802. The bid bond of 10% was attached. The bid was signed by Robert Koch, President. Montana Civil Contractors bid \$6,290,329.00.

The fourth bid was from Knife River of Belgrade, MT, contractor registration number 10089. The bid bond of 10% was attached. The bid was signed by Leo Zwemke, Vice President and General Manager. Knife River bid \$7,772,419.25.

Mr. Mathis thanked everyone for their bids.

MOTION: Mr. Kelleher moved to take the bids under advisement and award a contract to the lowest qualified bidder. Mr. Switzer seconded the motion and all board members voted aye. The motion carried.

2. Review and approve minutes of the regular meeting held July 14, 2016

Mr. Sprenger said there were some minor clarifications on page 11 that were included in the board packet.

MOTION: Mr. Switzer moved approval of the minutes of the regular meeting held July 14, 2016 as amended. Mr. Lehrkind seconded the motion and all board members voted aye. The motion carried.

3. Public Comment Period

Mr. Mathis asked if there were any other public comments.

Steve White came to the podium. He said he would first speak as Gallatin County Commissioner. He told the board that the Gallatin County Commission is very impressed with the board and the management of the airport, especially considering the increase of traffic and growth. This board has done such an outstanding job, as have Brian Sprenger and his staff. He thanked each board member for their service.

Mr. White said he would next address the board as a private citizen. He came to give some accolades to staff for the security at the airport. Last May Mr. White's friend's daughter

attended a military funeral in Helena and used this airport to travel home. She brought some mementos from the military funeral. When she went through security, the alarms were set off. She was given a separate check out. The daughter was afraid she wouldn't be able to take the mementos home with her. The daughter was in tears. The security personnel officer gave her a hug and escorted her through. She left Bozeman with a new perspective on the gentleness and respect that security personnel can give people. Mr. White asked that his thanks be passed on to the security personnel. They went the extra mile in this case to someone they didn't know and who was going through a tough time.

There were no other public comments.

- 4. Consider request by Bozeman Hangars 1 & 2 LLC to extend the lease term from 20 to 25 years and the renewal option from 10 to 15 years on hangar developments of 80,000 square feet and greater**

Mr. Sprenger said last August a lease was approved for this facility. Over the past year they have been refining and defining the plans. The cost has escalated. This project is a \$15 million private investment. With the cost involved, it is difficult to amortize over a 30-year lease. The Helena airport has gone to a maximum 40 year lease allowable by state law on the large developments. We have a threshold for 40,000 square feet to go from a 20-year lease to a 30-year lease. This is a 90,000 square foot development. Staff is recommending approval of a 40-year lease on developments of 80,000 square feet or greater. Mr. Sam Byrne was present to discuss the project.

Sam Byrne took the podium. Mr. Byrne is a Managing Partner and co-founder of CrossHarbor Capital which is the primary owner of Yellowstone Club, Spanish Peaks, Moonlight

Basin and a number of large projects in the Town Center of Big Sky. They have enjoyed a fantastic relationship with the Airport Authority over the last 7 years and have collaborated on a number of projects, including customs and a number of flight guarantees. Both entities have been fortunate to benefit from a strong working relationship.

Mr. Byrne said that 2 years ago they started looking to build a couple large hangars to accommodate growth they are having in their market for private aircraft and shuttle aircraft. This was something suggested by their investors and owners because, particularly in the winter months, they are experiencing challenges in parking aircraft. They entered into their lease 1 year ago. They have completed their designs. They are now building what will be two approximately 40,000 square foot class II aircraft hangars connected by 9,000 square feet of support facility. Their intention is to run them privately and have one of the existing fixed-base operators (FBO's) here manage them.

Costs were originally budgeted at \$9 million and have now escalated to just under \$15 million. Their total hard costs are \$140 per square foot. They are also investing a significant amount of money in energy conservation and support equipment due to the proximity of the other 2 facilities. The costs are more significant than planned. They want to move forward with the project. They are asking for some extra time to amortize those costs.

Mr. Switzer asked Mr. Sprenger about the 25-year lease with the 15-year option. Mr. Sprenger clarified that the 15-year option is at their request. The normal non-commercial leases are a 10-year lease with a 10-year option as long as they wish to continue.

MOTION: Mr. Kelleher moved to approve the request by Bozeman Hangars 1 & 2 LLC to extend the lease term from 20 to 25 years and the renewal option from 10 to 15 years on hangar developments of 80,000 square feet and greater. Mr. Switzer seconded the motion.

Discussion: Mr. Kelleher asked Mr. Byrne how tall the doors will be on the hangars. Mr. Byrne said he believes they will be 28 feet but it should be in the attachment to the letter request.

All board members voted aye. The motion carried.

Mr. Sprenger pointed out that CrossHarbor Capital has been a great partner to air service development and customs. Certainly a lot of our success has been through partnerships with entities like theirs. From a staff standpoint, we wish them well.

5. Consider request by Baxter Enterprises to transfer the non-commercial land lease on hangar EV-1 to Kristi L. Dunks

Mr. Sprenger said the hangar is in good shape and the rent is current. Kristi Dunks is moving here from Butte. She has an aircraft she would like to hangar here. Staff recommends approval of the request.

MOTION: Mr. Lehrkind moved to approve the request by Baxter Enterprises to transfer the non-commercial land lease on hangar EV-1 to Kristi L. Dunks. Ms. Stelmak seconded the motion and all board members voted aye. The motion carried.

6. Consider request by Mr. Dennis Mecklenburg to enter into a new 10-year non-commercial ground lease for hangar #69

Mr. Sprenger reported the hangar is in good shape and the rent is current. Mr. Mecklenburg has an Experimenter Super Rebel. Staff recommends approval of the request.

MOTION: Ms. Stelmak moved to approve the request by Mr. Dennis Mecklenburg to enter into a new 10-year non-commercial ground lease for hangar #69. Mr. Lehrkind seconded the motion and all board members voted aye. The motion carried.

7. Consider proposed buy-sell agreement to purchase approximately 60.643 acres from RTDC, LLC

Mr. Sprenger reminded the board that this proposed purchase was discussed last month. We have worked with their realtor. We are under the assumption that they would accept the proposed buy-sell. The agreement was reviewed by legal and Scott Bell. There were two recommended adjustments. The first is that any closing would be upon the completion of the re-alignment of common boundaries. The second adjustment is that we would not pay for the re-alignment of common boundaries unless the fair market value was determined to be at or above the purchase price. We still believe it is a good purchase. It would still have to be appraised. So there are some parts left to complete, but staff recommends approval of the buy-sell.

Mr. Kelleher said his only concern was the alignment of the boundaries, which they are correcting. From a real estate standpoint he didn't see anything out of line. The property appraising is a must so we will see how that goes. He asked if any stipulation has been made on where the appraisal is coming from. Mr. Sprenger said it seems the other party is comfortable using the same appraiser we used on the last property.

MOTION: Mr. Switzer moved to approve the signing of the proposed buy-sell agreement to purchase approximately 60.643 acres from RTDC, LLC. with amended language to include re-alignment of common boundaries that will occur if appraised fair market value is determined at

or above the purchase price and appropriate adjustment of proposed closing date. Mr. Kelleher seconded the motion and all board members voted aye. The motion carried.

8. Fiscal year in review report and report on preliminary FY 2016 operating and concession statistics

Mr. Sprenger reported total passengers for the fiscal year increased 6.3% to 1,060,732.

Operating income increased 7.7% to just over \$9.6 million.

Operating expenses increased 4.7% to \$4.641 million.

Net income increased 10.7% to \$4.9 million. That net income is what we use to reinvest in the airport.

Cash on hand at the end of the fiscal year was \$27,625,000. We have been saving up to begin major construction that is including today's bid project.

Our annual financial audit came in last year with no findings and we were awarded a certificate of achievement for excellence in financial reporting. We also maintained an A3 rating from Moody's.

Our airport remained the busiest airport in the state and accounted for 27.9% of all the airline passengers. Billings was at 22.4% and Missoula was at 19% during the same period.

Alaska Airlines has continued to expand their service to Portland. We also saw the commencement of Dallas Ft. Worth service on American Airlines.

Our FAA certification noted 3 minor deficiencies that have since been corrected.

Our TSA audit was also with no findings.

We completed the I90-East Belgrade interchange project with the help of the city of Belgrade, Gallatin County, and the State of Montana.

We completed the environmental assessment for our runway that we just opened bids for. We completed construction of the north terminal island expansion and the east apron expansion that includes area for the 2 large hangars discussed earlier.

We also facilitated the request for an additional 5 commercial hangars and 11 non-commercial hangars over the year.

We added a second restaurant concession in the concourse.

We are down to one car condo building. We also began facilitation of the removal of the last car condo. In conjunction with that, we will be paving around that building at the end of the month.

On the Concession and Operating Report:

Tower operations were 1.1% higher at 80,629.

Corporate landings of aircraft 12,500 lbs. and above were up a strong 7.9% at 3,073.

Total available seats increased 4.3% on our airlines to 624,000.

Average seats per departure increased 6.9% from 93 seats to 99 seats per departure.

Enplanements were up 6.2% at 530,903 passengers.

Load factor was up 1.5 points to 84.7%.

Concessions:

For the very first time, parking revenue exceeded rental car concession revenue from our rental car companies. This means we are becoming more like other airports where parking is their number one revenue source. It emphasizes the strength of the local economy as well. We are fortunate to have an even mix between the rental car and the parking lot revenue.

Total car rental revenue from concessions was \$2,550,000.

Parking lot revenue was \$2,565,000.

Food and beverage and gift concessions were just under \$1,000,000. We were at roughly \$960,000 in revenue.

Ground transportation was up 12% at almost \$50,000.

Total concession revenue was up 8.9% to \$6.126 million.

Concession revenue per enplanement increased 2.6% to \$11.54.

For customs we were at 2 less landings over the fiscal year. Most of today's report will be included in the next comprehensive annual review.

Mr. Mathis asked if Mr. Sprenger had any numbers on General Aviation (GA).

Mr. Sprenger reported that GA Itinerant was up 1.1%.

Air taxi was up 7%.

On the local side we were up just under 1%.

GA still accounts for approximately 85% of all our operations.

Mr. Sprenger did not have revenue figures for GA. But he did report that we were up about 10% on GA revenue. Mr. Mathis commented it would be interesting to know what percentage of our total income it is. Mr. Sprenger said it is somewhere between 5% and 6%, but he will get him those numbers specifically.

Ms. Stelmak commented to Mr. Sprenger that these accomplishments alone are very impressive. To her, what makes them extraordinary is the fact that they have been accomplished with such a lean staffing model and it has been done so efficiently.

9. Report on passenger boardings and flight operations – Scott Humphrey

Total operations for July 2016 versus 2015 were down 3%. Local GA was down 11.6%. There were 2,533 operations versus 2,866 in the prior July. Military operations were down 36%. That puts us at just under .5% down for the calendar year to this date. Our rolling twelve-month operations were 80,380. Corporate landings were down 1.1% at 362 versus 366 but we are still up for the calendar year at 9.1%. Enplaned passengers were up 10.8% at 67,506 versus 60,899. We had 9,132 additional seats in the market. We filled 72% of the additional seats. Calendar year enplanements are up 8.8%. Rolling twelve-month enplanements are at 537,510. Total deplaned passengers were up 9.7% at 68,943 versus 62,850. Airline landings were up 11% at 748 versus 674. The load factor is down 2% at 84.8% versus 86.8%. Fuel dispensed for June was up 24.9%.

The American Airlines flight is at 81%. They have been having issues with the aircraft. They have had gross weight restrictions due to haul length and weather in the north Texas region. We are not too concerned about the 81%. We have been in contact with American, and they have been in contact with the operator. They are looking toward next summer to address the equipment issues. They are expecting much better operations in the winter.

Mr. Switzer acknowledged that we have been in contact with American. He wanted to know if we are doing everything we can to ease their entry into the market. Mr. Humphrey reported that we have reached out to the three parties involved to address these issues. Conditions have improved. They are concerned the aircraft type may have been the wrong one.

Ms. Stelmak commented that she thinks it is remarkable, with all the additional seats, that our load factor has remained so high.

Mr. Mathis commented that this summer we have two aircraft that come in and out outside of the tower's hours of operation. Mr. Mathis asked if those numbers are included in the report. Mr. Humphrey said they are accounted for, just not under tower operations.

The board thanked Mr. Humphrey for his presentation.

10. Airport Director's Report – Brian Sprenger

Mr. Sprenger reported on the following:

United Airlines is filling in the San Francisco seasonal gaps. Last year they backed off in the January/early February timeframe and did not operate. They will now be operating daily from December 16 through April 3. United's growth at Bozeman has been so strong over the past year that they are now challenging Delta as the number one carrier. From June 1 2015 through May 31 2016 United's seats were 79% of Delta's. From June 1 of this year and projecting into May 31 of next year, which is accurate through January, United is at 97% of Delta's seats. United is making a strong move on the market. A lot of our growth has been based on their growth in the market. Part of the reason for this change is because United has grown and Delta will shrink. For that same period, our growth markets are San Francisco, Portland, Chicago and Newark, growing 20% or more. Three of those markets are United's.

Uber is now in the market. Mr. Humphrey and Mr. Sprenger had discussions with them yesterday. They understand the state laws very well. We emphasized to them that we aren't regulating them in the market, but if they want to utilize the curb they have to pay the same as other users. We will see how they respond. Some of their drivers have voluntarily come to us to pay the \$1.50/passenger on an individual basis. This surprised Uber. We are planning to talk to them more on a conference call in the next week or so. Tomorrow we have a meeting with both

Yellowstone Jet Center and Arlins. It is an exploratory meeting regarding upcoming leases over the next year and to see if there is any possibility of lease re-alignment.

Tonight at 7:45 p.m. Omni 777 will be arriving bringing the troops home and will be staying overnight. This is the second Triple 7 we have had.

Taxiway Alpha 3 is now under construction through the end of the month. It is a challenge to take the center taxiway out of service. Once that ends we will begin the rehabilitation of Alpha on the west end moving east. Also at the end of the month we'll start the parking lot expansion around the sole remaining car condo building.

We finally have the discretionary funding. We have a half million dollars more than was originally planned.

The Northwest Chapter of the American Association of Airport Executives conference is coming up at the end of the month. We are expecting around 180 people. They sold out on all the exhibitor space and have a waitlist. Taylor Middleton will be the keynote speaker for Thursday's dinner.

TSA pre-check enrollment will be returning Sept 12-23. Mr. Mathis asked how that will be advertised. Mr. Sprenger said it is on our website. TSA will do a major PR blitz about 1 week in advance on the television. Something will probably be featured in the Bozeman Chronicle. Ms. Stelmak asked if people will be able to call and make an appointment. Mr. Sprenger said that can be done online.

The board thanked Mr. Sprenger for his report.

11. Consider bills and approve for payment

The bills were reviewed and detailed by Mr. Sprenger.

MOTION: Ms. Stelmak moved to pay the bills and Mr. Kelleher seconded the motion. All board members voted aye and the motion carried unopposed.

Mr. Mathis mentioned that tomorrow marks the retirement of one of our long time employees, Pat Teague. Pat has been an exemplary employee who could build and fix anything. He will be missed and we wish him the very best.

12. Adjourn

The meeting was adjourned at 2:51 p.m.

A handwritten signature in cursive script that reads "Ted Mathis". The signature is written in black ink and is positioned above a horizontal line.

Ted Mathis, Chairman