

The regular monthly meeting of the Gallatin Airport Authority was held October 8, 2009 at 3:00 p.m. in the Airport Conference Room. Board members present were Steve Williamson, Richard Roehm, Kevin Kelleher, John McKenna, and Greg Metzger. Also present were Brian Sprenger, Airport Director, Scott Humphrey, Deputy Airport Director, Jody Boyd, Office Assistant and Cherie Ferguson, Office Manager.

The first agenda item was to review and approve the minutes of the regular meeting held September 10, 2009. John McKenna moved to approve the minutes of the September meeting; Richard Roehm seconded the motion and it was a unanimous decision to approve the minutes.

The second agenda item was the public comment period. There were no public comments.

The third agenda item was to meet the staff– Bill Dove. Brian Sprenger said the last time Chief Dove was scheduled to speak, the President was coming to Bozeman and today he is sick so he's asking Jody Boyd to introduce herself. He said Ms. Boyd is taking the notes for the first part of the meeting as Cherie Ferguson is finishing the bills for the month as it is an early meeting this month.

Ms. Boyd said she is the Office Assistant and has been at Gallatin Airport Authority for one year and three months. She said she graduated from Grays Harbor College with her Associate of Art's degree in Aberdeen, Washington where she played volleyball, basketball and some softball. She got her Bachelor's Degree in Human Development from Washington State University in Vancouver. She worked one summer at a cannery in South Naknek, AK. Ms. Boyd said it was a pretty nasty job. She worked at Horizon Air for eight years: two years in Bellingham, a couple of years on the ramp in Portland, one summer in Seattle, and two years in Accounts Payable after she graduated from college. She also worked a year and

a half in their employment department. She also worked for the Seattle Mariners for 2 ½ seasons in Guest Services.

On a personal level she has been married a little over one year to Jason Boyd, the local manager at Horizon. She grew up in South Bend on the Washington coast and is the third of four girls. Her dad is a log truck driver. Her Montana highlight is that she recently learned to snowmobile. She is a fan of the Mariners and the Minnesota Twins, and a Kirby Puckett fan. Her husband is also a Minnesota Twins fan. Ms. Boyd has also skydived twice.

Steve Williamson said we are glad to have her on board and it is nice to learn about her. The board thanked her for her presentation.

The fourth agenda item was to consider Guaranteed Maximum Price – Schedule III of the Terminal Expansion Project. Mr. Sprenger said he wanted to break things down to make it easier to follow. He said the original estimate for Bid Package III was just over \$17 million and our actual guaranteed maximum price (GMP) came in at \$13,776,391. He said there were two smaller alternates, one for apron lights and for a dry-type fire system for the computer server room in the addition. He said he would recommend both of those 100%. The lights will give us standard lights around the apron and we won't have to have the Bozeman fire department come out to change the lights and it will be safer. These two additions will raise the total price to \$13,909,350. That compares to the original estimate with the contingencies of \$18,455,824. Overall the savings would be about \$4.5 million from what we have been budgeting.

He said there is another alternate he would like the board to consider and that is the alternate 60 ft. extension on the terminal building. He said it was an alternate we felt we could live without for a while if the bids came in higher. The cost would be \$1.1 million if we do it now and it would give us one additional gate. If we do it later we would have to

move the bridge again, which costs about \$150,000 to move. Mr. Sprenger said the dual-gate situation was designed for the airlines that have multiple operations. Delta and United have currently have multiple operations. This bridge is Q400 capable and Frontier and Horizon use it now. He said we are just making do now. If we add the extension and gate later, it will probably cost double. He said the recommendation is to add this alternate at this time. We have the money in the budget for it because of the bonds and the lower bids. It does mean we have a million less in reserve and that is a consideration.

Mr. Williamson said Mr. Sprenger, Mr. McKenna and he discussed this when they were working on the bonds and they were trying to determine how important it would be to do now. Mr. Roehm said it was important to know how important it is to do now and asked if the existing heat and ventilation design can handle it. Mr. Sprenger said this was in the original design and can accommodate it without additional design or equipment. It was already bid as an alternate and the board can accept or reject the option.

Greg Metzger said he doesn't want to spend the extra million but sees a benefit of doing it now rather than having the disruption later, plus it may cost more later. So he thinks we should do it now and provide a finished facility for a longer period of time. He said it looks like the board is on the right path. Kevin Kelleher said, since the total project cost is \$40 million, he believes this \$1 million project is a bargain and he believes it would be a mistake to not go with the extra gate and it may attract additional air service. He has seen people not build to adequate capacity in the Big Sky area and it turned out poorly. He thinks what we've seen with the TSA package and what we have for cost estimates, it would be foolish and wouldn't benefit the taxpayers if we wait several years. There would be additional disruption later and he believes going ahead with this would benefit the people using this airport. Mr. Roehm said Mr. Sprenger had given them a cash-on-hand spreadsheet

showing that 2011 was the low point. He asked if that would still hold true given the benefits from the low bids and the bond sales. Mr. Sprenger said we are substantially above where we had projected back then because in our current cash flow analysis, we have moved the airlines, the loading bridges, we have all the equipment and the systems in the building and all have been funded. Before, we held those out in case we were going to be short. We are now estimating our low point would be one year's cash on hand for our available funds, not including the \$1.2 in bond fund reserves, so we maintain a little over \$4 million. He said we build up fairly quickly and four years from now we estimate, including the \$1.2 in bond fund reserves, almost \$10 million in cash reserves if all the variables are the same as they are projected. Mr. Roehm said it is a positive that we would be better off than our original projection. Mr. McKenna said he doesn't have any concerns of the value of construction but does have nagging concerns of testing the process and making good financial decisions. He said that a month ago, we were prepared to fund the bonds at about 1 ½ percent higher and probably saved enough to fund this part of the project. He said he is choking at spending the money but believes this is the right thing to do.

Mr. Williamson asked how much our server costs because it will cost \$18,000 for the dry-type fire suppression system. Mr. Sprenger said it is for the servers for the TSA and the individual airlines' systems as well, plus our server includes the servers required for the closed circuit television, TV cameras, and the access control systems. Any water damage could shut down a lot of those areas and could have a big impact all at once. The cost of equipment wouldn't come to \$18,000 but the water damage could cause a lot of inconvenience. If the water system failed, it could cause a big inconvenience for our customers, even if we didn't have a fire. Mr. Sprenger said this is an advantage of using our consultants from RS&H. They added this after reviewing what was planned. Jamie Lenon

said it was planned somewhere, but by law they have to protect the entire building, so they designed a blanket sprinkler system for the entire airport and didn't know where the servers would go.

Greg moved that we accept Bid Package III (BP3) guaranteed maximum price (GMP) for \$14,926,535, which includes alternates 1, 2 and 3. Mr. Roehm seconded the motion and it passed unanimously.

The fifth agenda item was to consider Final Bond Resolution. Mr. Williamson said Mr. McKenna alluded to the fact that we had a pretty good bond sale. He said Bridget Ekstrom from D.A. Davidson was present and asked her to comment. Ms. Ekstrom said they were pleased to be able to report great news to the full board. She said the sale went extremely well. He said the bond agreement was signed last night at 4:30 p.m. after a successful offering that day. She gave the board a spreadsheet that summarized estimates on interest rates for the bond issue, maximum annual debt service, coverage and total interest over the life of the bonds. Moody's came back with an "A3" rating, which was, in addition to other things, a great factor in being able to lock in the low interest rates. She said if we had been rated "Baa", as most airports our size are, we would have total interest of about \$12.1 million. Instead, our total interest came in at \$10,824,228 so the benefit to us was about \$1.3 million in lower interest costs. She said they estimated that about \$4 million of the bond issue sales were in Gallatin County just with D.A. Davidson and a couple more million were sold locally through other investment companies. She said there were about \$2 million that haven't been sold yet but will be sold locally.

Ms. Ekstrom said not many airports this size receive an "A3" rating. The five strengths Moody's pointed out is our stable, local service area has driven long-term enplanement growth, limited air service competition, low plan borrowing needs, very strong

internal liquidity and enplanement projections. Enplanement levels were up for fiscal year 2009 and the first two months of this fiscal year. We are also able to levy if we choose to but haven't done so since 1990. If we were unable to meet our bond obligations, that would be justification to request the levy. State law is not clear if we would have to have approval of the taxpayers before the mil levy could be approved. The County Commissioners would have to make that determination. We had to present the worst case scenario to Moody's for the rating. 2 mils is about \$455,000 per year.

Mr. McKenna complimented D.A. Davidson for performing well and sticking up for Gallatin Airport Authority. Mr. Roehm thanked Mr. Williamson, Mr. McKenna and Mr. Sprenger. Mr. Roehm thanked Mr. Sprenger and staff and D.A. Davidson. Ms. Ekstrom said the closing on October 21st is the last formal item. Mr. Sprenger thanked D.A. Davidson, Koegen & Edwards, and Dorsey & Whitney and said it really makes a difference when the board hires a good group of people. He said we did have a good group of people to work with and it shows with the results we have.

Mr. Sprenger said we have one resolution we need to adopt, Resolution No. 2009-4, entitled: "Resolution relating to the Gallatin Airport Authority; prescribing terms and conditions for the issuance of revenue bonds to finance improvements thereof; authorizing the issuance of Airport Revenue Bonds, Series 2009 (PFC supported) and fixing the terms and conditions thereof; creating special funds and accounts and pledging certain revenues as security for such bonds". Mr. Metzger moved that we adopt Resolution Bond 2009-4 as presented in the board packet. Mr. Roehm seconded the motion and it carried with all ayes. The bond resolution was approved.

The sixth agenda item was to consider NorthWestern Energy Agreement. Mr. Sprenger said the money was budgeted but it is frustrating as this used to be free in the past

because it was more of a public service than an enterprise. He said the terminal building will require a lot of electricity and gas and we would like to provide redundancy in our power system so if we lose heating and lighting, we have generator capacity to take care of the terminal building in the absence of both power and gas. Belgrade doesn't have big enough gas lines to support this size of building. We are just paying to upgrade from 6" to 8" from Belgrade to the terminal. NorthWestern Energy helped with the location so we would have gas in the area when the I-90 interchange goes in and the infrastructure is developed in that area, we may receive rebates on our costs. There is a five year limit on the rebates. We are starting to see potential development interest due to the interchange. If the interchange goes in by 2012, we would beat the five years. We are able to get NorthWestern Energy to provide power to the car wash facility if the board is willing to approve the \$43,000. We had estimated \$45,000 and it is in the budget. Mr. Sprenger said it's a lot of money and is one of the most frustrating parts of the project for him. He said the overall savings were about \$150,000 over what they had budgeted, but it is still \$621,000 more than he thinks we should have to pay.

Mr. Roehm said Montana Power used to put the line in and then you bought the energy from them from the point of departure at your building. Mr. McKenna asked if we gave them ground for a gas regulator site a few years ago and Mr. Sprenger said that is working to our advantage now. He said it is pretty close to us and if it wasn't there, we would have had to pay for 8" lines for a couple more miles. Mr. McKenna asked if there is anyone else we can buy gas from and if we should make it known to NorthWestern Energy. Mr. Sprenger said we need to look at competitively bidding the gas. Mr. Roehm asked how long we are tied in if we approve this. Mr. Sprenger said he didn't know but it allows NorthWestern Energy to start working right away. Mr. McKenna said they're not

embarrassed at how much they're asking. Mr. Sprenger said they are absorbing the 6" cost. We are paying for the 6" portion that is on our land. Mr. Bell said they brought NorthWestern Energy down as much as they could. He said so much per foot for 8" and 6" is canned and that is where they got them down \$100,000.

Tony Martel said the Public Security Commission gives them the right to add 40% if someone subcontracts to put in your own lines because NorthWestern Energy has the responsibility for the lines.

Mr. McKenna asked if NorthWestern Energy will make sure the land will be topsoil ready. Mr. Bell said Ted Mathis had been successful in past writing letters to them to make sure they will do that. Mr. McKenna said this board is sensitive to adding another hundred grand here and another \$150,000 there. Mr. Bell said it is his opinion that we can do the topsoil cheaper than having them do it. Mr. Metzger said he doesn't see a completion date and asked if we have to pay before they start. Mr. Bell said their cost to us will go up after January 1st so we will pay now. Mr. Metzger asked if it would be done by the end of June. Mr. Bell said they're working with Martel's contract to have it done before we put in concrete. Mr. Metzger moved we approve a cost not to exceed \$664,522.00 to bring gas and electric to the new terminal and car wash facilities. Mr. Kelleher seconded the motion. All board members voted aye and Mr. Williamson said we just approved another expenditure to NorthWestern Energy.

The seventh agenda item was the report on passenger boardings and flight operations – Scott Humphrey. Mr. Humphrey reported that we had a good two months in terms of passenger boardings. He said we are seeing some decline now along with the rest of the country. For September, enplanements were down 1.8% and deplaned passengers were down 2.5%. Year-to-date enplanements were down 1.8% compared to last year. Mr.

Humphrey said he attended the Boyd Aviation Group's conference and they're projecting a 9% reduction for domestic enplanements for 2009. We're trending down slightly but we're doing better than most of the country.

Delta and Frontier are taking capacity out of the market, which is pushing load factors up into the high 80s and low 90% range, so we saw a 15% reduction in air carrier operations in September. He said we saw a 20% reduction in total general aviation (GA) traffic. JetA and AvGas were down 8.2% due to the loss of air carriers. JetA bounced at 1%. Load factors were in the low 90s and high 80s except Allegiant, which had a 65% load factor. Allegiant has adjusted their frequencies to leaving Friday and Monday evenings and we hope that will bring their numbers up.

He said we have opened up a dialogue with American Airlines and we hope to have some more news at the next board meeting. Mr. Roehm asked Mr. Humphrey what else he gleaned from the conference and Mr. Humphrey said capacity reduction is in everybody's best interest. He said airlines are looking at quality versus quantity, yield versus volume. That bodes well for us because generally we have a higher yield than most of the airports in the region and that is something we are going to discuss with American Airlines.

Another point they made at the conference was that the 50-seat regional jet (RJ) is dead. At \$75 a barrel, if you're over an hour from a hub and you're using a 50-seater, the economics don't work. He said there is no secondary market for the RJs. We will probably see 70-seaters replacing our 50-seat RJs. Some airports in Midwest communities are at risk for losing air service. We're in range of Seattle, Salt Lake City with 50-seat RJs and Chicago with the 70-seater, so we won't be impacted as much as some other regional cities.

\$74 barrel seem to be the normal. Airbus thinks it will go to \$105. A consultant from Opus doesn't see why it's at \$74 now. They say demand has dropped and they don't see

demand reaching the 2007 levels for another 15 to 20 years, especially in aviation. People have changed their driving habits in the automotive sector. He said it took 20 years for world demand to catch back up to the 1978-1979 levels from the oil embargo we had back in the 70s. Boyd Group thinks gas will stay at \$74.00.

Mr. Williamson asked if congestion will go down if we go to larger jets and Mr. Humphrey said the aircraft use the same air space but the congestion will decrease because no one will serve the small airports. Boyd Group says NextGen is a farce and thinks Randy Babbitt in the FAA will help drive change. Something else needs to be brought up in the interim to alleviate some of the congestion.

Mr. Metzger asked why people are flying out of Billings and Mr. Sprenger said what we've seen is an over adjustment last year. Everybody pulled back because of that and quickly found out they pulled back too far and our load factors jumped up. Frontier's load factor was 94% for the month of September and that is why they reinstated a flight in November and United announced San Francisco service.

Billings didn't see the bump last year and didn't see the reductions this year. There are no seats here. Billings has seats. Mid September to mid November will be affected by not enough seats and that is why we are having a conversation with American. Mr. Humphrey said they would probably start with Chicago service and if that goes well, we believe they will look at seasonal service out of Dallas. They have been thinking about us for some time. The board thanked Mr. Humphrey.

The eighth agenda item was the Director's Report – Brian Sprenger. Mr. Sprenger reported that the projects are going well and the basement area excavation portion of the terminal is pretty much done. Martel completed the loading bridge move this week, which moved the bridge at the end of the Horizon gate area closer to the Delta loading bridge. Mr.

Sprenger said that is pretty much the last item that impacts the flying public. He said Martel did an excellent job with the move and it went without a hitch.

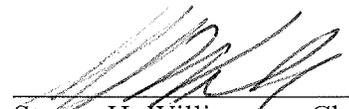
Mr. Sprenger said we would be working on some key financial parameters now that we are going to be working down our cash balance over the next 18 months and we want to provide some key items on a regular basis compared to budget. Three of the key items are budgeted enplanements versus actual; current cash reserve balance compared to our budget, and revenues and expenses compared to budget. We generally don't budget on a monthly basis at the airport but will move toward that because of the importance of the project. He wants to give the board good, up-to-date information on the project and the overall operation and hopes to avoid any surprises. If the board wants anything else, he asked them to please let him know. Mr. Williamson said he would like to see the cash balance.

Mr. Sprenger said Michael O'Connell, from the FAA, called this afternoon and he is following up on a few items on approach control. At the facility in Billings, they appear to be about to begin training on the STARS system. They don't have STARS in Billings, but we do, and even they don't know why they are being trained on STARS. Mr. Sprenger said we are continuing to push every angle we can but are cautiously optimistic we are moving forward. Mr. Roehm asked about the letter the board sent the FAA and Mr. Sprenger said that is why Mr. O'Connell called today. That letter went to the Airport side instead of the Air Traffic Control side. The Airport side is very good to work with, but the two sides don't work together well. The Airport side is following up on the letter to try to make sure we get some action. Mr. Sprenger said he told Mr. O'Connell that if the Airports side of the FAA operated like the Flight Standards Side, we would still be using only Kitty Hawk. That's the reaction we get from that side. We are getting quite a bit of support from the Airport side and the Congressional intervention is also helping.

Mr. McKenna asked about problems the Chronicle has had in putting the agenda in and asked if we could use the website for our legal notice. Mr. Sprenger said he is waiting for a call from Trent Gardner and it may be that what the public is used to is the standard. In order to use the agenda on the website as our official announcement, we will have it as an agenda item at the next board meeting. The board members and Mr. Sprenger agreed the agenda would still be advertised in the Chronicle but that wouldn't be our official notice.

The ninth agenda item was to consider the bills and approve for payment. After review and discuss of the bills, Mr. McKenna moved to pay them and Mr. Kelleher seconded the motion. The motion carried unopposed.

The meeting was adjourned at 4:35 p.m.



Steven H. Williamson, Chair