

The regular monthly meeting of the Gallatin Airport Authority was held February 11, 2010 at 3:00 p.m. in the Airport Conference Room. Board members present were Richard Roehm, Steve Williamson, John McKenna and Kevin Kelleher. Greg Metzger was unable to attend the meeting. Also present were Brian Sprenger, Airport Director, Scott Humphrey, Deputy Airport Director and Cherie Ferguson, Office Manager.

The first agenda item was to review and approve the minutes of the regular meeting held January 14, 2010. Kevin Kelleher noted that the date at the top of the minutes that was sent to the Board members was incorrect. John McKenna moved to approve the minutes with the date corrected; Richard Roehm seconded the motion and it was a unanimous decision to approve the minutes.

The second agenda item was the public comment period. Steve Williamson said there were no public comments but members of the public can make comments when the appropriate agenda item is being discussed.

The third agenda item was meet the staff. Brian Sprenger said the featured staff member this month is Wes Mork. Mr. Mork has been with the Airport Authority for about 15 years and is our main mechanic.

Mr. Mork said he was born in the northeastern part of the state in Antelope, Montana. He said it's a little town with a big heart. Mr. Mork graduated from high school there and then went to Helena Vo-Tech for two years and studied to be a diesel mechanic. After that he was hired by Gallatin Equipment, the John Deere dealer in Bozeman, and spent 23 years with them. He started as a floor mechanic, then a field mechanic, mostly in the woods products division, and he traveled around the state. After that, he spent five years as the shop foreman and then a job came open for the Airport Authority. A couple of our employees approached him, so he put in for it but Woody Fogg beat him out. Then another opening

became available and he put in for it and was hired. He said it has really been an eye-opener for a non-aviation person and it has been interesting learning what it takes to keep an operation like this going day to day; the things that happen behind the scenes and the work that goes on, and the light bulbs that need to be changed. He said it's been a fun experience.

Mr. Mork said that he does different things every day. One day he is a mechanic, the next day he may be plowing snow, and the next day he may be a plumber. He said you never know what you're going to be doing and it might change twice during the day. He said it has been a good experience, and he has enjoyed it.

Mr. Mork said he has two sons; the younger one lives in Belgrade and works for Bresnan. His older son lives in Oregon now. He is interested in firefighting and being an EMS, so he decided he needed to get his paramedic degree in order to do what he wants to do.

Mr. Mork said he likes to hunt and fish; he never gets enough time to fish and they limit him as to how much he can hunt.

Mr. Williamson thanked Mr. Mork and said the Board appreciates him coming and talking to them and then letting them know what he is about. He said we're very glad that Mr. Mork is working for us. Mr. McKenna said that Mr. Mork needs to stop being a job hopper. He said that with him working 23 years in one place and 15 in another, he needs to settle down.

The fourth agenda item was to consider Guaranteed Maximum Price – Schedule IV of the Terminal Expansion Project. Mr. Sprenger said we received the Guaranteed Maximum Price for Schedule IV from Martel Construction and the bid was \$1,767,656. He said we had an alternate that would have added a lower-level gate and expanded the administrative offices, which came in at \$949,000. They shaved off a bit as they negotiated and looked at

the items. There was also a food service equipment alternate that was for equipment that we could use from the existing kitchen in the new kitchens and that would come at the expense of having a fully equipped former kitchen. That alternate came in at \$114,000. Mr. Sprenger said staff's recommendation is to accept the base bid of \$1,767,656, but to hold off on the alternates at this time, especially the offices. He said, because we are waiting for the proposals for the food service concession, we don't know if anybody will even use the existing kitchen. He said we can consider them later and get new bids. Schedule IV includes \$400,000 for kitchen equipment for the lower level kitchen and the one inside security; doors, sheetrock, specialty items for the restrooms and interior finishes but does not include the cosmetic finishes.

Richard Roehm said he doesn't know if we have enough information on the kitchens yet for a good plan and he asked if the Board can wait to make this decision. Mr. Sprenger said the Request For Proposal (RFP) will go out tomorrow and we will have the proposals back to the Board for the March Board meeting. He said that we requested the proposers to include a proposal for a catering option and if the Board accepts the catering option, it would probably be a good time to consider the additional \$114,000 and maintain the equipment in the existing kitchen. The income potential will play into that decision. The bids are good for 60 days and that gives us a time frame where we can do that and still maintain the bid price.

Discussion regarding the future use of the existing kitchen area followed and the Board members decided they want to wait until the food and beverage proposals are received and reviewed before deciding what to do with the existing kitchen and with the food service equipment alternate.

Mr. Roehm moved to accept the Guaranteed Maximum Price from Martel Construction for the base bid of \$1,767,656 for Schedule IV. Mr. McKenna seconded the motion and it carried with all Board members voting aye.

The fifth agenda item was to consider Airport Authority participation in Air Service Incentive Packages. Mr. Sprenger said historically we have participated by providing infrastructure and making sure airlines have all the facilities they need to operate in and out of the airport and that has worked very well. Working with the airlines in recent years, we have been asked what the community and what the airport is going to do for them to get new service. The community participated in a program for Frontier and the airport provided infrastructure. That was acceptable at that time but several airports had incentive programs, most of which were landing fee waivers, for Frontier's new service.

Mr. Sprenger said the FAA policy allows airports to establish an incentive program but requires the airports to be fair and nondiscriminatory to all airlines willing to meet the criteria. We are working with community partners to come up with incentives and they have also asked what the airport is doing to participate in this incentive package. He said he is coming to the Board with a potential request for an incentive program that would be a landing fee waiver for new nonstop air service out of Gallatin Field for one year. He said there are only four major markets that we do not serve at this time that we anticipate a reasonable chance of seeing new service any time in the near future. Those markets are Los Angeles, Phoenix/Mesa airport, Dallas/Fort Worth, and a long shot is New York City. He said all of those with the exception of Dallas would probably be less than daily and some of them, particularly New York City, would probably be seasonal. There is a lot of local interest in service to New York City, so Mr. Sprenger said we believe there is a possibility of them being looked at.

He said we see a lot of leakage to Billings on the markets we do not have nonstop service to, which currently are Los Angeles and Phoenix/Mesa through Allegiant Air. He said our estimate is 6,000 passengers lost in each market over the last 12 months. If we had those passengers, we would have had a record year in 2009. That being said, Billings was down more than we were even with those passengers.

Allegiant works very hard to get the lowest costs whenever they start service somewhere. In our negotiations to Las Vegas, Mr. Sprenger said we spent innumerable hours showing that the market would work and in ensuring our fees were among the lowest in the system. From a local standpoint our fees are fairly low. Despite that, Allegiant was reluctant to add Mesa/Phoenix and Los Angeles, primarily due to the weakness of the Las Vegas market, which is a more difficult market out of Bozeman than the other two. He said that is the background and one of the reasons they are bringing it up now is because, if the Board is willing to have an incentive package, Mr. Sprenger will be talking to Allegiant next week about potential service out of Bozeman and they will be asking what the airport is willing to do. He said this is an opportune time for the Airport Authority and the Board to consider whether an additional incentive is viable at this time and whether it is something that they would want to do as a Board considering the historical hesitation of offering a monetary incentive. He said we would limit incentives in the proposal to nonstop air service to a new destination and it would be eligible for any carrier providing that service. It could be reasonable and would be limited to \$30,000 for the time frame for the new service. If the service is successful and generates the additional passengers, we believe the revenues from the new passengers would exceed the costs of the incentive. He said that is a lot of ifs, but the intention of campaigns is to attract new passengers and increase net revenues for the airport.

Mr. Roehm asked about limiting the incentive program to signatory carriers. Mr. Sprenger explained that the difference between signatory and non-signatory carriers at our airport is very minimal. At most airports, signatory carriers commit to the airport for a long time. If they pull out, they have to continue to pay the airport rent space until the lease is up. In return, they get a lower rate. At our airport, we have taken a different tact and spread the cost over all the carriers that operate out of the airport. We allow them to come and go within 60 days and if one leaves, the other airlines would pick up the traffic and additional costs. There's not much difference between signatory or non-signatory leases here. If Allegiant picked up either Los Angeles or Phoenix, they would be financially better off to become a signatory carrier at Gallatin Field.

Each enplaned passenger at Gallatin Field adds about \$10 to \$12, which would increase the revenue per new passenger by about \$10. There would be an additional two dollars for landing fees, but initially, that fee would be waived. Mr. Williamson said passengers for ultra low cost carriers spend less than low cost carrier or mainline carrier passengers. Allegiant Air is an ultra low cost carrier and American is a mainline carrier. Mr. Sprenger said Allegiant customers spend more for parking and American customers would probably pay more for rental car service. He said in the long run they would probably generate about the same amount of revenue per passenger.

Billings has the advantage of having the largest population in the state and hasn't needed to use an incentive program. In the past, Bozeman has had a good situation with tourism and hasn't needed an incentive program. Smaller airports in Montana have used a small community air service grant from the FAA to either entice air service or use for advertising.

Mr. McKenna said this is about \$2,500 additional expenditure per month, which we could spend on TV advertising and possibly not see any benefit. If an airline bites on this, they are a partner. He says it does make some level of sense to him; it may give us new nonstop service. If the subsidy doesn't work, the airline will go away anyway. He said it is ridership building. We have had the luxury of not having to do this in the past but maybe we can't do that anymore. Mr. Williamson said he kind of likes the concept as long as we don't step on any toes. Mr. Sprenger said it would be eligible for any carrier, and each carrier has the likelihood of new service that is individual to the carrier. Delta could be interested in New York, United may be interested in Los Angeles. Horizon has operated to Portland from Billings and might choose to add Portland from Bozeman. Frontier, which is owned by Republic, has a hub in Milwaukee and we may see weekend service, although that seems pretty low on the list of potential markets. We would put a clause in our contracts that if it affects our bond covenants, then we wouldn't offer the incentive. Mr. Sprenger said we don't expect to be in a situation where our bonds are affected by \$30,000.

Mr. Roehm said he is more in favor with offering an incentive package following the discussion, particularly since we aren't involved in a federal program. Mr. Kelleher said it creates positive PR for the airport and the risk is lower than if we try to promote the airport some other way. Mr. McKenna moved we accept the proposal to provide an airline incentive package as outlined by staff and Mr. Kelleher seconded the motion. The motion carried with all Board members voting aye.

The sixth agenda item was to consider the request by the Lewis and Clark Historical Society to place a Time Capsule in the expanded terminal. Mr. Sprenger said that we believe the idea of having a Time Capsule in the terminal is an excellent idea, but we believe it would be more appropriate for aviation and specifically our airport related information. He

believes it could be expanded beyond that for other Time Capsule items, including the possibility of the Lewis and Clark Historical Society items, but we do believe it should focus on our history including Master Plans, various pictures and historical documents. A Time Capsule for future generations is certainly recommended, and we should have a large enough area to include items from other organizations such as the Lewis and Clark Historical Society. We believe the primary purpose should be the airport.

The Board discussed having maybe one wall where there could be a number of different time capsules limited to a specific size like 12 inches deep by 3' by 3' and covered by a plaque saying it would be opened in 50 or 75 years. Mr. Williamson said that maybe we should set some kind of window to let organizations know and make a request for a time capsule. Mr. Williamson said the organizations involved should have something interesting to a traveler that would be travel, explorer or adventure related. Mr. Kelleher said he thinks we should limit it to non-profit organizations. Mr. Sprenger said he would have information for the next meeting for the number of capsules and the location.

Mr. Roehm moved we approve the concept in principle with further study to be done next month. Mr. McKenna seconded the motion and the motion carried with all Board members voting aye.

The seventh agenda item was to consider the request by Story Distributing to construct a rental car fuel facility at the Consolidated Rental Car Service Facility. Mr. Sprenger said that within the Rental Car Service Facility is a fuel island that they anticipated using for a fuel service company to provide fuel for the rental car companies. Currently Story Distributing has an agreement with Hertz, and he showed where that is located on the map. They provide the fuel for our airport vehicles, as well as the rental car vehicles. It is very difficult to get in and out of. Story Distributing has offered to put in a fuel facility on

the island. All of the rental car companies would like this. We don't have to have competitive bids because it is under the competitive bid amount and is already on the land paid for by consolidated facility agreements with the rental car companies. It would be gasoline only. We would be exploring the idea of using the existing tank for diesel for our use in the future. The rental cars don't currently use diesel vehicles in their fleets. If there would be a need to add a diesel tank for the rental cars in the future, we have the land available in this area but there wasn't a request from the rental cars at this time.

Mr. McKenna moved that we accept the request by Story Distributing to construct a rental car fuel facility at the Consolidated Rental Car Service Facility and Mr. Roehm seconded the motion. The motion carried unopposed. Mr. McKenna thanked Mr. Sprenger and the car rental companies for working thorough all of this. Mr. Sprenger also thanked Scott Humphrey for his efforts. He said that Mr. Humphrey was principally involved in the negotiations and was very successful.

The eighth agenda item was the Transportation Security Administration discussion. Mr. Sprenger said that last month there was discussion on an incident that occurred on December 13 and we sent a letter to Dan Fevold, the Federal Security Director for the State of Montana asking him to attend this meeting. Unfortunately he was unable to attend this meeting but expects to be at our March meeting.

Mr. Sprenger said we asked him to follow up on several items, the first of which was the incident on December 13. As we asked the questions regarding the incident, the local TSA was very forthcoming in advising us as to what they had done to address the incident, including the investigation, retraining, and procedural issues to help insure that an incident like this does not happen again. Most of the information is security sensitive so it cannot be discussed in a public forum. He said we do feel that the response on the local level was

appropriate. Only TSA headquarters can respond to the media and we expressed our extreme dissatisfaction to the TSA headquarters, but that may be worse now because the White House has taken over TSA media responses, primarily after the December 25 incident, adding even more levels of bureaucracy for media responses.

He said they also discussed the attitudes of some of the local TSA officers and how it sours an already difficult process. The TSA did respond regarding initiatives to make progress on this account. Included in those initiatives is an annual pledge to travelers, a customer service officer of the month program, customer service training programs required for each officer and customer surveys. In addition, we have worked with them on several items to improve the passenger screening environment within our constrained terminal building, which included adding the third lane, additional convex mirrors for visibility and the vestiture tables. We now have an LCD TV and DVD in the screening lane to help educate passengers and prepare them for screening. We have fans in other areas to help offset the limited air flow and are working on expanding the terminal building. We believe this helps but we remain very concerned about the complaints we still see.

Mr. Sprenger said he and Mr. McKenna were talking about the experience they had traveling last week and they both agreed that the TSA personnel in both of the other airports were exceptionally friendly and their friendliness was more than what we have come to expect here. He said we are concerned that the TSA has not taken enough initiative to take care of our customers. We have to consider that our limited facilities impact customers and the TSA employees during screening. Our new facility and updated technology should help, as well as limiting the interaction with the TSA officers.

He said it should be noted that the improvements and actions that we've taken over the last few months with the TSA, airlines and the airport did dramatically improve the

screening lines over the holidays. Lines are a very big contributing factor to customer complaints. Since December 25th, we see different screening procedures that interject unpredictability in screening, which is good for thwarting terrorist attacks, but creates one more negative effect on customer service issues because customers passing through security have different experiences in different airports and find it hard to be prepared for what's going to happen in the screening line. We are attempting to improve what we can; unfortunately, our only hammer is to consider the opt out program should customer service not improve to the level we feel our customers deserve.

The Board members discussed a TSA survey; who would write the questions, who would answer the questions and who would see the responses. They are also watching Missoula and Butte to see how the opt out program is working for them. The Board members thanked Mr. Sprenger for what he has been doing.

Mr. McKenna said that nobody but the TSA has the luxury of not being nice to their customers. He thinks we should offer some leadership things to the other tenants and TSA and talk about positive things airport wide. Maybe we can counteract the negative things.

The ninth agenda item was the report on passenger boardings and flight operations – Scott Humphrey. Mr. Humphrey reported we are seeing some improvement in enplanements and we were only 95 passengers short from January 2009. That is 3/10 of one percent down from last year's numbers. We are still seeing seat capacity reductions by Delta, which is a loss of about 16 and a half percent of their passengers. United is picking up the slack again with a 6% increase in capacity, and they picked up 38% year-over-year in January enplanements. Horizon and Allegiant were relatively stable. Frontier's capacity year over year in January dropped 48.6% with a 26.5% drop in passenger. Three out of four weeks in January were ahead of last year but we had a soft week in the middle of January that put us

below 2009 numbers. Looking forward, so far the first two weeks of February, we are above 2009 numbers, so we are guardedly optimistic. He said we may be ½% to 2% above February 2009's figures. Our average load factor for January increased from 66.5% to 77.8% this year, partially due to the reduction in seats.

On the general aviation (GA) side, we are seeing deterioration in the numbers. There were 4,818 operations in January 2009, down 57%. He said although the airline side looks to be stabilizing, and hopefully improving, we are still seeing some erosion on the GA side.

United is going to up gage to the Airbus for the summer to Chicago and add one flight to Denver. We may be losing the Great Falls stopover in the morning to Seattle and it may become a direct flight, effective in June. Additionally, Mr. Sprenger will be speaking to Allegiant next week and we are on the calendar in May with American Airlines. They are working on their 2011 schedule and will discuss our options. Mr. Sprenger and Mr. Humphrey will talk to them while they are at the AAAE Conference in Dallas.

On the 25th of February, they have a conference with some local leaders, including the CEO of the Bozeman Chamber of Commerce to talk about air service development and there will be about eight or nine people involved in that meeting. Additionally, one of the partners in the new Yellowstone Club, from Boston, may attend the meeting. If he attends, he will set up a meeting with some other area players to discuss market opportunities going forward.

Mr. Roehm asked why the GA is struggling and if there is anything we can do to help. Mr. Humphrey said we may have to consider doing something for GA.

Mr. Sprenger said the GA side is slower because we had seven Instrument Flight Rules (IFR) days, which is an increase of four over last year. We have had quite a bit of fog

early in the day so some of it is flight school related. Once he was the first student out and that was at 3:00 p.m.

Mr. Roehm asked if we have heard anything on approach control and Mr. Sprenger said we haven't. He said they have a new administrative assistant to the administrator who is a former Northwest employee. He said they are working on it. Mr. Roehm said we need to keep the pressure on them. Mr. McKenna said they are working on it. He believes we have their attention. He said there are some political issues.

The tenth agenda item was the Director's Report – Brian Sprenger. Mr. Sprenger reported that there would be a tour of the terminal expansion after the meeting. He said that if the Horizon flight to Seattle that Mr. Humphrey reported becomes a direct flight, it will be the first time in the history of Gallatin Field that we don't have airline service to a city within the State of Montana. We have now grown to the point where all our flights are dedicated to the hub service. Unfortunately, we won't have service within the state.

Mr. Sprenger said we would be sending the Board members an auditor's report on the compliance with bond requirements. We are fully compliant with the covenants and there were no noted exceptions. That was through the great effort of Cherie Ferguson and Scott Humphrey making sure we were in compliance.

Mr. Sprenger reported that we have an agreement with the TSA for funding on the inline checked baggage Explosive Detection System and the agreement is for reimbursement of up to \$3.26 million on the system. We have been carrying this in our budget but it is nice to have it finalized.

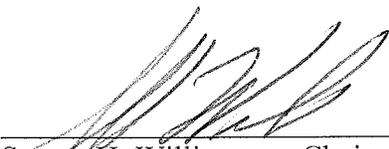
Mr. Roehm asked what is happening with the interchange because the Montana Department of Transportation said they would proceed with construction even though they are \$10 million short. Mr. Sprenger said it is good news and asked Scott Bell to comment.

Mr. Bell said he thinks they set up a ready date for the interchange and even though it is still short, it is an indication from the Highway Commission that they will help the locals find the money for it through the regular program or some of the stimulus projects that it is nominated for. Mr. Bell thinks it is nominated as a TIGR Project, which is part of the ARRA project. He said we will hear where the ARRA money will go in the State of Montana soon. The project is underway and under design, and as the preliminary design gets closer, Mr. Bell will bring some information to Mr. Sprenger and the Board. Morrison Maierle is the engineering firm that has been hired by the highway department to design the interchange. Mr. Bell said one of the hitches is for the local landowners to guarantee that they will donate the right of way for the project. If that happens, that will make up for a lot of the shortfall. That can't happen until the design is far enough along for them to know what the actual rights of way are.

The Board thanked Mr. Bell.

The eleventh agenda item was to consider the bills and approve for payment. After reviewing and discussing the bills, Mr. McKenna moved to pay them and Mr. Roehm seconded the motion. The motion carried unopposed and the bills will be paid.

The meeting was adjourned at 4:30 p.m.



Steven H. Williamson, Chair