

The regular monthly meeting of the Gallatin Airport Authority was held July 14, 2011 at 2:00 p.m. in the Airport Conference Room. Board members present were Ted Mathis, Steve Williamson, Carl Lehrkind IV, John McKenna and Kevin Kelleher. Also present were Brian Sprenger, Airport Director, Scott Humphrey, Deputy Airport Director and Cherie Ferguson, Office Manager.

John McKenna, the new Gallatin Airport Authority Board Chair, welcomed everyone to the meeting. He also welcomed Carl Lehrkind, our new Board member, who owns the local Coca Cola plant. Mr. Lehrkind said he was born and raised in Bozeman, Montana, went to school in upstate New York, joined the Marine Corps and went through helicopter training in Pensacola, Florida. He flew helicopters in the Marine Corps just shy of ten years and his dad asked him if he wanted to sell the business or if he wanted to come home and run it. So he came home and has been running the business for twelve years.

He has about 2,500 hours of flying time. Mr. Lehrkind and a couple other gentlemen own a Seneca II, which is at the Yellowstone Jetcenter. The only problem is he doesn't get to fly as much as he would like to. He has a wife and three young children.

Mr. McKenna said he likes the fact that the three things he listed as important in his life are his wife, children and that he is a pilot. Mr. McKenna said he is proud that this Board is unique because it is well represented by people who know what is going on inside the cockpit as well as outside.

1. Review and approve minutes of meeting held June 9, 2011

Ted Mathis said that he had two minor corrections; on page two the family was from Gridley, KS instead of Greeley, KS and on page three he wanted to add a sentence that said "Mr. Mathis then presented the framed picture to Mr. Roehm". There were no further comments.

MOTION: Mr. Mathis moved approval of the minutes as amended and Kevin Kelleher seconded the motion. All Board members voted aye and the minutes as amended were approved.

2. Public comment period

Meg O'Leary, from Big Sky Resorts, welcomed Mr. Lehrkind to the Board. She said her non-agenda item comment was that Brian Sprenger, Scott Humphrey and she will be going to the Boyd Conference at the end of August and they have a lunch set up with Southwest Airlines to talk about BZN. Mr. McKenna thanked her.

3. Consider request by Signature Flight Support Corporation to extend the leases on Hangars 5, 57, 75 and the Fuel Farm to 9/30/2032 co-terminus under a single lease and FBO agreement with Hangars ER 1, ER 2 and East Ramp Office in exchange for financial commitment toward Customs and Border Protection at Gallatin Field

Mr. Sprenger said Signature Flight Support offered a letter stating their commitment up to \$450,000 towards the building and operation expense of Customs and Border Protection here at Gallatin Field. Mr. Sprenger has talked to our legal counsel, Trent Gardner, who said that the Board has the prerogative to consider the lease extension. He also advised us that from his perspective, there may be benefits of having everything under one lease. If there is a violation on any lease, the hammer that you have is much greater because it affects all the leases. Other than that, Mr. Gardner did not have much more to offer and he didn't see any downsides to it.

On the revenue side, right now, Signature Flight Support pays the airport rent on all these buildings at about \$38,000 per year. When you look at the \$450,000 commitment they are making, it is a significant amount of money to help offset our Customs and Border Protection potential.

Mr. Sprenger said Eric Hietala, the Western Regional Vice President for Signature Flight Support, was present and could answer questions the Board members have. Mr. Hietala said he works with Kent Foster, the General Manager at Gallatin Field. Signature is very proud to be a member of the local community in terms of their recent acquisition of the Yellowstone Jetcenter and they look forward to making this investment in the facility to bring Customs and Border Protection to the airport. They believe that it will bring increased business and they only ask for our support in the matter of the leases. Mr. Hietala thanked the Board.

Mr. Sprenger said we have talked to several people in the community including the Chamber of Commerce, the City of Bozeman, Gallatin County, and he thinks Meg O'Leary is here in support of this as well from a standpoint of Customs. He says Signature Flight Support would have a tough time investing the money without something in return for their shareholders. The Board has considered extensions in leases in the past, including the preceding owner of Yellowstone Jetcenter. The big difference here is obviously the level of commitment toward improvements on the airport that was absent at that time. Mr. Sprenger said staff would recommend approval of this request.

Steve Williamson said that we have denied this request in the past and he is really uncomfortable tying the extension of these leases with the financial commitment to the Customs and Border Protection. He still is not convinced that the airport should be putting a financial commitment toward it. He said it's a great idea to have it here, but he is reluctant to spend much, if any, airport funds for a select few beneficiaries. Right now, we serve a pretty huge flying public, and now are talking about serving a pretty small flying public. He said this is a lease request he would like to separate from the financial

commitment for Customs. If that results in the commitment going away, then it makes the decision for Customs a lot easier, at least for him.

Mr. Mathis said, if it's the consensus of the Board to move forward with the Customs office and the financial commitment that has been put forth so far, then he is fairly comfortable with the lease extensions and them being tied together. He said he believes the financial commitment would go away if we don't approve the lease extensions.

Mr. Williamson asked how much or to what extent the Airport Authority should participate in that and said even with a substantial financial commitment, we still potentially have a substantial financial commitment. Mr. Sprenger said our commitment will be minimized to a large degree if the Yellowstone Club and Signature Flight Support contribute up to the \$900,000 they said they would if the Board approves this agenda item and the one for Customs at the airport. The Yellowstone Club, Signature Flight Support and the airport will each put one third of the annual fee of \$150,000 into an escrow-type fund to pay for the first year. Mr. Sprenger said we expect to collect a substantial portion of that through user fees. We also have the ability to terminate Customs with 120 days notice.

Mr. Williamson asked about the survey regarding the user fees and Mr. Sprenger said it was very simple. We asked the owners and operators of the larger aircraft that would utilize Customs and Border Protection here if they would be willing to pay \$1,176 per landing and what days of the week and what times they would want to use the service. He said we received responses from 114 aircraft owners or operators who would be willing to pay that amount and that 9 a.m. to 5 p.m. Thursday through Monday would accommodate most users. Mr. Williamson said he had a hard time believing that if somebody had to go from point A to point B, they would adjust their schedule to go through Customs here. Mr.

Sprenger said it doesn't make sense unless you start adding in the operational costs and the time to make an additional stop. He said that would help offset the cost and it won't help every person, but it does play into their decision. He said it will benefit the larger aircraft operators but we would have a fee schedule based on aircraft weight that would allow a benefit to the smaller aircraft operators. We want to accommodate everybody we can. He agreed there are some concerns but we do have two partners who are willing to take on a whole lot of risk to go after this. Mr. Williamson said he appreciates that they are willing to do that.

Mr. Kelleher asked what would happen to the building if we opt out and Mr. Sprenger said it would be ours. He doesn't think the risk is unreasonable. Mr. McKenna said he's also appreciative of the financial commitment of the other entities, but he doesn't think that the lease should be tied to the Customs facility. Mr. Williamson asked why they don't put it in Yellowstone Jetcenter's building and Mr. Sprenger said it would be more equally available to use our building. He and Mr. Mathis had discussed what to do with the building if the TSA was not there. They and Customs also looked at the office building on the East Ramp.

Kent Foster, General Manager of Yellowstone Jetcenter, said customers from Canada keep asking when Customs is coming. It costs more for them to go somewhere else than to come here and pay the \$1,200, as the airport asked in the survey. They would be willing to pay more. He said also there is a "field of dreams" element; how many aircraft are flying over that would use Customs here? They believe other businesses would benefit from Signature's investment without having to make an investment themselves. Signature doesn't mind. He said they're not asking for anything that hasn't been done before by asking for co-terminous leases, and it is a win-win situation. Mr. Hietala said this is

important to Signature and that Signature Flight Support is the largest Fixed Base Operator (FBO) chain in the world. He said they could remodel one of their buildings, but if they could do something for \$500,000 rather than \$1,000,000 they would prefer to do that.

The Board and Mr. Hietala discussed Customs in other places, TSA policies, Customs policies and the possibility of an increase in business for Signature and the airport. Mr. Mathis said Signature Flight Support is the premier FBO in the country. The improvements they've made so far in their operation; their safety considerations, etc. are quite noticeable here. He said Yellowstone Jetcenter was a first-class operation and Signature has made improvements since taking over. He said most airports would pinch themselves to have Signature and we have those folks here. He said when the time comes to extend the leases, if the buildings are in good shape, the payments are current and their service is acceptable, the history of this Board and previous Boards is they have never turned down an extension based on those facts. He believes the leases will be extended to 2032 eventually, so he is comfortable with the lease extension.

Mr. Williamson said he liked hearing that if we don't approve the Customs facility, the lease extension goes away.

MOTION: Mr. Williamson moved to approve the request to extend the leases on Hangars 5, 57, 75 and the Fuel Farm to 9/30/2032 co-terminus contingent upon the Customs and Border facility. Mr. Mathis seconded the motion. During discussion, Mr. Sprenger said staff's recommendation included "contingent upon approval and completion of the Custom and Border Protection facility and fulfilling the financial commitment".

Mr. Williamson amended his motion to approve the request to extend the leases on Hangars 5, 57, 75 and the Fuel Farm to 9/30/2032 co-terminus contingent upon approval and completion of the Customs and Border Protection facility and fulfilling the financial

commitment. Mr. Mathis seconded the amended motion. All the Board members voted aye and the motion carried unopposed.

4. Continue consideration of the Customs and Border Protection facility at Gallatin Field

Mr. Sprenger said we have an estimate of the cost for the facility of \$332,000 excluding security systems. We believe we can do that within the \$400,000 once everything is completed, which would be 100% completed by Yellowstone Club and Signature Flight Support. On the operational side, we are proposing that the airport would put in one third of the operational costs and the other two (Yellowstone Club and Signature Flight Support) would put up the other two thirds in advance of the year so that the money is on hand to cover the fully allocated costs, with the exception of some possible overtime, without user fee collections. Mr. Sprenger said we anticipate collecting about \$130,000 per year in user fees. If that occurs and we don't have any additional overtime, the three entities would have a shortage of about \$20,000-\$30,000 to make up for the next year. That was all put in place so we would know what we were going into. We knew the amount we were paying in and still could use 120 days to opt out if anyone got uncomfortable. He said we were trying to mitigate the risk on the agreement and we want to have the money on hand, or in an escrow at least, to cover those costs so that we aren't surprised by anything.

Mr. Sprenger said we are continuing to modify the Memorandum of Agreement (MOA). He said Mr. Mathis has made some comments, Mr. Gardner has reviewed it and we have re-reviewed it and added some wording that gives us more protection, including Mr. Kelleher's comments regarding what would happen to the building at the end of the time. We have an additional clause that says that any time that the parties decide to

discontinue Customs, that would end their participation and financial responsibility. After the bills are paid for Customs, then there would be a refund of any excess funds in the amount that there would be no more liability for the building or responsibility by any of the parties. That protects us on the building so all the improvements become ours and there is no recourse to come back on us and say they put all that money in and would like to get it back now.

We set the user fees and can change them with advance notice. Mr. Williamson said we could alleviate some of our risk by adjusting the fees as we see some history unfold. Mr. Kelleher said he is comfortable with the direction we are going with this, that the risk has been mitigated to a minimal point for us and he thinks it would be a good move.

Mr. Mathis said the additional costs of overtime and back filling falls on us. Mr. Sprenger said we would charge the additional cost of overtime as an add-on user fee. He believes the sick leave and annual leave would be paid by the funds in escrow or collected through user fees. Mr. Mathis wants us to have wording in the agreement that if our US Customs agent is assigned to another location, Customs would give us a credit for those hours at least. Mr. Mathis said there was wording that they could take our Customs agent to another airport and close us down and that concerns him. He said it wasn't a deal breaker, but he wants Mr. Sprenger to work on that. Overall he is in favor of the proposal.

Mr. Lehrkind said he appreciates the fact that the user fees will be prorated based on the size of the aircraft. He also thinks it would be good to have Customs here for Bozeman and the surrounding communities.

Ms. O'Leary, the Marketing Director at Big Sky Resorts, said they would help promote Customs at Gallatin Field to the niche within their customer base.

Mr. Williamson said if we are going to have Customs here, we have as much commitment as we are going to get, and in spite of his reluctance to spend airport money, this has possibilities. Mr. McKenna said he feels we are dealing with people with honest intentions but he is still concerned because he is the representative for the public.

Everyone can all walk away but we would be left with a building that would probably need to be re-modeled again. He said he appreciates everyone's commitment. He said we are contributing to this project because we are basically taking our building out of service for any other use. We will also contribute rent, lights and heat and are fully engaged. Without us, Customs would not sign the agreement. Mr. McKenna said he is supportive. This is the closest we've ever come financially, and if we are going to step over the edge, this may be the time to do it.

MOTION: Mr. Williamson made a motion to authorize the Chairman to sign the Memorandum of Understanding contingent upon the airport receiving construction costs from both Yellowstone Club and Signature Flight Support and receiving two thirds of the estimated operating cost of Customs as specified in the Memorandum of Understanding from Customs. Mr. Kelleher seconded the motion.

In discussion, Mr. Sprenger said it would probably be good for the Chairman to sign the User Fee Program Agreement also because the Memorandum of Understanding (MOU) is with Customs and we want the User Fee Program Agreement signed by Yellowstone Club and Signature and to receive the money before we sign the MOU with Customs. Mr. Williamson withdrew his motion.

Mr. Williamson made a motion that we authorize the Chairman to sign the Memorandum of Understanding with the Customs and Border Protection folks, and that is contingent upon Yellowstone Club and Signature Flight Support signing the User Fee Program

Agreement for this Customs and Border facility and the Airport Authority receiving the construction costs from both parties and two thirds of the estimated first year of Customs costs from both parties as specified in the Memorandum Of Understanding with Customs. Mr. Kelleher seconded the motion and all Board members voted aye.

5. Consideration of Exterior/Roadway Signage Standards

Mr. Sprenger said that we had already done the signage for the terminal buildings and now are considering the exterior roadways signage. He showed the Board some examples. He said Mr. Mathis has some concerns about the mountains and colors and Mr. Sprenger is looking for guidance from the Board. He said what you like is a personal decision and staff likes the mountains. Mr. Sprenger doesn't know if the mountains will take away from the readability.

Mr. Mathis said personally he thinks less is more and he would like to see the standard international letters on a plain background and he is recommending that for the exterior signs. Mr. Williamson said he didn't have any comments. Mr. Kelleher said when he first saw the newer signs, he thought they were clouds instead of mountains. He likes the burgundy with the white letters, the bigger the better, but he can live with either.

Mr. Lehrkind said he thinks our airport is unique with the geese and he likes the mountains. Mr. McKenna said he wouldn't die on the sword. He likes the uniqueness of the airport. Mr. McKenna asked Jamie Lenon what he thinks and Mr. Lenon said he prefers the burgundy with the white letters.

MOTION: Mr. Kelleher moved approval of the burgundy with the mountains and leaving the green on the highway signage without mountains. Mr. Lehrkind seconded the motion and all Board members voted aye.

6. Continue consideration of artwork donation proposals for the expanded terminal building

Mr. Sprenger said that the Board members received staff's recommendation, which was what the majority of the Board members preferred.

MOTION: Mr. Kelleher made a motion to accept the recommendation of staff on the artwork as submitted to the Board. Mr. Mathis seconded the motion and all Board members voted aye.

7. Consider amendment to Commercial Advertising Policy

Mr. Sprenger said that staff had previously asked to put advertising on the exterior of the loading bridges. The overwhelming majority of the people we've talked to would like to have something inside because not everybody will see what is on the outside and they would like to have advertising inside the loading bridges to emphasize their product. If we limit advertising to the exterior only, fewer people will be interested and advertising revenue will be decreased by about \$5,000. He said staff has looked at the end of the loading bridge where people wait to get on the airplane and wait for their carry-on baggage and it would have limited impact on the traveling public. It would be the same company and the same advertising on both the interior and exterior of the boarding bridges.

MOTION: Mr. Kelleher moved to approve the advertising on the loading bridges as recommended by staff. Mr. Mathis seconded the motion, and all Board members voted aye. The motion carried.

8. Consider request by The Aero Club, Inc., to establish a new flying club at Gallatin Field

Mr. Sprenger said the Board has received copies of the Corporate Charter and the By-Laws. The principals are Linda Marshall and Don Loyd. Mr. Gardner has reviewed them

in regards to the Minimum Standards for Fixed Base Operators particularly with regards to a flying club and he feels they meet the organizational requirements set forth by the Minimum Standards. We still need documentation of aircraft ownership, leases and required liability insurance, which the letter indicates will be provided upon approval. Flight instructors are permissible, but it is a flying club and not a flight school and it cannot be advertised as a flight school. It doesn't preclude flight instruction but it cannot be advertised as such. The students have to be members of the flying club and have their own gate cards. It will be in non-commercial Hangar EU-5.

Mr. Williamson said we have been calling this Aero Club, Inc. and it should be called Arrow Club, Inc.

MOTION: Mr. Mathis moved approval of this request. Mr. Kelleher seconded the motion. All Board members voted aye.

9. Consider land acquisition priorities

Mr. Sprenger said this is the Gerovac land and showed where it is on a map. Part of the property is inside the 65 LDN and the rest is between that and the highway. The property was appraised at \$2,150,000 and the airport is very tight on cash. We have about \$1 million more than we expected because of positive revenues and we haven't used our contingency funds for the terminal expansion. If we were to proceed with this, we would need to explore other funding opportunities. Mr. Sprenger said we may receive \$2 million in discretionary funding for the terminal that is unaccounted for in our budget. We would be \$150,000 short and we could accommodate that. If the Board considers this, Mr. Sprenger would not recommend approval unless we receive the \$2 million discretionary funding.

Mr. Kelleher said he read the response by the broker and he has spoken to three different appraisers. The water rights could be transferred to someone else. He wouldn't go any higher and he thinks the appraiser was very generous per acre. Mr. Kelleher doesn't think time is of the essence and he believes land rates will still go down. Mr. Lehrkind said he thinks it's the wrong amount at the wrong time and Mr. Mathis concurred. Mr. Williamson said he believes we are not trying to spend the discretionary funds.

Mr. McKenna said one of the benefits to the airport is the land that we own. He would like to own this property but doesn't think we have the money now. The Board chose to take no action at this time and asked Mr. Sprenger to let Ms. Gerovac know we don't want to spend the money now.

10. Consider Terminal Project Change Orders

Mr. Sprenger said he thought we were done with change orders but we have defined the cabinetry changes for the rental cars, which we didn't know earlier in the bid process. This amount of \$46,349 will be reimbursed by the Car Rental Facility Charges.

In the TSA's bidding process, they missed a stand for some of their equipment and the labor to put all the bags on the belt to test their system. Those are reimbursable under the TSA grant but they have to account for them.

The Fire Marshall wanted the fire hydrant in a different spot than we planned. The boarding gates opened early so we had some additional costs for the paging system and additional costs for the airline connection points between the current building and the expansion. Quest extended the DMARK cabling into the new building which will benefit us in the long run. Overall the change order was \$74,815 and of that, \$51,553 is reimbursable.

Mr. Mathis said he is a great recycler and asked if some of the car rental and airline cabinetry can be used somewhere. Scott Humphrey said some of the cabinets will be reused.

MOTION: Mr. Williamson moved to approve the Terminal Project Change Orders as submitted. Mr. Kelleher seconded the motion and all Board members voted aye. The motion passed.

Mr. Sprenger said over a year and a half ago we looked at remodeling the airport office area and the bid came in at about \$1 million because of the heating and cooling systems and he didn't recommend it. Since that time several Board members said the office space is too confined and some departments are more prominent than they should be. Mr. Sprenger explained the changes. Mr. Mathis is supportive. Mr. Williamson said he will remain opposed to spending money. Mr. Sprenger said this will give us some meeting space, which we are short of now.

Don Stueck said it will save \$25,000 to do it now as part of one of the bid schedules rather than doing it as a separate project. He said we have people on top of people. Mr. McKenna said he is one of the Board members who said it looks like we have cord wood stacked in the office. He thinks Mr. Mathis is right and that staff should have a break room and he is generally supportive of creating a nicer working environment for our staff.

MOTION: Mr. Mathis moved to approve the changes to the office area. Mr. Kelleher seconded the motion. All Board members but Mr. Williamson voted aye. Mr. Williamson voted nay. We won't make any changes to the upstairs area. The motion carried and some of the office area will be remodeled.

11. Consider establishing Consent Agenda guidelines

Mr. Sprenger said a lot of boards use a Consent Agenda to speed up the process and take care of the more routine items on the agenda. Financial reports could be one of the items and could be included in the minutes. Hangar leases and extensions could be part of the Consent Agenda as well. Anything that the Board wanted further discussion on could be brought up. Mr. Sprenger wanted to know if the Board is interested in this and if so, to give some guidelines.

Mr. Williamson said he doesn't see the need and would like staff to decide what needs to come before the Board and what doesn't and take the time to pull the items out that need to be separated. Mr. Williamson said the Board has questions on things like hangar leases, like where it is and whose it is, and they would be brought out of the Consent Agenda for discussion anyway. Mr. McKenna said he brought it up because he thinks there are some things that are routine and some things can be handled in a report form. Mr. Williamson said he wants to think this Board is more than just a rubber stamp for staff. We won't go to a Consent Agenda.

12. Consider request by Gallatin County for donation of Gallatin Airport Authority surplus access control system equipment

Mr. Sprenger said staff estimates the value to be between \$20,000 and \$30,000, depending on current appraisals. He would recommend approval contingent upon a written request from the Sheriff. Mr. Mathis said he would also recommend a press release sent out when this takes place so the public knows the airport supports the Law and Justice Center, or courts, or wherever this is going.

MOTION: Mr. Mathis moved approval of this request with the contingencies of the letter of request from the Sheriff and the press release. Mr. Kelleher seconded the motion, which carried with all Board members voting aye.

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

Mr. Humphrey reported that tentatively BZN will be reclassified as a small hub rather than a non-hub primary by the FAA. A non-hub has more than 10,000 enplanements and up to 0.05% of national enplanements per year. A small hub goes from 0.05% to 0.25% of national enplanements per year. In calendar year 2010, we boarded 364,210 passengers. We crossed that threshold, and the new ceiling for us is 1.7 million enplanements. Mr. Humphrey said it does have some ramifications for funding, but it does show we are growing. If we go backwards, we will be reclassified. Right now, we are the smallest small hub airport. That puts us on par with the Billings airport, Asheville, NC and Oklahoma City, which is on the upper end of the small hub airports.

Mr. Humphrey reported that total operations for June were down 16.1%. We still have not seen much of a rebound in general aviation (GA). Total revenue enplanements were up 15.4% from June 2010 to 34,731. Deplanements were 39,872, which is 15% better than June 2010. Airline landings were up 9%, 593 versus 543. Corporate landings were down 3% from last year. Load factors were up 4.6% from last year at 75% with a 3 to 4% increase in seats. He said airlines are doing good in a typically soft time for the Bozeman area. Traffic has picked up for July.

Mr. Humphrey reported that total fuel dispensed was up 21% over last year. We are looking at a good July with a 6% to 8% increase over a record month of July 2010. This summer we have about 3% to 4% more seats than last summer but we are seeing the airlines cutting back for the fall. The airlines haven't loaded their winter schedule yet, and that is giving us some cause for concern because the ski resorts cannot begin their bookings. He said Meg O'Leary is counting on Delta and United to load their mainline schedule for December and into the ski season. Hopefully we'll get their schedules shortly.

As Ms. O'Leary said, they do have a meeting with Southwest Airlines at the Boyd Conference and we are trying to position ourselves for when it is time. They may look at smaller markets since purchasing AirTran. We want them to look at us rather than other airports in Montana.

14. Airport Director's Report – Brian Sprenger

Mr. Sprenger reported that the pre-opening celebration will be held tomorrow night. RS&H, Prugh and Lenon Architects, Morrison - Maierle, Inc. and Martel Construction have contributed to making it a nice event by donating food and non-alcoholic beverages. Mr. Sprenger son's band will provide music at no cost. We have over 400 respondents at this time. It has generated a lot of interest in the local community. We had to limit the number of invitees and may have missed some people we wish we would have invited.

Mr. McKenna, Mr. Roehm, and representatives from both of our Senators' offices will speak. We will have more of a public opening on August 2nd. We will do the ribbon-cutting on that day and we could have a dedication a couple of months later.

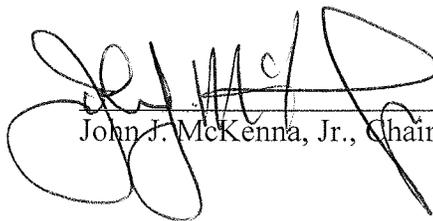
15. Consider bills and approve for payment

The Board reviewed and discussed the bills.

MOTION: Mr. Williamson moved to pay the bills and Mr. Kelleher seconded the motion. The motion carried unopposed.

16. Adjourn

The meeting was adjourned at 4:20 p.m.


John J. McKenna, Jr., Chair