

The regular monthly meeting of the Gallatin Airport Authority was held December 13, 2012 at 2:00 p.m. in the Airport Conference Room. Board members present were Kevin Kelleher, Ted Mathis, John McKenna, Carl Lehrkind and Kendall Switzer. Also present were Brian Sprenger, Airport Director, Scott Humphrey, Deputy Airport Director and Cherie Ferguson, Office Manager.

John McKenna, Board Chair, said anyone was welcome to comment now or during a particular agenda item.

1. Review and approve minutes of regular meeting held November 8, 2012

Mr. McKenna asked if everyone received their copy of the minutes and if they had any questions, corrections or additions. There were none, so he entertained a motion.

MOTION: Kevin Kelleher moved to accept the minutes of the last meeting and Ted Mathis seconded the motion. All Board members voted aye so the motion carried.

2. Public comment period

Mr. McKenna asked if anyone had any comments for the good of the order for items not on the agenda. No one had any comments at this time.

3. Consider Audit Report

Brian Sprenger said Troy Watling, from Junkermier, Clark, Campanella and Stevens PC (JCCS) of Bozeman was here to make the presentation.

Mr. Watling said he was here to discuss the audit for the year ending June 30, 2012. He said this is the fourth year he has worked on the audit and it was the smoothest so far. Mr. Watling thanked Cherie Ferguson, Scott Humphrey and Mr. Sprenger. He said he wouldn't go over a lot of the numbers because the Management Discussion & Analysis (MD&A) prepared by management does a good job of showing the changes from the prior year.

Mr. Watling gave the board members a boilerplate letter from the auditors to those in charge of governance that is required by professional standards. He said there are several standards they adhere to; the Generally Accepted Auditing Standards issued by the American Institute of Certified Public Accountants (AICPA), the Generally Accepted Government Auditing Standards produced by the Government Accountability Office (GAO), Circular A133 produced by the Office of Management and Budget (OMB) because the Airport Authority received over \$500,000 in Federal Funds in fiscal year 2012, FAA audit regulations for the Passenger Facility Charges (PFCs), and the Covenants over the 2009 bonds. JCCS also has independent standards they have to abide by. They have four reports within the audit report that are specific to the four main standards listed above.

JCCS was required to inform the board of the auditor's responsibilities, scope and timing of the audit, which they did in July. No new accounting policies were adopted nor were the application of existing policies changed during the year ended June 30, 2012 and not transactions were entered into by the Authority without authoritative guidance or consensus. The most significant estimate is the \$3 million in depreciation based on the estimated useful life of the Authority's assets. The most significant disclosure is regarding the 2009 bonds.

JCCS didn't encounter any difficulties in performing the audit. There were no uncorrected misstatements but they did recommend a few audit adjustments that Gallatin Airport Authority management agreed with. None of those adjustments were material to the audit. The auditors didn't have any disagreements with management. Management issued a letter to JCCS stating that all the required information for the audit was given to the auditors and they hadn't withheld any information that might be related to disclosure of financial information. JCCS is not aware of any fraud. The Authority didn't consult with any other

accountants. There were no other findings or issues and Mr. Watling said it was a very clean audit.

In the Independent Auditors' Report, JCCS reported that, in their opinion, the financial statements present fairly, in all material respects, the respective financial position of the Gallatin Airport Authority as of June 30, 2012 and 2011, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. In their opinion, the schedule of in-force insurance and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

Mr. Watling reviewed a few major items in the Statement of Net Assets and said Assets increased by about \$6.5 million or 6.8%. The big items were the change in Depreciation and approximately \$45 million moved from Construction in Progress to Fixed Assets placed in service during the year.

Mr. Watling said Current Liabilities increased by about \$1 million. Part of that was a deposit account for the Customs operation, facility and agent and also flight service to New York. The funds have been received but not spent. The other part was the current portion of revenue bonds that will be paid in fiscal year 2013. Net Assets increased by \$6 million or 7.5%.

Operating Revenues were up 9.5% or \$611,000. Operating expenses increased by \$692,000 or 11.2%. Overall, Operating Net Income was down about \$81,000. Revenue was similar to last year with income up in every category and there weren't any significant new items. The big increases in Operating Expenses were depreciation, salaries, utilities, repairs and maintenance, all of which increased in relation to the increased size of the facility. There was a new account for Customs operations. Non operating revenue was down because of the

decrease in interest income because of the reduction in rates. The big changes were the reduction in grants, capital contributed revenue for Customs, the Customs Agent and flight service to New York. Customer Facility Charges (CFCs) and Passenger Facility Charges (PFCs) were up slightly due to the increased volume in those areas. At the end of the year, Net Assets were down about \$5 million or 45.6%.

Mr. Watling went over compliance with the auditing standards, compliance and internal controls. JCCS did not identify any material weaknesses or instances of noncompliance or other matters that are required to be reported. They audited Gallatin Airport Authority's compliance with the types of compliance requirements described in the OMB Circular A-133, and in their opinion, Gallatin Airport Authority complied, in all material respects, with the requirements that are applicable to each of its major federal programs for the year ended June 30, 2012. He said Morrison Maierle provided a lot of good, detailed information for the federal grant programs and that really helped with the audit.

Mr. Watling also reported that JCCS audited compliance of the PFC program and, in their opinion, Gallatin Airport Authority, complied, in all material respects, with the requirements that are applicable to passenger facility charge programs for the year ended June 30, 2012 and they didn't note any matters involving internal control over compliance and its operation that they consider to be material weaknesses.

Mr. Watling said in July, in order to meet independent standards, because JCCS prepares the financial statements within the audit report, the Authority is required to have somebody review and assess their work. They reviewed the regulations and a shareholder from one of their other offices was qualified to review their work. JCCS also recommended having an outside CPA provide some assistance to streamline the closing process and help

with reducing large adjustments at the end of the year. It might help complete the audit report in October rather than December.

Mr. McKenna thanked Mr. Watling, Ms. Ferguson and the rest of the Authority staff and said this board is most proud because they get this kind of report on a regular basis. Mr. Sprenger thanked Ms. Ferguson and Mr. Humphrey. He said it was a pretty busy year with a lot of closeouts of federal grants and the terminal project, probably more than we have ever seen.

Kendall Switzer said he has seen a lot of audit reports and has never seen one without major or minor deficiencies. He said well done, and the community can feel comfortable that the airport board and Mr. Sprenger and his team are doing a good job. He said if you're doing it right, it looks easy.

MOTION: Mr. Mathis moved to approve the fiscal year 2011, 2012 audit report and Mr. Kelleher seconded the motion. All Board members voted aye and the audit report was approved.

4. Consider request by Post 12112 of the Veterans of Foreign Wars to place a 36" x 48" sign adjacent to the American Legion sign welcoming home troops serving overseas

Mr. Sprenger said The Veterans of Foreign Wars (VFW) saw the American Legion sign welcoming home troops serving overseas after it was moved to its new location and the VFW would like to have a sign thanking the troops as well. Mr. Sprenger said he asked that all the VFW Posts wanting to participate have their Post number on the same sign. Carl Lehrkind said he thinks it would be a good addition to the airport. Mr. Mathis agreed and said on one occasion he heard Tom Brokaw mention this American Legion sign on national TV and how important it is, and what a good thing it is for this small community to recognize

the veterans. Mr. Mathis said it does get noticed and he is sure the veterans appreciate it as well.

MOTION: Mr. Lehrkind moved to approve the sign by the Post 12112 and other Posts as Brian accepts them of the Veterans of Foreign Wars for a 36" x 48" sign adjacent to the American Legion sign welcoming the troops home. Mr. Switzer seconded the motion. All board members voted aye and the motion carried.

5. Consider request by NHB, LLC to construct a 90' x 60' non-commercial hangar

Mr. Sprenger showed on the Airport Layout Plan (ALP) where the proposed hangar would be located and said Ben Nistler, the principal for NHB, LLC, would like a north-facing hangar. He is planning to build two hangars in the same building and would like to sell one of the hangars and set up a condominium association.

Mr. Nistler thanked the board. He said he has a Maule M7 aircraft and he is new to aviation. He would share the office with the other owner. The board members thanked Mr. Nistler.

MOTION: Mr. Mathis moved to approve the request by NHB, LLC to construct a 90' x 60' non-commercial hangar and Mr. Lehrkind seconded the motion. All board members voted aye and the request was approved without opposition.

6. Consider revision of Non-Commercial Hangar Lease terms for transfers of ownership

Scott Humphrey, Deputy Airport Director, said the issue encompasses more than the one hangar discussed last month. The problem is amortizing the tenants' investments over the terms of the ground lease agreements. Traditionally, we have extended the remaining lease on a sale of a hangar asset to the buyer with the intent that we will enter into good faith negotiations when the lease term runs out. Potentially, a buyer of a hangar could approach a

lender with just a few years remaining on the lease with the intent they could enter into negotiations and go beyond that. However, some lenders in the valley are becoming less willing to lend on a hangar when they don't have the ability to collateralize the asset over the term of the lease. Mr. Humphrey said we have done some research with other Montana airports because this issue isn't just germane to the Bozeman airport. Billings has twenty year leases and when there is a transfer of ownership, they offer another twenty years, which could put the lease beyond thirty years. Missoula and Helena are willing to entertain a request for more than twenty years for the sale of a new hangar.

Mr. Humphrey said the FAA compliance manual allows the airport the latitude to address amortization issues with the terms of thirty to thirty-five years. State law gives us up to forty years. The FAA cautions against locking into rates and we have escalation clauses currently in our leases that allow us to adjust the rates every three years. We also need to consider our Master Plan so we don't lock ourselves into a long term commitment. We stay in contact with Scott Bell, the airport engineer, and the Master Plan is kept updated. Mr. Humphrey said staff is recommending some language to address lease language deficiencies with some language they found at some other airports. Staff thinks we can offer some language addressing the Lessee's obligations rather than perpetually extending the current lease and maybe give us the opportunity to keep everything fresh going forward.

The board thanked Mr. Humphrey.

Mr. Sprenger said, to address this issue, staff proposes providing an option for a new lease with the most current lease terms to purchasers of existing hangars contingent upon the Master Plan showing the existing use will continue in that lease area. Owners would continue to have the option of transferring the existing lease to a buyer. If, however, a new

lease was requested, we would propose the following lease language option for existing hangar sales.

1. A Non-Commercial Ground Lease Agreement that offers either twenty or thirty years, an initial ten-year lease plus either one or two ten-year options to match the threshold of new construction leases, as long as the lease is current, the building is in good repair and can be expected to be structurally capable of enduring the lease period.

2. Language in the lease that would reserve the right for the Airport Authority to require an engineering inspection at Lessee expense by a professional engineer, licensed and current in the state of Montana, prior to entering into the lease, or at the time of option to verify the structural integrity.

New leases for existing hangars would include a \$1,000 administrative fee to cover the Authority's costs. In addition, Section 3.01 in our leases needs to be updated and include language addressing the issue of exterior storage.

Mr. Sprenger said the proposal and lease language changes have been reviewed and approved by Trent Gardner, our legal counsel. Staff and legal counsel believe the proposal and lease language would protect the interest of the Airport while allowing Lessees sufficient time to amortize their investments during the terms of the lease. Mr. Sprenger said he and staff recommend approval of the proposed lease terms for transfers of ownership.

The board and Mr. Sprenger discussed structural and aesthetic concerns, the fact that the administrative fee of \$1,000 would limit requests from existing hangar owners for the new language, that inspections would be for one transfer and if another transfer took place or a new lease was offered, another inspection could be required. They also discussed trusting engineer inspections and potentially encumbering future boards. Mr. Mathis said one of his concerns as a landlord is that it is hard to take back concessions if you give them.

Mr. Kelleher said if the longer lease term and engineer inspection works for the lender, he thinks it would work for us.

Mr. McKenna said this board and past boards have been pro general aviation (GA) and the intent is for them to continue to be pro GA. He said he is less concerned with the length of term of the lease. He wants a healthy environment for GA and said compliance is where the airport gets pushed. It bothers him when he hears criticism of airport staff for trying to make the airport look nice.

Jim Allbright introduced Michelle Ereaux, his business partner. Ms. Ereaux thanked the board for their time. She thinks the new language offers the board the opportunity to be contemporary in terms of today's market and allows them the flexibility to address lease terms similar to the way they are addressed at other Montana airports. She said the board can review the aesthetics and the structural integrity of a hangar and, if the property is in demise, they can choose to not offer a new lease. Whether they have a request for a thirty-year lease because of amortization or a request for a ten-year lease, they still have the option to approve or disapprove the request. She asked the board to offer a new lease to Mr. Allbright and said she believes it would be unfortunate to not approve the longer lease terms today. The board thanked Ms. Ereaux.

Mr. Switzer asked what would happen if the board delayed a response now so they could continue consideration of the lease terms and language and Mr. Allbright said he has extended negotiations two months already and the seller is unwilling to grant any more extensions. He said he would have to pay more money and start the process all over again at the bank. Mr. Allbright asked the board for approval and said he really wants to have the hangar.

The board members and Mr. Sprenger discussed whether to have stronger aesthetic and enforcement language in the leases or the Rules and Regulations. Mr. Sprenger said he recommended the proposed language in this lease because he knew the board members had concerns. This language is stronger than what is in past leases and allows the Authority to hire someone to fix a deficiency and charge a premium if the hangar owner doesn't get the work done within the required time after notice is given by the Authority.

The board members and Mr. Sprenger discussed enforcement if a hangar was structurally unsound or if it needed work to improve the appearance. Mr. Switzer asked if the issue was looking at different, more creative ways to grant leases but still making sure we have the procedures for maintenance and expected upkeep to keep the airport nice. Mr. Sprenger said people possibly would build new hangars because it is the only way they could get financing. The older hangars possibly would not be sold due to financing and we might wind up with an excess of hangars.

Mr. Humphrey said that about two board meetings ago we started a conversation to address the trailers and everything outside the hangars before this issue came up. Staff thought the Rules and Regulations should be updated because it is a living document versus a static document. Language regarding structure and appearance could be put in the Rules and Regulations going forward. All leases point back to the Rules and Regulations.

Mr. Mathis said updating the Rules and Regulations is not an easy or quick process because it requires public input. Mr. McKenna said it probably is the place for the new language and Mr. Mathis recommended the change be made there as well as in the leases. Mr. Sprenger said the language could be simple and only allow the vehicle that was used for transportation to and from the hangar be allowed to be parked outside the hangar.

There is only four years left on the lease term for the hangar Mr. Allbright would like to purchase. Mr. Mathis said he would feel comfortable with a ten-year lease if the language Mr. Sprenger recommended was in the lease agreement.

Ms. Ereaux said it is wonderful to see the concern the board members have to maintain the integrity of the airport. She doesn't believe a bank would approve a loan on a \$350,000 hangar with a ten-year lease. She thinks if the board holds out on current lease terms, it will be impossible for someone to get a loan on an older hangar. She said it seemed illogical to not offer a long term lease on a property you want maintained.

MOTION: Mr. Lehrkind made a motion to accept the revisions by the staff of the non-commercial hangar lease terms for transfer of the ownership with the additional language that the mode of transportation, whether it be vehicle or bike or whatever, be added to the lease language going forward that Brian recommended. Mr. Switzer seconded the motion and all the board members voted aye. The motion carried without opposition. Mr. Allbright thanked the board and Mr. McKenna thanked everyone for their thoughtfulness on this issue.

7. Consider Capital Improvement Plan

Mr. Sprenger said the 2013 Airport Improvement Program (AIP) funds will be the last reimbursement for the terminal project. Mr. Bell and he anticipate that \$2,675,000 of AIP funds will be available for 2014. Mr. Sprenger explained the proposed projects: \$3,000,000 for the I-90 East Belgrade Interchange, \$1,600,000 for AIP fundable access roads to the terminal, \$2,500,000 for the non AIP fundable portion of access roads to the terminal, \$426,000 for a non AIP fundable parking lot expansion, \$836,000 for an AIP fundable terminal ramp expansion, \$450,000 for an AIP fundable Environmental Assessment (EA) for a new Parallel Runway and \$5,909,107 for the construction of a new Parallel Runway.

Bob Hietala, Dean of Gallatin College, and Ben Walton from Summit Aviation were present at the meeting. Mr. Hietala said Gallatin College is the two year college affiliated with Montana State University and he was here to recognize the partnership with the Gallatin Airport Authority and with Summit Aviation. He said the success they have had in their aviation program has been dependent on those partnerships and that they were excited by the possibility of a parallel runway. They expect the school aviation program to grow and be a vital part of both the aviation community and the local two year offerings.

Ryan Haskins, Aviation Director for Montana State University Gallatin College, said they offer a two year Applied Science degree in aviation, which is a professional pilot degree they offer in partnership with Summit Aviation, their flight training provider. Mr. Haskins gave the board members a handout that showed the growth between 2009 and 2012 with the number of students, flight instructors and training aircraft as well as fuel usage, aircraft hours and operations. In 2015, they project having 70 students enrolled in the aviation program, and up to 17 full-time flight instructors. They also are projecting having fourteen to fifteen training aircraft. They have seen pretty good growth since they started in 2005. Mr. Haskins said it is important to the program to have the facility and the space. He thanked the board.

Mr. Sprenger said we had approximately 83,000 tower operations this year, which is about a 20% increase. If the board moves forward with the Environmental Assessment on the parallel runway, they will receive public input and can see if they want to go ahead with the project. Construction would be about \$5.9 million and could be projected for 2015.

Mr. Sprenger said he started discussions with Mr. Hietala and Mr. Haskins about relocating the flight school to the north side of the airport. It would reduce crossing traffic over the main runway. If relocated, the cost of the north side infrastructure is projected at \$5.2 million. Mr. Sprenger said it would take a tremendous long-term commitment from the

College and University and could be planned in 2016. During 2017 and 2018, the main runway and taxiway rehabilitation is scheduled. If we had the parallel runway, we could use it as the main runway as needed during the rehabilitation. Mr. Sprenger said staff used an economic study by the state, and this summer the airport contributed about \$2 million per day to the local economy, which could impact the local community. Rehabilitation of the main runway and taxiway system is projected at \$10.3 million.

Mr. Sprenger said we may need to replace some of our snow removal equipment projected at about \$1.2 million. He hopes that is on the high side. Mr. Sprenger said some funding has been dedicated for potential land acquisition. He also mentioned a potential parking garage, but it wasn't on the list as we would have to finance it ourselves and may bring it up at a later date for consideration.

Today he is asking the board for three things: one is the approval of the proposed Capital Improvement Projects to send to the FAA (it can be amended); two is approval to proceed with the Environmental Assessment on the parallel runway and three is the design of the terminal apron expansion, parking lot expansion and access roads. Approval does not commit the board to construction.

Scott Bell, airport engineer, said extending Runway 03/21 to the north is included in the projected costs. Mr. Lehrkind asked if the EA on the parallel runway would include the infrastructure for it too and Mr. Bell said it would if we started on the project within three years following the EA. Mr. Lehrkind asked how long it would take to do the environmental assessment and Mr. Bell said it could take twelve to eighteen months because there has to be time for public comments and FAA approval.

Mr. Mathis said he spent quite a lot of time reviewing the Capital Improvement Plan (CIP) and he thinks it is very well thought out and planned.

MOTION: Mr. Mathis moved to approve the Capital Improvement Plan as presented by staff and to proceed with the Environmental Assessment for the proposed Parallel Runway and associated North side improvements. Mr. Lehrkind seconded the motion. All Board members voted aye and the motion carried.

Mr. McKenna congratulated everyone who worked on the CIP and said he knew it took a lot of time. He also thanked MSU for their comments and Mr. Walton for his partnership and relationships.

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

Mr. Humphrey reported that November tower operations were down 2.4% from November 2011. Air carrier landings were up 21.6% and general aviation was down by 12.2%. Itinerant landings were up 6.8%. Local operations were down a tad. Rolling operations were just under 82,000. Corporate landings 12,500 lbs. gross landing weight (GLW) and above were up by 7.5%. Total revenue enplanements were up 12.7% and rolling 12 month enplanements were 432,287. Mr. Humphrey said we are projecting about 435,000 enplanements for 2012, which are about 38,000 more than 2011.

Airline landings were up 7.0%. Atlanta service and Newark service will return on December 22nd. Mainline service from Minneapolis will return on the 15th and Los Angeles service on December 19th. Load factors were 84.6% with 12% more seats in the market. Fuel dispensed in October was up 23.1%.

Mr. Humphrey reported that we are looking at a 10% to 12% increase in revenue enplanements for December 2012 over last December. Most of our growth this year has been fueled by additional seats in the market. Mr. Humphrey said we are going to end the year on a good note. He said the direct Allegiant Air flights from Bozeman to Oakland may be back next year.

9. Airport Director's Report – Brian Sprenger

Mr. Sprenger reported that he met with the FAA in Seattle regarding the tower hours and staffing. He doesn't expect results until after the "Fiscal Cliff" has been resolved.

Mr. Sprenger also reported that we had the opportunity through Senator Baucus' office to voice our concerns to Delta CEO Richard Anderson regarding Montana to Salt Lake City fares.

Mr. Sprenger also asked the board to give him input regarding the proposal from MSU so they will know if they can proceed on their sign design.

10. Consider bills and approve for payment

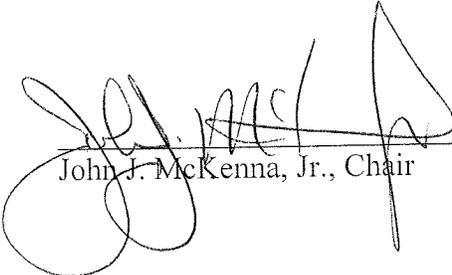
The thirteenth agenda item was to consider the bills and approve for payment. The Board members and Mr. Sprenger reviewed and discussed the bills.

MOTION: Mr. Lehrkind made a motion to pay the bills as put forth and Mr. Kelleher seconded the motion. The motion carried unopposed.

11. Adjourn

The meeting was adjourned at 4:05 p.m.

Following the regular meeting, a closed meeting was held for the purpose of discussing pending litigation.


John J. McKenna, Jr., Chair 1/10/13