

The regular monthly meeting of the Gallatin Airport Authority was held February 21, 2019 at 2:00 p.m. in the Airport Conference Room. Board members present were Carl Lehrkind, Kendall Switzer, Ted Mathis, Karen Stelmak and Kevin Kelleher. Also present were Brian Sprenger, Airport Director, Scott Humphrey, Deputy Director, Troy Watling, Assistant Director - Finance, and Julie Webb, Admin and Accounting Assistant.

Carl Lehrkind, Board Chair, welcomed everyone to the regular meeting of the Gallatin Airport Authority Board.

**1. Review and approve minutes of regular meeting held January 10, 2019**

Mr. Lehrkind asked if everyone had received their copy of the minutes and if they had any corrections or additions. There were none.

**MOTION:** Mr. Kelleher moved approval of the minutes of the meeting held January 10, 2019. Mr. Switzer seconded the motion and all board members voted aye. The motion carried.

**2. Public Comment Period**

There were no public comments.

**3. Consider Guaranteed Maximum Price – Schedule 1 of the Concourse Expansion Project**

Mr. Sprenger reported that the bid figures for Schedule 1 of the Concourse Expansion Project came in at \$6,622,401 which was 94.5% of the original estimate with a savings of \$383,000. This figure includes the new exit lane.

Mr. Mathis asked if there was a list of the proposed contractors. Mr. Sprenger confirmed we had a list of the subcontractors in Amendment 1 of the contract. Mike Wilkinson with Martel Construction reported that the main subcontractor will be Duneman

Construction. The subcontractor providing concrete will be Martel Construction with suppliers of Knife River and Swendseid Concrete. Masonry will be completed by Anderson Masonry who had previously worked on a 2009 project at the airport. Structural steel will be provided by American Steel with Sowles erecting the steel. Western Wood Structures will supply the wood, glulam, and decking and Martel will be doing the installation. Mr. Wilkinson noted that he was comfortable working with all the subcontractors as they have a previous work history with all of them.

Mr. Lehrkind asked where the savings came from. Mr. Wilkinson reported those savings came from the site, steel, glulam, and other areas.

**MOTION:** Ms. Stelmak moved to approve issuing Schedule 1 bid documents on the Concourse Expansion Project. Mr. Mathis seconded the motion and all board members voted aye. The motion carried.

#### **4. Consider First Interstate Bank Commercial Line of Credit in the amount of \$6,500,000**

Mr. Sprenger said he referred to their legal team regarding whether a Request for Proposal (RFP) would be required. The direction is not very clear especially when it comes to an operational line of credit. Mr. Watling feels that we are within our banking requirements by using First Interstate Bank because the benefit of the line of credit is to be able to move money between accounts in an effort to minimize interest. Using two separate banks would eliminate the ability to move money and realize the interest savings.

Mr. Watling reported that the total line of credit will be for \$6.5 million and will be a 3-year agreement. While the agreement would start within the next couple of months, he does not anticipate that they will need to start drawing down and repaying the loan until

this time next year. There will be a payback and draw down period of about a year and a half so by the end of fiscal year 2022. The \$6.5 million is above the projected need. Staff estimates they will only need about 60% of those funds. The loan provides a good rate and a lot of flexibility for the project. This loan allows us to transfer money between accounts as capital projects are scheduled to provide a cash balance of \$1 million while minimizing our interest expense. The total interest expense is estimated to be \$70,000.

Ms. Stelmak asked if the \$45,000 origination fee was standard. Mr. Watling replied that it is standard especially with the flexibility that is being asked for like the extended term and a revolving line of credit. Ms. Stelmak asked for confirmation that we comply with the 1.25% debt service coverage. Mr. Watling said our average over the last several years has been above 6%. Ms. Stelmak inquired about any issues with the non-disclosure agreement given this was a public meeting. Mr. Watling said there were no compliance issues with the non-disclosure agreement.

Mr. Switzer asked if we used our line of credit during the last terminal expansion. Mr. Sprenger stated that the last expansion was done with \$16 million in bonds, which committed us to a 10-year bond payment which is about to reach its call date. Mr. Switzer asked to confirm that the revenue over time would be able to repay the majority of the loan without having to use a bonding process. Mr. Sprenger confirmed we would be able to use a line of credit rather than bonds.

Mr. Watling said our current cash balance was at about \$14 million. At the end of the 4 ½ year term they estimate the cash balance will be at around \$10 million which

illustrates that this will just be a dip in the cash balance and is one of the reasons we were able to secure a great rate and flexible terms on the loan.

The call date for the bonds from the previous terminal expansion will be coming up this June. At that time, there is an opportunity to refinance. The initial terms considered were a 7-year payback period with interest only due for the first two years. The refinancing allows us to remove a good portion of our reserve requirements. Currently the bonds require \$3 million to be set aside; the new refinancing agreement would likely lower that to half of that amount and possibly less. This would provide additional cash to be freed up. Cash projections allow for that 7-year refinance loan to be paid off two years early. Mr. Lehrkind asked if there were any prepayment penalties. Mr. Watling mentioned they would ask for no prepayment penalties. He also said the estimate for interest rates is approximately 3.5%-4.5% which would provide a savings of about \$200,000 compared to paying out the bonds without a refinance agreement. Mr. Sprenger mentioned this would go to RFP in the near future to select a financial institution.

**MOTION:** Mr. Mathis moved to approve the First Interstate Bank Commercial Line of Credit in the amount of \$6,500,000. Mr. Kelleher seconded the motion. All board members voted aye. The motion carried.

**5. Consider request by Gallatin Flying Service to sublease hangar #6 to the Commemorative Air Force**

Mr. Sprenger reported the Commemorative Air Force has been working with Mr. & Mrs. Stradley on an agreement where the Commemorative Air Force would sublease the hangar currently leased by Gallatin Flying Service. They are proposing a sublease of the



facility by the Commemorative Air Force from Gallatin Flying Service only until 6/30/2020 which is the end of the current term.

**MOTION:** Ms. Stelmak moved to approve the request by Gallatin Flying Service to sublease hangar #6 to the Commemorative Air Force. Mr. Switzer seconded the motion. All board members voted aye. The motion carried.

**6. Consider request by Gallatin Flying Service to enter into a new commercial lease on hangar #6 contingent upon updates to the hangar as specified**

Mr. Sprenger reported there are upgrades required on the hangar. The hangar's electrical and plumbing systems and components need to be updated to the current code. The hangar would be connected to the airport and the City of Belgrade's water and sewer system. It would need to meet the minimum standards for a commercial hangar and the standards for the Americans with Disabilities Act. The exterior materials and colors would need to be submitted for approval. The hangar ramp needs to be repaved and accommodations would need to be made for additional parking.

Mr. Sprenger would like to give the Stradleys some assurance that once these improvements are completed, a new lease would be offered.

Mr. Mathis asked about the lease term length and Mr. Sprenger confirmed it would be a 10-year lease.

Ms. Stelmak expressed concern for both vehicle and aircraft parking. Mr. Foster from YJC confirmed he met with the Commemorative Air Force and reiterated that if they follow through with their plans there are no issues.

Ms. Stelmak asked to confirm that any exterior changes would be pre-approved. Mr. Sprenger said that was correct.

Mr. Mathis expressed concerns about the gravel on the side of the building and felt that paving at least a driveway would be necessary because of the issue of gravel coming up on to the ramp. Mr. Mathis mentioned it would also be important for additional parking areas to be maintained.

Mr. Lehrkind asked Mr. Sprenger if he had seen any agreements between YJC and the Commemorative Air Force like what Mr. Foster mentioned. Mr. Sprenger said no.

Mr. Switzer asked if we were sure that all of the upgrades would be completed. Mr. Sprenger said the new lease would not be entered into until they verified that those improvements were complete.

**MOTION:** Mr. Switzer moved to approve the request by Gallatin Flying Service to enter into a new commercial lease on hangar #6 contingent upon updates to the hangar as specified. Mr. Kelleher seconded the motion.

Mr. Lehrkind said we have an end date of 06/30/2020 and asked if any of these improvements have been started. A representative of the Commemorative Air Force said they are waiting on agreements and costs.

All board members voted aye. The motion carried.

**7. Consider request by Gallatin County Sheriff's Office to utilize airport property for K-9 training**

Mr. Sprenger reported the Gallatin County Sheriff's Office (GCSO) was having a difficult time finding open space to do K-9 training. GCSO is seeking to use outdoor areas at the airport. These trainings would be conducted entirely outside of the airport fencing. Additionally, they would like to use areas within the building (i.e. downstairs) to do their training. Their access would be coordinated with airport staff.

Ms. Stelmak confirmed these trainings would not be conducted during peak arrival and departure times in the building. Mr. Switzer confirmed we would be released from any liability. Mr. Sprenger confirmed we would ask for a release of liability.

Mr. Kelleher noted that he felt having the additional patrol dogs on site would be a benefit to the airport. He feels that it would add a feeling of safety.

Mr. Mathis stressed the importance of having the outdoor trainings conducted outside of the fencing.

Mr. Lehrkind asked how frequently the trainings would be conducted. Mr. Sprenger stated the frequency would be season dependent.

**MOTION:** Ms. Stelmak moved to approve the request by Gallatin County Sheriff's Office to utilize airport property for K-9 training. Mr. Switzer seconded the motion. All board members voted aye. The motion carried.

#### **8. Consider additional terminal advertising revenue opportunities**

Lisa Burgwin came to the podium and explained airport staff is proposing to extend the baggage claim style advertising to the parking garage connector building on the main floor and to the concourse gate areas. Ms. Burgwin said the demand for airport advertising, specifically the baggage claim style signs, is very high. Currently there are 105 businesses on the waiting list dating back to 2010.

Staff is proposing to expand advertising opportunities to two new areas. In the parking garage connector building, there is room for 10 signs which would add \$21,000 in annual revenue. The gate areas could accommodate 19 signs on the blank walls and would provide additional annual revenue of \$28,000. Signs in the gate areas would be priced

slightly lower because their exposure would be mostly to outgoing passengers. Local businesses would have the option to take a gate advertising spot while still staying on the list for the high-demand baggage claim spot. Ms. Stelmak asked to confirm that if a business chose to advertise in the gate areas, they would still be on the waiting list for a spot in baggage claim. Ms. Burgwin confirmed they would remain on the baggage claim waiting list.

Staff is also requiring that the signs placed in the new advertising areas are consistent with what travelers already see in the baggage claim area.

Mr. Mathis asked to confirm that the signs would be a universal style in all areas of the airport so they could be interchanged. Ms. Burgwin confirmed they would all have the same size and design requirements. Mr. Sprenger noted that it is a requirement that the signs are fit with a frame that has specific dimensions.

Mr. Switzer said he has received comments from various travelers regarding what makes the Bozeman airport unique. He said the first thing people comment about is the unique style and feel of the airport as well as the mountain views. He has also received comments that travelers are appreciative that they are not bombarded with advertising in the airport.

Mr. Mathis felt that because we do not use backlit or neon signs or signs made of plastic that ours are a classier form of advertising. Ms. Stelmak agreed that the style of the advertising was not overwhelming and keeps to the décor of our terminal. Mr. Kelleher commented that the type of advertising we currently have is appropriate.

Mr. Lehrkind asked about the terms and Ms. Burgwin said the minimum is a 90-day commitment. She said it is an investment of approximately \$1,500 by the advertiser. All designs are reviewed and approved by Mr. Sprenger prior to production

Mr. Switzer suggested we move forward with the advertising expansion on the lower level and then look at the advertising for the upper level once the terminal expansion is done. Mr. Sprenger reiterated that part of the push for the advertising was the number of people on the waiting list. Mr. Sprenger also noted that another part of the equation was the appeal of the additional revenue opportunity considering the additional expenses that are coming up.

Mr. Kelleher thinks the type of signs we have are appropriate. They are not free standing and in the way of traffic throughout the concourse.

Mr. Mathis commented that the revenue it would provide, especially given the classy type of advertising the airport offers, made this decision for him a slam dunk.

Ms. Stelmak said she understands the concern that we don't want it to look cluttered and want to keep with our terminal design. Ms. Stelmak added that if the advertising is pre-approved by staff and adheres to a similar style, then she supports the opportunity for the additional revenue.

Mr. Kelleher said that based on his experience with advertising, we could double the rates and no one would object. This is a slam dunk and guaranteed revenue. Plus, it gives businesses the opportunity to be a part of our airport. He supports it.

**MOTION:** Mr. Mathis moved to approve additional advertising revenue opportunities as proposed by staff. Mr. Kelleher seconded the motion. All board members voted aye. The motion carried.

**9. Report on passenger boardings and flight operations – Brian Sprenger**

Tower operations for January 2019 versus 2018 were up 21.4% at 7,850 operations. Our rolling twelve-month operations were 91,888. Corporate landings were up 34.1% at 621. Total enplanements were up 20.2% at 60,548. That puts us just under 681,095 enplanements for the year. Total deplanements were up 21.7% at 59,072. Airline landings were up 17.4% which indicates larger planes coming in. Airline load factor was down 6.1% to 77%. The JetBlue overall load factor was 61% which was the lowest of all the carriers. However, that figure has been continually increasing as the month of December was 50%, and February is expected to be around 75-80%. January fuel was up 30.5% overall.

**10. Airport Director's Report – Brian Sprenger**

Mr. Sprenger reported that based on the first 5 months of this year there is a 30% estimated increase in seats. We will probably fill about 60% of those seats and there will be about additional 55,000 passengers. For the second half of the year it will slow to 6-8% growth or about 20,000 passengers additional passengers. There will be a full projection at next month's meeting. Between the two it is estimated there will be an additional 75,000 passengers. That equals about \$1.1 million in additional revenue. Passenger facility charges will increase by about \$300,000. Customer facility charges would increase by about \$290,000. Based on the Airport Improvement Program (AIP) formula, AIP entitlements

would increase by \$150,000 by next year. While there are positive impacts on the revenue side, he noted there would be an increase in expenses of about \$500,000.

This growth creates a number of challenges on the infrastructure side. There was a consideration to phase in the new gates, but that would come with a related loss in revenue. So, the recommendation is to open all of the new gates and phase out the use of gates 1 and 2. Eventually we would like to remodel those gates. This will push the passengers to the new terminal area and will help generate revenue in that area.

Mr. Sprenger noted that if all 12 gates were in use, the current baggage system would not be adequate. If we phase out gates 1 and 2, we could avoid purchasing new boarding bridges (\$1.1 million), new seats (\$70,000), and two new podiums (\$25,000) for an overall savings of \$1.2 million. The important point is that if conditions change, the gates are still available. We could do ground level boarding if needed.

Mr. Kelleher asked if the old restaurant area would be included in the remodel of the east end of the airport. Mr. Sprenger mentioned that was down the road quite a bit but is a possibility.

Mr. Mathis asked if gates 1 and 2 have the two new bridges. Mr. Sprenger confirmed they were and that they would be moved to one of the newly added gates. Mr. Mathis asked if we should consider postponing the purchase of the new boarding bridges. Mr. Sprenger said gate 2 especially was getting overused and so the purchase of the new bridge is necessary. Mr. Scott Bell from Morrison Maierle felt that relocating the bridges would only be a day or two of crane service and labor costs to move the gates.

Mr. Lehrkind asked if there was any efficiency that we would be losing by phasing out gates 1 and 2. Mr. Sprenger said no, because in the worst case scenario, they would do ground boarding or buy additional bridges.

Mr. Sprenger presented the proposed upgraded baggage system. The system includes expanded TSA screening capability, a specific screening line for skis and oversized items and improved outbound baggage handling. The cost for the upgraded baggage system to the full build out is about \$30 million dollars. The estimate for the initial phase is approximately \$25 million with half of the cost funded by TSA. It is unknown when TSA could provide funding. There is \$5 million already in our capital budget of the projected \$12 to \$13 million we would be responsible for. The schedule for this project fits into the capital plan at about 6-12 months after the expansion is complete if we can get TSA funding. The figures were comparable to the costs for a similar system at the Missoula airport.

There have been discussions with the airlines about potential upcoming increases in fees to help offset the cost of the new baggage system. The airlines are fully aware of the need for a new baggage system. We don't anticipate too much of a challenge from the larger carriers since it benefits them.

Mr. Sprenger said 60% of the ski bags are setting off the explosive alarms and stopping the lane because of the material used to reduce avalanches. The solution would be to move the baggage areas for skis to the underground tunnel system. The advantage of this system is there are two lanes where the ski bags could go, so if one alarmed, the other lane would continue. The proposed belts for the ski bags would tie in to the regular bag



screening area which is a plus. Mr. Sprenger detailed the various levels and how the system would work.

Mr. Mathis said 10% of the passengers are skiers. He asked if the staff has explored other options such as trucking the skis from the counter to the plane, shipping skis, etc. Mr. Sprenger said 10% of the passengers annually are skiers but the numbers increase substantially during ski season to 35-40%. There would be cost savings if we did not build the ski system. However, it is that system that allows for improvements to the regular bagging section. Utilizing the underground ski section avoids having to have the passengers drop bags at a drop off location. Mr. Sprenger indicated that the volume of skis seen in the peak season justifies the need for the upgraded ski and oversize baggage system.

Mr. Lehrkind asked if having passengers drop their bags at a certain location would help. Mr. Sprenger said the current machines are limited in their capability and speed. Regular bags alarm at about a 10-20% rate. Alarms can stop the system and so can a backlog of bags on the belt when staff can't keep up with unloading them. There are some interim things we could do to get us a little further. We could also postpone the project a little more and do it right the first time instead of one piece at a time. Now we have an idea of what we are working toward.

One of the challenges of the new baggage system was space. However, the system will fit in the footprint of our existing building plus the ground level of the concourse expansion.

Mr. Lehrkind said he agrees with Mr. Mathis. This is a lot of money and other options should be explored. Mr. Sprenger said numerous options have been explored. Mr.

Bell said 6 options are in the report for TSA but they reviewed many more. Mr. Sprenger said this design would accommodate our growth until 2041.

Mr. Kelleher asked if the new system would accommodate all large items (snow boards, rifles, etc.). Mr. Sprenger said yes and mentioned that fertilizer residue on golf clubs also causes the system to alarm.

Mr. Mathis asked if this was premature considering the expansion project. Mr. Sprenger said the decision would not even be possible without the additional space created by the terminal expansion. Many airports have to build space just for baggage systems. This allows us to use more affordable space. Not opening 12 gates at the same time allows us time to get the system in.

Mr. Kelleher asked for clarification regarding the tunnel system. Mr. Bell clarified that the tunnel system was an alternate addition that had we not chosen to do would put us in a more difficult position now for expansion. Mr. Kelleher said he understood that the skier count was up 60,000 this year as compared to last year and referred to a pass that is changing the game for skiers. He is concerned that with the increasing growth of skiers and airport travelers there is a need for a baggage system. Tony from Martel Construction mentioned the ski pass and questioned if skiers will continue to bring their own skis and also questioned the overwhelming increase in skier traffic. He suggests keeping an eye on that growth at the nearby ski resorts.

BZN is ranked 107<sup>th</sup> in the nation in airport size which is up 34 spots since 2008. 9% of our passengers are winter tourism. 15.6% of our passengers are summer tourism. 39.1% are local passengers. 36.4% are incoming business, visiting friends and relatives traffic.

Mr. Lehrkind commended Central Valley Fire Chief Lindroth for coming out and helping with the kitchen fire that occurred at the airport during the meeting. Mr. Lindroth said the fire was at Taco Jet upstairs and the cause was a fryer that was moved away from the wall with a one-inch gas line that only had two threads holding it at the joint. The threads broke off; the gas was free flowing and was ignited by the heat from the fryer. Law enforcement tried putting it out several times with extinguishers and it kept re-igniting. That caused the hood duct system to fire off and also turned off the gas trip valve to the area which stopped the fire and prevented a potentially catastrophic explosion had the gas continued to leak. It was a low loss fire and he expects they will be back in operation in about 24 hours.

Mr. Lindroth said the new firehouse will be open June 1<sup>st</sup> depending on weather and a walk through of the facility is scheduled for tomorrow, Friday March 22<sup>nd</sup> at noon.

#### **11. Consider bills and approve for payment**

The bills were reviewed and detailed by Mr. Sprenger.

**MOTION:** Mr. Kelleher moved to pay the bills and Ms. Stelmak seconded the motion.

All board members voted aye and the motion carried unopposed.

#### **12. Adjourn**

The meeting was adjourned at 4:28 p.m. The meeting was paused for a short period of time to address a fire alarm.



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Carl Lehrkind, Chairman