The regular monthly meeting of the Gallatin Airport Authority was held May 11, 2017 at 2:00 p.m. in the Airport Conference Room. Board members present were Ted Mathis, Karen Stelmak, Kendall Switzer and Kevin Kelleher. Also present were Brian Sprenger, Airport Director, Scott Humphrey, Deputy Airport Director, Troy Watling, Assistant Director - Finance, and Shannon Rocha, Recorder.

Ted Mathis, Board Chairman, welcomed everyone to the regular meeting of the Gallatin Airport Authority Board.

1. Review and approve minutes of the regular meeting held April 13, 2017.

Mr. Mathis 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 regular meeting held April 13, 2017. Mr. Switzer seconded the motion and all board members voted aye. The motion carried.

2. Public Comment Period

Mr. Mathis asked if there were any public comments. There were no public comments.

3. Consider request by Arlin's Aircraft to enter into a new 10-year lease on commercial hangar 1 and a new 10-year lease on the fuel farm

Mr. Sprenger reported that Arlin's would like to continue their operation at the airport. The request includes their fixed-base operator (FBO) building and the fuel farm. Staff recommends approval of the request.

Mr. Mathis said we are fortunate to have two great FBO's. Arlin's Aircraft Service is a premier aircraft operation. Their knowledge of general aviation is known throughout the nation. We are pleased they want to continue for another 10 years.

MOTION: Ms. Stelmak moved to approve the request by Arlin's Aircraft to enter into a new 10-year lease on commercial hangar 1 and a new 10-year lease on the fuel farm. Mr. Kelleher seconded the motion and all board members voted aye. The motion carried.

4. Consider request by Arlin's Aircraft to extend the lease on commercial hangar 4 on a year to year basis

Mr. Sprenger said the location of this hangar may be in need of redevelopment in the near future. This motion allows us to look at future options in that area.

MOTION: Mr. Kelleher moved to approve the request by Arlin's Aircraft to extend the lease on commercial hangar 4 on a year to year basis. Mr. Switzer seconded the motion. Mr. Mathis mentioned that the back of the hangar needs some paint. All board members voted aye. The motion carried.

5. Consider request by Signature Flight Support to extend the lease on commercial hangars 2 and 3 on a year-to-year basis

Mr. Sprenger said we would like to continue this on a year to year basis so the terms match the adjacent hangars. Mr. Mathis asked if we have anything new on the possibility of Summit moving to the north side. Mr. Sprenger said it is his understanding that Signature continues to talk to them but we have no more information at this time.

MOTION: Ms. Stelmak moved to approve the request by Signature Flight Support to extend the lease on commercial hangars 2 and 3 on a year to year basis with its initial term being through June 30, 2018. Mr. Switzer seconded the motion and all board members voted aye. The motion carried.

6. Consider General Aviation Land Lease Rate Increase Effective July 1, 2020

Mr. Sprenger reported that at his review last year a review of rates and charges was requested. They have been reviewed. Over time, volume and inflation impact the airport. Volume has been positive and has allowed us to minimize rate increases over time.

There are rates that we have had to increase. Airline space rent has increased over the last 10 years. Our proposal for this year will be a 17-18% increase over the last 10 years. We also increased the rental car commercial land rate by 18% from $0.30 to $0.35 per square foot. Those two increases were handled through airline negotiations and rental car company negotiations. That leaves the General Aviation (GA) side. Staff's recommendation is to raise the rate for non-commercial GA from 8.5 cents per square foot to 10 cents per square foot and commercial aviation from 10 cents to 12 cents per square foot. Our recommendation is to start this on July 1, 2020.

All of our lease language is such that we have a 3 year re-negotiation clause for rates based on the lease origination date. We have almost 196 hangars total. Some are multiple units and some are single units. There are about 90 separate owners. That creates challenges to manage individual lease changes each month. Our legal counsel stated that the best way is to create an addendum to the leases with the date and then establish dates from that point forward. We would apply that to all the hangars and then include the same language in all new leases.

We have 1.2 million square feet of non-commercial hangar space leased and almost 1 million commercial hangar space leased. The average cost increase on the non-commercial side is $9 per month for the average size hangar. Ms. Stelmak clarified that the impact for the average size hangar with the increase is about $108 per year. Mr. Sprenger said that is correct and obviously bigger hangars will have a bigger impact.

From the 2007-2020 timeframe on the non-commercial side this would equate to about a 1.3% compound average growth if we had increased it every year. When you compare that to the inflation rate we are still well below that. Our volume increase has helped to offset some of the impact of inflation but it still needs to be accounted for. From a capital improvement standpoint, about 32% of our Airport Improvement Program (AIP) dollars are spent on GA. The eligible expenses on the GA side also represent about 72% of our total operations. The corporate GA, cargo operations, and air carrier operations are the remaining 28%. Non-commercial GA is 1.3% of our operating income. The commercial GA, Jet A and commercial FBO's and such, are about 4.8% of our total operating income. Overall GA is 6.1% of our income.

It is difficult to differentiate commercial and non-commercial expenses. But we go through a process that we have to justify to our airlines every year. Non-commercial GA is about 7.3% of our expenses. Commercial GA is almost 14%. So overall, about 21% of our expenses are directly related to GA. We account for that by looking at the airfield portion and differentiate operations. The main runway isn't needed for non-commercial use. But the cross wind runway is specifically for non-commercial GA. We look at that as a percentage of the area and we apply that toward the operation costs of the airfield. We also have the commercial side of the airport, we have the airline side, the terminal side and those are obviously not included in the GA side when we allocate costs.

We are trying to be fair. We have been fortunate to have exceptional growth. Compared to other airports, our GA land lease rates are the lowest of the large 6 commercial airports in the state that are not essential air service. Even with the current proposed increase our rates will still be 4.5 cents lower than the airport with the next lowest rates. There is always the objection that each airport is individual. But we compare to other airports all the time. We have had a long-standing desire to keep parking rates at or below the two next largest airports. We have also tried very hard to keep our GA rates at or below all of the comparable airports in the state as well.

It is now time to make a modest increase to account for the inflation increase and services we provide to our users. We have a lot of projects going on. While a lot of our money is allocated toward capital improvements, we have to look at the operating side of the equation as well.

Mr. Mathis asked if Mr. Sprenger had our costs for maintaining the turf runway. Mr. Sprenger said he didn’t have that available at the moment. Mr. Mathis asked if there has been any consideration of increasing the fuel flowage fee. Mr. Sprenger said they have looked at that. They have seen that most airports have kept it very stable over time. Our recommendation is not to touch that right now. We hope volume will account for it. Mr. Mathis said the airport owned hangar rates haven’t increased. Mr. Sprenger said we anticipate increasing those but don’t have the need to go through this process for that increase since it is an airport owned building.

Ms. Stelmak said she appreciates that even with this increase Billings’ rate is twice ours and Kalispell is more than twice at 28 cents per square foot. She appreciates that through the success of the other revenue generators of our airport we have been able to keep this low rate.

Mr. Switzer thanked Mr. Sprenger for all the hard work. He thinks that serving GA is important. That is a backbone of our airport and the attention it has been given is important.

Something that stood out to Mr. Switzer was that not much has been done with rates in 10 years. You don't have to look too hard to see that expenses in the valley for services have increased dramatically. For being the busiest in the state by far we provide a significant value for GA hangar owners. Keeping our rates at the lowest in the state is significant and should be valued by GA.

Mr. Kelleher has been a hangar owner since 2002. He appreciates keeping the rate around 10 cents per square foot. Mr. Kelleher thinks it is affordable. If you look at the comparables, such as Billings and Kalispell, we clearly have a premier GA hangar layout. Mr. Kelleher has no problem with the increase and it is probably needed because it has been so long.

Mr. Mathis acknowledged that there were GA hangar owners and pilots in the audience. Mr. Mathis asked them to step up to the podium if they had something they wanted to say.

Jerry Gaston of hangar 67 came to the podium. Mr. Gaston said it was hard to follow all the numbers. There is concern by GA hangar owners that they don't know what they are getting for their leases and their taxes. They would like some information to calm some concerns. He said the last letter he received from the airport board was to threaten to stop snow removal if he doesn't fix some things around his ramp. Mr. Gaston would like to see what we are spending on snow removal or what the expenses are for GA. Mr. Gaston said his entire bill is just under $6,000 for the year and he is not sure what he gets (Mr. Gaston's annual land rent paid to the airport is $1531.70, plus $420 per year for infrastructure costs for water and sewer; public records show his annual taxes paid to the county were $1858.24 for the year ending May 31, 2017). If it is snow removal he will do his own. He has a hard time seeing where the money for his hangar is being spent. Mr. Gaston would like more open discussion on what they are doing before they start rate increases. They are asking for better communications. Mr. Gaston said he has a meeting planned with Mr. Sprenger. There are times when he waits a whole week for snow removal and the snow removal equipment is so large it creates problems. He thinks it is time to include GA more on the discussions. Ms. Stelmak wasn't sure if Mr. Gaston heard what Mr. Sprenger had said that the expenses directly attributed to GA were about 21% and the revenue collected was 6%. Mr. Gaston said they can't address that because they have no facts and figures.

Mr. Mathis said you have to consider runways, taxiways, mowing grass, bathrooms, gates, key cards, etc. Mr. Gaston said he doesn't get his grass mowed. Mr. Mathis clarified that the grass is mowed around the runways and elsewhere. Mr. Gaston said he understands but needs more feedback. Mr. Mathis said he understood.

Mr. Sprenger said they can provide more feedback.

Doug Cairns of hangar 53 came to the podium. Mr. Cairns said he has the same concern as Mr. Gaston. They get charged and would like to see a ledger and where the money goes. Mr. Cairns said the other can of worms is that he pays county tax on his hangar and doesn't know what that goes to which is a separate discussion. Mr. Cairns said he doesn't mind paying his fair share but would like to know where it goes.

Mr. Sprenger said the total non-commercial GA income for AOA badges, hangar rent from the airport loaned hangar, tie down fees, non-commercial land rent, and fuel flowage fees is $128,000. It is for the general operation of the airport and all the facilities we provide. That is at least one number to think about. The bulk of that is land rent. That is an annual number.

Mr. Switzer thanked everyone for the comments. He agrees a breakdown makes sense. If there are questions, bring them up at the pilot meetings, but at the end of the day this is a great forum to make sure we are servicing everyone's needs.

Mr. Mathis asked if there is a need to deal with this today. Mr. Sprenger said it was addressed this month so that it can be incorporated into the airport budget that we are addressing next month. It could be considered in conjunction with the final budget. Mr. Kelleher asked what would be the possibility of delaying it by 12 months to create a baseline to work off of for this year. Maybe getting the numbers over the span of this coming year and bringing it back to the table next year. Mr. Sprenger said that is up to the board.

Mr. Mathis asked if moving it a year interferes with the 3 year timeframe. Mr. Sprenger said it would make it difficult to establish the increase in 2020; we would probably be looking at 2021. Mr. Sprenger said the other option is to handle each hangar individually which would make some effective immediately and others at the end of the time timeframe in 2021. We can get the information out. When you look at the cost of operating the airport, a portion of that cost is shared with all the users of the airport. We are a user revenue generated facility versus a tax facility like the county or the city.

Our goal is to make sure we are effectively using our income and providing the needed services. Each portion is contributing to the overall operation of the airport. A good example is the crash fire rescue service which is a requirement of the airline service however the primary use of that service is for GA. Our cost to provide that service is part of the overall operation of the airport. It is a benefit of operating out of a commercial airport. There is a give and take in minimizing the cost to the GA side.

Another aspect to consider is that the bulk of the income, $104,000 of the $128,000, is to access the airport land to allow you to build a building. Mr. Sprenger presented an analogy of purchasing land in Bozeman. The money for that land is not used for services provided to you.

We are using the income for services. That is a benefit of leasing the land versus selling the land. We lease at a good rate and still have to operate the entire airport.

Mr. Mathis suggested some information be released to the hangar owners between now and next month. Mr. Mathis said it could be included in the budget if it makes sense. If there are still concerns and it needs to be adjusted we could do that then. Mr. Sprenger said we could strike it off the budget easily if that is what the board wants. Mr. Mathis asked the present hangar owners if it would help to not deal with the rate increase at this time and between now and the next meeting provide them with a breakdown of costs. Mr. Gaston said it would help a lot to get some information that they could discuss.

Mr. Kelleher asked how the information will be delivered. Mr. Sprenger said it will be distributed several ways. It will go out on our GA email and to the hangar owner group that came last month. Ms. Stelmak suggested that it be printed and available at the front counter so people could stop by and get it. Mr. Sprenger said they would do that as well.

Mr. Kelleher asked if there are different lease rates for hangars that have water access and those that don't. Mr. Sprenger said the hangars with water are metered but they don't differentiate the lease rates based on it since there are very few that don't have water and sewer access. There are connection fees to cover the infrastructure cost. Mr. Kelleher asked if the connection fees need to be looked at. Mr. Sprenger said it is possible. They have been looked at in the past. We did not look at the connection fees this particular time. Connection fees and infrastructure costs are not correlated. We spend a lot for infrastructure that is paid for through the airport and a very small percentage of the connection fee goes to covering that cost.

7. Presentation of Certificate of Achievement for Excellence in Financial Reporting FY 2016

Mr. Sprenger said Troy, Denise and Lisa completed another great year. This is the second year in a row we have received this award. Mr. Sprenger acknowledged Mr. Watling and his staff for their exceptional effort in making sure that our finances are 100% transparent and meet the highest standards. The board thanked Mr. Watling and staff.

Mr. Switzer said this is something we would like to keep a level of excellence in. This enables us to stand in front of the community and say it has been done at an exceptional level.

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

Tower operations for April 2017 versus 2016 were 5,968 versus 6,421 which is down 7.1%. Total operations are down 2.1% calendar year to date. Much of that has to do with the larger equipment we are seeing versus the air taxis that we used to get. That puts our rolling twelve-month operations at 76,374. Corporate landings were up 54.5% at 187 versus 121. Enplanements were up 1.7% at 33,417 versus 32,859. That puts us up 5.4% calendar year to date compared to 2016. Rolling twelve-month enplanements were 562,867. Total deplaned passengers were up 3.6% at 31,697 versus 30,582 which is up 5.3% year to date. Total airline landings are down 7.6% at 364 versus 395. Delta pulled back some of their frequency for April. Load factor is down slightly 82.1% versus 82.5% with a 2.2% increase in seats. April is definitely one of our slower months. Alaska's load factor was up. Allegiant's load factor was up. Delta and United were down slightly but they have up gauged the equipment quite a bit. Fuel dispensed for March was 884,192 down 13.9%. That has to do with the fuel the airlines are hauling in and out of here.

We only have 12 months of data for May. Right now we are sitting 12% better than where we were. We do have 9% more seats in the market. Mr. Humphrey thinks we will end up in the high single digits.

Mr. Humphrey attended the Allegiant conference earlier this month. They ranked the airports in terms of total cost to them. Our rank was 22 so we are in the top 25th percentile for straight airport costs. For fuel costs we ranked 29 so we have actually come up a little bit. Allegiant is interested in east coast expansion. The Phoenix/Mesa operation will be an all 319 operation by November. In a couple months it will be all MD80's out of Vegas. They have a 2-year plan to retire the MD80's down. If any have excessive maintenance they will cancel service as they are not investing any more money in that equipment.

Mr. Mathis asked if they gave any indications of issues with the pilot shortage. Mr. Humphrey said they had a good presentation by the consultant. The consultant has been a part of contract negotiations for the last ten years. He has seen all the seniority lists and where the age limits are within the airlines. The consultant said the situation is worse than a lot of people think and the shortage will hit in about 2 years. The pipeline in and out is completely different. Delta has gone to the military. The military is losing pilots faster than they can replace them. They are talking about increasing bonuses for the military or putting a stop gap measure in place. Delta has the most risk. The consultant said the network planners for all of these airlines are young and have never weathered a down turn. They have an unreal expectation that this will fix itself. Jet Blue has instituted a pilot plan. They brought 8 students in off the street. They are charged $250,000 to go through the program to come out a Jet Blue pilot. But they have to put in their own money for the program and are not tied to Jet Blue. They can go to the highest bidder when they get out of the program. What will make the impact on the airlines are the pilot regulations.

Mr. Mathis said he heard that most of the figures are based on retirements and they don't account for other reasons a pilot would stop flying which makes it much worse.

John from the audience asked about the status of Frontier Airlines in Bozeman. Mr. Humphrey said they are back. They are positioning themselves for an Initial Public Offering (IPO). Mr. Humphrey thinks they will be flying to larger markets. We are status quo with them now with a few flights a week through the peak season.

John asked if the airlines have figured out that they need to offer better career paths for young pilots. Mr. Humphrey said they have almost doubled the starting pay for some of these commuters. Mr. Humphrey said a lot of it has to do with the airline lifestyle. It is not something that kids these days are interested in. It will take more than just pay to entice them. The president of Allegiant was saying that he doesn't want a college graduate with little flight time. He would rather a high school graduate with more flight time. The notion that you have to go to a four-year college and get your flight time is unrealistic. Allegiant is looking for quality kids, good motor skills, and good flying time.

9. Airport Director's Report – Brian Sprenger

Mr. Sprenger was on the small community air service working group for the Department of Transportation. The pilot shortage and pilot training was a big portion of that discussion. The Airline Pilots Association (ALPA) refuses to acknowledge there is an issue. ALPA is 100% backing their members to raise the pay. They provided a dissent to the final document which should be coming out in the next day or so. Their dissent was that there is no pilot shortage and there shouldn't be anything done besides increasing salaries.

The lifestyle and expectation of youth is not coinciding. The difficulty of finding people who want to be pilots is as much of an issue as the training policies and procedures that are out there. We spoke with one major flight school. They are looking at eliminating classes on Friday so that flight training can be done on Friday and students can have their weekends off. That doesn't bode well since this is not a Monday through Friday industry.

We also talked about regulatory reform to help airports. We talked about the airport improvement program. We looked at a 5% match rather than a 10% match for the smaller airports. There is also the challenge that GA airports are at $150,000 per year for entitlements. If you are an airport that handles 10,000 or more passengers, the next level is $1 million. That is a big jump. There is no gradual scale and that makes it difficult. Airports go after an Allegiant flight just to get to the 10,000 passengers.

We discussed the small community air service grant and passenger facility charges (PFC). The large airport organization is trying to remove the cap on PFC's. Through much discussion, we were able to encourage them in the final product to say that it is not a good idea to remove the PFC cap for connecting passengers. We are going to see a dissent on that by the three largest airports on the committee. It was such a big deal that the president of the Airports Council International (ACI) contacted airport directors at smaller airports asking them to provide dissent. Mr. Sprenger didn't get that call. It is interesting that the larger airports are trying to get the PFC cap removed.

Essential air service (EAS) was a part of the discussion. The feeling Mr. Sprenger got from the working group was status quo. There was a dissenting statement by Patrick Murphy who was one of the original employees of the civil aeronautics board who had developed the essential air service program. Mr. Sprenger added his name to that dissent. Mr. Sprenger presented some of the information Mr. Murphy included in his statement:

EAS was one of the requirements to get the law passed. It was only supposed to be for 10 years and then end but it hasn't. Subsidy has jumped from $50 million per year in 2000 to over $250 million per year now with no appreciable improvement in air service. There are so many small communities receiving federal funds for flights when superior air service is often only 45-90 minutes away.

Mr. Sprenger said they made a suggestion that maybe there was a way for communities to participate and hopefully generate some more funding to help pay for service so if communities felt it was important they would participate. There are many communities that do that are EAS level but aren't eligible for EAS. Some of those are right across the border in Wyoming. The state and the communities are working together to ensure that they have air service since they aren't eligible for EAS. That creates a good precedent. One particular airport that was on the working group that is only a short distance away from St. Louis essentially said that this is an entitlement program and that we are to guarantee this service. At that point we did not think we would make progress on the EAS.

The dissent recommends that the DOT should be directed to enforce the very modest traffic and subsidy performance standards currently in the law. If you don't meet the standard you should be removed from the program. All that have not met the standards have been waived and are still in the program. Because of that and the pilot shortage, a number of communities that need the service because of their rural location will be vulnerable. The program needs to have a triage to save the communities that are working. There are communities where the subsidy is $1,000 per passenger and then there are communities like Cody and Butte where the subsidy is close to $50. That is a more reasonable amount. There are also communities that are close and both receiving EAS when there should probably only be one in that region. Mr. Sprenger said that was his take. There are many various opinions. Mr. Sprenger is concerned that with the pilot shortage there are some communities that should have service that will lose service because of an inefficient program.

We had a meeting with the DOT on the close out of the interchange project. We are close but still not quite there.

We are going to extend Taxiway Victor a little because we have indications we will receive a hangar request shortly. The cost will be $50,000.

We will be striping the parking lot when we get to the cure date on the asphalt.

We will begin paving Runway 11/29 in June. Due to the timing of paving and waiting for striping and grooving we will be into early August before we will be able to open it. This is one of the few times we have the ability to open when it is 100% complete.

Entry sign rock work is done and that should be completed soon.

Senate Bill 366 was set up to deal with the Real ID Act that would severely inconvenience passengers with Montana IDs. That law passed and there is a $25 charge to get the new ID. It is at least possible now. It is unfortunate that our legislature felt they should increase the cost to Montanans to travel. We would like to ask for permission to look at working with other organizations to get the word out to all of the state. We don’t have a number or cost at this time.

Ms. Stelmak 100% supports that. It is not an obligation but is important. We could have people flying out who can’t get back. She thinks we should have a media blitz to get the word out. We should work in conjunction with other airports and organizations to reduce the cost. Everyone agreed that would be a good idea.

Ms. Stelmak asked if Runway 11/29 has X's to indicate it is closed. Mark Maierle said they have purchased lighted X's for the project and they will be on there. Ms. Stelmak said it looks like a runway from up in the air.

10. Consider bills and approve for payment

The bills were reviewed and detailed by Mr. Sprenger.

MOTION: Ms. Stelmak moved to pay the bills and Mr. Kelleher seconded the motion. All board members voted aye and the motion carried unopposed.

11. Adjourn

The meeting was adjourned at 3:10 p.m.

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Ted Mathis, Chairman