

Aviation Advisory Board Meeting Summary

January 9, 2009 in Anchorage, Alaska

Anchorage Airport C-Concourse, 4th Floor Conference Room

Called to order by Chairman Lee Ryan at 10:20am.

PRESENT: Lee Ryan, Ken Lythgoe, Al Orot, Wilbur O'Brien, Jim Dodson, Tom George. Bob Jacobsen by teleconference. **ABSENT:** Jack Barber, Dan Klaes, Mike Salazar

OTHERS IN ATTENDANCE: Christine Klein, Rebecca Cronkhite, Tom Middendorf, Mike Coffey, Jane Dale, Keith Day, Joy Journeay, Merle Akers, Jenni Kuentzel, John Parrott, Andy Hutzel, Jim Lomen, Paul Landis, Greg Philips

Tom George moved and Ken Lythgoe seconded a motion to amend the order of the agenda to accommodate the schedule of Commissioner Leo von Scheben who is currently attending another meeting off-site. Approved unanimously.

Chairman Ryan reviewed the function and purpose of the Aviation Advisory Board, and read the enabling legislation.

Deputy Commissioner Klein provided an overview of progress to date and this meetings activities and issues.

AIAS UPDATE: Keith Day, AIAS Comptroller

Christine Klein announced the successful sale of the \$50M bond at 7:30AM on January 6th. We are proud that after review of current market risks, Alaska still retained high ratings.

An update on revenue, traffic, lease rates, and expenditures was provided. Landed weights have reduced by 18%, while passenger enplanements have remained stable and increased slightly. Keven Schlosstein, NAC, commended the DOT&PF for working with carriers by containing costs as the industry deals with current economic conditions.

Keith Day noted that in accordance with the commitment made over a year ago to the Signatory Carriers during operating agreement negotiations, the AIAS would be soon restarting a process by which proposed AIAS land rental rate increases would be publicly noticed. An initial notice proposing to increase AIAS land rental rates to be more closely correlated with fair market values was made in April, 2008. That proposal received significant tenant opposition and was shelved in response to economic concerns prevalent at the time. The new process would essentially pickup where that process ended, but will have more time available for consideration of the proposal and the current economic condition of the aviation industry in Alaska. Christine Klein stated that there would be meetings with stakeholder groups prior to releasing a formal proposal.

OPERATING AGREEMENT

Deputy Commissioner Klein announced that the new operating agreement has been issued. The previous agreement ended in 2007 and has been in hold-over, although negotiations have proceeded since 2006. The large capital program and debt burden contributed to lengthy negotiations. A goal was to stabilize rates because traffic was declining, thus providing the potential to attract traffic as competitors rates decrease. The new operating agreement takes effect February 1, 2009 and expires in 2013. It was agreed to move towards a pay-for-what-you-use fee system, and away from the '80s-90s international traffic model. A summary of the agreement was provided in the meeting packet.

AVIATION INDUSTRY STATUS—AAAC Keven Schlosstein, NAC, and (via teleconference) Kathy Smith, Alaska Airlines, and (via teleconference) Kevin Hoffman, UPS

A 22-page extraction from an Overview of U.S. Airline Industry Trends was provided in hardcopy for review. In addition, ATA has released information that 30 domestic US cargo carriers had experienced a 5% decrease in cargo revenue per ton/miles. This is the first reduction in cargo revenues in memorable history. Pacific carriers were down 23% and the entire US market was down 18.7%. An uptick is expected later in 2009.

NAC has seen mail cargo reduced by 6.5% through November and awaits December final numbers. Alaska Airlines has not seen reductions in the Alaska market but anticipates that the seasonal carriers will be affected. It is believed by industry that the new operating agreement will increase international traffic to/through Alaska. Kathy Smith stated that it is important that the land lease rates be closer to the rate that was contributing for each tenant's share of the overall cost to run the airport for the AIAS system.

Keith Day commented that land lease rates are to be closer to market rates for ANC and FAI. Jim Dodson extended complements to the team who worked together. He commented that as one looks at market value and tries to define it you may feel that rates are acceptable because of the investment in the airport. Lease holders by their presence provide an investment in the airport and contribute to its value. Ken Lythgoe, who is developing a large cargo facility, advised the group to remember that lease costs will be passed on to the airlines.

Keith confirmed that valid data will be given thorough and careful analysis to insure that the system remains as strong as possible. John Parrott affirmed that ANC and FAI have been striving and will continue to strive to be as efficient as practicable especially in light of recent struggles in the aviation industry and global economics.

1st AIAS Candidate , Greg Philips from Missoula MT was introduced to the Board.

A break was taken and Commissioner von Scheben joined the meeting.

Commissioner von Scheben

The Commissioner provided an updated outlook to the Board. Wilbur O'Brien asked what benefits might be felt in Alaska from the potential federal stimulus funds. The Commissioner shared that he, Frank Richards, and Governor Palin have been working on ideas. The first submission was related to the gas line. Stimulus funds will be 100% funded, 120-day projects. Current expectations are that there will no longer be earmarks, but funds will be released on a formula system. The Commissioner said he would share his strategy with the Board.

Christine Klein will distribute the Commissioner's strategy with those present.

Tom George asked if the extensive deferred surface maintenance projects are eligible for the stimulus fund requests.

Jim Lomen, FAA, confirmed that the FAA has concerns regarding pavement conditions throughout the Alaska airport system.

Ken Lythgoe asked for an update on the Flint Hills refinery discussions. The Commissioner was unable to share specifics regarding discussions, but acknowledged the importance of its continued operation to Alaskan aviation. Jim Dodson stated that Flint Hills provides 150 jobs in Fairbanks, and shared statistics on the quantities and percentages of fuel provided by the refinery and other potential impacts.

Lee Ryan raised the concern of air carriers regarding designation of additional postal hubs in Alaska, and the potential financial impacts that may result. Joy Journeay expressed that the Alaska air carriers are opposed to the designation of any additional hubs for both financial and safety reasons. Not only will designation require state spending for infrastructure but carriers will also be required to make capital investments, stretching their minimal financial resources. The carriers do not want DOT&PF M&O monies spent on additional infrastructure, when such a large number of deferred maintenance projects are already not being completed. The carriers are concerned that resources are already not adequate for safety and we do not want those resources further reduced. NTSB studies show that rural hubs contribute to safety concerns. The Commissioner requested background information and an update on the issue.

Statewide Aviation is to provide an update to Commissioner von Scheben on the USPS Postal Hubs.

A short lunch break was taken. The meeting reconvened at 1:03PM. Greg Philips and Rebecca Cronkhite left.

Rural Airport Leasing Regulations (Title 17)

Jenni Kuentzel, the new Statewide Aviation Leasing Chief, was introduced and presented an update on the proposed rates, which have been accepted and signed by Commissioner von Scheben and are awaiting signature from the Lt. Governor. The rates will go into effect 30 days after being signed by the Lt. Governor. Clarification was provided on variables between aviation and non-aviation lease rate increases. Joy Journeay, AACA, shared that the air carriers were interested in learning what percentage of available lots were leased at each airport and the number of airports in the rural airport system that have lease lots.

Joining the meeting at 2PM were Pat Burden & Jonathan King of Northern Economics, Roger Maggard, Steve Deaton, Rich Wilson, Jessica Semler, Rebecca Cronkhite, and John Duvall (2nd AIAS Candidate)

Alaska Aviation System Plan Rebecca Cronkhite and Tom Middendorf

Pat Burden presented an update on the Economic Contribution of the Aviation Industry. The AASP working groups and timeline were reviewed. Also provided were a four-page draft brochure and the draft Phase 1, Stage 1 Executive Summary. Aviation provides over 8% of the Gross State Product and 10% of all jobs in the State, providing 47,000 jobs.

All Board members to provide any comments or suggested changes to the AASP brochure and Executive Summary to Rebecca Cronkhite and Tom Middendorf by January 15th.

Operating and Capital Budgets Roger Maggard and Jenni Kuentzel

An update reflecting the addition of three positions in the operating budget was provided including \$40,000 for rural airport training/travel, and a total 14.9% budget increase. Christine Klein pointed out that a decrement is shown in the budget for the international airports. The CIP AIP was reviewed and the 5-year aviation spending plan was provided in the packets. The DOT&PF budget request as submitted December 15, was provided, with those aviation items highlighted for easy identification by Board members.

Tom George questioned Mike Coffey regarding the M&O budget. Mike Coffey discussed the budget and used commodities as an example of budgeting ahead of actual expenditures and unanticipated cost changes.

USPS Postal Hubs Steve Deaton, USPS

Steve Deaton provided a summary of the formation and scope of the process to designate additional postal hubs in Alaska. Designation of additional hubs is to reduce expenditures to the USPS. Focus of the current process, which began one year ago, is to work with the DOT&PF, develop a communication bridge, and identify planning requirements. The candidate airports were discussed. If and when the USPS designates new hubs, the next step is a 12-month public-comment period, which may be held at the discretion of the USPS. The USPS spends \$160M annually in Alaska, taking a \$60M loss each year for Alaska operations.

Public Comment

Merle Akers, (44 years as an Anchorage resident and a lease holder since he was 18 years old): Impressed with the Board today. Has attended other Board meetings and felt this was the best. Could not access an agenda as late as yesterday noon and would also like to see the mission statement of the Board available to the public. (Mr. Akers was provided a copy at this time in response to his request.)

JANE DALE (career in rural airport management, representing a new association): An airports group is being formed to address municipal airports and focused upon education for the staff and board, provide a communication conduit between the users/state/airports, provide a forum for the exchange of ideas, and educate the public on the value of airports. Information will be forthcoming as the charter is completed and quarterly meetings are scheduled.

PAUL LANDIS (Landis Consulting): Compliments were extended to the Board, Christine Klein, and Jenni Kuentzel on demonstrated capability.

JOY JOURNEAY (Alaska Air Carriers Association): Acknowledged that the air carriers continue to have staffing needs for qualified professionals willing to remain throughout Alaska, as addressed by Commissioner von Scheben. Carriers have not recovered from the challenges of high fuel last year, are experiencing a slowdown, and are waiting to see how significantly they will be impacted by the economic downturn. Comments were already offered on the USPS Postal Hubs issue. The carriers have safety concerns about ground obstructions (charting, reporting, GPS updates, etc.) and see potential for further problems as alternate energy (wind generation) is developed. The AACA wants to work with the FAA & DOT&PF regarding NOTAMS and unverified NOTAMS, as the system is not adequate and contributes to safety concerns. M&O at the Bethel airport continues to be a problem and a meeting has been requested with DOT&PF. Extending hours of operation will not adequately address the carrier concerns. Christine Klein informed Ms. Journey that she and Mike Coffey are traveling to Bethel tomorrow to attend a runway safety action team meeting at 3PM in Bethel. A copy of the meeting announcement, released Dec 30, was provided.

Aviation Advisory Board Members

Deputy Commissioner Christine Klein asked if it is acceptable to share the names and contact information of AAB members in publicity or other venues. Board members approved. Chairman Lee discussed the open board position (All-Cargo Air Carrier) and reviewed board position terms which will end in 2009 (Lythgoe, Klaes, O'Brien and Ryan). Those wishing to be considered for positions which will be open in 2009 should communicate their interest to Lee Ryan or Christine Klein. To date, Keven Schlosstein (NAC) and Judy McKenzie (Lynden) are known to have submitted information for the All-Cargo position. Others are believed to have also done so. Members of the AAB are selected/appointed by Alaska Boards & Commissions.

Aviation Advisory Board Mission Statement Lee Ryan

Chairman Lee led a discussion regarding development of a Mission Statement for the AAB. Ken Lythgoe moved and Wilbur O'Brien seconded the motion to have Chairman Ryan research standard mission statements for Board consideration. Approved unanimously.

2nd AIAS Candidate , John Duvall from Boston MA was introduced to the Board.

Board Minutes Rebecca Cronkhite

Rebecca Cronkhite and Christine Klein shared that multiple requests are received for agenda and minutes from the AAB meetings. Joy Journey of the Alaska Air Carriers Association has volunteered to attend the meetings, draft a summary, and submit the draft within 48 hours of the meeting to Ryan, Cronkhite & Klein. Rebecca Cronkhite will distribute the draft to the board for comments and the minutes will be finalized for distribution within one week of each meeting.

Board Comments The Board thanked and commended Joy Journey (Alaska Air Carriers) for her attendance and offer to take minutes. A quick turn around and dissemination of the meeting summary is appreciated.

Action Items from Past Meetings

Christine Klein included a presentation from the energy meeting in the packet. Other informational items are also included in the packet under the "Information Items" tab.

The Next Meeting shall be held during the week of February 15th to 21st in Juneau.

The meeting was adjourned at 5:40PM.