

October 28, 2008
Noon
Newport, Oregon

The City Council of the City of Newport and the Board of Commissioners of the Port of Astoria met in a special meeting on the above date in the Council Chambers of the Newport City Hall. On roll call, Bain, Bertuleit, Obtshka, Henson, Sabanskas and Patrick were present from the Newport City Council. On roll call Hess, Sanders, Hunsinger, Pfund, and Holcom were present from the Port of Astoria.

Staff attending was as follows: City Manager O'Neal, City Recorder Hawker, and City Attorney Firestone from the City of Newport and Executive Director Crider from the Port of Astoria.

SELECTION OF CHAIR

Bain volunteered to serve as chair. He called for declarations of ex parte contacts that occurred since the first RFP. Bain reported that he had talked with Kent Craford at an ODA meeting regarding the Connect Oregon II grant. He reported that he had had conversations with Dan Wolf and the chief pilot of Cape Air prior to the issuance of the first RFP. Patrick reported that she had received a call from Kent Craford inviting her to attend today's reception. She reported that she had forwarded that message to Firestone. Bertuleit reported that he had seen Seaport's airplane at the airport. Bain reported that he had received a telephone call and an e-mail invitation to view Seaport's airplane at the airport today. Henson reported that he visited the airport when Cape Air visited several years ago. He noted that he had also visited the airport when Seaport's Pilatus plane was on display. Obtshka referred to an e-mail from someone commenting on the proposals. Sanders reported that she had looked at Seaport's airplane when it was in Astoria. Pfund reported that he had viewed Seaport's airplane and talked with Kent Craford on the telephone. He also reported that he had seen the Cape Air plane when it visited the Port two years ago. Holcom reported that he had attended the airplane showing when the Seaport airplane was in Astoria. He also reported that he had a phone conversation with Kent Craford regarding the RFP process prior to the release of the second RFP.

Bain called for conflicts of interest. There were none.

Bain called for objections from the public of any person participating in the process. There were none.

DISCUSSION OF AIR SERVICE PROPOSALS

The process was discussed. Initially, there will be a preliminary determination of whether the proposals are responsible and responsive. After this determination, conversations about other elements of the proposals will occur, with a two-part interview, followed by a five minute summary from each proposer. Public comment will be allowed following the summaries, and limited to five minutes per person. After public comment deliberations will begin. Issues to be addressed include each proposals merit, the voting process, and whether additional information is needed to make a decision. After

deliberations, each member of each body will complete the score sheets. The Port score sheets will be given to Crider, and the city score sheets will be given to Firestone. If further meetings are needed, they will be scheduled. If no agreement can be reached with a selected proposer, negotiations could begin with the second proposer.

Dan Clem, director of the Oregon Department of Aviation congratulated the consortium on the Connect Oregon II process. He urged care and thoughtfulness in the process, and noted that a continued subsidy after the initial subsidy is unlikely.

Bain inquired as to whether the consortium would have to keep Air 21 grant intact as match for the Connect Oregon II grant.

Bain inquired as to whether everyone received the memorandum from Firestone regarding the process.

Firestone reported that city and port received two proposals initially – from Air Azul and Cape Air. The second RFP produced an amended proposal from Cape Air and a joint proposal from Seaport Airlines and Kenmore Airlines. He noted that the consortium must determine whether these two proposals are responsive and responsible. He explained that responsive means that the proposal complies substantially with the RFP and public contracting laws, and responsible pertains to the proposer itself and whether it can fulfill the contract if awarded. He reported that, as of yesterday, Air Azul does not have the required certificates to operate an airline and therefore, its proposal is not responsible. Firestone noted that neither proposal was perfect, but both proposals have the essential information in them. Both are sufficiently responsive to be considered by the decision makers. Cape Air submitted an amended proposal, so only the amended proposal can be considered. Firestone noted that in his memorandum, dated yesterday, there is a list of some of the areas where the proposals could have provided more detailed information. He added that the deficiencies are not so great that the proposals should be rejected. At the end of the day, you must have enough information to be comfortable with your decision. He noted that this is not a formal public hearing, but it is two interviews with a short process. Each body will have to make an independent decision and differences will have to be resolved.

A coin was tossed to determine which proposer presented first. The Seaport/Kenmore group prevailed.

Seaport/Kenmore CEO, Kent Craford, CEO of Seaport Airlines, and Craig O'Neill, director of marketing and sales for Kenmore Air appeared on behalf of their joint proposal. Craford expressed appreciation for the reopening of the proposal. He noted that Seaport Airlines is located in Portland, and that Kenmore Air is located in Seattle, and together the companies have 88 years of total experience. Craford noted that his group is committed to this region in a speculative, non-subsidized service from Portland to Seattle, and have a subsidized contract to provide service to Pendleton. He stated that they would like to grow in this area, and would like to operate this service. He noted that he thinks it is possible to develop a viable long-term market here, but that a revenue mix and creative plan are necessary. He stated that the proposal represents a strong diverse revenue mix carrying both passengers and freight. He stated that it is imperative to focus on two-way traffic – people must be brought here to make the service viable, and he reported that the best opportunity is to leverage markets and brands, which is why the proposal is a joint effort between Seaport Airlines and Kenmore Air, and that both Seattle and Portland routes are included in the proposal. He concluded that to make

the service viable in the long-term, it would require a diverse revenue stream, two-way traffic to different destinations, and to provide a service that people will return to. He added that this is done with safe, reliable, turbine equipment. He reported that air passengers want to know that their ride is going to be comfortable, and that there is a strong safety background. He noted that Seaport Airlines and Kenmore Air have stellar safety records, and use modern equipment, and that safety should be a consideration.

Craig O'Neill reported that Kenmore Air has been in business since 1946 and has never flown a subsidized route. He noted that customer service is the company's long-term goal, and Kenmore Air has a great reputational stake in maintaining service. He noted that he is not here to force a route (Seattle) that the consortium does not want, but believes that the proposal is a winning combination for sustainable service, and important for inbound traffic. He noted that an airline cannot survive ferrying people one way. He reported that the Seattle connection is valuable for connectivity, and added that there are non-stop flights out of Seattle to 34 domestic and 18 international destinations that you cannot fly to from Portland. He reported that the Seattle market consists of 3.4 million people, and that the Oregon coast is a popular destination for Puget Sound travelers. He reported that Kenmore Air has great experience and would love to have new destinations to offer its existing customer base.

Craford reported that he has put forward a proposal with the greatest chance of success without a subsidy. He entered letters into the record that supports tourist and freight opportunities.

Patrick inquired as to whether Craford and O'Neill have dealt with subsidized air routes. It was noted that Kenmore has not, but Wings of Alaska has three essential air service contracts – two in Alaska and one to Pendleton. She inquired as to the number of planes owned by the airlines. It was reported that Seaport Air has four Pilatus aircraft, and Kenmore has four Cessna Caravans, two Piper Navajos, and 25 seaplanes.

Bertuleit inquired as to whether either company would service this route without a subsidy. Craford responded no because there has been no demonstrable demand to generate speculative service. Bertuleit asked how freight service would reduce the need to subsidize a route. O'Neill noted that building a cargo business is harder, and the proposal is that freight revenue be excluded from the subsidized portion of the proposal, and focus on smaller, more time critical loads than those that UPS and Fedex are dealing with.

Bain inquired about the connectivity of flights that land at Boeing Field as opposed to Seatac. O'Neill reported that he had looked at Seatac pricing and realized that it would add \$25 each way per ticket. Boeing Field has lower terminal and landing fees. Kenmore has a dedicated van shuttle service that meets every inbound flight, and it is a fifteen minute drive between the two airports. He noted that the weather is better at Boeing Field making on-time performance better. It was noted that passengers must go through security at Seatac. Obteshka inquired as to whether Kenmore owns the shuttle service, and O'Neill noted that it did.

Hunsinger inquired about weight limitations.

Bain inquired as to whether Seaport/Kenmore has interline agreements with Alaska at Seattle and Portland or with other airlines. It was reported that an internet ticketing agreement is in place, but not a ticketing and baggage agreement. O'Neill reported that Kenmore has a signed agreement for these services, but it is in the

technological development phase, and should be in place by the time service begins to the coast. He added that passengers would be able to participate in the Alaska Air frequent flyer program. Craford noted that a baggage agreement is irrelevant because the service would operate in a non-sterile to non-sterile environment, requiring the bags to be in possession of a passenger when they get to the counter at Portland or Seattle. Firestone inquired as to how long it would take Seaport to obtain a ticketing agreement, and Craford reported that he would like to have it by the end of the year.

Holcom noted that Portland has Vancouver across the creek, and Astoria has Washington, which is one of the advantages of the Astoria market. Craford reported that the Long Beach Peninsula is a part of the Long Beach catchment area.

Holcom inquired as to whether any consideration had been given to intermodal activities such as freight by rail or aircraft to share the highway funding. Craford reported that he had worked for Oregon based seafood processors for seven years, and there is a frustration with the lack of trucking on the coast, and rail linkages are tenuous. He noted that freight is an important component to balancing the service.

Sanders inquired as to constraints with the grant funding, and whether the Seaport group would be able to provide the service without the grant funding. She also inquired as to whether Seaport could develop a stand alone proposal for the Seattle service. Craford stated that if that is the direction, the proposal could be refined. A discussion ensued regarding asking the state to amend the Connect Oregon II grant award to cover this route. O'Neill recommended the city and port think about what is wanted, and then determine how to work with what is available. He noted that there are scant historical records, and it is easy to make markets appear to be sustainable on paper. Craford stated that it is absolutely false if a company says they can sustain the service on passenger fares alone. He added that the service must be versatile and have diverse revenue streams.

Hess inquired as to how long it would take to build ridership. He noted that many of the people that train at Camp Rilea might use the service. O'Neill reported that these are seasonal markets, and a flat schedule throughout the year is foolish.

Pfund inquired about the duration of the flight.

Hunsinger asked about the start up time. Craford stated that service could begin as early as December 1. O'Neill noted that Kenmore would begin service by February 1, 2009, and possibly as early as the first of January. Henson inquired whether Seaport really wanted to start in December. Craford noted that he thinks you want to start as early as you can. Holcom noted that an early start is critical for marketing

Bertuleit inquired if flights have to fly if they are empty on both ends, and Craford noted that they do not have to fly in this situation.

Patrick inquired whether the aircraft are owned or leased. She also asked for the plan for sustained service after the subsidy period. The proposer responded that it is emphatic that communities should initiate the service with the best possible business plan from the beginning. It was noted that the diverse markets include three million people in the Seattle area, and two million people in the Portland area. It was noted that it is impossible to tell the consortium that sustainable air service will happen in the 25th month.

Craford reported that Seaport has three aircraft and one on order. Henson inquired about the safety record of the Pilatus. Craford stated that the Pilatus PC12 is a Swiss built

turbo prop air craft that is incredibly sophisticated and advanced. He noted that the aircraft has never had a commercial fatality.

Obtshka inquired where passengers would deplane at PDX. It was reported that passengers would deplane at the general aviation terminal, and there would be a dedicated shuttle to take passengers to the main terminal.

Sanders inquired whether the Seaport planes can be operated with only one pilot. Craford noted that the planes can operate with one pilot, but this route would operate with two pilots because it lowers insurance, provides a bench of new pilots to work into the left seat, and instills passenger confidence.

Crider inquired where the pilots and ticket agents would be based. It was noted that there would be 2.5 station agents in Newport and Astoria. The pilots would be based in Portland. Kenmore would contract with Seaport.

Bain inquired whether Kenmore operates with two pilots. O'Neill noted that there might be two pilots during training, but that is not routine with Kenmore. Craford reported that it is a business decision to use two pilots because it improves ridership. He noted that it costs \$7,500 to train a new Pilatus pilot. Obtshka inquired as to whether the Piper Chieftain utilizes a single pilot.

Craford and O'Neill reviewed the criteria for approval. They noted that they like to work with communities to determine what the community thinks it should be paying, but that it is preferable for the fares to settle in at a level that promotes sustainability after the subsidy is gone. They suggested a fare of \$135 to Seattle as an opener. The service between Astoria and Newport is a good supplement. In response to question 11, they proposed that monies from this route be applied to the Newport portion of the subsidy.

Obtshka inquired whether the Seattle option would still be pursued if the subsidy only applies to the service to Portland. It was noted that it would have to become a part of the subsidy. A discussion ensued regarding the federal grant match monies being used to support the Seattle route, and the ability to use them as a match for the Connect Oregon II grant.

A discussion ensued regarding the cost breakdown of the fares, the total average subsidy, and the average cost for departure.

It was reported that both Seaport Airlines and Kenmore Air have sufficient aircraft individually to cover the proposed routes, and to serve the existing market.

Reno inquired as to how many Kenmore passengers are land based. O'Neill reported that 60% of Kenmore's customers use the seaplane service. Craford reported that Seaport is dba of Alaska/Juneau Aeronautics, and Wings of Alaska. It is a 26 year-old company with its ownership based in Portland. Seaport Air initiated service on June 30 of this year between PDX and Boeing Field.

Holcom reported that he plans to leave at 2:25 P.M., and the chair has his proxy. Sabanskas reported that she will leave at 3:30 P.M. for a doctor's appointment.

Bain reported that Andrew Bonney, representing Cape Air, is participating by telephone.

Andrew reported that Cape Air is about small communities. He noted that the company started with two airplanes, and now has 56 aircraft. He stated that it is a sustainable and profitable company. He reported that the Cape Air proposal aligns with the RFP and addresses service to PDX from Newport and Astoria. He noted that the mainstay of Cape Air is connecting smaller communities with major terminals. He

reported that Cape Air tickets can be purchased on Expedia and Travelocity, and interline ticketing and baggage agreements are available with most major carriers.

Holcom inquired how long it would take Cape Air to get established at PDX. Bonney reported that Cape Air is not currently established at PDX, and the biggest problem is security. He reported that Newport and Astoria could be federalized or reverse screening could be used. He reported that since Cape Air has stated that it would not be able to start until the second quarter 2010, there is plenty of time to establish those agreements.

Bonney was asked about challenging weather and accessibility, and to report on the aircraft. Bonney noted that Cape Air has a great liability record.

Bonney was asked whether Cape Air would be recruiting local pilots or bringing existing pilots. He noted that the Oregon coast is a popular destination within the Cape Air organization.

Pfund inquired about freight weight limits on the Cessna 402, and Bonney noted that the aircraft could be set up for freight. Cape Air has a mail contract and the aircraft used has no seats. He reported that Cape Air mostly focuses on the passenger side, but it is very easy to piggyback a small package delivery service, and that comes with the Cape Air package.

Bonney was asked about the projected passenger load to make the service profitable. He noted that the number is not necessarily based on passenger count, but revenue per departure, and that it is a balance between fare and load factor. He noted that Cape Air would get local advice and work with the communities on a price point.

Sanders inquired whether the aircraft are pressurized, and Bonney reported that they are not pressurized. He added that the lack of pressurization simplifies the airplane and places less stress on the airframe. He noted that pressurization is not necessary in the Newport and Astoria markets. He reported that the aircraft have heaters.

A discussion ensued regarding the freight handling capability of the aircraft. Bonney reported that the aircraft has plenty of cargo room.

Hess inquired about building requirements and personnel. Bonney reported that staff would need a comfortable dry place with an internet connection, and a heated hangar for overnight aircraft storage.

Obtshka inquired whether Cape Air owns or leases its aircraft. Bonney reported that the company owns the vast majority, and five or six are owned by related parties. Obtshka inquired whether passengers deplane at the main terminal, and Bonney reported that they would deplane at the main terminal. Obtshka inquired as to whether Cape Air would be able to begin before second quarter 2010. Bonney inquired whether this is an issue with the grant. Firestone reported that the state grant agreement has not been signed. Obtshka inquired as to the location of the maintenance facility, and Bonney reported that the preference would be to locate this facility at PDX.

Henson inquired whether Cape Air planes would stop at a terminal gate, and whether baggage would be transferred all the way through. Bonney reported that Cape Air has baggage agreements with 25 major carriers, and that number is about to increase to 110. He added that Cape Air is hardwired into the national air transportation system. Henson inquired whether the aircraft could handle heavy weather. Bonney noted that Cape Air is an operationally conservative company, and that safety is always first. He noted that the aircraft are equipped with IFR and GPS, and while they are older airplanes, they have brand new avionics. He stated that Cape Air is a very mature Part 135 airplane company.

Henson inquired whether any of the planes have been altered or upgraded to keep flying. Bonney reported that all the aircraft have been upgraded, and that Cape Air has a rigorous program. Henson inquired whether there was a problem with the crankshaft. Bonney reported that there had been a crankshaft problem, and that the airline was shut down and the crankshafts changed out, and there have not been problems since. He noted that this change was not mandated by the FAA, but driven by caution. Bonney was asked whether there had been any alterations to the cabins to mitigate noise. He reported that noise is not much of an issue because most flights are short.

Hess inquired whether a security program is included in the Cape Air plan. Bonney reported that bags, when checked at Newport or Astoria, would be screened at PDX.

Patrick inquired as to the number of airplanes owned by Cape Air. Bonney reported that there are currently 54 Cessna 402's, and two AGR 42's. The AGR 42's are owned by a related party and leased to Cape Air. Five or six other aircraft are owned by related parties. She asked about Cape Air's subsidized track record, and what Bonney would see as the plan for sustained air service after the subsidy period. Bonney reported that this has not been an issue in the other communities they have served. Cape Air looks at this as an opportunity to build a market in two years.

Bertuleit inquired whether there are charter opportunities, and Bonney noted that the Cape Air planes are available for charter. He noted that the focus would be on reliable, scheduled service. For this service, Cape Air needs one airplane dedicated to each city and a spare. If a charter is requested, the third airplane can be used. Bonney reported that turboprops are efficient at high altitudes, but sitting on the tarmac, they burn about 40 gallons per hour. The Caravan uses 54 gallons of jet A hourly. It was noted that avgas is more expensive than jet fuel. Bonney reported that the Cessna 402 is a great airplane for small community air service.

Bain inquired whether the service could be started sooner. Bonney reported that the second quarter of 2010 is best time to begin service.

Bain inquired whether Cape Air anticipates seeking the Pendleton service in two years, and whether this would affect operating costs for service to the coast. Bonney noted that he sees Newport and Astoria as the first step in Cape Air serving the northwest.

Bain inquired whether Cape Air could obtain an interline ticketing and baggage agreement with Alaska Airlines. Bonney reported that there is plenty of time given the timeline, and there is a great likelihood that these agreements could be obtained.

Bain inquired about fares, and Bonney noted that fares depend on local conditions and marketing. He noted that there is not enough data to make a strong analytical case.

A discussion ensued regarding whether additional aircraft would be flown if flights were full. It was noted that additional aircraft could be assigned if the market develops.

Patrick inquired whether Cape Air operates in a field where the subsidy period has lapsed and service has continued. Bonney noted that they have not been in a market long enough

Larsen inquired as to what load factor was used to develop the \$70 and \$80 fares.

Reno inquired about marketing costs and how important they are in a start-up situation.

Firestone asked for detail on subsidized routes that are not EAS subsidies. Bonney reported that Marathon, Florida is coming in December, and that is a revenue guarantee

program. In Indiana, Cape Air had a capacity purchase agreement to serve Evansville and South Bend to Indianapolis. This relationship ended at the end of August.

Bain inquired as to the necessary number of flight hours, and Bonney noted that the magic number is about 4,000 flight hours. He reported that the unit costs are painful, but there is an opportunity to become an Oregon aviation fixture, and that growth potential would figure into that cost.

Reno inquired whether another opportunity would impact acceleration of the starting gate. Bonney noted that the pipeline for growth is full today.

Bonney noted that Cape Air's value is connectivity to national transportation, and connecting small communities into major airports. He stated that Cape Air staff has a real affinity for the Pacific Northwest. He reported that Cape Air is in the global distribution system, making it easy for tourists to get here. He added that Cape Air has great relationships with legacy carriers. He reported that Cape Air has proposed the right economic structure for this market, and it is not that expensive for Cape Air equipment to sit during winter months.

Craford reported that his proposed costs per departure included a five percent profit margin and marketing costs. He stated that Seaport has a long-term interest in making this work. He stated that he would have included reverse security, but PDX does not want it. He stated that Seaport operates expensive equipment for a reason, adding that you get what you pay for, and customers are likely to return. He reported that it is expensive for the aircraft to sit. He reported that Seaport has an existing structure that these routes would fit into, and that Seaport would be building on a diverse business plan with diverse revenue streams. O'Neill stated that the key difference is that Kenmore and Seaport are already in the northwest. This equates to leveraged recognition and power that will be decisive in making the service work. He discussed the path to sustainability, noting that he would have preferred to lay out a detailed plan, but there is a lack of history, and this venture is not a sure thing under these conditions. He stated that the northwestern base provides the best opportunity to overcome the risks. Craford noted that this is a partnership between the airline and the community, and would require a close partnership that he looks forward to.

Jeff Hazen, Clatsop County Commissioner, stated that air service excites him, and until this morning, he didn't realize that Seaport was going to partner with Kenmore. He reported that Kenmore has been around for a long time and is very well known. He noted that while the Seattle component is not a part of the grant, it can be achieved and should be done.

Norm Winningstad inquired as to the per seat cost for the various flights. He noted that it bothers him that there is not a price per seat and load factor.

Chester Trabucco reported that he became aware of the Seattle route yesterday, and has a keen interest in how this plays out. He stated that he was transported to this meeting by Kenmore/Seaport. He added that the Oregon coast is a highly coveted area from a Seattle standpoint. He stated that he would not put a lot of credence on the portal to portal service that Cape Air has emphasized.

Mark Fisher stated that flying into Boeing Field would be a horror. He reported that he worked with Harbor Air, and there were no complaints about price, but there were complaints when the plane did not show up. He noted that the softest point in the program was the lack of ridership in Astoria. He urged the group not to award a contract

if it cannot be carried through. Larsen reported that Harbor Airlines had problems when the plane was down, and the pilot out of time. He reported that the community lost faith when the switch to the Caravan was made. He reported that when Horizon was in Astoria, departures built up to 950 per month in the last month during the first year.

Jack Land stated that he has a background in transportation marketing and planning, as he worked as a marketing and planning executive for United Airlines. He noted that the proposals are both excellent. He inquired as to what would happen from a consumer's point of view. One of the differences between the presentations is where a customer goes into the TSA baggage security system. He reported that he has had successful trips into Boeing Field.

Reno inquired whether Astoria is eligible for EAS subsidies in the future. Larsen responded that it is not eligible.

Todd Banks, general manager of Kenmore Air, stated that when we make commitments, we follow through and do what we say we are going to do. We plan to take people from Seattle and put them into tourist communities. For this to work, the partnership with Alaska Airlines is critical. Bain inquired how long it took for Kenmore to establish a relationship with Alaska Airlines. Banks noted that a Seattle connection offers a lot.

John Lansing stated that this is an opportunity to affect economic development on the north Oregon coast. He noted that the proposal is outside the box and very imaginative. He added that this is an opportunity to fill a void for the transportation of fisheries product.

Norm Winningstad addressed the cost per seat. He reiterated that he has not heard the price per seat. He stated that the airline should decide how many seats they want at what price.

Dan Klem, director of the Oregon Department of Aviation, noted that Firestone would outline the process, but the question remains regarding the use of revenue match monies for the Seattle leg. He added that the job today is not to write the contract, but to select the highest scoring proposer. He noted that there could be a lot of flexibility in negotiation. He stated that marketing is critical, and that a separate marketing contract could be negotiated if necessary.

Bain noted that the charge is to complete the evaluation forms. Firestone recommended discussing the responsive and responsible issues before completing the form.

Bain stated that Air Azul is not responsible and likely not responsive. He added that unless there is an objection, each proposal should be considered first for responsible and then responsive.

MOTION was made by Hess, seconded by Patrick to declare the two remaining proposals as responsible and responsive. The motion carried unanimously in a voice vote.

Patrick inquired as to the process from this point forward. Firestone noted that the Port should give its evaluations to Larsen, and the City Council should give theirs to Firestone. Bain stated that he would announce the respective evaluation scoring for each jurisdiction, and then decide whether the decision reached by one body can be reached by the other body if that becomes necessary.

Firestone reported that the City Council was not unanimous among the six evaluations, and that four favored Cape Air, and two favored Seaport/Kenmore. He added

that one of the evaluators, favoring Seaport, rated both proposers zero for likelihood of continued service, and he would take that as a rejection of both proposals. Henson stated that he does not believe either airline demonstrated sustainability. Firestone reported that there were a couple of other low marks on sustainability.

Larsen reported that the Port Commissioners voted unanimously in support of the Seaport/Kenmore proposal.

Firestone reported that each body has to vote separately and agree to a majority of the whole, and that could be resolved by a future joint meeting or it could be resolved now.

Holcom asked whether the group wants to wait until 2010 for air service. Patrick noted that this is one of the reasons she shifted toward Cape Air. She stated that these are hard times, and that Cape Air expressed caution, responded more professionally, and has a track record with subsidies. Holcom stated that he appreciates caution, but delaying the program for an entire year is beyond caution. He stated that Seaport inspires more confidence in him.

Hunsinger stated that he would like air service as soon as possible. He stated that he is not very interested in waiting 14 – 15 months when we can get something going now. He noted that he is impressed with the Seattle route, and the cargo opportunity for seafood processors. He added that if Cape Air was so sharp, they would have had someone present today, rather than driving around in a car making a presentation. He stated that Kenmore and Seaport together make a better connection. He reported that he would like to move the issue forward. He stated that he liked Cape Air's direct baggage capability.

Sanders stated that she understands concerns about the current economic situation. She reported that for viability, we have to increase the potential market, and that should include Seattle. She suggested that more information may be needed, especially regarding using the federal monies for the Seattle route. She stated that she would like this question answered before making a final decision.

Obteshka stated that he supported Cape Air because it flies directly to the gate. He noted that he believes that Cape Air would be more capable after two years, but that he is concerned about the 2010 start up date.

Henson stated that he would love to have lasting air service, and that he believes that each proposer has done due diligence. He noted that it does not look good for sustained service after two years. He stated that he favored the Seaport presentation, although Cape Air would be good and may last a bit longer because the rates are less.

Bain stated that everyone believes there were great presentations from both airlines. He suggested that it would be best to agree to take this back and not make a decision today, but to consider whether the Seattle service can be incorporated. He stated that he would definitely favor the Cape Air proposal due to price, and the probability that it would survive after two years.

Bertuleit noted that both were good proposals, but there is an advantage to a plane that does not have as high an overhead. He stated that he would favor Cape Air.

Bain suggested directing staff to find out how funds can be used.

Holcom asked why the city got involved in Connect Oregon II if it wanted to wait until 2010.

Hunsinger stated that he does not believe Cape Air is interested.

Bain stated that Klem had suggested signing a one year contract and revisiting the matter at the conclusion of the contract. He urged Council to support the Port to award the contract conditionally to Seaport/Kenmore with the caveat that the total financing package is not damaged in the process. He stated that he does not want to lose the state match of federal funds by using it for the Seattle route.

Hess noted that a tentative decision could be made with a requirement for a marketing survey.

Bertuleit stated that he would like to see the Newport route guaranteed. Bain noted that the grant conditions stipulate this.

Patrick stated that she does not like Cape Air's 2010, but still favors their proposal.

Obtshka stated that he could yield to the Mayor's suggestions until we can determine what can be done with the Seattle component.

Reno stated that he would like to see the airline take some kind of risk.

MOTION was made by Bertuleit, seconded by Patrick, to tentatively award a one year contract to Seaport/Kenmore, that requires a study of ridership improvement to anticipate ridership for next few years, and that Seaport/Kenmore agree to not withdraw service to either Newport or Astoria during the contract period, subject to obtaining direction on how the money can be spent. The motion carried unanimously in a voice vote.

MOTION was made by Hess, seconded by Sanders, to tentatively award a one year contract to Seaport/Kenmore, that requires a study of ridership improvement to anticipate ridership for next few years, and that Seaport/Kenmore agree to not withdraw service to either Newport or Astoria during the contract period, subject to obtaining direction on how the money can be spent. The motion carried unanimously in a voice vote.

Klem encouraged the two bodies to agree on a process to resolve the matter if federal funds cannot be used to subsidize the Seattle route.

ADJOURNMENT

Having no further business, the meeting adjourned at 5:20 P.M.

Margaret M. Hawker, City Recorder

William D. Bain, Mayor

Larry Pfund, President