

DRAFT

MINUTES OF AIR CONSORTIUM BOARD MEETING

SEPTEMBER 11, 2009

CALL TO ORDER

Bain called the meeting to order at 1:00 P.M., in the Newport City Hall. Present were Bain, Reno, Dalrymple, and McConnell. Crider participated via telephone. Also in attendance were John Lansing, Jim Day, Kent Craford, Bruce Phillips, Peggy Hawker, and Penelope McCarthy. Bruce Conner, Steve Fox, Rob McKinney, and John Overholser participated via telephone.

ADDITIONS/DELETIONS AND APPROVAL OF AGENDA

It was suggested that scheduling, airport minimums, and the minutes of the September 4, 2009 work session be added to the agenda.

APPROVAL OF THE MINUTES OF JULY 23, 2009

MOTION was made by Crider, seconded by Reno, to approve the minutes of the July 23, 2009 meeting. The motion carried unanimously in a voice vote.

APPROVAL OF MINUTES OF SEPTEMBER 4, 2009

MOTION was made by Crider to approve the minutes of the September 4, 2009 meeting. There was no second. Walter Sherman questioned the validity of the meeting, noting that it was advertised as a subcommittee meeting, but that the Consortium had not authorized a subcommittee. McCarthy reported that it should have been termed a work session. Hawker explained that she had noticed the meeting as a subcommittee meeting in error. Crider withdrew his motion.

DISCUSSION OF AIR SERVICE MARKETING STATUS

Bain stated that it is unacceptable to have less than one week lead time for the Consortium to review the marketing status. Craford reported that Kyler had prepared the report about a week ago, and that he had forgotten to send it.

Bain asked whether Consortium monies were being used in Seattle marketing. He added that if SeaPort is using Consortium grant monies to pay for those ads, that would be subsidizing advertising for a service we cannot subsidize. Craford

explained how SeaPort buys advertising. He added that Consortium funds are only spent commensurate with advertising of coastal routes. He stated that he does not have the most recent count, but that SeaPort is spending 167% of what it is contractually obligated to spend on marketing. McConnell asked how many passengers are using SeaPort to go to ballgames or Seattle. He noted that his hunch is that most people are using it to go east, and asked why marketing is not aimed toward actual usage. Craford reported that about 56% of Newport passengers are connecting to other flights, while approximately 40% of Astoria passengers are making connections. Craford reported that if coastal passengers are flying through to Seattle; it helps reduce the total cost.

Bain suggested working out a method to ascertain the Consortium does not have a problem with its funding source regarding the use of funds for advertising. McCarthy reported that she believes the marketing is missing the mark, as she does not think that many people are attending Beavers games. Rather, she believes that most Newport passengers are connecting to other flights, and that is where the focus should be. She noted that the Consortium needs to be very careful with the Seattle issue, to not create the perception that it is assisting SeaPort in obtaining revenue outside its defined scope. She suggested that the Consortium consider reviewing marketing that is done by SeaPort prior to its release. She added that this might not occur with every marketing piece, and not to delay deadlines, but until the Consortium feels there is a track that is really benefitting the Consortium. She stated that the general feeling is that the marketing has not hit the mark and it needs to start doing that. Craford noted that, at six months, it is a logical time to assess progress. He stated that SeaPort's contractual goal for Newport and Astoria was two passengers per flight at six months, and to say that the marketing is not working is absurd. He added that to date, he believes the marketing has been nothing but effective, and that he is disappointed by the tone of this meeting.

Marketing Plan Status

Craford reviewed the marketing report that had been submitted to the Consortium. He spoke regarding hotel co-op partnerships, regional co-op event marketing, outdoor advertising, press releases, print ads, the in-flight magazine, the Old Grey Cab, and passenger survey cards.

Craford reported that he expects to have a good sampling of passenger survey cards by mid-fall. He added that approximately 10% of passengers complete the cards, and to date, SeaPort has received several hundred from all routes.

Reno suggested that SeaPort's local customer service agent should be more of a champion in the community. He added that his staff spends significant time fielding calls for SeaPort. Craford reported that there are two strong candidates for the station manager position, and either should be able to act as a cheerleader for the service.

McConnell asked whether the names of passengers completing the survey cards could be entered into a drawing for a free flight. Craford noted that could be done, and Fox stated that the survey cards include income data, so passengers might be reluctant to include their names.

Craford reported that the SeaPort in-flight magazine is a reality, and thanked advertisers. Craford agreed to send Crider an advertising rate card.

Craford reported on SeaPort's joint marketing efforts. He stated that SeaPort donates airfare to radio stations all the time, and is a sponsor of the Portland Beavers where there is a booth with promotional material.

Craford reported that since the last formal Consortium meeting, SeaPort has secured a \$50,000 marketing grant from the Port of Portland. He added that SeaPort serves as many intrastate routes as any other airline. Television ads in Portland should begin airing at the end of the month, and will be focused on getting folks from Portland to the coast and to Pendleton. These are not going to be ads showcasing destinations, but rather awareness ads with high repetition.

Craford reported that SeaPort has a professional trade show booth. He added that they are investigating further co-op marketing opportunities, and improvements to the website. He asked for assistance in working with the Oregon Coast Aquarium. He noted that SeaPort is continuing to work with Salishan and other hotel partners. He anticipates having a number of additional hotel partners toward the end of September.

Overholser reported that a positive article appeared in Monday's edition of the "Daily Astorian."

Craford reported that he had talked with Doug Bates, an "Oregonian" editorial writer, and he is hopeful that he will write something positive. Bain noted that he has spoken with Bates earlier today, and given him additional positive information.

Day reported on SeaPort's presence at the Hillsboro Air Show. He noted that the focus is on promoting the coastal flights.

PUBLIC COMMENT

Steve Salisbury reported that he has a background in promotion and marketing, and that he had given the "News-Times" constructive feedback on the in-flight magazine. He recommended accepting business cards of passengers for drawings for free flights. He stated that most complaints in Newport are due to the lack of an attendant on duty. He suggested that Craford employ a station manager from Newport who knows about Newport. He added that the Aquarium has a new president whose background is in fundraising and marketing.

Walter Sherman asked about the ads concerning SeaPort's service to Seattle. Bain noted that the ads referred to are in the marketing report and include print ads that. Sherman asked whether this is consistent with the July 2 marketing plan.

Sherman asked which position McConnell is filling, and requested that McConnell confine his remarks to the public comment section of the agenda since he is not acting as an alternate for Bain.

Mark Watkins suggested that it would be a brilliant idea to get SeaPort on the marathon webpage. He asked why SeaPort is using the big expensive Pilatus.

Steve Schuster stated that Craford is a jerk for calling McCarthy's comments absurd. He stated that SeaPort was supposed to have an interline agreement in place by June 15, and he cannot check a bag to Bangkok like he could with Cape Air. He stated that SeaPort should be cut off until it gets an interline ticketing agreement. He added that SeaPort is a joke and wasting our money.

Steve Salisbury stated that any industry is run on relationships, and with SeaPort new to the game, and a CEO new to the game, those relationships do not exist. He volunteered to help arrange a meeting with Southwest, and a well-crafted presentation regarding what it would mean to Southwest in the long term especially with NOAA, mammal genetics, and wave research companies moving into Newport. He stated that SeaPort needs to focus on obtaining an interline ticketing agreement.

Walter Sherman asked whether the Consortium has served SeaPort with a notice of non-compliance. McCarthy reported that a formal notice has not been served, but the issue has been discussed, and SeaPort has responded. Sherman stated that the Consortium is bound to serve a non-compliance notice or pass a motion abrogating that section of the contract. McCarthy reported that the contract states that the Consortium may extend the terms, and this has been done informally through conversations with SeaPort. McCarthy reiterated that the Consortium is dealing with the situation and working on it. Sherman stated that he wants the Consortium to exercise its responsibilities.

INTERLINE TICKETING AGREEMENT - REQUEST BY SEAPORT FOR EXTENSION OF TIME

Craford apologized for calling McCarthy's comments absurd. He agreed with Salisbury that business is about relationships, adding that he feels good about the relationships with the communities and airports. He reported that a formal letter was sent to the Consortium requesting an extension of the target date for an interline agreement, and outlining the reasons an interline agreement has not been achieved yet.

Craford reported that today, an interline agreement with a Part 121 carrier is

incredibly unusual, adding that McKinney successfully negotiated one of the few Part 121/Part 135 code share agreements that exist. He noted that the main reason those relationships are few and far between is because of reservation technology. Today, an airline must be e-ticketing capable to be considered for an interline agreement. He reported that SeaPort is currently in the second year of development to become e-ticketing capable, and the process is taking longer than anticipated. He stated that it was a good faith estimate when SeaPort told the Consortium that it could make a June 15 deadline. He added that unfortunately, it is something out of SeaPort's control. He noted that work is continuing, but SeaPort is not satisfied with the progress and neither is the Consortium. He reported that SeaPort has decided to take a concurrent track, and is prepared to purchase a new and modern reservation system which is e-ticketing capable. When that system is up and running, SeaPort can go to major carriers and pursue an interline agreement. He added that this conversation and where we go has a lot of bearing on where we go with that contract. While it is smart in the long-term, it is a big expense right now.

Craford stated that there are better ways to improve traffic than an interline agreement with a single carrier, such as placement on online travel agencies like Expedia, Orbitz, and Travelocity. He added that Southwest does not participate in most online travel agencies, and does not have interline agreements. He stated that Southwest handles 25% of the traffic out of PDX and is now on par with Alaska Air, so effectively 25% of traffic in and out of PDX is completely walled out in regard to an interline agreement. Participants in online travel agencies get all airlines, not just the one with which an interline agreement is in place. Craford reported that he understands the frustration, and that SeaPort is ready to proceed on an alternative path, but would first like to pursue online travel agencies.

Larry Dalrymple asked how through baggage is accomplished even with an interline agreement. McKinney stated that it is not possible unless ONP and AST are federalized. Craford stated that this and the concept of reverse sterilization has been discussed. He noted that he has met with representatives from PDX, and it does not seem possible without major infrastructure improvements, and that could increase the cost of coastal air service. He added that SeaPort does not think these markets could support those additional costs. He noted that the Seattle market is important to SeaPort, and those fares help underwrite the \$49 fare. Craford noted that if you sterilize one portion, passengers from Seattle would have to go through TSA in the middle of a trip. Reno noted that this is an expensive proposition, and at this point, it would be impossible. He added that since the requirement was in the RFP and proposal, that perhaps a discount would be in order for failure to provide that service.

Bruce Conner concurred with the idea of prioritizing e-ticketing over an interline agreement. Bain suggested that Craford give the Consortium an idea and timeline of e-ticket progress. Craford stated that SeaPort's proposal asked for March 15, as adequate time is needed for the reservation system to be

implemented and connections to be established. It was noted that SeaPort ticketing is currently available through travel agencies.

Overholser asked whether it would make sense to amend the contract, and form a subcommittee to pursue this change in situation. Bain and Dalrymple concurred, and Reno dissented. Reno asked whether the grants can be transferred to a new operator. Bain noted that the best visibility can be obtained through e-ticketing. Reno disagreed. Bain noted that if SeaPort requests an extension of time to get the interline agreement in place; the Consortium should insist that SeaPort provide an accurate timeline and proceed as promptly as possible. Reno noted that he is not in favor of an extension because he does not believe an interline agreement can be achieved in the duration of the project. He added that he would endorse looking at what the value of the interline agreement is, and making that modification to abate that part of the contract. McCarthy noted that there are two places in the agreement that speak to a breach of contract for failure to have an interline agreement in place by June 15. She added that she does not know the original intent of the parties. She noted that the carrier must have known what they were entering into, as it appears to be such a pivotal product. Reno stated that this is what the community thought they were buying.

Craford stated that he is more optimistic about the long term prospects, and believes there is a shot at making ONP sustainable because the performance has been so good. He stated that SeaPort opposed the Consortium's grant request to the State of Oregon, because the proposal was written and developed for a single carrier and the whole contract was, in his belief, prepared by a consultant with a specific carrier in mind, and included a requirement for an interline agreement as a barrier to other operators. He added that this was a nonfinancial barrier to insure that the contract was granted to a single company. This interline agreement is a legacy of that process. The objective is to raise traffic, but it does not satisfy the bigger objective which is better done by online travel agencies. Craford added that SeaPort is ready to obligate itself to this process to grow traffic.

Dalrymple stated that the old airline industry operated on code share, and five years ago, if an airline did not have an interline agreement; it was not going to be successful. He added that things have changed and interline agreements are no longer needed. He added that an interline baggage agreement will only work from one secure environment to another. He stated that e-ticketing and online travel agency capability is far more important than an interline agreement.

Craford stated that SeaPort has carried 3,000 or 4,000 passengers and has never received a single complaint about not having an interline agreement. He added that the only time he ever hears about it is at these meetings. McCarthy stated that she is trying to understand why SeaPort entered into this agreement when it knew it could not obtain an interline agreement.

McCarthy asked when the e-ticketing capability would be in place. Craford stated that SeaPort has requested March 15, 2010 as a compliance date.

Craford stated that carriers look at liability when pursuing interline agreements because there is recourse for passengers if a flight is delayed. He added that due to coastal weather and minimums at Astoria and Newport, he is concerned about whether a carrier would be willing to take on this liability. Reno stated that the Consortium needs to make a decision, adding that March 15 is a long ways away, and he would like some concession. It was noted that any amendment of the contract would have to be validated by the City Council and Port Commission.

McCarthy requested information identifying the differences between e-ticketing capability and an interline agreement. Craford stated that e-ticketing is a technology - means to end - which is placement on the online travel agencies. McCarthy asked whether passengers will have protection if a flight is delayed.

MOTION was made by Dalrymple, seconded by Crider, for an extension of time for the interline ticketing agreement, to March 15. The motion carried in a voice vote with Reno voting no. Bain directed legal counsel to draft the appropriate contract modification language. McCarthy asked whether there is a dollar value associated with an interline ticketing agreement.

Crider asked whether SeaPort needs the same amount of time to address the baggage agreement or whether it should be removed from the contract. Craford reported that it is logistically infeasible. MOTION was made by Crider, seconded by Dalrymple, to remove the interline baggage requirement from the contract. The motion carried in a voice vote with Reno voting no.

McCarthy asked whether the Consortium would require that SeaPort pursue e-ticketing, and it was noted that e-ticketing is required for an interline agreement.

REGULAR REPORTING OF BIS/LOAD FACTOR

Day reported that he had given Reno additional charts. He noted that the contract requires two passengers per flight at six months. Newport is averaging 4.3 passengers per flight, and Astoria is averaging 2.2 passengers per flight. He reported that SeaPort is now greater than \$30,147 cumulative below the cap. He added that SeaPort is increasing ticket revenue and passenger loads, and the trend is heading in the right direction.

PASSENGER FACILITY CHARGE - DISCUSSION

Bain asked that this matter be carried into the October meeting.

Bain requested an executive session on October 1 for the purpose of consulting with legal counsel regarding contract negotiations. The meeting would be held at

the Doubletree Lloyd Center, in Portland, at 2:00 P.M. The Consortium concurred.

NEXT MEETING DATE

Craford noted the need to convene immediately if schedule changes are to be made this fall. It was agreed to meet, via telephone, on Friday, September 18, 2009.

PUBLIC COMMENT

Walter Sherman suggested that SeaPort might want to provide a formal proposal for the e-ticketing program. He asked when the Consortium approved the marketing plan, where minutes and agendas are posted. Hawker reported that the agendas are posted in three locations in the city, and that recently a location has been added to the city's website that will include agendas, minutes, and audio files from these meetings.

Steve Schuster asked whether Craford knows how many airplanes Southwest has.

Adam Bryant stated that as a resident, he feels misled by Seaport in its failure to provide an interline ticketing agreement. He added that during negotiations, there were two main stipulations - one was monthly marketing, and the second was an interline agreement. He added that the City Council voted 6 - 1 to award the contract to SeaPort. He asked why citizens did not hear about e-ticketing eight months ago during the contract negotiations. He added that failure to perform due diligence should not constitute failure for contractual obligations.

ADJOURNMENT

Having no further business, the meeting adjourned at 4:28 P.M.