ALTERNATE ESSENTIAL AIR SERVICE PROPOSAL

For the

DEL NORTE COUNTY REGIONAL AIRPORT

JACK McNAMARA FIELD (CEC)

Docket DOT-OST-1997-2649

December 29, 2017

Submitted by:

Border Coast Regional Airport Authority

Matthew Leitner
Airport Director

150 Dale Rupert Road
Crescent City, CA 95531

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INTRODUCTION

The Del Norte County Regional Airport and its community partners herein submit a proposal for an Alternate Essential Air Service (AEAS) Grant in the amount of $3,310,503 per 12-month period, with the Grant to be in effect from April 1, 2018, through September 30, 2020. AEAS service start date is estimated to be on or about April 1, 2018. The total Grant amount is projected to be $8,276,258 over 30 months.

This proposal is consistent with the goals and purpose of AEAS in that no reasonable and viable twin engine conventional EAS proposal was forthcoming in carrier responses to the Department's request for proposals issued August 9, 2017. Furthermore, this proposal offers significant subsidy savings over the only other viable conventional EAS proposal (for single engine aircraft service) available.

This RFP outcome is despite aggressive recruitment by the Airport and its community partners prior to the RFP response date of September 12, 2017. One reason for the limited RFP response is that Crescent City has relatively short runways, which preclude CRJ-200 and ERJ-145 regional jets from conducting airline operations.

LOCATION AND COMMUNITY

Crescent City is the county seat of Del Norte County, which constitutes the Crescent City Micropolitan Statistical Area (MSA). MSA population is just over 27,000 with almost the entire population in and around Crescent City. Most of the county is mountainous forests. The western border of the county is over 40 miles of beautiful Pacific Ocean coastline.

Crescent City is very isolated. The nearest small cities are Eureka (70 miles and 90 minutes' drive) and Medford, OR (109 miles and 2 hours' drive). The nearest alternative commercial air service is also in those two cities and at that drive distance and time. The nearest Interstate Highway is I-5 at Grants Pass, OR, some 76 miles to the northeast.

Large commercial airports (FAA large or medium hubs) are even more distant with Portland (PDX) a six-hour drive covering 341 miles and San Francisco (SFO), Oakland (OAK) and Sacramento (SMF) all about 400 drive miles and nearly a seven hour drive time.

In short Crescent City is the reason the EAS program exists. A truly isolated city with an economy dependent on the ability of its residents to travel by air for business and leisure reasons. Key sectors of the local economy are forest products, tourism, commercial fishing, tourism, health care and government functions. All have definite business travel needs.

A clear illustration of how important quality air service is to Crescent City and the surrounding area is illustrated by the ratio of annual O&D passengers to resident population. In 2014 and many years prior Crescent City generated as many O&D passengers as its County has residents. This is a very high ratio for an EAS city.

CRESCENT CITY POPULATION/O&D TRAFFIC RATIO

2010 - 2016

Year	O&D	County Population	Ration O&D / Population	Service Comments
2010	28,797	28,562	1.01	UA Coded SFO
2011	27,969	28,466	0.98	UA Coded SFO
2012	25,797	28,212	0.91	UA Coded SFO
2013	24,762	27,837	0.89	UA Coded SFO
2014	26,758	27,252	0.98	UA Coded SFO
2015	9,717	27,301	0.36	5 Month Dormancy
2016	17,130	27,540	0.62	AS Coded PDX

LOCAL AIR SERVICE

For many years prior to 2015 Crescent City EAS air service was primarily to SFO, operated by SkyWest Airlines using E-120 30-seat turboprops. The carrier also operated limited nonstop or one-stop service to Sacramento as part of its extensive E-120 network in northern California. From 2010 to 2014, with United branded and coded SkyWest turboprop service to SFO and some flights to SMF, Crescent City consistently generated well over 25,000 annual O&D and subsidy per O&D was under $100.

In 2015, due to the 2013 imposition of new Part 121 air carrier flight, duty and qualification rules by the Federal Aviation Administration (FAA) SkyWest was forced to retire its fleet of E-120s due to a growing shortage of pilots and an inability to crew the E-120 in an economical manner. The carrier was willing to continue Crescent City service but could not operate its larger CRJ-200 regional jets locally due to the runway limitations.

Thus, SkyWest ended Crescent City service in mid-April 2015. An expedited DOT RFP resulted in a proposal from PenAir to provide Alaska Air coded SF-340 turboprop service to the Alaska Air hub at Portland. With prompt DOT approval of the PenAir proposal the carrier began service in September of 2015. The only other air carrier proposals for Crescent City in the 2015 RFP were from single engine carriers, to which the community gave careful consideration before choosing PenAir.

CRESCENT CITY EAS TRAFFIC; 2010 - 2016

DOT T100 reports

Year	Enplaned	Segments	Carrier	Equipment	Estimated Subsidy	Subsidy Per O&D
2010	28,797	1,911	SkyWest	E-120	$1,450,000	$50.35
2011	27,969	1,929	SkyWest	E-120	$1,781,888	$63.71
2012	25,797	1,842	SkyWest	E-120	$1,900,000	$73.65
2013	24,762	1,819	SkyWest	E-120	$1,996,959	$80.65
2014	26,758	1,777	SkyWest	E-120	$2,454,084	$91.71
2015	4,387	350	SkyWest	E-120	$613,520	$139.85
			Dormancy			
2015	5,330	419	PenAir	SF-340	$987,189	$185.21
2016	17,130	1,377	PenAir	SF-340	$3,244,293	$189.39

The transition year of 2015 was painful, with an extended dormancy, however traffic rebounded to over 17,000 O&D in 2016. This rebound was even though PenAir operational performance was below average and the carrier's scheduling of flights did not take full advantage of the Alaska Air network connections at PDX. Combined with the higher subsides the subsidy per O&D rose into the $180 range.

However, PenAir was a proven EAS operator and Alaska based carrier offering a codeshare relationship with Alaska Air, therefore Crescent City felt a good air carrier choice was made in the 2015 bid cycle and time would improve operational performance and passenger traffic via PDX on the Alaska code.

Unfortunately, as the Department is well aware, PenAir had overextended itself and underestimated the challenge of pilot recruiting and retention in the lower 48. In August of 2017 PenAir filed bankruptcy and termination notices on five lower 48 EAS cities, including Crescent City. PenAir ended EAS service at Crescent City on December 15, 2017, leaving the community with no air service at the time of this grant application submission.

AUGUST 2017 DOT EAS RFP

On August 9, 2017 the DOT issued Order 2017-08-10 requesting carrier proposals to provide EAS at the five PenAir cities that were subject to the carrier termination notice. Carrier proposals were due September 12, 2017.

During August and early September, the Airport and its community partners pursued an aggressive campaign of air carrier recruitment to find the best possible new carrier options. The challenges to air carrier recruitment at Crescent City are many. The runways are too short for most 50-seat regional jets. The nearest large or medium hubs are a significant distance away and some have significant carrier terminal access cost issues or terminal layout access issues.

CRESCENT CITY EAS HUB OPTIONS 2017

Domestic Hub Metrics 12 Months June 2017

Hub	Distance	O&D	Avg Fare	Annual Seats	Annual Flts	Daily Flts	NS Cities	Access Issues
OAK	300	10,596,758	$135	15,587,592	125,903	180	49	None
PDX	275	14,652,904	$157	21,610,560	190,944	262	75	Very high terminal access cost
SFO	304	29,379,014	$204	49,313,858	352,145	482	149	Very high terminal access cost
SMF	254	9,084,319	$172	12,636,914	99,874	145	36	Split Terminal

There are only four large or medium hubs within 300 miles of Crescent City. Three are south in the Bay Area and one is north at Portland. Our research revealed that both Portland and San Francisco have high terminal access costs for independent regionals and that Sacramento has a split terminal.

SkyWest Airlines was asked to reexamine SFO service with CRJ-200 aircraft. With SFO being the primary hub of the region and United the hub carrier at that airport and the success of SkyWest service prior to 2015, this was our most logical choice. However, SkyWest, after careful examination of the operational constraints, advised us that they cannot propose or operate service with their CRJ-200 aircraft.

Aerodynamics Inc (ADI) was briefed on the market and asked to submit a regional jet proposal for either PDX or OAK service. Portland service was based on a hope of eventually gaining ticket and bag and possible code share arrangements with Alaska Air. Oakland service was based on it being the only viable Bay Area Airport for an independent regional in terms of access costs, demand for local travel and strength of onward connections via other airlines. After careful study ADI advised us that their ERJ-145 could not operate consistently at our Airport.

Boutique Air was briefed on the market and asked to develop dual hub proposals involving both PDX and OAK service with 8-seat PC-12s. Boutique is a very successful single engine PC-12 EAS operator with 18 EAS cities nationwide and a good reputation for quality service and traffic generation. While we had hesitations about moving to single engine aircraft during the recruitment process we did not want to exclude any viable carrier. If no other options emerged Boutique could be an option for us.

Alaska Air was contacted but declined to make a proposal. No other viable conventional EAS regional carrier was found to be capable of offering conventional EAS service in our region of the country.

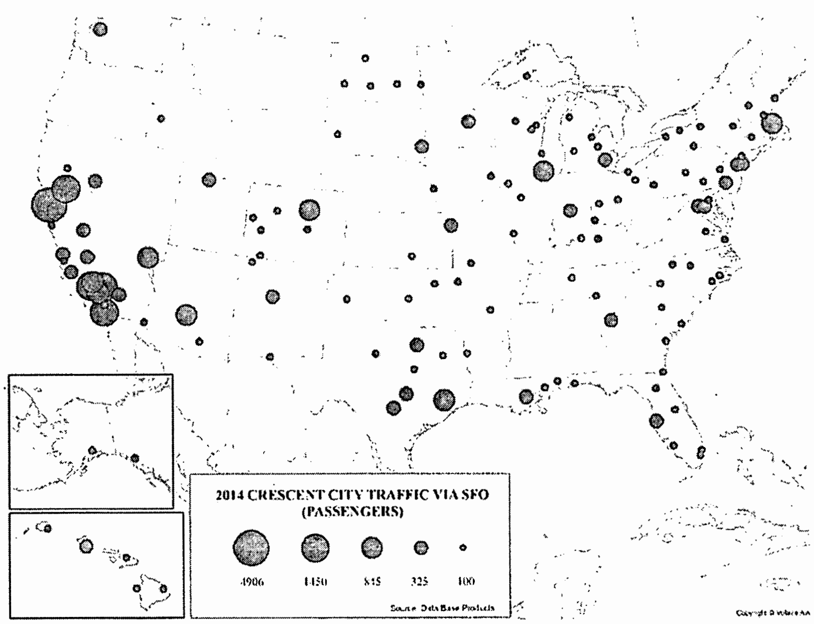
As part of our market research to support carrier recruitment we mapped out the historic seasonality of traffic demand at our airport, to aid in assisting carriers with the design of efficient service proposals. Almost 40% of traffic demand occurs in the May – August summer period while January and February see significantly lower traffic demand than any other months.

CRESCENT CITY TRAFFIC SEASONALITY; PERCENT OF TRAFFIC BY MONTH

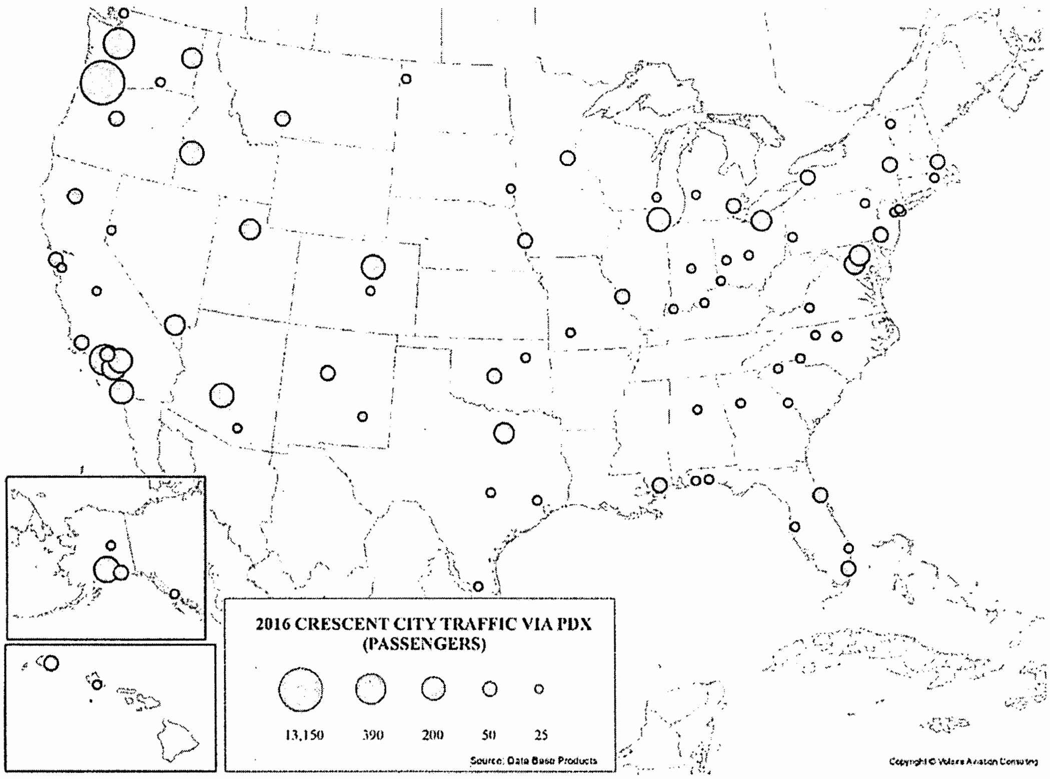
Monthly Distribution Years 2012 - 2014

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
7.1%	6.3%	8.1%	7.7%	9.3%	9.2%	9.7%	10.3%	8.4%	8.0%	7.7%	8.2%

We also mapped out the distribution of domestic traffic in 2014, with SFO UA coded flights, and in 2016, with PDX AS coded flights to fully understand how a northern hub vs. a southern hub works.



2014 service via the powerful United Airlines SFO hub showed strong demand inside California and a relatively even distribution of traffic nationwide.



2016 traffic via the Alaska Air PDX hub showed dramatically less California traffic, measurable Seattle and Portland traffic and a smaller footprint of traffic across the balance of the country.

With a strong knowledge of what our market seasonality is and how it performs with a northern hub vs. a southern hub we worked closely with Boutique and ADI on service proposals. ADI withdrew their interest due to the aircraft operational constraints the day before bids were due.

On September 17, 2017 the DOT received Crescent City bids from two airlines, Boutique and Great Lakes. <u>We did not recruit Great Lakes nor did the carrier contact us prior to the bid deadline.</u>

<u>BID DISCUSSION</u>

Boutique submitted two proposals; one for 30 weekly round trips split between PDX and OAK and another for 36 round trips split between the same two hubs. Great Lakes submitted one proposal for service to Sacramento.

CRESCENT CITY CONVENTIONAL EAS PROPOSALS

September, 2017

Carrier	Prop	Hubs	Flights	O&D	Subsidy	Per O&D	Seats	LF %	Avg Fare	Pro Con
Boutique	1	OAK & PDX	3,058	17,500	$3,976,438	$227	24,464	71.5%	$120	Correct hubs, good rep, aggressive LF%
	2	OAK & PDX	3,669	21,000	$4,379,680	$209	29,352	71.5%	$126	at high fares, single engine
Great Lakes	1	SMF	1,223	15,000	$2,987,892	$199	36,690	40.9%	$75	Wrong hub, very optimistic forecast

Boutique Proposal 1 calls for 30 round trips per week split between PDX and OAK. It assumes a 71.5% load factor at a $120 net one-way segment fare. Subsidy need is $3.976 million per year. Proposal 2 calls for 36 round trips, again split between PDX and OAK. It also assumes a 71.5% load factor but now at a $126 net one-way segment fare. Subsidy need is $4,379,680 per year.

Great Lakes proposed, in a bid with two glaring mistakes, two round trips to Sacramento. The proposal lists aircraft type as B1900D when the bid's operational data makes clear it actually was an E-120. The Operating Revenue line references "DDC", Dodge City, Kansas, where Great Lakes did indeed submit a B1900D proposal. The flaws in this proposal require some detail to define;

Sacramento is not a viable hub – As the hub option chart shows SMF is technically a medium hub airport. However, there are multiple reasons why it is NOT a viable EAS hub in this case.

- SMF has two separate terminals; Terminal A houses American, Delta and United and Terminal B houses all other airlines, including Southwest, jetBlue, Alaska Air, Hawaiian and two Mexican carriers. There is no sterile access between the terminals, re-screening is required between them.
- Great Lakes' proposal calls for service connecting to United in Terminal A. Terminal A has 32% of Sacramento's seats with a total of about 57 daily departures to 14 nonstop destinations.
- About 10 of those 57 daily departures leave before any Great Lakes flight could land from CEC and at least 10 of those 57 arrivals arrive after any last Great Lakes departure to CEC.
- United, Great Lakes' code share partner, only has about 16 daily departures from SMF and five of those are to SFO.
- The average domestic fare paid by terminal A passengers (American, Delta and United) was $227 for the year ended 2017Q2. The average domestic fare paid by terminal B passengers (Southwest, jetBlue, Alaska and Hawaiian) was $146 for the same period.

CRESCENT CITY EAS HUB OPTIONS 2017

		Domestic Hub Metrics 12 Months June 2017						Hub Carrier Metrics		
Hub	Distance	O&D	Avg Fare	Annual Seats	Annual Flts	Daily Flts	NS Cities	Hub Carrier	Daily Flts	Access Issues
OAK	300	10,596,758	$135	15,587,592	125,903	180	49	WN	135	None
PDX	275	14,652,904	$157	21,610,560	190,944	262	75	AS	130	Very high terminal access cost
SFO	304	29,379,014	$204	49,313,858	352,145	482	149	UA	273	Very high terminal access cost
SMF	254	9,084,319	$172	12,636,914	99,874	145	36	None	N/A	Split Terminal

Even if SMF had sterile access to all flights in one terminal, it is by far the weakest connecting hub in the region. If connections that avoid double TSA screening are a reasonable expectation (and we think they are) then SMF Terminal A is barely a small hub.

SMF's combined all carrier average domestic fare was $172 for the year ended 2017 Q2 while the average domestic fare at OAK was $135 (22% lower) and at PDX it was $157 (9% lower). Hub average domestic fare does matter when the EAS carrier can only offer sum-of-two-locals pricing, as is the case with Great Lakes and Boutique.

For all these reasons the Great Lakes forecast of 15,000 annual O&D at a $75 segment fare on two round trips per day to SMF Terminal A is highly suspect and completely unrealistic. For the five-year period 2010 – 2014 SkyWest averaged just over 1,200 local O&D per year between Crescent City and Sacramento. In that same five-year period SkyWest averaged about 4,375 annual San Francisco locals (with 2 x daily nonstop service), about 900 annual international O&D (connecting to the large United international flight options at SFO) and about 19,000 annual domestic connection O&D connecting to United's 250+ SFO nonstop domestic departures. At SMF Great Lakes will connect to 16 daily United departures, five of which are to SFO (little connect value) and at least four of which will have left every morning before any Great Lakes flight from Crescent City can land. A forecast of 15,000 annual O&D at $75 net one way is very unrealistic. Actual results of the operation of a Great Lakes E-120 between Crescent City and Sacramento will likely be less than 5,000 annual O&D at fares below $75 net.

Great Lakes is a struggling airline – The Department is well aware of the many struggles of Great Lakes Airlines since the FAA flight, duty and qualification rule changes of late 2013. The Great Lakes route map as of January 1, 2014 shows service at 31 EAS cities, four hubs and seven non-EAS small cities.

Route Map current as of January 4, 2014

As of early 2018, 25 of the 31 Great Lakes EAS cities on this map will have transferred to other carriers or, in three cases, were terminated from the EAS program for violation of the $1,000 subsidy cap regulation. In each of the 25 instances the community in question chose to switch carriers away from Great Lakes, even in 16 of those instances where the new carrier offered single engine aircraft.

In the 24 EAS cities that switched carriers for which year-over-year data is available, every single one boarded more passengers in the first year of new carrier service than it did in the last year of Great Lakes service. In almost every instance the increase is 100% or 200% or even higher.

As of November 2017, Great Lakes served four EAS cities with its own aircraft via three hubs. There is also service to two non-EAS small cities and a codeshare arrangement whereby another carrier uses the ZK code to serve two EAS cities. Of the remaining four EAS cities with Great Lakes service, one (PUB) transferred to another airline on December 1. At Salina a new EAS contract has been awarded to another airline and Great Lakes will exit the market in April 2018. Pueblo and Salina represents about 50% of Great Lakes 2017 total revenue.

Projecting those EAS contract losses onto this November 2017 route map suggests that by 2018 Q2 Great Lakes will have two EAS cities left, along with seasonal flying at Telluride and an arrangement to provide its code to another carrier for two other EAS cities. None of these remaining EAS cities or corresponding hubs are within 700 miles of Crescent City. <u>This is not a viable business model in 2018.</u>

Great Lakes Airlines has been around since the 1970s and once was the primary EAS carrier for the entire nation. But the carrier has failed to adapt to the changing environment. It is not our desire to detail the terrible operational and financial struggles of Great Lakes Airlines. But it was not our desire that they propose a typo-ridden and completely unrealistic EAS service pattern and hub for our airport and community without any pre-bid consultation or discussion.

Crescent City was a fortunate EAS city for many years in that our service was provided by SkyWest under the United brand and code to the large United hub at SFO. When that service option was lost we thought we had a new long-term partner in PenAir, a long standing EAS carrier with the Alaska Airlines code with service to an Alaska Air hub at PDX. Suddenly in the summer of 2017 we were, for the second time in two years, faced with an involuntary change of carrier scenario.

We feel it is untenable to move from one failing bankrupt carrier (PenAir) to another struggling and shrinking EAS carrier that submitted an unsolicited, unrealistic and poorly thought out EAS proposal for our market. It is a proposal that, if implemented, is very likely to fail badly and quickly. Airport staff performed a review of each bidder's most recent financial statement and the review of Great Lakes' financial statements caused much concern.

Great Lakes was once traded on a major stock exchange but voluntarily delisted in 2016. A review of its last SEC 10-Q filing of November 23, 2015 (two years ago) indicates an extended period of significant financial losses and multiple violations of outstanding loan covenants. We note that the carrier has just in the past few months withdrawn all services from Farmington, NM and Riverton, Wyoming. We note that an article in the October 22, 2017 edition of the Wyoming Tribune Eagle statedthat Great Lakes owes over $200,000 in lease payments on its headquarters facility in Cheyenne. At the end of this article the Chief Executive Officer Great Lakes is quoted as saying "The future (of Great Lakes) will be decided by regulatory relief ultimately". The reference is to the aforementioned FAA pilot regulation changes. There is no assurance that such "relief" will occur soon or ever or that even if it does that it takes a form that Great Lakes would be capable of using to regain financial and operational health. On the heels of the PenAir experience our air service hopes and needs cannot be pinned to such a struggling company.

At Prescott the current Great Lakes EAS contract calls for 12 round trips per week to LAX using 30-seat E-120 aircraft. For much of 2017 Great Lakes has operated a majority of Prescott service with 9-seat Part 135 B1900Ds. For a ninety-day period from October 2017 to early January 2018 Prescott has not seen a single E-120 on the LAX route. Couple this with Great Lakes operation of the 9-seat Beech 1900D almost exclusively at Pueblo for much of 2017 (where the E-120 was the contract specified aircraft) and the fact that over 20% of Salina flights in 2017 have been flown with the 9-seat Beech and the pattern is crystal clear. Great Lakes has bait-and-switched both the Department and the communities they serve, proposing Part 121 30-seat E120s and operating 9-seat Part 135 Beech aircraft. That the DOT allows this and considers Great Lakes a viable bidder at CEC despite this behavior is extremely disconcerting to us.

For all of these reasons, and in any logical and reasonable examination of this situation, we feel the Great Lakes Crescent City EAS proposal submitted in response to Order 2017-08-10 is not viable or worthy of our consideration or that of the DOT. Any other interpretation distorts the purpose of the EAS program and the standards of review to which EAS bids should be held.

That leaves us with one set of conventional EAS proposals, those of Boutique Air. We appreciate Boutique's interest in our market and we worked with the carrier to develop the dual hub concept. The carrier's proposals require $3.976 million dollars annually for 30 round trips or $4.380 million annually for 36 trips. The proposals also require that we surrender our right to select a twin-engine proposal in the future, should one be available to us but at a subsidy level above that of a single engine proposal.

ALTERNATE EAS

After examining the proposals of Boutique and Great Lakes we pursued options available to us under the AEAS program. We had discussions with Contour Airlines of Nashville. The Department is aware that Contour operates four EAS or AEAS routes with exceptional reliability and that each route is significantly isolated from the others. Two of the routes (Manistee Michigan and Victoria Texas) are operated by another entity and Contour simply provides the aircraft. At Tupelo Contour operates conventional EAS under its brand at this time and has engineered a remarkable turnaround in that market's traffic totals over the past two years. At Macon Contour, again under its own brand, has undertaken a bold AEAS route to Baltimore and results in the first 4 months suggest strong traffic.In December 2017 the MCN-BWI route was already compliant with the$200 cap despite a very large subsidy need in the restart of a long dormant EAS market . In all four markets Contour's reliability is exceptional and noteworthy.

Contour worked closely with us and developed an AEAS proposal for 30-seat ERJ-135 RJ service to the Oakland hub, targeting the traditional 12 round trips per week service definition as a baseline for revenue, cost and subsidy projection.

COMMUNITY DECISION

Our community examined the conventional EAS proposals that were submitted and the AEAS proposal submitted to us by Contour. All three airlines appeared at our city and were interviewed. Our Board, The Border Coast Regional Airport Authority, is comprised of representatives from Del Norte County, California and Curry County, Oregon as well as the City of Brookings, OR, Crescent City, CA, the Tolowa Dee-ni' Nation and the Elk Valley Rancheria tribal governments. There is also an at-large public member. This gives the airport board a full range of regional input.

Our Board very much appreciated the proposals of Boutique Air. The DOT clearly indicated to airport staff and their consultant that, because of relative subsidy, we could not choose Boutique Air under any circumstances and that our choices are Great Lakes or AEAS at the $3,310,503 annual subsidy amount. While the Department is willing to impose Great Lakes upon us we are not willing to take the risk of imposing Great Lakes on our citizens due to the carrier's horrible service history and blatant bait and switch business model, proposing 30-seat Part 121 E120s and operating 9-seat Part 135 B1900s. The Great Lakes proposal does not merit serious consideration by our Board or the DOT.

After careful consideration and community wide discussion, The Border Coast Regional Airport Authority, representing numerous political subdivisions throughout the region has decided to enter the Alternate EAS program with service provided by Contour Airlines to Oakland via this Grant application. Furthermore, letters of support from regional government and business leaders, including the mayors of Crescent City, California and Brookings, Oregon are attached to this grant application.

THE CONTOUR AEAS PROPOSAL

The Contour AEAS proposal is currently limited, by DOT edict, to a subsidy amount totaling $3,310,503 annually. This amount was arrived at by taking the existing PenAir year one subsidy amount and projecting it at 100% completion rate to arrive at AEAS annual grant amount. This overlooks the fact that thePenAir DOT EAS contract is a two-year contract and the second year of that contact is at a measurable higher subsidy rate than the first year. It is one EAS contract with two rates and if CEC is limited to the PenAir contract rate then it is both rates, one for the first 12 months and another, higher amount, for the second 12 months. We have vigorously contested this edict, as it is NOT consistent with how AEAS was administered at Beckley, WV or Macon, Georgia. The Department has rejected our arguments, despite being clearly supported by past precedent, and reiterated that the maximum Grant amount available is $3,310,503. We feel it is critical to document our efforts to navigate the AEAS process and the challenges we faced.Ultimately, we had no choice but to accept a limited grant amount in order to avoid the inherent and unacceptable risks of service from Great Lakes, despite that amount only allowing for 50% of the capacity historically supported by the EAS program.

CONTOUR ANNUAL OPERATIONS PLAN FOR AEAS AT CEC

Month	Weekly Flights	18 / 19 Calendar	Holiday Adjustments	Actual With Holiday Adjust	Seats / Month Calendar	Seats / Month Completed
Mar	12	54		54	1,620	1,620
Apr	14	60		60	1,800	1,800
May	14	62	Memorial Day	60	1,860	1,800
Jun	14	60		60	1,800	1,800
Jul	16	78	4th of July	78	2,340	2,340
Aug	16	78		78	2,340	2,340
Sep	14	60	Labor Day	58	1,800	1,740
Oct	14	62		62	1,860	1,860
Nov	14	60	Thanksgiving	58	1,800	1,740
Dec	14	62	Christmas & New Years Eve	60	1,860	1,800
Jan	12	54	New Years Day	52	1,620	1,560
Feb	12	48		48	1,440	1,440
Year		738.0		728	22,140	21,840
Subsidy per Flight				$4,547		
Annual Subsidy				$3,310,503		

This chart shows the weekly service plan for each month, estimates operating events based on calendar, notes holiday adjustments where applicable and then projects public charters operated per 12 months. While Contour is an exceptionally reliable airline, there are times when weather or ill-timed operational issues preclude flight completion. We will assume we can support 728 annual flights at $4,547 per flight to fully utilize the $3,310,503 in Grant subsidy per 12-month period.

LIMITATIONS ON SUBSIDY AMOUNT

The purpose of Alternate Essential Air Service is precisely what the first word of the term means, provide an Alternative when the conventional EAS bidding process does not produce a viable or desirable option for a community. While we consider Boutique Air a very viable alternative and Great Lakes a non-starter, the Department has advised us that we either enter AEAS at the $3,310,503 annual amount or the completely unviable Great Lakes proposal, which is doomed to failure, would be imposed upon us. We were not given any option to select Boutique Air.

There are currently five AEAS cities in the EAS program. The example of Beckley, West Virginia is instructive in this case. For some number of years Beckley was provided with network coded regional carrier service to a network hub (Colgan Air and then Silver Airways, both to IAD).

In 2014 Silver's network partner advised Silver that Beckley could no longer be included in Silver's route system at IAD. At that time Silver provided Beckley with 12 round trips per week to IAD with a network coded SF-340. Silver's 2014 - 2015 EAS contract called for annual subsidy of $2,512,494.

In the second half of 2014 the DOT issued an RFP for Beckley EAS. Sun Air offered the only conventional EAS proposals; two options for Navajo service with subsidy needs of $3.46 million or $3.664 million per year. Via Air, having been recruited by Beckley, offered an Alternate EAS proposal with more seats than Sun Air and at lower fares, calling for 12 round trips per week to the nearby Charlotte hub for $2,696,888 per year.

The Via Air proposal offered significant savings over the only legitimate conventional EAS proposal (Sun Air) but was $184,394 more per year than the incumbent Silver Airways subsidy amount.

Beckley submitted an AEAS grant proposal, it was approved, and Via Air began Beckley service December 1, 2014, under AEAS, at the amount $184,394 higher than the incumbent carrier subsidy.

The parallels with Crescent City are many and clear. PenAir operated network carrier coded SF-340s to a network hub. The carrier was unable to continue service, like Silver. Only one legitimate conventional EAS proposal was received. The community sought an Alternate EAS carrier and in this document, is proposing a subsidy need significantly lower than that of the only legitimate conventional proposal, with more seats and a better chance for future year traffic and revenue growth. However, the AEAS proposal is higher than that of the withdrawing incumbent carrier.

The subsidy numbers are slightly different but the scenario of this EAS bid process is almost exactly the same as at Beckley. And at Beckley the DOT approved the AEAS proposal promptly, permitting Beckley to move to its AEAS carrier at a subsidy level higher than the exiting incumbent carrier.

Therefore, Crescent City asserts that the existing PenAir subsidy number is irrelevant to any consideration of the new carrier options available at this time.

The case of Macon, Georgia is also instructive here. Macon lost its EAS carrier and service in November of 2014. The last contracted subsidy amount was $1,998,696 per year. Several years and multiple rounds of DOT solicitation finally produced viable proposals from Contour Air and less viable proposals from three other "airlines" that for one or another reason the DOT rejected as not meeting minimum standards for an EAS bid.

In Order 2007-1-1 on January 3, 2017 the DOT awarded Contour Air a two-year AEAS contract to operate Macon EAS for $4,687,979 per year. Contour had offered three service options at Macon, a conventional EAS plan to Nashville using 9-seat J31s for $4.158 million, an AEAS proposal using 30-seat J-41s with a total of 12 round trips per week split between Washington D.C. and two Florida hubs for $4.0 million and an AEAS proposal for 12 J-41 round trips per week to Washington D.C. only for $4,687,979.

The community preferred the 12 trip Washington D.C. pattern for $4.7 million dollars. The DOT awarded Macon and Contour that AEAS amount. On page 5 of the Order the Department explains the Macon decision as follows;

"In the current carrier selection proceeding seeking carriers to provide EAS, the Department only received one viable proposal, CFM's Option A proposal to serve Nashville. CFM requested approximately $4.2 million to provide air service to a medium-hub using a 9-seat aircraft. Although CFM's Option C does not qualify for EAS because CFM does not hold the requisite authority to provide scheduled air transportation using its 30-east aircraft, the Department finds that CFM's Option C proposal best reflects what the Department would have paid an air carrier to provide EAS at Macon that could be successful."

We are deeply disappointed that the reasonable AEAS grant awards of Beckley and Macon, and the precedent that they set for future AEAS situations, is ignored in the case of Crescent City.

SUMMARY OF AEAS GRANT PRPOSAL

The Border Coast Regional Airport Authority, after careful consideration and significant community and regional input, has determined that the AEAS proposal of Contour Airlines defined in this document is the only viable long-term option we have to finding a replacement for PenAir and providing for our critically needed local air service.

Reasons for this determination are:

1.) We essentially have no other choice as the only alternative we are allowed to consider is Great Lakes.

2.) OAK is a Southwest Airlines hub, providing a range of lower cost flights with good connectivity in all directions. This hub has the lowest average domestic fares of all hub options and when combined with Contour's lower fare structure should significantly stimulate traffic.

3.) Contour enjoys an excellent reputation in current service areas as evidenced by the reference letters provided by two of those airports.

4.) Regional support was strong for this carrier, which is attached to this application, expressed both verbally and in written communications.

In addition to business and pleasure travel, our region relies heavily on air service for the necessary connection to services only available beyond our area. The two counties are difficult to access by road and medical and shopping services are severely limited. Our community needs and deserves an airline that is willing to provide stable, reliable service and make a real commitment to the traveling public and local economy. Contour's proposal demonstrates its commitment to the community in its pledge of a $25,000 annual advertising budget, low starter fares to stimulate passenger growth and low ongoing fares that reflect an understanding of the community's disadvantaged economic status.

AEAS PLAN PROPOSAL AND FUNDING:

The Border Coast Regional Airport Authority, in exchange for an Alternate EAS Grant from the Department in the amount of $3,310,503 per 12-month period, will forego its participation in the traditional EAS program for the period of April 1, 2018 through September 30, 2020.

The Airport Authority will contract with a Part 135 DOT 380 Public Charter Carrier to provide flights to a medium or large hub, with an ERJ 135. The carrier annual operations plan calls for 728 planned Public Charter events per 12 months of operations and $3,310,503 in grant funding per 12 months.

Contour Airlines will operate public charters to Oakland, CA, using the Embraer ERJ-135, configured for 30 seats. The subsidy request per completed public charter is projected to be $4,547. Service would produce about 21,900 annual seats.

While use of an Embraer ERJ-135 is planned, the Airport Authority and contracted Air Carrier reserve the right to provide equivalent service with substitute aircraft in the event of mechanical problems or other unforeseen circumstance to preserve uninterrupted service.

While the proposed destination hub is Oakland, CA, should it become apparent that another hub would better suit the citizenry of the catchment area, the Authority retains the right to negotiate a destination change with the air carrier, within the confines of the total annual subsidy amount.

Additionally, the Airport Authority and the Air Carrier will adjust schedules seasonally to ensure that maximum capacity is available during peak travel periods and reduced capacity is available during periods of lower traffic demand. These adjustments will not change the total number of subsidized flights annually or result in a greater subsidy request.

We would propose that the DOT issue an Alternate Essential Air Service grant to the Border Coast Regional Airport Authority in the amount of $8,276,258 with which BCRAA would contract with Contour Airlines to provide the proposed service for a 30-month period beginning on or about April 1, 2018.

Payment from the Airport Authority to the Air Carrier would be based on public charter operations with a standard of $4,547 per completed public charter operation.

The Airport specifically reserves its right as a subsidy eligible EAS point to reinstatement in the traditional EAS program.

ADDITIONAL CONSIDERATIONS:

1. All scheduled flights are to be operated in a sterile environment, meaning passengers would be TSA screened at both CEC and the hub airport.
2. The weekly schedule will generally provide for a morning departure and evening return flight at Crescent City with possible exceptions on weekends or during winter months.
3. A performance clause will be incorporated into the agreement with the Air Carrier. Failure of the carrier to provide reliable service will be cause for early termination of the agreement.
4. In the event of early termination of service, the Airport Authority and the Air Carrier will agree to a "hold-in" period while a new carrier under either the regular EAS or Alternate EAS program is secured and in place to provide service.
5. The agreement between the Airport Authority and the Air Carrier will specify the requirements for early termination and the responsibilities of each in the event of early termination.

MONITORING OF SUCCESS CRITERIA:

Monthly enplanement and deplanement data will be analyzed as the Air Carrier builds the passenger base.

- The Airport and its community partners will attempt, despite the very limited schedules afforded by this grant, to maximize traffic and carrier revenue.
- To the extent possible the Airport and the air carrier will survey passengers with simple survey questions such as, purpose of trip, ultimate destination, connecting carrier (if applicable)

MEETING OF STATUTORY REQUIREMENTS:

The Del Norte Country Regional Airport, Jack McNamara Field (CEC) is not subject to the $200 cap requirement. While the airport is subject to the $1,000 cap per passenger requirement, meaning the airport must meet a minimum of 3,311 O&D passengers annually, we do not anticipate any difficulty in meeting this requirement.

SUMMARY:

Air carrier written proposals, oral presentations and in house financial examination for three airlines, along with public comment have been fully considered.

After careful consideration by the Border Coast Regional Airport Authority, comprised of elected regional leaders of two counties, cities and Native American tribes across state lines, it has been determined that the Alternate Essential Air Service program allowing us to contract for service with Contour Airlines, is the best selection for this community.

We are ready to discuss or provide any further information the Department might need and urge the Department to award this grant request in the most expedient manner possible.

<u>CONTOUR AIRLINES ALTERNATE ESSENTIAL AIR SERVICE PROPOSAL FOR CRESCENT CITY, CALIFORNIA</u>

30-Seat Regional Jet Service Crescent City – Oakland; Per 12 Months of Operation

ANNUAL OPERATIONS	
Calendar Operations	**732.0**
Calendar Seats	**21,959**
Projected Operations	**728.3**
Projected Seats	**21,849**
TRAFFIC FORECAST	
Annual Load Factor	**57.97%**
Annual O&D Traffic	**12,729**
Annual Net Segment Fare	**$75**
Annual Passenger Revenue	**$954,644**
EXPENSES	
Fuel	**$952,472**
Maintenance and Reserves	**$736,367**
Pilot Costs	**$878,000**
Aircraft Fixed Costs	**$620,000**
Other Indirect Costs	**$875,205**
Total Expenses	**$4,062,045**
SUBSIDY	
Profit/Loss	**($3,107,401)**
5% Profit	**$203,102**
Subsidy	**$3,310,503**
Subsidy per Completed Flight	**$4,545.54**
Subsidy per Forecast Passenger	**$260.08**