

REPLACED AND RESTATED
PANGBORN MEMORIAL AIRPORT
JOINT OPERATING AGREEMENT
(2003)
PORTS OF CHELAN AND DOUGLAS COUNTIES

THIS AGREEMENT (“Agreement”) is entered into effective December 31, 2003, by and between the Port of Chelan County (“Chelan” or “Port of Chelan”), a municipal corporation of the State of Washington, and the Port of Douglas County (“Douglas” or “Port of Douglas”), a municipal corporation of the State of Washington (collectively the “Ports” or “Parent Port Districts” and individually a “Port” or “Parent Port District”), pursuant to the provisions of RCW 53.08.240 for the joint operation and management of that airport known as Pangborn Memorial Airport and the air navigation facilities incident thereto, the lands described in the attached Exhibit A, which is attached and referred to and by reference made a part of this Agreement, and the improvements thereon.

RECITALS

The following recitals are a preamble to and a part of this Agreement:

1. Chelan and Douglas have previously operated the Airport pursuant to the 1988 Pangborn Memorial Airport Joint Operating Agreement and amendments thereto, the most recent amendment being dated February 10, 1999 (collectively the “1988 JOA”).
2. Chelan and Douglas desire to amend and restate said Operating Agreement by providing for a division of labor in the management and operation of the aviation facilities and the related industrial and commercial development of the adjacent airport land not currently designated for aviation purposes.
3. In the 1988 JOA the two Ports agreed that notwithstanding their relative capital investments in the Airport each Chelan and Douglas would own an undivided fifty percent (50%) interest in the Airport as of the date of the 1988 JOA. The relative ownership interest of the Ports in the Airport since the 1988 JOA was to fluctuate based on the relative amounts of capital contributed by the Ports from and after January 1, 1988. Both Ports intend by this Agreement to confirm the respective ownership interest of Chelan and Douglas in the Airport and its assets as of this date as follows: Port of Chelan holds an undivided 61% interest in the Airport; Port of Douglas holds an undivided 39% interest in the Airport.
4. Both Chelan and Douglas recognize the fundamental importance of commercial and general aviation services to the residents of Chelan and Douglas counties and adopt the following “Guiding Principles and Goals” relating to the operation and management of the Airport.
 - a. The fundamental goal of the Ports in the ownership and operation of the airport is to provide facilities for air transportation and navigation consistent with the best airport facilities in the Pacific Northwest and dynamic enough to meet changing needs of the

communities served. These facilities must be integrated into the national and international transportation systems.

b. The Ports recognize that the investment of public funds in the airport is intended to serve a wide variety of users. These users include the traveling public who make use of the commercial carriers which serve the airport; commercial air carriers and terminal tenants; those who ship and receive cargo and small packages; consumers of general aviation services, including private pilots and aircraft owners; and on-premises aviation-dependent businesses. It is the philosophy of both Ports that significant emphasis is to be placed upon treating *all* airport users as valued customers. The Ports are willing to provide reasonable financial operating subsidies to the airport if it is determined that such subsidies are needed to maintain desired service levels.

c. The Ports further recognize that the airport campus includes a substantial amount of land that does not appear to be needed at the present time for aviation specific uses. The Ports have agreed to participate in the Federal Aviation Administration (“FAA”) sponsored master planning process. They will use this process as the vehicle to determine and specifically designate the land that is needed for aviation dependent uses and that can be made available for non-aviation dependent business and industrial uses. The Ports also agree to periodically refine the definitions of aviation-dependent and non-aviation dependent uses to reflect contemporary market conditions.

d. The Ports have agreed that the Port of Douglas County is the appropriate agency to act as the developer and manager of all of the non-aviation dependent property. The Ports have also agreed that the Port of Chelan County is the appropriate agency to assume managerial oversight for the aviation aspects and uses of the airport.

e. The development of the lands not needed for aviation dependent uses is further intended to serve as a source of operating revenue for the airport, and in so doing defray, reduce, and minimize the dependence of the airport on local tax sources. The Ports recognize that heightened security requirements and fundamental changes in aviation economics may increase the need for local tax support for the airport.

f. The means used to govern the operation of the airport must recognize the dual ownership of the airport. It must also recognize the need to consider the requirements and views of the various customers of the airport, while operating the airport to benefit the citizens of Chelan and Douglas Counties.

g. The Ports, reflecting the views of their constituencies, equally value partnership and independence. The Ports wish to explore additional means of cooperation and the sharing of facilities, staff, and equipment with the intent of managing the overall operating costs and providing a more efficient level of service to the public. As a Ports-owned resource, the airport represents a vehicle for increasing inter-agency cooperation. The governance of the airport should enable, and not impair, an increased level of inter-agency cooperation.

h. The airport is an ESSENTIAL PUBLIC FACILITY. The Ports will take appropriate action, to the extent reasonable, to restrict the use of land adjacent to or in the immediate vicinity of the airport to activities and purposes compatible with normal airport operations, including landing and takeoff of aircraft.

i. The Ports have received substantial financial support from the FAA. The receipt of these funds requires the Ports to execute various agreements assuring the FAA that both Ports will comply with the FAA applicable regulations.

5. It is anticipated management personnel of Chelan will be spending time supervising or addressing the responsibilities of Chelan as Manager of the Aviation Use Property and Aeronautical uses at the Airport. At the time of the execution of this Agreement it is anticipated that Chelan will not apportion a share of the compensation of its management personnel as a cost allocated to the Airport, recognizing that management of Douglas will be spending time managing the Non-Aviation Use Property. However, Chelan and Douglas each reserve the right to readdress this issue, and should it appear that more than very modest amounts of management time are being expended on the management of the Aviation Use Property and the Airport, a reasonable apportionment of management compensation shall be made with an amount assigned to the Budget for the operation of the Aviation Use Property and the Aeronautical uses at the Airport. In the event of dispute as to the management compensation, the amount shall be determined by arbitration as set out herein.

6. It is anticipated management personnel of Douglas will be spending time supervising or addressing the responsibilities of Douglas as Manager of the Non-Aviation Use Property at the Airport. At the time of the execution of this Agreement it is anticipated that Douglas will not apportion a share of the compensation of its management personnel as a cost allocated to the Airport, recognizing that management of Chelan will be spending time managing the Aviation Use Property. However, Douglas and Chelan each reserve the right to readdress this issue, and should it appear that more than very modest amounts of management time are being expended on the management of the Non-Aviation Use Property for the Airport, a reasonable apportionment of management compensation shall be made with an amount assigned to the Budget for the operation of the Non-Aviation Use Property at the Airport. In the event of dispute as to the management compensation, the amount shall be determined by arbitration as set out herein.

7 Both Ports desire by this Replaced and Restated Operating Agreement to assume greater responsibility and accountability to the citizens of Chelan and Douglas County for the operation and management of the Airport and to be directly responsible for setting policy for Pangborn Memorial Airport and directing its management.

In furtherance of and reliance upon the foregoing Recitals, which are incorporated as part of this Agreement, the Ports agree to the terms of this Agreement, as set out herein.

I. DEFINITIONS

1.1 "Airport" means the Pangborn Memorial Airport, all of its assets including air navigation facilities, real and personal property, incident and adjacent real and personal property rights, and improvements thereon and associated therewith.

1.2 "Douglas" means the Port of Douglas County.

1.3 "Chelan" means the Port of Chelan County.

1.4 "Parent Port District(s)" or "Port(s)" means one or both of Chelan or Douglas, depending on the context.

1.5 "Pangborn Memorial Airport Governing Board" or "Governing Board" means that Board comprised of the Commissioners of the Port of Chelan County and the Commissioners of the Port of Douglas County.

1.6 "Aeronautical Activity" means aeronautical activity as that term is defined, from time to time, by the FAA.

1.7 "Airport Layout Plan" or (ALP) means that master plan approved by the FAA indicating existing and prospective aviation and non-aviation use property including the orientation and location of key facilities such as runways and navigational aids, in effect at any time.

1.8 "Aviation Use Property" (or "Aeronautical Property") means all Airport property consisting of the land, airspace, improvements, facilities, and other assets, including, without limitation, intangible and intellectual property, furniture, fixtures and equipment, owned, leased, managed, operated or controlled by the Airport, and used or intended to be used for any operational purpose related to, in support of, or complementary to the flight of aircraft to or from the landing area at the Airport including those areas used or intended to be used for supporting services and facilities related to the operation of aircraft or otherwise complimentary to flight safety and activities such as convenience concessions serving the public including, but not limited to shelter, ground transportation, food and personal services, and any other use designated by the FAA as an "Aeronautical Activity." For purposes of this Agreement, all land as shown as Aviation or Aeronautical Land on that approved ALP shall be presumed to be Aviation Use Property unless specifically designated as Non-Aviation Use property thereon.

1.9 "Non-Aviation Use Property" means all Airport land and other assets which are not Aviation Use Property, as defined above .

1.10 "Capital expenditure" means an expenditure for any capital item to be reflected on the books of the Airport.

1.11 "Capital item" or "capital asset" means any Airport depreciable good or improvement in excess of \$2,000, unless otherwise designated by the auditor for the Airport.

1.12 "Agreement" means this "REPLACED AND RESTATED PANGBORN MEMORIAL AIRPORT JOINT OPERATING AGREEMENT (2003) PORTS OF CHELAN AND DOUGLAS COUNTIES."

II. DATE AND PLAN OF ORGANIZATION

2.1 The Parent Port Districts, in the joint exercise of management and control of the Airport through the Governing Board, are governed, insofar as it relates to this Agreement and the Airport, by RCW Title 53, Chapter 08.

2.2 The effective date of this agreement shall be January 1, 2004.

2.3 The Governing Board shall exercise all powers, rights and authority relative to the Airport, the real and personal property owned by or used in conjunction with the Airport (including navigation easements, air navigation facilities, warehouses and other physical structures now or hereafter placed on the real property), as is granted by statute to port districts, except as limited by operation of law and this Agreement.

III. GOVERNING BOARD

3.1 Except as provided below, the Pangborn memorial Airport Governing Board shall consist of the three (3) Commissioners of the Port of Chelan County, and the three (3) Commissioners of the Port of Douglas County.

3.2 Four (4) members of the Board shall be required to be present for purposes of constituting a quorum at any meeting at which it is necessary for action to be taken by the Board. A Board member may participate in a Board meeting by means of a conference telephone or similar communication equipment by means of which all persons participating in the meeting can hear each other at the same time, and participation by that person by such means shall constitute that person's presence for all purposes. Except as otherwise provided herein, the Manager or in the Manager's absence the Assistant Manager, of a Parent Port District may be designated as an alternate or substitute for not more than one Commissioner Board member from that Port District any meeting of the Board, with full authority of such Commissioner member, including voting rights.

3.3 Except as otherwise provided herein or as otherwise provided by Resolutions adopted by both Parent Port Districts, at least two members from each Parent Port District must vote in favor of any proposed motion or action in order for the vote to constitute the action of the Governing Board. By agreement between the Parent Port Districts, action of the Governing Board can be taken by each Parent Port District, independently, at a regular meeting, or a special meeting called for such purpose, of each Parent Port District, and such independent action by each Parent Port District shall constitute action of the Governing Board.

IV. COMPENSATION OF THE MEMBERS OF THE GOVERNING BOARD

4.1 A member of the Governing Board shall receive no salary but shall be paid per diem by the Parent Port District of such member, not to exceed that allowed commissioners of a port district.

4.2 Members of the Board shall be reimbursed by the Parent Port District of such member for reasonable expenses incurred on behalf of the Board, including but not limited to meals, lodging, travel and incidentals. The expenses of the members of the Board shall be subject to the same rules and regulations., and statutes as those pertaining to the Parent Port Districts.

V. OFFICERS

5.1 Directors of the Governing Board shall elect, prior to December 1 of each year, to serve commencing January 1 of the following year for a term of one (1) year, the following officers: Chair, Vice-Chair, Secretary, and Treasurer; provided that the term of officers that commences immediately following execution and implementation of this Agreement shall continue through December 31, 2004.

5.2 The Chair and Vice-Chair shall not be from the same Parent Port District.

5.3 The Chair shall alternate annually between Commissioner Board member representatives from Chelan and Douglas annually. The Chair and, in the Chair's absence, the Vice-Chair shall preside at meetings of the Governing Board.

5.4 Only Commissioner Board members shall be qualified to hold the office of Chair and Vice-Chair. The Board may elect a non-Board member to serve as Secretary and Treasurer.

5.5 Each officer shall perform such tasks as are normally incident to the office of such officer.

5.6 Subordinate Officers - Any officer shall perform such duties as shall be prescribed from time to time by the Board or the Chair.

5.7 Removal of Officers - Any officer may be removed from his office on the Governing Board, at will, by the Board.

5.8 Vacancies - A vacancy in any office shall be filled in the manner prescribed in this Agreement for regular election to such office, to fill the remainder of the term that is then vacant.

VI. MEETINGS OF THE GOVERNING BOARD

6.1 The Governing Board shall hold regular meetings at least twice each calendar year. Meetings shall be held in accordance with the Open Public Meeting Act. Meetings shall be held at such place as may be designated in the notice of meeting or by resolution of the Board. Special meetings may be called by the President of the Board or by any two Board members.

VII. BYLAWS AND PROCEDURES FOR THE BOARD

7.1 The Board may, adopt procedural rules for conducting Board meetings and performing the functions of the Board, and may adopt bylaws. Procedures, rules and bylaws so adopted shall not be inconsistent with this Agreement or with law and will become effective upon approval by the Parent Port Districts.

VIII. GOVERNING BOARD DUTIES

8.1 It is the intent of the Parent Port Districts that the operation and management of the Airport be segregated between operation and management of the Aviation Use Property, to be delegated to the Port of Chelan as provided for below; and for operation and management of the Non-Aviation Use Property to be delegated to the Port of Douglas as provided for below.

8.2 Notwithstanding the above, the Governing Board shall retain ultimate responsibility and oversight of the Aviation Use Property and the Non-Aviation Use Property, and the administration thereof, and specifically retains the responsibility and authority for approving or otherwise authorizing the following actions:

8.2.1 Approval of the annual Budgets for Maintenance and Operation, and for capital Expenditures for the Aviation Use Property and Non-Aviation Use Property if such expense is to be an expense of the Airport and is not to be the sole expense of Douglas; together with any significant Budget amendments thereto;

8.2.2 Approval of all amendments or other changes to the Master Plan and the Airport Layout Plan (ALP) of the Airport;

8.2.3 Approval of all other actions requiring the consent or ratification of the Federal Aviation Administration (FAA) and/or any formal communication with the FAA which affects or otherwise implicates the long-term duties or responsibilities of the Ports relative to the operation and maintenance of the Airport other than action or communication which is undertaken in the normal course of the operation of the Aeronautical Activity at the Airport and which is not inconsistent with the then approved ALP or policies adopted by the Governing Board.

8.2.3.A By way of example, such communications as might relate to the temporary closing of a runway due to weather conditions, need for repairs, or other operational reasons; the temporary adjusting of operating hours for Air Navigation activity; communication with the FAA on flight and operational activities; and the like do not require Governing Board action.

8.2.4 Establishing general policies (“policies”) of the Airport to be implemented by Chelan and/or Douglas consistent with their responsibilities as Managers of the Aviation Use Property and the Non-Aviation Use Property, respectively. General policies include, but are not necessarily limited to such things as: ALP and Master Plan adoption and changes, broad commitments for the Airport to serve general aviation as well as commercial carriers, reserving of funds for Aviation Use Property Expansion and Repairs and the intent to authorize

development of the Non-Aviation Use Property for generating revenue to help fund operations at the Airport. Non-General policies include such things as: decisions relative to snow removal, performing maintenance and operational duties, utilizing Port personnel or private contractors, temporary adjustment to hours of operation of the Airport, and hours of operation of concessions at the Airport, the types and nature of concessions and tenants on the Aviation Use Property including the terminal, the tenant mix (except as hereafter provided), and maintenance of the Non-Aviation Use Property, are not general policies but should be established and undertaken by the Managers.

8.2.5 Review and approval of a Capital expenditure which has not been specifically approved by line item on an approved Budget to the extent such capital expenditure exceeds \$25,000 or to the extent there is not available funds in an approved Capital Budget for a capital expenditure which is less than \$25,000; provided that the \$25,000 figure shall be adjusted annually to reflect any inflationary increase as determined by the method for adjusting base rates set out in Paragraph 16.2.5.A., substituting the amount of \$25,000 for the amount of the per square foot lease rate set out in Paragraph 16.2.4; provided however that if an approved capital expenditure is based on funding from a third party (such as the FAA) which fails to materialize, such capital expenditure shall not be made without the Governing Board approving the new source of funding and reapproving that capital expenditure;

8.2.6 Review and approval of any amendment to any Budget category which is greater than 10% and \$10,000;

8.2.7 Review and approval of the employment and the termination of employment of the Manager of the Aviation Use Property;

8.2.8 Review and approval of leases on the Aviation Use Property when the tenant will not be utilizing the leased space for Aviation or Aeronautical Activity Use when the lease by its terms shall not be terminable by Chelan on less than sixty-three (63) days' notice, and for renewal of a lease of Aviation Use Property to a tenant who will not be utilizing such space for Aviation or Aeronautical Use when that tenant has been a tenant for more than two continuous years.

8.2.9 Administration and oversight of the landlord's duties and responsibilities relative to leases of Non-Aviation Use Property to Douglas or others; provided that this paragraph does not apply to the sublease of Non-Aviation Use Property by Douglas to others

8.2.10 Review and approval of all sales of surplus fixtures or equipment of the Airport having an estimated fair market value in excess of \$5,000;

8.2.11 Review and approval of all sales and acquisitions of real property, including any interest therein, for the Airport;

8.2.12 Review and approve all contracts and agreements with commercial air carriers, whether for passenger air travel or for freight air travel.

8.2.13 Review and approval of land use issues related to Airport property to the extent not clearly consistent with general policies and the then existing ALP and zoning regulations.

8.2.14 Review and approval of formal grant applications or other activities which become binding commitments of the Parent Port Districts relative to grants and formal grant acceptances.

8.2.15 Any other actions which the Governing Board may designate as being subject to review and approval of the Governing Board.

8.3 All actions of the Board as set forth above shall require the vote of two Board Members from Chelan and two Board Members from Douglas as provided for in Article III, Section 3.3 above; Provided, however, each individual Parent Port District shall have the option to supplement the funding of the Airport as provided for below.

8.4 To the extent either Parent Port District believes it is appropriate that the Governing Board should act or respond to a given situation relative to the FAA or others, because of previous grant assurances made by the Parent Port Districts or because of other contractual commitments made on behalf of the Airport, then the Governing Board shall meet in an effort to act or respond as a Governing Board; provided however that if the appropriate vote of the members of the Governing Board, as set forth in Section 3.3 above, does not occur within a reasonable time under the circumstances, then each Parent Port District shall be entitled to act or respond as such Parent Port District deems appropriate under the circumstances.

8.5 Each Parent Port District agrees to cooperate and work in good faith with the other Parent Port District in locating tenants at the Airport Property, on both Aviation Use Property and Non-Aviation Use Property in such a way as to attempt to achieve the goals related to the development of the Aviation Use Property and the Non-Aviation Use Property, and to communicate and coordinate relative to the location of tenants with varying uses in a location at the Airport that is likely to maximize the goals of the Parent Port Districts and of the Airport, and in a manner that is consistent with assurances made by the Parent Port Districts.

IX. CHELAN DUTIES AS AVIATION USE PROPERTY MANAGER

9.1 The Governing Board hereby delegates to Chelan the authority for operation and management of the Aviation Use Property, not otherwise reserved to the Governing Board by this Agreement, consistent with policies established by the Governing Board. The delegation includes, but is not limited to, the authority to make normal decisions related to the maintenance, operation and administration of the Aviation Use Property including, without limitation, responsibility and authority for carrying out the following activities related to the Aviation Use Property: preparation and administration of Budgets; employment and supervision of staff to administer the Aviation Use Property and the operation and use thereof; negotiation, approval and execution of contracts and modifications thereto related to Aviation Use Property, including, without limitation, leases which are not reserved to the Governing Board; operation and management of the Airport terminal, parking lot, landscaping and other Aviation Use Property; preparing, submitting and administering grants or other funds in

compliance with assurances or other similar commitments made to obtain the grants, or other funds which will be expended on Aviation Use Property; compliance with Aviation/Aeronautical Regulations; administering interlocal agreements related to Aviation Use Property; dealing with users and the public in general related to aviation at the Airport and related to the Aviation Use Property; supervision of the FAA master planning process and ALP compliance; coordination of representation of the Aviation/Aeronautical interests at Pangborn with Douglas on local land use and surface transportation planning issues; working with air carriers; making recommendations for major policy initiatives or changes to be approved by the Governing Board; dealing with other matters primarily related to aviation and Aviation Use Property; and implementing general policies for the Airport established by the Governing Board related to Aviation Use Property.

9.2 Not less than once a month, Chelan shall hold a regular meeting, or a special meeting designated for conducting the business of Chelan as Manager of the Aviation Use Property, with notice of such meeting being sent to the Manager of Douglas, Chelan shall address the management of the Aviation Use Property. Chelan may designate the meeting by generic reference (e.g. by designating the regularly scheduled Port meeting held on the first Wednesday of each month beginning at 9:00 a.m. at the Port office); provided however that if the generically designated Port meeting is moved or continued a notice of the date of the moved or continued meeting on which business of the Airport shall be conducted shall be given not less than 24 hours in advance of such meeting to the Manager of Douglas. Notice of any special meeting at which Chelan shall conduct business related to the Airport or the Aviation Use Property shall be provided to the Manager of Douglas not less than 24 hours in advance of the meeting, which notice shall contain the information provided to Commissioners of Chelan and to the media as required by statute. Chelan shall keep regular minutes of all such meetings and provide copies as those minutes relate to the Airport or the Aviation Use Property to the Manager of Douglas.

9.3 Chelan shall keep separate records and accounts for all income and expense items related to its operation as the Manager of the Aviation Use Property and related aeronautical activity, consistent with the recommendations of its internal auditor, and shall provide annual accountings of its operations as such Manager to the Governing Board not less than annually.

9.4 It is the intent of the Parent Port Districts to continue, and to expand, whenever possible, the cost-sharing arrangements that have been in place relative to equipment and personnel and services so that the properties owned, operated, or managed by either Parent Port District, in its capacity as a Port District or as manager of property at the Airport, may continue and expand.

9.5 Notwithstanding the assignment of management responsibilities for the Aviation Use Properties to Chelan, certain of the Aviation Use Property is currently administered by Douglas (e.g. Executive Flight facilities) and it is anticipated that there may be occasions in the future when it is appropriate for Chelan, as Manager of the Aviation Use Property, to work with Douglas, as Manager of Non-Aviation Use Property, either through a lease or management or other agreement for the development and lease of Aviation Use Property under circumstances where Douglas will either lease such property from the Airport Governing Board and sublease it

or otherwise act as manager or principal responsible party for development of the property, or where Chelan and Douglas shall jointly agree on an arrangement for such management.

X. DOUGLAS DUTIES AS NON-AVIATION USE PROPERTY MANAGER

10.1 The Governing Board hereby delegates to Douglas the authority for the management and operation of the industrial and commercial development of all Non-Aviation Use Property as designated on the then current Airport Layout Plan (ALP) as approved by the Federal Aviation Administration from time to time consistent with policies established by the Governing Board,

10.2 Douglas shall control all aspects of management of Non-Aviation Use Property including but not limited to preparation and administration of Budgets, hiring and termination of employees, salaries, purchases and sales of equipment and/or properties (subject to approval of the Governing Board as may be required herein).

10.3 Not less than once a month, Douglas shall hold, a regular meeting, or a special meeting specially designated for such purpose, with notice of such meeting being sent to the Manager of Chelan, Douglas shall address the management of the Non-Aviation Use Property. Douglas may designate the meeting by generic reference (e.g. regularly scheduled Port meeting held on the second Wednesday of each month beginning at 9:00 a.m. at the Port office); provided however that if the generically designated Port meeting is moved or continued a notice of the date of the moved or continued meeting on which business of the Airport shall be conducted shall be given not less than 24 hours in advance of such meeting to the Manager of Chelan. Notice of any special meeting at which Douglas shall conduct business related to the Non-Aviation Use Property shall be provided to the Manager of Chelan not less than 24 hours in advance of the meeting, which notice shall contain the information provided to Commissioners of Douglas and to the media as required by statute. Douglas shall keep regular minutes of all such meetings and provide copies of minutes as those minutes relate to the Non-Aviation Use Property to the Manager of Chelan. This provision does not apply to Development of non-Aviation Use Property by Douglas outside its capacity as Manager of such property.

10.4 Douglas shall keep separate records and accounts for all income and expense items related to its operation as the Manager of the Non-Aviation Use Property, consistent with the recommendations of its internal auditor, and shall provide annual accountings of its operations as such Manager to the Governing Board not less than annually; provided this paragraph does not apply to Douglas's activity as tenant or sublessor.

10.5 It is understood and agreed that the responsibilities of Douglas as the Manager of the Non-Aviation Use Property are to be distinguished from the activities of Douglas as a tenant of certain Non-Aviation Use Property. It is anticipated that the development of the Non-Aviation Use Property will be the responsibility of Douglas as the Port of Douglas and not as the Manager of the Non-Aviation Use Property, unless otherwise specifically agreed by the Governing Board. It is anticipated the costs of infrastructure, including, without limitation, sewer, roads, and utilities, will not be a cost assigned to the Airport, but will be part of the development of land leased from the Airport by Douglas and developed in its capacity of a tenant of that property, understanding that Douglas intends to sublease to other users.

XI. PARENT PORT DISTRICT OWNERSHIP SHARE

11.1 The relative ownership shares of the Airport by Chelan and Douglas is based on adjustments to what was agreed to be equal capital accounts as of January 1, 1988, as determined by the relative contributions of capital to the Airport since that time. As of the effective date of this Agreement, the Port of Chelan County owns an undivided 61% interest in the Airport, and the Port of Douglas owns an undivided 39% interest in the Airport.

11.2 The percentage ownership interest of the two Parent Port Districts is anticipated to vary in the future, and will do so based on the relative aggregate levels of Airport capital contributions since January 1, 1988, consistent with Section 11.1, above. If one Parent Port District contributes capital to the Airport in excess of the capital contributed by the other Parent Port District, the Parent Port District contributing the greater amount of capital shall own a proportionately greater percent of the Airport. The Airport ownership interest of each Chelan and Douglas will vary in the future based on a fraction. The numerator of the fraction applicable to each of the Ports being one-half (1/2) the book value of the Airport as of December 31, 1987, which book value was One Million Eight Hundred Forty-eight Thousand Three Hundred Forty and No/100 Dollars (\$1,848,340.00), increased by additional capital contributed by that Port District, and the denominator of the fraction being the total book value of the Airport as of December 31, 1987 increased by the total cash additions to capital by both Ports. If a Port makes an in kind contribution to capital, the value of that contribution shall be determined at that time by joint resolution. (For example: Assume Airport book value of \$1,800,000.00 prior to one Parent Port district contributing more capital than the other. Assume one Parent Port District contributed \$50,000.00 at a time when the other Parent Port District contributed \$100,000.00. the total book value of the Airport after both contributions is then \$1,950,000.00 with the two Ports owning interests represented by the following fractions:

$$\frac{950,000}{1,950,000} \quad \text{or} \quad 48.7179\% \quad \text{and} \quad \frac{1,000,000}{1,950,000} \quad \text{or} \quad 51.2821\%$$

11.3 For purposes of this Agreement, unless otherwise agreed by vote of the Governing Board, capital expended by Douglas for development of Non-Aviation Use Property which is leased to Douglas or subject to Douglas's option to lease shall not be deemed an Airport capital contribution and shall not be considered in establishing the percentage ownership interests of the two Parent Port Districts as set forth above. Only: (i) capital contributed pursuant to a Budget approved by the Governing Board; and, (ii) in the event the Governing Board does not approve a submitted Capital Budget for Aviation Use Property and thereafter only one Parent Port District contributes capital called for by such Budget for the purpose of being expended on Aviation Use Property, the capital contributed by such Parent Port District, shall be considered an Airport capital contribution to be considered for purposes of determining the percentage ownership interests of the Parent Port Districts in the Airport.

XII. BUDGETS

12.1 On or before October 1 of each year Chelan and Douglas shall each prepare and submit to the Governing Board budgets for maintenance and operations ("M&O Budget") and for capital expenditures ("Capital Budget") (collectively the "Budgets,")

individually a “Budget”) for their respective areas of management, proposed for the next succeeding calendar year.

12.2 On the fourth Tuesday of October of each year at 1:30 p.m., the Governing Board shall meet at the Airport, or at such other time or place as the Parent Port Districts may agree, and review the proposed Budgets for the Aviation Use Property and Aeronautical operations at the Airport and the Budgets for the Non-Aviation Use Property to be funded as part of the operation of the Airport and not as an expense of Douglas for development of such property, for the next succeeding calendar year, together with consideration of any other Airport business that may be agreed upon and designated in a notice of the meeting. At that meeting or any continuation thereof, or at a separate meeting of each Parent Port District conducted thereafter (but in no event later than November 1 of each year), the Governing Board shall determine and authorize by resolution, or by separate resolutions of each Parent Port District, Budgets for the Aviation Use property and Aeronautical operations at the Airport, and Budgets for the Non-Aviation Use Property to be funded as part of the operation of the Airport and not as an expense of Douglas for development of such property, for the succeeding calendar year. A Parent Port District may approve funding more or less than proposed in a proposed Budget, subject to the other provisions of this Agreement, including Paragraphs 11.2 and 21.6.

12.3 The Parent Port Districts agree to annually make a combined capital contribution to the Airport of not less than \$50,000.00 for capital expenditures to support the Aviation Use Property for capital expenditures ("Mandatory Capital Contribution"), in the proportions set forth in 13. 1, as adjusted according to Paragraph 13.7. The Governing Board shall account for these funds in a separate "Capital Account", into which other funds may be added, as herein provided. The Airport Capital Budget for the Aviation Use Property will be funded from this Capital Account. The Governing Board or a Parent Port District may approve funding more or less than requested in a proposed Budget, to the extent in excess of \$50,000.00 per year has been requested. Although both Ports desire to contribute all capital to the Airport in the ratio set forth in Paragraph 13.1, as adjusted from time to time, capital contributions in excess of Mandatory Capital Contributions are not required to be in that ratio. In the event all the capital contributed for Aviation Use Property is not used in one (1) year, such unused amount shall be placed in a separate Capital Reserve Account, to be held for future capital expenditures, but which amount shall not affect the obligation to make the Mandatory Capital Contribution each year.

12.4 The Governing Board encourages Chelan and Douglas, as Managers, to plan for future capital projects and expansions of the Airport and. to accumulate money in the Capital Account from all sources, including both the mandatory Capital Contribution and funds contributed by the Parent Port Districts in excess of Mandatory Capital Contributions, in order to meet future expected capital needs and replacement of depreciating capital assets.

12.5 Each Budget will be considered and approved independently. The Governing Board or a Parent Port District may approve funding more or less than requested in a proposed Capital Budget. Except as provided below for certain capital expenditures, a Parent Port District may not, independently designate a specific item in either Budget for disapproval. In the event the Governing Board does not approve a Budget, each Parent Port District shall designate in gross the amount of each Budget approved by it. Approval of a Budget constitutes a

contractual commitment by the approving Parent Port District for its pro rata share of that portion of the approved Budget to be funded by the Parent Port Districts.

12.6 In the event one Parent Port District approves less than that requested in an M&O Budget or a Capital Budget, Chelan or Douglas, as the case may be, may submit an additional Budget request to either or both Parent Port Districts, or the Governing Board for funding of the Budget shortfall.

12.7 Capital expenditures shall be made by the Managers from funds in the Airport's Capital Account pursuant to an approved Budget; provided however, capital expenditures that are: (i) greater than One Hundred Thousand Dollars (\$100,000), or (ii) funded in part by the FAA or other entity shall require the specific approval of the Governing Board. If only one Parent Port District approves an expenditure set out in 12.7(i) or (ii) above, when the Governing Board has not approved it, then such approving Parent Port District may fund one hundred percent (100%) of that capital expenditure out of its own funds and not the Airport's Capital Account, although such expenditure shall be considered a contribution to the capital of the Airport for all purposes. In that event, the non-funding Port District agrees to execute all necessary documents to accomplish the proposed project.

XIII. FUNDING THE BUDGET

13.1 Except as otherwise herein provided, funding for the annual share of Airport expenditures to be contributed by the Parent Port Districts pursuant to approved Budgets, including, without limitation, budgets for capital expenditures and budgets reflecting reserve accounts, shall be thirty percent (30%) by Douglas and seventy percent (70%) by Chelan.

13.2 As of December 31, 2002, the Airport has accumulated approximately \$20,000 held for capital reserves which is on deposit in the Airport's Capital Account

13.3 At any point in time the Airport may have Excess Funds. "Excess Funds" includes funds available because Airport expenditures were less than the amount budgeted or because Airport operating income or revenues from other sources are in excess of the amount budgeted. Except as otherwise provided in this Agreement or by action of the Governing Board, Excess Funds shall be placed in and accounted for in the Airport's Capital Account.

13.4 The Governing Board may authorize the advance of funds to Chelan or Douglas, as Managers, from the Airport's Capital Account, for maintenance and operation expenditures that are part of an approved M&O Budget. Such advance may only occur if the Airport will be receiving Parent Port District contributions, pursuant to approved Budgets, or if revenues contemplated in a Budget are, at the time of the advance, accounts actually due and owing the Airport with payment expected within sixty (60) days from the date of the borrowing. Upon receipt of the funding from the Parent Port Districts or payment of the expected account, the Manager shall promptly repay the Capital Account, without interest. No advance shall be made from the Capital Account without prior approval of the Governing Board. 13.5

13.5 The proceeds from the sale of any Airport capital asset, unless otherwise directed by the Governing Board shall be retained by the Governing Board and, to the extent not

otherwise included in previous Budgets, shall be deposited with and become a part of the Capital Account.

13.6 The Capital Account shall maintain a Twenty Thousand Dollar (\$20,000) contingency reserve, and the capital Budget shall reflect this contingency reserve as appropriate. A vote of the Governing Board is required to declare an expenditure of this contingency reserve. Within thirty (30) days following an approved expenditure, the Parent Port Districts shall contribute their pro-rata share of the amount necessary to bring the balance of the contingency reserve in the Capital Account to \$20,000.

13.7 The amount of the Mandatory Capital Contribution shall be adjusted every five (5) years beginning with calendar year 2008. If the Parent Port Districts have not reached an agreement as to the amount of adjustment of the Mandatory Capital Contribution in lieu of the formula for adjustment set out below, whether at the meeting called for in Article XXIII or otherwise, Mandatory Capital Contribution shall be increased by an amount equal to the product obtained by multiplying \$50,000.00 by a fraction, the denominator of which is the Consumer Price Index Seasonally Adjusted U.S. City Average For All Items For Urban Consumers published by the Bureau of Labor Statistics of the United States Department of Labor, as adjusted for the Seattle area ("CPI-U"), for the publication period ending January of 2003, and the numerator of which is the CPI-U for the publication period ending January of each fifth year commencing in January of 2008; provided however that in the event January shall not be listed in the index, the closest month preceding it shall be used. Notwithstanding the provisions of this paragraph, the total Mandatory Capital Contribution shall not fall below \$50,000.00; \$15,000.00 for Douglas and \$35,000.00 for Chelan, without agreement of both Parent Port Districts.

13.8 The procedure in paragraph 16.2.4(B) of this agreement shall be followed if the above-referenced publication shall be discontinued.

13.9 In addition to the Capital Account contingency reserve, an Aviation Use Property maintenance and operation reserve account ("M&O Reserve") shall be established and funded by the Parent Port Districts, and the Aviation Use Property M&O Budget shall reflect this M&O Reserve as appropriate. The M&O Reserve shall be in an amount equal to the average of two (2) months' budgeted expenses from the M&O Budget for the then-current calendar year. the M&O Reserve account may initially be funded in thirds over three (3) calendar years beginning in 2004, but beginning in 2007 the Aviation Use Property maintenance and operation Budget for each year shall call for sufficient funding to reestablish, if necessary, the M&O Reserve to the amount of two (2) months' average M&O Expenses for that Budget year.

XIV. PURCHASE OF PROPERTY

14.1 Real property, navigation easements, clear zones, air protection privileges and/or personal property may be acquired by the Governing Board for the Parent Port Districts upon its resolution authorizing such acquisition provided said purchases are first designated within the Budget as approved by the Governing Board, except as otherwise herein provided.

14.2 Condemnation proceedings shall be instituted in the names of the Parent Port Districts jointly. The undivided interest in property acquired shall be held by both Parent Port Districts as tenants in common.

XV. SALES OF PROPERTY

15.1 Personal property of the Airport may be sold by private negotiation by the appropriate Manager, subject to approval of the Governing Board if required, and subject to applicable law governing disposition of public property.

15.2 No real property and no airport, air navigation facility, navigation easement, clear zone or air protection privilege shall be sold without the prior written approval of the Governing Board.

15.3 No Airport real or personal property shall be sold to and no personal property shall be purchased from a commissioner or employee of either Parent Port District or the Airport.

XVI. LEASES

16.1 Except as otherwise provided in this Agreement, the respective Managers of the Aviation Use Property and Non-Aviation Use Property may lease space, land area or improvements and grant concessions by private negotiation within and upon those lands subject to their respective management and control, under such terms and conditions as the respective Manager may deem just and proper, subject to the provisions of this Agreement and of applicable law as now existing or hereafter amended; provided, however, all such leases shall be subject to review by the FAA for conformance with the Airport's approved Airport Layout Plan (ALP) as it currently exists or may be subsequently amended. Except as provided above for Non-Aeronautical use leases of Aviation Use Property as set out in Paragraph 8.2.8, Chelan shall lease only property or facilities within that area designated for aviation related use on the approved ALP plan for aeronautical purposes without approval of the Governing Board.

16.2 Douglas has been previously granted the first right to lease Non-Aviation Use Property at the Airport which right is reaffirmed, restated, and modified as agreed by the Parent Port Districts, in this Agreement. This property is currently land designated in the Airport Master Plan as Airport property lying west of Runway 11-29, as more particularly designated on attached Exhibit B. For purposes of this Agreement, that property will be referred to as "Industrial Property". The amount and location of the Industrial Property may be changed from time to time by the Governing Board based on amendments to the Airport Layout Plan and/or Master Plan to the extent necessary and appropriate for overall development of aviation use of the Airport, its surrounding properties and the air navigation facilities associated therewith.

16.2.1 No lease of Industrial Property to any third person shall be made without first offering to Douglas the opportunity to lease such property for the price and on the terms as hereafter set out. Douglas shall have a reasonable time under the circumstances, not to exceed thirty (30) days, to give notice to the Governing Board of its intent to lease the property. If time may be a critical element in the Airport's ability to lease property to a potential tenant, the notice to Douglas offering Douglas the first opportunity to lease such property shall specify the number of days by which Douglas must respond in order to exercise its right to lease the offered Airport property, which time shall not be less than fourteen (14) calendar days from date of receipt of notice by Douglas at its office.

16.2.2 Douglas shall be entitled to lease as much of the Industrial Property as it determines; provided, however, the terms of any such lease shall be agreed upon by the Governing Board, consistent with this Agreement; provided further however that unless otherwise agreed by the parties, the lease terms shall be generally consistent with the reasonable terms and conditions of other leases of industrial land use in the Chelan/Douglas County area, and may only restrict or control the terms of any sublease, or the method of development of the Industrial Property or the use or users of the Industrial Property to the extent consistent with applicable rules, regulations, Airport master plan, and this Agreement.

16.2.3 Except to the extent of existing leases which may have a term in excess of thirty-five (35) years, the term of any lease shall be a reasonable term dictated by the circumstances, but shall not exceed thirty-five (35) years, except as provided below.

16.2.4 Unless otherwise agreed between the parties at the time Douglas leases an additional portion of the Industrial Property, the amount of rent to be paid by Douglas for Industrial Property shall be equal to Four and 1/3 Cents (\$0.04 1/3) per square foot per year as of December 31, 2002, adjusted as hereafter set out. Notwithstanding the provisions of this Agreement, the amount of rent paid by Douglas for Industrial Property that Douglas is currently leasing will remain as set out in the existing leases for such property during the terms of such leases.

16.2.5 Each year hereafter, the initial rental amount, or the annual increase of any initial rental amount after the first year, shall be adjusted by an amount equal to the product obtained by multiplying the sum of the following by the number of square feet being leased: The sum shall be obtained by multiplying \$0.04 1/3 by a fraction, the denominator of which is the "Consumer Price Index Seasonally Adjusted for the U.S. City Average For All Items For Urban Consumers (1982-84 = 100)", published by the U.S. Bureau of Labor Statistics as adjusted for the Seattle area ("CPI-U"), for the publication period ending December, 2002, and the numerator of which is the CPI-U for December of the calendar year for which the calculation is being made; provided however, that in the event December shall not be listed in the index, the closest month preceding it, shall be used. Notwithstanding the provisions of this paragraph, rental shall not fall below \$0.025 per square foot per year.

16.2.6 If the publication of the Consumer Price Index shall be discontinued, the parties shall thereafter accept comparable statistics on the cost of living for the Seattle area as they shall be computed and published by an agency of the United States, or by a responsible financial periodical of recognized authority then to be selected by the parties to the lease, or if the parties cannot agree on a selection, by arbitration. In the event of: (i) use of comparable statistics in place of the Consumer Price Index as mentioned above or, (ii) publication of the index figure at other than monthly intervals, there shall be made in the method of computation herein provided for, such revisions as the circumstances may require to carry out the intent of this paragraph, and dispute between the parties as to the making of such adjustment shall be determined by arbitration.

16.2.7 The Governing Board may establish a new rate to be charged to Douglas, at any time, that more properly reflects a reasonable fair market rental of the property as may be appropriate considering the economic conditions as they exist and reasonably may be expected to

exist in the future, having an impact on the Chelan-Douglas County area. In the event the rate is changed pursuant to this paragraph, rates thereafter to be charged to Douglas shall be determined in the manner as set forth in Paragraph 16.2.5., provided that the denominator of the fraction shall be the CPI-U for the December preceding the calendar year for which the new initial rate to be charged has been set by the Governing Board, which fraction shall be multiplied against the cost per square foot established as the new rate by the Governing Board.

16.2.8 In the event Douglas elects not to lease Industrial Property for which there is another potential tenant, Douglas, as Manager may enter into a lease agreement, upon such terms as are approved by the Governing Board, with any third party.

16.3 No lease of property shall be entered into that would have the legal or practical affect of rendering other Airport property or Industrial Property unreasonably disadvantaged or difficult to improve or otherwise lease afterward, or which will be inconsistent with assurances or contractual commitments made by the Parent Port Districts to the FAA or others.

16.4 All leases, regardless of the tenant, shall provide, unless otherwise agreed by the Governing Board that any improvements made to the leased premises shall, at the end of the lease term, at the option of the Governing Board, become the property of the Airport.

16.5 No lease, regardless of the tenant, shall be for a term greater than thirty-five (35) years without the prior approval of the Governing Board. Existing lease terms in excess of thirty-five (35) years shall be considered to be grandfathered in and approved.

XVII. JOINT FUND

17.1 Except as otherwise requested by the auditors for the Parent Port Districts, a joint fund for the Airport shall be established with the Chelan County Treasurer into which the Parent Port Districts shall deposit their proportionate share of contributions, as provided in Article XIII and into which shall be paid the revenues obtained from the ownership, control and operation of the Airport. Said fund shall be divided between the Aviation Facilities Account and the Industrial Development Account into which the respective contributions of the Parent Port Districts, as allocated by the Governing Board, and the revenues of the respective divisions shall be deposited.

XVIII. SUPPLEMENTAL BUDGET

18.1 At any time a Manager may submit a supplemental Budget to the Governing Board. The Governing Board shall act within a reasonable time, not to exceed thirty (30) days following the receipt of the supplemental Budget, with the respective Parent Port Districts acting either jointly or separately, relative to the supplemental Budget. The process for approval or disapproval of any supplemental Budget is the same as for the annual Budget as set forth in Article XII.

XIX. LOCATION

19.1 The main office of the Governing Board shall be at the Terminal Building, Pangborn Memorial Airport, or at such other place as from time to time may be designated by the members of the Governing Board. The main office of Chelan, as Manager, shall be the main office for the Port of Chelan County. The main office for Douglas, as Manager, shall be at the main office for the Port of Douglas County.

XX. INSURANCE

20.1 Liability insurance in an amount of not less than Five Million Dollars (\$5,000,000.00), or such other amounts as the Governing Board may designate by agreement, shall be purchased by the Governing Board, with the costs allocated to the Budgets of the Aviation Use Property and Non-Aviation Use Property as appropriate, which insurance shall show both Parent Port Districts and their Boards as co-insureds; provided if it is economical to do so, insurance may be purchased in conjunction with or as part of insurance purchase by one or both of the Parent Port Districts, with the costs being allocated as appropriate.

XXI. TERMINATION OF JOINT OPERATING AGREEMENT

21.1 This Joint Operating Agreement may be terminated at any time by the agreement of the Parent Port Districts by resolution of Commissioners of both Parent Port Districts. The agreement shall include provisions regarding disposition of assets, assessment of liabilities and other matters necessary to complete the termination.

21.2 In the event either Parent Port District wishes unilaterally to terminate this Joint Operating Agreement, such Parent Port District shall give the other Parent Port District notice of termination in writing, pursuant to a resolution adopted by the Parent Port District. Notice shall be given at least six (6) months prior to the proposed date of termination.

21.2.1 If termination occurs and only one of the Parent Port Districts agrees to operate the Airport as a municipal airport consistent with the operation of the Aviation Use Property during the three (3) year period preceding the giving of the notice, by making a written commitment to the other it intends, and has the resources, to provide operating and capital funds for the Aviation Use Property consistent with that provided by the Parent Port Districts during the average of the three (3) preceding years, and agrees to so continue operating it for at least ten (10) years, all of the assets of the Airport shall be transferred to the Parent Port District which is to continue the operation, without compensation to the Parent Port District which will not be involved in the ownership and continued operation of the Airport, other than assumption of indebtedness as set forth below. Provided nothing in this paragraph is intended to terminate Douglas's rights as set out in Article XVI, which rights survive any termination of this Agreement, pursuant to this paragraph.

21.2.2 If termination occurs and both Parent Port Districts agree to operate the Airport as a municipal airport consistent with the operation of the Aviation Use Property during the three (3) year period preceding the giving of the notice, by making a written commitment to the other it intends, and has the resources, to provide operating and capital funds for the Aviation Use Property consistent with that provided by the Parent Port Districts during the average of the

three (3) preceding years, and each agree to continue so operating it for a period of ten (10) years, then the Parent Port District ultimately acquiring ownership of the assets of the Airport (Transferee Parent Port District) shall pay to the Parent Port District which no longer is to have an ownership interest in such assets or any rights in and to the Airport or its operations (Transferor Parent Port District), the "Airport Share Purchase Price," determined as set forth below. This payment shall be in cash, or, at the option the Transferee Parent Port District, shall be made in equal annual installments calculated to pay the full purchase in five (5) equal annual installments of principal and interest, the first such installment due thirty (30) days following the termination of the Agreement and the award of the Airport to the Transferee Parent Port District, and each subsequent annual payment due on the anniversary date of the first payment. Interest shall accrue at the average rate then being paid by Chelan County on its outstanding warrants as of the date of termination.

21.2.3 The Airport Share Purchase Price shall be determined by the auditor for the Airport as follows:

(i) The auditor shall determine what percent the book value of all Airport capital assets is at that time relative to the undepreciated sum of the cost of all Airport capital assets (the "Depreciation Percentage") (e.g. if the cost of all Airport capital assets is \$3,000,000 and the present book value of all Airport capital Assets is \$2,100,000, the Depreciation Percentage is 70 percent);

(ii) The auditor shall next determine the amount of all capital contributed by the Transferor Parent Port District to the Airport for Airport capital assets ("Transferor Capital Contributions"), since the Parent Port Districts began jointly funding the Airport.

(iii) The auditor shall finally multiply the Transferor's Capital Contribution by the Depreciation Percentage, with the resulting amount being the Airport Share Purchase Price (for example, if, in the example in [i] above, the Transferor Parent Port District had contributed \$2,000,000 of the total \$3,000,000 of the Airport capital assets, the transferor Parent Port District would be paid 1,400,000 or 70 percent of its total Capital Contribution).

21.2.4 A Capital expenditure by Douglas or Chelan for development of Industrial Property which is not pursuant to a Capital Budget approved by the Governing Board is not deemed capital contributed to the Airport for purposes of this Agreement, and shall not be included in computing the capital accounts or the amount to be paid to the Transferor Parent Port District unless the Governing Board has otherwise voted to agree that such capital expenditure shall be included in calculating the capital account of the contributing Parent Port District..

21.2.5 The parties agree that as of the date of execution of this Agreement since January 1, 1974, Chelan has contributed \$3,054,790 for capital expenditures at the Airport and Douglas has contributed \$1,114,316 for capital expenditures at the Airport, through calendar year 2003, and that 67.5% of the Airport capital assets remains undepreciated at the end of calendar year 2002.

21.3 If termination occurs and both Parent Port Districts wish to independently continue operation of the Airport as a municipal airport, then the decision as to which Parent Port District will acquire full ownership of all the Airport will be made by either: (i) arbitration, if both Ports agree to use binding arbitration or, (ii) if arbitration is not agreed to, by a Judge of the Superior Court of the State of Washington sitting outside Chelan and Douglas Counties.

21.3.1 The determining body, whether arbitrator(s) or judge, shall determine which Parent Port District is, at the date of the hearing, best equipped to continue to operate the Airport consistent with the plan and intent of this Agreement. The decision making body shall consider, but shall not be limited in its consideration to, the following: 1) geographical location of the Airport, 2) ties between the Airport and the respective Parent Port District, 3) positive commitment of the then current port commissioners to maintain and operate the Airport as a quality regional air facility, 4) the financial ability of each of the Parent Port Districts to provide for the Airport as a regional air facility, 5) the commitment by each of the Parent Port Districts toward developing the Airport land for industry or economic development, consistent with the Airport Master Plan, and 6) the Master Plan in existence at the time of termination as it reflects on the overall development of the property.

21.3.2 Both Parent Port Districts agree to a hearing date regarding ownership of the Airport that occurs between ninety (90) and one hundred eighty (180) days following the notice of termination. The decision of the arbitrator(s) or of the superior court judge shall be final, binding, and non-appealable, unless the decision is arbitrary and capricious.

21.4 Consent is specifically hereby given by each Parent Port District to the other to own and operate the Airport in Douglas County following termination of this Joint Operating Agreement and the Governing Board, to the extent allowed by law.

21.5 If only one Parent Port District remains the owner of the Airport following termination, then such transferee Parent Port District shall assume all obligations and indebtedness associated with the Airport (excluding debt incurred by a Parent Port District for Airport capital expenditures) and shall indemnify and hold the Transferrer Parent Port District harmless therefrom.

21.6 Except as set out below, in the event either Parent Port District approves an annual M&O Budget for Aviation Use Property which is less than that proposed by Chelan as Manager, and which is approved by the other Parent Port District ("Approving Parent Port District") for two successive years or for three out of any successive five year period, or if either Parent Port District fails to make its Mandatory Capital Contribution annually, then the Approving Parent Port District may terminate this Joint Operating Agreement and the Governing Board, upon six (6) months notice as provided in Paragraph 21.2. The Approving Parent Port District shall, upon such termination, be entitled to sole ownership of the Airport, and shall pay to the other Parent Port District Airport Share Purchase Price, calculated and paid as set forth in Paragraph 21.2, unless the Approving Parent Port District gives written notice to the other Parent Port District at the time it gives the notice of termination that the Approving Parent Port District agrees to operate the Airport as a municipal airport consistent with the operation of the Aviation Use Property during the three (3) year period preceding the giving of the notice and that it intends and has the resources to provide operating and capital funds for the Aviation Use

Property consistent with that provided by the Parent Port Districts during the average of the three (3) preceding years, and that it further agrees to continue so operating it for a period of ten (10) years, in which case the Approving Parent Port District shall acquire all of the assets of the Airport, without compensation to the other Parent Port District, as provided in Paragraph 21.2.1 above.

21.7 If, upon termination, neither Parent Port District commits to continue the operation of the Airport as a municipal airport as set out above in Paragraph 21.2, then the Airport and all its real and personal property shall first be offered to another public agency or municipality on such terms and conditions as seem reasonable to both Parent Port Districts, which terms and conditions may or may not include compensation for the property transferred or a commitment from such acquiring municipality for continued operation and funding of the Airport.

21.8 If neither Parent Port District commits to continue the operation of the Airport as a municipal airport as set out above in Paragraph 21.2, or if either Parent Port District elects to operate the Airport as a municipal airport but fails to continue its operation for a period of at least ten (10) years following termination of this Agreement, and if no other municipality can be found to own and operate the Airport on terms and conditions acceptable to both the Parent Port Districts, then the Airport and all its assets shall be liquidated in an orderly and reasonable fashion and the proceeds of liquidation, after payment of all costs, expenses and obligations, subject to the requirements and approval of appropriate governmental agencies, including the FAA or its successor, as required, shall be divided among the Parent Port Districts according to their respective ownership interest as of the date of termination, as such ownership interest may have changed from time to time during the term of this Agreement.

21.9 If either Parent Port District commits to operate the Airport as a municipal airport, as set out above in Paragraph 21.2, and acquires ownership of the Airport based on such commitment, such acquiring Parent Port District agrees to continue to operate the Airport as a municipal airport consistent with its commitment for not less than ten (10) years following the date of termination. In the event the acquiring Parent Port District ceases operating the Airport as a municipal airport prior to the expiration of that ten (10) year period, then the process for disposing of the assets of the Airport as set out in Paragraphs 21.7 and 21.8 shall be followed.

XXII. RESOLUTION OF DISPUTE - ARBITRATION

22.1 In the event of dispute involving interpretation of this Agreement or the terms of a lease to be approved by the Governing Board, or, in the event both Parent Port Districts agree to use arbitration to determine ownership following termination of this Agreement and the Board, the matter shall be resolved by arbitration in the manner set out below.

22.1.1 If the Parent Port Districts can agree on one arbitrator, then such arbitrator shall resolve the dispute.

22.1.2 If the Parent Port Districts cannot agree on one arbitrator, then each Parent Port District shall appoint its own arbitrator and the two arbitrators shall appoint a third; provided if either Parent Port District shall not have appointed an arbitrator within fifteen (15)

days after receiving written notice of the other Parent Port District's appointed arbitrator, the Parent Port District which has not appointed an arbitrator shall be deemed to have agreed upon the arbitrator appointed by the other Parent Port District as the sole arbitrator, pursuant to Paragraph 21.1.1.

22.1.3 The arbitration shall be conducted in accordance with the rules governing arbitration set forth in RCW 7.04 except as otherwise provided herein. The hearing shall take place within sixty (60) days following the appointment of the arbitrator(s). The decision of the sole arbitrator or a majority of the arbitrators appointed, as appropriate, shall be binding. The decision of the arbitrator(s) shall be reduced to writing and may be entered in the Superior Court of Douglas County as a judgment, and may be enforced as any other judgment. Each Parent Port District agrees to execute the necessary documentation, bills of sale and deeds in order to achieve results ordered by the arbitrator(s), if appropriate.

22.1.4 Each side shall bear the costs of the arbitrator selected by or for it and shall pay one-half the cost of the third arbitrator, or the sole arbitrator if only one is used.

22.1.5 Neither side shall be awarded costs or attorneys' fees in the arbitration.

XXIII. DISCUSSIONS, AMENDMENTS AND ADJUSTMENTS

23.1 Each Parent Port District agrees that the commissioners of each Parent Port District will meet at least every five (5) years at a joint session of both Parent Port Districts to reassess, discuss and adjust as appropriate at least the following items:

23.1.1 The then current level of funding of Airport operations and contributions for capital items, considering the population and economic base of both counties, the financial condition of each Parent Port District, other funding commitments and projects that a Parent Port District has or may wish to undertake and such other matters as may be considered appropriate in determining levels of contribution to the Airport. 23.1.2.

23.1.2 The then current rate for the lease of Airport land by Douglas County, considering whether or not the cost of living adjustments as reflected in Paragraph 16.2 are appropriate under the circumstances or whether an amendment to the Agreement altering the amount of the lease rate or the method of calculating the lease rate is appropriate.

23.1.3 Such other matters as the Parent Port Districts may deem relevant or of interest regarding the Airport.

XXIV. MISCELLANEOUS PROVISIONS

24.1 Throughout this Agreement the singular shall include the plural, the plural shall include the singular and the masculine shall include the feminine, wherever the context so requires.

24.2 This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements or understandings among the

parties with respect thereto. This Agreement may be amended only by an agreement in writing signed by the parties.

24.3 This Agreement has been submitted to the scrutiny of all parties and their counsel, if desired, and it shall be given a fair and reasonable interpretation in accordance with its words, without consideration to or weight given to its being drafted by any party or its counsel. Article headings are for convenience only and shall not be considered when interpreting this Agreement. All words used in the singular shall include the plural; the present tense shall include the future tense; and the masculine gender shall include the feminine and neuter genders.

24.4 Any notices to be given hereunder by either party may be affected either by personal delivery in writing or by mail, registered or certified, postage prepaid with return receipt requested. Notices delivered personally shall be deemed communicated as of actual receipt, mailed notices shall be deemed communicated as of the effective day of mailing, if prepaid. All notices shall be sent to the following address, unless actual notice in writing of a different address for notices is received by the other party:

PORT OF CHELAN COUNTY:

P.O. Box 849
Wenatchee, WA 98807-0849
Attention: Executive Director

with a copy to:

Ogden Murphy Wallace, P.L.L.C.
1 Fifth Street, Suite 200
P.O. Box 1606
Wenatchee, WA 98807-1606
Attention: Managing Member

PORT OF DOUGLAS COUNTY

3306 5th Street SE
East Wenatchee, WA 98802
Attention: Executive Director

with a copy to:

Davis, Arneil Law Firm, L.L.P.
P.O. Box 2136
Wenatchee, WA 98807-2136
Attention: Managing Member

24.5 Nothing in this Agreement shall be construed so as to require the commission of any act contrary to law, and wherever there is any conflict between any provisions of this Agreement and any statute, law, public regulation or ordinance, the latter shall prevail, but in such event, the provisions of this Agreement affected shall be curtailed and limited only to the extent necessary to bring it within legal requirements.

DATED effective the 31st day of December, 2003.

PORT OF CHELAN COUNTY

By: _____
Commissioner

By: _____
Commissioner

By: _____
Commissioner

PORT OF DOUGLAS COUNTY

By: _____
Commissioner

By: _____
Commissioner

By: _____
Commissioner

APPROVED:

OGDEN, MURPHY WALLACE, P.L.L.C

By: _____
Attorneys for Port of Chelan County

APPROVED:

DAVIS, ARNEIL LAW FIRM, L.L.P.

By: _____
Attorneys for Port of Douglas County