Posted: February 5, 1998 Order 98-2-4

2:30 p.m. Served: February 11, 1998

UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Issued by the Department of Transportation
on the 5th day of February, 1998

Small community air service at **FERGUS FALLS, MINNESOTA** under 49 U.S.C. 41731 *et seq.*	**Docket OST-97-3018**

ORDER SELECTING CARRIER AND SETTING FINAL RATE

Summary
By this order, the Department is selecting Great Lakes Aviation, Ltd., d/b/a United Express, to provide subsidized essential air service at Fergus Falls, Minnesota, for a two-year period, at an annual subsidy rate of $996,666.

Background

Under 49 U.S.C. 41736 [formerly section 419(d)(2)(B) of the former Federal Aviation Act], a State or local government may make a proposal to the Secretary for compensated air transportation to a point that is not eligible for full essential air service. Section 41736 provides that the Secretary shall approve a proposal for compensated air transportation to a point in the 48 contiguous States and designate such point as eligible for compensation if: (1) at any time before October 23, 1978, the point was served by an air carrier that held a certificate issued under section 401; (2) the point is more than 50 miles from the nearest small hub airport or eligible point; (3) the point is more than 150 miles from the nearest medium or large hub airport; and (4) the State or local government submitting the proposal is willing and able to pay 25 percent of the cost of providing the proposed compensated air transportation. Under this 75-25 percent cost-sharing provision in the statute, the air carrier may terminate its service at the point by giving the affected parties at least 30-days' notice. [1]

---

[1] Similarly, the community and/or the State/local government may terminate the agreement to provide its share of the compensation by providing at least 30-days' notice to the Department and to the carrier.

The City of Fergus Falls and the Minnesota Department of Transportation filed a joint application in 1991 that met these criteria, and by Order 91-10-45, issued October 25, 1991, the Department designated Fergus Falls as a point eligible to receive compensation for small community air service. Service was originally provided for two years by Great Lakes Aviation and, most recently, for two more years by Mesaba Aviation. [2]

However, on August 29, 1996, Mesaba filed notice with the Department and community officials that it would suspend service to Fergus Falls at the end of the two-year period, effective on September 30, 1996. Fergus Falls has been without air service since that date.

By Order 96-9-21, issued September 18, 1996, we requested proposals for replacement service at Fergus Falls. In response to our request, only one carrier--Downeast Airlines--filed a proposal. Although representatives of the Department and Downeast were able to reach an agreement on the amount of subsidy and the level of service necessary for viable implementation of its proposal, the carrier was unable to secure suitable aircraft or to accomplish a number of other necessary steps, and its proposal did not come to fruition. Thus, on October 15, 1997, at the urging of the community, the Department issued Order 97-10-11, resoliciting proposals.

Great Lakes' Proposal

Great Lakes has submitted a proposal to restart small community air service at Fergus Falls. As a result of discussions with Department staff, Great Lakes proposes operating three nonstop round trips each week day and over each weekend period between Fergus Falls and Minneapolis, at an annual subsidy of $996,666. Service would be for a two-year period and would be operated with 19-seat Beech 1900 aircraft.

Community Comments

As in the past, the City of Fergus Falls and/or the State of Minnesota will be responsible for paying 25 percent of the carrier's subsidy. Because of this, and because of the long hiatus of service, the City has been an especially active participant in the selection process. The Department's staff has kept city representatives informed of the status of the negotiations with Great Lakes and has recently advised them of the carrier's final proposal. The City responded that it supports the selection of Great Lakes, at the subsidy rate set forth above, and that it is willing and able to provide its 25 percent subsidy share. We note that Great Lakes is a code-share partner with United Air Lines, operating as United Express.

Decision

After reviewing Great Lakes' proposal and community comments, we have decided to select Great Lakes at Fergus Falls for a two-year period, at the annual subsidy rate of $996,666. [3] The proposed rate appears reasonable for the level of service to be provided, and Great Lakes' performance system-wide continues to be reliable.

The subsidy rate we are authorizing here is above the essential air service program average, principally because Great Lakes' service will require the full allocation of an entire airplane. The

---

[2] See Orders 92-5-32, 94-5-38 and 94-8-25.

[3] See Appendix B for details of Great Lakes' subsidy calculation.

carrier has projected that it will carry 6,800 passengers a year in the Fergus Falls-Minneapolis market, about what it carried in 1993 and 1994. In 1995, Mesaba carried more that 10,000 passengers in the same market. [4] We are hopeful that with the return of reliable air service at Fergus Falls, traffic levels will quickly rise and that future subsidy levels will be significantly lower.

Great Lakes has advised us that, at present, there are no other opportunities for greater utilization of its Beech 1900 aircraft in Minneapolis markets. However, we are hopeful that such opportunities will materialize in the future, and that the carrier will be able to take advantage of that occasion to incorporate additional aircraft usage to Fergus Falls' benefit, and thus reduce subsidy need. In the meantime, with the entire aircraft available at Fergus Falls, we expect that the carrier will work with the community to provide a convenient schedule that best meets the community's needs.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find a carrier fit, willing and able to provide reliable service before we may compensate it for essential air service. We last found Great Lakes fit to provide scheduled passenger service as a commuter air carrier by Order 97-10-10, dated October 14, 1997, in connection with its subsidized essential air service at Lamar, Colorado; Goodland, Kansas; and Kearney, Alliance, Chadron and McCook, Nebraska. The Department has routinely monitored the carrier's continuing fitness, and no information has come to our attention that would lead us to question its ability to operate in a reliable manner. Based on our review of its most recent submissions, we find that Great Lakes continues to have available adequate financial and managerial resources to provide quality air service at Fergus Falls, and that it continues to possess a favorable compliance disposition. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with 14 CFR Part 121, and knows of no reason why we should not find that Great Lakes remains fit.

Notice Requirements for Termination of Agreement

As a final matter, we wish to make clear the carrier's and the community's obligations and rights since Fergus Falls was designated as a point eligible to receive compensation for small community air service under the subsidy sharing provisions of the statute. While we fully expect that this service and subsidy arrangement will be mutually beneficial to the carrier and community, either party may terminate it by filing such notice at least 30 days in advance in order to allow for an orderly shutdown of service.

---

[4] As a Northwest Airlink commuter serving the Minneapolis hub, one would expect that Mesaba would be able to generate more passengers than a non-Northwest affiliated carrier.

This order is issued under authority delegated in 49 CFR 1.56(i).

ACCORDINGLY,

1. The Department selects Great Lakes Aviation, Ltd., d/b/a United Express, to provide small community air service at Fergus Falls, Minnesota, as described in Appendix A, for the two-year period beginning on the date that the carrier inaugurates service at the point, and ending on the last day of the 24th month thereafter;

2. The Department sets the final rate of compensation for Great Lakes Aviation, Ltd., d/b/a United Express, for the provision of small community air service at Fergus Falls, Minnesota, as described in Appendix A, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the ceiling set forth in Appendix A, and shall be determined by multiplying the subsidy-eligible departures and arrivals completed during the month [5] by $541.67; [6]

3. The City of Fergus Falls and/or the Minnesota Department of Transportation may terminate this agreement to provide its share of the compensation to Great Lakes Aviation, Ltd., d/b/a United Express, by providing at least 30 days' advance written notice to the Department and to the carrier;

4. Great Lakes Aviation, Ltd., d/b/a United Express, may terminate its small community air service at Fergus Falls, Minnesota, prior to the end of the two-year rate period set forth above, only by providing at least 30 days' advance written notice to the Department, the City of Fergus Falls and the Minnesota Department of Transportation;

5. We direct Great Lakes Aviation, Ltd., d/b/a United Express, to retain all books, records, and other summary and source documentation to support claims for compensation for service the carrier is required to provide, and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. Such documentation shall be retained for seven years, or until the Department indicates that the records may be destroyed or an audit has been completed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

6. We find that Great Lakes Aviation, Ltd., d/b/a United Express, continues to be fit, willing and able to operate as a commuter air carrier and capable of providing reliable small community air service at Fergus Falls, Minnesota; and

---

[5] If the carrier reports a significant number of aircraft substitutions, with less than 19 passenger seats per flight, a revision of this subsidy rate may be required.

[6] See Appendix A for calculation of the subsidy rate per arrival/departure.

7. We will serve a copy of this order on the Mayor and airport manager of Fergus Falls, Minnesota; the Minnesota Department of Transportation; the Governor of Minnesota; and Great Lakes Aviation, Ltd.

By:

CHARLES A. HUNNICUTT
Assistant Secretary for Aviation
and International Affairs

(SEAL)

Great Lakes Aviation, Ltd., d/b/a United Express
Small Community Air Service at Fergus Falls, Minnesota

Summary of Service to be Provided

Effective period:	Two years, beginning on the date the carrier inaugurates service at the point, and ending on the last day of the 24th month thereafter
Service:	To Minneapolis (172 nonstop air miles)
Minimum frequency:	Three round trips each weekday and over each weekend period; no upline service permitted
Stops allowed:	None
Timing of flights:	Flights must be well-timed and well-spaced to ensure full compensation
Aircraft type:	Beech 1900 (19 passenger seats)
Minimum number of seats to be available per service day in each direction:	57
Annual compensation:	$996,666
Rate per departure and arrival:	$541.67 [7]
Weekly ceiling: Weekly ceiling at 75 percent:	$19,500.12 [8] $14,625.09

Note: The carrier has been notified that it may forfeit its eligibility for compensation for any flights that it does not operate in full conformance with the terms and stipulations of this order, including the service plan outlined above and any other significant elements of the required service, without prior approval. It has been informed that an aircraft take-off and landing at its scheduled destination constitutes a completed flight, and that, absent an explanation supporting subsidy-eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are eligible for compensation. The carrier may jeopardize its entire subsidy claim for the period in question if, for a significant period of time, it does not schedule or operate its flights in full conformance with this order. In addition, should circumstances warrant, the Department may also locate and select a replacement carrier to provide service on the route. If the carrier contemplates any changes beyond the scope of this order during the applicable period of this rate, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured full compensation. The carrier must complete all flights that can be safely operated; flights that overfly subsidized points for lack of traffic will not be compensated.

---

[7] Fergus Falls is scheduled to receive three departures to Minneapolis and three arrivals from Minneapolis each weekday and over each weekend period. Annual compensation of $996,666 divided by the number of flights scheduled annually calculated by multiplying 6 arrivals/departures per service day times 313 service days times 0.98 completion factor: $996,666/1,840=$541.67.

[8] The subsidy rate per arrival/departure times 36 scheduled subsidy-eligible departures and arrivals each week.

Appendix B

Great Lakes Aviation, Ltd., d/b/a United Express
Essential Air Service to be Provided at
Fergus Falls, Minnesota
Calculation of Annual Compensation Requirement

Total block hours						1,534 1/
Frequency: 3 round trips per service day						
Route: FFM-MSP						
Passenger revenue	Distance		Fare	Passengers	RPM's	Revenue
FFM-MSP	173		$55.00	6,800	1,176,400	$374,000
Freight revenue @ 1% of psgr. revenue						$3,740
Total operating revenue						$377,740
Direct operating expense (Beech 1900)				Unit cost		Expense
Aircraft lease				$33,000.00	per month	$396,000
Hull insurance						$27,450
Flying operations				$109.58	/ hr.	$168,063
Fuel & oil				$115.49	/ hr.	$177,127
Maintenance				$108.10	/ hr.	$165,793
Total direct operating expenses						$934,433
MSP turnaround fees	920	turns @		$15.13	per turn	$13,920
MSP deicing charge	150	turns @		$100.00	per turn	$15,000
MSP additional manpower	1	@		$17,300.00	per year	$17,300
FFM landing fees	920	landings @		$7.00	per landing	$6,440
FFM deicing charge	150	turns @		$100.00	per turn	$15,000
FFM facility rent				$600.00	per month	$7,200
FFM hangar rental				$500.00	per month	$6,000
FFM crew accommodations	358	nights		$80.00	per night	$28,640
Station manager	1	@		$22,600.00	per year	$22,600
Station agents	2	@		$17,300.00	per year	$34,600
Liability insurance	1,176,400	RPM's @		$0.00429	per RPM	$5,047
Local advertising						$5,000
Marketing	6,800	@		$1.54	per psgr.	$10,472
Accounting	6,800	@		$1.38	per psgr.	$9,384
Communications	6,800	@		$1.15	per psgr.	$7,820
Reservations	6,800	@		$7.44	per psgr.	$50,592
Supplies	6,800	@		$1.91	per psgr.	$12,988
Commissions	$377,740	@		0.07	of revenue	$26,442
Training	$934,433	@		0.0257	of directs	$24,015
Administrative	$934,433	@		0.06	of directs	$56,066
Total indirect operating expense						$374,525
Total operating expense						$1,308,958
Operating loss						$931,218
Profit element @ 5 percent of total operating expense						$65,448
Compensation requirement						$996,666

1/ (FFM-MSP, 50 min.) x 6 flights a day x 313 days x .98 completion/60 min. = 1,534 hours.