



Order 99-5-16

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

Issued by the Department of Transportation
on the 28th day of May, 1999

SERVED JUNE 2, 1999

Application of

SHOW LOW, ARIZONA

for designation as an eligible point
under 49 U.S.C. 41736(a)

Docket OST 98-4409

**ORDER SELECTING CARRIER
AND SETTING FINAL RATE**

Summary

This order designates Show Low, Arizona, as a community eligible to receive subsidized small community air service under 49 U.S.C. 41736(a), and selects Express Air, Inc., d\b\ a Sunrise Airlines (Sunrise Airlines), to provide subsidized air service at the point for a two-year period.

Background

In accordance with 49 U.S.C. 41736(a), a State or local government may propose to the Department of Transportation that the Department provide compensation to an air carrier to provide transportation to a point that is not otherwise eligible for such compensation. The Department shall designate the point as eligible and approve a proposal for compensation if the State or local government, or a person, is willing and able to pay 50 percent of the compensation for providing the transportation, and if the proposal is determined to be reasonable. If a proposal is determined not to be reasonable, then the Department must notify the State or local government of the disapproval and the reasons for such determination.

In determining whether a proposal is reasonable, the Department must consider, among other things, (1) the traffic-generating potential of the point; (2) the cost to the Federal government of providing the proposed transportation; and (3) the distance from the point to the closest hub airport.

Proposal of the City of Show Low

The City of Show Low, Arizona, in conjunction with Sunrise Airlines, has filed an application for designation as an eligible point under 49 U.S.C. 41736(a). Included with the application is a proposal for compensation for the air transportation to be provided by Sunrise Airlines.



The City states that it is an “Aviation Gateway” to the White Mountains, approximately 178 highway miles northeast of Phoenix and 190 highway miles north of Tucson.¹ Access to the community is via two-lane mountain highways that are subject to closure from weather, accidents and construction. There is no rail service and no interstate highway leads directly to Show Low.

The community is currently served by Sunrise Airlines, which provides fourteen round-trip flights per week with 9-seat Catpass 250 aircraft. Approximate flying time to Phoenix is 45 minutes. Service at Show Low has previously been provided by Scenic Airlines and Great Lakes Aviation. Great Lakes suspended its 19-seat Beech 1900 service in the spring of 1997. Show Low’s air service was reinstated when Sunrise entered the market in May of 1998, shortly after it received its commuter authority from the Department.

The service has been financially supported by the City of Show Low and, to lesser degrees, by the Town of Pinetop-Lakeside, the Town of Snowflake and Navajo County. Under the current proposal, Show Low will be the major contributor, with the Town of Pinetop contributing \$5,000. The other jurisdictions may provide nominal amounts.

According to traffic data submitted by the City in its proposal, there were 5,724 passengers carried in the Show Low-Phoenix market in 1992, or an average of 18.3 per day based on a 313-day service year. Daily passengers from 1993-1996 averaged 18.1, 21.0, 22.7 and 26.6, respectively.

Great Lakes Aviation, which served Show Low from October 27, 1996, through May 17, 1997, transported a total of 3,820 passengers, or an average of 22 per day. More recently, since Sunrise Airlines commenced service at Show Low last year, the carrier has averaged almost 13 passengers per day. During the third quarter of 1998,

¹ The Show Low Municipal Airport is 112 air miles from the Phoenix Sky Harbor International Airport, 158 air miles from Tucson International Airport, and 129 air miles from Flagstaff Pulliam Field.

Sunrise Airlines carried a total of 1,565 passengers, or an average of 17 passengers per day.

Subsidy Proposal of Sunrise Airlines

Sunrise Airlines has submitted to the Department a subsidy need calculation of \$410,080 to continue to provide the current level of service. The Department's 50 percent share of this amount would be \$205,040. The remaining amount would be the responsibility of the City of Show Low, the Town of Pinetop and other neighboring jurisdictions.²

Decision

After carefully reviewing the proposals of the City of Show Low and Sunrise Airlines, we have decided to designate Show Low as eligible to receive compensated small community air service. The community meets all of the requirements of 49 U.S.C. 41736(a) for such designation, including traffic generating potential and isolation from the closest hub airport (Phoenix).

Show Low is 178 highway miles from Phoenix, its closest hub airport, via a mountainous and circuitous two-lane routing that is prone to closure from winter storms. Because of the terrain, the driving distance is nearly 60 percent longer than the flying distance, 112 miles.

As previously noted, Show Low has demonstrated an adequate potential for generating traffic commensurate with small commuter aircraft operations. Great Lakes, in its short service history, carried an average of 22 passengers per day (5.5 per flight); and after Sunrise Airlines instituted its service (after a service hiatus at the point of almost a year), it carried an average of 17 passengers per day during the summer months (4.25 per flight). Sunrise Airlines projects in its proposal that it will carry a total of 7,455 passengers in the first year (5.3 per flight) which we find reasonably attainable based on recent history.

On the basis of its proposal for compensation, we have decided to select Sunrise Airlines to provide air service at Show Low for a two-year period beginning June 1, 1999, and ending May 31, 2001. We find that the subsidy requested is reasonable for the level of service to be provided.

As previously noted, the non-Federal 50 percent share of Sunrise's compensation will be provided mainly by the City of Show Low and, to a lesser degree, by several surrounding communities. We will direct our staff to work with the carrier and the communities to establish the exact procedures for payments to be made to the carrier.

Carrier Fitness

² See Appendix B for Sunrise Airlines' subsidy calculation.

In accordance with 49 U.S.C. 41737(b) and 41738, the Department is required to find a carrier fit, willing and able to provide service before it may be compensated for essential air service. Sunrise Airlines was found fit in May 1998 (Order 98-5-25, issued May 19, 1998), to provide scheduled passenger service as a commuter air carrier. It has been operating in the Show Low-Phoenix market since that time and, as noted above, has received strong community support. We recently undertook an informal review of Sunrise's continuing fitness as a result of its acquisition of Redtail Aviation³ and the acquisition of SunAir Express, Inc.,⁴ by Sunrise's current owner. Our review indicates that both carriers have incurred a substantial amount of short-term debt and currently have a plan to restructure their debt. The payment of the proposed subsidy should enhance Sunrise's ability to continue to operate the Show Low-Phoenix service in a reliable manner. Moreover, the FAA advises us that sunrise continues to possess a favorable compliance disposition and knows of no reason why we should not find that the carrier remains fit.

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

ACCORDINGLY

1. The Department designates Show Low, Arizona, as a point eligible to receive small community air service under 49 U.S.C. 41736(a);
2. The Department selects Express Air, Inc., d\b\a Sunrise Airlines, to provide small community air service at Show Low, Arizona, as described in Appendix A of this order, for the two-year period beginning on June 1, 1999, and ending on May 31, 2001;
3. The Department sets the final rates of compensation for Express Air, Inc., d\b\a Sunrise Airlines, for the provision of small community air service at Show Low, Arizona, as described in Appendix A, for the period from June 1, 1999, through May 31, 2001, payable as follows: for each month during which small community air service is provided, the amount of compensation shall be subject to the weekly ceilings set forth in Appendix A, and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by the following amount: \$286.57;⁵
4. The City of Show Low may terminate its agreement to provide its share of the compensation to Express Air, Inc., d\b\a Sunrise Airlines, by providing at least 30 days' advance written notice to the Department and to the carrier;

³ Redtail Aviation was a fixed base and on-demand air taxi operator based in Green River, Utah. Sunrise purchased Redtail in September 1998, merged Redtail's operations into its own, and now operates this portion of its business under the Redtail trade name.

⁴ In December 1998, Scenic Airlines changed its name to SunAir Express, Inc., and, in March 1999, was acquired by Sunrise's owner, Cliff Langness.

⁵ Sunrise Airlines' rate for Show Low divided by 1,431 departures.

5. Express Air, Inc., d\ba Sunrise Airlines, may terminate its small community air service at Show Low, Arizona, prior to the end of the two-year period set forth above, only by providing at least 30-days's advance written notice to the Department and to the City of Show Low;

6. We direct Express Air, Inc., d\ba Sunrise Airlines, to retain all books, records, and other source and summary documentation to support claims for payment, 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. 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; and

7. We find that Express Air, Inc., d\ba Sunrise Airlines, continues to be fit, willing and able to operate as a commuter air carrier and capable of providing reliable small community air service at Show Low, Arizona.

By:

A. Bradley Mims
Acting Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electric version of this document is available on the World Wide Web at
<http://dms.dot.gov/>*

The electronic version may not include all of the appendices.

**SUNRISE AIRLINES
SMALL COMMUNITY AIR SERVICE
AT SHOW LOW, ARIZONA**

Summary of Service to be Provided

<u>EFFECTIVE PERIOD</u>	June 1, 1999, through May 31, 2001
<u>SERVICE:</u>	14 nonstop round trips each week between Show Low and Phoenix
<u>AIRCRAFT TYPE</u>	Beech Catpass 250 (9 passenger seats)
<u>TIMING OF FLIGHTS</u>	Flights must be well-timed and well-spaced to ensure full compensation.
<u>ANNUAL COMPENSATION</u>	\$410,080
<u>SUBSIDY RATE PER ARRIVAL/DEPARTURE</u>	\$ 286.57 <u>1/</u>
<u>COMPENSATION CEILING EACH WEEK</u>	\$8,023.96 <u>2/</u>

FOOTNOTES

1/ Annual compensation of \$410,080 divided by the estimated annual completed departures and arrivals at a 98 percent completion factor: $365 \times 4 \times .98 = 1,431$.

2/ Subsidy rate per arrival/departure of \$286.57 multiplied by 28 subsidy-eligible arrivals and departures each week.

NOTE

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

Appendix B

Sunrise Airlines
 Small Community Air Service to be Provided at
 Show Low, Arizona
 Calculation of Compensation Requirement

Total block hours 1,192

Revenue

Route: SOW-PHX	Fare	# Passengers	
Passengers	\$78.50	7,455	\$585,218
Freight @ 1%			\$5,852
Total operating revenue			<u>\$591,070</u>

Direct Operating Expense

	Unit Cost	
Aircraft lease		\$279,499
Hull insurance		\$23,400
Flying operations	\$61.88 per BH	\$73,761
Fuel & oil	\$121.25 per BH	\$144,530
Maintenance	\$166.54 per BH	\$198,516
Other		\$9,000
Total direct operating expenses		<u>\$728,706</u>

Indirect operating expense:

<u>Landing fees:</u>	<u># Landings</u>	<u>Rate per landing</u>	
at Phoenix	715	\$9.13	\$6,528
at Show Low	715	\$5.00	\$3,575

	<u>Rate per BH</u>	
Liability Insurance	\$8.13	\$9,691
Operations Overhead	\$79.36	\$94,597
Passenger Overhead	\$85.05	\$101,380
Show Low Facility Charge		\$9,000
Total indirect operating expense		<u>\$224,771</u>

Total Operating Expense \$953,476

Operating Loss \$362,407

Profit @ 5% \$47,674

Compenstation Requirement \$410,080