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Order 2000-10-33

Served: November 1, 2000



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

Issued by the Department of Transportation
on the 27th day of October, 2000

Essential Air Service at

KIRKSVILLE, MISSOURI

under 49 U.S.C. 41731 *et seq.*

Docket OST-1997-2515 - 6

**ORDER SELECTING CARRIER
AND SETTING FINAL RATE**

Summary

By this order, the Department is selecting Corporate Airlines, Inc., (Corporate Air) to provide essential air service at Kirksville, Missouri, for a two-year period, at an annual subsidy of \$732,363.

Background

By Order 97-5-9, issued May 13, 1997, Redwing Airways (Redwing) was selected to continue providing essential air service at Kirksville for an additional two-year period, through July 31, 1999. Subsidy was set at an annual rate of \$450,736 for 24 nonstop round trips each week between Kirksville and Kansas City, with 8-seat Beech Queenair aircraft for the period October 1, 1997-July 31, 1999.



By Order 99-7-21, issued July 30, 1999, the Department requested proposals for replacement service and extended Redwing's subsidy, established by Order 97-5-9, until further Department action. No proposals were received in response to that request.

On October 11, 2000, the City Manager of Kirksville notified the Department that Redwing was ceasing all scheduled air operations on October 16. Subsequent conversations with the Federal Aviation Administration indicated that in fact Redwing was not providing scheduled air service as of October 11. In response to that situation, by Order 2000-10-10, issued October 12, 2000, the Department requested proposals on an emergency basis from carriers interested in providing replacement essential air service at Kirksville. Because Kirksville was without any air service, and in order to secure replacement air service as quickly as possible, we set a deadline of 5:00 PM, October 19, for the submission of proposals. Further, we stated in our request for proposals that we would place great importance in making our decision on how quickly each of the applicants would be able to commence operations at Kirksville.

In response to our emergency request, only one carrier—Corporate Air—filed a viable proposal.

Two other carriers—Multi-Aero and Safewing—filed proposals without supporting information. We would not normally dismiss carriers' proposals simply because they lacked supporting data. However, in this case, neither Multi-Aero nor Safewing is an operating commuter air carrier and neither has filed with the Federal Aviation Administration or the Department of Transportation for the requisite authority to operate scheduled air service. That process normally takes a minimum of three to four months, and often longer. In view of the fact that our overriding desire is to have replacement service in place at Kirksville as quickly as possible, we will not consider Multi-Aero's or Safewing's proposals.

Carrier Proposal

Corporate Air proposes to provide Kirksville with two nonstop round trips a day (12 each week) to St. Louis with 19-seat Jetstream 32 aircraft at an annual subsidy of \$732,363. A detailed summary of Corporate Air's subsidy proposal is contained in Appendix A.

Community Comments

By telephone, the City of Kirksville has advised the Department that it fully supports the proposal submitted by Corporate Air for the provision of essential air service at their community.

Selection Decision

We have decided to select Corporate Air to provide Kirksville's essential air service for a two-year period at the agreed-to subsidy rate of \$732,363 a year. Under the Department's governing statutes, 49 U.S.C. 41733(c), we are required to consider, among other things, the applicants' operating experience, their marketing arrangements to ensure service beyond the hub, and the community's views. Corporate Air has been operating for several years, it has the full support of the community, and it operates as a Trans World Airlines code-share partner. Its affiliation with TWA will provide the community with the full panoply of service and fare options available at St. Louis, a major connecting hub

complex for TWA.¹ We find that the agreed-to subsidy rate is reasonable, especially given that Corporate Air will be inaugurating service on an expedited basis.

Corporate Air is a commuter air carrier and already providing reliable scheduled air service at Cape Girardeau and Fort Leonard Wood in Missouri. It has recently taken over a number of routes at similar small communities within a 200-mile radius of St. Louis, and the service has been successful.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing and able to provide reliable service before we may compensate it for essential air service. Corporate Air was found by the Department to be fit, willing and able to engage in scheduled passenger operations as a commuter air carrier by Order 95-8-2, issued August 2, 1995. Most recently, in Order 2000-5-3, the Department found that Corporate Air continues to be fit to operate as a commuter air carrier and is capable of providing reliable essential air service at Cape Girardeau and Fort Leonard Wood, Missouri. Since that time, no information has come to our attention that would lead us to question the carrier's ability to operate in a reliable manner. The Department has recently discussed the fitness of Corporate Air with the FAA's Flight Standards District Office in Nashville. The FAA has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason why we should not find that Corporate Air is fit. Based on the above, we find that Corporate Air is fit to provide the essential air transportation at issue in this case.

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

ACCORDINGLY

1. The Department selects Corporate Airlines, Inc., to provide essential air service at Kirksville, Missouri, as described in Appendix B, for the two-year period beginning when the carrier commences service;
2. The Department sets the final rate of compensation for Corporate Airlines, Inc., for the provision of essential air service at Kirksville, Missouri, as described in Appendix B, for the two-year period beginning when the carrier commences service, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix B, and shall be determined by multiplying the subsidy-eligible flights each way completed during the month by \$601.78;²

¹ Based on this information, even if Multi-Aero or Safewing had submitted complete proposals and were operating carriers, it would be very difficult to select either of them.

² See Appendix A for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of this rate may be required.

3. We direct Corporate Airlines, Inc., 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;

4. We find that Corporate Airlines, Inc., continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Kirksville, Missouri;

5. This docket will remain open until further order of the Department; and

6. We will serve a copy of this order on the mayor and airport manager of Kirksville, the Missouri Department of Transportation, Corporate Airlines, Thunder Aviation, Multi-Aero, and Safewing Aviation.

By:

FRANCISCO J. SANCHEZ
Assistant Secretary for Aviation
and International Affairs

(SEAL)

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

**SUBSIDY CALCULATION FOR
CORPORATE AIRLINES, INC.
AT KIRKSVILLE, MISSOURI**

Aircraft type	Jetstream 32
Block hours <u>1/</u>	1,136
Passengers	3,418
Avg. Fare	\$110
Passenger Revenue	\$375,980
Freight Revenue @ 1%	<u>3,760</u>
Total Revenue	\$379,740
Flight Crew @ \$114.90/hr.	\$130,526
Fuel & Oil @ \$168.30/hr.	191,189
Insurance @ \$25.96/hr.	29,491
Maintenance @ \$214.37/hr.	243,524
Lease @ \$73.08/hr.	<u>83,019</u>
Total Directs <u>2/</u>	\$677,749
IRK Station Costs	\$62,002
STL Station Costs	60,476
STL Ldg. Fees @ \$33.4/turn <u>3/</u>	20,307
Commissions @ 6.84% of rev.	25,717
Res./tickets @ \$6.40/pax	21,875
Liability Ins. @ \$2.53/pax	8,648
Advertising	6,000
G & A @ \$.0512/ASM <u>4/</u>	<u>176,372</u>
Total Indirects	\$381,397
Total Operating Expense	\$1,059,146
Return @ 5%	\$52,957
Total Economic Cost	\$1,112,103
Annual subsidy need at 97.5% completion	\$732,363

1/ 24 flights/week x 52 weeks x .975 completion x 56 minutes/60 = 1,136 hours.

2/ Unit costs based on system experience for 8 months ended 8/31/00, except fuel, which is based on the most recent month's costs at the STL subsystem, 110 gph & \$1.53 per gallon.

3/ 12 landings/week x 52 weeks x .975 = 608

4/ Unit costs based on system experience for the quarter ended 8/31/00 increased for projected IRK ASM's. to take into account the trend in reduced unit cost over the year as Corporate Airlines has grown. 24 flights/week x 52 weeks x .975 x 149 miles x 19 seats = 3,444,761 ASM's.

**CORPORATE AIRLINES, INC.
ESSENTIAL AIR SERVICE TO BE PROVIDED AT
KIRKSVILLE, MISSOURI**

<u>Effective Period:</u>	Two-year period beginning on the date of commencement of service
<u>Service:</u>	Twelve nonstop round trips each week to St. Louis
<u>Aircraft:</u>	Jetstream 32 (19-seat)
<u>Timing of Flights:</u>	Flights must be well timed and well spaced to ensure full compensation.
<u>Subsidy Rate:</u>	Per year - \$732,363 Per flight - \$601.78 ¹
<u>Weekly Compensation Ceiling:</u>	\$14,442.72 ²

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 in 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.

¹ Annual compensation of \$732,363, divided by the estimated number of annual completed flights (1,217), calculated as follows: number of flights per week (24) x 52 weeks x .975 = 1,217

² The subsidy rate per flight (\$601.78) multiplied by the number of scheduled subsidy-eligible flights per week (24).