



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

Issued by the Department of Transportation
on the 28th of April, 2020

Essential Air Service at

IRONWOOD, MICHIGAN/ASHLAND, WISCONSIN
(FAIN 69A3452060485)¹

DOT-OST-1996-1266

Under 49 U.S.C. § 41731 *et seq.*

ORDER SELECTING AIR CARRIER

Summary

By this Order, the U.S. Department of Transportation (the Department) is selecting Boutique Air, Inc. (Boutique) to provide Essential Air Service (EAS) at Ironwood, Michigan/Ashland, Wisconsin (Ironwood), for the two-year term from August 1, 2020, through July 31, 2022. Boutique will provide Ironwood with 13 weekly nonstop round trips to Chicago O'Hare International Airport (ORD) and five weekly nonstop round trips to Minneapolis-St. Paul International Airport (MSP). Boutique will use 8- to 9-seat Pilatus PC-12 aircraft at a first-year annual subsidy of \$3,593,464, and a second-year annual subsidy of \$3,683,300.²

Background

By Order 2016-6-16 (June 28, 2016), the Department selected Multi-Aero, Inc. d/b/a Air Choice One (Air Choice One) for EAS at Ironwood, using 9-seat Cessna Grand Caravan aircraft. Air Choice One was selected to provide the community with 13 weekly nonstop round trips to ORD and five weekly nonstop round trips to MSP, from August 1, 2016, through July 31, 2020, at the annual subsidy amounts below.

<u>Year</u>	<u>Annual Subsidy</u>
1	\$3,312,107
2	\$3,411,470
3	\$3,513,814
4	\$3,619,229

¹ Federal Award Identification Number.

² Such subsidy is calculated and distributed on a fiscal year basis, subject to the availability of funds.

As the end of the current contract approached, the Department issued Order 2019-11-7 (November 12, 2019), requesting proposals from interested air carriers for a new term. In response to that Order, Air Choice One, Boutique, Key Lime Air Corp. d/b/a Denver Air Connection (DAC), and Southern Airways Express, LLC (Southern) submitted proposals for consideration.

Summary of Proposals

Air Choice One, 19-seat Beechcraft 1900 w/9-seats or Cessna Grand Caravan w/9-seats						
	<u>Hub</u>	<u>Weekly Round</u>	<u>Two or Four-Year Selection</u>			
		<u>Trips</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>
Choice 1, with Cessna Grand Caravan aircraft	ORD/MSP	13/5	\$3,691,153	\$3,801,888	\$3,915,944	\$4,033,423
Choice 2, combination of Cessna Grand Caravan and Beechcraft aircraft	ORD/MSP	13/5	\$3,990,779	\$4,110,502	\$4,223,817	\$4,360,832
· Allocating \$50k annually for marketing						
· Has full-time marketing department to ensure visibility across social networks and news outlets						
Boutique Air, 8/9-seat Pilatus PC-12 aircraft						
	<u>Hub</u>	<u>Weekly Round</u>	<u>Two or Four-Year Selection</u>			
		<u>Trips</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>
Option 1	ORD	18	\$3,871,785	\$3,968,579	\$4,067,794	\$4,169,488
Option 2	ORD/MSP	13/5	\$3,593,464	\$3,683,300	\$3,775,383	\$3,869,767
· Allocating \$20k annually for marketing						
· Interline agreements with American and United						
· Participates in GDSs including Sabre, Travelport and Amadeus and OTAs including Expedia, Travelocity and Priceline						
Denver Air Connection, 30-seat Dornier 328 jet or 50-seat ERJ-145 jet						
	<u>Hub</u>	<u>Weekly Round</u>	<u>Two or Four-Year Selection</u>			
		<u>Trips</u>	<u>Year 1</u>	<u>Year 2</u>		
	ORD	12	\$4,143,766	\$4,226,641		
· Allocating \$20k annually for marketing						
· Interline agreement with United						
· Participates in GDSs including Sabre, Travelport and Amadeus and OTAs including Expedia, Travelocity and Priceline						
Southern Airways Express, 9-seat Cessna Caravan aircraft						
	<u>Hub</u>	<u>Weekly Round</u>	<u>Two or Four-Year Selection</u>			
		<u>Trips</u>	<u>Year 1</u>	<u>Year 2</u>		
Option A	ORD	18	\$3,966,830	\$4,085,835		
Option B	ORD/MSP	12/6	\$3,788,144	\$3,901,789		
Option C	MSP	18	\$3,125,692	\$3,219,463		
· Allocating \$50k annually for marketing						
· Interline agreements with American, Condor, and Alaska Airlines						
· Participates in GDSs including Sabre, Travelport and Amadeus and OTAs including Expedia, Travelocity and Priceline						

The detailed proposals, as well as the community's entire docket, may be accessed online at www.regulations.gov by entering "DOT-OST-1996-1266" in the search field.

Community Comments

On December 13, 2019, the Department solicited comments regarding this air carrier selection case. In a letter to the Department dated January 13, 2020,³ Mr. Joseph Bonovetz, Chairman of the Gogebic-Iron County Airport Board, conveyed the Board's support for Boutique. Mr. Bonovetz stated, "The Gogebic-Iron County Airport Board is recommending Boutique Air to be selected for service at the Gogebic-Iron County Airport under Option 2" Mr. Bonovetz stated the Board's position that Boutique's fleet of pressurized aircraft, including the Pilatus PC-12, are faster and able to fly higher over weather, reducing passenger flight times, and Boutique's proposal "offers the best combination of flight frequency, pricing and amenities"

Decision

Title 49 U.S.C. § 41733(c)(1) directs the Department to consider five factors when making an air carrier selection not in Alaska: (A) service reliability; (B) contractual and marketing arrangements with a larger air carrier at the hub; (C) interline arrangements with a larger air carrier at the hub; (D) the preferences of the actual and potential users of the service, giving substantial weight to the views of the elected officials representing the actual and potential users of the service; and (E) whether the air carrier has included a plan in its proposal to market the service.⁴

After carefully reviewing the proposals submitted for consideration and taking into account the carrier selection criteria, the Department selects Boutique's Option 2 for a two-year contract term, with 13 weekly nonstop round trips to ORD and five weekly nonstop round trips to MSP, for a first-year annual subsidy rate of \$3,593,464, and a second-year annual subsidy rate of \$3,683,300. Boutique has interline agreements with American Airlines and United Airlines and was the only carrier to receive community support. Its proposal allocated \$20,000 annually toward a marketing plan that includes various media such as radio, print, TV and internet advertising. Furthermore, Boutique's proposal is one of the lowest cost options of all the proposals.

The Department finds the subsidy reasonable for the service proposed by Boutique.

Service Transition

The Department expects Boutique and Air Choice One to work together to make a smooth transition at Ironwood with no service hiatus. Before Air Choice One suspends service, the Department expects the air carrier to notify all passengers holding reservations for travel after the suspension date, to assist those passengers in making alternate air transportation arrangements, or to provide a full refund of the ticket price, without penalty, if requested.

Reminder About EAS Eligibility

To remain eligible for EAS, communities must comply with all applicable EAS eligibility requirements. Title 49 U.S.C. § 41731(a)(1)(C) states that, to be eligible for EAS, a community

³ The full letter can be accessed at: <https://www.regulations.gov/document?D=DOT-OST-1996-1266-0192>.

⁴ In addition, the Further Continuing Appropriations Act, 2020, Pub. L. No. 116-94, provides that, when selecting a carrier to provide EAS, the Department may consider the relative subsidy requirements, thus codifying a factor that has been considered since the inception of the program.

must have an average subsidy per passenger of less than \$1,000 during the most recent fiscal year, as determined by the Secretary of Transportation, or face termination of subsidy eligibility, regardless of distance to the hub airport. The \$1,000 subsidy per passenger limit applies to all EAS communities outside of Alaska and Hawaii.

The Department expects the air carrier and the community to work together to ensure that the community will remain eligible for EAS. Communities that fail to comply with the applicable above requirements may risk having their eligibility in the EAS program terminated. In the event the Department terminates a community's eligibility for EAS due to lack of compliance, that action will supersede this Order.

Air Carrier Fitness

Title 49 U.S.C. §§ 41737(b) and 41738 require that the Department find an air carrier fit, willing, and able to provide reliable service before the Department may subsidize it to provide EAS. Boutique is subject to the Department's continuing fitness requirements, and no information has come to the Department's attention that would cause the Department to question the air carrier's fitness now. The Department has contacted the Federal Aviation Administration, and it has raised no concerns that would negatively affect the air carrier's fitness. The Department therefore concludes that Boutique is reliable and fit to conduct the operations proposed here.

This Order is issued under authority delegated in 49 CFR § 1.25a(b)(6)(ii)(D).

ACCORDINGLY,

1. The Department selects Boutique Air, Inc. to provide Essential Air Service at Ironwood, Michigan/Ashland, Wisconsin, from August 1, 2020, through July 31, 2022, and establishes the subsidy rate as described in Appendix C;
2. This Order is contingent upon the Department's receipt of properly-executed certifications from the air carrier that it is in compliance with the Department's regulations regarding drug-free workplaces and nondiscrimination, as well as the regulations concerning lobbying activities;⁵
3. The Department directs Boutique Air, Inc. to retain all books, records, and other source and summary documentation to support claims for payment, including copies of flight logs for aircraft used to provide EAS under this Order and sold or disposed of, and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. This documentation shall be retained for three years from the last day of service under this Order, or such longer period as the Department may notify the air carrier. If any litigation, claim, or audit is started before the expiration of the three-year period, the records must be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken. The air carrier may forfeit its compensation for any claim that is not supported under the terms of this Order;

⁵ The certifications are internet accessible at: <https://www.transportation.gov/office-policy/aviation-policy/essential-air-service-reports>.

4. The Department finds that Boutique Air, Inc. continues to be fit, willing, and able to operate as a commuter air carrier, and capable of providing reliable Essential Air Service at Ironwood, Michigan/Ashland, Wisconsin;
5. This docket will remain open until further Order of the Department; and
6. The Department will serve this Order on the mayors of Ironwood, Michigan, and Ashland, Wisconsin, the Airport Manager of the Gogebic-Iron County Airport, the Gogebic-Iron County Airport Board, Boutique Air, Inc., Multi-Aero, Inc. d/b/a Air Choice One, Key Lime Air Corp. d/b/a Denver Air Connection, and Southern Airways Express, LLC.

By:

David E. Short
Deputy Assistant Secretary
Aviation and International Affairs

(SEAL)

*An electronic version of this document is available
online at www.regulations.gov.*

AREA MAP



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Boutique Air proposal

Ironwood, Michigan / Ashland, Wisconsin: Option 2

13 Weekly Nonstop RTs IWD - ORD & 5 RTs IWD - MSP

Operations	<u>PC-12</u>
Scheduled Flights	1,872
Completed Flights (98%)	1,835
Scheduled Block Hours	2,799
Scheduled Seats	14,976
Scheduled ASMs	3,908,736
Revenue	
Passengers	10,926
Average Fare	\$86.75
Fare Revenue	\$947,830
Total Revenue	\$947,830
Expenses	
Fuel	\$934,877
Ownership	\$960,000
Maintenance and Reserves	\$1,218,2068
Crew	\$516,049
Airport Rent	\$221,884
Landing Fees	\$121,188
Staff	\$189,491
Insurance	\$20,000
Marketing and Distribution	\$20,000
Corporate and Other Indirect Costs	\$126,000
Total Costs	\$4,327,695
Profit Element	\$216,384
Margin	5.0%

<u>Year</u>	<u>Annual Subsidy</u>
1	\$3,593,464
2	\$3,683,300

Year 2 reflects an annual increase of 2.5%

Boutique Air, Inc.
Essential Air Service to be provided at Ironwood, Michigan/Ashland, Wisconsin
DOT-OST-2001-10642

<u>Annual Subsidy and Contract Term:</u>	Year 1 (August 1, 2020, through July 31, 2021): \$3,593,464 Year 2 (August 1, 2021, through July 31, 2022): \$3,683,300
<u>Hub:</u>	Chicago O'Hare International Airport (ORD) and Minneapolis St. Paul International Airport (MSP)
<u>Scheduled Service:</u>	18 nonstop round trips per week
<u>Aircraft:</u>	8 or 9-seat Pilatus PC-12
<u>Rate per Eligible Flight:</u>	Year 1, \$1,958 ¹ ; Year 2, \$2,007
<u>Weekly Ceiling:</u>	Year 1, \$70,488 ² ; Year 2, \$72,252

Note: The air 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 plans outlined in the Order and any other significant elements of the required service, without prior approval. The air 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 air carrier does not schedule or operate its flights in full conformance with the Order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the air 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 ensured of full compensation. Should circumstances warrant, the Department may locate and select a replacement air carrier to provide service on these routes. The air 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 stipulated amounts or at the stipulated service levels, the air 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 Department and air carrier 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.

Funds may not be available for performance under this Order beyond September 30, 2020. The Government's obligation for performance under this Order beyond September 30, 2020, is subject to the availability of funds from which payment for services can be made. No legal liability on the part of the Government for any payment may arise for performance under this Order beyond September 30, 2020, until funds are made available to the Department for performance. If sufficient funds are not made available for performance beyond September 30, 2020, the Department will provide notice in writing to the carrier.

¹ Year 1 annual compensation of \$3,593,463 divided by 1,835 annual departures (36 weekly departures x 52 weeks x 98 percent completion). Year 2 annual compensation of \$3,683,300 divided by 1,835 annual departures (36 weekly departures x 52 weeks x 98 percent completion).

² Year 1: 36 flights per week x \$1,958 per flight. Year 2: 36 flights per week x \$2,007 per flight.

All claims for payment, including any amended claims, must be submitted within 90 days of the last day of the month for which compensation is being claimed. For example, claims for service provided in July must be filed by October 31st, August claims must be submitted by November 30th, and so on.