



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

Issued by the Department of Transportation
on the 29th of January, 2018

Essential Air Service at

THIEF RIVER FALLS, MINNESOTA
(69A3451860401)¹

DOT-OST-2001-10642

Under 49 U.S.C. § 41731 *et seq.*

ORDER RE-SELECTING AIR CARRIER

Summary

By this Order, the United States Department of Transportation (the Department) is re-selecting Boutique Air, Inc. (Boutique), to provide Essential Air Service (EAS) at Thief River Falls, Minnesota, from June 1, 2018, through May 31, 2020, at an annual subsidy rate of \$3,350,312 for year one and \$3,434,069 for year two. Boutique will continue to provide 18 weekly nonstop round trips to Minneapolis-St. Paul International Airport (MSP) using 8 or 9-seat Pilatus PC-12 aircraft.

Background

By Order 2016-4-15 (April 19, 2016), the Department selected Boutique to provide EAS at Thief River Falls with 18 nonstop round trips each week to MSP using 8 or 9-seat Pilatus PC-12 aircraft for the two-year term from June 1, 2016, through May 31, 2018, at an annual subsidy rate of \$3,537,794.

As the end of the current contract was approaching, the Department issued Order 2017-10-11 (October 19, 2017), requesting proposals for a new contract period. In response to that Order, the Department received proposals from Multi-Aero, Inc. d/b/a Air Choice One (Air Choice One), Aviation Street, Inc., and Boutique, the incumbent.

Summary of Proposals

Air Choice One

Air Choice One proposed 18 weekly nonstop round trips to MSP, utilizing Beech 1900D aircraft, configured with 9 passenger seats, for an annual subsidy amount of \$3,637,415 for a two-year term, and \$3,601,041 for years three and four of a four-year term. Air Choice One's proposal includes \$50,000 for marketing.

¹ Federal Award Identification Number.

Aviation Street

Aviation Street proposed 18 weekly nonstop round trips to MSP using 19-seat Jetstream 31 or 32 aircraft at \$3,675,000 annually.

Boutique Air

Boutique proposed three options, all using 8 to 9-seat Pilatus PC-12 aircraft to MSP, as follows:

Option	No. of Weekly Round Trips	Annual Subsidy Year 1	Annual Subsidy Year 2	Annual Subsidy Year 3	Annual Subsidy Year 4
1	18	\$3,350,312	\$3,434,069	\$3,519,921	\$3,607,919
2	21	\$3,590,281	\$3,680,038	\$3,772,039	\$3,866,339
3	24	\$3,990,825	\$4,090,595	\$4,192,860	\$4,297,682

Boutique launched and interline agreement with United Airlines on May 1, 2017. Its customers now have through ticketing and baggage capabilities for those flights that connect with United Airlines at MSP. Boutique includes \$20,000 for marketing in its proposal.

Community Comments

On November 17, 2017, the Department requested community comments regarding this air carrier-selection case. In response, the Department received recommendations from various elected and civic officials supporting Boutique's Option 3.²

Mayor Brian Holmer stated, "We are pleased with the service delivered by Boutique Air. We would like that service to continue and even expand to 24 weekly flights which are justified based upon the success to date." Airport Manager Joe Hedrick, stated, "After careful consideration, the Thief River Falls Regional Airport Authority has decided to recommend Boutique Air continue service under its 24 round trip option [identified above] for a two (2) year term."

The community acknowledged that although this is more than the traditional 12 weekly round trips for the EAS minimum service requirement, the total number of seats will still be less than that of the previous carrier, when Thief River Falls was served by a 19-seat operator.³

Decision

After carefully reviewing each airline's proposal and taking into account community feedback, the Department has decided to re-select Boutique Air's Option 1 to provide EAS at Thief River Falls for a two-year contract term. Boutique meets all five factors the Department must consider when selecting an air carrier to provide subsidized EAS.⁴ In addition, Boutique Air has done an excellent job in improving Thief River Falls' air service.

Furthermore, the Consolidated Appropriations Act, 2017, Public Law No. 115-31, and continued by the Further Continuing Appropriations Act, 2018 Pub. L. 115-90, provides that when

² City of Thief River Falls, City of Red Lake Falls, City of Warren, Thief River Falls Chamber of Commerce, Thief River Falls Convention and Visitors Bureau, Jobs Incorporated, Digi-Key Corporation, Pennington County Commissioners, and an individual citizen.

³ See Order 2011-11-30.

⁴ See 49 U.S.C. § 41733(c)(1).

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.

The Department recognizes its fiduciary responsibilities and we are mindful that the purpose of the EAS program is to provide subsidy for a basic level of air service necessary to connect communities to the national air transportation system. While the community supports the additional weekly frequencies, Boutique's Option 3 two-year proposal is \$1,297,039 more than the Option 1 (status quo) two-year proposal, over the course of two years, and would be \$1,005,832 higher than the current annual subsidy. The Department cannot reasonably justify increasing federal subsidy so that a community can have an increased level of air service when it currently has additional frequency beyond basic EAS,⁵ connecting it to the national air transportation system at a large hub airport. Boutique is free to provide additional frequencies on its own if it deems market demand and favorable conditions exist.

The Department finds the service and subsidy levels reasonable and makes this selection at Thief River Falls contingent upon its receiving properly executed certifications from Boutique that it is in compliance with the Department's regulations regarding drug-free workplaces and nondiscrimination, as well as the regulations governing lobbying activities.⁶

Reminder About EAS Eligibility

To remain eligible for EAS, communities must comply with all applicable EAS eligibility requirements. 49 U.S.C. § 41731(a)(1)(C) states that to be eligible for EAS, a community 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 nearest hub airport. The \$1,000 subsidy per passenger limit applies to all EAS communities outside of Alaska and Hawaii.

Carrier Fitness

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 FAA, and it has raised no concerns that would negatively affect the Department's fitness findings. 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).

⁵ 49 USC § 41732 (b)(1)(A)

⁶ The certifications are internet accessible at: <https://www.transportation.gov/office-policy/aviation-policy/essential-air-service-reports>.

ACCORDINGLY,

1. The Department re-selects Boutique Air, Inc. to provide Essential Air Service at Thief River Falls, Minnesota, at the service levels and subsidy rates as described in Appendix B, for the period from June 1, 2018, through May 31, 2020;
2. The Department sets the final rate of compensation for Boutique Air, Inc. for the provision of Essential Air Service at Thief River Falls, Minnesota, as described in Appendix C;
3. The Department directs Boutique Air, 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 from the service date of this order or until the Department indicates that the records may be destroyed, whichever comes first. 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. The Department finds that Boutique Air, Inc. continues to be fit, willing and able to operate as a commuter carrier and capable of providing reliable Essential Air Service at Thief River Falls, Minnesota;
5. This docket will remain open until further order of the Department; and
6. The Department will serve copies of this Order on the Mayor of Thief River Falls, the Airport Director of Thief River Falls Regional Airport, Boutique Air, Inc., Multi-Aero, Inc. d/b/a Air Choice One, and Aviation Street, Inc.

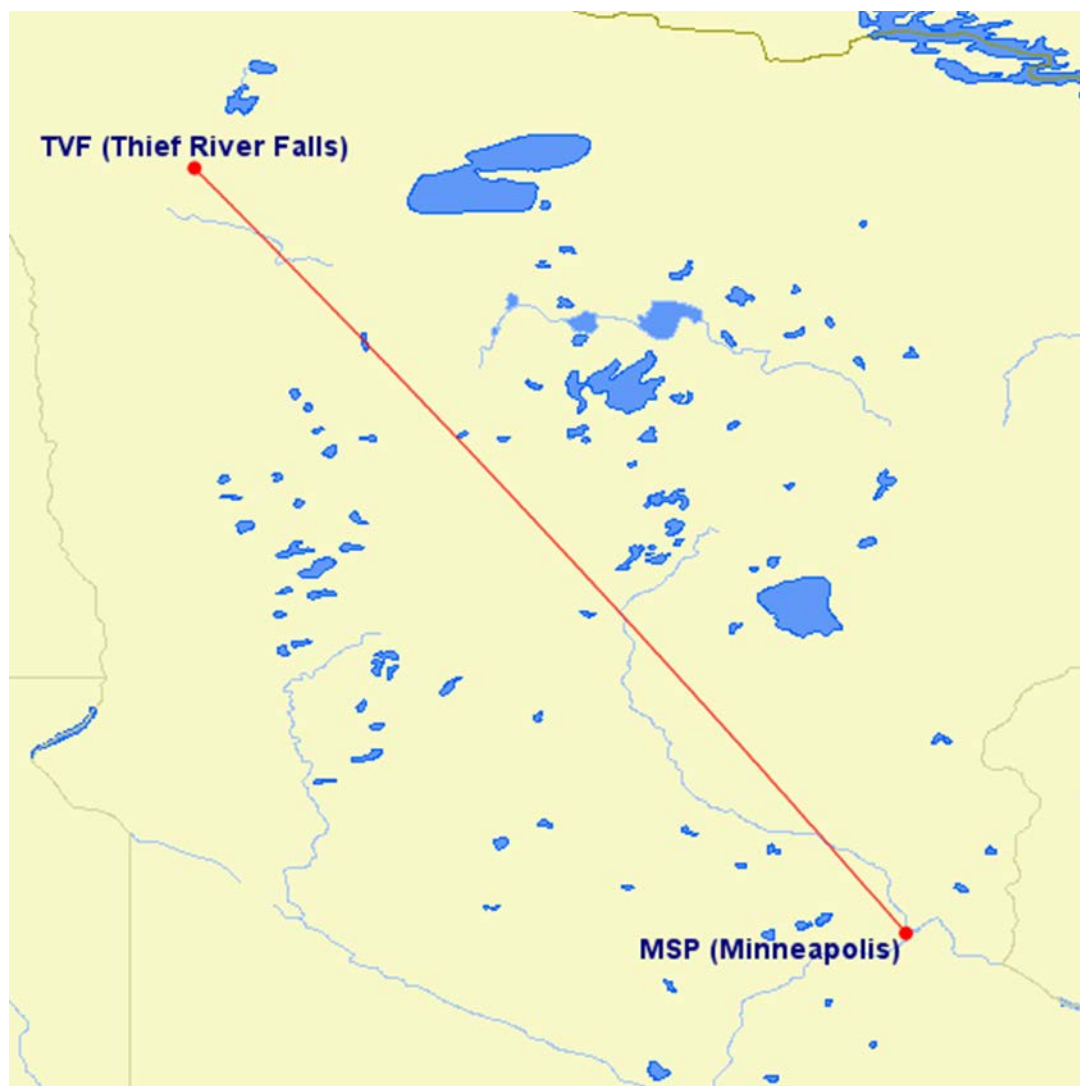
By:

Joel Szabat
Deputy Assistant Secretary
for Aviation and International Affairs

(SEAL)

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AREA MAP



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Thief River Falls, MN
Option 1: 18 Weekly Nonstop RTs TVF - MSP (3x6 Daily Nonstop RTs)
Operations

Scheduled Flights	1,872
Completed Flights (98%)	1,835
Scheduled Block Hours	2,496
Scheduled Seats	14,976
Scheduled ASMs	3,908,736

Revenue

Passengers	10,633
Average Fare	\$69
Fare Revenue	\$733,674
Total Revenue	\$733,674

Expenses

Fuel	\$833,414
Ownership	\$960,000
Maintenance and Reserves	\$1,084,512
Crew	\$460,043
Airport Rent	\$135,243
Landing Fees	\$40,983
Staff	\$189,491
Insurance	\$20,000
Marketing and Distribution	\$20,000
Other Indirect Costs	\$145,824
Total Costs	\$3,889,510

Profit Element

	\$194,476
Margin	5.0%

Total Subsidy Year 1	\$3,350,312
Total Subsidy Year 2	\$3,434,069
Total Subsidy Year 3	\$3,519,921
Total Subsidy Year 4	\$3,607,919

Boutique Air, Inc.
Essential Air Service to be Thief River Falls, MN
Docket DOT-OST-2001-10642

Effective Period: June 1, 2018, through May 31, 2020

Scheduled Service: 18 weekly nonstop round trips to Minneapolis St. Paul International Airport

Aircraft: 8 or 9-passenger Pilatus PC-12

Rate per Eligible Flight:¹ Year 1 (June 1, 2018, through May 31, 2019) = \$1,826

Year 2 (June 1, 2019, through May 31, 2020) = \$1,871

Weekly Ceiling:² Year 1 = \$65,736; Year 2 = \$67,356

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 plans 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 the 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 this rate, 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 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 stipulated service levels, the carrier may cease to provide service to that specific location without regards 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 carrier do not constitute a total or partial reduction or cessation of payment.

Subsidy contract 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 February 8, 2018. The Government's obligation for performance under this order beyond February 8, 2018, 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 February 8, 2018, until funds are made available to the Department for performance. If sufficient funds are not made available for performance beyond February 8, 2018, the Department will provide notice in writing to the carrier.

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 31; August claims must be submitted by November 30, and so on.

¹ Year 1 annual compensation of \$3,350,312 divided by 1,835 annual departures (36 weekly departures x 52 weeks x 98 percent completion). Year 2 annual compensation of \$3,434,069 divided by 1,835.

² Year 1 = 36 flights per week multiplied by \$1,826 per flight. Year 2 = 36 flights per week multiplied by \$1,871 per flight.