



April 18, 2019

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The Honorable Gary E. Clary, Chairman
South Carolina House of Representatives
House Legislative Oversight Executive Subcommittee
Post Office Box 11867
Columbia, South Carolina 29211

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GOVERNOR

James D. Stephens
EXECUTIVE DIRECTOR

Aeronautics Commission

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RE: Follow up to March 26, 2019 Subcommittee Meeting

Dear Representative Clary,

Thank you for your letter dated March 29, 2019 with questions resulting from the Aeronautics Commission's hearings held March 26th. The South Carolina Aeronautics Commission (SCAC) appreciates the opportunity to provide this additional information about our Flight Department.

SCAC has gathered responses, and compiled them for your review in the following pages, and we would welcome additional feedback that you or the subcommittee may have.

Please feel free to contact me at your convenience at 803-896-6272 if you have questions, or require any additional information.

Sincerely,

James D. Stephens
Executive Director

Procurement

1. Please provide pros/cons of participating in the federal asset transfer program, including, but not limited to, potential financial implications.

- *The division feels that an easier access to participation in the federal asset transfer program would allow for the acquisition of aircraft that would supplement the agencies mission while allowing for the development of a replacement plan for the current aircraft fleet whose aircraft ages are currently 29 and 36.*

The primary "pro" of participating in this program is the cost of entry. For instance, approximately three years ago, the division was given an opportunity to acquire an aircraft at 1/100th of its value. The division would have been required to put the aircraft into service for a period of five years, and upon completion of the term, would have been able to sell the aircraft and apply the proceeds toward the purchase of a newer aircraft for the division.

We feel that this approach would allow for a future cash flow that would enable the division to purchase aircraft with less out of pocket costs (i.e. General Fund Appropriations) and would also allow for the development of a replacement plan that could be repeated from time to time.

Currently, the division is required per S.C. Code Section 55-5-80 (C) to "operate a flight department including the purchase, operation, and maintenance of aircraft to support the transportation needs of the State".

Current S.C. Code Section 13-1-1010 requires "The Joint Bond Review Committee must review, prior to approval by the Aeronautics Commission, purchases or sales of any aeronautics assets, the value of which exceeds fifty thousand dollars. There may be no purchase or sale of any aeronautics assets without the approval of the commission." Also, S.C. Code Section 1-11-405 requires that "No aircraft may be purchased, leased, or lease-purchased for more than a thirty-day period by any state agency without the prior authorization of the Department of Administration or the State Fiscal Accountability Authority, as appropriate, and the Joint Bond Review Committee."

The primary "con" to participating in the federal asset transfer program is directly related to S.C. Code Section 1-11-405. Specifically, the requirement for Joint Bond Review Committee approval adds an amount of time that is often to great related to the turn-around time needed by those that manage the federal asset transfers.

2. What revisions to state law and/or other processes would SCAC recommend to allow SCAC to participate in the federal asset transfer program?

- *If the legislature would conform the language (\$50,000 threshold as approved by the Commission) from S.C. Code Section 13-1-1010 into S.C. Code Section 1-11-405, the process would be sped up immensely, and would allow the legislatively appointed Commission to determine whether an aviation asset could be added to the fleet for current and future use or sale. This change would provide for the timeliness of responses to the opportunities presented in the federal asset transfer program and can be structured such that it is only allowed for participation in the federal asset transfer program.*

Planes and Flight Hours

3. What is the current market value of the planes owned by SCAC?

- *N1SC (King Air 350) has an estimated market value of \$1.2M. N2SC (King Air 90) has an estimated market value of \$360K. Both estimates are based upon similar age and similarly equipped aircraft offered for sale in the current market.*

Planes and Flight Hours (cont.)

4. Please provide an itemized breakdown of the “costs” charged to entities that reimburse SCAC for use of the SCAC planes. Also, please provide a list of what SCAC is not permitted to include in these costs (e.g., certain types of overhead, plan depreciation, etc.), without a different type of Federal Aviation Administration certificate.

- *Currently, Aeronautics passes flight costs on to other agencies for flight hourly costs (\$1,500/hr. for the King Air 350, and \$1,000/hr. for the King Air 90) that are based upon averages for operational costs, overnight expenses at flat rates for single or dual pilots, and other incidentals (at cost) that are incurred due to the length or timing of the associated trip. Incidental costs could include airport and rental car fees as necessitated by the trip, but do not include fuel costs which are covered in the hourly costs.*

As an aircraft owner/operator, the State can operate under 14 CFR, Subchapter F, Part 91, entitled General Operating and Flight Rules. These rules are applicable to entities that are not for hire. As long as the State only operates the aircraft for official state business, and is not offered externally for hire, we can assess any additional fees between the division and other agencies or departments that may have needs for aircraft services.

5. Please summarize the types of flights on which travelers must reimburse SCAC and those on which reimbursement is not required.

- *Currently, the division provides flight services at no cost to the Governor, Legislative Members, and Cabinet Agencies. All other state agencies are assessed the hourly rates for the flight hours flown on a particular aircraft.*

6. Please provide the following information for each of the last three years:

- a. Approximate number of flight hours for athletic recruiting and what percentage this is of the total flight hours for the year; and

| <i>FY</i> | <i>Total Flight Hours</i> | <i>Institutions of Higher Learning</i> | <i>Average</i> |
|-----------------------|---------------------------|--|----------------|
| <i>2015-16</i> | <i>217.9</i> | <i>56.8</i> | <i>26.1%</i> |
| <i>2016-17</i> | <i>234.1</i> | <i>79.4</i> | <i>33.9%</i> |
| <i>2017-18</i> | <i>334.6</i> | <i>102</i> | <i>30.7%</i> |
| <i>Annual Average</i> | <i>262.2</i> | <i>79.4</i> | <i>30.3%</i> |

- *Since most flight manifests for institutions of higher learning are not labeled “athletic recruiting”, the total flight hour average for institutions of higher learning has been computed, and for the past three years is 79.4 annually. The amount of flight hours for athletics is estimated to be approximately 85% of the total (67.5).*

b. Approximate number of flight hours for medical purposes and what percentage this is of the total flight hours for the year.

- *There have been no medical flight hours in Aeronautics aircraft.*

Per Diem Rates

7. Please explain difficulties the agency faces as a result of the state per diem rate and any recommendations for improving these issues.

- *The primary difficulties with the current per diem state rates directly relate to our flight staff whose travels often take them to markets where average daily expenses are in excess of the current state per diem rates. As such, these higher costs go uncovered and results in the employee losing money on items that are directly related to their position and responsibilities.*

One other difficulty is related to the irregular schedules that flight staff may have, and at times will preclude them from being able to claim a meal based upon their departure and arrival times. The difficulty is that their departure time is not the time that they may have begun their flight duty day, and there may have not been time for them to eat before departure.

Marketing

8. Currently, does the agency have the ability to survey all entities who could potentially utilize the SCAC planes to determine how many are aware of this service and how many may need additional information to determine if utilizing the service may be beneficial to them? If not, what resources are necessary?
- *SCAC does have the ability to utilize an electronic survey tool that would enable the division to create, disseminate, and receive responses to a flight operations survey.*

Taxes

9. Please explain issues SCAC sees with the exemption from aviation fuel sales tax for transportation companies. Also, please provide any recommendations SCAC has for addressing the issues.
- *Currently the State Aviation Fund sources include a General Fund Appropriation, all Aircraft Fuel Sales Taxes, and the state assessed Airline Property Taxes. When considered the Aircraft Fuel Sales Taxes are payed by general aviation aircraft which include small personal aircraft on up to larger corporate aircraft. The Airline Property Taxes are only assessed to airlines that operate in and out of South Carolina, so when you consider those two groups, those taxes policies cover all users of the State Aviation System (our airports).*

However, there is an exemption in the state code as referenced specifically in S.C. Code 12-36-2120 (9)(d) which provides for the exemption of transportation companies for the generation of motive power for transportation. The division believes that a "transportation company" should be clearly defined based on federal standards for airline operations in SC, and that other transportation companies should pay the appropriate fuel sales taxes which are utilized to support the system of airports that they enjoy for use by their businesses.

10. Please explain issues SCAC sees with the airline property tax as well as recommendations for how the Department of Revenue could possibly more efficiently and effectively collect this tax.
- *Airline Property Taxes are assessed by a formulation defined in Article 19 of S.C. Code 12-37. Specifically, the formula is defined in Section 12-37-2440. Section 12-37-2450 states "The department (Department of Revenue) shall annually make a tax levy against the value so assessed and determined to exist in the State at a rate which will equal the average rates of levy for all purposes in the several taxing districts of the State for the current year, and such tax levy shall be due and payable to the department before December 31st of each year."*

It is the understanding of the SCAC that the assessments are based upon annual reporting provided by airlines. Based upon the methodology as outlined in Section 12-37-2450, the SCAC feels that there may be difficulty in determining and

validating scheduled times and mileages that are flown by aircraft whose tax filings fall under these requirements.

Maintenance and Fuel

11. What is the average annual maintenance cost for the SCAC planes?

- *The average annual maintenance costs for the last three years are \$142,273 annually. This average includes a \$50,000 equipment investment which was mandated by the FAA and is not normally part of the annualized average. If the investments were removed from consideration, average annualized maintenance costs are \$125,606. This average includes both aircraft and is included in the development of the hourly rates that are reimbursed by other agencies or governmental entities which fly with the division on division aircraft.*

12. If the Committee wanted to compare the costs governmental entities with airplanes are paying for maintenance and fuel with what those entities could be paying for the same services from SCAC, what details would be needed to make a reasonable comparison?

- *SCAC believes that the most appropriate method to determine and compare these costs are to require their delivery to a study committee for comparative analysis. The details needed to produce a quality comparative analysis should include maintenance staff overhead, direct maintenance costs that have been incurred, current shop rates for those agencies who utilize outside maintenance, and average fuel expense rates that have been utilized over a period so that those fuel prices can be compared to SCAC fuel rates for the same period.*

Regulations

13. Please provide a list of topics the agency plans to include when it creates its regulation package, including any applicable statutes (e.g. Use of state-owned planes – S.C. Code Section 55-1-90)

- *Topics planned to be included in the regulation package when created may include:
Flight Operations for SCAC Owned Aircraft
Airport Maintenance and Enhancement
Division Responsibility related to public safety and those engaged in aeronautics
Airport Development coordination with the Federal Aviation Administration
Airport Hazards
Airport Safety
State Aviation Fund
Airport Land Acquisition and associated relocation for displaced persons
Land Use Around Airports*

Data and Reporting

14. Currently, is there any requirement that SCAC annually report certain data, including, but not limited to breakdown of flight hours by entity utilizing the plane, whether the flights were reimbursable, and purpose of the flight? If there is no requirement, does SCAC report this information on a regular basis on its website or in another format?

- *Currently, there is not a state regulation which requires the annual reporting of this type of data. The only requirement is that flight logs and manifests should be displayed for transparency on the division's website, and the division complies with the current requirement. However, this information is reported to the Aeronautics Commissioners at each of their meetings and may also be found online by searching our flight logs and passenger manifests.*

15. Please explain the type of information an entity may be exempt from providing or assert is "confidential" for in flight logs and flight manifests and under what circumstances this is permitted.

- *The current allowance for "confidential" passenger listings relates directly to Budget Proviso 117.22 which states "All passengers shall be listed on the flight log by their legal name; passengers flying with an appropriate official of SLED or the Department of Commerce whose confidentiality must, in the opinion of SLED or the department, be protected shall be listed in writing on the flight log as Confidential Passenger SLED or the Department of Commerce (strike one) and the appropriate official of SLED or the department shall certify to the agency operating the aircraft the necessity for such confidentiality."*

16. If SCAC collected information about each flight in advance, what type of information would SCAC recommend collecting, other than the purpose of the flight?

- *Our role in collecting data is centered around the flight planning needs, and this information is already collected in advance. This information includes the agency requesting the aircraft, the passenger list, and the pilots will coordinate with the requestor to gain additional information that may be needed for weight and balance calculations and flight planning needs. As for the "purpose of the flight", the primary benefit would be that the "purpose" would be printed on the passenger manifest rather than for it to be hand written.*

There are a few concerns that the division would have related to the collection of this type of data, with the primary concern that this agency is not the agency that is responsible for whether an aircraft is used for official state business. It has been our position that the defining of official state business should come from the legislature and should be in line with state ethics requirements. The division is already in the practice of suggesting to flight requestors that they communicate with the State Ethics Commission to see whether their trip falls within the allowable parameters for aircraft use.

17. Would there be any additional costs for SCAC to electronically obtain from the passengers the purpose of each flight on an SCAC plane, prior to the flight?

- *No. An email could suffice, or the division could create a form to be filled out by the entity that is requesting the aircraft.*

18. Would SCAC have any concerns about receiving and posting on the SCAC website information from other state government entities who own aviation assets (e.g., flight logs, data on planes, helicopters, drones owned, etc.) to provide the public and members of the general assembly a central location to obtain this type of information?

- *SCAC would have concerns about posting other entities information on our website. As an agency that operates aircraft, we are often faced with inquiries about our aircraft and their uses. We can answer for the aircraft that we manage but are not willing to answer questions for other agencies that are separate and out of our managerial control. We also believe that if information is posted on our website, it would be out of visibility of other agencies who operate aircraft and feel that they should answer for the use of their own aircraft whose typical mission profiles vary from those offered by SCAC.*

SCAC is not advocating that other entity aircraft should be placed under our control and believe that an approach like that would save the state any significant amounts of money. However, there may be savings to other agencies who operate aircraft through coordinated fueling and maintenance services.

19. Would there be any additional costs incurred to electronically receive and post on the SCAC website, information about aviation assets from other state governmental entities?

- *There would not be additional costs based on current methods utilized, but there would be additional staff time necessary to post and maintain this information.*

Utility Plane

20. Please explain benefits, including financial, that could be gained through SCAC having access to utilize a utility plane.

- *Currently SCAC Airport Development staff works with 58 publicly owned public use airports on varying grant and aid programs. As a result of the geographical spread of our state's airports, and due to the general nature of the services offered, this department spends much of its time on the road travelling between the division and those airports. Travel times could be significantly reduced, and productivity related to multiple airport projects could be increased with the addition of a utility class aircraft.*

Apart from our own usage, a utility aircraft could also be made available to other agencies for transportation related to official state business like our current fleet's usage.

21. What would SCAC envision in an operational agreement with DNR to utilize DNR's utility plane?

- *One method to gain access to a utility aircraft would be to have an operational agreement with DNR that would allow our pilots to operate a DNR aircraft when needed for our Airport Development department. This agreement could be structured such that our utilization could offset some of DNR hourly maintenance costs that are currently billed for our maintenance services that are provided for DNR's aircraft.*

22. Has SCAC discussed with DNR the possibility of entering such an operational agreement? If so, what response has SCAC received?

- *SCAC has not formally had this discussion, but we do plan to meet with DNR management to begin the discussion.*

Hangar Space

23. Does SCAC currently have any available space for hangar/parking facilities for government owned and/or operated aircrafts?

- *There is space currently available, but the marketing of said space would have to be targeted to aircraft that would fit in the available space.*

24. When SCAC does have space available, how does SCAC inform governmental entities about the availability?

- *SCAC does not have a formal process of notifying other state governmental entities of available hangar space because the communications between this agency and others is continual, and if space were needed, its availability would be known by other agencies who may have need.*