

March 22, 2017

MEMORANDUM

TO: State Board of Regents
FROM: David L. Buhler
SUBJECT: Southern Utah University – Aircraft Lease-Purchase for the Aviation Program

Issue

Southern Utah University (SUU) is in the process of lease-financing the acquisition of between 16 and 28 aircraft for the aviation program for up to \$11,500,000 and desires to update the Committee on the progress of this transaction.

Background

At the September 2016 Board meeting, the University provided an update regarding the transition of its aviation program from a partnership with a private provider to an in-house program. SUU now administers the aviation program completely in-house and has finished its evaluation of the ongoing costs to address the growing demand and to manage the day-to-day operations of the program. The University is currently negotiating a lease-purchase agreement to acquire several fixed-wing and rotor-wing (helicopter) aircrafts for up to \$11,500,000 and wanted to inform the Board as to their progress. The lease-purchase will help SUU to meet enrollment growth demands and improve the cost efficiency of the program for the next several years. Enrollment in the aviation program has increased dramatically from 147 to 285 students for the coming fall semester. Industry standards recommend one aircraft for every ten students. Additionally, the move from aircraft leasing to aircraft ownership is projected to save millions of dollars over the life of the assets. Aircraft ownership is significantly less costly than leasing, especially when maintenance costs of new versus old aircraft are factored in. Aviation program fee revenue is sufficient to cover the costs of the lease-purchase agreement and reduced costs from owning the assets will ensure institutional funds are not used to subsidize the program.

The attached letter provides additional information about the aviation program, the costs associated with the lease-purchase, and details as to the type, quantity, and price of the aircraft. Representatives from SUU and the aviation program will be in attendance at the meeting to answer questions if needed.

Commissioner's Recommendation

This is an informational item; no action is required.

David L. Buhler
Commissioner of Higher Education

DLB/KLH/RPA
Attachment

March 13, 2017

David L. Buhler, Commissioner
Utah System of Higher Education
Board of Regents Building
The Gateway 60 South 400 West
Salt Lake City, UT 84101-1284

RE: Information to Board of Regents regarding Capital Lease financing for the purchase of aircraft

Dear Commissioner Buhler,

Southern Utah University has completed its separation from Upper Limit Aviation (ULA) and is now operating the SUU Aviation program entirely in-house. In meeting the terms of our settlement agreement, SUU has returned all ULA leased aircraft and is now flying aircraft from several independent leasing companies. We have discovered that leasing the needed aircraft for our program has been more challenging than initially anticipated. We are currently experiencing a shortage of both rotor and fixed wing aircraft, and many we have been able to secure are old and not equipped with the latest technology. For this reason we are preparing to enter into a Capital Lease financing contract to purchase the needed aircraft for our expanding program.

The demand for aviation pilots continues to outpace supply based on growth in the industry and an ever increasing number of Vietnam War military pilots reaching retirement age. SUU entered into a partnership with SkyWest Airlines to provide fixed-wing pilots to help meet their need to hire approximately 1,000 new pilots a year. Due in part to the benefits offered by SkyWest, we have experienced a significant increase in the number of students applying to our program. We currently have 147 students, including 27 fixed-wing students. Enrollments for this fall have already reached 285 students, with 112 of these in the fixed-wing emphasis.

Meeting the industry standard ratio of one (1) aircraft for every ten (10) students has been a costly challenge. SUU's original intent was to lease the necessary aircraft to meet student enrollments. Unfortunately, the vendor awarded the contract to supply leased aircraft has not been able to meet our needs. Even reaching out to other vendors has proven inadequate as there is a significant shortage of aircraft available for leasing, particularly to a flight training school. In researching potential solutions to our aircraft shortage we determined that purchasing aircraft, consistent with the practice of UVU and USU, is less expensive than leasing aircraft and the maintenance costs can be drastically reduced with a new fleet.

Current lease rates for Robinson R44 rotor-wing helicopters is \$245/hour. These helicopters can fly 2,200 hours before requiring a complete overhaul. At these rates, we need to replace/rebuild our helicopters approximately every 18 months at a total lease cost of \$539,000. Purchasing helicopters and rebuilding them up to four (4) times (maximum usage of 11,000 flight hours) yields an average cost of just \$100/hour.

Current lease rates for Piper fixed-wing airplanes is \$55/hour. Based on only being able to lease Piper airplanes which are forty (40) years old, an additional \$50/hour in maintenance costs has become necessary. Increased down-time for maintenance, combined with a lack of the latest in avionics and technology, requires us to secure a better solution for our students.

After careful review and analysis, SUU has made arrangements to purchase ten (10) new Cirrus SR20 fixed-wing aircraft to meet the needs of our fall 2017 enrollment; currently at 112 students. This purchase will allow us to terminate the leases of old Piper airplanes, and along with a recently purchased twin engine Beechcraft Baron airplane, we will meet the 1:10 airplane to student ratio.

While the hourly cost for the Cirrus aircraft will not be significantly different than our current leases, costs will be dramatically reduced beyond the seven year financing terms. It is projected these aircraft will remain in service for up to fifteen years resulting in higher yields once fully depreciated. In addition, our maintenance costs will be much less considering the first year warranty and the fact these planes will not be in need of constant age related repairs.

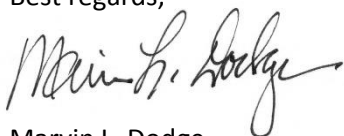
To provide the maximum protection for our students and instructors, Cirrus is the only airplane manufacturer that offers a parachute for the aircraft itself. If the plane experiences an engine loss, or some other catastrophic failure, the parachute is designed to float the airplane safely to the ground. We believe this feature, combined with airbags and an enhanced structural frame surrounding the cockpit, provides the safest possible option for our students and instructors.

We have approval from our Board of Trustees, as required in Policy R587 *Contract or Lease-Purchase Financing*, to enter into a Capital Lease contract for up to \$11.5 million for the financing of aircraft purchases. We received bids from five separate financial institutions with the best terms to date from Zions Bank Public Finance. We have a commitment for a tax-exempt interest rate between 2.65% - 2.85% over a seven (7) year term. Current lease obligations are being paid entirely from student lab fees, which cover the aircraft, fuel, maintenance, and instructor costs. At lower capital costs, the current lab fee structure will be sufficient to cover the Capital Lease payments outlined without E&G funding support. The following table outlines our projected funding needs.

Aircraft Type	Quantity	Total Price
Cirrus SR20 Fixed Wing	10 by August 2017	\$4,000,000
Cirrus SR20 Fixed Wing	Up to 5 additional in 2018	\$2,000,000
Beechcraft Baron twin engine (used)	1 purchased Jan 2017	\$ 171,000
R44 Cadet rotor-wing (new)	3 by August 2017	\$1,140,000
R44 Raven rotor-wing (new)	3 by August 2017	\$1,500,000
Rebuilt R44 rotor-wing	3 by Summer 2017	\$1,100,000
R44 Cadet/Raven rotor-wing (new)	Up to 3 additional in 2018	\$1,300,000
Total Estimated Costs		\$11,211,000

The purchase of these aircraft will allow SUU to continue reducing the overall costs of its Aviation Program, and enhance both safety and efficiency. I look forward to responding to any questions that may arise during the March 31, 2017, Board of Regents meeting.

Best regards,



Marvin L. Dodge