



March 19, 2020

Southern Utah University – Capital Lease

Regent Policy R587, *Contract or Lease-Purchase Financing* allows institutions to acquire major capital assets using capital financing (other than bonds) if they adhere to institutional policy and general accounting principles. Southern Utah University (SUU) desires to inform the Committee of a plan to finance an additional six aircraft and hanger space with \$5,000,000 of short-term financing.

In the March 2017 Regent meeting, SUU informed the Finance and Facilities Committee of a plan to finance 27 fixed-wing (plane) and rotor-wing (helicopter) aircraft for its growing aviation program with a seven-year loan for up to \$11,500,000. SUU entered into a seven-year capital loan with Zion's Bank for \$10,771,000 and by the end of June 2020 will have repaid approximately \$4.27 million. With continued demand for rotor-wing instruction, SUU proposes to enter into another short-term loan for up to \$5,000,000 to purchase an additional six helicopters and a hanger. 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.

Commissioner's Recommendations

This is an informational item; no action is required.

Attachments

March 9, 2020

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

RE: Board of Regent approval for Capital Lease financing of additional assets

Dear Commissioner Woolstenhulme:

As outlined in Regent Policy R587, *Contract or Lease-Purchase Financing*, we are requesting approval to enter into a Capital Lease agreement for up to \$5.0 million for the purchase of additional Rotor Wing Aircraft and hangar space. In March of 2017, a request for an initial Capital Lease agreement of up to \$11.5 million was authorized by the SUU Trustees and Board of Regents. Zions Bank provided capital in the amount of \$10.8 million. From this offering, the following aircraft were purchased:

Aircraft Type	Quantity	Total Price
Cirrus SR20 Fixed Wing	10	\$3,850,000
Beechcraft Baron Fixed Wing	2	\$ 365,000
Beechcraft Bonanza Fixed Wing	2	\$ 285,000
Citabria Fixed Wing	1	\$ 173,000
R44 Raven II Rotor Wing	7	\$2,854,000
Bell 206 Rotor Wing	2	\$2,100,000
R44 Cadet Rotor Wing	3	\$1,144,000
Total	27	\$10,771,000

Aircraft purchases were made in two separate phases, \$7.8 million in 2017, and \$3.0 million in 2018. Payments through FY20 lower the outstanding obligation to \$6.5 million. In addition to the list above, the University has also acquired a few aircraft using operating cash.

Although SUU's Fixed Wing Program is instructor, airspace, and aircraft constrained to approximately 150 flight labs per semester at the Cedar City Airport, (and is turning down applications each semester) there is airspace capacity for additional Rotor Wing labs. This is possible because the majority of rotor wing flight training occurs away from Cedar City and they do not require runway access to take off or land. Based on our current analysis, it is possible to increase Rotor Wing flight labs to 200 per semester if aircraft, maintenance personnel, and hangar space is made available. There is also a ready supply of qualified Rotor Flight Instructors currently being trained as students at SUU. We believe industry demand for labor will easily absorb all graduates with no negative impact on the labor market wage.

With an aviation training standard ratio of one (1) aircraft for every ten (10) flight labs, the program has sufficient fixed wing aircraft to meet current needs. However, our objective is to grow the Rotor Wing program

to 200 flight labs per semester. In Fall 2019, SUU accommodated 151 flight labs, which was over capacity for the Rotor Wing fleet of just 12 aircraft. We are projecting to complete 185 flight labs each semester for Spring and Summer 2020, and by Fall 2020, student enrollments should reach 200 flight labs.

Aircraft demand has been met using the existing rotor fleet beyond its normal capacity by accelerating planned maintenance, and using compensatory and mandatory overtime for mechanics. This over use of rotor wing aircraft causes greater challenges. Each of the Ravens and Cadets must be completely overhauled every 2,200 and 2,400 hours respectively. At normal use this amounts to an overhaul every 18 months. These overhauls take approximately three months to complete and based on normal use we have two rotor aircraft being overhauled at any given time. Continually pushing use of the fleet beyond normal capacity would lead to having three aircraft in overhaul simultaneously, causing a shortage of aircraft for student use. This further supports the need for expanding the rotor wing fleet.

Growing shortage. In 2018, there were 636 Rotorcraft pilot Airman Certificates issued in the United States. SUU was responsible for 107 of these certificates (some students obtain more than one certificate in a calendar year). The Boeing Company has estimated a need for 2,550 new commercial helicopter pilots in North America each year from 2019 through 2038. With fewer than 800 pilots produced each of the past three years, there is an accumulating shortage of Rotor Wing pilots. One primary cause of the reduction is increased scrutiny by the Veteran's Administration (VA) on funding GI Benefits for flight training. Several flight training schools have reduced or suspended operations because of challenges meeting current VA rules. Also, major airlines are actively recruiting current rotor pilots by offering fixed wing transition training. In 2018, 500 active rotor wing pilots were hired by the airlines.

We therefore seek Board of Regent approval to enter into a Capital Lease contract for up to an additional \$5.0 million for the financing of rotor aircraft purchases and hangar space to house the aircraft.

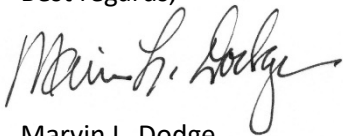
The anticipated outcomes would be as follows:

200 Rotor Flight labs per semester - estimated costs for additional assets:

R44 Cadet	1	\$ 389,000
B.O. 105	1	\$ 650,000
R44 Raven II	3	\$1,467,000
Bell 505	1	\$1,750,000
<u>Hangar</u>		<u>\$ 500,000</u>
Total:		\$4,756,000

The purchase of these aircraft will allow SUU Aviation to continue reducing the overall average cost per student of its program and help address the growing labor imbalance in the Rotor market. I look forward to responding to any questions that may arise during the March 2020, Board of Regent meeting.

Best regards,



Marvin L. Dodge
Vice President

cc: President Scott L Wyatt