HOUSE
RESEARCH
ORGANIZATION bill analysis 7/10/2003

HB 82
Hamric

SUBJECT:	Abolishing the State Aircraft Pooling Board
COMMITTEE:	Government Reform — favorable, without amendment
VOTE:	6 ayes — Swinford, Allen, Callegari, Casteel, R. Cook, T. Smith 0 nays 1 absent — Gallego
WITNESSES:	For — None Against — None On — Diane Thomas, Comptroller's Office

BACKGROUND: Since 1979, the State Aircraft Pooling Board (SAPB) has overseen a pool of state-owned and -leased aircraft used for official charter service by state officials, employees, and collegiate athletic teams. The board has five members: one each appointed by the governor, lieutenant governor, and House speaker, serving overlapping six-year terms, and one each designated by the chair of the Texas Building and Procurement Commission (TBPC) and the state auditor, serving in a nonvoting advisory capacity. The voting members elect the chair biennially.

State agencies and institutions own more than 50 aircraft, including 15 used by the Texas State Technical College (TSTC) in Waco and Abilene for pilot instruction. SAPB maintains and operates nine of its own turboprop passenger aircraft and two single-engine special-purpose planes based in Austin, and maintains about 25 others. Other than TSTC, entities owning more than one plane include the Department of Public Safety (DPS, 16), Texas Parks and Wildlife Department (four), and the Texas Department of Criminal Justice and Texas A&M University (two each). SAPB planes and pilots are available 24 hours a day, seven days a week. All SAPB revenue is user-generated. The agency's budget comes from appropriated receipts and interagency contracts, although it received $900,000 in fiscal 2002-03 for aircraft replacement. SAPB leases its two most recently acquired planes and two refueling trucks through the Texas Public Finance Authority (TPFA); the combined outstanding balance is $3.1 million. SAPB employs 30 personnel, 12 to 13 of whom could be classified as maintenance. The 78th Legislature authorized 39 full-time equivalent employees for fiscal 2004-05.

In 1999, SAPB moved from Austin's former Mueller Airport to Austin-Bergstrom International Airport (ABIA). The new facilities, built with revenue bonds issued in 1997 through TPFA, include hangar space and ground services. Sale of the Mueller site has been authorized but not completed. The site is owned by TBPC, which leases it for use as a movie soundstage. The total bond payoff for both properties would be almost $9 million, according to TPFA.

SAPB underwent sunset review in 2000. In 2001, the 77th Legislature continued SAPB for 12 years and required it to conduct long-range planning, including replacement of its fleet, most of which was built during the 1980s. In June 2003, Gov. Rick Perry line-item vetoed the agency's $7.4 million appropriation for fiscal 2004-05 in HB 1 by Heflin.

DIGEST:

HB 82 would abolish SAPB and transfer its duties and functions and some of its assets to DPS. All SAPB equipment not transferred to DPS for maintenance and all assets would be liquidated, other than the two newest King Air 200 planes. All SAPB real estate would be sold, other than the maintenance and hangar facilities at ABIA, which could be leased or sold. DPS would have to maintain all state aircraft and could coordinate charter services formerly performed by SAPB.

DPS could negotiate contracts with private charter aircraft providers to obtain the most cost-effective rates possible for official travel by state officers and employees. Contracts could stipulate either that agencies pay providers directly or that they reimburse DPS for payment. DPS also could contract with a flight safety consultant to develop safety guidelines for charter aircraft providers. Responsibility for preparing and distributing a manual of minimum operations standards for agencies and providers, including incorporation of agency input, would shift to DPS.

The notice required of statewide elected officials to obtain priority scheduling of aircraft would change from 12 hours to "appropriate advance notice."

DPS would have to monitor agency compliance with travel log requirements and report annually to the Legislative Budget Board on air travel information received.

DPS would have to add indirect costs to the rate structure applied to interagency aircraft service charges. The department would have to negotiate property and liability insurance contracts.

DPS and TPFA, in consultation with TBPC and the General Land Office (GLO), would have to create a team to oversee the orderly transition of property and services from SAPB to DPS. The team would have to inventory all equipment and other property being transferred or sold and ensure elimination of all nonmaintenance employee positions. All contracts, records, property, and maintenance employees would be transferred to DPS.

TBPC, in consultation with DPS, would have to sell SAPB's aircraft and nonmaintenance equipment at fair market value by September 1, 2004, and use the proceeds to pay off any outstanding bonds associated with them. By September 1, 2005, GLO, in consultation with TPFA, would have to sell or lease all SAPB facilities at ABIA except those used to maintain or house non-SAPB aircraft. GLO would have to sell SAPB's former Mueller facility by the same date for not less than GLO's assessed current market value. Sales could be by competitive bid or direct negotiation with current lessees, neighboring property owners, or political subdivisions, including the City of Austin and Travis County. Sale or lease proceeds would have to be spent on the facilities' outstanding bonded indebtedness.

HB 82 would repeal statutes governing SAPB, authorizing interagency aircraft leasing, allowing exemptions for non-SAPB pilots, and authorizing SAPB to transfer planes to public flight training programs.

The bill would take effect September 1, 2003, if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect November 1, 2003.

SUPPORTERS SAY:

SAPB is not cost-effective because of an inadequate rate structure, underuse, and high maintenance costs. The age of its fleet and the relative inexperience of some of its copilots also raise safety concerns. SAPB should be abolished to save the state money, both on its operations and on official travel, which could be provided more cheaply through competition by private charters and commercial airline service.

HB 82 is based largely on Recommendation GG 5 in the comptroller's January 2003 e-Texas report, *Limited Government, Unlimited Opportunity*. The bill is necessary to follow up on the governor's line-item veto of the SAPB's fiscal 2004-05 appropriation, aimed at eliminating the agency.

State law requires SAPB to operate on a cost-recovery basis. The board's charges to users, however, exclude several important business costs, such as capital outlays for new aircraft, building expenses, custodial services, and other general support. In fiscal 2001, SAPB's fees generated about $684,000 less than its direct costs; $1.3 million less when associated costs are included. Had the board charged an average of $1,027 per flying hour, according to the comptroller, it would have recovered all costs in 2001. Selected charters' rates averaged $1,084 per flying hour for similar aircraft. SAPB also charges about 84 percent of equivalent private-sector prices for maintenance but does not recover sufficient overhead, estimated by the comptroller at about $900,000 annually.

SAPB incurs significant costs to maintain its aging fleet. Although it recently acquired a 2000 King Air 200, most of its passenger fleet was built during the 1980s (one in 1978). Parts, labor, and miscellaneous costs for eight planes rose from $361,000 in 1997 to $700,000 in 2001, according to the comptroller. A fully funded replacement plan could cost about $5.4 million in general revenue for fiscal 2008-09, the comptroller estimated. Maintenance savings would be offset by principal and interest payments.

Selling SAPB assets could net almost $10 million in fiscal 2004-05 and would retire all SAPB debt. Abolishing the agency would save more than $1 million in annual ongoing costs.

The comptroller found that SAPB pilots average roughly half the flying time of the board's private Austin counterpart (259 hours versus between 500 and 600 hours a year). The annual flying hours on SAPB's primary passenger fleet averaged about 285 hours in fiscal 2001, while the Austin charter averaged

500 hours, the comptroller found. Members of the National Business Aviation Association averaged more than 400 hours for turboprop aircraft in 1999.

Several large state agencies do not use SAPB aircraft. The agencies most likely to experience increased flight demand after SAPB's abolition already have independent air travel capability.

SAPB contracts with copilots who are seeking to gain commercial flying time to become full-time pilots or captains. Copilots are used at agency request at a nominal cost to SAPB. A flight safety consultant's review found that SAPB should use only fully qualified copilots. The review also recommended that SAPB operate under stricter federal regulations, equip both pilots and copilots with the same instrumentation, increase training, and invoke stricter rest and duty time rules to reduce risks.

OPPONENTS SAY:

Pooling state aircraft usage remains a viable alternative to other forms of air travel. It is more economical and no less safe than for-profit chartering and, in some cases, is competitive with commercial air travel. Reducing SAPB's costs inevitably would lead to increasing its client agencies' costs.

SAPB continues to save the state money because it is cheaper, by as much as 50 percent, than comparable private charters. In recent weeks, for example, SAPB has flown members and staff of the Senate Jurisprudence Committee across the state to conduct redistricting hearings. SAPB flights cost less than three private charters it contacted for rate comparisons. Savings ranged from about $9,000 compared to the nearest competitor to almost $20,000 compared to the highest quote received.

SAPB offers state agencies schedule flexibility and access to destinations not served commercially, reducing travel time and lodging costs. When sizable groups travel, SAPB is competitive with commercial airlines, yet available to accommodate short turnaround times. Its special-purpose planes, for example, conduct mapping flights for the UT Bureau of Economic Geology. More importantly, eliminating SAPB could curtail rural Texans' access to legislators and other state elected officials, who might not be able to visit with them as often.

Because the comptroller is not likely to process payroll checks or bill payments, SAPB's lack of appropriations authority effectively incapacitates it, but the governor's line-item veto of SAPB's 2004-05 budget will not save the state money. Agencies merely will spend their travel dollars elsewhere, either with DPS or in the private sector. Eventually, when enough agencies begin incurring significant costs from private charters and begin asking to buy their own planes, the state will have to resume the pool approach, but at a higher cost than if it had retained or retooled the program.

The potential gain to the state from selling SAPB assets is exaggerated. In an economic downturn, those assets might not bring as much money as the comptroller or others estimate. The sale of the former Mueller facility would have no effect on SAPB's budget because the board no longer owns that property. At best, SAPB debt would be retired in exchange for short-term budgetary savings. Also, it would be counterproductive for the state to keep its two best planes if it is abandoning the pool approach and trying to make money by selling SAPB assets.

Putting the state police in charge of the state's air fleet would not work well. Although DPS has its own large fleet, the agency has no real experience in chartering. Giving DPS the state's two newest planes and authorizing it to provide passenger transportation under a board statute is inconsistent with the objective of replacing a state pool with private-sector service.

SAPB has an exemplary safety record of no accidents or serious incidents. In 2001, the National Business Aviation Association recognized it for 20 years of error-free flying. The safety study cited in the comptroller's e-Texas report was not independent or thorough. The consultant obtained no information directly from SAPB.

SAPB has stricter pilot standards than its private Austin counterpart, which employs many SAPB copilots as captains. The 500-to-600-hour average flight time per pilot cited by the comptroller is unrealistic and not reflective of the corporate charter industry.

OTHER OPPONENTS SAY:

It would make more sense to delegate charter service rate negotiations to TBPC, which already negotiates the state's commercial air travel rates, rather than DPS, which has no expertise in this area.

It would be illogical to reduce overhead by selling all SAPB assets except its two most valuable ones — the two newest planes — especially in a weak economy and arguably a buyer's market. If the aim is for DPS to supplant SAPB on a smaller scale, the state would be better off scaling back SAPB rather than eliminating it altogether.

If the fee structure or fleet age are the real issues, SAPB should be allowed to raise its rates to increase revenue and continue acquiring newer planes to reduce maintenance costs.

NOTES:

According to the fiscal note, HB 82 would produce a net general revenue gain of $900,000 in fiscal 2004. The State Highway Fund would save $483,000 a year in rent that DPS no longer would have to pay to SAPB. DPS would have to hire an additional 15 full-time equivalent employees.