



## STATE OF NORTH CAROLINA DEPARTMENT OF TRANSPORTATION

ROY COOPER  
GOVERNOR

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SECRETARY

### **NCDOT Division of Aviation Rates and Charges Analysis and Recommendation** March 1, 2022

Submitted herein is the NCDOT Division of Aviation rates and charges analysis for our passenger aircraft, as called for in North Carolina Session Law 2021-180, Sections 41.14.(a) and (b).

#### ***AVIATION/STATE PLANE COST OF USE RATE ANALYSIS***

*SECTION 41.14.(a) The Division of Aviation shall conduct a rates and charges analysis for the Hawker Beechcraft King Air B200 passenger aircraft (King Air). The report shall contain a comparison of the market rates of private aircraft providers in North Carolina and surrounding states and an analysis of actual operating-cost-rate for the King Air. The Division of Aviation shall submit the results of the study, including a recommended rate, to the Joint Legislative Transportation Oversight Committee and the Fiscal Research Division by March 1, 2022.*

*SECTION 41.14.(b) During the 2021-2023 fiscal biennium, unless the General Assembly modifies the rate after the study required by subsection (a) of this section, the Department of Transportation shall charge one thousand two hundred dollars (\$1,200) per hour to State agencies, excluding the Department of Transportation, for use of the King Air until June 30, 2023.*

#### **Rates and Charges Study**

The Division of Aviation contracted with aviation and aircraft data consultants Conklin & de Decker Associates Inc. to collect private aircraft provider rates in North Carolina and surrounding states. Conklin & de Decker is a leader in aviation research, consulting and education, enabling the general aviation industry to make more informed decisions when dealing with the purchase, operation and disposition of aircraft. That study is attached to this report.

The Division used actual operating cost data from the past five fiscal years to provide the operating-cost-rate analysis of the King Air B200 and develop its rate recommendation.

#### **Comparison of Market Rates of Private Aircraft Providers**

Conklin & de Decker conducted outreach to sources in North Carolina and across the Southeast to identify private aircraft charter services that operate King Air B200s that could provide rate data. That outreach revealed six operators in five southeastern states (Alabama, Florida, Georgia, Kentucky and South Carolina) that charter King Air B200s.

Rates for the six private charter operators range from \$1,982 to \$2,500 per hour, an average of \$2,164 per hour for aircraft rental, fuel and two pilots, as shown in the table below. This is based on a four-hour round-trip flight. Three operators (Gold Aviation, Skylife Elite and Southern Sky

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Aviation) charge an hourly rate that includes aircraft, fuel and two pilots. They also lease, rather than own, the aircraft, retaining 15% of the profit via lease agreement. Three operators (Atlanta Air Charter, SAI Flight and Triton Airways) charge an hourly rate for aircraft and fuel and charge a flat rate for pilots.

The table below shows the hourly rates of the six B200 operators.

#### **B200 Private Charter Aircraft Operator Hourly Rates**

<b>Company Name</b>	<b>State</b>	<b>Rate/Hour*</b>	<b>NOTE</b>
Atlanta Air Charter	GA	\$1,982	\$1669.50/hour for aircraft (includes fuel) plus \$1250/day for 2 pilots
Gold Aviation	FL	\$2,500	includes fuel and pilots
SAI Flight	SC	\$2,150	\$1850 for aircraft (includes fuel) plus \$1200/day for 2 pilots
Skylife Elite	FL	\$1,950	includes fuel and pilots
Southern Sky Aviation	AL	\$2,150	includes fuel and pilots
Triton Airways	KY	\$2,250	includes \$1800 for aircraft (includes fuel) plus \$1700/day for 2 pilots

\* Hourly rate is for a four-hour round-trip flight for aircraft, fuel and crew. It does not include other costs such as taxes, crew expenses, landing fees, supplies/catering, fuel surcharges, customs, etc.

Source: Conklin & de Decker

#### **Actual Operating Cost Rate for the King Air B200**

The table below shows all costs associated with operating the King Air B200 for the past five fiscal years (2017-2021). This includes direct (also called variable), unscheduled maintenance, scheduled maintenance and fixed (or overhead) costs. Flight hours totaled 1,090 for the five years, averaging 218 hours per year.

#### **King Air B200 Five-Year Actual Costs**

<b>Cost</b>	<b>Average Annual Costs</b>	<b>Average Cost/Hour*</b>	<b>Costs Include:</b>
Direct (Variable)	\$160,230	\$735	Fuel, engine overhaul and propeller reserve**, electronic navigational database subscription service**
Unscheduled maintenance	\$24,852	\$114	Parts and service required due to aircraft utilization
Scheduled maintenance	\$74,556	\$342	Routine inspections, upgrades and overhauls
Fixed (Overhead)	\$265,088	\$1,216	Hangar, crew, training, insurance and operational subscriptions for flight and maintenance tracking and reporting

\* 218 average flight hours per year (1,090 total hours for the past five fiscal years, FY 2017-2021)

\*\* Industry standards categorize these items as direct (variable) costs

### NCDOT Rate History and Approach

Flight departments, such as NCDOT's, operate aircraft solely to transport their own employees, not to make a profit. They choose whether and what to charge their agencies based on internal factors, and thus vary in how they charge.

For instance, some charge for direct (variable) costs and unscheduled maintenance costs for operating the aircraft – that is, for flying agency staff. Some include scheduled maintenance in this category. Most agencies absorb the fixed (overhead) costs, which are incurred regardless of how often the aircraft is used, as part of their overall business expenses and do not charge those costs to the agencies that use their service.

The table below shows NCDOT's actual aircraft costs broken down by these categories.

**King Air B200 Five-Year Actual Costs by Categories Used to Determine Charges**

Cost	Average Annual Costs	Average Cost/Hour*	Costs Include:
Direct (Variable)	\$160,230	\$735	Fuel, engine overhaul and propeller reserve**, electronic navigational database subscription service**, landing fees, crew expenses, in-cabin supplies
Unscheduled maintenance	\$24,852	\$114	Parts and service required due to aircraft utilization
<b>Cost NCDOT typically charge back to agencies</b>	<b>\$185,082</b>	<b>\$849</b>	<b>Direct (Variable) + Unscheduled maintenance</b>
Scheduled maintenance	\$74,556	\$342	Routine inspections, upgrades and overhauls
<b>What some flight departments charge</b>	<b>\$259,638</b>	<b>\$1,191</b>	<b>Direct (Variable) + Unscheduled maintenance + Scheduled maintenance</b>
Fixed (Overhead) Costs In-house Flight Departments Typically Do Not Charge Customers	\$265,088	\$1,216	Hangar, crew, training, insurance and operational subscriptions for flight and maintenance tracking and reporting
<b>NCDOT charged costs plus absorbed costs</b>	<b>\$524,726</b>	<b>\$2,407</b>	<b>Direct (Variable) + Unscheduled Maintenance + Scheduled Maintenance + Fixed</b>

\* 218 average flight hours per year (1,090 total hours for the past five fiscal years, FY 2017-2021)

\*\* Industry standards categorize these items as direct (variable) costs

The Division of Aviation has historically charged the state agencies that use our flight services an hourly rate to recover the direct (variable) portion of our costs – that is, the cost incurred as a result of their specific flight – and not a portion of the fixed costs we incur to run the flight department.

Until 2021, when the N.C. Session Law 2021-180 set our passenger rate at \$1,200 an hour, the Division charged \$800 per hour to state agencies for flight services. That rate was based on a fleet study conducted by the Division in 2014. The study considered actual cost data for the previous two fiscal years. Based on that study findings, the Division raised its rates for passenger service 34.5%, from \$595 per hour to \$800 per hour.

The Division analyzed its costs again in 2017, surveyed peer states and obtained national data to determine whether to increase its hourly rate. Based on that analysis, the Division concluded that rates should remain the same.

### **NCDOT Aviation Rate Recommendation**

Moving forward and based on this analysis, the Division of Aviation recommends charging \$850 per hour for passenger service, which is the average hourly rate for the Division's direct (variable) and unscheduled maintenance costs, as shown in the table above (page 3). This would represent a 6% increase from the \$800 per hour rate we charged before the 2021 legislated rate increase.

A rate of \$850 would continue our approach of billing state agencies to recoup the actual cost of their flights, not the entire cost of running the flight department. The State of North Carolina would still be paying the total cost of our flight operations, but the Division would continue absorbing the cost of running the flight department and not bill its agency passengers for those costs – again, a common practice for many corporate and state agency flight departments.

Continuing to charge the \$1,200 rate set by the 2021 N.C. legislation would cover the additional costs of scheduled maintenance, which some in-house flight departments recover, as well, in their rates.

However, our preference would be the lower hourly rate. We view our aircraft as state assets and our flight operations as a service that increases productivity of state agency staff by reducing travel and unproductive time, cutting wear and tear on employees and responding to emergencies. As rental rates increase, fewer state agencies can afford to use the aircraft, which will discourage them from gaining its benefits.