



Office of Program Policy Analysis And Government Accountability

James L. Carpenter
Interim Director

September 14, 1995

REVIEW OF THE STATE EXECUTIVE AIRCRAFT POOL

PURPOSE OF REVIEW

This review examines the State Executive Aircraft Pool, which is managed by the Department of Management Services (DMS). Our review was conducted at the request of the Joint Legislative Auditing Committee and addressed three issues:

- How is the Executive Aircraft Pool being used?
- What options exist for reducing state costs for operating the Executive Aircraft Pool? and
- Does the Executive Aircraft Pool meet safety standards?

BACKGROUND

The Executive Aircraft Pool consists of four aircraft that are available on a 24-hour basis for state officials and employees. The Pool essentially operates as a charter service and provides air transportation to airports within Florida as well as to other states. According to DMS managers and DMS's Agency Strategic Plan, the Pool is intended to enable state executives to travel to locations where commercial airline service is limited or not available, and to save these persons time by avoiding airport delays.

State officers, executives, and employees needing air transportation may call DMS to reserve aircraft. There are three priority levels for state employees. **Priority 1:** the Governor, Lt. Governor, Cabinet Officers, the Chief Justice of the Supreme Court, the President of the Senate, and the Speaker of the House. **Priority 2:** Supreme Court Justices, chairs of legislative committees, and state agency and commission heads. **Priority 3:** all other state employees who are authorized by their agency

heads to use state aircraft. Lower-priority users may be "bumped" if a scheduled plane is needed to transport a higher-priority passenger.

The Executive Aircraft Pool is funded through the Bureau of Aircraft Trust Fund, which receives monies from user fees and transfers from general revenue. For fiscal year 1994-95, DMS spent approximately \$1.9 million operating the Aircraft Pool, of which \$1.4 million was general revenue and \$0.5 million was paid by agencies using the planes. DMS has allocated \$2.2 million for the Aircraft Pool for fiscal year 1995-96, including \$1.5 million from general revenue.

FINDINGS

Aircraft Use

Half of Flights Carried Priority 1 Aircraft Users. As shown in Exhibit 1, nearly half of Pool flights carried Priority 1 officers during calendar year 1994. The Governor and members of his Office were the most frequent users, accounting for 29% of the total flights. Flights carrying Priority 2 employees as the highest-priority passengers accounted for about a quarter of the trips, while about a third of the flights carried only Priority 3 passengers.

**Exhibit 1: Priority Levels of Passengers
Calendar Year 1994**

Priority Level	Percent of Flights ¹
1	47%
2	23%
3	30%

¹ Flights are classified by the highest priority person on the flight. Thus, flights carrying both Priority 1 and Priority 2 passengers are classified as Priority 1.

Commercial Service Available for Most Flights.

Although a primary purpose of the Executive Aircraft Pool is to enable state executives to save time by quickly traveling to cities that lack adequate airline service, most trips could be accomplished using commercial flights. DMS flight logs for 1993 and 1994 show that 72% of the flights were to destinations that were within 30 miles of airports with scheduled commercial airline service.

We could not determine if commercial flights were available at the precise times that the DMS flights occurred. Commercial air service to and from Tallahassee has improved in recent years. As of August 1995, six major and commuter airlines provide daily service to 19 Florida cities from Tallahassee, with up to 24 daily flights scheduled to cities such as Miami. Thus, we concluded that most passengers on DMS flights could have traveled using commercial airline service if they were flexible in their travel plans.

DMS Flights Are Costly Compared to Airline Service.

Generally, it is significantly more expensive to use the Executive Aircraft Pool than commercial air services. For example, it costs the state approximately \$3,000 for DMS to fly its multi-passenger planes roundtrip to Miami, compared to the \$178 per-passenger roundtrip airfare available under the state airline term contract. In some cases, the state can save money by using the DMS planes if the cost of the flight is lower than the total commercial airfares for all passengers. However, this break-even point is seldom reached. For example, we examined 105 flights in 1994 where DMS planes carried Priority 3 passengers to cities that had commercial air service. Only 17 of these flights carried enough passengers to reach the break-even point. We estimate that the state could have saved about \$110,000 if these 105 trips had been made using commercial service rather than the DMS planes.

DMS managers noted that the Aircraft Pool saves time for state officers, executives, and employees by providing direct air service, thus avoiding waits for commercial flights. DMS estimates the value of these time savings at \$226,000 for fiscal year 1995-96. While these time savings may be needed for officers such as the Governor, they may not be cost-effective for other state employees. We identified 80 flights during 1994 that carried 189 Priority 2 and Priority 3 passengers to cities where commercial service was available. We estimate that these trips cost about \$108,000 more using the DMS planes than commercial airfare. The state would have to value these executives and

employees' time at an average of \$573 per hour each to justify this additional expense (assuming the flights saved each passenger an average of one hour per trip).

Agencies Have Limited Incentive to Use DMS Planes Efficiently.

A primary reason for this situation is that state agencies that use DMS planes pay only part of the costs for these flights. DMS charges agencies only for the fuel and maintenance expenses it incurs during flights (e.g., variable costs), while it covers its remaining expenses (e.g., fixed costs such as pilot salaries and overhead) with general revenue. Overall, agencies pay about a quarter of DMS's costs.

As a result, an agency may pay DMS about the same amount for an Aircraft Pool flight as commercial airfare, although the total cost to the state can be much more expensive. For example, an agency needing to fly two employees to Orlando would pay \$456 to DMS for this service, compared to \$436 if these two employees used a commercial airline at the state term contract rate. The agency could decide that the potential time savings for these employees was worth the extra \$20 expense of using the DMS plane. However, the actual cost to the state for this DMS flight would be \$1,716. The agency may make a different decision if it had to pay an additional \$1,280 instead of \$20 for using the DMS plane.¹

DMS has taken actions to reduce its operating costs. It has raised the fees it charges agencies for flights and has negotiated for lower fuel prices. DMS anticipates that these steps will save \$230,000 in general revenue during fiscal year 1995-96. However, DMS will continue to need a general revenue subsidy of about \$1.3 million for the Aircraft Pool during the fiscal year.

Cost Reduction Options

We analyzed three options for reducing state costs to operate the Executive Aircraft Pool: (1) raising agency fees; (2) downsizing the DMS aircraft fleet; and (3) privatizing executive air transportation.

Raising Agency Fees. Under this option, DMS would charge agencies a greater percentage of the costs of operating the Aircraft Pool. This would

¹ We also noted that agencies have used the DMS planes for other activities such as athletic recruiting; in some cases the agency share of the flight costs were paid with privately raised funds. However, because the agencies were charged for only part of DMS's flight costs, taxpayers paid most of these costs through general revenue.

force agencies to consider cost when making travel plans for their employees. This option could largely eliminate the need to subsidize the Executive Aircraft Pool with general revenue.

Agencies would probably reduce their use of the Aircraft Pool under this option. We asked seven agency heads who have used DMS planes in the past year if they would change their travel plans if their agencies had to pay the full cost of this service. These executives indicated that they would probably use commercial airline service instead of the Aircraft Pool unless there were a priority need for transportation to a site.

If this option is adopted, DMS would probably need to downsize its fleet to reflect the reduced demand for its service. Otherwise, its costs would have to be divided among fewer flights, resulting in even higher user fees.

Downsizing the Aircraft Fleet. Under this option, DMS would sell one or more planes in its fleet. Downsizing the fleet to three planes would enable DMS to meet most of the travel needs of the Governor and Cabinet. Our analysis of 1994 flight logs showed that DMS could have provided 91% of all flights carrying Priority 1 passengers and 78% of the flights carrying Priority 1 and 2 passengers with only two planes operating each day (the third plane would be needed to allow for maintenance or other downtime for each plane).

If the fleet were downsized to two planes DMS could no longer handle the travel needs of the Cabinet. DMS managers assert that as a result, use of the planes would be largely restricted to the Governor and his staff. DMS included the option of selling two planes and transferring the remaining planes to the Governor's Office in its response to the 1995-96 Senate 25% budget reduction review request.

Downsizing the fleet would reduce DMS's costs and allow DMS to sell its older planes (the two oldest planes have an estimated market value of \$1 million, based on industry pricing guides). DMS estimated that operating with only two planes and two pilots would reduce its costs by approximately \$1.5 million annually.

The disadvantage of downsizing the Aircraft Pool is that it could make it less convenient for state executives to travel to locations that lack commercial airline service. Also, DMS managers expressed concerns that state agencies would seek to buy their own planes if DMS could no longer meet the travel needs of Cabinet members and executives, resulting in higher costs to the state.

Fleet Elimination and Privatizing. The third option we considered was to eliminate the Executive Aircraft Pool and to privatize this service. Under this option, DMS would contract with a private vendor to provide charter air service to state executives. This option would probably save money because agencies would increase their use of commercial airlines instead of paying the full cost of charter service, but these savings cannot be accurately determined. The state would also receive one-time revenues from the sale of the existing planes, which have a combined estimated market value of about \$2.9 million. While an existing charter company in Tallahassee indicated that it could provide a similar level of service as DMS (e.g., 24-hour availability to state executives using pressurized aircraft and two pilots), the company was unwilling to estimate the cost of this service. A potential disadvantage of this option is that the state would have less direct control over areas such as pilot training and airplane maintenance, which could raise safety and security concerns for state executives.

Safety Issues

DMS Appears to Meet Safety Requirements. We found no indications that DMS was operating its aircraft in an unsafe manner. Our review of DMS aircraft inspection schedules and maintenance logs found that DMS has complied with manufacturers' required inspection timeframes and applicable FAA regulations. We found no indication that DMS has flown its planes in a manner that would compromise flight safety.

However, we determined that DMS should improve its documentation of some airplane repairs. We noted that in some instances, pilots reported items as needing repair on plane logs and maintenance staff failed to document when the item was corrected. As a result, it was difficult to determine whether pilots knew if the items had been fixed when planes were used. Additionally, we noted that a prior independent maintenance review recommended and the DMS flight operations manual requires the use of two staff when towing planes. DMS does not always follow this procedure and has damaged planes when towed by a single employee.

Since the 1992 crash of a DMS plane, DMS has implemented a policy to use two pilots for all flights (use of two pilots was optional before that time). Using two pilots increases operating costs but provides an added margin of safety. Five of the seven southeastern states recently surveyed by DMS reported using two pilots for similar operations.

CONCLUSIONS AND RECOMMENDATIONS

While the Executive Aircraft Pool can provide needed transportation and time savings for state executives, many flights do not appear to be cost-effective and agencies have only a limited incentive to use the service in an economical manner. This problem could be addressed if the Aircraft Pool were operated more like a business enterprise. DMS should set user fees at the level needed to recover its total operating costs, including maintenance and depreciation expenses. This would enable DMS to build up reserves to repair and/or replace planes as needed. This change would likely result in lower use of the Aircraft Pool because many state employees would use less expensive commercial air service rather than DMS's planes. This would enable DMS to downsize the Aircraft Pool; most high-priority flights could be provided with fewer planes.

If the Legislature wishes to reduce the costs of operating the Executive Aircraft Pool, we recommend that it:

- Direct DMS to downsize the fleet with commensurate reductions in staffing. If the Legislature wishes DMS to continue to provide service to the Governor and Cabinet, DMS should sell its oldest plane and operate with three planes. DMS could provide at least 91% of Priority 1 flights at this service level. If the Legislature wishes to generally restrict use of the Aircraft Pool to the Governor, DMS should operate with two planes, and
- Direct DMS to charge agencies for the full cost of Priority 2 and Priority 3 employee flights and at least half of the costs for Priority 1 flights. This will force agencies to consider whether the trips are justified in terms of executive time savings and trip necessity.

We estimate that downsizing the Aircraft Pool to three planes would save approximately \$.5 million

annually; operating the Aircraft Pool with two planes could save up to \$1.5 million annually.

If the Legislature chooses to downsize the Aircraft Pool, we recommend that the Legislature:

- Closely examine any agency requests to acquire or operate their own passenger aircraft to determine why the agency needs aircraft for employee transport.

Alternately, the Legislature could elect to eliminate the Executive Aircraft Pool and direct DMS to contract with a private charter service to provide executive service for the Governor and other Priority 1 members.

AGENCY RESPONSE

The Secretary of the Department of Management Services, in his written response to our preliminary report, stated the Department's position that "The Executive Aircraft Pool is not intended to be as cost effective as commercial airline travel. Rather, it is a time management tool for the State's executive management, . . . Additionally, the Executive Aircraft Pool is an integral part of the State's disaster preparedness plan and is used in emergency situations." He also stated that "The decision to downsize the Executive Aircraft Pool should be based on whether or not providing air transportation to the State's executive management enhances their productivity."

Regarding the portion of Executive Aircraft Pool costs recovered from user agencies, he stated "DMS has no philosophical objection to the Legislature amending the law relating to the portion of Executive Aircraft Pool costs recovered from user agencies. However, we do not feel that full cost recovery is appropriate, as it may impact the efficient use of State resources."

This review was conducted in accordance with generally accepted government auditing standards and included appropriate performance auditing and evaluation methods. Copies of this report in alternate accessible format may be obtained by contacting Report Production at (904) 488-0021 or FAX (904) 487-3804.

Review Supervised by: Gary R. VanLandingham

Review Conducted by: Margaret O. Smyly

Department of Management Services

September 8, 1995

Mr. James L. Carpenter, Interim Director
Office of Program Policy Analysis
and Government Accountability
Claude Pepper Building, Room 312
111 West Madison Street
Tallahassee, Florida 32302

Dear Mr. Carpenter:

Pursuant to Section 11.45(7)d), Florida Statutes, this is our response to your report, Review of the State Executive Aircraft Pool.

With respect to downsizing the Executive Aircraft Pool:

The purpose of the Executive Aircraft Pool is to provide the Cabinet and Executive Branch air transportation for official state business and emergencies. It was created to more efficiently utilize state resources by reducing the number of aircraft used for this purpose. Originally, there were thirteen aircraft owned and operated by various agencies. DMS currently accomplishes the same task with four aircraft.

The Executive Aircraft Pool is not intended to be as cost effective as commercial airline travel. Rather, it is a time management tool for the State's executive management, similar to the corporate aircraft concept used by private sector companies. Commercial airline schedules may not accommodate the schedules of executive management, resulting in more overnight stays or cancellations of important trips. Additionally, the Executive Aircraft Pool is an integral part of the State's disaster preparedness plan and is used in emergency situations.

The decision to downsize the Executive Aircraft Pool should be based on whether or not providing air transportation to the State's executive management enhances their productivity.

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Regarding the portion of Executive Aircraft Pool costs recovered from user agencies:

DMS has no philosophical objection to the Legislature amending the law relating to the portion of Executive Aircraft Pool costs recovered from user agencies. However, we do not feel that full cost recovery is appropriate, as it may impact the efficient use of State resources. Furthermore, the Legislature experimented with full cost recovery for the Executive Aircraft Pool about twenty years ago. They adopted the current billing methodology the following session.

If further information is needed concerning our response, please contact Randy Toothaker at 488-5285.

Sincerely,

William H. Lindner
Secretary

WHL/dep