

**SOUTH DAKOTA BOARD OF REGENTS**

**Budget and Finance**

**AGENDA ITEM: 7 – F**

**DATE: May 11, 2021**

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**SUBJECT**

**SDSU Aviation Hangar Update and Lease**

**CONTROLLING STATUTE, RULE, OR POLICY**

[BOR Policy 5:3](#) – Agreements and Contracts

**BACKGROUND / DISCUSSION**

As discussed at the August meeting, the SDSU Aviation Education program currently occupies a hangar at the Brookings Municipal Airport, which is owned and operated by the University. This hangar is designed to store 6 aircrafts but is currently storing 10. In addition, SDSU is storing 3 aircrafts in rented spaces. While a ratio of 8:1 student to aircraft would allow for maximum flexibility and student flight time, the SDSU program has set a goal of 10:1, which, with careful management still allows for students to progress through the program in a timely manner and maintains cost effectiveness.

Current enrollment in the SDSU Aviation Education program is 187 and the program operates 13 aircrafts. Based on the goal ratio of 10:1 student per aircraft, available hangar space would limit enrollment capacity to 130 students. The current enrollment of 187 students and the limitation in available hangar spaces (13) result in a 14.3:1 ratio.

SDSU pilots continue to have excellent job placement and over the last five years. 100% of graduates have been employed in aviation pilot positions. While graduates fly domestically and internationally, a large number choose to stay in South Dakota. Graduates of SDSU’s aviation program fly for companies such as: Sanford AirMed, Avera, Delta, Alpine Air, SkyWest, Sun Country, SD Air-National Guard, SD Army National Guard, Air Force, Poet Ethanol, Charter First and serve as flight instructors. The job outlook for airline and commercial pilots is projected to grow five percent from 2019 to 2029 (U.S. Bureau of Labor Statistics). SDSU is positioned well to help address the workforce need for pilots, but to sustain the current enrollment level they must address the need for aircraft storage space. Without the additional hangar space, SDSU cannot store

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**DRAFT MOTION 20210511\_7-F:**

I move to authorize the Executive Director to finalize and execute a hangar lease with the SDSU Foundation, consistent with the directives of the Board, with the executed lease to be reported to the Board at its first meeting after its execution.

enough airplanes to serve the current student enrollment in the program and will have to cap enrollment.

At the August 2020 BOR meeting, SDSU presented a Preliminary Facility Statement for a new Airport Hangar. During the discussion at that meeting, it was suggested that SDSU look for options to lease hangar space or have another party build the hangar space and then lease it to SDSU.

In response to those suggestions, SDSU has verified that there is no current hangar space available for rent in Brookings. In addition, at the December 2020 BOR meeting, SDSU informed the BOR that SDSU had started discussions with their Foundation and were looking at options for additional hangar space in Brookings. The University investigated acquiring an existing hangar, having the SDSU Foundation build a hangar to lease back to the university, or leasing space from a private developer. In April of 2021 SDSU released an RFP for hangar space to be leased by the University. The University received two responses for aircraft hangar space capable of housing 12 aircrafts. One response had a significantly higher lease rate than the Foundation proposal and the other was a similar cost but was lessor quality construction than the proposed Foundation hangar.

To address the limitation the lack of hangar space imposes on student enrollment in the Aviation Education program, the SDSU Foundation has agreed to pursue leasing land and building a hangar to store 8-12 planes with the intention of leasing the hangar to the University. SDSU is requesting approval to enter into a lease agreement with the SDSU Foundation. The lease would be for 5 years with an option to renew every 5 years, with an annual lease rate not to exceed \$84,000 per year. The Foundation continues to actively fundraise for this facility and any fundraising success could reduce the annual lease rate.

After comparing the RFP responses to the SDSU Foundation proposal, SDSU has determined the best course of action from a fiscal and practical position, is to pursue a lease agreement with its Foundation.

#### **IMPACT AND RECOMMENDATIONS**

The proposed hangar is anticipated to be between 10,000 and 12,000 square feet at a cost of \$1.4M to \$1.6M. The annual lease payments of \$84,000 are based upon a cost of \$1.5M at an interest rate of 3.7% paid back over 30 years.

#### **ATTACHMENTS**

None