



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-159007

NOV 19 1970

Dear Mrs. Mink:

In further response to your letter of July 21, 1970, we have reviewed the operations of the Hickam-Wheeler Air Force Base Aero Club and the extent of Government support received by the club.

Our review included an examination into the Hickam-Wheeler club membership and cost records and into the authority for, and Government support to, aero clubs in general. We also visited the operators of four commercial flight schools in Hawaii, obtained their views on the competition offered by the club, and obtained information on the costs incurred by the commercial flight schools that are not incurred by the club.

On the basis of our review, we conclude that the club, a non-appropriated fund activity, is receiving substantial Government support which is in accordance with Air Force regulations. This support gives the club an advantageous competitive position over commercial flight schools. In this respect the commercial flight-school operators are primarily concerned about the competition presented by the club in the area of vocational-type training, such as advanced flight training, instrument rating, and instructor training, which can be financed through the Veterans Pension and Readjustment Act of 1967 (GI bill of rights).

The Congress has permitted the regulations of the defense components to have the force of law in the area of nonappropriated fund activities operated within the Department of Defense.

Department of Defense Directive 1330.2 "Funding of Morale, Welfare and Recreation Facilities," Air Force Regulation 215-2 "Air Force Aero Clubs," and other supporting Air Force regulations provide authority for establishing aero clubs as recreational activities to promote morale and to develop certain skills.

The following persons are authorized membership in aero clubs:
(1) an active duty military member of the U.S. Armed Forces and his dependents, (2) a retired military member and his dependents, (3) a civilian Department of Defense employee and his dependents, (4) an

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Army, Air Force, or Naval Academy cadet, (5) a military member of a foreign government who is on duty with the Department of Defense, (6) a member elected to the U.S. Congress or a statutory appointee of the Federal Government with the approval of Headquarters, U.S. Air Force, (7) a Federal Government employee working on a military installation, (8) the unmarried widow and children of a deceased active duty or retired member of the U.S. Armed Forces.

Air Force Regulation 34-67 "Support for Religious, Morale, Welfare, and Recreation Facilities and Activities" states that leisure-time facilities and activities should be provided, operated, and maintained through financial support from appropriated fund sources supplemented with nonappropriated funds. The regulation provides that all types of appropriated funds, with the exception of Military Construction Program funds, may be utilized to support the aero clubs. Support, according to a broad list of specifically allowable items identified in the regulation, includes normal maintenance and repair of facilities. Air Force officials have advised us that the concept of such normal maintenance and repairs was incorporated into the term "rent" in the letter to you dated July 2, 1970, from Colonel J. H. Ragolia.

OPERATIONS OF HICKAM-WHEELER AERO CLUB

The club has been located in an Air Force hangar at Wheeler Air Force Base for over 10 years. On July 31, 1970, the club had 10 Cessna single-engine aircraft and 27 full- and part-time employees.

During the past 10 years, this club has offered formal courses in basic ground-school and primary flight training enabling members to obtain private pilot's licenses. The club also has provided instruction beyond the private-pilot level (i.e., commercial-pilot rating, instrument rating, and instructor rating) on an individual basis. We noted that 14 members were engaged in, or had recently completed, some type of advanced training at the club.

On June 30, 1970, the club's membership numbered 237 persons. Of these, 156 members (137 military and 19 civilians) were engaged in training preparatory to obtaining private pilot's licenses, and 131 members already held pilot's licenses at either the private, commercial, or instructor level.

After reviewing the club's membership records as of August 15, 1970, we advised the club's manager that, in accordance with Air Force Regulation 215-2, seven members were not eligible for aero club membership. These seven included five employees of Government contractors,

one Government employee not working on a military base, and one former Department of Defense civilian. The manager agreed to terminate the membership of these persons.

Although the manager of the club advised us that during the past 2 years several hundred persons had enrolled and resigned from the club, records were not available to show the occupational status of these former members or what training they had received.

POTENTIAL FOR INCREASED ACTIVITY UNDER GI BILL

Aero clubs are now eligible to provide advanced flight training under the GI bill. For aero clubs to be eligible under the GI bill, no more than 85 percent of the members participating in advanced flight training can be recipients of veterans benefits under the bill.

Approval of the club's application for training under the GI bill could provide a significant increase in the number of members taking advanced training through the club. Officials advised us that more than two thirds of the members who received their private pilot's licenses through the club subsequently took advanced training under the GI bill at private flying schools. No records were available at the club, however, to substantiate or disprove this statement.

On June 30, 1970, the club membership included 78 active or retired military personnel and 17 civilians or dependents who held private pilot's licenses. Thus in accordance with the GI bill (which required that at least 15 percent of the class enrollment not be recipients of veterans benefits), if 14 of the 17 civilians or dependents would be enrolled in an advanced course, all 78 of the military personnel could be enrolled, provided that they met technical proficiency standards and that they desired to take the training. Generally, personnel with 2 years of active service can qualify for training under the GI bill while on active duty. Inasmuch as about 86 percent of the club members were active or retired military, many of the members taking preparatory training for private pilot's licenses could eventually become eligible for advanced training under the GI bill.

EXTENT OF GOVERNMENT SUPPORT

The club has received substantial Government support from both appropriated and nonappropriated funds. This support has given the club a significant financial advantage over the private flight schools in Honolulu.

The club has had free use of 39,000 square feet of hangar and adjacent apron area and additional office, shop, and classroom space at Wheeler. Electricity for the hangar, shop, office, and classroom has also been furnished at no cost to the club. A private-school operator has recently paid 54 cents a square foot a year for a similar area. Also we noted that during the past 2 fiscal years, in accordance with Air Force Regulation 34-67, the Air Force has incurred, without reimbursement, about \$18,400 repair and maintenance costs on the building and adjacent apron area that is occupied by the club and other Air Force organizations.

We visited four private schools located at Honolulu International Airport and noted that none of them had extensive facilities comparable to those of the club. Two of these private schools performed their own aircraft maintenance, at an estimated cost of \$3 to \$6 an hour, and the other two contracted for their maintenance at a cost of \$8.50 an hour. In contrast, officials of the club advised us that they performed all of their routine maintenance with their own mechanics, who are off-duty military personnel employed by the club, at a cost of \$2.25 to \$3.25 an hour. Thus the club was able to perform aircraft maintenance at about 50 percent, or less, of what it cost the private schools. The private-school operators also pointed out that they paid taxes on their leases and real property. We were informed that one operator paid \$1,000 a year in real property taxes and \$530 a year in taxes on the lease.

The club had almost exclusive use of the Wheeler Air Force Base landing facilities, sharing them with only a limited number of Army helicopters and light planes. This was in marked contrast to the congested conditions we observed at Honolulu International Airport, the site of the private schools.

The club received its insurance coverage through the Air Force Central Mess Fund, a nonappropriated fund, in accordance with Air Force regulations. Instead of paying insurance premiums, the club makes a quarterly contribution to the mess fund equal to 1.25 percent of the stated value of the aircraft. The club had an average of eight aircraft during fiscal year 1970, on which it contributed approximately \$3,500 to the mess fund.

In contrast, the private-school operators informed us that they paid from \$1,500 to \$2,200 per aircraft a year for insurance, depending upon the type of aircraft. We estimate that the club would have paid over \$12,000 a year to commercial insurers for the insurance it now receives from the mess fund.

The club had not borrowed any money on long-term loans during the past 2 fiscal years. Prior to that time, however, the club borrowed \$40,000 at no interest from the mess fund to purchase aircraft. Private-school operators informed us that they were currently paying about 12 percent per annum on borrowed funds.

As a Government instrumentality, the club has been exempt from the Hawaii State sales taxes and gasoline excise taxes. Private-school operators informed us also that they paid sales taxes on gross revenues, which included the 4-percent tax paid by their customers and a 4-cent-per-gallon excise tax on gasoline. We estimated that the club escaped sales taxes of approximately \$9,200 and excise taxes of \$1,900 in fiscal year 1970.

The club has purchased most of its general supplies from the General Services Administration and its lubricating oil and solvents from the Army at less than market prices. We noted that the club had received about \$4,000 worth of surplus Government equipment, mostly office furniture, at no cost to the club.

AERO CLUB FINANCIAL DATA

During the 2-½ years ended June 30, 1970, the club reported total income of about \$355,000 and net profit of about \$20,000.

The income was derived principally from aircraft rental, membership dues, and instructors' fees. These amounts were supplemented by ground-school fees, sales of accessories, and initiation fees. Operating expenses were primarily for salaries, fuel, maintenance, parts, and equipment depreciation.

The following schedule compares the minimum club charges to members for obtaining the various licenses with the minimum charges at which the licenses could be obtained at the local private schools.

| | <u>Private pilot</u> | <u>Commercial pilot</u> | <u>Instrument pilot</u> | <u>Flight instructor</u> |
|-----------------------------------|--------------------------|-----------------------------|-----------------------------|------------------------------|
| Hickam-Wheeler | \$527 | \$1,840 | \$ 626 | \$620 |
| Aeromarine Inc. | 857 | 2,926 | 1,059 | 966 |
| Hawaii Air Academy | 705 | 2,175 | 610 ^a | 730 |
| Associated Aviation Activities | 761 | 2,792 | 1,086 ^a | 862 |
| Island Flight Center | 812 | 3,399 | Not readily available | |

^aTraining in simulator is substituted for part of flight hours required.

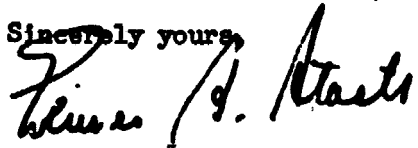
Three of the four private-flight-school operators consider the club to be an unfair competitor in the field of advanced flight training. They were particularly concerned about the inclusion in the club's membership eligibility of civilian Government employees working on military bases and about the club's being allowed to provide advanced training under the GI bill. We noted that the fourth operator had the Cessna dealership in Hawaii and had sold four aircraft to the club since it started buying aircraft locally instead of on the mainland.

The private-school operators were not concerned about the club's training its members for private pilot's licenses, since a good portion of these members were obtaining advanced training through private flight schools.

We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

We trust that our review is responsive to your request. Please let us know if we can be of any further assistance.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "James A. Stacks". The signature is written in a cursive, flowing style with a large initial "J".

Comptroller General
of the United States

The Honorable Patsy T. Mink
House of Representatives