

May 23, 2019



WRITTEN TESTIMONY ADDRESSING HB 166

Chairman Dolan, Vice Chairman Burke, Ranking Member Sykes and members of the Senate Finance Committee, my name is Mike Rossi, and I am a principal member of Directional Capital LLC, which is an investment company involved in almost every aspect of private aviation. Two of the largest companies in the Directional portfolio, Flexjet, LLC, which operates a fractional aircraft ownership program, and Constant Aviation, LLC, which is a provider of aircraft maintenance, repair and overhaul services (referred to as an “MRO”), are headquartered in Ohio, with their primary operations in Cleveland. I am a Certified Public Accountant who oversees the financial activities of Flexjet, Constant Aviation and many other Directional portfolio companies, and I have been involved in the private aviation business in Ohio for over 35 years.

I offer this testimony to urge you to preserve three sales and use tax provisions that would be removed if the state budget is approved as set forth in House Bill 166:

- O.R.C. Section 5739.025(C), which provides a cap on the sales and use tax relating to sales of aircraft used in a fractional aircraft ownership program (in lieu of the standard tax calculation);
- O.R.C. Section 5739.02(B)(44), which provides an exemption from the sales and use tax for sales of parts for engines, airframes, instruments, and interiors in, and paint for, aircraft used primarily in a fractional aircraft ownership program, and of services for the repair, modification, and maintenance of such aircraft; and
- O.R.C. Section 5739.02(B)(49), which provides an exemption from the sales and use tax for sales of materials, parts, equipment, or engines used in the repair or maintenance of aircraft or avionics systems of such aircraft, and sales of repair, remodeling, replacement, or maintenance services in this state performed on aircraft or on an aircraft's avionics, engine, or component materials or parts, where the definition of “aircraft” would apply to the aircraft owned by customers of Constant Aviation.

These provisions are essential to maintaining the existence of Flexjet and Constant Aviation in Ohio.

The Impact on Flexjet

Flexjet and NetJets Inc. (headquartered in Columbus) are the world’s two largest operators of fractional aircraft ownership programs, with their combined fleets of over 1,000 aircraft comprising more than 85% of the fractional jet ownership market. Flexjet employs approximately 500 Ohioans and makes purchases from more than 200 Ohio vendors annually, but since its customer base is located predominantly outside of Ohio, it is not necessary for Flexjet to remain here. Flexjet’s presence in Ohio is supported by the benefits our customers and the company realize from the cap on the sales and use tax relating to sales of aircraft used in our fractional aircraft ownership program and from the exemptions from sales and use tax on maintenance materials and services described above. Indeed, when we added the Flexjet business to the Directional portfolio (which already included Cleveland-based fractional program operator Flight Options, LLC) in December 2013, Flexjet’s operations were primarily in Texas. After considering a variety of factors, not the least of which was the cap on sales tax relating to fractionally owned aircraft, we elected to move a substantial portion of Flexjet’s operations to Ohio.

While Flexjet maintains a reduced presence in Texas, our operations in Ohio have grown so significantly over the past five years that we are evaluating a substantial expansion of our facilities at Cuyahoga County Airport to accommodate that growth. Eliminating the cap and the exemptions would be such a disincentive to expansion of the operations in Ohio that we are likely to re-examine our previous decision.

The Impact on Constant Aviation

Constant Aviation's largest operations are located at Cleveland Hopkins and Cuyahoga County airports, but it maintains additional maintenance service and paint facilities in Florida and Arizona. Constant Aviation employs 500 of its 800 employees in Ohio and makes purchases from nearly 300 Ohio vendors annually. Constant Aviation's largest competitors in the MRO market are located in other states that provide exemptions from sales and use tax relating to the sale of parts and labor in connection with aircraft maintenance of the type provided by Constant Aviation. If the exemptions described above are removed, Constant Aviation will be at a clear disadvantage against its competitors. Aircraft are mobile assets and aircraft owners and operators are extremely sensitive to maintenance costs, so our customers will elect either to have their maintenance services performed at one of our non-Ohio locations (which will require us to shift employment growth away from Ohio in favor of those locations) or to simply purchase MRO services from a competitor located in a state that maintains the appropriate exemptions. In either case, Constant Aviation will be forced to migrate jobs and services out of Ohio in order to remain competitive.

I understand that Ohio has been working to become a leader in the aviation industry and that these exemptions were adopted as part of that initiative. I applaud that effort, and I want to emphasize to the Committee that these exemptions are succeeding, and would continue to succeed, in fulfilling their purpose. Flexjet, Constant Aviation, and certainly the rest of the aviation industry employs more Ohioans and does business with more Ohio vendors because these exemptions are in place. Our businesses in Ohio are growing. To remove these exemptions would undermine our government's own initiatives to grow the aviation industry in Ohio despite their obvious success. Finally, given the negative effects these changes would have on the aviation industry in Ohio, it should go without saying that any revenue gains anticipated from the elimination of these exemptions would prove largely illusory.

Your support for maintaining the cap and the exemptions is critical, and I urge you to pass an alternative to HB 166 that does not undermine the success you have already achieved.

Thank you for the opportunity to offer this testimony and for your attention to our concerns. I am happy to answer any questions the Committee may have regarding our business, our industry, or the impact these tax provisions have on our ability to be competitive and maintain our strong presence in Ohio.

Sincerely,



Michael A. Rossi
Directional Capital LLC