

Written Testimony of Brad Ferrell,
NetJets Executive Vice President and General Counsel

Chairman Dolan, Vice Chair Burke, Ranking Member Sykes, and members of the Senate Finance Committee, thank you for the opportunity to provide testimony today. My name is Brad Ferrell, and I am Executive Vice President and General Counsel for NetJets.

The aviation industry is a major contributor to the success of Ohio's economy, accounting for tens of thousands of jobs and hundreds of millions of dollars in economic activity each year. The strength of Ohio's aviation industry is due in large part to Ohio's favorable tax environment for aviation-related businesses, which includes sales tax exemptions for fractional aircraft sales, aircraft parts and maintenance, and flight simulators. These sales tax exemptions allow Ohio's aviation companies to maintain their competitiveness and economic viability. Indeed, they are a primary reason why NetJets has elected to keep its headquarters and principal business operations in Ohio.

But now, the Ohio House of Representatives has introduced a budget bill that purports to eliminate the exemptions for sales of fractional aircraft, aircraft parts and maintenance, and flight simulators. Elimination of these exemptions would be bad policy from both a tax and economic perspective. It would adversely affect the competitiveness and profitability of Ohio's aviation industry, forcing many of its members, including NetJets, to reevaluate whether to continue their business presence in Ohio, or, alternatively, look to other, more tax-accommodating states to grow their business. In the long term, this would reduce Ohio's overall tax revenues, not increase them.

To better understand the importance of the foregoing tax exemptions, let me provide some background regarding NetJets and its business operations. NetJets sells and leases fractional aircraft and manages those aircraft through its fractional aircraft management company headquartered in Columbus, Ohio. NetJets pioneered the fractional aircraft management model in

1986, and, since then, it has grown to the largest private aviation company in the world. Today, NetJets has more than 440 aircraft in its U.S. fractional fleet and more than 740 aircraft worldwide. To put this in perspective, NetJets has a fleet roughly the size of Southwest Airlines. In terms of operational activity, NetJets' U.S. fractional program conducts over 240,000 flights per year to more than 1,900 airports around the globe. In 2018, a NetJets U.S. flight took off or landed every 63 seconds.

NetJets' growth and success has been enormously beneficial for Ohio. The NetJets family of companies employs more than 2,400 individuals throughout the State, including approximately 1,800 in central Ohio. In the past five years alone, NetJets has paid a total of \$1.1 billion in payroll compensation to Ohio employees. In addition, NetJets spends more than \$100 million per year in Ohio purchasing various goods and services necessary to support its business operations. Simply stated, NetJets is a key part of Ohio's economic engine.

NetJets has also used its economic success to support educational and charitable initiatives in Ohio. One example is NetJets' support of The Ohio State University's Center for Aviation Studies. Since 2011, NetJets has donated approximately \$3 million to Ohio State's aviation program. In addition, in 2017, NetJets donated seven new Cessna aircraft to the aviation program to be used for student training. And, just last year, NetJets agreed to contribute an additional \$1.2 million to Ohio State's new airport terminal and aviation learning center. When asked about NetJets' donations to Ohio State's aviation program, College of Engineering dean David B. Williams had this to say: "It is not hyperbole to say that but for NetJets, Ohio State aviation and flight education might not be here today.... Truly we owe NetJets our very existence."

As with any company, NetJets pays careful attention to the tax environment in which it operates. Increases in state and local tax obligations affect the profitability and competitiveness

of any business, and the same is true for NetJets. This is why Ohio's fractional aircraft sales and use tax exemption is so important to NetJets. Elimination of this exemption would subject NetJets to millions of dollars in additional sales and use taxes each year and would adversely affect the competitiveness of NetJets' product offerings by making them substantially more expensive than they are today.

Under the fractional aircraft business model, NetJets purchases aircraft from manufacturers such as Cessna and Bombardier and then resells fractional interests in those aircraft to purchasers. This model is extremely attractive to individuals and companies who have a need or desire to fly privately but do not want the expense and hassle of owning and maintaining a whole aircraft or multiple aircraft. As part of the fractional business model, each fractional owner agrees to have NetJets manage the owner's aircraft, and also agrees to allow its aircraft to be used by all of the other owners in the program on an as-needed basis. This sharing arrangement is known as the aircraft interchange.

While the aircraft interchange supplies most of the aircraft necessary to meet the flight demands of NetJets' owners, it is necessary for NetJets to supplement the interchange with its own aircraft, which NetJets calls its "core fleet." The core fleet is comprised of fractional aircraft interests that NetJets owns itself. The fractional aircraft business model needs the core fleet to function properly because it ensures there are a sufficient number of aircraft available to satisfy the daily flight demands of NetJets' owners. Because Ohio is NetJets' principal place of business, its core fleet is considered to be domiciled in Ohio for tax purposes.

If Ohio's tax exemption for fractional aircraft sales were eliminated, NetJets would become subject to a 7.5% tax on its core fleet. This would impose an additional tax obligation on NetJets totaling millions of dollars each year. NetJets either would have to pass this tax obligation through

to its customers, which would adversely affect NetJets' competitiveness by increasing the price of its products, or, alternatively, it would have to incur the tax impact itself, thereby negatively affecting its profitability. Neither option would be palatable to NetJets long term. Instead, NetJets would be forced to consider other states with more favorable sales tax environments. And, there are plenty. Currently, there are fourteen other states where fractional aircraft sales either would be wholly exempt from sales and use tax or subject to a cap similar to the one currently in place here in Ohio. Those states recognize that aviation is a mobile industry, and thus they have endeavored to implement tax policies that attract aviation companies rather than drive them away.

The fractional aircraft sales exemption is not the only exemption that is important to NetJets and the aviation industry in Ohio. The exemptions on sales of aircraft parts and maintenance and flight simulators also attract aviation-related business to Ohio, and elimination of those exemptions would adversely affect Ohio's economy in a manner comparable to elimination of the fractional sales exemption. Air carriers who currently choose Ohio to have their aircraft repaired, refurbished and maintained would simply move their business to other states rather than face increased supply chain costs. The same is true with respect to flight simulators. FlightSafety International operates a state-of-the-art flight training and simulator facility across the street from NetJets' headquarters in Columbus, Ohio. NetJets accounts for a majority of the pilot training that occurs at FlightSafety's Columbus facility, sending most of its more than 2,400 pilots through the facility to satisfy their initial and recurrent training requirements.

NetJets has spent \$208 million on pilot training at FlightSafety's Columbus facility over the past five years alone. It has spent another \$40-plus million in Ohio on aircraft maintenance and related services during that timeframe. Ohio should be working to keep and grow that type of economic activity rather than incentivizing companies to look elsewhere.

In closing, the tax exemptions for fractional aircraft sales, aircraft parts and maintenance, and flight simulators are critical to the competitiveness and growth of NetJets and the rest of the aviation industry in Ohio. NetJets and the fractional aircraft industry are true success stories in Ohio. NetJets asks that the legislature preserve those success stories, and allow them to continue to grow, by maintaining the sales tax exemptions that currently exist.