

# Best Practices for Working with Aircraft Management Companies

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Alan began his career at Citibank as a corporate accountant preparing internal and external management financial reports and submissions to Shareholders and the Security and Exchange Commission. Alan was also on the management team of long time NBAA member Citigroup Corporate Aviation.

For the flight department, His responsibilities included overseeing the entire aviation department's accounting, budgeting, bill payment and treasury functions plus the calculation and reporting of personal use for IRS and SEC purposes.

In addition to his finance expertise, Alan has participated in the purchase or sale of approximately 60 turbine aircraft over the years (some of them twice).

Currently, Alan along with his partners at Flight Dept Solutions provide consulting advice on aircraft utilization, accounting / finance for aircraft operations and management company oversight.

Alan is a Past Chairman and current member of the NBAA Tax Committee.

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Changes in the law, or in the interpretations thereof, will affect the information provided in this presentation.

# What is a Managed Flight Operation vs Self Management



	Self Managed	Management Company
Pros	Total control by owner	Experienced in aircraft operations
	Direct influence on standard	Safety standards in place
	Direct pass through of costs	Handles all trip logistics
		Prepares monthly summarized statements
		Industry expertise
		Handles hiring training and employee issues
Cons	Not part of core business	Less control by owner
	Management involvement in employee issues	Management fee
	Lack of expertise in hiring	Potential for mark ups on services
	Inexperience in operating complex aircraft	
	Additional admin support required	
	No ability for charter	

# Aircraft Management Company – Issues to Consider



## Standards

- Flight Operations manual
- Standard Operating Procedures
- Pilots and maintenance standards
- Letter of Authorizations (LOA)

## Safety

- Safety Management System
- Emergency response planning
- Flight and duty time

## Oversight

- Who is responsible for flight operations
- Are crew complying with SOPs
- Non-flying Flight Department manager

## International trip planning

- International expertise or use of 3<sup>rd</sup> party providers
- Customs, permits, etc.



# Types of Management Services

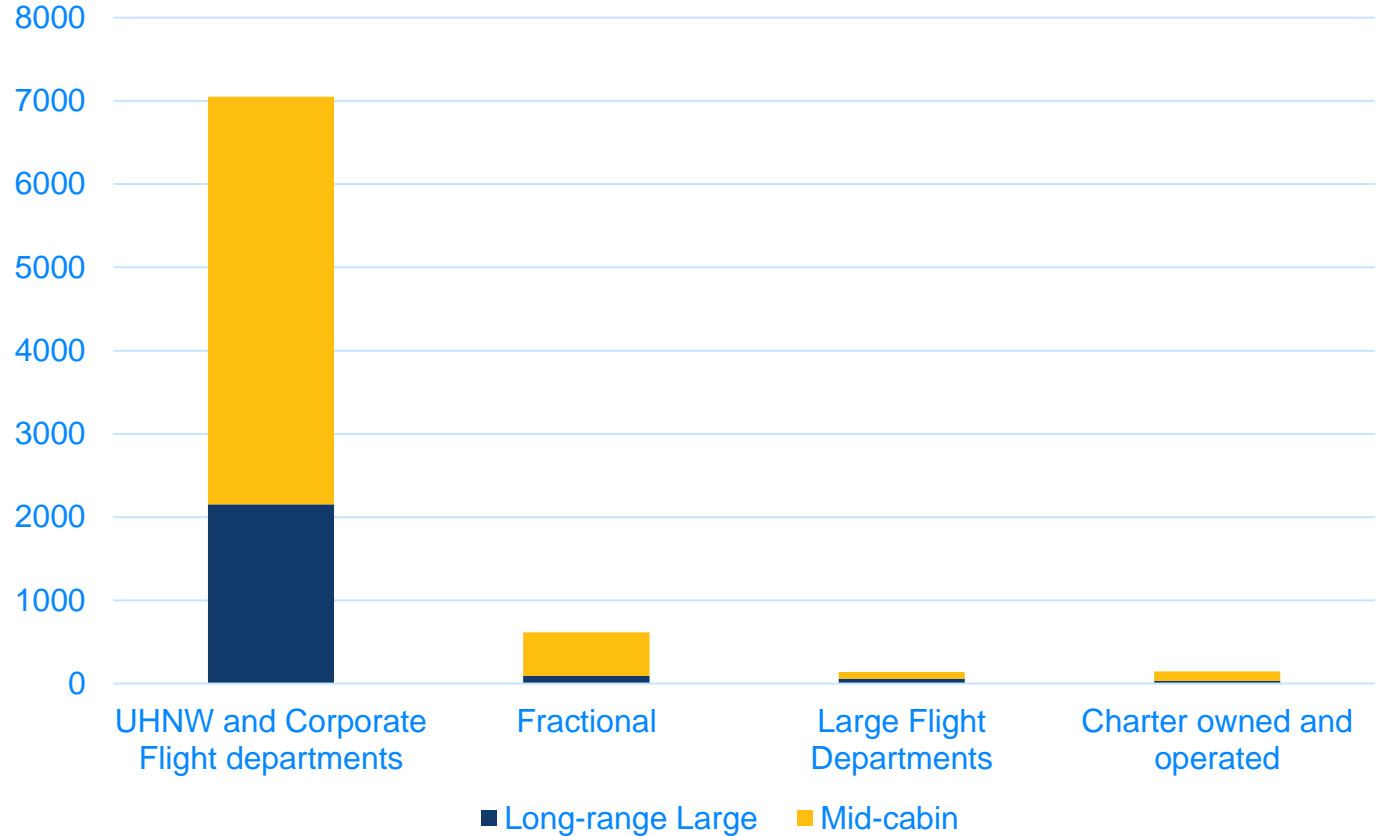


Full-Service Flight Department Management	Aircraft Management
Often larger, national companies	Often local/regional companies
Dedicated crew	Offer pooled crew model
Aircraft hangared where owner wants it	Typically hangared at specific locations
Pass through expense model (for most, need to make sure)	Sometimes markups on hangar, fuel and maintenance
Provides management and oversight of client's flight department	Manages aircraft and logistics
Management company acts as Agent for owner	Client may need to schedule their aircraft
Structured Safety Management Systems (SMS) in place	Safety and oversight personnel are often in flying positions
High ratings with oversight agencies (typically, need to check)	Can't always obtain highest ratings due to size and capabilities

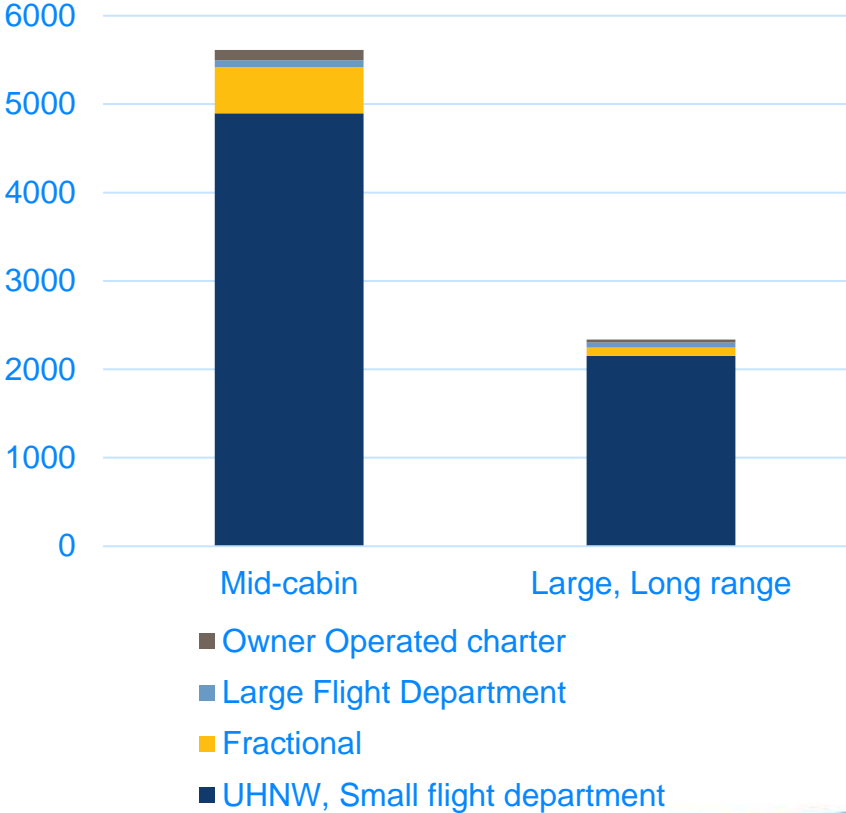
# Aircraft Management Company – Market data



Aircraft market by Use



Aircraft Market by Aircraft type



# Aircraft Management Company solution



Management companies most effective solution when:

- First time aircraft, or upgrading to complex model
- Little or no prior aircraft operations experience
- Client wants to outsource specialized operations to experts
- Client doesn't want to hire and manage pilots and crew
- Comfortable delegating control
- Charter use of the aircraft for tax reasons or to offset costs
- Need to allocate costs among related entities





## Considerations in Selecting the Right Management Company

Exclusive focus on aircraft management or other services through affiliates or subsidiaries	Pass through model vs markup of certain expenses
Personal touch like in-house flight department	Fleet discounts passed along to owner or retained by management company
National/International presence vs local or regional	True 24/7 in office operations vs. on call
Accessibility to interacting with flight crew - Dedicated vs Pooled	ARG/US, Wyvern Wingman, IS-BAO ratings
Access to senior A/C management executives for issue resolution	Comprehensive Safety Management System and Emergency Response Plan
Transparent financial model, access to all expense and operational data	

# Key Questions for Selecting the Right Management Company



Owner needs to identify their top decision criteria

- What are their anticipated trip dynamics? Complex international
- Will their aircraft be chartered out to third parties? How important?
- Is owner schedule flexible for charter?
- Does owner want to see the same crew?
- Where do they want to hangar the aircraft?
- Does the owner have any unique needs?
- How important is financial transparency?
- Do they need detailed invoices and reporting?
- How important are demonstrated savings?

Wide variation in management company capabilities and “personalities”

# Key Management Company Questions to Ask



- All Owner's should ask certain general questions:
- Safety
  - Accident/incident/violation history?
  - Safety management system in place?
  - Dedicated safety officer/description of "safety culture"?
- Aircraft Type and Mission
  - Prior experience with specific aircraft type?
  - Prior experience with owner's mission?

# Key Management Company Questions to Ask



- Fees and Fleet Discounts
  - What is the total cost of items the management company controls?
  - I.E. Management fee, markups, training, insurance, fringe benefits?
- Charter (if applicable)
  - How will the owner's charter objectives be achieved?
  - I.E. Sales capability, promotion, similar aircraft, same region, etc.

# Key Management Company Questions to Ask



- Owners should identify criteria unique to their own situation:
- Specific Airports
  - Are there any issues flying into the owner's preferred airports?
  - E.G. Rural airports, ski resorts, private airfields?
- Flight and Duty Limits
  - How will crew scheduling be achieved for specific trips or long legs?
  - E.G. Two pilots versus augmented crew versus stay overnight?

# Key Management Company Questions to Ask



- Owners should identify criteria unique to their own situation: (continued)
- Unique Structure
  - Ability to handle a complex accounting/leasing structure?
- Service Delivery
  - Crew communication & involvement – decentralized or centralized?
- Airport Fuel Costs
  - Are there discounts available at most frequented owner airports?

# Review of Aircraft Services Agreement



- Costs and Fees (including extensions)
- Crew and Maintenance Technician Arrangements
- Maintenance
- Hangarage
- Insurance and Indemnity
- Scheduling
- Operational Control
- Records – aircraft, trip and passenger
- Audit rights/procedures
- Charter revenue
- Federal Excise Taxes
- Termination

## 2017 Tax Cuts and Jobs Act



- The final regulations under Internal Revenue Code section 4261(e)(5)
- Provide an EXCEPTION to the 7.5 percent Federal Excise Tax (FET) on commercial air transportation when an aircraft owner pays for management services to support flights on their aircraft.
- The statute imposes two requirements (1) the “amounts paid” must be paid by the aircraft owner (or lessee); and (2) such payments must be for qualifying services or for flights on such aircraft owner’s (or lessee’s) aircraft.

For full background and description please refer to the article on the NBAA website Flight Department Section, Tax Issues - **“IRS Final Regulations on Federal Excise Tax Exception for Aircraft Management Services”**.



## Questions and Discussion



