Airport Business Solutions

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THE IMPACT OF VERY LIGHT JETS

By Bobbi Thompson, Executive Vice President

For several years, a number of aircraft manufacturers have been designing and testing very light jets (VLJ). Aviation forecasters have offered predictions of thousands of very light jets entering the airspace over the next two decades, contributing to the overall growth of the general aviation fleet. While some experts predict that VLJs will be used in ways that are similar to current general aviation aircraft, others predict that they will be used to expand the air taxi market to provide on-demand, point-to-point air transportation. A recent study conducted by the U.S. Government Accountability Office (GAO) regarding the VLJ impact to the industry provides insight, and the following touches upon some of the findings.

In 2006, the FAA certified the first very light jet for flight. Since then, only two of these models, the Cessna Citation Mustang and Eclipse 500, have received FAA type and production certification and begun delivering aircraft. Very light jets are similar to other aircraft currently in operation and will not require changes to existing airport's infrastructure.

The effect of increasing numbers of very light jets on an airport's operations, costs, and revenues, will depend on several factors. These include the number of very light jets deployed, the extent to which they replace existing aircraft, and whether they are operated for commercial or non-commercial purposes. However, there is tremendous uncertainty about these factors, which in-turn leads to uncertainty about the effect, if any, on an airport's costs and revenues. For example, one critical, but largely speculative, factor is the extent to which the market for air taxi services using very light jets will evolve and develop.

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If a Redneck became President!

It is expected that very light jets will be used in ways that are similar to other types of general aviation aircraft, such as in corporate fleets and as business or personal aircraft. Some companies are also planning to use very light jets as air taxis and air charters, or in operations providing on-demand, point-to-point flights. For example, DayJet has begun to use very light jets to offer per-seat on-demand flights on planes servicing selected airports in the southeastern United States. This is a departure from the traditional charter business model, which requires clients to charter the entire airplane for their flight, and sometimes pay for associated repositioning costs. In addition, at least one current air taxi company plans to sell individual seats on scheduled flights as opposed to a more traditional charter of an aircraft.

It is expected that eight or nine very light jets models will reach full certification. Those manufacturers' forecasts range from 3,016 to 7,649 very light jet deliveries within the period from 2016 to 2025. (The number of manufacturers has recently been reduced due to the failure in obtaining production financing, a fancy way of saying they are bankrupt.) The forecasts are based upon assumptions related to a number of factors, including growth of the air taxi market, dissatisfaction with other forms of transportation, available purchase price and operating costs, access to airports, training and insurance requirements, and any of several production constraints, most of which relate to manufacturing and operating capital.

Since a limited number of very light jet manufacturers have begun delivering new aircraft, there is little verified information about product demand. Forecasts are generally based upon assumptions about very light jet demand using information about past deliveries for other aircraft in comparable price classes, such as small jets and turboprop airplanes. However, these aircraft have very different performance characteristics than a VLJ. For example, several forecasts examined the markets for turboprop aircraft and predicted the proportion of customers who might instead purchase new very light jets. Other forecasts were based upon limited information regarding the air taxi market. However, there is an on-going debate about the extent to which the availability of very light jets will facilitate an expansion of the air taxi market. Some aviation experts stated that very light jets will reduce an operator's acquisition and operating costs compared with other business jets, which will enable a number of variations on current on-demand air taxi and air charter business models. The first aircraft delivery to an air taxi company took place in March 2007 and minimal real market data is available.

One question that has arisen from this anticipated growth is the impact on the FBO industry. Many have said that this "growth" will force FBOs to expand their ramp and aircraft storage facilities, as well as offer more services and amenities to compete for this new market opportunity. Others (like myself), see the potential for a real hardship on the FBO market. These new "jet" owner/operators are going to expect the same services and amenities as their larger counterparts that buy 10 to 20 times more fuel. This results in the FBO providing the same or increased services for less revenue.

Similarly, airports may suffer if this growth trend actually materializes. General aviation airports that rely on fuel flowage fees for a significant part of their budget could see similar requests and/or requirements to invest in new infrastructure, while enjoying less revenue from the same aircraft owners hassling them about these improvements.

In summary, the VLJ market has the *potential* to generate additional activity at a large number of general aviation airports, which may facilitate moderate additional fuel volumes and revenues and the need for additional hangar facilities. However,

this segment of the industry is still in its infancy, with insufficient and highly conflicting data from which to draw specific conclusions or recommendations. Regardless, airports and FBOs must begin their assessment today on how their operation might be impacted, but refrain from making any associated modifications or investments until potential becomes reality.

ASK ABS

Once again, a valued part of our monthly newsletter is a section called "Ask ABS". Within this section, we answer aviation-related questions from our readership. (If we do not receive a question, we usually make one up.) Each month we will publish one question that we receive with a joint reply from our professional consulting team. Please submit any questions to Mark Davidson at mdavidson@ airportbusiness.net

This month's question is a follow up to last month's article regarding revenue diversion. The question is from a public works director that wants to know if the airport was to become an enterprise fund, much like solid waste, water or power enterprise fund, can a city collect a PILT (Payment In Lieu of Taxes) from this enterprise fund like they do from the other funds? Currently, the community he is associated with charges enterprise funds a 6% PILT "off the top" of total revenue. The reader wants to know if the charge is lawful under current Federal regulations.

To ensure we relay the correct answer, we contacted the FAA's Airport Compliance Division in Washington, DC. The staff referenced FAA's Policy and Procedures Concerning the Use of Airport Revenue (February 16, 1996), which states:

"Prohibited uses of airport revenue include but are not limited to: Payment in lieu of taxes, or other assessments, that exceed the value of services provided or are not based on a reasonable, transparent cost allocation formula calculated consistently for other comparable units or cost centers of government."

For example, if the city provided water to all city departments and assessed a charge based on a cost of providing that service, and the charge was based on a reasonable transparent cost allocation formula, this would be acceptable. The FAA staff advised that a PILT based on a percentage of revenues is a tax and inconsistent with the FAA's Revenue Use Policy.

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ABS Aviation Management Services offers contract airport and FBO management to airports looking to maintain the revenues generated by ownership, while avoiding day-to-day management and operational issues.

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