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Flying Economy Michelle Seaton 01/01/2007



Surgeon Michael Gregory keeps a titanium bolt sitting on the desk of his office in Phoenix. There are eight just like it pinning the wings to the fuselage of his Hawker 800 SP jet. "How much do you think this bad boy costs?" Gregory asks. The answer: \$9,000.

The bolt in question had to be replaced when Gregory had the wings of his jet removed to ferret out a fuel leak. It was far from the largest maintenance expense he has incurred. Shortly after he purchased his jet two years ago, an inspection revealed numerous small problems in various systems. The repairs totaled \$200,000. Then, during the Hawker's latest inspection, an ultrasound revealed tiny cracks in the copilot's windshield. The cost to install a new one was \$33,000.

Gregory seems unfazed by these outlays. "If you don't have the intestinal fortitude to write a \$200,000 check, you shouldn't own a jet," he says. "We joke about it. You can't shoot a spit wad at my airplane without doing \$5,000 worth of damage." Most jet owners could share a similar tale of small problems that morphed into large maintenance bills. But this does not mean owners can (or should) bear exorbitant costs. Gregory is one of a growing number of aircraft owners streamlining the expenses of private jet ownership by overseeing and managing their aircraft themselves.

Owning a jet, Gregory says, is as expensive as one allows it to be. Although no jet owner can completely protect himself from an unexpectedly high maintenance bill, there are simple steps one can take with each flight and at each ownership juncture to reduce costs considerably. Gregory says that diligent owners who choose the right crew and ask the right questions can save between 10 and 20 percent on maintenance costs. "We've negotiated price reductions in scheduled maintenance of \$30,000 to \$40,000," he says. Owners who know how to shop for fuel can save even more, he adds.

Gas Materialism

Fuel is by far the single-largest ownership expense. According to Orleans, Mass.-based aviation consultancy Conklin & de Decker, a Hawker 850 XP, which is similar to Gregory's aircraft, costs \$2,157 per hour to fly. Of that, \$1,484 goes toward fuel. Realizing this, many owners attempt to buy fuel at the lowest possible price and use it sparingly. "Checking fuel costs has become as crucial as checking the weather," says Nick Cerretani, the aircraft broker who sold Gregory his jet. "How you buy fuel on a specific trip can dramatically change the cost of the mission. You can save 30 to 40 percent on fuel costs if you know how to buy," he adds.

TOP VIEW

Rather than pay steep fees to management companies to oversee the care and maintenance of their private aircraft, some owners are

working directly with pilots and mechanics to get the job done themselves. By establishing performance incentives for their own crews, these owners are able to lower their fuel costs while making certain maintenance is performed correctly. Direct oversight such as this can be time consuming, but it can keep the soaring costs of aircraft ownership grounded.

Fuel wholesalers, such as Phoenix Fuel, Colt International and Avcard, offer programs that allow members to buy fuel at a discount. Unfortunately, not every airport sells fuel from one of these providers. Gregory belongs to several such programs because he flies to so many different airports. He also plans his itinerary around the price of fuel. His chief pilot, Scott MacIntosh, calls different airports near Gregory's destination to check current prices. If the manager of a fixed-base operator (an FBO is a business licensed to sell services at airports) tells him that the going rate is \$3.80 per gallon, MacIntosh will try to haggle him down to \$3.50. "In aviation, everything is

negotiable if you know how to ask," Gregory says.

Some jet owners are also banding together to buy jet fuel on the wholesale market. Lawyer Jim Ferraro, founding partner of the Ferraro Law Firm in Miami and a partner in Kelly & Ferraro in Cleveland, has owned three different jets. His latest purchase, a Challenger 601, burns 250 gallons per hour. Rather than pay retail prices, Ferraro joined with several owners at his airport in Miami to purchase an 8,000-gallon private fuel tank, also known as a fuel farm (see "Fuel Farming"). Together they buy fuel wholesale on the spot cargo market, the same way that FBOs buy it. "I pay about \$2.39 a gallon for jet fuel. At Teterboro Airport, I would pay more than twice that," Ferraro says. He frequently flies to New York, but never lands at Teterboro, the busiest general aviation airport near Manhattan, because of its expense.

Ferraro also chooses destination airports based on how much fuel he will burn in transit. He estimates that any trip to a busy general aviation beehive such as Teterboro will require him to circle in a holding pattern for up to 40 minutes. "You can burn \$1,000 in fuel in that time," he says. Ferraro would rather land in nearby White Plains, N.Y., which has a shorter wait and is only an extra 10 minutes by car to Manhattan. In addition, the difference in fuel costs at the two airports is considerable: White Plains' prices typically run \$1.50 per gallon less than those at Teterboro.

Gregory calculates that it costs about \$2,800 per hour to run his aircraft. He tells MacIntosh that if he can bring costs in under that amount, he will receive a percentage of the difference. (Gregory does exclude certain maintenance expenses from this exercise. "I don't want him cutting corners on anything related to safety," he says.) MacIntosh has significant sway over costs—he controls how long he keeps the engines running on the tarmac, he can shop around for fuel, and he can stay on top of routine maintenance to keep the plane flying efficiently. Pilots also control the throttle settings in flight. "Getting there five minutes faster isn't worth 500 pounds of fuel," Gregory says.

Greg Raiff, CEO of Private Jet Services in Hampton, N.H., recommends that owners give pilots performance reviews similar to those conducted by commercial airlines. Raiff would ask, for example, "Did you maximize the winds? Was there a better tailwind at 43,000 than at 41,000 feet, and did you use that? Why did you have both motors turning if you are number 71 in line for takeoff at JFK?"

Flying Caretakers

For hands-on owners, the ability to rely upon and incentivize a pilot is the first step to managing aircraft costs successfully. "I really believe that you can't invest enough money in the people caring for your airplane," says Raiff, who employs a pilot who pushes a vacuum between flights to tidy up the plane. "You should find the best pilots out there—not some throttle jockey who can land on a postage stamp,

but someone who thinks of himself as a caretaker for your asset," he says. "The best crew can save you a ton of money on fuel burn, on dispatch costs, even cleaning costs." His pilot spends entire Saturdays detailing his own car with cloth diapers. "That's the guy you want taking care of your \$30 million asset. So what if you have to pay him an extra \$8,000 a year?" Raiff says.

Ferraro employs a dedicated mechanic who follows his jets through their comprehensive inspections and keeps them immaculate between flights. "With the fractional companies, you get on the plane, and if a light bulb is out in the cabin, nobody cares. But my plane is always impeccably clean. There are no squawks of any kind. The maintenance guy handles everything," Ferraro says.

Both convenience and vanity drive Ferraro's strategy, but he also gains a financial advantage by paying an additional employee in his flight department. A jet requires at least some tweaking after each use. Air pressure in the tires must be adjusted; exhaust residue must be buffed off the exterior. "If you don't hire a mechanic to do that, you'll pay your FBO to do it at \$200 an hour," says aircraft manager Gil Wollin of TAG Aviation in San Francisco.

Dedicated mechanics can also take care of small repairs before they become major hassles. For example, if a jet's lavatory develops a leak, the owner has a choice: He can fix the leak, or he can remove the lavatory and the floorboards to make sure that none of that highly corrosive blue liquid has seeped into the body of the plane. "The second option costs more now, but it may save you hundreds of thousands of dollars later if the leak does structural damage to the aircraft," Cerretani says.

The going rate for mechanics varies, depending on plane type and level of experience. According to Wollin, owners of large-body jets such as a Challenger or Gulfstream can expect to pay an experienced, full-time mechanic between \$85,000 and \$95,000 per year. For smaller jets, such as a Citation, the going rate is \$65,000 to \$75,000 per year.

Anticipate the Inevitable

The largest single check an aircraft owner will write each year is the one that pays for the comprehensive inspection. Jets require these inspections either upon a given month of service or after a certain number of hours of service; they typically occur every 12 months of ownership and at every 300 hours of flight time. Aircraft manufacturers create inspection schedules, which are approved by the FAA as part of an aircraft's certification process. Authorities and owners alike consider these inspections important safeguards that ensure the planes remain airworthy.

Although some inspections are minor, others require an aircraft to be taken apart and inspected piece by piece. The examinations do have predictable costs, ranging somewhere between \$50,000 to \$300,000 for parts and labor. But, unfortunately for owners, each airplane, like each person, ages differently. "You can anticipate the cost of the inspection itself, but there's no way to anticipate what they'll find," Wollin says. Aircraft broker advises owners to estimate the final cost of repairs at roughly three times the amount of the inspection itself—but expenses can run much higher. If a plane has been poorly maintained or stored in a sea-air environment even for a short time, corrosion may be evident. (This is why so many owners who fly to seaside resorts fly their jets home while they are on vacation. Keeping jets away from sea air can save hundreds of thousands of dollars over the long term.)

Once again, a dedicated mechanic can help lower these inspection costs. He should contact various facilities and ask for competitive bids for scheduled maintenance. These bids should include total costs and the length of time the plane will be out of service. Most facilities will want to know how much overtime an owner is willing to pay—if any—in order to get the plane back quickly. The mechanic will also travel with the aircraft whenever it undergoes extensive inspections and overhauls.

When owners go into these inspections unprepared, they run the risk of receiving shocking news. Owners of a corporate jet whose costs had suddenly spun out of control recently called in Conklin & de Decker's David Wyndham to review the maintenance records. The jet had cost virtually nothing to maintain during the first year of ownership, but then had racked up hundreds of thousands of dollars in maintenance bills two years running. The CEO of the company that owned the plane was panicking. Wyndham sorted through boxes of maintenance bills that had never been reviewed by a manager. He found that the company had purchased the airplane when it was 10 years old. In year 11, the engines reached 5,000 hours of service, which is where some require an overhaul. Engine overhauls constitute an enormous, but unavoidable, expense. The following year, authorities required the company to inspect the jet's 12-year-old airframe. This requires engineers to pull apart and X-ray the aircraft, presenting another huge, but inevitable, expense. The plane's owners should have been warned about these inspections years in advance.

Wyndham explained why the plane seemed like such a good deal when the owners purchased it three years earlier: The previous owner sold it before having to incur these expenses. Unfortunately, the buyer had not anticipated these bills, could not pay them when they came due, and was therefore forced to sell the aircraft. Owners such as Ferraro keep tabs on all such inspections. Ferraro's Challenger 601 will undergo its 180-month inspection in approximately three years. His chief pilot is already talking to him about the projected costs, and Ferraro is setting money aside.

Wyndham says his clients' flight department managers, chief pilots or maintenance engineers should produce an annual report that anticipates costs for the upcoming year on a month-by-month basis. The report should include variable expenses, including fuel, overhauls and routine maintenance. Then owners can look at actual versus projected costs during each month. "If someone is just giving you one number every month and saying, 'Here, this is what you spent last month,' that's no good," Wyndham says. "How do you know if that's a fair number or an outrageous one?"