

MINUTES OF THE HOUSE TAXATION COMMITTEE.

The meeting was called to order by Vice Chairman, David Huff at 9:00 a.m. on February 14, 2003 in Room 519-S of the Capitol.

All members were present except:

Representative Edmonds  
Representative Davis  
Representative Goering  
Representative Sharp

Committee staff present:

Chris Courtwright, Legislative Research Department  
Gordon Self, Office of the Revisor  
Carol Doel, Committee Secretary

Conferees appearing before the committee:

Bernie Koch, Wichita Chamber of Commerce  
Marlee Carpenter, Kansas Chamber of Commerce  
Don McNeely, Kansas Auto Dealers  
Tom Whitaker, Kansas Motor Carriers

Others attending:

See attached list

Vice Chairman Huff called to the attention of the committee testimony which was written by Bob Vancrum, Greater Kansas City Chamber of Commerce, and submitted by Marlee Carpenter, Kansas Chamber of Commerce, in opposition to **HB 2148** which was heard on Wednesday, February 12, 2003. (Attachment 1)

With no bill introductions, Vice Chairman Huff opened the meeting for hearing on **HB 2109**. A fiscal note was submitted by the Division of the Budget, Duane Goossen, Director, with the estimated impact for FY 2004 being \$16,857,000.

Bernie Koch, representing the Wichita Chamber of Commerce, presented testimony in opposition to **HB 2109** stating that this bill affects just about everything the aircraft industry in that area does. It puts sales tax on aircraft and aircraft parts, on services to repair, re-manufacture and modify aircraft, and to replace parts. Most states already have tax exemptions in place. If they are repealed, there become a disincentive for business to retain or place new work, investments and projects in Kansas. (Attachment 2)

Mr. Koch also presented information regarding Impact of the Aviation Industry on the Kansas Economy (Attachment 3), and Site Selection Factors 2002 (Attachment 4)

Next to testify in opposition to **HB 2109**, was Marlee Carpenter, Director of Taxation and Small Business, Kansas Chamber of Commerce, voicing the opinion that repeal of this exemption would put Kansas at a competitive disadvantage, drive aircraft delivery to other states and would eliminate the multiplier effect of air craft delivery. In order to keep Kansas competitive, the cost of doing business in the state cannot be increased. (Attachment 5)

KADA (Kansas Automobile Dealers Association) was represented by Don McNeely, President, presenting testimony in opposition to **HB 2109**. In their opinion, the repeal of this tax exemption would place Kansas dealerships in a severe competitive disadvantage if out-of-state residents would have to pay, not only Kansas sales tax, but also the sales tax imposed in the in the state of their residency. In addition, this proposal would seriously jeopardize our reciprocity with our neighboring states. (Attachment 6)

Tom Whitaker, representing Kansas Motor Carriers Association voiced the opinion that removal of the tax exemption as proposed in **HB 2109**, would clearly discriminate against Kansas truck and trailer dealers. No interstate motor carrier based in our surrounding states would purchase equipment in Kansas when such purchases are exempt from sales tax in their base state. Their testimony also stated they believe that removal of this sales tax exemption would have a direct negative impact on Kansas businesses whose sales would be reduced if such taxes were imposed on out-of-state customers. (Attachment 7)

CONTINUATION SHEET

MINUTES OF THE HOUSE TAXATION COMMITTEE at 9:00 a.m. on February 14, 2003 in Room 519-S of the Capitol.

With no further scheduled conferees, Vice Chairman Huff asked if there was anyone else wishing to speak to the committee. Jonathan Small came forward to introduce Jim Ziegler of Bombardier Aircraft. Mr. Ziegler testified in opposition to **HB 2109** saying that it would cause a huge competitive disadvantage if the tax exemption was repealed. (No written testimony)

Bob Dickens, Midwest Regional Representative for AOPA, Aircraft Owners and Pilots Association, also came before the committee testifying in opposition to **HB 2109**. He stated that they are world's largest aviation organization with over 5200 members in Kansas, and for a number of reasons, mostly economic they are opposed to the repeal of the tax exemptions on aircraft. (No written testimony)

No one else wished to address the committee regarding **HB 2109** and Vice Chairman Huff closed the meeting for hearing.

There being no further business before the committee, Vice Chairman Huff adjourned the meeting at 10:30 a.m.



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TESTIMONY TO THE  
HOUSE TAXATION COMMITTEE  
IN OPPOSITION TO HOUSE BILL 2148  
FEBRUARY 12, 2003  
BY BOB VANCROM, GREATER KANSAS CITY CHAMBER OF COMMERCE  
GOVERNMENT AFFAIRS SPECIALIST

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Honorable Chairman Edmonds and Members of the Committee:

On behalf of The Greater Kansas City Chamber of Commerce, I'm here to oppose the repeal of the sales tax exemption for personal property installed during original construction and the sales tax exemption provisions for mobile homes and manufactured housing. Our organization's 3000 members in Kansas have a standing legislative position opposed to any new tax measures that appear to unfairly target business. In this case, the imposition of the tax not only fails that test, but appears to provide new obstacles to the ability of first time home buyers to acquire their first home. It also is a real disincentive for businesses to locate in Kansas or for existing businesses to expand in Kansas. It also appears to significantly drive up the cost of constructing road improvements or rehabilitation.

Certainly our organization understands the serious shortfall this legislature faces with the present condition of the state's finances. We also are concerned about further cuts in both K-12 education and higher education and social services as well. However, this shortfall was largely caused by an economic downturn, and the effect of this measure on jobs, growth and families' ability to purchase homes would seem to make matters worse rather than solving a problem. Certainly it will cost the state jobs in the construction industry as both businesses and homeowners elect not to build in Kansas. It also indirectly would impact income tax revenues and jobs due to the slower rate of relocation and expansion here.

I'm sure you will study carefully the anti-competitive impact such a change would make by noting how many other states have this exemption. Thanks for the opportunity to present written testimony.

CWDDOCS 67121v1

House Taxation  
Attachment 1  
Date 2-14-03



Bernie Koch  
Wichita Area Chamber of Commerce

Good morning, Mr. Chairman and members of the Committee. I'm Bernie Koch with the Wichita Area Chamber of Commerce. Thank you for the opportunity to appear on House Bill 2109.

This bill affects just about everything the aircraft industry in my area does. It puts sales tax on aircraft and aircraft parts, on services to repair, remanufacture and modify aircraft, and to replace parts.

We strongly oppose removing these exemptions. This would be poor public policy in good times. The worldwide aircraft industry is very competitive. Adding the 5.3 percent state and one percent countywide sales tax would increase the cost of a \$20 million dollar jet by another \$1,260,000. I know that many people have told you that if you remove their exemption, jobs will leave the state. There's absolutely no doubt that would happen with this exemption. The general aviation companies will simply move the point of sale to another state, along with the jobs associated with that. They would move in order to remain competitive with other domestic aircraft companies and foreign manufacturers, many of whom are heavily subsidized by their governments.

Repair and modification work would also tend to be done elsewhere.

Keep in mind that when people come to pick up their airplane, they usually stay for a period of days to be trained to fly it. There's a whole infrastructure of people and business involved in that. There are hundreds of millions of dollars and hundreds of jobs tied to just flight simulator training in Wichita.

I would point out to you that even with our layoffs, there are some aircraft company expansions in Wichita. Cessna would like to hire hundreds of qualified workers for its new service center. It appears repeal of these exemptions could affect that work.

In a time when fully one fifth of all aviation workers in Sedgwick County have been laid off, removing this exemption is especially troublesome.

About 60 percent of all general aviation aircraft made in America are manufactured in Wichita by Cessna, Raytheon Aircraft, and Bombardier Aerospace, which makes Learjet. The General Aviation Manufacturers Association happens to be meeting as we speak in Washington, D.C. and released a report Wednesday evening on what's happened to the industry.

House Taxation  
Attachment 2

Date 2-14-03

When economic times were good, general aviation grew tremendously fast. It is three times as big as it was just six years ago. However, as the economy softened, there's been a 16 percent drop in plane shipments. With the national economy in a slump, buying an airplane is usually one of the first things that is put on hold by companies and individuals.

- Cessna's nonmilitary plane shipments fell 21 percent last year
- Raytheon's fell 29 percent
- Bombardier fell 41 percent

We are very concerned about the future of Bombardier in Wichita. Company officials have publicly discussed consolidating operations and closing one or more plants. The Kansas plant has the highest costs of any of the company's six sites. This bill adds to those costs.

As Lieutenant Governor John Moore has said, Bombardier is a terribly important company to Kansas. He and others from local government are trying to find ways to keep it here. I believe it's important not only for the 2,200 people it employs, but because Learjet is a name known throughout the world. Should that original Learjet plant close, the news will be carried throughout the world, sending a negative signal about the viability of doing business in our state.

This bill would also affect the Boeing Company, which does considerable modification work and the point of sale for Boeing planes is the State of Washington.

Most states already have these exemptions in place. If they are repealed, they become a disincentive for business to retain or place new work, investments, and projects in Kansas.

I urge you to reject this measure.

Thank you for the opportunity to appear today.

**Impact of the Aviation Industry\* on the Kansas Economy**  
(Based on a study completed by Wichita State University's  
Center for Economic Development & Business Research in November 2001)

- **The aviation industry directly contributes almost 60% of the Wichita-area manufacturing jobs and earnings.**
- **The aviation industry accounts for nearly 10% of all earnings in Kansas.**
- **The aviation industry's payroll accounted for nearly 7% of all state and local taxes paid by individuals in 2000.**
- **Every 1,000 Kansas aircraft manufacturing jobs creates an additional 2,300 jobs, generating a total of \$23M in federal taxes and \$9M in state and local taxes annually.**

\*Aviation industry is defined as Boeing, Bombardier Aerospace, Cessna Aircraft, and Raytheon Aircraft

# Site Selection Factors 2002

	<u>2001</u>	<u>2002</u>
1. Availability of skilled labor	91.6	90.9
2. Labor costs	91.5	89.9
3. Tax exemptions	82.7	88.2
4. State and local incentives	81.4	88.0
5. Highway accessibility	87.9	86.6
6. Corporate tax rate	79.0	84.6
7. Proximity to major markets	80.2	83.7
8. Occupancy or construction costs	82.3	82.4
9. Energy availability and costs	86.4	80.9
10. Environmental regulations	78.8	76.7

House Taxation  
Attachment 4  
Date 2-14-03



# Site Selection Factors 2002 cont'd

4-2

	<u>2001</u>	<u>2002</u>
11. Availability of telecommunications services	83.3	76.1
12. Availability of land	79.7	75.2
13. Cost of land	77.3	74.0
14. Low union profile	78.0	69.4
15. Availability of broadband telecom services	61.3	66.7
16. Proximity to suppliers	67.1	61.8
17. Availability of long-term financing	48.7	60.0
18. Right-to-work state	67.6	58.0
19. Raw materials availability	64.6	56.0

# Site Selection Factors 2002 cont'd

4-3

	<u>2001</u>	<u>2002</u>
20. Availability of unskilled labor	59.5	55.1
21. Accessibility to major airport	55.4	54.0
22. Training programs	51.4	44.7
23. Proximity to technical university	34.6	33.4
24. Railroad service	27.8	22.6
25. Waterway or ocean port accessibility	18.8	19.3

# Quality of Life Factors 2002

4-4

	<u>2001</u>	<u>2002</u>
1. Low crime rate	74.4	75.9
2. Health facilities	65.3	67.2
3. Ratings of public schools	57.2	65.7
4. Housing availability	57.3	64.2
5. Housing costs	60.6	63.0
6. Colleges and universities	44.8	48.1
7. Cultural opportunities	40.3	46.3
8. Recreational opportunities	39.2	45.9
9. Climate	47.4	43.5

# LEGISLATIVE TESTIMONY



*The Unified Voice of Business*

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HB 2109

February 14, 2003

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony before the House Taxation Committee  
By Marlee Carpenter, Director of Taxation and Small Business

Chairman Edmonds and members of the Committee:

I am Marlee Carpenter with the Kansas Chamber of Commerce and Industry testifying in opposition to HB 2109. We believe that in order to keep Kansas competitive, the cost of doing business in the state cannot be increased. KCCI opposes the blanket repeal of sales tax exemptions. Each exemption was justified at the time of enactment and voted on by legislators like you. Sales tax exemptions should be looked at as a whole, within the context of the entire tax structure. Sales tax exemptions make Kansas competitive with other states and/or avoid the double taxation of goods and services.

HB 2109 would eliminate the sales tax exemption for the sale of aircraft and motor vehicles. The aircraft industry is of significant importance to the state of Kansas. The aircraft industry amounts to 10% of the entire Kansas economy. Thirty-three other states have a sales tax exemption for the delivery of aircraft. If this exemption was eliminated the state would not receive the amount estimated on the fiscal note. Instead, companies affected by these measures would deliver their aircraft in states that do have these exemptions, for example, Nebraska. In talking to one aircraft manufacturer, a typical delivery of an aircraft takes two to three days. A customer participates in acceptance flights and then gives the company time to fix any problems with the plane. During this time, the customer flies into a Kansas airport, rents a car in Kansas, stays in a hotel in Kansas, eats meals in Kansas and takes in entertainment in Kansas. These transactions are subject to state and local taxes.

House Taxation  
Attachment 5  
Date 2-14-03

Repeal of this exemption would put Kansas at a competitive disadvantage, drive aircraft delivery to other states and would eliminate the multiplier effect of aircraft delivery. KCCI opposes the repeal of the sales tax exemption in HB 2109. KCCI believes that in order to keep Kansas competitive, the cost of doing business in the state cannot be increased. Thank you for your time and I will be happy to answer any questions.

**About the Kansas Chamber of Commerce and Industry**

The Kansas Chamber of Commerce and Industry (KCCI) is the leading broad-based business organization in Kansas. KCCI is dedicated to the promotion of economic growth and job creation and to the protection and support of the private competitive enterprise system.

KCCI is comprised of nearly 2,000 businesses, which includes 200 local and regional chambers of commerce and trade organizations that represent more than 161,000 business men and women. The organization represents both large and small employers in Kansas. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.



## KANSAS AUTOMOBILE DEALERS ASSOCIATION

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February 14, 2003

To: The Honorable John Edmonds, Chairman  
and Members of the House Taxation Committee

From: Don McNeely, KADA President

Re: HB 2109 – Sales Tax Exemption on the Sale of Motor Vehicles to Out-of-State Residents

Good morning Chairman Edmonds, and Members of the House Taxation Committee. My name is Don McNeely, President of the Kansas Automobile Dealers Association (KADA), a state trade association representing the retail franchised new car and truck industry in the state of Kansas.

On behalf of the franchised new car and truck dealers in Kansas, I would like to thank the Committee for the opportunity to offer a few comments in opposition to HB 2109. I appear this morning in specific opposition to the proposed elimination of the sales tax exemption on motor vehicle sales to bona fide residents of another state. This proposal, if adopted, would have a devastating effect upon our Kansas licensed dealers who are located in close proximity to the state line, as sales to out-of-state residents can account for 30 to 50 percent of their motor vehicle sales.

This proposal would place our Kansas dealerships in a severe competitive disadvantage if out-of-state residents would have to pay, not only Kansas sales tax but also the sales tax imposed in the state of their residency.

In addition, this proposal would seriously jeopardize our reciprocity with our neighboring states as it pertains to the sale of motor vehicles, and would negatively impact the corporate income taxes paid by these dealerships and the individual income taxes paid by their employees - not to mention the fiscal impact it could have upon the cities and counties where these dealership are located.

On behalf of the Kansas Automobile Dealers Association, I thank the Members of the Committee for allowing me to appear before you today and we respectfully request your support to retain this exemption.

800 S.W. Jackson, Suite 1110 • Topeka, KS 66612

Telephone (785) 233-6456 • Fax (785) 233-1462

House Taxation  
Attachment 6

Date 2-14-03

# Driving Kansas' Economy

## Annual Contributions of Kansas' New-Vehicle Dealers\*

**Kansas' dealers maintain a multi-BILLION dollar retail industry.**

Average sales per dealership .....	\$21.3 million
Total sales of all new-vehicle dealerships in Kansas.....	\$6.2 billion
Dealership sales as % of total retail sales in the state .....	22.6%
Estimated number of new-vehicle dealerships .....	291

**Dealers provide thousands of well-paying jobs in Kansas.**

Total number of new-vehicle dealership employees in Kansas .....	11,397
Average number of employees per dealership .....	39
Average annual earnings of new-vehicle dealership employees .....	\$38,220
Dealership payroll as % of total state retail payroll .....	10.3%
Annual payroll of new-vehicle dealerships.....	\$430 million
Average annual payroll per new-vehicle dealership .....	\$1.49 million

**Dealers generate hundreds of millions of dollars of tax revenue for state and local government through:**

- **Sales Tax Revenue**
- **Corporate Tax Revenue**
- **Payroll Tax Revenue**



# KANSAS MOTOR CARRIERS ASSOCIATION

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## LEGISLATIVE TESTIMONY

**Presented by the Kansas Motor Carriers Association  
Before the House Taxation Committee  
Representative John Edmonds, Chairman  
Friday, February 14, 2003**

**In Opposition to House Bill No. 2109**

### **MR. CHAIRMAN AND MEMBERS OF THE HOUSE TAXATION COMMITTEE;**

I am Tom Whitaker, executive director of the Kansas Motor Carriers Association. I appear here this morning representing our 1,250 member firms, and specifically the truck and trailer dealers who serve our industry. KMCA opposes House Bill No. 2109. Specifically, lines 21 through 26 on page 10 of the bill.

The sales tax exemption reads: "(k) any motor vehicle, semitrailer or pole trailer, as the terms are defined by K.S.A. 8-126 and amendments thereto, or aircraft sold and delivered in this state to a bona fide resident of another state, which motor vehicle, semitrailer, pole trailer or aircraft is not to be registered or based in this state and which motor vehicle, semitrailer, pole trailer or aircraft will not remain in this state more than 10 days."

Removal of this exemption would clearly discriminate against Kansas truck and trailer dealers. No interstate motor carrier based in our surrounding states would purchase equipment in Kansas when such purchases are exempt from sales tax in their base state. We believe removal of this sales tax exemption would have a direct negative impact on Kansas businesses whose sales would be reduced if such taxes were imposed on out-of-state customers.

To our knowledge, no other state imposes a sales tax on such equipment sales delivered out-of-state.

The Kansas Motor Carriers Association strongly requests that this exemption be continued on behalf of existing Kansas businesses.

Thank you for the opportunity to appear before you. I would be pleased to stand for any questions you may have.

House Taxation  
Attachment 7  
Date 2-14-03