

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman John Edmonds at 9:00 a.m. on March 4, 2004 in Room 519-S of the Capitol.

All members were present except:

Representative John Faber- excused
Representative Vaughn Flora- excused

Committee staff present:

Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Revisors of Statutes
Carol Doel, Committee Secretary

Conferees appearing before the committee:

Representative Mario Goico
Jim Ziegler, Vice-President and Manager of Lear Jet
Mike Shonka, Cessna Aircraft
Kevin Hawley, Aerospace System Technologies
Tim Rogers, Salina Air port Authority

Others attending:

See Attached List.

Chairman Edmonds opened the meeting for any bill introductions, however hearing none, he turned committee attention to **HB 2911** and opened the floor to public hearing.

Representative Goico presented testimony which related that the State of Kansas, especially the Wichita aviation driven economy, was hard hit by the September 11, 2001 terrorist attack. We are in need of full scale economic growth. By passing **HB 2911**, we can make our aircraft industry more competitive in maintenance, modifications and repairs. In this way we have incubation incentives to grow a segment of the aviation industry that is very price sensitive. This would result in the re-employment of our highly trained aviation work force. (Attachment 1)

Jim Ziegler, Vice-President and Manager of Learjet Inc., provided testimony in support of **HB 2911**. It is their feeling that passage of the bill would positively impact the State of Kansas and its aviation community in the following ways.

- Prevent Kansas-based aircraft service businesses from losing business solely on the basis of price to other regionally based service providers located in states where sales taxes on parts and labor need not be added to service estimates
- Insulate Kansas based aviation service businesses from the prospect of further job reductions among highly-compensated Airframe and Powerplant (A&P) mechanics and technicians
- Ensure that aviation companies operating business units in Kansas maintain their investment and long-term commitment to their Kansas sites.
- Allow Wichita, KS to grow its aviation-related business base and maintain its well-founded reputation as the "Air Capital of the World"
- Remove a significant barrier to basing of aircraft in our state and the attraction of additional aviation parts and service businesses to the state (Attachment 2)

Cessna Aircraft Company was represented by Mike Shonka who presented testimony in support of **HB 2911**. His testimony stated that amending the statute to exempt aircraft and aircraft repair parts and services from Kansas sales and consumers use tax will provide a favorable tax environment which will help Cessna attract

CONTINUATION SHEET

MINUTES OF THE HOUSE TAXATION COMMITTEE at 9:00 a.m. on March 4, 2004 in Room 519-S of the Capitol.

more customers to Kansas. (Attachment 3)

In testimony delivered by Kevin Hawley, President, Aerospace Systems and Technologies, it is their opinion that passage of **HB 2911** will lead to new jobs by not only AS&T (Aerospace Systems and Technologies), but other maintenance, repair and overhaul operations at airports across the State. (Attachment 4)

Tim Rogers, A.A.E., Executive Director Salina Airport Authority testified in favor of the passage of **HB 2411** stating that this would enable the State of Kansas to be more competitive in the maintenance, repair and overhaul of a wide variety of aircraft makes and models. (Attachment 5)

With time being a factor, Chairman Edmonds announced continuation of **HB 2911** and hearing on **HB 2664** will be on Friday, March 5th.

Meeting was adjourned at 10:30 a.m.



TOPEKA

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COMMITTEE ASSIGNMENTS

MEMBER: FINANCIAL INSTITUTIONS
HEALTH AND HUMAN
SERVICES
INSURANCE
TAXATION
KANSAS SECURITY

Thank you, Chairman Edmonds and fellow legislators for the honor of appearing in front of you today to testify in favor of HB 2911.

1. The State of Kansas, especially the Wichita aviation driven economy, was hit very hard in the aftermath of the September 11, 2001 terrorist attack. Airline travel and general aviation sales plummeted. This resulted in the loss of 14,000 aircraft jobs in south-central Kansas. Wichita State estimates that every aircraft job supports two jobs in the general economy as result of the economic multiplier effect (as a result of employment, we buy goods and services resulting in additional jobs). The impact of this is that the State has limited resources to cover the budget with declining revenues
2. There are twenty-one states that provide some type of tax incentive for aircraft maintenance, modifications or repairs. Airplanes, being an easily transportable commodity, are especially susceptible to the total market price (including taxes).
3. The legislators in the State have to be aware that as we are trying to have full-scale economic-development, other states and cities are actively courting the industry. For example, New Mexico has made millions of dollars in incentives available to attract expansion of the aviation industry in their state. As a result New Mexico has attracted Eclipse Aviation (business jets), Aviation Technology Group (twin-seat Javelin jet) and is competing very hard for Adam Aircraft (six-seat A700 jet). According to a Wichita Eagle editorial (Feb, 29, 2004), three other aircraft manufacturers are said to be considering New Mexico.

The State of Kansas and the City of Wichita cannot passively rely on our reputation as the "Air Capital of the World" to provide for the state economy and the stability of our work force. In business, when faced with declining market-share, the best alternative in a developing market or a continuously growing industry is to invest in research and development and meet the competition head-on. As a State we can pass HB 2911 in order to make our aircraft industry more competitive in maintenance, modifications and repairs. In this way we can have incubation incentives to grow a segment of the aviation industry that is very price sensitive. This would result in the re-employment of our highly trained aviation work force before we lose them to other states.

I urge this committee to vote HB 2911 favorably. I stand for questions.

HOUSE TAXATION

Attachment 1

Date 3-4-04



**BOMBARDIER
AEROSPACE**

Learjet Inc.
P.O. Box 7707
Wichita, KS 67277-7707 United States
Telephone 1(316) 946-2000
<http://www.aerospace.bombardier.com>

March 4, 2004

Members of the House Tax Committee:

**Re: House Bill No. 2911
Sales Tax Exemption for:**

Sales of aircraft, including remanufactured and modified aircraft, sales of aircraft repair, modification and replacement parts and sales of services employed in the remanufacture, modification, and repair of aircraft.

The passage of this exemption could positively impact the State of Kansas and its aviation community by:

- 1) Preventing Kansas-based aircraft service businesses from losing business solely on the basis of price to other regionally based service providers located in states where sales taxes on parts and labor need not be added to service estimates;
- 2) Insulating Kansas-based aviation service businesses from the prospect of further job reductions among highly-compensated Airframe and Powerplant (A&P) mechanics and technicians;
- 3) Ensuring that aviation companies operating business units in Kansas maintain their investment and long-term commitment to their Kansas sites.
- 4) Allowing Wichita, KS to grow its aviation-related business base and maintain its well-founded reputation as the "Air Capital of the World";
- 5) Removing a significant barrier to basing of aircraft in our state and the attraction of additional aviation parts and service businesses to the state

Examples of how this works out in practical terms:

- Bombardier Aerospace operates a Business Aircraft Service Center in Wichita, providing routine and major maintenance, overhauls, refurbishments, etc. for Bombardier-built aircraft. Through our service sales bid process, we track the potential business that ends up going elsewhere, including those bids lost due to price.
- In our Wichita service operation, work packages for scheduled service generally run around \$100,000-200,000 each. At 6.3%, sales taxes on these packages would add between \$6-12 thousand dollars to the invoice.

HOUSE TAXATION

Attachment 2

Date 3-4-04

- Last year, alone, we missed out on more than \$22.5 million worth of service revenues, including \$8.5 million where the price was specifically cited as the reason. Assuming that these bids were typical, approximately 50% of the costs would have been for parts and 50% for labor. At our current labor rates, that translates to more than 53,000 man hours. Assuming 1600 man hours per year per technician, that's equivalent to 34 jobs.
- If approximately 40% of those bids were within \$10,000 of one of our major competitors, who happens to be located in Nebraska, where sales taxes are not assessed on parts and labor as long as the aircraft leaves the state within 10 days of the completion of the work, essentially, the Kansas sales tax could be considered the difference.
- In effect, in just this one instance—and Kansas is the home of numerous aircraft service providers—the sales tax requirement may well have contributed to the loss of a dozen jobs. If these highly compensated employees were retained, they would be paying taxes, not collecting unemployment, consuming goods and services in Kansas, instead of moving to other states, and contributing to the profits of Kansas-based companies instead of being laid off.

Regarding Wichita's reputation as the Air Capital of the World:

Last year while this body was considering a similar measure, Bombardier was in the process of choosing where it would build its line of business aircraft. All of Wichita's airframe manufacturers are facing similar considerations:

Bombardier's Wichita operations were facing potential closure or severe reduction as part of company-wide cost-cutting efforts. We were forced to reduce our work force by more than 35% and to close our production lines for 4 months because business was down. We could really have used several million dollars worth of additional service business at that point.

We faced several significant issues—which still remain concerns:

- 1) Low sales and service volumes throughout the industry
- 2) Limited new program work for Bombardier (downturn of 35% at Bombardier Flight Test Center (BFTC))
- 3) Competing internally (5 other Bombardier Aerospace sites) as well as externally. External competitors adapt rapidly, will use reduced pricing to win business
- 4) Wichita is not optimal location for service center based on physical locality of operators

- 5) Bombardier Wichita site has three distinct business units—they are interrelated and dependent on each other—when one suffers, it impacts the others; BFTC is facing reductions, Learjet Operations projecting low production through 2004, BBAS feels the effects

Fortunately, there are some positive signs:

- 1) The economy and industry activity are recovering
- 2) Bombardier has decided to move completions of Learjet products to Wichita, resulting in more customer visits. These can translate into service opportunities—*if our service center can provide competitive pricing*
- 3) The IAM and local and state governments contributed to an improved cost profile for the Wichita site by offering to “share the burden”—Union extended and revised contract, local and state governments provided some infrastructure improvements and forgave training loan obligations, with the result that...
- 4) *Bombardier* has renewed its commitment to build, test and service aircraft in Wichita through 2006. (But, in a highly competitive industry, anything that contributes to increased costs can tip the scale in favor of another site.)

In addition to helping ensure the long-term viability of the Wichita site for Bombardier (and enhance the competitive position of our aviation service-related business for all manufacturers operating in the state) exempting aircraft sales and service from sales taxes will provide a significant and important basis for our competitiveness, help restore service activity levels, and attract additional business and high-paying jobs to Kansas.

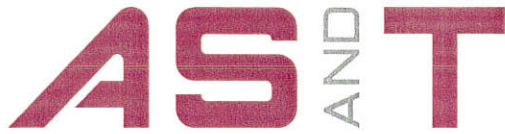
Respectfully submitted,

Jim Ziegler
Vice President & General Manager
Bombardier Business Aviation Services, Wichita

Cessna Aircraft Company Testimony on House Bill 2911

- Cessna Aircraft Company supports the proposed amendments to K.S.A. 79-3606(g) and (k) providing an exemption from Kansas sales and consumers use tax on sales of aircraft and aircraft repair parts and services.
- Economic development
 - Estimated increase in Wichita service center revenues of between \$5.7 - \$17 million dollars.
 - Estimated increase in direct employment of between 26 to 80 employees
 - Estimated increase in wages of between \$1 to \$3 million.
 - Increased economic activity in Wichita and in Kansas as a result of the increased employment.
 - Increased customer spending in Wichita and in Kansas as a result of more customer visits.
- New Wichita Cessna Citation Service Center
 - \$60 million dollar facility
 - Opening in the fourth quarter, 2004
 - 70% operating capacity at initial opening
 - Estimated to bring an additional 450-500 jobs to the Wichita area.

- Competitive advantage to Kansas
 - Five other states have tax exemptions for aircraft repair parts and services.
 - Cessna operates a service center in Florida, which is a state that exempts aircraft repair parts and labor.
 - The Orlando Service Center had the third highest revenues in 2003 of all U.S. service centers, behind Wichita and San Antonio. It is expected to be second in 2004.
 - Part of the reason for the high sales volume is a favorable sales tax environment on aircraft repair parts and services.
 - A favorable tax environment will entice business from competitors in Nebraska and Texas.
- Cessna's investment in Kansas
 - Cessna has invested in excess of \$550 million in capital expenditures in Kansas since the beginning 1998.
 - Cessna has made the decision to manufacture the Mustang in Independence, Kansas.
- Amending the statute to exempt aircraft and aircraft repair parts and services from Kansas sales and consumers use tax will provide a favorable tax environment which will help Cessna attract more customers to Kansas.



Aerospace Systems & Technologies Inc.



**Written Testimony Before the
Kansas House of Representatives
Taxation Committee**

By

**Kevin Hawley, President
Aerospace Systems and Technologies
3213 Arnold Ave. Salina, KS**

**Thursday, March 4, 2004
HB 2911**

Good morning Mr. Chairman and members of the Committee. Thank you for the opportunity to speak to you about HB 2911.

AS&T is a unit of AS&T, Ltd, based in Consett, England. In addition to major aircraft subassembly activities, AS&T, Ltd. manufactures the TKS ice protection system. AS&T, Inc. is the United States marketing, distribution, certification, maintenance and installation arm of our parent company. We install TKS systems on a wide variety of aircraft at our hangar facilities located at the Salina Municipal Airport. We also use approved installers located in several other states.

HOUSE TAXATION

Attachment 4

Date 3-4-04

I would prefer to do all of our TKS installations at our Salina facility. Due to the fact that other states, such as Massachusetts, provide for the exemption of sales tax on aircraft modifications, many of our installation jobs go to those states. As a result, my Salina workforce is smaller than if a majority of the installations were completed in Salina.

The TKS ice protection system has been installed on thousands of business jets. Most notably, TKS is standard equipment on over 600 U.S.-based Raytheon Hawker 800 business jets. AS&T would like to offer an upgrade to those existing Hawker business jets, and I would prefer to do all of the modifications at our Salina facility. My Salina workforce would have to grow to support a Hawker business jet project.

A Kansas sales tax exemption on aircraft maintenance, repair and overhaul is key to enabling AS&T to bring more installation and modification work to Kansas. The demand for our product continues to increase and I want our facility, as well as our state, to benefit as much as possible from that growth. However, the fact that other states provide such

an exemption places AS&T at a competitive disadvantage and forces us to shift installation work away from Kansas.

Passage of HB 2911 by the Kansas Legislature will lead to new jobs by not only AS&T, but other maintenance, repair and overhaul operations at airports across the State.

Thank you for considering my viewpoint. I would be pleased to answer your questions.

Aerospace Systems & Technologies (AS&T) provides ice protection systems for general aviation aircraft. The company, employing eleven people, reached over \$2,000,000 in annual sales in both 2002 and 2003. It has been operating in Kansas since 1990, and to date has enabled safer flights for over 1150 aircraft.

**Written Testimony Before the
Kansas House of Representatives
Taxation Committee**

By

**Timothy F. Rogers, A.A.E.
Executive Director
Salina Airport Authority**

Thursday, March 4, 2004

HB 2911

Good morning Mr. Chairman and members of the Committee. Thank you for the opportunity to appear before you and present the Salina Airport Authority's views concerning HB 2911.

The proposed change to K.S.A. 79-3606(g) would enable the State of Kansas to be more competitive in the maintenance, repair and overhaul of a wide variety of aircraft makes and models.

The State of Kansas is the acknowledged world leader in aircraft manufacturing. However, as a State we are far behind in the very competitive business of maintaining, repairing and overhauling aircraft, many of which were manufactured in our state.

HOUSE TAXATION

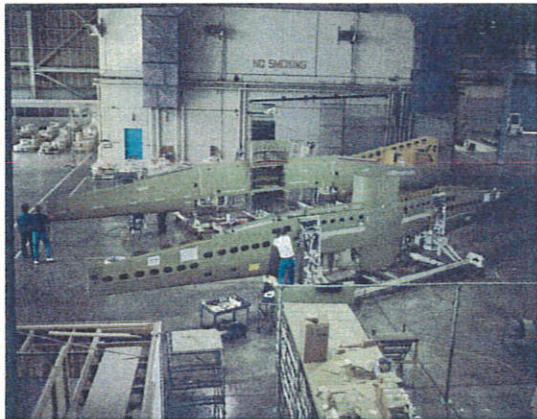
Attachment 5

Date 3-4-04



Over thirty states provide a sales tax exemption on aircraft maintenance, repair and overhaul work. This means that Kansas loses opportunities to capture a greater share of the maintenance, repair and overhaul business. The loss is in jobs and payroll, since both small and large aircraft repair facilities are attracted to other states.

We are all aware of the recent loss of aerospace jobs in this State. Because many of these jobs have been outsourced, it is unlikely that the lost aerospace jobs will ever return. We know this for a fact at the Salina Municipal Airport. As recently as 1999, Raytheon Aircraft Company employed 650 aerospace workers at its Salina division. Today, Raytheon employs just 274 people.



The Beech 1900D Airliner is no longer in production. The 1900D wing was manufactured in Salina.



Due to Raytheon's workforce reductions at Salina, over 50,000 sq.ft. of former manufacturing space stands vacant. The Salina Airport Authority has targeted aircraft maintenance, repair and overhaul businesses as new job creators.

Salina community leaders believe that we can provide excellent aviation job opportunities for Kansans in the field of aircraft maintenance, repair and overhaul. The excellent aeronautical program at Kansas State University – Salina, is a national leader at teaching aircraft maintenance, repair and overhaul skills. The Salina Municipal Airport provides excellent airport facilities, and we now have available hangar space for new aircraft repair, maintenance and overhaul business activity. We believe that our ability to create new aerospace jobs is tied to our State’s ability to attract and retain companies that maintain, repair, and overhaul aircraft.

An existing Salina employer, Aerospace Systems and Technologies, Inc. is involved in aircraft maintenance, repair and overhaul. AS&T designs, markets and installs the TKS ice protection system on general aviation aircraft. The TKS ice protection system is available as both original equipment and a modification to existing general aviation aircraft ranging from high performance singles to business jets.



The TKS System is installed on high performance singles such as the Cessna 210.



The TKS system is standard equipment on the Raytheon Hawker 800.

AS&T installs TKS ice protection systems at its hangar facilities at the Salina Municipal Airport. AS&T also authorizes out of state installers and is actually losing installation jobs to out of state installers. Some of these installations are done as far away as Massachusetts, since that state has a sales tax exemption for aircraft maintenance, repair and overhaul. The net result is that AS&T's Salina workforce is smaller than it would be if all installations were done in Kansas.



Our state's aircraft maintenance, repair and overhaul jobs will increase provided Kansas companies such as AS&T are allowed to be more competitive with companies in over 30 other states that offer sales tax exemptions.

As exciting as AS&T's current work is, the company has the potential to grow further by upgrading and replacing TKS ice protection systems currently in service on hundreds of business aircraft. A state sales tax exemption on aircraft maintenance, repair and overhaul would enable AS&T to be competitive with similar operations in other states, which would result in additional jobs for the State.

At the core of this issue is lost jobs and the types of jobs that can be created in this State. As I mentioned earlier, hundreds of aerospace jobs in the State have been lost – lost forever. By exempting the sales tax on the maintenance, repair and overhaul of aircraft, the Kansas Legislature can provide Kansas aviation businesses the opportunity to grow our existing maintenance, repair and overhaul activity and begin the process of attracting new maintenance, repair and overhaul jobs to Kansas. The Salina Airport Authority supports the passage of HB 2911.

Thank you for your time and attention to this issue. I would be pleased to answer your questions.

The Salina Airport Authority operates the Salina Municipal Airport and the Salina Airport Industrial Center where over 4,500 employees work for more than 70 businesses and organizations. Employers such as Tony's Pizza Service, Inc., Raytheon Aircraft Company's Salina Division, ElDorado National of Kansas, Inc., Love Box Company, Kansas State University-Salina College of Technology and Aviation, Kansas Army National Guard, Salina Vortex Corporation, Ovation Cabinetry, Inc., Power Ad Company and the Occupational Center of Central Kansas, Inc., contribute more than \$120 million in annual payroll to the Salina economy. The Salina Airport and Airport Industrial Center are integral components to the region's economy and the state's economic development efforts.

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