

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman David Corbin at 10:45 a.m. on March 4, 2004, in Room 519-S of the Capitol.

All members were present except:

Senator Edward Pugh

Committee staff present:

Chris Courtwright, Legislative Research Department  
Martha Dorsey, Legislative Research Department  
Gordon Self, Revisor of Statutes Office  
Shirley Higgins, Committee Secretary

Conferees appearing before the committee:

Jim Ziegler, Bombardier Business Aviation Services  
Mike Shonka, Cessna Aircraft Company  
Kevin Hawley, Aerospace Systems and Technologies  
Tim Rogers, Salina Airport Authority  
Jim Gregory, Kansas Chamber of Commerce

Others attending:

See Attached List.

**SB 544—Sales tax exemption for sale of aircraft and aircraft repair services and parts**

Jim Ziegler, Bombardier Business Aviation Services of Wichita, testified in support of **SB 544**. He informed the Committee that Bombardier currently has five other locations in the United States in Arizona, Texas, Indiana, Connecticut, and Florida. All of those states have a sales tax exemption for service and parts for aircraft. Thus, the service center in Wichita is automatically at a 6% disadvantage with its sister locations when competing for a customer's business. In addition, the Wichita center is at a disadvantage in competing with a center located in Lincoln, Nebraska, where there is a sales tax exemption. Mr. Ziegler explained that, in the Wichita service operation, work packages for scheduled service generally run from \$100,000 to \$200,000 each, and a 6.3% sales tax on the packages adds between \$6,000 to \$12,000 to the invoice. He noted that the Wichita location was the largest center approximately seven years ago. However, the Wichita location has remained "flat" over the past five to seven years while the five locations in other states have grown considerably. Last year, the Wichita business lost approximately \$22 million in service revenues, including \$8.5 million where the price was specifically cited as the reason. At the current labor rate, the loss translates to the equivalent of 34 jobs. In his opinion, the Wichita location will continue to remain "flat" or decline unless the competition is equalized by removing the sales tax on aircraft services. In summary, Mr. Ziegler said exempting aircraft sales and service from sales taxes would significantly enhance the competitive position of aviation service related businesses in Kansas and would attract additional business and high paying jobs. (Attachment 1)

Mike Shonka, Cessna Aircraft Company, testified in support of **SB 544**. He discussed the positive effect the bill would have on economic development in Wichita, the new Wichita Cessna Citation Service Center, and the competitive advantage the bill would provide for Cessna's Kansas location. He emphasized that amending the statute to provide an exemption from Kansas sales and use tax on aircraft and aircraft repair parts and services will provide a favorable tax environment which will help Cessna attract more customers to Kansas. (Attachment 2)

Kevin Hawley, Aerospace Systems and Technologies of Salina, testified in support of **SB 544**. He explained that his company manufactures the TKS ice protection system and installs the system on a wide variety of aircraft. However, many of the installation jobs go to out-of-state installers due to the fact that other states provide a sales tax exemption for aircraft modification. Mr. Hawley noted that the demand for his product continues to increase; however, without a sales tax exemption for the installation service, he will not be able to expand the Salina installation workforce. (Attachment 3)

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:45 a.m. on March 4, 2004, in Room 519-S of the Capitol.

Tim Rogers, Salina Airport Authority, testified in support of **SB 544**. He noted that the State of Kansas is the acknowledged world leader in aircraft manufacturing; however, the state is far behind in the very competitive business of maintaining, repairing, and overhauling aircraft, many of which were manufactured in the state. He pointed that over 30 states provide a sales tax exemption on aircraft maintenance, repair, and overhaul work. He noted that the core of the issue is lost jobs and the jobs which could be created if Kansas aviation businesses are given a competitive advantage which would allow the growth of existing business and would attract new maintenance, repair, and overhaul jobs to the state. (Attachment 4)

Jim Gregory, Kansas Chamber of Commerce, testified in support of **SB 544**. He informed the Committee that the National Business Aviation Association's State Aviation Report cites 35 states which have chosen to exempt aircraft maintenance activities in some form, and he noted that the list of the states is included in his written testimony. He urged the Committee to approve **SB 544** as a step toward keeping Kansas competitive for an important segment of the aircraft industry. (Attachment 5)

Senator Corbin called the Committee's attention to written testimony in support of **SB 544** submitted by Bernie Koch, Wichita Area Chamber of Commerce. (Attachment 6)

There being no others wishing to testify, the hearing on **SB 544** was closed.

Senator Corbin pointed out that the Department of Revenue estimates that **SB 544** would decrease state revenues by \$5.6 million in Fiscal Year 2005. He noted that the key issue is, how many dollars will be brought back to the state. He commented that the jobs created would in all probability bring more money back to the state in the long run. He suggested that conferees bring "black and white" numbers reflecting a positive fiscal note. Senator Donovan expressed his opinion that the bill would result in an on going positive fiscal note. He commented that every single job added adds another job somewhere in the state and adds more tax revenue in all areas (property, income, and sales).

The meeting was adjourned at 11:45 a.m.

The next meeting is scheduled for March 8, 2004.

# SENATE ASSESSMENT AND TAXATION COMMITTEE GUEST LIST

DATE: March 4, 2004

NAME	REPRESENTING
Ben Gaches	General Electric
Ref. Dept	Hick Law Firm
Jim Meyer	Kansas Chamber
Annabeth Meyer	Salina Airport Authority
Kevin E. Hawley	AS & T Inc.
Scott M. Kenefuck	KS Assoc. of Counties
LARRY R. BAER	LKM
John J. Fredrick	Boeing
Bill Brady	Raytheon
Gwendolyn Cargnel	ACS
Mike Peterson	AsTexpress Deborah
Mike Spoolet	ATI
Bud Burke	Cessna
Mike Shonke	Cessna
JIM WADE	CESSNA
Ann Buskus	Div. of the Budget
JPSMALL	BOMBARDIER AEROSPACE LEARJET
Dave Franson	" " "
Jim Ziegler	" " "



**BOMBARDIER  
AEROSPACE**

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<http://www.aerospace.bombardier.com>

**March 4, 2004**

Members of the Senate Assessment and Tax Committee:

**Re: Senate Bill No. 544  
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.

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- 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 Senate Bill 544  
*Mike Shonka*

- 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.

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- 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  
SB 544**

Good morning Mr. Chairman and members of the Committee. Thank you for the opportunity to speak to you about SB 544.

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.

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Attachment 3

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 SB 544 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.

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*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 Senate  
Assessment and Taxation Committee**

**By**

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

**Thursday, March 4, 2004**

**SB 544**

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 SB 544.

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.

*Senate Assessment + Taxation*



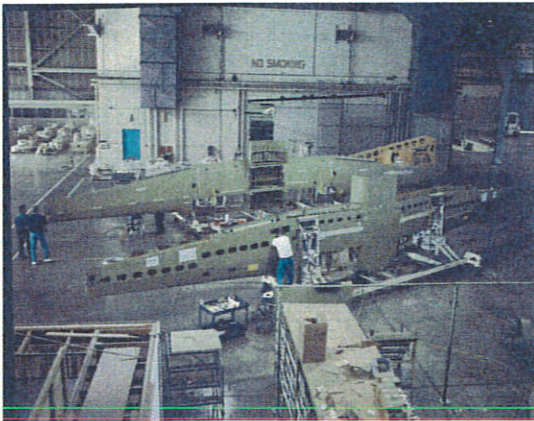
*3-4-04*

*Attachment 4*



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 SB 544.

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

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*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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**The Kansas Chamber of Commerce  
835 S.W. Topeka Blvd.  
Topeka, Kansas  
785 357 6321**

**March 4, 2004  
Kansas Senate Assessment and Taxation Committee  
SB 544**

**Mr. Chairman and members of the committee:**

**My name is Jim Gregory, representing The Kansas Chamber. The Kansas Chamber of Commerce supports SB 544, which would exempt aircraft modification and maintenance activities from sales tax. Civil aviation links Kansas businesses and its people to the rest of the country and the world. Aviation has been a catalyst for the growth of commerce everywhere.**

**The world's small aircraft, more than half built right here in Kansas, allow rural areas and smaller cities to enter the mainstream of commerce in markets around the globe. Passage of SB 544 would make Kansas' aviation service businesses more competitive and assist in the recovery of the state's the aerospace sector.**

**Thirty-five states, none of which have the concentration of high technology aircraft manufacturing jobs that Kansas possesses, have wisely decided to partially or fully exempt from sales taxes aircraft modification activities in their states, according to the National Business Aviation Association's State Aviation Tax Report.**

**The NBAA report cites the following 35 states that have chosen to exempt aircraft maintenance activities: Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Minnesota, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, North Carolina, Oklahoma, Oregon, Rhode Island, South Carolina, Texas, Vermont, Virginia, West Virginia, and Wyoming. The Kansas Chamber of Commerce urges the <sup>Senate</sup> ~~House~~ Taxation Committee to approve SB 544 as a step toward keeping Kansas competitive for this important segment of the industry.**

*The Kansas Chamber is the statewide business advocacy group, with headquarters in Topeka. It is working to make Kansas more attractive to employers by reducing the costs of doing business in Kansas. The Kansas Chamber and its affiliate organization, The Kansas Chamber Federation, have nearly 7,500 member businesses, including local and regional chambers of commerce and trade organizations. The Chamber represents small, medium and large employers all across Kansas.*

*Senate Assessment & Taxation  
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Attachment 5*



**the Chamber**  
Wichita Area Chamber of Commerce

**March 4, 2004**

**Testimony on Senate Bill 544  
Senate Assessment and Taxation Committee  
Bernie Koch  
Wichita Area Chamber of Commerce**

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Mr. Chairman, members of the Committee, Thank you for the opportunity to submit testimony today on Senate Bill 544, the 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.

Since the tragedy of 9/11, the Wichita/Sedgwick County economy has suffered from terrible losses in manufacturing employment. One out of every 5 manufacturing jobs has been lost in the Wichita Metropolitan area.

The Wichita State University Center for Economic Development and Business Research predicts the loss of another 2,000 manufacturing jobs in 2004. Over 300 job losses in manufacturing have been announced by the aircraft industry since the beginning of this year.

We believe this legislation can help hold the line on employment losses and prepare us for future job growth.

This exemption already exists in the law for aircraft engaged in interstate or foreign commerce. House Bill 2911 extends the exemption to all aircraft, making our aviation facilities in the Wichita area more competitive for these sales and services.

Anything that will make them more competitive is welcome and we urge your support of this measure.

Thank you for the opportunity to submit testimony.

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Attachment 6