

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 22, 2004, in Room 519-S of the Capitol.

All members were present except:

Senator Barbara Allen- excused

Senator Edward Pugh- excused

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 Wade, Cessna Aircraft Company

Johnathan Small, Bombardier Learjet

Ron Gaches, General Electric

Others attending:

See Attached List.

Senator Corbin called the Committee's attention to the minutes of the March 17 and 18 meetings. Senator Taddiken moved to approve the minutes of the March 17 and 18, 2004, minutes, seconded by Senator Buhler. The motion carried.

Discussion and possible action on previously heard bill: **SB 544—Sales tax exemption for sale of aircraft and aircraft repair services and parts**

Senator Corbin reminded the Committee that the Committee requested that conferees provide information on the impact **SB 544** would have on the economy in Sedgwick County and Wichita.

Jim Wade, Cessna Aircraft Company, noted that estimating the impact of the sales tax exemption for aircraft repairs was a challenge because of the ripple effect it would have on the economy. He distributed copies of Cessna's estimated economic benefit analysis, which includes data on the estimated impact on the tax base, the estimated increase in wages, a list of taxes affected by additional service center business, and indirect job increases. (Attachment 1) He explained that in determining the estimates, Cessna staff looked at last year's activity on service orders and the average revenue derived from service orders and considered the additional service orders Cessna would have if the bill passed. In addition, staff consulted Janet Herra, the Director for the Center of Economic Development and Business Research at Wichita State University, regarding the first level of the ripple effect on the economy. He pointed out that Cessna estimates that the bill's provisions would benefit the Wichita area by approximately \$1 million.

Senator Donovan commented that Mr. Wade's estimates were conservative. He noted that, in addition, the Wichita economy would benefit from such things as the increased collection of fuel taxes from persons who rent cars several days while awaiting the completion of the aircraft repairs. He noted that the maintenance of airplanes is ongoing; therefore, the economy will continue to benefit.

Jonathan Small, representing Bombardier Learjet, explained that Learjet is still working on their estimates. However, he recalled that Jim Zieger, a conferee at the hearing noted that, should the aircraft sales tax exemption pass, there would be an increase of 35 jobs at Learjet, which could produce an additional \$300,000.00 for the Wichita area economy. He went on to point out that **SB 544** also includes a sales tax exemption for the sale of aircraft; however, the intent was to include only aircraft modification, service, and repairs. He informed the Committee that the House amended a companion bill, **HB 2544**, with language which achieves the original intent of **SB 544**. The fiscal note on **HB 2544** as amended regarding the aircraft exemption brings the fiscal note down to \$1.4 million. Mr. Small noted that the House amendment appears on page 10, lines 28 through 41. He recommended that **SB 544** be amended to reflect the House amendments.

CONTINUATION SHEET

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Mr. Small went on to point out that the Wichita State University Center for Economic Development and Business Research has indicated that, for every one aircraft manufacturing job created, 2.9 additional jobs will be created. He commented that the cumulative effect of the bill makes it a good investment for Kansas.

Senator Corbin called the Committee's attention to written testimony regarding the economic effect of **SB 544** submitted by Timothy Rogers, Salina Airport Authority. (Attachment 2)

For the Committee's information, staff explained that **HB 2544** includes a number of new sales tax exemptions for various nonprofit groups in addition to the aircraft language.

Ron Gaches, representing General Electric, informed the Committee that General Electric has an aircraft facility in Kansas where a small amount general aviation engine repair modification is completed. General Electric estimates that there is a potential to add as many as 26 additional full time employees by the end of the first full year that they would be able to compete in the marketplace without having sales tax on general aviation engine repair modification services.

* Senator Lee moved to amend pages 4 and 5 of **SB 544** by inserting the amendments in sections (g) and (k) on pages 10 and 11 of **HB 2544** and that the **HB 2544** amendment be technically amended as suggested by staff, seconded by Senator Donovan. The motion carried.

Senator Donovan moved to report **SB 544** as amended favorably for passage, seconded by Senator Taddiken. The motion carried.

Senator Donovan requested that Richard Cram, Kansas Department of Revenue, prepare a revised fiscal note on a previously heard bill, **SB 532**, using 4% with a \$10,000.00 cap only to be applied to those companies complying with destination sourced sales. He noted that, after the hearing on the bill last week, he met with two or three business groups to explain his approach, and they agreed that his approach would help small retailers, and it would not cause confusion if applied only to destination sourced sales. He commented that, when the Streamlined Sales Tax becomes a reality, the state will be able to afford to reimburse all retailers for collecting sales taxes.

The meeting was adjourned at 11:15 a.m.

The next meeting is scheduled for March 23, 2004.

Cessna Aircraft Company
Testimony to Senate Tax Committee
Jim Wade

- 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.
- Estimated Economic Benefit Analysis
 - Estimated impact on tax base between \$.27 to \$1.0 million dollars (5 to 20% increase).
 - Estimated increase in wages of between \$1 and \$4.2 million.
 - Increased customer spending in Wichita and in Kansas as a result of more customer visits.
 - Taxes affected by additional service center business include:
 - Corporate Income Taxes
 - Personal Income Taxes
 - Sales Taxes
 - Hotel Bed Taxes
 - Property Taxes
 - Indirect jobs increase from 10 to 40 people.
- “Ripple effect” within the economy.

Senate Assessment & Taxation
3-22-04
Attachment 1

**Written Testimony Before the
Kansas Senate
Taxation Committee**

By

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

Monday, March 22, 2004

SB544

Thank you for the opportunity to present the Salina Airport Authority's views concerning SB544.

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.

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

*Senate Assessment & Taxation
3-22-04
Attachment 2*

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.

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.

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.

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.

If SB 544 is enacted, the Salina Airport Authority estimates that a total of 85 new jobs will be created generating more than \$180,000 in new tax revenue 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 SB544.

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.

State and Local Tax Projections

Based on No. of New Jobs Forecasted
with passage of SB 544 and HB2911

Prepared: 3/9/04

Salina Airport Authority

	<u>Jobs</u>	<u>Payroll Tax Revenue</u>	<u>Retail Sales Tax Revenue</u>	<u>Ad Valorem Tax Revenue</u>	<u>Corporate Income Tax Revenue</u>	<u>Total</u>
No of New Jobs created at SLN	85					
Increase in State Tax Revenue Generated		\$133,051	\$75,252	\$1,789	\$10,200	\$220,291
Decrease in State Tax Revenue Generated			\$38,848			\$38,848
Net New State Tax Revenue		\$133,051	\$36,404	\$1,789	\$10,200	\$181,443