

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.