

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.