

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Tuesday, February 21, 2012
TIME: 3:00 P.M.
PLACE: Room WW53
MEMBERS PRESENT: Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, McGee, Hammond, Siddoway, Werk, and Bilyeu

**ABSENT/
EXCUSED:**

NOTE: The sign-in sheet, testimonies, and other related materials will be retained with the minutes in the committee's office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.

Chairman Corder called the meeting to order at 3:00 pm.

ANNOUNCEMENTS: **Chairman Corder** said the Joint Legislative Oversight Committee has asked if there are any requests from the committee related to work for the Office of Performance Evaluation. ALEC will have a presentation on Friday morning at 8:30 in the auditorium. It is titled "Rich States vs Poor States".

H 417 This change in Idaho law will make the taxation of parts installed on private aircraft owned by non-residents consistent with the taxation of parts installed as components of aircraft manufactured in Idaho and sold to non-residents, as well as parts installed on aircraft in commercial use. **Chairman Corder** introduced **Representative Henderson**. See attachment #1.

Representative Henderson said the workshop the committee held that discussed the financial impacts of this legislation was very helpful. This bill would exempt the sales tax currently charged on aircraft parts installed in Idaho. There are 23 states where there is no sales tax on these parts. Commercial aircraft are already exempt, so this pertains to private aircraft.

Representative Henderson said there are seven companies that will benefit from this legislation immediately. These companies will provide 182 new technician jobs in five years. When a job such as airplane mechanic is created, there are indirect jobs that are created as well, such as suppliers, transportation and retail.

Vice Chairman Johnson asked if the \$164,000 of sales tax receipts could be calculated to determine an estimate of the annual sales. **Representative Henderson** said he would be unable to provide an accurate number. The number on the fiscal note was given by Western Aircraft.

Senator Werk asked if the \$164,000 of lost tax revenue should be subtracted from the \$112,023 of additional tax revenue, which would mean the state has lost \$52,000 of tax revenue in the first year. **Representative Henderson** said that would be correct, which means it is up to the committee if this investment is worthy of creating an industry that in five years would be delivering over \$15,000,000 to the Idaho economy. **Senator Werk** asked if the jobs that are listed for future business are commitments, or hope. **Representative Henderson** said Empire Airlines is a very large company and they employ over 100 people now. The jobs listed in the handouts are a commitment and there is great confidence they will come to pass.

Senator Bilyeu asked if any of the Idaho aircraft repair stations have been overlooked as there is one that she knows of that is not listed. **Representative Henderson** said the list is the companies in Idaho certified to install instruments.

Representative Henderson said the emergency clause was added because there is contract pending with Western Aircraft for specifically this type of work. **Senator Hill** asked if the intent was to eliminate all of the other exemptions as well that are spelled out in the act.

Chairman Corder introduced **Russ Westerberg**, representing Western Aircraft, to answer the question. **Mr. Westerberg** said the intention is to impose a sunset in five years to remove all exemptions. **Senator Hill** said he wanted to be sure there is no repeal of the entire sales tax act. **Mr. Westerberg** said he is confident the language is applied only to Section 63-3622GG of the Idaho Code.

Vice Chairman Johnson asked what the sales tax revenue will be in year five in order to be able to make a decision whether or not to renew this legislation. **Representative Henderson** said the state will look at the sales tax revenue and total salaries of over \$15,000,000 and 182 technician jobs. The wages coming into the state will exceed the sales tax cost incurred by the state.

Chairman Corder introduced **Jeff Mihalic**, President of Western Aircraft. See attachment #2. **Mr. Mihalic** said Western Aircraft has been in Idaho for almost 80 years. Aircraft maintenance and modernization is responsible for 2/3 of the employment of the entire company; however, it is not the most profitable part of the company. The company has lost \$800,000 because of the pricing that is necessary to get new business. That challenge is more difficult when there is an additional 6% sales tax added that other states do not have. The result of not passing this legislation is not only putting the 100 new jobs at risk, but there is a risk to the current 110 jobs that are in this segment of the company.

Mr. Mihalic said the fiscal note only included the capital budget for 2012, but there were additional capital improvements such as facility expansion in the next years as well. This legislation will be cash positive for the state of Idaho by 2014. The primary competitors do not charge a sales tax on installed parts. The employment is dramatically higher in the states that do not assess a sales tax on installed parts. Between Western Aircraft and their primary national competitors, there is a total of 5,622 jobs. There are 5,421 of those jobs in states without a sales tax on installed parts. There are 201 jobs in the states that charge a sales tax, and most of those jobs are at Western Aircraft. There are temporary employees now working

at Western Aircraft that could be converted to full time employees with benefits when this legislation passes.

Senator Werk asked if the company had another location, where is it and does that state have this tax exemption. **Mr. Mihalic** said there is one other location that does similar work in North Carolina and there is no sales tax exemption, which is also a problem for them. **Senator Werk** said when this legislation nears the sunset period, will there be a way to track and show proof that this legislation was valuable. **Mr. Mihalic** said with the sunset clause, Western Aircraft is putting their own business at risk. The companies affected will expect to report back to the legislature prior to the sunset.

Senator Werk said according to the charts, this business is a loss leader for the company. Are profits expected in the future. **Mr. Mihalic** said profits are forecast in the future. The price point is difficult because of the sales tax issue, but other changes are being made in the business as well.

Chairman Corder introduced **Mark Warbis**, Senior Special Assistant for Economic Development and Energy for the Governor, who spoke in support of the bill. **Mr. Warbis** said the aviation industry is considered a growth segment for the economy of Idaho. There were discussions with Boeing on expansion in Idaho; however there needed to be a critical mass of supporting industries such as aircraft repair before Boeing would expand into Idaho. Idaho has many advantages including the workforce and flyable days.

Vice Chairman Johnson asked what the growth for the aeronautics industry has been for the last ten years. **Mr. Warbis** said the growth has been slow but solid.

Chairman Corder introduced **Alex LaBeau**, President of the Idaho Association of Commerce and Industry who spoke in support of the legislation. **Mr. LaBeau** said this is a competitive fairness issue.

Senator Werk asked if IACI supports the streamlined sales tax as it would level the playing field as well. **Mr. LaBeau** said in the ten years that it has been worked on, they have supported it.

Chairman Corder introduced **Sharlene Stredwick**, Chairman of Western Aircraft, who spoke in support.

Chairman Corder introduced **Bill Miller**, a volunteer with the Idaho Aviation Association, who spoke in support. **Mr. Miller** said when the people who own these airplanes come to Idaho for maintenance or repair, they will be adding to the economy by staying at local hotels, eating at local restaurants and paying taxes on aviation fuel.

Chairman Corder introduced **Ray Stark**, Boise Metro Chamber of Commerce, who spoke in support. **Chairman Corder** asked if Boise has made any financial concessions to support this legislation. **Mr. Stark** said there is a letter of support from the city.

Chairman Corder introduced **Senator Winder** who spoke in support. **Senator Winder** thanked the committee for hearing this legislation.

Representative Henderson said there will be other companies in the state that will benefit from this legislation as well; such as those that make parts that are used in aircraft repair.

MOTION:

Senator Hill made a motion to send H 417 to the floor with a Do Pass. **Senator McGee** seconded. **Senator Werk** said he had a concern about the sunset provision that takes away a larger set of tax benefits. The motion carried by Voice Vote. **Senator Winder** will be the floor sponsor.

ADJOURNMENT:

The meeting was adjourned at 4:05 pm.

Senator Corder
Chairman

Jo Ann Bujarski
Secretary