

PA House Transportation Committee  
Hearing March 11, 2008  
Harrisburg, PA

“Aviation Sales and Use Taxes”

Robert Rockmaker, A.A.E.  
Executive Director  
Aviation Council of Pennsylvania

Good Morning Chairman Markosek and members of the House Transportation Committee. It is a pleasure to come before you and discuss what could be one of the most positive business decisions ever undertaken in this great Commonwealth.

As the Executive Director of the Aviation Council, I oversee the daily functions of the Associations business which our President has already outlined for you in his testimony.

Prior to this position with the Council, I was the Deputy Director of the Allentown- Bethlehem-Easton Airport, now Lehigh Valley International. I am a Flight Instructor with a variety of ratings and I have been involved with management of FBO's.

The term FBO stands for Fixed Base Operator. FBO's are service firms that provide a wide array of services to based and transient aircraft which operate at our system of 133 public use airports in Pennsylvania.

The project to eliminate PA Sales and Use taxes on Aircraft Sales, Parts, Maintenance and Repairs started over three years ago during an Aviation Council, FBO Committee meeting at the Lehigh Valley International Airport.

It was during the Councils FBO Committee meeting where I first shared my deep concern for the future of aviation and aerospace in Pennsylvania.

In attendance at this meeting was a wide selection of business owners and/or managers, all of whom were involved in the aviation aircraft service sector.

I pointed out that the Pennsylvania aviation industry was almost at a zero base due to the 6% PA sales tax which had to be charged for all sales and services. Many States in the Northeast had eliminated their state aviation sales taxes. Please refer to the State Sales Tax Map included in our informational handout.

Chairman Markosek and members of the Transportation Committee, did we see a light bulb go off during that meeting. I recall asking the group to call out names of aviation firms in Pennsylvania which could supply services such as aircraft painting, reciprocating and turbine engine services, avionics and repairs on turbo-prop and jet aircraft, interior and modification shops. Most of the firms that were in Pennsylvania have now left for States which are competitive.

The group looked at me like I had fallen off my rocker. There was a moment of mumbling and then silence ensued. I clearly stated that we had a serious issue in Pennsylvania. Something was having a direct, negative impact on the aviation industries ability to sustain and/or grow the aviation and aerospace industry in Pennsylvania.

Concurrently, the aviation landscape was barren when it came to looking down a list of firms in Pennsylvania that could provide the services previously mentioned.

Not only was work drying up, new aviation service firms were not knocking on the doors of Pennsylvania's airports looking to locate or relocate into Pennsylvania.

Even the Commonwealths aircraft are flown to service centers in other States because there are no service centers capable of performing the required maintenance on the aircraft.

As many of you know, the Piper J-3 Cub aircraft was born in Bradford, Pennsylvania under the name of Taylor Craft. It was 1937 when William T. Piper relocated the firm to Lock Haven and renamed it

Piper Aircraft Corporation. Our great state was home to practically the birth of aviation right after that special State of North Carolina where Orville and Wilbur made their first flight.

Today, as we look across Pennsylvania, there is a huge void when it comes to aviation and aerospace. The industry we are focused on today is a huge and expanding market on all Continents. Unfortunately, current Pennsylvania tax policy is driving aviation business to other States.

Think about Pennsylvania's geographical location. We are in an ideal location based on population. We need to capitalize on our aviation assets.

## **AVIATION COUNCIL OF PA ACTIONS**

The Aviation Council Board of Directors decided to begin sales tax elimination discussions with groups internal and external to the Council.

Lawrence Krauter, who was President of the Council and Deputy Director at Lehigh Valley International Airport when this tax hurdle was first identified was very clear with his observations on the matter. The

PA aviation State Sales and Use tax is a roadblock to current and future aviation business opportunities.

Lehigh Valley International had lost a major based aircraft operator who had relocated their Boeing 737 business jet to the airport. This aircraft generated over 12 good paying jobs between pilots, cabin attendants and maintenance staff. The Airport lost revenue as did the Commonwealth of Pennsylvania.

Why did the aircraft leave Pennsylvania?

Because the aircraft owner had purchased the aircraft in a State which did not charge sales tax on aircraft purchases. Several years later, the Pennsylvania Department of Revenue made contact with the aircraft owner requesting proof that sales tax had been paid.

The aircraft owner elected to start the engines and relocate to an aviation friendly State. The alternative was to have a check payable to the PA Department of Revenue for over \$3 million.

Ironically, this same aircraft owner may have been considering a further relocation of some or all of their business to Pennsylvania. I hope this picture is becoming clear for the Committee.

## ITT CASE STUDY

One of the last assignments I had prior to leaving my position at Lehigh Valley International Airport (LVIA) was the negotiation of the relocation of the ITT Corporate Aviation operation from New York City's, La Guardia Airport to LVIA.

I will not go into the details of the business deal. I will say that even back at that time, I perceived the theory that the aircraft comes first and down the runway, you might see an entire business or division follow the aircraft into Pennsylvania.

I was told by ITT's lead Attorney assigned to the negotiations at the time that there was a reasonable opportunity that ITT would be looking to Pennsylvania for more than just a base for their aviation fleet. ITT was open to possible future business units moving to Pennsylvania.

Ladies and Gentlemen, we are embracing much more than simply good paying aviation jobs with the elimination of Pennsylvania aviation sales taxes. We are landing right in the middle of a huge economic development opportunity which could have a

positive, long term impact on many airports and communities in Pennsylvania.

### **THE CONKLIN & de DECKER STUDY**

The Aviation Council of Pennsylvania retained the services of the premiere aviation sales tax specialist in the United States. Nel Sanders Stubbs from Conklin and de Decker prepared a study on surrounding States and their respective treatments of Sales Tax on aviation.

As we suspected, the study was quite clear. Pennsylvania was at a huge disadvantage. Ms. Stubbs spoke at our 2006 PA Aviation Conference and delivered a very strong message.

She told us that she constantly advises aircraft owners and operators to steer clear of Pennsylvania. On a weekly basis, Ms. Stubbs is retained by a variety of small, medium and large businesses to address their aircraft tax implications from both a purchase and cost to maintain and operate status.

Ms. Stubbs went on to advise that Pennsylvania was not a friendly State when it comes to aviation. The six (6%) sales tax is a major road block that will continue to plague the Pennsylvania aviation and aerospace industry until a correction is adopted.



## IMPACT ON PENNSYLVANIA'S AIRPORTS

Ladies and Gentlemen, when you return to your respective communities, take the pulse of your airport. If your local airport has a good economic beat, be thankful. Many airports in the Commonwealth are working very hard to keep their budgets intact and viable.

Ask your local airport manager how many times over the past several years they were contacted by new business prospects interested in basing a new firm on the airport.

Concurrently, ask them how many existing firms have come forward to talk about expansion on the airport. I am sure you know the answer to these questions.

Financially healthy airports require a variety of revenue streams in order to make the airport viable with respect to econometrics. Our airports in Pennsylvania are poised and positioned to seek new development. There is plenty of airfield accessible land. However, the airports are at a huge disadvantage because many of the firms that show

interest in Pennsylvania are not willing to be placed at an automatic 6% penalty before they even open their doors.

## **THE NEW VLJ'S AND PLJ'S**

The aviation industry is experiencing the birth of a new category of aircraft. Very Light Jets and Personal Light Jets are now being delivered to customers across the United States.

This new category of aircraft will continue to enhance the transportation requirements for both the Private and Government Sectors for years to come.

Pennsylvania had been in the final running for VLJ/PLJ Service Centers for both Eclipse and Embraer Aviation. We have lost these business opportunities to New York and Connecticut respectively. Both of these states do not have sales tax on Parts, Maintenance and Repairs. Each of these facilities would have employed between 35-100 employees to start. Future expansion opportunities were to follow.

As I speak to you today, I can share that there are at least two major firms eyeing Pennsylvania for their VLJ Service Centers. The firm, Honda Jet, is part of

one of the largest and finest global transportation companies in the world.

Can you imagine landing this firm in Pennsylvania? Once they touch down and like what they see, it is only a matter of time until they consider our Commonwealth for other business investments.

For the record, the jobs at these firms pay far above the average retail or distribution center wage rates. These are family sustaining wages.

## **A UNIQUE BALANCE**

A firm is offered a package of incentives to relocate to Pennsylvania from another State. Please follow me on this. The relocation incentive package from Pennsylvania's DCED may include;

- A. \$2 Million in Infrastructure Grants
- B. \$500 Thousand in employee training
- C. \$500 Thousand in State Income Tax incentives

On the other side of the balance sheet, the relocating business determines that their two aircraft will generate a Pennsylvania sales tax bill of over \$6

Million. This is because the business did not pay sales tax in the State that they have the aircraft based.

You can do the math and see that the business will be behind by \$3 Million if they make the move to Pennsylvania. Believe me when I say that these businesses look at everything.

Make no mistake that the Chairman, President or owner of a business speaks quite frequently with the Director of Aviation or Chief Pilot. Many business decisions are made during flight just like on a golf course.

## **PENNSYLVANIA AVIATION ADVISORY COMMITTEE**

The Pennsylvania Aviation Advisory Committee in a report dated March 22, 2007 found that Pennsylvania Sales and Use tax revenue attributable to aircraft, aircraft engine and parts manufacturing and overhauls dropped from \$1.9 million in 2000-01 to only \$500,000 in 2005-06, a decrease of roughly 74%.

Accordingly, the total estimated PA sales tax revenue collected in 2006 was \$800,000. This is a major drop in collections which again indicates that PA aviation service business is on a major decline.

### **The Fels Institute of Government Study**

A recent study conducted for PennDot by the Fels Institute of Government at the University of Pennsylvania indicated that Pennsylvania was at a severe disadvantage due to the present policy on aviation sales taxes.

The study cited how the State of Massachusetts has seen a 65% increase in aviation business since they eliminated aviation sales taxes.

Total based aircraft went up 40% and multi-engine jet aircraft increased 50% in Massachusetts. The Massachusetts State Legislature viewed the elimination of the State aviation sales tax as a means to help stabilize and grow the aviation and aerospace industry.

Concurrently, the airports in Massachusetts saw an increase of 17% in revenue collections which is critical to keeping an airport viable.

This project will pay huge dividends to both our airports and the communities that stand to benefit from this endeavor. Please help us take Pennsylvania's aviation landscape from that of an aircraft storage warehouse to a diverse service industry.

We have several other speakers today who will continue to demonstrate the importance of eliminating the PA Aviation Sales Taxes. On behalf of the Aviation Council of Pennsylvania, thank you for your attention and support on this project which will yield dividends for Pennsylvania, our airports and communities for years to come.

**PA HOUSE TRANSPORTATION COMMITTEE  
HEARING MARCH 11, 2008  
HARRISBURG, PA**

**“Security Plans For Public Airports”**

**Robert Rockmaker, A.A.E.  
Executive Director  
Aviation Council of Pennsylvania**

Good morning Chairman Markosek and members of the House Transportation Committee. On behalf of the Aviation Council of Pennsylvania, thank you for the opportunity to comment on Security Plans for Public Airports.

As you know, all of us in the aviation industry place a high priority on safety and security. Airport and aircraft owners and operators along with pilots across Pennsylvania and the entire United States have always placed a high emphasis on these critical operating areas.

With respect to the proposed security plan Legislation, which would amend Title 74 of the Pennsylvania Consolidated Statutes, the Aviation Council of Pennsylvania Board of Directors voted to not support this Legislation.

It is the United States Government that is responsible for establishing safety and security measures and laws for the aviation industry.

There is a Federal study underway which was initiated by the Transportation Security Administration. This study is scheduled for completion in September 2008. The entire study is focused on security for General Aviation Airports.

Thank you for the opportunity to comment on this piece of Legislation.