

Western Aircraft Testimony Regarding H.361 – Sales Tax Exemption for Aircraft Parts

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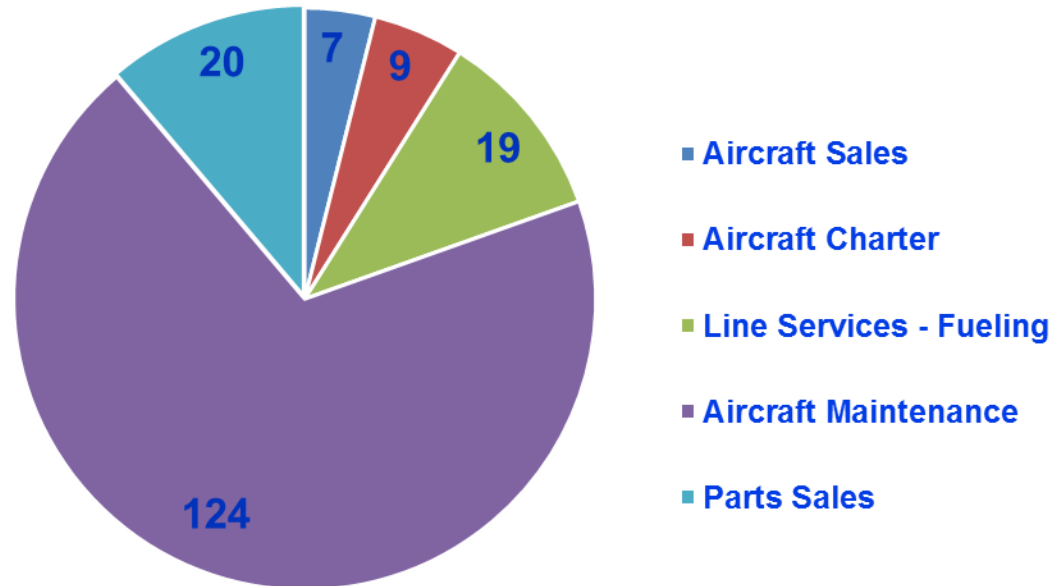
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- Introduction – Western Aircraft
- The Sales Tax Exemption and the Aviation Services Industry
- What Does the Sales Tax Exemption Mean for Western Aircraft and Other Aviation Services Companies in Idaho?
- Western’s Master Plan with the Sales Tax Exemption

Western Aircraft – Employment by Business Unit (179 Employees)



- Western Aircraft is an aviation services company located at the Boise Airport for more than 80 years.
- Western has been an FAA certified repair station for 60 years and is one of 30 FAA certified repair stations in the state of Idaho.

The Sales Tax Exemption and the Aviation Services Industry

47 out of 50 States have a Sales Tax Exemption for Aircraft Parts*

- | | | |
|--------------------------|----------------------------|----------------------|
| • Alabama | • Maine | • Rhode Island |
| • Alaska | • Maryland | • South Carolina |
| • Arizona | • Massachusetts | • Tennessee |
| • <u>Arkansas</u> | • <u>Michigan</u> | • <u>Utah</u> |
| • California | • Minnesota | • Virginia |
| • <u>Colorado</u> | • Mississippi | • Vermont |
| • Connecticut | • Missouri | • Washington |
| • <u>Delaware</u> | • Montana | • West Virginia |
| • Florida | • <u>Nebraska</u> | • Wisconsin |
| • Georgia | • <u>Nevada</u> | • Wyoming |
| • Hawaii | • New Hampshire | |
| • Idaho | • <u>New Jersey</u> | |
| • <u>Illinois</u> | • New Mexico | |
| • <u>Kansas</u> | • New York | |
| • Kentucky | • North Carolina | |
| • Louisiana | • Ohio | |
| | • Oklahoma | |
| | • Oregon | |
| | • Pennsylvania | |

States with No Sales Tax Exemption

North Dakota
South Dakota
Texas

***Competitors' States in Bold**

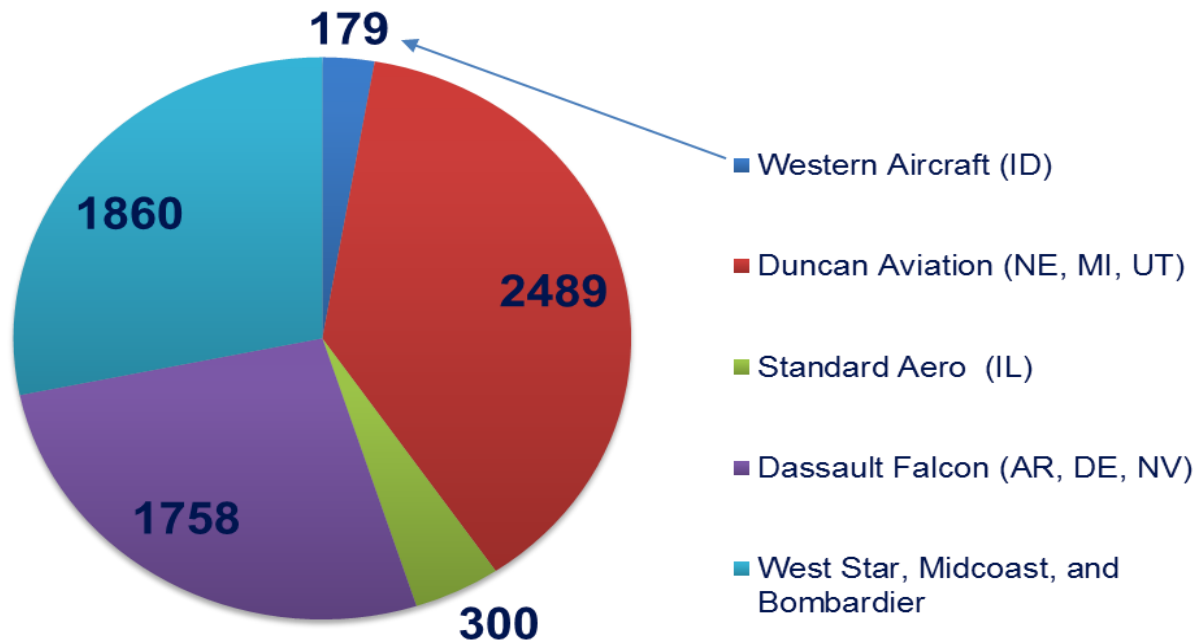
Location of Key Competition/Marketplace



- **94%** of Western's business comes from out of state. To grow our business we must expand to the East.
- Since 2014, the following states have expanded or passed a sales tax exemption on aircraft parts: Arkansas, Georgia, Missouri, New York, South Carolina, Wisconsin and Nevada.
- Western's primary competitors all benefit from a sales tax exemption.

Western Faces Large Competitors

Western Aircraft is competing against companies with multiple facilities and larger employee bases.



- **All** of Western's key competitors benefit from a state sales tax exemption on installed aircraft parts.
- The market for aircraft maintenance services currently has approximately 50% excess capacity.
- The impact on companies like Western Aircraft is tighter margins and lower labor rates.
- Labor rates have decreased to \$55-\$75/hour on some projects.

What does the Sales Tax Exemption mean for the Idaho Aviation Services Industry and Western Aircraft?

Aircraft Maintenance Drives Jobs

- Accounts for approximately **70%** of Western's workforce.
- Drives job growth and Western's master plan.

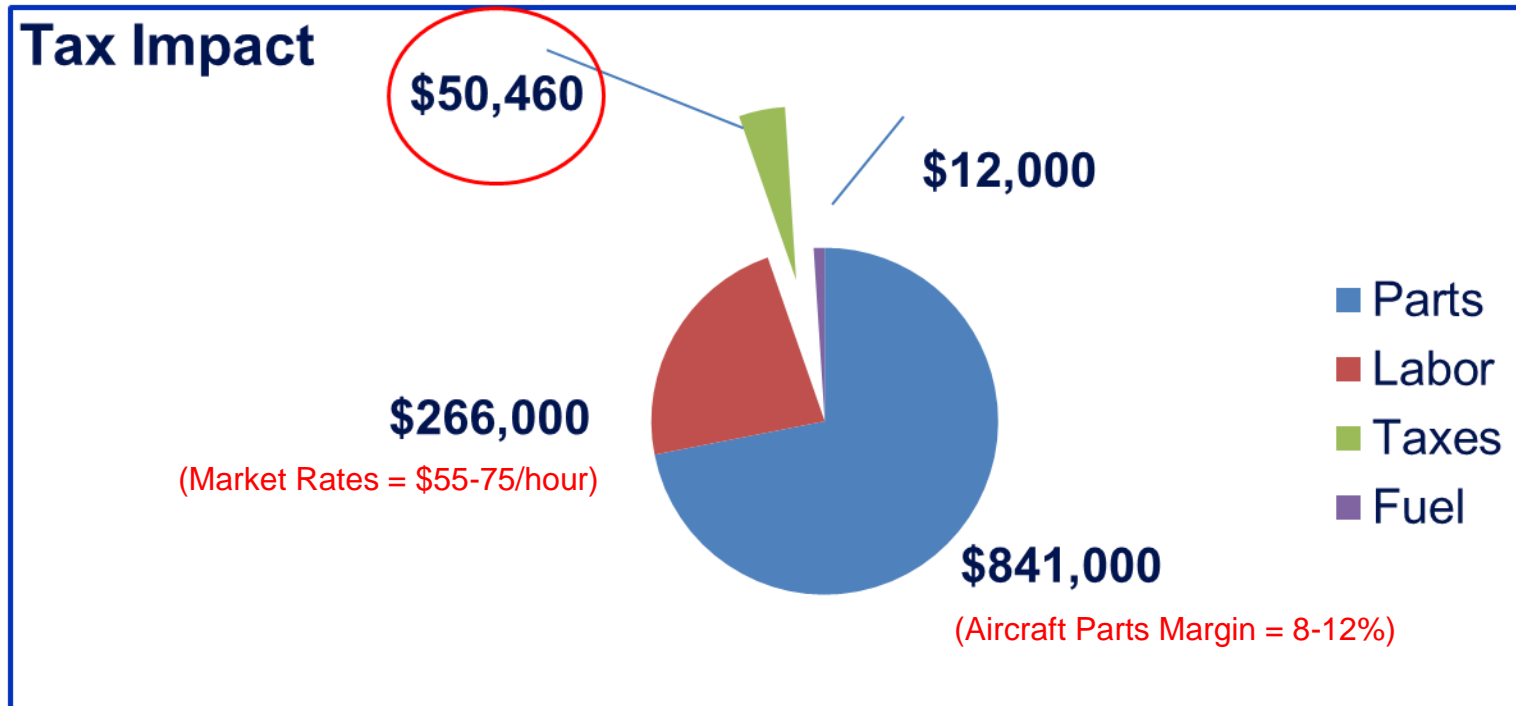
Maintenance has:

- Tightest margins and challenged labor rates.
- Fiercest competition out of all of Western's business units.

 No sales tax exemption risks existing jobs, future job growth, and the economic benefits they provide.

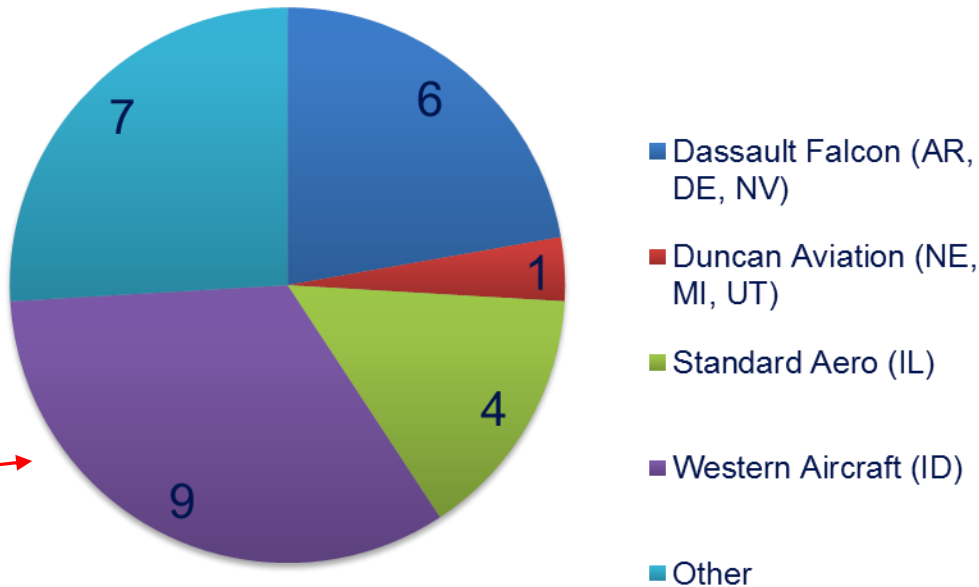


Sales Tax Impact - Large Job Detail



- Without the sales tax exemption, Western’s competition will have an immediate and ongoing 6% cost advantage on sales of parts.

Winning Large Jobs Drives Staffing



Target is to win 25% of these jobs - 33% win in 2015.

- Each of these jobs were > \$500K and required more than 15 technicians.
- Increased win rate in this category will drive job growth and allow Western to follow its Master Plan.
- Competition is fierce and the sales tax exemption levels the playing field. All of Western’s key competitors benefit from a state sales tax exemption.
- Western is working to increase the quantity of jobs that we bid as well as our success rate against larger competitors.

Idaho's FAA Approved Repair Stations

90% of the repair stations responding said that they benefit from the sales tax exemption.

Idaho Repair Stations		
Company	Address	Phone
AVIATION SPECIALITES UNLIMITED INC	4632 WEST AERONCA STREET, BOISE, ID 83705	(208) 426-8117
AVIONICS SHOP INC	105 JOSLIN WAY, TWIN FALLS, ID 83301	(208) 733-4855
BIRD SPACE TECHNOLOGY INC	1655 GLENGARY BAY RD., SANDPOINT, ID 83864	(509) 263-2549
CONYAN AVIATION INC	4888 AERONCA, BOISE, ID 83705	(208) 342-1042
EMPIRE AIRLINES INC	11549 N. ATLAS ROAD, HAYDEN, ID 83835	(208) 292-3850
EXECUTIVE AVIONICS INC	2465 COMMERCE AVENUE, BOISE, ID 83705	(208) 336-5571
HELICOPTER MAINTENANCE CORP	2465 COMMERCE AVENUE, BOISE, ID 83705	(208) 344-6521
HELL-JET CORP	4130 HELI PORT ROAD, NAMPA, ID 83687	(208) 318-0100
HILLCREST AIRCRAFT COMPANY INC	540 O'CONNOR ROAD, LEWISTON, ID 83501	(208) 746-8271
LENNYS AIRMOTIVE INC	PO BOX 101, SALMON AIRPORT, SALMON, ID 83467	(208) 756-3152
MACHEN INC	10555 AIRPORT DRIVE, HAYDEN LAKE, ID 83835	(208) 762-0338
MISSION AVIATION FELLOWSHIP	107 N PILATUS LN, NAMPA, ID 83687	(208) 498-0800
NIICD AVIONICS	3833 S. DEVELOPMENT AVENUE, BOISE, ID 83705	(208) 387-5648
SELKIRK AVIATION INC	3155 CESSNA AVENUE, HAYDEN, ID 83835	(208) 664-9589
SKYLINE AIRCRAFT AVIONICS DIVISION	3323 AIRPORT RD, NAMPA, ID 83687	(208) 461-8458
TETON AVIONICS INC	1940 INTERNATIONAL WAY, IDAHO FALLS, ID 83402	(208) 524-2666
TETON AVJET LLC	253 WARBIRD LANE, DRIGGS, ID 83422	(208) 354-3188
TRANSPORTATION SYSTEMS INC	3541 RICKENBACKER , BOISE, ID 83705	(208) 343-2524
TURBO AIR INC	4000 S. ORCHARD, BOISE, ID 83705	(208) 343-3300
WESTERN AIRCRAFT INC	4300 S KENNEDY ST, BOISE, ID 83705	(208) 338-1800
AERO ACCESSORY SVC INC	612 SCOTT STREET, BOISE, ID 83705	(208) 344-6461
BOISE AEROSTAT SERVICE EXCHANGE	12378 CEDARWOOD DRIVE, BOISE, ID 83709	(208) 323-7278
JC & ASSOCIATES INC.	650 EAST AMITY, BOISE, ID 83716	(208) 338-1723
NAMPA VALEY HELICOPTERS INC	5717 ALBATROSS, BOISE, ID 83705	(208) 362-0851
PRECISION PROPELLER SERVICE INC	4777 AERONCA ST, BOISE, ID 83705	(208) 344-5161

Western Aircraft's Master Plan with the Sales Tax Exemption

New Aircraft Coming to Market

- Falcon 8x - 2016 Entry Into Service
- Falcon 5x - 2017 Entry Into Service
- Pilatus PC24 - 2017 Entry Into Service



Master Plan



- Two lease parcels were added in 2014 to prepare for the additional construction as part of our Master Plan.

Capital Investment Plan

✓ Tool Room & shops	\$1,100,000	Complete
✓ Parts Facility	\$1,000,000	Complete
✓ Misc. Capital Improvements	\$1,134,022	Complete (2012 – 2015)
• Interiors Facility	\$2,000,000	
• Aircraft Sales Facility	\$700,000	
• Paint Hangar #1	\$4,000,000	
• Maintenance Hangar	\$4,000,000	
• Paint Hangar #2	\$5,000,000	
Total Planned Spending	<u>\$18,934,022</u>	

New Parts Warehouse - Complete 2014



- Occupancy Date: January 2014
- 14,000 square feet

Infill Building – Complete June 2014



- Occupancy Date: June 2014
- 12,000 square feet

Proposed Interiors Facility

22,940 ft² building at Kennedy & Boeing Streets

- Across the street from the new OTC parts facility

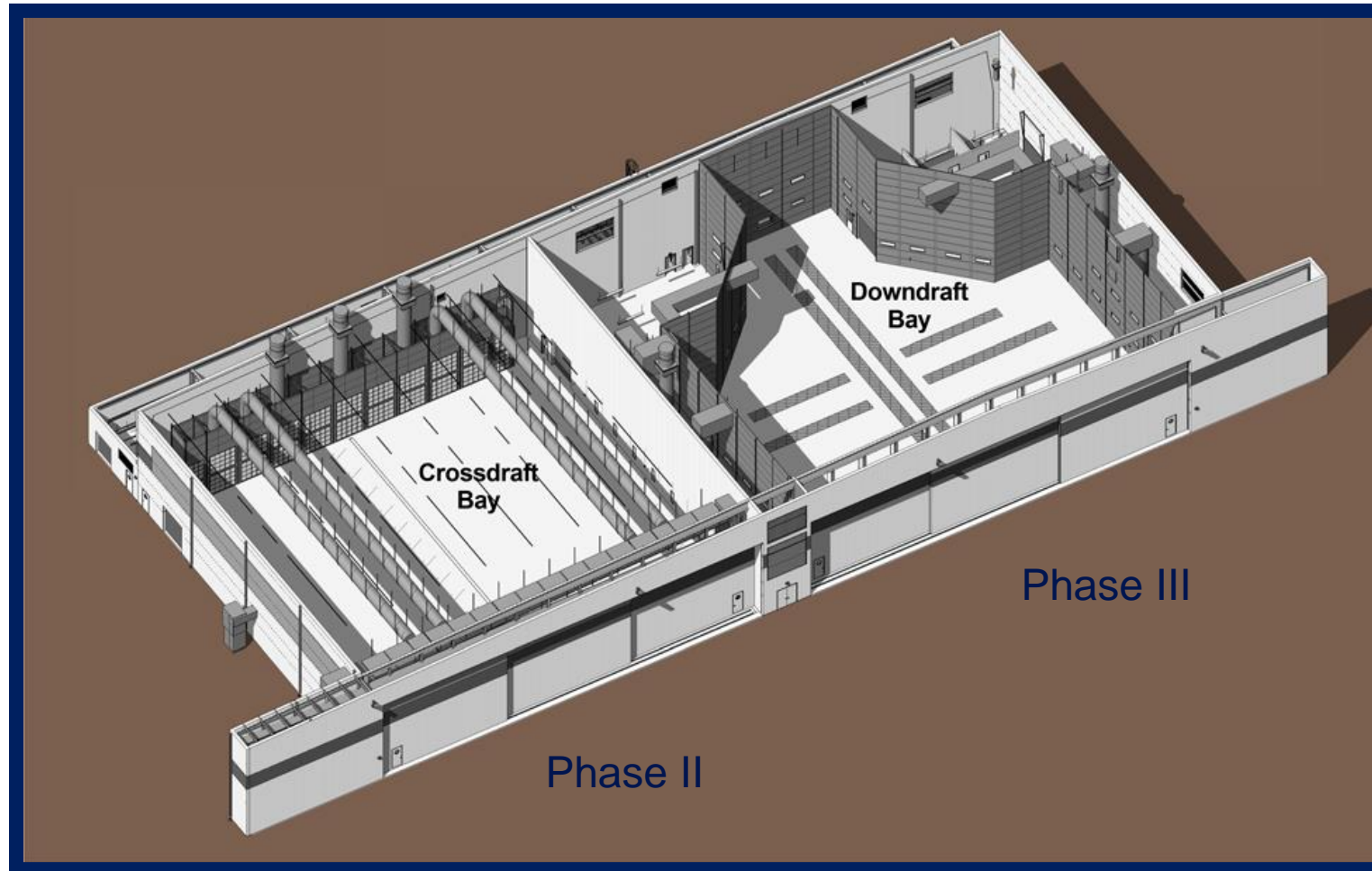


Proposed Aircraft Sales & Charter Facility

Attached to the existing Hangar 5, facing Aeronca Street



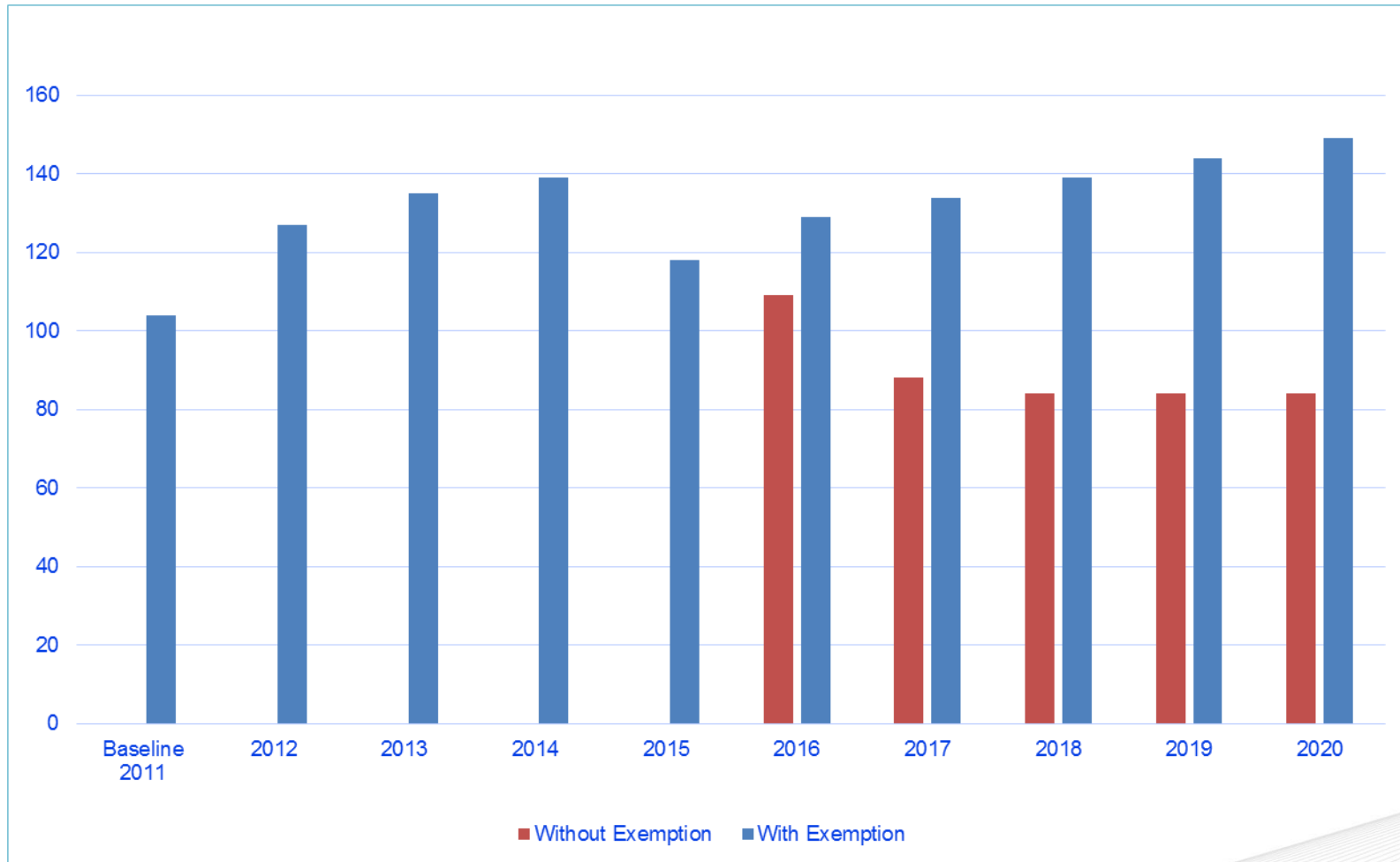
Proposed Paint Facility with Future Downdraft Bay



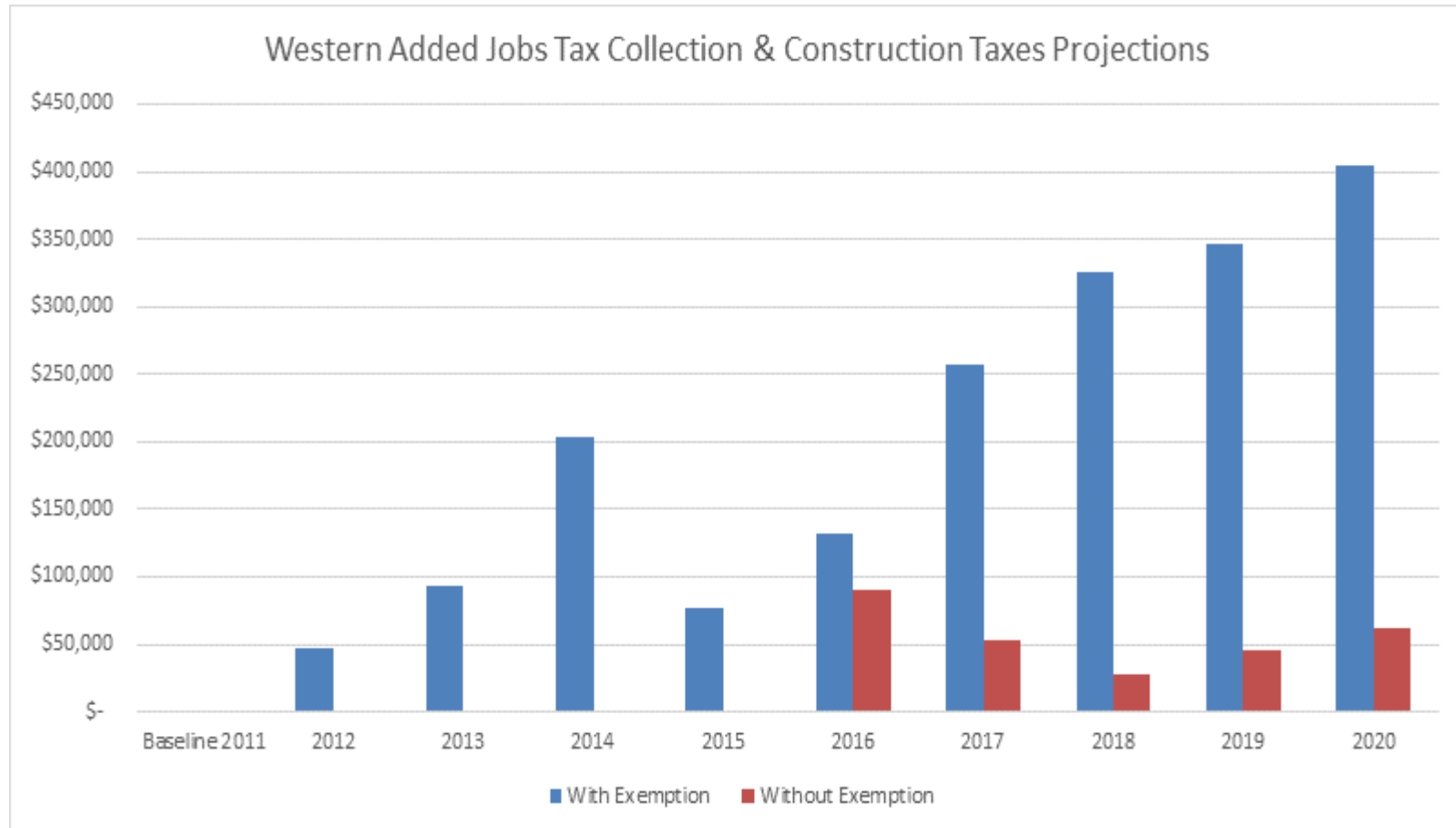
Since Passage of the Sales Tax Exemption in March 2012 Western Aircraft has:

- Increased employment by an annual average of 26 positions.
 - Added \$2.77M to annual payroll.
 - Produced a total sales and income tax benefit of \$407K utilizing the formula provide by the Idaho Department of Labor.
 - Increased average salary from \$54,535 to \$61,956.
- Spent \$3.3M on capital improvements with another \$15M in the master plan.
 - Capital spending generated \$79K of sales tax revenue.
- Generated \$500K per year of spending on hotel rooms, rental cars and restaurants by its customers.

Western Aircraft Maintenance Employment with and without the Sales Tax Exemption



Western Aircraft – Projected Sales, Income and Construction Tax Collection and the Sales Tax Exemption



Conclusion

Re-authorization of the sales tax exemption in 2016 is imperative to create a level playing field for aviation companies in Idaho.

- **94%** of Western Aircraft's business comes from out of state.
 - We compete in a national marketplace.
 - Competition is fierce.
 - To be competitive we must attract more out-of-state business.
- **47** out of **50** states have a sales tax exemption on installed aircraft parts.
 - Arkansas, Georgia, Missouri, New York, South Carolina, Wisconsin and Nevada passed the exemption since 2014.
- **90%** of responding Idaho FAA Repair Stations (representing 1,000 jobs) said they benefit from the sales tax exemption.
- The sales tax exemption benefits the state of Idaho by allowing companies to compete and grow their business, generating new jobs, and increasing capital investment.

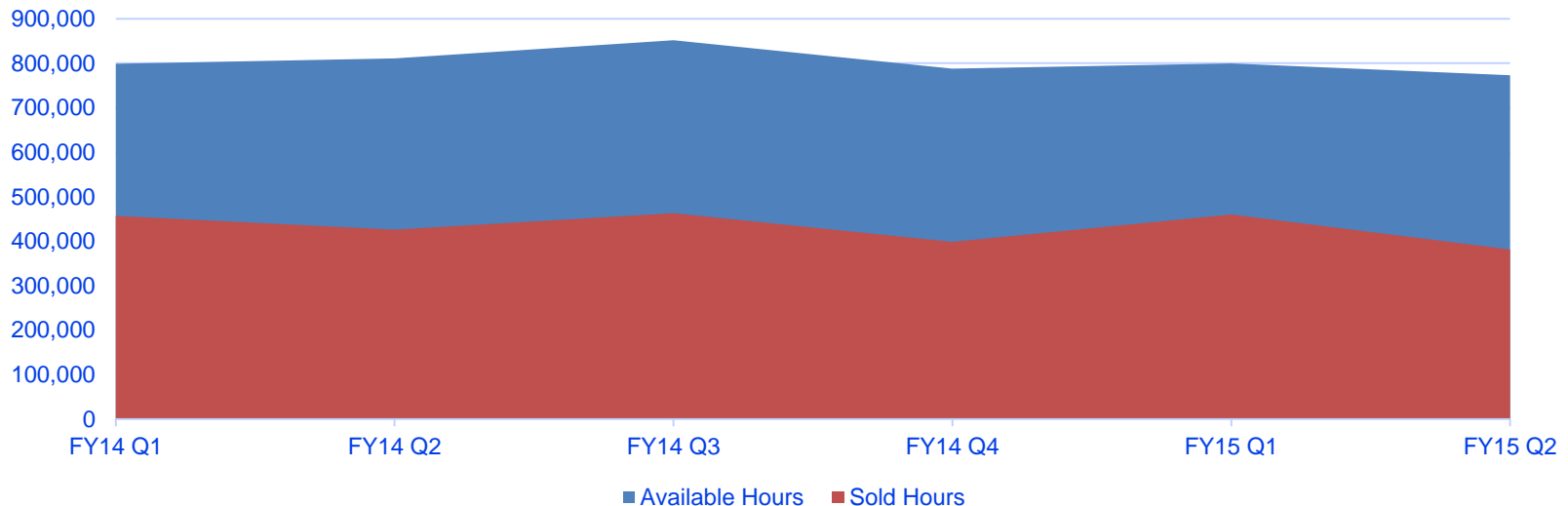
Western Aircraft appreciates the support from the Idaho legislature and requests reauthorization of the sales tax exemption and the permanent removal of the sunset provision.

Questions?

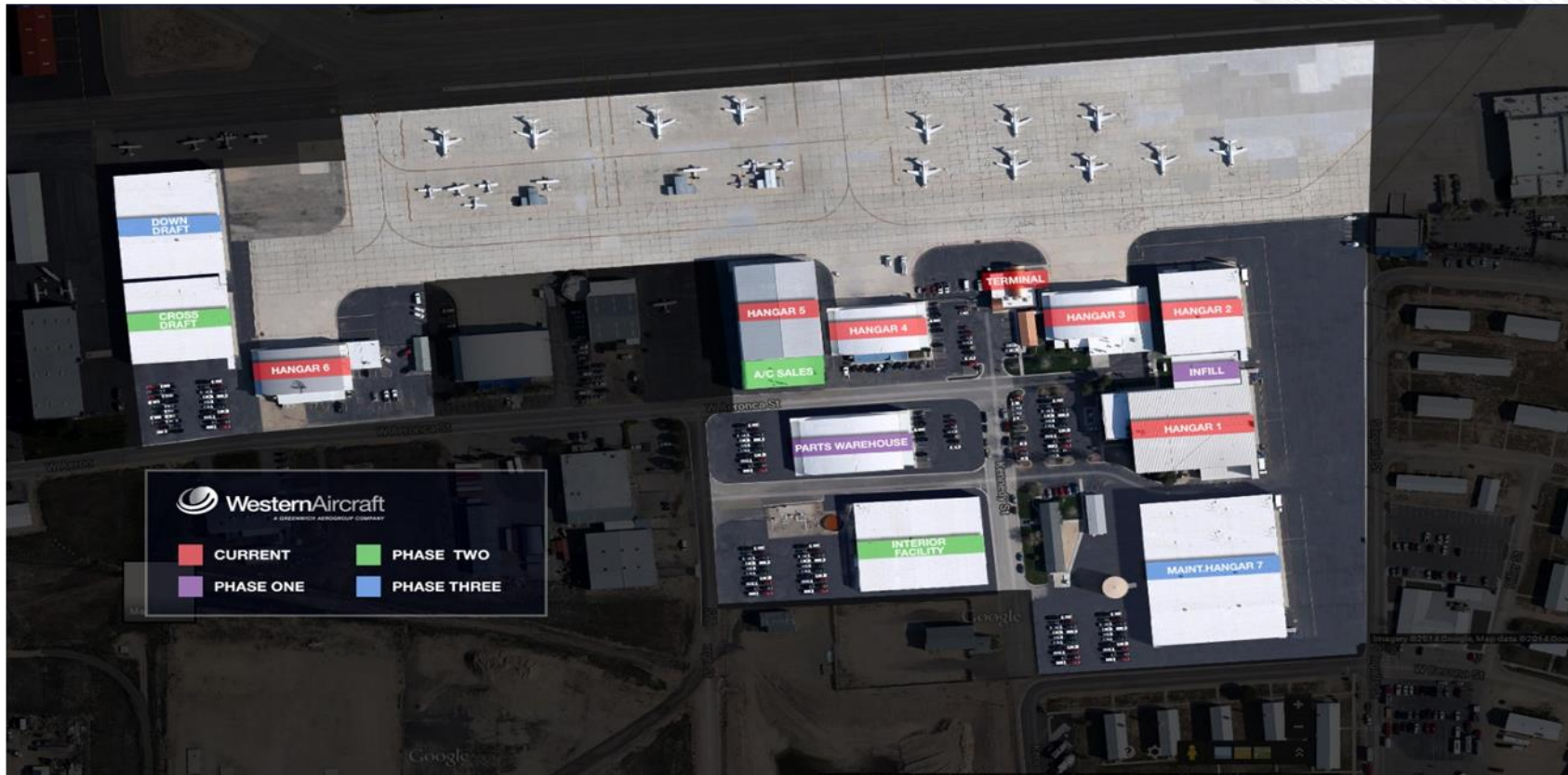
Appendix

Western Faces Excess Capacity in the Industry

Available Hours vs. Sold Hours (FY 2014 - FY 2015 Q2)



- The market for aircraft maintenance services currently has approximately 50% excess capacity.
- The impact on companies like Western Aircraft is tighter margins and lower labor rates.
- Labor rates have decreased to \$55-\$75/hour on some projects.



- Western Aircraft is an aviation services company located at the Boise Airport for more than 80 years.
- Western has been an FAA certified repair station for 60 years and is one of 30 FAA certified repair stations in the state of Idaho.

Idaho Sales Tax Exemption for Aircraft Parts passed in 2012

- Applies only to non-resident aircraft.



94% of Western Aircraft's business comes from out of state

- Includes aircraft of any size in private use (Part 91). No weight restriction.
- Restricts the tax exemption to parts installed at FAA approved repair stations.



Benefits Western Aircraft and 29 other companies throughout Idaho

- The exemption includes a sunset clause and will expire on June 30, 2016 unless re-authorized by the Idaho Legislature.

Key Competition - Employment

<u>Location</u>	<u>Company</u>	<u>Employment</u>	<u>Sales Tax on Aircraft Parts?</u>
Boise, ID	Western Aircraft	179	No
Battle Creek, MI	Duncan Aviation	574	No
Lincoln, NE	Duncan Aviation	1897	No
Provo, UT	Duncan Aviation	18	No
Wichita, KS	Bombardier & Hawker Beech	400	No
Little Rock, AR	Dassault FalconJet	1400	No
Reno, NV	Dassault FalconJet	18	No
Wilmington, DE	Dassault FalconJet	340	No
Springfield, IL	Standard Aero	300	No
St. Louis, MO	Midcoast (Jet Aviation)	950	No
East Alton, IL	West Star Aviation	210	No
<u>Grand Junction, CO</u>	<u>West Star Aviation</u>	<u>300</u>	<u>No</u>
	Total Employment	6586	
	In states w/o sales tax on parts	<u>6586</u>	
	In states w/ sales tax on parts	0	

- **None** of Western’s competitors charge a sales tax on installed parts.

The Sales Tax Exemption Benefits Aircraft Operations in Idaho including Western Aircraft

- Creates a level playing field for Idaho aviation service companies when competing with larger companies.
- Leads to opportunities to win large out-of-state projects.
- Provides overall stability of employment.
- Promotes growth leading to increased good paying skilled jobs.

What else must Western do to Compete for Large Jobs (94% Out of State Customers)?

- We Provide Customers with Fuel Credits to Fly an Aircraft to Idaho and Fly Over Competition.
- We Offer Discounted Labor Rates to Customers.
- We Provide Hotel Rooms and Rental Car Services.

Commitment to Hire Idaho Residents and Veterans

- Hire local Idaho residents
64% of new hires at Western Aircraft from 2012 thru 2015 were Idaho residents.
- Veteran Workforce
30% of Western Aircraft's Workforce are Veterans.
Of these individuals, 76% work in Aircraft Maintenance.

Partnership with ISU and Internships

- **Partner with Idaho State University**
 - Donated cockpit trainer in 2012
 - Conducted training courses in 2012, 2013 and 2014
 - In 2015, 2 Interns came from Idaho State and Western hired 1 female A&P Tech
 - Attended ISU Tech Expo for High School students 2014, 2015 and planned for 2016
 - In 2015, hosted tour and information session for educators from State of Idaho Division of Professional & Technical Education
 - Planned for 2016
 - Interview for Intern & Tech 1 positions in Spring
 - More training courses
- **Create paid internships at Western Aircraft**
 - Hired engineering interns in 2013, 2014, and 2015
 - Hired technician interns in 2014 and 2015
 - Open house with Dehryl Dennis Tech Center in 2012 and 2013

Working with OEM's to Expand Fleet Types

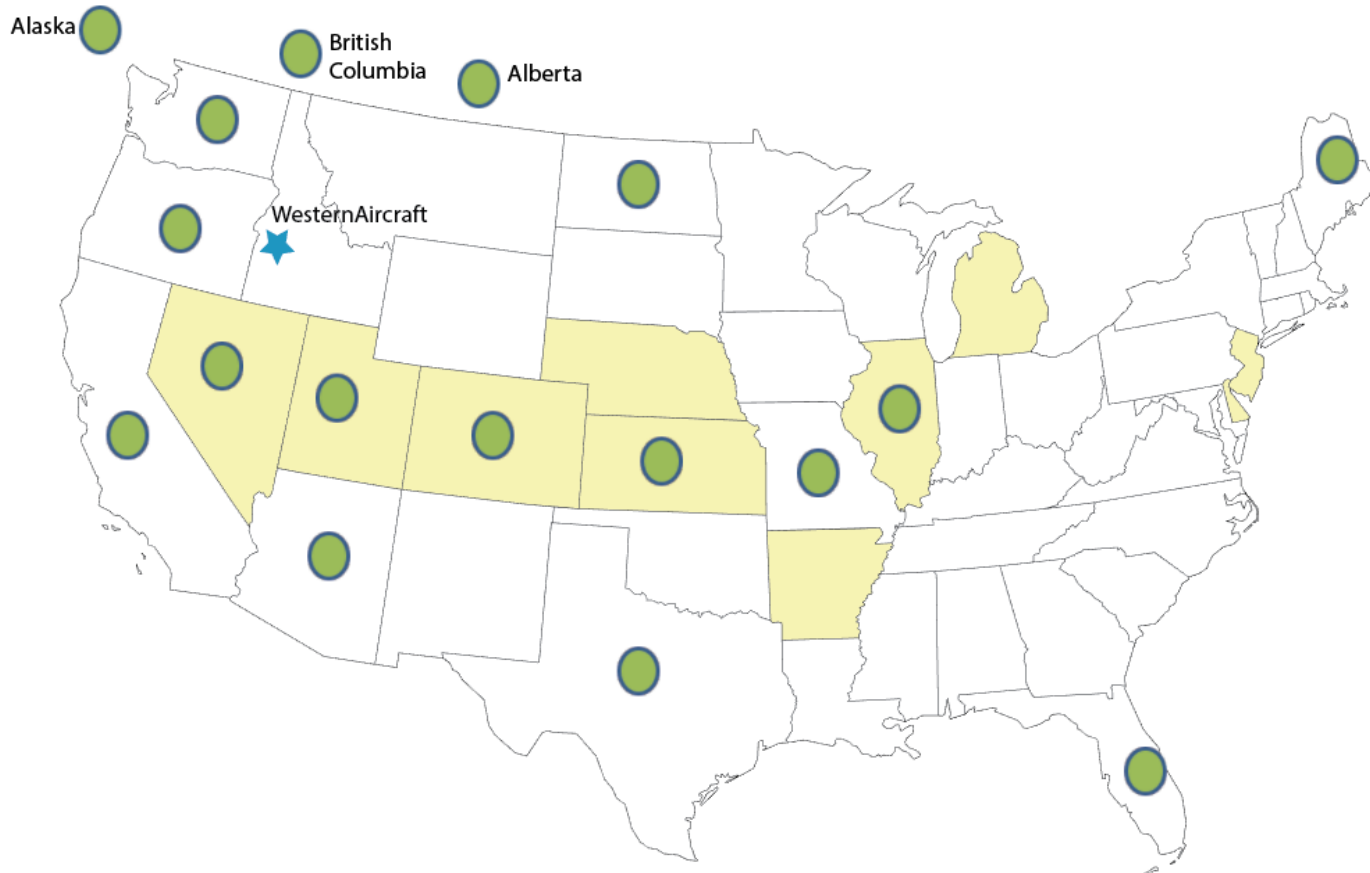


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New Markets and Market Share Growth



- More than 60 new customers were landed at Western from 2012 thru 2015.
- The sales tax exemption is helping to grow Western's market share.

New Fleet Capability - Challenger

Commitment: Add Challenger to maintenance capabilities

Actual: Western Aircraft added Challenger in 2012 and two other fleet types (Quest and Cessna) in 2013.



Expanding Western's Capabilities

- Expanded Avionics and Interiors Capabilities
- Added PT6 Engine Repair Capability
- Added NDT (Non-Destructive Testing) Capability



Expand Avionics Capability

Commitment: Expand Avionics Capability

Actual: Added 8 avionics technicians in 2013.

Staff fully trained on Garmin G1000 and Falcon Easy2 mods



Expanded Interior Capability

Commitment: Expand Interiors Capability

**Actual: Increased interiors shop from 5 to 18 employees in 2012
Shop is now fully staffed and capable**



New PT6 Engine Repair Capability



- Technician performs torque limit testing and borescope inspection on PT6 engine
- In 2014 Western gained authorization to disassemble and inspect the core engine

New Tool Room- Infill Building



New Data Center in Hangar 2



Hangar 3 Upgrades



- Made possible by relocating Avionics to new facility
- Supports additional back shop activity and design center

New Training Room- Infill Building



New Planning Offices in Hangar 2



New Avionics Shop- Infill Building

