

Finance, Revenue & Bonding Committee  
March 7, 2011

Governor's Bill HB 6387: An Act Concerning  
Personal Property Tax Exemptions

Senate Bill No. 1007, entitled An Act Concerning the  
Governor's Recommendations on Revenue

Testimony Submitted by:

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President & C.E.O.  
Key Air

Key Air is submitting testimony to the Finance, Revenue & Bonding Committee on HB 6387 and Senate Bill No. 1007. For the reasons set forth below, Key Air firmly believes that certain provisions of the bills, if enacted, will have serious negative consequences for the State of Connecticut including substantially reducing the general aviation industry's business in Connecticut, reducing tax and other revenues derived from the general aviation industry and causing a substantial loss of jobs in the general aviation industry in Connecticut. Specifically, the provisions which cause both my company and the aviation industry in general great concern are the proposed imposition of a personal property tax on aircraft based in the State, as provided for in Section 1 of HB 6387, and the removal of the sales tax exemption on repair services performed on aircraft weighing less than 6,000 pounds contained in Section 29 of SB 1007. I urge the Committee to amend these two bills and remove these two detrimental provisions.

Key Air is headquartered at Waterbury-Oxford Airport (OXC) and is a fixed base operator that leases a major portion of the Waterbury-Oxford Airport. Our business consists of subleasing hangar space to business jet aircraft, selling aviation fuel, providing ground services and also operates a leading aircraft management and charter business.

Key Air started out in 1985 with 6 employees, 15,000 sq. ft. of hangar space and 3 jet aircraft. As a result of sound policy decisions made by this General Assembly in the late 1980's through the mid-1990's, Connecticut became attractive and very competitive in the aviation industry from a tax perspective. As a result, Key Air was able to build its business by attracting additional aircraft to the Waterbury-Oxford Airport, and, in the last 25 years Key Air has made an investment of over \$28 Million into the Waterbury-Oxford Airport in the form of new buildings, machinery and equipment. Key Air has now grown to 200,000 sq. ft. of hangar space, 85,000 sq. ft. of office space, 160 employees and 62 jet aircraft are now based there. Key Air's business generates millions of dollars for the

surrounding towns, the State of Connecticut and the many businesses that provide support services to Key Air and its customers.

Due to the growth in demand for aviation services, Key Air has earmarked another \$30 Million for hangar and office expansion at the Waterbury-Oxford Airport, to begin in 2011. This new construction would have a very positive effect on the regional economy including creating 300 construction jobs in the first 18 months and then 250 new aviation service jobs upon completion.

However, aircraft by their very nature are very mobile assets. Typically, all but two of the 62 jet aircraft based at Oxford take off empty in order to pick up their owners who live and/or work in the states surrounding Connecticut.

HB 6387 imposes a significant property tax on aircraft. The states surrounding Connecticut do not have a property tax on aircraft. Based on our knowledge of our clients and the nature of the aviation industry, we expect that if HB 6387 is enacted, 60% of the small piston aircraft at the Waterbury-Oxford Airport and 80% of the jet aircraft would relocate to surrounding states.

In addition to the millions of dollars of lost revenue to the local towns and the State, we estimate that 120 jobs would be lost at Key Air (75% of the workforce) and another 150 jobs would be lost at the other businesses that have aircraft at the Waterbury-Oxford Airport. We expect the same damage to occur at other general aviation airports around the State.

An illustrative example of the reality of our concerns with HB 6387 and SB 1007 is presented in a 2007 case study published by the University of Pennsylvania Fels Institute of Government. This case study examined the impact to the Massachusetts general aviation industry of Massachusetts repealing the sales tax on aircraft sales, parts and service in 2002. Two of the pertinent findings of that case study were that:

“[Prior to 2002] Massachusetts’ companies and residents traveled out of state for aircraft sales and maintenance as a result of the savings offered by tax exemptions in Connecticut and New Hampshire.”

Following a vote to exempt sales tax in 2002, Massachusetts found that, “the number of based aircraft increased by 40%, and fleets of multi-engine jet aircraft as well as fleets of business owned aircraft registered in Massachusetts doubled from 32 to 66.”

If HB 6387 is passed, Key Air reasonably anticipates the following will occur:

- Aircraft currently based in Connecticut will relocate to more “tax friendly” neighboring states, including, among others, New York, New Jersey,

Massachusetts and Rhode Island, none of which impose personal property taxes on aircraft;

- The planned \$30 million construction project and expansion at the Waterbury-Oxford Airport will not occur;
- Significant damage to the businesses and the communities surrounding the Waterbury-Oxford Airport and other general aviation airports in Connecticut;
- The loss of many jobs from those businesses that are dependent upon the business generated from the Waterbury-Oxford Airport and other general aviation airports in Connecticut and other general aviation airports in Connecticut; and
- Millions of dollars of lost revenue to the State, just from the adverse impacts to the Waterbury-Oxford Airport.

For the reasons stated above, we strongly urge you to remove those provisions contained in HB 6387 and SB 1007 which are so harmful to the aviation industry in this State.