

May 10, 2017

Prepared remarks for the Kansas House Committee on Taxation hearing on SB 146

Chair Johnson and Members of the House Committee on Taxation:

Good Afternoon.

My name is Damon Ward, and I am the Director of Tax for Spirit AeroSystems headquartered in Wichita, Kansas. Thank you for allowing me to testify today about SB 146 and how provisions in the bill would affect our business. It is a privilege for me to participate in the legislative process as you consider important tax policy for our state.

Before providing comments on the bill, I want to begin by briefly describing what we do at Spirit.

- Spirit was founded in 2005 when the Boeing Wichita commercial division divested to become a stand-alone company.
- 10-years as a publically-traded company on the New York Stock Exchange.
- Spirit is a global company with manufacturing sites in Kansas, Oklahoma, North Carolina, Scotland, France, and Malaysia.
- Headquartered in Wichita, Spirit has more than 14,000 employees worldwide, with the vast majority, more than 10,500 of those jobs in Kansas.
- We design and manufacture large, complex aerostructures for the world's premier commercial and defense aircraft.
- Spirit employees are involved in the community through donating time and money to various charitable organizations. Over the past 10 years, Spirit and its employees have donated more than \$35 million to charitable organizations in the state. Last year alone, our Wichita employees volunteered 10,000 hours helping dozens of organizations and causes important to our local communities.

As a global aerospace company, we face fierce competition from other states and other countries on a daily basis, so having support from our state and local elected leaders is critical in our ability to remain competitive and maintain long-term success.

- The aerospace business is a capital-intensive industry. Spirit has invested \$1.6 billion in the Wichita site since 2005. Of that amount, more than \$250 million was invested in real property and another \$1.4 billion was invested in machinery, equipment, and tooling.
- Planned investment of an additional \$1 billion over the next 5 years, with \$280 million related to capital projects such as new buildings, building expansions and renovations, autoclaves, cranes, cooling towers, chillers, and evaporator units.

- All investments require robust business case planning as we carefully evaluate where we should invest for the future. When aircraft programs expand in production rates, and as we bid to secure the privilege of working on new programs, we consider dozens of scenarios to determine the best location to expand production or place work.
- As part of that economic analysis, we look at all available incentives offered by different locations, including the tax structure. Part of this analysis includes benefits provided through our ability to secure industrial revenue bonds.

This brings me to SB 146.

- SB 146 would reduce future tax benefits from capital put into place under an IRB mechanism, as approved by local city and county governments.
- We respectfully urge the Committee to preserve the full tax abatement incentive offered through industrial revenue bonds, just as the legislature has historically authorized.
- If the legislature were to restrict the full utilization of property tax abatement offered through an IRB, that would decrease the value proposition to businesses considering where to invest millions – and in our case – billions of dollars.
- While there are many factors involved in deciding where to grow our company, the benefits of the IRB tax abatement have certainly contributed to Spirit's decision to invest billions of dollars in new capital, hire more employees, and stimulate economic growth in South-central Kansas.
- If you look at Spirit's journey since 2005, we started out with 7,300 employees and today have more than 10,500 employees in Kansas. Our Kansas-based annual payroll has recently averaged about \$900 million, which contributes approximately \$40 million of individual Kansas income taxes.
- By 2020, we are projected to have invested more than \$2.6 billion in the Wichita site.

As we look toward the future and aggressively compete to win new commercial and defense work packages, we hope the legislature will continue supporting policies that enable our business and others to be more competitive. Especially in capital-intensive industries such as ours, having the full tax abatement value proposition of an IRB produces a more competitive position for us as we consider where to invest.

Again, thank you for allowing me to testify in front of your Committee this afternoon. We appreciate your service to our state and for pursuing tax policies that will spur economic growth and opportunity for our state.

I will be glad to answer your questions at this time.

Damon Ward
Director of Tax



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