Approved September 14, 1984
Date

MINUTES OF THE House COMMITTEE ON Transportation.

The meeting was called to order by Representative Rex Crowell at
Chairperson

1:30 xxx/p.m. on January 17, 1984 in room 519-S of the Capitol.

All members were present except: Rep. Adam - Excused
Rep. Justice - Excused

Committee staff present:

Hank Avila, Legislative Research Department
Fred Carman, Office of the Revisor of Statutes
Donna Mulligan, Committee Secretary

Conferees appearing before the committee:

Mr. Charles J. Schwartz, Secretary, Kansas Dept. of Economic Development
Mr. John R. Scheirman, Kansas Department of Transportation

The meeting was called to order by Chairman Crowell. Mr. Charles J. "Jamie" Schwartz of Kansas Department of Economic Development gave testimony regarding the effects of closing roadside parks and roadside park needs in Kansas. (See Attachment 1)

Mr. Schwartz explained that Kansas roadside rest areas serve a variety of purposes, all of which have an impact on Kansas travelers and tourists. He pointed out that the Kansas tourism program is encouraging travelers to get away from the major interstates and onto scenic side roads in order to discover more of Kansas.

Mr. Schwartz indicated Kansas has a good reputation for having many rest areas for its travelers which allows them to stretch, eat, let children "burn off energy", exercise animals or to simply rest.

Chairman Crowell opened questioning by asking Mr. Schwartz if he or any of his staff had ever participated in an effort to develop an organized plan as to where rest areas are needed.

Mr. Schwartz stated they had worked very closely with KDOT in regard to the rest areas at Goodland, Kansas City, and the proposal for South Haven.

Chairman Crowell asked Mr. Schwartz if he forsees any problem from the standpoint of tourism in having minimum security inmates involved in a program of maintaining certain rest areas. Mr. Schwartz indicated he didn't think there would be, but he would prefer to let Secretary Kemp answer that question.

Representative Cloud asked Mr. Schwartz if he worked with KDOT in helping to develop the plan for closing certain parks. Mr. Schwartz replied he wasn't aware that they had, and Nancy Zielke of KDOT commented that they had talked several times but there was no direct participation in the planning process.

Mr. Schwartz said he remembered discussing the plan with Secretary Kemp during the last legislative session and at that time it was his understanding that the total number of actual closures was going to be fairly low.

Representative Cloud asked Mr. Schwartz if his department supports the plan, and Mr. Schwartz replied that obviously they support any dollars directed toward tourism, and he would like to see all the efforts possible directed toward travel in the state. Mr. Schwartz stated he felt having improperly maintained rest areas is worse than not having them at all.

Chairman Crowell questioned Mr. Schwartz regarding what he felt would be the best course of action for the legislature to follow this session regarding the park closings.

Mr. Schwartz indicated that it was his understanding 70 communities wanted to take over the rest areas near their locations, and this would probably result in a savings to the state. Mr. Schwartz suggested a combination of people from the Kansas Department of Transportation, the Department of Parks and Resources and the Department of Economic Development could work together in conjunction with a subcommittee of the Transportation Committee and come up with some sort of formula or plan.

Chairman Crowell then introduced Colonel Bert Cantwell, Superintendent of the Kansas Highway Patrol, to give testimony regarding roadside parks. Colonel Cantwell indicated he had surveyed different districts, and his Captains reported that a great many of them are used very little and are subject to vandalism.

Chairman Crowell asked Colonel Cantwell if he felt that the lack of maintenance given roadside parks contributes to the crime in an area, and he replied that there had been some.

Chairman Crowell asked if all the parks were surveyed from the standpoint of use. Nancy Zielke explained that a comparative survey was conducted which sampled sites which received high, medium and low travel.

The committee then took up the question of the Santa Fe and Southern Pacific merger. Chairman Crowell introduced Mr. John Scheirman, Chairman of Rail Programs for the Kansas Department of Transportation, who distributed a prepared statement and the latest rail map. (<u>See Attachments 2 and 3</u>)

Mr. Scheirman advised that on September 27, 1983, an announcement was made by Southern Pacific Company and Santa Fe Industries to the effect that they would combine under the umbrella of a single new holding company called Santa Fe-Southern Pacific.

Mr. Scheirman noted that when the merger of the two railroads was announced, the KDED contacted both companies to let them know the State of Kansas was very interested in the transaction and in determining what effect it would have on our transportation system.

Mr. Scheirman stated once the application has been filed, it will be reviewed thoroughly, studies will be conducted, local officials will be contacted as well as rail users throughout Kansas, and other interested parties and the KDED will intervene in the case and develop a position on the merger.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Transportation,

room 519-S, Statehouse, at 1:30 xxxx./p.m. on January 17, 1984

Mr. Scheirman pointed out that the standards on which the ICC would make its decision include whether or not this merger is going to result in more efficient railroad operations for the merging partners, the energy impact, the environmental impact, the effect on competition, the economic impact and the adequacy of transportation for the public. They will consider whether it is going to result in some communities losing services they now have, and also whether it is going to result in some of the communities receiving better services.

Chairman Crowell opened the meeting to committee discussion.

Chairman Crowell asked what the historical situation has been with parallel mergers, and if they have resulted in abandonment of a lot of lines.

Mr. Scheirman replied they had not seen any great rash of abandonments since the UP merger in 1982. He indicated there is a trend in the industry to abandon a lot of low density branch lines and he expected that to continue whether or not this merger occurs.

Chairman Crowell asked how many coast-to-coast lines there are, and Mr. Scheirman replied that there is no single rail carrier which can provide coast-to-coast service on their own lines. We have four major western railroads and three major eastern railroads, and they tend to join up at Chicago or St. Louis.

The meeting was adjourned at 2:35.

Rex Crowell

Rex Crowell, Chairman

GUEST LIST

COMMITTEE: Transportation DATE: 1-17-84

PLEASE PRINT

NAME	ADDRESS	COMPANY/ORGANIZATION
R. Michael Browning	KLDH-TV	KLDH-TV
John R. Achterman	8th Floor S.O.B.	KDOT
Myall J. Hawkins	" "	" "
Elizabeth Hawkins	Gov's Office	Gov's office
Steven A. Hendricks	Gov's Office	Gov's Office
Tom Whitaker	Topeka	Ks Motor Carriers Assn
Pat Hubbell	"	Kansas Railroad Assn
Ron Calbert	Newton	U.T.U.
Ivan W. Wyatt	McPherson	Ks Farmers Union
Leroy Jones	Overland Park	B.L.E.
Nancy Zielke-Bigsby		KDOT
Carroll L. Morgenson		KDOT
Dick Koerth	Topeka	Budget
Ron Gaches	Topeka	KACI
Robert Haley	Topeka	KDOT

TESTIMONY BEFORE THE

HOUSE TRANSPORTATION COMMITTEE

January 17, 1984

Charles J. Schwartz, Secretary

Kansas Department of Economic Development

Attachment 1

KANSAS DEPARTMENT OF ECONOMIC DEVELOPMENT
503 Kansas Avenue, Sixth Floor, Topeka, Kansas 66603
Phone (913) 296-3481

JOHN CARLIN
Governor

CHARLES J. "Jamie" SCHWARTZ
Secretary

Mr. Chairman and Members of the Committee:

Kansas roadside rest areas serve a variety of purposes, all of which impact Kansas travelers and tourists. In light of a proposal to close some of the areas, the Kansas Department of Economic Development offers the following points for consideration:

1. The Kansas tourism program is increasing its efforts to gain state and national attention. This program has been given a high priority by the administration, through increased funding and staffing. One of the purposes of the promotion efforts is to encourage travelers to get away from the major interstates and onto scenic side roads in order to discover more of Kansas. Tourism has become an important contributor to the Kansas economy: it is the state's number 4 industry--employing more than 42,000 Kansans and generating more than $1.5 billion in expenditures by visitors in 1981.

2. Kansas hosts over 16 million travelers a year. Over half of the travel parties include children. From

a tourism standpoint, this indicates an above average need for roadside rest areas or, at a minimum, roadside "turn-outs." Kansas has a reputation for having many rest areas for its travelers. These areas allow travelers to stretch, eat a sandwich, allow children to "burn off some energy", exercise the animals, or simply rest.

3. Past surveys of travelers in Kansas show that roadside parks and rest areas are one of the state's strongest assets. When asked to rate the adequacy of the rest areas, 36% of those surveyed rated them as "good" and 30% rated them "excellent."

4. The existence of roadside rest areas have a positive impact, particularly if they are kept clean and in good repair. We have received letters of complaint regarding unclean pit toilet areas and other rest areas. It may not be possible or cost effective to maintain all of these areas. If they cannot be adequately maintained, a reduced number of areas in good condition would be better. The transfer to local authorities of some areas should keep most of the existing rest areas available to travelers.

Many of the needs fulfilled by the rest areas are intangibles--yet they are very basic to tourism. Rest areas are a necessity for travelers of all ages. Each travel route deserves every consideration for having adequate rest facilities.

KANSAS DEPARTMENT OF TRANSPORTATION

STATE OFFICE BUILDING—TOPEKA, KANSAS 66612

JOHN B. KEMP, Secretary of Transportation   JOHN CARLIN, Governor

Kansas Department of Transportation
Topeka, Kansas

The Proposed Santa Fe/Southern Pacific Railroad Merger

Presented at January 17, 1984 Meeting of

The Committee on Transportation
House of Representatives
Kansas Legislature

by

John R. Scheirman, Chief of Rail Programs and
Special Assistant Attorney General

Mr. Chairman, Members of the Committee, this presentation will outline the issues involved in the proposed merger of the Atchison, Topeka and Santa Fe Railroad and the Southern Pacific Railroad, and will explain the actions the Office of Rail Programs has taken and intends to take in response to this major development in the restructuring of the nation's rail transportation system.

On September 27, 1983, The Southern Pacific Company and Santa Fe Industries, Inc. announced joint plans to create a business combination of the two holding companies through the creation of a new holding company, Santa Fe Southern Pacific Company. In addition to real estate, natural resources, and pipeline operations, the assets of the new company would include two major railroads, the Santa Fe and the Southern Pacific. This creation of common control of two rail carriers cannot lawfully be achieved without the approval of the Interstate Commerce Commission. Formation of the new holding company has been approved by the stockholders as of December 14, 1983, and the stock is in active trading on the New York Exchange. However, before the rail merger aspect of the transaction can be implemented, the rail carriers must undergo formal proceedings before the ICC. Until the ICC issues a final decision, the Southern Pacific rail operation has been placed under the separate control of an independent voting trust, and is required to continue operating as a bona fide competitor of Santa Fe.

Attachment 2

The merged system would be the largest rail operation in Kansas. The merger proposal is a matter of concern to KDOT and to many communities and rail shippers in Kansas because it would combine two of the state's major railroads into one. Potential impacts on the state of such a change are significant, and may be both positive and negative.

Routes of the new system could be consolidated, in Kansas and elsewhere, perhaps leading to abandonment of some rail lines. Changes in operations could result in reductions of local service to Kansas shippers. On the other hand, service to shippers could improve through the creation of new, shorter and more efficient single-line routes to locations ranging from the Pacific Northwest to Chicago and the Gulf of Mexico. More importantly, the merger may be the determining factor in the making or breaking of the two rail companies in the ongoing struggle for rationalization and survival of the nation's railroad system.

Santa Fe currently operates the second largest rail system in Kansas in terms of freight volume and miles of line. The Southern Pacific owns the St. Louis-Southwestern Railroad, or the Cotton Belt Route, ranking fourth in mileage and fifth in freight volume among railroads in Kansas. The two railroads considered merging in 1980, but were unable to reach agreement. Also in 1980, the Southern Pacific bought the Tucumcari line of the bankrupt Rock Island Railroad. This line, extending diagonally across Kansas from Kansas City through Liberal, gave the Southern Pacific entry into the Kansas market for the first time. The Cotton Belt has since invested $100 million dollars in improvements to the line.

If the merger is consummated, the Santa Fe Southern Pacific corporation would constitute the third major western rail carrier to be created by a merger in recent years, along with the Burlington Northern and the Union Pacific-Missouri Pacific system. Eighteen states are served by Southern Pacific or Santa Fe. Nine states are presently served by both carriers, ranging from Illinois to Louisiana to California.

The formal application for ICC approval of the rail merger is expected to be submitted in March of this year. The proceedings, by statute, may extend up to 31 months from the date of application, although recent proceedings by the ICC have been concluded in shorter periods.

With the passage of the 4R Act in 1976 and the Staggers Rail Act in 1980, Congress extensively deregulated the rail industry. Merger proceedings were simplified and railroads were encouraged to consolidate and rationalize their systems to achieve more efficient rail operations. However, the ICC retained the power to protect the interests of rail users and competing railroads who may be adversely affected by a merger. Interested parties, including local governments and states, are entitled to intervene and participate in the proceedings.

The federal legislation of the past decade also created a role for states in rail planning. Funds were made available for local rail rehabilitation projects. The creation of the Department of Transportation in 1975 and the constitutional amendment on internal improvements in 1980 made it possible for the State of Kansas to develop a rail planning program within KDOT. Through this activity, we have become familiar with the characteristics, needs, and problems of rail freight transportation in Kansas and have been involved in some of the major events in rail transportation in recent years.

The Kansas rail system presently consists of about 7,200 miles of rail lines, owned and operated by nine major and four minor carriers. Rail service is particularly important to Kansas in the transportation of grain and other farm products to market, and of coal to electric utility plants. The availability of rail service is an important factor in economic development, both in terms of attracting new industry, and in encouraging existing businesses to remain and to expand their facilities. Kansas ranks third in the nation in miles of rail line, is at the crossroads for much of the nation's longhaul freight traffic.

The proposed Santa Fe/Southern Pacific merger has important implications for the State's rail system, although the nature and scope of the impact cannot be assessed until the application and operating plan are made public. The greatest concern expressed by Kansans to date relates to the fact that this merger may be characterized as parallel rather than end-to-end. The ICC has used these terms for purposes of antitrust analysis. A parallel merger combines competing rail lines which serve common points of origination, joining two overlapping rail systems into one. An end-to-end merger combines two essentially noncompeting railroads at a few key terminal points, linking two separate territories of service under a single new network.

Santa Fe and Southern Pacific argue that their merger is not necessarily parallel, but rather combines elements of both types of mergers. This is correct, in that points such as Chicago, St. Louis, Memphis, New Orleans, Portland and Ogden are presently served by only one of the carriers. The resulting shorter routes under common control would facilitate more efficient operations to the points presently served by only one carrier. However, a map of the combined system illustrates that in some regions, the lines are indeed parallel and are presently serving common origination and termination points. When a merger creates common control of parallel lines, there may be a tendency to abandon one route or the other, resulting in fewer service options for local shippers. The reduction or elimination of carrier competition may lead to rate increases and reduced incentives to provide good service. It remains to be seen what SFSP's intentions are on these questions, although they have stated that a closing of the Tucumcari line in Kansas is not anticipated.

The greatest potential benefit to Kansas in this merger is the possibility that it may provide Santa Fe and Southern Pacific the economic advantages they may need to survive the restructuring of the rail industry and to continue providing service, employment, and economic development in Kansas. We learned from the Rock Island bankruptcy and the general crisis that railroads experienced in the 1960's and 1970's that too much regulation can destroy the rail industry. The Burlington Northern and Union Pacific mergers in recent years have benefitted those carriers, but have increased the competitive pressures on both Santa Fe and Southern Pacific, and a merger may be their only feasible recourse. Santa Fe has also expressed interest in purchasing Conrail and gaining access to Eastern markets, but without the financial benefits to be derived from the current merger proposal, Santa Fe may not be able to afford a Conrail purchase.

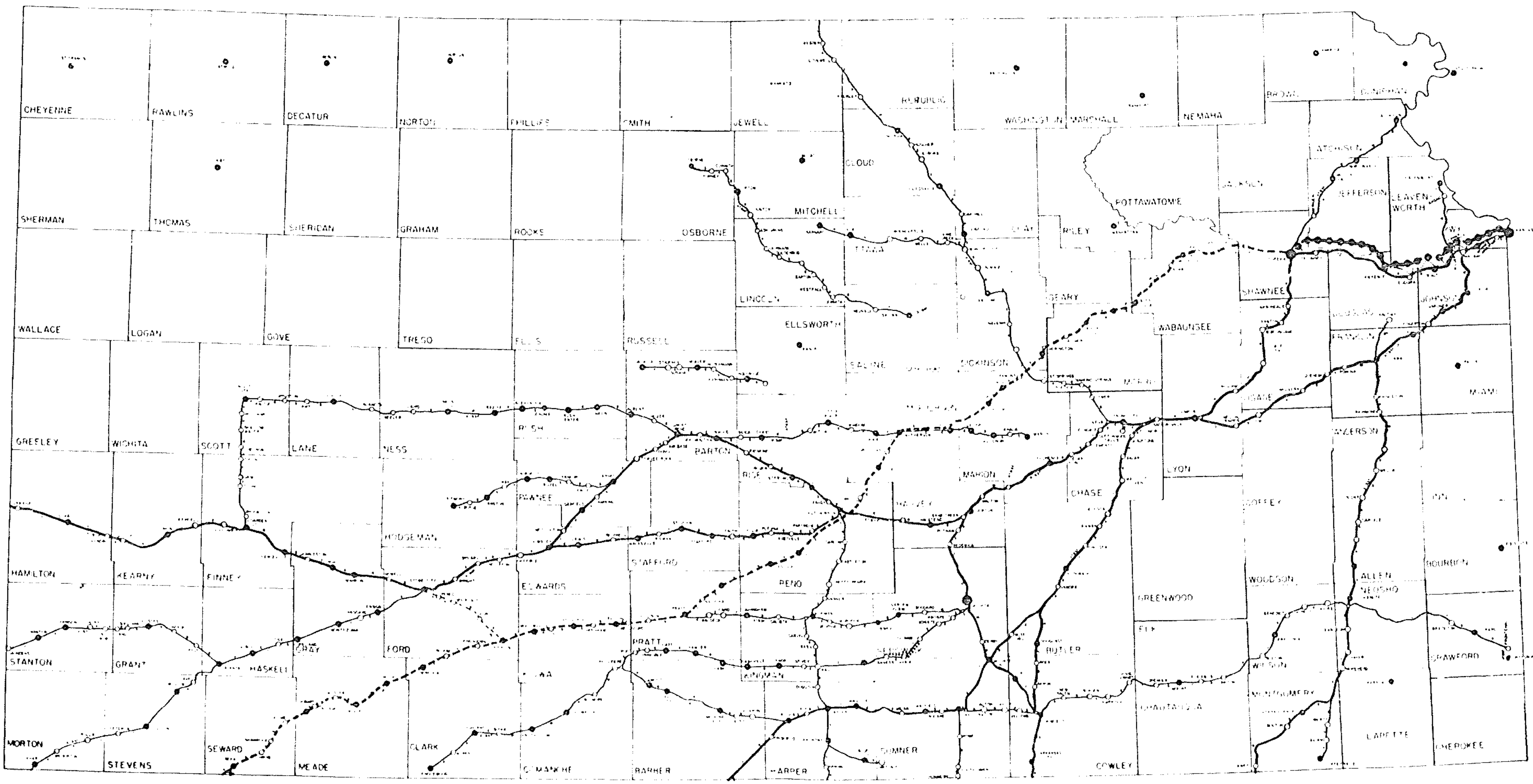
It is necessary for the State of Kansas, as well as for the ICC at the federal level, to weigh the potential benefits of the merger against the harm it may cause. We must look at how it may affect the State's rehabilitation projects and the efforts to restore viable service on portions of the bankrupt Rock Island system. We must consider whether rail line abandonments will result, and how local shipping rates and quality of service will be affected. We must look at whether the smaller regional railroads, such as the Katy and the Denver & Rio Grande Western, can survive the competition from their newly strengthened competitor. We must consider whether changes in the rail system will shift freight traffic to highways or draw traffic away from highways. We must look at impacts on employment in Kansas. Finally, we must make a judgment as to whether this merger proposal is what is required in order to ensure Santa Fe's and Southern Pacific's continuing operations in Kansas in the long term.

When the merger proposal was announced on September 27, the Office of Rail Programs in KDOT contacted the Chairmen of the two companies to let them know of our interest. The Railroads sent representatives to a meeting on November 30 of the State Advisory Committee on Rail Planning, which advises the Secretary of Transportation on rail issues. A similar meeting was held on December 14 in Liberal, sponsored by the Liberal Chamber of Commerce and Representative Bob Frey. I spoke at that meeting, along with representatives of Southern Pacific and Santa Fe. The railroads have promised to hold additional public meetings in Kansas, and advise KDOT of their plans in detail, as soon as currently ongoing studies are completed and the application is ready to be filed.

KDOT plans to participate in the merger proceedings much as we did in the Union Pacific-Missouri Pacific merger in 1980 through 1982. Governor Carlin and Attorney General Stephan have authorized the Office of Rail Programs to represent the State in the hearings. Following the filing of the application, we will formally intervene, and formulate a position based upon consultation with local community leaders, rail users, other rail carriers, citizens, and other State agencies, in addition to our own evaluation of the total impact on the State's transportation system. We encourage input from members of the legislature and their constituents in the process of determining what is in the public interest of Kansas, and would be pleased to respond to any questions that may arise in the course of this process.

It is important that interested parties be aware that the merger consideration process is not simply a yes-or-no proposition. In all likelihood, the ICC will be faced with a primary merger application and a number of inconsistent applications by other parties requesting various protective conditions to be imposed on the merger carriers. Our approach will be to determine which combination of the available options is best for Kansas from a statewide transportation planning perspective, and seek to demonstrate to the ICC that the State of Kansas's position is in accord with the public interest.

Kansas Santa Fe - Southern Pacific
MERGER MAP



RAILROAD	MILEAGE	RAILROAD	MILEAGE
ATCHISON TOPEKA & SANTA FE RAILWAY CO.	2541	ST. LOUIS SOUTHWESTERN RAILWAY CO.	369

●●●●● Denotes Trackage Rights

Attachment 3

Atch. 3