

MINUTES OF THE House COMMITTEE ON Transportation

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

1:30 ~~xxx~~ a.m./p.m. on February 12, 1985 in room 519-S of the Capitol.

All members were present except: Representatives Knopp, Justice, Ott, and Patrick, all 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:

Dr. Tom Severn, Legislative Research Department  
Secretary John B. Kemp, Kansas Department of Transportation  
Mr. Harley T. Duncan, Secretary, Kansas Department of Revenue  
Mr. Tom Whitaker, Kansas Motor Carriers Association  
Dr. Leonard Schruben, Manhattan, Kansas

The meeting was called to order by Chairman Rex Crowell. It was announced that the items for consideration would be HB-2021 and HB-2023, which were a result of the interim study (Proposal No. 45) dealing with the motor fuels tax.

Tom Severn briefed the Committee on HB-2021 concerning indexing of the tax on motor vehicle fuels and the rate of taxation on gasohol.

Tom Severn briefed the Committee on HB-2023 concerning percentage of sales tax revenue to be transferred from the State General Fund to the State Highway Fund.

Secretary John B. Kemp, of the Kansas Department of Transportation, addressed the Committee concerning HB-2021 and HB-2023, as well as the Highway Program in general. (See Attachment 1)

Secretary Kemp reported that the Highway Program is progressing consistent with the direction envisioned following passage by the 1983 Legislature of the Highway Funding Act. He said that as a result of that highway funding bill, significant and necessary advances in the preservation and improvement of the Kansas highway system have been made.

The Secretary outlined the existing 5-year program as follows:  
1) Surface Preservation - approximately 1,000 miles annually of seals and overlays up to 1½ inches; 2) Rehabilitation and Reconstruction - After doing approximately 114 miles of rehabilitation work in FY 1984, there are approximately 470 miles scheduled for FY 1985-1989; 3) New Construction - involves interstate gap closings, scheduled freeway projects and economic development projects; 4) Bridges - Work is scheduled on nearly 300 bridges over the next 5 years.

Secretary Kemp then commented on indexing. He said their FY 1984-1988 program was based on the revenue assumption that the fuel tax would index in FY 1986, increasing the tax rate from \$.11 to \$.12 per gallon beginning July 1, 1985. He stated 65 percent (approximately \$9 million) of the additional revenue would have been distributed to the Highway Fund and 35 percent (approximately \$5 million) to the local units of government.

## CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Transportation,  
room 519-S, Statehouse, at 1:30 ~~xxx~~/p.m. on February 12, 1985

Secretary Kemp said indexing is not expected to occur for two reasons, 1) the price of motor fuels has not increased at the rate projected during the spring of 1983, and it is estimated prices will not increase sufficiently to produce indexing until the 1990's, and 2) the successor publication to Monthly Petroleum Product Price Report contains differences such that the average prices are approximately \$.04 per gallon less than the old table. He said the interim committee recommended a procedure to adjust the present indexing percentage of 10 percent to 10.5 percent, which would make the table in the successor publication comparable to that which was contained in the Monthly Petroleum Product Price Report (HB-2021).

Secretary Kemp addressed the issue of transfer of sales tax revenue from the sale of motor vehicles from the General Fund to the Highway Fund. He pointed out that the amount of the transfer was based upon a percentage determined as the ratio the sales tax on new and used motor vehicles contributed to the total sales tax receipts. The percentage set in statute was determined during a recessionary period and does not adequately reflect current estimates of the sales tax received on new and used vehicles. He added the current statute provides for 9.19 percent, but the Secretary of Revenue has estimated that for FY 1986 the ratio will be 10.31 percent.

Secretary Kemp brought to the attention of the Committee the need for a technical amendment in Section 2 of HB-2023. He said this section of the bill would place a limit or cap on the Secretary of Revenue's estimate, and applying the limit to the transfer itself might better accomplish the Committee's intent.

Chairman Crowell asked Secretary Kemp if there was anything he wished to add on the gasohol issue. Secretary Kemp said he believed the Committee's action on the bill was to rescind \$.01 of the gasohol exemption, which simply replaces the \$.01 which was given at the federal level.

Chairman Crowell asked if he would be disappointed if the legislature was to reduce the tax break a little more. Secretary Kemp said he would not be disappointed.

Chairman Crowell asked what constituted an adequate tax incentive in his opinion. Secretary Kemp said as near as they can tell it costs about \$.07 to \$.08 per gallon more to produce gasohol than it does to produce gasoline, and with the \$.11 difference we now have (combined state and federal), there is a \$.04 price advantage for gasohol over gasoline.

Chairman Crowell asked what percent of the market gasohol represents at the current total \$.11 tax incentive. Tom Severn said the estimate for FY-1986 is 26.4 percent.

The Chairman asked if there has been a decrease in the cost of materials used for road construction and repair. Secretary Kemp said to the best of his knowledge there has not been a decrease, but there was a decrease a couple of years ago when there was heavy competition and little work.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Transportation,  
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Chairman Crowell asked if Secretary Kemp's preference was to have a fixed figure of 9.19 percent or a floating figure as determined by the Secretary of Revenue. Secretary Kemp said the Secretary of Revenue was asked to make a forecast of the percentage each year and it seemed to him it would be for that purpose.

Mr. Harley T. Duncan, Secretary of the Kansas Department of Revenue, was the next conferee, and testified favorably on HB-2023. He explained that the procedure for arriving at the estimate is that the Department of Revenue develops an estimate then it is reviewed with the Budget Division and the Legislative Research Department staff to essentially arrive at a consensus figure as to what they estimate new and used automobile sales to represent in terms of sales tax collected.

Secretary Duncan said the figure for FY-1986 is 10.31 percent which was a figure certified in December 1985. The difference in the transfer from the State General Fund to the Highway Fund using 10.31 percent as opposed to 9.19 percent is about \$2.1 million.

The hearing on HB-2023 was concluded.

Secretary of Revenue, Harley T. Duncan, then testified favorably on HB-2021. (See Attachment 2) He said the bill provides for a change in multipliers from 10 percent to 10.5 percent for determining the indexed, regular motor fuel tax. He added that the prices reported in the current publication are approximately \$.04 lower per gallon than those in the previous publication, which was used as the basis for the statute (K.S.A. 79-34, 141).

There were no questions for Mr. Duncan.

Atch. 3  
Mr. Tom Whitaker stated his Association supports increasing the percentage factor now in the formula from 10 percent to 10½ percent as provided in HB-2021, and believes this would meet the problem related to the fuel cost data published by the U.S. Department of Energy or its successor agency.

Chairman Crowell pointed out that during the Interim studies, the Kansas Oil Marketers Association supported the 10½ percent.

Atch. 4  
Dr. Leonard Schruben pointed out that estimates show no more than 1/5 of the fuel alcohol subsidized by Kansas is currently made in the state, and the remainder is imported chiefly from Brazil and from other states.

Dr. Schruben also reported that all evidence points to the conclusion that the gasohol subsidy decreases farm income instead of increasing it.

Being no further business, the meeting was adjourned at 3:00 p.m.

  
Rex Crowell, Chairman

GUEST LIST

COMMITTEE: Transportation

DATE: 2-12-85

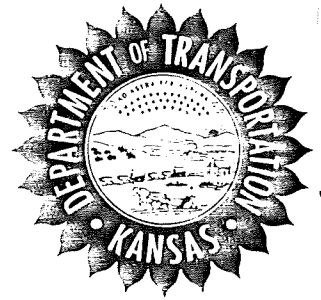
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| Marta Carahan       | Topeka          | Dept of Revenue                     |
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| Tom Whitaker        | Topeka          | Ks. Motor Carriers Ass'n            |
| Leonard W. Schruben | Manhattan       | Economist - writer                  |
| Glenn E. Schruben   | Manhattan, K    | Summer                              |
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# KANSAS DEPARTMENT OF TRANSPORTATION

STATE OFFICE BUILDING—TOPEKA, KANSAS 66612



JOHN B. KEMP, Secretary of Transportation

JOHN CARLIN, Governor

MEMORANDUM TO: HOUSE TRANSPORTATION COMMITTEE

FROM: JOHN B. KEMP, P.E.  
SECRETARY OF TRANSPORTATION

DATE: FEBRUARY 12, 1985

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE THIS COMMITTEE TODAY TO OUTLINE AND DISCUSS FUNDING RELATED TO THE BILLS PRESENTLY BEFORE YOU. I ALWAYS LOOK FORWARD TO VISITING WITH YOU AND UNDER THE CIRCUMSTANCES, PERHAPS EVEN MORE SO THIS YEAR.

ANY DISCUSSION RELATIVE TO FUNDING CAN BE DIRECTLY TIED TO OUR MULTI-YEAR PROGRAM. LET ME BEGIN TODAY'S PRESENTATION WITH SOME GENERAL COMMENTS LEADING TO MY REMARKS ON HOUSE BILLS 2021 AND 2023.

## MULTI-YEAR PROGRAM

I AM PLEASED TO REPORT THAT OUR HIGHWAY PROGRAM IS PROGRESSING CONSISTENT WITH THE DIRECTION ENVISIONED FOLLOWING PASSAGE BY THE 1983 LEGISLATURE OF THE HIGHWAY FUNDING ACT (HOUSE BILL 2566). AS A RESULT OF THAT HIGHWAY FUNDING BILL, WE HAVE MADE SIGNIFICANT AND NECESSARY ADVANCES IN THE PRESERVATION AND IMPROVEMENT OF OUR HIGHWAY SYSTEM. THE 5-YEAR PROGRAM CONSISTS OF:

2/12/85  
Att. 1

+ SURFACE PRESERVATION: APPROXIMATELY 1,000 MILES ANNUALLY OF SEALS AND OVERLAYS UP TO 1 1/2 INCHES. OUR LATEST PAVEMENT SURVEY SHOWS THIS POLICY IS BEGINNING TO PAY OFF. THE PERCENTAGE OF MILES WITH GOOD SURFACE INCREASED FROM 51 PERCENT IN THE 1983 SURVEY TO 65 PERCENT IN THE 1984 SURVEY. THE PERCENTAGE OF DETERIORATING MILES DECREASED FROM 29 TO 22 PERCENT AND DETERIORATED MILES DECREASED FROM 20 PERCENT TO 13 PERCENT.

THESE OVERLAY TREATMENTS KEEP THE SYSTEM IN GOOD CONDITION IN MANY LOCATIONS, KEEP IT FROM GETTING WORSE IN OTHERS, AND PROVIDES A BAND-AID UNTIL WE CAN GET TO A REHABILITATION TREATMENT ON STILL OTHERS.

+ REHABILITATION AND RECONSTRUCTION: AFTER DOING APPROXIMATELY 114 MILES OF REHABILITATION WORK IN FY 1984, WE HAVE SCHEDULED APPROXIMATELY 470 MILES FOR FY 1985-1989. THESE IMPROVEMENTS GENERALLY PROVIDE A 20 YEAR PAVEMENT DESIGN LIFE AND IMPROVE SAFETY AND CAPACITY. THAT 20 YEAR DESIGN LIFE WOULD INCLUDE AN OVERLAY OF 1 1/2 INCHES OR MORE AT ABOUT 10 YEARS FOR ASPHALT PAVEMENTS.

+ NEW CONSTRUCTION: THIS PROGRAM INVOLVES INTERSTATE GAP CLOSINGS, SCHEDULED FREEWAY PROJECTS AND ECONOMIC DEVELOPMENT PROJECTS. OTHER APPARENT NEW CONSTRUCTION IS ACTUALLY RECONSTRUCTION WHERE WE FIND IT CHEAPER TO MOVE OFF THE OLD ALIGNMENT.

- + BRIDGES: THIS IS AN EMPHASIS AREA IN THE PROGRAM. WORK IS TENTATIVELY SCHEDULED ON NEARLY 300 BRIDGES OVER THE NEXT 5 YEARS.

THE FIVE YEAR CONSTRUCTION PROGRAM (2 FIRM AND 3 TENTATIVE) HAS HELD KDOT ACCOUNTABLE ON PRODUCTION, WHILE AT THE SAME TIME PROVIDING FLEXIBILITY TO BEGIN WORK ON LONGER RANGE PROJECTS ON THE SYSTEM. I HAVE EMPHASIZED THE IMPORTANCE OF PRODUCING THE FIRM PROGRAM. WE HOLD EVERY ADMINISTRATOR IN THE AGENCY ACCOUNTABLE TO ACCOMPLISH THIS CONSTRUCTION PROGRAM.

IN FY 1984 KDOT UTILIZED, FOR THE FIRST TIME, A RECENTLY DEVELOPED PROJECT PRIORITY OPTIMIZATION SYSTEM, CONSISTENT WITH THE DIRECTION KDOT RECEIVED FROM THE 1979 LEGISLATURE. THE OBJECTIVE PROJECT SELECTION CRITERIA HAS PROVEN TO BE MOST EFFECTIVE IN MAXIMIZING AVAILABLE HIGHWAY REVENUES. SYSTEMS SUCH AS THIS REFLECT THE ONGOING EFFORTS OF KDOT TO UTILIZE FUNDING RESOURCES IN THE MOST EFFECTIVE AND ECONOMICAL MANNER.

ONE PARTICULAR PART OF THE HIGHWAY SYSTEM WHICH CONCERNS US A GREAT DEAL IS THE INTERSTATE.

#### INTERSTATE SYSTEM

EACH OF YOU SHOULD HAVE RECENTLY RECEIVED A DOCUMENT ENTITLED, "KANSAS INTERSTATE SYSTEM: STATUS, PROGRESS AND CONDITION". THIS DOCUMENT IS INTENDED TO PROVIDE YOU INFORMATION ON THIS CRITICAL PART OF OUR HIGHWAY NETWORK.

THE NATIONAL INTERSTATE SYSTEM IS AUTHORIZED TO CONSIST OF 42,000 MILES. KANSAS IS AUTHORIZED A TOTAL OF 821 OF THOSE MILES. WE HAVE COMPLETED ALL EXCEPT APPROXIMATELY 10 MILES IN THE KANSAS CITY AREA. THE REMAINING MILES CONSIST OF APPROXIMATELY 9 MILES ON I-435 FROM KANSAS AVENUE NORTH TO THE MISSOURI STATE LINE AND ONE MILE ON I-670 FROM I-70 EAST TO THE MISSOURI STATE LINE. (WE RECENTLY OPENED 2.7 MILES OF I-435 FROM SANTA FE TRAIL DRIVE NORTHWEST TO 87TH STREET WHICH WERE UNOPENED AT THE TIME OF THE REPORT.)

THIS SYSTEM CONSISTS OF LESS THAN ONE PERCENT OF ALL THE KANSAS MILES, BUT CARRIES NEARLY 17 PERCENT OF ALL OUR TRAFFIC.

FUNDS FOR COMPLETION OF THE INTERSTATE SYSTEM ARE NORMALLY APPORTIONED TO THE STATES ON THE BASIS OF EACH STATE'S PERCENTAGE OF THE TOTAL REMAINING COST TO COMPLETE THE SYSTEM. EVERY STATE IS GUARANTEED A MINIMUM OF ONE-HALF PERCENT OF THE AUTHORIZATION. I MUST POINT OUT TO YOU HOWEVER, THAT INTERSTATE COMPLETION IS GRINDING TO A HALT NATIONALLY BECAUSE THE CONGRESS HAS FAILED TO APPROVE THE INTERSTATE COST ESTIMATE FOR THE PAST ONE AND A HALF YEARS. THIS HAS RESULTED IN APPROXIMATELY \$30 MILLION IN KANSAS INTERSTATE COMPLETION FUNDS BEING TIED UP, AND \$7.2 BILLION BEING TIED UP NATIONALLY.

STATES CAN SEEK INTERSTATE DISCRETIONARY FUNDS WHICH ARE ALLOCATED BY THE U.S. SECRETARY OF TRANSPORTATION TO FOCUS ON CLOSING VITAL GAPS IN THE SYSTEM. WE HAVE BEEN EXTREMELY SUCCESSFUL IN THE PURSUIT OF THESE FUNDS OBLIGATING NEARLY \$100 MILLION SINCE FY 1980.



EVEN AS WE NEAR THE COMPLETION OF THE INTERSTATE SYSTEM, IN KANSAS, IT IS WEARING OUT. MORE AND MORE SECTIONS ARE REACHING THE END OF THEIR DESIGN LIFE. WHILE THIS IS NOT A PROBLEM UNIQUE TO KANSAS, THAT IS SMALL CONSOLATION FOR THE FACT THAT 156 MILES, OR 25 PERCENT OF OUR SYSTEM, WILL BE DEFICIENT IN 1985. THIS IS PROJECTED TO GROW TO 90 PERCENT BY 1991 IF NO ACTIONS ARE TAKEN. CURRENTLY, 60 PERCENT OF THE SYSTEM IS IN GOOD CONDITION, 29 PERCENT IS DETERIORATING RAPIDLY, AND 11 PERCENT HAS ALREADY DETERIORATED.

ALL OF THE INTERSTATE 4R FUNDS ANNUALLY APPORTIONED TO KANSAS FOR REHABILITATION OF THE INTERSTATE SYSTEM HAVE BEEN PROGRAMMED. WE WILL RECEIVE AN AVERAGE OF APPROXIMATELY \$33 MILLION PER YEAR FOR THE FOUR YEARS COVERED IN THE 1982 SURFACE TRANSPORTATION ASSISTANCE ACT. THESE ARE 90/10 FUNDS AND CANNOT BE USED FOR MAINTENANCE TYPE ACTIONS.

I WAS FACED WITH TWO STRATEGIES IN PROGRAMMING THESE REHABILITATION FUNDS. ONE STRATEGY WAS TO DO MINIMUM TYPE ACTIONS, REPEATING THE ACTIONS FREQUENTLY. FOR EXAMPLE, WE COULD OVERLAY SECTIONS OF THE INTERSTATE SYSTEM TO LAST FOR FIVE YEARS AND THEN GO BACK EVERY FIVE YEARS.

THE SECOND STRATEGY WAS TO TAKE ACTIONS LASTING TEN TO TWENTY YEARS. WHILE MORE EXPENSIVE ON A PROJECT BY PROJECT BASIS, OUR ANALYSIS INDICATES IT WOULD BE CHEAPER OVER THE TWENTY YEAR PERIOD TO REHABILITATE THE PAVEMENT BACK TO A TWENTY YEAR DESIGN LIFE RATHER THAN REPEATING ACTIONS EVERY FIVE OR TEN YEARS.

I MUST POINT OUT TO YOU THAT THE AMOUNT OF PAVEMENT IN UNDESIRABLE CONDITION WILL BE MUCH GREATER IN THE EARLY YEARS BY PURSUING THIS SECOND OPTION.

FUNDING

THE 1983 HIGHWAY FUNDING ACT HELPED TO PROVIDE THE STRONG, STABLE FUNDING BASE NECESSARY FOR HIGHWAY CAPITAL IMPROVEMENTS. DEVELOPMENTS HAVE OCCURRED WHICH APPEAR TO JEOPARDIZE ANTICIPATED REVENUES.

I APPEARED BEFORE THE SPECIAL INTERIM COMMITTEE ON TRANSPORTATION THIS PAST SUMMER ON PROPOSAL 45 WHICH STUDIED THE ISSUES OF GASOHOL, INDEXING AND THE SALES TAX TRANSFER. THAT COMMITTEE RECOMMENDED LEGISLATION ON EACH ISSUE CONSISTENT WITH MY TESTIMONY.

SINCE TESTIMONY ON GASOHOL HAS ALREADY BEEN PRESENTED TO THE COMMITTEE, I WILL MOVE TO MY COMMENTS ON INDEXING AND THE SALES TAX TRANSFER:

1. INDEXING. OUR FY 1984-1988 PROGRAM WAS BASED ON THE REVENUE ASSUMPTION THAT THE FUEL TAX WOULD INDEX IN FY 1986, INCREASING THE TAX RATE FROM 11 CENTS TO 12 CENTS PER GALLON BEGINNING JULY 1, 1985. SIXTY-FIVE PERCENT (APPROXIMATELY \$9 MILLION) OF THE ADDITIONAL REVENUE WOULD HAVE BEEN DISTRIBUTED TO THE HIGHWAY FUND AND 35 PERCENT (APPROXIMATELY \$5 MILLION) TO LOCAL UNITS OF GOVERNMENT. INDEXING IS NOT EXPECTED TO OCCUR FOR TWO REASONS:

THE FIRST FACTOR OVER WHICH WE HAVE NO REAL CONTROL IS THAT THE PRICE OF MOTOR FUELS HAS NOT INCREASED AT THE RATE PROJECTED DURING THE SPRING OF 1983. WE NOW ESTIMATE IT IS LIKELY PRICES WOULD NOT INCREASE SUFFICIENTLY TO PRODUCE INDEXING UNTIL THE 1990'S, EVEN IF THE TECHNICAL AMENDMENT IS ADOPTED.

THE SECOND IS A TECHNICAL MATTER. THE PUBLICATION (MONTHLY PETROLEUM PRODUCT PRICE REPORT) LISTED IN THE 1983 HOUSE BILL WAS LAST PUBLISHED FOR DECEMBER, 1982. I HAVE POINTED OUT THAT THERE IS A SUCCESSOR PUBLICATION, BUT THAT THE MOST COMPARABLE TABLE IN THE PUBLICATION CONTAINS DIFFERENCES SUCH THAT THE AVERAGE PRICES ARE APPROXIMATELY 4 CENTS PER GALLON LESS THAN THE OLD TABLE.

THE INTERIM COMMITTEE RECOMMENDED A PROCEDURE TO SIMPLY ADJUST THE PRESENT INDEXING PERCENTAGE OF 10 PERCENT TO 10.5 PERCENT, WHICH WOULD MAKE THE TABLE COMPARABLE. HOUSE BILL NO. 2021 IS CONSISTENT WITH MY RECOMMENDATIONS TO THE INTERIM COMMITTEE.

2. SALES TAX ON MOTOR VEHICLES. THE 1983 ACT ALSO PROVIDED THAT THE SALES TAX ON NEW AND USED MOTOR VEHICLES WOULD GO TO THE HIGHWAY FUND BY A DAILY TRANSFER FROM THE GENERAL FUND. THE AMOUNT OF THE TRANSFER WAS BASED UPON A PERCENTAGE DETERMINED AS THE RATIO THAT THE SALES TAX ON NEW AND USED MOTOR VEHICLES CONTRIBUTED TO THE TOTAL SALES TAX RECEIPTS. I WOULD MAKE TWO POINTS.

1. THE PERCENTAGE SET IN STATUTE WAS DETERMINED DURING A RECESSIONARY PERIOD AND DOES NOT ADEQUATELY REFLECT CURRENT ESTIMATES OF THE CONTRIBUTION OF THE SALES TAX RECEIVED ON NEW AND USED VEHICLES. THE CURRENT STATUTE PROVIDES FOR 9.19 PERCENT; HOWEVER, THE SECRETARY OF REVENUE HAS ESTIMATED THAT FOR FY 1986 THE RATIO WILL BE 10.31 PERCENT. THE INTERIM COMMITTEE ADDRESSED THIS TOPIC AND RECOMMENDED THAT THE RATIO REFLECT THE SECRETARY OF REVENUE'S ESTIMATE. HOUSE BILL 2023 AS RECOMMENDED BY THE INTERIM COMMITTEE IS CONSISTENT WITH THIS APPROACH.

2. I WOULD BRING TO THE COMMITTEE'S ATTENTION THE NEED FOR A TECHNICAL AMENDMENT IN SECTION 2 OF HOUSE BILL 2023. THIS SECTION OF THE BILL WOULD PLACE A LIMIT OR CAP ON THE SECRETARY OF REVENUE'S ESTIMATE. APPLYING THE LIMIT TO THE TRANSFER ITSELF MIGHT BETTER ACCOMPLISH THE COMMITTEE'S INTENT.



*Kansas*  
DEPARTMENT OF REVENUE

State Office Building  
Topeka, KS 66625

MEMORANDUM

February 11, 1985

TO: Representative Rex Crowell, Chair  
House Transportation Committee


FROM: Harley T. Duncan,  
Secretary of Revenue

SUBJECT: House Bill 2021: Indexing percentage, motor fuel tax.

House Bill 2021 provides for a change in multipliers from 10% to 10.5% for determining the indexed, regular motor fuel tax. This increase is a technical adjustment, necessitated by a change in our source, a Department of Energy publication. The currently-reported prices are approximately 4 cents lower a gallon than those in the previous publication, which was used as the basis for the statute (K.S.A. 79-34, 141).

It is estimated that a change in multipliers from 10% to 10.5% would have no fiscal impact in FY 1986. From a phone call to Washington, we learned that preliminary motor fuel prices for November, 1984 show an unweighted average price, for premium, regular leaded and unleaded gasoline, of \$0.914 (91.4 cents) a gallon ( $\$1.004 + \$0.835 + \$0.903 \div 3$ ). Neither at the current 10% nor at the proposed 10.5% rate would the resulting tax reach the statute's required floor of \$0.11 per gallon ( $\$0.914 \times 10\% = \$0.0914$ ;  $\$0.914 \times 10.5\% = .0960$ ). We have been informed that the final prices for November 1984, should not vary much from the preliminary figures. They will be available, by telephone, the last of February, 1985.

In the future, with the \$0.11 floor, this change in multipliers from 10% to 10.5% would have an impact at such time as the unweighted average price of motor fuel reached \$1.105 or higher. At this price, the tax rate would be 11 cents a gallon for the 10% multiplier and 12 cents a gallon for the 10.5% multiplier ( $\$1.105 \times .10 = \$0.1105$ ;  $\$1.105 \times .105 = \$0.1160$ ).

  
Harley T. Duncan  
Secretary of Revenue

HTD:MWC:1/3259

2/12/85  
Attach. 2

STATEMENT

By The

KANSAS MOTOR CARRIERS ASSOCIATION

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Concerning House Bill No. 2021 relating to the  
taxation of motor vehicle fuels, special fuels  
and LP-gas fuels.

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Presented to the House Transportation Committee,  
Rep. Rex Crowell, Chairman; Statehouse, Topeka,  
Tuesday, February 12, 1985.

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MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am Tom Whitaker, Governmental Relations Director of the Kansas Motor Carriers Association with offices in Topeka. This statement is submitted on behalf of our member-firms and the highway transportation industry.

We wish to speak in support of H.B. 2021 which addresses primarily the provisions for indexing motor fuel tax rates.

Our Association was a member of the coalition which supported the highway funding program adopted by the 1983 session of the Kansas Legislature.

We believed then and we believe now that this program urgently is needed to fund road and highway improvements at both the state and local levels.

The policy decisions incorporated in the 1983 highway funding package address future needs as well as the more immediate highway expenditures.

2/12/85  
Attachment 3

One of the key provisions of that funding package was the provision to index the tax rate on motor fuels. As we understand the indexing procedures, the tax on motor fuels shall not be less than the statutory increases which became effective January 1, 1984. Those rates are:

1. Motor fuels -- 11¢ per gallon or fraction thereof
2. Special fuels - diesel -- 13¢ per gallon or fraction thereof
3. LP-gas -- 10¢ per gallon or fraction thereof

Further, the tax rate per gallon on motor-vehicle fuels for the 12-month periods which begin on July 1, 1985, and on each July 1 thereafter shall not be more than 1¢ above nor less than 1¢ below the tax rate computed for the immediately preceding 12-month period.

Such tax rates, computed for 12-month periods beginning July 1, 1985, are to be calculated by multiplying 10% times the unweighted average retail price per gallon of premium, regular and unleaded motor-vehicle fuels sold during the month of November of the calendar year preceding July 1.

This procedure would be repeated each July 1. The tax rate on special fuels (diesel) would be the amount of the motor fuels tax plus 2 cents more per gallon.

We understand that a technical flaw exists in the present statutory indexing procedure which requires fuel cost data to be based on the monthly petroleum products price report as published by the energy information administration of the United States Department of Energy. We are told that the monthly price report no longer is published in the format indicated in K.S.A. 1984 Supp. [79-34,141]. Some adjustment apparently should be considered in the indexing factors to make the indexing procedure meaningful in relation to fuel tax levels.



This Association opposed the provisions of H.B. 3115 in the 1984 session because a new factor of an additional 4¢ per gallon was introduced into the indexing formula. While the application of the 4-cent factor was not clearly drawn, introduction of this additional computation was not consistent with the indexing procedure supported by those who supported the highway funding package adopted by the Legislature in 1983. The Kansas Motor Carriers Association continues to oppose incorporating an additional factor to the indexing computations whether such a factor be established at 4¢ or some other level.

In the spirit of cooperation and support for continued effective highway funding, this Association would support increasing the percentage factor now in the formula from 10 percent to 10½ percent as provided in H.B. 2021. Surely this would meet the problem related to the fuel cost data published by the U.S. Department of Energy or its successor agency. We do therefore, support this bill.

I must say to you that our industry literally is reeling from the massive tax increases imposed on motor trucks by the past session of Congress. I'm certain you are aware that these tax increases include:

1. An increase in the special use tax on heavier trucks from the previous maximum of \$240 to \$550 annually, effective July 1, 1984.
2. A diesel differential of 6 cents a gallon to be paid by all diesel-fueled vehicles weighing more than 10,000 lbs., effective August 1, 1984.

These taxes are in addition to the 5-cent federal fuel tax increase which became effective in April, 1983, making that tax 9 cents a gallon on all motor vehicle fuels.

A typical Kansas tractor and semitrailer combination with a gross weight of 80,000 lbs. must pay:

|                                 |                     |
|---------------------------------|---------------------|
| <u>Kansas</u> registration fee: | \$1,325 - Tractor   |
|                                 | <u>25</u> - Trailer |
|                                 | \$1,350             |

Special federal highway use tax: \$550

Kansas diesel fuel tax: 13 cents per gallon

Federal diesel fuel tax: 15 cents per gallon  
28 cents per gallon

In addition, this combination vehicle must pay regulatory fees, property taxes, other operating fees and charges, toll charges where applicable, and pay the general business taxes that all other businesses pay.

The only improvement the federal fuel tax increases provide over the massive special use taxes imposed on this industry by the Surface Transportation Assistance Act in the lame duck session of the Congress in 1982, is that the diesel differential tax at least is a pay-as-you-go tax and the fixed special federal highway use tax is reduced to \$550 from the \$1,900 initially imposed. For most companies, the total tax bill will be even greater than the \$1,900 but the fuel taxes will accrue only if the vehicle is operating and hopefully generating revenue.

We sincerely hope Kansas will benefit from these tremendous tax increases in behalf of its highway building and maintenance program.

Our industry wishes to commend Secretary of Transportation John Kemp and his staff for continuing to make our highway tax dollars count. We believe we get our money's worth in Kansas.

Thank you for the opportunity to submit this statement. I will be pleased to respond to any questions you may have.

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Feb. 12, 1985

Committee Hearings, Kansas House of Representatives, Topeka

GASOHOL

My name is Leonard Schruben. I have made a comprehensive study of gasohol. My qualifications are widely recognized as evidenced by being invited to give scientific papers on the subject in Australia, Argentina, and Europe as well as in the U.S. My presentation is to share with you, as a public service, information I have learned. I am here at my expense, I speak only for myself, and I have no financial interest in the outcome of your deliberations except that I am a farmer, a taxpayer, and highway user.

My testimony follows:

1. How much net income does the gasohol subsidy add to the agricultural sector?

a. Gross income

\* Estimates are that no more than 1/5 of the fuel alcohol subsidized by Kansas is currently made in the state. The remainder is imported, chiefly from Brazil and from other states. How does Kansas taxes used to pay Brazil to use sugar cane to make alcohol to sell in gasohol help a farmer in Kansas?

\* One byproduct of subsidized alcohol production is sugar. This subsidy has enabled fructose sugar to drive beet sugar production out of Kansas, and the income created by entire industry has been lost.

\* Another byproduct, animal feed with about half of the value of grain used to make alcohol, is returned to the feed market to compete with grain and soybean meal. Studies by Iowa State University indicate that for each 25¢ per bushel increase in corn price resulting from gasohol, a corresponding 50¢ drop would occur in the price of soybeans.

\* Executive Dwayne Andreas, speaking for Archer Daniels Midland, reported to produce about half of the fuel alcohol in the U.S., stated, "The alcohol from one billion bushels would allow us to boost the octane of all gasoline, while not increasing food prices at all." (See Corn Grower, June, 1981). It is reasonable to assume grain prices will not go up without an increase in food prices.

2/12/85  
Attach. 4

\*A witness before the Interim Committee in July testified that distillers needed an additional 20¢ per gallon of alcohol because of high grain prices and lower gasoline prices. Fuel alcohol requires cheap grain and high price gasoline. Most farmers desire the opposite.

\*No additional fuel alcohol plants have been built in Kansas since the new subsidy was granted in 1983. Therefore use of Kansas grain for this purpose will not increase much if there are no new plants in which to process it.

b. Cost of farm operation

\*Increased property taxes. Since July 1983, over \$7 million in highway funds allocated to counties to reduce property taxes has been diverted to the gasohol industry. Farmers pay property taxes, and farm organization have for some years been pressing for relief at the same time their successful support for a gasohol subsidy requires higher property taxes. (See exhibit entitled "Gasohol Keeps Taxes High, Kansas Farmer" Sept. 1, 1984.)

\*Increased sales and income taxes result from transfers from the general fund to the highway fund to make up for the shortfall in the latter resulting from the gasohol subsidy. Whether the cost of the subsidy is state or federal, it is a cost to Kansas taxpayers.

\*Increased fuel taxes for over-the-road vehicles.

\*There are no offsetting reductions in the cost of farming

c. Conclusion: All evidence points to the conclusion that the gasohol subsidy decreases farm income, not increase it.

2. Is there a Kansas law that limits the gasohol subsidy to only that using alcohol made from American products?

a. Yes. However, there is no way to determine the raw material used to make alcohol brought into Kansas from outside the state, so as a practical matter, it cannot be enforced.

b. Florida also has such a law. It was ruled unconstitutional Oct. 11, 1984 by the Florida Supreme Court on grounds it violated both the commerce and foreign trade provisions of the constitution.

3. Does making alcohol fuel from grain increase energy supply?

a. No major producer has permitted an independent audit to determine energy balance but

\*The largest fuel alcohol distiller in the U.S. certified to the federal government it would require 120 gallons of alcohol to be made to replace the petroleum used in the production of only 100 gallons, a net loss of 1 gallon for each 4 made.

4. How does the gasohol subsidy affect employment?

- a. Testimony before the Intern Committee indicated that only 6 new jobs had been added by an existing to make alcohol fuel as a result of the increased subsidy of 1983. Total loss of highway funds through October, 1983 was about \$15 millions or a cost per new job of about \$2.5 millions. Many more jobs would have been created by spending the same amount of money to build and repair highways.

5. How much is gasohol subsidy costing the people of Kansas at the present time?

- a. Total subsidy per gallon of alcohol is \$1.10, which is greater than the cost of gasoline. It cost Kansas treasury 50¢. (taxes not collected by the federal government cannot be allocated back to the state, therefore the total cost is 50¢ per gallon of alcohol plus the 60¢ federal subsidy).
- b. Per net bushel of Kansas grain used to make fuel alcohol is \$1.10 times 2.5 times 5. (only about 1/5 th. of net grain equivalent is produced in Kansas times 2 (about 1/2 its value is byproduct feed which returns to the market). The total subsidy, therefore is costing Kansas taxpayers at least \$25 per net bushel of surplus grain disposed of.
- c. Subsidy realized by the gasohol industry is \$2.75 per bushel of grain processed, about 25¢ above the current price of corn. This is free corn plus 25¢ per abushel to cover other expenses. This includes the same payment is made to corn belt states where the subsidy is considerable lower than in Kansas.
- d. The U.S. recently granted a \$500 million loan to Brazil to enable them to buy grain in this country. Because of high tariffs protecting gasohol, they are not able to earn enough dollars to pay cash. The cost of this and earliers loans are a direct drain on taxpayers, Kansans included.

6. Does Kansas have an implied committment to continue the subsidy?

a. Consider:

- \* Every plant operating in Kansas was built with the clear understanding that the then subsidy would be phased out at a total cost of no more than \$5 million dollars to taxpayers. In passing such a law the legislature made it clear that no long term commitment was to be made or implied. No new plants have been built since the increased subsidy was allowed in 1983, therefore, none can claim they invested in response to a permanent subsidy.

\* Another state agency (Kansas State University) published an estimate of cost and returns for a 20 year period using actual corn, fuel, labor, equipment, investment and other costs for each year included. This research demonstrated in not one of the 20 years would such a plant have made a profit without a large, and increasing subsidy. Can the state be held responsible if data provided by the state, which proved accurate, was ignored?\*

7. Will demand for gasoline without lead eventually allow alcohol fuel to be self supporting?
- a. The EPA recently has recognized what California recognized some years ago and that is gasohol has a higher vaporation pressure than gasoline and therefor air pollution from from that source is greater. The EPA was reacently reported to be testing for the first time the enviremental impact of the alcohol alternative to lead . Thus, it appears to be premature to assume an answer to this question except to say such a result is not a certainty.
  - b. Should Kansas taxpayers subsidize oil companies in their search for higher octane additdives to comply with EPA requirements?

\*\*Of interest in this connection, a critic of the time wrote to the University stating the author, ..."poses no problem to me personally, but he (his findings) might have weight with bankers and in particular my banker. If his statements were true it would be different." The critic did build the plant and this past summer, its spokesman told the Interm Committee that the state share of the subsidy needed to be increased by 20¢ per gallon (40 percent), for the company to show a reasonable profit.

# Know your market



LEONARD W. SCHRUBEN  
Agricultural Economist

## Gasohol keeps taxes high

If you pay property taxes, and who doesn't, you will want to take a close look at the accompanying chart. This chart shows the cumulative cost in the gasoline tax allocated to local government units since the big increase in gasohol subsidy in 1983. Yes, the gasohol subsidy causes an increase in your property tax.

Take a look at your tax statement from the county. You will find a mill levy to raise taxes to pay for roads and bridges. This road and bridge fund is supplemented by a payment from the state. That payment is somewhat more than 40 percent of the gasoline taxes collected at the service station when you buy gasoline. The more taxes collected, the lower your property tax.

When you fill your tank with gasohol the amount the state collects from the seller is 5 cents less per gallon than when you buy gasoline. This adds up to millions each year—enough this year to account for the projected shortfall in state revenues. The state cannot allocate money it doesn't have to your county. So the county in turn cannot reduce your property tax. It is as simple as that!

Therefore, the lower the collections, the higher your property tax. Ironically some farm organizations advocate lowering property tax while at the same time urge increased subsidy for gasohol. This is inconsistent. You cannot have it both ways.

It should be obvious, the more gasohol that is sold, the higher will be your property tax. Higher subsidies for gasohol increases sales. Therefore, higher subsidies means higher property taxes.

How much does gasohol cost property tax payers? Let's put it this way, every bushel of Kansas grain made into fuel alcohol nicks the property tax fund for about \$2.50. But that gets rid of only about half of the value of the nutrients in the grain because the other half comes back on the market as byproduct feed to compete in the market.

This means the actual cost of gasohol to property taxpayers comes to about \$5.00 per net bushel of Kansas grain made into fuel alcohol. The rest of the alcohol comes from somewhere else, such as that made from sugar cane grown in Brazil, or from some other state. That is where most of your property tax spent to subsidize gasohol ends up. How does that help boost the price of Kansas grain?

You might want to think about the cost of gasohol the next time you wonder why taxes are so high.

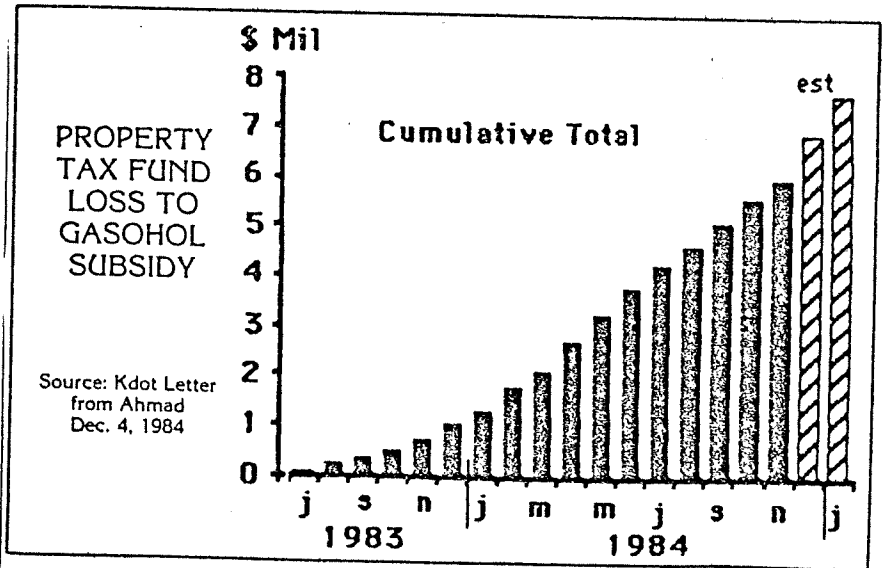


EXHIBIT - Gasohol hearings  
To the Hon.  
2/12/85