Approved December 3, 1986
Date

MINUTES OF THE House COMMITTEE ON Transportation.

The meeting was called to order by Rex Crowell (Chairperson) at

1:30 ~~a.m.~~/p.m. on April 1, 1986 in room 519-S of the Capitol.

All members were present ~~except~~:

Committee staff present:

Bruce Kinzie, Revisor of Statutes
Hank Avila, Legislative Research
Donna Mulligan, Committee Secretary

Conferees appearing before the committee:

Mrs. Patricia Wiechman, Kansas Automotive Dismantlers & Recyclers Assn.
Mr. E. Richard Brewster, Amoco Corporation
Mr. Charles H. Nicolay, Kansas Oil Marketers
Mr. R. E. Calbert, United Transportation Union
Mrs. Mary Turkington, Kansas Motor Carriers Association

The meeting was called to order by Chairman Crowell and the first order of business was a hearing on SB-674 concerning vehicle liability insurance requirements for vehicle dealers.

Mr. Bruce Kinzie briefed the Committee on the contents of the bill.

Mrs. Patricia Wiechman, Kansas Automotive Dismantlers and Recyclers Association, testified in support of SB-674. (See Attachment 1)

Mrs. Wiechman stated that current language in the insurance law excludes only "new" dealers from carrying proof of insurance, yet all vehicle dealers whether it be new, used or salvage, are required to maintain the same insurance. She added that carrying proof of insurance while displaying a dealer plate causes problems to dealers and customers, since plates are interchanged and insurance proof becomes misplaced.

A motion was made by Representative Spaniol to amend SB-674 by adding the language "for vehicles being offered for sale by such dealers." The motion was seconded by Representative Erne. Motion passed.

A motion was made by Representative Dillon that SB-674 be recommended favorable for passage as amended. The motion was seconded by Representative Wilbert. Motion passed.

The next business was on SB-276 concerning axle weight limitations for refuse disposal vehicles.

A motion was made by Representative Smith that action on SB-276 be reconsidered. The motion was seconded by Representative Wilbert. Motion passed with 11 in favor on a division.

Committee discussion was held.

A motion was made by Representative Dillon that SB-276 be reported adversely. The motion was seconded by Representative Spaniol.

Chairman Crowell said the motion to recommend favorably was still pending and that any new motion would be a substitute motion.
A substitute motion to report adversely would be a direct opposite of the pending motion.

Representative Erne made a substitute motion to amend SB-276 back to its original form. The motion was seconded by Representative Harper.

Representative Erne withdrew his substitute motion with consent of his second.

Representative Knopp presented a conceptual substitute motion to provide that both municipal and private haulers shall have gross weight restrictions and not the axle weight restrictions. The substitute motion was seconded by Representative Wilbert. Substitute motion passed 13-7 on a division.

A motion was made by Representative Smith to recommend SB-276 favorable for passage as further amended. The motion was seconded by Representative Wilbert.

A substitute motion was made by Representative Patrick to place a 31 cubic foot limitation on the trucks. The substitute motion was seconded by Representative Adam. Substitute motion failed.

On the original motion to recommend SB-276 as further amended favorable for passage. Motion passed.

The next order of business was a continuation of the hearing on HB-2985 concerning financing of construction, improvement and maintenance of roads and highways.

Mr. E. Richard Brewster, Amoco Corporation, testified in opposition to HB-2985. (See Attachment 2)

Mr. Brewster said he is opposed to those sections of HB-2985 which would increase the motor fuels tax and which would index future tax increases to the Consumer Price index.

Mr. Brewster urged the Committee to reject a motor fuel tax increase this year, and when it is determined that this tax must be raised, to maintain control and not take the easy way out by indexing.

Mr. Charles Nicolay, Kansas Oil Marketers Association, appeared in opposition to HB-2985. (See Attachment 3)

Mr. Nicolay told the Committee that every one of our neighboring states use general fund money to support their highway systems. He said another funding option open to the Legislature is to continue to allow transfers of highway user-based funds from the general fund to the highway fund, as initiated by the 1983 Legislature.

Mr. Nicolay said members of the Kansas Oil Marketers Association support an increase in the state retail sales tax as an equitable means of raising revenue to finance state government if the need is justified.

Mr. R. E. Calbert, United Transportation Union, testified in opposition to HB-2985. (See Attachment 4)

He said that as a representative of employees in Kansas Industries, it is believed that automobiles are a necessity, not a luxury, therefore, they oppose over-taxing the automobile in Kansas.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Transportation,

room 519-S, Statehouse, at 1:30 ~~a.m.~~/p.m. on April 1, 1986

Mrs. Mary Turkington, Kansas Motor Carriers Association, gave testimony in opposition to HB-2985. (See Attachment 5)

She said it is unfortunate that HB-2985 does not address the current subsidy for gasohol fuels which the Kansas Department of Transportation has estimated will erode some $9 million in highway revenues for Kansas in FY-1987. Mrs. Turkington said the policy of the Kansas Motor Carriers Association strongly opposes this subsidy at both the state and federal levels and calls for such fuels to be taxed at the rate of other motor-vehicle fuels when consumed on streets or highways.

Mrs. Turkington stated the KMCA believes the policy decision made in 1983 with respect to the entire highway funding package is fair and essential to continued funding of highways in Kansas, and asked for continuing support for that program.

The meeting was adjourned at 3:35 p.m.

Rex Crowell

Rex Crowell, Chairman

GUEST LIST

COMMITTEE: Transportation DATE: 4-1-86

PLEASE PRINT

NAME	ADDRESS	COMPANY/ORGANIZATION
Jim Kaup[illegible]	Leavenworth	Gov. Office
Dan Ramlow	Topeka	Ks. Contractors Assn.
Rocky Vacek	Topeka	Ks Limestone Assoc.
Jim Edwards	"	KCCI
Ken Peterson	Topeka	KS Petroleum Council
D.R. Brewster	"	Amoco Oil Co.
Richard Schlegel	Manhattan	A.B.A.T.E.
Ron Calbert	Newton	U.T.U.
K Rissler	Topeka	K.L.P. Gas. Assn.
Charles Gilmore	Pittsburg	Vistor
Larry D. Hymes	Lawrence	Rep
M. Ahmad	Topeka	KDOT
Donna Smith	Topeka	Ks. Bar Assoc.
Lt. Bill Jacobs	Topeka	Kansas Highway Patrol
Mary E Turkington	Topeka	Kansas Motor Carriers Assn
Bruce Graham	Topeka	Ks Motor Carriers Assn
Susan Mon[illegible]	Wash DC	NSWMA
Charlie Nicolay	Topeka	Ks Oil Marketers Assn
[illegible] Alderson	Topeka	Ks Oil Marketers Assoc.

KADRA
Kansas
Automotive Dismantlers and Recyclers Association
"Serving Kansas thru Dismantling and Recycling"

HOUSE COMMITTEE ON TRANSPORTATION

April 1, 1986

SENATE BILL NO. 674

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

I am Patricia Wiechman, representing the Kansas Automotive Dismantlers and Recyclers Association. SB 674 is the companion bill to HB 3059 which was introduced by this Committee. As was pointed out when the HB 3059 was introduced, current law requires that vehicle dealers licensed in the State of Kansas by the Department of Revenue must have approved liability insurance that is on file with the Department; and, if that insurance is revoked, the Department will be notified and that dealer's license is cancelled.

Current language in the insurance law excludes only "new" dealers from carrying proof of insurance, yet all vehicle dealers - new, used or salvage - are required to maintain the same insurance. Carrying proof of insurance while displaying a dealer plate causes problems to dealers and customers, since plates are interchanged and insurance proof gets misplaced.

H. Transp. 4/1/86
Attach. 1

In addition to deleting the word "new" from sub-paragraph (1), in considering HB 3059, this Committee added to that sub-paragraph the wording "for vehicles being offered for sale by such dealers." K.A.D.R.A. has no problem with adding this language to SB 674.

As mentioned in testimony on HB 3059, we have talked with the Kansas Motor Car Dealers Assn., Lt. Jacobs of the Kansas Highway Patrol, and Mr. Harold Turntine of the Department of Revenue, none of whom have any problems with the changes made by this bill.

We want to express our sincere appreciation to this Committee for your courtesies in considering both HB 3059 and SB 674. We would request the Committee recommend SB 674 favorable for passage. Thank you for the opportunity to appear before you. I will be happy to answer your questions.

Respectfully submitted,

PATRICIA WIECHMAN
Kansas Automotive Dismantlers &
Recyclers Association

STATEMENT TO:

HOUSE COMMITTEE ON TRANSPORTATION AND UTILITIES

Re: House Bill No. 2985

March 31, 1986

by:
E. Richard Brewster
Government Affairs Representative
Amoco Corporation

H. Transp. 4/1/86
Attach. 2

Mr. Chairman, Members of the Committee, my name is Dick Brewster. I am a Government Affairs Representative for Amoco Corporation, and appear today on behalf of Amoco Oil Company, the refining and marketing subsidiary of Amoco.

I appear today in opposition to those sections of **H. B. 2985** which would **increase** the motor fuels tax and which would **index** future tax increases to the Consumer Price index. Amoco is the largest marketer of motor fuels and related products in Kansas. We market through independent jobbers and dealers throughout the State of Kansas.

First, let me point out that Amoco usually does not oppose **necessary and reasonable** increases in the motor fuels tax by states in which we do business. We believe that such tax increases affect Amoco and its competitors alike, and do not alter our competitive position in the marketplace. Additionally, Amoco recognizes the need for a good and safe highway system, without which there would be no motorist to buy our products. We often support highway tax increases, in fact.

However, I must share with you some of our concerns about the increase contained in this bill, especially as the proposed increase relates to the **fuel markets along the borders** of our state. As you may know, the largest single motor fuel market in the State of Kansas is on the Kansas-Missouri border in the greater Kansas City area. In the metro area, our sales are approximately 150 million gallons per year. About 80 million are sold by our dealers in Missouri and the remaining 70 million are sold on the Kansas side of the line.

As I am sure you also know, the **tax** on gasoline and diesel fuel in Missouri is **seven cents** per gallon. I have the duty of lobbying for Amoco in Missouri as well as Kansas, and I can assure you that the Missouri figure is not going to be increased this year, and probably not next year. So, here we are, in Kansas, with a gasoline tax which is <u>now</u> four cents higher than Missouri and a diesel fuel tax <u>six</u> cents higher. We are convinced that another increase in Kansas' tax on these fuels will cause an export of fuel sales from Kansas to Missouri. It is not as if Kansas residents had to make a special trip to Missouri to buy gasoline. Nearly **half** the folks who live in Kansas work in Missouri and are there daily anyway. And, another very large percent of the metro Kansas City residents who live in Kansas have occassion to be in Missouri twice a week or more, apart from employment.

We were somewhat concerned about the four cent tax difference created when last this Legislature saw fit to increase the tax. However, at that time you allowed a nickel a gallon tax benefit for the sale of gasoline containing ten percent ethanol. By blending ethanol, costing around $1.40 per gallon, with gasoline, costing about $1.12 per gallon, and taking advantage of the gasohol tax benefit, we were able to get the actual cost of fuel to our Kansas dealers very close to the cost to our Missouri dealers.

Several things have happened in the intervening years. First, you have dropped the gasohol incentive to four cents now, three cents next year, and then to two cents. Second, **ethanol** now costs about **$1.20** per gallon, and **gasoline** is between **40 and 50 cents** per gallon. The economic strength of ethanol-blend products is just not what it was. Thus, even without this bill, under the current tax differences between Missouri and Kansas, the economics of ethanol blending are such that Kansas dealers will soon have a significant competitive price disadvantage compared to our Missouri dealers. That disadvantage will increase dramatically if you increase the tax by two more cents per gallon. Sales will be exported to Missouri.

Well, Amoco has stations in Missouri and Kansas both, so we will make up for the lost Kansas volume through increased sales in Missouri. But, Amoco's primary concern is for the **independent business men and women** who are our Kansas dealers. As they lose volume to Missouri because of a large tax differential, their business suffers. Their profits are reduced, and their ability to maintain payroll is diminished. Their business suffers, as does the economic health of the area. Much as we'd like to think so, Amoco is not the only kid on the block, either. The economic damage we believe will result to our dealers on the Kansas side of the line in the Kansas City Metro area will be magnified, as dealers for other brands and independent dealers face the same price disadvantage resulting from the high tax differential.

I should also say something about our own investment in Kansas. Amoco, like any any other business operation, expands where there is the greatest incentive for economic development and profitability. Where tax rates cause a disincentive for investment, economic development dollars flow away. The gasoline retailing business lives by these rules too. Each time we examine a new service station site, each time we decide to rebuild an existing station, and each time we make that difficult decision to close a location, we examine the station's profitability. We make decisions based on anticipated volume of sales at the location being examined. **Major capital investment** in an area where the product is at a **five to ten per cent** price disadvantage would have to be looked at very carefully, especially when the same market is available just a few blocks or miles away. A large fuel tax differential in the Kansas City Metro area will cause these economic develpoment dollars to flow east.

I know from personal experience that, politically, the easiest time to increase a tax on a product is when the price of the product is down. The theory, of course, is that the gasoline buyer will hardly notice two cents when this part of the nation enjoys the lowest gasoline prices in the country. But our marketing people tell me that in spite of the lower prices, the market is as competitive, or more so, than it was just 90 days ago, when prices were so much more than they are now. Disregarding the Federal fuel tax, and applying the Kansas tax alone to the wholesale price of gasoline, you can see that when the price was $1.10, an eleven cent per gallon tax is a rate of about **10 percent**. But with the price at, say, .45 cents, that same eleven cents becomes a rate of about **24 percent**. And, if the tax becomes 13 cents, the rate jumps to nearly **30 percent**. We believe that this kind of tax increase will not go unnoticed, even with today's lower price of gasoline. And, the increase contemplated in this bill will be all the more significant in the border areas with Missouri and Oklahoma, as I discussed earlier.

I think I also understand just how tempting it is to tie future tax increases to factors beyond your control. But, with all due respect, I cannot help but suggest that you, the members of this committee and of this legislature, should keep for yourselves the ability to review and adjust tax revenues to your understanding of the State's needs. You should not pass that buck to anyone else, nor to an index which you cannot control. I believe this is bad policy. Amoco believes this policy too often results in the abdication of legislative responsibility in other areas as well.

We urge you to keep future tax increases in your own hands. For, if you begin now to tie future fuel tax policy to some index, what happens when someone decides that the future of the state income tax, or sales tax, or some other tax, should be taken out of your hands and indexed. Again, the tax buck should stop with this Legislature.

Finally, Mr. Chairman, members of the committee, let me echo the comments of Mr. Nicholay of the Kansas Oil Marketers Association regarding future funding of Kansas highways. **User fees**, including a portion of the **sales tax on motor vehicle sales**, seem to us to be a very good approach. We are now using that funding mechanism and we, at Amoco, urge you to stay with it. We urge you to reject a motor fuel tax increase this year and submit that, whenever you determine that this tax must be raised, you maintain control and reject the easy way out of the frequent political dilemma. Do not index the tax. Face each tax increase as the need arises.

I thank you for your attention, and will be happy to try and answer any questions you might have.

Statement Prepared for The House
Committee on Transportation

RE: House Bill No. 2985

BY: Charles H. Nicolay
Executive Director
Kansas Oil Marketers Assn.

March 31, 1986

Mr. Chairman and Members of the Committee:

My name is Charles Nicolay, and I am Executive Director of the Kansas Oil Marketers Association. Our association represents the interests of nearly five hundred Kansas petroleum marketers, who, as licensed fuel distributors, collect motor fuel tax for the Kansas Department of Revenue and excise tax for the Federal Government. As business people, our members are vitally concerned about the impact of H.B. 2985 on their businesses. I appreciate the opportunity to appear before you to express our association's position on the proposed legislation that is being considered today.

As do all Kansans, our members desire a safe, efficient highway system. In fact, since our livelihood depends on transporting <u>safely</u> a flammable material over the highways of our state, our members are acutely aware of the necessity of good roads. But our concern goes beyond the need to haul our petroleum products safely. We realize that a more fundamental business reality comes into play, and that is our vested interest in the highways of our state. Without them, there is no consumer demand for what we sell.

H. Transp. 4/1/86
Attach. 3

So the crux of our concern is this: if our members are to make a living, we need highways - the best that we can have. However, the difference in opinion on how to finance those highways is why we are here today.

Every state is grappling with the awesome task of funding their highways. We all know it's a problem of enormous proportions all across the nation. But in Kansas, the problem is even more acute. We have inherited a vast highway system, a dinosaur from the concrete and asphalt era of the fifties. This dinosaur still lives and breathes..... and his favorite meal is state revenues.

Kansas has the dubious distinction of having the third largest highway system in the nation. California and Texas occupy positions number one and two, and strange as it may seem, those positions are a lot more enviable than third place. It seems there are a few more motorists in California and Texas to help pay for their systems than there are in Kansas, a state that is quite sparsely populated in comparison.

According to the most recent statistics available to us, California ranks first in the nation in gasoline consumption. Texas is second. Kansas, however, does not quite follow suit and match highway miles with gallons consumed. Kansas comes in thirtieth in gasoline consumption. This fact, more than any other, depicts our plight.

We simply don't have the numbers -- in motorists or gallons -- to adequately maintain with a cents-per-gallon tax the miles of roads that exist today, let alone finance construction of new highways, such as the proposed freeways called for in this bill.

Thus, the user theory of increasing cents per gallon is not the answer. We would be the first to suggest that the motorist should pay his or her fair share of highway maintenance and construction, and we believe that they have been doing so for many years. But we have long been opposed to the motorist footing the entire bill through motor fuel tax increases. Good highways belong to every citizen of the state. They impact the economy of the state by providing for (or hindering) the smooth flow of goods and products. They take our children to school and bring the police and ambulance when we need them. They are ours, collectively. They are the responsibility of each and every one of us by virtue of personal benefit derived from them, and not by virtue of possession of a driver's license.

During this session, members of this committee, as well as the entire legislature, will be examining several methods of financing our highways. You can raise motor fuel taxes again and let the motorist carry an even heavier burden than he already does. Heavier, I might add, than that borne by the citizens of California and Texas, or Oklahoma, Colorado and Missouri, for that matter. In doing so we can continue to protect the general fund. But how many cents must we increase the tax by to come up with the necessary revenue?

It is important to examine here just how much a one-cent increase in motor fuel taxes will bring in additional revenue in California, Texas and our neighboring states. In California, a one-cent increase will realize over $103 million in new revenue. In Texas, the state coffers will see $100 million from a penny increase. In Kansas' neighboring states, the amounts are as follows: Oklahoma - $22 million; Colorado - $17 million; Nebraska - $8 million, and Missouri - $30 million. Kansas could count on $14 million in new revenue from a one-cent increase in the motor fuel tax. It is also important to mention that every one of our neighboring states uses general fund money to support their highway systems.

Another funding option open to this legislature is to continue to allow transfers of highway user-based funds from the general fund to the highway fund, as was initiated by the 1983 legislature. That year, the legislature wisely decided to allow a portion of the taxes collected on the sales of new and used vehicles to be transferred from the general fund to the highway fund. Our members applauded that decision and hailed it as a step in the right direction. Finally, it seemed, an even greater part of the cost of highways would be distributed equitably to those who benefitted, namely everyone.

Some legislators have stated that the abovementioned transfer is bad public policy. Before we assume that that is true, it is our opinion that we should evaluate what sources of revenue go into the general fund. The sales tax on new and used vehicles has been defined as a user fee, and maybe it should be going into the highway fund instead of the general fund. Two of our neighbors consider the sales tax on vehicles to be a user fee; Nebraska and Missouri each place such revenue directly into their highway funds.

Finally, as indicated by this Committee's authorship of HB 2985, you may also consider changing the current indexing formula and the reporting source that it is tied to. Since the indexing component of the 1983 highway funding package has not triggered an automatic tax increase in a one-cent increment, a change in the formula apparently is deemed necessary.

Even though our members compromised their position to agree to a modest motor fuel tax increase in 1983, they were not in favor of the indexing portion of that funding package, and today they haven't changed their opinion of it. They continue to view it as an attempt to avoid being held accountable for the task of having to come up with the funding methods to pay for our highway system. They cohsider indexing a hardship and an unfair disadvantage on Kansas businesses in competition with similar businesses in other states along our borders.

The radical changes in gasoline market conditions in the past few years apparently have led some to think that the time is right for tax revision. The price of crude oil has caused the pump price to plummet to unexpected lows. The consumer, some say, will hardly notice an increase of a couple of pennies on a product that has dropped a whopping 25 cents per gallon since January of this year. But what if OPEC gets its act together and plays out a sequel to 1974? Consumption figures would again drop off dramatically, and we'd be left with a tax that didn't seem so terrible when gasoline was inexpensive, but now seems excessive and inflationary. If the lessons of the past twelve years have taught us anything, then we can speculate that neither the straight cents-per-gallon increase nor the indexing provision would be able to take up the slack caused by a sudden and severe decline in consumption.

Since our comments today are directed toward highway funding and the necessary revenue to maintain our system, perhaps it is permissible at this point, to mention a funding factor that, although not referred to in the bill considered here, is nonetheless important to the total highway funding issue. I refer to the exemption for alcohol blended fuels. It does not seem logical to ask the citizens of the state to pay a higher tax on motor fuel when the gasohol exemption is part of the reason for the revenue shortfall. Our association supports the idea that the tax be equal for every gallon consumed on the roads of Kansas.

With that digression put aside, it appears that we now come full circle back to our original argument that the user concept financed by cent-per-gallon increments is not the solution to our problem of maintaining and constructing highways in Kansas.

The members of the Kansas Oil Marketers Association support an increase in the state retail sales tax as an equitable means of raising revenue to finance state government if the need is justified. Doing so at the present time will maintain sufficient balances in the general fund, while also providing for the transfer formula incorporated in 1983 that uses the sales tax on new and used automobiles to provide growth to the highway fund.

Thank you for the opportunity to express KOMA's position on this issue of great importance not only to our members, but to all Kansans. We request your serious consideration of the points of concern we have outlined here, and we ask that you vote "no" on any motor fuel tax increase. I would be happy to entertain any questions from members of the committee at this time.

R. E. (RON) CALBERT
DIRECTOR-CHAIRMAN

united transportation union

KANSAS STATE LEGISLATIVE BOARD

OAK STREET PLACE SUITE A
130 EAST FIFTH STREET
P.O. BOX 726
NEWTON, KANSAS 67114-0726
TELEPHONE (316) 283-8041

STATEMENT RE: HOUSE BILL NO. 2985

PRESENTED TO: HOUSE TRANSPORTATION COMMITTEE

MARCH 1986

MR. CHAIRMAN, AND MEMBERS OF THE COMMITTEE, I AM RON CALBERT, DIRECTOR, KANSAS STATE LEGISLATIVE BOARD, UNITED TRANSPORTATION UNION. I AM AUTHORIZED TO SPEAK FOR OUR SOME 7,000 ACTIVE AND RETIRED RAILROAD AND BUS EMPLOYEES AND THEIR FAMILIES. MR. CHAIRMAN, MY TESTIMONY IS ALSO SUBMITTED ON BEHALF OF THE BROTHERHOOD OF LOCOMOTIVE ENGINEERS AND THE KANSAS STATE FEDERATION OF LABOR, AFL-CIO. WE RISE IN SUPPORT OF STATEMENTS OF THE KANSAS OIL MARKETERS ASSOCIATION.

MR. CHAIRMAN, WE ARE IN OPPOSITION TO HOUSE BILL 2985, WHICH WOULD REQUIRE AN ADDITIONAL TWO CENTS PER GALLON TAX INCREASE ON MOTOR VEHICLE FUEL COSTS. AS A REPRESENTATIVE OF EMPLOYEES IN KANSAS INDUSTRIES, WE HAVE LONG BEEN CONVINCED THAT THEIR AUTOMOBILES ARE A NECESSITY, NOT A LUXURY. THEREFORE, WE HAVE ALWAYS BEEN AN OPPONENT OF OVER-TAXING THE AUTOMOBILE IN KANSAS.

THE PASSAGE OF HOUSE BILL 2566, WHICH INCREASED MOTOR FUEL TAXES BY TWO CENTS PER GALLON ON JULY 1, 1983 AND BY AN ADDITIONAL ONE CENT ON JANUARY 1, 1984 - AND OTHER COMPROMISES MADE EVEN THOUGH WE DID NOT AGREE IN ENTIRETY - SHOULD NOT GO UNNOTICED. HERE WE ARE, TWO YEARS LATER, AND THE LEGISLATURE IS ASKING FOR ANOTHER TWO CENTS PER GALLON INCREASE IN MOTOR FUEL TAX.

H. Transp. 4/1/86
Attach. 4

WE UNILATERALLY OPPOSE THIS MOTOR FUEL TAX INCREASE.

THANK YOU, MR. CHAIRMAN, FOR FURNISHING ME THE OPPORTUNITY TO APPEAR BEFORE YOUR COMMITTEE AND EXPRESS THE CONCERNS OF THE KANSANS I REPRESENT. I WILL ATTEMPT TO ANSWER ANY QUESTIONS.

STATEMENT

By The

KANSAS MOTOR CARRIERS ASSOCIATION

In opposition to House Bill 2985 which would impose an increase in state fuel taxes.

Presented to the House Transportation Committee, Rep. Rex Crowell, Chairman; Statehouse, Topeka, Monday, March 31, 1986.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am Mary Turkington, Executive Director of the Kansas Motor Carriers Association with offices in Topeka. I appear here today on behalf of the members of our Association and the highway transportation industry respectfully to oppose House Bill 2985.

The Kansas Motor Carriers Association supports good highways. We recognize that southeast Kansas needs improved highways. I even must confess some real personal empathy for the proposed modern express highways and freeways proposed in the bill. Southeast Kansas is my "home" area and the need for highway improvement for that area clearly exists.

I'm certain that an equally strong case could be made for many other areas of the state. There indeed is a need for highway funds that far exceeds any practical probability of resources at this time.

H. Transp. 4/1/86
Attach. 5

House Bill 2985 would raise the fuel tax to provide funds for the construction of modern express highways from the eastern to the western border of Kansas within the southern half of the state. The corridors would extend from Wichita east to the general direction of the interstate highway at Joplin, Missouri; and west from Wichita to the Kansas-Oklahoma border or the Kansas-Colorado border.

The bill also establishes two new funds. One fund would be called the Southern Kansas Economic Development Freeway fund. Distribution of tax revenues to this new fund would begin July 1, 1987. The fuel tax would be increased July 1, 1986.

Section 11 is the crux of the bill for our industry. That section proposes a 2-cent increase in the tax on all motor fuels effective July 1, 1986. The specific increases would provide:

Motor-Vehicle fuels (gasoline)	from 11¢ to 13¢ per gallon
Special fuels (diesel)	13¢ to 15¢
LP-Gas	10¢ to 12¢

Unfortunately, the bill does not address the current subsidy for gasohol fuels which the Kansas Department of Transportation has estimated will erode some $9 million in highway revenues for this state in fiscal 1987!

The policy of the Kansas Motor Carriers Association strongly opposes this subsidy at both the state and federal levels and calls for such fuels to be taxed at the rate of other motor-vehicle fuels when consumed on streets or highways.

The proposed bill also provides that the tax rate per gallon on special fuels would be 2¢ per gallon higher than the tax rate computed for motor-vehicle fuels thus continuing the 2-cent diesel differential. Our industry has not opposed this additional tax differential since July, 1980.

The bill also addresses an indexing mechanism in Section 11. The language in the bill provides:

> "The director of taxation shall compute tax rates to the nearest cent per gallon on motor-vehicle fuels as provided in this section. For the twelve-month periods commencing at 12:01 a.m. on July 1, 1986, and at 12:01 a.m. on July 1 of each year thereafter, the director shall compute such rate by multiplying 4.188% times the United States city average consumer price index for all urban consumers, 1967=100, over the period of the calendar year preceding the July 1 that such period commences as reported by the bureau of labor statistics of the United States department of labor."

The research staff has interpreted this to mean that the rate of tax on fuels would be determined by multiplying the average of a calendar year's monthly consumer price index data for all urban consumers (CPIU) by the newly-introduced factor of 4.188%.

Based on that understanding, we have attached to this statement a summary of the tax rate such calculations would have produced for the years the CPIU information is available (1977 through 1985).

The Kansas Motor Carriers Association has opposed "indexing" mechanisms unless such "indexing formulas" contain some cap or ceiling or time limit. The proposed bill continues the one-cent per gallon increase (or decrease) limit per year. We strongly believe the Legislature should retain its policy responsibility for such fuel tax increases and not delegate its authority or responsibility to indexing mechanisms that automatically impose such tax increases without justification of priority need and/or equity.

The other major provision of H.B. 2985 on which we wish to comment is New Section 14. That section creates the "Kansas economic development highway fund" which apparently would be used to provide interest-free loans to local communities for the purpose of constructing highway facilities eligible to be placed on the state highway system. New sections 15 through 19 deal with the criteria for projects to be constructed with this fund.

We do not find where the Kansas economic development highway fund receives any revenues. Will this money come from the highway fund's limited resources?

We submitted testimony to the Senate Assessment & Taxation Committee earlier this session supporting Senate Bill 536 which proposes an increase in the state sales tax.

No one enjoys supporting a tax increase. Such an increase should be considered only if a demonstrated need exists for additional revenue.

We believe the need is there and that a broad-based tax that will produce revenues of the magnitude only a sales tax can generate, is the tax this Legislature should consider.

Press reports indicate that the public strongly supports a sales tax if a tax increase is to be considered. Governor John Carlin has proposed the tax increase provided in Senate Bill 536. The tax increase clearly is a recommendation of the Governor to which the Legislature may respond.

The highway funding concept that at times painfully was structured and finally adopted by the 1983 session of the Legislature is tied directly to the sales tax issue.

An important component of that funding package was the transfer of sales tax collections on the sale of vehicles from the General Fund to the highway fund <u>along with a substantial increase in fuel taxes</u>.

The policy decision of the 1983 Legislature clearly identified such sales tax collections on the sale of vehicles as a <u>user tax</u>. There is indeed similar policy at the federal level through the assessment of an excise tax on trucks with a gross weight over 33,000 lbs. and trailers with a gross weight over 26,000 lbs. The tax on this equipment goes directly into the Highway Trust Fund. This tax was increased substantially from ten percent on the <u>wholesale</u> price of such equipment to 12 percent on the <u>retail</u> price of such equipment in the Highway Revenue Act of 1982.

I further would point out to the Committee that our industry has been assessed other substantial increases in federal taxes since the 1983 highway funding package was adopted in Kansas.

The tax on diesel fuel was increased an additional 6 cents per gallon effective August 1, 1984. Owners of diesel motor truck vehicles now pay a 13-cent state tax (which includes the 2-cent differential over the 11-cent-per-gallon tax on gasoline) and pay a 15-cent-per-gallon federal tax on diesel fuel which includes a 6-cent differential at the federal level for a combined total of 28 cents per gallon tax!

The heavy vehicle use tax on trucks also was increased from the maximum of $240 per vehicle to $550 per vehicle annually effective July 1, 1984.

Those tax increases combined with the crushing increases our industry has experienced with insurance premiums has severely impacted the financial hardship our industry already was experiencing from the economic recession.

Folks, our pockets are just about out of change!

I'm sure members of this Committee are following developments at the federal level which focus on highway user taxes.

We are confronted there with possible substantial tax increases that obviously are directed toward debt reduction rather than critical highway needs. These tax "options" include:

- an oil import fee that could increase the price of fuel from 24¢ to 50¢ per gallon.
- a fuel tax increase projected to be as much as 15¢ per gallon.
- a proposal to end the deductibility of excise taxes on fuel, purchase of vehicles, tires, parts and the massive special highway use tax.

Our industry has calculated that a $10-per-barrel oil import fee would cost the regulated trucking companies more than their total 1984 profits and is estimated to cost the economy 300,000 to 400,000 jobs and a one percent loss in growth in the gross national product in the first year! Loss of the deduction of the excise taxes would crucify most of our carriers and would raise the industry's effective income tax rate by up to 50%. Trucking already is the highest taxed industry in America!

All of this comes at a time when freight tonnage fell in the third quarter to the lowest level of any quarter since 1967. Net income for our industry has been below three percent every year since 1978. Freight tonnage has yet to return to 1978 levels. Truck taxes have nearly doubled in the past five years and our insurance premium rates have increased between 200 and 600 percent.

There are those who suggest current reductions in fuel prices are providing our industry with a "windfall." I can tell you quite honestly that our carriers -- large and small -- will do well to break even this year. The cost curve continues to go up. Tax increases cannot be passed on to shippers. (How many livestock and grain shippers can pay higher freight rates?) In fact, there is pressure from larger shipper organizations for the Interstate Commerce Commission to order a negative fuel surcharge against railroads and motor carriers as a result of declining fuel prices.

We have talked a lot about economic development in this session and what the state can do to encourage new business to come to Kansas and the expansion of existing businesses.

Appropriately, the recent Caucus program of the Kansas Chamber of Commerce and Industry addressed the state's aircraft industry and the 35,000 jobs estimated to be involved with that industry's production. There is a need for concern about this industry and its economic contribution to Kansas and its people.

We would remind this Committee and members of the Kansas Legislature that the motor carrier industry provides directly more than 70,000 jobs -- twice that of the aircraft industry -- in this state. We urgently petition for your recognition of the importance of our highway transportation industry in any economic development program for progress and ask that you consider the impact of any additional fuel taxes on the ability of this industry literally to survive as an essential employer and taxpayer and provider of essential transportation services for all industries and businesses.

We believe the policy decision made in 1983 with respect to the entire highway funding package is fair and essential to continued funding of highways in this state. We ask your continuing support for that program and respectfully urge that you not recommend House Bill 2985 for passage.

Thank you for the opportunity to present these extensive comments. I will try to respond to any questions you may have.

#####

HOUSE BILL NO. 2985

Motor Vehicle Fuel Indexing Provisions

CPIU x 4.188% = Cents-per-gallon

CPIU x 12
4.1888%

YEAR	AVERAGE CPIU		FACTOR	CENTS-PER-GALLON
1977	181.5	x	4.188%	$.076
1978	195.4	x	4.188%	$.082
1979	217.4	x	4.188%	$.091
1980	246.8	x	4.188%	$.103
1981	272.4	x	4.188%	$.114
1982	289.1	x	4.188%	$.121
1983	298.4	x	4.188%	$.125
1984	311.1	x	4.188%	$.130
1985	318.5	x	4.188%	$.133

Kansas Motor Carriers Association
3/31/86