Approved 3-6-86
Date

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES.

The meeting was called to order by Sen. Bill Morris, Chairperson, at

9:00 a.m./~~p.m.~~ on February 25, 1986 in room 254-E of the Capitol.

All members were present except:
Sen. Francisco was excused.

Committee staff present:
Fred Carman, Revisor
Hank Avila, Legislative Research Department
Ben Barrett, Legislative Research Department
Louise Cunningham, Secretary

Conferees appearing before the committee:
Sen. Jack Walker
Tom Whittaker, Kansas Motor Carriers Association
Glenn Coulter, Kansas Contractor's Association
Erne Mosher, League of Kansas Municipalities
Charles Nicolay, Kansas Oil Marketers Association
John Kemp, Secretary, Department of Transportation
Howard Tice, Kansas Wheat Growers Association
Stan Larsen, High Plains Corporation

On a motion from Sen. Norvell and a second from Sen. Hayden the Minutes of February 18, 19 and 20 were approved. Motion carried.

ACTION ON S.B. 470 - Bond required for certain dealers.

Sub-committee report on S.B. 470.

Sen. Walker was the Chairman of this sub-committee with Sen. Francisco and Sen. Hoferer as members. They considered the amount of the proposed bond, the possibility of including motorcycles and also the automobile brokers. A copy of their report submitted to the committee is attached. (Attachment 1).

A motion was made by Sen. Walker to adopt the sub-committee report along with the suggested amendments. Motion was seconded by Sen. Hoferer.

The committee discussed the brokers and said while there had been problems caused by some new car dealers in flood cars, to take out all brokers seemed too drastic. In most cases they were working well.

A substitute motion was made by Sen. Vidricksen to adopt the sub-committee report but delete the references to "broker" in the report. Motion was seconded by Sen. Thiessen. Motion carried.

A motion was made by Sen. Hoferer to recommend S.B. 470, as amended, favorably for passage. Motion was seconded by Sen. Walker. Motion carried.

HEARING ON S.B. 611 - Ending subsidy for gasohol.

Sen. Walker said this bill was debated last year and it was decided to phase out the gasohol subsidy. Since last year the situation has changed and there is no longer any justification for a subsidy. It was originally started because of the gas shortage but today we have lower gas prices and there is an oil glut. Not all of the grain purchased is produced in Kansas and the subsidy erodes the revenue for the Department of Transportation. Southeast Kansas wants a new road and there is also support for a road in western Kansas. The state should end the subsidy and use the revenue to help the highways. It would help our economic development.

Tom Whittaker, Motor Carriers Association, said they were in support of S.B. 611 and felt this fuel should bear its share of taxes when consumed for highways in this state. A copy of his statement is attached. (Attachment 2).

Glenn Coulter, Kansas Contractors' Association said it is apparent that the states will have to take a more active role in building their own highways and bridges and the funds could be used for economic development. They support S.B. 611 to eliminate the subsidy.

Erne Mosher, Kansas League of Municipalities, said there would be a $9 million saving if the subsidy were eliminated and this would be an advantage to cities and counties. There are great needs at the local level.

Charles Nicolay, Kansas Oil Marketeers Association said with the subsidy there is a substantial loss to the highway funds. They wanted to reaffirm the position they took last year to end the subsidy.

Sen. Norvell said there was support for the three-year phase-down last year and this year the legislature is being asked to completely eliminate the subsidy. He did not feel this was fair.

John Kemp, Secretary, Department of Transportation, did not speak in support of nor did he oppose S.B. 611. He said there was a 4¢ per gallon loss to the state highway fund for very gallon used. Elimination of the subsidy would yield an additional $9 million to the highway fund. A copy of his statement is attached. (Attachment 3).

Howard Tice, Kansas Wheat Growers, Hutchinson, said the subsidy was started to help an industry get started and it has been a rocky road. Many have fallen by the wayside and for those that are left eliminating the subsidy could make a very big difference. Wheat useage has not been as great as for the other grains but this is not the time to reduce any markets for agriculture. Our farmers have lost export markets and they have no control over that. They need as large a domestic market as they can get. They supported the phase-down last year but agriculture should not have to continue to pay such a high portion for the highways. The Legislature promised state support for a while and this is not the time to increase hardships on the industry. Times are as bad now for agriculture as they were during the great depression of the 30's. He was opposed to S.B. 611. A copy of his statement is attached. (Attachment 4).

Harry Wullschleger, Kansas Corn Growers, said OPEC has not died. They are just getting back at England and Mexico. They can produce oil at $2 to $3 a barrel. He said the price of oil would go up again and we should let the ethanol industry alone. He was opposed to S.B. 611.

Stan Larsen, High Plains Corporation, Colwich, said the state granted this subsidy to encourage the building of ethanol plants and they are now at the break even point. He said it would be disasterous to further reduce the alcohol exemption at this time. They have relied on the subsidy to build their plant and removing it could be the hair that breaks the camel's back. A copy of his statement is attached. (Attachment 5).

The Chairman said the time was short and those who had not been heard could return tomorrow if they wished to do so.

Meeting was adjourned at 10:00 a.m.

STATE OF KANSAS

JACK WALKER, M.D.
SENATOR, EIGHTH DISTRICT
JOHNSON COUNTY
10107 HARDY DR
OVERLAND PARK, KANSAS 66212

TOPEKA

COMMITTEE ASSIGNMENTS
VICE-CHAIRMAN: PUBLIC HEALTH AND WELFARE
MEMBER: ELECTIONS
FEDERAL AND STATE AFFAIRS
TRANSPORTATION AND UTILITIES

SENATE CHAMBER

February 24, 1986

MEMORANDUM

TO: Senator William Morris, Chairman
Senate Transportation & Utilities Committee

FROM: Senator Jack Walker

SUBJECT: Sub-committee Report on Senate Bill 470

The sub-committee on Senate Bill 470 met at 1:00 p.m. on Wednesday, February 12th. Members of the sub-committee present were Senator Jeanne Hoferer, Senator James Francisco, and Senator Walker. Others present were Mr. Bob Hayes and Mr. Dick Brock of the Insurance Commissioner's Office; Mr. James Sullen of the Kansas Motor Car Dealers Association; Mr. Harley Duncan, Secretary of the Department of Revenue.

Three areas of the proposed legislation were considered:

1. The amount of the proposed surety bond, its cost, the mechanism of implementation of the surety bond, what it would cover, and its impact upon small automobile dealers.

2. The possibility of including motorcycle dealers and non-motorized vehicle dealers under this surety bond requirement.

3. The matter of "automobile vehicle brokers".

The concensus of the sub-committee was that the $25,000 surety bond requirement was in principle good legislative action in terms of consumer protection. The $25,000 figure appeared to be a reasonable figure and the cost of such a surety bond - annually - about 1% or $250 - would work a hardship in only very marginal situations. The marginal situations are precisely the justification for the proposed legislation as a consumer protection device.

The concensus of the sub-committee was that motorcycle dealers and other non-motorized vehicle dealers should be required to hold an annual surety bond of $25,000.

The concensus of the sub-committee was that the so called "motor vehicle broker" concept should be eliminated in Kansas.

ATT. 1
S. T&U 2/25/86

Accordingly the sub-committee makes the following suggested amendments to Senate Bill 470.

1. On line 77 - strike the entire line.

2. On lines 135 and 136 - strike the workds "motorcycles" and the words "and other non-motorized vehicles".

3. On line 156 - strike the word "broker".

4. Add a new section with language which specifically prohibits the motor vehicle broker.

5. Make Senate Bill 470 - as amended - effective January 1, 1987, in order to mesh with the date of annual licensure renewals.

The sub-committee recommends adoption of the above amendments to SB 470 and with such amendments recommends the bill favorable for passage.

Sen. Jack Walker
Senator Jack Walker

Senator Jeanne Hoferer
Senator Jeanne Hoferer

Sen. James Francisco
Senator James Francisco

②

STATEMENT

By The

KANSAS MOTOR CARRIERS ASSOCIATION

Concerning Senate Bill No. 611 relating to the elimination of the tax subsidy on ethyl alcohol blended motor vehicle fuels.

Presented to the Senate Transportation & Utilities Committee, Sen. Bill Morris, Chairman; Statehouse, Topeka, Tuesday, February 25, 1986.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am Tom Whitaker, Governmental Relations Director of the Kansas Motor Carriers Association with offices in Topeka. I appear here this morning representing our membership and the highway transportation industry.

Our Association supports the passage of Senate Bill No. 611. This proposal would eliminate the tax subsidy on gasohol effective July 1, 1986. The policy of the Kansas Motor Carriers Association, adopted on December 12, 1984, is:

> The Kansas Motor Carriers Association respectfully requests that the tax subsidies on gasohol fuels at both the state and federal levels be eliminated and this fuel bear its share of taxes when consumed on streets and highways.

From the figures submitted to this Committee by the Kansas Department of Transportation, it is clearly evident that the gasohol tax subsidy has a substantial impact on the dollars available for highways in this state.

ATT. ②
S. T+U 2/25/86

The U.S. Secretary of Transportation on February 5, 1986, submitted to Congress the Surface Transportation Reauthorization Act of 1986 (STRA). STRA calls for the repeal of the tax exception for gasohol, methane and ethanol which robs the Federal Highway Trust Fund of a half-billion dollars a year!

Currently, the state motor fuel tax on gasoline is $.11 per gallon and the federal motor fuel tax is $.09 per gallon making a total of $.20 per gallon. The state motor fuel tax on diesel fuel is $.13 per gallon and the federal tax is $.15 per gallon, making a total tax of $.28 per gallon for diesel fuel. The impact on highway revenues of continued subsidy of gasohol fuel is a major concern to all highway users.

The Kansas Motor Carriers Association respectfully urges this Committee to recommend Senate Bill No. 611 favorable for passage. We believe that if gasohol is going to be used in motor vehicles that travel on the highways, it should bear its share of the motor fuels tax urgently needed for the preservation of our highway network.

We thank you for the opportunity to present testimony to this Committee and would be happy to respond to any questions.

#####

KANSAS DEPARTMENT OF TRANSPORTATION

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

DEPARTMENT OF TRANSPORTATION KANSAS

FEBRUARY 25, 1986

MEMORANDUM TO: THE HONORABLE BILL MORRIS, CHAIRMAN
SENATE COMMITTEE ON TRANSPORTATION
AND UTILITIES

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

REGARDING: SENATE BILL 611

THANK YOU, MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE FOR THE OPPORTUNITY TO ADDRESS YOU THIS MORNING.

SENATE BILL 611 ELIMINATES THE GASOHOL MOTOR FUEL TAX SUBSIDY EFFECTIVE JULY 1, 1986. GASOHOL IS A MOTOR FUEL CONSISTING OF GASOLINE AND A MINIMUM OF 10 PERCENT ETHANOL (ETHYL ALCOHOL). GASOHOL CURRENTLY HAS A 10 CENT PER GALLON TAX ADVANTAGE OVER GASOLINE WHEN BOTH THE FEDERAL AND STATE TAXES ARE CONSIDERED. THIS PERMITS GASOHOL TO BE MARKETED EVEN THOUGH IT COSTS MORE THAN GASOLINE TO PRODUCE.

THE SUBSIDY PROVIDED GASOHOL HAS BEEN AN ISSUE BECAUSE OF THE IMPACT WHICH GASOHOL CONSUMPTION HAS HAD ON BOTH FEDERAL AND STATE MOTOR FUEL TAX REVENUES. GASOHOL IS SUBSTITUTED EQUALLY FOR GASOLINE SO THAT FOR EVERY ONE GALLON OF GASOHOL CONSUMED THERE IS ONE LESS GALLON OF GASOLINE USED. FOR EACH GALLON OF GASOHOL USED THEN THERE IS A FOUR-CENT LOSS TO THE STATE HIGHWAY, STATE FREEWAY AND SPECIAL CITY AND COUNTY FUNDS.

ATT. 3
S. T+U 2/25/86

IN RECOGNITION OF THIS PROBLEM, THE 1985 LEGISLATURE ENACTED LEGISLATION TO REDUCE THE KANSAS GASOHOL SUBSIDY BY ONE PENNY EACH OF THREE YEARS BEGINNING FISCAL YEAR 1986. PRESENTLY, THE STATE SUBSIDY IS AT FOUR CENTS, AND THE FEDERAL SUBSIDY REMAINS AT SIX CENTS.

SENATE BILL 611, BY ELIMINATING THE SUBSIDY, WOULD YIELD AN ADDITIONAL $9 MILLION IN MOTOR FUELS REVENUE WHICH WOULD BE DISTRIBUTED AS FOLLOWS:

TOTAL, ALL FUNDS	$9.0 MILLION
STATE HIGHWAY FUND	4.4 MILLION
STATE FREEWAY FUND	1.0 MILLION
SPECIAL CITY AND COUNTY HIGHWAY FUND	3.6 MILLION

THAT CONCLUDES MY REMARKS MR. CHAIRMAN.

K...SAS ASSOCIATION
OF WHEAT GROWERS

KANSAS SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES
Senator Bill Morris, Chairman
Tuesday, February 25, 1986
Hearing on SB 611, terminating the subsidy on Ethanol fuel

My name is Howard Tice, and I am Executive Director of the Kansas Association of Wheat Growers. I appreciate the opportunity to appear today in opposition to SB 611.

The subsidy on ethanol production in Kansas was intended to help an industry get started, which would utilize Kansas agricultural products, and therefore increase the market for our farmers.

The road has been rocky for many ethanol plants, and some have closed. For those remaining, and for those interested in starting up the closed plants, the subsidy may make the vital difference.

I don't have a book full of statistics that show how much of each type of grain has been, or could be used for ethanol production. I do know that wheat usage for ethanol production has not been major. However, the usage of feed grains for ethanol has proved to open some local markets for wheat use as livestock feed, so there is an indirect benefit for wheat as well as corn and milo.

I cannot emphasize enough that this is not the time to reduce ag-markets. Our farmers have lost export markets through no fault of their own, and we need a strong domestic market to support our industry until we can regain those lost customers. We have been working to improve grading standards and improve classification procedures so we can compete with Canada and Australia. Our farmers and breeders have worked to improve the quality of the wheats available. We have increased yields, disease and pest resistance to insure reliability as a supplier. We have increased protein to offer higher quality. With all of this, it is going to take time to regain those lost sales and the domestic market is the only reliable market we have, so we cannot afford to lose any more of it.

The Kansas Legislature is considering several bills this year to help keep our farmers on the land. Each bill is designed to help a few farmers, not as a cure-all for the industry. It is inconsistent for lawmakers to try to help the industry on one hand, and hurt it with bills that take away a portion of the market, on the other.

Last year, this legislature was approached with a choice to either strike the subsidy in one move, or to phase it down. The ethanol industry and farm organizations reluctantly supported the phase-down approach instead of opposing the termination of the subsidy in any manner, because we recognized the need for road and highway improvements. We still agree that road improvements are needed, but we do not feel that our farmers should be forced to pay such a high portion of the price through reduced market potential. We felt last year, that if the phase-down occurred as promised, the ethanol industry would have time to make the necessary adjustments, and build their market.

The Legislature, in passing the phase-down bill, in effect promised the industry the state's support for a little while longer. Senate Bill 611 seeks to go back on that promise.

I repeat, now is not the time to take steps that will further cut markets for Kansas grain. Now is not the time to take steps that will increase hardships on any industry. Our farmers and small businessmen are facing economic conditions as harsh or harsher than the Great Depression of the '30s.

Agriculture and the ethanol industry accepted the decision of the 1985 Legislature in beginning a phase-down of the ethanol subsidy. We only ask this committee to accept that decision as well, and therefore, recommend against the passage of SB 611.

ATT. 4
S. T+U 2/25/86

ADDENDUM

In response to the question asked by Senator Phil Martin, the following is the closing futures and cash prices of wheat from the Kansas City Board of Trade and various locations around the state, from Monday February 24th.

Futures:
March delivery - 3.15 May delivery - 2.68 July delivery - 2.51½

Kansas City futures reflect hard red winter wheat prices, as grown in Kansas. Prices are shown on a delivered basis, and so reflect transportation costs. You will note that the outlook for Kansas wheat prices as predicted by the futures, is downward.

Cash wheat prices:

Andale	2.87
Beloit	2.90
Cherryvale	2.83
Colby	2.78
Dodge City	2.69
Emporia	2.88
Garden City	2.78
Great Bend	2.79
Hays	2.89
Hutchinson	2.96
Liberal	2.69
Pratt	2.78
Salina	2.98
Scott City	2.78
Topeka	3.00
Wellington	2.82
Whitewater	2.88
Wichita	2.85

The prices shown at the left are cash prices paid by local elevators at the locations shown. Prices are determined by using the Kansas City Board of Trade settlement price, and figuring a basis differential to cover transportation.

High Plains Corporation
125 North Emporia
Wichita, Kansas 67202
(316) 269-4310

COMMITTMEE MEMBERS

Gentlemen:

Thank you for allowing our Company to appear before your Committee. It seems imperative at this point in the history of ethanol production in the State of Kansas to bring to light the following facts.

Because the State of Kansas passed an ethanol tax exemption to encourage the building of ethanol plants, it is now important to question the State's obligation to those plants that are now built. The direct beneficiaries of the ethanol production were to be the farmers raising milo, due to the extremely high comsumption by the alcohol plants. Due to the tax exemption, it permitted the economics of an alcohol plant to work. The following is a generalized breakdown of our plant's operations.

HIGH PLAINS CORPORATION PRODUCTION COST STATISTICS

<u>PRODUCTION</u>	Ethanol	11,000,000 gallons
	DDG	40,000 tons
	CO2	40,000 tons
<u>SALES</u>	Ethanol @ $1.30/gal.	$13,750,000
	DDG @ $100/ton	4,000,000
	CO2 @ $7.00/ton	<u>280,000</u>
		$18,030,000
<u>COSTS</u>	Milo @$4,400,000 bushels annually	
		$ 9,500,000
	Energy	3,000,000
	Payroll	1,000,000
	Chemicals	1,250,000
	Real Estate Taxes	250,000
	% 26,000,000 @ 10 1/2%	<u>3,000,000</u>
		$18,000,000

These figures are estimates on today's milo and alcohol prices after one months operations since the re-design of our plant.

No one wants their taxes increased but, if the reason for reducing the exemption of ethanol is to increase monies for highway construction then our industry believes that the gas tax should be increased instead of eliminating our exemption. We do not contest the need for more highway funds, but we only contest that the ethanol and agricultural segments of society do not suffer due to the need for additional construction funds.

HIGH PLAINS

ATT. 5
S. T+U 2/25/86

The above figures indicate that our Company will purchase approximately 4 1/2 million bushels of milo from Sedgwick County farmers and elevators. Although it is a small number of bushels in view of our large crop surpluses nationally, our purchases do tend to stabilize and increase the price Kansas farmers receive for their grain products. Large ethanol producers in other states do not directly benefit our Kansas farmers because they purchase their feedstock grains in the states where their plants exist. Our Kansas state law provides the alcohol tax exemption benefits out of state producers as greatly as in state producers. Because Kansas produces only about half of the alcohol consumed, the tax revenue loss is twice as large at the present time as it need be if only Kansas produced alcohol received the exemption. My proposal therefore, is not to reduce exemption, but leave it the same and permit its use only by in-state Kansas producers.

The State of North Dakota with an 8 cent per gallon exemption and the State of Louisiana with a 16 cent per gallon exemption both have limited exemption to in-state producers of alcohol. The motivation, of course, for the State Legislatures is to give an incentive to the alcohol industry to keep the money spent for feedstock in the state where the plant exists and therefore benefiting the local agricultural sector. Should the tax incentive remain the same 4 cents or enlarge, and given only to the Kansas producer, it would be our Company's intention to double or triple our Kansas production and therefore greatly increase the purchase of milo or corn for feedstock. It is not only a selfish motivation that we are requesting this, because we know that immediately other plants will be planned and built in the State of Kansas and will be done by our competitors. This of course, would be a tremendous economic development for the State of Kansas. Both North Dakota and Louisiana have large ethanol facilities planned, completed or under construction. Oklahoma did away with their incentive and the one alcohol plant in that state went bankrupt.

There has been confusion as to the qualities and benefits of ethanol alcohol as a gasoline additive and octane booster. Recent studies and industry opinions have now come to the conclusion that ethanol alcohol is perhaps the cleanest and most efficient gasoline additive on the market today. Enclosed for your information with this discussion is a copy of an article in "Kansas Farmer" stating that our farm surplus will be completely solved and the farmers economic situation remedied if only we build enough ethanol plants that use our farmers surplus.

In closing, it is difficult to understand a farm state like Kansas not maintaining or increasing the exemption from tax which in turn so directly benefits us in the economic development of the State of Kansas. With the oil and gas industry economy also faltering at this time, it would be disasterous to further reduce the alcohol exemption as alcohol prices tend to follow gas and oil prices and therefore have dropped approximately 30% in the last 30 days. It is now a time of survival and the tax exemption of which we have relied on to build the plant and it could be the hair that breaks the camel's back and idle our $25,000,000 plant. As the ethanol industry progresses in the future, a time will come that our Company will mature and operate profitably after our initial debt load is reduced. Thank you for your time and consideration.

Stanley E. Larson
President

HIGH PLAINS CORPORATION
COLWICH, KANSAS