

Approved January 22, 1990
Date

MINUTES OF THE House COMMITTEE ON Transportation

The meeting was called to order by Rex Crowell at
Chairperson

1:30~~xxx~~/p.m. on January 18, 1990 in room 519-S of the Capitol.

All members were present except:

Representative George Dean, excused

Committee staff present:

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

Conferees appearing before the committee:

Ms. Nancy Lindberg, Attorney General's Office
Mr. Greg Krissek, Kansas Board of Agriculture
Mr. Duane Berning, ESE Alcohol, Leoti, Kansas
Mr. Lee Reeve, Reeve Agri Energy, Garden City, Kansas
Mr. Stan Larson, High Plains Corp. Wichita, Kansas
Ms. Nancy Kantola, Committee of Kansas Farm Organizations
Mr. Paul Fleener, Kansas Farm Bureau
Mr. Jere White, Kansas Corn Growers Assn., Garnett, Kansas
Mr. Dean Shelor, Mineola, Kansas
Mr. Howard Tice, Kansas Wheat Growers Association
Mr. Bill Watts, Kansas Department of Transportation
Mr. Ed DeSoignie, Kansas Contractors Association

The meeting was called to order by Chairman Crowell, and the first order of business was a bill request.

Ms. Nancy Lindberg, Attorney General's Office, requested that legislation be introduced requiring automobile dealers to disclose in advertising that they are a dealer.

A motion was made by Representative Shore that this be introduced as a Committee bill. The motion was seconded by Representative Dillon. Motion carried.

The next order of business was a hearing on HB-2585 extending the expiration date for the agriculture ethyl alcohol incentive program.

Mr. Greg Krissek, Kansas State Board of Agriculture, testified in support of HB-2585. (See Attachment 1)

Mr. Lee Reeve, Reeve Agri Energy, Garden City, Kansas, spoke in support of HB-2585. (See Attachment 2)

Mr. Duane Berning, ESE Alcohol, Inc., Leoti, Kansas, testified in favor of HB-2585. (See Attachment 3)

Mr. Stan Larson, High Plains Corporation, testified in support of HB-2585. (See Attachment 4)

Ms. Nancy Kantola, Committee of Kansas Farm Organizations, testified in support of HB-2585. (See Attachment 5)

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Transportation,
room 519S, Statehouse, at 1:30 ~~xxx~~ p.m. on January 18, 19 90

Mr. Paul Fleener, Kansas Farm Bureau, testified in support of HB-2585. (See Attachment 6)

Mr. Jere White, Kansas Corn Growers Association, Garnett, Kansas, spoke in favor of HB-2585. (See Attachment 7)

Mr. Dean Shelor, Mineola, Kansas, spoke in favor of HB-2585.

Mr. Howard Tice, Kansas Wheat Growers Association, testified in support of HB-2585. (See Attachment 8)

Mr. Bill Watts, Kansas Department of Transportation, testified on HB-2585. (See Attachment 9)

Mr. Ed DeSoignie, Kansas Contractors Association, testified in opposition to HB-2585. (See Attachment 10)

The hearing on HB-2585 was concluded.

The minutes of the House Transportation Committee held on January 17, 1990, were approved by Committee members.

The meeting was adjourned at 2:45 p.m.


Rex Crowell, Chairman

PLEASE PRINT

NAME	ADDRESS	COMPANY/ORGANIZATION
Gene Robben	D SOB	KDOT
Whitney Dameron	Topeka	McNeill & Associates
P MADELL	D SOB	KCC
Leroy Jones	Topeka	BLE
Don Lindsey	Osawatomie, Ks	UTU
Shelley Sutton	Topeka	KES
Crystal Harper	Cherryvale	Harper Properties
J.D. Harper	Cherryvale	Harper Properties
Paul E. Fleener	Manhattan	Kansas Farm Bureau
Mary G. Turkington	Topeka	Kans. Motor Carriers Assn.
Tom Whitaker	Topeka	Ks Motor Carriers Assn.
Bill Watts	Topeka	KDOT
Keed W. Davis	Topeka	KDOT
Alan Morgan	Topeka	Governor's Office
Nancy Kantola	Topeka	Com. Kansas Farm Org.
Ed DeBoigne	TOPEKA	KANSAS CONTRACTORS ASSOC.
Howard M. Tice	Hutchinson	KAWG
John C. Bottenberg	TOPEKA	Ks Ethanol Assn.
Joe White	Shretts	KS Corn Growers Assn.
Greg Krissich	Topeka	KSBA
Stan Kamm	Micholite KS	K-E ASSOC.
Ray Friend	Wichita, KS	Kansas Ethanol Assoc
David Quincy	Lodi, Ks	ESTE ALCOHOL, INC.
Lee Reese	Landon City, Ks.	REFUE AREA FORAGE
Elton Fastcup	Topeka, Ks	Us Board of Agri.
Pat Hubbell	Topeka	Ks Railroad Assn.

Krissek

HOUSE COMMITTEE ON TRANSPORTATION

HOUSE BILL NO. 2585

TESTIMONY

JANUARY 18, 1990
AGRICULTURAL ETHYL ALCOHOL INCENTIVE PROGRAM

Good afternoon ladies and gentlemen, my name is Greg Krissek. I am the Research Analyst for the Kansas State Board of Agriculture. Secretary Brownback sends his regrets that he could not testify before you today but he was previously committed to attending a planning session in Washington DC for an upcoming national conference on commercializing industrial uses for agricultural commodities. Secretary Brownback is the chairman of that conference. Ethanol is a prime example of such commercialization.

By way of information, Kansas agriculture has been in the forefront for the past several years of this growing commercialization movement. You as legislators have played an important part in this trend by in 1979 approving K.S.A. 74-5029, which states: "Declaration of public policy; development of agricultural products. It is hereby declared to be the public policy of the state of Kansas to encourage and assist the development and expansion of new uses of agricultural products including agricultural ethyl alcohol, including the use by the state of Kansas and all political and taxing subdivisions thereof." Further, a KSBA Task Force, chaired by Ladd Seaberg, President of Midwest Grain Products, unanimously agreed in their findings issued in December, 1988, that substantial opportunities are available to Kansas through the development of these industrial uses. The commercialization of ethanol as an octane enhancer

Attach. 1

and more environmentally safe fuel additive has been recognized at national levels and is a major part of President Bush's Clean Air proposals.

Kansas ethanol producers are already making strides to commercialize and produce ethanol. KDOT estimates that our producers have sold 17.1 million gallons of alcohol annually. For 1988, this translates into approximately 6,840,000 bushels of corn and milo that the ethanol producers have purchased from Kansas farmers and local suppliers. This translates into approximately 2% of Kansas corn and milo production serving as inputs for the ethanol industry.

The Kansas agricultural ethyl alcohol incentive program plays an indispensable role in this commercialization of agricultural commodities movement. The Kansas State Board of Agriculture supports all efforts to broaden and deepen markets and opportunities for renewable, agricultural commodities. Your support of this "new use" of agricultural products through passage of H.B. 2585 is urged and appreciated.

This concludes my testimony. I will certainly attempt to answer any questions you may have.

Reeve 2

LEE REEVE
REEVE AGRI ENERGY
BOX 1036
GARDEN CITY, KS 67849

January 18, 1990

Thank you for the opportunity to address this group. I am Lee Reeve and our family has an ethanol plant in Garden City.

I would like to make a few points why Kansas should continue the support of the ethanol industry.

Ethanol is a true "value added" industry. We take raw grain and produce finished fuel which can go anywhere. The by-product in our case is fed at our feedlot.

We produce quality high tech jobs. A year ago five engineers from Proctor and Gamble spent a week at the plant. Four of the five were MIT graduates. Two of the five were motion engineers. What they told us was that they were very impressed with the work ethic of our employees and their ability to do a very good job unsupervised. Kansas has a big investment in our youth when they enter the work place. It is a shame if we loose any of these kids because they can't find a good job in Kansas.

The 1990's are going to be the decade of the environment. There is no cleaner burning gasoline than an ethanol blend. The ethanol is going to be produced and it might as well be produced in Kansas.

Ethanol production produces "spin off" industries. We have gotten into the fish business by using the waste warm water from the plant. We use waste heat and steam to process grain for the feedlot. You can raise vegetable in green houses using waste heat and water. You can then flood the housed with waste carbon dioxide (from the fermators), kill all the insects and raise chemical free vegetables.

Kansas has always been very supportive of the ethanol industry. We ask for your continued support in the future. Thank you.

Attach. 2

ESE Alcohol, Inc.
P.O. Box 813
Leoti, Kansas 67861
(316) 375-4904

First, I would like to thank this committee for allowing me the opportunity to share some of my feelings on the Kansas Ethanol Program. I am Duane Berning and live in Leoti, which is located in the West Central part of the State. About 10 years ago, my family and I decided to diversify our operations somewhat by investing in an ethanol plant. We have owned and operated an ethanol plant in Leoti since 1981. This particular plant is the smallest one in the State of Kansas at this time. Since 1981, I have noticed different phases that the ethanol industry has gone through. Initially, ethanol was marketed as a replacement for oil, due to the energy crisis of the '70's. Next, its importance seemed to be the remedy for our huge domestic grain surplus. Then, it went through an octane enhancer phase. And, currently it is being promoted for its overall environmental benefits. All of these issues are important, and always have been important, but it seems there have been different focal points through this span of time. These issues are complex issues that cannot be remedied overnight. For the last ten years, there has been heated debate on these issues and there will continue to be debate on them for years to come. Because of their paramount importance there has been a great deal of money spent on these problems at the federal level and in some cases at the state level, Kansas being one of those states. It is my hope and belief that in the long run the monies that have been spent, and that are being spent today will have a greatly enhanced return in the future. With properly enacted incentive programs the ultimate beneficiary of that return, I am convinced, will be the consumer. And that consumer is each and every one of us. For lack of a better description, the marketing phase that ethanol seems to be going through today,

A++ 3

Page Two

is the environmental issue which in my mind is the most important issue. The one common heritage that all mankind shares is the environment. It is passed down from generation to generation. At some point in history we will be held accountable for how we treated the environment. Although we will not be reading those history books, our children, grandchildren, and their grandchildren will know how we reacted to the environmental challenge being faced today. Since the start of the industrial revolution the quality of this environment has steadily declined. I feel today, any person with the ability to alter the trend line we have been on for a number of years, in a positive direction, is morally responsible to do just that. As law makers of the State of Kansas you have done an excellent job. Ethanol plants in the State of Kansas have an outstanding track record and quite frankly the State is partially responsible for that. I feel Kansas is doing their part in protecting the environment by supporting the ethanol industry. With your continued support Kansas will be recognized in the future for having done its part in protecting the environment by providing clean energy to the people of this nation. Thank you.

STAN LARSON, PRESIDENT
HIGH PLAINS CORPORATION
TESTIMONY BEFORE THE HOUSE TRANSPORTATION COMMITTEE
January 18, 1990

WORLD CONDITIONS

OUR WORLD AROUND US IS DRAMATICALLY CHANGING. VARIABLE WEATHER CONDITIONS THAT DRASTICALLY AFFECT CROP PRODUCTION ARE BECOMING INCREASINGLY VARIABLE; AND VERY DIFFICULT TO PREDICT. IN A GOOD YEAR THE WORLD'S EXCESS GRAIN PRODUCTION IS 150 MILLION TONS OF WHICH TWO-THIRDS IS IN THE U.S. - THESE FACTS COUPLED WITH ENVIRONMENTAL RESTRICTIONS AND PROBLEMS RELATED TO WATER USE, PESTICIDES AND SOIL EROSION PRODUCE A VERY SERIOUS FUTURE FOR THE AMERICAN FARMER. THE EXPORT MARKET IS SLOWING UP, DUE TO NOT ONLY SELF SUFFICIENCY ON THE PART OF THIRD WORLD NATIONS BUT SOME OF OUR FORMER CUSTOMERS ARE NOW ALSO EXPORTING, BELOW OUR COST OF PRODUCTION. WHEN THE WEATHER CONTRIBUTES TO A BUMPER CROP THE PRICES FALL ALONG WITH PROJECTED INCOME TO RURAL AMERICA, WHEN WEATHER CONDITIONS SUCH AS A DROUGHT OCCURS, PRICES CLIMB BUT CROP PRODUCTION DROPS AND FARMERS INCOME IS SERIOUSLY AFFECTED.

RELATING TO ETHANOL

I HAVE BEEN SETTING THE STAGE TO TELL YOU THAT ETHANOL PRODUCTION FROM CROPS SUCH AS MILO AND CORN AND OTHER CROPS HAS BEEN A VERY EFFECTIVE PROGRAM THAT IS NOW BEING SUPPORTED BY WELL KNOWN AGRICULTURAL EXPERTS.

DR. RUNGE, HEAD OF TEXAS TECH AGRICULTURE DEPARTMENT IS TOURING THE WORLD EXPOUNDING THE BENEFITS OF A PROGRAM HE CALLS THE "SINK THEORY". HE SAYS ETHANOL NOT ONLY CLEANS THE AIR WE BREATHE VERY EFFICIENTLY BUT ALSO IS ONE OF THE BETTER ALTERNATIVE FUELS AVAILABLE. BUT THE PRIORITY OF HIS PROGRAM IS TO ELIMINATE THE DUMPING OF EXCESS CROPS IN THE WORLD MARKET AT SUBSIDIZED PRICES THUS INCREASING OUR DEFICIT, AND PAYING OUR FARMERS NOT TO PRODUCE. THE

PAGE TWO

ALTERNATIVE WOULD BE TO HAVE ALL OUT PRODUCTION AND PUT EXCESS PRODUCTION IN THE GOOD CLIMATE YEARS INTO THE PRODUCTION OF ETHANOL AND ALL AT A PRICE OF PRODUCTION COSTS. DURING THE LOW PRODUCTION YEARS THE USE OF GRAIN IN THE PRODUCTION OF ETHANOL WOULD BE REDUCED TO A LEVEL THAT STORED GRAIN THAT WAS ACCUMULATED FROM YEARS OF EXCESS PRODUCTION.

EFFECT ON KANSAS

RURAL AMERICA'S LOCAL ECONOMY WOULD BE BENEFIT IN EVERY ECONOMICALLY. THE WORLD'S ATMOSPHERE WOULD BE BETTER PROTECTED SUCH AS THE OZONE LAYER AND AVOIDING THE GREEN HOUSE AFFECT.

WHERE DOES KANSAS FIT INTO THIS SCHEME? OUR KANSAS ETHANOL ASSOCIATION'S PLANTS HAVE DEVELOPED PROBABLY THE LOWEST COST FOR PLANT CONSTRUCTION IN THE COUNTRY. BECAUSE WE ARE ONE OF THE FARTHEST WEST STATES WITH LOCAL PRODUCTION OF FEED STOCKS FOR PRODUCTION OF ETHANOL WE ARE GEOGRAPHICALLY SITUATED FOR A VERY COMPETITIVE EXPANSION OF OUR STATES PRODUCTION CAPACITY.

ENVIRONMENTAL CONSIDERATIONS

THE PRESENT CONGRESS IS BECOMING KNOWN AS THE "CLEAN AIR" SESSION, EPA IS ON THE MOVE TO RESTRICT MOTOR FUELS THAT DO NOT REDUCE POLLUTION. OUR INDUSTRY IS ON THE BRINK OF AN EXPLOSIVE INCREASE OF ETHANOL DEMAND. OUR KANSAS GOVERNOR MENTIONED IN HIS STATE OF THE STATE ADDRESS THE SUGGESTION THAT THE USE OF ETHANOL BY STATE GOVERNMENT VEHICLES. IN 1979 OUR INDUSTRY PRODUCED 80 MILLION GALLONS. IN 1989 THE PRODUCTION WAS ONE BILLION GALLONS AND THEREFORE 10 BILLION GALLS OF BLENDED GASOLINE WERE SOLD. SOME INDUSTRY MEMBERS NOW PREDICT A DOUBLING OR TRIPLING OF PRODUCTION WITHIN THE NEXT FEW YEARS. IT IS IMPORTANT THAT KANSAS PARTICIPATE IN THIS CLEAN AIR PROGRAM AND REAP THE ECONOMIC BENEFITS THAT WILL OCCUR. SO THEREFORE I URGE YOU TO FAVORABLY ENDORSE THE EXTENSION OF THE CURRENT PRODUCTION INCENTIVE WHICH WILL RESULT IN NEW PRODUCTION FACILITIES

PAGE THREE

BEING BUILT HERE IN KANSAS INSTEAD OF IN OTHER STATES WHERE THE SAME OR BETTER STATE INCENTIVES ARE IN PLACE.

BENEFITS TO KANSAS

WE AS AN INDUSTRY HAVE COME A LONG WAY IN BECOMING VERY COMPETITIVE AND HAVE A WAY TO GO BUT BECAUSE THE ECONOMIC BENEFITS TO THE STATE OF KANSAS FAR EXCEED THE COST OF THE PROGRAM, IT IS TO THE BENEFIT OF ALL OF US TO CONTINUE THE PRODUCTION INCENTIVE LAW TO THE YEAR 2000. THANK YOU.



STATE OF THE STATE MESSAGE

MIKE HAYDEN, GOVERNOR
JANUARY 8, 1990

Ad Astra...

BYRON SMITH

Kansas will take a leading role to promote the use of clean fuels in the Midwest.

maintained and, if possible, enhanced.

A key for agriculture will be new technology, and I have urged support of research and extension funding.

The 1985 Food Security Act was landmark legislation that was generally well received by Kansans. The next Farm Bill should build on this success. I pledge my effort in this regard.

Pesticides

Another area of environmental concern involves the dangerous or improper use of pesticides, both in urban and rural areas of our state.

To address this problem, last year I authorized additional resources for the Board of Agriculture to enforce Pesticide Use laws. As a result of that action, the Board now has civil penalty authority to levy fines against pesticide offenders.

In addition, the 1989 Legislature approved increased field enforcement staff and a special Board of Agriculture prosecuting attorney to enforce pesticide laws. To date, the special attorney has already taken action in 15 cases of alleged pesticide misuse.

I recommend that these efforts be continued at their present level of funding, for they represent another weapon in an escalating warfare against environmental degradation.

I strongly support the toughest possible enforcement of our pesticide use laws, for without such protection we risk grave and often irreversible damage to our groundwater and our general environment.

Clean Fuels

The third area of an environmentally sound agenda concerns the use of clean fuels. Examples of clean fuels include: natural gas, methanol, ethanol (alcohol), and soybean oil. The use of clean fuels in Kansas would be enhanced by:

Clean Fuels in Mass Transit.

The US Transportation Depart-

ment, through the Urban Mass Transit Authority (UMTA), offers 80-20 matching funds to initiate the use of clean fuels in mass transit. I have asked the Board of Agriculture to work with the Topeka Transit Authority to secure federal funding for a pilot project to use ethanol and diesel to fuel several buses in its fleet.

Flex-fuel Demonstration Vehicles.

I plan to explore with other governors and the major auto manufacturers the leasing of two flex-fuel vehicles for state use. Such vehicles use either gasoline or clean fuels. California, for example, has available 400 flex-fuel cars. If Kansas were to lease two flex-fuel vehicles they could be used to promote the use of clean fuels.

A Consortium of States.

Kansas will take a leading role to promote the use of clean fuels in the Midwest. I will establish a consortium of midwestern states to contact the major auto manufacturers to explore the use of flex-fuel cars for state fleets.

Ethanol in State Vehicles.

I will reissue an executive order encouraging the use of ethanol in all state vehicles. An executive order to this effect was repealed under the Carlin Administration.

A Tax Credit for Clean Fuels.

I will explore a tax credit for businesses and individuals who use clean fuels. Such a tax credit could be implemented in conjunction with an extension of the existing tax rebate for ethanol production. In the near future I also encourage development of plans to increase market demand for ethanol via the tax system, rather than subsidizing production.

Use of Other Alternative Fuels.

In addition to ethanol, other agri-

BMW . . . (Continued from p4)

In other changes effective in the 1990 model year, Sterling (Austin Rover Cars) now states that using 10% ethanol and up to 5% methanol (with cosolvents) are acceptable fuels, a change in its position from 1989. This year, Daihatsu America also approves the same fuel requirements for which its owner's manual was silent in 1989.

The following is a summary of 1990 fuel requirements:

1990 AUTOMOBILE MANUFACTURERS' FUEL REQUIREMENTS

Manufacturer	Ethanol (10% blends)	MTBE	Methanol (with co-solvents)	(R+M/2) Octane Rating
Acura America	acceptable	n/a	up to 5% acceptable	86
Alfa Romeo	acceptable	n/a	up to 5% acceptable	86/90
American Honda	acceptable	n/a	up to 5% acceptable	86
American Isuzu	acceptable	n/a	up to 5% acceptable	87
Audi Corp. ¹	acceptable ²	n/a	acceptable ²	87
Austin Rover Cars	acceptable	n/a	up to 5% acceptable	86
BMW of N.A. ¹	acceptable	up to 15%	up to 3% acceptable	87/91 (M series)
Chrysler/Jeep/Eagle	acceptable	up to 15%	"do not use"	87/91 ³
Daihatsu America	acceptable	n/a	up to 5% acceptable	87
Ford Motor Co.	acceptable	acceptable	up to 5% acceptable	87
General Motors	acceptable ⁴	up to 15% ⁴	up to 5% acceptable	87
Hyundai Motors	acceptable	n/a	"do not use"	87
Jaguar Cars, Inc.	acceptable	up to 15%	up to 3% acceptable	91
Mercedes-Benz	acceptable	up to 15%	up to 3% acceptable	87/91
Mitsubishi Motors	acceptable	n/a	"do not use"	87
Nissan Motor Corp.	acceptable	up to 15%	up to 5% acceptable	87/91
Peugeot Motors	acceptable	up to 10%	up to 3% acceptable	87/91 (405 MI16)
Porsche	acceptable	n/a	"do not use"	90
Rolls-Royce/Bentley	acceptable	up to 15%	up to 3% acceptable	91
Saab-Scania	acceptable	up to 11%	up to 5% acceptable	87/90.5 ³
Subaru of America	acceptable	up to 15%	up to 5% acceptable	87
Suzuki of America	acceptable	n/a	up to 5% acceptable	87
Toyo Kogyo (Mazda)	acceptable	n/a	"do not use"	87
Toyota Motor Co.	acceptable	n/a	up to 5% acceptable	87
Volkswagen ¹	acceptable ²	n/a	acceptable ²	87
Volvo of America	acceptable	up to 15%	"do not use"	87/91
Yugo America	acceptable	n/a	"not approved"	87

¹ 1991 fuel requirements to be modified as follows:

BMW: 10% ethanol blends and any other oxygenates up to 2.8% (wt.) oxygen (15% MTBE or 3% methanol plus cosolvents) acceptable. Statement is retroactive to all model years.

Volkswagen/Audi: Oxygenates fuels are "recommended" if they meet minimum octane requirements and the following conditions: 10% ethanol blends "may be used," fuel blends containing 5% methanol with cosolvents "may be suitable," and "unleaded gasoline containing 15% or less MTBE may be used."

² Not recommended.

³ Turbocharged engines.

⁴ Recommended for air quality benefits.

(Source: Information Resources, Inc.)

FARMTALK

USPS 019910

75 cents
Vol. 18, No. 50

Weekly Agricultural Newspaper Serving
Eastern Kansas, Western Missouri, Northeast Oklahoma And Northwest Arkansas

60 pages
January 17, 1988

Ethanol blended fuel helps winter car starts

An ethanol blended fuel in your car this winter can actually save you money, both at the station and repair shop, while lowering carbon monoxide emissions.

Ethanol, a corn alcohol, absorbs excess moisture in automobile fuel lines, preventing the lines from freezing and cracking in cold temperatures.

"A can of gas line antifreeze at \$1.50 would add 10

cents per gallon to the pump price of 15 a gallon purchase," says Randy Cruise, National Corn Growers Association (NCGA) vice president of market development. "However, a 15 gallon purchase of ethanol blended fuel would provide the same results with higher octane for only the pump price."

Motor vehicles produce about two-thirds of all car-

bon monoxide and about 40 percent of all ozone pollution. Ethanol boosts octane levels and helps lower the carbon monoxide emissions from most cars by more than 25 percent. In 1989, more than 100 American cities exceeded federal clean air standards. About 150 million Americans are subjected to unhealthy levels of air pollution every year.

Cruise notes filling up

with ethanol also strengthens our investment in an American renewable resource. Through the years, more than five billion gallons of pure grain ethanol have been produced. Average corn prices have risen 15 to 20 cents per bushel as a direct result of ethanol production. More than 340 million bushels of corn were used to produce 850 million gallons of ethanol in 1988. □

JAMP McClure

United States Senate

WASHINGTON, DC 20510

January 9, 1990

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

We want to congratulate you on the excellent progress you have made in the past year in advancing the use of alternative fuels. It has been an exciting first year!

As you consider your remarks for the State of the Union address, we hope you will make mention of the gains in this area. We are particularly pleased with the progress your administration has made in supporting the use of ethanol and the commercialization of Ethyl Tertiary Butyl Ether (ETBE). Your remarks in Lincoln, Nebraska after the announcement of your clean air proposal are particularly heartening to ethanol producers.

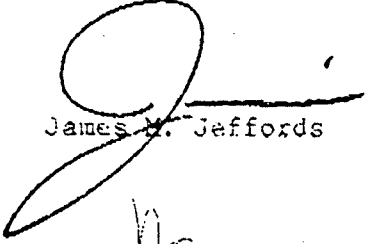
We urge you to incorporate similar remarks concerning ethanol and the new markets it can provide for America's farmers into your State of the Union address. Not only will farmers benefit from this new market but our reliance on foreign energy sources will be lessened, our air will be cleaner and the farmers' reliance on government subsidies will be reduced.

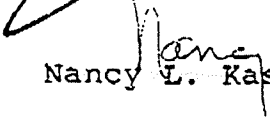
Thank you again for your past support for ethanol and ETBE. We look forward to working with you in the coming year.

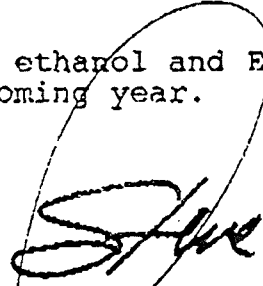
Sincerely,


James A. McClure

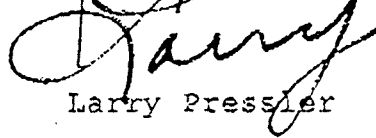

Charles Grassley


James H. Jeffords


Nancy L. Kassebaum


Steve Symms


Rudy Boschwitz


Larry Pressler


Bob Dole

4-8

N. Kantola

COMMITTEE OF ... KANSAS FARM ORGANIZATIONS

Nancy E. Kantola
Legislative Agent
3604 Skyline Parkway
Topeka, KS 66614
(913) 273-5340

STATEMENT OF POSITION OF THE
COMMITTEE OF KANSAS FARM ORGANIZATIONS

RE: HB 2585

Transportation Committee

January 18, 1990

Mr. Chairman, Members of the Committee: I am Nancy Kantola, Legislative Agent for the Committee of Kansas Farm Organizations. The Committee, or CKFO, is comprised of 22 of the major farm organizations and agribusiness associations in the State. Our membership list is attached.

The members unanimously support extending the agricultural ethyl alcohol incentive program. It is providing a market for Kansas grown corn and is making a contribution toward our environment and our economy.

You've heard the latest figures from the industry representatives. I am pleased to see that the use of ethanol and the economical production of it have increased the amount of corn used from 4 million bushel in 1978 to 430 million bushels this past year.

The Committee of Kansas Farm Organizations urges your support to keep ethanol production alive and expanding in Kansas through a continuation of the incentive. Thank you.

MEMBERSHIP LIST

COMMITTEE OF KANSAS FARM ORGANIZATIONS

1990

KANSAS MILK PRODUCERS
KANSAS AGRI-WOMEN
KANSAS ASSOCIATION OF SOIL CONSERVATION DISTRICTS
KANSAS ASSOCIATION OF WHEAT GROWERS
KANSAS COOPERATIVE COUNCIL
KANSAS CORN GROWERS ASSOCIATION
KANSAS ELECTRIC COOPERATIVES
KANSAS ETHANOL ASSOCIATION
KANSAS FARM BUREAU
KANSAS FERTILIZER AND CHEMICAL ASSOCIATION
KANSAS GRAIN AND FEED DEALERS ASSOCIATION
KANSAS LIVESTOCK ASSOCIATION
KANSAS MEAT PROCESSORS ASSOCIATION
KANSAS PORK PRODUCERS COUNCIL
KANSAS RURAL WATER DISTRICTS ASSOCIATION
KANSAS SEED DEALERS ASSOCIATION
KANSAS SOYBEAN ASSOCIATION
KANSAS STATE GRANGE
KANSAS VETERINARY MEDICAL ASSOCIATION
KANSAS WATER WELL ASSOCIATION
MID-AMERICA DAIRYMEN
WESTERN RETAIL IMPLEMENT & HARDWARE ASSOCIATION



PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON TRANSPORTATION

RE: H.B. 2585 - The Agricultural Ethyl Alcohol Incentive Program

January 18, 1990
Topeka, Kansas

Presented by:
Paul E. Fleener, Director
Public Affairs Division
Kansas Farm Bureau

Mr. Chairman and Members of the Committee:

My name is Paul E. Fleener. I am the Director of Public Affairs for Kansas Farm Bureau. We appreciate the opportunity to appear before your Committee today. We come as proponents of H.B. 2585, a bill which carries out the recommendation of the Special Committee on Assessment and Taxation concerning an extension of the expiration date for the Ethyl Alcohol Incentive Program embodied in K.S.A. 79-34,160 through 79-34,164.

Mr. Chairman and Members of the Committee, representing agricultural producers as we do, we have long supported the ethanol fuel tax exemption, and when that was phased out we gave our support to the incentive program for the production of agricultural ethyl alcohol. We have two policy positions (attached to our testimony) which speak to the support farmers and ranchers have given to ethanol production and to the exemption from motor fuel tax for ethanol, and for the Agricultural Ethyl Alcohol Incentive Program. These two policies are entitled: Ethanol Production and Highway Development and Funding.

We want to share one paragraph from our Highway Development policy position at this time:

We believe the federal government should provide a tax credit equal to the federal motor fuel tax for ethanol used in motor fuel. We also believe Kansas should continue, past the July 1, 1990 expiration date and until a federal tax credit program is in effect, the 20 cents per gallon of agricultural ethyl alcohol incentive aid to Kansas ethanol producers.

We welcome the opportunity to make these brief comments to you in support of H.B. 2585. We welcome the support the State Board of Agriculture and the Administration have given to this proposal. The incentive program was first adopted in 1987. It is due to expire July 1 of this year. H.B. 2585 would extend that expiration to July 1, 2000. We support this bill.

Thank you again for the opportunity to appear.

Highway Development and Funding

We believe upgrading and improving existing roads and highways is preferable to building additional free-ways, limited access highways, toll roads or turnpikes.

We urge that efficiencies be achieved in the operation of the Kansas Department of Transportation and that assurance be provided to protect against misuse of funds through bid-rigging or any other fraud.

We support the concept of highway users paying, through gallonage taxes and vehicle registration fees, for the construction and maintenance of highways, roads and bridges.

We believe the federal government should provide a tax credit equal to the federal motor fuel tax for ethanol used in motor fuel. We also believe Kansas should continue, past the July 1, 1990 expiration date and until a federal tax credit program is in effect, the 20 cents per gallon of agricultural ethyl alcohol incentive paid to Kansas ethanol producers.

Toll road and turnpike construction in Kansas should not be contemplated unless a feasibility study on any such project shows the toll road or turnpike will pay its own way.

We are opposed to the use of State General Fund revenue to guarantee toll road or turnpike bonds, or to provide for highway construction or maintenance.

Highway design and planning should avoid, where feasible, diagonal routing. Diagonal cuts are most disruptive to agricultural operations.

Ethanol Production

Ethanol production has a promising future for grain consumption and grain pricing. We strongly support ethanol production and encourage:

1. Establishment of research projects on wet stillage feeding and feed trials, as well as utilization of other by-products of the ethanol production process;
2. Consumer promotion and education concerning ethanol use;
3. Utilization of ethanol fuels by farmers and other consumers;
4. Suppliers to make ethanol enhanced fuels available to customers; and
5. Promotion of ethanol as an emissions reducing additive in urban areas where air quality is a concern.

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TESTIMONY

18 January 1990

Jere White
Executive Director
Kansas Corn Growers Association
PO Box 446
Garnett, KS 66032
913-448-6922

I would like to thank the members of this committee for the opportunity to represent the corn growers of the State of Kansas. The issue of keeping the ethanol industry alive in Kansas is one that demands our participation. And make no bones about it, that industry's life in this State will be largely affected by what happens on this issue, the Ethyl Alcohol Producers Incentive Fund.

The Kansas Corn Growers Association would like to make sure that everyone understands that ethanol is certainly a value-added agricultural product that benefits not only farmers, but all segments of our Kansas economy.

The State of Kansas has a long record of support for the ethanol industry. Whether that support in the past was support over energy concerns, economic development, or to help create additional markets for Kansas grain, I do not know. I do know that the support was needed and continues to be needed today if this industry is to have a chance to prosper in the future. And what a future ethanol can have if

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given the chance.

Ethyl tertiary butyl ether, or ETBE, an ether product made from ethanol and isobutylene, along with the traditional blended ethanol fuels will undoubtedly play a major role in energy policies of this new decade. ETBE and Kansas might well be a marriage in the future. We have a ready supply of isobutylene as well as grain production to support a vastly expanded ethanol industry. In order for this to occur, we need to make sure that our current ethanol producers are around when the opportunity presents itself. I submit that the proposed bill would go a long way in doing just that.

Energy and the environment are buzzwords no matter where you go these days. There is no fuel available today that offers more in terms of air quality than ethanol. While other alternative fuels might partially address clean air concerns, only ethanol can address energy independence and a strong rural America. A simple 10% blend of ethanol and gasoline can reduce carbon monoxide emissions by 25 to 30%. Ethanol is a renewable resource that we can continue to depend on for the foreseeable future. I enclose a copy of a local newspaper story concerning a possible project in Topeka using ethanol in mass transit busses to reduce the

pollution discharged into the air. As we see more of this type of activity we should see this industry come into it's own and not require addittional support from states or from the federal level. I can assure you that probably no one would want this to occur more than the ethanol producers themselves.

It is estimated that ethanol production adds fifteen to twenty cents per bushel to the price of a bushel of corn. That is at least fifteen dollars per acre in Kansas. There is no doubt why we remain committed to this industry. We believe there is no doubt that our State should remain committed as well. I would be happy to answer any questions you might have. Thank you.

TMTA to test using ethanol

By FREDRICK JOHNSON
Capital-journal staff writer

Ethanol distilled from Kansas-grown corn could become an important fuel source for Topeka Metropolitan Transit Authority buses.

The authority's board of directors voted unanimously Tuesday afternoon to instruct general manager Craig Cole and his staff to work with representatives of the Kansas State Board of Agriculture and Kansas Corn Growers Association to design a program to test the feasibility of burning an ethanol-diesel fuel mixture in buses.

Kansas Secretary of Agriculture Sam Brownback, Gregory Krissek of the state Board of Agriculture and representatives of the Kansas Corn Producers Association and National Corn Producers Association attended TMTA's monthly meeting to promote the use of ethanol as an alternative fuel for mass transit systems.

The transit authority has developed a growing interest in alternative fuels because the Environmental Protection Agency plans to tighten

emission standards for diesel-powered engines involved in mass transit as of Jan. 1, 1991.

After that date, Cole said, any new diesel engine purchased for mass transit must meet more stringent guidelines on "particulate" emissions, guidelines that existing diesel engines burning straight diesel fuel cannot meet.

"Mass transit is being put under the new standards even before the trucking industry, which has until 1994 before it must face the new guidelines," Cole said.

Because the new emission standards will not be applied retroactively to engines already in service, they present no immediate problems for TMTA's bus fleet on fixed routes, Cole said. The authority's lift buses for the handicapped, however, are due for engine replacements sometime within the next two years and, depending upon the timing, those engines might be required to meet the new standards.

Diesel engines burning ethanol, methanol or compressed natural gas can meet the tougher emission stan-

dards, and TMTA officials think an ethanol-diesel mixture might be the safest and least expensive of the alternatives.

Brownback told TMTA officials that there were four plants in Kansas now producing ethanol and that the cost compared favorably to that of diesel fuel.

A representative of the National Corn Growers Association said an experiment conducted by the Des Moines, Iowa, mass transit system with an ethanol-diesel mixture had demonstrated the success of an "aspiration" system that bled ethanol into a diesel engine's air intake.

There was a dramatic reduction in particulate emissions, he said, and the use of diesel fuel was reduced by 20 percent.

The diesel and ethanol must be carried in separate tanks, however, and the cost of converting some of Topeka's buses to the system for a demonstration project was estimated at \$7,500 per vehicle.

Cole said it would take three to six months to draft a test program for the board's consideration.



Kansas Association Of Wheat Growers

"ONE STRONG VOICE FOR WHEAT"

TESTIMONY

House Committee on Transportation

Chairman: Representative Rex Crowell

HB 2585

Submitted by Howard W. Tice - Executive Director

The Kansas Association of Wheat Growers is strongly in favor of HB 2585. The delegates to our annual convention this past December passed two resolutions which apply to this bill. The first recommends increasing the amount of ethanol fuel made from farm commodities and encourages the use of wheat in ethanol production. The second supports tax incentives which are necessary to keep this fledgling industry viable, until more inexpensive production methods can be developed.

The productive capability of our state's farmers far exceeds domestic demand. Export markets are not the entire answer, due to the increasing competition from other producer nations. Also, as third world economies and agricultural industries improve, they will decrease their dependence on imported food and livestock feed.

At the same time, our nation's dependence on fossil fuels, and particularly foreign oil, must be decreased. We are also faced with major air pollution problems caused by automobile exhaust fumes. The people of this nation are extremely unlikely to abandon their cars, so cleaner burning fuels are needed. Ethanol is the best answer to that need.

Methyl alcohol is being pushed by the oil industry, because it is a petroleum product. It may help the emissions problem, but it won't lessen our dependence on foreign oil, or protect our own domestic supplies for future use. In short, oil is a non-renewable resource.

Ethanol is a renewable resource that provides cleaner burning fuel, and cleaner, longer lasting engines. It also provides jobs in its production industry, and an alternative market for agricultural commodities.

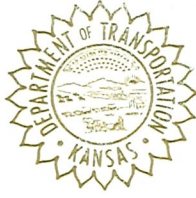
Damaged wheat, corn and milo can also be used in ethanol production, with the by-product of a high protein livestock feed. Those farmers who suffered sprout damage from the untimely rains during last year's wheat harvest would certainly have welcomed an expanded ethanol industry that could have provided them with a market for their sample grade grain.

A healthy ethanol industry can help keep Kansas' agricultural industry healthy as well. It can help keep farmers in business, which also provides jobs in agriculture's support industry.

In short, ethanol production is good for Kansas and for Kansas Agriculture. We wholeheartedly support passage of HB 2585.

Attach. 8

STATE OF KANSAS



KANSAS DEPARTMENT OF TRANSPORTATION

*Docking State Office Building
Topeka 66612-1568
(913) 296-3566*

Horace B. Edwards
Secretary of Transportation

January 18, 1990

Mike Hayden
Governor of Kansas

MEMORANDUM TO: HOUSE TRANSPORTATION COMMITTEE

FROM: KANSAS DEPARTMENT OF TRANSPORTATION

REGARDING: Kansas Qualified Agriculture
Ethyl Alcohol Producers
Incentive Fund (HB 2585)

CHAIRMAN AND MEMBERS OF THE COMMITTEE:

The provisions of House Bill 2585 would continue funding of the Kansas Qualified Agriculture Ethyl Alcohol Producers Incentive Program from FY 1991 through FY 2000. The Program which was initiated in FY 1988 replaced the motor fuel tax differential on gasoline containing 10% or more agricultural ethyl alcohol and was set to sunset on July 1, 1990.

The Incentive Program is funded by diverting up to \$625,000 per quarter for a total of \$2,500,000 per year from the Motor Fuel Tax

Attach. 9

Collections. The impact of using motor fuel taxes for the incentive is distributed on an annual basis among three funds as follows:

	<u>FY 1991</u>
State Highway Fund	\$1,213,800
State Freeway Fund	273,700
Special City & County Highway Fund	<u>1,012,500</u>
	\$2,500,000

The above computation does not include interest that the agency is estimated to earn on the funds until such funds are needed for the Comprehensive Highway Program.

In reviewing the financial projections used to develop the Comprehensive Highway Program, an extension of the Incentive Program would reduce the projected funds available for the Comprehensive Highway Program by \$29,229,000 for the period FY 1991 to FY 2000. Previous Agency estimates assumed that the Incentive Program would sunset in FY 1990.

The Agency trusts that the above information will be helpful in evaluating the decision to continue the funding of the Ethyl Alcohol Producers Incentive Program.

The Secretary maintains a neutral position on this issue.

THE KANSAS CONTRACTORS ASSOCIATION, INC.



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TESTIMONY

BY THE

KANSAS CONTRACTORS ASSOCIATION

Before the House Transportation Committee

Regarding House Bill 2585; Extending the Expiration Date

For the Agricultural Ethyl Alcohol Incentive Program

January 18, 1990

DIRECTORS

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Great Bend, Kansas
CHARLES STRYKER
Topeka, Kansas
WAYNE VAN METER
Kansas City, Missouri
ROBERT WALSHIRE
Topeka, Kansas

Mr. Chairman, and members of the House Transportation Committee.

Thank you for the opportunity to appear before you and provide some comments on House Bill 2585; which provides for an extension of state subsidies provided to Kansas ethanol producers.

My name is Ed DeSoignie. I am the Public Affairs Director of the Kansas Contractors Association. Our Association represents more than 300 heavy, highway and municipal utility contractor and associate member firms in the Kansas construction industry.

Background

The Agricultural Ethyl Alcohol program (K.S.A. 79-34,160 et. seq.) was enacted by the 1987 Legislature as a means of paying incentives directly to qualified Kansas producers of ethyl alcohol. (One of the uses of ethyl alcohol is in gasohol which is a mixture of gasoline and ethyl alcohol, usually in a 90 to 10 ratio of gas to alcohol.) This program replaced earlier legislative policy, begun in 1979, of taxing ethyl alcohol blended fuels at a lesser rate than regular motor fuels. The intent behind this policy change was to provide

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the incentives solely to Kansas-based producers. During the 1979 to 1987 period, the tax differential between gasoline and ethyl alcohol blended fuels (gasohol) was adjusted by the Legislature in 1983, 1985 and finally 1987.

The present program provides \$2.5 million per year from motor fuel tax receipts for direct payments to Kansas qualified producers. The payment program is set to expire on July 1, 1990.

From Fiscal Year 1980 through Fiscal Year 1990, the loss of opportunity in revenues to the State has been approximately \$28.6 million and to local units of government \$18.8 million, for a combined total of \$47.4 million. House Bill 2585 extends the expiration date of the program to July 1, 2000 at an additional loss of \$25 million in highway revenues to State and local governments.

1989 Comprehensive Highway Program

The 1989 Legislature enacted a landmark piece of legislation in House Bill 2014. The legislation which was designed by the legislature, will be the largest public works improvement program in our state's history. The program provides for substantial maintenance, major modifications and new construction of our state's roads and bridges to arrest the backlog in needed work.

The funding sources in House Bill 2014 were carefully tuned to produce the necessary revenue stream for the desired level of work. Revenue estimates prepared by the Kansas Department of Transportation assumed the Agricultural Ethyl Alcohol program would sunset on July 1, 1990 as provided in existing law (K.S.A. 79-34,164). Extension of the program beyond July 1, 1990 would result in a loss of \$2.5 million per year to the state and local units of government. This would require the KDOT to adjust revenue estimates downwards for the Comprehensive Highway Program.

Extending the Subsidy-Issues

As mentioned previously, House Bill 2585 extends the existing ethyl alcohol program to the year 2000. As also mentioned previously, the legislature

has invested more than \$47 million in the ethyl alcohol industry. The Legislature is being asked to invest an additional \$25 million which would bring its total investment to more than \$72 million. In light of these sums which have been provided to the industry:

1. What has the \$47 million yielded in alcohol plant construction or expansions, new jobs created, income taxes, sales taxes, and property taxes?
2. Using the data on (1) above, how will an additional \$25 million increase plant construction or expansions; how many additional jobs will be created; what are the estimated increases in payrolls; estimated increases in income tax, sales tax and property taxes?
3. What will be the true impact of diverting these revenues from State and local units highway programs? What is the cost of deferring maintenance and construction projects? What are the effects of this loss on construction employment, sales taxes and payroll taxes?

Mr. Chairman and members of the Committee, we respectfully ask for your consideration of the problems that we see with continuing the present ethyl alcohol program. The Kansas Contractors Association is opposed to House Bill 2585 because it diverts motor fuel tax revenues dedicated to the Comprehensive Highway Program. We urge you to keep intact funding of the Comprehensive Highway Program.

Thank you for your consideration of these comments. This concludes my prepared remarks.