

Approved _____

4-5-90
Date

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES

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

9:02 a.m./~~xxx~~ on March 27, 19 90 in room 254-E of the Capitol.

All members were present ~~xxxxx~~.

Committee staff present:

Ben Barrett, Legislative Research Department
Hank Avila, Legislative Research Department
Bruce Kinzie, Revisor of Statutes
Louise Cunningham, Committee Secretary

Conferees appearing before the committee:

Rep. Delbert Gross
John Bottenberg, Kansas Ethanol Association
Howard Tice, Wheat Growers Association
Nancy Kantola, Committee of Kansas Farm Organizations
Greg Krissek, Research Analyst, Board of Agriculture
Jere White, Kansas Corn Growers Association
Paul Fleenor, Kansas Farm Bureau
Pam Somerville, Department of Transportation
Ed DeSoignie, Kansas Contractors Association, Inc.

Hearing and Action on H.B. 2735 - Providing 15-day trip permit.

Rep. Gross said this bill was introduced at the request of a dealer of large trucks. When a consumer comes in to buy a large vehicle he wants to try it out before purchasing. You can now buy a 72 hour permit but a large truck requires more time to be checked out.

A motion was made by Sen. Martin to recommend H.B. 2735 favorably for passage and that it be placed on the Consent Calendar. Motion was seconded by Sen. Hayden. Motion carried.

Hearing and Action on H.B.2585 - Extension of agricultural ethyl alcohol incentive program.

John Bottenberg requested support for the existing program for an additional three years. He spoke of the importance of this bill in providing stronger markets for Kansas grains. A copy of his statement is attached. (Attachment 1). He also submitted a letter from High Plains Corporation dated March 23, 1990 stating the benefits of using ethanol and its importance in stabilizing grain prices. A copy of the letter is attached (Attachment 2).

Howard Tice spoke in support of this bill and said damaged wheat, corn and milo can be used in ethanol production and a by-product was a high protein livestock feed. It is very important to the agricultural community. A copy of his statement is attached. (Attachment 3).

Nancy Kantola said her organization supports extending the incentive program for ethanol. A copy of her statement is attached. (Attachment 4).

Greg Krissek said the State Board of Agriculture supports all efforts to broaden and deepen markets and opportunities for renewable, agricultural commodities. They support this bill. A copy of his statement is attached. (Attachment 5).

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES

room 254-E Statehouse, at 9:02 a.m./~~p.m.~~ on March 27, 1990

Jere White said ethanol is important to energy and environment and the state should remain committed to it. A copy of his statement is attached. (Attachment 6).

Paul Fleenor spoke in favor of the bill. A copy of his statement is attached. (Attachment 7).

The Chairman said a Mr. Larson of High Plains Corporation had testified before this Committee in 1986 and said if they had one more year of subsidy they should be able to stand on their own. Why should they now be asking for an extension of the subsidy? Mr. Dave Vander Griend of High Plains said there had been a severe drought and a change in the economic conditions. They are just starting to pick up speed and consequently a subsidy is required from the state. They feel they need a few more years to recover lost ground. The Committee discussed the loss to the highway fund to maintain this subsidy. It was questioned whether this should be funded by the economic development program rather than taking it from the highway funds. Some felt there should be a clear signal that other sources of revenue should be sought.

Ed DeSoignie spoke in opposition to this bill but said they were less opposed to this than they had been to the original bill. Extension of this subsidy would cost \$2.5 million per year and would divert money from the highway funds. He suggested a tax credit program for ethanol production. A copy of his statement and proposed amendment is attached. (Attachment 8).

Pam Somerville submitted information on the cost of this program which would divert funds from the highway fund. A copy of her statement is attached. (Attachment 9).

A motion was made by Sen. Doyen to recommend H.B. 2585 favorably for passage. Motion was seconded by Sen. Francisco. Motion carried. Sen. Doyen will carry the bill.

A motion was made by Sen. Rock to adopt the Minutes of March 21 and 23, 1990. Motion was seconded by Sen. Sallee. Motion carried.

Meeting was adjourned at 10:00 a.m.

SENATE TRANSPORTATION AND UTILITIES COMMITTEE

Date 2-27-90 Place 254-E Time 9:02

GUEST LIST

NAME	ADDRESS	ORGANIZATION
P. MADELL		KCC
HOWARD TICE	Hatchinson	Ks. Assn of Wheat Growers
Nancy Kantola	Kantola	Comm. of Kansas Farm Organization
Whitney Dameron	Topeka	KS. Ethanol Association
John Bottenberg	Topeka	KS Ethanol Assn.
DAVE VANDER GRIEND	Wichita	High Plains Corp
Lere White	GARNETT	KS Corn Growers Assn.
GREG KRISSEK	Topeka	KS Board of Ag
Rep Del Ison	"	LEGISLATOR
AL Maxwell	"	KCC
Ed De Soignie	Topeka	Kansas Contractors Assoc.
AL GERSTNER	Topeka	KDOR
Tom Whitaker	Topeka	Kansas Motor Carriers Assn
Reed W Davis	✓	KDOT
GARY GRUFFERS	✓	KDOT
Pam Somerville	✓	KDOT

BO. TENBERG & ASSOCIATES

JOHN C. BOTTENBERG
President

702 Jayhawk Tower — 700 SW Jackson
Topeka, Kansas 66603
(913) 235-2324
FAX (913) 234-9660

March 27, 1990
Testimony
to
Senate Transportation Committee
HB 2585 (as amended)

Mr. Chairman and Members of the Committee:

I am John Bottenberg, representing the Kansas Ethanol Association.

I am here to ask for your support of HB 2585 as amended. This bill would extend the current Ethanol Producers Incentive Fund for an additional three years.

During the 1987 session the Kansas Producers requested the Legislature to change from an exemption at the pump to a direct producer subsidy. This change has lowered the cost to the state highway fund to a maximum of \$2.5 million dollars annually. Under the old exemption law the cost had exceeded \$10,000,000 at times.

During the 1989 interim, the Special Committee on Assessment and Taxation recommended an extension of the existing program for ten years. The House Transportation Committee amended House Bill 2585 to a three year extension.

There are four fuel alcohol producers in Kansas at this time. They are located in Atchison, Colwich, Garden City and Leoti. They have approximately 85 employees directly related to fuel alcohol production (not minimum wage jobs).

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It is estimated that fuel grade alcohol production adds 15 to 30 cents per bushel to the price of corn on the market.

Alcohol production provides a market for damaged or wet grain. Alcohol production within Kansas consumes approximately 6.5 million bushels of grain annually.

In recent years some of the producers have expanded into cattle and fish feeding. Using the by-products of alcohol production.

I have attached a copy of a map that shows what other states are doing to encourage fuel ethanol production.

Also attached is a copy of the Governors message recommending an extension of the existing program.

By acting favorably on HB 2585 as amended, the advantages to Kansas would be to:

1. Provide stronger markets for Kansas grains.
2. Create employment opportunities for Kansans.
3. Maintain and enhance the development of additional in-state production.
4. Create a cleaner environment for Kansans, both present and future generations.

This bill is truly an economic development proposal. If passed it would keep Kansas dollars in Kansas.

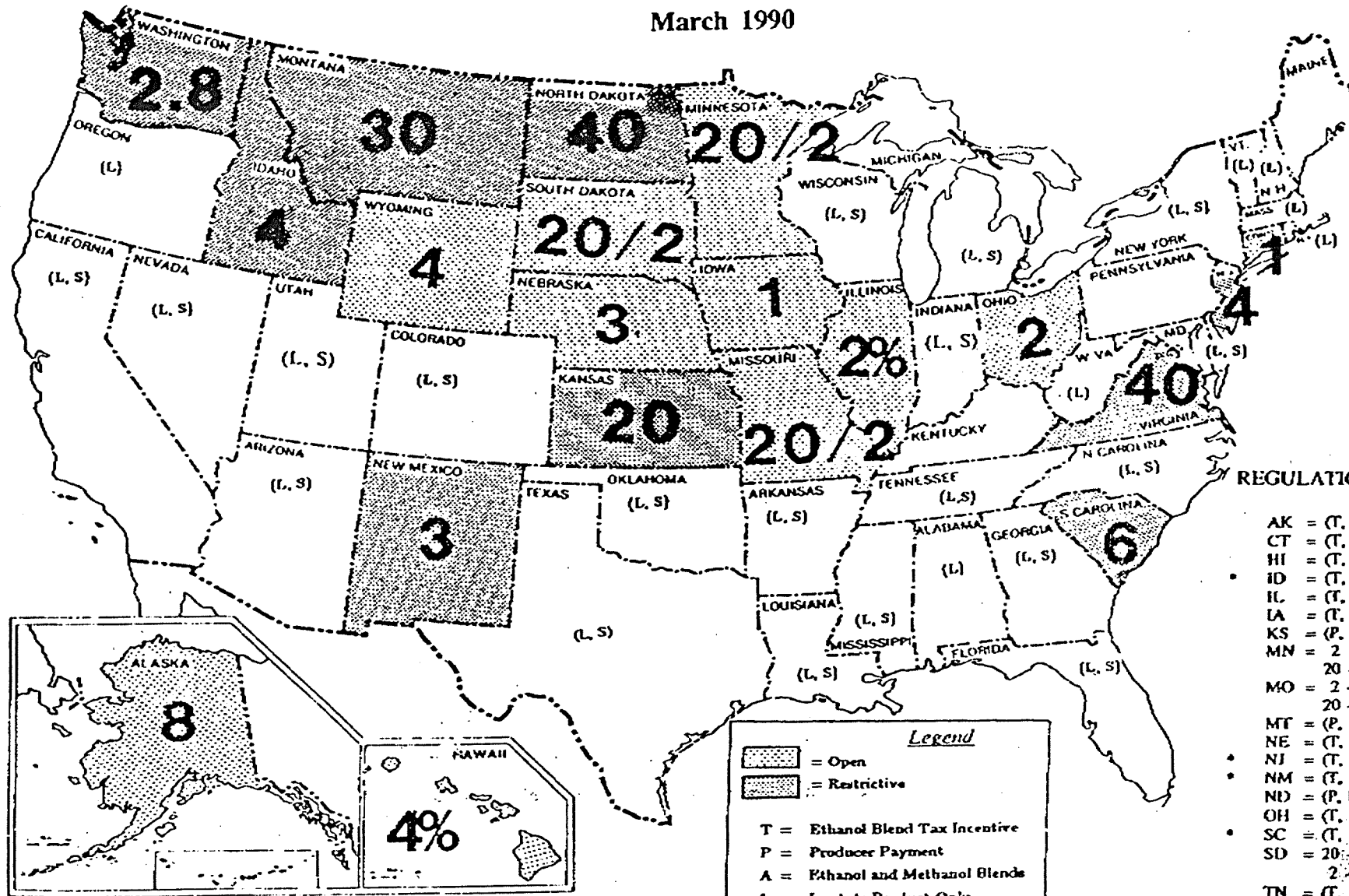
We thank you for your support in the past and would encourage you to act favorably on HB 2585 as amended.

Thank you. I would be pleased to answer any questions.

State Fuel Ethanol Incentives & Regulations

March 1990

ALCOHOL O'FLOOK
MARCH 1990
PAGE 4



REGULATIONS

- AK = (T, I)
- CT = (T, A, L, S)
- HI = (T, L, S)
- ID = (T, R, L, S)
- IL = (T, L, S)
- IA = (T, L, S)
- KS = (P, L, S)
- MN = 2 - (T, L)
- MO = 2 - (T, L, S)
- 20 - (P, I, L, S)
- 20 - (P, I, L, S)
- MT = (P, I, L, S)
- NE = (T, L, S)
- NJ = (T, I, L)
- NM = (T, I, S)
- ND = (P, I, L, S)
- OH = (T, L, S)
- SC = (T, R, L, S)
- SD = 20 - (P, I, L, S)
- 2 - (T, L)
- TN = (T, L, S)
- TX = (T, I, R, S)
- VA = (P, I, L, S)
- WA = (T, R, L, S)
- WY = (T, L, S)

Legend

- = Open
- = Restrictive

- T = Ethanol Blend Tax Incentive
- P = Producer Payment
- A = Ethanol and Methanol Blends
- I = In-state Product Only
- R = Reciprocal Incentive
- L = Pump Labeling
- S = Fuel Quality Specification

* Subject to review of reciprocity clause per U.S. Supreme Court Decision (*New Energy Co. of Indiana v. Limbach*)

MAR-22-90 THU 16:41 HIL

1-3



STATE OF THE STATE MESSAGE

MIKE HAYDEN, GOVERNOR
JANUARY 8, 1990

Ad Astra...

BYRON SHIFF

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-

High Plains Corporation
P.O. Box 427
Colwich, Kansas 67030
(316) 796-1234

March 23, 1990

John Bottenberg
700 S.W. Jackson, # 702
Topeka, KS 66603

Dear Mr. Bottenberg:

Kansas is losing both oil production and grain production and consequently there has been an exodus of people from the rural communities of Kansas. Some of these families are forced to leave the state in order to find employment. The impact of processing feed grain in Kansas to produce value added products is one that will produce long range advantages to the states economy that are required if farming is to return to profitability without limiting production. The following comments define some of the advantages of ethanol production in Kansas.

1. Stabilized Grain Prices - Our 10 million bushels of grain were processed into ethanol last year and a Congressional Research Study found that the national average increase in grain prices from ethanol production was 31 cents. This additional income goes directly back to the farmer. At 31 cents a bushel, the additional farm income just from ethanol production was \$3,100,000.
2. High Protein Distillers Dried Grain (DDG) - The DDG produced at an ethanol plant is continuing to increase in demand. The usage of DDG as a protein supplement for dairy cattle and feeder cattle had been proven to out perform all

 **HIGH PLAINS**

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other protein sources in conversion efficiency.

3. Ethanol - The clean burning characteristics of ethanol when added at 10% to gasoline reduces exhaust emissions by up to 30%. Although air quality problems have not become a problem in Kansas, the ability to produce this additive for sale and distribution to non-attainment areas is generating income to Kansas.
4. Employment - The Kansas employment for fuel alcohol production is approximately 80 people. This is an annual payroll of over \$2,000,000 that is spent entirely in Kansas.
5. Process Supplies - Ethanol production is a business that consumes a large percentage of local goods and services, such as, utilities, subcontractors and vendors. 30 cents process cost goes into every bushel of grain run through a fuel ethanol plant.

Summary. The ethanol industry has had a rocky start and due in part to negative advertising by major oil companies public acceptance had been affected. We are starting to see this black cloud break up as accurate documentation about ethanol blends reaches the public.

Kansas has surplus grain.

Kansas has surplus manpower.

Kansas needs economic development that utilizes these surpluses and converting them to value added products with high demand.

Sincerely,



Dave Vander Griend
V.P./Operations

Riding on Ethanol.

This homegrown premium gasoline additive boosts octane, eases starts and fights the smog problem.

Waving fields of grain power the implements Paul Heer uses to plant and harvest crops. The Jamestown, N.D., farmer has been using ethanol-enhanced fuel for three years and has noticed big improvements in engine performance. "My combine has so much more power that I can run it in a higher gear and I'm getting better fuel efficiency in my cars and trucks," he says.

Since switching to ethanol-enhanced fuel, Heer says engine run-on problems have disappeared, too.

But that's not all an ethanol-blend fuel can do. "Ethanol is good for your engine, your pocketbook, the environment and the U.S. balance of trade," says Tom Nelson, general manager, Cenex/Land O'Lakes Petroleum Planning and Finance. "It's the most economical, clean-burning gasoline additive available. And every major world automobile maker has approved the use of 10% ethanol in gasoline."

But despite automakers' endorsements and acceptance from consumers like Heer, a glut of misinformation about ethanol still exists.

Much of the information has failed to separate ethanol from the generic term "alcohol," confusing consumers about the safety and benefits of ethanol blends. Ethanol actually enhances gasoline quality in four ways:

Octane climbs three points

- When 10% ethanol is added to gasoline, octane levels climb an average of three points. This boosts regular gas from an octane of 87 up to 90, making it a premium gasoline. Higher octane levels eliminate engine pinging and run-on problems associated with lower octane fuels.

- Ethanol-enhanced fuel contains a double dose of detergent that cleans up the varnish-like deposits in a car's fuel system. Fuel injectors in particular have a low tolerance for any kind of gasoline impurities. One substance that contributes to plugged injectors is olefin, a waxy material similar to paraffin and found in gasoline. Ethanol-enhanced fuel keeps injectors free of olefin buildup.

- Vehicles powered with ethanol-enhanced fuel are easier to start in winter. Since ethanol is a water-free additive, it absorbs any moisture it comes in contact with and works much the same as gasoline antifreeze.

Fights smog

- Ethanol-enhanced fuel helps reduce carbon monoxide and hydrocarbon tail pipe emissions. Ethanol adds oxygen to fuel, making it burn more cleanly. A 10% blend of ethanol adds a 3.5% mixture of oxygen to gasoline. On older cars, that can cut carbon monoxide emissions by as much as 34%.

Ethanol's benefits aren't limited to technical performance, though.

This renewable resource lowers our dependence on foreign oil. A blend of 10% ethanol and 90% hydrocarbon fuel (gasoline) adds needed octane to the market and reduces U.S. crude oil imports. In 1988, ethanol displaced more than 21 million barrels of imported oil.

Raises corn price by 31¢

As a homegrown commodity, ethanol has made a significant dent in grain stockpiles. A Purdue University study found that the 240 million bushels of corn used by the ethanol industry saved U.S. taxpayers more than \$623 million in government farm program costs.

A recent Congressional Research Service (CRS) report concludes that the market price of corn would be between \$2.50 and \$2.70 per bushel during 1990-92 if ethanol accounted for 5% of our total motor fuels by 1992. That's 31¢ above the price that would otherwise prevail, according to CRS economists.

Ethanol makes sense at the gas pump, too. Under the current tax law, ethanol is exempt from 6¢ of the 9¢ federal excise tax on every gallon of gasoline. In 28 states, ethanol also receives additional tax breaks ranging from 2¢ to 4¢ a gallon. Motorists who fill up with an ethanol blend are getting a high-octane premium fuel at an average of 6¢ per gallon less than the cost of an all hydrocarbon premium unleaded. And in the process, they're protecting the environment and fueling the rural economy, too. ■



ON ETHANOL, & HOW IT'S GOING TO AFFECT YOUR CAR.

Q What exactly is ethanol?

A It's simply an alcohol product of fermented agriculture products such as barley, wheat, potatoes and corn.

Q Do American automakers approve the use of ethanol blended gas?

A Very definitely. That's all U.S. automakers and virtually all major foreign automakers approve its use under their warranties.

Q Is ethanol a new product?

A No. Henry Ford planned and designed the Model T to run on ethanol.

Q Does ethanol really increase your octane rating?

A Dramatically. By 3 points.

Q How much ethanol is in the gas I use?

A According to Federal Guidelines, 1 gallon of ethanol blended gasoline contains 10% ethanol and 90% gasoline.

Q Is it true that it will make your car start harder in the winter?

A Just the opposite. Because it absorbs moisture, ethanol actually prevents gas line freeze up.

Q Does that mean I don't need to buy special anti-freeze solvents to prevent gas line freeze?

A Not with ethanol in your gas.

Q Is the fouling of spark plugs an ethanol problem?

A You get fouled spark plugs from the lead in your gas, not the ethanol.

Q Do I have to do anything to my car before I use ethanol?

A Absolutely not. Just fill 'er up.

Q How many states are currently using ethanol blended gas? And how much?

A Last year alone, 34 states sold over 8 billion gallons of ethanol blended gas.

Q Is there any car or truck that shouldn't be using ethanol?

A No. Not if you want it to run better.

Q If ethanol increases my octane power, does it also increase my octane cost?

A Truth is, you're getting the equivalent of a premium octane performance for the lower, standard price.

Q Am I going to get less mileage per gallon with ethanol?

A No. Better yet, you may even notice an increase in your mileage.

Q If I get more gas mileage, does that mean ethanol burns hotter in my car?

A Just the opposite. It burns cooler. (And cleaner).

Q What do you mean by cleaner? For my car or the environment?

A Both. In fact, ethanol cleans your engine while leaving 25% less carbon monoxide in the air.

Q What about "Knocks" and "Pings"?

A It gets rid of both.

Q What about newer cars ... I've heard ethanol is hard on fuel injection systems?

A Not at all. Ethanol, with detergent, cleans these systems. Fuel injection plugging is caused by wax build up from gasoline without detergent.

Q If ethanol cleans, burns cooler and gives you more octane power, then your car's overall performance should be better with ethanol, right?

A Right.

Q If ethanol is so good for your car, why do the large oil companies seem to be against it?

A Because their profits are cut by 10%.

Q How many of the owners manuals in American cars say it's OK to use ethanol?

A Every single one of them.



Nothing compliments a good question like an honest answer.

We think the questions on the use of Ethanol in your car are good questions.

That's why we've documented all the answers.





Kansas Association Of Wheat Growers

"ONE STRONG VOICE FOR WHEAT"

TESTIMONY

Senate Committee on Transportation

Chairman: Senator Bill Morris

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.

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: H.B. 2585

Senate Committee on Transportation

March 27, 1990

Mister Chairman, Members of the Committee: I am Nancy Kantola, Legislative Agent for the Committee of Kansas Farm Organizations.

The Committee of Kansas Farm Organizations is made up of twenty two members; farm organizations, commodity groups and agribusiness associations. We require unanimous agreement before we take a position on any legislation.

We have for some time supported any effort to increase the use of ethyl alcohol. The incentive program promotes the use of corn grown here in Kansas, and the use of ethyl alcohol makes an important contribution toward a cleaner environment.

We ask that you extend the incentive program to encourage the continued use and expansion of this product in Kansas.

Thank you for the opportunity to appear before you today.

Respectfully submitted,

Nancy E. Kantola

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MEMBERSHIP LIST
COMMITTEE OF KANSAS FARM ORGANIZATIONS
1990

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 MILK PRODUCERS 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, INC.
WESTERN RETAIL IMPLEMENT AND HARDWARE ASSOCIATION

SENATE COMMITTEE ON TRANSPORTATION & UTILITIES

HOUSE BILL NO. 2585

TESTIMONY

**MARCH 27, 1990
AGRICULTURAL ETHYL ALCOHOL INCENTIVE PROGRAM**

Good morning Chairman Morris and members of the committee, my name is Greg Krissek. I am the Research Analyst for the Kansas State Board of Agriculture. Secretary Sam Brownback sends his regrets that he could not testify before you today but he was previously committed to several events on the western side of the state today. You might be interested to know that he recently returned from a national conference on commercializing industrial uses for agricultural commodities held in Washington DC. Secretary Sam Brownback was the chairman of that national 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 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, one of Kansas' ethanol producers, 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 and more environmentally safe fuel additive has been recognized at national levels and is a major part of President Bush's Clean Air proposals.

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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 important 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 continued support of this commercialized use of agricultural products through passage of H.B. 2585 is urged and appreciated.

Thank you for allowing the Board of Agriculture to testify today. This concludes my testimony. I will certainly attempt to answer any questions you may have.

TESTIMONY
Senate Transportation and Utilities Committee
HB 2585
27 March, 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 from 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 definitely a value-added agricultural product that benefits not only our farmers, but all segments of our Kansas economy.

The State of Kansas has a long record of support for the ethanol industry. Whether the support in the past was generated 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 then and continues to be needed today if this industry is to have a

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chance to prosper in the future. And what a future ethanol can have if 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 additional support from states or from the federal level. I 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. Last year that meant an additional 21.75 million dollars just in our state alone. 21.75 million dollars that circulated through the economies of our local communities. Economists have told us in the past, that money from the ag-sector often changes hand up to seven times. If that is in fact a realistic picture, over 150 million dollars of activity can easily be tied to the ethanol industry just from the benefits to agriculture. That does not take into account the direct effects from the existence of four ethanol plants and the amount of payroll and tax money that they also generate.

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 "particle" 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.

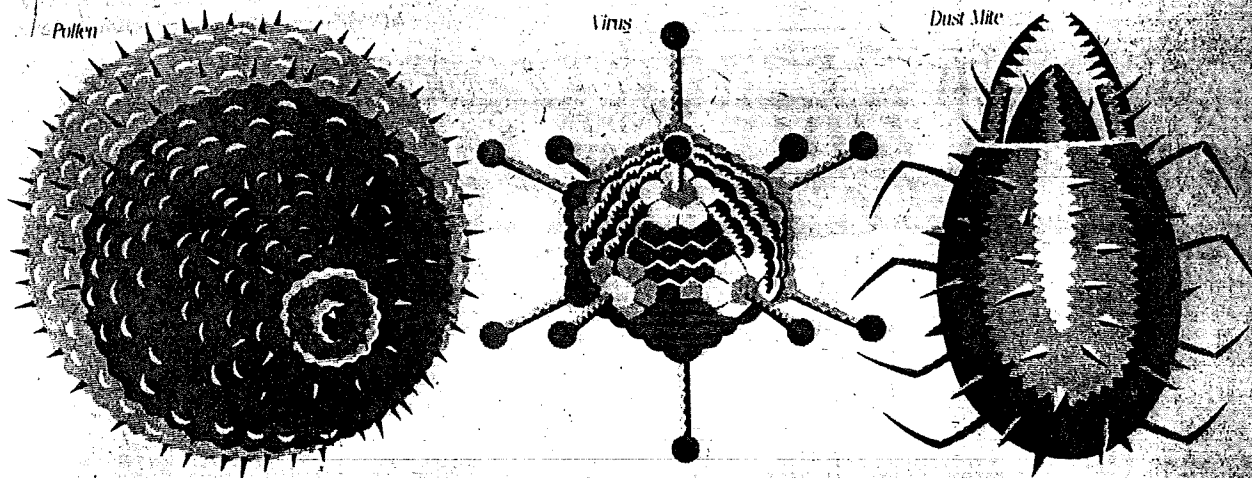
A representative of the National Corn Growers Association said an experiment conducted by the Des Moines, Iowa, mass transit system with an ethanol-diesel mixture had demonstrated the success of an "aspiration" system that bled ethanol into a diesel engine's air intake.

There was a dramatic reduction in particle 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.

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PUBLIC POLICY STATEMENT

SENATE TRANSPORTATION AND UTILITIES COMMITTEE

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

March 27, 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 part of 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.

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.

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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 as amended and passed by the House would extend that expiration to July 1, 1993. 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.

THE KANSAS CONTRACTORS ASSOCIATION, INC.



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CARRIE KRUSOR, Bulletin Editor

316 S.W. 33RD ST. P.O. BOX 5061
TOPEKA, KANSAS 66605
PHONE (913) 266-4152
FAX (913) 266-6191

TESTIMONY

BY THE

KANSAS CONTRACTORS ASSOCIATION

Before the Senate Transportation and Utilities Committee
Regarding House Bill 2585; Extending the Expiration Date
For the Agricultural Ethyl Alcohol Incentive Program
March 27, 1990

DIRECTORS

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Great Bend, Kansas
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Kansas City, Missouri
ROBERT WALSHIRE
Topeka, Kansas

Mr. Chairman, and members of the Senate 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 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, 1993 at an additional loss of \$7.5 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 1993. As also mentioned previously, the legislature has

invested more than \$47 million in the ethyl alcohol industry. Rather than continue the existing diversions of highway funds, an alternative funding source for the program may wish to be considered.

Attached to my testimony is a draft of a tax credit program for ethanol production. This committee may wish to consider enactment of such a program to replace the existing program after June 30 of this year. The proposal has been modeled along the lines of a business investment tax credit with the following key elements:

1. The tax credits would be available only to Kansas ethanol producers.
2. Establishes a tax credit of up to 20 cents per gallon of agricultural ethyl alcohol or:
 - * \$312,500 tax credit per producer for the tax year ending December 31, 1990;
 - * \$625,000 tax credit per producer for any tax year commencing after December 31, 1990.
3. The tax credit would take effect on July 1, 1990.

Thank you for the opportunity to appear before you this morning. This concludes my prepared remarks. I am available for questions.

HOUSE BILL No. 2585

By Special Committee on Assessment and Taxation

Re Proposal No. 12

12-21

AN ACT relating to the agricultural ethyl alcohol incentive program; extending the expiration date thereof, amending K.S.A. 79-34,164 and repealing the existing section.

taxation; enacting the agricultural ethyl alcohol production tax credit.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 79-34,164 is hereby amended to read as follows: 79-34,164. The provisions of K.S.A. 1987 Supp. 79-34,160 through 79-34,163 shall expire on July 1, 1990 2000 1993.

Sec. 2. K.S.A. 79-34,164 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the statute book.

New Section 1. (a) "Agricultural ethyl alcohol" Means a motor vehicle fuel component with a purity of at least 99%, exclusive of any added denaturants, denatured in conformity with one of the methods approved by the United States department of the treasury or the bureau of alcohol, tobacco and firearms, and produced in the state of Kansas wholly from the fermentation and distillation of agricultural commodities.

(b) "Kansas qualified agricultural ethyl alcohol producer" means any producer of agricultural ethyl alcohol whose principal place of business and facility for the production of agricultural ethyl alcohol are

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located within the state of Kansas and who has made formal application to and conformed to the requirements by the department of revenue pursuant to this act.

(c) "Secretary" means the secretary of the department of revenue of the state of Kansas.

(d) "Alcohol blender" means any person who blends agricultural ethyl alcohol with gasoline to produce gasohol for sale, use or distribution as a motor fuel.

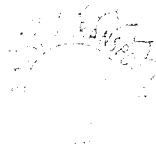
New Section 2. Any Kansas qualified agricultural ethyl alcohol producer who makes expenditures for the purpose of producing agricultural ethyl alcohol from agricultural commodities shall be entitled to claim a tax credit against the income tax liability imposed against such producer pursuant to article 32 of chapter 79 of the Kansas Statutes Annotated. Such tax credit shall be deducted from the Kansas qualified agricultural ethyl alcohol producer's income tax liability for the taxable year in which the expenditures are made by the producer. If the amount of such tax credit exceeds the producer's income tax liability for such taxable year, the amount thereof which exceed such tax liability may be carried over for deduction from the producer's income tax liability in the next succeeding taxable year or years until the total amount of the tax credit has been deducted from tax liability, except that no such tax credit shall be carried over for deduction after the fourth taxable year in which the expenditures are made.

New Section 3. On and after July 1, 1990 for the taxable year ending on December 31, 1990, the agricultural ethyl alcohol production credit allowable for deduction from a Kansas qualified agricultural ethyl alcohol producer's tax liability shall not exceed \$.20 per gallon of agricultural ethyl alcohol or \$312,500, whichever is the lesser amount.

New Section 4. For any taxable year commencing after December 31, 1990, the agricultural ethyl alcohol production credit allowable for deduction from the Kansas qualified agricultural ethyl alcohol producer's tax liability shall not exceed \$.20 per gallon of agricultural ethyl alcohol or \$625,000, whichever is the lesser amount.

New Section 5. This act shall take effect and be in force from and after its publication in the statute book.

STATE OF KANSAS



KANSAS DEPARTMENT OF TRANSPORTATION

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

Horace B. Edwards
Secretary of Transportation

Mike Hayden
Governor of Kansas

March 27, 1990

MEMORANDUM TO: The Honorable Bill Morris, Chairman
 Senate Transportation and Utilities

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

Mr. 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 1993. The bill was amended by the House Transportation Committee from ten years to three.

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 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>
Total	\$2,500,000

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.

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