

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES .

The meeting was called to order by Chairperson Ben Vidricksen at 9:00 a.m. on February 23, 1995 in Room 254-E of the Capitol.

All members were present except:

Committee staff present: Hank Avila, Legislative Research Department
Ben Barrett, Legislative Research
Bruce Kinzie, Revisor of Statutes
Martha Ozias, Committee Secretary

Conferees appearing before the committee:

Dedra Platt - Department of Revenue
Reed Davis - Kansas Department of Transportation
Joe Lieber - Kansas Cooperative Council
Charles Nicolay - Kansas Oil Marketers Association
Steve Richards - Manager of Government Relations for Yellow Corporation
Ken Peterson - Kansas Petroleum Council
Diane Djerstad - Wichita Public Schools

Others attending: See attached list

SB 324 - AN ACT RELATED TO TAXATION OF MOTOR FUEL; CONCERNING THE REGULATION THEREOF

Dedra Platt testified before the Committee explaining that the Department of Revenue was requested to thoroughly investigate options for improving controls over the collection of motor fuel taxes as a result of a legislative post audit. She addressed the problems identified in the post audit. The consensus of the Motor Fuel Advisory committee was that the key to resolving fuel tax evasion lies in the implementation of a complete fuel tracking system, visible enforcement and sufficient penalties to deter fuel tax evasion. Licensing retailers and requiring informational reports as well as the requirement for complete addresses on bills of lading are two major provisions necessary to implement a fuel tracking system. Implementation of and enforcement of a dyed fuel program is a major factor in reducing fuel tax evasion. Kansas's program will mirror the Federal program with one main exception, clear diesel can not be sold tax free to users. The dyed fuel enforcement program will be a joint effort between the Department of Revenue, Department of Agriculture and Kansas Highway Patrol. To effectively implement these goals, the Department of Revenue has identified the need for the following staff: three tax examiners, two fuel inspectors, one public service administrator and two liquor control investigators. The estimated administrative costs associated with the additional staffing is \$423,200 for FY 1996. These costs and staffing requirements are identified and included in the Governor's recommendation. (Attachment 1)

Reed Davis expressed concern about the problem of motor fuel tax evasion and the amount of tax which is being avoided. KDOT continues to support the efforts of the Department of Revenue to administer and enforce the motor fuel statutes in an efficient and effective manner. He asked support for the bill. (Attachment 2)

Joe Lieber spoke in support of the concepts of this bill but expressed some concerns with the language which would increase the employee's liability when handling receipts and paperwork. He suggested the committee look at that provision. (Attachment 3)

Charles Nicolay appeared in support of SB 324 wanting all tax dollars due to be collected and competitive disadvantages to be eliminated. He believes that strengthening enforcement efforts and penalizing the violators will go a long way toward eliminating evasion of fuel tax in Kansas. (Attachment 4)

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES, Room 254 E-
Statehouse, at 9:00 a.m. on February 23, 1995.

Steve Richards expressed concern that SB 324 does not go far enough to stop tax evasion. He explained that the collection of fuel tax still remains at the distributor level and one of the difficulties is locating the evader after they have been identified. Fuel sold for export and reporting of dyed fuel are two areas where evasion continues to present opportunities. Since there are no reporting requirements by distributors, importers or retailers on the quantity of dyed fuel being handled it leaves unaccounted products that can be diverted into taxable use. He felt a new plan could be designed to meet the needs of Kansas and listed five recommendations that could be implemented. (Attachment 5)

Ken Peterson expressed support for the goals of this legislation and recommended that the committee monitor the results of this bill to determine if instances of tax fraud are found. (Attachment 6)

Diane Gjerstad spoke to an issue which effects many public schools across the state who lease transportation services for efficiency. She explained that Districts who own buses are exempt from both state and federal fuel taxes but Districts who use privatization are not exempt from the state diesel tax. She requested an amendment which would exempt fuel used to transport students. (Attachment 7)

After some discussion Senator Burke made a motion to adopt the technical changes made by the Department of Revenue. Senator Papay seconded this. Motion carried.

Senator Papay then made a motion to pass the bill out favorably as amended. A second was made by Senator Burke. Motion carried.

SB 262 - CONCERNING PERSONS WITH A DISABILITY; ACCESSIBLE PARKING

The Committee referred back to this bill and after some discussion Senator Rock made a motion to pass this bill favorably. Senator Papay seconded this. Motion carried.

A motion was made by Senator Lawrence to approve the minutes of the February 22nd meeting. Senator Papay seconded this. Motion carried.

The meeting was then adjourned by the Chairman.

The next meeting is scheduled for February 24, 1995.

**SENATE TRANSPORTATION AND UTILITIES
COMMITTEE GUEST LIST**

DATE: February 23, 1995

NAME	REPRESENTING
Marvin Speck	Capital City Oil - Topeka
Charles Nicolay	Ks Oil Marketers Assn
Dedra Platt	Ks Dept. of Revenue
Mickie Schults	Ks Dept of Revenue
Kenneth Rakstraw	Ks Dept of Revenue
Lee Eisenhauer	Propane Marketers Assn of Ks
Mike Meisenheimer	Ks Farmers Service
Joe Lieber	Ks. Co-op Council
Bill Watts	KDOT
Diane Gjerstad	Wichita Public Schools
Jamie Clover Adams	Ks Grain & Feed Assn
Keed Travis	KDOT
ED SCHAUB	WESTERN RESOURCES
John Federico	Fate McGill & Assoc
Phyllis Fast	A.G.
Steve Richards	Yellow Reparatoin
Tom Whitaker	Ks Motor Carriers Assn
Jill Crumpracer	GOVERNOR'S OFFICE
Kerbel	Paytheon Account Co.

SENATE TRANSPORTATION AND UTILITIES
COMMITTEE GUEST LIST

DATE: February 23, 1995

NAME	REPRESENTING
Ken Peterson	KS Petroleum Council
Donald Snodgrass	KS Food Dealers Assn.
Clark Ruffin	KPC

STATE OF KANSAS

John LaFaver, Secretary of Revenue
Robert B. Docking State Office Building
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Department of Revenue Office of the Secretary

TO: The Honorable Ben Vidricksen, Chairman, Senate Transportation Committee

FROM: Dedra Platt, Administrator, Department of Revenue

DATE: February 23, 1995

SUBJECT: Senate Bill 324

The Department was requested to thoroughly investigate options for improving controls over the collection of motor fuel taxes as a result of a legislative post audit. Over the past eight months the Department extensively studied the issue and through a joint effort with industry and other state agencies developed a comprehensive program aimed at reducing fuel tax evasion. An informal motor fuel advisory committee was established consisting of members of industry, representatives from the Department of Health and Environment, Department of Agriculture, Highway Patrol, Department of Transportation, Department of Revenue and a representative from the Internal Revenue Service. The Motor Fuel Advisory Committee met several times over past several months for the purpose of developing the best solution to the problem of fuel tax evasion in the state of Kansas. Senate Bill 324 is a result of those combined efforts.

New definitions for bulk plant, exporter, refiner, retailer, terminal and terminal operator are added to the motor fuel tax law and the definitions for importer, liquid fuels, manufacturer, and motor-vehicle fuels are amended. The bill deletes fees for obtaining a license under the act and provisions for suspending a license, and repeals the provisions for a motor vehicle fuel and special fuel exemption permit. Provisions have been added that exempts distributors and importers from reporting exempt sales of dyed diesel fuel to the end user.

Language is included that makes special fuel containing dyes or markers, non-highway fuel only and any use otherwise, subject to tax and penalties. The director is given the authority to conduct inspections to determine compliance and the secretary is authorized to adopt rules and regulations for the enforcement of dyed fuel.

Provisions have been added that require retailers to become licensed and file informational reports. Through a phase in provision, bill of lading will be required to include complete addresses or facility numbers (issued by the Department of Health and Environment) for all fuel deliveries. Also through a phase in period is the requirement that information be filed electronically or through magnetic-media by distributors receiving 50,000 gallons of fuel or more per month. Language is also included that stipulates licensing requirements and provides for background checks. Civil and criminal penalties are upgraded and provisions for corporate officer liability are included.

The transportation of motor fuel law, the liquefied petroleum motor fuel tax law and the interstate motor fuel use act are also amended to conform with the changes in the motor fuel tax law

SENATE TRANSPORTATION
— DATE: 2/23/95
ATTACHMENT: /

The consensus of the Motor Fuel Advisory Committee was that the key to resolving fuel tax evasion lies in implementation of a complete fuel tracking system, visible enforcement and sufficient penalties to deter fuel tax evasion. Licensing retailers and requiring informational reports as well as the requirement for complete addresses on the bill of lading are two major provisions necessary to implement a fuel tracking system. These provisions will allow the Department to internally track fuel from the terminal to the ultimate destination. Use of this information along with totalizer readings from the Department of Agriculture, will allow the Department identify problem areas and target the necessary investigative resources appropriately. These provisions do place additional requirements on industry, however, every effort was made to simplify the process and reporting requirements.

Implementation of and enforcement of a dyed fuel program is a major factor in reducing fuel tax evasion. Penalties for illegal use, as well as on road enforcement, are key items of the program. Kansas's program will mirror the Federal's program with one major exception, clear diesel can not be sold tax free to end users. This is a current problem in the Federal dyed fuel program that has been acknowledged by everyone concerned. The dyed fuel enforcement program will be a joint effort between the Department of Revenue, Department of Agriculture and Kansas Highway Patrol. In addition, funding may be available from the IRS for Kansas to enforce portions of the Federal dyed fuel program in conjunction with Kansas's program.

To effectively implement the provision of Senate Bill 324, the Department has identified the following staffing requirements:

Three tax examiners will assist in auditing of the motor fuel distributor tax returns, retail reports, transporter reports and verify exempt fuel transactions. These positions will help assure that the current backlog will be eliminated and future returns and assessments for additional tax processed in a timely manner. Additional staff is necessary for successful implementation a complete fuel tracking system and aiding in collection of data for investigations that may evolve from dyed fuel violations, incorrect reporting or industry tips.

Two fuel inspectors will enforce the dyed diesel fuel program. These inspectors will work in cooperation with the Kansas Highway Patrol and the Department of Agriculture. Inspectors will routinely accompany highway patrol personnel on motor carrier safety inspections to sample highway vehicles for the testing of dye content, sulfur content and fuel quality. In addition, they will inspect other locations that may store, sell or use fuel and obtain samples for similar testing. They will be responsible for assessing state and federal dyed fuel penalties, proper handling of all samples and possible referral for audit or investigation.

One Public Service Administrator will be responsible for the coordination and administration of the state and federal dyed fuel programs. Duties will include coordinating information with fuel inspectors; assessing additional tax and/or penalties associated with violations; conducting all administrative actions; and coordination audit or investigation referrals associated with violations of the dyed fuel program. This position will also: coordinate any investigations that may evolve in the course of administering the motor fuel tax laws; develop tax structures for alternative fuels; and research other opportunities for fraud, such as, blending (cocktailing) of kerosene, motor oils, solvents, hazardous waste and other products, resale of "recycled" fuel from storage, and fraudulent labeling of home heating oil.

Two Liquor Control Investigators will investigate motor fuel tax violations. These violations can be a result of dyed fuel infractions; false or fraudulent reporting by the taxpayer; or industry tips. Duties will include all areas normally associated with a tax fraud investigation: the use of standard investigative techniques, including interviewing, surveillance and financial analysis; work with auditors examining and analyzing records; coordination with the Administrative Officer on potential investigations, present cases for criminal prosecution and contact with the fuel inspectors concerning violations that may be under investigation.

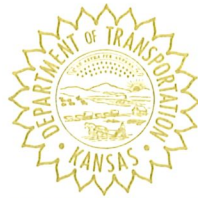
The estimated administrative cost associated with the additional staffing is \$423,200 for FY 1996. These costs and staffing requirements are identified and included in the Governor's recommendations. Attached is more detail on these administrative costs.

The Department also respectfully requests that the following changes be made to Senate Bill 324. These changes were inadvertently missed in the original draft. (a) page 6, line 32, ~~suspend or~~; (b) page 7, lines 27 and 28, ~~refiner or pipeline terminal operator and approved by the director, signed by the manufacturer, refiner, pipeline terminal operator, or other seller~~; (c) page 9, line 28 ~~motor vehicle-motor~~; (d) page 14, line 10 ~~motor vehicle-motor~~; (e) page 17, line 7 special fuels *distributor's* license; and (f) page 32, line 15, ~~signed by the refiner or other seller~~, showing.

The Department respectfully asks for your support of Senate Bill 324. We believe and understand that fuel tax evasion in Kansas and all states is a major problem and that significant amounts of revenue are being lost.

Senate Bill 324 Cost Summary

Classification or Description	Sal	Gross	Rng	% Ben.	GHI	SubTot	Shrink	Net Cost each	Qty	Item Total	Subtotal
Subprogram 6463—Investigation and Inspection [ABC]											
Liquor Control Inv. II	23	26,442	3,435	2,542	32,419	(1,135)		31,284	2	62,568	
Travel & Subsistence								5,520	2	11,040	
Standard law enforcement equipment bundle								5,495	2	10,990	
PowerBook, case, printer & software								2,873	2	5,746	
Camera w/zoom lens								800	2	1,600	
Subtotal, Subprogram 6463											91,944
Subprogram 8511—Business Tax											
Administrative Officer II	23	26,442	3,435	2,542	32,419	(1,135)		31,284	1	31,284	
Dyed Diesel Fuel Inspector	21	23,976	3,114	2,542	29,632	(1,037)		28,595	2	57,190	
Tax Examiner II	19	21,750	2,825	2,542	27,117	(949)		26,168	3	78,504	
Travel/subsistence for fuel inspectors								10,000	2	20,000	
Travel, Admin. Officer								5,000	1	5,000	
Testing of fuel samples								86	1000	86,000	
Commodities (Fuel inspectors)								3,770	lot	3,770	
Forms and office supplies, office staff								200	4	800	
Telephones								35	4	140	
Herman Miller Workstations								1,150	6	6,900	
Chairs								250	6	1,500	
Calculators								80	6	480	
Pickup truck w/shell								10,800	2	21,600	
Fuel sampling kit								1,000	2	2,000	
Add-on unit for octane testing equipment								500	2	1,000	
Stainless steel cans for petroleum products (Gasoline, Kerosene)								150	4	600	
PowerBook, case, printer & software								2,873	2	5,746	
Mainframe computer terminals								1,020	3	3,060	
Desktop Macintosh computers w/software								2,841	2	5,682	
Subtotal, Subprogram 8511											331,256
Subprogram 8515—Audit Services											
State Auditor II	26	30,594	3,974	2,542	37,110	(1,299)		35,811	0	0	
Travel for auditor									0	0	
PowerBook, case, printer, modem & software									0	0	
Herman Miller Workstation									0	0	
Chair									0	0	
Briefcase									0	0	
Subtotal, Subprogram 8515											0
GRAND TOTAL										423,200	



KANSAS DEPARTMENT OF TRANSPORTATION

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*E. Dean Carlson
Secretary of Transportation*

*Bill Graves
Governor of Kansas*

**TESTIMONY BEFORE THE
SENATE TRANSPORTATION COMMITTEE
REGARDING
SENATE BILL 324
CONCERNING THE TAXATION OF MOTOR FUEL
AND
THE REGULATION THEREOF
February 23, 1995**

Mr. Chairman and members of the Committee:

My name is Reed W. Davis and I am the Assistant to the Director of Administration for the Kansas Department of Transportation. I appreciate the opportunity to appear before the Committee.

In recent years there has been significant concern expressed, both at the national and at the state level, about the problem of motor fuel tax evasion and the amount of federal and state tax which is being avoided. The federal government, in 1992, provided funding from the Federal Highway Administration to states and the Internal Revenue Service to establish cooperative reporting and investigative efforts. Kansas, through the Department of Revenue, participates in that program.

Last year, a performance audit performed by Legislative Post Audit, suggested that the Department of Revenue should increase its efforts to enforce the motor fuel statutes. The Department of Revenue in 1994 extensively studied the problem and utilized an

informal motor fuel advisory committee, which included KDOT, to assist them in responding to those concerns raised in the Legislative Post Audit report.

The Kansas Department of Transportation has, in the past, supported and continues to support the efforts of the Department of Revenue to administer and enforce the motor fuel statutes in an efficient and effective manner. Those who avoid paying their taxes place an unfair burden on the rest of the citizens of this state who strive to honestly pay their taxes.

The Legislative Post Audit report suggested that there are very significant unreported motor fuel taxes in the state. The Department of Transportation does not know the amount of taxes which are unreported and uncollected but the amount may be significant. We do know that to the extent the Department of Revenue is able to identify currently unreported taxes and collect them, the citizens of this state will benefit. Collecting additional revenues may enable the Department to provide greater services without increasing taxes. It may also mean that the year in which taxes will need to be increased to continue to provide needed services can be delayed.

The Department supports the passage of Senate Bill 324.

Testimony of SB 324
Senate Transportation Committee
February 23, 1995
Prepared by Joe Lieber
Kansas Cooperative Council

Mr. Chairman and members of the Committee, I'm Joe Lieber, Executive Vice President of the Kansas Cooperative Council. The Council has a membership of nearly 200 cooperative businesses, in which approximately 140 sell diesel fuel.

The Council would like to take this opportunity to thank the Department of Revenue's staff for their hard work in developing the provisions of SB 324 and including the industry in that development.

The Council supports the concepts of SB 324. We certainly are in support of any legislation that will cut down or prevent tax evasion.

We also support SB 324 because the majority (70 - 75%) of our members feel that having clear diesel fuel taxes at the end user will cut down the paperwork.

I say the majority, because some of our members (25 - 30%) feel that it will not save them paperwork, plus they will have to put in new equipment because currently they are not selling dyed diesel fuel.

We do have some concerns with New Section 4 on page 3. It appears this language increases the employee's liability when it says "personally liable." It is the feeling of our attorney that employees would not be willing to handle fuel receipts and paperwork if they realize they would financially responsible if they make a mistake. I'm not an attorney, but the committee may want to look at that provision.

As stated before, the Kansas Cooperative Council is in support of SB 324 because it reduces fraud and decreases paperwork. Thank you for your time.



KANSAS OIL MARKETERS ASSOCIATION

Convenience Store Association of Kansas

Prepared For
Senate Transportation & Utilities Committee
Honorable Ben Vidricksen, Chairman

Hearing on SB 324
Room 254 E., Capitol Building
February 23, 1995
9:00 a.m.

Mr. Chairman and members of the committee:

My name is Charles Nicolay, Executive Director of the Kansas Oil Marketers Association. Our members are licensed fuel distributors throughout Kansas.

We appear today in support of SB 324.

KOMA has long been in the forefront of efforts to stop motor fuel tax evasion for several reasons. The members of our association want all tax dollars due to be collected. We certainly don't favor having to rely on motor fuel tax increases to build and maintain our highway system. Another important reason is that the competitive disadvantage for our members who are complying can be devastating. Because each gallon of gasoline has 18 cents state tax and 18 cents Federal tax (diesel fuel has an even higher tax rate per gallon), an unscrupulous operator can, through unchecked evasion, claim an unfair advantage over an honest competitor.

This explains some of the reasons our association helped to lead the charge to stop evasion by advocating, along with Senator Frahm in the 1994 legislative session, a legislative post audit that was the genesis of the bill you have before you today.

This proposal is the product of many meetings since the end of the 1994 legislative session of a Motor Fuel Advisory Committee, comprised of the Department of Revenue, other state agency officials, petroleum industry and other private sector members.

Many ideas were discussed by the committee and many suggestions for tightening collection efforts were weighed, debated and challenged. This advisory committee, chaired by Dedra Platt, Motor Fuel Tax Division of the Kansas Department of Revenue, worked very hard to strengthen the fuel tax laws without overburdening everyone concerned with additional administrative responsibilities.

The bill before you does not please every member of that committee, but it is a compromise vehicle that presents our best hope of getting as many fuel tax revenues as possible into Kansas coffers. It is our belief that strengthening enforcement efforts and penalizing the violators will go a long way toward eliminating evasion of fuel tax in this state

We believe this bill does that, and even though this proposal could change the reporting/licensing procedure of some industry members, we feel this measure is the best option open to us at this time.

Thank you for the opportunity to appear. I'll respond to any questions you may have.

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Stephen S. Richards
Manager, Government Relations

Y E L L O W C O R P O R A T I O N

Testimony of Steve Richards

Before the Senate Transportation Committee Senate Bill 324

February 23, 1995

Good morning Mr. Chairman and members of the Committee. For the record I am Steve Richards, Manager of Government Relations for Yellow Corporation. Yellow Corporation is a transportation holding company operating motor carriers, logistics and transportation related technology companies throughout the United States. Most familiar is Yellow Freight System.

I am here today to oppose SB 324, the Department of Revenue's fuel tax collection bill. Yellow's interest in the collection of motor fuel and special fuel tax comes from supporting tax policies that ensure all tax dollars are collected and dedicated to the Kansas highway programs. We strongly support improving fuel tax collections and believe Kansas can improve its collection methods to eliminate fuel tax evasion,--a point stressed by Governor Graves. SB 324 takes this effort only half way and it's from that perspective that we oppose the bill as drafted.

I commend the Department of Revenue in their efforts to address fuel tax evasion. This bill increases the personal liability and penalty provision for evasion, requires importers, exporters and retailers to be licensed and increases reporting by these parties. It further improves the documentation for fuel movements to better enable the state to track fuel transactions. However, these efforts are only ways to help identify where evasion occurs. The bill does not go far enough to stop tax evasion.

The collection of fuel tax still remains at the distributor level. Considering case history in other states, the IRS and studies by the Federation of Tax Administrators, the majority of tax evasion occurs at the distributor level. It does not occur at the supplier or end user levels. One of the difficulties states' experience in curbing evasion is locating the evader after they have identified evasion is occurring. This difficulty remains until the point of collection is changed.

There are two areas where evasion continues to present opportunities; fuel sold for export and reporting of dyed fuel. The Department continues the practice of allowing fuel to be sold tax free to anyone if it is designated for export. They require exporters to become licensed, but do not restrict fuel sales to only exporters. This has good intentions, but allows opportunity to evade the tax. The federal fuel dyeing requirement is being mirrored to help enforce fuel sold for non-highway. This is a positive move by the Department. However, they have no reporting requirements by distributors, importers or retailers on the quantity of dyed fuel being handled. This leaves unaccounted products that can be diverted into taxable use.

The improvements in fuel tracking carry a price to the Department. They have indicated a need for eight (8) new personnel for administration and enforcement of the fuel tracking program: Three tax examiners, two dyed fuel inspectors, two fraud investigators, and a special projects manager. It is generally agreed by tax administrators that the best point of collection is at the terminal rack. If that is the direction Kansas should go, it does not make sense to add staff and increase reporting by taxpayers when there are alternative methods available to curb evasion and staff additions are not needed.

In 1993 I was involved with the effort in Indiana to move the point of collection upstream to the terminal rack. That effort has produced a constant 11%-12% increase in net collections to Indiana since October, 1993. I currently am involved in similar efforts in Nevada, New Mexico and Iowa. I believe a new plan can be designed to meet the needs of Kansas.

I have five recommendations.

1. Move the point of collection to the terminal rack or first import.
2. All fuel sold for exempt purposes must be dyed by the supplier at the terminal.
3. Develop a tax deferral provision to allow distributors to retain the cash flow they enjoy today on tax remittances to the state.
4. Provide for the sharing of the collection allowance between the suppliers and the distributors.
5. Require undyed tax-free sales only to licensed exporters.

These changes benefit the state and the fuel distributor's equality. The state gains by having fewer taxpayers, improved control over exempt fuels, reduced tax evasion and improved revenues. Fuel distributors benefit by retaining cash flow and collection allowances, but eliminate much of the tax reporting. They continue to have the ability to sell tax-free fuel for off highway use.

Each of these enhancements to the Department's proposal in SB 324 can be accomplished. Moving the point of collection to the highest level of distribution is the best effort to curb evasion. I will be happy to work with this Committee and the Department in developing a plan for Kansas.

Thank you for the opportunity to speak on this issue. I will stand for questions.



**Testimony on Senate Bill 324
Submitted to the Senate Transportation and Utilities Committee
By Ken Peterson, Executive Director
Kansas Petroleum Council**

Thank you, Mr. Chairman and members of the Committee. I appreciate the opportunity to testify on Senate Bill 324.

First, I wish to commend Revenue Department officials for their foresight in creating the industry-government advisory group that met throughout the summer to discuss the various proposals in this legislation. While participants were not always in agreement, the meetings did provide an opportunity for all sides to be heard. The Kansas Petroleum Council had two representatives on the committee, one from Phillips and the other from the Williams terminal in Kansas City.

The Petroleum Council supports the goals of this legislation: to ensure that motor fuel taxes are paid and that tax cheats are more vigorously prosecuted.

In an effort to better track fuel shipments, new reporting and licensing requirements will be imposed on various segments of the industry if this legislation is enacted. Whether the new paper trail created by House Bill 324 uncovers tax evasion is unknown. Time will tell. We would recommend that the committee monitor the results of Senate Bill 324 to determine if instances of tax fraud are found. If the intended benefits of this legislation fall below expectations, further changes may be necessary in the future.

Thank you.

SENATE TRANSPORTATION & UTILITIES
Senator Ben Vidricksen, Chairman

Testimony on S.B. 324

Submitted by: Diane Gjerstad
Wichita Public Schools

February 22, 1995

Thank you Mr. Chairman, members of the Committee:

My remarks do not address the subject matter in this bill, but rather an issue which effects many public schools across the state who lease transportation services for efficiency.

Districts who own buses are exempt from both state and federal fuel taxes. Districts who make the business decision that privatization is more efficient are *not* exempt from the state diesel tax. Although the federal government has ruled that school districts are exempt when these services are privatized or performed locally.

Wichita Public Schools requests an amendment to S.B. 324 which would exempt fuel used to transport students. As school budgets are faced with increasing budgetary constraints, we are looking to the private sector to perform a variety of services. Certainly, the public policy issue would appear to inconsistent when those who perform the service in-house are exempt but those who privatize are not. We use approximately one-half million gallons of fuel annually to transport students. Taxed at twenty cents per gallon, USD 259 is paying approximately \$100,000 because we have privatized.

Thank you for listening to our concerns, Mr. Chairman. I would ask for your favorable consideration.