

Approved: Feb 10, 2008
Date

MINUTES OF THE HOUSE TAXATION COMMITTEE.

The meeting was called to order by Chairperson Wagle at 9:00 a.m. on January 26, 2000, in Room 519-S of the Capitol.

All members were present except: Rep. Johnston - excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Sicilian, Department of Revenue
Ann Deitcher, Committee Secretary

Conferees appearing before the committee: Allie Devine, representing the Kansas Livestock Assoc.
Leslie Kaufman, Asst. Dir., Kansas Farm Bureau
Doug Wareham, Vice-Pres., Gov. Affairs, Kansas
Grain and Feed Association
Joe Lieber, Kansas Cooperative Council
Stanley Larson, President., Kansas Agricultural Alliance
Brett Myers, Exec. Vice-Pres. Ks. Assoc. of Wheat Growers
Robert Alderson, representing Central Kansas Railway

HB 2588 - Family loss carrybacks allowed for income tax purposes.

April Holman of the Legislative Research Department explained **HB 2588** to the Committee.

Following this, Shirley Sicilian of the Department of Revenue addressed the fiscal note regarding **HB 2588**.

Representative Aurand explained to the Committee what the concept was behind **HB 2588**. He said that the Federal Government recognizes that in agricultural areas there are large fluctuations of year-to-year income. Kansas State Extension and their Farm Management group, in tracking this, have found a lot of times there will be a 50% change in average, state wide. Last year it dropped from over 50 thousand down to around 20 thousand. Individual farms can fluctuate far more than 100% per year.

He said that why he brought **HB 2588** forward was because it looks at the situation and takes it into account and if someone last year made \$80 thousand and then this year lost \$40 thousand, for 2 years they'd have an average of \$20 thousand annually. But if they made \$20 thousand last year and this year, they will not have to pay much state income tax. And if they made \$80 thousand last year, they will pay a large amount of state income tax. If this year you have nothing so you pay nothing, but for the two years, you still have paid quite a bit more than if you'd made that \$20 thousand two years in a row.

So **HB 2588** is trying to level out a sector of our economy that's having a lot of problems and goes through a lot of fluctuations. The federal code has recognized this so this is just to address the state portion.

The Chair then introduced Terry Arthur, General Counsel for the Kansas Farm Bureau who spoke as a proponent for **HB 2588**. (Attachment 1).

Allie Devine, representing the Kansas Livestock Association, spoke to the Committee as a proponent for **HB 2588**. (Attachment 2).

HB 2593 - Sales tax exemptions on grain storage facilities.

Chris Courtwright of the Legislative Research Department explained **HB 2593**.

CONTINUATION SHEET

Speaking before the Committee as a proponent for **HB 2593**, was Leslie Kaufman, Assistant Director, Public Policy Division of Kansas Farm Bureau. (Attachment 3).

Doug Wareham, Vice President, Government Affairs for the Kansas Grain and Feed Association appeared before the Committee in support of **HB 2593**. (Attachments 4 and 5).

Next to appear before the Committee as a proponent for **HB 2593** was Joe Lieber, Executive Vice President of the Kansas Cooperative Council. (Attachment 6). He then called the Committee's attention to a letter in support of **HB 2593** from the Kansas Agricultural Alliance. (Attachment 7).

Brett Myers spoke as a proponent of **HB 2593**. (Attachment 8).

Bob Alderson offered testimony in support of **HB 2593** on behalf of Central Kansas Railway/Kansas Southwestern Railway. (Attachment 9).

Mr. Alderson said that while they were here to support **HB 2593** as it stands, however he wanted to also request an extension similar to what was included in **HB 2037** in 1999.

Representative Sharp asked if a farmer grew excessive grain and he took it to a storage place, do they sell it at that time for the price that is being paid at that particular time. Doug Wareham said they had a choice. They can either sell it across the scale, weigh their truck, dump it and sell it or they can store it and sell it later. Generally, if they think the price for the fall crop, from September to the following March, is going to increase enough that it's worth while to pay a monthly storage fee to keep it in there, they will do this.

The meeting was adjourned at 10:05 a.m. The next meeting is scheduled for Thursday, January 27, 2000.



PUBLIC POLICY STATEMENT

HOUSE TAXATION COMMITTEE

RE: HB 2588 - Proposed Revision to Kansas Income Tax Code to Allow Loss Carrybacks

**January 26, 2000
Topeka, Kansas**

**Presented by
Terry Arthur, General Counsel**

Kansas Farm Bureau

Testimony has been requested from Kansas Farm Bureau concerning consideration by the House Taxation Committee of modification to the Kansas Income Tax Code. Under consideration by the Committee is amending that portion of the Kansas Income Tax Code to allow "farming losses" to be eligible for a five-year net operating loss carryback.

The Federal tax law prior to the change in 1997 for farm losses was:

1. The normal carryback period was two years prior to the tax year of the loss.
2. The net operating loss of a farm or small business that was attributable to a presidentially-declared disaster was allowed a three-year loss carryback instead of two years.

The Kansas Farm Bureau proposes that the Committee recommend to the Legislature a modification to the Kansas Income Tax law to conform the loss carryback for farming with the Internal Revenue Code. This would specifically allow for a five-year net operating loss carryback for persons engaged in farming. The applicable Internal Revenue Code section dealing with this is Internal Revenue Code Section 172(b)(1). The Internal Revenue Code was changed in 1997, and applies to tax years beginning January 1, 1998 or thereafter.

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Attachment # 1

The current Kansas law on net operating losses is to carry them forward and does not allow them to be carried back except for capital losses.

REASONS FOR CHANGE

The Kansas Farm Bureau submits to the special committee that this is an important provision for farmers and ranchers in the State of Kansas. Farming is subject to wide variations in income, and in a bad year, a substantial loss can be incurred in farming and ranching. It is vitally important to our state's economy that farming and ranching be on a solid financial basis, and allowing a five-year loss carryback to prior years in which a profit was earned, and tax paid, would allow a tax refund of that tax for the individual farmer and rancher. This cash flow could then be placed back into the operation to continue preparing for the next season. Congress through the Internal Revenue Code has recognized this need in the farming and ranching area and accordingly adopted the change in this portion of the Code in 1997. Also adopted at that same time was income averaging for farmers and ranchers, but it is my understanding that is not under consideration by the Committee at this time. I do not have information concerning the revenue impact on Kansas of the adoption of this provision, and I will leave that to the Committee to determine. I believe this would be an extremely important addition to the Kansas Income Tax Code in assisting agriculture in very difficult economic times.



Since 1894

January 26, 2000

Testimony of the Kansas Livestock Association

To: House Committee on Taxation

Re: HB 2588

My name is Allie Devine and I am representing the Kansas Livestock Association (KLA). The Kansas Livestock Association is a non-profit trade association representing nearly 7,000 livestock producers.

Agricultural income is sporadic. KLA supports tax measures like those contained in HB 2588 that provides producers a tool for tax management and lessen the effects of a volatile marketplace. Attached is a copy of the resolution supporting this type of legislation passed by KLA members at our December 1999 convention.

Thank you for your consideration.

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RESOLUTION #8
VOLATILITY OF AGRICULTURAL INCOME

WHEREAS, livestock and grain markets are volatile and cyclical, causing the incomes of agricultural producers to vary considerably from year to year, and

WHEREAS, financial planning of agricultural operations is difficult in a volatile marketplace,

THEREFORE, BE IT RESOLVED, that the Kansas Livestock Association supports the adoption of statutory changes that allow for carry back losses, income averaging, or similar provisions that provide for consistent taxation of agricultural operations and lessen the affects of a volatile marketplace.



PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON TAXATION

RE: HB 2593 -- Sales tax exemption for materials used for construction and renovation of grain storage facilities.

**January 26, 2000
Topeka, Kansas**

**Prepared by:
Leslie Kaufman, Assistant Director
Public Policy Division
Kansas Farm Bureau**

Chair Wagle and members of the House Taxation Committee thank you for the opportunity to appear before you today and share Farm Bureau's support for HB 2593.

Kansas Farm Bureau appeared before this committee last year in support of HB 2037, which proposed the initiation of this exemption. At that time, we requested that the bill not be limited to commercial storage and that on-farm facilities be included within the bill. The legislation which ultimately was signed into law, and which we support extending, covers both commercial and on-farm storage.

Grain storage options are vitally important to today's agriculture industry. Producers need appropriate storage facilities for housing their grain. This last harvest season, once again, saw millions of bushels of grain being piled on the ground. Although storage capacity has increased over the past year, carry-over grain and the addition of the summer and fall harvest resulted in a shortage of

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storage space. Exposing grain to outdoor elements, pests, birds and rodents can result in quantity and quality losses. Also, significant cost are incurred from the additional handling and movement of the grain. During these times of low commodity prices, producers are often hard-hit by these additional losses and costs.

The 2-year extension of the sales tax exemption on materials used in construction and renovation of grain storage facilities provides an important benefit to producers through increased grain storage capacity throughout the state. Our farmer and rancher members reaffirmed their support for continuing this exemption when they met in November at our 81st Annual Meeting. Our voting delegates, representing all 105 county Farm Bureaus across Kansas state clearly in our policy that:

- *We encourage the extension of the state sales tax exemption for construction and renovation of grain storage facilities, particularly on-farm storage.*

To further assist producers, our farm and ranch members developed and adopted policy relating to the property tax on farm storage bins. While this topic is not included in HB 2593, we want to draw this issue to your attention.

- *We support on-farm storage bins being designated as "farm equipment" for property tax purposes.*

Particularly, during this time of low commodity prices, we firmly believe this limited, 2-year extension is an appropriate action for the legislature to take. We respectfully encourage the committee to report HB 2593 favorably. Thank you.

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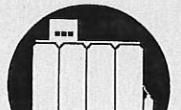
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Association

**Statement of the
Kansas Grain and Feed Association
regarding
House Bill 2593
Presented to the
House Taxation Committee
Representative Susan Wagle, Chair
January 26, 2000**

**KGFA, promoting a viable business
climate through sound public policy for more
than a century.**



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Attachment # 34

Madam Chair and members of the House Taxation Committee, my name is Doug Wareham and I am Vice President, Government Affairs for the Kansas Grain and Feed Association (KGFA). The KGFA is a voluntary state association with a membership encompassing the entire spectrum of the grain receiving, storage, processing and shipping industry in the state of Kansas. Our membership includes over 1,150 Kansas business locations and represents 99% of the commercially licensed grain storage in the state.

I appear today in support of House Bill 2593, which would extend the Calendar Year 1999 Grain Storage Construction/Rehabilitation Sales Tax Exemption through January 1, 2002. As you are aware, the 1999 Calendar Year exemptions that were adopted by this body one year ago provided a sales tax exemption for purchases of materials and labor by Kansas farmers and commercial grain operators who chose to construct new or rehabilitate existing grain storage structures.

At this time I would like to provide you with information that highlights the positive impact of the 1999 Calendar Year Sales Tax Exemption along with reasons our organization believes this incentive should be extended. Please draw your attention to the white sheets attached to my testimony.

Attached Grain Storage Fact Sheets:

- Commercial Grain Storage Expansion During Calendar 1999
- Testimonials from Grain Industry Representatives
- Kansas Grain Carryover Stocks
- 1999 Emergency Grain Storage Requests (Grain on the Ground)
- Kansas Crop Production Statistics
- Grain Storage Shortfall Statistics

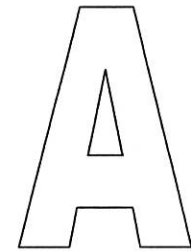
In addition to the continued pressure caused by increasing grain carryover stocks, which are simply a product of weak foreign demand for Kansas grains and grain product, the grain storage industry in Kansas is now also faced with handling a growing number of specialty grains that will further increase the need for additional "identity preserved" grain storage space and grain handling equipment. The tax exemptions provided for in this bill will provide a direct financial incentive for farmers and grain elevator operations to update their existing facilities to handle identity preserved grains.

Before I conclude my comments, I do want to point out that the construction of new commercial grain storage facilities also has a positive impact on the amount of property tax collected. If I could draw your attention to the yellow sheets attached to my testimony, I would like to illustrate this point.

- Property Tax Revenue Created by New Commercial Grain Storage Construction

Again, I want to thank you for the opportunity to share information with you today. On behalf of the Kansas Grain and Feed Association, I hope you will act favorably on House Bill 2593. I would be happy to respond to any questions you might have at this time or at an appropriate time.

Commercial Grain Storage
Space in Kansas



January 1, 1999.....845,789,000

January 1, 2000.....885,154,000

Increase of 38,663,000

h-4

McPherson Concrete Storage Systems

McPherson, Kansas

B

4.5

"We have had 9 major construction projects during this calendar year. Over 5 million bushels of new space has been constructed or is under construction. The sales tax incentive provided by the Legislature has definitely made an impact and lead to new construction in Kansas."

-Roy House, Sales Manager

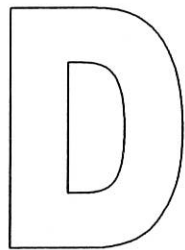
Garden City Co-op Garden City, Kansas

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27-6

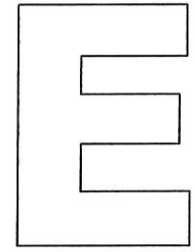
"We have constructed over 2 million bushels of new grain storage space this year and the savings provided by the '99 sales tax exemption enabled our firm to construct an additional 100,000 bushels of space that likely would not have been added without these savings."

-Ken Jameson, V.P. Grain Division



Kansas Grain Carryover Stocks

December 1, 1999.....	791,678,000 bushels
December 1, 1998.....	760,567,000 bushels
December 1, 1997.....	714,627,000 bushels
December 1, 1996.....	635,490,000 bushels



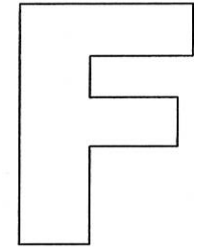
1999 Fall Harvest Emergency
Grain Storage Requests

Peaked at 55,980,000

(Grain on the ground or Grain stored
at alternative sites.)

8-7

Kansas Major Production Figures



Four Major Crops

	1997	1998	1999
Soybeans	88,800,000 bu.	75,000,000 bu.	78,400,000 bu.
Sorghum	273,000,000 bu.	264,000,000 bu.	258,400,000 bu.
Corn	386,100,000 bu.	418,950,000 bu.	494,900,000 bu.
Total	1,253,900,000 bu.	1,252,850,000 bu.	1,189,380,000 bu.

3- Year Average Total 1,232,043,000

49

4-10



Grain Storage Shortfall

Commercial Space.....885,154,000

On-Farm.....400,000,000

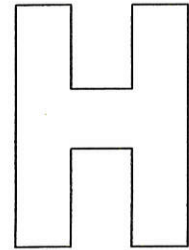
Total Grain Storage.....1,285,154,000

Current Carryover.....791,678,000

Current Available Space..... 493,476,000

3-Year Average Total Crop.....1,232,043,000

Property Tax Revenue Created
by New Commercial Grain
Storage Construction



11-11

*Example: --10 million bushels new grain storage built
--\$1.50/bushel cost of construction
--\$15 million of commercial property*

\$15,000,000 commercial property
x 25% commercial property assessment rate

\$3,750,000 *commercial property tax roll*

Apply 105 *statewide mill average*

\$393,750 Additional Property Tax Generated

Department of Revenue Fiscal Note

\$750,000 in 2001

With an additional \$393,750 of property tax revenue generated (based on page H example) it will take less than two years before the lost sales tax dollars are recouped through additional property tax revenues.

24-12

**NEW GRAIN STORAGE CONSTRUCTION
DURING CALENDAR YEAR 1999**

GARDEN CITY COOP	2,000,000
BEACHNER GRAIN	500,000
FARMWAY COOP.....	750,000
CO-AG.....	600,000
DODGE CITY COOP.....	1,650,000
COLLINGWOOD GRAIN.....	3,680,000
JOHNSON COOP	374,000
ULYSSES COOP	1,200,000

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Attachment # 5

Testimony on HB 2593 - House Taxation Committee
January 26, 2000
Prepared by Joe Lieber, Kansas Cooperative Council

Madam Chair and members of the Committee, I'm Joe Lieber, Executive Vice President of the Kansas Cooperative Council. The Council has a membership of over 200 cooperative businesses who have a combined membership of nearly 200,000 Kansans. Approximately 130 of our members are farm/supply cooperatives and most of them are involved in the grain storage business. The Council is in support of HB 2593.

Kansas has had record harvests the last few years and couple this with low prices you have a shortage of grain storage space.

Even with the passage of HB 2037 last year, we still had approximately 55 million bushels of grain that had to be placed on the ground last year.

The passage of HB 2037 was well received in the country and many of our members used the opportunity to expand their facilities. But because so many of the grain elevators decided to increase their storage and utilize the sales tax exemption there were not enough grain elevator construction companies to keep up with the demand. Dub Johnson and Son Construction, one of the state's leading elevator construction companies, said that not only were they behind, but materials were in short supply. This meant that many of our members did not get the opportunity to get the sales tax exemption in 1999.

Because there is still a shortage of storage space, plus the fact that many additions did not get built in 1999, we ask for your support for the passage of HB 2593.

Thank you for your consideration. I will be happy to take questions.

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Kansas Agricultural Alliance

Kansas Agricultural Aviation Association

Kansas Agri-Women

Kansas Association of Ag Educators

Kansas Association of Conservation Districts

Kansas Association of Wheat Growers

Kansas Cooperative Council

Kansas Corn Growers Association

Kansas Crop Consultant Association

Kansas Dairy Association

Kansas Ethanol Association

Kansas Farm Bureau

Kansas Fertilizer and Chemical Association

Kansas Grain and Feed Association

Kansas Grain Sorghum Producers Association

Kansas Greenhouse Growers Association

Kansas Livestock Association

Kansas Seed Industry Association

Kansas Veterinary Medical Association

January 26, 2000

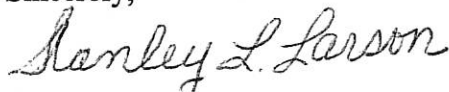
Representative Susan Wagle
Chairman of the House Taxation Committee
Statehouse
Topeka, KS 66612

Dear Chairman Wagle,

The Kansas Agricultural Alliance is writing in support of HB 2593, the bill extending the sales tax exemption on materials for construction of grain storage facilities. The member organizations of the Ag Alliance, listed on this page, have voted unanimously to endorse and support this legislation.

Thank you for your consideration.

Sincerely,



Stanley L. Larson
President

House Taxation
Date 1/26/00
Attachment # 7



P.O. Box 1266 • Manhattan, KS 66505-1266 • (785) 587-0007 • FAX (785) 587-0003

TESTIMONY

TO: House Committee on Taxation
FROM: Brett Myers, Executive Vice-President
DATE: 26 January 2000
SUBJECT: H.B. 2593

Chairperson Wagle, members of the committee, my name is Brett Myers and I am the Executive Vice-President of the Kansas Association of Wheat Growers. I am here today on behalf of my organization as well as the Kansas Corn Growers Association and the Kansas Grain Sorghum Producers Association. As we did one year ago, we stand here today on behalf of our organizations in support of legislation that would provide for temporary sales tax exemption for materials and services related to improvements and expansion for grain storage in Kansas. HB-2593 recognizes the foresight of the 1999 Kansas Legislature in beginning the task of dealing with our severe grain storage shortage in Kansas by providing a continuation of the exemption for two years.

Bumper crops in many areas of the state combined with sagging exports have Kansas busting at the bins. Grain piled on the ground has been a common sight in many areas of Kansas for the past three years. It is not just growers and grain handlers that are impacted. Our customers surely are beginning to wonder about our ability to supply high quality grain when they see newspaper photos of grain piled high. They might expect that in an undeveloped nation, but not from Kansas...breadbasket to the world.

Clearly our growers have asked for a level of incentive that will promote the increased construction and renovation of grain storage facilities. Last year when the legislature passed HB-2037 providing the same tax relief as this bill, our growers and many commercial entities sought to expand and renovate. 1999 was a solid step forward.

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It is important to understand that there are other circumstances at play in this issue. Low commodity prices have severely impacted available funds that farmers have to make grain storage improvements. Providing an additional two years tax incentive will allow producers to fund their improvements over a longer time frame without penalty. Also many producers found it hard to get improvements scheduled within the one year limits of last years bill. The need was simply greater than the available materials and services.

On behalf of the wheat, corn and grain sorghum industry in Kansas we urge this committee to move H.B. 2593 favorably. Thank you.

ALDERSON, ALDERSON, WEILER,
CONKLIN, BURGHART & CROW, L.L.C.
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LL.M., TAXATION
LICENSED TO PRACTICE IN
KANSAS AND MISSOURI

TESTIMONY OF W. ROBERT ALDERSON

ON BEHALF OF

CENTRAL KANSAS RAILWAY/KANSAS SOUTHWESTERN RAILWAY

BEFORE THE HOUSE COMMITTEE ON TAXATION

JANUARY 26, 2000

Chairman Wagle and Members of the Committee:

My name is Bob Alderson, and I am appearing today on behalf of Central Kansas Railway (CKR) and Kansas Southwestern Railway (KSW) in support of House Bill No. 2593.

CKR and KSW are two of the 13 railroads in the United States and Canada owned by OmniTRAX, Inc., a Denver-based holding company. Both CKR and KSW are headquartered in Wichita, and they currently have 101 employees. Combined, CKR and KSW operate 1,257 miles of track in Kansas and Colorado, and they comprise the third largest railroad in Kansas, outsized only by the two Class I railroads, Burlington Northern Santa Fe and the Union Pacific.

CKR and KSW are shortline railroads which operate over a system of what were formerly branch lines of Union Pacific and Burlington Northern Santa Fe. Here, I should note that "shortline" is a term of convenience, not definition. For purposes of the Uniform System of Accounts applicable to rail carriers subject to the Interstate Commerce Act, shortlines are Class III railroads, i.e., rail carriers having annual operating revenues of \$20,000,000 or less.

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Shortline railroads represent an important and growing segment of the North American rail network. As the Class I railroads withdraw from the branch lines they formerly operated and move towards long haul, unit train type operations, both they and the shippers are becoming more and more dependent on shortlines providing service to and from the lighter density branch lines. This is particularly true in a state such as Kansas, a state with the fourth largest number of rail miles (5,580) in the United States. Thus, as is the case with most shortline railroads, CKR and KSW originate or terminate traffic on their lines and interchange that freight with the large Class I railroads at terminal locations.

In Kansas today there are 17 shortline railroads operating on 2,724 miles of track, nearly one-half of the state's total railroad miles. Most of these shortlines were formed after 1980. In fact, the majority of them were founded in the 1990's. The characteristics most of them share are that the lines comprising the shortline systems are light density, they face severe competitive pressures from the trucking industry and have many rail line segments in need of rehabilitation. There are lines in Kansas that are so light density they did not meet current federal guidelines to receive rehabilitation money. This means that, over time, those lines will be subject to abandonment. Additionally, the higher density lines operated by the Kansas shortlines will need significant upgrades and rehabilitation to meet the needs of shippers in the future. This effort may include not only rail improvements but also new or rebuilt bridges, new or improved crossings, crossing closings and similar projects.

The need for improved or upgraded rail lines stems from at least three sources. First, many of the lines now operated by shortlines suffered over the years from deferred maintenance by the former Class I owners. Second, car weights have increased significantly over the past few years, with bigger car sizes on the horizon. Many of the lines in Kansas simply cannot handle these heavier cars. Third, generally speaking, shortlines cannot afford to fund both normalized maintenance and rehabilitation at the same time.

This is the context within which three separate groups -- the Governor's Grain Transportation and Storage Task Force, the Special Committee on Rail Transportation and Transportation 2000 Study Group -- studied rail transportation needs during the summer of 1998. All of these groups concluded that shortline railroads are an important, vital part of the state's transportation system, and made various recommendations for strengthening the state's shortline rail system.

Early in the summer of 1998, Governor Graves appointed a Grain Transportation and Storage Task Force to discuss short-term and long term solutions to the various grain storage and transportation issues. Lt. Governor Gary Sherrer and Allie Devine, the then Kansas Secretary of Agriculture, co-chaired the task force. Representatives of the grain industry, the rail industry, producer organizations and the motor carrier industry comprised the task force. It made a number of short-term and long-term recommendations to address the state's grain storage and transportation problems. A number of tax incentives were suggested, including a sales tax exemption for labor and materials to repair, maintain or construct grain storage and railroad infrastructure.

Among the charges given to the Special Committee on Rail Transportation, was the direction to review issues with respect to rail transportation of agricultural products, including shortline railroad access in rural Kansas, and the impact of loss of rail line on highway transportation. At the conclusion of its study, the Special Committee on Rail Transportation stated in its final report:

"The Committee believes that rail transportation is one part of a multi-faceted transportation system and that it is in the economic interest of the citizens that the rail system of the state is viable. The Committee believes that there is a need to develop a state rail policy, provide the necessary incentives and environment for rail lines, including shortlines, to remain as a vital part of the state's transportation infrastructure."

Toward that end, the Committee recommended that the 1999 Legislature consider various proposals for providing financial assistance to shortlines, including the enactment of three tax incentives. The first of those was a sales tax exemption for labor, materials, and equipment used in the construction, maintenance, repair or rehabilitation of railroad infrastructure.

In addition, the Transportation 2000 Study Group also recognized the importance of shortlines, and in support of its recommendation for a state-funded rail program to assist Kansas shortlines with track rehabilitation, the Study Group's Report concluded:

"The Study Group recognizes the importance of shortline railroads in the transportation of agricultural and other products and the cost to highway maintenance by failing to support shortline railroads."

Many of the recommendations made by these three interim study groups were included in the budget presented by Governor Graves to the 1999 Legislature. Among Governor Graves' tax reduction recommendations was a proposal to provide new sales tax exemptions for grain storage and transportation. That recommendation was embodied in 1999 House Bill No. 2037. HB 2037 proposed to amend K.S.A. 1998 Supp. 79-3606, by adding at the end of that statute two new sales tax exemptions. The first of these exempted all sales of materials and services purchased by any Class II or Class III (shortline) railroad for the construction, renovation, repair or replacement of railroad track and facilities used directly by such railroad in interstate commerce. The other exemption applied to all sales of materials and services purchased for the original construction, reconstruction, repair or replacement of grain storage facilities.

Ultimately, the 1999 Legislature approved both exemptions as part of the so-called omnibus tax bill. However, the exemptions were limited to sales in calendar year 1999 only. Thus, the purpose of HB 2593 is to extend the exemption for grain storage facilities through calendar year 2002. On behalf of CKR and KSW (and, I suspect, on behalf of all Kansas shortlines), I would respectfully request that the same treatment be afforded the shortline infrastructure exemption, which appears on pages 15 and 16 of the bill as subsection (ddd) of K.S.A. 1999 Supp. 79-3606.

All of the 1998 interim groups and committees whose recommendations provided the basis for the enactment of these exemptions recognized the importance of shortline railroads to the Kansas economy, particularly the agricultural economy. There is a close and interdependent relationship between the shortline railroads and those persons and entities involved in the shipment and storage of grain. It is essential to the strength of the agricultural economy that both sides of this equation are financially healthy. The purpose of both exemptions is to assist in that effort.

Again, I would respectfully request that the railroad infrastructure exemption also be extended through calendar year 2002 by amendment of the bill and that the Committee recommend HB 2593 favorable for passage as amended.

Thank you for the opportunity of appearing before the Committee and presenting my views. I would be happy to respond to any questions you might have.