

MINUTES OF THE HOUSE TRANSPORTATION.

The meeting was called to order by Chairperson Gary Hazylett at 1:35 p.m. on April 5, 2001 in Room 526-S of the Capitol.

All members were present except

- Representative John Ballou, excused
- Representative Marti Crow, excused
- Representative Joe Humerickhouse, excused
- Representative Judith Loganbill, excused
- Representative Eber Phelps, excused
- Representative Ted Powers, excused

Committee staff present:

- Bruce Kinzie, Revisor
- Ellie Luthye, Committee Secretary

Conferees appearing before the committee:

- Ed McKechnie, Watco Companies
- Representative R.J. Wilson
- Doug Wareham, Kansas Grain and Feed Association
- Dean Carlson, Secretary of Transportation
- Leslie Kaufman, Kansas Farm Bureau
- Pat Hubbell, Kansas Railroad
- Tom Whitaker, Kansas Motor Carriers

Others attending:

See attached sheet

Several of the Transportation Committee members were late in arriving because of prior commitments.

HB 2586 - an act relating to taxation; allowing credits for payments to certain port authorities

Chairman Hayzlett opened hearings on **HB 2586**. He called on Ed McKechnie, Watco Companies, as the first proponent. He said the Kansas & Oklahoma Railroad (formerly the Central Kansas Railroad) has more than 900 miles of track and is primarily agricultural, but has a 40 percent base of industrial commodities. He sited some of the long-term commitments of the railroad and said the movement of grain on these lines is a critical portion of the operational and customer success of this railroad but even with a budget for track maintenance and capital improvements for the first year of operation of more than \$6 million, it is still not enough to preserve these lines for the future. Also, after an exhaustive and intensive review of the former CKR, the Kansas and Oklahoma Railroad will announce an 18 month moratorium on track abandonments for all rail lines in Kansas exclusive of the Jetmore to Hanston and Coats to Protection lines. He concluded that from the state of Kansas they are requesting authorization of a Port Authority which will provide \$3.677 million in capital improvements through property tax abatements and an additional authority (**HB 2586**) to provide for refundable income tax credit for Class III railroads operating a Port Authority owned track which would provide an additional \$6.1 million in capital improvements. (Attachment 1)

Representative Pauls questioned how they could be assured the railroad would honor their 18 month moratorium on track abandonments since this language was not in either **HB 2586** or **HCR 5032**. Mr. McKechnie stated they would agree to sign a commitment with the state and Department of Transportation to oversee this.

Representative Wilson spoke in support of **HB 2586**. He told the committee that Watco is one of the largest employers in Pittsburg and has proven it is a very good steward of money. He strongly supports the creation of a port authority and the tax credits.

Secretary Carlson also stood in support of the Watco Companies merger and its commitment for continued rail service in Kansas. He stated one of the things they had talked about was the agreement they would want which would provide for a 20 year service agreement, an arbitration system to be put in place to resolve any service problems that arise, the railroad would be required to file an annual report with KDOT and also an operative plan for the system as well as a marketing plan and sign a security agreement to protect KDOT'S interest as they were putting up a sizable amount of money in the transaction.

MINUTES OF THE HOUSE TRANSPORTATION COMMITTEE, Room 526-S of the Capitol at 1:35 p.m. on April 5, 2001.

Leslie Kaufman, Kansas Farm Bureau, presented the written testimony by Kerri Ebert, Kansas Agricultural Alliance President, in support for Watco Companies acquisition of the Central Kansas Railway and their commitment to preserve the rural infrastructure of the state. (Attachment 2)

Doug Wareham, Vice President of Government Affairs, Kansas Grain and Feed Association, spoke in support of **HB 2586**. He said they believe the Watco Companies' purchase of the Central Kansas rail lines located in south-central and western Kansas is good news for their shipper members and asks the committee and the Kansas Legislature to help facilitate maintaining rail service to the many Kansas rural communities served by those purchased lines. (Attachment 3)

Pat Hubbell, Kansas Railroads, expressed the importance of the railroad being in the hands of a company that recognizes the proper way to operate a railroad in Kansas and this is very important for the entire state. He asks support for **HB 2586**.

There were no other proponents.

Tom Whitaker, Kansas Motor Carriers Association, spoke in opposition to **HB 2586**. He told the committee the bill contains no ending date so it is a \$500,000 a year refundable tax credit that goes on and on. It was his feeling that basically it was a way around the internal improvement law which requires a two thirds majority of both the House and Senate to pass. He concluded there are probably a lot of trucking companies that would like a tax credit of \$500,000 a year. He asked that a time limit, or dollar limit be placed in this legislation.

Following questions by the committee Chairman Hayzlett closed hearings on **HB 2586**.

HCR 5032 - approving creation of Pittsburg, Kansas, port authority.

Chairman Hayzlett opened hearings on **HCR 5032**.

Ed McKechnie reiterated the need for a Port Authority and asked for support for this Resolution which would provide \$3.677 million in capital improvements through property tax abatements.

Leslie Kaufman, Kansas Agricultural Alliance; Doug Wareham, Kansas Grain and Feed Association; Pat Hubbell, Kansas Railroads; Secretary Dean Carlson, Department of Transportation, Representative Wilson and Tom Whitaker, Kansas Motor Carriers Association all spoke in support of **HCR 5032**.

Chairman Hayzlett closed hearings on **HCR 5032**.

HCR 5032 - approving creation of Pittsburg, Kansas, port authority.

Chairman Hayzlett, with committee approval, opened **HCR 5032** for discussion and final action. Representative Aday made a motion to pass HCR 5032 favorably, seconded by Representative Levinson and the motion carried.

HB 2586 - an act relating to taxation; allowing credits for payments to certain port authorities

Chairman Hayzlett opened **HB 2586** for discussion and final action. Representative Vickery offered an amendment which would set a twenty (20) year time limit on tax credits, seconded by Representative McKinney and the motion carried.

Representative McKinney made a motion to pass HB 2586, as amended, seconded by Representative Levinson and the motion carried.

Representative Hayzlett adjourned the meeting at 2:28 p.m.

HOUSE TRANSPORTATION COMMITTEE GUEST LIST

DATE: 4/5/01

Steve Kravitz	Ks Motor Acc. 225
Rob Hesser (visitor)	Greensburg, Ks
Sandy Braden	Yates, Braden Barber
Resse Kaufman	Ks Farm Bureau + Ks Ag Alliance
Doug Wareham	Kansas Crops & Feed Assn / Ks Fert & Chem Hts
Pat Hubbard	Kansas Railroads
Deane Turner	Ks Coop Council
Nancy Bogina	KDOT
John Rosacka	KDOT
Dean Carlson	KDOT
John Maddox	KDOT

Watco Companies
Kansas & Oklahoma Railroad

Overview

Watco Companies

Founded in 1983 by Charles "Dick" Webb, Watco Companies has become a national leader in providing customer service to railroad industries. With five short line railroads, car repair shops, industrial switching and a host of other services, Watco Companies has focused on meeting the needs of its customers as its engine for growth. With this acquisition, Watco Companies will have 735 employees in 17 states, with nearly 2,400 miles of track. In Kansas, Watco Companies will employ more than 200 people, with 1,150 miles of track.

Kansas and Oklahoma Railroad

The Kansas & Oklahoma Railroad (formerly the Central Kansas Railroad) has more than 900 miles of track with headquarters in Wichita and operating west to the Colorado border. The railroad is primarily agricultural, but has a 40 percent base of industrial commodities.

Long-term Commitment

In the first year of operation the Kansas & Oklahoma Railroad will insert more than 65,000 ties, apply 52,000 tons of ballast, and surface 130 miles of track to enhance the operations and viability of the railroad. In the Kansas & Oklahoma Railroad five-year maintenance plan more than 300,000 ties will be inserted into the track and 520 miles of track will be surfaced using 208,000 tons of ballast. This basic maintenance plan is exclusive of the dramatic track and bridge capital improvement plan that will have to be implemented in order to preserve this railroad for the next 20 years.

This intensive effort of tie replacement, resurfacing and track rehabilitation is to ensure that the Kansas & Oklahoma Railroad can provide its customers with an enhanced level of service. In the first 10 years of operation, the Kansas & Oklahoma Railroad has budgeted more than \$39 million for maintenance. The total maintenance and capital improvements budget for the K&O for the first 10 years of operations is more than \$55 million.

The movement of grain on these lines is a critical portion of the operational and customer success of this railroad. Of the many factors that determine a successful harvest

for the railroad, three in particular stand out: 1) communication with customers; 2) ample supply of rail cars; and 3) railroad speed. It is critical that we communicate with our customers to make sure we understand their needs, that we have the necessary number of grain cars available to meet their needs and that the track speed is high enough to turn those cars back around for their next move in a reasonable time. During the next two months we will be meeting with our new customers face to face and at meetings throughout central and western Kansas. We have also placed orders with our class I partners and rail car leasing companies to lease additional grain cars for the 2001 wheat harvest.

Our budget for track maintenance and capital improvements for the first year of operations is more than \$6 million, but still this will not be enough to preserve these lines for the future.

Moratorium on abandonements

One of the most important policy issues for the rail industry and its' customers is track abandonments. After an exhaustive and intensive review of the former CKR, the Kansas & Oklahoma Railroad will announce an 18-month moratorium on track abandonments. This moratorium is being announced to allow for the railroad, its customers and key public policy makers from the local, state and national level to join forces to preserve this key central and western Kansas transportation corridor.

This moratorium is for all rail lines in Kansas exclusive of the Jetmore to Hanston and Coats to Protection lines. For these two lines, meetings will be held with shippers and key policy makers during the later part of April and the month of May to determine the fate of these two rail lines. During calendar years 1999 and 2000 there were no car movements on either of these two segments and collectively a decision must be made to decide their future. Before June 1, 2001, a decision must be made as to the future of these lines and then the abandonment moratorium will go into effect.

The Kansas & Oklahoma Railroad is committed to being a partner in preserving these two rail corridors from Coats to Protection and from Jetmore to Hanston, but there must be significant traffic increases on these two lines in order for them to have a sustained future.

Track Capital Expenditures

To insure the viability of light traffic lines, the Kansas & Oklahoma Railroad needs to invest an additional \$16.5 million in capital improvements to keep the rail lines operational. Of this \$16.5 million we are requesting \$3.2 million from the federal government to acquire additional grain cars. From the state of Kansas we are requesting authorization of a Port Authority, which will provide \$3.677 million in capital improvements through property tax abatements. We will also need an additional authority to provide for refundable income tax credit for Class III railroads operating a Port Authority owned track to provide for an additional \$6.1 million in capital improvements.

While we would request this income tax credit be authorized this year for planning purposes, we would not need the fiscal note to impact the state until fiscal year 2003. This capital assistance will allow the Kansas & Oklahoma Railroad to extend the abandonment moratorium past the initial 18 months and extend it for 10 years, based on a basic service agreement by the railroad and a car movement commitment by the customer.

Track and Bridge Capital Improvements by segment

In addition to the basic maintenance plan outline above, the following capital improvements will need to occur in the very early stages of operation in order to keep the Kansas & Oklahoma Railroad viable. The improvements are listed by corridor:

Coats to Rago	\$1,093,250	
Hanston to Larned	\$ 916,250	
Rago to Carvel	\$ 242,950	
Larned to Yaggy	\$2,491,650	
Garden Plain to Kingman	\$ 899,100	
Kingman to Pratt	\$ 929,075	
Osborn to Lincoln	\$1,318,700	
Lincoln to West Salina	\$ 876,250	
Great Bend to Scott City	\$2,369,250	
Wichita to Yaggy	\$1,056,750	
ST. Jct. (Sterling) to Geneseo	\$ 614,615	
Sub-total		\$13,399,455
Protection to Coats	\$2,578,600	
Jetmore to Hanston	\$ 272,250	
Sub-total		\$2,850,850
Total Track and Bridge Capital improvements needed		\$16,250,305
Grain Cars		\$ 3,200,000
Total Capital Improvements needed to sustain entire K&O for first three years of operation		\$19,450.305

Grain Cars

The Kansas & Oklahoma Railroad will move more than 30,000 carloads of grain each year. Providing customers with an enhanced level of service and new markets with its sister railroad, the South Kansas & Oklahoma, the volume of grain reaching new eastern and southern markets is expected to increase significantly. To meet that demand, and to provide customers with the number of cars necessary to meet their needs, the Kansas & Oklahoma Railroad is seeking \$3.2 million from the federal government to purchase 200-grain cars. An additional 200 cars will be leased for 5 months to handle the harvest. This combined with cars from the two class one carriers, UPRR and BNSF, will allow for the reasonable and timely handling of grain movements.

This fleet will move grain interline on the Kansas & Oklahoma as well as off line to eastern Kansas's flourmills and to the Texas and central gulf ports. To handle the volume of grain the Kansas & Oklahoma railroad will have to maintain or have access to a fleet of more than 1,200-grain cars.

Funding

Annual property tax abatement	\$ 300,000
5.25 percent bonds or federal loan	
20-year amortization, quarterly payments	
Net proceeds	\$3,677,503
Annual refundable income tax credit	\$ 500,000
5.25 percent bonds or federal loan	
20-year amortization, quarterly payments	
Net proceeds	\$6,129,172
<u>Total capital improvement assistance</u>	<u>\$9,806,675</u>

Timeline

Monday, April 2, 2001, morning	Contract signed
Monday, April 2, 2001, afternoon	Announce purchase
Monday or Tuesday, April 2-3	Meet with Pittsburg officials
End of week, April 5 or 6	Brief Legislative Committees
Week of April 9	Brief Pittsburg City Commission
	Form Port of Pittsburg, KS
Veto session	Legislature approves Port Authority
	Proposal for income tax rebate
May 2001	Port Authority becomes operational
June 1, 2001	Kansas and Oklahoma Railroad begins operation
	18-month railroad abandonment moratorium takes effect
August 1, 2001	Bonds, loan made for property tax abatement for \$3.6 million
November 1, 2001	First property tax abatement payment due
April 1, 2002	Bonds, loan made for income tax abatement for \$6.1 million
	10-year railroad abandonment moratorium takes effect
July 1, 2002 (State FY 2003)	First income tax abatement payment due

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 Nursery & Landscape Association

Kansas Livestock Association

Kansas Pork Association

Kansas Seed Industry Association

Kansas Soybean Association

Kansas Veterinary Medical Association

Western Retail Implement and Hardware Association

April 5, 2001

Mr. Chairman and Members of the Committee:

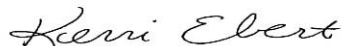
Thank you for the opportunity to express our support for Watco Companies acquisition of the Central Kansas Railway. This Kansas company has made a significant commitment to preserve the rural infrastructure of this state and on behalf of the 21-member organizations of the Kansas Agricultural Alliance, we want to lend our support for their legislative agenda.

Surrounding the new Kansas and Oklahoma Railroad are more than 150 million bushels of wheat and feed grains that must move every year to terminal elevators, flour mills and distant points from their original points of production. Watco Companies has consistently demonstrated in the southeast corner of the state their commitment to making a rail road work for rural communities and agricultural shippers and we believe the Kansas Legislature should take all steps necessary to ensure rail service is maintained along the rail lines recently purchased by WATCO.

It is critical to rural Kansas to secure the long-term preservation of this vital transportation corridor. Members of the Kansas Agricultural Alliance are especially pleased that Watco Companies have pledged to cease consideration of rail road abandonments for 18 months.. This sends the right message to shippers and local officials that the railroad is here to stay and ensures Kansas producers and agribusiness will be maintain a valuable transportation tool and marketing channel for their products.

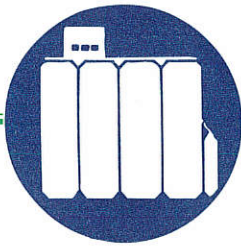
Thank you for opportunity to support this important commitment to rural Kansas.

Sincerely,



Kerri Ebert
KAA President

House Transportation Committee
April 5, 2001
Attachment 2



KANSAS GRAIN AND FEED ASSOCIATION

Chairman Hayzlett and Members of the House Transportation Committee,

Based on the transportation policy adopted by the board of directors of the Kansas Grain and Feed Association, our organization appears in support of H.B. 2586 and HCR 5032. As highlighted in our third policy position statement, our organization supports the continuation of rail service to all current service points where continued past use has been demonstrated and needs for continued service is exhibited. We believe the Watco Companies' purchase of the Central Kansas Rail lines located in southcentral and western Kansas is good news for our shipper members and simply ask for this committee and the Kansas Legislature to help facilitate maintaining rail service to the many Kansas rural communities served by those purchased lines.

Sincerely,

Doug Wareham

Vice President of Government Affairs

KANSAS GRAIN AND FEED ASSOCIATION TRANSPORTATION POLICY

Revised 10/5/00

PREAMBLE

Whereas, Kansas is a major producer and user of various grain and agricultural products, and the Kansas farm economy is dependent upon a fluid market and transportation system and continues to depend on these important segments for the sale, purchasing, and distribution of the agricultural commodities. It will be the purpose of the Kansas Grain and feed Association, through its directors and transportation committee, to help in maintaining a strong and viable transportation system.

The following specific policy was adopted by the Kansas Grain and Feed Association for the purpose of maintaining a strong and viable transportation structure.

POLICY

3. Because farm communities depend on rail transportation as one means of distribution of products, we support the continuation of rail services to all current rail served points, where continued past use has been demonstrated and needs for continued service is exhibited.

House Transportation Committee
April 5, 2001
Attachment 3