

MINUTES OF THE SENATE AGRICULTURE COMMITTEE.

The meeting was called to order by Chairperson Derek Schmidt at 8:30 a.m. on March 7, 2001 in Room 423-S of the Capitol.

All members were present except: Senator Tyson

Committee staff present: Raney Gilliland, Legislative Research Department
Jill Wolters, Revisor of Statutes
Betty Bomar, Secretary

Conferees appearing before the committee:

Jamie Clover Adams, Secretary, Department of Agriculture
Greg Krissek, Director of Operations, Kansas Corn Growers Association
and the Kansas Grain Sorghum Producers Association
Bob Haley, Director of the Division of Administration, Kansas Department
of Transportation
Leslie J. Kaufman, Public Policy Division, Kansas Farm Bureau
Doug Wareham, Kansas Grain and Feed Association

Others attending: See attached list

HB 2011 - Incentives for production of ethanol from agricultural products; amounts; removal of cap; expiration date

Raney Gilliland, Analyst, Department of Legislative Research, explained that **HB 2011** is a product of the Interim Committee on Utilities, and modifies the incentives for the production of ethyl alcohol. Specifically, the bill provides for an incentive of \$.05 for each gallon of agricultural ethyl alcohol sold by current producers to an alcohol blender with an annual cap of \$2 million. After three years, this incentive would end and any money left would be transferred to meet the needs of the new production incentive which increases the incentive on expanded or new production to \$.075 for seven years. The incentive applies to facilities which have new production of at least 5,000,000 gallons. No incentive would be available for new or expanded production over 15,000,000 gallons. The new incentive account would be limited to \$3.5 million raising the dollar amount from the current \$2.5 million, and then the bill distributes \$3.5 million among current producers and new production.

Jamie Clover Adams, Secretary, Kansas Department of Agriculture (KDA), testified in support of **HB 2011**, stating that the Governor announced his support for renewal of the ethanol production tax credit last August and has funded it in his FY 2002 budget. The Administration has not taken a position on increased funding for the incentive fund recently due to the unclear picture of actual state revenues compared to budget projections which has materialized during the last few months.

KDA supports value-added products for Kansas grain producers. **HB 2011** supports the Ethanol Incentive Program to the extent possible under present budget realities and the cap at \$3.5 million annually. (Attachment 1)

Greg Krissek, Director of Operations, Kansas Corn Growers Association and the Kansas Grain Sorghum Producers Association, testified in support of **HB 2011**, stating the legislation is compromise legislation between farm organization, existing ethanol producers, Kansas Department of Transportation and the Kansas Department of Agriculture. All amendments were adopted by the House Committee on Agriculture and subsequently by the full House. The compromise amendments include a dollar cap for the amount of funds the state would need to allocate to the program in any fiscal year, the mix of incentives between current, new or expanded ethanol production, and the minimum and maximum amounts of new capacity which qualify for participation in the program. **HB 2011** incorporates all the compromise amendments.

CONTINUATION SHEET

Mr. Krissek stated **HB 2011** provides Kansas the opportunity to participate in a domestically renewable and environmentally friendly fuel, ethanol, which provides new markets for agricultural products. (Attachment 2) Mr. Krissek further distributed a magazine *Ethanol Fact Book* to individual members of the Committee.

Bob Haley, Director of the Division of Administration, Kansas Department of Transportation (KDOT), testified in support of **HB 2011**, stating KDOT supports the development in Kansas of the production of renewable ethanol and the extension of the current Kansas Qualified Ethyl Alcohol Producers Incentive Program which is scheduled to sunset on July 1, 2001. **HB 2011** amends the Kansas Qualified Ethyl Alcohol Producers Incentive Program by modifying the current incentive payment program to a maximum of \$3.5 million per year and extends the program to July 1, 2011. The current program provides \$2.5 million per year from motor fuel tax receipts and is divided among the Kansas qualified producers on the basis of qualified production, limited to a maximum of \$0.20 per gallon. **HB 2011** increases the cap to \$3.5 million and modifies the distribution formula. (Attachment 3)

Mr. Haley stated KDOT is concerned about the potential the program may have on revenues available for the Comprehensive Transportation Program. Presently, 60% of the motor vehicle tax assessed for the Comprehensive Transportation Program is used for the Producers Incentive Program, and 40% from special funds for cities and counties.

Leslie Kaufman, Kansas Farm Bureau, testified in support of **HB 2011**, stating the language contained in the present bill is a compromise approach accepted by representatives of the ethanol industry, the Kansas Corn Growers Association, the Grain Sorghum Producers Association and the Kansas Farm Bureau. Additionally, **HB 2011** stays within the budgetary parameters KDOT indicates are available for the program.

Converting Kansas grown grain into renewable fuels is extremely important during the time of low grain prices. The use of crop-based fuels can reduce U.S. reliance on foreign oil, expand grain markets, improve air quality and protect water quality. (Attachment 4)

Doug Wareham, Kansas Grain and Feed Association, submitted a written statement in support of **HB 2011**. (Attachment 5)

Bob Totten, Kansas Contractors Association, stated the Contractors were in support of **HB 2011**, however, were concerned regarding the draw down from the Kansas Comprehensive Transportation Fund which is funded only to 2008. The Ethyl Alcohol Producers Incentive Fund is extended to July 1, 2011.

There being no additional conferees to be heard, the hearing was concluded.

HB 2101 Creating the plant pest emergency response fund

Senator Umbarger moved, seconded by Senator Lee that HB 2101 be amended on Page 1, at Line 30, by striking the word "shall" and inserting the word "may". The voice vote was in favor of the motion.

Senator Morris moved, seconded by Senator Umbarger, that HB 2101 be recommended favorably for passage as amended. The voice vote was in favor of the motion.

HB 2011 - Incentives for production of ethanol from agricultural products; amounts; removal of cap; expiration date.

Senator Lee moved, seconded by Senator Morris that HB 2011 be recommended favorably for passage. The voice vote was in favor of the motion.

The meeting was adjourned at 9:10 a.m.

The next meeting is scheduled for March 13, 2001.

STATE OF KANSAS

BILL GRAVES, GOVERNOR

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KANSAS DEPARTMENT OF AGRICULTURE

Senate Agriculture Committee

March 7, 2001

Testimony Regarding House Bill 2011

Jamie Clover Adams, Secretary of Agriculture

Mr. Chairman and members of the committee, I am Jamie Clover Adams, Secretary of Agriculture. As you may know, Governor Graves announced his support for renewal of the ethanol production tax credit last August and he funded it in his FY 2002 budget. However, until recently, the Administration had not taken a position on increased funding for the incentive fund until we had a clearer picture of actual state revenues compared to budget projections. As you are well aware, we face a very difficult situation.

We all agree that ethanol is an important, value-added product for Kansas grain producers. HB 2011 supports ethanol to the extent possible under present budget realities. The Administration supports increasing the cap to \$3.5 million annually, as well as the phase-out of the incentive for existing producers to free funds in the out years for new ethanol production.

The committee also should remember that HB 2011 is not the only bill affecting ethanol being considered this session. For example, yesterday the House Environment Committee passed SB 37 which bans the use of MTBE in Kansas and provides an opportunity for ethanol to become the oxygenate of choice in Kansas fuels. The legislature is also considering bills addressing property tax breaks for new ethanol production, as well as an ethanol-blend requirement for state fuel purchases.

I appreciate the opportunity to express our support for HB 2011. I will stand for your questions at the appropriate time.

Senate Agriculture Committee

Date *3-07-01*

Attachment # */*



Testimony Regarding House Bill No. 2011 Before the Senate Agriculture Committee March 7, 2001

Good morning Chairman Schmidt and members of the Senate Agriculture Committee, my name is Greg Krissek. I am Director of Operations for the Kansas Corn Growers Association and the Kansas Grain Sorghum Producers Association. I appreciate the opportunity to make comments in support of HB 2011 as amended on behalf of the proponents of this legislation.

Last fall the Special Committee on Utilities proposed HB 2011 for the renewal and revision of Kansas' ethyl alcohol production incentive. Provisions of the legislation included an increased incentive to ethanol producers that construct or increase production – this would apply to new plants built or to expansion of existing plants – while also maintaining a reduced incentive for existing ethanol producers.

After the initial hearing before the House Committee on Agriculture, the interested parties, including the organizations I represent, other farm organizations, existing ethanol producers, and representatives of the Kansas Department of Transportation and the Kansas Department of Agriculture agreed to the amendments and the language in the bill currently before you for consideration. All amendments considered were adopted by the House Committee and subsequently by the full House of Representatives.

These amendments include a dollar cap for the amount of funds the state would need to allocate to the program in any fiscal year, the mix of incentives between current and new or expanded ethanol production, and the minimum and maximum amounts of new capacity which would qualify for participation in the program. I am pleased to say that these parties stand before you today in agreement, that HB 2011 as amended, is compatible with the intent of these parties, and we believe it remains consistent with last fall's legislative deliberations. Those intentions, as we understand them, were to maintain current capacity and to encourage expanded ethanol production in the state because it serves as a prime example of a value-added, industrial use for agricultural products.



There continues to be an extremely high level of interest among Kansas communities in maintaining, expanding, and promoting ethanol production. The availability of a consistent and reliable state incentive program, as proposed in the current language of HB 2011, is key to the creation and existence of ethanol production in Kansas. It is key both for financial reasons and for reflecting the commitment of public partners to the support of this type of endeavor. The economic benefits for employment, suppliers, agriculture, and associated industries that accrue to communities far outweigh the level of the incentive payments received by production facilities.

Today Kansas has the opportunity to participate in this viable opportunity called ethanol - a domestically renewable and environmentally friendly fuel that helps provide new markets for agricultural products. Other states nearby are either already taking advantage or are preparing to support ethanol production incentives because of the many positive benefits created by this industry. We encourage you to do the same by recommending HB 2011 favorable for passage.

Thank you for the opportunity to make these comments and I will try to answer any questions concerning this testimony.

STATE OF KANSAS



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**TESTIMONY BEFORE
SENATE AGRICULTURE COMMITTEE**

**REGARDING HOUSE BILL 2011 AS AMENDED BY HOUSE COMMITTEE ON
AGRICULTURE
CHANGES TO THE KANSAS QUALIFIED ETHYL ALCOHOL PRODUCERS INCENTIVE
PROGRAM**

MARCH 7, 2001

Mr. Chairman and Committee Members:

I am Bob Haley, Director of the Division of Administration, Kansas Department of Transportation. On behalf of the Department, I am here today to testify on House Bill 2011 as amended by House Committee on Agriculture regarding the changes to the Kansas Qualified Ethyl Alcohol Producers Incentive Program.

The current Kansas Qualified Ethyl Alcohol Producers Incentive Program is scheduled to sunset on July 1, 2001. The Governor and the Department are supportive of the development in Kansas of the production of renewable ethanol and support the extension of the current program. KDOT's projections for the Comprehensive Transportation Program assumed that the current incentive program would not sunset during the life of the Comprehensive Transportation Program.

House Bill 2011 as amended by House Committee on Agriculture would amend the Kansas Qualified Ethyl Alcohol Producers Incentive Program by modifying the current incentive payment program to a maximum of \$3,500,000 per year and extending the program to July 1, 2011.

The current incentive program provides \$2.5 million per year from the motor fuel tax receipts. This amount is divided among the Kansas qualified ethyl alcohol producers on the basis of qualified production, limited to a maximum of \$0.20 per gallon. House Bill 2011 as amended by House Committee on Agriculture, would increase the cap to \$3,500,000 and modify the distribution formula.

Even though we are supportive of the development of Kansas' ethanol fuels, we are concerned about bills that have the potential to impact the revenues available for the Comprehensive Transportation Program. However, the Department has agreed to the proposed compromise to the incentive program as contained in House Bill 2011 as amended by House Committee on Agriculture

Senate Agriculture Committee

Date 3-07-01

Attachment # 3



PUBLIC POLICY STATEMENT

SENATE COMMITTEE AGRICULTURE

RE: HB 2011 - Expanding the agricultural ethyl alcohol production incentive program.

**March 7, 2001
Topeka, Kansas**

**Presented by:
Leslie J. Kaufman, Associate Director
Public Policy Division
Kansas Farm Bureau**

Chairman Schmidt and members of the committee, we certainly appreciate this opportunity to express support for HB 2011 on behalf of the farm and ranch members of Kansas Farm Bureau. I am Leslie Kaufman and I serve Kansas Farm Bureau as Associate Director of the Public Policy Division.

HB 2011 extends the current production incentive for distilling agricultural ethyl alcohol another 3 years. As an incentive to encourage more ethyl alcohol production, the bill also implements an incentive for new production. The language you have before you is a compromise approach accepted by representatives of the ethanol industry, the Kansas Corn Growers Association, the Grain Sorghum Producers Association and Kansas Farm Bureau. Additionally, the bill stays within the budgetary parameters the Kansas Dept. of Transportation has indicated they can make available.

Kansas Farm Bureau has steadfastly supported various initiatives to foster and promote the production and use of crop-based fuels over the years. We have been strong supporters of the current state agricultural ethyl production incentive program and advocated for its extension each time it has been up for renewal. This year alone, we have expressed support of at least eight different bills relating to the production and use of agriculture-based renewable fuels, such as ethanol or biodiesel.

Senate Agriculture Committee

Date 3-07-01

Attachment # 4-1 thru 4-2

The voting delegates at the 82nd Annual Meeting of Kansas Farm Bureau, who are agricultural producers, reaffirmed and strengthened our commitment for initiatives that can increase renewable fuel use. Kansas Farm Bureau strongly encourages increased efforts to develop, promote and utilize traditional and alternative products derived from the crops and livestock produced by our state's farmers and ranchers.

Converting Kansas grown grain into renewable fuels is one such initiative. This action is extremely important during this time of low grain prices. The use of crop-based fuels can reduce U.S. reliance on foreign oil, expand grain markets, improve air quality and protect water quality.

Farm Bureau policy supports consumer education, promotion efforts and tax credits to expand the production and use of crop-based alternative fuels. Agriculture producers need a variety of markets and uses for their Kansas-grown products.

We believe promoting ethanol production and use in Kansas, through programs such as the agriculture ethyl alcohol incentive program, will have positive impacts on agriculture producers, the Kansas economy and the Kansas environment. We encourage the committee to look favorably on the concepts now contained in HB 2011. Thank you.

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Statement of the
Kansas Grain and Feed Association

Presented to the

Senate Agriculture Committee

Senator Derek Schmidt, Chairman

Regarding

House Bill 2011

March 7, 2001

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



Senate Agriculture Committee

Date *3-07-01*

Attachment # *5-1 thru 5-2*

This statement is submitted on behalf of 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.

KGFA appreciates the opportunity to offer comments in support of House Bill 2011, which would extend and enhance the Kansas Qualified Agricultural Ethyl Alcohol Producers Incentive Fund initially created by the Kansas Legislature in 1987. The Kansas Ethanol Industry is vitally important to agricultural producers and the commercial grain trade in Kansas. While Kansas' four existing ethanol plants have created a stable market for roughly 15 million bushels of Kansas grain each year, it is important to specifically note that the presence of the ethanol industry has also provided a much needed market for poor quality grain that doesn't meet traditional marketing standards.

The importance of having a market for poor quality grain has become paramount during recent years, as grain production in Kansas has exceeded the commercial grain storage industry's ability to store grain. The fact that during the past three fall harvest seasons in Kansas, over 176,000,000 bushels of grain was stored under emergency conditions (typically piled on the ground) only reinforces the importance of the market provided by the Kansas Ethanol Industry for grain that has deteriorated to a level that makes it unmarketable in traditional market channels. In addition to providing an additional market for Kansas grain, the presence of a strong ethanol industry increases net farm income, strengthens employment percentages, adds to tax receipts, improves our country's balance of trade and reduces our state and country's demand for foreign oil.

Therefore, the Kansas Grain and Feed Association encourages the Kansas Legislature to continue its support of Kansas Qualified Agricultural Ethyl Alcohol Producers Incentive Fund and hopes the Legislature will act favorably on House Bill 2011, which not only extends the program for existing production, but provides added incentives for increased or new production within Kansas borders.

For information please contact Doug Wareham, KGFA's Vice President, Government Affairs at (785) 234-0461 (office) or (785) 224-1848 (mobile).