

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 10:45 a.m. on January 29, 2002, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department  
April Holman, Legislative Research Department  
Don Hayward, Revisor of Statutes Office  
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Mike Reeht, AT&T  
Richard Cram, Kansas Department of Revenue  
Susan Mahoney, Office of the Governor  
Ed McKechnie, Watco Transportation Services  
Doug Wareham, Kansas Grain and Feed Association  
Charlie Swayze, Farmers Coop Equity Co. of Isabel and  
Kansas Rail Users Association  
Leslie Kaufman, Kansas Farm Bureau  
Marlee Carpenter, Kansas Chamber of Commerce & Industry  
Tom Whitaker, Kansas Motor Carriers Association  
Don Lindsey, United Transportation Union

Others attending: See attached list.

Mike Recht, representing AT&T, requested the introduction of a bill which would amend K.S.A. 79-3603, subsections (b) and (u), relative to the taxation of prepaid calling cards. A copy of the proposed amendments was attached to his written request. (Attachment 1)

Senator Taddiken moved to introduce the bill as requested by Mr. Recht, seconded by Senator Donovan. The motion carried.

Richard Cram, Kansas Department of Revenue, requested the introduction of a bill which would convert the local and state sales tax on gross receipts from sales of water, electricity, natural gas, propane, LP gas, coal, and wood to a separate excise tax. The bill would also give the Secretary authority to require electronic filing of returns, which would significantly improve the Department's efficiency in processing returns for utilities. He explained that, by carving these products from the sales tax act and setting up a separate excise tax for them, the bill would address the requirement in the Streamlined Sales Tax Agreement that the sales tax basis at the state and local level be the same. The effective date would be January 1, 2003.

Senator Donovan moved to introduce the bill requested by Mr. Cram, seconded by Senator Clark. The motion carried.

Senator Allen moved to introduce a bill which would convert the current method of taxing sales of residential natural gas to the volumetric method, seconded by Senator Donovan. The motion carried.

**HB 2586—Income tax credits for payments to certain port authorities**

Susan Mahoney testified in support of **HB 2586** on behalf of the Governor. She expressed the Governor's belief that short line railroads must be preserved in order to help rural Kansans. (Attachment 2)

## CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:45 a.m. on January 29, 2002, in Room 519-S of the Capitol.

Ed McKechnie testified in support of **HB 2586** on behalf of Watco Transportation Services, the holding company of the Kansas & Oklahoma Railroad (K&O) and the South Kansas & Oklahoma Railroad (SK&O). He noted that the intent of the bill was to help Watco rebuild the railroads into viable and profitable companies. For the Committee's information, he called attention to a map of the railroads, a cost benefit analysis of the K&O Railroad prepared by the Kansas Department of Transportation, and a comparison of cargo capacities prepared by the Iowa Department of Transportation. He went on to explain that the bill would bring a package of projects to the City of Pittsburg Port Authority for consideration. Bonds will be issued, and the Port will begin paying for the projects as they progress. He said that the tax credit portion of the bill is basically an implied guaranteed reimbursement for as long as the K&O makes the bond payment. The guarantee allows the K&O approximately \$1 million in interest costs over the life of the bond. He emphasized that the refundability clause is not a guarantee as the company will not receive any dollars from the state unless track improvements are made and the bonds are paid. Mr. McKechnie requested that the bill be amended to avoid the payment of federal income taxes by allowing the tax credit to be converted to a capital contribution, which is not taxable under the IRS code. (Attachment 3) Committee questions followed at which time Mr. McKechnie stated that Watco would be willing to accept a non-refundable tax credit and that the possibility of deferring the tax credit for one year was also acceptable.

Doug Wareham, representing the Kansas Grain and Feed Association and the Kansas Agribusiness Retailers Association, testified in support of **HB 2586**, although he could not endorse the refundable guarantee provision. He emphasized that, while the refundable language should be reviewed, there is a need for a commitment from the state with respect to the rail lines presently operated by the K&O Railroad. He noted that the income tax credit will benefit both the K&O Railroad and the numerous rural communities that depend upon the rail lines for shipping and receiving products. He called attention to a list of agricultural shippers located on lines currently operated by the K&O Railroad, noting that the significant number of rail users clearly demonstrates the need for continued rail service for the firms and their farmer customers who depend upon them as markets for their raw commodities. (Attachment 4)

Charlie Swayze, representing the Farmers Coop Equity Company of Isabel and the Kansas Rail Users Association, testified in support of **HB 2586**. He informed the Committee that the Central Kansas Railway did not properly maintain the tracks in the ten-year period it owned the lines. As a result, the speed on the tracks was reduced from 30 miles per hour to 5 miles per hour in most cases. He noted that Watco has consistently demonstrated its commitment to rural communities and agricultural shippers since taking over the lines on June 30, 2001. He emphasized that the bill is a step to ensure that essential rail service will be maintained in rural Kansas. (Attachment 5)

Leslie Kaufman, Kansas Farm Bureau, testified in support of **HB 2586**. She pointed out that maintaining efficient and effective rail service in Kansas is extremely critical to the Kansas agriculture industry. She noted the abandonment of several miles of rail corridor over the past several years has reduced the agricultural producers' transportation options and diminished competition within the transportation industry. The Kansas Farm Bureau is encouraged by Watco's plans for maintaining service to a significant portion of the state. The Bureau supports tax incentives to railroad companies that agree to upgrade lines and provide long-term service to shippers. (Attachment 6)

Marlee Carpenter, Kansas Chamber of Commerce and Industry, testified in support of **HB 2586**. She noted that short line rail service is very important to many Kansas communities as short line rail not only carries grain but also chemicals, rocks, and other products important to Kansas' economy. (Attachment 7)

Senator Corbin called the Committee's attention to copies of written testimony in support of **HB 2586** submitted by Joe Lieber, Kansas Cooperative Council. Mr. Lieber notes that the K&O Railroad has more than 900 miles of track and will provide service to 50 of his members. He also notes that the Council is pleased that Watco issued a moratorium on the abandonment of tracks for 18 months to allow the railroad, its customers, and key public policy makers an opportunity to join together to preserve rail transportation in central and western Kansas. (Attachment 8)

CONTINUATION SHEET

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 10:45 a.m. on January 29, 2002, in Room 519-S of the Capitol.

Tom Whitaker, Kansas Motor Carriers Association (KMCA), testified in opposition to **HB 2586**. In his opinion, it is bad public policy for the state to invest in a private transportation company without any guarantee of a return on the investment of a total of \$10 million in tax credits. In addition, he believes that the bill is an end-run around the internal improvement section of the Kansas Constitution which prohibits the state from using general property tax revenues or general obligation bonds to fund internal improvements for economic development purposes. He noted that Kansas would not be issuing bonds but would be providing unencumbered revenue for the retirement of such bonds. He pointed out that KMCA supported **HCR 5032**, which allowed the creation of the port authority to help in the development of a portion of the former Central Kansas and that authorization of the port authority will provide \$3.677 million in capitol improvements through property tax abatements. In addition, the Department of Transportation has offered a \$11.5 million grant from the short line railroad revolving loan fund for capitol improvements. In conclusion, he commented that, with anywhere from \$200 million to \$400 million in proposed budget cuts and a significant proposed cut in the Comprehensive Transportation Plan, this is not the time to further reduce available general fund dollars by granting a \$10 million refundable income tax credit. (Attachment 9)

Don Lindsey, Untied Transportation Union, testified in opposition to **HB 2586**. He contended that the loss in revenue resulting from the provisions in the bill and from the 20-year exemption from property taxes for the newly created City of Pittsburg Port Authority will have to be made up by taxpayers in various local communities. He noted that any increase in property taxes caused by a loss in revenue would work a hardship on many Kansas citizens who are living on fixed incomes. Furthermore, he believes any erosion in the tax base would be ill advised at a time when the state is facing budget constraints. In his opinion, Watco should have no problem obtaining investment capital from the federal or private sector if its operating plan is sound. In conclusion, Mr. Lindsey called attention to a statement attached to his written testimony regarding rail infrastructure needs which was prepared by the acting deputy administrator for the Federal Railroad Administration, S. Mark Lindsey, for the federal Transportation and Infrastructure Committee Subcommittee on Railroads. (Attachment 10)

There being no others wishing to testify, the hearing on **HB 2586** was closed.

The meeting was adjourned at 11:25 a.m.

The next meeting is scheduled for January 30, 2002.

SENATE ASSESSMENT AND TAXATION COMMITTEE  
GUEST LIST

DATE: January 29, 2002

NAME	REPRESENTING
Richard Crum	KDOR
Ed McKechnie	WATCO
Charlie Swartz	Formers Crop Isakel
Steve Bittel	Kansas Rural Development Council
DON LINDSEY	UTU
Leslie Kaufman	Ks Farm Bureau
Marlee Carpenter	KCCI
Shawn Hennessee	Greater KC Chamber
BILL YANEK	KS Assn of REALTORS
GEORGE PETERSEN	Ks Taxpayers Network
Matt Bergerson	Pat Hubbell Assoc.
Pat Hubbell	KS Railroads
Whitney Dauran	KS Gas Service
Steve Johnson	Kansas Gas Service
Deann Williams	Kansas Motor Carriers Assoc.
Christi Stewart	KS Motor Carriers Assoc.
Tom Whitaker	KS Motor Carriers Assn.
Mule Reeder	AT&T
Mule Hein	Hein & LeDey, Chtd



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**MIKE REECHT**  
GOVERNMENT AFFAIRS CONSULTANT

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SUITE 230  
LEAWOOD, KANSAS 66206  
(913) 649-6836

Before the Senate Assessment and Taxation Committee  
Regarding Bill Introduction  
on the Taxation of Prepaid Calling Cards

January 29, 2002

Mr. Chairman and Members of the Committee:

My name is Mike Reecht and I appear before you today on behalf of AT&T to request a bill introduction.

Kansas passed legislation in 2000 regarding the taxation on the sale of Prepaid Calling Cards. Changes in the marketing of these cards has necessitated a modification to the language that passed in 2000 to insure that the sale of all prepaid calling cards continue to be taxed.

I have attached those sections of KSA 79-3603 that require amendatory language. They are specifically subsections (b) and (u).

I would request the Committee introduce a bill amending existing law relative to the taxation of Prepaid Calling Cards. I would be happy to answer any questions the committee might have.

*Senate Assessment & Taxation  
1-29-02  
Attachment 1*

K.S.A. 79-3603 ...

(b) (1) the gross receipts from intrastate telephone or telegraph services and (2) the gross receipts received from the sale of interstate telephone or telegraph services, which (A) originate within this state and terminate outside the state and are billed to a customer's telephone number or account in this state; or (B) originate outside this state and terminate within this state and are billed to a customer's telephone number or account in this state except that the sale of interstate telephone or telegraph service does not include: (A) Any interstate incoming or outgoing wide area telephone service or wide area transmission type service which entitles the subscriber to make or receive an unlimited number of communications to or from persons having telephone service in a specified area which is outside the state in which the station provided this service is located; (B) any interstate private communications service to the persons contracting for the receipt of that service that entitles the purchaser to exclusive or priority use of a communications channel or group of channels between exchanges; (C) any value-added nonvoice service in which computer processing applications are used to act on the form, content, code or protocol of the information to be transmitted; (D) any telecommunication service to a provider of telecommunication services which will be used to render telecommunications services, including carrier access services; or (E) any service or transaction defined in this section among entities classified as members of an affiliated group as provided by federal law ([26] U.S.C. Section 1504). For the purposes of this subsection the term gross receipts does not include purchases of telephone, telegraph or telecommunications using a prepaid telephone calling card or prepaid authorization number. As used in this subsection, a prepaid telephone calling card or prepaid authorization number means the right to exclusively make telephone calls, paid for in advance, ~~with the prepaid value measured in minutes or other time units,~~ that enables the origination of calls using an access number or authorization code or both, whether manually or electronically dialed;

K.S.A. 79-3603 . . .

(u) the gross receipts received from the sale of prepaid telephone calling cards or prepaid authorization numbers and the recharge of such cards or numbers. A prepaid telephone calling card or prepaid authorization number means the right to exclusively make telephone calls, paid for in advance, ~~with the prepaid value measured in minutes or other time units,~~ that enables the origination of calls using an access number or authorization code or both, whether manually or electronically dialed. If the sale or recharge of such card or number does not take place at the vendor's place of business, it shall be conclusively determined to take place at the customer's shipping address; if there is no item shipped then it shall be the customer's billing address.



STATE OF KANSAS

BILL GRAVES, Governor  
State Capitol, 2nd Floor  
Topeka, Kansas 66612-1590



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OFFICE OF THE GOVERNOR

TO: Senator David Corbin, Chairman  
Senate Taxation Committee

FROM: Susan Mahoney, Governmental Affairs  
Office of the Governor

DATE: January 29, 2002

SUBJECT: HB2586

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Senator Corbin and Members of the Committee:

I am Susan Mahoney and I am here on behalf of Governor Graves testifying in support of HB 2586.

In his State of the State message, the Governor spoke of his concern regarding rural counties in Kansas. He said, "The rhetoric of a declining rural Kansas has gone on long enough. The reality is stark. We can and must provide rural Kansas the tools to rebuild." One of the tools he recommended was to provide railroad tax credits for restoring and rebuilding our rural railroad infrastructure.

Although I am not here to speak to specifics of the bill, I am here to express the Governor's belief that short-line railroads must be preserved in order to help rural Kansans. I hope you will give positive consideration to HB2586.

Thank you.

Senate Assessment & Taxation  
1-29-02  
Attachment 2

# The Kansas & Oklahoma Railroad

January 29, 2002

To: Members of the Kansas Senate Assessment and Taxation Committee  
From: Ed McKechnie  
Director of Government Affairs  
K&O and SK&O Railroads  
Re: HB 2586, Shortline Railroad Income Tax Credits

Mr. Chairman and members of the Committee:

My name is Ed McKechnie and I am present on behalf of the employees and owners of Watco Transportation Services, the holding company of the Kansas & Oklahoma Railroad, and the South Kansas & Oklahoma Railroad. We support HB 2586 and ask for your help as we work to rebuild these transportation corridors into viable and profitable companies. In your packet I have provided you with three items:

- A map of our railroads
- A cost benefit analysis of the K&O Railroad prepared by KDOT
- A comparison of cargo capacities prepared by the Iowa DOT

## K&O background

The K&O purchased the former Central Kansas Railroad on June 28, 2001, after working with shipper groups, community advocates, legislators and the Graves administration to preserve rail service in central and western Kansas. The CKR had recently unveiled plans to abandon the railroad west of Hutchinson, north of Salina, and southwest of Kingman. These groups that I have mentioned worked hard to make sure that didn't happen.

On June 29, 2001, the K&O began operations and began working hard to share our core principles with our new customers, employees, and the communities we serve. Those core principles are:

- Improved customer satisfaction
- Improved profitability
- Do both for the long term

The K&O is a railroad, not a real estate company. We did not buy the railroad to abandon it, we bought it to operate it and grow the business by serving our customers. That is our commitment, and it is a commitment for the long-term. We are growing the business, but the condition of the rail necessitates significant capital improvements.

*Senate Assessment & Taxation  
1-29-02  
Attachment 3*

## **The need for HB 2586**

HB 2586 is a way for the state of Kansas to preserve large portions of the Kansas & Oklahoma Railroad in tight budgetary times. Rather than the state providing the money for the track improvements, this mechanism reimburses the K&O for making the improvements.

Corridors that are candidates to receive funding under this mechanism are: Great Bend to Larned; Larned to Hanston; Great Bend west to Scott City; Salina to Osborne; Kingman to Pratt; and Kingman to Coats. Unless these corridors receive significant improvement during the next 24 months they are prime candidates for abandonment.

These corridors need significant work in order to preserve their existence. These will be projects that will be significant in nature, that will replace enough ties in a corridor to increase track speed, and do other things like, replace rail, tamp, etc.

There will also be necessary work in southeast Kansas on the route to the Tulsa Port of Catoosa, which is a new destination for western Kansas shippers. This opens the central gulf ports of Reserve, La., and New Orleans, La., as final destinations

## **How the bill works**

After HB 2586 becomes law, the K&O will bring a package of projects to the City of Pittsburg, Kansas, Port Authority for consideration. Bonds will be issued and the Port will begin paying for projects as they progress.

If the bonds are issued in the fall of 2002, the K&O will make its first bond payment on Dec. 31, 2002 – tax year 2002. Then, on our income tax form that we will submit in 2003 we will claim a tax credit of \$500,000 for the payment we made on Dec. 31, 2002.

One element of this proposed law that has raised questions is the refundability portion. This tax credit is basically an implied guaranteed reimbursement for as long as the K&O makes the bond payment. This implied guarantee allows us to save about \$1 million in interest costs over the life of the bond and install an additional 25,000 ties. That equates to bringing 25 miles of the railroad to better than 25 mph or 75 miles to a solid 10 mph. We currently have several stretches of track where operating conditions are at less than 10 mph.

I want to emphasize that the refundability clause is not a guarantee, merely an implied guarantee as long as the company makes the bond payment. The company will not receive any dollars from the state unless the track improvements are made and the bonds are paid.

The public policy question is should we pay a higher interest rate or should we invest additional dollars into the rail lines? We believe we can make significant improvement in the rail lines with the refundable portion, but if it is necessary to remove that element, we still believe the tax credit can make a long-term difference.

### **Capital Contribution**

One change we would request in the bill is assistance in avoiding the payment of federal income taxes. As a straight income tax credit our federal tax liability is increased, with 34 percent of the Kansas tax credit being paid to the federal government.

That was not our intention and do not believe it to be the intention of the Kansas Legislature to increase the flow of tax dollars to Washington, D.C. We suggest a provision allowing the tax credit to be converted to a Capital Contribution, which is not taxable under the IRS code. The mechanics of the bill would remain the same – whether the refundable portion of the bill is maintained or not – it would simply allow us not to pay the federal government tax on the Kansas Credit.

I will provide that language to the committee at your request.

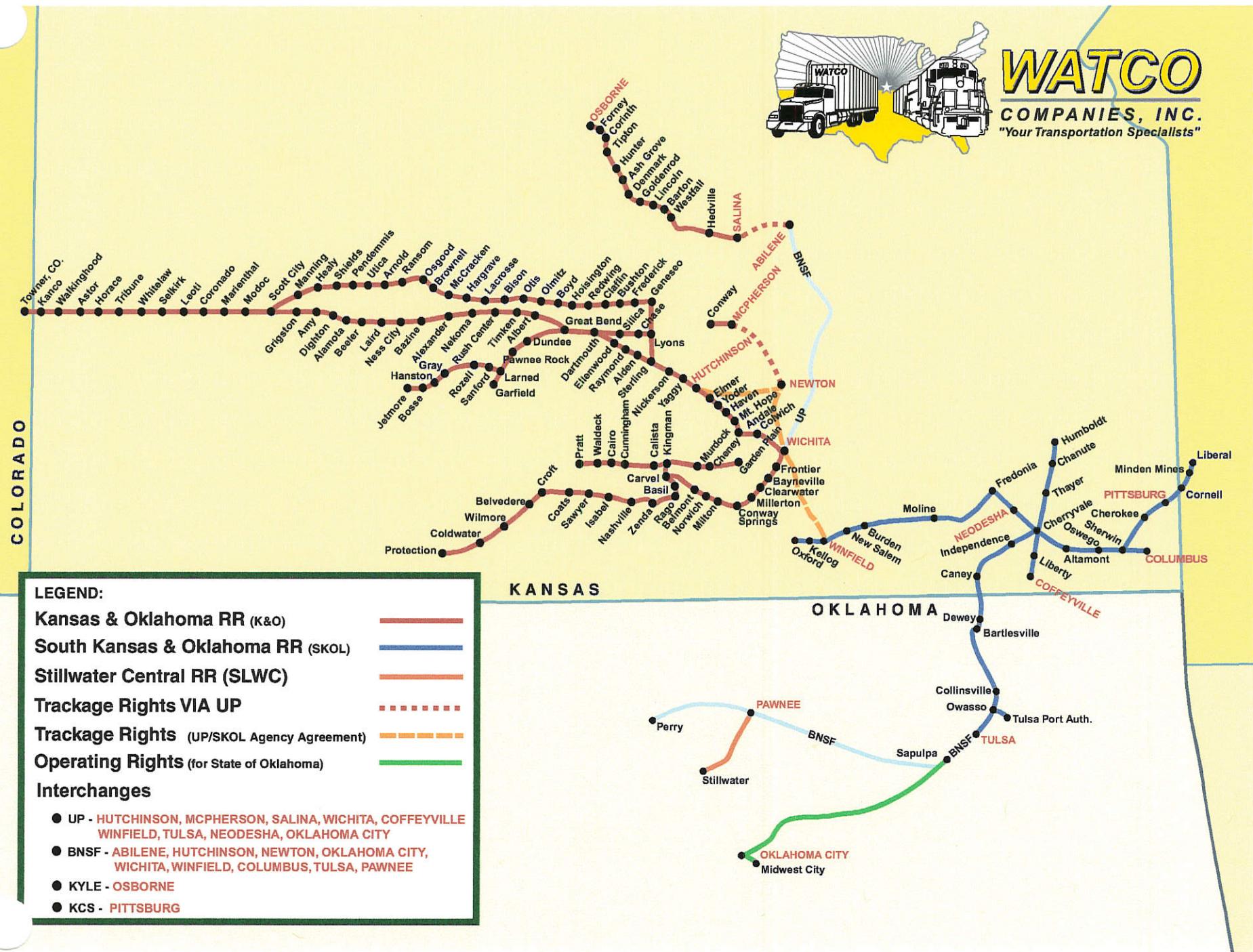
### **Cost Benefit Analysis**

The Cost Benefit Analysis provided by the Department of Transportation is for the entire K&O Railroad and is especially helpful in understanding the impact of the K&O as a transportation corridor. As you will note on the last page KDOT estimates a 55-1 Cost Benefit Ratio for investments in the K&O.

Thank you for your interest in transportation and your commitment to the rural Kansas economy.



**WATCO**  
**COMPANIES, INC.**  
 "Your Transportation Specialists"



COLORADO

KANSAS

OKLAHOMA

**LEGEND:**

- Kansas & Oklahoma RR (K&O)** —
- South Kansas & Oklahoma RR (SKOL)** —
- Stillwater Central RR (SLWC)** —
- Trackage Rights VIA UP** - - - - -
- Trackage Rights (UP/SKOL Agency Agreement)** - - - - -
- Operating Rights (for State of Oklahoma)** —

**Interchanges**

- UP - HUTCHINSON, MCPHERSON, SALINA, WICHITA, COFFEYVILLE  
 WINFIELD, TULSA, NEODESHA, OKLAHOMA CITY
- BNSF - ABILENE, HUTCHINSON, NEWTON, OKLAHOMA CITY,  
 WICHITA, WINFIELD, COLUMBUS, TULSA, PAWNEE
- KYLE - OSBORNE
- KCS - PITTSBURG

7-9

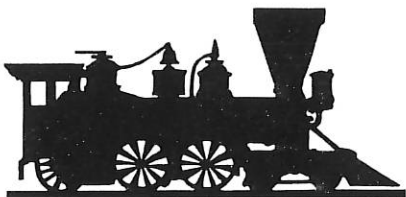
## COST BENEFIT ANALYSIS REPORT

RAILROAD NAME: Kansas and Oklahoma Railroad  
 LENGTH OF LINE 545.00 MILE POST (S) N/A  
 Subdivision: Statewide  
 Location: Statewide Project Number

SEGMENT POINT (Mile Post)	ESTIMATED OR REPORTED CARLOADS	ESTIMATED TONS PER CARLOADS	TOTAL TONS (1,000)	RAIL MILES	LOADED RAIL TON MILES (1,000)
Bridge Traffic	25,414	80.54 *	2,046.84	545.00	1,115,530
<b>TOTAL</b>	<u>25,414</u>		<u>2,046.84</u>		<u>1,115,530</u>

Carloads per Mile = 47

\* 111.64 average total wt. - 31.10 average car



## TRUCK TRAFFIC ANALYSIS

RAILROAD NAME: **Kansas and Oklahoma Railroad**

**Location:** Statewide

Mile Post (s) N/A

BEGINNING SEGMENT POINT (Mile Post)	Terminal Point	Truck Miles	Tons Hauled (1,000)	Truck Miles Tons)	Ton- (Miles * (1,000)
Bridge Traffic	Statewide	1193	2,046.84	2,441,884.37	
TOTAL			<u>2,046.84</u>	<u>2,441,884.37</u>	

### TRUCKING JOBS CREATED

SEGMENT POINT (Mile Post)	Terminal Point	(a) Truck Miles	(b) Time Per Trip (a/25)+1	(c) Days Per Load (b)/7.5	(d) Car Loads	(e) Truck Loads 3.5 Car (d)*3.5	(f) Days Annual (Trip X Loads) (c)*(e)	(g) Number of jobs needed 260 days (f)/260
Bridge Traffic	Statewide	1193	48.72	6.50	25,414	88,949	577,813	2222.36
<b>TOTAL</b>					<b>25,414</b>	<b>88,949</b>		<b>2,222</b>

TOTALS DEFINED:

Time per Trip= 1 Hour to load and unload  
 Truck Miles / 25 MPH = Time in transit  
 (50 MPH round trip)

Trips per Day = 7.5 hrs w/ 1/2 hr lunch

Avg. Trucking Salary =	\$27,932	= (\$10.33 Hr. x 1.30 Benefit x 8 hours per day x 260 days per year)
Trucking Jobs Created =	2.222	
Income Value	\$62,075.574	



## INCOME AND EMPLOYMENT EFFECTS

Average Rail Job =	\$29,744	= (\$11.00 Hours x 1.30 Benefit
Rail Jobs lost =	<u>108</u>	x 8 hours x 312 * days per year)
	<u>\$3,212,352</u>	

Trucking Jobs Income Created:	\$62,075,574 (see page 3)
Rail Jobs Income Lost:	<u>\$3,212,352</u>
Net Income Loss	<u>(\$58,863,222)</u>

\* Use 312 work day instead of 260 because of prescribed operation

## HIGHWAY IMPACTS

Truck Miles (see Page 2)	Ton-		Bushels per Ton	=	Bushel per Mile
2,441,884.37	X		33.33	=	81,388,005.95

Bushel per Mile		Cost per Bushel per Mile					
81,388,005.95	X	0.0011	=	\$89,526.81	X 1,000	=	\$89,526,807

**Extra Handling Costs**

(1) Additional Handling Costs:  
\$1.65 per ton handled for trucks

Total Tons Hauled		Extra Handling Costs					
2,046.84 (page 1)	X	\$1.65	=	\$3,377.29	X 1,000	=	\$3,377,292

(2) Additional Paper Work:

	Cost Per Carload		Number of Shipments		
Rail	\$25.00	X	25,414	=	\$635,350.00
Truck	\$25.00	X	88,949	=	\$2,223,725.00
Net Effect					\$1,588,375.00

Total Extra Handling Costs = \$4,965,666.87

## TRANSPORTATION EFFICIENCY BENEFITS

Rail Ton per Mile at:	\$0.0247	per mile	
Rail Ton per Miles	1,115,529.74	per 1,000	
	<u>\$27,553.58</u>		
	<u>1.000</u>	adjusted for 1,000	
Rail Transportation Costs	<u>\$27,553.585</u>		
Truck Ton per Mile at:	\$0.0501	per mile	
Estimated Truck Ton-Miles	2,441,884.37	per 1,000	
	<u>122,338.41</u>		
	<u>1.000</u>	adjusted for 1,000	
Truck Transportation Costs	<u>\$122,338,406.79</u>		
NET (TRUCK minus RAIL)	<u>\$94,784,822.21</u>		

### RAIL ACQUISITION COST

Acquisition Cost	<u>\$11,500,000.00</u>		
Miles	545.00		
			\$21,100.92 Cost per mile Acquisition

## NET LIQUIDATION VALUE

	Relay		Scrap	
<b>MILES</b>		Lb of Rail	0	Lb of Rail
	17	Miles/112 lb.	156	Miles/90 lb.
	39	Miles/110 lb.	185	Miles/85 lb.
			71	Miles/75 lb.
			77	Miles/70 lb.
	<u>56</u>	Total Relay Miles	<u>489</u>	Total Scrap Miles
Tons per Mile	257.23	112 lb	197.23	90 lb
	252.07	110 lb	188.46	85 lb
			165.83	75 lb
			154.52	70 lb
	4,372.91		30,767.88	
	9,830.73		34,865.10	
			11,773.93	
			11,898.04	
	=====		=====	
Total Tons	14,203.64		89,304.95	
	=====		=====	
<b>COSTS</b>				
Removal Cost/Mile	\$3,930		\$3,930	
Miles	56		489	
	=====			
Total Removal	\$220,080		\$1,921,770	
	=====			
Shipping Costs				
95 tons per car =	149.51	Cars needed	940.05	
Cost per Car	\$1,100		\$1,100	
	=====			
	\$164,463		\$1,034,057	
	=====			
TOTAL COSTS	\$384,543		\$2,955,827	
	=====			
<b>REVENUE</b>				
No. Tons	14,204		89,305	
Scrap Value/Ton	\$300		\$80	
Rev. From Sale	<u>\$4,261,092</u>		<u>\$7,144,396</u>	
NET VALUE	\$3,876,549		<u>\$4,188,569</u>	
NET LIQUIDATION VALUE			<u>\$8,065,117</u>	

**PROJECT BUDGET ITEM COSTS**

RAILROAD NAME: Kansas and Oklahoma Railroad

Item	Unit	Miles	Number	Unit Price	Total Cost
		545.00			
Rail relay					\$0.00
Track Spikes					\$0.00
Spike (Plugs)	Plugs				
Joint Bars (lb.)	lbs.				
Insulated Joint					
Bolts					
Tie Plates (lb.)	lbs.				\$0.00
Frogs					
Rail Anchors					\$0.00
Drainage Fabric					
Ditching					
Timber Headers					
Timber Planking					
Crossties (7.5"x8")	Each				\$0.00
Labor to insert Ties	Each				\$0.00
Switch Ties					
Bridge Ties					
Bridge Guard Rails					
Ballast	Per car				\$0.00
Culverts					
Turnouts					
Switches					
Signals					
Structural Steel					
Surfacing (linear foot)	In. ft.				\$0.00
Subgrade Stabilization					
Bridge Construction					
Earthmoving					
Grade Crossing Repairs					
Right-of-Way Grading					
Brush Cutting					
Eng. Consultant Services					
Contracted Services					\$0.00
Supervisor Services					
Rail Distribution					
Relay					
Clean Up					
Work Train (Unloading)					\$0.00
Other: Equipment and fuel expense					
Tax on Material					
Acquisition Costs					\$11,500,000.00
Project Total Costs					\$11,500,000.00

TABLE 2

RAILROAD NAME:

Kansas and Oklahoma Railroad

PRESENT VALUE OF ACQUISITION BENEFITS

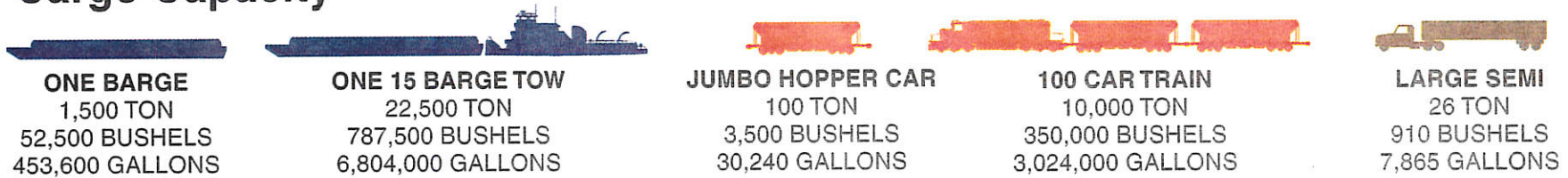
BENEFITS CATEGORY / YEAR	1	2	3	4	5	6	7	8	9	10
(1) TRANSPORTATION EFFICIENCY BENEFITS	\$94,784,822	\$94,784,822	\$94,784,822	\$94,784,822	\$94,784,822	\$94,784,822	\$94,784,822	\$94,784,822	\$94,784,822	\$94,784,822
(2) HIGHWAY IMPACTS	\$89,526,807	\$89,526,807	\$89,526,807	\$89,526,807	\$89,526,807	\$89,526,807	\$89,526,807	\$89,526,807	\$89,526,807	\$89,526,807
(3) ADDL. HANDLING COSTS	\$3,377,292	\$3,377,292	\$3,377,292	\$3,377,292	\$3,377,292	\$3,377,292	\$3,377,292	\$3,377,292	\$3,377,292	\$3,377,292
(4) ADDL. PAPER WORK	\$1,588,375	\$1,588,375	\$1,588,375	\$1,588,375	\$1,588,375	\$1,588,375	\$1,588,375	\$1,588,375	\$1,588,375	\$1,588,375
(5) SAL. VAGUE VALUATION OF PERIOD										3,913,023
(6) LABOR INCOME	(\$58,863,222)	(\$58,863,222)	(\$58,863,222)	(\$58,863,222)	(\$58,863,222)	(\$58,863,222)	(\$58,863,222)	(\$58,863,222)	(\$58,863,222)	(\$58,863,222)
(7) TOTAL BENEFITS (CONSTANT \$)	\$130,414,073	\$130,414,073	\$130,414,073	\$130,414,073	\$130,414,073	\$130,414,073	\$130,414,073	\$130,414,073	\$130,414,073	\$134,327,097
(8) DISCOUNT FACTOR (AT 3.6%)	1.036	1.073	1.112	1.152	1.193	1.236	1.281	1.327	1.375	1.424
(9) PRESENT VALUE (7 DIVIDED BY 8)	\$125,882,310	\$121,508,021	\$117,285,735	\$113,210,169	\$109,276,225	\$105,478,981	\$101,813,689	\$98,275,761	\$94,860,773	\$94,311,809
(10) SUM OF PRESENT VALUE OF BENEFITS										\$8,065,117
(11) PRESENT VALUE OF COSTS										\$19,565,117
(12) BENEFIT-COST RATIO (10 / 11)										55.298
										NET LIQUIDATION VALUE
										ACQUISITION COSTS
										TOTAL
										\$19,565,117

# Compare...

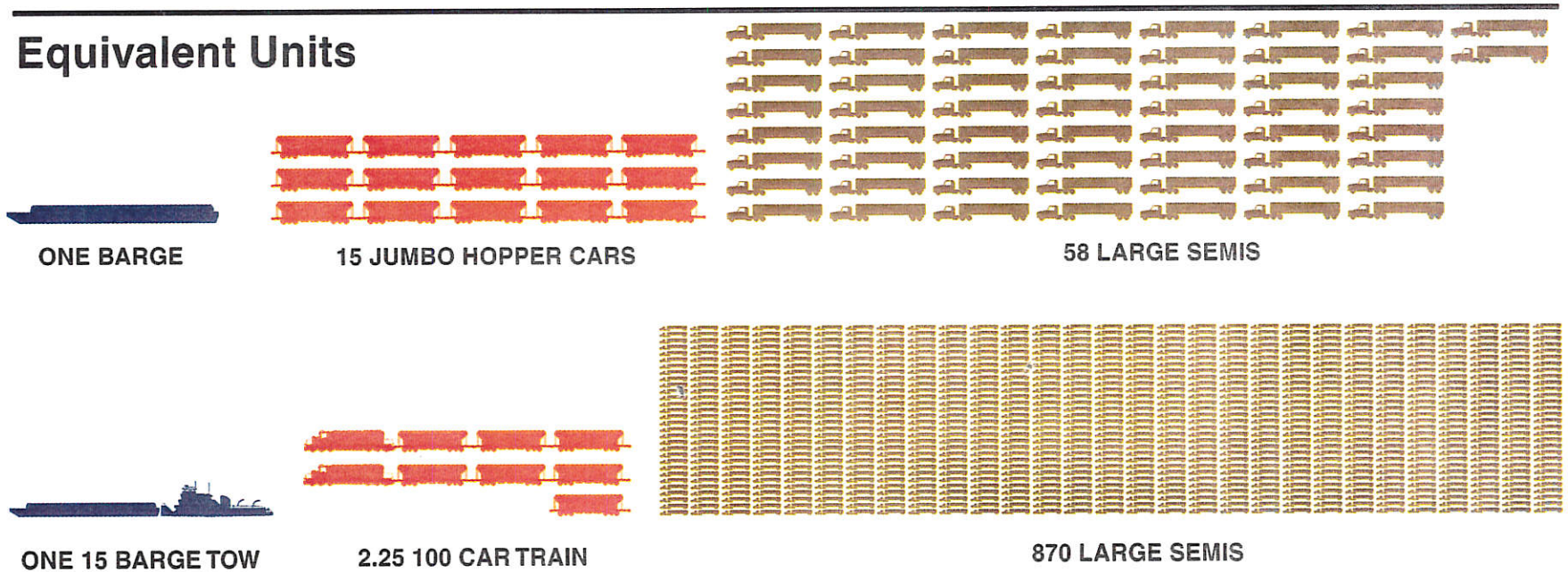
3-14

Source: Iowa Department of Transportation - 800 Lincoln Way - Ames, IA 50010 - 515-239-1372

## Cargo Capacity



## Equivalent Units



## Equivalent Lengths





STATEMENT OF THE  
KANSAS GRAIN & FEED ASSOCIATION  
AND THE  
KANSAS AGRIBUSINESS RETAILERS ASSOCIATION  
SUBMITTED TO THE  
SENATE COMMITTEE ON ASSESSMENT & TAXATION  
REGARDING H.B. 2586  
SEN. DAVID CORBIN, CHAIR  
JANUARY 29, 2002

KGFA & KARA MEMBERS ADVOCATE PUBLIC POLICIES THAT ADVANCE A SOUND ECONOMIC CLIMATE FOR AGRIBUSINESS TO GROW AND PROSPER SO THEY MAY CONTINUE THEIR INTEGRAL ROLE IN PROVIDING KANSANS AND THE WORLD THE SAFEST, MOST ABUNDANT FOOD SUPPLY.

816 SW Tyler, Topeka KS 66612 - 785-234-0461 - Fax: 785-234-2930

*Senate Assessment & Taxation*

*1-29-02*

*Attachment 4*



Chairman Corbin and members of the Senate Committee on Assessment and Taxation, my name is Doug Wareham and I am Sr. Vice President 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 nearly 1,100 Kansas business locations and represents 98% of the commercially licensed grain storage in the state.

I appreciate the opportunity to appear in support of H.B. 2586. I want to begin by pointing out that we understand members of this committee as well as other members of the Kansas Legislature have expressed concerns regarding the "refundable guarantee" provision contained in H.B. 2586. That same concern was shared by our organization's legislative committee and for that reason I must state that our support falls short of endorsing the "refundable" language contained in the bill.

While we believe that portion of the bill should be reviewed, we do not want this committee to lose sight of the need for a commitment from the State of Kansas with respect to rail lines presently operated by the Kansas & Oklahoma Railroad. The income tax credit called for in H.B. 2586 is not simply financial assistance for the Kansas & Oklahoma Railroad, but is a financial investment that should be made on behalf of numerous rural communities and the rail shippers that depend upon these rail lines for both shipping and receiving products and commodities.

Attached with my testimony is a list we compiled that features the "agricultural" shippers located on lines presently operated by the Kansas & Oklahoma Railroad. This list only focuses on shippers involved with grain, feed and fertilizer transport and is by no means an inclusive list of customers served by the Kansas & Oklahoma Railroad. The Kansas Grain and Feed Association supports the continuation of rail service to all current service points where past use has been demonstrated and needs for continued service is exhibited. The significant number of rail users identified on the attached list clearly demonstrates the need for continued rail service for these firms and their farmer customers that depend upon these firms as markets for their raw commodities.

I have attached the official transportation policy adopted by our organization, which states:

*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.*

Thank you for the opportunity to appear in support of this legislation. I do want to mention that this bill is also supported by the Kansas Agribusiness Retailers Association, which represents crop production product distributors and retailers across Kansas. I would be happy to stand for questions.

# Agricultural Shipper/Receiver Locations Dependent Upon the Kansas & Oklahoma Railroad

ADM Co., Fredonia  
 ADM Mlg. Co., Abilene  
 Alfalfa Pellets Inc., Great Bend  
 Andale Farmers Coop, Andale  
 Bartlett & Company, Scott City  
 Bartlett & Company, Wichita  
 Bartlett Coop Assn., Oswego  
 Beachner Grain Inc., Altamont  
 Beachner Grain Inc., Chanute  
 Beachner Grain Inc., Humboldt  
 Beachner Grain Inc., Independence  
 Beachner Grain Inc., Neodesha  
 Beachner Grain Inc., Thayer  
 Beachner Grain Inc., Wichita  
 Boulware Grain Co., Modoc  
 Cairo Coop Equity Exchange, Cairo  
 Cairo Coop Equity Exchange, Calista  
 Cairo Coop Equity Exchange, Cunningham  
 Cairo Coop Equity Exchange, Waldeck  
 Cargill Inc., Cunningham  
 Cargill Inc., Hutchinson  
 Cargill Inc., Salina  
 Cargill, Inc., Flour Mlg. Div., Wichita  
 Cargill, Inc., Oilseeds, Wichita  
 Collingwood Grain Inc., Hutchinson  
 Collingwood Grain, Inc., Hutchinson  
 Collingwood Grain, Inc., Jetmore  
 Collingwood Grain, Inc., Kingman  
 Collingwood Grain, Inc., Leoti  
 Collingwood Grain, Inc., Lyons  
 Collingwood Grain, Inc., Selkirk  
 D.E. Bondurant Grain., Ness City  
 DeBruce Grain Inc., Wichita  
 Dodge City Coop Exch., Hanston  
 Dodge City Coop Exch., Jetmore  
 Farmco Inc., Astor  
 Farmco Inc., Horace  
 Farmco Inc., Kanco  
 Farmco Inc., Selkirk  
 Farmco Inc., Tribune  
 Farmco Inc., Whitelaw  
 Farmers Coop Assn. North Location, Columbus  
 Farmers Coop Assn., Abilene  
 Farmers Coop Assn., Columbus  
 Farmers Coop Assn., Salina  
 Farmers Coop Co., Wilmore  
 Farmers Coop Elevator Co., Belmont  
 Farmers Coop Elevator Co., Cheney  
 Farmers Coop Elevator Co., Garden Plain  
 Farmers Coop Elevator Co., Hutchinson

Farmers Coop Elevator Co., Murdock  
 Farmers Coop Elevator Co., Nickerson  
 Farmers Coop Elevator Co., Norwich  
 Farmers Coop Elevator Co., Rago  
 Farmers Coop Equity Exchange, Sawyer  
 Farmers Coop Equity, Isabel  
 Farmers Coop Equity, Nashville  
 Farmers Coop Equity, Zenda  
 Farmers Coop Grain & Supply Co., Burdett  
 Farmers Coop Grain Assn., Conway Springs  
 Farmers Coop Grain Assn., Oxford  
 Farmers Coop Union – Bushton  
 Farmers Coop Union – Claflin  
 Farmers Coop Union – Frederick  
 Farmers Coop Union - Geneseo  
 Farmers Coop Union, Alden  
 Farmers Coop Union, Lyons  
 Farmers Coop Union, Sterling  
 Farmland Grain Division - Elev. I, Hutchinson  
 Farmland Grain Division - Elev. J, Hutchinson  
 Farmway Coop Inc., Denmark  
 Farmway Coop Inc., Hunter  
 Farmway Coop Inc., Lincoln  
 Farmway Coop Inc., Tipton  
 Farmway Coop Inc., Westfall  
 Fleming Feed & Grain Co., Burden  
 Fleming Feed & Grain Co., Winfield  
 Fredonia Coop Assn., Fredonia  
 Golden Plains Coop, Sanford  
 Grain Belt Supply Co. Inc., Salina  
 Great Bend Coop Assn., Albert  
 Great Bend Coop Assn., Dundee  
 Great Bend Coop Assn., Ellinwood  
 Great Bend Coop Assn., Great Bend  
 Great Bend Coop Assn., Great Bend  
 Great Bend Coop Assn., Pawnee Rock  
 Greenbush Seed & Supply Inc., Hutchinson  
 Hannebaum Grain Co. Inc., Salina  
 Hansen-Mueller Co., Salina  
 Harvest Brands Inc., Pittsburg  
 High Plains Corporation, Wichita  
 Hubbard Feeds Inc., Columbus  
 Iola Grain Inc., Iola  
 Irsik & Doll Feed Service, Hutchinson  
 Iuka Coop Exchange, Pratt  
 KAMO Grain, Pittsburg  
 Kirk Grain Co., Scott City  
 Lange Co. LLC, Conway Springs  
 Mid State Farmers Coop, Alexander  
 Mid State Farmers Coop, Nekoma  
 Mid State Farmers Coop, Rush Center

Mid State Farmers Coop, Timken  
 Mid-Kansas Coop Assn., Conway  
 Mid-Kansas Coop Assn., Haven  
 Mid-Kansas Coop Assn., McPherson  
 Midland Marketing – Hargrave  
 Midland Marketing – LaCrosse  
 Midland Marketing – McCracken  
 Midway Coop Assn., Osborne  
 Mills Feed & Supply, Moline  
 Mulvane Coop Union, Clearwater  
 Murray Grain Co. Inc., Wichita  
 Pawnee County Coop Assn., Dartmouth  
 Pawnee County Coop Assn., Dundee  
 Pawnee County Coop Assn., Garfield  
 Pawnee County Coop Assn., Gray  
 Pawnee County Coop Assn., Larned  
 Pawnee County Coop Assn., Rozel  
 Protection Coop Supply Co., Coldwater  
 Protection Coop Supply Co., Protection  
 Right Coop – Arnold  
 Right Coop – Laird  
 Right Coop – Ness City  
 Scott Coop Assn. – Grigston  
 Scott Coop Assn. - Manning  
 Scott Coop Assn., Marienthal  
 Scott Coop Assn., Scott City  
 Scott-Pro Inc., Scott City  
 SEK Grain Inc., Coffeyville  
 SEK Grain, Cherryvale  
 SEK Grain, Independence  
 SEK Grain, Liberty  
 Severy Coop Assn., Severy  
 Shriver Elevator Inc., Coats  
 Star Seed Inc., Osborne  
 Sunbelt Grain Inc., Tribune  
 The Scouler Company, Salina  
 Tindle Construction Inc., Neodesha  
 Tribune Grain LLC, Tribune  
 United Ag Services – Hoisington  
 United Ag Services - Olmitz  
 Valley Coop Inc., Burden  
 Valley Coop Inc., New Salem  
 Valley Coop Inc., Winfield  
 Walker Products Co. Inc., Lincoln  
 Western Grain Inc., Wichita  
 Western Star Milling, Salina  
 Wichita County Grain Co. Inc., Leoti  
 Wright Lorenz Grain Co., Salina  
 Zurich US, McPherson

STATEMENT OF CHARLIE SWAYZE

Representing: (FCE) Farmers Coop Equity Co.  
and (KRUA) Kansas Rail Users Association

January 29, 2002

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to express our support for H. B. 2586 which would support a annual guaranteed refundable income tax credit for the K & O Railroad allowing WATCO Co. to bring the CKRY lines back to a safe operable condition.

FCE has grain elevators located on the formal CKRY or CENTRAL KANSAS RAILWAY at Isabel, which is the main office, Sawyer, Zenda, Nashville, Medicine Lodge, and Lake City, Kansas.

The CKRY railroad did not give us the service that is required by the Surface Transportation Board especially on car supply and mostly track maintenance. In fact very little maintenance was made on any of the lines that served us during the 10 year period that CKRY owned the tracks. The only maintenance that was made was when there was a derailment and repairs had to be made.

With the present condition of the rail lines, which in most cases have been reduced from 30 MPH track down to 5 MPH, it will be long term of at least 20 years for the K & O Railroad to make the tracks a safe and profitable line.

WATCO or K & O Railroad have consistently demonstrated their commitment to us since the June 30<sup>th</sup> take over of last year. They have shown communications along with the service commitment in the last 6 months of operations to rural communities and agricultural shippers. We believe the Kansas Legislature should take all steps to ensure rail service will be maintained on these lines.

It is very critical to rural Kansas to preserve rail transportation. The rail infrastructure of this state will continue to be important to members of the (KRUA) Kansas Rural Users Assn., as a valuable transportation tool and marketing channel for agriculture and economic development products.

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

Sincerely,

Charlie Swayze  
FCE General Mgr.  
KRUA Chairman

*Senate Assessment & Taxation  
1-29-02  
Attachment 5*

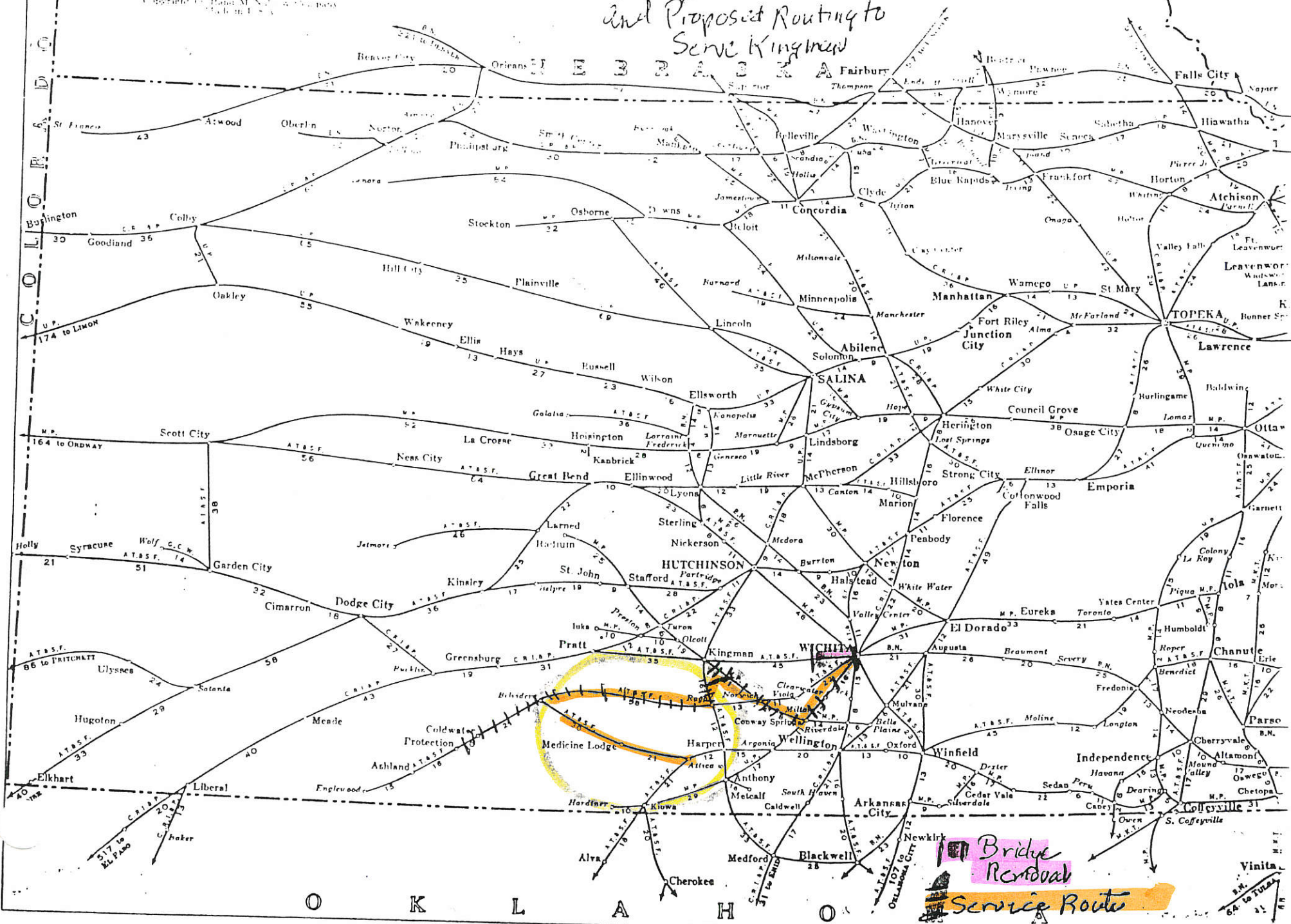
RAND McNALLY  
HANDY RAILROAD MAP  
Kansas

Copyright © Rand McNally & Company  
Chicago, U.S.A.

*107 to 108*  
Bridge Removal  
and Proposed Routing to  
Serve Kingman

**FCE Trade Area**

I O 5-2



**Bridge Removal**

**Service Route**

20



## **Kansas Farm Bureau**

2627 KFB Plaza, Manhattan, Kansas 66503-8508 • 785.587.6000 • Fax 785.587.6914 • www.kfb.org  
800 S.W. Jackson, Suite 817, Topeka, Kansas 66612 • 785.234.4535 • Fax 785.234.0278

### **PUBLIC POLICY STATEMENT**

## **SENATE COMMITTEE ON ASSESSMENT & TAXATION**

**RE: HB 2586 - providing an income tax credit for the retirement of bonds issued by a single city port authority.**

**January 29, 2002  
Topeka, Kansas**

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

---

Chairman Corbin and members of the Senate Committee on Assessment and Taxation, Kansas Farm Bureau certainly appreciates this opportunity to express support for HB 2586 providing an income tax credit for the retirement of bonds issued by a single city port authority. My name is Leslie Kaufman. I serve as the Associate Director of the Public Policy Division for Kansas Farm Bureau.

Maintaining efficient and effective rail service in Kansas is extremely critical to the Kansas agriculture industry. Quality, efficient transportation options are vital to agriculture producers. We have been greatly concerned with the number of miles of rail corridor where service has been discontinued or abandoned over the past several years. This reduces agricultural producers' transportation options and diminishes competition within the transportation industry.

Rail service and transportation issues have received much discussion in recent years from the voting delegates at our annual meetings. Our farmer and rancher members have debated, refined and affirmed policy on many rail and transportation issues:

*Senate Assessment & Taxation  
1-29-02  
Attachment 6*

- *We support the concept that rail carriers should not be permitted to easily abandon existing lines.*
- *We support necessary legislation that could facilitate the sale of rail lines which otherwise might be abandoned, provided it does not violate the property rights of the underlying landowners.*
- *We encourage increased public and private initiatives to assist Short Line Railroads and Class III carriers to obtain rail lines that may otherwise be abandoned.*
- *We encourage the state of Kansas to provide tax incentives and other appropriate assistance to railroad companies that agree to upgrade rail lines and provide long-term service to shippers.*

Many agricultural producers, as well as KFB, were concerned when the Central Kansas Railway announced their intention to discontinue rail service on miles and miles of corridor. Watco Companies has stepped-in and purchased these rail lines and we are encouraged by their plans for maintaining service to a significant portion of this state.

As noted in our policy statements above, we urge the state of Kansas to provide tax incentives to railroad companies that agree to upgrade lines and provide long-term service to shippers. In our discussions with Watco staff, we do believe that monies saved through such tax treatment will be channeled back into infrastructure improvements and that the company is committed to operating rail lines in this state for the long-term. As such, we believe that even in tight economic times, the relief sought in HB 2586 is appropriate and we encourage favorable consideration by this committee.

Thank you!

# LEGISLATIVE TESTIMONY



*The Unified Voice of Business*

835 SW Topeka Blvd. • Topeka, KS 66612-1671 • 785-357-6321 • Fax: 785-357-4732 • E-mail: [kcci@kansaschamber.org](mailto:kcci@kansaschamber.org) • [www.kansaschamber.org](http://www.kansaschamber.org)

HB 2586

January 29, 2002

## KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Assessment and Taxation Committee

by

Marlee Carpenter  
KCCI Director of Taxation

Mr. Chairman and members of the Committee:

My name is Marlee Carpenter and I am here on behalf of the Kansas Chamber of Commerce and Industry. Our Board of Directors adopted a policy at their last Board meeting to support tax credits for short-line rail in Kansas. Therefore, we are here in support of HB 2586.

KCCI believes that short-line rail service is very important to many Kansas communities. Short-line rail in Kansas not only hauls grain, but chemicals, rocks and other products that are an important part of the Kansas economy.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 2,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 48% of KCCI's members having less than 25 employees, and 78% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

*Senate Assessment & Taxation  
1-29-02  
Attachment 7*

KCCI supports all modes of transportation in the state and believes that all segments of the transportation industry need to be viable for Kansas to compete and move the goods that Kansans produce.

Thank you for your time and I will be happy to answer any questions.



Testimony on HB 2586  
Senate Assessment and Taxation Committee  
Prepared by Joe Lieber  
Kansas Cooperative Council

Mr. Chairman and members of the Committee, I'm Joe Lieber, President of the Kansas Cooperative Council. The Council has a membership of nearly 200 cooperative businesses, who have a combined membership of nearly 200,000 Kansans. Over half of our members handle grain for their member/owners and many of them use railroads to ship the grain.

As most of you know there has been an on going struggle between the railroads and grain handlers. These confrontations have eased over the last few years but our members still have had some problems, especially with certain short line railroads. That is why we were pleased when we heard that WATCO, a Kansas company, has purchased lines in Kansas. The Kansas & Oklahoma Railroad has more than 900 miles of track and will provide service to over fifty locations of our members.

We were especially pleased when we heard that WATCO was going to issue a moratorium on the abandonment of tracks for 18-months. This moratorium is for all rail lines in Kansas exclusive of the Jetmore to Hanston and Coats to Protection lines. It is our understanding that the moratorium will allow the railroad, its customers and key public policy makers and opportunity join together to preserve this key central and western Kansas transportation service.

*Senate Assessment & Taxation  
1-29-02  
Attachment 8*

You have heard from other conferees that WATCO has been willing to work with them in establishing reliable railroad service. This service will not only give our members an option on how to ship their grain. It should also save the Kansas taxpayers money by preserving our high ways from additional truck traffic.

Because of these reasons the Kansas Cooperative Council supports the provisions of HB 2586.

Thank you for your time. I will be happy to attempt to answer any questions.



# KANSAS MOTOR CARRIERS ASSOCIATION

P.O. Box 1673 ■ Topeka, Kansas 66601-1673 ■ 2900 S. Topeka Blvd. ■ Topeka, Kansas 66611-2121  
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MEL GRAVES  
S&G Associates, Inc.  
Allied Industries Chairman

TOM WHITAKER  
Executive Director

## Legislative Testimony by the Kansas Motor Carriers Association

### In opposition to House Bill No. 2586

Presented before the Senate Assessment & Taxation Committee

Senator David Corbin, Chairman

Tuesday, January 29, 2002

Statehouse, Topeka, Kansas

#### MR. CHAIRMAN AND MEMBERS OF THE SPECIAL COMMITTEE ON ASSESSMENT AND TAXATION:

I am Tom Whitaker, executive director of the Kansas Motor Carriers Association. I appear here this morning representing our 1,400 member firms and the highway transportation industry.

Kansas Motor Carriers Association **opposes** House Bill No. 2586. This bill would provide for a refundable income tax credit to a Class III railroad equal to 100% of the amount attributable to the bonds issued by a single city port authority, not to exceed \$500,000 per year for 20 years, or \$10 million total. The state would be obligated to pay the \$500,000 whether or not the railroad made one penny in taxable income.

We believe it is bad public policy for the state to invest in a private transportation company without any guarantee of a return on the investment for the \$10 million in tax credits. In addition, HB 2586 is an end-run around the internal improvement section of the Kansas Constitution that prohibits the state from using general property tax revenues or general obligation bonds to fund internal improvements for economic development purposes. Kansas would not be issuing bonds, but would be providing unencumbered revenue for the retirement of such bonds.

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1-29-02  
Attachment 9*

KMCA supported the adoption of HCR 5032 that allowed the creation of a port authority to help in the development of a portion of the former Central Kansas Railroad. Authorization of this Port Authority will provide \$3.677 million in capitol improvements through property tax abatements. Additionally, the Kansas Department of Transportation has offered an \$11.5 million grant from the short-line railroad revolving loan fund for capitol improvements. KDOT would receive an 18-month moratorium on abandonment for rail service from Watco Companies, and any abandonment after the 18-month period would have to be reviewed by KDOT. KDOT has no authority to stop abandonment of rail lines in Kansas. If such abandoned rail lines were sold, KDOT would receive 25% of the liquidation price.

With anywhere from \$200<sup>M</sup> to more than \$400 million in proposed budget cuts, and a significant cut proposed in the Comprehensive Transportation Plan, this not the time to further reduce available general fund dollars by granting this \$10 million refundable income tax credit.

Kansas Motor Carriers Association opposes the adoption of House Bill No. 2586. We thank you for the opportunity to appear before you today. We would be pleased to respond to any questions you may have.

January 29, 2002

**STATEMENT OF DONALD F. LINDSEY JR., DIRECTOR  
KANSAS STATE LEGISLATIVE BOARD  
UNITED TRANSPORTATION UNION  
IN OPPOSITION TO H.B. 2586**

**PRESENTED TO  
COMMITTEE ON  
ASSESSMENT & TAXATION  
THE HONORABLE DAVID CORBIN, CHAIRMAN**

Mr. Chairman and Members of the Committee, my name is Don Lindsey, I am the Director of the Kansas State Legislative Board, United Transportation Union. I am a duly elected officer, authorized to speak on behalf of our some 6,000 active and retired members and their families who reside in the State of Kansas. I appear in opposition of H.B. 2586.

H.B. 2586 deals with allowing an income tax credit for the taxable years 2002 through 2021. The total amount of the tax credits allowed is not to exceed \$500,000 for any one year.

According to the Supplemental Note prepared by the Legislative Research Department, the bill would be expected to reduce the State General Fund receipts by 2 million dollars through fiscal year 2006.

This bill and the proposed 20 year exemption of over \$300,000 a year in property taxes by the newly created City of Pittsburg, Kansas, Port Authority will necessitate this loss in revenue be made up by the taxpayers of the various local communities.

Many of our citizens are living on fixed incomes and any increase in property taxes to fund our schools and basic services, caused by a loss in revenue, would work a hardship on them.

At a time when the Kansas State Board of Education recently proposed spending an additional \$2.2 billion on schools in the next three years, when Johnson County, the engine that drives the state, is warning of reductions in services due to tightening budget constraints, we feel that any erosion in the tax base would be ill advised at this time.

WATCO Companies, Inc. boasts of getting its start around the kitchen table in Pittsburg, Kansas and becoming the largest privately owned company of its kind in the United States. I believe the Webb family is to be commended for its achievements. However, many of this country's largest and richest companies, such as Microsoft and Hewlett Packard to name a few, started in someone's garage. We feel, if WATCO's operating plan is sound, there should be no problem obtaining investment capital from the Federal or private sector, rather than through tax subsidies from the State and its' local communities.

It was recently reported in Rail Intelligence, Volume #5, Issue #26, dated June 25, 2001 in an interview with Claudia Howells, manager of the Oregon Department of Transportation's Rail Division, that shippers and states have nowhere to turn to solve problems involving shortline railroads. Ms. Howells pointed out that we have no coherent rail policy in America.

Also Ms. Howells stated that shortline holding companies are churning some of these railroads with sales and resale's that are exempt from regulatory scrutiny. And when shortlines are sold, the new owners frequently seek state subsidies for track and bridge repairs without providing any assurances they will stay in business or adhere to their business plans. In fairness, Ms. Howells points out that many shortlines operate on a shoestring and defer maintenance, which impacts a shipper's ability to utilize rail service.

UTU would suggest that before coming to the state of Kansas requesting, what amounts to, corporate welfare, the entities pushing for this legislation, should exhaust all avenues at the Federal level first. Two such programs are contained in the Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21). They are The Light Density Rail Line Pilot Project Program and the Railroad Rehabilitation and Improvement Financing Program (RRIF). I have attached the statement of Mark Lindsey, Acting Deputy Administrator of the Federal Railroad Administration, dealing with Rail Infrastructure before the Transportation and Infrastructure's Sub-Committee on Railroads.

In closing, I would like to leave the Committee with the following quote. The 1<sup>st</sup> Century Roman Poet Ovid wrote, the purpose of the law is to prevent the strong from always having their way. It is our belief that any erosion in the tax base of the State of Kansas with the current budget constraints facing the state would be a bad idea.

**STATEMENT OF S. MARK LINDSEY  
ACTING DEPUTY ADMINISTRATOR  
FEDERAL RAILROAD ADMINISTRATION  
BEFORE THE  
TRANSPORTATION AND INFRASTRUCTURE COMMITTEE  
SUBCOMMITTEE ON RAILROADS  
ON RAIL INFRASTRUCTURE  
APRIL 25, 2001**

I am pleased to be here today to report to you on rail infrastructure needs and the role of Railroad Rehabilitation and Improvement Financing (RRIF) Program in meeting these needs. I wish to commend the bi-partisan leadership of this Committee and Subcommittee for its foresight in making RRIF part of the Transportation Equity Act for the 21st Century (TEA-21).

RRIF is an important program that offers unparalleled opportunities for implementing a wide variety of railroad projects and meeting some of the critical capital investment needs of the rail industry. Under the RRIF Program, direct loans and loan guarantees are available for projects to acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, components of track, bridges, yards, buildings, and shops, to refinance outstanding debt incurred for those purposes; or to develop or establish new intermodal or railroad facilities. Of the total \$3.5 billion authorized, \$1 billion is reserved for railroads other than Class I.

As you know, the RRIF program is unique and innovative. One of the most unique features is the payment of a "credit risk premium" in lieu of an appropriation equivalent to the estimated Federal Government's cost of making the direct loan or loan guarantee. The "credit risk premium" may be paid by the borrower or any non-Federal infrastructure partners that wish to contribute. This not only allows the Federal Railroad Administration (FRA) to support, at no initial subsidy cost to the federal government, many important rail projects which otherwise would not be possible, but it also fosters infrastructure investment partnerships.

Implementation of a new program incorporating this innovative feature as well as the various restrictions on federal credit programs imposed by the Credit Reform Act required thorough discussion. This and the resolution of other issues delayed the issuance of the final regulations. I recognize the frustration of many, including the leadership of this Committee, in the extended time period that has passed but this does not make the railroad investments delayed by the process any less important. The staff of FRA are committed to making this program work and will implement the program as expeditiously as possible.

During the period between the Final Rule's issuance on July 6, 2000, and its effective date on September 5, 2000, FRA joined with the American Short Line and Regional Railroad Association in an outreach effort that included seminars in Philadelphia, Portland, Oakland, Atlanta, Dallas and Des Moines. FRA also participated in the Transportation Research Board's National Conference on Transportation Finance in Scottsdale, Arizona and its innovative finance workshop during its annual meeting in Washington, D. C. Over the past seven months, we have met with 19 prospective applicants, who have potential projects exceeding a total of \$500 million. Three additional pre-application submissions totaling \$21.7 million were received last week alone.

To date, applications have been submitted by I & M Rail Link, the Arkansas & Missouri Railroad, the Texas Mexican Railway, and the Dakota, Minnesota & Eastern Railroad. The independent financial advisors retained by the applicants have completed evaluations of the creditworthiness of the transactions proposed by I&M Rail Link and the Arkansas & Missouri Railroad. The I&M Rail Link loan application is for a \$100 million direct loan that will be used to refinance existing debt as part of a major recapitalization plan to ensure the long term viability of the railroad which serves over 900 customers in the States of Iowa, Illinois, Minnesota, Missouri and Wisconsin. We received the financial advisor's final evaluation of the loan package on March 6<sup>th</sup>, and the proposed loan is in its final stages of review. I am optimistic about its potential to be the first candidate for the RRIF program.

FRA is also very close to completing its review of the financial advisor's evaluation of the application from the Arkansas & Missouri Railroad. This shortline railroad operating in northwest Arkansas and southwest Missouri has requested a total of \$11 million to purchase the line it leases from Burlington Northern Santa Fe and to rehabilitate 30 miles of track. Like the Arkansas & Missouri Railroad, the Texas Mexican Railway, and the Dakota, Minnesota and Eastern Railroad have requested direct loans for track rehabilitation. We anticipate reports from their financial advisors very soon.

In addition to these four formal applications, the pre-application submissions we have received reflect the wide variety of rail infrastructure needs that exist.

- I. A total of twelve shortline and regional railroad prospective applicants are considering direct loans to upgrade their track to carry the 286,000 lb. rail cars which are now becoming the standard on the Class I railroads. Two public entities are also considering track rehabilitation loans for lines they are in the process of purchasing. These requests are consistent with the needs identified by an American Association of State Highway and Transportation Officials study published in 1999. The study found that the lack of sufficient capital and the advent of the 286,000 lb. cars has created a backlog of unmet needs for small railroads. Approximately 200 railroads responding to the study survey reported an estimated 10-year



capital need, which could not be privately funded, of \$2.26 billion. A May 2000 study funded jointly by FRA and the American Short Line and Regional Railroad Association confirms that approximately \$6.7 billion is needed to upgrade shortline and regional railroad track and bridges to handle 286, 000 lb. cars.

II. Four shortline railroad prospective applicants are interested in purchasing locomotives and cars.

III. Several prospective applicants are pursuing financing to construct new sidings.

• Amtrak and the Kansas City Southern Railway (KCS) have expressed an interest in a track rehabilitation and train communications improvement project on right-of-way owned by the KCS that would permit the extension of passenger service from Meridian, MS., to Dallas, TX.

IV. In addition to the pre-application submissions, FRA is aware that there are projects on Class I railroads which may be very important to States or localities but which may not be part of the railroad's normal capital program. For example, Buffalo, New York, and Moorhead, Minnesota, are considering partnerships with Class 1 railroads to fund the construction of connections and the replacement of a bridge to eliminate the current rail congestion their communities are experiencing.

V. Commuter railroads operating on freight track also need capital improvements and have had some preliminary discussions with FRA.

VI. Other community projects involving rail improvements, such as grade separations or upgrades to permit passenger service, are needed. For example, Jonesboro, Arkansas, is pursuing a track relocation project that would facilitate grade separation.

As FRA evaluates the applications submitted, by statute we will continue to give priority to projects that:

VII. Enhance public safety,

VIII. Enhance the environment,

IX. Provide economic development,

X. Enhance international competitiveness,

XI. Preserve and enhance rail or intermodal service to small communities and rural areas; and

XII. Are included in State transportation plans.

I recognize that the Committee has not been pleased with some aspects of the rule implementing the RRIF program. A rulemaking issue that I understand is of continued concern to the Committee is the requirement that an applicant provide a letter of rejection from a commercial lender, including the terms requested. Congressman Rahall has introduced H.R. 517 eliminating the requirement and the Committee leadership recently

has written Secretary Mineta requesting that the requirement be removed from the final regulations.

The Notice of Proposed Rulemaking implementing the RRIF program required two letters of rejection. Based on the significant comments received on this subject, including the Committee leadership's comments, and after extensive discussions within the Administration, it was decided that the Final Rule would require an applicant to submit only one letter of rejection from a private sector lender, including the terms requested. While I realize that the enabling legislation did not envision such a provision, its inclusion is a reasonable way to ensure that Federal financial assistance is provided only when it is not available in the private sector. In fact, this is not an unusual requirement, many other Federal loan programs have a similar one. None of the prospective applicants has indicated any difficulty in meeting this requirement, and the four applicants have provided letters of rejection. In addition, the requirement has resulted in increased awareness among commercial lenders of the need for rail infrastructure investment. Several commercial lenders have contacted us after having provided letters of rejection to discuss the capital needs of the rail industry.

As you know, our regulations permit applicants to retain a financial advisor to provide FRA an independent review of the creditworthiness of the proposed transaction in lieu of paying the statutorily prescribed investigation charge. The role of the independent financial advisor was conceived because of the lack of authority for FRA to expend investigation charges to pay for administrative expenses. If FRA had authority to use investigation charges for administrative expenses, the RRIF program could directly retain consultants which would expedite the evaluation process necessary to make determinations and findings for each application. This would need to be clarified in the law. I would note that FRA directly retained consultants in implementing a loan and loan guarantee program authorized by Title V of the Railroad Rehabilitation and Regulatory Reform Act of 1976 and this direct relationship was beneficial to timely implementation of that program.

In concluding Mr. Chairman, I wish to reiterate that FRA is committed to making the RRIF application process as simple and expeditious as possible. FRA looks forward to making this program a model of customer responsiveness as well as fiscal responsibility.

I would be happy to answer any questions you may have

# Board urges money for schools

Teacher shortage prompts Kansas request

By the 2004-2005 school year, the state would be spending \$3.5 billion a year on schools, about 50 percent more than this year's amount.

But board members, who approved the proposal 7-2, will have to convince a skeptical Legislature next year before the plan can go into effect.

Last year the state board backed a plan proposed by Gov. Bill Graves to increase state school spending by more than \$200 million this year, but the Legislature balked at the idea. Eventually lawmakers approved a much smaller increase.

The state currently spends more than \$2.34 billion a year as its share of public school funding. Under the proposal approved Tuesday that figure would increase \$353 million next year, \$372.5 million the year

after, and \$433 million in the final year of the plan. The proposal is likely to be a very tough sell when lawmakers meet again in January, especially during an election year for House members.

Reacting to the board's proposal, state Rep. Ray Cox, a Bonner Springs Republican and former teacher, said prospects for legisla-

See BOARD, B-2

## BOARD: Spending increase sought

Continued from B-1

...tive approval were bad. "I'd say no way at all at this point," he said, "and I've gone on record saying I will support a tax increase."

But some board members said their duty was to tell lawmakers and the public what Kansas schools need and how much it will cost.

"Many of our outstanding teachers are leaving," said Janet Vaughn, a board member from Kansas City, Kan.

The largest share of the funding increase — \$690 million in the third year — would be used to raise teacher salaries to the national average. Board members hope better pay will keep many current teachers from quitting and will attract more students to the profession.

Dale Dennis, a deputy education commissioner, told the board that school officials expect 492 teacher vacancies when school starts.

That is slightly lower than last year's 530 vacancies but still reflects a serious problem, educators said.

"It's still a high figure," said Mark Tallman, a lobbyist for the Kansas Association of School Boards.

To offset the problem, Tallman said, many districts are raising teacher salaries this year by 4 percent to 5 percent, are raising local property taxes and are cutting other budget items.

Currently average teacher salary in Kansas is \$35,784, compared with a national average of \$42,855.

The state board said moving Kansas to the national average will take an increase in state spending from the current \$3,870 per pupil to \$5,076 by 2005 — 31 percent.

"We're not asking for the moon," said Carol Rupe, a board member from Wichita. "We're asking to bring teacher salaries up to the na-

But two board members, Steve Abrams of Arkansas City and John Bacon of Olathe, said the increase was too much.

"I think it's very irresponsible," said Bacon, adding that the country is in an economic downturn and that other agencies are trimming their budget requests.

"Somebody's going to have to pay for it," Abrams said of the increase. "We're already one of the highest tax states in the Midwest."

The additional spending would be tied to a promise of better student performance.

The state board adopted several goals that they said the money would help educators and schools reach over the three years. Among those goals:

- Students would increase their scores on state assessment tests by 5 percent in math and science, 10 percent in social studies and 7 percent in writing skills.

- The large performance gap between poor and affluent students would decrease by 25 percent.

- The percentage of students reading at the second-grade level would increase by 10 percent.

- The number of teachers leaving the profession after five years would decline 20 percent.

To reach Jim Sullinger, call (816) 234-7701 or send e-mail to [jsullinger@kcstar.com](mailto:jsullinger@kcstar.com).

K.C. Star  
8-15-01

# COUNTY: Commissioners warn of prospective cuts in services

## Coming up

Continued from B-1

found a \$1.23 million pool of mon...  
 Johnson County Commissioners...  
 Johnson County The bulk of that...  
 Johnson County Museum...  
 Wood wants to see the funding...  
 can go to city and state pro...  
 in the Mahaffie Farm...  
 in Olabe and the Shawnee...  
 Indian Mission State Historic Site in...  
 He also wants to see some...  
 of the trust fund money earmarked...  
 for the...  
 The Johnson County Museum...  
 Advisory Council now makes fund...  
 ing recommendations. Critics ar...  
 give the process is unfair because...  
 the museum board is a recipient...  
 and grant provider. Consequently...  
 the museum is not faced...  
 with the same urgency to seek other...  
 operating money...  
 The original idea behind the trust...  
 fund was to allow nonprofit agen...  
 ces and county groups to ap...  
 ply for historic preservation grants...  
 But in 1998, when the county re...  
 alized it faced several major archi...  
 ing projects as well as security and...  
 maintenance concerns at the mu...  
 seum, cities were restricted from...  
 applying for county grants...  
 Today that poses funding frustra...  
 tions for preservation groups across...  
 the county...  
 Friends of the Mission, for exam...  
 ple, would like to take advantage of...  
 two grants — \$100,000 from the Na...  
 tional Park Service and \$344,250...  
 from the Kansas Department of...  
 Transportation to preserve the...  
 Shawnee Indian Mission...  
 But the Heritage Trust Fund reso...  
 lution stands in the way. If fewer...  
 rewritten, \$150,000 in county...  
 matching money could be used to...  
 secure the grants. Consequently, for...  
 every \$1 spent in county funds, the...  
 Johnson County has always put...  
 mission would receive 53 in state...  
 and federal funds. Wood wants to...  
 see a Heritage Trust fund board es...  
 tablished to review and distribute...  
 historic preservation grants on a...  
 competitive, countywide basis...  
 Commissioners Gary Anderson and...  
 Annabeth Sturbaugh said they are...  
 open to the idea...  
 Mandy Love, executive director of...  
 the county museum, said Johnson...  
 County residents are willing to pay...  
 for museum services and even...  
 Johnson County has always put...  
 themselves above and beyond...  
 communities," she said...  
 when you start taking away some...  
 those things that make John...  
 County what it is, you do lo...  
 have the same quality of life...  
 Wood, the County Commis...  
 chairman, said: "We have no in...  
 nation to cut off the museum c...  
 turkey. The county has alr...  
 made the great an investment...  
 the museum to operate it. Bu...  
 five to 10 years. We do want to...  
 the museum completely wear...  
 off the county."

# Leaders warn of reductions in services

## Johnson County funds expected to tighten

By FINN BULLERS  
The Kansas City Star

Johnson County Commission...  
man Doug Wood is warning...  
ers to brace for significant...  
county services in the compar...  
sons.

ough as it was to forge a bud...  
is year, county commission...  
y, it's going to be even more...  
lt next year.

are going to have to make...  
hard decisions and ask our...  
"What services can we cut?"...  
told a handful of residents at...  
nt public hearing on the...  
's 2002 budget. "We can no...  
be everything to everybody."  
may translate into cuts at...  
nson County Museum and...  
epartments no longer con...  
"core county functions" —

areas defined by commissioners as public safety, roads and bridges, and transit.

Commissioner George Gross has repeatedly questioned why the county should be in the nursing center business, why community corrections shouldn't be privatized, and why taxpayer money should be spent on a county print shop when a copy center down the street can do it faster and cheaper.

Wood has outlined a schedule of work sessions through December. The sessions are designed to frame a debate on cuts in services and possibly privatizing other county services, including the nursing center and the airport.

For starters, commissioners today will take up the Heritage Trust

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SESSION OF 2001

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2586

As Amended by House Committee on  
Transportation

**Brief\***

HB 2586 would provide an income tax credit for tax years 2002 through 2021 equal to the total amount attributable to the retirement of bonds issued by a single city port authority. If the amount of the tax credit exceeds the taxpayer's income tax liability for the taxable year, such amount would be refunded to the taxpayer. The total amounts of the credits cannot exceed \$500,000 in any one fiscal year.

**Background**

Representative Wilson and representatives from the Kansas Department of Transportation, the Kansas Grain and Feed Association, and Kansas Railroads supported the bill. The representative of the Kansas Motor Carriers Association opposed the bill. Supporters of the bill noted that the bill will help facilitate maintaining rail service to Kansas rural communities.

The House Committee amendment placed a 20-year limitation on the tax credits.

The bill would be expected to reduce State General Fund receipts as follows:

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.ink.org/public/legislative/fulltext.cgi>

	<u>In Millions</u>
FY 2002	\$ 0.0
FY 2003	0.5
FY 2004	0.5
FY 2005	0.5
FY 2006	0.5
Five-Year Total	<u>\$ 2.0</u>