Approved: March 2, 2006
Date

MINUTES OF THE HOUSE TRANSPORTATION COMMITTEE

The meeting was called to order by Chairman Gary Hayzlett at 1:30 P.M. on February 13, 2006 in Room 519-S of the Capitol.

All members were present.

Committee staff present:
- Hank Avila, Kansas Legislative Research
- Bruce Kinzie, Revisor of Statutes Office
- Betty Boaz, Committee Secretary

Conferees appearing before the committee:
- Ken Gudenkauf, Legislative Liaison, KS Department of Transportation
- Ed McKechnie, Chief Commercial Officer, Watco Companies
- Bob Alderson, representing Kyle Railroad Co.and Mid-States Port Authority
- Duane Simpson, KS Grain and Feed
- Pat Hubbell, representing railroads
- Leslie Kaufman, Exec. Director, KS Cooperation Council
- Bob Totten, KS Contractors Association

Others attending:
See attached list.

Representative Hayzlett opened the hearings on **HB 2709.**

HB 2709 - Rail service improvement program, funding

The Chairman recognized Ken Gudenkauf, Legislative Liaison, for KDOT. According to Mr. Gudenkauf (Attachment #1) in December 2005 a study was completed for KDOT that examined program expenditures and uses of the Rail Service Improvement Fund component of the CTP and examined the economic impacts of the program. The study concluded that the program has been a good investment of state dollars; there have been significant benefits to both the public and private sectors, healthy short-line railroads are vital to the Class I railroads and provided improved customer service. The study indicated the program should be funded beyond fiscal year 2007. KDOT agreed with the study.

The second proponent was Ed McKechnie, Chief Commercial Officer of Watco Companies, owners of two shortline railroads in Kansas. (Attachment #2) Mr. McKechnie said this bill continues the commitment made in 1999 by the Kansas Legislature to invest in our transportation system. He said Kansas harvest creates great demand for four months, moderate to light demand for four months and low to no demand for four months and that it is very hard for the railroad to shoulder the burden of these cars in low volume months. He urged the Committee's support for **HB 2709.**

The next proponent was Bob Alderson. (Attachment #3) He said shortline railroads represent an important and growing segment of the North America rail network. As the Class I railroads have withdrawn from the branch lines they formerly operated and moved towards long haul, unit train type operations, both they and the shippers are becoming more and more dependent on shortlines to provide service to and from the lighter density branch lines. Mr. Alderson also urged the Committee's support of **HB 2709.**

Duane Simpson was the next proponent appearing in support of **HB 2709**. (Attachment #4) According to Mr. Simpson, **HB 2709** removes the sunset on the Rail Service Improvement Fund. He said the $3 million a year fund is used to facilitate the financing, acquisition and rehabilitation of railroads in the state and that losing the fund would be devastating to their industry.

The Chairman recognized Pat Hubbell, representing Burlington Northern Santa Fe Railroad, Kansas Railroads and Union Pacific Railroad. Mr. Hubbell provided information (Attachment #5) from the Association of American Railroads. Mr. Hubbell also spoke in support of **HB 2709.**

Chairman Hayzlett drew the Committee's attention to written testimony provided by Leslie Kaufman, MINUTES OF THE House Transportation Committee at 1:30 P.M. on February 13, 2005 in Room 519-S of the Capitol.

Executive Director of the Kansas Cooperative Council. (Attachment #6) She asked the Committee to act favorably on **HB 2709**.

After all questions were answered the Chairman called for opponents to this bill.

The Chairman recognized Bob Totten, Public Affairs Director for the Kansas Contractors Association. (Attachment #7) Mr. Totten said they must oppose **HB 2709** because they are greatly concerned the Comprehensive Transportation Program needs all the funding available to finish all the projects proposed in 1999.

There were no other opponents. After all questions were answered Chairman Hayzlett closed the hearing.

It was the Chairman's desire to work this bill so he opened it up to the Committee for discussion, comments and motions. Representative Menghini made a motion to pass **HB 2709** favorably out of Committee, Representative O'Malley seconded the motion and the motion carried..

Chairman Hayzlett asked for a motion on the Minutes of the January 31, 2006, Committee Minutes. Representative Olson made a motion to approve the Minutes as submitted, Representative Ruiz seconded the motion and the motion carried.

There being no further business before the Committee Chairman Hayzlett adjourned the meeting. The next meeting will be on February 14, 2006 at 1:30 p.m. in Room 519-S.

HOUSE TRANSPORTATION COMMITTEE GUEST LIST

DATE: 2-13-06

NAME	REPRESENTING
Bob Alderson	MSPA & KYLE
Tom Tunnell	KGFA & KARA
Pat Hubbell	KS Railroad
Deann Williams	KS Motor Carriers Assoc.
Ray Hammarlund	KDOC

HOUSE TRANSPORTATION COMMITTEE

DATE 2-13-06

NAME	REPRESENTING
Ed McKechnie	WATCO
Doug Story	WATCO
John Maddox	KDOT
John Rosacker	KDOT
Ken Gudenkauf	KDOT
Duane Simpson	KGFA
BoB Totten	KCA

KANSAS

DEPARTMENT OF TRANSPORTATION
DEB MILLER, SECRETARY

KATHLEEN SEBELIUS, GOVERN

TESTIMONY BEFORE THE
HOUSE TRANSPORTATION COMMITTEE

REGARDING HOUSE BILL No. 2709

FEBRUARY 13, 2006

Mr. Chairman and Committee Members:

Good afternoon. I'm Ken Gudenkauf, legislative liaison with the Kansas Department of Transportation. Thank you for the opportunity to testify on House Bill No. 2709. This bill pertains to the funding of the short line railroad rehabilitation loan/grant component of the Comprehensive Transportation Program.

Currently, the Rail Service Improvement Fund component of the CTP receives $3 million a year from the State Highway Fund, through state fiscal year 2007. The fund makes available to short line railroads operating in Kansas low-interest, long term (10-year) loans and grants to be used primarily for track rehabilitation projects. Funds may also be used for financing and acquisition activities.

Through the first six years of this program our short line railroad partners have used loan/grant funds to rehabilitate and upgrade their infrastructure at various locations throughout the state resulting in improved service to customers. Use of program funds to assist with the acquisition of the Central Kansas Railway saved several hundred miles of rail line from abandonment therefore maintaining rail service in key wheat producing sectors of the state.

When the CTP legislation was written in 1999, it was anticipated that the shortline railroad program would primarily be a loan program and that by the end of Fiscal Year 2007 the fund would become self sustaining at $3 million per year by way of loan repayments. Because more money was provided in grants than in loans than originally anticipated, the currently projected loan repayments will only sustain the fund at $1 million.

In December 2005 Parsons Brinckerhoff completed a study for KDOT that examined program expenditures and uses of the Rail Service Improvement Fund component of the CTP, and examined the economic impacts of the program. The study sought to answer two primary questions: has the program been a good investment of state dollars; and should the program be continued beyond state fiscal year 2007 and, if so, at what level? The study concluded that: the program has been a good investment of state dollars; there have been significant benefits to both the public and private sectors; healthy short line railroads are vital to the Class I railroads; due to improved speeds and reliability there has been improved customer service; and the program should be funded beyond state fiscal year 2007. KDOT agrees with the findings in the Parsons Brinckerhoff study.

Thank you, Mr. Chairman. I would be glad to answer any questions.

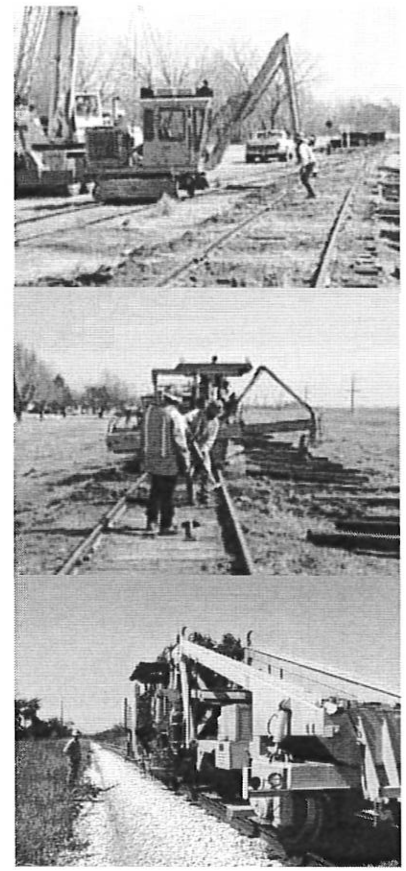
OFFICE OF THE SECRETARY OF TRANSPORTATION
DWIGHT D. EISENHOWER STATE OFFICE BUILDING
700 S.W. HARRISON STREET, TOPEKA, KS 66603-3754
PUBLIC ACCESS AT NORTH ENTRANCE OF BUILDING
VOICE 785-296-3461 TTY 785-296-3585 FAX 785-296-1095 http://www.ksdot.org

Short Line Rail Component of the Comprehensive Transportation Program

"Facts At A Glance"

State Fiscal Year 2000 through 2006

- **7** Short line railroads that have used the program
- **38** Rehabilitation projects (completed, in progress, and contracted)
- **1** Acquisition project
- **45** Counties encompassed in all rehabilitation and acquisition projects (41% of all Kansas counties)
- **725** Miles through acquisition projects
- **947** Number of miles through rehabilitation projects (key segments within end point to end point distance)



A Review of the Kansas Short Line Railroad Rehabilitation Program

December 2005

Kansas Department of Transportation, Eisenhower State Office Bldg., 700 SW Harrison St., Topeka, KS 66603-3754

1-4

THE SHORT LINE PROGRAM

The Kansas Department of Transportation (KDOT) retained the consulting firm of Parsons Brinckerhoff to conduct a review of the Kansas Short Line Loan/Grant Program (the Program) component of the Comprehensive Transportation Program (CTP). The Program was established to provide Kansas short line railroads with low interest loans and grants primarily for track rehabilitation. It was funded for an eight-year period beginning with state fiscal year 2000. The Program provides $3 million per year and was intended to become self-sustaining through the railroads' repayment of principal and interest on the loans. Eight of the sixteen short line railroads in Kansas have used the Program and 839 miles of rail have been rehabilitated.

EXPENDITURES THROUGH FISCAL YEAR 2005

• State Share	$12,305,151
• Railroad Share	$ 5,131,859
• Total Rehabilitation Expenditures**	$17,437,010

** Early in the life of the Program, the Central Kansas Railway (CKR) wanted to abandon about 300 miles of rail lines which served agricultural areas in central and western Kansas. To prevent this, **$8.5 million** was also granted to assist Watco Companies, Inc. with the purchase of the CKR so rail service could continue.

REVIEW PROCESS

The study looked at Program expenditures and uses, impacts on short line railroad operations, and economic impacts. It was designed to answer two primary questions:

- Has the Program been a good investment of state dollars?
- Should the Program be continued beyond state fiscal year 2007 and, if so, at what level?

To answer these questions, the study team:

- Collected and analyzed information about freight trends and forecasts for the state, key economic factors, and trends that affect short line railroad operations
- Conducted interviews with nine short line railroads, three Class I railroads, 27 shippers, and nine economic development agencies
- Hosted public meetings in Phillipsburg and Wichita
- Conducted an economic analysis to determine the effectiveness of spending public funds for rehabilitating short line railroads

View the entire study at: www.ksdot.org/publications.asp

Kyle Railroad,
between Dresden and Colby

Before rehabilitation

After

Information in this document can be made available in alternative accessible formats. To obtain an alternative format, contact Kansas Department of Transportation, Bureau of Transportation Information, Eisenhower State Office Bldg., 700 SW Harrison, 2nd Fl. West, Topeka, KS 66603-3754 or phone: 785-296-3585 (Voice/TTY).

ECONOMIC BENEFITS

• Short line railroad customers benefit from increased rail speed and improved travel time
• Improved on-time performance, car delivery time, and safety improves customer service
• Shippers see higher net earnings from higher grain prices, or, for non-agricultural commodities, lower tariff rates
• A substantial share of cost savings are likely passed on to customers since short line railroads are more vulnerable to competition from the trucking industry

The total direct and indirect benefits from 35 short line rehabilitation projects done between 2000 and 2005 and preventing abandonment of the CKR Railway were:

• **$43.7 million*** in public sector benefits based on state and local tax revenues and highway maintenance cost savings resulting from lower highway and bridge damage due to less truck vehicle miles of travel
• **$1 billion*** in business earnings from shipper cost savings due to operational improvements and prevention of business closures
• **$425 million*** in personal wage income
• The **Benefit/Cost Ratio is 8.8** based on operating improvements

* Ten year present value basis using 2004 dollars

CONCLUSIONS

• The Program has been a good investment of state dollars
• Between 2000 and 2005, there have been significant benefits to both the public and private sectors
• Healthy short line railroads are vital to the Class I railroads, which move more than 330 million tons of agricultural products, aircraft parts, food, and other commodities within and through the state of Kansas each year
• The effects of the increased use of 286,000 pound rail cars on the short line railroad infrastructure must be addressed
• Unit train loaders haven't caused the demise of short line railroads

Kansas and Oklahoma Railroad, between Great Bend and Alden

Before rehabilitation

After

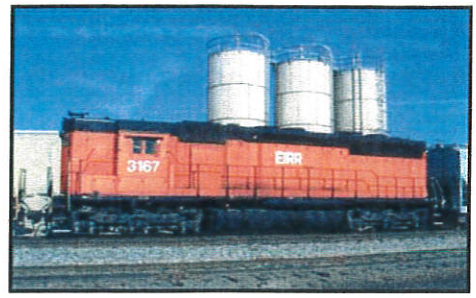
RECOMMENDATIONS

• Fund the Program beyond SFY 2007. The funding for track rehabilitation should be continued at $3 million per year (adjusted for inflation)
• Consider adding an additional $3 million per year to address the 286,000 pound rail car issue and upgrade industry sidings and extensions
• Reinstate a grant component to the Program
• Expand eligibility to include acquiring rail-related equipment such as grain hopper cars (by partnering through Kansas port authorities) and locomotives

INTERVIEW HIGHLIGHTS

What Short Line Railroads Said:

- Increased business is linked to improvements from Program projects
- Rehabilitation projects had reduced derailments
- They projected steady levels of future business or some growth
- Projects from the Program help keep short line railroad capital improvement funds in Kansas
- Significant amounts of inadequate short line infrastructure still exist
- More short line railroad abandonment is possible in Kansas



What Grain Shippers Said:

- Excellent customer service is the strength of short line railroads
- 250,000 truck trips per year would be added to Kansas highways if short line rail service was lost
- Short line railroads are weak in infrastructure condition and grain car availability

What Non-Grain Shippers Said:

- Trucks are often not an option for transporting many of the commodities produced by these companies (chemicals, LPG, HazMat)
- 124,000 truck trips per year would be added to Kansas highways if short line rail service was lost
- Infrastructure improvements are needed to increase operating speeds and improve car turn around time

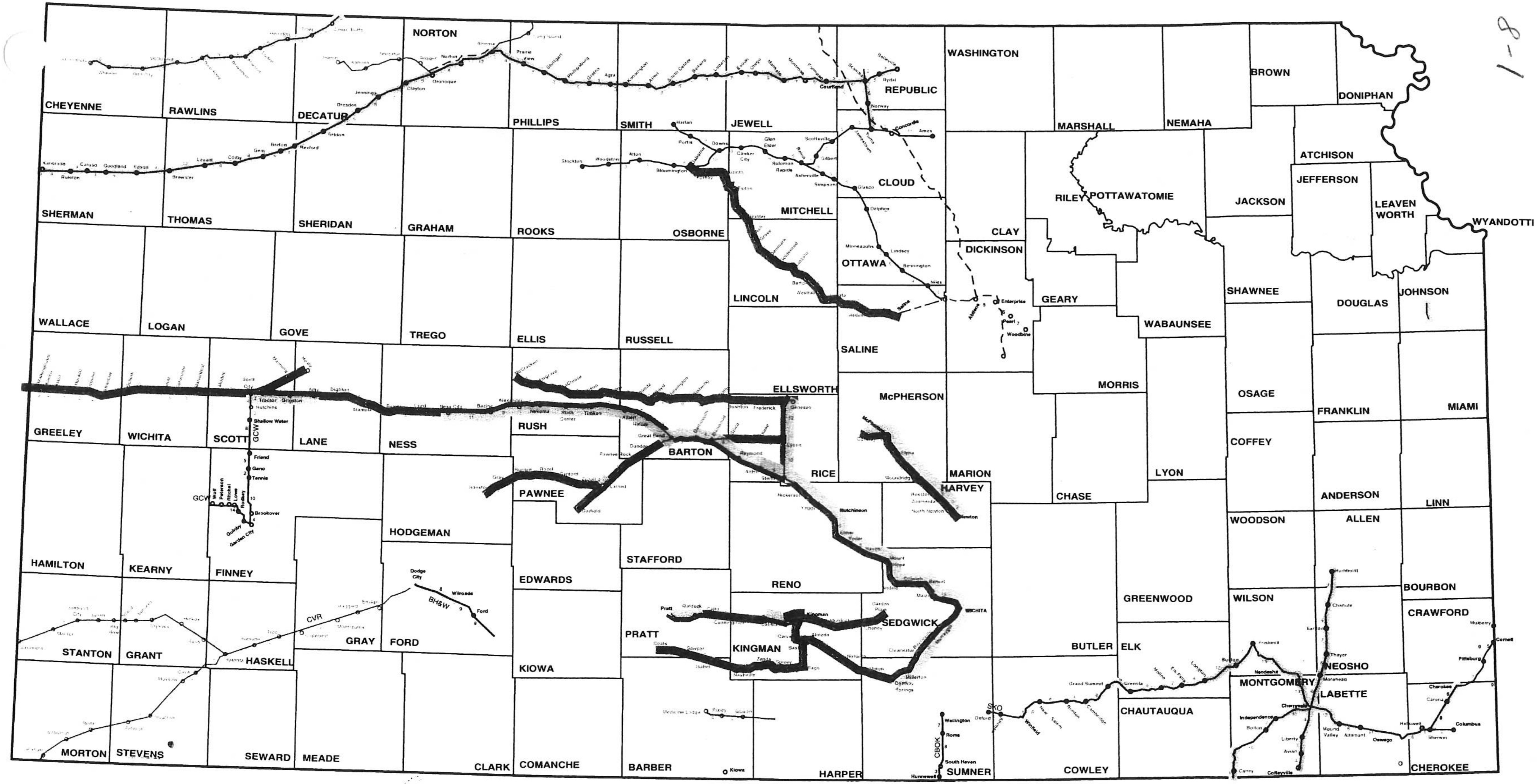
What the Class I Railroads Said:

- They depend on a strong network of short line railroads
- They focus on mainline, long-haul economies of scale
- Short line railroads improved their service and traffic to the Class I railroads following Program projects
- Short line railroads may be more appropriate than Class I railroads for the location of new business such as ethanol plants and agriplexes

What Economic Development Agencies Said:

- Short line railroads are important to local communities
- Loss of short line rail service would damage local economies
- Ethanol plants, bio-diesel plants, coal-fired electricity generating plants and other new business are locating on short line railroads
- The Program is a good public/private partnership

1-8



	RAILROAD	MILEAGE
BH&W	BOOTHILL & WESTERN	26
CVR	CIMARRON VALLEY RAILROAD	182
CB	CITY OF BLACKWELL OKLAHOMA	18
G	GARDEN CITY WESTERN	45
H	HUTCHINSON & NORTHERN	3
K&O	KANSAS & OKLAHOMA RAILWAY	642
K&O (UP)	KANSAS & OKLAHOMA RAILWAY (LEASED FROM UP)	111

	RAILROAD	MILEAGE
KCTR	KANSAS CITY TERMINAL RAILWAY	25
KYLE	KYLE RAILROAD SYSTEM	
KYLE	KYLE (OWNED)	16
MSPA/KYLE	LEASED FROM MSPA	255
(UP) KYLE	LEASED FROM UP	176
NKC	NEBRASKA KANSAS COLORADO	122
NCA	NEW CENTURY AIRCENTER RAILROAD	5

	RAILROAD	MILEAGE
SK&O	SOUTH KANSAS & OKLAHOMA	305
V&S	VICTORIA & SOUTHERN RAILWAY	21

Rehabilitation Projects

Acquisition

Mileage figures are owned main line route miles unless indicated otherwise

KDOT makes no warranties, guarantees, or representations for accuracy

10 0 10 20 30 MILES

KANSAS DEPARTMENT OF TRANSPORTATION
RAIL AFFAIRS UNIT
AND
BUREAU OF TRANSPORTATION PLANNING

RR_SHORTLINE_021006.DGN REVISED 02/10/06

DASHED LINES INDICATE
TRACKAGE RIGHTS ONLY

Watco Companies, Inc.
South Kansas & Oklahoma Railroad
Kansas & Oklahoma Railroad
Pittsburg, KS

February 13, 2006

House Transportation Committee
Kansas House of Representatives

Chairman Hayzlett and members of the Committee:

My name is Ed McKechnie and I am the Chief Commercial Officer of Watco Companies, Inc., the owners of two shortline railroads in Kansas. I am here to testify in favor of House Bill 2709, the continuation of the Kansas Rail Service Improvement Fund.

Our two railroads, the South Kansas and Oklahoma Railroad, and the Kansas and Oklahoma Railroad, operate more than 1,400 miles of light density rail lines that provide service to Customers in our state. These railroads move on average 110,000 rail cars a year that keep many cities and counties connected to the national rail network.

That connection is an important key to literally thousands of jobs all across the state. Let me take a few minutes to tell you a little about the people we serve.

- We serve Kansas' three cement manufacturers in Chanute, Fredonia, and Humboldt, moving over 15,000 loaded rail cars annually or 1,500,000 tons of product that would equaling 60,000 truck loads moving on our highways.
- We, on average, move at least 30% of the Kansas grain crop to either terminal elevators where it moves to its final destination, or directly to our Class I Railroad Partners and on to points all across North America. Some years that number is as high as 35%.
- We serve plastic product manufacturers in Pittsburg, Winfield, Wichita, Kingman and Caney, Ks.
- We serve ethanol and chemical Customers on both railroads
- We move much of the aggregates into central and western Kansas for highway construction and move much of the sand that is used for concrete and highway construction back into south east Kansas.
- We serve the salt mines in the Hutchinson area.
- We serve the largest elevator in Kansas, DeBruce grain in Wichita, and smaller elevators from border to border.
- We serve chemical, petroleum, gas companies in Wichita, Coffeyville and McPherson

House Transportation
Date: 2-13-06
Attachment # 2

So how does the rail service improvement fund impact what I have talked about? I have a couple of examples for you to consider.

In 2001, the predecessors of the K&O Railroad considered abandoning the railroad west of Hutchinson. Instantly more than 700 miles of rail were at risk of being pulled up and 12 counties were threatened with loosing rail service. From the Department of Transportation's perspective this was too great of a risk for our state to loose these strategic rail assets. Because of our reputation of Customer Service in south east Kansas and because of the commitment of Gov. Bill Graves and the Kansas Legislature, KDOT partnered with Watco to acquire and rehabilitate these rail lines. From that partnership we have worked hard to preserve as many miles as possible in western Kansas, only abandoning lines that had not moved any traffic for more than two years and when the grain elevators on the line indicated they would prefer to truck their product to shuttle loaders directly on the main lines.

We have also worked hard to keep these lines more viable. Since July 1, 2001, when we took over operations of the K&O, we have increased top line revenue by 60%. Much of this growth has been eaten up in rising fuel prices and capital investments, but I am telling you today that your investment in the K&O has given Kansas a stable and viable shortline network spanning from the Missouri to the Colorado border and south to Tulsa. We think, and more importantly our Customers think, that is important.

In the past five years, the state and Watco have invested millions of dollars to upgrade these rail lines. These upgrades include more than 250,000 ties, miles of improved rail, and thousands of tons of ballast (rock). The benefit to the state taxpayers has been a Cost Benefit Ratio of more than 50:1, from any perspective this is a tremendous benefit to the taxpayers.

While we have replaced 250,000 ties, we still have more work to do. Our rails are supported by more than 4.2 million ties on the two combined railroads and many of those ties will near the end of their life over the next ten years. While we don't need to replace them all at once, we do need to continue to make progress in our rehabilitation of these lines.

So why should the state continue to fund this vital program?

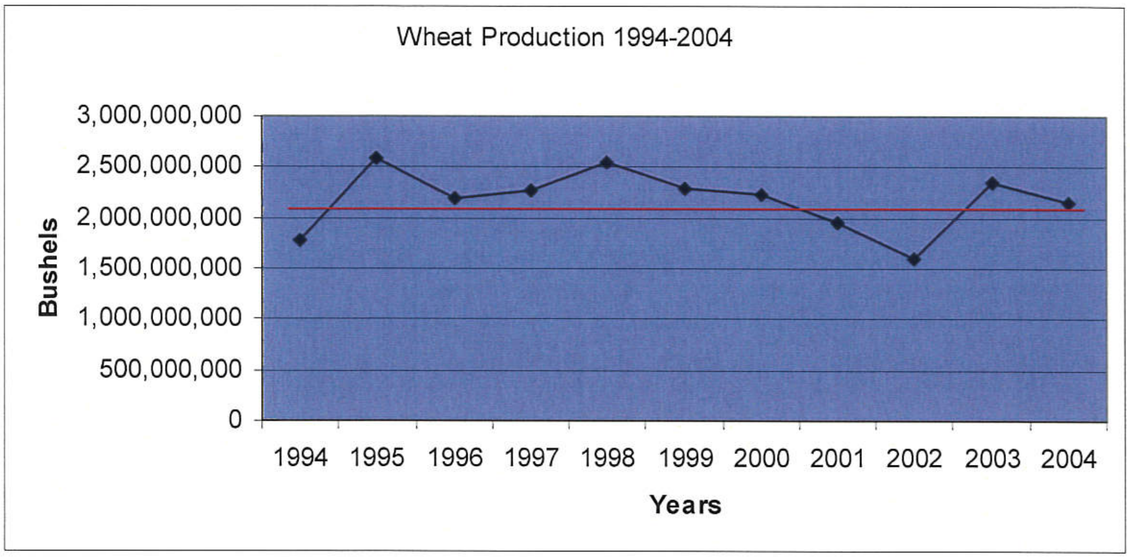
This bill continues the commitment made in 1999 by the Kansas Legislature to invest in our transportation system. We cannot consume all of the goods we grow and produce and a viable transportation system is an important part of getting those products to their final destinations.

The shortline system was created by the Congress in 1980 in the deregulation of the rail industry known as the Staggers Act. The major carriers were able to sell off marginal lines to avoid bankruptcies and keep the national rail system operating. Kansas had a very high number of miles that were spun off and that created our shortline system today.

Those miles continue to be marginal because of the light density populations they serve and more importantly the agriculture base of our state.

Simply put, there is no such thing as an average wheat crop. As you can see from the graph below, the wheat harvest has varied by as much as 1 billion bushels from year to year, from 2.5 to 1.5 billion bushels. Many years we do not know what the wheat crop will look like until late in May, a mere 2-4 weeks before the harvest begins. Expansion and capacity in our network takes months and year to plan, construct and utilize.

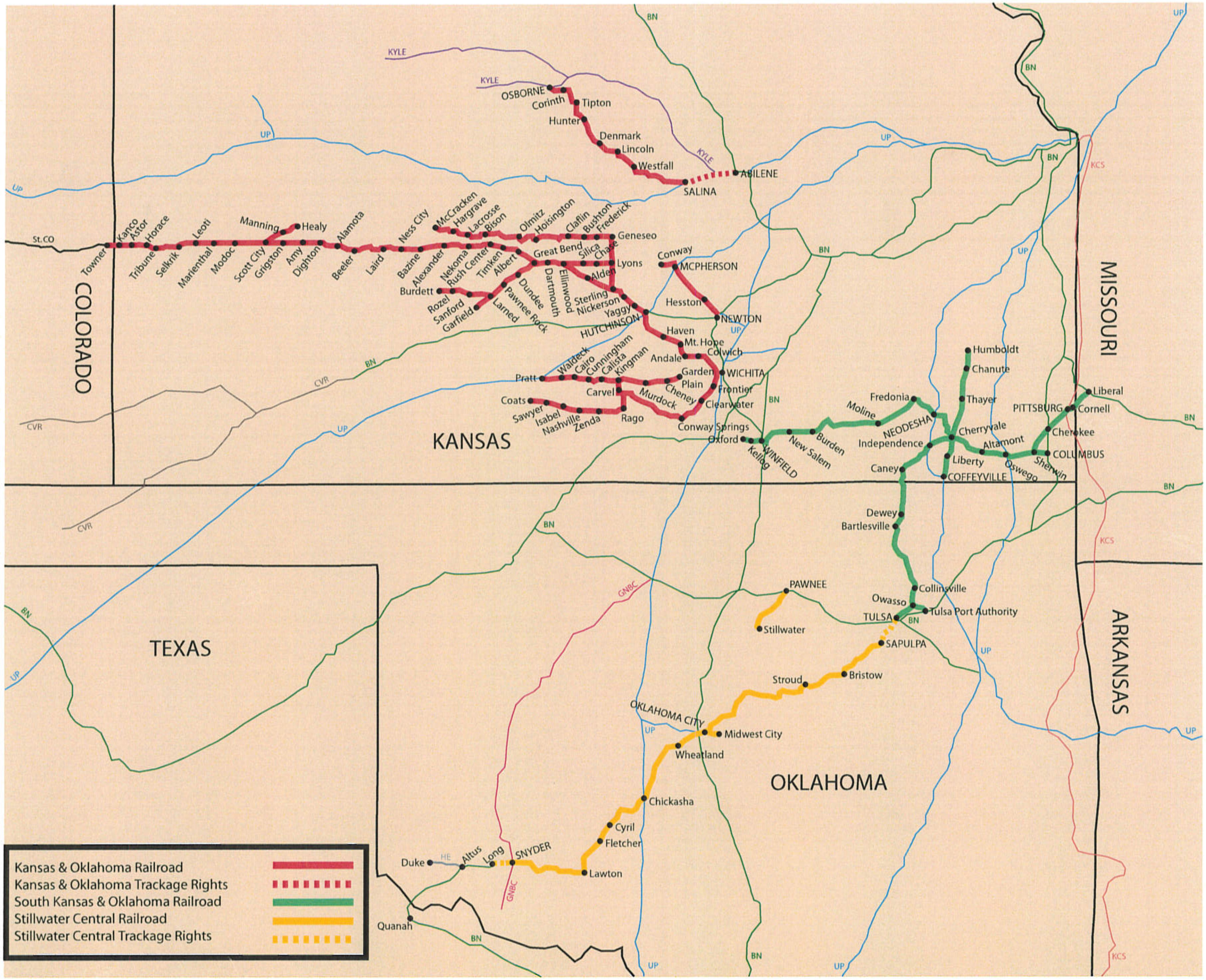
As our wheat crop has wide production swings, both state wide and regionally within the state from year to year, our rail infrastructure must be able to move a record high or low crop with only 30-60 days warning. That is hard, if not impossible to do.



One of the key provisions of the bill would allow shortlines to use these funds to assist in the purchase of railroad rolling stock, which from our perspective is covered grain hoppers. These covered hoppers cost almost $70,000 each brand new, and about $20,000 each on the used market. Our Kansas harvest creates great demand for four months (June-Sept), moderate to light demand for four months (Oct.-Jan.) and low to no demand for four months (Feb.-May). It is very hard for the railroad to shoulder the burden of these cars in low volume months and especially in low volume years. These funds would allow us to leverage other dollars to make further investments into our covered hopper fleet.

We appreciate the continued support of KDOT and Gov. Kathleen Sebelius to make targeted strategic investments into Kansas' rail infrastructure. Thank you for your time, and consideration of our testimony. On behalf of our employees, and especially our Customers, we ask for your support of this bill.

Ed McKechnie
emckechnie@watcocompanies.com
(620) 232-4184 -- Cell
(620) 231-2230 -- Office



Kansas & Oklahoma Railroad
Kansas & Oklahoma Trackage Rights
South Kansas & Oklahoma Railroad
Stillwater Central Railroad
Stillwater Central Trackage Rights
COLORADO
KANSAS
MISSOURI
TEXAS
OKLAHOMA
ARKANSAS
OSBORNE
Corinth
Tipton
Hunter
Denmark
Lincoln
Westfall
SALINA
ABILENE
St.CO
Towner
Kanco
Astor
Tribune
Horace
Selkrik
Leoti
Marienthal
Modoc
Scott City
Manning
Healy
Grigston
Amy
Dighton
Alamota
Beeler
Laird
Ness City
Bazine
Alexander
McCracken
Nekoma
Rush Center
Hargrave
Lacrosse
Bison
Timken
Albert
Olmitz
Hoisington
Great Bend
Claflin
Bushton
Frederick
Geneseo
Silica
Chase
Lyons
Alden
Burdett
Rozel
Sanford
Garfield
Larned
Pawnee Rock
Dundee
Dartmouth
Ellinwood
Sterling
Nickerson
Yaggy
HUTCHINSON
Conway
MCPHERSON
Hesston
NEWTON
Haven
Mt. Hope
Colwich
Andale
Garden Plain
WICHITA
Frontier
Clearwater
Cheney
Murdock
Conway Springs
Oxford
Kellogg
WINFIELD
Pratt
Waldeck
Cairo
Cunningham
Calista
Kingman
Carvel
Coats
Sawyer
Isabel
Nashville
Zenda
Rago
New Salem
Burden
Moline
Fredonia
NEODESHA
Independence
Humboldt
Chanute
Thayer
Cherryvale
Liberty
Caney
COFFEYVILLE
Altamont
Oswego
Sherwin
COLUMBUS
Cherokee
PITTSBURG
Cornell
Liberal
Dewey
Bartlesville
Collinsville
Owasso
Tulsa Port Authority
TULSA
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PAWNEE
Stillwater
Bristow
Stroud
OKLAHOMA CITY
Midwest City
Wheatland
Chickasha
Cyril
Fletcher
Lawton
SNYDER
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**LICENSED TO PRACTICE IN KANSAS AND MISSOURI

TESTIMONY OF BOB ALDERSON
ON BEHALF OF MID-STATES PORT AUTHORITY
AND KYLE RAILROAD COMPANY
BEFORE THE HOUSE COMMITTEE ON TRANSPORTATION

February 13, 2006

Chairman Hayzlett and Members of the Committee:

My name is Bob Alderson, and I am appearing on behalf of Mid-States Port Authority (MSPA) and Kyle Railroad Company (Kyle) in support of House Bill No. 2709. With the belief that many members of the Committee may not be familiar with MSPA, I have attached a Memorandum which provides an overview of MSPA's formation, its purposes and objectives, its organization and operation, including the financing thereof, and its relationship with Kyle. Suffice it to state here that MSPA is a joint port authority that was formed pursuant to K.S.A. 12-3401 *et seq.* in 1980 by the Joint Cooperative Agreement of 14 Kansas counties in north central and northwest Kansas. It was formed in the wake of the bankruptcy and proposed liquidation of the Chicago, Rock Island and Pacific Railroad Company (Rock Island), which would leave these Kansas counties without rail service. Thus, the purpose for creating MSPA was to serve the public purpose of restoring the rail service previously provided by Rock Island and insuring the continued availability of rail service in this region of the state into the future.

To that end, in May of 1984, MSPA acquired from the Rock Island's Trustee in Bankruptcy approximately 465 miles of Rock Island's main line track and right-of-way, plus approximately 40 miles of spur and siding track, 288 acres of real estate, depots, repair shops and bridges. The line acquired extended from Limon, Colorado in the west to Belleville, Kansas, with lines running from that point to Clay Center, Kansas and to Hallam, Nebraska, the eastern termination point at that time.

Today, MSPA has right-of-way only in the states of Kansas and Colorado, and the operating portion of that right-of-way is leased to Kyle. The attached Memorandum explain the transactions which have occurred since 1984 that have brought us to this point.

House Transportation
Date: 2-13-06
Attachment # 3

As explained in the attached Memorandum, Kyle is a Kansas corporation that is wholly owned by RailAmerica, Inc. and it operates as a shortline railroad pursuant to a lease agreement with MSPA. Kyle is one of 17 shortline railroads operating in Kansas. Here, I should note that "shortline" is a term of convenience, not definition. For purposes of the Uniform System of Accounts applicable to rail carriers subject to the Interstate Commerce Act, shortlines are Class III railroads, i.e., rail carriers having annual operating revenues of $20,000,000 or less.

Shortline railroads represent an important and growing segment of the North America rail network. As the Class I railroads have withdrawn from the branch lines they formerly operated and moved towards long haul, unit train type operations, both they and the shippers are becoming more and more dependent on shortlines to provide service to and from the lighter density branch lines. This is particularly true in a state such as Kansas, a state which ranks in the top ten in the number of rail miles (4,776) in the United States. Thus, as is the case with most shortline railroads, Kyle originates or terminates traffic on its lines and interchanges that freight with the large Class I railroads at terminal locations.

The essential points of difference between Class I and shortline or regional railroads include the following:

- The Class I railroads are large, mainline railroads, generally operating in a "hook and haul" method with long trains over long distances.
- Class I railroads include such giants of the industry as Union Pacific, Burlington Northern Santa Fe, Kansas City Southern, Norfolk Southern and CSX.
- Shortlines are local or regional railroads that feed the Class I railroads traffic or deliver it for them.
- The gross revenues that shortlines derive from their operations are considerably less than the revenues derived by the Class I's, which by the federal classification are railroads having annual operating revenues of $250,000,000 or more.

The shortline operating advantages include:

- A local and regional focus
- Localized customer service
- Innovative pricing
- Organization flexibility
- Cost efficiencies
- Quick responses to shippers' service requests

In Kansas today, the 17 shortline railroads operate on 1,986 miles of track, nearly 42% of the state's total railroad miles. Most of these shortlines were formed after 1980. In fact, the majority of them were founded in the 1990's. The characteristics most of them share are that the lines comprising the shortline systems are light density, they face severe competitive pressures from the trucking industry and have many rail line segments in need of rehabilitation. There are lines in Kansas that are so light density that, in years past, they did not meet the guidelines necessary to receive federal rehabilitation money. This means that, over time, without rehabilitation those lines will be subject to abandonment. Additionally, the higher density lines operated by the Kansas shortlines will need significant upgrades and rehabilitation to meet the needs of shippers in the future. This effort may include not only rail improvements, but also new or rebuilt bridges, new or improved crossings, crossing closings and similar projects.

HB 2709 concerns the State's financial support for track rehabilitation by shortlines. It deals with a portion of an amendment made in 1999, legislation which had its genesis in studies made the preceding interim.

In 1998, the need for improved or upgraded rail lines emanated from at least three sources. First, many of the lines operated by shortlines suffered over the years from deferred maintenance by the former Class I owners. Second, car weights had increased significantly over the few years preceding 1998, with bigger car sizes on the horizon. Many of the lines in Kansas in 1998 were not able to handle these heavier cars. Third, generally speaking, shortlines could not afford to fund both normalized maintenance and rehabilitation at the same time.

In 1998, the following generalized statements could be made regarding the situation confronting Kansas shortlines:

- Shortlines had to make hard economic choices as to where to spend their scarce capital dollars.

- Prior federal programs designed to assist with the rehabilitation of light density lines had not existed since 1995.

- Kansas did not currently fund any state level programs designed to assist shortline railroads rehabilitate light density lines.

- Many shippers who previously used rail had switched to truck for a variety of reasons, and that traffic was not likely to return to rail.

- Technological changes in the rail industry had far outstripped the ability of shortlines to handle traffic moving in this State. For example, car size had inexorably increased and was moving from 263,000 pound cars to 286,000 pound cars. The existing infrastructure (i.e., bridges and rail) was not capable of sustaining that weight.

This was the context within which three separate groups – the Governor's Grain Transportation and Storage Task Force, the Special Committee on Rail Transportation and the Transportation 2000

Study Group – studied rail transportation needs during the summer of 1998. All of these groups concluded that shortline railroads are an important, vital part of the state's transportation system, and made various recommendations for strengthening the state's shortline rail system. The conclusions and recommendations of two of those groups (Special Committee on Rail Transportation and Transportation 2000 Study Group) are particularly relevant to this Committee's consideration of HB 2709.

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

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

Toward that end, the Committee recommended that the 1999 Legislature consider various proposals for providing financial assistance to shortlines.

In convening the Transportation 2000 Study Group in June, 1998, Governor Bill Graves asked the study group to assess the transportation needs of the state, and he urged members of the study group to look beyond the traditional emphasis on roads and determine the needs of the state's entire transportation infrastructure. Transportation 2000's study was conducted pursuant to a series of 12 Town Hall meetings held in the various geographic regions of the state. In Transportation 2000's Report to the Governor, it was stated:

> "Throughout the Town Hall meetings, the Transportation 2000 Study Group heard about needs in aviation, public transit, rail, highways and local jurisdictions. The Study Group concluded that there is a state interest in maintaining adequate aviation and rail systems as well as highway and public transit."

Later, in support of its recommendation for a state-funded rail program to assist Kansas shortlines with track rehabilitation, the Report concluded:

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

In response to the recommendations of these two study groups, the 1999 Legislature included financial assistance to shortline railroads in the State Comprehensive Transportation Program enacted into law that session. In particular, K.S.A. 75-5048 was amended to provide that the Rail Service Improvement Fund, which previously had been the recipient of federal monies under the Local Rail Freight Assistance Program, was expanded to include the receipt and disbursement of state monies. Specifically, this statute was amended to provide that, on July 1, 1999, and on each July 1 thereafter, $3 million would be transferred from the State Highway Fund to the Rail Service Improvement Fund, to be used for the purpose of "facilitating the financing, acquisition and rehabilitation of railroads" through grants and/or low-interest loans. However, the 1999 amendment also provided that the authority to make such transfers would expire on June 30, 2007, and the purpose of HB 2709 is to delete that expiration date.

To say that the amendments made to K.S.A. 75-5048 in 1998 and the administration of its amended provisions by the Kansas Department of Transportation have been of benefit to shortlines, is a significant understatement. I am confident that other proponents will summarize the extent to which the shortlines have utilized the funding provided through the Rail Service Improvement Fund (Fund), through grants and/or loans. However, I want to summarize Kyle's experience in this regard.

From 2000 through 2004, Kyle used grants and/or loans provided from the Fund totaling $2,830,440. Pursuant to its agreements with KDOT, Kyle funded 30% of these projects, with a matching grant from the Fund and a loan from the Fund covering the remaining 40% of each project. This funding assistance has enabled Kyle to rehabilitate 194 miles of its line in Kansas. For the most part, these rehabilitation projects have included rail and roadbed upgrades and new tie installations. At present, Kyle has pending another application for funding assistance with a proposed project having a cost of approximately $605,333.

Pursuant to K.S.A. 2005 Supp. 75-5048, the Secretary of Transportation is authorized to make loans or grants to a "qualified entity" to facilitate the financing, acquisition or rehabilitation of Kansas railroads. Subsection (g) defines a "qualified entity" as including a port authority. To this point, MSPA has not sought financial assistance from the Fund. However, at its last quarterly meeting on February 7, 2006, the MSPA Board of Directors authorized me to pursue financing for a unique rail project.

In the City of Belleville, Kansas, MSPA's right-of-way includes a dam which serves as an impoundment for the pond in the Rocky Pond Recreation Area. MSPA has a bridge which traverses the spillway on the dam that requires constant, costly maintenance by Kyle, because of the seepage of water from the dam. While the earthen embankment is owned by MSPA as part of its right-of-way, the City of Belleville actually owns the steel dam, which was conveyed to the City by gift of the Rock Island in 1964.

In November of 2002, MSPA, as the owner of the dam, was notified by the Division of Water Resources that recent legislation required periodic inspection of dams and that MSPA should undertake a safety inspection of the Rocky Pond Dam. This was undertaken, and the inspection report rated the dam as from poor to very poor. Understandably, the Division of Water Resources has required the repair and rehabilitation of the dam.

To this end, MSPA has engaged an engineering firm which has submitted final plans and drawings to the Division of Water Resources for approval. Once approved, the project will be submitted for bids, and as soon as the project cost is known, an application will be submitted to KDOT for financial assistance from the Rail Service Improvement Fund. The engineering firm's estimated project cost is approximately $700,000.

Because of the benefit to the City of Belleville to this project, it is anticipated that MSPA and the City will enter into a cost-sharing arrangement, but the City has wanted to wait to enter into such agreement until the project costs have been determined.

As should be evident from the foregoing, both Kyle and MSPA have or will benefit from the financing available from the Rail Service Improvement Fund to rehabilitate the infrastructure owned by MSPA and leased to Kyle. Much has been accomplished since the inception of the state-funded program of loans and/or grants, but from the standpoint of Kyle and MSPA, much remains to be done in the future to accomplish the needed rehabilitation of the infrastructure.

In 1999, it was anticipated that the Fund would become self-sustaining at the end of eight years, which is why the statute included a sunset date of June 30, 2007. However, it appears that this will not be accomplished. The study of the Kansas Shortline Loan/Grant Program undertaken for the Kansas Department of Transportation by the consulting firm of Parsons Brinckerhoff concluded that the loan/grant program funded by the Fund will not become self-sustaining after fiscal year 2007 as originally envisioned. The study also recommended that this program should be continued to address the large remaining unmet needs of the shortlines in terms of poor rail infrastructure that remains in the state.

Thus, for the foreseeable future, it would not serve the state transportation system well to terminate the annual transfer of moneys from the State Highway Fund to the Rail Service Improvement Fund. If shortlines cannot complete the task of rehabilitating their infrastructures, the strength of the shortline system is diminished and the ability of shortlines to serve their shippers and their Class I partners is likewise diminished.

Therefore, on behalf of Mid-States Port Authority and Kyle Railroad Company, I respectfully urge the Committee to recommend House Bill No. 2709 favorably for passage. Thank you for the opportunity to make this presentation, and I will be happy to respond to the questions at the appropriate time.

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MEMORANDUM

TO :	House Committee on Transportation
FROM :	Bob Alderson, General Counsel, Mid-States Port Authority
RE :	Background Information on Mid-States Port Authority
DATE :	February 13, 2006

The Mid-States Port Authority (MSPA) is the owner of railroad right-of-way in the states of Kansas and Colorado. The operating portion of the right-of-way is leased to Kyle Railroad Company (Kyle). Kyle is a Kansas corporation that is wholly owned by RailAmerica, Inc. and it operates as a Class III (short-line) railroad. Because of its relationship with Kyle, MSPA is vitally concerned with the deliberations of the House Committee on Transportation, and the purpose of this Memorandum is to acquaint the members of the Committee with the MSPA, by providing a brief summary of MSPA's formation, its purposes and objectives and its organization and operation, including the financing thereof.

Formation

The MSPA is a public body corporate and politic, organized and existing under the authority of K.S.A. 12-3401 et seq. The MSPA was created a Joint Cooperative Agreement entered into on May 29, 1980, by the following 14 Kansas counties: Clay, Cloud, Decatur, Jewell, Norton, Phillips, Republic, Riley, Sheridan, Sherman, Smith, Thomas, Wabaunsee and Washington. The formation of MSPA was approved by the Attorney General of Kansas in Attorney General Opinion 80-95, issued April 23, 1980.

The counties creating MSPA are in northwest and north central Kansas. These counties were adversely affected by the loss of rail service by reason of the bankruptcy and proposed liquidation of the Chicago, Rock Island and Pacific Railroad Company (Rock Island). The board of county commissioners of each of these counties determined there was a need for a joint port authority to function in the counties and region affected, in order to restore rail service and to insure the continued availability of rail service in the future. Therefore, consistent with the statutory requirement that the powers exercised by a port authority be for the benefit of the people of the state, the MSPA was created to serve the public purpose of restoring rail service to the affected counties.

In 1983, the Kansas Legislature agreed to guarantee a portion of a loan of $18 million from the Federal Railroad Administration (FRA) to the MSPA, through the establishment of the Railroad

Rehabilitation Loan Guarantee Fund (K.S.A. 75-5029) and by the authorization for payments from that fund to the FRA of not to exceed fifty percent (50%) of any loss resulting from default by the MSPA on any loan it obtained from FRA.

The rail line was acquired from the Rock Island's Trustee in Bankruptcy on May 15, 1984. The Trustee executed two Quitclaim Deeds which were identical, except for the descriptions of the property being conveyed. One of these deeds conveyed the Trustee's interest (with certain exceptions) in and to the rail line in Clay County, Kansas and the other conveyed the Trustee's interest (with certain exceptions) in and to the reminder of the line.

By virtue of these transactions, MSPA acquired a portion of Rock Island's right-of-way and track which extended from Limon, Colorado in the west to Belleville, Kansas, with lines running from that point to Clay Center, Kansas and to Hallam, Nebraska, which was the eastern termination of MSPA's original rail line. A map of the rail line acquired by MSPA is attached as Appendix A. Also acquired were various depots, switching and communication equipment, tools and other items useful to the provision of rail service.

The property acquired included approximately 465 miles of main line track and right-of-way, approximately 40 miles of spur and siding track, 288 acres of real estate, depots, repair shops and bridges.

<u>Organization and Operation</u>

MSPA is governed by a Board of Directors comprised of one individual appointed by the board of county commissioners of each member county and eight individuals elected "at large" collectively by the boards of county commissioners of the member counties. Shortly after MSPA acquired its rail line from Rock Island's Trustee, Riley and Wabaunsee Counties withdrew from the MSPA, because none of that line was situated in those counties. Subsequently, as a result of abandonments of all of MSPA's rail line in Clay and Washington Counties, those counties also withdrew. Thus, with 10 participating counties remaining, there currently are 18 members of MSPA's Board of Directors. A list of the current members of the Board of Directors is attached as Appendix B. The MSPA does not have any employees, but the MSPA's Rules and Regulations provide for the Board's appointment of two special officers, a Deputy Treasurer and a General Counsel.

The rail line acquired by MSPA from Rock Island's Trustee in bankruptcy was operated initially pursuant to two, separate leases with rail carriers. As noted previously, MSPA has a lease with Kyle to provide rail service on the MSPA's line in Kansas and Colorado. The facilities leased to Kyle actually include the segment of the line from the Kansas-Nebraska State line to Fairbury, Nebraska. However, there never was any traffic over this segment of the line from the time it was acquired by MSPA. Thus, in two, separate transactions this segment of MSPA's Nebraska line has been abandoned. The last of these transactions was completed in January, 2006, and it also effected the abandonment of the right-of-way segment from the Kansas-Nebraska line to Munden, Kansas.

MSPA's other operating lease was with Union Pacific Railroad Company, and it was for the line segment from Fairbury, Nebraska to Hallam, Nebraska. That lease continued for 20 years, until the

Spring of 2004, when Union Pacific exercised the option contained in its lease to acquire this segment of MSPA's rail line.

Kyle is responsible under its lease agreement with MSPA for providing freight service along the leased rail line, and the interstate operating authority necessary to provide such service has been obtained by Kyle. MSPA does not have any authority to operate as a rail carrier itself, although MSPA is considered a railroad under various Kansas statutes, because of its ownership of railroad right-of-way.

Pursuant to its lease agreement with Kyle, MSPA has retained control over the right-of-way and other property along the rail line that is not directly required for railroad operations, and a substantial portion of this "ancillary property" has been leased by MSPA to various lessees.

1989 Refinancing

Pursuant to Public Law 100-457 (the Federal Government's Deficit Reduction Program), the FRA was instructed to dispose of $99 million of its assets. Among the assets FRA identified for disposal were the Notes issued by MSPA and guaranteed by the State of Kansas. As part of the effort to sell its assets, the FRA agreed to sell the MSPA's Notes back to MSPA for $11 million. At that time, the face amount of the Notes plus accrued interest had a value of approximately $20 million.

During the first five years of its operations, MSPA was able to accumulate nearly $5,000,000.00 in cash. Thus, in 1989, after providing for reserves and closing costs, MSPA was able to apply a sizable portion of the cash on hand to the repurchase of its Notes from FRA, thereby reducing its need for refinancing to less than $7 million.

However, because MSPA is a unique entity, as far as public bodies are concerned, ordinary bank financing of the balance of the monies necessary to repurchase the Notes from FRA was not available without the continued guarantee of the State of Kansas. Accordingly, the 1989 Kansas Legislature made the statutory changes necessary to perpetuate the State's guarantee of MSPA's indebtedness. Section 1 of that act (now codified as K.S.A. 75-5031) authorized the Secretary of Transportation to guarantee the repayment of any amounts which may be in default on any loan obtained by MSPA for the refinancing of its obligations to FRA. Attorney General Opinion No. 89-45 clarified the Kansas Secretary of Transportation's authority under that law to guarantee the MSPA's obligation upon refinancing.

With the enactment of this legislation, the requisite financing was then provided by BANK IV Kansas, N.A. The financing arrangements with BANK IV included the bank's loan of $6,575,000 to MSPA for the purpose of repurchasing its Notes from FRA. The loan was made pursuant to a Term Loan Agreement among MSPA, BANK IV and the Kansas Secretary of Transportation and various other "loan documents," including Mortgage, Security Agreement, and Assignment of Leases between MSPA and BANK IV.

Revenue Refunding Bonds

In 1993, MSPA's Board of Directors began exploring the possibility of re-financing its obligation to BANK IV. A re-financing proposal was submitted to BANK IV, and at the suggestion of then Secretary of Transportation Mike Johnston, the Board of Directors also considered the issuance of bonds pursuant to K.S.A. 12-3420, which authorizes a port authority to issue revenue bonds for the purpose of refunding any bonds or "other obligations" of the port authority. On the basis of the comparative funding analysis prepared by KDOT personnel and a comparison of the respective terms, provisions and conditions attending the BANK IV's re-financing proposal and the issuance of revenue refunding bonds pursuant to K.S.A. 12-3420, the MSPA Board of Directors concluded that it was advisable and in the best interests of the MSPA to proceed with the issuance of said bonds.

In compliance with statutory requirements, each of the original 14 counties which formed the MSPA adopted a resolution authorizing MSPA's Board of Directors to proceed with the revenue refunding bond issue. Pursuant to such authorization, MSPA's Board of Directors issued Federally Taxable Revenue Refunding Bonds, Series 1994, dated May 1, 1994. On May 26, 1994, a single bond in the face amount of $4,975,000 was issued to the Kansas Pooled Money Investment Board on behalf of the Kansas Department of Transportation. The bond proceeds were used to satisfy MSPA's obligations to BANK IV.

In connection with the refunding bond issue, the Secretary of Transportation has continued to provide an Unconditional Guarantee of Payment, and in consideration thereof, MSPA executed a Mortgage, Security Agreement and Conditional Assignment of Leases in favor of the Secretary of Transportation. The terms and conditions of the revenue refunding bond issue are governed by an Indenture of Trust by and between the MSPA and the First National Bank and Trust, Phillipsburg, Kansas, as Trustee. Clarification of the "Reserve Requirement" under the Indenture was accomplished by the First Supplemental Indenture of Trust executed by the parties as of February 1, 1996.

On December 1, 1995, a partial redemption of the revenue refunding bonds was accomplished in connection with MSPA's abandonment of its rail lines between Belleville and Clay Center, Kansas, and between Fairbury and Thompson, Nebraska. The rails, ties, ballast and other track materials were salvaged on these segments of MSPA's rail line, and the net salvage proceeds of approximately $1,400,000 were paid over to the bond holder (KDOT) pursuant to the Indenture's redemption provisions.

A second Supplemental Indenture of Trust was executed on September 1, 2003. Among other things, this transaction eliminated the right of redemption. Thus, these bonds will extend to June of 2009. The current balance (including principal and interest) is $1,050,000.00.

When the last payment of principal and interest is made on these bonds on June 1, 2009, the lease agreement between MSPA and Kyle affords Kyle the option to acquire all of MSPA's real and personal property for the purchase price of $1.00. It is anticipated that Kyle will exercise that option. Since the debt service on the bonds has been paid from revenues generated by Kyle's monthly lease payments, the nominal purchase price makes it clear that the lease agreement is, in actuality, a lease-purchase agreement. The lease agreement was entered into with the belief that, once the bonded indebtedness has been eliminated, MSPA will have fulfilled its purpose of restoring rail service to north central and northwest Kansas and that the continued existence of MSPA will no longer be necessary.

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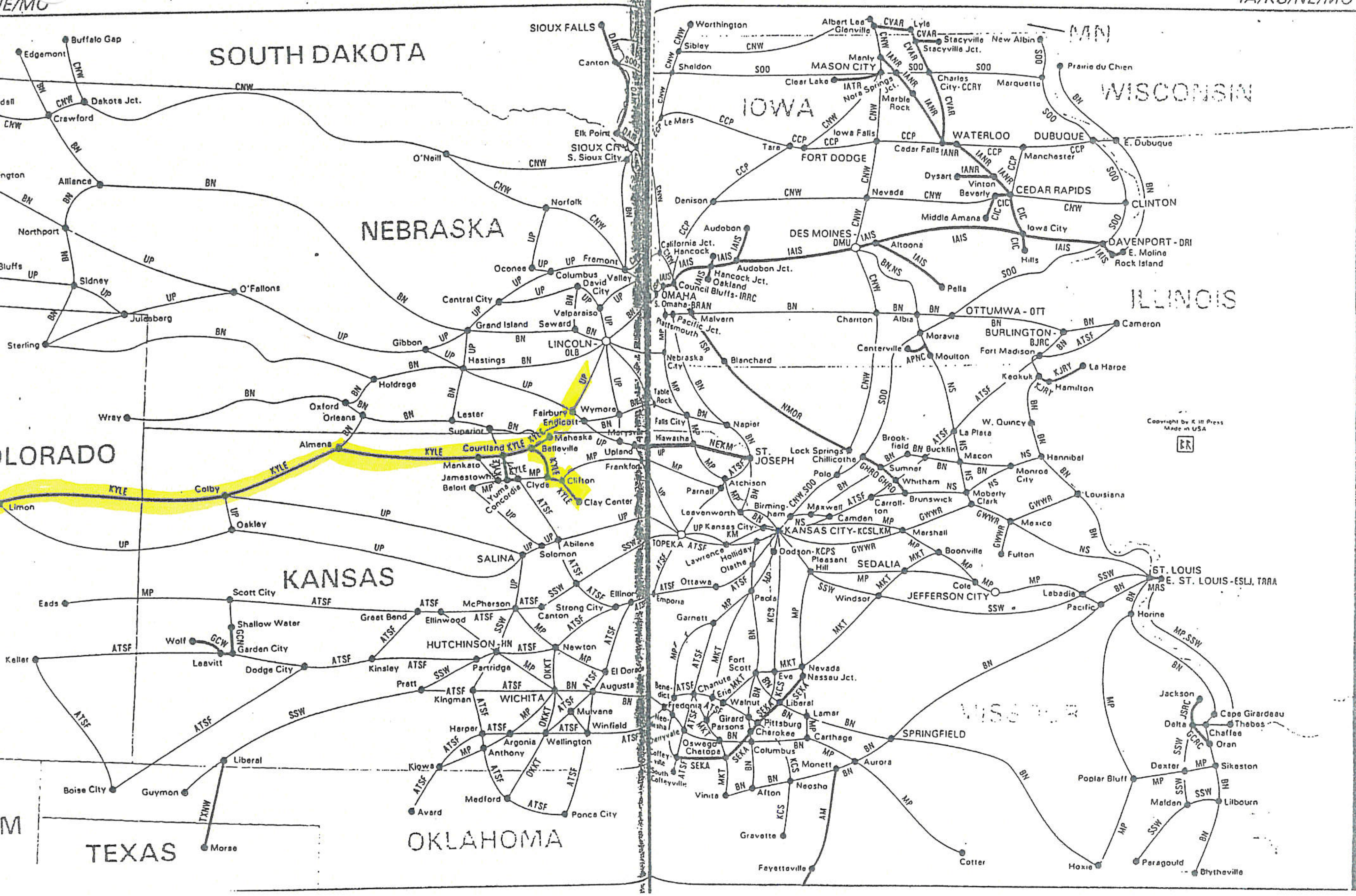
REGION 19
IA/KS/NE/MO



APPENDIX A

APPENDIX B

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Statement of the Kansas Grain and Feed Association in Support of HB 2709

Thank you Chairman Hayzlett, Members of the Committee, my name is Duane Simpson and I am appearing today on behalf of the Kansas Grain and Feed Association in support of HB 2709.

The KGFA is a voluntary state association with membership encompassing the entire spectrum of the grain receiving, storage, processing and shipping industry in the state of Kansas. KGFA's membership includes over 950 Kansas business locations and represents 99% of the commercially licensed grain storage in the state. Our members include both state and federally licensed warehouses.

HB 2709 removes the sunset on the Rail Service Improvement Fund. The $3 million a year fund is used to facilitate the financing, acquisition and rehabilitation of railroads in the state. Our members are losing rail service throughout the state, despite the existence of this fund. Losing the fund would be devastating to our industry. Without the option of transporting by rail, grain elevators see their transportation costs increase dramatically.

The state subsidizes the trucking industry through some of the best highways in the country. We support the funding of the highway program. This program is also integral to the state's rural economy and we urge you to support it as well.

House Transportation
Date: 2-13-06
Attachment # 4

Railroad Service in
Kansas
2004

Railroad Service and Employment

Facilities	Number of Freight Railroads	16
	Miles Operated (Excluding Trackage Rights)	4,936
Traffic	Total Carloads of Freight Carried	6,023,571
	Total Tons of Freight Carried	324,698,628
Employment and Earnings	Rail Employees Living in State	6,146
	Freight Employees Only	5,424
	Total Wages of Rail Employees	$412,836,000
	Freight Employees Only	$366,931,000
	Average Per Freight Rail Employee:	
	Wages	$67,600
	Fringe Benefits	$26,100
	Total Compensation	$93,700
Railroad Retirement	Railroad Retirement Beneficiaries	13,836
	Railroad Retirement Benefits Paid	$191,956,654

Freight Railroad Traffic in Kansas

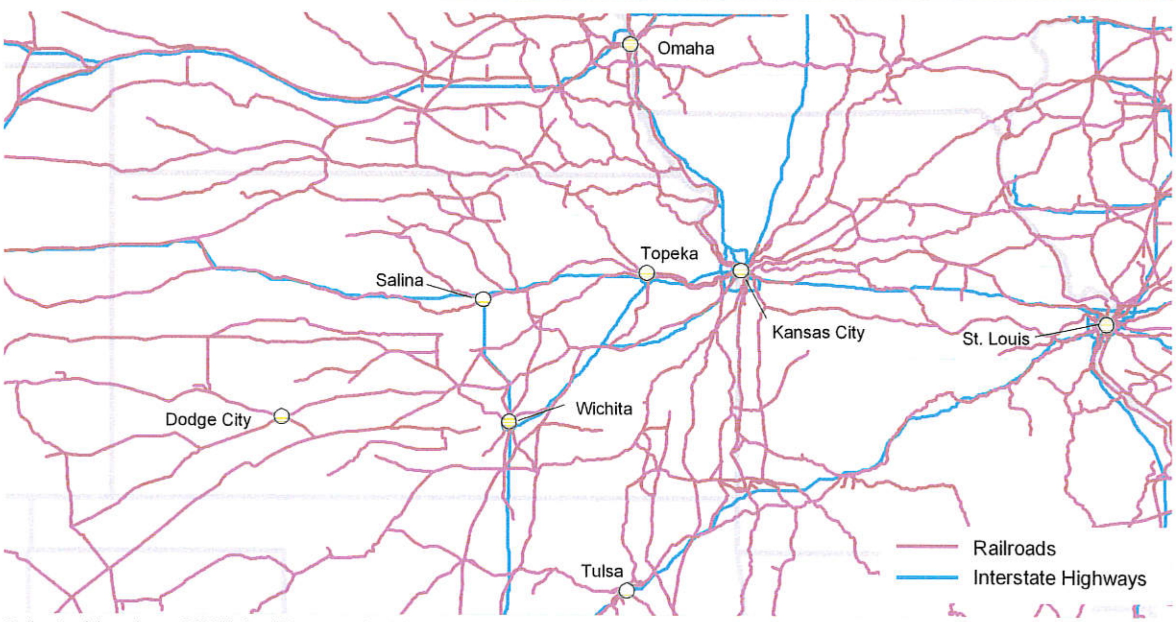
Tons Originated 2004

	Tons	%
Farm Products	10,354,733	47%
Food Products	3,268,516	15%
Chemicals	2,441,240	11%
Mixed Freight	1,672,680	8%
Glass & Stone Products	1,281,360	6%
All Other	2,899,157	13%
Total	21,917,686	100%

Tons Terminated 2004

	Tons	%
Coal	15,603,721	58%
Chemicals	1,815,852	7%
Mixed & Misc. Freight	1,820,753	7%
Glass & Stone Products	1,349,884	5%
Food Products	1,289,516	5%
All Other	5,049,136	19%
Total	26,928,862	100%

Railroad Map of Kansas



Rail network based upon 2002 National Transportation Atlas Database published by the U.S. DOT, Bureau of Transportation Statistics.

House Transportation
Date: 2-13-06
Attachment # 5

Freight Railroads Operating in

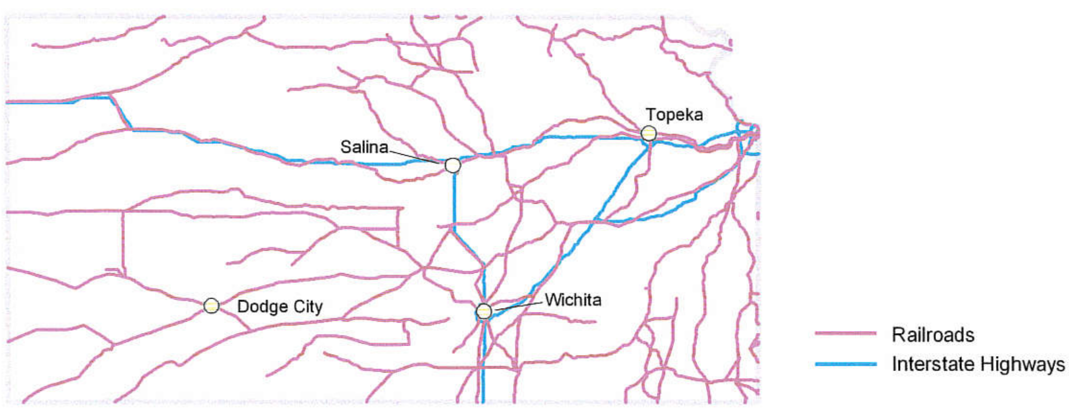
Kansas

2004

	Miles of Railroad Operated in Kansas
Class I Railroads	
BNSF Railway Company	1,767
Kansas City Southern Railway Co.	18
Norfolk Southern Corp.	2
Union Pacific Railroad Co.	2,248
	4,035
Regional Railroads	
Iowa, Chicago & Eastern Railroad	13
Kansas & Oklahoma Railroad, Inc.	867
Kyle Railroad	465
Missouri & Northern Arkansas Railroad	4
Nebraska, Kansas & Colorado RailNet, Inc.	139
South Kansas & Oklahoma Railroad	320
	1,808
Local Railroads	
Blackwell and Northern Railway Co., Inc.	17
V & S Railway, Inc.	21
	38

Kansas Totals	Number of Freight Railroads	Miles Operated Excluding Trackage Rights	Miles Operated Including Trackage Rights
Class I	4	2,916	4,035
Regional	6	1,726	1,808
Local	2	38	38
Switching & Terminal	4	256	256
Total	16	4,936	6,137

	Miles of Railroad Operated in Kansas
Switching & Terminal Railroads	
Boot Hill & Western Railway	9
Cimarron Valley Railroad	203
Garden City Western Railway	40
Hutchinson & Northern Railway	4
	256



Rail network based upon 2002 National Transportation Atlas Database published by the U.S. DOT, Bureau of Transportation Statistics.

Class I Railroad - As defined by the Surface Transportation Board, a railroad with 2004 operating revenues of at least $289.4 million.
Regional Railroad - A non-Class I line-haul railroad operating 350 or more miles of road and/or with revenues of at least $40 million.
Local Railroad - A railroad which is neither a Class I nor a Regional Railroad and is engaged primarily in line-haul service.
Switching & Terminal Railroad - A non-Class I railroad engaged primarily in switching and/or terminal services for other railroads.
Note: Railroads operating are as of December 31, 2004. Some mileage figures may be estimated.

 Dec. 2005

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House Committee on Transportation

February 13, 2006

HB 2709 - Extending the rail service improvement act and including rolling stock under the act.

Chairman Hayzlett and members of the House Transportation Committee, thank you for the opportunity to comment today in support of HB 2709. I am Leslie Kaufman, Executive Director of the Kansas Cooperative Council. As you know, this bill will remove the sunset on the rail service improvement program and allow rolling stock to be covered by the program.

The Kansas Cooperative Council represents all forms of cooperatively structured, member-owned/member-controlled businesses. We have nearly 200 members across Kansas. Approximately one-half of these members are engaged in grain storage and farm supply enterprises. These operations are uniquely tied to the rail systems in Kansas and rely on rail transport for a large part of their shipping needs.

There are many challenges our agribusinesses face. One of those is adequate and timely rail service. At times, it is difficult to get rail cars at a location. In other cases, the challenge is not on acquiring the car, but getting it shipped after loading. They may sit loaded for days waiting to be hauled on down the line.

We hope efforts like the rail service improvement act will further encourage investment in rail infrastructure and rolling stock, translating to better rails service and improved shipping options for our members. As such, we respectfully request the committee to act favorably on HB 2709.

Thank you.

House Transportation
Date: 2-13-06
Attachment # 6

THE KANSAS CONTRACTORS ASSOCIATION, INC.

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Kansas City, Kansas

CORKY BEACHNER, Vice President
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Leawood, Kansas

Testimony

By the Kansas Contractors Association

before the House Transportation Committee

regarding

HB 2709

February 13, 2006

Mr. Chairman and members of the House Transportation Committee, I am Bob Totten, Public Affairs Director for the Kansas Contractors Association. Our organization **represents over 350 companies** who are involved in the construction of highways and water treatment facilities in Kansas and the Midwest.

The Kansas Contractors Association must oppose HB 2709 not for anything else except we are greatly concerned the Comprehensive Transportation Program needs all the funding available to finish all the projects proposed in 1999. Earlier this year, four Legislative committees approved the issuance of $210 million dollars in bonds. At that time, KDOT Secretary Deb Miller said the program was very tight financially but if the bonds were approved, KDOT could complete the program as planned.

Ms. Miller continues to tell me the budget is tight and that the program may have to finish on fumes but all the projects mentioned in the 1999 CTP would be paid for.

We continue to believe what she says even though KDOT in October of 2005 rejected many of the project bids because the prices were higher than expected. Due to Hurricane Katrina and other factors, the price of materials has increased at a rate higher than what KDOT thought it would seven years ago.

Unfortunately, our suppliers give us no reason to expect a decline in prices in the near future which means KDOT will be hard pressed to finish the program within budget if there are any more surprises.

We call HB 2709 a surprise. As an association, we endorse the concept but we suggest that it be held off for the next transportation program which we hope will be passed in 2009. That means this idea can wait two years to be implemented.

KDOT is doing a good job managing the transportation program but if there are continued demands on a program that weren't planned for such as this proposal, KDOT will need to return to the legislature for more money just to finish the program in 2009.

Besides this measure, SB 388 is already on the Senate floor which calls for up to $3.5 million to be spent to support the production of bio-diesel. We as an association don't have a problem with bio diesel and we would like to support everyone's wish list but we also know that the transportation program can not be the bank or loan organization for the whole state unless more revenues are earmarked for these ventures.

The plan under consideration today is admirable and would help alleviate some of the wear and tear on roads…but it is not budgeted and unless more revenues or taxes are raised to support the plan, it is flawed.

We as contractors urge you to vote no on this proposal and when 2009 rolls around for the next program, let's all make sure there are sufficient funds allocated for the railroads.

I thank you for your kind attention to our concern.