

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:40 A.M. on March 7, 2006 in Room 519-S of the Capitol.

All members were present except:

Terry Bruce- excused

Committee staff present:

Chris Courtwright, Kansas Legislative Research

Gordon Self, Revisor of Statutes Office

Judy Swanson, Secretary

Conferees appearing before the committee:

Senator Mark Taddiken

Kenlon Johannes, Kansas Soybean Association

Jere White, Kansas Corn Growers Association

Brad Harrelson, Kansas Farm Bureau

Bob Drummond, TLC for Children and Families, Inc.

Others attending:

See attached list.

Hearing on **SB 389, income taxation, credit for biofuels mixing facilities**, was opened.

Senator Mark Taddiken testified in favor of the bill. (Attachment 1) He said the bill intent is to provide incentives for the construction of storage tanks at terminals to aid in the distribution of alternative fuels.

Kenlon Johannes, Kansas Soybean Association, said KSA has been actively involved in the promotion of the use of biodiesel fuel in Kansas, and supports the bill. (Attachment 2)

Jere White, Kansas Corn Growers Association, testified the bill would ensure the availability of all biofuels in Kansas and help minimize reliance on foreign oil. (Attachment 3)

Brad Harrelson, Kansas Farm Bureau, said producing fuel from Kansas corn and soybeans is better long-term than continuing to rely on imported foreign oil. (Attachment 4)

KDOR Secretary Joan Wagon commented there needs to be clarifying language placed in the bill. The assignment transfer of tax credits creates an administrative problem, and a definition is needed to clarify that issue.

Chairman Allen requested the proponents of **SB 389** work with Secretary Wagon and bring a balloon amendment to the Committee before the bill is worked. A sunset provision was briefly discussed.

Hearing on **SB 389** was closed.

Hearing on **SB 585, sales tax exemption for TLC for Children and Families**, was opened.

Bob Drummond, President and CEO of TLC for Children and Families in Olathe, testified **SB 585** was requested after KDOR issued an internal ruling regarding tax exemptions for TLC. (Attachment 5) He said TLC provided services for over 7,000 children, youth, and families in 2005, and TLC should not be penalized for their willingness to creatively find ways to underwrite services the State cannot fully fund. Senator Donovan said this bill would be a good value to the State.

Hearing on **SB 585** was closed.

Chris Courtwright continued his staff briefing on:

HB 2619--Property tax exemption for certain commercial and industrial machinery and equipment, materials and supplies

CONTINUATION SHEET

MINUTES OF THE Senate Assessment and Taxation Committee at 10:40 A.M. on March 7, 2006 in Room 519-S of the Capitol.

Sub HB 2525--Property tax exemption for certain telecommunications machinery and equipment and railroad machinery and equipment

In response to Senator Lee's request, Chris provided information on the amount of assessed value and appraised value of CI/ME that would be off the tax rolls if CI/ME is exempted. (Attachment 6) These amounts would be somewhat offset by payment in lieu of taxes that companies make to the State. In response to Senator Apple, Courtwright said the "slider" provision would work much like the former demand transfers. The "slider" provision would be subject to appropriation every year.

KDOR Secretary Joan Wagon provided further information on these bills. She reviewed projected property valuations charts and answered questions. (Attachment 7) Senator Schmidt requested KDOR legal representatives provide their legal analysis as to why this bill meets the requirement of a uniform and equal basis of valuation and rate of taxation under the Kansas Constitution. Secretary Wagon said the Governor is not supportive of all the House amendments, but the Governor would be open to a mitigation strategy. No information on other states having a "slider" provision for CI/ME is available according to Secretary Wagon. There are currently 12 states which exempt business machinery from property taxes. Senator Lee requested KDOR to survey nine or ten counties to obtain an idea of the amount of new CI/ME tax they receive annually.

Secretary Wagon said KDOR requested **HB 2619** and **Sub HB 2525** be separately considered since there is a disparity between land-line telephones and wireless service. Telecommunications equipment needs to be identified since it is treated differently. Secretary Wagon suggested additional amendments relating to the railroads and will get that information to Staff.

Senator Donovan moved to approve the Committee Meeting Minute of March 2. Senator Jordan seconded the motion, and the motion passed.

Being no further business, the meeting adjourned at 12:00 noon.

SENATE
ASSESSMENT & TAXATION COMMITTEE

GUEST LIST

DATE: 3-7-06

NAME	REPRESENTING
Sheila Graham	KACCT
Billy Brady	Capitol Strategists
K. J. M. M. M.	LBR
Derek Allen	High Law Firm
Carole Jordan	K D A
Lynne Biddle	- interested person only
Carl Wallace	General Molder
Mike Rye	Gaelin Braden
RONALD RICHEY	ME
Natawe Williams	
Brad HARRISON	KFB
Kenton Johnson	Kansas Soybean Association
LARRY R. BAER	LKW
Michael Smith	Kansas Association of Counties

SENATE
ASSESSMENT & TAXATION COMMITTEE

GUEST LIST

DATE: 3-7-06

NAME	REPRESENTING
Jere White	KCGA - KCSFA
Mike Murray	Sprint
Mark Beshears	Sprint/Nextel
Pat Hablue	KS Railroads
Maurice Taubken	21 st Senate District
Tom Palace	PMCA OF KANSAS
Brent Haden	KLA
David Cunningham	KASB
Sharon Monroe	—
KALE LOUG	—
Shannon Martinez	—
Jean Newman	
Hal Hudson	NFIB
Bill Thompson	Dept of Commerce
Leah Ramsey	—
Keith Reynolds	Wichita
Janese Masters	Topeka
Ed Tenney	—

STATE OF KANSAS



TOPEKA

SENATE CHAMBER

MARK W. TADDIKEN
SENATOR, 21ST DISTRICT
CLAY, CLOUD, JEWELL,
MARSHALL, NEMAH, REPUBLIC, RILEY,
AND WASHINGTON COUNTIES
2614 HACKBERRY RD.
CLIFTON, KS 66937
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taddiken@senate.state.ks.us

COMMITTEE ASSIGNMENTS
CHAIR: AGRICULTURE
MEMBER: NATURAL RESOURCES
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WAYS & MEANS
JOINT COMMITTEE ON SPECIAL
CLAIMS AGAINST THE STATE
LEGISLATIVE EDUCATIONAL
PLANNING

SENATE ASSESSMENT AND TAXATION COMMITTEE

TESTIMONY IN SUPPORT OF SB 389

March 7, 2006

Thank you for allowing me to appear today in support of SB 389. This bill was recommended by the Select Joint Committee on Energy. The energy committee was charged with looking at the energy needs of Kansas and how to address those needs.

During the discussion on the use of alternative fuels, it was noted that the availability of the fuel to the public is limited. It was determined that not all fuel terminals have the capacity to stock ethanol or bio-diesel.

Fuel retailers then have to bypass a local terminal and truck the fuel from a more distant terminal that stocks the alternative fuel. This adds to the transportation cost and thus adds to the retail price, which in turn inhibits demand.

The policy intent of SB 389 is to provide incentives for the construction of storage tanks at terminals to aid in the distribution of alternative fuels. It would allow for a tax credit for one each of an ethanol or bio-diesel tank. The credit would be for 40% of the cost of the tank not to exceed \$200,000 credit per tank. The maximum allowed statewide would be \$2 million dollars per year.

The Committee might wish to review the “at least” language on page 2, line 13. Perhaps the language would be clearer if “no more than” replaced “at least”.

I would be happy to answer your questions at the appropriate time.

Assessment & Taxation
Date 3-7-06
Attachment # 1



**Kansas Senate Assessment & Taxation Committee
March 7, 2006 hearing on SB 389**

Chairperson Allen and members of the committee. The Kansas Soybean Association (KSA) has been actively involved in the promotion of the use of biodiesel (p.1-8) in Kansas making this effort our number one market development priority. Biodiesel is the fastest growing alternate fuel in the United States. It is domestically produced from renewable resources such as soybean oil from soybeans raised in Kansas, reducing our dependence on imported petroleum products. The use of biodiesel has increased steadily over the past few years and is on the verge of a rapid increase in use, but biodiesel cannot be sold in Kansas if it not available. Retailers at times are struggling to handle and blend biodiesel, but have been willing to do so because their customers (farmers and state fleets) have asked for it. We would like to see this process made easier and SB 389 helps do this.

This incentive would complement other incentives the legislature may provide to assist the fledgling biodiesel industry in Kansas. We feel it would be one of several components to assist biodiesel sales and production in Kansas. Providing a biofuel mixing facility credit against their income tax for adding equipment to blend alternative fuels will only stimulate biodiesel's availability.

I have attached lists of 100% biodiesel suppliers (p. 9) to Kansas distributors and retailers, the growth of retail outlets and off-road and on-road retail outlets (p. 10) in Kansas. You can see the spikes in the increase of biodiesel outlets at two different times. The first time when the Kansas legislature passed the law mandating the use of biodiesel by state entities, and the second time when the US Congress enacted the federal blending tax incentive. With the passage of this bill, we may see an additional spike in the availability of biodiesel blends in Kansas as the at-the-rack distributors would be able to add the infrastructure to provide biodiesel blends at a lower cost to retailers. With increased availability and decreased cost of the fuel at the pump, we should see an increase in biodiesel sales. This in turn sells more biodiesel benefiting Kansas farmers and reducing our dependence on foreign oil. KSA supports the passage of SB 389.

Kenlon Johannes, CEO
Kansas Soybean Association
2930 SW Wanamaker Drive
Topeka, KS 66614
785-271-1030

Assessment & Taxation
Date 3-7-06
Attachment # 2

Biodiesel Basics

Kenlon Johannes

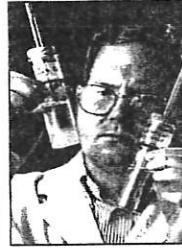
Administrator/ CEO

Kansas Soybean Commission & Association

A quick, visual guide on this fast-growing, high-quality American-made fuel.

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What is biodiesel?



- Alternative fuel for any diesel engine
- From renewable resources such as soybeans
- Used in pure form (B100) or blended with petroleum diesel at any level
- Made in the USA
- Available in 50 states

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What is biodiesel?

General Definition:

Biodiesel is a domestic, renewable fuel for diesel engines derived from natural oils such as soybean oil, and which meets the specifications of ASTM D 6751.

Additional Information:

Biodiesel can be used in any concentration with petroleum-based diesel fuel in existing diesel engines with little or no modification. Biodiesel is **not** raw vegetable oil. It is produced by a chemical process that removes glycerin from the oil.

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What is biodiesel?

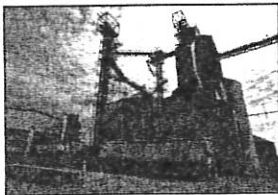
Technical Definition:

Biodiesel, n—a fuel composed of mono-alkyl esters of long chain fatty acids derived from vegetable oils or animal fats, designated B100, and meeting the requirements of ASTM (American Society for Testing & Materials) D 6751.

Biodiesel Blend, n—a blend of biodiesel fuel meeting ASTM D 6751 with petroleum-based diesel fuel, designated Bxx, where xx represents the volume percentage of biodiesel fuel in the blend.

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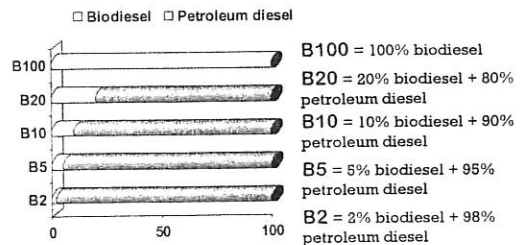
Biodiesel Production



100 lbs. of soybean oil
+
10 lbs. methanol & catalyst
=
100 lbs. soy biodiesel (B100)
+
10 lbs. of glycerin

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Biodiesel Blends



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Rudolf Diesel



- Designed diesel engine in 1894 to run on peanut oil
- "The use of vegetable oils for engine fuels may seem insignificant today. But such oils may become in the course of time as important as petroleum and the coal tar products of the present time."

-1912

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Soybean Checkoff & biodiesel



- 1992: Soybean checkoff funds soy biodiesel research

PHOTO: Soybean farmers use checkoff funds to develop ASTM standards, gain acceptance from engine manufacturers and prove fuel characteristics to EPA, DOE, USDA, DOD and governmental agencies.



- 2006: Soybean checkoff continues to fund most soy biodiesel growth

PHOTO: South Dakota farmer Bob Metz, ASA President, welcomes the 1992 Ford pickup back to Washington, D.C., 10 years and 300,000 miles later.

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Dominant feedstock: soybean oil



- **Soy Biodiesel**
 - ✓ Thoroughly researched
 - ✓ Road/Field-tested
 - ✓ 13 years + of development & promotion funded by soybean checkoff

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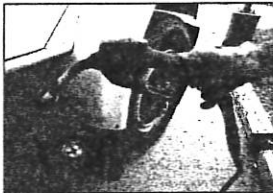
Biodiesel Users



- Major Customers Include:
 - ✓ U.S. Forest Service
 - ✓ U.S. Postal Service
 - ✓ MO, NJ, KDOT
 - ✓ Yellowstone Park
 - ✓ Cities of Philadelphia and St. Louis
 - ✓ Florida Power & Light
 - ✓ Omaha Public Power
 - ✓ Michigan & N.J. School Districts
 - ✓ U.S. farmers
 - ✓ Working for more!

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Biodiesel Quality



- Registered with EPA
 - ✓ legal fuel
 - ✓ health effects testing
- National Fuel Standard
 - ✓ ASTM D 6751
- Convenient Clean Air Act compliance option
 - ✓ federal, state and public utility regs.

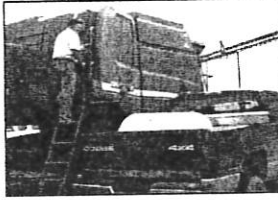
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BQ 9000 Accreditation Mark



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Biodiesel Performance



- Similar to petroleum diesel
- Highest BTU content of any alternative fuel
- High cetane
 - ✓ Minimum cetane of 47, which is higher than most #2 diesel

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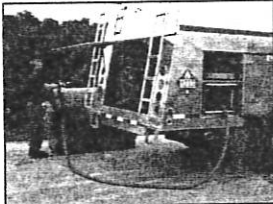
Biodiesel Performance



- High lubricity
- Cold flow
 - ✓ B2 the same as #2 petroleum diesel
- High flash point
 - ✓ 260°F vs. 117°F for diesel
- Safest fuel to use, handle & store

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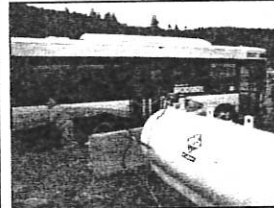
Biodiesel Performance



- Many engine manufacturers support biodiesel blends
 - ✓ Caterpillar
 - ✓ Cummins
 - ✓ Detroit Diesel
 - ✓ International
 - ✓ John Deere

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Biodiesel & Cleaner Air



- Decreases EPA-targeted emissions
- Virtually free of sulfur & aromatics
- Soy B100 reduces lifecycle CO₂ by 78%

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Biodiesel & Environment



- Highest energy balance of any fuel
 - ✓ 3.2 - 1
- Biodegrades as fast as sugar
- 10 times less toxic than salt

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Biodiesel & Energy Security

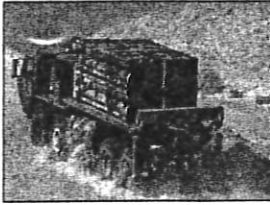


- Petroleum imports projected to provide 68% of U.S. demand in 2025
 - ✓ up from 55% in 2001
- U.S. now consumes 20 million barrels of oil a day
 - ✓ 10+ million imported

Source: USDOE

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Biodiesel & Energy Security



Source: USDOE

- Top 10 nations with oil:
 - ✓ Saudi Arabia
 - ✓ Iraq
 - ✓ United Arab Emirates
 - ✓ Kuwait
 - ✓ Iran
 - ✓ Venezuela
 - ✓ Russia
 - ✓ Libya
 - ✓ Mexico
 - ✓ China

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Biodiesel Action



- U.S. government
 - ✓ Executive branch
 - ✓ USDOD, USDA
 - ✓ Legislative branch
 - ✓ U.S. Congress
- State governments
 - ✓ Minnesota, 2005
 - ✓ requires B2

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Biodiesel Tax Incentive PASSES!

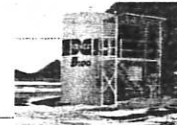
- Passed in FSC/ETI Bill
- Federal Excise Tax Credit
- One penny per percent of "agri-biodiesel" blended into diesel fuel
 - As in first-use vegetable oils
 - B20 = 20 cent tax credit or every gallon of biodiesel blended will generate one dollar of tax credit.
- ½ penny per percent of other biodiesel blended into diesel fuel
 - As in recycled cooking oil



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Biodiesel Tax Incentive

- Credit taken at the blender level
- Structured to benefit all consumers (taxable and tax exempt markets)
- Expires December 31, 2008



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How will it affect price?

- DTN's Alt Fuels Index:
 - No. 2 diesel: \$2.53/gal.
 - B20: \$2.72/gal.
 - The tax incentive could lower the price of B20 by 20 cents
 - B20: \$2.52/gal.
- There will be variables that determine the cost differential, including the price of oil, but the tax incentive will help close the gap.
- Biggest variable will be infrastructure. Some of the incentive could be put towards infrastructure.



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How will consumers benefit?

Competition will drive blenders to pass on savings to consumers.

Evidence of this can be seen in the ethanol market and the bioenergy market. Nearly the full amount of the credits were passed through.



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How Will Farmers Benefit?

- FAPRI, AUS, USDA all conclude:
 - For every 100 million gallons of biodiesel sold it will increase the price of soybean 10 cents per bushel.
 - Hedges potential threats from losses in edible oil market, adds value to livestock fats
 - Decreases meal costs which lowers livestock feed by 5% and increases meal exports



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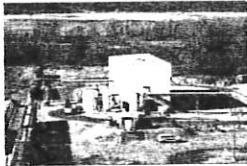
Market Projections



- How much demand will the incentive create?
 - At least 124 million gallons annually (USDA) in near future
 - Could be much higher over next decade, based on outside factors like crude oil price
 - 2005 sales was 75 million gallons

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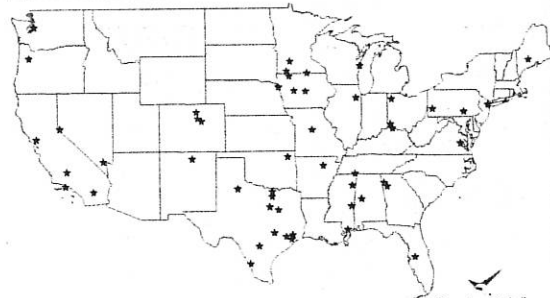
Market Projections



- What is industry capacity?
 - Currently up to 324 million gallons per year
 - More plants planned
 - Capacity could be doubled within 12 - 18 months

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Production Locations



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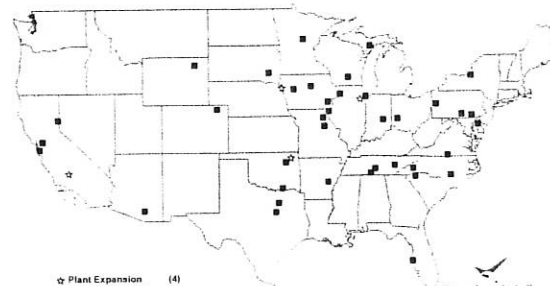
Industry Plant Size

Plant Size (gallons per year)	# of Companies (53 total)
< 1,000,001	12
1,000,001 - 5,000,000	26
5,000,001 - 10,000,000	3
10,000,001 - 15,000,000	6
15,000,001 - 20,000,000	1
>20,000,000	5

Industry Capacity 354 million gallons per year
Average Plant Size 6.7 million gallons per year

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Plants Under Construction



☆ Plant Expansion (4)
■ Under Construction (30)

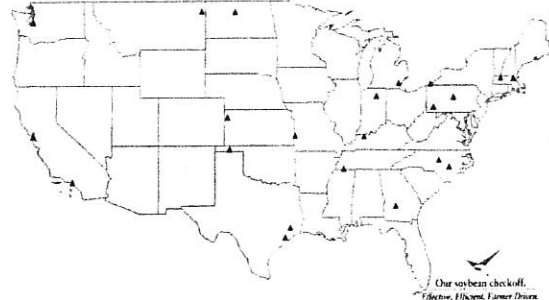
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Size of Plants Under Construction

Plant Size (gallons per year)	# of Companies (42 total)
< 1,000,001	12
1,000,001 – 5,000,000	15
5,000,001 – 10,000,000	8
10,000,001 – 15,000,000	1
15,000,001 – 20,000,000	1
>20,000,000	5

Proposed Capacity 324 million gallons per year
Average Proposed Plant Size 7.7 million gallons per year
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Plants in Pre-Construction



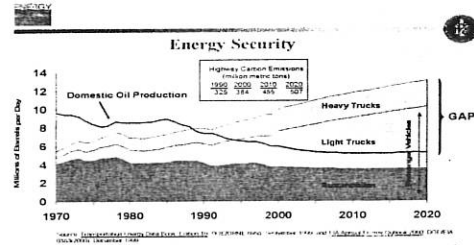
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Size of Plants in Pre-Construction

Plant Size (gallons per year)	# of Companies (22 total)
< 1,000,001	1
1,000,001 – 5,000,000	3
5,000,001 – 10,000,000	5
10,000,001 – 15,000,000	3
15,000,001 – 20,000,000	1
>20,000,000	9

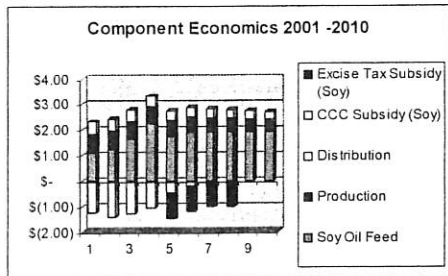
Proposed Capacity 485 million gallons per year
Average Proposed Plant Size 22.1 million gallons per year
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Why Biodiesel will Stay Important



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Public Policy and Feedstock Cost Set Price



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Top Regulatory Priorities 2006

- Tax Credit and RFS Implementation
- CCC Reconstruction and Extension
- State Initiatives Nationwide
- Plant, distribution & usage legislation in Kansas

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Biodiesel Use



- B2 or higher is target blend level
- During winter, handle B2 just like #2 diesel
 - ✓ add pour point depressants
 - ✓ store vehicles indoors
 - ✓ or use block heaters.
- Shelf life for B2 is same as #2 diesel

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Biodiesel Use



- Equipment benefits
 - ✓ superior lubricity
 - ✓ B2 has up to 66% more lubricity than #2
- EPA requires sulfur reduction in 2006
- No overdosing concerns
- Utilize U.S. crops

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Exciting Developments

- Jeep Factory Fill
 - B5
 - Ohio Plant
- John Deere Factory Fill
 - B2
 - All US made diesel powered equipment



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If every farmer used B2...



- we could utilize:
- 71.6 million gallons of soy biodiesel annually
 - 51.1 million bushels of U.S. soybeans annually

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If every trucker used B2...



- we could utilize:
- 664 million gallons of soy biodiesel annually
 - 474 million bushels of U.S. soybeans annually

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Biodiesel Action



- The soybean checkoff helped develop soy biodiesel and continues to fund its growth
- We ask farmers to ask fuel suppliers and retailers to carry soy biodiesel
- We encourage others to use soy biodiesel

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Biodiesel Backers & Alliance



- Easy to join...do it!
 - ✓ www.biodiesel.org
- Individuals: Backers
 - ✓ farmers
 - ✓ consumers
 - ✓ other diesel users
 - ✓ fuel suppliers
- Organizations:
Alliance
 - ✓ agricultural
 - ✓ environmental
 - ✓ health
 - ✓ government

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Biodiesel Resources

- National Biodiesel Board (NBB)**
 - ✓ Informational and technical resources, database
 - ✓ www.biodiesel.org
 - ✓ 888-BIODIESEL (246-3437)
- Kansas Soybean Commission (KSC)**
 - ✓ Information, education, materials
 - ✓ www.kansassoybeans.org
 - ✓ 877-KS-SOYBEAN (577-6923)
- United Soybean Board (USB)**
 - ✓ Biobased Products Information
 - ✓ www.unitedsoybean.org
 - ✓ 800-989-8721
- American Soybean Association (ASA)**
 - ✓ Energy policy
 - ✓ www.soygrowers.com
 - ✓ 800-688-7692

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2-10

B100 BIODIESEL SUPPLIERS FOR KANSAS FUEL RETAILERS

Retailer	City and/or State	Phone Number	Contact
Ag Environmental Products	Omaha, NE	800-247-1345	Steve Nogel
BioEnergy of Colorado	Denver, CO	303-292-9333	Monte Malone
Fausser Energy Resources	Lincoln, NE	800-541-1226	Deb Myres
Hampel Oil Company	Wichita, KS	316-529-1162	John McQuery
Lybarger Oil, Inc.	Garnett, KS	785-448-5512	Dave Lybarger
Mid-Kansas Cooperative	McPherson, KS	620-241-1885	Jim Amann
Producer's Coop	Girard, KS	620-724-4117	Kim Branard
Rocky Mountain Biodiesel	Berthoud, CO	303-809-3515	Greg Weeks
West Central Soy	Overland Park, KS	913-884-8521/ cell 913-484-8521	Gary Haer
World Energy	Houston, TX	832-615-7390	Martin Beirne

These are the suppliers known to us as of December 27, 2005. Other suppliers may exist that are not known to the Kansas Soybean Commission, and some listed may have dropped biodiesel from their product line.

Kansas Soybean Commission
2930 SW Wanamaker Drive
Topeka, KS 66614-4116
800-328-7390

2-10

Growth of Biodiesel Retail Outlets in Kansas

2% or higher blend offered

Date	Off-road fuel retailers	On-road fuel retailers
January 1, 2003	25	2
October 1, 2003 *	111	11
October 1, 2004	130	17
October 1, 2005 *	172	29
January 1, 2006	172	29



WRITTEN STATEMENT

TO: Senate Assessment & Taxation Committee
FROM: Jere White, Executive Director
DATE: March 7, 2006
SUBJECT: Senate Bill No. 389

The Kansas Corn Growers Association and Kansas Grain Sorghum Producers wish to submit this brief testimony in regards to S.B. 389, a bill that would provide incentives to expand biofuels blending facilities in Kansas.

Ethanol today enjoys the opportunity of being generally available at most of our state's nineteen terminal facilities. I believe number seventeen will be coming on line shortly with the addition of Scott City. That is not to say that S.B. 389 won't be of value in completing the further availability of ethanol blends for all Kansas terminals. Clearly, biodiesel will benefit greatly from this proposal.

We have seen a keen interest in expanded biofuels use in Kansas. Clearly, expanded use is dependent upon competitive, readily available product. By helping ensure the availability of all biofuels in Kansas, we are helping to minimize our reliance on foreign oil while also minimizing the cost of such fuels by having them available in more locations. We saw a bill introduced this session that would have required the use of ethanol blends. Getting this fuel into all terminals will make it more readily available to all Kansas consumers...and a carrot is always easier to swallow than a stick. Thank you.



PUBLIC POLICY STATEMENT

SENATE COMMITTEE ON AGRICULTURE *Assessment & TAXATION*

RE: SB 389 – an act concerning taxation; relating to credits;
biofuels mixing facilities.

March 7, 2006
Topeka, Kansas

Testimony provided by:
Brad Harrelson
State Policy Director
KFB Governmental Relations

Chairman Allen, and members of the Senate Committee on Assessment and Taxation, thank you for the opportunity to appear today and offer testimony in support of SB 389. I am Brad Harrelson, State Policy Director—Governmental Relations for Kansas Farm Bureau. KFB is the state’s largest general farm organization representing more than 40,000 farm and ranch families through our 105 county Farm Bureau Associations.

On behalf of Kansas Farm Bureau (KFB) I would like to extend our appreciation to the Kansas Legislature for it’s past support for bio-fuels. You undoubtedly share our firm commitment to this valuable, renewable energy resource. We at KFB stand ready to assist you in your mission to promote these alternative fuels.

Biofuel has tremendous upside not only for ag producers, but also fuel consumers. Consumption of alternative fuel reduces our dependence on foreign oil and enhances market demand for corn, soybeans and other crops, which is good for Kansas agriculture, and the rural Kansas economy.

As you know, our members consume large quantities of fuel, oil and fertilizer in a variety of uses ranging from running the tractor or combine, to the irrigation engine, to the application of nitrogen fertilizers that are petroleum derived products. In fact,

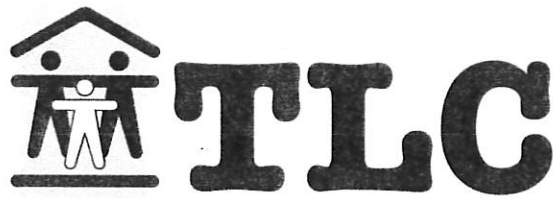
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Attachment # 4

within their communities, many of them purchase larger quantities of fuel than their local school district. Regularly, fuel expense is the largest input cost in overall production outlay. Farmers, as you know, operate their business without the opportunity to pass costs on to others. They are subject to receiving only what the market will pay for their commodities without regard for the costs of production. For these reasons, proactive programs that potentially lower future fuel costs are of vital importance.

A study released December 1, 2005 by the Agriculture Economics Department at Kansas State University indicates that for energy inputs (fuel and oil, irrigation energy, and fertilizer) costs in 2005 are expected to increase significantly over the previous 5-year average. The study estimates that energy and fertilizer prices across all farms will increase 2005 costs an average of \$9.30 per acre when compared to 2004. Additionally, continued spiking of prices, especially for fertilizer, will add approximately \$6.37 per acre in 2006.

Therefore, producing fuel from Kansas corn and soybeans is better long-term than continuing to rely on imported foreign oil. That's why putting new biofuels incentives in place are important to Kansas Farm Bureau. These new incentives would help us build more local demand for Kansas crops, while at the same time lowering the long-term cost of biofuel production. It is a win-win for Kansas farmers and consumers. For these reasons, KFB supports the proposal contained in SB 389, which is a positive step and viable commitment by the state that should be seriously considered.

In conclusion, thank you for your consideration, your support of bio-fuels and Kansas agricultural producers. We stand ready to assist as you consider these important measures. Thank you.



**TLC for Children and
Families, Inc.**

OUR VISION....

Children, youth and their families will live fulfilled and enriched lives

OUR MISSION...

TLC provides opportunities that encourage positive growth and change for children, youth and families while ensuring a safe environment

March 7, 2006

Assessment and Taxation Committee

Hon. Barbara P. Allen, Chair

Assessment & Taxation
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Thank you for the opportunity to testify before this honorable body. I am Bob Drummond, President and CEO of TLC for Children and Families in Olathe, Kansas. TLC is a 34 year old 501(c)(3) non-profit agency serving children, youth, and families primary in Johnson, Wyandotte, Douglas, Miami, and Leavenworth Counties. Our focus is on services to abused and neglected children and youth and troubled teenagers. Our mission is: **Providing opportunities that encourage positive growth and change for children, youth and families while ensuring a safe environment.**

TLC is accredited by the Council on Accreditation for Children and Families, licensed by SRS as a child placing agency, as an emergency shelter and a Level 5 residential treatment facility. We provide the following services: (1) **Foster Care**; (2) **Youth Crisis Services** (counseling services for non-custodial youth and families); (3) **Street Outreach Services** for at-risk street youth (many of which are homeless); (4) **Juvenile Intake and Assessment Services** for Johnson County law enforcement and SRS; (5) **Case Management** services for youth experiencing truancy and domestic violence; (6) **Emergency Shelter** for youth in State custody who are waiting placement, needing respite care, or who are in crisis; and, (7) **Level 5 residential treatment** for youth in SRS or Juvenile Justice Authority custody who have mental health and/or behavioral management issues. In addition, we have a unique public/private partnership with USD #233 that provides educational services to these youth on our campus.

TLC provided services for over 7,000 children, youth, and families in 2005 and anticipates this number increasing in 2006. TLC's key partners are local, county, and state government agencies as well as a host of other non-profit entities. We, like many non-profits, are a unique organization. We are a private business driven by a volunteer Board and assisted by hundreds of community members.

Frankly, not only do thousands of children, youth, and families depend upon us, but so does the State of Kansas. Many of the services we provide in our region of the State are unduplicated. We are a major provider of services to SRS, JJA, Johnson County government and all the municipalities in Johnson County. We are deeply embedded in public safety services and safety net services for children, youth and families in Eastern Kansas.

One of the great challenges for all non-profits is finding the necessary resources to implement our mission. In this past decade governmental resources, which have seldom covered the costs of our services, have shrunk even more. TLC, as most non-profits, depend upon our local communities to help fill the gap between our governmental reimbursements, per diems, contracts, grants and the true costs of providing services.

Our operational budget in 2006 will be about \$6.1 million. Governmental sources of revenue will be approximately \$4.6 million. Simple math tells us that our short fall will be \$1.8 million. TLC's options are to eliminate programs, reduce services, or to raise funds from our community. We have chosen the later. This year we must raise over \$1.8 million from our community to balance our budget.

Raising private dollars is hard work and takes a lot of time. However, this daunting task of raising over \$1.8 million from our community is even more challenging when the Kansas' statutes mitigate against our efforts by requiring nearly all non-profits in Kansas to pay sales tax on tangible personal property and services.

Senator Allen has drafted legislation to expand the sales tax exemption for TLC for Children and Families, Inc., so that TLC has a complete sales tax exemption. Currently, TLC's sales tax exemption does not cover taxable repair services, or material and labor for real property for habitation, and TLC is not authorized to obtain a Project Exemption Certificate (PEC).

This simply means we will have to pay taxes on services received (lawn care, etc), some fundraising activities (golf tournaments), and the purchase of materials, labor and equipment for the shelter and treatment center on our campus. We are particularly concerned about the purchase of materials and services, with the pending construction of \$6.3 million in new buildings and remodeling that will begin this summer.

Earlier this legislative session, Senator Allen and I decided not to introduce a TLC sales tax exemption bill in the Senate Taxation Committee, because the Kansas Department of Revenue wanted to study this issue and make an internal ruling. Given the outcome of that ruling, Senator Allen has suggested the possibility of amending the provisions of the bill that will grant TLC a complete sales tax exemption into SB 404. SB404, the sales tax exemption bill recently passed by the Senate, would grant a complete sales tax exemption to the Food Bank Warehouse in Wichita and to the Special Olympics of Kansas.

It is our contention that we should have the same standing as the other exempt non-profits listed in the statute. In fact, one would think that **home grown** Kansas based non-profits would have favor over the national affiliates that are currently exempt such as American Heart, American Lung, etc.

In conclusion, we strongly believe that TLC, which greatly supplements the work of the government, and in many cases does the work of the government should be exempt from Kansas State sales tax. The State we serve should not penalize us for our willingness to creatively find ways to underwrite services the State cannot fully fund. As best as we can discern, our surrounding States do not tax non-profits.

Thank you for this opportunity and I will stand for any questions you might have.

County Name	2005 Assessed Value			
	Comm/Indu	Exempt PP		Total IRB &
	M/E	Exempt PP IRB	EDX	EDX
Lyon	17,343,680	118,698	9,438,819	9,557,516
Marion	3,349,155	76,095	133,839	209,934
Marshall	6,710,553	0	0	0
McPherson	35,708,175	11,539,780	1,902,244	13,442,024
Meade	716,390	0	0	0
Miami	9,341,510	0	0	0
Mitchell	3,143,979	0	2,322	2,322
Montgomery	29,195,391	8,887,145	6,054,710	14,941,855
Morris	1,790,960	0	0	0
Morton	1,616,023	0	0	0
Nemaha	5,584,637	8,925	55,975	64,900
Neosho	9,711,305	9,838,311	448,632	10,286,943
Ness	666,659	0	0	0
Norton	1,945,883	0	173,946	173,946
Osage	3,857,519	0	0	0
Osborne	1,244,317	0	0	0
Ottawa	1,132,810	0	117,601	117,601
Pawnee	1,248,728	0	0	0
Phillips	2,411,006	0	0	0
Pottawatomie	11,278,498	0	539,198	539,198
Pratt	4,118,728	0	0	0
Rawlins	477,371	0	0	0
Reno	38,567,727	27,478	486,535	514,013
Republic	1,252,717	0	0	0
Rice	4,215,917	691,006	287,781	978,787
Riley	18,101,602	0	0	0
Rooks	1,217,220	13,502	0	13,502
Rush	2,145,084	0	0	0
Russell	2,563,072	1,683	3,718,766	3,720,450
Saline	51,926,310	585,258	955,206	1,540,464
Scott	1,204,465	0	0	0
Sedgwick	367,524,139	132,280,260	2,895,453	135,175,713
Seward	10,298,407	0	0	0
Shawnee	128,512,317	1,015,670	7,661,432	8,677,101
Sheridan	608,113	0	0	0
Sherman	3,097,984	0	0	0
Smith	778,510	0	6,540	6,540
Stafford	880,479	0	0	0
Stanton	685,289	0	0	0
Stevens	2,630,783	0	187,290	187,290
Sumner	10,207,979	0	122,160	122,160
Thomas	4,420,127	0	0	0
Trego	801,488	0	0	0
Wabaunsee	2,752,412	0	590,322	590,322
Wallace	321,875	0	0	0
Washington	1,019,488	0	0	0
Wichita	1,331,035	0	0	0
Wilson	6,693,062	0	0	0
Woodson	828,141	0	2,250	2,250
Wyandotte	181,113,621	8,124,770	11,989,338	20,114,108
Totals	1,844,997,342	192,255,850	76,821,269	269,077,120

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County Name	2005 Assessed Value			
	Comm/Indu M/E	Exempt PP IRB	Exempt PP EDX	Total IRB & EDX
Allen	10,305,173	0	0	0
Anderson	1,332,858	0	920	920
Atchison	10,353,362	186,203	0	186,203
Barber	3,207,270	114,668	0	114,668
Barton	14,764,516	0	549,736	549,736
Bourbon	7,388,001	390,566	5,825	396,391
Brown	4,305,836	8,235	150,924	159,159
Butler	21,356,020	304,900	0	304,900
Chase	826,303	0	0	0
Chautauqua	837,393	0	0	0
Cherokee	11,207,823	0	0	0
Cheyenne	786,472	0	0	0
Clark	637,520	0	0	0
Clay	1,933,364	0	0	0
Cloud	2,877,952	27,143	246,046	273,189
Coffey	2,672,619	0	0	0
Comanche	415,111	0	0	0
Cowley	22,949,708	13,958	8,604,756	8,618,714
Crawford	22,902,875	0	2,762,105	2,762,105
Decatur	791,265	0	0	0
Dickinson	5,720,569	5,034	815,714	820,748
Doniphan	5,009,169	0	0	0
Douglas	60,909,205	211,789	956,991	1,168,780
Edwards	1,871,969	0	0	0
Elk	1,050,894	95,277	12,439	107,716
Ellis	12,971,587	0	0	0
Ellsworth	2,161,032	0	0	0
Finney	20,329,781	7,388	201,801	209,189
Ford	22,445,861	4,184,362	1,726,214	5,910,576
Franklin	7,312,314	0	6,083,915	6,083,915
Geary	10,419,568	751,261	4,018,288	4,769,549
Gove	1,045,051	0	0	0
Graham	559,464	0	0	0
Grant	3,308,296	0	0	0
Gray	1,628,129	0	0	0
Greeley	405,050	0	0	0
Greenwood	1,737,616	0	0	0
Hamilton	672,703	0	0	0
Harper	2,142,788	99,281	41,763	141,043
Harvey	14,245,316	5,698,796	509,565	6,208,362
Haskell	1,478,147	0	0	0
Hodgeman	403,859	0	0	0
Jackson	3,765,506	0	0	0
Jefferson	4,788,301	84,732	63,554	148,286
Jewell	460,581	0	0	0
Johnson	476,361,443	6,863,680	2,285,788	9,149,468
Kearny	1,577,850	0	0	0
Kingman	3,295,786	0	0	0
Kiowa	771,235	0	0	0
Labette	8,984,418	0	0	0
Lane	627,316	0	0	0
Leavenworth	21,316,537	0	0	0
Lincoln	1,180,593	0	14,569	14,569
Linn	3,150,372	0	0	0
Logan	744,955	0	0	0

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Appraised Value	Exempt PP IRB	Exempt PP EDX	Total IRB & EDX
Allen	0	0	0
Anderson	0	3,678	3,678
Atchison	744,812	0	744,812
Barber	458,670	0	458,670
Barton	0	2,198,944	2,198,944
Bourbon	1,562,265	23,300	1,585,565
Brown	32,939	603,696	636,635
Butler	1,219,598	0	1,219,598
Chase	0	0	0
Chautauqua	0	0	0
Cherokee	0	0	0
Cheyenne	0	0	0
Clark	0	0	0
Clay	0	0	0
Cloud	108,571	984,185	1,092,756
Coffey	0	0	0
Comanche	0	0	0
Cowley	55,831	34,419,025	34,474,856
Crawford	0	11,048,421	11,048,421
Decatur	0	0	0
Dickinson	20,134	3,262,857	3,282,991
Doniphan	0	0	0
Douglas	847,157	3,827,964	4,675,121
Edwards	0	0	0
Elk	381,108	49,756	430,864
Ellis	0	0	0
Ellsworth	0	0	0
Finney	29,553	807,204	836,757
Ford	16,737,446	6,904,857	23,642,303
Franklin	0	24,335,658	24,335,658
Geary	3,005,043	16,073,151	19,078,194
Gove	0	0	0
Graham	0	0	0
Grant	0	0	0
Gray	0	0	0
Greeley	0	0	0
Greenwood	0	0	0
Hamilton	0	0	0
Harper	397,122	167,050	564,172
Harvey	22,795,185	2,038,261	24,833,446
Haskell	0	0	0
Hodgeman	0	0	0
Jackson	0	0	0
Jefferson	338,927	254,215	593,142
Jewell	0	0	0
Johnson	27,454,720	9,143,151	36,597,871
Kearny	0	0	0
Kingman	0	0	0
Kiowa	0	0	0
Labette	0	0	0

Lane	0	0	0
Leavenworth	0	0	0
Lincoln	0	58,276	58,276
Linn	0	0	0
Logan	0	0	0
Lyon	474,791	37,755,274	38,230,065
Marion	304,378	535,356	839,734
Marshall	0	0	0
McPherson	46,159,120	7,608,974	53,768,094
Meade	0	0	0
Miami	0	0	0
Mitchell	0	9,287	9,287
Montgomery	35,548,580	24,218,841	59,767,421
Morris	0	0	0
Morton	0	0	0
Nemaha	35,700	223,900	259,600
Neosho	39,353,243	1,794,529	41,147,772
Ness	0	0	0
Norton	0	695,782	695,782
Osage	0	0	0
Osborne	0	0	0
Ottawa	0	470,405	470,405
Pawnee	0	0	0
Phillips	0	0	0
Pottawatomie	0	2,156,791	2,156,791
Pratt	0	0	0
Rawlins	0	0	0
Reno	109,912	1,946,138	2,056,050
Republic	0	0	0
Rice	2,764,025	1,151,124	3,915,149
Riley	0	0	0
Rooks	54,008	0	54,008
Rush	0	0	0
Russell	6,733	14,875,065	14,881,798
Saline	2,341,032	3,820,824	6,161,856
Scott	0	0	0
Sedgwick	529,121,040	11,581,810	540,702,850
Seward	0	0	0
Shawnee	4,062,679	30,645,726	34,708,405
Sheridan	0	0	0
Sherman	0	0	0
Smith	0	26,160	26,160
Stafford	0	0	0
Stanton	0	0	0
Stevens	0	749,161	749,161
Sumner	0	488,640	488,640
Thomas	0	0	0
Trego	0	0	0
Wabaunsee	0	2,361,289	2,361,289
Wallace	0	0	0
Washington	0	0	0
Wichita	0	0	0
Wilson	0	0	0
Woodson	0	9,000	9,000
Wyandotte	32,499,079	47,957,352	80,456,431
Totals	769,023,401	307,285,077	1,076,308,478

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K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

MACHINERY AND EQUIPMENT POLICY STATEMENT

One of the issues the business community has repeatedly raised is the obstacle they face in making the needed investment in new equipment and technology to enhance business opportunities and thus contribute to economic recovery in Kansas. Governor Sebelius recognizes that one barrier to making those investments is the machinery and equipment personal property tax. Because of the substantial capital outlay required to purchase state of the art technology and manufacturing equipment, the personal property tax burden becomes a significant financial deterrent to establishing a new business or growing an existing one.

In order to promote and stimulate economic development and the prosperity of the state of Kansas by assisting existing businesses to grow and prosper, and making Kansas an attractive place for relocating or starting a new business, the Governor will introduce legislation containing two related elements. The first part exempts from property taxes all commercial and industrial machinery and equipment that is newly purchased or leased after January 1, 2007. Also included is a proposal to raise the de minimus exemption from the current \$400 to \$1000.

This plan is a fiscally responsible way to begin to address one of the most commonly criticized aspects of Kansas tax policy while enhancing opportunity for economic revitalization. While it will be a major incentive for businesses to invest in Kansas, it does so without causing great harm to property taxpayers or local governments. This plan will not cause an immediate substantial shift in property taxes to homeowners and farmers and ranchers, or a large tax loss to cities and counties because large amounts of currently taxed property will not be removed from the tax rolls. The proposal simply provides that any new investment in personal property will not be placed on the tax rolls and relatively inexpensive items will not be taxed at all. New business investment and reduced compliance costs brings the potential for new economic benefits for all Kansas communities, large and small.

MACHINERY AND EQUIPMENT POLICY STATEMENT Cont.

The idea the Governor is offering provides another very significant tool to add to the package created to make Kansas an attractive place to do business. This plan will provide a new incentive for businesses to start up or relocate in Kansas. It will help to provide an opportunity for existing businesses to expand and diversify and will enhance their competitive edge in the global marketplace by assisting them in acquiring state of the art technology and equipment.

There is no doubt that this administration's past efforts have helped put our economy on the road to recovery. But Governor Sebelius believes we need do more to encourage business improvements without jeopardizing state and local investments in schools, roads and safety. This proposal provides us with the ability to build and grow our economy and promotes long term economic stability by providing the potential for more jobs and a more diversified economic base.



K A N S A S

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
OFFICE OF THE SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

HB 2619 **BUSINESS MACHINERY & EQUIPMENT EXEMPTION**

Exemption for all business personal property newly purchased or leased after June 30, 2006:

Equipment may be new or used.

Includes equipment moved into the state for business expansion or creation

Includes spare parts, supplies and materials.

Includes semi-trailers and truck bodies whether state or locally assessed

Qualifying equipment is that which would currently be valued at retail cost less depreciation.
(classified in subclass 5 of class 2 section 1 article 11)

HB 2619 would apply to furniture and equipment of:

- Manufacturing
- Construction
- Professional services
- Retail and wholesale trade
- Transportation and warehousing
- Restaurant and bar
- Business offices
- Home/auto etc. repair service industry

HB 2619 will not apply to:

- Motor vehicles.
- Oil and gas leases including the prescribed personal property.
- Oil and gas itemized personal property such as drilling equipment and rigs, pipe, casing, etc. (Has been historically valued at market value)
- Public utility personal property

BUSINESS MACHINERY & EQUIPMENT EXEMPTION Cont.

NOTES:

Language is included to specify that purchases of property must be arms-length bona fide sales not consummated to escape taxation.

Will result in some personal property coming off the tax rolls when existing machinery and equipment is replaced with newly purchased property.

There is machinery and equipment that depending on who owns it and how it is used will determine whether it qualifies for the exemption. As an example, trailers, golf carts and boats owned and used by an individual will be taxable, but the identical equipment owned and used in a business would be exempt.

Property acquired under a true lease prior to June 30, 2006 will not qualify. However, if purchased at market value at the end of the lease it would become exempt.

Updated February 23, 2006

Chart 1. Historical and Projected Assessed Valuation of CIME

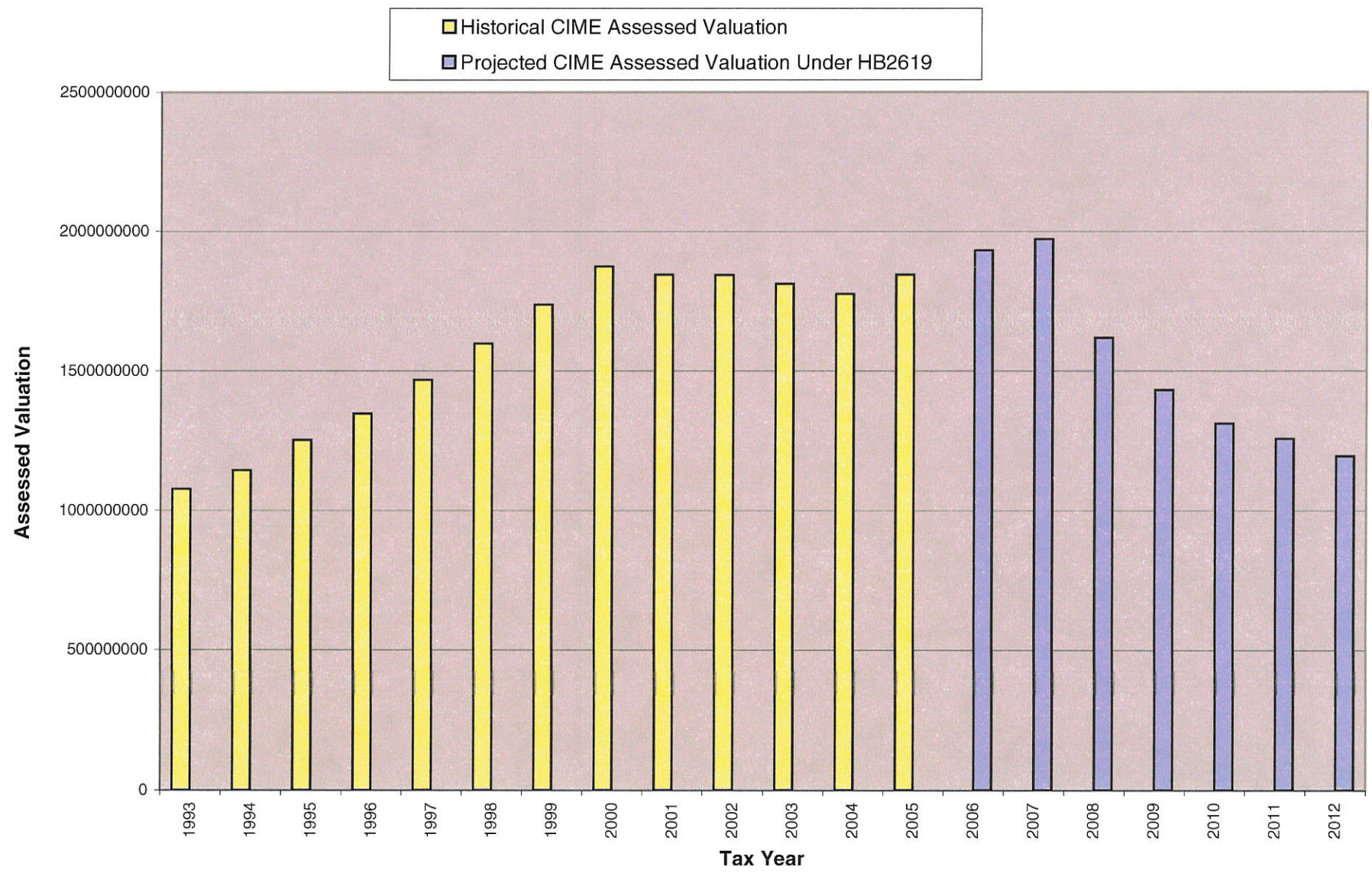
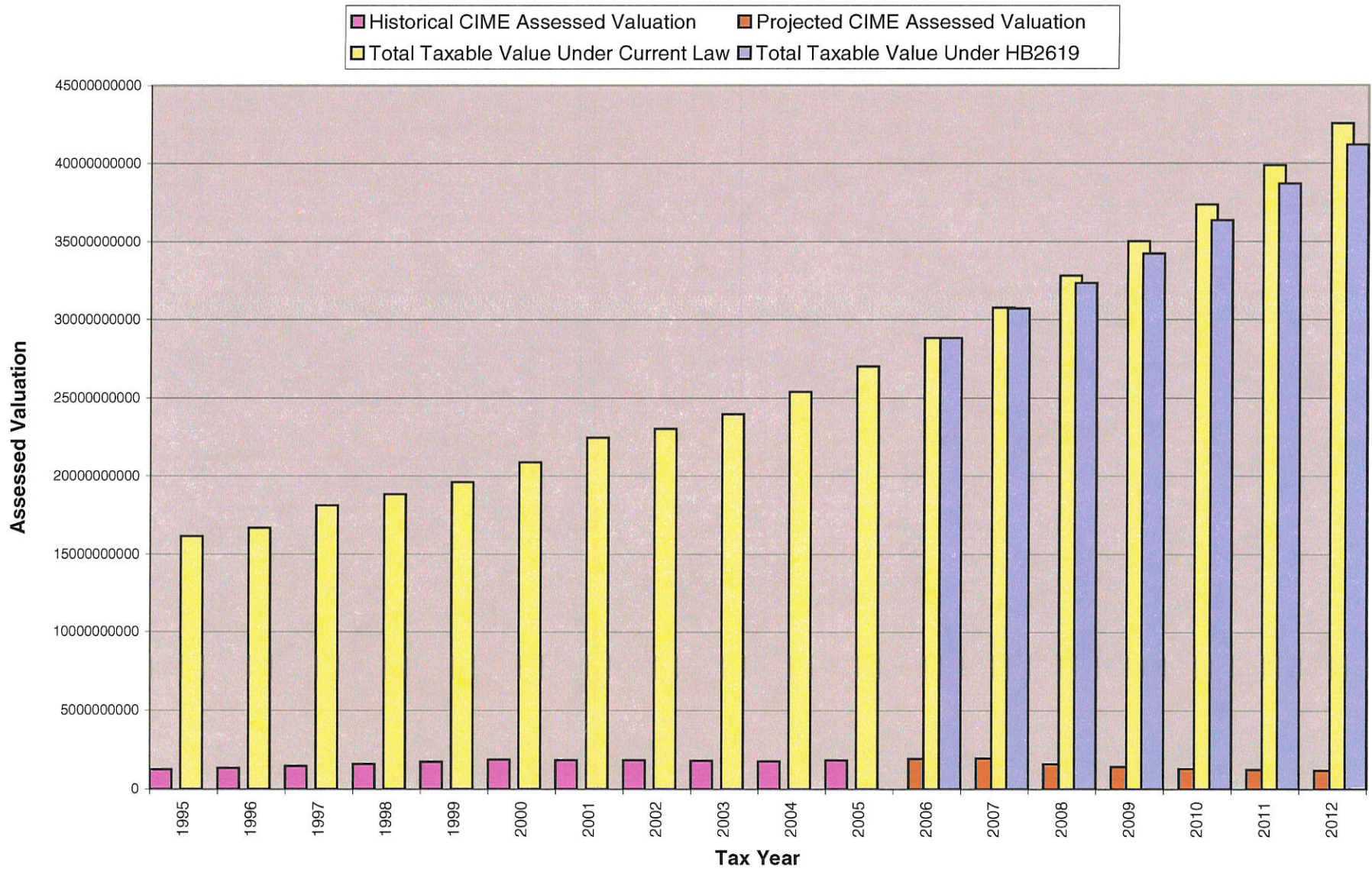


Chart 2. Total Property Valuation, CIME Valuation Under Current Law and HB2619



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