Approved: March 31, 2006
Date

MINUTES OF THE SENATE TRANSPORTATION COMMITTEE

The meeting was called to order by Chairman Les Donovan at 8:30 A.M. on March 14, 2006 in Room 527-S of the Capitol.

All members were present except:
Dennis Wilson- excused

Committee staff present:
Hank Avila, Kansas Legislative Research Department
Bruce Kinzie, Revisors of Statutes
Maggie Breen, Committee Secretary

Conferees appearing before the committee:
Terry Heidner, Director, Division of Planning and Development, KDOT
Ed McKechnie, WATCO Companies, Inc.
Bob Alderson, Midstates Port Authority & Kyle Railroad
Duane Simpson, Kansas Grain and Feed
Pat Hubbell, Kansas Railroads
Pat Hurley, Economic Lifelines
Bob Totten, Kansas Contractors Association

Others attending:
See attached list.

Chairman Donovan opened the hearing on **HB 2709 - Rail service improvement program, funding**.

Terry Heidner, Director, Division of Planning and Development, KDOT, said the bill pertains to the funding of the short line railroad rehabilitation loan/grant component of the Comprehensive Transportation Fund. Currently the fund receives $3 million a year through FY 2007. The fund makes available long term (10-yr) loans and grants to be used primarily for track rehabilitation projects. It was anticipated that the program would be primarily a loan program and that by the end of FY 2007 the fund would be self sustaining at $3 million per year, by way of loan repayments. Due to more money being provided in grants than originally anticipated, the currently projected loan repayment will only sustain the fund at $1million. In December 2005 Parsons Brinkerhoff completed a study for KDOT to determine if the program had been a good investment of state dollars and if the program should be continued beyond FY 2007. The answer to both was yes. (Attachment 1)

Chairman Donovan asked why we ended up with more grants issued than anticipated. Mr. Heidner said the primary amount of dollars going to grants was for the purchase of 700 miles of the old CKR line that was going to be abandoned and service completely lost. They helped assist in the purchase of the line. They are back to strictly loans at present.

Ed McKechnie, WATCO Companies, Inc., said they have three railroads in Kansas operating on more than 1,400 miles of light density rail lines. These railroads move, on average, 110,000 rail cars each year. They help keep many cities and counties connected to the national rail network and are an important key to literally thousands of jobs across the state. He said the fund was used when the predecessors of the K&O Railroad considered abandoning the railroad west of Hutchinson. The funds have also been used to upgrade their rail lines and there is a continuing need to do so. He asked for the committee's support of the bill. (Attachment 2)

Bob Alderson, Mid-States Port Authority (MSPA) & Kyle Railroad, said the purpose of the port authority was to preserve rail traffic in north central and northwest Kansas. It has done this primarily with its lease with Kyle. Kyle operates a rail system of 625 miles and employees 77 people year-round.. The preponderance of their business is directly related to agriculture. Today, shortline railroads operate on 1,986 miles of trace, nearly 42% of the state's total railroad miles, and have many rail line segments in need of rehabilitation. Over time, without rehabilitation, those lines will be subject to abandonment. MSPA and Kyle Railroad have benefitted greatly from the fund. In order to maintain rail service in our state it is important that the fund remains available. He urged the committee to pass the bill favorably. (Attachment 3)

MINUTES OF THE Senate Transportation Committee at 8:30 A.M. on March 14, 2006 in Room 527-S of the Capitol.

Duane Simpson, Kansas Grain and Feed, said his organization represents 99% of the commercially licensed grain storage in the state. Their members are the customers of the rail lines. He stressed how important having a viable short line rail system is to his industry. Their members have had a lot of rail abandonment in spite of the program. When this happens, they end up with higher transportation cost, making it much more difficult to make their businesses viable and profitable. This program has help prevent a lot of rail abandonment and keeping the alive will help prevent a lot in the future. (Attachment 4)

Pat Hubbell, Kansas Railroad, said he was representing BNSF Railway, Union Pacific , Kansas City Southern and Watco. The 1980 Staggers Act allowed the railroads, in an effort to try to save off bankruptcy and continue to operate, to spin off some of the marginal short lines, and that's what was done. There's been a tremendous system developed in the last 25 years of short line railroads serving Kansas. He was around when the Rock Island declared bankruptcy in 1979. The line that Mr. Alderson represents was part of that. They had 700 cars that came off the line annually, within 7 or 8 years, there were 14,000 cars coming off of the line to class ones. They are customers of theirs now and make up a tremendous part of their business and allow them to make the investments they are making within their own infrastructure. Last year, they spent over $200 million on line improvements in Kansas alone and they have similar programs lined up for the next two or three years. He encouraged support of the legislation. (Attachment 5)

Pat Hurley, Economic Lifelines, said the bill extends the Rail Service Improvement Program indefinitely. The committee has heard KDOT testify several times that their latest profile indicates that by the end of FY 2009 they will essentially have a zero balance in their revenue stream for future projects. While the $3 million annually proposed in the bill is a small amount, it will still have an adverse impact upon KDOT's future flexibility and was not the original intent of the 1999 Comprehensive Transportation Program. He said the program has been a tremendous economic success. He believes the program should be treated as an economic development program and funded as such. He suggested an amendment to do that. (Attachment 6)

Bob Totten, Kansas Contractors Association, said they are opposed to the bill in its present form but are very supportive of shortline railroads. They find the necessity of them very important to the Transportation Program that we have in the state. Their concern has to do with the viability of KDOT's budget and how it affects the next several years. He presented material that KDOT provided in February showing that their cash flow projection shows zero in 2009. They wholeheartedly agree with the idea suggested by Mr. Hurley. It's something that should be funded through the general fund or EDIF. (Attachment 7)

Mike Barrett, DeBruce Grain, Wichita - Written only (Attachment 8)

Leslie Kaufman, Kansas Cooperative Council - Written only (Attachment 9)

Senator Apple asked what happened to the program that was intended to be self sustaining. Mr. Heidner said it was set up to be either grants or loans and he thinks the writers thought it would be almost all loans. They have done more grants than anticipated.

Chairman Donovan asked who decided to give the grants as opposed to loans. Mr. Heidner said the vast majority of the grant amount was one grant. It was to assist in the purchase of the CKR Railroad Lines so they wouldn't be abandoned in the heart of wheat country. The decision was made by the then Governor, Lt. Governor, Secretary of Transportation, and he thinks there were several legislators that were certainly on board with, and in favor of, the decision. They also made a couple of combination loan/grants to the other companies in fairness to them. But in the last couple of years, they have returned strictly to a loan program so they would have some revenues coming back in. Should there be another opportunity to save some miles like they did in South Central Kansas they might again want to grant. But right now the intent is to have a loan program.

Senator Palmer asked if it was a matching loan. Mr. Heidner said on the loan/grants 30% of the money was provided by the railroads, the grants were 30%, and the loans were 40 %.

Senator Apple asked how much of the original funding was given in grants. Mr. Heidner said a total of $13 million was given in grants.

MINUTES OF THE Senate Transportation Committee at 8:30 A.M. on March 14, 2006 in Room 527-S of the Capitol.

Chairman Donovan closed the hearing on **HB 2709**.

HB 2878 - Motor fuel trip permits, issuance of.

Chairman Donovan asked Bruce Kinzie if he had a balloon for **HB 2878**. Bruce handed it out. He said the request was for a 24-hour permit and a 72-hr permit. There was a language change from "trip" permit to a "motor fuel" permit to get away from the concept that there is a limited number of trips. Also, on ln line 18, the words "within this state" were stricken. (Attachment 10)

Senator Schmidt made a motion to amend **HB 2878** as presented by Bruce Kinzie. Senator Apple seconded the motion. The motion carried.

Senator Schmidt made a motion to pass **HB 2878** out favorably as amended. Senator Palmer seconded the motion. The motion carried. Senator Donovan will carry the bill.

Committee Minutes

Senator Schmidt made a motion to approve the committee minutes of February 16, March 2, March 7 and March 8 as written. Senator Petersen seconded the motion. The motion carried.

Chairman Donovan asked Bruce Kinzie to draw up an amendment for **SB 456 - Open records; disclosure of certain records pertaining to drivers of motor vehicles transporting members of the public**, simply saying that anyone that gets an S endorsement on a CDL shall be subject to a background checks. Mr. Kinzie asked if he just wanted a run of the mill or more extensive. Chairman Donovan said just run of the mill should work.

The meeting adjourned at 9:30 a.m.

The date of the next meeting will be determined later.

Minutes were sent around for corrections before considered approved on March 31st. No corrections were made.

SENATE TRANSPORTATION COMMITTEE
GUEST LIST

DATE: March 14, 2006

NAME	REPRESENTING
Pat Hubbell	Ks Railroads
Patrick J Hurley	Economic Lifelines
Deann Williams	KDOR
Ken Gudenkauf	KDOT
Terry Heidner	KDOT
Ron Butts	Ks Public Transit Assoc
Ed McKechnie	WATCO Companies
Derek Hein	Hein Law Firm
Duane Simpson	KGFA
Scott Heidner	ACEC Kansas
Bob Alderson	MSPA & KYLE
Leslie Kaufman	KC Co-op Council
Carmen Alldritt	KDOR
Diane Albert	KDOR

TESTIMONY BEFORE THE
SENATE TRANSPORTATION COMMITTEE

REGARDING HOUSE BILL No. 2709

MARCH 14, 2006

Mr. Chairman and Committee Members:

Good morning. I'm Terry Heidner, Director of the Division of Planning and Development 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

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

1-3

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

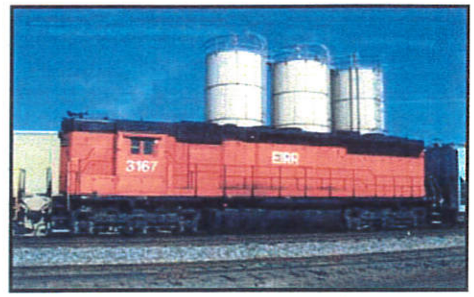
After

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:

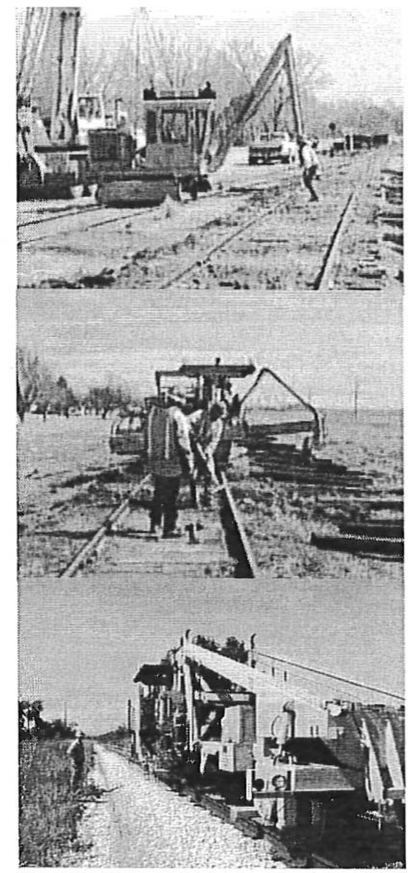
- Short line railroads are important to local communities
- Loss of short line rail service would damage local economies
- Ethanol plants, bio-diesel plants, coal-fired electricity generating plants and other new business are locating on short line railroads
- The Program is a good public/private partnership

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)



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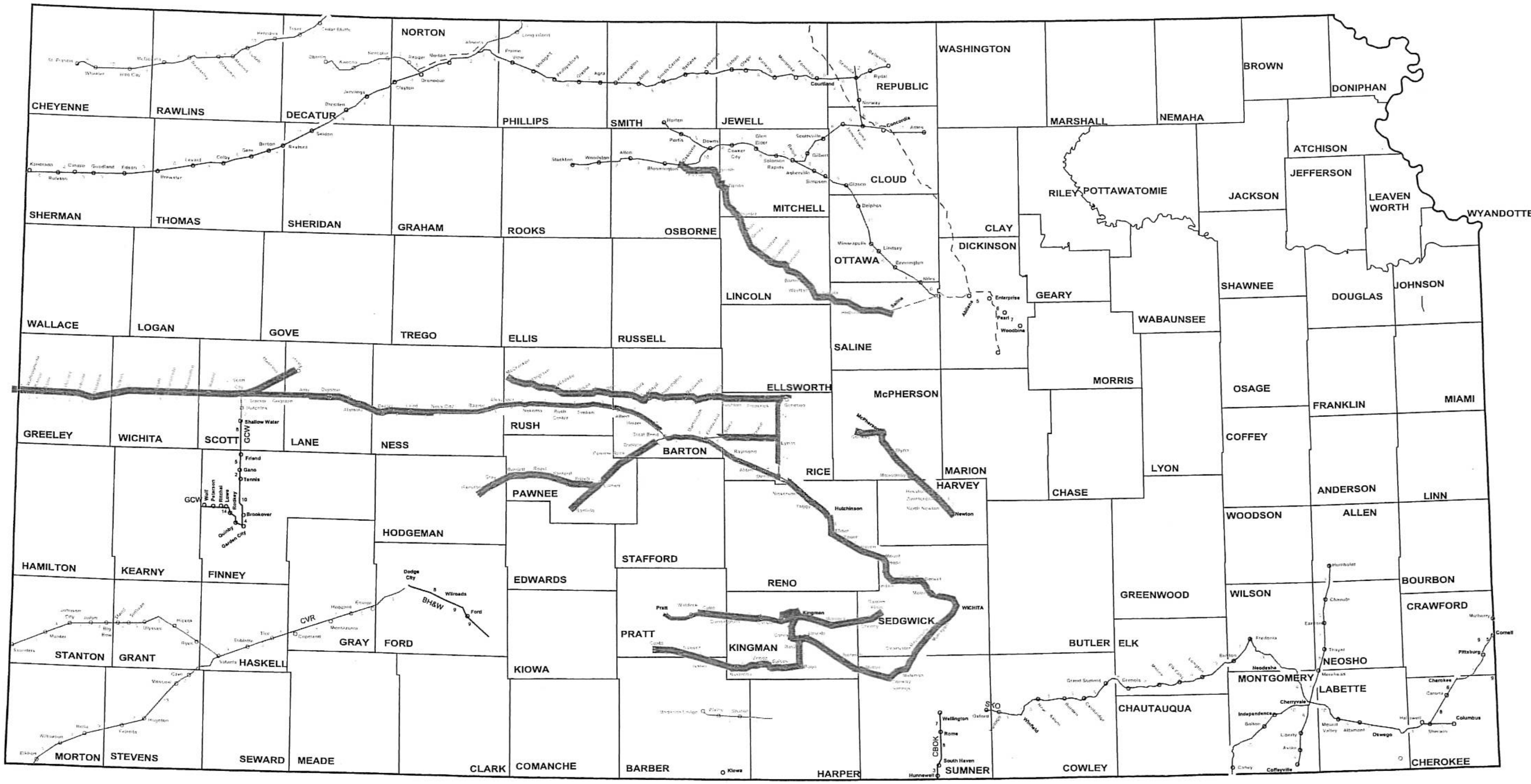
Kansas Shortline Railroad Map - 2006



	RAILROAD	MILEAGE
BH&W	BOOTHILL & WESTERN	26
CVR	CIMARRON VALLEY RAILROAD	182
	CITY OF BLACKWELL OKLAHOMA	18
	GARDEN CITY WESTERN	45
	HUTCHINSON & NORTHERN	3
	KANSAS & OKLAHOMA RAILWAY	642
K&O (UP)	KANSAS & OKLAHOMA RAILWAY (LEASED FROM UP)	111
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
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 of this information and assumes no liability for errors or omissions.

KANSAS DEPARTMENT OF TRANSPORTATION
RAIL AFFAIRS UNIT
AND
BUREAU OF TRANSPORTATION PLANNING
RR_SHORTLINE_021006.DGN REVISED 02/10/06

DASHED LINES INDICATE
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1-8

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

March 14, 2006

Transportation Committee, Kansas Senate

Chairman Donovan and members of the Committee:

My name is Ed McKechnie and I am the Chief Commercial Officer of Watco Companies, Inc., the owners of three 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 three railroads, the South Kansas and Oklahoma Railroad, the Kansas and Oklahoma Railroad, and the Kaw River Railroad in Wyandotte County, 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 three of Kansas' cement manufacturers in Chanute, Fredonia, and Humboldt, moving over 15,000 loaded rail cars annually. That is 1,500,000 tons of product that would equal 60,000 truck loads moving on our highways.
- We serve two major household product manufacturers in Kansas City, KS
- On average our railroads 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. 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, and gas companies in Wichita, Coffeyville and McPherson

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.

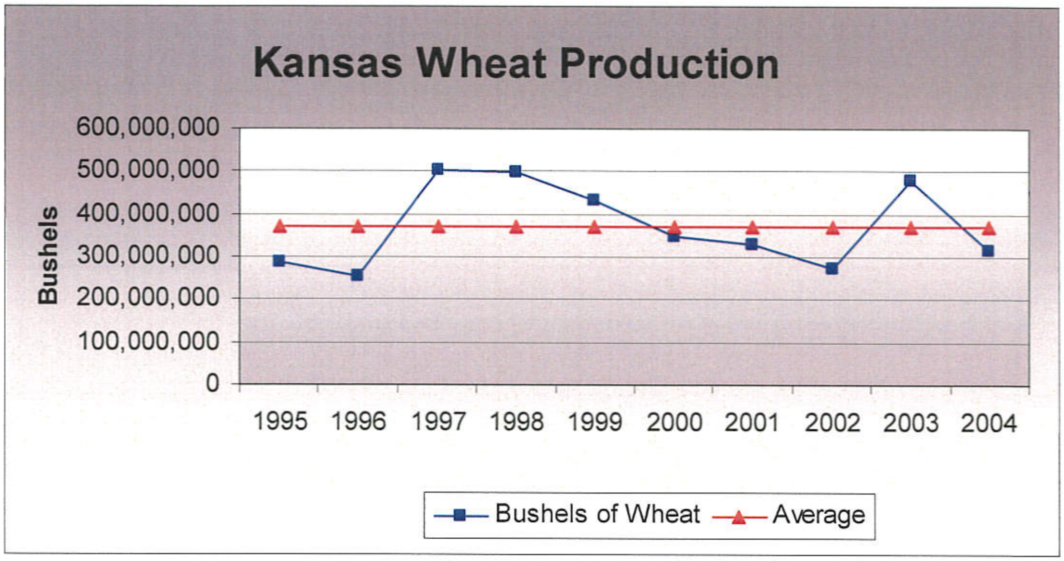
So why should the state continue to fund this vital program?

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 225 million bushels from year to year, from 500 million to 275 million 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.

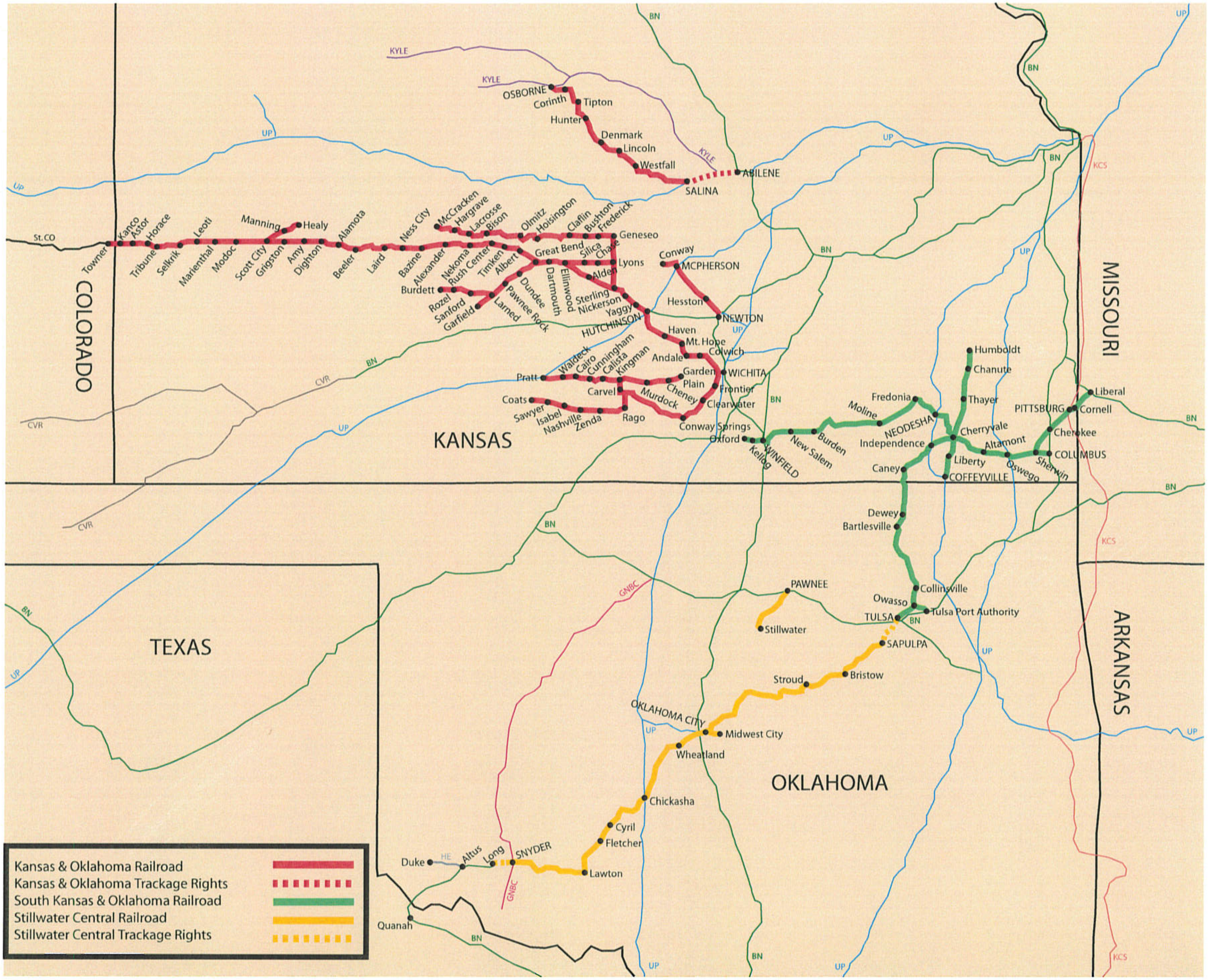
As our wheat crop has wide production swings, both state wide and regionally within the state from year to year, our rail infrastructure must be able to move a record high or low crop with only 30-60 days warning. That is hard, if not impossible to do.



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


COLORADO
KANSAS
MISSOURI
OKLAHOMA
TEXAS
ARKANSAS
KYLE
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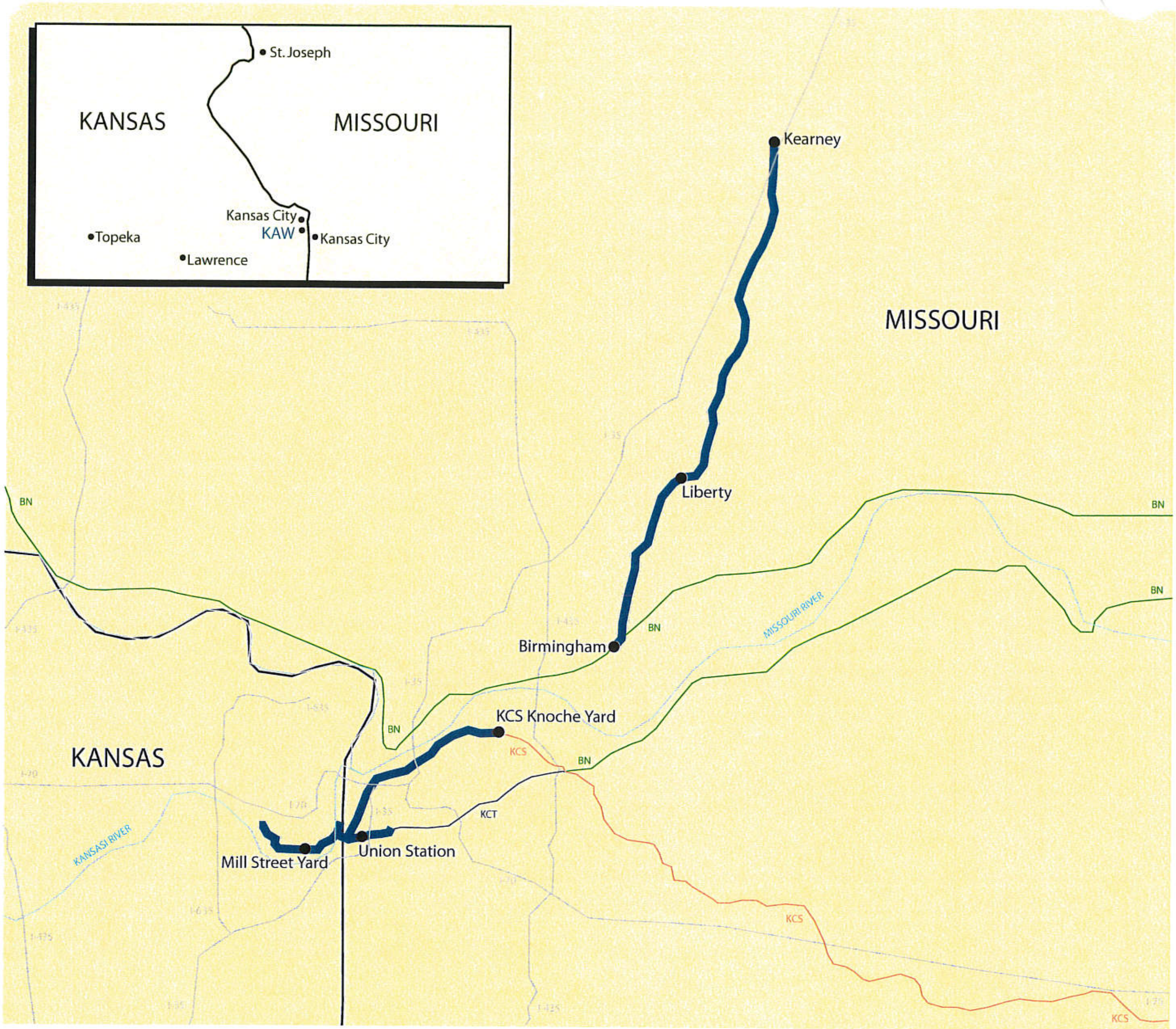
UP
CVR
KCS
GNBC
HE
St.CO
OSBORNE
Corinth
Tipton
Hunter
Denmark
Lincoln
Westfall
SALINA
ABILENE
Towner
Kanco
Astor
Horace
Tribune
Selkrik
Leoti
Marienthal
Modoc
Scott City
Manning
Healy
Grigston
Amy
Dighton
Alamota
Beeler
Laird
Ness City
Bazine
Alexander
McCracken
Hargrave
Lacrosse
Bison
Nekoma
Rush Center
Timken
Albert
Olmitz
Hoisington
Claflin
Bushton
Frederick
Geneseo
Great Bend
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
WICHITA
Garden Plain
Frontier
Clearwater
Cheney
Murdock
Pratt
Wardeck
Cairo
Cunningham
Calista
Kingman
Carvel
Coats
Sawyer
Isabel
Nashville
Zenda
Rago
Conway Springs
Oxford
Kellog
WINFIELD
New Salem
Burden
Moline
Fredonia
NEODESHA
Humboldt
Chanute
Thayer
Cherryvale
Independence
Liberty
Altamont
Oswego
COFFEYVILLE
Caney
PITTSBURG
Liberal
Cornell
Cherokee
COLUMBUS
Sherwin
Dewey
Bartlesville
Collinsville
Owasso
TULSA
Tulsa Port Authority
PAWNEE
Stillwater
SAPULPA
Bristow
Stroud
OKLAHOMA CITY
Midwest City
Wheatland
Chickasha
Cyril
Fletcher
Lawton
SNYDER
Long
Altus
Duke
Quanah
Kansas & Oklahoma Railroad
Kansas & Oklahoma Trackage Rights
South Kansas & Oklahoma Railroad
Stillwater Central Railroad
Stillwater Central Trackage Rights



LEGEND:
KAW River Railroad (KAW)
Kansas City

Interchanges
BN - Kansas City, Birmingham
KCS - Kansas City

ALDERSON, ALDERSON, WEILER,
CONKLIN, BURGHART & CROW, L.L.C.
ATTORNEYS AT LAW

W. ROBERT ALDERSON, JR.
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KANSAS AND MISSOURI

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

March 14, 2006

Chairman Donovan 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 14 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 in service only in the states of Kansas and Colorado, and the operating portion of that right-of-way is leased to Kyle. The attached Memorandum explains the transactions which have occurred since 1984 that have brought us to this point.

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. In addition to the line leased from MSPA, Kyle entered into a long-term lease agreement with Union Pacific in 1991, to operate the Missouri Pacific lines north of Interstate Highway 70. That portion of the railroad, known as the Solomon Branch, was slightly less than 200 track miles when it was leased. The Solomon Branch allows Kyle access to the Union Pacific interchange at Salina.

Today, Kyle operates a rail system containing 543 miles of main line track, 24 miles of siding and 58 miles of yard track, for a total rail system of 625 miles.

Kyle is headquartered in Phillipsburg, Kansas, and its main office is centrally located between outlying on-duty crew locations in Goodland and Concordia. Kyle serves 102 customers and handles more than 20,000 carloads per year. The preponderance of Kyle's business is directly related to agriculture, with its primary commodity being Hard Red Winter Wheat, which accounted for 55% of Kyle's carloadings in 2005. Other commodities include scrap steel, milo, corn, sunflowers, sunflower oil, millet, soybeans, liquid feed and fertilizers. In 2005, Kyle acquired a customer that received 45 carloads of utility poles in Arriba, Colorado, and it is anticipated that this number of carloads will continue to increase. Based on carloadings, Kyle's largest customers are Tamko Roofing, Scoular Grain, Hansen-Mueller, Agmark and Midway Co-op. Kyle anticipates future carloading and revenue growth from:

- A 40-million gallon ethanol plant in Phillipsburg, which is scheduled to be operational in September of this year;

- The Goodland Energy Center project, consisting of a coal-fired electric generation facility, a bio-diesel plant and a 30-million gallon ethanol plant, all of which is scheduled to be operational in 2007;

- An increase in the Sinclair Oil business in 2006, transporting asphalt to supply Tamko Roofing and several state highway projects; and

- J.R. Simplot locating a second dry fertilizer facility at Scandia, Kansas in 2006.

Kyle employs 77 people year-round. It does not contract out any of its signal maintenance, mechanical, dispatching or engineering work, with the exception of capital projects and new signal installations. Dispatching, customer service, billing and mechanical services are provided in-house. In that regard, Kyle has a full-service car/locomotive maintenance shop with a single wheel drop table, two overhead cranes, slide table, service pit and fueling station. This Phillipsburg facility is where all locomotive fueling, sanding and servicing is accomplished, along with inspections and repairs of Kyle's fleet of cars. Currently, Kyle leases 1,000 covered hopper cars full time, with the additional 400 surge fleet, 22 gondolas and 250 boxcars.

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, main line 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 a 1999 legislative enactment, 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. MSPA has not previously 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 spillway weir constructed of steel sheet piling, 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 questions at the appropriate time.

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**LICENSED TO PRACTICE IN KANSAS AND MISSOURI

MEMORANDUM

TO :	Senate Committee on Transportation
FROM :	Bob Alderson, General Counsel, Mid-States Port Authority
RE :	Background Information on Mid-States Port Authority
DATE :	March 14, 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 Senate 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.

Organization and Operation

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.

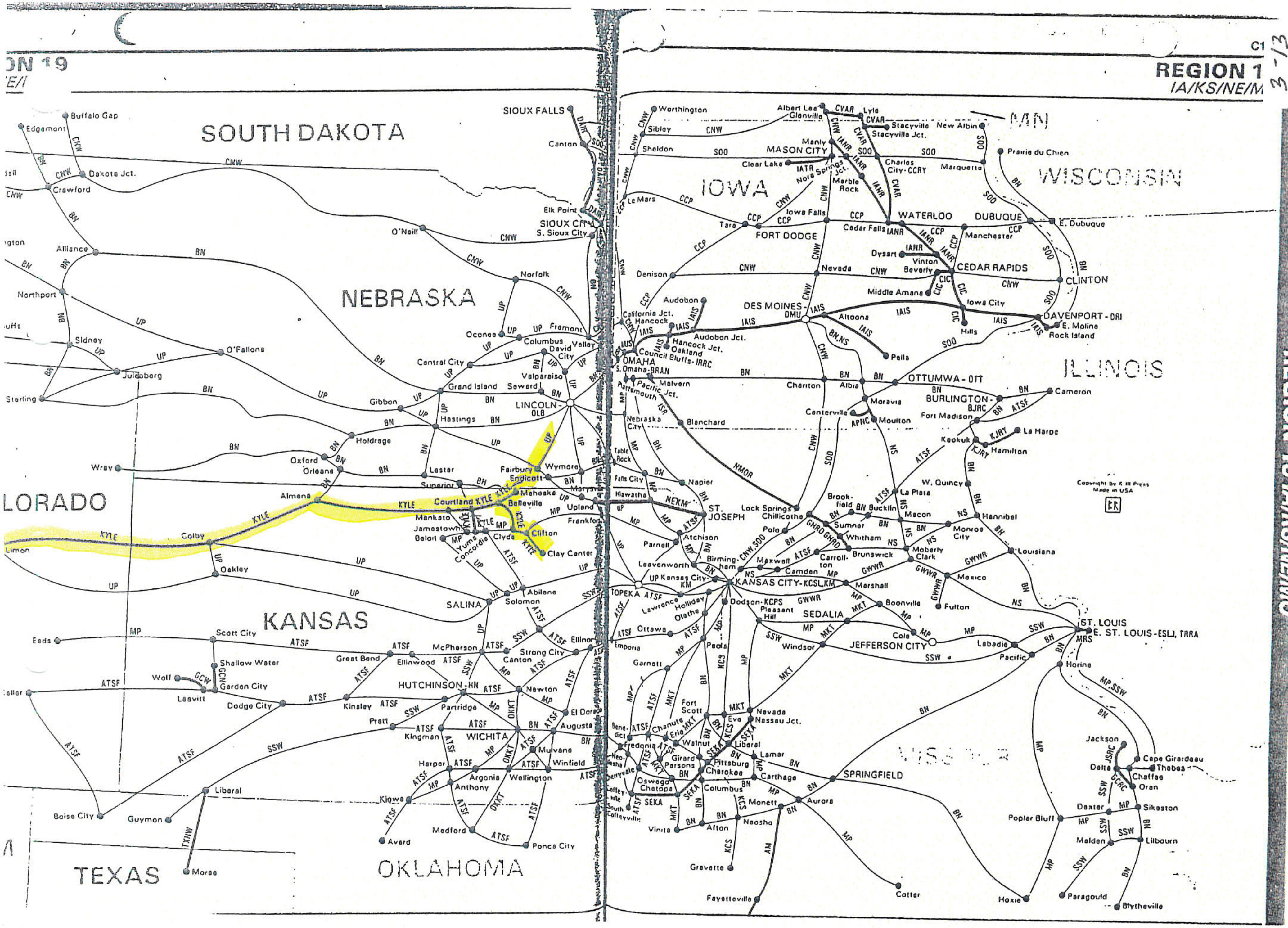
In compliance with statutory requirements, each of the original 14 counties which formed the MSPA adopted a resolution authorizing MSPA's Board of Directors to proceed with the revenue refunding bond issue. Pursuant to such authorization, MSPA's Board of Directors issued Federally Taxable Revenue Refunding 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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ON 19
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S. Sioux City
Buffalo Gap
Edgemont
Dakota Jct.
Crawford
Alliance
Northport
Sidney
O'Fallons
Julesburg
Sterling
O'Neill
Norfolk
Elk Point
Canton
Fremont
Columbus
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Central City
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Orleans
Wray
Lester
Superior
Fairbury
Endicott
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Shallow Water
Garden City
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Ellinwood
McPherson
HUTCHINSON-HN
Partridge
Newton
Pratt
Kingman
WICHITA
Augusta
El Dorado
Mulvane
Winfield
Wellington
Argonia
Anthony
Harper
Kiowa
Medford
Avard
Ponca City
Liberal
Guymon
Boise City
Morse
Worthington
Sibley
Sheldon
Le Mars
Albert Lea
Glenville
Lyle
Stacyville
Stacyville Jct.
New Albin
MASON CITY
Manly
Clear Lake
Nora Springs Jct.
Marble Rock
Charles City-CCRY
Marquette
Prairie du Chien
Iowa Falls
Tara
FORT DODGE
Cedar Falls
WATERLOO
DUBUQUE
E. Dubuque
Manchester
Dysart
Vinton
Beverly
CEDAR RAPIDS
Middle Amana
Iowa City
CLINTON
Denison
Nevada
Audubon
DES MOINES-DMU
Altoona
Hills
DAVENPORT-DRI
E. Moline
Rock Island
Pella
California Jct.
Hancock
Audubon Jct.
Hancock Jct.
Oakland
Council Bluffs-IRRC
OMAHA
S. Omaha-BRAN
Malvern
Pacific Jct.
Plattsmouth
Chariton
Albia
OTTUMWA-OTT
Cameron
BURLINGTON-BJRC
Fort Madison
Moravia
Moulton
Centerville
Keokuk
La Harpe
Hamilton
Nebraska City
Blanchard
Table Rock
Falls City
Hiawatha
Napier
ST. JOSEPH
Lock Springs
Chillicothe
Brookfield
Bucklin
La Plata
W. Quincy
Macon
Hannibal
Monroe City
Louisiana
Upland
Frankfort
Marysville
Parnell
Atchison
Leavenworth
Polo
Sumner
Whitham
Brunswick
Moberly
Clark
Mexico
Fulton
Carrollton
Maxwell
Birmingham
Camden
TOPEKA
Kansas City
KANSAS CITY-KCSL,KM
Marshall
Boonville
Lawrence
Holliday
Olathe
Dodson-KCPS
Pleasant Hill
SEDALIA
Cole
JEFFERSON CITY
Labadie
Pacific
ST. LOUIS
E. ST. LOUIS-ESLJ, TRRA
Ottawa
Emporia
Ellinor
Strong City
Canton
Windsor
Garnett
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Fort Scott
Nevada
Nassau Jct.
Chanute
Erie
Eva
Benedict
Fredonia
Neodesha
Walnut
Liberal
Lamar
Girard
Parsons
Pittsburg
Cherokee
Carthage
SPRINGFIELD
Oswego
Chetopa
Columbus
Coffeyville
South Coffeyville
Monett
Aurora
Vinita
Afton
Neosho
Gravette
Fayetteville
Cotter
Horine
Jackson
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APPENDIX A

APPENDIX B

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Kansas Grain & Feed Association

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Statement in Support of HB 2709
Senate Transportation Committee
March 14, 2006

Thank you Chairman Donovan, Members of the Committee, my name is Duane Simpson, Vice President of Government Affairs for the Kansas Grain and Feed Association (KGFA). 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. On behalf of our members I am appearing today in support of HB 2709.

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.

Other conferees will testify to the projects that are supported by this program. Our members are some of the direct beneficiaries of this program. In order to have a thriving grain trade, Kansas must have a fully operational and competitive transportation system that includes short line and main line railroads and a vibrant trucking industry. For that reason we support this legislation as strongly as we support the rest of the Comprehensive Transportation Program. I urge the committee to pass HB 2709.

Senate Transportation Committee
March 14, 2006
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

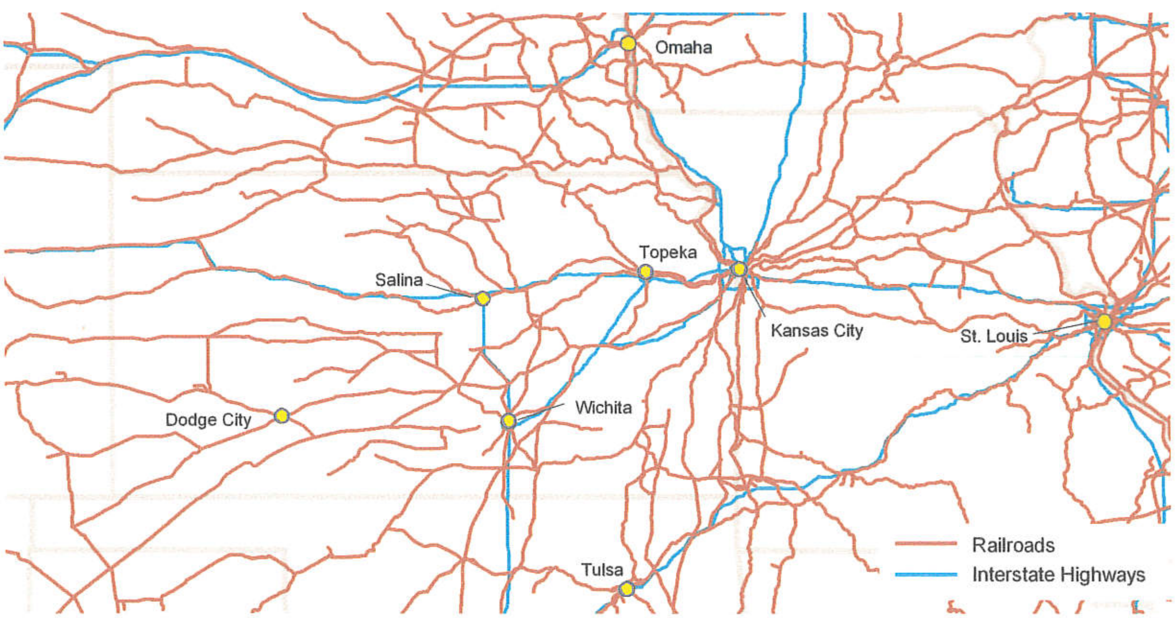
Tons Originated 2004

	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.

Senate Transportation Committee
March 14, 2006
Attachment 5

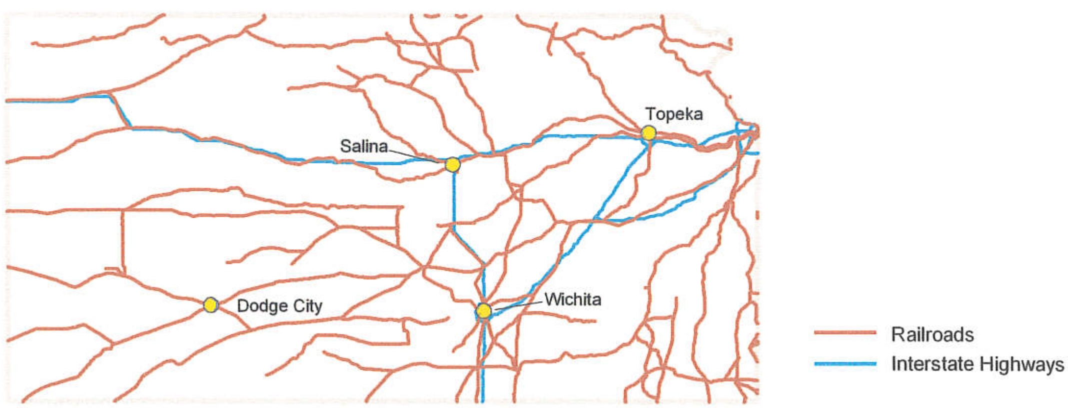
Freight Railroads Operating in
Kansas

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

Testimony
of
Economic Lifelines
presented by
Patrick J. Hurley

to the
Senate Transportation Committee
on
House Bill 2709
on
March 14, 2006

Mr. Chairmen and Members of the Senate Transportation Committee:

I am Pat Hurley and I appear on behalf of Economic Lifelines in regard to HB 2709.

As you know, HB 2709 extends the Rail Service Improvement Program indefinitely from its scheduled expiration date under current law of June 30, 2007.

The effect of this extension is to continue to transfer $3 million per year from the State Highway Fund to the Rail Service Improvement Fund.

We certainly recognize that this fund was created as part of the 1999 Comprehensive Transportation Program and was fully endorsed by Economic Lifelines.

The original intent of this fund was two-fold: first, to create a revolving loan/grant program that was intended to be self-supporting by the end of June 2007 and second, that it would thereby generate sufficient revenue to provide future loans from that date forward.

You have heard KDOT testify several times now that their latest profile indicates that by the end of fiscal year 2009 they will essentially have a zero balance in their revenue stream in regards to their ability to do future projects. In other words they will have no flexibility left without new funding sources.

While the $3 million dollars annually proposed under this bill is a small amount, nevertheless it will have an adverse impact on KDOT's future flexibility and this was not the original intent of the 1999 CTP.

As I have indicated, Economic Lifelines supported this program as a part of the CTP and we think it has worked just as it was intended to. It has allowed many miles of critical rail line to be purchased and to continue to be operated by short-line railroads with the help of loans and grants from this program.

The result undeniably is that the program has been a tremendous economic success for rural communities that are dependent upon access to the rail service.

In short, it has been a successful economic development initiative. That is precisely our point. The Rail Service Improvement Program is an economic development initiative and we believe should be treated as such. We therefore respectfully submit for your consideration that it be funded as such.

As you know, the state has an economic development initiative fund, which annually receives approximately $50 million from gaming revenues.

This fund provides revenue for numerous economic development projects each year that are determined almost exclusively by members of the Appropriations committees. Those revenues are spent and respent numerous times before a list of winners is chosen each year.

Economic Lifelines has always believed that the Transportation committees are the appropriate principal guardians of the Comprehensive Transportation Programs but you have not often enough had a direct say in how those revenues were spent.

We would therefore like to suggest for your consideration an amendment to HB 2709. It would be to delete "the State Highway Fund" as the revenue source for the future funding of the Rail Service Improvement Program and substitute the "Economic Development Initiative Fund" as the source of such funding. This amendment would allow this valuable program to continue to be funded but more importantly it would allow this Transportation Committee, which we believe is the appropriate committee, to rightfully express its position as to how highway funds should be spent in the future.

Thank you for your consideration of this proposal and I would happy to answer any questions.

THE KANSAS CONTRACTORS ASSOCIATION, INC.

KANSAS CONTRACTORS ASSOCIATION
SKILL · RESPONSIBILITY · INTEGRITY

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Testimony

By the Kansas Contractors Association

before the Senate Transportation Committee

regarding

HB 2709

March 14, 2006

Mr. Chairman and members of the Senate 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.

At the Kansas Contractors Association Convention held January 27, 2006, Ms. Miller said the program would be completed but that 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 completed as published.

Unfortunately for me, I have tried to drive my car on fumes and sometimes I have ended up walking to the gas station to get some more fuel to complete my trip. I fear the same may happen to KDOT. They may have to go somewhere to get additional funds to complete the program if too many hits are taken on the program as proposed today.

KDOT is already under the gun as evidenced with the problems caused by Hurricane Katrina. In October of 2005, KDOT rejected many of the project bids because the prices were higher than expected. The price of materials has increased at a rate higher than what KDOT thought it would seven years ago and therefore they rejected the bids. KDOT relet many of the jobs in January but unfortunately the prices were still higher than expected.

Even KDOT presented documents February 20 which show that prices of concrete and asphalt are rising at a very substantial rate. Those increases were not part of the 1999 plan and are already starting to impact their plans. I have been told that certain unpublished overlays have been delayed and projects curtailed because of the hike in prices.

I also question what KDOT is saying today. They are supportive of this measure today saying they have sufficient funds but in testimony before the House Transportation committee February 20, 2006 on HB 2822…a measure that proposed altering the rate of fuel tax near the borders of Kansas, KDOT officials said " Given the current financial situation of the cash flow forecast for the state highway fund, any further reduction in anticipated revenues jeopardizes the completion of the Comprehensive Transportation Program. Therefore KDOT does not support passage of this legislation."

KDOT showed in January 2006 in its own cash flow charts that it wouldn't have any money in its coffers when the program was completed in 2009. That was before SB 388 was passed by the Senate....that measure is the bio diesel production support legislation which takes about $6-10 million from KDOT. I am wondering how KDOT can say it has zero money in 2009 and then take away $6 million in this proposal and another $6 to $10 million in the bio diesel proposal and say the program can still be completed within budget. To me KDOT can not do both.

As an association, we endorse the concept of both the bio diesel measure and the shortline railroad measure but we suggest that the funding for the railroads be held off till the next transportation program which we hope will be passed in 2009. That means this idea can wait two years to be implemented.

Or if that is not satisfactory, I suggest the railroads look to the EDIF fund or the State general fund for support.

KDOT's transportation program is one of the best Economic engines in the state...let's keep it that way and the only way to do it Is to allow it to be completed on time and within the budget constraints already in place.

I thank you for your kind attention to our concern.

Kansas Department of Transportation

Presentation to the
Senate Ways and Means Subcommittee on KDOT

On the Department of Transportation's FY 2007 Budget

February 20, 2006

Budget Highlights: FY 2006 Gov. Rec.

- Gov. Rec. represents normal expenditures for KDOT in the 7th year of the CTP

    - Operating Budget: $253,618,244
        - COLA Expenditures: $1,727,011
        - 27th Pay Period: $4,942,244
        - Vehicle Purchases — 137 vehicles — $2,769,000
        - Increased expenditure authority for fuel related expenses $2,035,394

    - Unlimited Budget: $1,247,797,545
        - Construction/Debt Service: $1,064,695,464
        - Aid to Locals: $173,905,536
        - Other Assistance: $9,196,545

    - Capital Improvements – Buildings: $4,413,717

    - Interoperability Expenditures:

State Funding:	$3,599,759
Federal Funding:	$19,187,695
Total	$22,787,454

- Phase I of the Statewide 800 MHz Interoperable Communication System has started and is scheduled for completion in June of 2006.

Budget Highlights: FY 2007 Gov. Rec.

- Gov. Rec. provides for the 8th year of the CTP
  - Operating Budget: $264,212,960
    - FY 2007 COLA expenditures: $3,134,342
    - Vehicle replacements: 131 vehicles $2,700,000
    - CPMS Program:* $5,543,800

* *The Comprehensive Program Management System is a critical application that is used daily to manage the $13.2 billion highway program. The CPMS is an integral part of the agency that provide program and project management, federal aid billing, fund management, and schedules.*

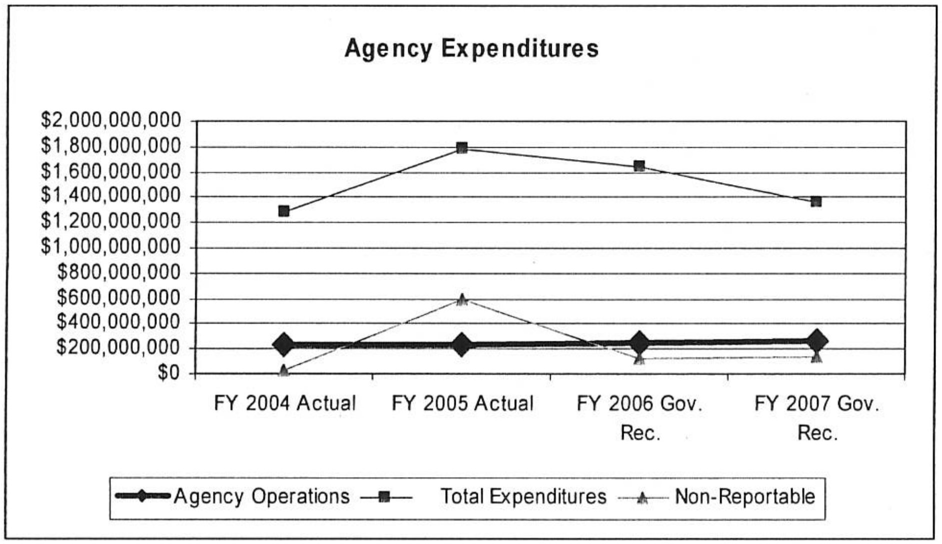
  - Unlimited Budget: $958,639,159
    - Construction/Debt Service: $767,216,432
    - Aid to Locals: $173,246,571
    - Other Assistance: $18,176,156
  - Capital Improvements – Buildings: $5,176,780
  - Interoperability Expenditures:

State Funding:	$4,333,405
Federal Funding:	$4,363,407
Total	$8,696,812

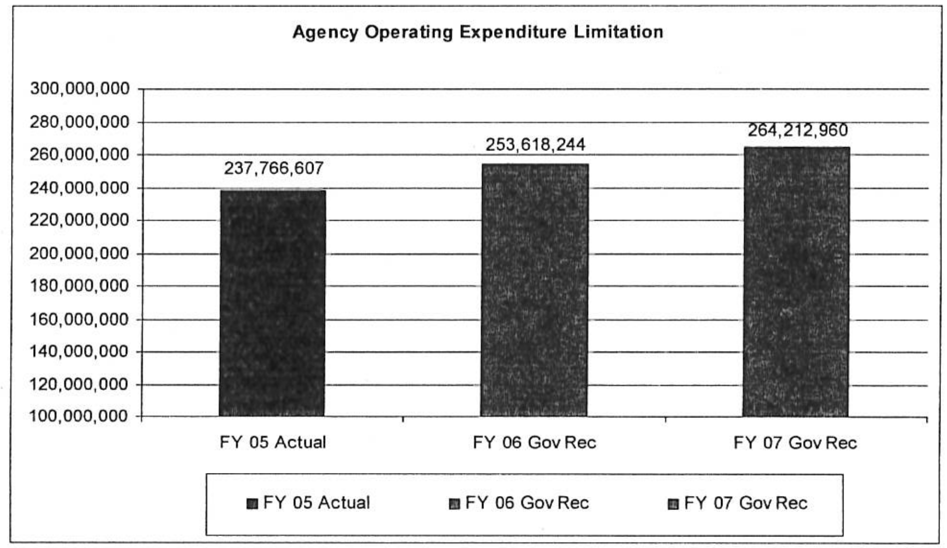
- Phase II will begin in FY 2007 and encompasses three fiscal years

Governor's Recommendation

Total Expenditures



Agency Operations

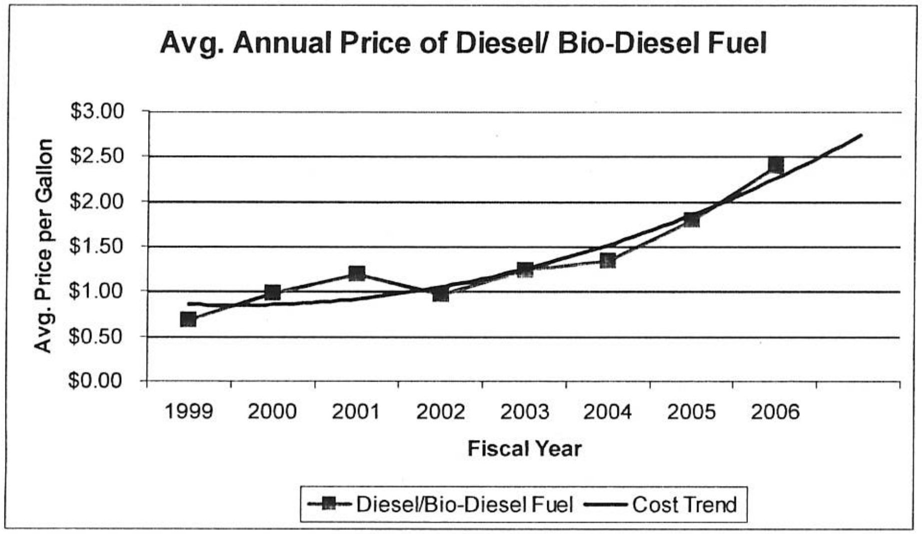


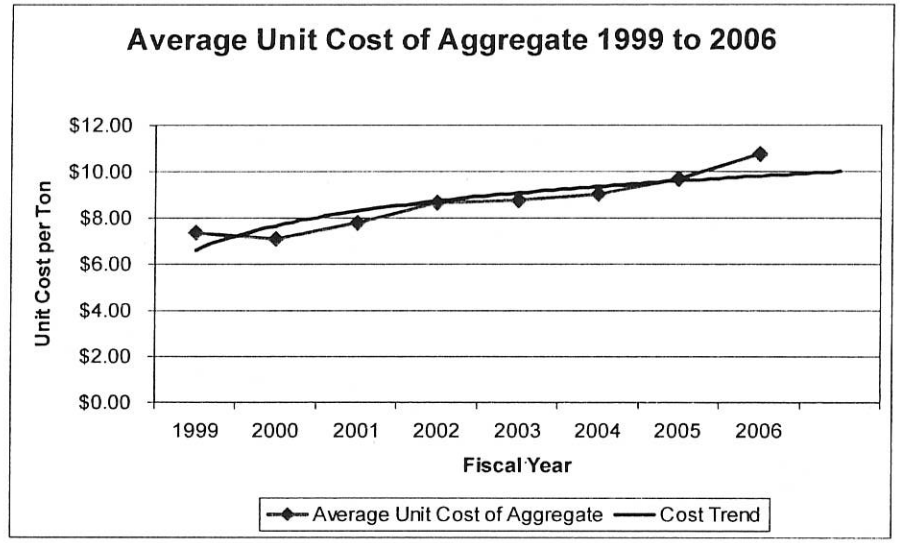
7-8

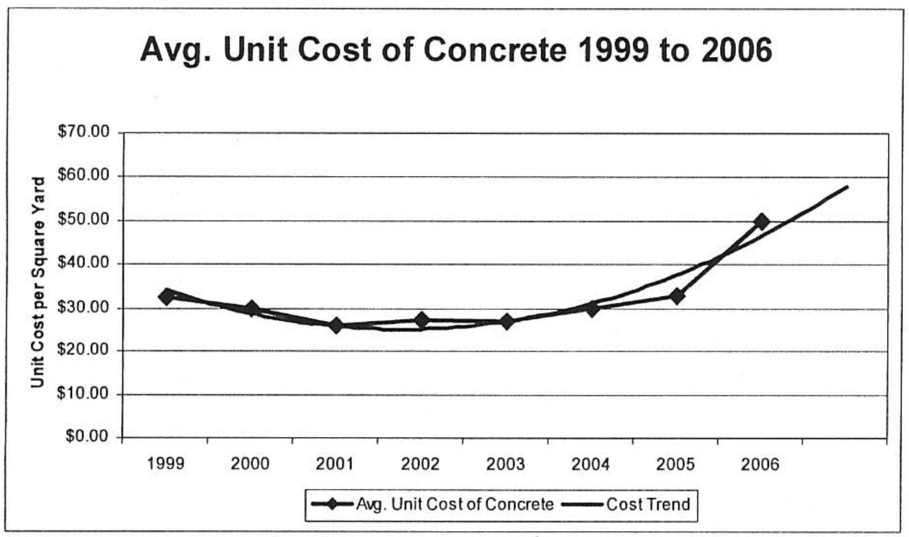
In Summary

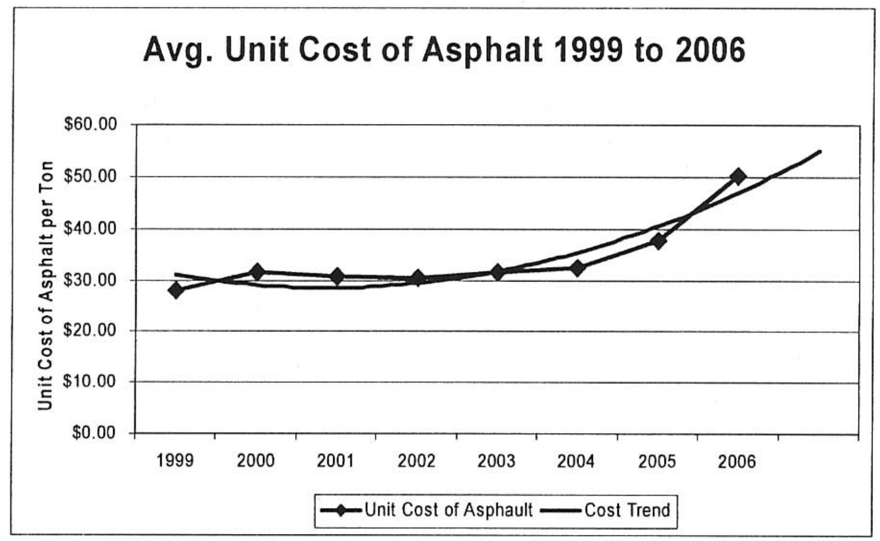
- 50th Anniversary of the Interstate
- "The Driving Force" Kansas Safe Driving Campaign
  - Task Force charged with recommending ways to reduce the number of traffic fatalities
- Performance Measures: *Guiding Responsibility and Responsiveness*
  - Agency is proactively reviewing performance measures to in order to accomplish the following:
    - Move from procedure–oriented to result-oriented performance measures
    - Strengthen our agency through accountability
- Cash flow projections indicate the CTP can be completed with an extremely tight available ending balance.
- $210.0 Million bond issue is scheduled to close on March 28, 2006.
- Gov. Rec. provides critical revenue with the first of four repayment installments of the $125 Million SGF loan.
  - 1st payment in FY 2007 of $32.5 Million
  - The current Cash Flow is built on the assumption these payments are made
- Agency is closely monitoring lettings due to rising costs.

Rising Costs









7-10

CTP Cashflow

KDOT
All Agency Funds

Governor's Budget Recommendations -- Subject to Revision
Incorporates available information about funds provided for the CTP by SAFETEA-LU

Authorized $210 million SGF in bonds — Consensus Revenue Estimates as of November 2005

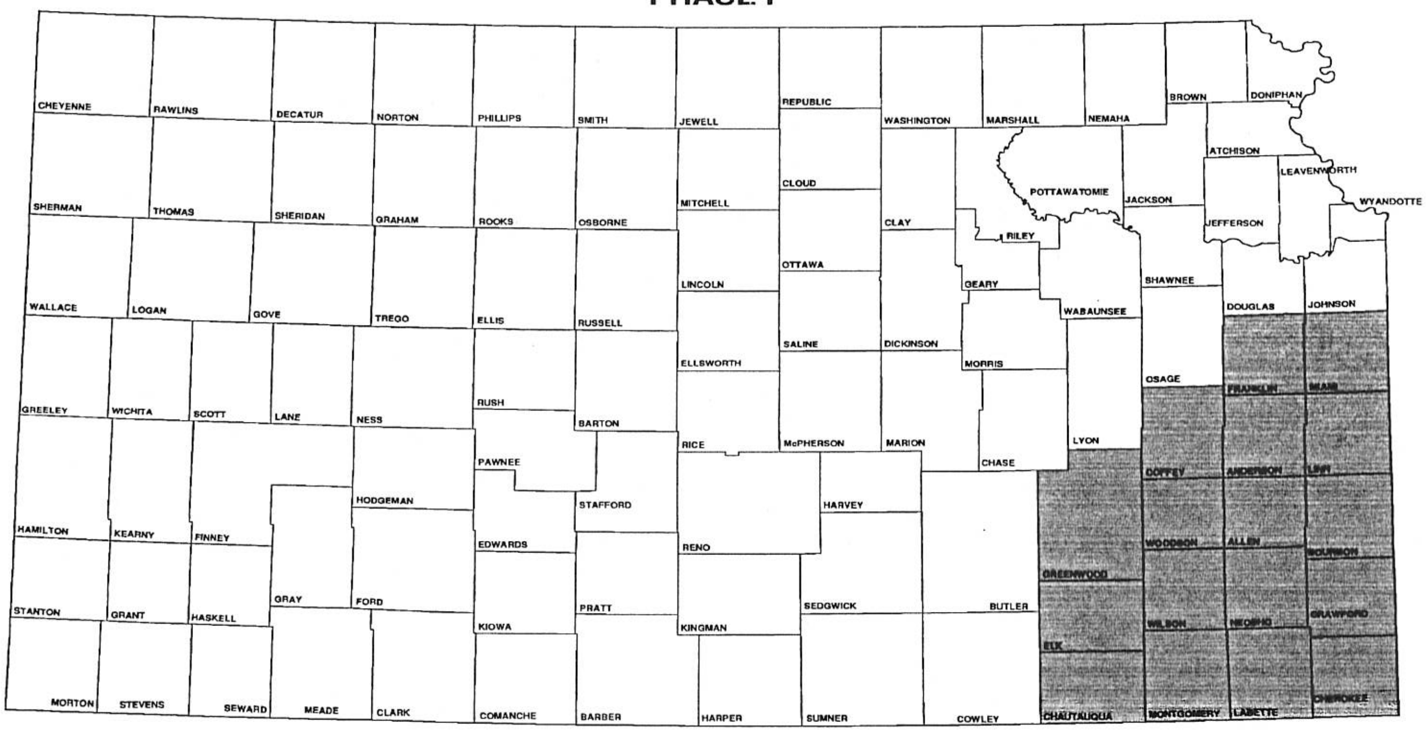
See the notes at the bottom of the sheet

($ millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TOTAL FY 00-2009
BEGINNING BALANCE	560	782	996	827	718	645	714	526	294	250	560
Resources											
Motor Fuel Taxes	356	356	371	408	420	423	426	434	443	450	4,088
SGF (Sales Tax) Transfer	62	52	94	-	-	-	-	-	-	-	208
Bonding Authority Reduction							-	-	-	-	-
Sales & Compensating Tax	89	89	92	89	90	93	98	154	273	283	1,351
Registration Fees	134	132	133	146	149	154	158	162	166	170	1,505
Other State Revenues including Interest	79	78	85	67	54	53	55	50	44	44	608
General Fund Bond Proceeds	-	-	-	-	-	-	210	-	-	-	210
Loan to State General Fund	-	-	(95)	-	-	-	-	33	31	31	(0)
Subtotal	720	708	680	711	714	723	946	833	957	977	7,970
Federal and Local Construction Reimbursement	326	305	371	408	314	394	264	370	427	413	3,592
Net from Bond Sales	325	355	-	2	259	347	-	-	-	-	1,288
TOTAL RECEIPTS	1,372	1,368	1,052	1,121	1,286	1,464	1,211	1,202	1,384	1,390	12,850
Net TRF Loan Transactions	-	-	-	-	-	(15)	15	-	-	-	-
AVAILABLE RESOURCES	1,932	2,150	2,048	1,948	2,005	2,095	1,940	1,728	1,677	1,640	13,410
EXPENDITURES:	2,000	2,001	2,002	2,003	2,004	2,005	2,006	2,007	2,008	2,009	FY 00-2009
Routine Maintenance	102	106	108	107	119	122	132	135	138	142	1,211
Substantial Maintenance	173	149	151	138	165	178	202	232	206	217	1,811
Construction including Major Modification, Priority Bridge and System Enhancement	410	445	475	475	568	521	520	457	459	460	4,791
Modes	11	12	19	22	20	22	22	32	23	24	206
Local Support	256	236	251	248	258	276	261	283	291	289	2,649
Management & Buildings	52	53	54	53	59	58	59	68	79	79	613
Transfers Out	50	43	49	68	88	97	93	99	101	104	792
Debt Service (CHP & CTP)	94	110	114	119	83	107	125	129	130	130	1,141
TOTAL EXPENDITURES	1,150	1,154	1,221	1,229	1,359	1,380	1,414	1,435	1,427	1,444	13,214
ENDING BALANCE	782	996	827	718	645	714	526	294	250	196	196
Minimum Ending Balance Requirement	123	130	137	132	160	161	176	178	177	196	196
AVAILABLE ENDING FUND BALANCE:	659	866	689	586	486	553	350	115	73	0	0

7-11

Interoperability Phases

PHASE I



KDOT makes no warranties, guarantees, or representations for accuracy of this information and assumes no liability for errors or omissions.

KANSAS DEPARTMENT OF TRANSPORTATION
BUREAU OF TRANSPORTATION PLANNING
CNTYLINES.DGN FEBRUARY, 2003

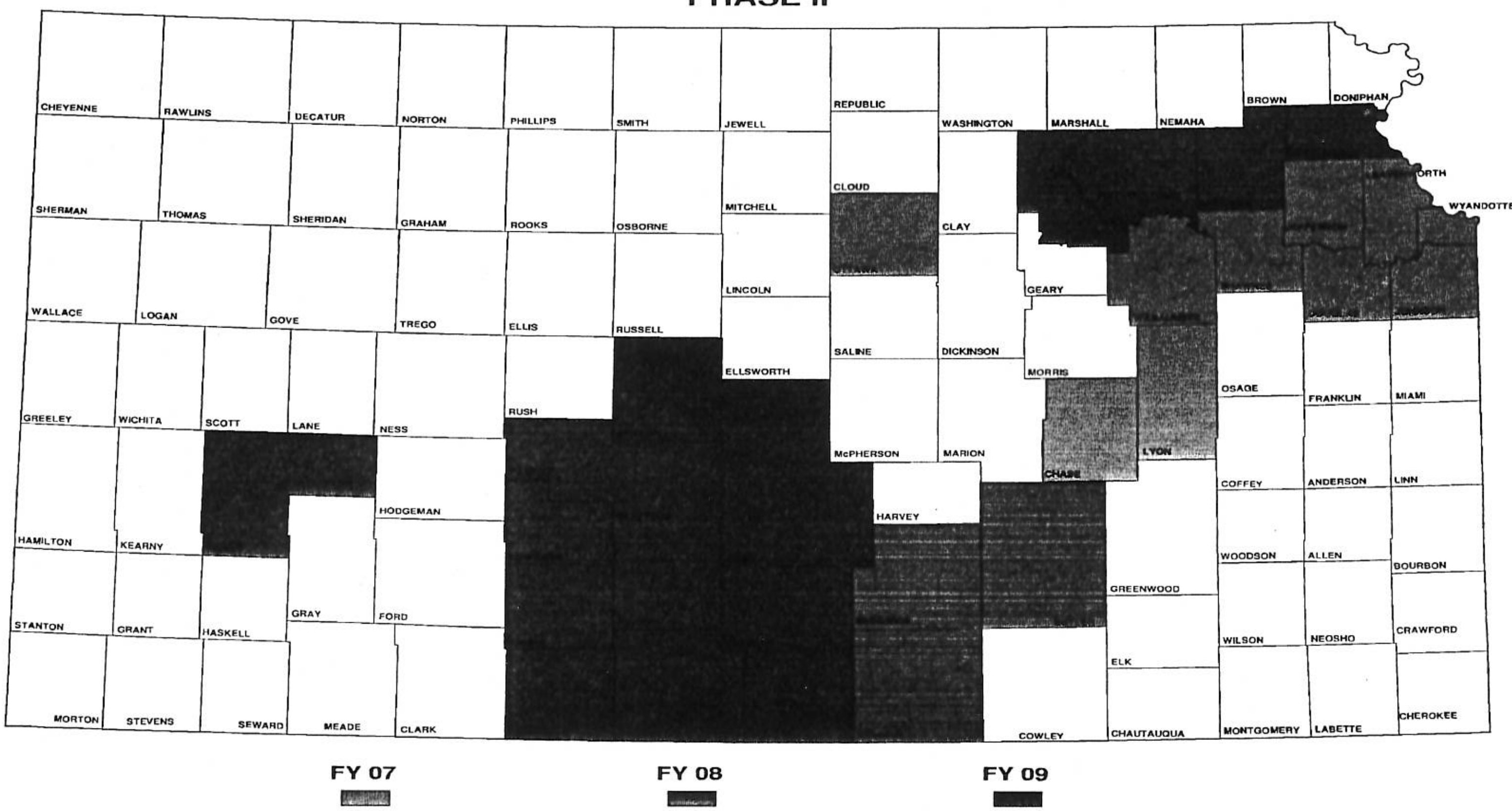
7-12

Interoperability Phases

Phase II Budget:

	FY 2007	FY 2008	FY 2009
	$8,696,812	$5,104,000	$5,291,000

PHASE II



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KANSAS DEPARTMENT OF TRANSPORTATION
BUREAU OF TRANSPORTATION PLANNING
CNTYLINES.DGN FEBRUARY, 2006

KANSAS

DEPARTMENT OF TRANSPORTATION
DEB MILLER, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

TESTIMONY BEFORE
HOUSE TRANSPORTATION COMMITTEE

House Bill 2822
Altering the Rate of Tax on Motor-vehicle Fuel or Special Fuels Near the State Line

February 20, 2006

Mr. Chairman and Committee Members:

Good morning. My name is Ken Gudenkauf, Legislative Liaison for the Kansas Department of Transportation (KDOT). I appreciate the opportunity to testify on House Bill 2822.

This bill would require Kansas retailers located within 3,000 feet of a state line, or located within any city that adjoins a state line, to collect an alternative tax rate for gasoline/gasohol and diesel sold to consumers. Retailers would be required to collect a rate of one cent per gallon above the rate imposed by the neighboring state, not to exceed rates under current Kansas law. This bill would effectively create up to five different tax rates for motor vehicle and special fuels.

While trying to remedy a competitive burden, this bill essentially moves the state border over 3,000 feet, or in some cases the entire width of a city for the purpose of levying a lower fuel tax. Paradoxically, this would create a competitive burden for those retailers located just outside of the new border. For example, retailers located in Lenexa, Olathe, and Shawnee would collect a higher tax than retailers located in neighboring Kansas City, Leawood and Overland Park.

Furthermore, enactment of this bill would result in a reduction of motor fuel tax collections deposited in the State Highway Fund (SHF) and the Special City and County Highway Fund (SCCHF). While it is impossible to accurately estimate the fiscal effect of the bill, assumptions can be made that highlight the impact from changes in the motor fuel tax rate.

In FY 2005, approximately 1.7 billion gallons of fuel was sold in the state. Let's assume demand is flat, and 1.0 percent of gasoline/gasohol and diesel sales experience a reduction of $.06 and $.08 per gallon, respectively. For every 1.0 percent of fuel sold, tax receipts would lower by approximately $1.1 million per year. This example clearly illustrates how any reduction in motor fuel tax rates can significantly impact the SHF and the SCCHF. It should also be noted that the population of Kansas City, Leawood, and Overland Park comprise roughly 12.0 percent of the entire state population. Therefore, we feel it safe to assume that these and other affected geographical areas would account for more than 1.0 percent of motor vehicle fuel sales.

Given the current financial situation of the cash flow forecast for the SHF, any further reduction in anticipated revenues jeopardizes the completion of the Comprehensive Transportation Program. Therefore, KDOT does not support passage of this legislation.

KANSAS

DEPARTMENT OF TRANSPORTATION
DEB MILLER, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

TESTIMONY BEFORE THE
SENATE TRANSPORTATION COMMITTEE

REGARDING SENATE BILL 388
ESTABLISHING A BIODIESEL PRODUCER INCENTIVE FUND

JANUARY 31, 2006

Mr. Chairman and Committee Members:

Good morning. My name is Ethan Erickson, Budget and Financial Manager for the Kansas Department of Transportation (KDOT). I appreciate the opportunity to testify on Senate Bill 388.

Senate Bill 388 establishes the Kansas qualified biodiesel fuel producer incentive fund, which would, beginning July 1, 2007, deposit $3.5 million annually from motor fuel tax revenues into the new fund. Under current law, these revenues are deposited into the State Highway Fund (SHF) and the Special City and County Highway Fund (SCCHF). If this bill is enacted, the result is a reduction of revenues to these two funds.

The most recent cash flow forecast for the State Highway Fund shows a zero available ending balance at the end of FY 2009. The agency is cautiously optimistic that, barring no significant changes in costs and funding, we will complete the announced projects in the Comprehensive Transportation Program albeit on "fumes". However, the further diversion of state highway funds would jeopardize the completion of the CTP. We are currently monitoring our lettings closely due to the rising cost of oil-based projects. Because the work of the agency relies heavily on fuel and oil-based products, the impact of rising costs in the oil market can be significant.

KDOT supports the use of biodiesel products and use them in our operations. Last March our agency appeared before this committee to provide you an update on our use of alternative fuels. Since 2001, KDOT has steadily increased our use of biodiesel and this continues, biodiesel purchases comprise 60-65% of our agency diesel fuel purchases.

This bill would reduce revenues to the State Highway Fund. Any erosion of dollars will be a detriment to completing the Comprehensive Transportation Program.

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

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Kansas and Oklahoma Railroad
Acquisition Of The
Central Kansas Railway

OVERVIEW

The State of Kansas, for a number of reasons was, and is, most interested in the preservation of rail service. Railroad transportation is a vital component of the state's multimodal transportation network. Railroad transportation provided by short line railroads links the state's smaller communities and agricultural sectors, as well as industrial and manufacturing businesses, with the Class I railroads and markets throughout the United States and the world. Short line railroads provide job opportunities not only through the railroads themselves, but also through the grain elevators and industrial/manufacturing shippers on the lines. Short line railroads help relieve the pressure of growing truck traffic on state, county, and local roadways and the increased damage and maintenance costs associated with this truck traffic.

In 1992 the CKR acquired approximately 900 miles of rail line in central, south central, and western Kansas from the Atchison Topeka and Santa Fe (ATSF) railroad. Between 1994 and 2001 the CKR, as well as its sister railroad the Kansas Southwestern Railroad (KSW), abandoned 437 miles of rail line in Kansas. An additional 39 miles of line owned by the Union Pacific Railroad (UP) and operated by the CKR was abandoned in 2001 and it was estimated that the CKR was poised to abandon an additional 200 to 300 miles of rail line.

In the late 1990s Kansas Southwestern Railroad was merged with the Central Kansas Railway. During the years that these two railroads operated in Kansas, KDOT received regular complaints from shippers regarding lack of service and poor car availability. KDOT also received regular complaints from adjacent landowners regarding issues such as the railroad not keeping rights-of-way clear of brush and rough crossings. On numerous occasions KDOT received e-mails, letters, and telephone calls from State Legislators forwarding complaints they received from their constituents regarding issues with the CKR.

In late 2000 the state of Kansas became aware that the Kansas and Oklahoma Railroad (KO) was interested in purchasing what was left of the CKR system. However, they needed assistance in putting together a financing package. The state of Kansas, including the Governor, Lieutenant Governor, several key legislators and KDOT all agreed that it was in the best interests of the state to help make the purchase happen rather than standing idly by and letting the deal fall through and then suffering the impending abandonments and loss of rail service. Thus, the remaining lines within the CKR system were saved from abandonment by using Comprehensive Transportation Program (CTP) rail funds in the State Rail Service Improvement Fund (RSIF) in the form of a grant, to assist with the acquisition of the CKR. All parties involved were convinced of the benefits to both shippers and the state of Kansas that would be derived from it.

On June 29, 2001 KDOT entered into a Service Agreement with the KO to assist with the acquisition of the CKR and help preserve essential rail service and increase transportation benefits to both shippers and the citizens of Kansas on major segments of railroad trackage in the CKR system. The Service Agreement between KDOT and the KO automatically renews for succeeding one year periods, essentially in perpetuity, on the anniversary date of the Service Agreement. The Service Agreement details service standards to shippers, operation standards for the railroad, and arbitration proceedings if shippers are not provided with adequate service. The KO is required to provide KDOT with an Annual Report no later than February 1 of each year. In the Annual Report the railroad details such items as traffic volume and commodities hauled, FRA track classifications and speed limits, normal maintenance performed and major rehabilitation projects, derailments, business and marketing plans, and a balance sheet and income statement.

In the Service Agreement KDOT made available to the KO grants with an aggregate principal amount of $11.5 million. These grants were/will be distributed as follows:

SFY 2001	$2 million	June 29, 2001
SFY 2002	$2 million	July 10, 2001
SFY 2003	$1.5 million	no later than July 15, 2002
SFY 2004	$1.5 million	no later than July 15, 2003
SFY 2005	$1.5 million	no later than July 15, 2004
SFY 2006	$1.5 million	no later than July 15, 2005
SFY 2007	$1.5 million	no later than July 15, 2006

HB 2709

SENATE TESTIMONY

March 14, 2006

Senator Les Donovan
Chairman, Senate Transportation Committee

FOUNDED IN 1978, THE DEBRUCE COMPANIES ARE A GROWING $2 BILLION ORGANIZATION CURRENTLY RANKED 116TH ON THE FORBES 500 LIST OF PRIVATE COMPANIES. DEBRUCE IS THE 4TH LARGEST PRIVATELY HELD COMPANY IN KANSAS CITY, MISSOURI. DEBRUCE CONTINUES TO BE AN INNOVATIVE AND AGGRESSIVE INDUSTRY LEADER, AND RANKS 8TH IN ELEVATOR CAPACITY IN NORTH AMERICA WITH STORAGE CAPACITY IN EXCESS OF 101,000,000 BUSHELS.

DEBRUCE GRAIN PURCHASED THE WICHITA ELEVATOR IN 1996 AT THAT TIME IT WAS SERVED BY THE CKRY. THE PREVIOUS OWNER, IT APPEARED, HAD NO DESIRE TO INVEST THE MONEY AND MAN HOURS TO MAKE THE K&O LINE WORK. IT APPEARED THEIR DESIRE WAS TO SCRAP OUT THE RR.

THE K&O SERVES OUR FACILITY IN WICHITA, MEANING THEY BRING ALL RAIL INBOUND GRAIN AND TAKE ALL RAIL OUTBOUND GRAIN FROM THE ELEVATOR. DEBRUCE GRAIN RECEIVES APPROXIMATELY ONE THIRD

OF ALL INBOUND GRAIN BY RAIL AND SHIPS VIRTUALLY ALL-OUTBOUND GRAIN BY RAIL. IF THE INBOUND RAIL WERE TO BE REPLACED BY TRUCK IT WOULD REQUIRE APPROXIMATELY 12,000 MORE TRUCKS.

AS I AM SURE THAT YOU ARE ALL AWARE, THE TRANSPORTATION SECTOR (TRUCK, RAIL AND BARGE) IS VERY TIGHT. EACH RAILCAR THAT IS LOADED REPRESENTS 3 ½ - 4 TRUCKS. HAVING THE OPTION, ESPECIALLY IN THIS TYPE OF MARKET, IS VERY IMPORTANT TO ALL IN THE INDUSTRY. WE LOOK AT THE SHORT-LINE JUST LIKE OUR TRUCKING CUSTOMER. WATCO'S OPEN MIND IS VERY REFRESHING. THEY HAVE GOTTEN CREATIVE AND WILL LOOK AT DOING DIFFERENT THINGS TO GROW THEIR BUSINESS.

ONE OF THE THINGS THAT ENCOURAGES ME THE MOST IS WATCO'S WILLINGNESS TO RE-INVEST IN THE LINE. THIS IS A VERY BIG DEAL BECAUSE AS THEY BECOME MORE EFFICIENT (ESPECIALLY TRANSIT TIMES) THE MORE CARS CAN BE SHIPPED. ALTHOUGH IT IS IMPORTANT TO BE EFFICIENT THROUGHOUT THE YEAR, IT IS VERY IMPORTANT WITH RR'S BECAUSE OF HARVEST. 2 – 3 WEEKS DURING WHEAT HARVEST AND 2 – 3 WEEKS IN FALL HARVEST ARE TYPICALLY THE MOST CRITICAL TIMES.

AS I MENTIONED EARLIER HAVING INBOUNDED RAIL OPPORTUNITIES ARE CRITICAL TO THE SUCCESS OF OUR OPERATION AT WICHITA. OVER THE LAST 9 YEARS WE HAVE SEEN BOTH ENDS OF THE SPECTRUM IN TERMS OF RUNNING THE RR. THE PATH WE ARE CURRENTLY ON IS CERTAINLY THE CORRECT ONE. WITH YOUR HELP WATCO CAN CONTINUE TO OFFER BETTER AND MORE EFFICIENT SERVICE TO MANY WITHIN OUR INDUSTRY.

I ENCOURAGE YOU TO PASS HB 2709 TO CONTINUE TO AID KANSAS' SHORTLINES IN REBUILDING OUR RAIL INFRASTRUCTURE.

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Senate Committee on Transportation

March 14, 2006

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

Chairman Donovan and members of the Senate 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.

Senate Transportation Committee
March 14, 2006
Attachment 10

Session of 2006

HOUSE BILL No. 2878

By Committee on Transportation

2-10

AN ACT relating to motor fuel trip permits; providing for 72-hour permits; amending K.S.A. 2005 Supp. 79-34,118 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 2005 Supp. 79-34,118 is hereby amended to read as follows: 79-34,118. Upon application to the director of taxation and payment of the fee prescribed under this section any interstate motor fuel user may obtain a trip permit which will authorize one commercial motor vehicle to be operated *for a period of 72-hours* within this state without compliance with the other provisions of the interstate motor fuel use act and in lieu of the tax imposed by K.S.A. 79-34,109 and amendments thereto. The ~~fee for each trip permit issued under this section shall be $12.50 until July 1, 2003, and $13 until July 1, 2020, and $10 thereafter $25.~~ [Strike out] *Trip permits may be purchased in multiples of three upon making proper application and payment of the required fees.* The secretary of revenue shall adopt rules and regulations specifying the conditions under which trip permits will be issued and providing for the issuance thereof. The secretary may designate agents or contract with private individuals, firms or corporations to issue such trip permits so that such permits will be obtainable at convenient locations.

Sec. 2. K.S.A. 2005 Supp. 79-34,118 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the statute book.

The fee for a 24 hour trip permit shall be $13. The fee for a 72 hour trip permit shall be $25.