

**Statement from Pat Cedeno, WATCO Companies in Favor of HB 2460**  
**House Taxation Committee**  
**February 3, 2020**

Thank you Chairman Johnson, Vice Chairman Mason and members of the House Taxation Committee for holding a hearing to discuss House Bill 2460 – a bill allowing for an income tax credit that will, if enacted, help Kansas short line railroads invest more into their track infrastructure with the ultimate goal of hauling the industry-standard 286,000 lb. railcars and improving the efficiency of this important mode of transportation.

My name is Pat Cedeno and I serve as Senior Vice President, Network Relations for Watco Companies based in Pittsburg. As many of you may know, Watco is a transportation services provider with three short line railroads here in Kansas. We operate over 1,400 miles with the Kansas & Oklahoma Railroad (K&O), the South Kansas & Oklahoma Railroad (SKOL) and the Kaw River Railroad. These three short lines along with 11 other short line companies operate as the first mile or last mile of the national freight network for Kansas farmers and shippers. We are the critical link for many small and rural communities across the state.

We come before you today in favor of HB 2460. The proposed tax credit is a tool our short lines can use to keep up with the growth we've seen in recent years, as well as help us modernize our bridges and track. You see, when we acquired these lines through the 1980s and 90s, they had already been put out to pasture by their previous owners – the Class Is. As the regulatory structure changed for the Class Is beginning in 1980, they began shedding lines that were low density and unprofitable. Kansas was a state that sadly lost many of its rail miles to abandonment. According to a 2003 study prepared by the Kansas Department of Transportation, Kansas lost more than 2,000 rail miles between the 80s and 90s.<sup>1</sup>

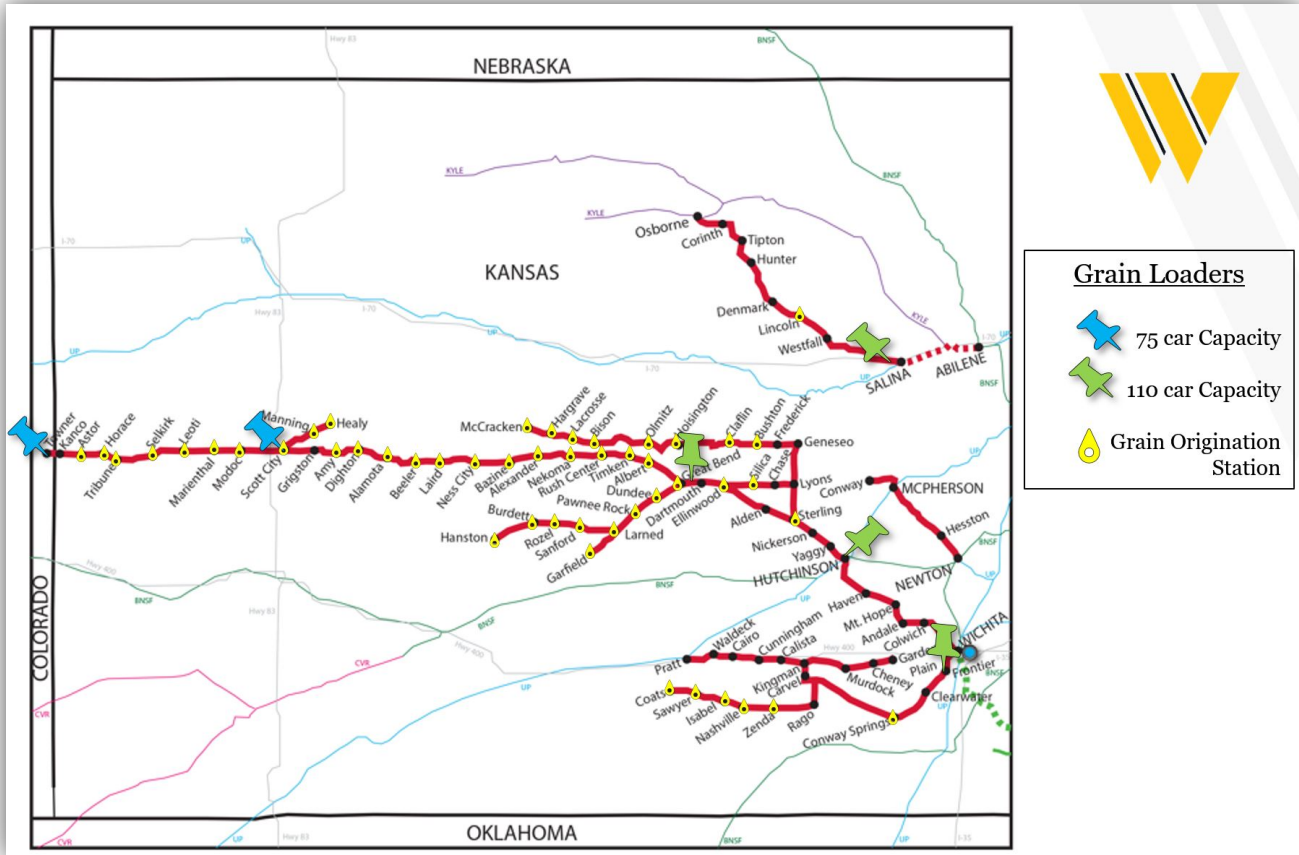
As lines headed towards abandonment, entrepreneurs, like the founder of Watco, saw these railroads as an opportunity. Our first short line – the Southeast Kansas Railroad – was 100 miles long. Today, that line is part of our SKOL Railroad, which stretches 433 miles from Tulsa to Winfield with trackage rights into Wichita. On the K&O Railroad, we serve 58 elevators along the line all the way to the Colorado border. Fifty-three percent of the K&O's traffic is grain. We are the critical link for a great deal of Kansas farmers. We have seen our traffic on the K&O grow 42 percent in the last five years. We ended 2019 having hauled almost 60,000 carloads, which is the rough equivalent of 200,000 trucks. Since 2008, the K&O has moved 77 percent of all bushels produced in the counties we operate in and 24 percent of all grain bushels produced in the state of Kansas.

While traffic has increased and considerable amounts of capital have gone into these lines, we still continue to claw our way out of the underinvestment by their previous owners. HB 2460 is another tool we can use to improve safety, grow our capacity, and increase efficiency. What this bill proposes would allow us to increase investment in these critical connections to the Class I railroads through a 50 percent/\$5,000 per mile tax credit over five years. To generate the tax credit, a short line would be required to invest \$10,000 per mile in qualified expenditures. Kansas taxpayers will get the investment in critical rail infrastructure right here in the state. This is an excellent example of a public private partnership.

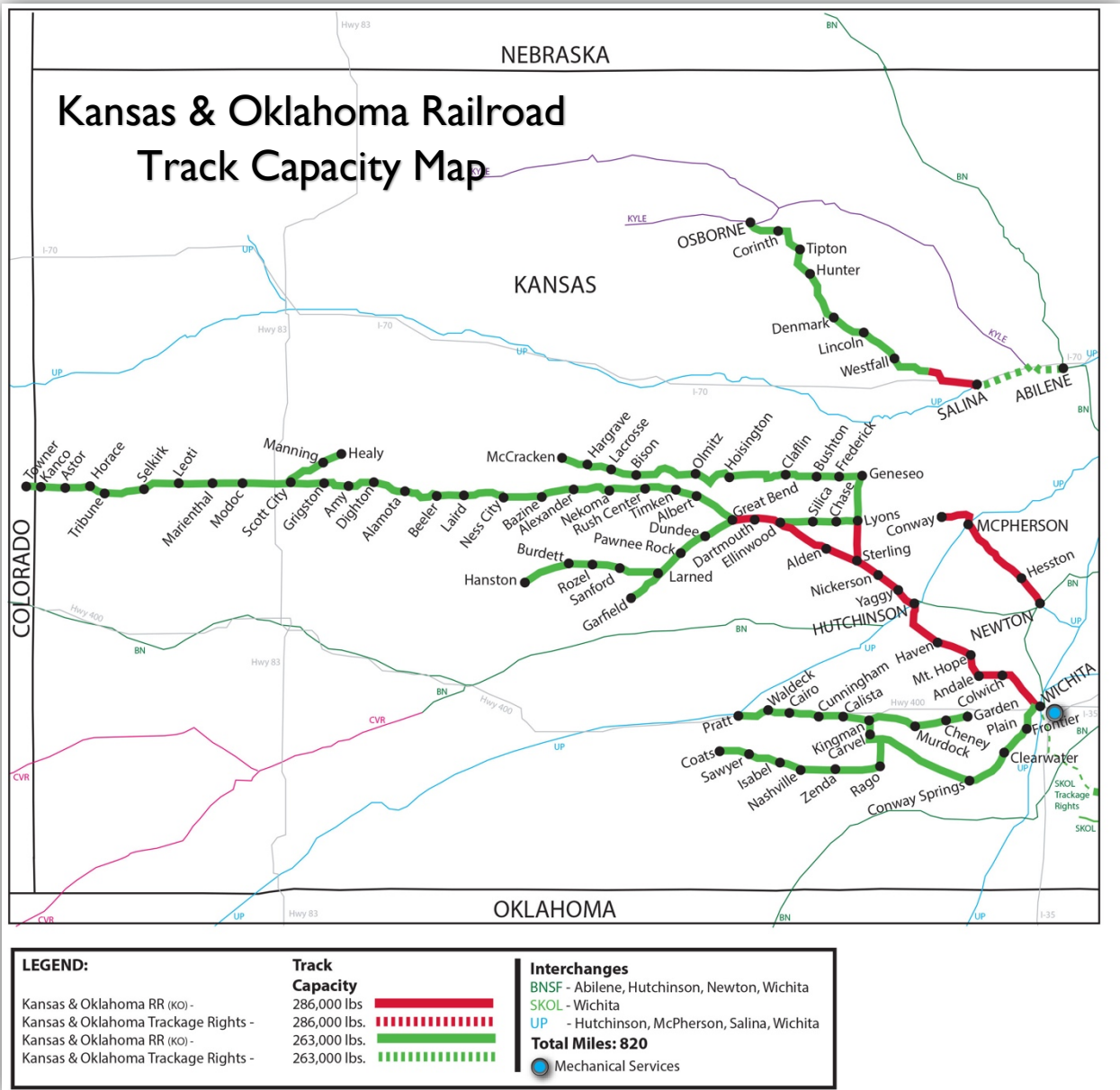
---

<sup>1</sup> <https://www.ksdot.org/Assets/wwwksdotorg/bureaus/burRail/Rail/Documents/Impact2003.pdf>

Here is a small snapshot into the state of our infrastructure today. On the K&O for 117 miles between Great Bend and Scott City, our track conditions limit us to safely operating at a maximum of 10 miles per hour. Once we depart Great Bend heading west, it takes us some 12 hours to reach Scott City. We have roughly an hour's ride between each grain station. We are limited too by the length of train we can haul east out of Scott City to 75 cars per train.

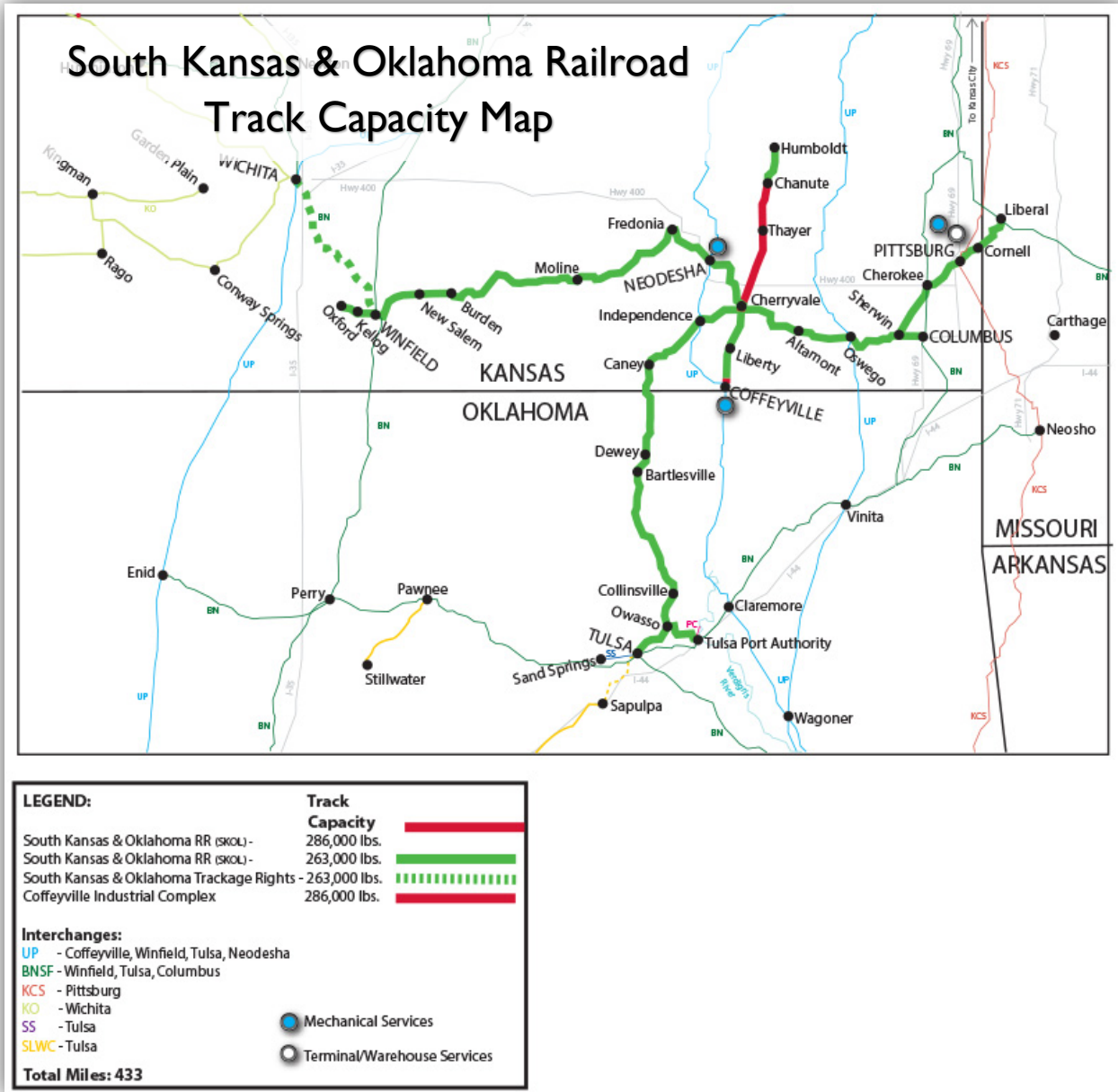


In addition to the limitations on speed and train length on parts of the K&O, we are restricted to handling 263,000 lb. railcars on much of our network. Today's industry standard on the Class I railroads like BNSF and UP is 286,000 lb. railcars. For our short line railroads to be able to safely handle the heavier 286,000 lb. cars, we will need to replace not only the cross ties and ballast, but also replace the rail. We have rail on our SKOL Railroad that dates back to 1923 before the start of the Dust Bowl when Warren Harding held the office of president. As you can see, these assets last a long time when cared for properly with good ties and ballast but they are unable to handle today's modern railcars.



Our current inability to safely handle 286,000 lb. railcars is the biggest long-term challenge we face as short line railroads. We have some tools today to help us with capacity expansion projects. We partner with KDOT on the State Rail Service Improvement Fund, a grant/loan program that helps railroads on larger scale projects to improve rail safety and capacity. They pushed out a grant program last year with the goal of helping short lines get to 286k. We are grateful for the assistance and believe we will achieve some very good efficiency gains such as the ability to safely operate at 25 mph instead of the 10 mph we are at today. Truthfully, that only scratches the surface on the investment needed to reach system wide 286k. We also partnered with KDOT last year to apply for a federal CRISI grant that would bring the SKOL Railroad to 286k, which we are still awaiting the outcome. The entire project cost was \$67 million. The costs for short lines to get to this magic number of 286k is significant and we will not be able to do it on our own.

Without 286k capacity, the communities we serve also lose out on economic development opportunities. Any new shipper wanting to locate in Kansas on a rail served site typically requires 286k capacity. Many of our sites never even get a chance because the efficiency of 286k is not available.



According to the State Rail Plan, Kansas short line railroads collectively hauled 156,140 carloads in 2016<sup>2</sup>. This is the rough equivalent of over 540,000 trucks off the highways. In the same 2003 study cited earlier, short lines annually save “the state of Kansas \$57.8 million in road damage costs.” Adjusted for inflation, this figure reaches over \$80 million a year. The study also cited that our very

<sup>2</sup> <https://www.ksdot.org/Assets/wwwksdotorg/bureaus/burRail/Rail/Documents/Impact2003.pdf> Section 2.3

own K&O Railroad saved the state “\$30.6 million in road damage” alone. In 2020 dollars, that equates to nearly \$43 million annually.<sup>3</sup>

There is no question that Kansas partnering with short lines to invest more into their infrastructure has tremendous public benefits. In addition to the savings on road damage, short lines reduce highway safety costs, greenhouse gas emissions, as well as the per bushel transportation costs to Kansas farmers shipping grain. We help keep trucks off the road while keeping rural communities connected to the national freight network. And with improvements to our track and bridge infrastructure, we help the economic competitiveness of the towns and cities we serve.

In closing, we encourage you to vote in favor of HB 2460. Thank you for your time and I am happy to answer any questions you may have.

---

<sup>3</sup> <https://www.ksdot.org/Assets/wwwksdotorg/bureaus/burRail/Rail/Documents/Impact2003.pdf> Executive Summary Page XVI Section 3.