

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES

The meeting was called to order by Sen. Bill Morris at  
Chairperson

9:00 a.m. ~~9:00~~ on March 26, 1985 in room 254-E of the Capitol.

All members were present ~~except~~.

Committee staff present:

Hank Avila, Research Department  
Tom Severn, Research Department  
Fred Carman, Revisor  
Louise Cunningham, Secretary

Conferees appearing before the committee:

John Kemp, Secretary, Department of Transportation  
Charels Nicolay, Kansas Oil Marketers Association  
Tom Whitaker, Kansas Motor Carriers Association  
John Blythe, Kansas Farm Bureau  
Don Ramlow, Kansas Contractors' Association  
Glen Cogswell, Smoot Grain Company  
Don Tindell, Derby Refining Company, Wichita  
Rebecca Crenshaw, Committee of Farm Organizations  
Terry Ruse, President, High Plains Corporation  
(Was asked to appear next day to finish up the hearing).

HEARING ON H.B. 2022 - Gasohol subsidy reduction.

Tom Severn, Research Department, gave some background information on this bill. He said it was the result of an interim study (Proposal No. 45 - Motor Fuel Taxes). The Special Committee recommended reducing the gasohol subsidy to \$.04 on July 1, 1985. The House Committee on Transportation amended the bill to reduce the subsidy to \$.03 on July 1, 1985. The House Committee of the Whole further reduced the subsidy to \$.02 effective July 1, 1986.

PROPONENTS:

Secretary Kemp spoke in favor of H.B. 2022. He said that gasohol competes with gasoline in the same market. Gasohol currently has an 11¢ per gallon tax advantage over gasoline. For each gallon of gasohol used there is a 5¢ loss to the state highway fund. He said there would be a loss of approximately \$57.4 million for the five year period, FY 1984-1988 in motor fuels tax receipts to Kansas. A copy of his statement is attached. (Attachment 1).

Charles Nicolay, Kansas Oil Marketers Association, said he had been before this committee and offered testimony on S.B. 30 which would have phased out the subsidy entirely. He supported this bill because it was a reasonable compromise. A copy of his statement is attached. (Attachment 2).

Tom Whitaker, Kansas Motor Carriers Association, had also testified before the committee on S.B. 30 and reaffirmed his statement of that meeting. He felt gasohol producers should pay their share of taxes. He supported H.B. 2022.

John Blythe, Kansas Farm Bureau, said ethanol production is a viable grain market opportunity and Kansas farmers are in need of every possible market. The Farm Bureau supports H.B. 2022 but believe the 3¢ reduction in the space of one year is rather drastic and would ask the legislature to limit the reduction to 2¢. A copy of his statement is attached. (Attachment 3).

In response to a question Mr. Blythe said this subsidy had enhanced the price of grain in western Kansas. It also provides a market for out-of-condition grain which is very important.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES,  
room 254-E, Statehouse, at 9:00 a.m. ~~xxx~~ on March 26, 19 85

Dan Ramlow, Kansas Contractors' Association, said it was important to reduce the gasohol subsidy so that more funds would go into rehabilitating our system of highways and streets. A copy of his statement is attached. (Attachment 4).

OPPONENTS:

Glen Cogswell, Smoot Grain Company, introduced Don Tindall who spoke on behalf of the Derby Refining Company. He spoke of the revenue generated by the Derby Refining Company and said that Derby had just completed a 55 million dollar expansion and upgrading of their Wichita refinery in preparation to the lead phasedown by the EPA. Derby will not be able to refine sufficient gasoline to meet their needs without an octane improver such as ethanol alcohol. He said the market at this time is experiencing less than favorable conditions and the industry is hard pressed at this time to justify more expenditures. He felt that H.B. 2022 should be amended to reduce the tax subsidy on ethanol alcohol at a slower rate. A copy of his statement is attached. (Attachment 5).

Rebecca Crenshaw, Committee of Kansas Farm Organizations, said the ethanol industry was first promoted to alleviate U.S. reliance on foreign oil. She said American people did not want to once again completely rely upon a limited natural resource for their fuel supply. She said it would be a mistake to force partial shut-down through an undue tax burden. Also this would put the grain market in jeopardy at this crucial time in the farm economy. She urged the committee to restore H.B. 2022 to a 1¢ increase. A copy of her statement is attached. (Attachment 6).

Terry Ruse, President of the High Plains Corporation, was not able to give his testimony because of the lack of time. He was to return the next day to complete the hearing on H.B. 2022. A copy of his statement is attached. (Attachment 7).

Meeting was adjourned at 10:00 a.m.

SENATE TRANSPORTATION AND UTILITIES COMMITTEE

Date 2-26-85 Place 254-E Time 9:00

GUEST LIST

<u>NAME</u>	<u>ADDRESS</u>	<u>ORGANIZATION</u>
Larry Ruse	125 N Emporia	High Plains Corp
Tom Regan	Topeka	KEA
Rebecca Crenshaw	Topeka	Comm. of Farm Orgs.
Okon Cogswell	Topeka	5 meat Grain Co.
Okon Coulter	Topeka	KS. Contractors Assn
Ken Kissler		KLP Gas Assn.
Dan Rambow	Topeka	KS. Contractors Assn.
Mohitua Ahmad	Topeka	KDOT.
Edward R. De Saignie	Topeka	KDOT
John B. Kemp	Topeka	Secretary of Transportation
Charles Hickey	Topeka	Ks Oil Marketers
Don Lindell	Wichita	DERBY REFINING CO.
John Blythe	Manhattan	Ks Farm Bureau
Chip Wheeler	Topeka	Leg. Policy Group
Bill Edos	"	KS. DEPT OF REVENUE

# KANSAS DEPARTMENT OF TRANSPORTATION

STATE OFFICE BUILDING—TOPEKA, KANSAS 66612



JOHN B. KEMP, Secretary of Transportation

JOHN CARLIN, Governor

MEMORANDUM TO: SENATE TRANSPORTATION AND UTILITIES COMMITTEE

FROM: JOHN B. KEMP, P.E.  
SECRETARY OF TRANSPORTATION

REGARDING: HOUSE BILL 2022, AS AMENDED BY HOUSE COMMITTEE OF THE WHOLE

DATE: MARCH 26, 1985

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, THANK YOU FOR THE OPPORTUNITY TO ADDRESS YOU THIS MORNING. I REGRET THAT CIRCUMSTANCES HAVE KEPT ME FROM APPEARING BEFORE YOU EARLIER.

LAST SUMMER, I TESTIFIED BEFORE THE SPECIAL COMMITTEE ON TRANSPORTATION REGARDING DEVELOPMENTS AFFECTING HIGHWAY FUNDING OCCURRING AS A RESULT OF GASOHOL CONSUMPTION.

GASOHOL IS A MOTOR FUEL CONSISTING OF GASOLINE AND A MINIMUM OF 10 PERCENT ETHYL/ALCOHOL (ETHANOL). GASOHOL IS A SUBSTITUTE FOR GASOLINE AND COMPETES WITH GASOLINE IN THE SAME MARKET. GASOHOL CURRENTLY HAS AN 11 CENT PER GALLON TAX ADVANTAGE OVER GASOLINE WHEN BOTH THE FEDERAL AND STATE TAXES ARE CONSIDERED. THEREFORE, EVEN THOUGH GASOHOL COSTS APPROXIMATELY 7 TO 8 CENTS MORE TO PRODUCE THAN GASOLINE, IT CAN BE MARKETED FOR LESS.

WE ASSUME THAT GASOHOL IS SUBSTITUTED EQUALLY FOR GASOLINE SUCH THAT A GALLON OF GASOHOL USED IS ONE LESS GALLON OF GASOLINE CONSUMED. FOR EACH GALLON OF GASOHOL USED, THEN, THERE IS A 5 CENT LOSS TO THE STATE HIGHWAY, STATE FREEWAY, AND SPECIAL CITY AND COUNTY HIGHWAY FUNDS. CONSERVATIVE ESTIMATES OF THESE LOSSES ARE THAT THEY ARE GREATER THAN THE REVENUES EQUIVALENT TO A ONE CENT FUEL TAX.

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THE GASOHOL TAX DIFFERENTIAL IN KANSAS BEGAN JULY 1, 1979 WITH A SUBSIDY OF 5 CENTS PER GALLON AT A TIME WHEN GASOLINE WAS TAXED AT THE RATE OF 8 CENTS PER GALLON. THE LAW PROVIDED THAT THE TAX ON GASOHOL WAS TO INCREASE BY ONE CENT PER YEAR UNTIL IT REACHED THE LEVEL OF 8 CENTS PER GALLON, WHICH WOULD HAVE OCCURRED ON JULY 1, 1984 (FY 1985). THERE WAS ALSO A PROVISION THAT THE TAX ON GASOHOL WOULD GO TO 8 CENTS BEFORE FY 1985 IF THE CUMULATIVE LOSS EXCEEDED \$5 MILLION.

IN DECEMBER, 1982, THE FEDERAL TAX ON GASOLINE WAS 4 CENTS PER GALLON WITH NO TAX ON GASOHOL. THUS, THE TOTAL FEDERAL AND STATE TAX SUBSIDY IN FY 1979 WAS 9 CENTS PER GALLON, DECREASING BY ONE CENT PER GALLON UNTIL IT REACHED THE SUBSIDY OF 4 CENTS PER GALLON (FEDERAL ONLY) IN FY 1985. CUMULATIVE REVENUE LOSSES IN KANSAS FOR THE TAX DIFFERENTIAL FROM THE PERIOD JULY 1, 1979 TO JUNE 30, 1983 WERE SLIGHTLY OVER \$3 MILLION.

IN THE SUMMER OF 1982, THE 1982 SURFACE TRANSPORTATION ASSISTANCE ACT WAS PASSED BY THE CONGRESS AND SIGNED INTO LAW IN JANUARY. THAT ACT RAISED THE FEDERAL TAX ON GASOLINE FROM 4 CENTS PER GALLON TO 9 CENTS PER GALLON BEGINNING APRIL 1, 1983 AND THE TAX ON GASOHOL FROM ZERO CENTS TO 4 CENTS PER GALLON BEGINNING ON THAT SAME DATE. IN EFFECT, THE FEDERAL SUBSIDY FOR EXEMPTION OF GASOHOL WAS RAISED FROM 4 CENTS TO 5 CENTS.

THE HIGHWAY FINANCE BILL (1983 HOUSE BILL NO. 2566) PASSED BY THE KANSAS LEGISLATURE IN THE 1983 SESSION SPECIFIED THAT THE GASOLINE TAX RATE WAS TO INCREASE TO 10 CENTS PER GALLON ON JULY 1, 1983 AND TO 11 CENTS PER GALLON BEGINNING JANUARY 1, 1984. GASOHOL WAS TO BE TAXED AT 6 CENTS PER GALLON--A 4 CENT SUBSIDY FOR THE FIRST HALF OF FY 1984 AND A 5 CENT SUBSIDY THEREAFTER. THE LAW FURTHER PROVIDES THAT THE GASOHOL TAX RATE WILL BE 5 CENTS PER GALLON LESS THAN THE GASOLINE TAX RATE ONCE THE CUMULATIVE LOSS REACHES \$5 MILLION. SINCE THIS HAS ALREADY OCCURRED, THE PERMANENT SUBSIDY OF 5 CENTS PER GALLON IS IN EFFECT AND WOULD REMAIN UNDER CURRENT LAW EVEN IF THE FUEL TAX INCREASES UNDER THE INDEXING PROVISIONS IN THE LAW.

AS THE AMOUNT OF THE SUBSIDY BEGAN TO DECREASE AFTER FY 1979, SO DID THE AMOUNT OF GASOHOL SOLD. THIS WAS ESPECIALLY TRUE FOR FY 1982 WHEN THE TAX EXEMPTION WENT FROM THE PREVIOUS COMBINED TOTAL OF 8 CENTS PER GALLON (4 CENTS STATE TAX; 4 CENTS FEDERAL) TO 7 CENTS PER GALLON (3 CENTS STATE; 4 CENTS FEDERAL). WITH THE ADVENT OF THE 9 CENT DIFFERENTIAL IN JULY 1983 (4 STATE, 5 FEDERAL) AND 10 CENTS IN JANUARY 1984 (5 CENTS STATE, 5 CENTS FEDERAL), GASOHOL SALES BEGAN TO SKYROCKET. A MEASURE OF THIS IS THE "CONCENTRATION RATIO." IT IS DEFINED AS THE PROPORTION OF COMBINED GASOHOL AND GASOLINE GALLONAGES REPRESENTED BY GASOHOL GALLONAGES ALONE. IN JULY 1983, THE GASOHOL CONCENTRATION RATIO WAS .8 OF 1 PERCENT. IN AUGUST IT WAS NEARLY 5 PERCENT, OVER 12 PERCENT IN DECEMBER, OVER 23 PERCENT IN MARCH. WE ESTIMATE THAT IT WILL BE 20 PERCENT IN FY 1985 RISING TO SLIGHTLY OVER 26 PERCENT BEGINNING IN FY 1986. THIS WILL REPRESENT SUBSTANTIAL LOSSES IN HIGHWAY REVENUES.

THIS PAST SUMMER THE CONGRESS ENACTED THE FEDERAL DEFICIT REDUCTION ACT OF 1984 WHICH INCREASED THE FEDERAL GASOHOL TAX EXEMPTION BY AN ADDITIONAL PENNY EFFECTIVE JANUARY 1 OF THIS YEAR. THE FEDERAL GASOHOL EXEMPTION IS PRESENTLY AT 6 CENTS FOR A COMBINED FEDERAL AND STATE EXEMPTION OF 11 CENTS PER GALLON OF GASOHOL.

WE ESTIMATED THE COMBINED FEDERAL-STATE SUBSIDIES WILL CAUSE A LOSS IN MOTOR FUEL TAX RECEIPTS TO KANSAS OF APPROXIMATELY \$57.4 MILLION FOR THE FIVE-YEAR PERIOD, FY 1984-1988. APPROXIMATELY \$27.8 MILLION OF THIS LOSS WOULD BE TO THE HIGHWAY FUND, \$6.3 MILLION TO THE STATE FREEWAY FUND AND \$23.3 MILLION TO THE SPECIAL CITY AND COUNTY HIGHWAY FUND.

HOUSE BILL 2022 AS AMENDED BY THE HOUSE COMMITTEE OF THE WHOLE, REDUCES THE STATE GASOHOL EXEMPTION FROM 5 CENTS TO 3 CENTS EFFECTIVE JULY 1, 1985 AND FROM 3 CENTS TO 2 CENTS EFFECTIVE JULY 1, 1986. BASED ON MOTOR FUELS CONSUMPTION ESTIMATES PREPARED BY THE MOTOR FUEL CONSENSUS COMMITTEE, IT APPEARS THAT MOTOR FUEL REVENUES WOULD BE IMPACTED BY HOUSE BILL 2022 AS AMENDED, AS FOLLOWS:

FISCAL YEAR	TOTAL GAIN IN REVENUE (\$ MILLIONS)	TO SHF (\$ MILLIONS)	TO SFF (\$ MILLIONS)	TO SCCHF (\$ MILLIONS)
1986	8.4	4.1	0.9	3.4
1987	12.7	6.2	1.4	5.1

*Gasohol Fed tax 84 94*

*concentration ratio 2070 1270*

GOVERNOR CARLIN IN HIS MESSAGE TO THE LEGISLATURE THIS YEAR, RECOGNIZED THE PROBLEMS WHICH HAVE DEVELOPED WITH THE GASOLINE SUBSIDY AND RECOMMENDED A REDUCTION OF ONE CENT IN THE SUBSIDY. AS SECRETARY OF TRANSPORTATION I WOULD RECOMMEND TO THE GOVERNOR THAT HE APPROVE HOUSE BILL 2022 AS AMENDED BY THE HOUSE COMMITTEE OF THE WHOLE, SHOULD IT REACH HIS DESK.

THAT CONCLUDES MY COMMENTS MR. CHAIRMAN. THANK YOU FOR THE OPPORTUNITY TO ADDRESS THE COMMITTEE ON A MATTER OF CONCERN TO THE DEPARTMENT.

(2)

STATEMENT FOR THE SENATE TRANSPORTATION AND UTILITIES COMMITTEE  
BY THE KANSAS OIL MARKETERS ASSOCIATION

March 26, 1985

KANSAS SENATE

RE: HOUSE BILL 2022

Mr. Chairman, members of the Committee, my name is Charles Nicolay. I am Executive Director of the Kansas Oil Marketers Association. Members of our association are the licensed fuel distributors across Kansas who remit tax on motor fuel and special fuel to the Kansas Department of Revenue.

Today, we appear before you in support of House Bill 2022, a bill which reduces the gasohol subsidy to \$.03 on July 1 of this year and \$.02 on July 1 of 1986.

In July of last year, our Board of Directors issued a resolution in favor of total elimination of the exemption for alcohol-enhanced fuels. They did so for a number of reasons.

First, it was the consensus of our directors that the loss of revenue to the state jeopardized the solvency of the highway fund.

When the Kansas Legislature passed the bill providing for a 5¢ per gallon exemption on alcohol enhanced fuel six years ago, they included a stop-loss provision that would completely eliminate the measure should the loss of revenue reach five million dollars.

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According to current Department of Revenue figures, today that loss is approximately 1.1 million dollars a month, over 13 million dollars per year. A loss of revenue of that magnitude, over just a period of a few years, constitutes a real threat to good roads in our state.

Second, our directors believed, as do most taxpayers, that a substantial loss of revenue has to be made up somewhere. The alternative to be considered by the legislature, they reasoned, would be an increase in the motor fuel tax, a measure that is not extremely popular with our members, nor with the motoring public in general.

Third, our directors believed that the exemption for alcohol enhanced fuels passed by the Legislature six years ago was really a tax subsidy put into place to enhance supply of motor fuel at a time of severe shortage of product. With an abundance of product today, there is little justification for the state to lose needed revenue to a problem that no longer exists.

Although our board passed their resolution calling for an immediate and total elimination of the gasohol subsidy, we supported the three-year phaseout contained in S.B. 30. Today we are comfortable in supporting House Bill 2022 as a reasonable compromise to an issue that needs to be addressed before our highways suffer from this substantial loss of revenue.

Mr. Chairman and Members of the Committee, we appreciate this opportunity to appear before you to voice our support of H.B. 2022, a bill that presents a sensible approach to a serious problem facing our Kansas roads.. If there are any questions, I would be happy to respond to them.

Thank you.

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# Kansas Farm Bureau, Inc.

2321 Anderson Avenue, Manhattan, Kansas 66502 / (913) 537-2261

Statement To  
SENATE COMMITTEE ON TRANSPORTATION & UTILITIES

RE: H.B. 2022 - Proposal No. 45  
March 26, 1985  
Topeka, Kansas

Presented By  
John K. Blythe, Assistant Director  
Public Affairs Division  
Kansas Farm Bureau

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Mr. Chairman and members of the Committee:

We appreciate the opportunity to make a brief statement regarding House Bill 2022, the product of the interim committee on transportation and utilities which studied the taxation of motor vehicle fuels, and specifically examined the tax differential for motor vehicle fuels containing agricultural ethyl alcohol. At the same time the interim committee was studying the topic of motor fuel tax and revenues derived therefrom, our members were reexamining the position they had previously taken concerning motor fuel tax and specifically the tax differential granted to ethyl alcohol.

Farmers and ranchers continue to support the ethanol production activities in the State of Kansas. Such production provides a market for grains produced in this state. In addition, ethanol production plants provide other tax revenues to local units of government and to the State of Kansas.

There are documented performance properties of gasohol as a motor fuel that exceed those of gasoline. Among the advantages for alcohol as a fuel blend are these:

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ATT. (3)

1. Alcohol causes the mixture to expand slightly producing a larger volume of fuel.
2. Alcohol increases the octane of gasoline, and as you know the move is away from lead as a fuel additive.
3. Alcohol also lowers carbon monoxide emissions.

These are but a few of the beneficial uses of grain alcohol when blended with gasoline.

At our most recent annual meeting the farmers and ranchers from the 105 counties of Kansas, following their examination of the ethanol production program in Kansas and the motor fuel tax situation in our state adopted the following policy position:

#### *ETHANOL PRODUCTION*

*The need for development of new markets for grain is paramount. The development of new industries for rural Kansas should also be assisted.*

*Ethanol production has a promising future for grain consumption and grain pricing. We strongly support ethanol production and encourage:*

1. *Establishment of research projects on wet stillage feeding and feed trials, as well as utilization of other by-products of the ethanol production process;*
2. *Consumer promotion and education concerning ethanol use;*
3. *A federal tax credit, equal to the nine-cent federal motor fuel (gasoline) tax, for ethanol used in motor fuel; and*
4. *Continuation of the Kansas motor fuels tax exemption for ethanol until a federal tax credit program is in effect, after which we will support phase-out of the ethanol exemption in Kansas.*

In summary, Mr. Chairman and members of the Committee, we see ethanol production as a viable grain market opportunity. Our farmers and ranchers are in need of every possible market. We believe ethanol production is a process that provides them a market for grain production in this state. There are on-going research projects on the feeding of distillers dried grain as well as wet stillage and other by-products of the ethanol production process. Our members were supportive of legislation such as H.B. 2022 as recommended by the interim committee, which would have reduced the gasohol differential to .04 on July 1, 1985.

The House Committee on Transportation amended H.B. 2022 to reduce the gasohol differential to .03 on July 1, 1985. The House Committee of the Whole further reduced the differential to .02 effective July 1, 1986.

We believe that the .03 reduction in the gasohol subsidy in the space of one year is rather drastic. We would recommend that if a reduction in the differential between gasoline and gasohol is necessary in the wisdom of the Legislature, that the reduction be limited to .02.

Thank you very much for this opportunity to present the views of farmers and ranchers in Kansas.

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TESTIMONY MARCH 26, 1985  
OF THE KANSAS CONTRACTORS ASSOCIATION ON HOUSE BILL 2022  
BEFORE THE SENATE TRANSPORTATION AND UTILITIES COMMITTEE

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, MY NAME IS DAN RAMLOW AND I AM ASSISTANT MANAGER OF THE KANSAS CONTRACTORS ASSOCIATION.

OUR MEMBERS BUILD MORE THAN 90% OF THE HIGHWAYS, BRIDGES AND STREETS IN KANSAS AND THUS WE FEEL WE HAVE FIRST HAND KNOWLEDGE OF THE TRANSPORTATION NEEDS IN KANSAS.

IN 1983 THE KANSAS LEGISLATURE PASSED ONE OF THE FINEST HIGHWAY PACKAGES IN AMERICA AND WE ARE PROUD THAT ALREADY A LITTLE BIT OF PROGRESS IS BEING MADE ON A VERY LARGE PROBLEM.

HOWEVER, IN ORDER TO MAKE ANY SIGNIFICANT PROGRESS IT IS OF PARAMOUNT IMPORTANCE THAT WE MAKE WISE USE OF EVERY AVAILABLE DOLLAR AND THAT IS WHY WE WHOLEHEARTEDLY SUPPORT HOUSE BILL 2022 WHICH WOULD REDUCE THE GASOHOL SUBSIDY NOW COMING OUT OF THE ROAD FUND.

IT WAS THOUGHT SEVERAL YEARS AGO THAT THE GASOHOL SUBSIDY MIGHT POSSIBLY REACH \$5 MILLION PER YEAR. TODAY THE SUBSIDY IS COSTING ALMOST THREE TIMES THIS AMOUNT AND UNLESS IT IS CHECKED, WILL GO EVEN HIGHER.

LADIES AND GENTLEMEN, WE RESPECTFULLY ASK THAT THE GASOHOL SUBSIDY BE REDUCED AS OUTLINED IN HOUSE BILL 2022, IN ORDER TO ASSIST OUR CITIES, OUR COUNTIES AND OUR KANSAS DEPARTMENT OF TRANSPORTATION AS THEY ATTEMPT TO REHABILITATE OUR SYSTEM OF HIGHWAYS AND STREETS THAT ARE SO VITAL TO OUR STATE'S ECONOMIC DEVELOPMENT.

THANK YOU VERY MUCH FOR YOUR CONSIDERATION.

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STATEMENT  
OF  
DON TINDALL  
ON BEHALF OF  
DERBY REFINING COMPANY  
ON  
HOUSE BILL 2022  
BEFORE  
SENATE TRANSPORTATION AND UTILITIES

TOPEKA, KANSAS

MARCH 26, 1985

ATT. 5  
3/26/85

My name is Don Tindall. I am Vice President of Marketing Services for Derby Refining Company, Wichita. I am here speaking on behalf of my company and we appreciate the opportunity to express our position on HB 2022.

First, I wish to give you a little background on my company.

Derby Refining Company was founded in 1920. In our 65 year history, we have grown with Kansas, we have employed productive Kansas labor and with Wichita as our headquarters, we have expanded our operation into 11 other states.

Let me give you some statistics about Derby as they relate to Kansas. In 1984 in Kansas,

- Derby had 445 employees.
- Our payroll was \$10,250,000.
- We paid more than \$700,000 in real estate and personal property taxes.
- And on the sale of gasoline alone, we generated approximately \$4,000,000 in taxes.

Derby operates one refinery in Kansas with a throughput of 30,000 barrels per day and we own and/or operate 51 service stations in the state.

In 1983 Derby completed a 55 million dollar expansion and upgrading of their Wichita refinery partially in preparation to the then proposed Lead Phasedown by the EPA.

The EPA has now made a final ruling whereby the lead content in gasoline will be reduced from the present level of 1.1 grams to .5 grams as of July 1, 1985 and the lead level will be reduced to .1 grams as of January 1, 1986.

Derby Refining Company's 55 million dollar expenditure did not allow for such stringent regulations. Therefore, we will not be able to refine sufficient gasoline to meet our needs without an octane improver such as ethanol alcohol.

Since 1980, the refinery capacity in the state of Kansas has gone from 11 to 5 refineries. These refineries closed for various reasons but primarily they closed because it was no longer profitable to operate them. The loss of these operations has cost the state of Kansas untold millions of dollars in revenue and taxes.

I am speaking for one company, but the other 4 refiners will feel the impact of the new Lead Phasedown regulations also. To refine 100% 87 octane unleaded regular gasoline, Derby, as well as the other Kansas refiners, will have to spend millions of dollars to further upgrade their refineries.

Petroleum marketing is experiencing something less than favorable conditions and the industry is hard pressed at this time to justify these expenditures.

Rather than spend these millions of dollars will more Kansas refineries be closed down because they are no longer profitable to operate? Only time will tell.

In June of 1979, Derby became one of the first, if not the first, refiner/marketer to offer ethanol in their gasoline. At that time, the blending of ethanol in our gasoline contributed as a fuel extender, as well as an octane improver.

We compliment those state legislatures that have taken a favorable approach to tax forgiveness and we realize long-term means must be formed so as not to favor one group at the expense of another. With Lead Phasedown, tax forgiveness is important to the viability and to the ability of Derby Refining Company to manufacture their own supply of finished product for their customers.

As of July 1, 1985, ethanol will be Derby's most significant option to meet the Lead Phasedown regulations.

We were most favorable to the Interim Study Bill in the House, but since the House has not accepted that position, Derby feels that HB 2022 should be amended so as to reduce the tax subsidy on ethanol alcohol at a slower rate.

We urge the Kansas Legislators to give us time to adjust to the upcoming Lead Phasedown regulations by amending HB 2022 as follows:

- Reduce ethanol tax advantage from 5 cents to 4 cents as of July 1, 1985 and from 4 cents to

3 cents as of January 1, 1986.

As a Kansas business since 1920, we pledge to do our best to warrant your consideration to this Amendment of HB 2022.

Thank you.

# Kansas Farm Organizations

Becky Crenshaw  
Legislative Counsel  
Box 4842  
Topeka, Kansas 66604

Testimony of the  
COMMITTEE OF KANSAS FARM ORGANIZATIONS  
with respect to  
House Bill 2022  
presented by  
Rebecca Crenshaw  
Legislative Representative  
to  
Senate Committee on Transportation  
March 26, 1985

Mr. Chairman, members of the committee, my name is Rebecca Crenshaw. I am the legislative representative for the Committee of Kansas Farm Organizations, a coalition of 18 agriculturally-related organizations representing Kansas farmers and ranchers on state legislative issues. Our committee certainly appreciates the opportunity to express our views on the taxation of ethanol-blended fuels.

The Committee of Farm Organizations opposes HB 2022 in its present form. We would support the bill in its original form which was the interim committee recommendation. We oppose a larger tax increase than 1¢ for a variety of reasons. 1) The Committee of Farm Organizations is basically opposed to tax increases. Recognizing that taxes are necessary, the Committee members also believe government waste is enough prevalent that additional taxes can be avoided through continued surveillance and waste elimination.

Although this tax treatment of ethanol-blended fuel is sometimes called a tax incentive or a tax subsidy, the Committee views the amended version of HB2022 as a 2¢ tax increase. We strongly urge the Kansas Legislature to reject any proposed tax increase of more than 1¢ on ethanol blended fuel.

2) We also feel it is important to reexamine why the ethanol industry was first promoted. Initially, the lower taxation was to alleviate U.S. reliance on petroleum. As oil prices rose at an alarming rate in the late 1970's, the gasoline pump line became the symbol of the problems in the Middle East, in general, and of the Iranian crisis, in particular. Gasohol became a patriotic symbol for denying OPEC. The Committee of Farm Organizations believes the Kansas people do not want to once again completely rely upon a limited natural resource for their fuel supply. It took many years to build the Kansas ethanol industry

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to present capacity. It would be a mistake to force partial shut-down through an undue tax burden.

3) The Committee's last and most sincere opposition to a larger tax increase is based on the grain markets. Although proponents of the tax increase claim the ethanol industry has had little to no effect on grain markets, the Committee fails to agree.

In 1978, the ethanol industry consumed approximately 4 million bushels of corn. In 1984, almost 200 million bushels of corn were used by the ethanol industry. The Committee members believe an increase of over 190 million bushels in 7 years is an "impact" on the corn market. The Committee finds it inconceivable and highly inconsistent that the Kansas Legislature would choose to put in jeopardy a grain market at this crucial time in the farm economy.

The Committee members find it unpersuasive that the collected revenues will benefit local units of government and, therefore, lower property taxes for farmers. The bulk of the revenue raised by this tax will go to counties with large urban areas. Little benefit will be received in the rural areas.

We urge the Committee to restore HB 2022 to its previous form of a 1¢ increase. We feel this will be sufficient additional revenue for the highway fund and will not jeopardize the ethanol industry. We will continue to work on the national level so that the entire tax treatment will be on a national level.

Thank you, Mr. Chairman.

High Plains Corporation  
412 North First  
Colwich, Kansas 67030  
(316) 796-1234

March 26, 1985

Senate Transportation Committee

RE: HB 2022

Dear Mr. Chairman, Committee Members:

My name is Terry Ruse, I'm testifying today as President of High Plains Corporation in opposition to HB 2022.

As you all know, the intent of the original incentive legislation was to promote Kansas ethanol production, with which would come jobs, new tax dollars, retail activity and most important, another market for grain.

High Plains Corporation provides approximately forty-two jobs, pays \$240,000 per year in taxes to local and state governments and uses approximately 4,000,000 bushels of Kansas grown milo.

The last statistics available indicate that the High Plains Corporation's demand for milo amounts to approximately 25% of the total marketable milo available from the five county growing area close to the Colwich facility. All #2 yellow milo is bought for production purposes because of the need to have a consistent by-product protein content. Off spec grain can and has been used but to a much lesser degree than high quality #2 grain.

As such, the Colwich facility competes with area elevators for the grain, thus assuring the grower top market prices for his grain.

As I have previously maintained, High Plains Corporation needs the State motor fuel tax incentive to continue providing these jobs, paying these taxes and buying Kansas grain. The extent of this need is the focal point of this testimony.

I support the reduction of the State incentive one (1) cent effective July 1 of this year and also support the reduction of another one (1) cent July 1, 1986. Any reduction above these amounts and in this time frame is too premature and may well result in the demise of High Plains Corporation.

The potential of a positive impact from the mandated lead phase down in motor fuels is probably very great but the second round of lead restrictions will not occur until January 1, 1986. Even then ethanol is not assured of guaranteed market since it will be competing with other components as an octane enhancer. Therefore, I request your consideration of what happens to in-state producers if these markets slow to materialize and the incentive

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has already been reduced. The Legislature, in its beneficence, fostered the ethanol industry with the promise understood, that eventually ethanol would become a commercially competitive product that no longer required support from the State.

I think this goal is still very much attainable but if too much is taken too quickly, it will surely be to the detriment of those who have invested a great deal of time, effort and money; namely Kansas stockholders.

I urge you to please ammend HB 2022 to reflect a one cent reduction in the state incentive July 1, 1985 and another one cent reduction July 1, 1986. This will give the industry more time to achieve the maturity that we all feel it has the potential to achieve.

Thank you.

A handwritten signature in cursive script, appearing to read "Larry Rose".

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