

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 1:40 p.m. a.m. on April 30, 2001, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Kim Wilcox, Executive Director, Kansas Board of Regents
Ed McKechnie, Watco Companies, Inc.
Doug Wareham, Kansas Grain and Feed Association
Joe Lieber, Kansas Cooperative Council
Leslie Kaufman, Kansas Farm Bureau
John Rosacker, Kansas Department of Transportation
Mark Beck, Director, Property Valuation Division

Others attending: See attached list.

HB 2569—Allowing tax credits for donations to the Kansas Board of Regents.

Kim Wilcox, Executive Director, Kansas Board of Regents, testified in support of **HB 2569**. He explained that the bill provides a plan for tax credits for the Kansas Regents Foundation and that this proposal is part of a larger plan the Board has undertaken for the past several months. He reminded the Committee that, as of July of 1999, the Board of Regents was reorganized under **SB 345**, and the Board has interpreted the mandate under that bill to be a broad mandate to be creative and innovative in all facets of post secondary education. As part of the plan, the Board has taken upon itself to be creative in approaching its financing endeavors. He went on to say that, under **SB 345**, there is an expectation that the Board will create a comprehensive plan for state post secondary education, and the Board has been raising private funds to fund that plan. Similarly, the Board has decided to create an independent private foundation and is asking the state to partner the Board and the federal government in funding the foundation. In this regard, Mr. Wilcox explained that the Kansas Regents Foundation was conceived as an operation that would be noncompetitive with the state's institutional foundations and endowment associations at the community college and university level. A fundamental piece to that level of noncompetitiveness is that the Kansas Regents Foundation would not be an operation that would hold endowment funds over a long period of time to build a principle and generate earnings. Instead, the foundation would be a repository for annual deposits to be invested directly into regents institutions in the form of technology investments, created partnership investments, and, hopefully, student financial aid when funds are available.

Mr. Wilcox noted that the funding process proposed in **HB 2569** is largely dependent on state tax credits. For example, if a donor is willing to donate \$1.5 million to the Kansas Regents Foundation, the foundation will offer \$1 million in state tax credits to the donor. At the same time, as a charitable donation, the donor could claim the donation on their federal income tax and receive a 33 percent deduction, which would cover the remaining \$500,000 of the donation. Mr. Wilcox, pointed out that the regents would receive \$1.5 million which could be invested in technology on 36 campuses, but it would cost the state only \$1 million. In addition, he pointed out that the House amended **HB 2569** to remove a \$10 million limitation on the amount of credits given a fiscal year and moved the obligation for the credits to the Board of Regents. With the amendment, the appropriations from the State General Fund to the State Board of Regents would be reduced by the amount of credit claimed for the prior tax year.

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There being no others wishing to testify, Chairman Corbin closed the hearing on **HB 2569** and called the Committee's attention to a memorandum from the Kansas Department of Revenue concerning the administrative costs. (Attachment 1) Richard Cram, Kansas Department of Revenue, stood to inform the Committee that the estimated administrative cost is \$129,000 and that there would be a one-time fiscal impact to the state because the amount of credits claimed for the first year will not be known until one to two years later, and an adjustment in the appropriations would not be made until that time.

HCR 5032—Approving the creation of the City of Pittsburg, Kansas, Port Authority.

Ed McKechnie, representing Watco Companies, Inc., testified in support of **HCR 5032**. He referred to copies of a power point printout relating to his testimony (Attachment 2). In addition, he called attention to copies of an overview of the Watco Companies he submitted for informational purposes. (Attachment 3) Referring to a large map, he noted that Watco owns the South Kansas and Oklahoma Railroad (K&O), which runs from Pittsburg in the east to Winfield at the western end of their line. It also runs from Humboldt in the north down south through Emporia and on to Tulsa, Oklahoma. On April 2, 2001, Watco bought the Central Kansas Railroad, which operates from Wichita to the Colorado border and also from Salina to Osborne to Pratt and on to Protection.

Mr. McKechnie explained that **HCR 5032** is an attempt to mirror the action taken regarding the Kyle Railroad by the Midstates Port Authority, which was created when the Rock Island Railroad went bankrupt in 1979. He went on to explain that Watco is a nationwide company with headquarters in Pittsburg, Kansas, and locations in 17 states spanning from Washington to Florida; however, it is a Kansas company first. He emphasized that the focus of Watco's mission statement is on customer service. He explained that Watco is primarily agricultural, but it has a 40 percent base of industrial commodities. Currently, K&O has acquired locomotives with additional horsepower to ensure that it can serve its customers in central and western Kansas as the movement of grain in these areas is a critical portion of its operational and customer success.

Mr. McKechnie noted that one of the most important policy issues for the rail industry and its customers is track abandonments and that an 18 month moratorium on track abandonment was recently announced by K&O. The intent of the moratorium is to allow policy makers from local, state, and national levels to join forces to preserve this key central and western Kansas transportation corridor. **HCR 5032**, would authorize the creation of a port authority, which will provide \$3.677 million in capital improvements through property tax abatements. He explained further that, in order to provide an additional \$6.1 million in capital improvements, additional authority is needed to provide for refundable income tax credit for Class III railroads operating a port authority owned track, and this proposal is contained in **HB 2586**. Mr. McKechnie said that the overall impact on the state if the rail line is abandoned is \$179 million. He noted that the Kansas Department of Transportation estimates that, for every dollar the state spends on the rail line, \$53 in benefit will be received back. Watco has agreed to put an "Evergreen" service agreement in place wherein Watco agrees to file an annual operating, marketing, and maintenance plan with the state every January and to be subject to arbitration if they do not meet the terms of the agreement. In addition, Watco will be fined \$1,000 a day if they violate the agreement. Mr. McKechnie emphasized that abandonment of approximately 700 miles of track in need of repair will be necessary if **HCR 5032** and **HB 2586** are not passed.

Doug Wareham, Kansas Grain and Feed Association, testified in support of **HCR 5032**. The Kansas Grain and Feed Association supports the continuation of rail service to all current service points where past use has been demonstrated and the need for continued service is exhibited. The Association believes that passage of **HCR 5032** would help facilitate maintaining rail service to the many Kansas rural communities served by the lines the Watco Companies recently purchased. (Attachment 4)

Joe Lieber, Kansas Cooperative Council, testified in support of **HCR 5032**, which he believes was designed to ensure the continuation of rail service to numerous western, central, and southeastern communities in Kansas. He noted that the agricultural community has been extremely concerned about the deterioration of rail lines and service provided by the Central Kansas Railway. The purchase of these rail lines by Watco Companies provides a new opportunity for rehabilitation and continued operation of rail lines that were facing

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abandonment. Mr. Lieber called attention to a list of agricultural shippers that are dependent on the service of the recently formed K&O Railroad. He maintained that maintenance of these rail lines is important for economic development in rural communities, for maintaining a market for Kansas grown commodities, and for reducing taxpayer costs associated with road and highway maintenance. (Attachment 5)

Leslie Kaufman, Kansas Farm Bureau, testified in support of **HCR 5032**. At the outset, she informed the Committee that Kansas Farm Bureau is one of 20 organizations that belong to the Kansas Agricultural Alliance, which also supports the resolution. She emphasized that maintaining efficient and effective rail service in Kansas is extremely critical to the Kansas agriculture industry. The Farm Bureau supports the concept that carriers should not be permitted to easily abandon existing lines. According to the transportation policies adopted by the Farm Bureau, the state should provide tax incentives and other appropriate assistance to railroad companies that agree to upgrade rail lines and provide long-term service to shippers. (Attachment 6)

John Rosacker, Kansas Department of Transportation, testified in support of **HCR 5032** on behalf of the Secretary of Transportation, who testified in support before the House Taxation Committee. Mr. Rosacker said the Department supports passage of this port authority resolution as it is the best possible way to save rail service and to stop the abandonment of lines in the state.

Mark Beck, Director, Property Valuation Division, distributed a list showing how the proposed property tax exemption would affect Kansas counties. (Attachment 7) He discussed how, in theory, there could be an operation on an exempt track that would still be subject to property tax. In his opinion, before structuring the new company, Watco should discuss the details with him to ensure that the intent of the legislation will be carried out. Mr. Beck believes that the issue is not as clean and clear cut as it is expected to be. However, he assured the Committee that, should the resolution pass, the Division will work with Watco and the port authority as it comes into existence to make certain that the intent of the legislation is carried out as close as it can be carried out.

There being no further time, the hearing on **HCR 5032** was closed. Due to the lack of sufficient time, the scheduled hearing on **HB 2586**, which would provide an income tax credit for payments to port authorities, was delayed to an unspecified time.

The meeting was adjourned at 2:30 p.m.

The next meeting time and place is to be announced.