

Statement from Laura McNichol, WATCO in Favor of SB 376
Senate Taxation Committee
February 8, 2024

Good morning Chairman Tyson and members of the Taxation Committee. Thank you for the opportunity to come before you today. I am Laura McNichol and I work for WATCO. As you may know, WATCO is a homegrown Kansas company providing best in class transportation services all across the country.

Our business started in railroad industrial switching and grew into railcar mechanical repair then quickly blossomed into owning and operating short line railroads, including three here in Kansas. From there we expanded into terminals and ports, as well as logistics. We consider ourselves a one-stop transportation services provider.

We are here today in support of Senate Bill 376 – the bill to extend Pittsburg Port Authority tax credit for another 20 years.

This credit was put in place as an innovative funding mechanism that allowed for two rural railroad lines to stay in operation that serve five agriculture cooperatives and three other businesses west of Wichita. Due to the low density of these lines that stretch out to Pratt and Coats respectively, tools like this tax credit allow these lines to stay in service and keep freight on rail and not on local roads. Losing rail service can increase shipping costs for farmers if they are forced to only use trucks. More trucks on the roads, means more pavement damage and greater cost to tax payers.

As Kansas suffered a loss of more than 2,000 rail miles through the 1990s, this tax credit came along as a means of protecting more miles from going out of service or even abandoned. In a 2003 study by Kansas Department of Transportation, researchers determined “if the four short line railroads in the study area were abandoned, a large diversion of wheat shipments from rail to truck would occur and traffic would increase beyond the counties’ capacity. **Transportation and handling costs of grain would increase by \$0.056 per bushel, for a total income loss to Kansas farmers of \$20.5 million.** The short line railroad system in the study area annually saves the state of Kansas \$57.8 million in road damage costs.”¹

When the Kansas and Oklahoma Railroad was purchased by WATCO in 2001, the lines that make up the K&O were in a state of disrepair. Railroads have the among the highest cost of capital of any industry. Cross ties, ballast and rail can be expensive yet these assets will last decades and decades. Short line railroads here in Kansas and across the nation continue to claw their way out of the underinvestment of their previous owners. This is where the tax credit provides it value.

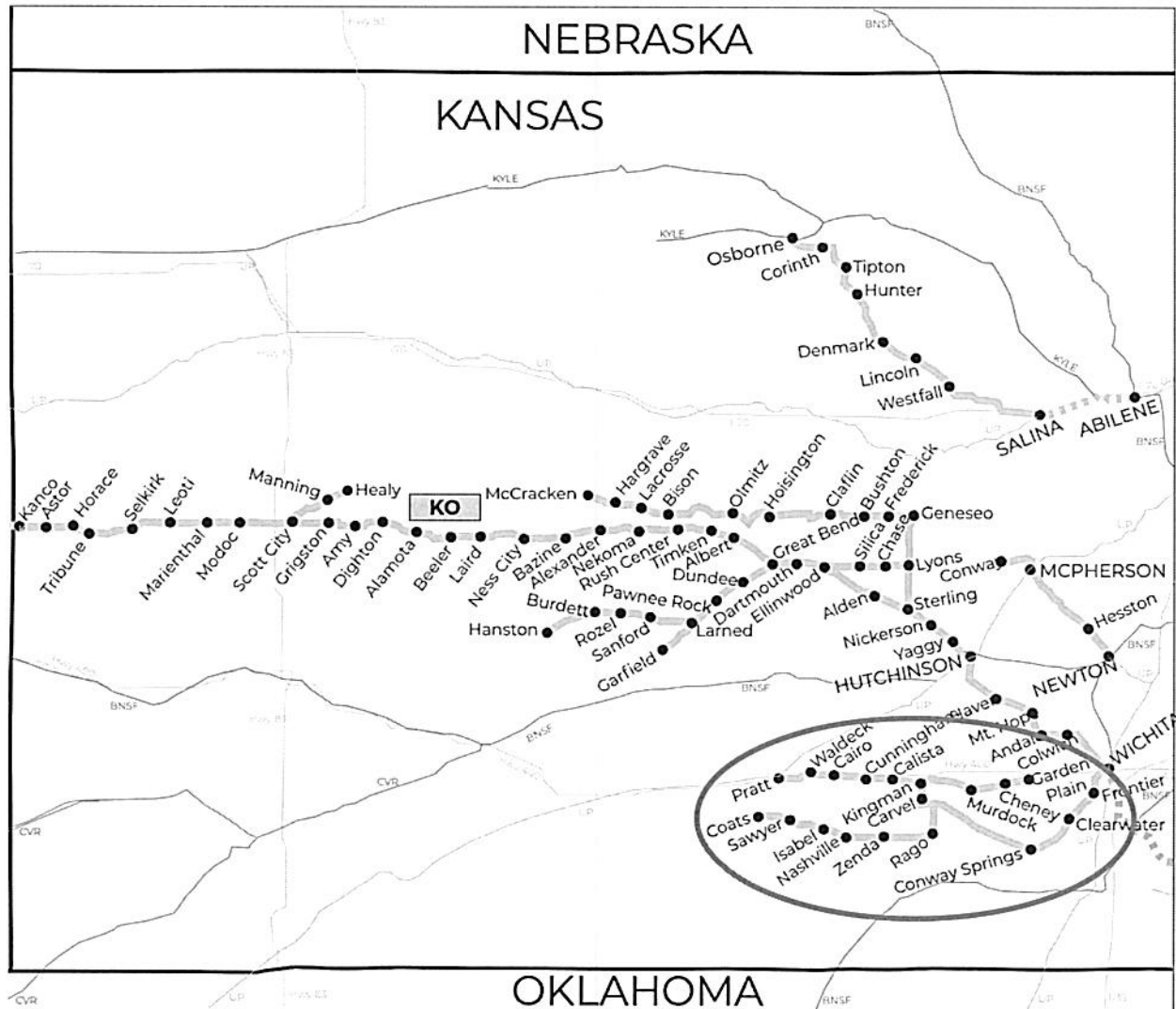
As we have invested in the K&O, we have seen our traffic grow 42 percent in the last five years alone. Since 2008, the K&O has moved 77 percent of all bushels produced in the counties where we operate and 24 percent of all grain bushels produced in the state of Kansas. We are a critical link the ag supply chain.

¹ <https://www.ksdot.org/Assets/wwwksdotorg/bureaus/burRail/Rail/Documents/Impact2003.pdf> (last visited 21Jan21)

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With the addition of the Pittsburg Port Authority tax credit year after year, has allowed us to make more investments into these lines and eliminate the risk of them going out of service. Each year, the Pittsburg Port Authority Board certifies that the planned track improvements were performed during the current year, in compliance with KDOT's requirements and oversight, as well as approves the qualifying improvements to be made the following year on these two lines. Track improvements include mostly cross tie replacement, as well as surfacing, which is the installation of new ballast followed by tamping.

Of the more than 45,000 carloads we typically move in a year on the K&O, we moved almost 1,000 cars in 2023 on the lines impacted by the tax credit, which was about 300 less cars than the last time this tax credit was renewed making the cost of maintaining these lines greater. The investments being made in these lines are critical to safely handle the freight shipped by our customers and, **most importantly, to keep them connected to the national freight rail network.**



The lines circled in red are those supported by the Pittsburg Port Authority Tax Credit.

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We appreciate your consideration of Senate Bill 376. We believe the tax credit has performed as it was designed and the need for help on these two lines continues today. We respectfully ask for you to vote in favor of renewing the port authority tax credit. Thank you for allowing me to share our thoughts today. I am happy to answer any questions you may have.

