

M I N U T E S

SPECIAL COMMITTEE ON ASSESSMENT AND TAXATION

October 3, 1975

The meeting was called to order shortly after 9:00 a.m. with all members except Senator Chaney and Representative Stark present. Staff present: Arden Ensley, Bill Edds, Mike Heim, Roy Johnson and Richard Ryan.

Minutes of Last Meeting

It was moved by Senator Christy and seconded by Representative Brooks that the minutes of the meeting of September 18-19 be approved. Motion carried.

Proposal No. 67 - Oil and Gas Incentives

Bryan K. Whitehead, Brotherhood of Railway and Airline Clerks, appeared in opposition primarily to the proposal to restore the 22% oil and gas depletion allowance, arguing that the industry has plenty of tax breaks now and is not in need of any further help. He expressed the opinion that increased activity in the Hugoton field resulting from price increases in the 1960's, for instance, provides the lack of need for other incentives.

Arden Ensley review the provisions of a bill drafted to restore the 22% depletion allowance by making a further modification of conformity and "plugging back" into the federal provision in effect as of the day before the recent federal change took effect (i.e., December 31, 1974). He explained that this would eliminate any gap or dislocation and simplify administration by incorporating all federal regulations and interpretations in effect as of that date.

In reply to questions, Don Schnacke, KIOGA, stated that the price of oil from stripper wells is not regulated and that the depletion allowance for strippers was not removed; consequently, the proposed bill would not affect them. He said that it would affect only about a dozen companies operating in Kansas, six majors

(like Cities Service, Conoco, Vickers) and six independents (like Clinton Oil Co., and Petroleum, Inc.), and that these are companies with the best capability for new production.

Asked what effect has been noted since January 1, 1975, the effective date of the federal action, Mr. Schnacke replied that nationally some \$2 billion of risk capital is being called back. Asked why, if the industry is depressed, there is a delay in getting oil drilling rigs, Mr. Schnacke replied that the present activity relates to development wells in known production; that a little increase in wildcatting that had occurred before Congress acted now is slacking off. However, he acknowledged that the biggest incentive has been dramatic increases in oil prices. Asked what other states are doing, Mr. Schnacke reported that Oklahoma has restored the 22% depletion and Louisiana has set a still higher rate of depletion allowance.

Another question concerned the extent of the incentive at the state corporate income tax rate of 6.75% times 22% of income, particularly when this would leave less to deduct from the federal tax, which has much higher rates. Mr. Schnacke's answer was that, while not a great deal of money is involved, the action requested would be significant in terms of atmosphere and stimulus.

The Department of Revenue has estimated that elimination of the 22% depletion allowance for major oil companies, effective for 1975 tax returns filed in 1976 by conformity to the federal change, will increase Kansas corporation income tax receipts by approximately \$1.55 million annually. To restore the depletion allowance for state income tax purposes thus would have an "opportunity cost" of that amount, i.e., not a reduction from present revenues but rather foregoing an increase.

Bill Edds reviewed another bill proposed by KIOGA which would allow amortization in two years (rather than five) of costs of operations in which oil is produced from the use of tertiary recovery methods or from heavy oil or tar sand formations in Kansas. Discussion indicated a possible need for clarification as to the distinction between secondary and tertiary operations. Other questions were whether a property tax reduction for tertiary operations or a special depletion allowance might be preferable. Mr. Schnacke stated that various possibilities (including an investment credit) had been discussed but that the accelerated amortization proposal was settled on. Another question was whether something like this might be adopted at the federal level, with a response that the outlook is not favorable in Washington now. Mr. Schnacke said he knows of no heavy oil production in Kansas, and answered another question by saying that this proposed bill would have little or no effect on state income tax revenues at this time.

Proposal No. 5 - Motor
Vehicle Taxation

Bob Badnock, Division of Property Valuation, reported on an investigation of the effect of reducing the depreciation rate in S.B. 52 as requested by the Committee at the last meeting. The indicated result, as applied to the county average tax rate proposal, would be an increase of three points in the percentage relationship of total revenue produced in a county to revenues computed on the present basis. The resulting averages for the 24 counties were 86% of the present basis at 16% depreciation, 89% at 15% depreciation, 92% at 14% depreciation, 95% at 13% depreciation, 98% at 12% depreciation, and 101% at 11% depreciation.

Arden Ensley reviewed a new mock-up of S.B. 52, pointing out that (1) all dates have been moved forward one year, (2) language re responsibilities of the state agency (Sec. 4, p. 3, lines 22-25) and local officials (Sec. 8(b), p. 8, line 25) has been clarified as suggested by the Department, (3) language re the starting point for computing depreciation has been clarified as recommended by the Department (Sec. 5(b), p. 5, lines 28-30, p. 6, line 1-3), (4) use of county average mill rates has been substituted for rural/urban average mill rates as decided by the Committee at the last meeting (Sec. 5(b), p. 6, lines 6-23), and (6) several other technical, non-substantive, changes have been made for purposes of clarification.

It was moved by Senator Christy and seconded by Senator Simpson that in Sec. 8(b), p. 8, lines 22-23 the word "determined" be changed to "computed". Motion carried.

Staff reviewed an illustration of how Sec. 12 of S.B. 52 ties revenues from the proposed motor vehicle tax in with the tax lid law.

Representative Hineman asked if the bill would do anything about the problem of possible doubling up of taxes on motor vehicle taxes where a person moves from one state to another. The staff response was that the bill neither creates nor solves this problem.

Senator Christy raised a further question about the use of a depreciation rate in S.B. 52 that is lower than the historical market depreciation rate, stating that this would result in an unacceptable increase in the tax on older cars. His suggestion was to apply the valuation schedule in S.B. 52 only to new cars as they are registered. For cars already registered he would start with the value shown in the present (market value based) personal property tax manual and depreciate that value at 16% thereafter. The staff and the Division of Property Valuation were instructed to analyze the effect of this proposal and report back to the Committee at the next meeting (October 30).

Proposal No. 8 - Agricultural
Land Valuation

John Blythe, Kansas Farm Bureau, presented a written statement submitting suggestions re legislation to implement HCR 2005 pertaining to: (1) definition of agricultural land (2) determination of agricultural value, and (3) recoupment of taxes. The statement also suggested a requirement of reappraisal each eight or ten years.

Some of the discussion revolved around an apparent inconsistency in the Farm Bureau position that use value appraisal generally would not decrease taxes on agricultural land (but rather would provide protection against the impact of increased values resulting from a reappraisal) and the statement supporting inclusion of a recoupment provision in the event of a change in use. It was suggested that recoupment would be pertinent only if the use value tax would be less than a tax based on market value. A question as to where the difference would come from in the meantime was not answered.

In reply to a question, Mr. Blythe expressed the opinion that HCR 2005 would permit enactment of a restrictive agreement law.

John Meetz, Kansas Livestock Association, made an oral statement to the effect that KLA still is working on its position, but at this stage would prefer some form of deferred taxation, and amendment of 79-503 to be "workable". He also suggested the need to develop a system for updating appraisals.

Dr. Barry Flinchbaugh, K.S.U., provided the Committee with preliminary, unofficial, not for release data from a study of the impact of use value appraisal on countywide assessed valuations and rates of levy. (Dr. Flinchbaugh reports that the county study will be published with the school district study early in March of next year. Preliminary data from the school district study will be available to the legislature by February 1.) Dr. Flinchbaugh reviewed the assumptions and data base used in the study, and reported the following general conclusions:

1. Farmland in Kansas (especially irrigated land and dry cropland) currently is grossly underappraised in terms of market value or the factors listed in 79-503.
2. Use value appraisal will increase rather than decrease agricultural land valuations, or as a minimum stabilize them, with very few exceptions.
3. A reappraisal based on either use value or market value would increase taxable values, but use values less than market value.

4. Use value appraisal would bring about no reduction in the total tax base in most counties.
5. The key effects of use value appraisal will be found in the impact on state aid to schools. (Stated another way, if the object is to change the property tax in terms of impact on agricultural lands in relation to other forms of property, the key (according to Dr. Flinchbaugh) is in how school aid is distributed and how assessment ratios are arrived at and used.)

Asked how to solve the ratio study problems, Dr. Flinchbaugh suggested assigning weights to the factors listed in 79-503 and then conducting a ratio study mixing sales and appraisals or going completely to appraisals. He suggested that a cost of as much as \$2.5 million for conducting the ratio study would not necessarily be "inordinately expensive" in comparison to the magnitude of property tax revenues and state school aid.

Asked whether use value appraisal would produce results more consistent as between counties, Dr. Flinchbaugh replied that this would depend on how a use value program was applied.

In drafting a report on this proposal for Committee consideration, the staff was instructed to set out various alternatives (such as those outlined in a May 27 checklist) and possible results thereof as indicated in statements presented to or other information collected for the Committee's consideration.

Plans for Next Meeting

It was agreed that the next meeting would remain a one-day meeting, commencing at 9:00 a.m. on Thursday, October 30, and continuing until as late in the afternoon as necessary to complete the agenda, which will include all five proposals:

Proposal No. 5 - Motor Vehicle Taxation -- final decisions re the modification suggested by Senator Christy, the depreciation percentage, and technical amendments included in the latest mock-up of S.B. 52.

Proposal No. 6 - Ratio Study -- decision re recommendations of advisory committee.

Proposal No. 7 - Job Incentive Act -- decision re recommending H.B. 2153 in its present form.

Proposal No. 8 - Agricultural Land Appraisal -- review preliminary draft of Committee report.

Proposal No. 67 - Oil and Gas Incentives -- decision re recommending one or both of the bills suggested by KIOGA.

Approved by Committee on:

Prepared by Roy H. Johnson

October 30, 1975
(Date)