Approved April 22, 1983
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairman Paul "Bud" Burke at
Chairperson

11:00 a.m.~~p.m.~~ on FEBRUARY 23, 1983 in room 313-S of the Capitol.

All members were present ~~except~~:

Committee staff present: Wayne Morris, Research Dept.
Tom Severn, Research Dept.
Don Hayward, Revisor's Office

Conferees appearing before the committee:

Ron Gaches, KACI
Barney Sullivan, Energy Reserves Group
Kelly Callen, Oil Secretaries Association
Ken Rogg, Schools for Quality Education
Dr. John Shaw, Supt. of Schools, Lacrosse, Kansas
Jim Tuttle, President of School Board, Gove, Ks.
Robert Anderson, Mid-Continent Oil & Gas, Ottawa
Fred Berry, President, Wichita C of C
Bernie Nordling, SW Ks. Royalty Owners
Don Boyer, Pres. E. Ks. Oil & Gas
Charles Hutton, Ottawa
Jim Jackson, J.J. Drilling Inc., Erie
Russ Hilton, Geo. Churchill Mfg.,Chanute
Bob Barnett, Russell Petr., Chanute

Hearings were continued on the severance tax bills.

The chairman recognized Ron Gaches, KACI, to lead off the opposition to the bills. He said the revenues from a severance tax are not stable and continued revenue growth cannot be expected. The shortrun revenue gains for the state general fund will be offset by reduced production, loss of jobs, and reduction in capital investment for Kansas in the long run. (Attachment #1)

Barney Sullivan, Energy Reserves Group, Wichita, told the committee the petroleum industry is in a beleagured situation as an industry. Also, in western Kansas there is a depreciated market and many wells are being filled in for lots of reasons. He said they are paying 4% ad valorem tax already, but wanted to particularly stress the loss of jobs in the industry. (Attachment #2)

Kelly Callen, Oil Secretaries Association, Wichita, employed by Edmiston Oil Co., Inc. said that there had been many job losses experienced within the industry the last two months and many are working parttime just to have a job. Almost 100 members have been dropped from their organization in one year because of pay losses. She said she is here as an employee representing the people whose jobs are on the line, not here as "big oil".

Ken Rogg, Schools for Quality Education, reported he was representing 70 rural school districts. In answer to questions as to how you can represent school districts and not be for a severance tax, he expressed concern that the revenue will go to the urban areas while being collected in the rural areas. Mr. Rogg introduced Dr. John Shaw, Supt. of Schools at LaCrosse, who said the severance tax will have a negative impact upon their school district. He said if a severance tax is imposed, a conservative estimate would have 35 to 40% of the oil wells plugged in their district. Should this occur they would lose 10 to 12% of their evaluation. This is compounded with their lost evaluations and taxes on farm machinery, and the two added together means the people in USD 395 are facing an 8 to 9 mill increase without any budget increase. (Attachment #3)

Jim Tuttle, Gove, President of the School Board, speaking on behalf of USD 291, 292, and 293, testified if a severance tax were enacted, the impact on their local school district would be the erosion of their local property tax base. Even if the severance tax were rebated, there would still be an erosion of the base. The windfall profit taxes devalued their oil production over 20% and windfall in their district would fund 75% of their total budget, so oil is paying a big percent of tax already. The farm machinery exemption raised oil tax 10% in their district and makes oil pay an extra 12%.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,

room 313-S, Statehouse, at 11:00 a.m./~~p.m.~~ on FEBRUARY 23, 1983

Robert Anderson, Mid-Continent Oil and Gas Association, Ottawa, said he was not in favor of any of these bills. Two of the bills do not tax royalty owners, but no legislative body in this country exempts royalty owners today. He said if Kansas exempts royalty owners this will be the first state to tax the people who pay the expenses and take the risks and not the people who get the benefits. He said if this bill is passed and wells are plugged, there will be no revenue. Even the Governor's bill won't permanently solve all the problems. Who gets it next year?

Fred Berry, President of Wichita Chamber of Commerce, said the Chamber feels that a special tax on any specific industry will be bad for the economy of Kansas. Also, a severance tax would have a negative influence on industries considering moving to Kansas. He said our state must be more prudent in the way that state income is spent as these are times of belt-tightening for all Kansans. (Attachment #4)

Bernie Nordling, Executive Secretary, Southwest Kansas Royalty Owners Association, Hugoton, stated that to include gas royalty owners in a severance tax bill would make the bill unconstitutional. He submitted that "royalty interest" be defined as "that interest created by mineral interest ownership." The moment gas is severed from the earth, the entire ownership of the gas is with the person holding the lease. He also said that ultimately it is the consumer who pays the added tax, and the industry already pays its share in property taxes. (Attachment #5)

Don Boyer, President of the East Kansas Oil and Gas Association, said many members of his organization have "Mom and Pop" operations with as low as 25 to 150 barrel production. He said expensive equipment is needed to produce oil, and he is opposed to any and all severance taxes.

Charles Hutton, Ottawa, president of a drilling company, said that two years ago he had sixteen hands working for him; today none, because drilling is down.

Jim Jackson, J. J. Drilling Inc., Erie, said he also had sixteen hands who are now laid off.

Russ Hilton, George Churchill Manufacturing, Chanute, speaking on behalf of service and manufacturing firms, said that probably 800 jobs were lost in Southeast Kansas in the past year. A severance tax will cost additional jobs because of declining revenues and the price of the production going down. He said to consider the revenue flowing into the state treasuries derived from the oil industry. Also, he said, layoffs in Chanute has affected other downtown businesses.

Bob Barnett, General Manager, James Russell Petroleum, Chanute, said that at the present time they are reassessing operations, cutting back, and selling off the ones that won't make it. They are at the economic limit now and can't tolerate any additional tax burden placed on the industry at this time.

The chairman adjourned the meeting at 12:00 noon. The next meeting of the committee will be held at 11:00 a.m. on February 24, with an additional working session in the afternoon on adjournment.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
Feb 23			
2-23-83	Teresa Jacks	WICHITA	Closeup
2-23-83	Doug Clarke, Jr.	Wichita, Kansas	Closeup - Southeast H.S.
2-23-83	Carl Skinner	Gt BEND KAN	EAGLE TESTING
2-23-83	Kevin Harris	Chanute Ks	Consolidated Oil
2-23-83	Mark Tucker	ChanUTe KS	consolidated oil
2-23-83	Mary Alice Morozzo	Wichita, KS	close-up
2-23-83	Charles Purnell	Overland Park, Ks.	Triple-I Energy
2-23-83	VIOLET FERGUSON	OTTAWA, KS.	BALLOU OIL WELL SERVICE
2-23-83	WILLIAM TAYLOR	OVERLAND PK. KS.	TRIPLE-I ENERGY
2-23-83	Lyle K. McCarthy	OSAWATOMIE, KS	K.R. Johnson, Inc.
2-23-83	JAMES White	PAOLA Ks.	Premier Trucking
2-23-83	Bill D. Winder	Chanute, Ks.	Consolidated Oil
2-23-83	Bill Fields	Chanute, Ks.	Consolidated Oil
2-23-83	Carl Hornbull	Ottawa Kan.	H & D Oil
2-22-83	Stanley P. Hornbecke	LOUISBURG KS	TOWN OIL
2-23-83	Carl Morgan	Paola Kans	Mid-State
2-23-83	Steve Mock	PAOLA, KS	Mid-State
2-23-83	Carol Roenne	Salina, Ks.	K-NEA
2/23/83	Dorita Kerbs	SALINA, KS.	K NEA
2/23/83	August John Johnson	CHANUTE KS	Oil PATCH.
2-23-83	Ron Witter	Chanute-Ks	Oil Patch
2-23-83	Richard F Ryan	Chanute, KS	Falcon Oilfield Sup
	RICHARD GUINOTTE	CHANUTE, Ks	E. Ks. OIL & GAS
	KENNETH WIMSETT	" "	WIMSETT OIL
2-23-83	ED ROSENBERGER	" "	CONSOLIDATED OIL
2-23-83	DAUG CUSHMAN	" "	Consolidated oil
2/23/83	Russell D. Hilton	Chanute, KS	GEO Churchill
2/23/83	Ed O. Hughes	CHANUTE, KS	CONSOLIDATED OIL

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2/23/83	Bill Shade	Council Grove	C.G. High School
2/23/83	Lori Heifman	Council Grove	Council Grove High School
2/23/83	Shawn Pearson	Council Grove	Council Grove High
2/23/83	Ed L Martin	BUFFALO KAN	CHURCHILL
2-23-83	Richard Greene	Chanute Kan	Churchill
"	Allen V. Neff	Garden City Ks.	
2-23-83	Randy Adams	Chanute, Ks	Adams Jetwell
"	Ben Stucky	McPherson, Ks.	
2-23-83	Tony Claus	Colby Ks.	Colby High School
2-23-83	Diane Schroeder	Colby, Ks.	Colby High School
2-23-83	Dana Sloan	Colby, Ks.	C.H.S., Close-Up
2-23-83	Jim Greathouse	Colby, Ks	Colby, Ks.
2-23-83	Paul W. Brown	Olathe, Ks	
2-23-83	Betty Nation	Winfield	Petroleum Enterprise
"	Nancy Heinz	Winfield	Reynolds Drilling
2-23-83	Hank Robertson	Tribune, Ks.	
2-23-83	alice Robertson	Tribune, Ks.	
2-23-83	Clifford Jones ~~[illegible]~~	~~[illegible]~~ Fort Riley Ks	Junction City High
2-22-83	Charmin Olson	Manhatten, KS	Junction City H.S.
2-23-83	Jenni Renner	Ft. Riley KS.	Junction City H.S.
2 23 83	J M. Tuttle	Gove Ks	SQE + Gove Co
2-23-83	Clinton K. Brown	Wichita, Ks	Wichita N.H.S.
2-23-83	Dennis Ray	Wichita, Ks.	Wichita North H.S.
"	Marilyn Greer	Salina, Ks	USD #305
"	Vicki Price	Salina, Ks.	USD #305
"	Floyd Gwin	Salina, Ks.	USD #305
	Harold Pitts	Topeka	
	Ellen Fiedler	Wichita	Close-up
"	Kent Songley	"	"

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
Feb. 23			
2-23	Gloria Huelsman	Topeka	Close Up Ks
2-23	Dawn Curttright	Topeka	Close Up
"	Karin Kelly	Topeka	Close-up KS
2-23	Linda Snyder	Topeka	Close-up Ks
2-23	Angela Vaughn	Topeka	Close-Up Ks.
"	Anita Kierl	[redacted] (Paola)	Close-Up KS
"	Linda Westendorff	Paola	Close-Up KS.
"	RANDY BRANDT	PAOLA	" "
"	Gwen Romine	Paola	" "
"	Cassie Olvia	Paola	close-up ks.
"	Steve Ward	Council Grove	Close Up
2-23	Dina Levering	Rt 2 Burlington, Ks	Close Up
"	Mark Patterson	Burlington	Close Up
"	Ragan Todd	Burlington	Close up
"	Liz Church	Burlington	Close Up
"	Clancy Bunyan	Wichita	" "
"	Phuoc Thai Han	Wichita	" "
"	Lisa Austin	Wichita	Close-Up KS.
Feb. 23	Sheila Hunter	Wichita	Close-Up KS
Feb 23	GREG ANDERSON	WICHITA	Close-UP KS
"	ROSE DILLMAN	Wichita	"
"	Ronnie Dillman	"	"
"	Rachel Hewitt	Wichita	Close-Up Ks
FEB.23,83	Lisa Lohf	WICHITA	CLOSE-UP, KS.
Feb.23,1983	Karen Orr	Wichita	Close-Up, Kansas
"	Chris Gruno	"	"
"	Mark Adamson	"	"
Feb. 23	Michelle Rohn	Colby	Close-up Kansas
"	Audrey Harper	Colby	Close-up Kansas

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2-23	Bill D Johnson	Chanute, Ks.	Consolidated Oil S.
	Bill L. Sandern	Ottawa, Ks	Consolidated Oil
	David Jacobs	2125 APPLEWOOD, SALINA	CANDIDATE FOR School Board
	Don Winkleman	Wellsville KS	contractor
	B. L. Freeman	Sedan, Ks.	Freeman Oil Co
	Paul Simpson	Sedan, Ks	DENMAN Oil Co.
	Richard English	Eureka, Kans	BEAM Oil Co
	Ronald D. Pitts	El Dorado, Ks	Dresser Titan
	Raymond Hammer	LaHarpe, Ks.	Maclaskey TRANS.
	KELLY MACLASKEY	ELDORADO KS	MACLASKEY Oil
	Phillip A Wilkinson	Chanute, Ks.	Consolidated oil
	Milton L. Bishop	Walnut Ks.	BISHOP EXP. Co
	Lester Town	Paola, Ks.	TOWN OIL Co.
	J. Alegre, Jr.	Parsons, KS.	Hickory Creek Oil Co
	Jimmy Jackson	Erie, Kansas	J-J drilling Inc
	Robert Weil	Paola, Kans	CLOSE-UP KANSAS
	ROBERT ATWATER	GOODLAND, KS.	CLOSE-UP KANSAS
	George E Jackson	EUREKA, Ks.	JACKSON BROS. STRIPPER OIL PRODUCERS BOOKKEEPER
	Marian Buck Jackson	EUREKA, KS.	CITY COMMISSIONER
	Geo. Sandell	Madison Ks	S&B Oil Operations
	Dale Phares	Benton, Ks	Farm Bureau
	Eldon Phares	Benton, Ks	Royalty Owner
	Paul L. Widener	Chanute, Ks	W-R Oil Co
	RAY CUMMINGS	CHANUTE, Ks	Youngs Welding
	O.P. KERNODLE, JR.	KANSAS City,	KERNODLE BROS OIL
	Ryan Thomas	LAKIN, KS	Close UP-KS
	Julie Grubbs	Lakin, Ks	Close-Up-KS
	Ed Cramer	Lakin, Ks.	Close up Ks
	Ralph Goodnight	Lakin, Ks.	Close up KS

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2-23	[illegible]	Lakin, Ks	Close up Kans
	Jodd Meere	LAKIN, KS	CLOSE UP KS
	[illegible]	Solomon	Pub. Sch.
	PRESTON GEIS	WICHITA, KS	ENERGY RES. GRP. INC
	MATT RICHARD	CHANUTE, KS	Richard Eng
	Dale Dalton	CHanute, Ks.	D-J Oil Co. INC
	MARK RICHARD	"	RICHARD OIL
	Robert DAlton	" "	D-J oil Co Inc
	KENT CROWNOVER	" "	SPLANE PULLING
	[illegible]	[illegible]	[illegible]
	Elizabeth Wilson	Topeka, Ks.	Self
	B E Nordling	Hugoton Ks	SWKROA
2-23	D.G. WARD.	Box 396 CHANUTE	FLEXTUBE INC.
2-23	Fred Rehmert	727 N Evergreen Chanute Ks	Consolidated
	CHUCK CHAUNCEY	P.O. Box 82 CHANUTE	WESTERN DRILL
	Marilyn [illegible]	Topeka	Ks Good Roads

Attachment #1

KACI

Legislative Testimony

Kansas Association of Commerce and Industry
500 First National Tower, One Townsite Plaza Topeka, Kansas 66603 A/C 913 357-6321

February 23, 1983

KANSAS ASSOCIATION OF COMMERCE AND INDUSTRY

Testimony Before the

SENATE ASSESSMENT AND TAXATION COMMITTEE

REGARDING OIL AND GAS SEVERANCE TAX PROPOSALS

PRESENTED BY: RONALD N. GACHES

Thank you Mr. Chairman for this opportunity to present the position of the Kansas Association of Commerce and Industry regarding proposals to impose a state severance tax on Kansas oil and gas production. I'm Ron Gaches, General Counsel and Director of Taxation for KACI.

The Kansas Association of Commerce and Industry (KACI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KACI is comprised of more than 3,000 businesses plus 215 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KACI's members having less than 25 employees, and 86% having less than 100 employees.

The KACI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

KACI continues its opposition to an in-addition severance tax on Kansas mineral production. The need for tax equity and revenue stability leads us to the conclusion that a state severance tax should not be the source of additional revenue to meet state spending needs.

- MORE -

Atch. 1

The Kansas oil and gas industry makes great contributions in the form of taxes in support of local and state government. In 1982, the industry paid more than $117.5 million in local property taxes in support of local government. An additional $100 million was paid in other taxes and fees to the state. This has taken place at a time when the worldwide marketplace for oil has been subject to dramatic reductions in price and surplus supplies. Reduced Kansas employment and investment in this industry has been one result of changes in the world markets.

As many states have discovered, reliance on severance tax revenues is not the panacea to state general fund revenue problems. The revenues are not stable; continued revenue growth cannot be expected.

The taxing system in each of the 50 states is unique to that state. While there are many similarities, imposition of a severance tax in one state does not necessarily document the tax equity of imposing a severance tax in Kansas. Texas and Wyoming, which have been held up as models for a severance tax, impose no corporate income tax on their mineral industries. Similarly, Oklahoma imposes no local property tax on mineral production. Both the corporate income tax and the local property tax are imposed in Kansas on our mineral production industry.

It's important to note that I referred to our industry. The development of Kansas mineral production has been almost exclusively the work of Kansas independent producers. These producers have invested dollars at high risk in the development of our mineral resources. In so doing they have created thousands of jobs for Kansans and actually caused the importation of capital investment into our state. Imposition of a severance tax in-addition to current state and local taxes on the industry will discourage investment and eliminate current and future jobs for Kansans. The short-run revenue gains for the state general fund will be offset by reduced production, loss of jobs, and reduction in capital investment for Kansas in the long-run.

Looking beyond the political rhetoric, this important policy issue should center on the equity of asking one industry to bear the burden of additional financing for programs and services enjoyed by all Kansans. KACI believes that one industry, and business generally, should not be required to absorb that burden alone. Additional taxes on the business community are counter-productive to the economic development efforts of our state. To the extent additional business taxes can be passed on to the ultimate consumer, they become hidden taxes. Hidden taxes are a symptom of weak government. Taxpayers should not have the real cost of providing government services hidden from them in the form of additional business taxation.

For the reasons I have discussed we urge you to reject these proposals to impose a state severance tax on the Kansas mineral production industry.

Attachment #

Barney #2

Sullivan

Energy Reserves Group, Inc.
P.O. Box 1201, Zip 67201
217 North Water Street
Wichita, Kansas
Phone 316 265 7721

Energy Reserves Group

February 22, 1983

Mr. Chairman and
Members of Senate Assessment &
Taxation Committee

Thank you for the opportunity to appear in opposition to the imposition of a severance tax on Oil & Gas properties in our State.

I am First Vice President of the Petroleum Accountants Society of Kansas and today represent that organization. So as to save repetitive testimony I also am speaking today for:

The Oil Secretaries Association
Kansas Geological Society
Wichita Assn of Petroleum Landmen, Inc.
Wichita Section of Society of Petroleum
Engineers of AIME

These groups represents over 2,300 professional people who are in the Oil & Gas industry and wish to make their needs and desires known in this matter. We have attached official position papers from organizations for you to review at your convenience.

I'm sure that each of you has heard, many times, the Governor's comments that our industry, "Big Oil", has enjoyed price increases of many hundreds of times in the past decade. First "Big Oil" in Kansas produces 77% of the oil - These producers are independent - They are small stockholders and investors in wells which have been drilled.

No one has yet spoken to the bottom line on lease profit or loss statements. Comparitive costs have increased two and one half (2½) times in the past 7 years. These informations have been furnished to the Kansas Department of Revenue, Division of Property Valuations.

Profits have not increased multi-fold! In fact in 1981 Oil prices reached an all time high of approximately $40.00. Today those barrels of oil are enjoying a firm $29.00 price. A reduction in revenues of 27½%, never have I heard one person discuss this loss in revenue. Costs have not gone

Atch. 2

Energy Reserves Group

down accordingly, in fact, costs have gone up 19.4% in the same time frame.

Estimates are made that between 3 and 5 oil or gas wells provide 1 job. Our Company has estimated that approximately 4% of our wells will be plugged and abandoned - should that number be consistent across the State then some 2,000 wells will be plugged. 400 jobs that are to be eliminated by the bills proposed.

I find it hard to believe that a group of responsible people, as are gathered here today, can impose a severe penalty on a single industry as is proposed by the various severance tax bills.

We urge you to reject this type of legislation as unacceptable for our State.

Thank You.

Very truly yours,

Barney E. Sullivan

Barney E. Sullivan
First Vice President
Petroleum Accountants Society of Kansas

OIL SECRETARIES ASSOCIATION

WICHITA KANSAS

February 23, 1983

Senators of the
Senate Assessment and Taxation Committee
Third Floor
The Statehouse
Topeka, Kansas 66612

Dear Senator:

The Oil Secretaries Association of Wichita, set up strictly as a social organization in 1938, formulated a Political Action Committee to work solely on the severance tax issue. Our organization is comprised of approximately 560 women working within the oil and gas industry, who are very concerned over the possible effects this type of legislation will have on the industry as well as our state.

Our membership consists of women working in the areas of Geological, Land and Legal, and Accounting. Through our positions, we have acquired first hand knowledge of current problems the industry is already encountering, such as:

1. Lack of investment capital - People today are not willing to invest in the unstable future of Kansas oil due to the lack of profitability.
2. Product price reduction - The thirty dollar per barrel oil (and declining) that everyone hears about is not all profit. It helps pay our salaries along with those of thousands employed by oil related industries.
3. As with all businesses, we are working with increased operating costs.
4. Because of the decrease in oil prices and the increase in operating costs, marginal wells are being plugged and drilling is down approximately 40% from this time last year.
5. All the above factors have resulted in halted expansion. NO business or industry can survive with a zero growth rate.

This industry provides thousands of jobs in our state, and will remain to do so if it is allowed to survive. We feel that virtually every person in Kansas is, in one way or another, affected by the oil and gas industry. Therefore, if this industry topples, all Kansans will no doubt be affected.

Thank you,

June K. Burnett

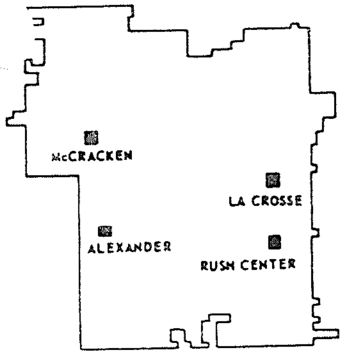
June K. Burnett
President

ORGANIZATIONS REPRESENTED	MEMBERS	MEMBER'S PLACE OF EMPLOYMENT
Oil Secretaries Association:	*June Burnett+	Pate-Dombaugh Petroleum
	*Kelly Callen	Edmiston Oil Company, Inc.
Kansas Geological Society:	Dan A. Bowles+	Gear Petroleum Co., Inc.
	*Brad Rine	Rine Exploration Co.
Wichita Association of Petroleum Landmen:	*Steve Dillard+	Pickrell Drilling Co.
Petroleum Accountants Society of Kansas:	George Coleman+	Sunburst Exploration Co., Inc.
	*Barney Sullivan	Energy Reserves Group
Wichita Section of the Society of Petroleum Engineers of AIME:	Dave Murfin+	Murfin Drilling Co.

* Representatives here today

\+ Presidents of respective organizations

#3



Attachment #3

La Crosse Unified School District No. 395

Dr. John S. Shaw - Superintendent

P.O. Box 790
La Crosse, Kansas 67548
(913) 222-2505

Dr. Shaw

2/21/83

TO: Senate Assessment and Taxation Committee

FROM: Dr. John S. Shaw, Supt., USD 395

Reference: Testimony on the Severance Tax

Mr. Chairman and members of the Committee, we appreciate the opportunity to appear before the committee on behalf of USD 395 of La Crosse.

The severance tax question is a controversial issue which we believe will have a financial negative impact upon people of our school district. To us this tax is another way of reducing our tax base.

Our district's 1982 evaluation is $31,695,258 of which 30% is oil and gas ($9,428,761). Our district encompasses an area of 486 square miles in Rush, Ness, Trego and Ellis counties.

In looking at the oil and gas production in our district, we find the following facts: 204 producing oil wells and 11 gas wells. The oil wells produced 534,898 barrels in 1982, which averages 7.18 barrels per day. The 11 gas wells produced 10,441,000 cubic feet of gas, which is 2600.5 cubic feet per day average.

These 215 wells have an average evaluation of $42,637.95. Using USD 395 total mil levy of 45.86, the average well pays $1,955.38 to our district alone. By the same comparison the average quarter section of land in our district is assessed between $5900 and $6000, which means the average quarter section of land pays only $270.57 in school taxes. The range of production is from a low of 164 barrels per year to 19,261 barrels per year. At present there are 55 wells in our district producing less than 5 barrels per day.

Atch. 3

From conversations with county assessors and the producers, we feel that should a severance tax be imposed, a conservative estimate would have 35 to 40% of these wells plugged. Should this occur we would lose 10 to 12% of our evaluation. This reduction would mean 4.5 or 5 mil increases, just to get back to where we are now.

This of course is compounded with our lost evaluations and taxes on farm machinery. The two added together means the people in USD 395 are facing a 8 to 9 mil increase without any additional budget increase. Some believe that this lost wealth will be made up in state aid. With the present formula the amount of state aid would be less than 1% of our total budget.

Education as well as other levels of government need help, but not in the form of a severance tax. A severance tax on gas and oil is just the beginning, what will be next?

Thank you for the opportunity to express our concerns.

Attachment #4

350 WEST DOUGLAS AVENUE • WICHITA, KANSAS 67202 • 316 • 265-7771 • ACCREDITED BY CHAMBER OF COMMERCE OF UNITED STATES

WICHITA AREA CHAMBER OF COMMERCE

TESTIMONY PRESENTED

on behalf of

THE WICHITA AREA CHAMBER OF COMMERCE

before the Senate Assessment and Taxation Committee

February 23, 1983

Regarding

Senate Bills 67, 171, 267

by

Fred Berry, President
Berry Companies, Inc.
Past Chairman,
Wichita Area Chamber of Commerce

Atch. 4

Mr. Chairman, members of the committee. . .

My name is Fred Berry, President of Berry Companies, a Wichita-based construction equipment and supply firm. I have appeared here before on behalf of the Wichita Area Chamber of Commerce to express our opposition to severance tax.

Last year I appeared as Chairman of the Board of the Wichita Area Chamber. This year, as immediate past Chairman, I was again asked to represent the more than 2,000 member firms of the Chamber.

My business is the sale and service of construction and industrial equipment throughout Kansas. We have 8 locations in 5 cities in Kansas: Garden City; Pittsburg; Russell; Topeka; and Wichita, employing about 150 Kansans. I feel I know the Kansas economy fairly well.

I am not in the oil business.

I am not speaking on behalf of the Petroleum industry.

The Wichita Chamber of Commerce is not speaking on behalf of the oil and gas industry. Our position is based on the sincere belief that a severance tax on oil and gas, or a special tax on any specific industry, would be bad for the economy of our great State.

A severance tax clearly will have a negative impact on the oil and gas industry in Kansas. It will reduce employment. It will reduce economic activity. You have heard testimony on this point from industry experts.

But far beyond the impact on the oil and gas industry, will be its impact on other industries. Industries considering expanding in Kansas; considering moving to Kansas.

We have much to offer these growth-oriented employers. A fine labor force. Excellent resources: land, water, electric energy, natural gas, coal.

And an historic reputation as a state with fair and equitable taxation; with efficient government that is not a burden on its people.

Fair and equitable taxation! Let us keep it that way. The oil and gas industry pays its full measure of ad valorem taxes. They should.

All other industries pay ad valorem taxes. They should.

To single out one industry to pay an additional exclusive tax is no longer "fair and equitable." We would be breaking faith with our century-old Kansas tradition of "fair and equitable."

The Wichita Chamber of Commerce has carefully reviewed its position on this critical policy issue. Our legislative committee of 70 men and women of our community, representing both political parties, and a diversity of businesses, large and small, has restudied the issue.

Our Board of Directors has reviewed and discussed their recommendation.

We remain unalterably opposed to a severance tax on oil and gas. We are just as opposed to any other exclusive add-on tax directed toward any industry -- whether it be agriculture, banking, manufacturing, high-tech -- any industry.

These are times of belt-tightening for all Kansans, for all Americans. Very few households, very few businesses, are spending as much today as they were one year, or two years, ago.

Our state must operate as prudently.

To the extent, in your wisdom, you determine increased taxes to be unavoidable, we support broad-based taxes to finance the broad-based purposes of state government.

If it is necessary, we support an increased sales tax to finance the general fund.

We believe a motor fuels tax, a user fee, is the fair and equitable way to finance badly needed increased investment in our rapidly deteriorating highway system.

We do not support a tax designed to take advantage of a particular industry. We want to see Kansas grow economically -- all elements of the Kansas economy.

We ask this committee to reject Senate Bills 67, 171, and 267. Thank you.

Attachment
#5

STATEMENT OF
BERNARD E. NORDLING, EXECUTIVE SECRETARY
SOUTHWEST KANSAS ROYALTY OWNERS ASSOCIATION
Hugoton, Kansas 67951

February 23, 1983

To the Honorable Members of the Senate Committee
on Assessment and Taxation:

My name is Bernard E. Nordling of Hugoton. I am Executive Secretary of the Southwest Kansas Royalty Owners Association. Our Association was formed in 1948 for the primary purpose of protecting the rights of landowners in the Hugoton Gas Field. We presently have slightly over 2,100 landowner members.

I am appearing before your honorable committee on behalf of Association members and Kansas royalty owners in opposition to Senate Bill No. 67, hereinafter sometimes referred to as the "Steineger" bill, Senate Bill No. 171, hereinafter sometimes referred to as the "Hein" bill, and Senate Bill No. 267, hereinafter sometimes referred to as the "Committee" bill. Each of these bills imposes a severance tax on oil and gas production. The Committee and Steineger bills exempt royalty owners while the Hein bill includes royalty owners.

Before discussing our reasons for opposing the severance tax bills, we feel we must clarify our position as royalty owners with relation to the lessee-producers.

Hugoton Field
50 x 150 miles long
Ks, Okla, Texas
Ks. 7600!
4150 gas wells
lower field
2 million 600,000 acres.

Atch. 5

We certainly are not here to "defend" the oil and gas industry because as we have learned many times over the years, they are quite capable of taking care of themselves. In fact, there are several bills presently pending before the legislature in which we have taken an opposite position.

A perfect example are the deep horizons bills in which we are seeking to shift the burden of proof to force the major oil and gas companies operating in the Hugoton Gas Field to develop the deeper horizons underlying the two and a half million acres in the Kansas portion of the Hugoton Gas Field.

One of the early objectives of our Association, formed in 1948, was to fight a severance tax. We have maintained that position throughout the years. The Association is opposed to a severance tax for several reasons, including the following:

(1) Kansas already has a severance tax assessed on a local level on oil and gas production. Some of this tax money goes to the state for higher education and state institutions. The balance of the taxes raised by the local severance tax is used to support local school districts and other local governmental units.

(2) Much of the gas produced in Southwest Kansas, while classified as "interstate" gas, is consumed in Kansas. Ultimately, it is the consumer who pays. Thus, thousands of Kansas consumers, including irrigation farmers using natural gas as a fuel source, will pay the added tax.

(3) Any additional severance tax will lower assessed valuations in oil and gas producing counties. This will have the effect of increasing taxes on rural and urban properties in oil and gas producing counties, not lowering property taxes, as some proponents claim.

While our Association is categorically against any form of state severance tax, nevertheless, we feel we must address the issue of the constitutionality of excluding royalty owners from any severance tax bill.

We submit that to include gas royalty owners in a severance tax bill would make the bill unconstitutional. Under the provisions of the gas royalty clause of an oil and gas lease, the instant the gas is severed from the surface, the entire ownership of the gas is in the lessee. The best proof of this fact is that it is necessary for irrigation farmers to purchase natural gas at the wellhead to fuel irrigation engines even though they may receive gas royalties from the gas well to which they are connected.

This fact of lessee ownership of gas is confirmed in Mobil Oil Corporation v. Federal Power Commission, 463 F. 2d 256 (D.C. Cir. 1972), cert. den. 406 U. S. 976, 32 L. Ed. 2d 676, 92 S. Ct. 2409 and J. M. Huber Corporation v. Denman, 367 F. 2d 104 (5th Cir. 1966).

The Mobil vs. FPC decision quotes from the Huber case in a footnote as follows:

> "11 See 367 F.2d at 113-114:
> "[The lessors make] the very simple, yet profound, contention that there can be no 'sale' of gas by royalty owners since they have no gas to sell. And this seems to be true as a matter of oil and gas law, whether based on the ownership-in-place concept followed by Texas and others or on non-ownership theories of other jurisdictions. For all agree that as the gas leaves the well-mouth, the entire ownership of the gas is in the lessee, none being reserved in the lessor." (Emphasis ours)
>
> "Judge Brown's citations reveal that even in Texas, where a lease constitutes a present sale of all of the gas in place, the royalty owner possesses some property right in the minerals."

The oil royalty clause of an oil and gas lease is different. The royalty may be paid in kind, at the lessee's option.

There is a general misconception of payment of oil and gas royalties under an oil and gas lease. Oil or gas royalty is simply compensation for the use of the lessor's land by the lessee in its exploration and development of the land for oil or gas. Gas royalty can be considered as cash rent while oil royalty can be considered as crop rent.

One final comment is with reference to the definition of "royalty interest" in the Committee bill. On Page 3, line 0091 of that bill, the following definition appears:

(l) "Royalty interest" means the share of not to exceed 1/8 of any oil or gas actually severed, either in kind or in value, reserved by the lessor as consideration for the right granted to a lessee to drill and produce the same.

The problem with that definition is there are numerous existing oil and gas leases throughout Kansas providing for more than 1/8th royalty. Many leases now provide for 3/16ths royalty, with royalty in at least two leases in Stevens County providing for 9/16ths royalty. We submit that "royalty interest" be defined as "that interest created by mineral interest ownership."

Thank you for this opportunity to be heard.

Respectfully submitted,

B. E. Nordling
B. E. Nordling,
Executive Secretary
SOUTHWEST KANSAS ROYALTY
OWNERS ASSOCIATION

KANSAS GEOLOGICAL SOCIETY

Kansas Geological Society & Library

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Wichita, Kansas 67202 • (316) 265-8676

Walter DeLozier, Business Manager
(316) 265-9857

February 23, 1983

Senators of the
Senate Assessment and Taxation Committee
Third Floor
The Statehouse
Topeka, Kansas 66612

Dear Senator,

The Kansas Geological Society was founded in September of 1924. At the present time, the Society's membership includes approximately 1,100 earth science professionals, the majority of which practice their craft within the boundaries of the State of Kansas.

Since its inception the object of the Kansas Geological Society has been the promotion of the science of geology among the men and women engaged primarily in the geology of petroleum and gas in the State of Kansas.

Towards this end this Society has maintained a viable policy of adapting to changes so as to best serve its members, the oil and gas industry and the public.

Today this Society, its membership, as well as the entire oil and gas industry of this state, faces a challenge it can ill-afford not to meet. This challenge is not one of maintenance, but of the simple survival of our industry within the State of Kansas. At a time when this industry, second only in size to the agricultural industry of the state, is faced with its worst economic crisis in 25 years, a proposal is brought forth to impose an additional tax on its already heavily taxed revenues. We believe this

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proposed severance tax to be an unfair, unjust and disproportionate burden for an already struggling industry.

As professional geologists our opposition to this tax is founded on four basic precepts. These are:

1. The use of a Severance Tax on oil and gas produced within the state is a short sighted approach to funding necessary governmental programs, in as much as the revenues generated are dependent on a depleting, non-renewable resource.

2. The passage of a Severance Tax would diminish our ability as a Society to preserve the base of professional geologists needed in Kansas to effectively compete in the search for energy fuels.

3. Independent oil and gas producers form the backbone of the Kansas oil and gas industry and as such provide a platform for not only our profession but numerous other supporting professions. The passage of a Severance Tax would have a detrimental effect on this industry as well as causing a "rippling effect" through-out all segments of our economy.

4. The lingering threat of additional taxation on the petroleum industry has had a disconcerting effect on our ability to attract the necessary investment capital we depend on for both exploratory and developmental drilling. The result has been a sharp decline in industry activity.

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It is our hope that after considering these and other factors you will conlude¬ as we have¬ that a Severance Tax on oil and gas produced in Kansas is not in the best interest of our state and our people.

Respectfully submitted¬

Dan A. Bowles
President

George N. Mueller
Vice Pres.-Pres. Elect

Jene C. Darmstetter
Secretary-Treasurer