Approved April 22, 1983
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION.

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

4:40 ~~a.m.~~/p.m. on February 24, 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:

Material was distributed from Gary Younger, Kansas Chapter of International Association of Drilling Contractors, Wichita, in opposition to the proposed severance tax being considered by the committee. (Attachment #1)

The chairman recognized Tom Severn who explained to the committee updated material on the various options, assuming different prices, on what the various bills would raise in revenue at four different oil prices. (Attachment 2). In response to questions, he said these are figures on what the bill would raise on an annualized basis (FY 84 collections would be 75 percent of first year liabilities).

The chairman called the committee's attention to a memorandum before them, dated Feb. 24, with a list of major options to be considered by the committee when discussing the severance tax proposals. These are major policy decisions. (See Attachment #3). The chairman asked for other policy options the committee wanted to consider and the following were added:

(12) domestic agriculture use exemptions
(13) new well exemption
(14) determination of profitability cut-off

Discussion began on option 2, as to what minerals or products should be taxed. Consideration was given to including limestone and gypsum. The Research Department will bring back figures on this.

Senator Allen made a conceptual motion that coal be included in the list of minerals to be taxed. Senator Angell seconded the motion.

The chairman reminded the committee that the cost of removing coal in Kansas was higher per ton than other states that had larger veins of coal; was much less expensive in other states with a lower sulphur content. Testimony last year was that the coal industry is in serious shape. One of the committee members said the same could possibly be said for the oil and gas industry. The motion passed with Senators Chaney, Mulich and Johnston voting "no".

Senator Chaney moved and Senator Mulich seconded a conceptual motion to include oil in the list of minerals to be taxed. The motion passed.

Senator Chaney moved and Senator Mulich seconded a conceptual motion to include natural gas in the list of minerals to be taxed. The motion passed.

Senator Angell moved and Senator Montgomery seconded a conceptual motion to include salt in the list of minerals to be taxed. The motion failed to pass.

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION,

room 313-S, Statehouse, at 4:40 xxx/p.m. on February 24, 1983.

Senator Angell moved and Senator Ehrlich seconded a conceptual motion to have the severance tax as an "add on" tax in addition to the local property tax. The motion passed.

Senator Ehrlich moved and Senator Hayden seconded a conceptual motion to exempt any oil wells of ten barrels or less production. (Senator Angell noted that with this in the proposed bill, production won't stop.) It was noted this would include 59.4% of the oil produced in Kansas. The motion failed.

The chairman adjourned the meeting at 5:50 p.m. The next meeting will be at 11:00 a.m. February 25, in Room 529-S.

4:40 p.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
Feb. 24			
	R N Wilson	WICHITA	KTVH
	Robert A. Anderson	Ottawa	Mid Cont
	[illegible] Martin	Topeka	KPC
	[illegible]	"	"
	Walter [illegible]	"	EKOGA
	Don Schnacke	"	KIOGA

Attachment
#1
Chapter Chairm
Gary Younger
H-30 Drilling, Inc.
251 N. Water, Suite 10
Wichita, KS 67202
(316) 263-2043

Kansas Chapter
INTERNATIONAL ASSOCIATION OF DRILLING CONTRACTORS

February 16, 1983

Ladies and Gentlemen of the Legislature:

We, the membership of Kansas Chapter of the International Association of Drilling Contractors (commonly known as the IADC), wish to set forth our position on the proposed Severance Tax presently being considered in the 1983 legislative session. We appreciate your taking a few moments to review our position on what we consider potentially the most catastrophic legislation to be introduced in decades. It should be noted that our organization has historically refrained from trying to influence the political forum in Topeka but in this matter felt it was imperative that we communicate our reasons why a severance tax should not be considered at this time as a state revenue generator.

The Kansas IADC Chapter opposes any form of severance tax for the following reasons, enumerated as follows:

1. A severance tax will result in a significant loss of employment for our employees as well as many other employees of related companies:

   The contract drilling industry has historically been a volatile business due to the natural forces of supply and demand. Presently our industry has approximately 120 rigs operating, employing 1700 people in the field with hundreds of additional administrative personnel (secretaries, supervisors, etc.) supporting the field personnel. The number of rigs presently operating represents a decline of approximately 100 rigs (or 45%) since December, 1981. In addition, the number of rigs currently operating continues to decline due to lack of demand for contract drilling services.

   Unfortunately, the outlook for our industry without any additional taxes is bleak due to oil prices declining in an unstable world market. The oil price per barrel has declined from over $40 per barrel to $29 per barrel in slightly more than 12 months. We predict prices for crude will continue to decline substantially.

   This rapid decline and uncertainty has resulted in a dramatic reduction in drilling activity necessitating the "stacking" of over 100 rigs since December, 1981. Any form of severance tax can do nothing but deteriorate the demand for drilling services resulting in more rigs being stacked, thereby eliminating jobs for our employees and those of related service companies. It seems unconscionable that in times of double digit unemployment, the legislators would consider passing legislation that will unequivocally result in loss of jobs for their constituents.

Regional Vice President
Ted Warren
FWA Drilling Company Inc.

Chapter Secretary-Treasurer
Gary Reed
Range Drilling Company, Inc.

Chapter Vice Chairman
Bill Walker
Rine Drilling Co., Inc.

Atch. 1

2. <u>A severance tax will not result in creation of $160 million in additional tax revenues</u>:

   Our governor suggests that over $160 million will be raised from passage of a 7% severance tax. This is not correct, for if a tax is passed the following "rippling" effect will occur:

   a. Due to an additional 7% burden on oil and gas economics, fewer prospects will be drilled and existing wells will be plugged sooner, for they will no longer be economically viable.

   b. With fewer prospects being drilled and wells being plugged sooner, then less activity in the industry will occur.

   c. With less activity less money will be spent to find hydro-carbons and ultimately less oil and gas will be sold, resulting in less contribution to the Kansas Gross Product (KGP).

   d. With less KGP contribution, the following other tax bases will be reduced:

      Ad Valorem, Sales, Use, Income, Unemployment

We contend that from the moment the severance tax is enacted, anticipated severance tax revenues will never be attained due to the adverse effect on the economics for drilling, resulting ultimately in less gross production to be taxed. In addition, it will erode the collections from other taxes due to depressed activity which could result in less total taxes being collected from the energy industry. Finally, the severance tax will not generate the taxes anticipated because oil prices are not going to be as high as severance tax preparers have assumed.

3. <u>We are paying our fair share of the tax load already</u>:

   We often hear that the energy industry of Kansas does not pay its fair share of taxes. This is not true. Our industry is one of the very few taxpayers that not only pays its share of income, sales, use and unemployment tax but also pays property taxes on a value approximating 30% of the fair market value of its assets. Almost exclusively all other property taxes are assessed on values between 5%-10% of the fair market value of assessed assets. The energy industry paid over $100 million in property taxes for 1981, representing over 10% of the total property taxes paid statewide. It seems to us that if legislation were passed to insure that all taxpayers were required to pay property taxes on 30% of their fair market values as required by existing law, that significant revenues could be raised, and truly, everyone would be paying their fair share.

4. Many of our members are on the brink of serious financial problems and possible financial collapse:

   Our industry has just completed one of the most volatile periods in its history. Over the last four years our customers encouraged us to upgrade our equipment and, in many instances, add new equipment to drill the wells they required. We admit that part of the incentive to purchase this equipment was profit-motivated, which is of course the focal point of our economic system. Equally important, however, was the belief of our members that America must be free from dependence on foreign oil. We as American contractors had a responsibility to satisfy the demand for drilling which was created by removal of price controls which provided, for the first time in years, the necessary financial incentive for domestic exploration.

   Due to intense demand and short supply of quality drilling equipment, exorbitant prices were paid for this equipment. Unfortunately, with the decline in drilling activity, rig equipment values have plummeted. Today equipment is selling on the average for about 1/3 of what it sold for a little over a year ago and in some cases 10% or less of pre-1981 sales prices. Secondly, the equipment was financed at double digit interest rates, rates higher than those of the past twenty years.

   The dilemma is that if a severance tax is enacted, decreased drilling will result, further reducing activity which will prohibit most of our members from re-couping their investment, and result in their never regaining their financial posture and ultimately taking bankruptcy.

5. A severance tax will not affect "Big Oil":

   Most non-energy orientated individuals see Kansas infiltrated with Exxons, Mobils, etc. (Big Oil). Conversely, very little of the Kansas energy spectrum is made up of "Big Oil", but rather independent operators predominately based in and owned by Kansans. Also, none of the large publicly held contract drilling companies, such as Parker Brothers or Loffland Brothers, normally operate rigs in Kansas.

   Basically, we see the severance tax as predominately a tax on and against Kansas constituents. The only effect on "Big Oil" is that it will further discourage "Big Oil" and Independents alike from spending money on exploration and development in Kansas due to reduced economic viability.

6. Electing Governor Carlin was not a mandate for a severance tax:

   Most politicians feel by the re-election of Governor Carlin was a mandate by the people for a severance tax. If this is the only reason Governor Carlin was elected, then God help us. We would like to believe that the voters felt that Governor Carlin was the best man for the position for many reasons, not just because he supported a severance tax.

We believe the present governor wants what is best for the people of Kansas. We believe that he does not understand the devastating impact the severance tax will have on the Kansas economy, let alone the Kansas energy industry. We are going to attempt to tell our story to the governor in hope that he will try to understand the potential impact of a severance tax on Kansas. We are confident he is a fair person and has done and will do what is best for Kansas.

As it pertains to your vote, we don't think you should base your vote on the possible interpretation of the results of the last election but preferably on the best interests of your constituents and your state. The only mandate from the last election was that the majority of the voters preferred John Carlin over Sam Hardage.

7. A severance tax will essentially destroy exploration and development by companies not presently operating in Kansas:

   Most of our members have talked to many oil and gas operators in and out of Kansas in the past few months to procure business for their rigs. The predominant theme expressed in these meetings is that even though the energy business depressed nationwide, Kansas is better poised than many states to trigger reasonable exploration and development activity under present oil prices and tax structure. With a severance tax, we believe that these operators who have been studying Kansas for exploration will decide that the once favorable economic potential has been eliminated and will spend their monies elsewhere.

8. If additional tax revenues are needed, increase existing taxes or pass new taxes that will affect all taxpayers:

   We believe taxes are the responsibility of all citizens, not just those of a particular segment of society. If additional tax revenues are absolutely needed, then we suggest increasing the income, sales, use or fuel taxes or enacting a different tax that will be paid by all citizens. Only then will the tax burden be equitably shared.

In conclusion, our motive in this position paper was to objectively as possible delineate our position on a severance tax to you. Our purpose was to help insure that you thoroughly understand what a severance tax means to the energy industry and to the State of Kansas.

In closing, we would like to leave you with a proverb that our Company has used as a benchmark in dealing in our customer relationships.

> "You can shear sheep twice a year, but you can only skin them once."

We ask that you shear your sheep rather than skin them.

Sincerely,

Gary Younger

Gary Younger
Chairman

GY/ct

Attachment
#2

COMPARISON OF PRINCIPAL FEATURES OF 1983 SEVERANCE TAX BILLS
USING NET OIL PRICE OF $28/BARREL ($29 POSTED PRICE)

Bill No(s).	S.B. 171	H.B. 2323	H.B. 2172 & 2173	S.B. 67 & 68	S.B. 267
Principal Sponsor	Hein	Holderman	Weaver	Steineger	Senate A & T
Oil Production	5%	7%	7%	7%	7.5%
Gas Production	5%	7%	7%	7%	7.5%
Liquids Processing	none	none	4%	4%	none
Property Tax Credit	80%	100%	none	none	100%
Royalty Interests	taxable	taxable	exempt	exempt	exempt, but limited to 1/8
Exemptions, Oil	1 BOD 2 BOD/2,000' 3 BOD/3,000'	1 BOD 2 BOD/2,000'	1 BOD 2 BOD/2,000'	1 BOD 2 BOD/2,000'	1 BOD 2 BOD/2,000'
Exemptions, Gas	30 m.c.f.	30 m.c.f.	30 m.c.f.	60 m.c.f.	60 m.c.f.

Annualized Net Liabilities*

(millions)

	S.B. 171	H.B. 2323	H.B. 2172 & 2173	S.B. 67 & 68	S.B. 267
Net Revenue, Oil	$ 32.2	$ 56.5	$ 113.1	$ 113.1	$ 61.3
Net Revenue, Gas	--	4.4	36.5	34.7	7.1
Production Tax	$ 32.2	$ 60.9	$ 149.6	$ 147.8	$ 68.5
Processing Tax to (SGF)	—	—	$ 27.2	$ 27.2	—
TOTAL	$ 32.2	$ 60.9	$ 176.8	$ 175.0	$ 68.5
Distribution of Production Tax					
SGF	100.0%	95.0%	95.0%	95.0%	82.5%
Counties, USD's	--	5.0%	5.0%	5.0%	7.5%
Trust Fund	--	--	--	--	10.0%
Receipts Distributed to:					
SGF	$ 32.2	$ 57.9	$ 169.3	$ 167.6	$ 56.5
Counties, USD's	—	3.0	7.5	7.4	5.1
Trust Fund	—	—	—	—	6.8
TOTAL	$ 32.2	$ 60.9	$ 176.8	$ 175.0	$ 68.5

* Based on consensus estimates dated December 2, 1982 for natural gas and natural gas liquids, but with oil posted price of $29, minus $1 discount for actual. Actual FY 1984 receipts are estimated to be 75% of full year liabilities.

Kansas Legislative Research Department
February 21, 1983

83-60/WM

Atch. 2

COMPARISON OF PRINCIPAL FEATURES OF 1983 SEVERANCE TAX BILLS

Bill No(s).	S.B. 171	H.B. 2323	H.B. 2172 & 2173	S.B. 67 & 68	S.B. 267
Principal Sponsor	Hein	Holderman	Weaver	Steineger	Senate A & T
Oil Production	5%	7%	7%	7%	7.5%
Gas Production	5%	7%	7%	7%	7.5%
Liquids Processing	none	none	4%	4%	none
Property Tax Credit	80%	100%	none	none	100%
Royalty Interests	taxable	taxable	exempt	exempt	exempt, but limited to 1/8
Exemptions, Oil	1 BOD 2 BOD/2,000' 3 BOD/3,000'	1 BOD 2 BOD/2,000'	1 BOD 2 BOD/2,000'	1 BOD 2 BOD/2,000'	1 BOD 2 BOD/2,000'
Exemptions, Gas	30 m.c.f.	30 m.c.f.	30 m.c.f.	60 m.c.f.	60 m.c.f.

Annualized Net Liabilities*

(millions)

	S.B. 171	H.B. 2323	H.B. 2172 & 2173	S.B. 67 & 68	S.B. 267
Net Revenue, Oil	$ 44.7	$ 75.0	$ 129.3	$ 129.3	$ 78.6
Net Revenue, Gas	--	4.4	36.5	34.7	7.1
Production Tax	$ 44.7	$ 79.4	$ 165.8	$ 164.0	$ 85.8
Processing Tax to (SGF)	—	—	$ 27.2	$ 27.2	—
TOTAL	$ 44.7	$ 79.4	$ 193.0	$ 191.2	$ 85.8
Distribution of Production Tax					
SGF	100.0%	95.0%	95.0%	95.0%	82.5%
Counties, USD's	--	5.0%	5.0%	5.0%	7.5%
Trust Fund	--	--	--	--	10.0%
Receipts Distributed to:					
SGF	$ 44.7	$ 75.4	$ 184.7	$ 183.0	$ 70.8
Counties, USD's	—	4.0	8.3	8.2	6.4
Trust Fund	—	—	—	—	8.6
TOTAL	$ 44.7	$ 79.4	$ 193.0	$ 191.2	$ 85.8

* Based on consensus estimates dated December 2, 1982. Actual FY 1984 receipts are estimated to be 75% of full year liabilities.

Kansas Legislative Research Department
Revised February 23, 1983

83-54

$25 POSTED PRICE

COMPARISON OF PRINCIPAL FEATURES OF 1983 SEVERANCE TAX BILLS
USING NET OIL PRICE OF $24/BARREL ($25 POSTED PRICE)

Bill No(s).	S.B. 171	H.B. 2323	H.B. 2172 & 2173	S.B. 67 & 68	S.B. 267
Principal Sponsor	Hein	Holderman	Weaver	Steineger	Senate A & T
Oil Production	5%	7%	7%	7%	7.5%
Gas Production	5%	7%	7%	7%	7.5%
Liquids Processing	none	none	4%	4%	none
Property Tax Credit	80%	100%	none	none	100%
Royalty Interests	taxable	taxable	exempt	exempt	exempt, but limited to 1/8
Exemptions, Oil	1 BOD 2 BOD/2,000' 3 BOD/3,000'	1 BOD 2 BOD/2,000'	1 BOD 2 BOD/2,000'	1 BOD 2 BOD/2,000'	1 BOD 2 BOD/2,000'
Exemptions, Gas	30 m.c.f.	30 m.c.f.	30 m.c.f.	60 m.c.f.	60 m.c.f.

Annualized Net Liabilities*

(millions)

	S.B. 171	H.B. 2323	H.B. 2172 & 2173	S.B. 67 & 68	S.B. 267
Net Revenue, Oil	$ 19.8	$ 38.0	$ 96.9	$ 96.9	$ 44.0
Net Revenue, Gas	--	4.4	36.5	34.7	7.1
Production Tax	$ 19.8	$ 42.4	$ 133.4	$ 131.7	$ 51.1
Processing Tax to (SGF)	—	—	$ 27.2	$ 27.2	—
TOTAL	$ 19.8	$ 42.4	$ 160.6	$ 158.9	$ 51.1
Distribution of Production Tax					
SGF	100.0%	95.0%	95.0%	95.0%	82.5%
Counties, USD's	--	5.0%	5.0%	5.0%	7.5%
Trust Fund	--	--	--	--	10.0%
Receipts Distributed to:					
SGF	$ 19.8	$ 40.3	$ 153.9	$ 152.3	$ 42.2
Counties, USD's	—	2.1	6.7	6.6	3.8
Trust Fund	—	—	—	—	5.1
TOTAL	$ 19.8	$ 42.4	$ 160.6	$ 158.9	$ 51.1

* Based on consensus estimates dated December 2, 1982 for natural gas and natural gas liquids, but with oil posted price of $25, minus $1 discount for actual. Actual FY 1984 receipts are estimated to be 75% of full year liabilities.

Kansas Legislative Research Department
February 24, 1983

83-60a

$21 POSTED PRICE

COMPARISON OF PRINCIPAL FEATURES OF 1983 SEVERANCE TAX BILLS
USING NET OIL PRICE OF $20/BARREL ($21 POSTED PRICE)

Bill No(s).	S.B. 171	H.B. 2323	H.B. 2172 & 2173	S.B. 67 & 68	S.B. 267
Principal Sponsor	Hein	Holderman	Weaver	Steineger	Senate A & T
Oil Production	5%	7%	7%	7%	7.5%
Gas Production	5%	7%	7%	7%	7.5%
Liquids Processing	none	none	4%	4%	none
Property Tax Credit	80%	100%	none	none	100%
Royalty Interests	taxable	taxable	exempt	exempt	exempt, but limited to 1/8
Exemptions, Oil	1 BOD 2 BOD/2,000' 3 BOD/3,000'	1 BOD 2 BOD/2,000'	1 BOD 2 BOD/2,000'	1 BOD 2 BOD/2,000'	1 BOD 2 BOD/2,000'
Exemptions, Gas	30 m.c.f.	30 m.c.f.	30 m.c.f.	60 m.c.f.	60 m.c.f.
Annualized Net Liabilities* (millions)					
Net Revenue, Oil	$ 7.3	$ 19.6	$ 80.8	$ 80.8	$ 26.7
Net Revenue, Gas	--	4.4	36.5	34.7	7.1
Production Tax	$ 7.3	$ 24.0	$ 117.3	$ 115.5	$ 33.8
Processing Tax to (SGF)	—	—	$ 27.2	$ 27.2	—
TOTAL	$ 7.3	$ 24.0	$ 144.5	$ 142.7	$ 33.8
Distribution of Production Tax					
SGF	100.0%	95.0%	95.0%	95.0%	82.5%
Counties, USD's	--	5.0%	5.0%	5.0%	7.5%
Trust Fund	--	--	--	--	10.0%
Receipts Distributed to:					
SGF	$ 7.3	$ 22.8	$ 138.6	$ 136.9	$ 27.9
Counties, USD's	—	1.2	5.9	5.8	2.5
Trust Fund	—	—	—	—	3.4
TOTAL	$ 7.3	$ 24.0	$ 144.5	$ 142.7	$ 33.8

* Based on consensus estimates dated December 2, 1982 for natural gas and natural gas liquids, but with oil posted price of $21, minus $1 discount for actual. Actual FY 1984 receipts are estimated to be 75% of full year liabilities.

Kansas Legislative Research Department
February 24, 1983

83-60b

MEMORANDUM

Attachment #3

February 24, 1983

TO: Senate Committee on Assessment and Taxation

FROM: Kansas Legislative Research Department

RE: Severance Tax Options

Chairman Burke has requested a list of major options to be considered by the Committee when discussing severance tax proposals. Major policy options for the Committee include:

1. Should a severance tax be enacted?

2. If so, what minerals, or products should be taxed?

    - oil?
    - natural gas?
    - processing of natural gas liquids?
    - coal?
    - salt?
    - other minerals?

3. What should the rate of tax be? Uniform rate for all products, or different rates for different minerals?

4. Should royalty interests be taxed or exempt?

5. Should any exemptions for low producing wells be enacted?

6. Should the tax be in addition to, or in lieu of, property taxes on oil and gas? If in lieu of property taxes, how should revenue be returned to local political subdivisions to compensate them for their loss of property taxes?

7. If the tax is in addition to property taxes, should any credit be given for property taxes? If so, how much credit should be allowed?

8. Should any tax receipts be distributed back to local political subdivisions to offset the impact of a severance tax on oil and gas valuations? If so, how much?

9. Should any tax receipts be deposited in a trust fund? If so, how much?

10. How should the net revenues be distributed? Deposited in the SGF, a special fund, or earmarked for a particular purpose?

11. Should the Committee use a bill in Committee or a new bill?

Atch. 3