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 March 3, 1983 in room 526-S of the Capitol.

All members were present ~~except~~:

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

Conferees appearing before the committee:

Senator Jack Steineger
Senator Joe Warren
Pat Hubbell, Special Repr. for Public Affairs, Kansas Railroad Association
Don Willoughby, InterNorth, Inc.
David A. Roach, Executive Vice President of MAPCO Inc.
Duane Hogsett, Cities Service Oil and Gas Corp.
W. D. Wyatt, Northern Gas Products Co.
Raymond Baer, Riley
Ron Gaches, KACI

A hearing was held on SB 220. The chairman recognized Senator Jack Steineger, primary sponsor of the bill which would allow the Division of Property Valuation to use the "segregated method" in appraising railroad property. Senator Steineger told the committee that railroads are appraised using the "unit value" method under present law. (See Attachment #1)

Senator Joe Warren, another sponsor of the bill, told the committee the state needs a single appraisal method which would resolve inequities in appraisal. He said they offered this bill to try to bring one more property into a standard method and this bill would give Property Valuation the power to do this. He distributed a memorandum obtained from records of the Trustee in the Rock Island bankruptcy, showing the amount of the total selling price as $300 million and the 100 percent unit value of the railroad for property tax purposes as $200 million. (Attachment #2)

Speaking in opposition to SB 220 was Pat Hubbell, Special Representative for Public Affairs, Kansas Railroad Association, who told the committee the question of whether railroads are properly appraised has been studied time and time again. He said he believed SB 220 is an attempt to circumvent Federal law by increasing for property tax purposes the appraised values of Kansas railroads. (Attachment #3). He said that because of the unique nature of railroad properties, some profitable, some unprofitable, that arriving at the fair market value for a piece of tract connecting two towns, for example, wouldn't be fair. If you are farming, and you have a piece of ground that isn't profitable, you can sell it. In railroading, they can't sell or quit operating unprofitable segments without going through an involved hearing process before the ICC. He said that is why the segregated method won't work on rail property, because the entire railroad has to be viewed to get a fair idea of its value.

A hearing was held on SB 68 which imposes a 4 percent tax on the privilege of processing natural gas. Senator Steineger, one of the sponsors, said the opponents of this bill have made their usual "We'll leave Kansas if you tax us" argument, but the plants are already here, are centrally located on a national gas transmission system, and Kansas geology provides ample storage in salt formations unavailable elsewhere (Attachment #4). Senator Steineger will return at a later date to answer questions from committee members as to whether this tax will be passed on and if there will be a price increase on LP gas.

The following persons appeared in opposition to SB 68:

Don Willoughby, InterNorth, Inc., said they consider this a value-added tax and it would be paid by Kansans. (Attachment #5)

David A. Roach, Executive Vice President of MAPCO Inc., said if this bill is enacted and if a processing tax is levied upon the customers of MAPCO such imposition will place them and their customers at a decided competitive disadvantage in the marketplace. (Attachment #6)

Duane Hogsett, Cities Service Oil and Gas Corp., said this bill proposes to tax these manufacturing costs and will create an administrative nightmare for them. Also, he believes the expected income is grossly overstated. (Attachment #7)

W. D. Wyatt, Northern Gas Products Co., said this tax was one more burden and with this bill enacted, they will close their processing plant. (Attachment #8)

Raymond Baer, Riley, opposes this legislation which he said makes our Kansas products more costly, be it fertilizer, plastics, gasoline additive, aerosol sprays, or anything else. He also fears the possible loss of some of the processing plants in Kansas (Attachment #9)

Ron Gaches, KACI, said the Association is opposed to a value-added tax, that such a tax could put a Kansas-based processor at a competitive disadvantage and would increase the cost to the ultimate consumer. They will oppose all additional taxes on captive taxpayers. (Attachment #10).

The chairman adjourned the meeting at 12:00 p.m. There will be a working session at noon on adjournment tomorrow.

11 a.m. mtg.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

| DATE | NAME | ADDRESS | REPRESENTING |
|---|---|---|---|
| MAR 3<br>3.3 | Ron Gaches | TOPEKA | KACI |
| " | Leroy Jones | Overland Park | B.L.E. |
| | RON CALBERT | NEWTON | U.T.U. |
| | Pat Hubbell | Topeka | KRRA. |
| | [illegible] Johnson | " | KLPGA |
| | Ray Baer | Riley | KLPGA |
| | WALTER DUNN | TopekA | EKOGA |
| | AMOS KRAMER | " | KPC |
| | Irene Peckham | Rantoul | Farm Bureau |
| | CHERRY COEN | Ottawa | Farm Bureau |
| | ALMEDA EDWARDS | OTTAWA | FR Co FARM BUREAU |
| | John Singleton | Tulsa | Cities Service |
| | E B KRAMER | TOPEKA | AT & SF |
| | [illegible] | [illegible] | NARFE |
| | [illegible] | Topeka | S.P.T.C. |
| | Robert L Heuser | Syracuse Ks. | |
| | Nancy Montgomery | Sabetha | |
| | [illegible] Montgomery | Sabetha | |
| | Cheryl Montgomery | Sabetha | |
| | Mabel Patton | Topeka | |
| | Mrs Don Loyd | Hiawatha | |
| | ROSS MARTIN | TOPEKA | KPC |
| | Don Willoughby | Topeka | INI |
| | D.F. HOGSETT | TULSA, OK. | CITIES SERVICE |
| | W.D. WYATT | OMAHA, NB | INTERNORTH |
| | Avis Burrow | Omaha, Ne. | Internorth. |
| | Mrs. Bill Morris | Wichita | Senate Wives |
| | Carol Allen | Ottawa | |
| | Mary Lee | Dwight | Farm Bur. |

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

| DATE | NAME | ADDRESS | REPRESENTING |
|---|---|---|---|
| 3-3-83 | Ralph Hedgespeth | Dunlap | Farm Bureau |
| 3-3-83 | Gary V Johnson | Dwight KS | Farm Bureau |
| | Gregg [illegible] | Law. | Stevenage |
| | Cathy Behajn | Topeka | AP |
| | B A [illegible] | Topeka | Rev. |
| | J. Marcum | " | PVD |
| | Carol [illegible] | " | PVD |
| | [illegible] | KC MO | Panhandle Eastern |
| | L. Kelly | " " | " " |
| | Jack E [illegible] | Wichita | Natural Helium |
| | Robert E Anderson | Ottawa | Mid Cont |
| | D. A. Roach | Tulsa | Mapco Inc |
| | Gene Bell | Tulsa | Mapco Inc. |
| | Paul E. Thornbrugh | Tulsa, Okla | Mapco Inc |
| | Andy Fordemwalt | K.C. Mo. | Panhandle Eastern |

REMARKS OF SENATE MINORITY LEADER JACK STEINEGER
ASSESSMENT & TAXATION COMMITTEE
S.B. 220

MARCH 3, 1983

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I APPRECIATE THIS OPPORTUNITY TO SPEAK ON S.B. 220, WHICH WOULD ALLOW THE DIVISION OF PROPERTY VALUATION TO USE THE "SEGREGATED METHOD" IN APPRAISING RAILROAD PROPERTY.

UNDER CURRENT LAW, RAILROADS ARE APPRAISED USING THE "UNIT VALUE" METHOD. UNDER THIS ACCEPTED APPRAISAL METHOD, THE ENTIRE VALUE OF THE RAILROAD--TRACKS, TIES, ROLLING STOCK, OFFICE FURNITURE AND PROPERTY---ARE VALUED AS A SINGLE UNIT. THEN, A PORTION OF THE VALUE IS ATTRIBUTED BACK TO THE VARIOUS STATES WHERE THE RAILROAD IS LOCATED.

THE "UNIT VALUE" METHOD ISN'T THE ONLY WAY TO VALUE RAILROAD PROPERTY, HOWEVER. A NUMBER OF STATES--ABOUT 15---USE ANOTHER FORM OF APPRAISAL, TO ONE DEGREE OR ANOTHER. THIS METHOD IS KNOWN AS THE "SEGREGATED METHOD," AND IT'S ONE OF SEVERAL OTHER ACCEPTED APPRAISAL METHODS FOR RAILROAD PROPERTY.

SENATE BILL 220 WOULD ALLOW THE USE OF THE "SEGREGATED METHOD" IN KANSAS. WHEN WE LOOK AT THE FACTS, I THINK YOU'LL AGREE THAT THEY RAISE A FUNDAMENTAL QUESTION ABOUT WHETHER THE CURRENTLY-USED "UNIT VALUE" METHOD ACTUALLY PRODUCES FAIR MARKET VALUE FOR KANSAS TAX PURPOSES.

LET ME GIVE YOU AN EXAMPLE. AS YOU ALL KNOW, THE STATE OF KANSAS IS IN THE PROCESS OF ACQUIRING THE SANTA FE OFFICE BUILDING ACROSS THE STREET FROM THE CAPITOL. THE BUILDING WAS APPRAISED BY THREE APPRAISERS, AND THE STATE AND THE SANTA FE HAVE AGREED TO A PRICE BASED ON THOSE APPRAISALS----11.2 MILLION DOLLARS. IN OTHER WORDS, BOTH THE STATE AND THE RAILROAD AGREE THAT THE BUILDING'S FAIR MARKET VALUE IS 11.2 MILLION DOLLARS.

IF WE MULTIPLY THIS FAIR MARKET VALUE TIMES THE STATUTORY 30%, WE COME UP WITH AN ASSESSED VALUE OF 3.36 MILLION DOLLARS. IF YOU WILL LOOK AT THE VALUATION SHEET ATTACHED TO MY TESTIMONY THOUGH, YOU'LL SEE THAT THE ASSESSED VALUE OF THE BUILDING ISN'T 3.36 MILLION DOLLARS. THAT BUILDING IS ON THE TAX ROLLS FOR LESS THAN HALF A MILLION DOLLARS----496,695 DOLLARS TO BE EXACT. THAT WORKS OUT TO AN ASSESSED VALUE OF 4.4 PER CENT---NOT 30 PER CENT.

IF WE LOOK AT THESE FACTS ANOTHER WAY--TAKING THE CURRENT ASSESSED VALUE AND MULTIPLYING IT UP TO THE 100 PER CENT FAIR MARKET VALUE, THE PRICE OF THE BUILDING WOULDN'T BE 11.2 MILLION DOLLARS. THE PRICE WOULD BE 1,652,310 DOLLARS. ALSO ATTACHED IS AN EDITORIAL FROM THE HUTCHINSON NEWS MAKING THIS EXACT POINT. I THINK YOU MIGHT ENJOY THE NEWSPAPER'S SUGGESTION TO THE SANTA FE.

I'VE GONE OVER THIS EXAMPLE OF THE SANTA FE BUILDING FOR ONE REASON. I THINK IT CLEARLY POINTS OUT THE PROBLEMS FACED BY STATES WHICH USE ONLY THE "UNIT VALUE" METHOD OF APPRAISING RAILROAD PROPERTY. WE SIMPLY DON'T KNOW FOR SURE, THAT REALISTIC--AND FAIR--VALUES ARE BEING PRODUCED.

LET ME GIVE YOU ANOTHER EXAMPLE. THE BURLINGTON NORTHERN RAILROAD OPERATES IN 21 STATES, INCLUDING KANSAS. UNIT VALUES FOR THE BURLINGTON NORTHERN RANGE FROM 3.5 BILLION DOLLARS IN CALIFORNIA AND OKLAHOMA TO ONLY 1.5 BILLION DOLLARS IN FLORIDA. KANSAS FALLS SLIGHTLY BELOW THE MIDDLE WITH A UNIT VALUE OF 2.3 BILLION DOLLARS.

MUCH THE SAME IS TRUE FOR THE UNION PACIFIC. MONTANA VALUES THE UNION PACIFIC SYSTEM AT 2.7 BILLION DOLLARS, NEBRASKA AT 1.7 BILLION DOLLARS. KANSAS FALLS SLIGHTLY ABOVE THE MEDIAN AT 2.3 BILLION DOLLARS.

AS I SAID EARLIER, I BELIEVE THE FACTS INDICATE THAT WE SHOULD SERIOUSLY CONSIDER GIVING THE DIVISION OF PROPERTY VALUATION ANOTHER TOOL TO USE IN SETTING RAILROAD VALUATIONS. THE VALUATIONS, SUCH AS THE SANTA FE BUILDING, MAY BE RIGHT. I DON'T THINK ANYONE ACTUALLY KNOWS FOR SURE.

MR. PHIL MARTIN, DIRECTOR OF PROPERTY VALUATION, IS AVAILABLE TO THE COMMITTEE TO ANSWER ANY QUESTIONS YOU MIGHT HAVE ABOUT THE CURRENT "UNIT VALUE" METHOD OR THE "SEGREGATED METHOD" AS PROPOSED BY SENATE BILL 220.

THANK YOU VERY MUCH.

Wed 7-5-83

The Hutchinson News

*This is a page of opinion, ideas and suggestions. The editorials below are The News' opinions. They are usually written by the editor.*

Editorial

# Santa Fe's purity

The Santa Fe Railway has been claiming for some time that it's a victim of nasty tax discrimination in Kansas.

The railroad has carried its complaints through the courts. It has even persuaded one judge to rule that the railroad is, indeed, pure, in the highly complex tax system.

The purity will now be put to a test.

Last week, the Santa Fe agreed to sell one of its buildings to Kansas taxpayers. The railroad will sell its Topeka office building (across the street from the Capitol). Taxpayers will pay $11,200,000 to the railroad.

The sale agreement establishes the fair market value of the property. It's $11,200,000. That price also clarifies what the previous property *tax* values should have been.

If the Railway building had been assessed at the rate as all other buildings in the state (12 percent of fair market value), the Santa Fe Railway would have been paying taxes based on a $1,300,000 assessment.

Thus, the building would have been on the tax rolls for $1,300,000.

Surprise. The building was on the tax rolls for only $450,000.

And the Santa Fe Railway has been claiming the $450,000 was too high!

Tsk, tsk, tsk.

Now that the Santa Fe Railway has pretended that it is on the side of the angels in taxpaying, it has only one option remaining to protect its virtue.

It must spurn the state's $11,200,000 purchase offer. It must accept only a price based on the legally-required assessed value of the building.

That would be a maximum of $3,750,000.

But that may be too much. Since the Santa Fe has claimed that its tax assessments have been *too high*, it can't even take the $3.75 million.

Past tax assessments of the Santa Fe building (if legally pure) would put the building's fair market value at $1,500,000. ($450,000 equalling 30 percent of fair market value).

We now await the Santa Fe Railway's magnificent gesture, telling Kansas taxpayers to please keep most of their $11,200,000. To remain virtuous, the railroad must do the decent thing, and sell the building for only $1,500,000.

| Location of Real Estate Legal Description Township or City (1) | Description of Buildings and Other Improvements (Do not include equipment) Year Built (2) | Type Construction (3) | No. Stories (4) | Measurement 00 x 00 (5) | COMPANY DISTRIBUTED VALUE Land (6) | Buildings and Improvements (7) | DISTRIBUTED ASSESSED VALUES Land (8) | Buildings and Improvements (9) | Total Real Estate (10) |
|---|---|---|---|---|---|---|---|---|---|
| ty of Topeka | | | | | | | | | |
| ots 290 to 312, inc. | | | | | | | | | |
| ackson St. - 1.07 acres | | | | | | | | | |
| eral Ofc Bldg 321 | 1910 | Conc | 10 | 150x150) | | | | | |
| | | | | ) | 55,935 | 440,760 | 55935 | 440,760 | 496,695 |
| nection 321 | 1925 | Conc | 10 | 52x150) | | | | | |
| HAWNEE COUNTY | | | | | 55,935 | 440,760 | 55 935 | 440,760 | 496,695 |

82

Schedule No. 10a-2

RAILROADS

REAL ESTATE INFORMATION

Not on Right of Way—Used in the Daily Operation of Railroad

AT&SF
(Company)

SHAWNEE
(County)

Holliday to Emporia via Topeka
(Name of Line)

Sheet 123

Attachment #2

JOE WARREN
SENATOR, THIRTY-SECOND DISTRICT
MAPLE CITY, KANSAS

STATE OF KANSAS

TOPEKA

SENATE CHAMBER

COMMITTEE ASSIGNMENTS
MEMBER: AGRICULTURE AND SMALL BUSINESS
WAYS AND MEANS
EDUCATION
POST AUDIT

MEMORANDUM

DATE: March 3, 1983

FROM: Senator Joe Warren

TO: Senate Committee on Assessment & Taxation

RE: Senate Bill 220

The following information was obtained from records of the Trustee, Mr. William M. Gibbons, in the Rock Island bankruptcy.

| | |
|---|---|
| TRACK SALES (as of 12/31/82) | $229,334,658 |
| NON-TRACK SALES (sold or agreed to be sold as of 12/31/82) | $ 70,173,313 |
| TOTAL SALES | $299,507,971 |
| Trustee's projected revenues from other sales | $225,765,000 |
| GRAND TOTAL SALES | $525,272,971 |

Rock Island Railroad 100% Unit Value (KANSAS)

$200,000,000 (1979)

$200,000,000 (1980)

$125,000,000 (1981)

$140,000,000 (1982)

11.4%

Atch. 2

Attachment #3

#3

# 3

STATEMENT OF THE

KANSAS RAILROAD ASSOCIATION

Presented To

THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

The Honorable Paul E. Burke, Jr., Chairman

**********

Statehouse
Topeka, Kansas
March 3, 1983

Atch. 3

KANSAS RAILROAD ASSOCIATION

SUITE 605, 109 WEST NINTH STREET
P.O. BOX 1738
TOPEKA, KANSAS 66628

913-232-5805

PATRICK R. HUBBELL
SPECIAL REPRESENTATIVE-PUBLIC AFFAIRS

MICHAEL C. GERMANN, J. D.
LEGISLATIVE REPRESENTATIVE

MR. CHAIRMAN AND MEMBERS OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION:

My name is Pat Hubbell. I appear today on behalf of the Kansas Railroads in opposition to S.B. 220.

Discriminatory and inequitable ad valorem taxation of railroads by the states was first documented by Congress in 1961 in the "Doyle Report". No impetus existed at that time to correct the discriminatory treatment. The subsequent bankruptcy of the northeastern railroads and the accompanying threat of a multi-billion dollar drain on the national treasury provided the impetus for Congress to correct the problem of discriminatory taxation of the railroads. In 1976 Congress enacted the Railroad Revitalization and Regulatory Reform Act (the 4-R Act) and put into place a comprehensive plan to revitalize the nation's rail transportation system. Congress created Conrail to salvage the northeast rail system from over-regulation, subsidized competition and discriminatory taxation. Congress sought to keep the remainder of the national rail system in the private sector, as privately-owned, tax-paying entities. The Rock Island Railroad is the one notable failure of Congress' comprehensive plan. Over regulation, subsidized competition and discriminatory taxation all contributed to its failure.

Are railroads subject to discriminatory ad valorem taxation in Kansas? In the "1980 4-R Case" the Court stated:

> [a]lthough admittedly aware that discrimination was present in the taxation of railroads, absolutely no action was taken to correct the situation. The testimony presented to the court basically showed an attitude of indifference to the plight of the railroad industry.

Are railroads properly appraised in Kansas? This question has been studied by special legislative committees time and time again.

The report of the 1982 Special Committee on Assessment and Taxation includes the following statement:

> The Committee recommends no change in the statutes pertaining to the valuation of railroads and other public utilities. This means that railroads and other utilities will continue to be appraised using the unit valuation methods specified in K.S.A. 79-5a01 _et seq_.

In the "1980 4-R Case" the Court stated:

> [T]he Director of Property Valuation properly valued the plaintiff's property under the unitary method of appraisal and _accurately arrived at the true market value of the plaintiff's property_ for the 1980 tax year. The evidence simply does not support the proposition that the Director improperly appraised plaintiff's property or that the unitary method understated the true market value of plaintiff's rail transportation property . . . . Because of the unique character of a railroad company, we are convinced that the _unitary valuation method is the best available method of valuing railroad transportation property_. (Emphasis added.)

S.B. 220 is an attempt to circumvent Federal law by increasing for property tax purposes the appraised values of Kansas railroads. S.B. 220 requires the Director of Property Valuation to contract with an appraisal company for this purpose. It is my understanding that a contract of this sort would cost the State of Kansas -- at a minimum -- $500,000. Will the State require this appraisal company to guarantee that the new values will be high enough for the State to recoup at least some of the hundreds of thousands of dollars it invested in the appraisal? In the "1980 4-R Case" the Court stated:

> [Mr. Martin, Director of Property Valuation] also testified that the unitary valuation approach may produce a higher or lower value than that produced by using the segregated approach.

Will increased valuations of rail transportation property, unsupported by accepted appraisal methods, lead to further costly and time-consuming litigation? In the "1982 4-R Case" the Court stated:

> [This] court has jurisdiction to consider a situation where a state attempts to circumvent Section 306 by overvaluing a railroad in retaliation for past relief accorded under Section 306 of the 4-R Act.

Thank you Mr. Chairman for the opportunity to present our statement.

Attachment #4
#4

#4

REMARKS OF SENATE MINORITY LEADER JACK STEINEGER
SENATE ASSESSMENT AND TAXATION COMMITTEE
S. B. 68
MARCH 3, 1983

SENATE BILL 68 IS THE FOUR PERCENT PROCESSING TAX PROPOSED BY GOVERNOR CARLIN AGAIN THIS YEAR. LIKE THE SEVERANCE TAX, THIS PROPOSAL SITS ON ONE END OF THE TAX TEETER-TOTTER. IF THE RATE ON THIS TAX GOES DOWN, OR THE TAX IS NOT PASSED, TAXES ON THE OTHER END OF THE TEETER-TOTTER MUST BE RAISED.

THE FISCAL NOTE ON SENATE BILL 68 IS SLIGHTLY MORE THAN 20 MILLION DOLLARS. SO, IF YOU DON'T WANT TO TAX LIQUIDS, YOU'RE GOING TO HAVE TO FIND AN ADDITIONAL 20 MILLION TO FUND THE BUDGET.

A TAX ON THE PRIVILEGE OF PROCESSING NATURAL GAS LIQUIDS ISN'T A NEW IDEA. THE STATE OF LOUISIANA HAS TAXED LIQUIDS SINCE 1932. IN FACT, THE TAX RATE IN LOUISIANA WAS RAISED FEBRUARY 1, FROM FIVE CENTS A BARREL TO SEVEN CENTS AN MCF. THE TAX IN LOUISIANA APPLIES TO SUCH LIQUIDS AS BUTANE AND PROPANE, JUST AS IT WOULD IN KANSAS.

Atch. 4

THE STATE OF LOUISIANA HAS LONG RECOGNIZED THE BASIC PRINCIPLE ADDRESSED BY SENATE BILL 68: THAT THE PROCESSING (OR STRIPPING, AS WE CALL IT) OF LIQUIDS FROM NATURAL GAS CREATES VALUE WHICH SHOULD BE TAXED. IN THE CASE OF NATURAL GAS LIQUIDS, THE PROCESSING COMPANIES DO PAY A SMALL PREMIUM TO PRODUCERS FOR GAS FOR STRIPPING. THIS PREMIUM, HOWEVER, IN NO WAY EQUALS THE AMOUNT OF VALUE CREATED. SO IN KANSAS, WE ESSENTIALLY END UP WITH AN INCREASE IN VALUE WHICH GOES UNTAXED.

BEFORE CLOSING, THERE ARE A COUPLE OF OBSERVATIONS I WOULD LIKE TO MAKE ABOUT THIS BILL.

FOR ONE THING, OPPONENTS OF THE BILL HAVE MADE THEIR USUAL "WE'LL LEAVE KANSAS IF YOU TAX US" ARGUMENT. THIS IS THE SAME THREAT THAT'S MADE WHENEVER ANY STATE ATTEMPTS TO TAX THE ENERGY INDUSTRY. BUT LET'S LOOK BEHIND THE RHETORIC TO THE FACTS. THESE PLANTS AREN'T GOING TO LEAVE KANSAS IF WE PUT ON A SMALL TAX. IN THE FIRST PLACE, THE PLANTS ARE ALREADY HERE. SECOND, THEY ARE CENTRALLY LOCATED ON A NATIONAL GAS TRANSMISSION SYSTEM. THIRD, KANSAS GEOLOGY PROVIDES AMPLE STORAGE IN SALT FORMATIONS UNAVAILABLE ELSEWHERE. IN OTHER WORDS, THERE ARE SOME VERY GOOD REASONS WHY THESE PLANTS AREN'T GOING TO LEAVE, ESPECIALLY WHEN WE CONSIDER THE MINIMAL RATE OF THE PROPOSED TAX.

ANOTHER ARGUMENT THAT HAS BEEN RAISED BY OPPONENTS IS THAT THIS PROCESSING TAX WILL RAISE THE PRICE OF BUTANE AND PROPANE TO KANSAS CONSUMERS. I'M NOT SURE EXACTLY WHICH REPRESENTATIVE OF KIOGA TESTIFIED ON THIS POINT DURING THE SEVERANCE TAX HEARINGS LAST YEAR, BUT I CLEARLY RECALL HIM STATING THAT THE PRICE OF NATURAL GAS LIQUIDS IS SET ON THE TEXAS COAST. IN OTHER WORDS, THE TEXAS MARKET PRICE IS WHAT CONTROLS THE KANSAS PRICE. THE FACT THAT WE IMPOSE A SMALL TAX DOESN'T CHANGE THE PRICE IN TEXAS, SO THE TAX WOULD BE PAID BY PROCESSORS, NOT CONSUMERS.

MR. BEN NEILL IS HERE TODAY TO ANSWER ANY TECHNICAL QUESTIONS ABOUT THE BILL. HE ALSO HAS INFORMATION CONCERNING THE ECONOMICS OF "STRIPPING" LIQUIDS FROM NATURAL GAS, AND I'M SURE YOU WILL FIND HIS COMMENTS OF INTEREST.

THANK YOU VERY MUCH.

Attachment #5

TESTIMONY BEFORE THE SENATE

ASSESSMENT AND TAXATION COMMITTEE

March 3, 1983

Natural Gas Liquids Industry

in Kansas

The Natural Gas Liquids industry in Kansas consists of several distinctively different segments all of which work together to serve the needs of domestic and industrial consumers. These segments include:

1) Field Processing Plants
2) Mainline Processing Plants
3) Fractionation Plants
4) Storage, Transportation and Delivery Systems
5) LP-Gas Retail Operations

Field Processing Plants gather gas well and/or oil well gas to a central point in the field where the gas is processed, compressed (if needed), treated and dehydrated (if needed) and delivered to the gas purchaser.

Mainline Plants are located on gas transmission lines away from the field supplying the gas.

Fractionation Plants separate mixed natural gas liquids products into individual specification products for distribution to various markets. Three of the Kansas natural gas liquids plants are fractionation plants.

Storage, Transportation and Delivery Facilities are required to get the product to the consumer.

Atch. 5

This sophisticated system of storage, transportation and delivery facilities developed by the Natural Gas Liquids industry provides tremendous flexibility to NGL operators inside and outside Kansas. Kansas is extremely fortunate to have more than 100,000 barrels per day of product from other states brought to Kansas for Kansas' use. If the proposed tax were applied to the out-of-state product, operators would elect to take the products elsewhere for fractionation, shutting down the Kansas plants.

LP-Gas Retail Operations deliver tne LP-Gas to Kansas consumers. Since Kansas consumption of natural gas liquids products is essentially equal to Kansas' production, the proposed tax would be paid by Kansans.

This has been a broad overview of the liquids industry in Kansas and will be followed by representatives of these various segments who will discuss in greater detail the impact this value added tax would have on their operations.

Donald E. Willoughby
Regional Manager Public Affairs
InterNorth, Inc.
817 Merchants National Bank Building
Topeka, Kansas 66612
913/357-5121

Attachment #6
#6

6

STATEMENT IN OPPOSITION TO S.B. #68
IMPOSING A TAX ON THE PRIVILEGE OF
PROCESSING NATURAL GAS AND FEEDSTOCK IN
THE STATE OF KANSAS

Good morning Mr. Chairman and members of the committee. I appreciate the opportunity to appear before you in opposition to Senate Bill #68. My name is David A. Roach and I am Executive Vice President of MAPCO Inc. The parent company to MAPCO Fractionator, Inc.

MAPCO Fractionator, Inc. ("MAPCO") a Delaware corporation duly admitted to transact business in the State of Kansas, is a wholly owned subsidiary of MAPCO Inc. and the owner of an undivided 50% interest in a natural gas liquids Fractionator located at Conway, McPherson County, Kansas.

The Fractionator is owned 50% by MAPCO, 40% by Phillips and 10% by Getty . This facility has never continuously operated at capacity and for the calendar year 1982 operated at less than 75% of capacity. MAPCO is the operator and each owner therein is entitled to the privilege of processing a percentage of barrels equal to its ownership. The mixed stream entering the fractionator can be separated into commercial iso-butane, normal butane, propane, natural gasoline and ethane-propane mix, depending upon the percentage of such component parts contained in the mixed stream. All liquids entering the fractionator are not the same as to the percentage of component parts contained therein.

MAPCO obtains its liquids from five sources as follows: (1) Mid-America Pipeline Company; (2) Koch Pipeline; (3) Chism Pipeline; (4) Tank car and (5) by truck averaging one truck load per day of 200 barrels each. MAPCO does not own any of the liquids it processes and in December 1982 processed liquids for 47 different customers. All of the liquids that MAPCO processes are liquids which enter the fractionator from states other than the State of Kansas. MAPCO processes for a fixed fee and does not have control of any revenues belonging to its customers such as a gasoline plant that sells processed liquids to a purchaser and distributes the proceeds to the liquid interest owners.

Atch. 6

The Ad Valorem tax assessed on the Fractionator for the calendar year 1982 was $364,194.79.

MAPCO as a "Processor" under SB #68 could not comply with the provisions of this proposed legislation for each and all of the following reasons:

1) MAPCO does not know the "gross value" of the mix stream entering the fractionator for each of its customers.

2) MAPCO does not know the "gross value" of each of the component parts extracted in processing the liquids for each of its customers.

3) MAPCO does not know the ratable ownership interest in the stream of natural gas liquids processed by it.

4) MAPCO as "Processor" does not have any of its customers' funds from which it can withhold and remit taxes due as required by Section 4 of the proposed bill.

5) MAPCO as "Processor" does not have sufficient information to file a tax return covering the liquids it processes since it does not know the information required to file such return.

The liquids fractionated by MAPCO for its customers goes into the Mid-America Pipeline Company common carrier interstate system and other systems for transportation into and beyond the State of Kansas and during the time of MAPCO's control of such liquids they were, are, and will be in the natural flow of interstate commerce.

If SB #68 is enacted and if a processing tax is levied upon the customers of MAPCO such imposition will place MAPCO and MAPCO's customers at a decided competitive disadvantage in the marketplace. Therefore, MAPCO customers in order to be competitive, will endeavor to have their liquids processed in a state other than the State of Kansas and transport the fractionated stream around the State of Kansas by pipeline connections in New Mexico, West Texas, Oklahoma and the Texas Gulf Coast. In my opinion the proposed severance tax on natural gas liquids will have a great adverse impact on the Fractionator and seriously reduce revenues on the Mid-America Pipeline common carrier system.

Attachment #7
#7

#1

SB 68, Gas Processing Tax Bill

Statement by

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I have been involved in all phases of natural gas liquids (NGL) activities during my 34 years with Cities Service, including plant operations, design engineering and construction, new plant development, contract negotiations, product transportation and sales, accounting and administration.

Cities Service is a pioneer in the gas liquids business in the State of Kansas with the first plant built near Caney in 1916. The original plant near Wichita began operations in 1928. Today, Cities Service operates seven extraction plants in Kansas producing about 15,000 barrels per day of natural gas liquids and one central fractionation plant near Hutchinson which handles most of Cities Service's Kansas NGL production along with 10-15,000 barrels per day for others.

The gas processing tax proposed in SB 68, to my knowledge, is without precedent and Cities Service operates or has an ownership in 76 plants and fractionators located in 10 states. The tax is proposed as a "privilege tax" but in reality the tax is nothing more than a "value added tax." The apparent intent of SB 68 is to tax the value added by extracting natural gas liquids as well as value added by processing of feedstocks, if any.

The gas processing industry is, in fact, a separate industry. It is related to but it is not a part of the gas producing or the gas transmission industries. Substantial and separate costs for plant shrinkage, gathering, compression, sweetening, dehydration, fractionation, storage, pipeline transportation, truck and tank car distribution form the cost chain from the well head to the consumer. The proposed tax would apply to most of these costs because in a healthy enterprise, value is added as a result of the costs which are incurred. That is, the difference in value between the raw materials and the finished products - the value added - is nothing more than a reflection of the costs involved in converting the raw materials into finished products. The NGL business is just like other manufacturing businesses.

Therefore, it can be concluded that SB 68 proposes to tax the manufacturing costs involved in gas and feedstock processing operations. It is grossly unfair and inequitable to place this value added tax on this highly sophisticated, high technology industry, singling it out from all other manufacturing industries.

In addition, SB 68 proposes a tax which will be extremely difficult and expensive (both for the state and for plant operators) to administer, if in fact the tax can be effectively administered at all. As one example, Cities Service operates the Spivey Plant in Harper County as 6% owner. There are 101 other owners in the plant with more than 50 who own less than one-quarter of one percent. Many are independent producers who take their products in-kind which creates an administrative nightmare. It will be impossible to administer the proposed tax on a cost effective basis under these circumstances. There is also a serious legal question in the plant operator's administration of the proposed tax, for we believe that attempting to determine the arm's length product prices from the other plant owners would be in violation of the federal anti-trust laws.

The natural gas liquids business is good for Kansas and the health and welfare of the business in the state should be of paramount interest to the Kansas legislature. The proposed tax gives the opposite signal. In these difficult times when the NGL industry is already struggling to satisfy the needs of Kansas consumers, it is hit with declining production due to reduced natural gas sales and with increased costs due to increased natural gas prices. To even consider this discriminatory and punitive tax under these circumstances is unwise.

The natural gas liquids industry currently imports more than 100,000 barrels per day of NGL products into Kansas for its use as needed. Under current tax policies, these products should continue to be available for the state's long range plans. With the tax proposed in SB 68, much of the imported product may go elsewhere.

The availability of imported product is extremely important to Kansas when you consider the rapid NGL production decline in the state. In 1981 total production of butanes and natural gasoline in Kansas was 28,100 barrels per day while the calculated volume used in motor gasoline produced in Kansas was 29,200 barrels per day or a small short fall. In 1982 Cities Service butane and natural gasoline production decreased nearly 20% from 1981 and industry results are expected to be similar. If so, there was a major shortfall of butanes and natural gasoline produced in Kansas during 1982. As production continues to decline, the situation will worsen.

Production is currently curtailed at Cities Service's Wichita and Ulysses Plants because gas prices are higher than the value of the curtailed products after extraction. With further gas price increases and the burden of SB 68, the plants may have to be shutdown completely.

The NGL Industry is paying its full share of state taxes now, and it seeks no special favors--only the opportunity to maintain a productive long term economic viability.

I urge your rejection of SB 68. Thank you for the opportunity to speak to the gas processing tax issue.

TESTIMONY OF WILLIAM D. WYATT
Northern Gas Products Company
Concerning Senate Bill 68
March 3, 1983

Mr. Chairman and members of the Committee. My name is W. D. Wyatt, and I am Manager, Administration, for Northern Gas Products Company, a subsidiary of InterNorth.

We are opposed to Senate Bill 68, a proposal to levy a tax on the processing of natural gas and feedstock in the State of Kansas.

Northern Gas Products owns and operates a natural gas liquids plant in Ellsworth County, near Bushton, Kansas. This gas processing plant is presently extracting approximately 750,000 gallons per day of ethane, propane, iso and normal butane and natural gasoline from 900 million cubic feet of gas provided by Northern Natural Gas Company -- a division of InterNorth. The fractionator separates 1,500,000 gallons per day of mixed liquids (feedstock) into the same list of commercial products.

Assuming an average market value of 45¢ per gallon, 2-1/2 cents below the 1982 average, the proposed tax would cost Northern Gas Products up to $5 million per year on the liquids extracted from natural gas. The liquids feedstock processed through the fractionator would be taxed an additional $900,000 per year, paid by UPG, Inc., another InterNorth subsidiary, and other owners of the liquids.

Although Kansas liquids are an important component of the national supply, they do not set market prices. The market is composed of literally hundreds of



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buyers and sellers. Their activities, and therefore prices, are centered in Mt. Belvieu (a major storage center near Houston) and to a lesser degree, in the oil refineries near Chicago with regard to midcontinent liquids. These increased costs, imposed uniquely on Kansas processors by this tax, will have little effect on market prices and cannot be passed through to the customers. The final result will render liquids uncompetitive.

Last year, Northern Gas Products indicated that it extracted 1.5 million gallons per day of natural gas liquids and fractionated another 2.1 million gallons per day into commercial products at our Bushton facilities. As noted earlier, Northern Gas Products is currently extracting 750,000 gallons per day and fractionate another 1.5 million gallons. This sharp reduction is a major problem not only for Northern Gas Products Company, but is indicative of the overall industry-wide decline during the intervening year. Coupled with these drastically curtailed volumes and a decline in the value of liquid products, Northern Gas Products would now be confronted with an additional estimated cost of up to $500,000 per month if SB 68 is passed.

Faced with this proposed tax which would cost NGP and UPG up to $6 million per year, we would be forced to take a hard look at our economic position. No one can predict the outcome at this time. We do know that there are more than $500,000 dollars per year of local ad valorem taxes, 140 jobs and $3.7 million per year of direct payroll at stake in the company's decision.

Since the proposed tax has such an impact on existing facilities, it is obviously a strong disincentive to the construction of new plants. There have been, and continue to be, numerous proposals to build facilities in Kansas to upgrade various natural gas liquids into higher value materials. For example, there have been several proposals in recent years for isomerization units to convert normal butane into isobutane. This is a fairly common process in oil refineries. Such plants will be built by natural gas processors at some future date. The proposed tax would drive investments of this type into other states along with the related payrolls and ad valorem taxes.

UPG contracts to purchase various mixed liquids streams from producers and suppliers from numerous locations outside of Kansas and transports to Bushton through various pipeline connections for fractionation. These volumes could just as easily be routed to fractionators outside Kansas, with a resultant loss of jobs and payroll for the State of Kansas.

Northern Gas Products believes the proposed processing tax proposal is particularily onerous under existing conditions. The Natural Gas Policy Act of 1978 has had the desired effect of inducing natural gas conservation. Simultaneously, the worldwide economic lull has sharply reduced industrial consumption of natural gas. As a result of the reduced natural gas markets, there is far less gas flowing from which liquids can be extracted, leaving many plants operating at inefficient, high cost levels. At the same time, the price of oil products is declining with the two-fold effect of increased displacement of natural gas and a direct displacement of some natural gas liquids. All of the factors which have reduced natural gas consumption have also had major impact on the natural gas liquids markets. The net results are that natural gas liquids producers are faced with spirited price competition in the marketplace and sharply increased production costs with resultant severely curtailed margins. The imposition of an additional tax of any magnitude whatsoever could cause profit margins to disappear completely forcing the plants out of business.

Finally, we fail to understand the effort to levy a tax on natural gas liquid processors. Our activity is essentially the same as that of an oil processor. The difference is that gas processors work with the light end of the hydrocarbon series and oil processors work with the heavy end. We fail to understand why natural gas is to be taxed through the post-wellhead beneficiation stages including "feedstock" fractionation while there is no similar effort to tax other minerals, particularly oil, through subsequent stages in its beneficiation.

Thank you for the opportunity to comment. If you desire further information, please contact me.

Wm. D. Wyatt, Jr.
Northern Gas Products Company
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MR. CHAIRMAN, MEMBERS OF THE KANSAS SENATE ASSESSMENT AND TAXATION COMMITTEE, MY FRIENDS: I AM RAYMOND C. BAER. I RESIDE AT 322 S. Billings Street IN RILEY. I AM PRESIDENT OF BAER GAS AND ELECTRIC, INC. THIS IS A FAMILY-HELD CORPORATION ENGAGED IN THE RETAIL SALES OF LP-GAS AND ELECTRICAL CONTRACTING. I AM ALSO AN OFFICER AND STOCK-HOLDER IN LP-GAS, INC. OF CLAY CENTER, KANSAS, A SMALL WHOLESALE PROPANE DISTRIBUTORSHIP.

I HAVE COME HERE TODAY TO SPEAK IN OPPOSITION TO SB #68. I WANT TO THANK YOU, MR. CHAIRMAN FOR THE OPPORTUNITY TO ADDRESS THIS ISSUE IN YOUR PRESENCE. I SHALL BE BRIEF AND IF ANY OF THE MATERIAL APPEARING IN THE PRINTED TEXT OF MY TESTIMONY HAS BEEN COVERED BY PREVIOUS SPEAKERS, I SHALL OMIT IT.

I WANT TO ADDRESS, PRIMARILY, THE ADDITIONAL COST THIS TAX WOULD IMPOSE UPON THE PEOPLE OF KANSAS THAT USE LP-GAS. SENATE BILL 68 PROPOSES TO IMPOSE A 4% TAX, ABOUT 28 MILLION DOLLARS, ON APPROXIMATELY 3 or 4% OF THE NATURAL GAS VOLUME HANDLED IN OUR STATE. THIS IS ROUGHLY TWO CENTS PER GALLON, BASED ON 50 CENT WHOLESALE PROPANE. (THE 50 CENT FIGURE MAY SEEM SOMEWHAT ARBITRARY, HOWEVER, I BELIEVE IT IS SOMEWHERE CLOSE TO ACCURATE. THE COMMODITIES FUTURES QUOTATIONS HANG VERY CLOSE, A LITTLE PLUS OR MINUS, FOR THE NEXT TWELVE MONTHS.) THIS, IN MY OPINION, IS VERY SIMPLY A "VALUE ADDED" TAX AND IT CAN BE RECOVERED ONLY BY A DIRECT PASS-THROUGH TO THE CONSUMER.

APPROXIMATELY 70% OF THE PROPANE CONSUMED IN KANSAS IS USED FOR DOMESTIC PURPOSES, HEATING, COOKING, HOT WATER, ETC., IN OUR HOMES AND FOR AGRICULTURAL PURPOSES - CROP-DRYING, LIVESTOCK BROODING AND MOTOR FUEL FOR TRACTORS, TRUCKS AND IRRIGATION ENGINES. THIS IS A "DOUBLE WHAMMY" TO OUR FARMERS WHO USE IT BOTH DOMESTICALLY AND IN CROP PRODUCTION.

WE ARE BOMBARDED DAILY BY EVERY FACET OF THE NEWS MEDIA WITH THE HUE AND CRY ABOUT THE TERRIFIC COST OF NATURAL GAS TO KANSANS.



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I WOULD LIKE TO MAKE A SIMPLE COST COMPARISON BETWEEN NATURAL GAS AND PROPANE. TO MAKE AN ACCURATE COMPARISON, WE MUST USE A SORT OF "COMMON DENOMINATOR". FOR THIS I SHALL USE THE TERM MILLION BTU's, WHICH IS THE HEAT CONTENT OF 1,000 CUBIC FEET OF NATURAL GAS, UNITED STATES STANDARD. NATURAL GAS, AS YOU KNOW, IS PRICED IN MCF. PROPANE, THOUGH PRICED BY THE GALLON, IS EASILY CONVERTED TO BTU's. ONE GALLON OF PROPANE CONTAINS APPROXIMATELY 91,500 BTU's OF ENERGY, SO 10.93 GALLON OF PROPANE EQUALS 1 MCF OF NATURAL GAS.

THE DOMESTIC RATE FOR NATURAL GAS IN THE MANHATTAN AREA, SERVED BY KANSAS POWER AND LIGHT IS $2.25, PLUS A SURCHARGE OF .0864, TOTAL $2.3364. IN THE TOPEKA AREA, THE DOMESTIC RATE IS $5.1570, PLUS A "CUSTOMER CHARGE" OF $3.50 PER MONTH, REGARDLESS OF USAGE. IT IS IMPOSSIBLE TO ACCURATELY AVERAGE IN THIS THREE-FIFTY, SO I HAVE ARBITRARILY ROUNDED THE TOPEKA FIGURE TO $5.25 PER MCF.

AT OUR BUSINESS, WE ARE CURRENTLY CHARGING 63.9¢ PER GALLON FOR PROPANE. THIS CONVERTS TO $6.98 PER MILLION BTU's, 133% OF THE COST OF AN EQUAL AMOUNT OF NATURAL GAS ENERGY IN TOPEKA AND 299% OF THE MANHATTAN RATE. AGRICULTURAL GAS, AROUND MANHATTAN IS $2.167 PER MCF, MAKING PROPANE FOR FARM USE 3.22 TIMES AS COSTLY.

MANY OF THE PEOPLE USING LP-GAS ARE ELDERLY, FIXED INCOME COUPLES AND SINGLES, LIVING VERY MODESTLY IN THEIR OWN HOMES, OR SMALL RENTAL HOUSES NEAR TO THEIR FAMILIES AND FRIENDS. EACH ONE OF THESE HOMES WILL REQUIRE AT LEAST 200 GALLON OF FUEL DURING THE WINTER MONTHS, OR ABOUT $125. PER MONTH FOR HEAT. AN EQUAL AMOUNT OF HEAT ON MANHATTAN'S NATURAL GAS RATE WOULD BE $41.80. THE PROCESSING TAX WOULD ADD ANOTHER FOUR OR FIVE DOLLARS TO THIS AMOUNT. I KNOW THE STATE NEEDS REVENUE, BUT LET'S NOT PENALIZE A SEGMENT OF OUR SOCIETY THAT IS ALREADY PAYING SO MUCH FOR THEIR ENERGY!

IRONICALLY, ABOUT TWO YEARS AGO, THIS LEGISLATURE PASSED LEGISLATION THAT REMOVED THE 3% RETAIL SALES TAX FROM HOME UTILITIES. NOW WE HAVE A PROPOSITION THAT IMPOSES ALMOST AN IDENTICAL AMOUNT IN A "HIDDEN TAX" ON A RELATIVE FEW OF THOSE SAME CUSTOMERS. IS THIS NOT UNFAIR?

I HAVE MANY OTHER REASONS TO OPPOSE THIS LEGISLATION. EVERYTHING THAT MAKES OUR KANSAS PRODUCT MORE COSTLY, MAKES IT JUST A LITTLE LESS COMPETITIVE FOR ANY OTHER USE, BE IT FERTILIZER, PLASTICS, GASOLINE ADDITIVES, AEROSOL SPRAYS OR ANYTHING ELSE. I ALSO FEAR THE POSSIBLE LOSS OF SOME OF THE PROCESSING PLANTS AND THE CONSEQUENT LOSS OF PRODUCT FOR USE IN KANSAS. I ALSO HAVE SERIOUS DOUBTS ABOUT THE ANTICIPATED AMOUNT OF REVENUE THE STATE WOULD RECEIVE, AND WHETHER IT IS WORTH THE BUREAUCRACY REQUIRED TO ADMINISTER AND ENFORCE THE ACT.

I ASK YOU, THE SENATE ASSESSMENT AND TAXATION COMMITTEE TO REPORT THIS BILL UNFAVORABLY. THANK YOU AGAIN FOR YOUR INDULGENCE IN LISTENING TO MY TESTIMONY.

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# Legislative Testimony

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

March 3, 1983

KANSAS ASSOCIATION OF COMMERCE AND INDUSTRY

Testimony Before the

SENATE ASSESSMENT AND TAXATION COMMITTEE

REGARDING: SB 68, PROCESSING TAX ON NATURAL GAS LIQUIDS

Thank you Mr. Chairman for this opportunity to express the concerns of the Kansas Association of Commerce and Industry regarding the proposal to impose a tax on the processing of natural gas liquids in Kansas.

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 3,200 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 is opposed to the imposition of a tax on the processing of natural gas liquids in Kansas. This type of tax is a value-added tax unrelated to the ability to pay. It would be very detrimental to the industry involved and the Kansas business climate generally.



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Value-added taxes have been highly controversial where proposed. Clearly, the tax can put a Kansas-based processor at a competitive disadvantage compared to processors in other states. This industry has already experienced a significant slowdown in our state. To the extent this tax could not be passed on, profit margins would be further reduced, perhaps eliminated, and more Kansas unemployment could result.

To the extent the tax could be passed on to the purchaser, a value-added tax is inflationary, increasing the costs to the ultimate consumer. Certainly the proponents of this legislation do not intend to increase the cost of any energy source to Kansans or other consumers.

Value-added taxes are hidden taxes. The ultimate taxpayers do not always see the amount of the tax paid as a separate item. Further reliance on the business community to collect hidden taxes would be bad public finance policy for our state. If the true cost of government were made known to taxpayers, if they had to pay those taxes directly, citizens would be more responsive at the voting booths.

KACI urges you to oppose passage of a processing tax on natural gas liquids and any other value-added tax that might be suggested. While such taxes may be attractive in the short-run to generate additional state revenue, this type of tax is highly discriminatory, doesn't reflect on the ability to pay, may be inflationary, could cause additional state unemployment, and would send negative signals to those businesses that might be considering Kansas as a possible site for expansion or location of a new facility.