

Approved On: 3/2/87

Minutes of the House Committee on Taxation. The meeting was called to order by E. C. Rolfs, Chairman, at 9:00 a.m. on February 26, 1987 in room 519 South at the Capitol of the State of Kansas.

All members of the Committee were present.

Committee staff present:

Tom Severn, Legislative Research
Chris Courtright, Legislative Research
Don Hayward, Reviser of Statutes
Millie Foose, Committee Secretary

At the request of the House Governmental Organization Committee, Representative Lowther moved, second by Representative Fox, that the House Tax Committee introduce a bill to create a division of collections in the Department of Revenue. The motion passed.

Mr. Don Schnacke, representing Kansas Independent Oil & Gas Association, discussed HB-2249 and SB-1. (Attachment 1) He compared the two bills and said he believes SB-1 is the better bill as it is on a list of approved bills drawn up by the Governor. Mr. Schnacke believes that tax should be based on production and not on price and that HB-2249 is fraught with problems in auditing, etc.

Representatives Shriver and R. D. Miller discussed HB-2249 and explained how the price of oil would be determined. Representative Shriver explained that on July 15 and October 15 of each year, the secretary of revenue shall determine from statistics compiled and provided by the United States department of energy, the average price per barrel paid by the first purchaser of crude oil in the state for the 3-month period immediately preceding the applicable date. He said that this bill would not create a subsidy for the oil industry but would be taking a little less from them. Representative Miller explained the reasons for shutting down some wells when they are not productive and said this was done to protect the ground water.

There was discussion on HB-2169 - AN ACT relating to property taxation; exempting certain aircraft therefrom. Representative Shore moved, second by Representative Wagnon, that HB-2169 be passed favorably. Representative Francisco proposed a substitute motion, second by Representative Fuller, that in line 26 taxation be stricken and vehicles inserted. The motion carried. Representative Shore renewed his original motion, that HB-2169 as amended was passed favorably. The motion carried.

HB-2168 - AN ACT relating to antique aircraft; providing for the registration thereof and prescribing procedures and fees thereof, was discussed. Representative Wagnon moved, second by Representative Shore, that the wording in lines 25 and 26 "director of taxation" be changed to "director of vehicles".

Representative Fox said he believes the fees should be raised and proposed a substitute motion, second by Representative Aylward, that the amount in line 37 should be increased to \$50.00 and the fee in line 41 should be increased to \$100.00. The motion carried. Representative Francisco moved, second by Representative Wagnon, that the wording in lines 25 and 26 be changed from Director of Taxation to Director of Vehicles. The motion passed.


Representative Wagnon moved, second by Representative Shore, that HB-2168 as amended be reported favorably. The motion carried. There were questions from the committee and considerable discussion with Don Hayward concerning definition of business aircraft. Representative Leach suggested that the word "antique" in line 18 be struck. Representative Leach moved, second by Representative Lowther, that all business aircraft be required to register with the state of Kansas. The motion failed. The original motion carried.

There was discussion concerning HB-2188 - AN ACT relating to counties; concerning tax levies in support of hospitals. Representative Shore moved, second by Representative Crowell, that the tax may be increased by 5% by qualified voters of the county. The motion carried.

Representative Shore moved, second by Representative Fox, that HB-2188 as amended be reported favorably. The motion passed.

The minutes of February 24 and February 25 were approved.

There being no further business, the chairman adjourned the meeting.



E. C. Rolfs, Chairman



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

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February 26, 1987

TO: House Committee on Taxation

RE: HB 2249 - Severance
Tax Exemption

Governor Hayden, in his message to the joint session, indicated that he supported increasing the exemption from the severance tax on deeper, low producing wells to "encourage continued operation of marginal wells and bolster employment in this sector of the state's economy".

We now have additional evidence that this proposal would help preserve production and postpone the shutting in and the abandonment of some wells. The key to HB 2249 is exactly what Governor Hayden stated. Allow crude oil to be produced and stimulate employment!

It's been well documented that our industry has been greatly contributing to the economic downturn in Kansas. Since a year ago, our industry has caused roughly 10,000 Kansans to be put directly or indirectly on the unemployment rolls. The oil and gas ad valorem tax base has dropped \$430 million. The ad valorem taxes to the counties have dropped \$30 million. The severance tax is now running at a rate of one-half (\$56 million) of the \$109 million that was projected when it was passed. Our industry has greatly reduced your sales and income tax base to which we used to contribute in excess of \$200 million annually. We are, for the first time, creating SRS clients in areas not before affected by chronic unemployment. We are causing no-aid school districts to require state aid for the first time. The ripple effect on the state economy caused by the decline of the second largest industry in Kansas has been significant.

Current oil and gas statistics should be briefly noted. Intents to drill have dropped from 9,690 in 1985 to 3,960 in 1986. Temporary abandoned wells have greatly increased (3,500 to 4,864). Drilling rigs active in Kansas have dropped from a peak of 224 in 1982 to below 40 today.

John Morrison of Wichita, who annually publishes the Morrison Petroleum Directory, made a survey of the producers, operators, drilling contractors, and service and supply companies doing business in Kansas and the effect the 1986 decline has had on them. Of all entities doing business, 70.6% are Kansans and 29.4% are from out of state. Of 4,759 independent operators and professionals (not including service and supply companies) that were active in Kansas in 1985, 3,774 remained active in January 1987. There has been a significant decline of active companies and individuals in our industry in Kansas.

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We would hope you will not focus on the projected loss of the severance tax in passing this measure. The exemptions put into the Severance Tax Act in 1983 were put there for a good reason. We are a very marginal producing state. 90% of all our oil wells are classed as stripper wells (the highest in the nation) and the average productin from those wells is about 3 BOD.

The legislature simply did not establish the exemption for the deeper marginal wells at the correct level in the haste to pass the bill in 1983. This bill does not suggest any modifications to wells producing about 2,000 feet.

Your focus should be on jobs and keeping marginal wells producing so that your state income tax, sales tax, property tax and related employment activity will grow and prosper.

The severance tax has dropped \$53 million without you doing anything. The loss from the marginal wells we are attempting to protect may take place anyway. There is the distinct possibility though, of saving significant production and stabilizing employment in our industry by passing HB 2249.

Now that I've stated all these kind words about HB 2249 - and we are very appreciative of the sponsors introducing HB 2249, we think our most responsible position is to request this Committee to not work HB 2249, but pass out SB 1 which does essentially the same thing as HB 2249, but in a different manner. SB 1 has the support of Governor Hayden. HB 2249 is not on his list of bills to be passed. SB 1 has been worked into the budget and meets what Governor Hayden supports. SB 1 has passed the Senate and is in your Committee awaiting action. We suggest you run SB 1.

Donald P. Schnacke