Approved February 5, 1987
Date

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation.

The meeting was called to order by Senator Fred A. Kerr at
Chairperson

11:00 a.m./~~p.m.~~ on February 3, 1987 in room 519-S of the Capitol.

All members were present except:

Committee staff present:
Tom Severn, Research
Chris Courtwright, Research
Don Hayward, Revisor's Office
Sue Pettet, Secretary to the Committee

Conferees appearing before the committee:

Tom Severn, Research
Senator Ehrlich
Senator Burke
Senator Hayden
Don Schnacke, Kansas Independent Oil & Gas
John O. Farmer, III, KIOGA
Don Hewitt, City Services Oil & Gas Corp., Wichita
Frank Pugliano, Pittsburg & Midway Coal Mining Co.
Dr. Dave Collins, Kansas Geological Survey, Lawrence
David Litwin, Kansas Chamber of Commerce Industry
Secretary Harley Duncan, Department of Revenue

Vice-Chairman Thiessen called the meeting to order and said that the agenda would be to hold hearings on Senate Bill 1.

Tom Severn of Legislative Research briefly explained S.B. 1 to the committee.

Senator Ehrlich, one of the sponsors of the bill, urged the committee to act favorably on the bill. He stated that the employment situation related to energy production would be a definite boost in Kansas if this bill were to become a law.

Senator Burke testified in support of S.B. 1.

Senator Hayden testified in support of S.B. 1

Don Schnacke, KIOGA gave testimony in support of S.B. 1. (Attachment 1) He stated that this bill is identical to substitute for S.B. 743 which passed the senate last year 39-0 but was vetoed by Gov. Carlin. He stated that his organization has evidence that this proposal would help preserve production and postpone the shutting down and abandonment of some wells. He said that it would allow and encourage production of crude oil from smaller wells and this would stimulate employment. He said the industry has caused approximately 10,000 Kansans to become unemployed in the last year. He briefly noted current oil and gas statistics. Intents to drill have dropped from 9,690 in 1985 to 3,960 in 1986. Temporary abandoned wells have increased from 3,500 to 4,864. Drilling rigs active in Kansas have dropped from 224 in 1982 to below 40 today. He expressed the belief that these exemptions should be permanent.

John O. Farmer, III testified in support of S.B. 1 (Attachment 2) He stated that his firm, John O. Farmer, Inc., is stationed in Russell, Ks. and for the first time in 40 years, his firm ceased drilling operations last year. He stated that although the state cannot control the price of crude oil, they can support Gov. Hayden's proposal to reduce the severance tax burden by raising the stripper exemption from 3 BOPD to 5 BOPD for wells deeper than 2000 feet.

Mr. Farmer stated in summary that he did not feel the passage of this bill would stimulate drilling again, but it would be helpful to the wells that are trying to survive.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation,

room 519-S, Statehouse, at 11:00 a.m./p.m. on February 3, 1987

Don Hewitt, testified in support of S.B. 1. (Attachment 3)

Frank Pugliano testified in support of S.B. 1. (Attachments 4 & 5) He asked committee consideration for an amendment to the bill which would pertain to the severance tax on coal. He stated that the P & M Coal Mining Co. is the only company of five in Kansas required to pay the severance tax because the statute exempts mines that produce less than 350,000 tons annually and no other Kansas companies produce as much coal as they do. Kansas production in 1985 for P & M was approximately 1/3 of what it was in Missouri yet total taxes paid in Kansas were almost four times what they paid in Missouri.

Mr. Pugliano requested amendment that would exempt the severance tax on the first 350,000 tons of coal produced in Kansas.

Dr. Dave Collins testified on S.B. 1. (Attachment 6) His testimony included extensive analysis of the economic impact of the bill.

David Litwin testified in support of S.B. 1. (Attachment 7)

Secretary Harley Duncan presented testimony on behalf of the Governor's office in support of S.B. 1 and he encouraged consideration of two amendments. He recommended that the bill be amended to have an effective date of January 1, 1988 and that there be no limits on the duration of the increased exemptions. (See Attachment 8)

Secretary Duncan, on behalf of the Department of Revenue, asked for bill introductions to be made. They are as follows.

1. Providing Personal Property Guides to Counties. (K.S.A. 75-5105 a(b).
2. Conversion from "taxing district" to "taxing unit" for State assessed public utilities. (KSA 79-1468, 79-5a06a (b), 795a07, 79-605, 79-607).
3. Contents of assessment notices. (KSA 79-1460)
4. Repeal KSA 79-315, KSA 79-316 (Litho Stepping Inc., V. Wyandotte Co.) (See Attachment 9)

Motion was made by Senator Mulich to introduce the above listed bills. Senator Karr seconded. Motion carried.

Motion was made by Senator Mulich to accept minutes of February 2, 1987 meeting as corrected. Seconded by Senator Salisbury. Motion carried.

Meeting adjourned.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2-3-87	Jeff Chanay	Topeka	Ks. Indep. Oil & Gas Assn
	John O. Farmer III	Russell	John O. Farmer Inc
	Don Schnacke	Topeka	KIOGA
	DON HEWITT	WICHITA, KS	CITIES SERVICE OIL
	~~Roy~~ Greening	Tulsa OK	Cities Service Oil & Gas
	Joe Hodges	Tulsa OK	"
	[illegible] Marlin	Topeka	Ks Petroleum Council
	Bill Rinehart	Tulsa	P&M Coal Co.
	FRANK PUGLIANO	DENVER, CO	P&M COAL CO
	MARK A. BURGHART	TOPEKA	DEPT. OF REVENUE
	Kim A. Kommer	"	" "
	Bob Clellard	"	"
	Robert G. Anderson	Box 7 Olathe	Mid Cont [illegible]
	Jerry Humphrey	Topeka	KMHI
	L. Clark	Dept. of Rev.	Div. of Prop. Val.
	George Doucette	Dept. of Revenue	PVD
	RON CALBERT	~~[illegible]~~. NEWTON	U.T.U.
	Ken Peterson	Topeka	KS Petroleum Council
	WALKER HENDRIX	OTTAWA	EKOGA
	WALTER DUNN	TOPEKA	EKOGA
	Ron Hein	"	Mesa
	Rebecca Crenshaw	Topeka	Mesa
	BRIAN MOLINE	"	KCC
	Judith McConnell	"	KCC
	Chip Wheelen	Topeka	McGill & Assoc.
	David Alton	"	KCCI
	Mike Reecht	Topeka	AT&T
	John Conard	Governor's Office	Gov.
	David R. Collins	Lawrence	Kansas Geological Survey
	Jim McBride	Topeka	[illegible]

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2-3-87	Harold C. Pitts	Topeka	
	Janice Lee	Kensington	

KIOGA
KANSAS INDEPENDENT OIL & GAS ASSOCIATION
500 BROADWAY PLAZA • WICHITA, KANSAS 67202 • (316) 263-7297

2-3-87

February 3, 1987

TO: Senate Committee on Assessment and Taxation

RE: SB 1 - Severance Tax Exemption

Last week you heard our presentation where we asked the Kansas legislature to help our industry so our industry can help the State of Kansas.

SB 1 is a bill that would do just that. Governor Hayden, in his message to the joint session, indicated that he supported increasing the exemption on deeper, low producing wells to "encourage continued operation of marginal wells and bolster employment in this sector of the state's economy".

This bill is identical to SB 743 which passed the Senate last year 39-0. When Governor Carlin vetoed that bill he indicated there was no evidence that it would help save marginal wells. To the contrary, there was ample evidence prepared by the Kansas Geological Survey and several reliable sources.

We now have additional evidence that this proposal would help preserve production and postpone the shutting in and the abandonment of some wells. Two witnesses today will go further into that, John Farmer III, a producer from Russell, Kansas, and Dr. David Collins of the Kansas Geological Survey.

The key to SB 1 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.

Sen. A & T
2/3/87
Att. 1

John Morrison of Wichita, who annually publishes the Morrison Petroleum Directory (see exhibits) 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.

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 production 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. We are not suggesting any modification to wells producing above 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 SB 1.

We understand Governor Hayden has budgeted this measure so that it becomes effective in January, 1988. If that is the will of the legislature we accept that decision.

We do believe these exemptions should be permanent, as well as other exemptions of the Severance Tax Act, and should not be limited to 1987 and 1988. That could be accomplished by striking the word "three" on line 0085 and substituting the word "five", and stiking the proposed new words found on lines 0085 and 0086. The same can be accomplished on line 0102 by substituting "six" for "four" and striking the proposed new words.

We have a witness, Mr. John Farmer III, owner of John O. Farmer, Inc., Russell, Kansas. He will go into detail on how SB 1 can and will save production and stimulate employment in our industry.

Donald P. Schnacke

DPS:pp

JOHN O. FARMER, INC.
OIL PRODUCERS AND DRILLING CONTRACTORS
BOX 352
RUSSELL, KANSAS 67665
913-483-3144

February 3, 1987

SENATE COMMITTEE ON ASSESSMENT & TAXATION

Re: Senate Bill #1

Gentlemen:

My name is John O. Farmer. I am a registered petroleum engineer in the State of Kansas and an independent oil producer. Our firm - John O. Farmer, Inc. - is headquartered in Russell, Kansas. This family-owned corporation was founded in 1946 by my father. During our 40 year history in Kansas we have drilled over 3000 wells.

1986 was the most difficult year we have ever experienced. In March, 1986 we ceased drilling operations for the first time in our 40 year history.

The State of Kansas cannot control the price of crude oil, but the state can support Governor Mike Hayden's proposal to reduce the severance tax burden by raising the stripper exemption from 3 BOPD to 5 BOPD for wells deeper than 2000 feet.

In our operations the economic limit of an <u>average</u> cost well is approximately 3 BOPD. The current stripper exemption is of no benefit because when a well produces 3 BOPD it is ready to be abandoned.

The attached exhibits give a brief overview of our situation and display how the increased stripper exemption can help us survive this difficult time.

Yours very truly,

JOHN O. FARMER, INC.

John O. Farmer III

John O. Farmer III
Petroleum Engineer

JOF,III/ms
Attachments

Sen. A & T
2/3/87

Att. 2

Cities Service Posted

Kansas Crude Price - 1986

DATE	PRICE	NUMBER OF DAYS	TOTAL
January 1	$27.00	2	$ 54.00
January 3	26.75	13	347.75
January 16	26.50	1	26.50
January 17	25.25	4	101.00
January 21	24.25	2	48.50
January 23	22.25	8	178.00
January 31	20.75	4	83.00
February 4	17.75	9	159.75
February 13	16.75	6	100.50
February 19	15.00	12	180.00
March 3	14.00	24	336.00
March 27	13.00	5	65.00
April 1	10.50	3	31.50
April 4	13.00	17	221.00
April 21	13.00	10	130.00
May 1	13.00	8	104.00
May 9	13.00	4	52.00
May 13	14.00	10	140.00
May 23	14.00	13	182.00
June 5	14.00	5	70.00
June 10	13.00	8	104.00
June 18	13.00	14	182.00
July 2	13.00	1	13.00
July 3	12.50	5	62.50
July 8	12.00	6	72.00
July 14	11.50	23	264.50
August 6	12.25	6	73.50
August 12	13.00	8	104.00
August 20	14.00	2	28.00
August 22	14.00	14	196.00
September 5	14.50	10	145.00
September 15	13.75	1	13.75
September 16	13.50	92	1242.00
December 17	14.50	14	203.00
December 31	16.00	1	16.00
		365	$ 5,329.75

Daily Average $ 14.60

Exhibit I

Summary of Crude Price Drop

on John O. Farmer, Inc.

	January 1986	January 1987
1. Employment		
Number of Employees	50	26
2. Producing Operations		
Producing Wells	218	171
SWD Wells	23	19
Injection Wells	14	13
TA Wells	19	60

3. Drilling Activity

	1984	1985	1986	1987 (Estimated)
Wells Drilled	38	29	13	6

Exhibit II

John O. Farmer, Inc.

Leases with Lifting Costs in
$14-19/bbl. Range

LEASE NAME	1985 Lifting Cost $per bbl.	Number Wells
Brenner 'B'	$ 18.86	2
Brungardt	18.08	1
Colborg 'D'	18.83	1
Dirreen	16.98	3
Ehrlich 'B'	14.68	3
Gilbert	16.75	3
Kaps	15.76	2
King 'C'	16.92	1
Lawson 'B'	17.12	9
Miller	17.73	4
North 'A'	14.81	1
Oberle 'B'	16.16	1
Sellens 'A'	14.04	1
Smoky Unit	17.80	12
Stapleton	14.49	9
Van Doren	15.68	1
Vine 'A'	16.83	6
		60

Exhibit III

1986 Cost Analysis

Selected ~~Leases Maginial~~

Leases Burdened with Severance Tax

LEASE	1986 Bbls. Sold	Working Interest Income	Operating Expense	Net Income	BOPD/WELL
Cotton	1,321.91	$ 15,353.05	$ 10,254.63	$ 5,109.42	3.62
Custer	1,151.88	12,398.45	10,830.64	1,567.81	3.16
Dirreen	3,190.68	34,987.97	36,133.95	(1,145.98)	3.15
Ehrlich 'B'	3,684.15	37,849.29	38,175.04	(325.75)	3.36
Hester	1,096.08	11,940.45	11,903.37	37.08	3.00
Kompus	2,440.90	25,567.15	22,368.77	3,198.38	3.39
McIntire	1,332.78	14,711.31	9,318.12	5,393.19	3.65
Sellens 'A'	1,347.12	16,564.35	13,247.16	3,317.19	3.69
Vine 'A'	8,287.54	76,492.62	72,220.42	4,272.20	3.78

Exhibit IV

TESTIMONY ON KANSAS SENATE BILL 1

Presented by Mr. Don Hewitt, Operation Manager,

Cities Service Oil & Gas Corporation, Wichita

Good morning. My name is Don Hewitt, Operation Manager for Cities Service Oil and Gas Corporation in Wichita, Kansas. I am an engineering graduate from Kansas University and have been with Cities Service for 35 years. The last 18 years have been in engineering and operations in Kansas. The Oklahoma/Kansas Division of the Mid-Continent Oil and Gas Association has requested that I be here today to explain how Senate Bill 1 can affect large oil and gas producers.

First, though, I would like to tell you a little bit about Cities Service and why legislation such as Senate Bill 1 is so important to our company. Cities Service has been a corporate citizen in Kansas for over 70 years. As a matter of fact, the company's first decade in business was marked by several notable oil discoveries right here.

Cities Service Oil and Gas Corporation has always been the largest oil producer in Kansas. Currently we produce 10,000 barrels per day or approximately 5% of the Kansas total. Cities Service has always maintained production offices with technical staffs in Kansas, and continues to do so.

Cities Service was also the leader in installing water floods in Kansas. Today about 25% of our oil production is from water floods.

Sen. A & T
2/3/87

Att. 3

Cities Service operates two tertiary oil recovery projects in Kansas, where about $20,000,000 was invested. One is in the El Dorado Field and the other near Madison. These research type projects were installed in 1974 and 1979, and were designed to recover additional oil after water flooding. Although these two projects were not an economic success, we believe the technology we gained will make such processes economical as oil prices go up in the future.

Our company employs 291 Kansas citizens in 44 locations in the state. Our activities in turn provide business opportunities for numerous vendors, suppliers, contractors and their employees. Cities Service also makes cash payments to some 4,700 royalty and working interest owners who live in Kansas. In addition, we pay sales taxes, property taxes, unemployment taxes and severance taxes for the privilege of doing business in this state.

Aside from our direct payments to employees, vendors, suppliers, contractors, royalty owners, partners and state and local governments, Cities Service has long supported the educational and cultural needs of Kansas. During the past few years alone, our corporate foundations have made sizeable contributions to various state and private universities throughout Kansas. Cities Service hopes to continue this type of support in future years as well.

As for today, though, times are tough. The rapid decline in oil prices forced several hundred Kansas energy-related companies out of business during 1986. Almost 5,000 Kansans lost their oil-related jobs because their companies folded or had to make financial cutbacks. Kansas oil production is down, too -- in part because prices are too low to pay the costs of producing.

Senate Bill 1 focuses on stripper wells, the backbone of Kansas oil production. While stripper wells are not exotic and their production does not grab headlines, nationwide they do supply 15 percent of this country's total oil production. Their contribution to the local economy and to national security is very important. As we say in the oil and gas business, "Every barrel of oil produced by a stripper well is a barrel that we don't have to buy from OPEC."

Stripper wells contribute in other ways too. They often play a critical role in the efficient and effective drainage of reservoirs. Unfortunately, though, the high costs associated with maintaining such wells -- that is, electricity bills, pumper bills, the cost of chemicals, saltwater disposal charges and taxes -- make them economic risks in times of poor prices. Our costs for producing stripper oil wells range from $200 all the way up to $3500 per month, depending on the specific characteristics of a given well. When costs are higher than revenues, we have to consider plugging and abandoning wells that have become unprofitable. During the past 10 months, our company has had to abandon 200 stripper wells in Kansas because they were no longer economic to operate. This amounts to over 14,000 barrels of lost oil production each month. Once plugged and abandoned, this production is forever lost because the costs of reopening a stripper well would require oil prices of over $60 a barrel. Few are predicting that we will ever see that high a price. Legislation like Senate Bill 1 can help to relieve some of the economic pressures on stripper wells and can help to maintain their production and the associated tax base.

Other states and the federal government have already taken steps to help preserve stripper well production through new regulations or new legislation. And, in recognition of the importance of stripper wells, several other states do not impose severance taxes on wells which produce 10 barrels per day or fewer. Others tax them at a significantly lower rate.

As we see it, Senate Bill 1 would not mean taxes lost to to the state. A producing well provides tax income to the state through ad valorem taxes, income taxes on royalties paid, taxes on supplies and services provided to that well -- just to mention a few that are assessed in addition to the severance tax. If a well is plugged and abandoned, <u>all</u> of those tax revenues are lost. If, however, the severance tax is eliminated, it would mean a better chance of producing from marginal properties, a better chance of making royalty payments, a better chance of keeping vendors, suppliers and contractors busy, a better chance of continuing to pay other types of taxes. While Senate Bill 1 would not be a cure-all, it could certainly give the ailing patient some relief! We think that a state with the foresight to provide some tax relief now will help itself in the long run: Future tax revenues and longterm energy security must be considered in the equation.

I don't believe that you will find our position on Senate Bill 1 very different from that of other large producers, which is one of the reasons that Mid-Continent asked us to be here today. In a nutshell, when times are good, we enjoy sharing the benefits; when time are bad, as they are now, however, we would like to think that those we have helped in the past will not forget us.

1-27-87

Point Paper

* The Kansas Severance Tax Law (K.S.A. 1986 Supp. 79-4217) imposes a severance tax on coal of $1 per ton, but exempts total annual production from any mine which is 350,000 tons or less.

* The Pittsburg and Midway Coal Mining Company (P&M) produced 487,917 tons of coal in Kansas at its Midway Mine in 1985 and paid $487,917 severance tax on that coal.

* The Kansas Severance Tax penalizes producers $350,000 for producing one ton in excess of 350,000 tons. Any mine which produces 350,000 tons or less pays no tax. If a mine produces one ton over 350,000, that mine pays a $350,001 severance tax.

* P&M is the only coal producer in Kansas required to pay the severance tax because the other four producers each produce less than 350,000 tons annually.

* P&M produced 1,320,000 tons of coal in Missouri in 1985, almost three times what it produced in Kansas, and in 1985 paid $250,053 to Missouri in total taxes. P&M paid $921,738 total taxes to Kansas in 1985, almost four times as much as it paid in Missouri.

* The severance tax alone in Kansas was almost twice the total taxes paid in Missouri while P&M produced one-third the coal it did in Missouri over an equivalent time frame.

* P&M's Midway Mine operates in both states and produced 487,917 tons in Kansas and 799,000 tons in Missouri in 1985. All coal mined at the Midway Mine goes to the La Cygne (KS) Power Station and is purchased by the Kansas City Power & Light Company and Kansas Gas and Electric Company, joint owners of the station.

* P&M's Empire Mine operates entirely in Missouri and produced 521,000 tons in 1985. All coal mined at the Empire Mine goes to the Asbury (MO) Power Station of the Empire District Electric Company.

* P&M was founded in Kansas 102 years ago in 1885 and has mined coal in the state continuously ever since. We feel the severance tax application is unfair, unwarranted and discriminatory against P&M.

* P&M does not object to paying the Severance tax on tons produced in excess of 350,000.

* To date, P&M is the only coal company operating in Kansas that has been required to pay the severance tax which, in our view, makes it a discriminatory tax. This could be a hinderance to any coal company from wanting to get too big.

* During hearings held in June 1986 concerning Mined Land Conservation and Reclamation Board and Promotion of Kansas Coal (Proposal No. 7), conferees recommended various ways the state could promote the use of Kansas coal including: investigation of the way the severance tax affects Kansas coal production. HB 2004 by the Special Committee on Energy and Natural Resources also addresses recommended modifications, if any, of existing state statutes or rules and regulations. Reference source: Report on Kansas Legislative Interim Studies to the 1987 Legislature, pages 90 and 94.

Sen. A & T
2/3/87
Att. 4

Kansas SB-1 (Prefiled)
Severance Tax

Senate Bill 1 (prefiled) relates to the Kansas severance tax on minerals. Chevron intends to support this bill, but at the same time, will strive to have language added to it that would relieve Chevron's coal company, The Pittsburg & Midway Coal Mining Co. (P&M), from what we believe is an unfair and discriminatory severance tax assessment. Support for such legislative relief is respectfully solicited.

Under Kansas law, a severance tax on coal is applied only to coal produced at a mine when that mine's annual tonnage is in excess of 350,000 tons. If a mine produces more than 350,000 tons annually, the severance tax applies to all tons produced. Mines that produce one ton over 350,000 are therefore penalized $350,000 for producing that additional ton.

P&M is the only coal company of five in Kansas required to pay the severance tax because the statute exempts mines that produce less than 350,000 tons annually and none of the other companies produce that much coal. P&M's Midway Mine, operating on the Kansas-Missouri border near La Cygne, KS is the only coal mine that produces more than 350,000 tons of coal a year in the state of Kansas and P&M is the only coal operator in Kansas required to pay the severance tax ($487,917 in 1985).

Total taxes paid by P&M in 1985 to Missouri for production at two mines was $250,053 and to Kansas was $921,738 ...almost four times as much. The following table shows that in 1985 P&M produced 487,917 tons of coal in Kansas and 1,320,000 tons in Missouri:

	Tons Produced (1985)	Total Taxes Paid (1985)
Kansas	487,917	$921,738
Missouri	1,320,000	$250,053

On a per-ton basis, taxes paid by P&M on Kansas coal in 1985 were approximately 10 times per ton what they were in Missouri using the following calculations:

$$\frac{\$921,738}{487,917\ T} \div \frac{\$250,053}{1,320,000\ T} = 1.89\ \$/T \div 0.19\ \$/T = 9.95$$

Kansas production in 1985 for P&M was approximately one-third what it was in Missouri, yet total taxes paid in Kansas were almost four times what they were in Missouri. While P&M does not object to paying the severance tax on tonnage production in excess of 350,000 tons, we believe the company should not have to pay the tax on the first 350,000 tons produced. The existing severance tax law as it applies to P&M, we feel, is discriminatory and unwarranted.

P&M was founded in Kansas 102 years ago in 1885 and has mined coal in Kansas continuously ever since. Through the decades, P&M has employed thousands of Kansans and has always been a good corporate citizen lending a variety of community support wherever it has had operations.

Should you require additional information on this subject, please contact Chevron's public affairs manager for Kansas, Bill Rinehart; Chevron U.S.A. Inc.; P. O. Box 1589; Tulsa, OK 74102, (918/560-4305).

1-19-87

Sen. A & T
2/3/87

Att. 5

KANSAS GEOLOGICAL SURVEY

1930 Constant Avenue, Campus West
The University of Kansas
Lawrence, Kansas 66044-3896
913-864-4991

TO: Senate Committee on Assessment and Taxation

FROM: David R. Collins, Acting Manager, Technical Information Services

SUBJECT: Testimony regarding Senate Bill 1

DATE: February 3, 1987

The following information is what I consider to be the best available estimate of the economic effects of the modifications to low production exemptions from the severance tax on crude oil proposed in Senate Bill 1. The bill would extend the exemption for wells producing from depths greater than 2000' by an additional 2BOPD on standard or waterflood production.

At a crude oil price of $17.00 per barrel and current production rates, severance tax losses would amount to $6.33 million per year, with smaller losses possible for the first fiscal year. Benefits would include $22 million dollars of additional vallue of output and 180 additional jobs throughout the Kansas economy with associated new tax revenues in the range of $1 million. These benefits would result from 866,000 barrels of additional annual crude oil production obtained through prevention of premature shutdown of wells and from the associated multiplier effects of income respent within Kansas.

Based on lease production data available at the Kansas Geological Survey through 1985 and production trends during 1986 for low producing wells, obtained fron the Department of Revenue, it is estimated that the new exemptions would apply to approximately 8.6 million barrels of production. At a price of $17.00 per barrel and a severance tax rate of .0433 this amounts to an additional exemption of $6.33 million per year. If the exemptions take effect July 1, 1987, the direct loss of severance tax receipts for the 1988 fiscal year in Kansas would be $5.275 million, and if the exemptions did not take effect until January 1, 1988, the direct loss of severance tax receipts for the 1988 fiscal year in Kansas would be $2.11 million (due to a 2 month lag in collections: $6.33 X (10/12) = $5.275 and $6.33 X (4/12) = $2.11).

The exemption would directly increase operating revenues on approximately 3300 leases in Kansas involving approximately 7000 wells. There are significant secondary benefits which would be associated with exemption of these additional low production wells. Under current law some of these wells would continue to produce until they qualified for the current exemptions at production rates less than 3 or 4BOPD, while others would shut down before qualifying for tax exemptions. The proposed exemptions would extend the producing life of wells in the latter case. This is the intended effect of Senate Bill 1. The following material outlines the anticipated resulting economic benefits.

For purposes of illustration it will be assumed that the average production rate of wells whose economic lives are extended by the proposed exemptions is 3.65BOPD, that the rate of decline in production averages 7% per year, and that the price of crude oil is $17 per barrel. These conditions are highly representative of the current characteristics of crude oil production on Kansas leases from depths greater than 2000'. Under these conditions the life of the average well would be extended approximately 8 months, with a resulting additional production of 825 barrels of oil.

For every 500 wells affected this would mean an increase of 412,500 barrels of production annually in Kansas, or approximately $7 million in value of crude oil production. Using the latest available figures on economic multiplier effects within the Kansas economy (U.S. Department of Commerce, Bureau of Economic Analysis, Regional Multipliers: A User Handbook for the Regional Input-Output Modeling System, May, 1986) the total corresponding change in value of output throughout the Kansas economy would be $10.5 million dollars, and the impact on employment would be 86 additional jobs.

The decline in crude oil prices during 1986 dramatically demonstrated the extent to which declines in revenue push leases below the economic limit over a broad range of low production rates. A corresponding effect is to be expected as the natural decline of production rates over time from individual wells bring currently profitable leases with higher production rates into the range targeted by the proposed legislation. A reasonable estimate of the proportion of wells producing at rates affected by the proposed legislation which would otherwise shut down without reaching the current qualifying rate of production would be 15% or, with current conditions, 1050 wells. The estimated beneficial effect under the assumed conditions would therefore be $22 million dollars of additional value of output and 180 additional jobs in Kansas. The additional corporate and personal income tax revenue which would be associated with this increased production and employment is estimated to be in the range of $1 million.

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 First National Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321

A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

SB 1 February 3, 1987

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Assessment and Taxation Committee

by

David Litwin

Mr. Chairman, members of the committee. My name is David Litwin, representing the Kansas Chamber of Commerce and Industry. We appreciate the opportunity to testify today in support of enactment of SB 1.

The Kansas Chamber of Commerce and Industry (KCCI) 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.

KCCI is comprised of more than 3,000 businesses which includes 200 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 KCCI's members having less than 25 employees, and 86% having less than 100 employees.

The KCCI 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.

At its meeting last fall, KCCI's Taxation and Public Finance Committee adopted its 1987 legislative goals, which included the following: "Support legislation increasing the production threshold for exemption of small oil wells from severance tax." This plan was formally approved by KCCI's Board of Directors at its quarterly meeting on December 4, 1986.

The oil industry is a vital element in the state's economy. Despite the collapse in world oil prices, the fact of the matter is, every passing day there is less oil to be recovered from the earth's crust. The collapse springs from a temporary excess of supply, and in the longer term there seems to be no question that prices will return to more realistic levels.

Looking toward that day, which may not be distant, we feel it is imperative that the existing industry infrastructure be preserved, in order to provide future jobs and tax revenue for Kansas and conserve our energy supply. We think this bill is an appropriate measure to encourage operators not to plug stripper wells. Once they are plugged, for all practical purposes their production is lost forever.

With our treasury in such precarious balance, there is a great deal of pressure not to reduce taxes. However, we feel that in this instance, the state's long-term needs would be better served by foregoing the short-term revenue that would be lost. It should also be pointed out that the revenue impact, which I understand is around $5 million, would be reduced to an extent by the revenue from other taxes that would be generated by the economic activity that this bill would encourage.

Thank you. If there are any questions, I will be happy to answer them.

KANSAS DEPARTMENT OF REVENUE
Office of the Secretary
State Office Building · Topeka, Kansas 66612-1588

MEMORANDUM

TO: The Honorable Fred A. Kerr, Chairman
Senate Committee on Assessment and Taxation

FROM: Harley T. Duncan
Secretary of Revenue

RE: Senate Bill 1

DATE: February 3, 1987

Thank you for the opportunity to appear before you today on Senate Bill 1. The Administration supports enactment of this measure in an amended version.

As introduced, the bill provides an exemption from the mineral severance tax for crude oil produced from wells of greater than 2,000 feet in depth and producing 5 barrels per day or less or 6 barrels per day or less for similar wells using a waterflood process. The current law limits for such wells is 3 barrels and 4 barrels respectively. The bill would be effective on publication in the Kansas Register and would be limited to 1987 and 1988.

The Administration recommends that the bill be amended to have an effective date of January 1, 1988 and that there be no limit on the duration of the increased exemption. In its amended form, the bill would reduce the current consensus estimate of severance tax receipts by $1.7 million in FY 1988 and by $5.5 million annually thereafter, assuming that production from such wells remains as reported to us by the Kansas Geological Survey at 9 million barrels annually. The Governor's Budget Report included the effects of the bill, with the proposed amendments, in its calculations.

Enactment of this measure will recognize the changes that have occurred in the world oil market since enactment of the severance tax in 1983. Crude oil is now, and is likely for the foreseeable future, to be priced substantially below the levels experienced and anticipated in 1983. Increasing the exemption levels will provide an incentive to keep some low volume wells in production when they otherwise might be shut down. As such it will keep our total production and oil-related employment up. By exempting such wells permanently, the bill, if amended, may provide an incentive to new drilling where the long-term prospects are for low volumes of production.

Thank you for the opportunity to appear. I would be glad to answer any questions.

Sen. A & T
2/3/87

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KANSAS DEPARTMENT OF REVENUE
Office of the Secretary
State Office Building · Topeka, Kansas 66612-1588

MEMORANDUM

TO: The Honorable Fred A. Kerr, Chairman
Senate Committee on Assessment and Taxation

FROM: Harley T. Duncan
Secretary of Revenue

RE: Department of Revenue Requests for Legislation

DATE: February 2, 1987

The Department of Revenue respectfully requests that the Senate Committee on Assessment and Taxation introduce legislation in accordance with the following recommendations. The requested bills are summarized only briefly here; complete explanations will, of course, be provided when the Committee hears the bills. Draft language will be provided to your staff.

A. Providing Personal Property Guides to Counties.(K.S.A. 75-5105 a(b)).

Current law requires that the Director of Property Valuation "prescribe and/or devise" valuation guides for use by county appraisers and to provide one copy of each "prescribed" guide to each county. Guides which are, in practice, prescribed are commercial publications while those "devised" are generated "in-house" and are routinely provided to the counties because there is no other source for the documents. The "prescribed" guides could easily be purchased by the counties, whereas the division must now purchase them and send them to the counties. **We recommend amendments to allow discretionary distribution of valuation guides.**

B. Conversion from "taxing district" to "taxing unit" for State assessed public utilities. (KSA 79-1468, 79-5a06a(b), 795a07, 79-605, 79-606, 79-607.)

Historically, under a "district" method of computing property tax bills, counties applied the individual levy of each taxing-district or levying body to the assessed valuation of each property. If there were ten taxing-district levies for a property, the county applied each one of the ten individually and summed the resulting taxes for a single bill. This method is cumbersome, time consuming and prone to error.

Counties have therefore switched to a taxing unit method wherein a group of individual levies is applied as an aggregate to the assessed value of certain properties. The taxing unit is the lowest level of aggregation of properties to which a common aggregate mill levy can be applied. This requires maps defining the appropriate taxing units.

Laws governing state assessed utilities have remained on a "return by district" for ad valorem tax purposes. Counties which have converted to the unit method for

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Sen. A & T
2/3/87

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locally-assessed properties still handle state-assessed railroads and utilities on a taxing district basis. It is necessary to convert state assessed utilities to the taxing district basis by 1989. Ownership mapping, property identification numbering, assessment and tax numbering, VIPS and all abstract reporting to state agencies will be centered around a three-digit, taxing-unit identifier as of January 1, 1989.

The requested changes would require, as of the 1989 returns, the use of the taxing unit assessment method rather than taxing district method for railroad and utility properties.

C. Contents of assessment notices. (KSA 79-1460)

Current law requires that both the previous and current appraised and assessed values for the land and each building located on the land to be listed on notifications to taxpayers. This language was added when the reappraisal legislation was passedto insure that the taxpayer would have complete information on the tax value of his/her land once reappraisal was implemented. Two problems exist: (a) current valuation records generally do not contain detailed values for **each** building; and (b) the reappraised values implemented in 1989 will bear little relationship to the prior values because the prior values vary so significantly from market value. The lack of any relationship will confuse the taxpayer instead of aid him/her in understanding the tax bill as was originally intended.

The Department recommends that current law be amended so that listings are not required for each building and that a comparison not be made in the year reappraised values are implemented. Reappraisal implementation will emphasize methods of providing taxpayers information on understanding their tax bills and on informal means of gaining information on how their property was valued.

D. Repeal KSA 79-315, KSA 79-316 (Litho Stepping Inc, v. Wyandotte County.)

It is recommended that KSA 79-315 and 79-316 be repealed. The Court of Appeals decision in **Litho Stepping Inc, v. Wyandotte County** has greatly restricted the applicability of these statutes. A literal reading of the statutes is at variance with the Court's decision which is correct in a historical context. The differences between the opinion and the statute result in confusion, misapplication, and possible litigation.

E. Use Valuation Expenses. (K.S.A. 79-1476)

Current law regarding the use valuation of agricultural land provides that the expenses to be considered in arriving at the net income of the land are to include "real estate taxes." This is customary when one is valuing the income producing capacity of a property for any purpose other than property taxes. The accepted procedure for handling property taxes, in arriving at the value for property tax purposes, is to develop an effective tax rate and include that rate in the capitalization rate for the property being appraised.

We therefore recommend that K.S.A. 79-1476 be amended to recognize the appropriate treatment of property taxes in the use valuation of agricultural land.

Thank you for your consideration of these matters.