Approved Wednesday, February 27, 1991
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Senator Dan Thiessen at
Chairperson

11:00 a.m./~~p.m.~~ on Wednesday, February 20, 1991 in room 519-S of the Capitol.

All members were present except:

Committee staff present:
Don Hayward, Assistant Revisor
Bill Edds, Assistant Revisor
Tom Severn, Research Department
Chris Courtwright, Research Department
Marion Anzek, Committee Secretary

Conferees appearing before the committee:
Don Schnacke, representing KS Independent Gas and Oil Association (KIOGA)
Jim Devlin, representing KS Geological Survey
David R. Collins, KS Geological Survey
Timothy N. Hagemann, Executive Director of the KS Legislative Policy Group
Brad Welch, Greeley and Kearney County Appraiser
Ann Papay, County Appraiser for Grant and Stanton Counties
Leroy T. Leland, Harper County Appraiser
Alan Root, Finney County Appraiser
John McDonough, KS taxpayer from Lenexa, KS

Chairman Dan Thiessen called the meeting to order at 11:09 and said the agenda called for hearings on SB127 and SB156 and he said he was going to postpone hearings on SB156 until next week, so there would be more time for conferees. He turned attention to SB127 and recognized Don Schnacke, KS. Independent Oil and Gas Association.

SB127 AN ACT relating to property taxation; exempting certain oil properties therefrom.

THE FOLLOWING CONFEREES ARE PROPONENTS OF SB127.

Don Schnacke said he would like to introduce Dick Randall from Wichita, and he said, Mr. Randall is Chairman of their Legislative Committee of their Associations and Jim Devlin, Chairman of their ad valorem tax committee, and he said they are here today to be able to answer questions, the committee may have.

He said, KIOGA supports SB127 as being a modest step, in attempting to bring about a major tax relief that taxes the oil industry, he said, this issue has been identified in Kansas Inc. reports and found that KS oil and gas production is being taxed at a very high rate, when compared with other states, and particularly high when the marginal nature of KS production is considered.

He said, KIOGA agrees with the Arthur D. Little report for KS, Inc. and he said, SB127 is one way to address this inequity in the name of tax fairness. (ATTACHMENT 1)

Chairman Thiessen asked Mr. Schnacke, how would it work on the leases where you have some wells that are strippers and some are producing more and their pumping in the same tanks? Don Schnacke said, leases with 2 and 3 barrel wells, if outside of that they would not be exempt.

Senator Martin asked Mr. Schnacke if the 9.7% in his testimony included both the ad valorem and severence tax. Mr. Schnacke said yes and the ad valorem tax is 5.7%.

Jim Devlin representing KS Geological Survey said he appeared before the interim study committee this summer and he said his message is the same as then. He said, at that time oil was $34.00 a barrel and now oil is $19.00. He said the basic formula used to evaluate oil and gas producing properties was developed by Dr. Charles Weinaugh of the Petroleum Engineering Department, University of KS. over 30 years ago. The formula was the balance of evaluation taking into consideration the number of wells on a lease, their age, water production and sales price, operating expenses and equipment value. Over the years there have been numerous changes made in the various components of the formula and in all probability it isn't the balanced evaluation that it once was. The amount of taxes oil and gas paid each year was fair until severance tax and re-classification. The combination of ad valorem and severance tax make the total taxes paid by the oil and gas industry in KS excessive by any measure. The combination of ad valorem taxes and severance taxes become particularly burdensome on the low production wells. The legislature has helped a great deal by eliminating the severance tax on wells that produce 5 barrels of oil per day or less.

He urged the committee members support for SB127. (ATTACHMENT 2)

After committee discussion Chairman Thiessen recognized David R. Collins, Ph. D. Chief, Technical Information Services, KS Geological Survey.

David R. Collins said he was appearing today to present the general view of the KS Geological Survey regarding regulatory and tax policies which impact the continued operation of producing oil wells.

He said, it is important to recognize that once production stops and wells are plugged in a field it is extremely unlikely that new wells would be drilled into an already marginal reservoir without major increases in oil prices.

He said, the primary policy actions available in KS which can prolong production in marginal wells are those which reduce tax burdens. SB127 is very specifically targeted toward producing wells which are the most clearly marginal production in the state.

On page 2 of his handout is a release by Frances Austin, Rooks County Apraiser regarding oil property valuations in Rooks County. (ATTACHMENT 3)

THE FOLLOWING CONFEREES ARE OPPONENTS OF SB127.

Timothy N. Hagemann, Executive Director of the KS Legislative Policy Group said KLPG is a group of county commissioners from 24 counties and was founded during the time mineral production was spotlighted as an additional state revenue source. Since imposition of the state gross production tax, referred to as a state severance tax, it seems that we revisit the tax position of the oil industry each year. He said, KLPG has continously forecasted that the oil industry would keep nibbling away at local mineral taxes and this forecast has proved accurate to this point.

He said the Board of Directors voted unamiously to rigorously oppose SB127 even though it does not affect all member counties equally. (ATTACHMENT 4)

Brad Welch, Greeley and Kearney County Appraiser said he was appearing today to oppose SB127. He said while the bill would have little effect on taxpayers in his counties, gas being taken out from last year's version, he said, he felt in the near future gas would be amended back in and taxpayers in his jurisdiction would have to make up the difference, just as taxpayers will have to make up the difference in the oil producing counties. (ATTACHMENT 5)

Ann Papay, County Appraiser in Grant and Stanton Counties said although SB127 would have very little impact on her counties, she did not believe ad valorem taxes are the cause of wells being plugged. Oil prices and mechanical problems cause premature abandonment, not taxes.

She said, by creating one more exemption, you simply compound the problem and get further away from a solution. (ATTACHMENT 6)

Leroy T. Leland, Harper County Appraiser and a member of the 1991 Legislative Committee of KS County Appraiser's Association said if SB127 were to pass, it could prove to be disastrous to the counties of south central and south east KS, because 86 to 90% of the valuation will become exempt.

He said, it is their believe that wells currently producing 3.5 to 4 barrels will be manually curtailed to less than 3 to fall under this exemption, which would mean more loss in valuation to their counties. He said, attached to his handout, is effective tax rates by Counties. (ATTACHMENT 7)

Alan Root, Finney County Appraiser said Finney County has approximately 26 oil wells that are at 3 barrels and over 2,000 foot in depth that would have an affect, is exempted. The effect would be about $560,000 with a 100% value. He said he was here today because Finney County recognizes the oil and gas industry as one that would look at the oil exemption and later on maybe look at the gas exemption. He said, Finney County has approximately 115 gas wells that would be qualified as stripper wells. The 100% of those wells would be around $6.M and there are several wells around that in a few years will be qualified as stripper wells. (NO WRITTEN TESTIMONY)

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,

room 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on Wednesday, February 20, 1991.

John McDonough a KS taxpayer from Lenexa, KS said his testimony was written for SB156 but, he said it also applies to opposition to SB127. He said, (1) the reason for our being in this property classification and tax mess is the insatiable demand for more money by the public school lobby. (2) the solution is to reduce the school population through incentives and choice.

He said, attached to his testimony is a letter to Governor Finney and the Speaker which are citing "the Epson, New Hampshire, creative property tax plan which give a $1,000 tax credit for each student not using public schools, saving $4,000 per child annually. (ATTACHMENT 8)

Chairman Thiessen concluded hearing on SB127 and adjourned the meeting at 12:13 p.m.

WRITTEN TESTIMONY WAS TURNED IN BY

1. Gary Post, C.K.A., Seward County Appriaser (ATTACHMENT 9)

2. Charles Warren, President, KS, Inc. (ATTACHMENT 10)

GUEST LIST

COMMITTEE: SENATE ASSESSMENT & TAXATION DATE: WED. 2-20-91

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Jim Sommerville	Topeka	KS Motor Car Dealers
Janet Stubbs	Topeka	Homebuilders
Dick Randall	Wichita	KIOGA
James R. Devlin	Wichita	KIOGA
Frances Kastner	Topeka	Ks Food Dealers
Karen France	Topeka	KAR
Paul E. Fleener	Manhattan	Kansas Farm Bureau
Kathleen Miller	Hesston	KSNA
Maureen Wiedey	Halstead	KSNA
Lee Gerhard	Lawrence	Kansas Geological Survey
David R. Collins	Lawrence	Ks Geol. Survey
Julia McBride	Topeka	Observer
Brad Welch	Lakin	Greeley Kearny Co
Timothy N. Hagemann	Lakin	Lane Hamilton Greeley Haskell-Stevens-Morton
[illegible]	Ulysses	Grant + Stanton
Alan Steppat	Topeka	KLPG - Pete McGill & Assoc.
Terry Guy	Meriden	Dept of Revenue
John McDonough	Lenexa	Citizen
Cindy Gilpin	Topeka	Budget
Steve Stotts	"	Revenue
Kirby L. Stegman	Topeka	DoR
Jonathan Small	Topeka	Koch Industries
Don Schnacke	Topeka	KIOGA.
Bob Corkins	Topeka	KCCI
Wendell Strom	Topeka	AARP-CCTF

GUEST LIST

COMMITTEE: SENATE ASSESSMENT & TAXATION DATE:

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
HAROLD PITTS	TOPEKA	AARP-CCTF
R ANDERSON	OTTAWA	Mid Continent
LEROY T. CELENA	Anthony, KS.	HP CO. APPRAISER
Alan Roop	Garden City, Ks	Fi Co Appraiser
Amy Campbell	Dover, KS	Sen. Steineger
Tim Campbell	Topeka	Sen Jerry Karr's office
Julie Pletz	Topeka	Mesa
DAN Stevens	Tulsa OK	Texaco
Steve Richards	Overland Park Ks.	Yellow Freight System
Tom Whitaker	Topeka	Ks Motor Carriers Assn
Marlene Seeber	Dennis, Ks.	KSNA-LCC
ROSS MARTIN	TOPEKA	KPC

KIOGA

KANSAS INDEPENDENT OIL & GAS ASSOCIATION

105 SOUTH BROADWAY • SUITE 500 • WICHITA, KANSAS 67202
(316) 263-7297 • FAX (316) 263-3021
1400 MERCHANTS NATIONAL BANK BLDG. • TOPEKA, KANSAS 66612
(913) 232-7772 • FAX (913) 232-0917

February 20, 1991

TO: Senate Committee on Assessment & Taxation

RE: SB 127

KIOGA supports SB 127 as being a modest step in attempting to bring some measure of tax relief to the Kansas oil industry. This is an issue that has been identified in Kansas, Inc. reports that found that Kansas oil and gas production is being taxed at a very high rate when compared with other states; and particularly high when the marginal nature of Kansas production is considered.

The Arthur D. Little, Inc. report for Kansas, Inc. pointed out that Kansas production is more like that found in Illinois, except the effective tax rate on oil and gas in Kansas is 9.7% and is only 1.3% in Illinois. Another Kansas, Inc. study also prepared this summer pointed out that the effective tax rate on commercial and industrial property in Kansas is 3.3%.

One of several recommendations made by the Kansas, Inc. study is reflected in SB 127. As a tax policy of the State of Kansas, if an oil property qualifies for exemption from the state severance tax, it should qualify for exemption from the county ad valorem tax.

We agree with the conclusion of Kansas, Inc. which has stated, "We feel that the effective tax rate data show Kansas' property taxes put the state at a competitive disadvantage for both commercial and oil and gas operations." SB 127 is one way to address this inequity in the name of tax fairness.

Donald P. Schnacke

2-20-91
ATT. 1

Viking Resources, Inc.
Broadway Plaza Building
105 South Broadway, Suite 1040
Wichita, Kansas 67202-4224

James B. Devlin
President

Phone (316) 262-2502
Fax (316) 262-2548

February 20, 1991

TO: The Senate Assessment and Taxation Committee

Dear Gentlemen and Ladies:

I am Jim Devlin, President of Viking Resources, Inc., Wichita, Kansas and Chairman of the KIOGA Ad Valorem Tax Committee.

The formula used to evaluate the present value of producing oil and gas properties was developed by Dr. Charles Weinaugh of the Petroleum Engineering Department of the University of Kansas over thirty years ago. At the time of it's origination, this formula was a balanced evaluation taking into consideration the number of wells on a lease, their age, water production and sales price, operating expenses and equipment value. There have been numerous changes made in the various components of the formula and in all probability it isn't the balanced evaluation that it once was. Regardless of the balance, the present worth of oil properties have been revalued each year. I don't think that there is another industry in Kansas that had an annual updating of the property values.

The amount of tax that the oil and gas industry paid each year was fair for both sides until two events happened - Severance Tax and Re-classification. As the Kansas, Inc. study shows, the combination of Ad Valorem and Severance Tax make the total taxes paid by the oil and gas industry in Kansas excessive by any measure. This is true compared to other industries, as well as the oil and gas industry in other states. The exemptions of farm machinery, livestock and use value of farmland have caused an explosion of mill levy rates in many western counties.

The combination of Ad Valorem taxes and Severance Taxes become particularly burdensome on the low production wells. The legislature has helped a great deal by eliminating the severance tax on wells that produce 5 barrels of oil per day or less.

These wells that produce 2 to 3 barrels of oil per day, or less, are the ones that I wish to discuss today. The Kansas, Inc. study has recommended the elimination of Ad Valorem taxes on these same wells that are presently exempt from Severance tax. These wells are low profit, high labor intensive wells that have been kept pumping with the hope that prices would recover to make them profitable. There are literally thousands of these marginal wells that individually make 2 to 3 barrels per day, but collectively make up the bulk of the 150,000 barrels per day of Kansas production. The premature plugging of these wells affects thousands of jobs. The adoption of the Kansas, Inc. study to eliminate the Ad Valorem tax on marginal wells would help to lengthen the life of these wells.

The following is my estimate of the number of jobs directly affected by the plugging of 1,000 producing wells.

Type Job	Wells/man	Jobs Lost
Pumpers	33.3	30
Pulling Unit	250	12
Water Hauling	150	6
Chemical Man	300	3
Fuel, Trucking	250	4
Roustabouts	200	5
Gauger & Trucking	200	5
Production Foreman	150	6
Acct & Office	100	10
Supply & Pump Repair	150	6
Acidizing, Cementing, etc	250	4
Miscellaneous	250	4
	Total	95

As you can well imagine, the trickle down effect of the loss of nearly 100 jobs in many of the small towns in Kansas is devastating. If affects the schools, real estate and the main street business. This happened in 1986 when the oil price dropped. Tax relief on the low productive wells would slow the plugging rate, thus extending the jobs of many people with no other skills, but oil field work.

With wells producing 2 to 3 barrels per day, such as the wells you are considering in Senate Bill 127, Ad Valorem Taxes can be as much as 50% of the net income and this is an important factor when considering to plug a well or keep it in production.

These small wells would continue to generate taxes of a different nature, sales tax, income tax from the oilfield workers and local real estate taxes from these employees.

We urge your support of Senate Bill 127.

Thanks for your time.

VIKING RESOURCES, INC.

James B. Devlin

James B. Devlin
KIOGA Ad Valorem
Committee Chairman

KANSAS GEOLOGICAL SURVEY

1930 Constant Ave., Campus West
The University of Kansas
Lawrence, Kansas 66047
913-864-3965

February 20, 1991

Chairman and Members of the Committee:

I am appearing today to present the general view of the Kansas Geological Survey regarding regulatory and tax policies which impact the continued operation of producing oil wells.

Aside from environmental problems which may justify shutting down and plugging specific wells, there are present benefits and potentially significant future benefits associated with policies which prolong production from marginal wells.

The Kansas Geological Survey, along with other research groups in Kansas is actively involved in development and testing of new technologies and methods of subsurface analysis which could permit recovery of significantly higher percentages of oil in place. Because of technical problems associated with moving oil to a well from the surrounding rock pores, only 20-40% of the actual resource around a well is actually retrieved. Studies such as the Zenith Oil Field Project provide a model for development of significantly higher recovery rates from producing fields.

It is important to recognize that once production stops and wells are plugged in a field it is extremely unlikely that new wells would be drilled into an already marginal reservoir without major increases in oil prices.

The primary policy actions available to the Kansas which can prolong production in marginal wells are those which reduce tax burdens. Senate Bill No. 127 is very specifically targeted toward producing wells which are the most clearly marginal production in the state.

On October 4, 1990 I presented the following remarks to another legislative hearing:

> "Some inappropriate opposition to the proposed exemptions has been generated because of confusion of the Federal definition of "stripper" wells (those producing less than 10 barrels of oil per day) with wells qualifying for the low production exemption under the Kansas severance tax laws.

2-20-91
ATT 3-1

Frances Austin, Rooks County Appraiser, has released the following information to the press regarding oil property valuations in Rooks County. The data clearly indicates that there is a significant difference between exemption of all leases averaging less than 10 barrels per well per day and exempting leases currently exempt from the severance tax under low production exemptions."

ROOKS COUNTY

Production Rate (BOPD)	Cumulative # of Leases	Cumulative Valuation ($1000)	Average Valuation by interval	% of Leases	% of Valuation
< 1	24	$118	$4.9	3.1%	0.5%
< 3	259	$2488	$9.1	37.0%	11.0%
< 5	526	$8348	$24.1	68.8%	37.0%
< 7	624	$11670	$33.9	81.7%	51.7%
< 8	662	$13558	$49.7	86.6%	60.1%
< 9	682	$14714	$57.8	89.3%	65.2%
<10	704	$16031	$64.8	92.1%	71.1%
all	764	$22560	$108.8	100.0%	100.0%

These remarks are equally relevant to this bill.

Based on these figures, the proposed bill would impact 37% of all leases in Rooks County, but only 11% of the county's oil and gas properties assessed valuation.

It appears that the bill is consistent with appropriate methods of prolonging oil field production and the views of the Kansas Geological Survey on this issue.

That concludes my remarks. I would be glad to answer any questions.

Sincerely,

David R. Collins

David R. Collins, Ph.D.
Chief, Technical Information Services

TESTIMONY PRESENTED TO THE

SENATE ASSESSMENT & TAXATION COMMITTEE

ON

SENATE BILL 127

BY TIMOTHY N. HAGEMANN

EXECUTIVE DIRECTOR OF THE

KANSAS LEGISLATIVE POLICY GROUP

FEBRUARY 20, 1991

2-20-91
ATT. 4-1

Kansas Legislative Policy Group
412 Capitol Tower, 400 West Eighth, Topeka, Kansas 66603, 913-233-2227
TIMOTHY N. HAGEMANN, Executive Director

KANSAS LEGISLATIVE POLICY GROUP MEMBER COUNTIES

BARBER	KEARNEY
BARTON	KIOWA
EDWARDS	LANE
FINNEY	MEADE
FORD	MORTON
GOVE	RICE
GRANT	SCOTT
GRAY	SEWARD
GREELY	STANTON
HAMILTON	STEVENS
HASKELL	TREGO
HODGEMAN	WICHITA

GOVERNMENT RELATIONS BY:

PETE McGILL & ASSOCIATES, INC.
412 CAPITOL TOWERS
400 WEST EIGHTH
TOPEKA, KANSAS 66603
(913) 233-4512
(913) 233-2206 (fax)

Mr. Chairman and Members of the Committee:

I am Timothy Hagemann. I appear before you today representing The Kansas Legislative Policy Group, commonly referred to as "KLPG". KLPG is a group of county commissioners from 24 counties.

This organization was formed to oppose any narrowing or erosion of each county's property tax base. Chronologically, the KLPG was founded during the time mineral production was spotlighted as an additional state revenue source. Since imposition of the state gross production tax, referred to as a state severance tax, it seems that we revisit the tax position of the oil industry each year. I support of this conclusion, KLPG has continuously forecasted that the oil industry would keep nibbling away at local mineral taxes. This forecast has proved accurate to this point. On February 7, 1991, the Board of Directors voted unamiously to rigorously oppose SB 127, even though it does not affect all member counties equally.

Mr. Chairman, it must be noted that The Kansas Independent Oil and Gas Association is consistent in blaming taxes and government regulation as their economic Waterloo. This rhetoric continues no matter what the price of crude oil.

The provisions of SB 127 would exempt those wells from local ad valorem taxes that are now exempt from state severance taxes. (Although this industry demands good county and township roads, together with bridges that will stand extra heavy loads.) In plain words, these properties will pay no taxes at all.

This industry constantly states that protection of a viable functional industry is their main concern. However, we cannot understand why this industry suffers any more than the agricultural based economy, especially during the past several months when oil prices have been high and agricultural commodities continue to decline.

It must also be stated that in a few counties the short term effects of imposition of SB 127 will be minimal. However, in many counties the effects will be meaningful and in some, specifically southeast Kansas, the effect will be immediate and devastating. Another item this industry tries to portray is that plugging of marginal wells can be attributed solely to taxation. This we do not believe. We believe that a study of pluggings will show a large percentage of plugging represents downhole physical problems, where the cost to cure outweighs future benefits. In these cases, taxes were not the problem nor the cause of abandonment. Another question we would like this industry to answer is why their economic problems should be shouldered by all other taxpayers. We believe that if taxes are truly the reason for poor industry economics, how long will it be until the public is asked to shoulder pluggings where the operators have exhausted all potential revenue from marginal leaseholds, excluding revenues for administrative overhead.

In closing I would like to remind the Committee that there is a **statewide** tax problem!! The bottom line of provisions in SB 127 will only compound these problems. Therefore, we respectfully request that the Committee reject SB 127.

Thank you for your consideration. I would now stand for questions.

RE: Proposal No. 5 – Taxation of Oil and Gas Industry

Proposal No. 5 charged the Special Committee on Assessment and Taxation to review the study prepared by Arthur D. Little and determine whether the combined tax burden on the oil and gas industry in Kansas is too onerous; if relief is warranted, consider whether low production wells should be exempted from property tax (1990 S.B. 768 and 1990 H.B. 2981) or whether another form of relief would be more effective in stimulating economic development. The Committee was charged to study this topic only on a time-available basis.

Background

Besides the property tax exemptions proposed in S.B. 768 and H.B. 2981, two other bills which would have provided expanded severance tax exemptions died at the end of the 1990 Session. H.B. 2042, which would have expanded severance tax exemptions for oil was estimated during the 1989 Session (based on price and production data and assumptions which were appropriate at that time) to have a State General Fund (SGF) fiscal note of approximately $7.6 million. H.B. 2184, which would have effectively decreased the severance tax rate on gas (by increasing the property tax "credit"), was estimated to have an SGF fiscal note of approximately $22.2 million, based on the consensus estimates during the 1989 Session.

In response to all of this legislation and the question of the overall tax burden on the industry, Kansas, Inc. commissioned a study by Arthur D. Little. That study concluded that the combined tax burden on oil and gas production in Kansas is high relative to other states. Several severance tax and property tax exemption policy options were suggested by that report to lower the tax burden and stimulate production.

In early August, Iraq invaded Kuwait causing spot market crude oil prices to soar worldwide. By mid-October, spot market prices were approaching $40 per barrel.

Committee Activity

Kansas, Inc. summarized the Arthur D. Little study and presented the conclusions to the Committee at the June and September meetings. The Committee also received a variety of data and technical assistance from the Kansas Geological Survey. A number of conferees representing the oil and gas industry advocated various forms of tax relief at the September meeting, but Walter Staab, Ellis County Appraiser, Tim Hageman, Kansas Legislative Policy Group, and Ned Webb, Northwest Kansas Planning and Development Commission, opposed property tax exemptions for oil and gas properties on the grounds that such exemptions could substantially narrow the property tax base in some counties.

At the September meeting, staff distributed copies of a United States General Accounting Office (GAO) report, "Additional Petroleum Production Tax Incentives are of Questionable Merit." Don Schnacke, Kansas Independent Oil and Gas Association (KIOGA), presented a response to the GAO report at the October meeting.

Also at the October meeting, the Committee instructed staff to prepare a bill draft for further review at the November meeting which would exempt certain oil properties from the property tax if they are exempt for severance tax purposes. The Committee reviewed that bill draft in November.

Pro. No. 5

Committee Conclusions and Recommendations

The Committee makes no recommendations regarding this topic.

4-6

SATURDAY
February 9, 1991
The Wichita Eagle

High '90 oil prices to limit state severance-tax exemptions

Crude oil prices in Kansas in 1990 averaged $25.46 a barrel — the highest price since 1985.

The 1990 average price was 29 percent higher than 1989's average of $19.71 a barrel, reflecting the jump in prices following Iraq's invasion of Kuwait.

Kansas sweet ranged from a low of $15 a barrel on June 19 to a high of $39.25 on Oct. 9.

The price has since fallen to the $20 range. But the high average price for 1990 will mean that fewer wells will be exempt from the state severance tax next year, said John Parks of the Research and Revenue Analysis Bureau of the Department of Revenue.

On April 15, the department will establish new exemptions for production from May 1991 to April 1993. The exemption is based on the average price of crude oil for the second half of the calendar year.

OIL & GAS REPORT

Oil prices remained above $30 a barrel from Sept. 14 to Oct. 22 and from Oct. 25 to Nov. 14.

An average price of more than $30 a barrel from July to December would mean only three barrels of oil a day per well would be exempt from the state's 4.33 percent severance tax.

Four barrels a day per well are exempt from the tax when oil prices average $24 to $30 a barrel; that rises to five barrels a day when oil prices average $16 to $24 a barrel.

Although the past six months might not be representative of the whole year, the lag can go either way, Parks said.

The high price in the second half of the year means producers may have to pay the severance tax on two additional barrels of production a day for wells that are deeper than 2,000 feet.

But Parks said 36 percent of the state's total production is exempt from the state severance tax. More than 85 percent of Kansas' oil production is from wells producing less than 10 barrels a day.

On average, Parks said, the effective tax rate is 2.77 percent on oil produced in the state.

Agenda

Wichita Women in Energy will hold a "Colleague's Night" at the Petroleum Club at 5:30 p.m. Feb. 18. Dave Farnsworth, a professor of political science at Wichita State University, will give a talk entitled "Status of the Gulf Crisis." Members are encouraged to invite their co-workers and bosses. For reservations, call Cindy Hoover at 636-9491 or Karol Phillips at 261-6365.

John Gray, an international petroleum consultant, will speak on "Oil and Gas Prospects and Opportunities in the Soviet Union" Wednesday at a joint meeting of the **Kansas Geological Society** and the **Society of Independent Professional Earth Scientists.** Lunch at 11:30 at the Petroleum Club will be followed at 12:20 by the lecture in the lower auditorium of the Fourth Financial Center. For reservations, call Elaine Barham at 262-7492.

A seminar on corrosion control will be held Tuesday and Wednesday at Barton County Community College. The seminar is sponsored by the **Kansas Section of the National Association of Corrosion Control Engineers** and Barton County Community College. Registration is 7:30 to 8:30 a.m. Tuesday. The seminar will be in the Fine Arts Seminar Room, F-30. The fee is $50 and includes refreshments, lunch, materials and college credit. Preregistration is required. For information, call Elaine Simmons, coordinator of seminars, at (316) 792-2701, ext. 214.

The fifth annual **J.R. Berg Distinguished Petroleum Lecture** will feature Robert Jay Weimer, consultant and professor emeritus at the Colorado School of Mines. Weimer will speak on "Sequence Stratigraphy Concepts Applied to Morrow Formation: Problems and Challenges." The lecture will be Feb. 21 in the lower auditorium of the Fourth Financial Center

4-3

TESTIMONY

OF

BRAD WELCH

GREELEY AND KEARNY COUNTY APPRAISER

BEFORE THE

SENATE ASSESSMENT AND TAXATION COMMITTEE

FEBRUARY 20, 1991

RE: SENATE BILL 127

2-20-91
Att. 5-1

Mr. Chairman and Members of the Committee:

My name is Brad Welch, appraiser for Greeley and Kearny Counties. I appear before you today to oppose Senate Bill 127. While this bill would have little effect on taxpayers in my counties, gas being taken out from last year's version, I am sure in the near future gas would be amended back in and taxpayers in my jurisdiction would have to make up the difference, just as taxpayers will have to make up the difference in the oil producing counties. Much has been said to the horrendous effective tax rates paid by the oil companies. I relate to you the oil companies are confusing effective tax rates with tax percent of gross income. The effective tax rate is nothing more than the relationship between the property value and the tax bill or it can be computed by multiplying the level of assessment and the tax rate. As long as the level of assessment and tax levies are equal, the value placed has little weight. The real question is whether the property is being appraised at or near market value. Some studies indicate not.

I have computed the effective tax rates in a few of the counties. The "All Other Property--Urban" will always be the highest because the level of assessment is constant but the urban levy is higher. The enactment of SB 127 will only increase these effective tax rates for the other types of properties in these jurisdictions. Thank you for your time and consideration. I would be glad to answer any questions.

<u>Stanton County</u>

Oil and Gas Property--Rural
Total Tax Dollars of- $2,997,547/$132,061,017 (total value) = .023 (effective tax rate)

All Other Property--Rural
Total Tax Dollars of- $192,199/$8,472,047 (total value) = .023 (effective tax rate)

Level of Assessment .30 x total value .07771 = .023 (effective tax rate)

<u>Morton County</u>

Oil and Gas Property--Rural
Total Tax Dollars of- $4,812,409/$244,807,403 (total value) = .020 (effective tax rate)

All Other Property--Rural
Total Tax Dollars of- $40,934/$2,001,400 (total value) = .020 (effective tax rate)

All Other Property--Urban
Total Tax Dollars of- $299,554/$8,928,950 (total value) = .034 (effective tax rate)

Level of Assessment .30 x average county levy .07045 = .021 (effective tax rate)

Sumner County

Oil & Gas--Rural
Total Tax Dollars of- $678,400/$19,900, 080 (total value) = .034 (effective tax rate)

All Other Property-Rural
Total Tax Dollars of- $750,563/$21,364,200 (total value) =.035 (effective tax rate)

All Other Property--Urban
Total Tax Dollars of- $1,486,818/$33,876,493 (total value) = .043 (effective tax rate)

Level of Assessment .30 x average county levy .12747 = .038 (effective tax rate)

Cowley County

Oil and Gas--Rural
Total Tax Dollars of- $921,272/$24,429,587 (total value) = .038 (effective tax rate)

All Other Property--Rural
Total Tax Dollars of- 1,172,745/$31,218,380 (total value) = .038 (effective tax rate)

All Other Property--Urban
Total Tax Dollars of- $3,063,852/$63,653,613 (total value) = .048 (effective tax rate)

Level of Assessment .30 x average county levy .14302 = .043

Barton County

Oil and Gas--Rural
Total Tax Dollars of- $1,898,215/$59,243,407 (total value) = .032 (effective tax rate)

All Other Property--Rural
Total Tax Dollars of- $1,135,836/$35,565,820 (total value) = .032 (effective tax rate)

All Other Property--Urban
Total Tax Dollars of- $4,079,390/$100,613,200 (total value) = .041 (effective tax rate)

Level of Assessment .30 x average county levy .12055 = .036 (effective tax rate)

Ellis County

Oil and Gas--Rural
Total Tax Dollars of- $2,125,053/$85,952,135 (total value) = .025 (effective tax rate)

All Other Property--Rural
Total Tax Dollars of- $454,096/$17,709,600 (total value) = .026 (effective tax rate)

All Other Property--Urban
Total Tax Dollars of- $3,468,404/$96,720,733 (total value) = .036 (effective tax rate)

Level of Assessment .30 x average county levy .10495 = .031 (effective tax rate)

Pratt County

Oil and Gas--Rural
Total Tax Dollars of- $967,349/$27,717,497 (total value) = .035 (effective tax rate)

All Other Property--Rural
Total Tax Dollars of- $258,761/$7,415,100 (total value) = .035 (effective tax rate)

All Other Property--Urban
Total Tax Dollars of- $1,095,060/$24,576,783 (total value) = .045 (effective tax rate)

Level of Assessment .30 x average county levy .12711 = .038 (effective tax rate)

Montgomery County

Oil and Gas--Rural
Total Tax Dollars of- $292,494/$7,958,700 (total value) = .037 (effective tax rate)

All Other Property--Rural
Total Tax Dollars of- $1,129,262/$30,942,973 (total value) = .036 (effective tax rate)

All Other Property--Urban
Total Tax Dollars of- $3,587,645/$21,127,430 (total value) = .048 (effective tax rate)

Level of Assessment .30 x average county levy .14262 = .043 (effective tax rate)

TESTIMONY

OF

ANN PAPAY

GRANT AND STANTON COUNTY APPRAISER

BEFORE THE

SENATE ASSESSMENT AND TAXATION COMMITTEE

FEBRUARY 20, 1991

RE: SENATE BILL 127

2-20-91
Att 6-1

Mr. Chairman and Members of the Committee:

My name is Ann Papay. I am the County Appraiser in Grant and Stanton Counties located in southwest Kansas.

Although SB 127 would have very little impact on my counties, I stand before you in opposition of this bill.

I do not believe ad valorem taxes are the cause of wells being plugged. Oil prices and mechanical problems cause premature abandonment, not taxes. (If taxes are the cause of plugging, then they should be plugged.)

Please remember that many nonresident owners of these oil properties share in the benefits -- should they not pay their share of taxes in Kansas?

At a time when the state is in dire need of additional funds, is now a time to grant one more exemption -- especially in some counties where it will cause extreme budget problems?

During the last three sessions (including a special session), you have struggled to solve a **TAX** problem in Kansas that was created by the narrowing of the tax base. By creating one more exemption, you simply compound the problem and get further away from a solution.

Thank you for allowing me to appear before you.

Montgomery County Appraiser

P. O. Box 507 316-331-4510

Independence, Kansas 67301

FEBRUARY 20, 1991

ANN PAPAY,

DUE TO TIME CONSTRAINTS I AM NOT ABLE TO GIVE ABSOLUTE DATA RELATIVE TO THE OIL IN MONTGOMERY COUNTY.

WE CURRENTLY HAVE APPROXIMATELY 700 LEASES ON THE TAX ROLL.

IF THE LAW CHANGES WE WOULD HAVE LESS THAN A DOZEN LEASES ON THE TAX ROLL.

COUNTY WIDE STATISTICS:

1989 PRODUCTION 429,203 BARRELS/1989 WELLS 3079 = 139.39 YEARLY.

139.39/365 DAYS = .38 AVERAGE BARREL PER DAY.

1990 VALUATION ON TAX ROLL ABSTRACT	$2,495,320
1990 TOTAL TAX ON TAX ROLL	$288,608
1990 COUNTY TOTAL VALUATION	$141,970,667

I REALIZE THAT THE OIL ONLY REPRESENTS LESS THAN 2% OF THE TOTAL VALUATION BUT ANY FURTHER DETERIORATION OF THE TAX BASE WOULD CREATE UNDUE HARDSHIP ON THE REMAINING TAXPAYERS TO ABSORB THE DEFICIT.

SINCERELY,

Terry V. Brown

TERRY V. BROWN, CKA, ASA
MONTGOMERY COUNTY APPRAISER

TVB:KLC

OFFICE OF HARPER COUNTY APPRAISER

Telephone (316) 842-3718 / Courthouse / Anthony, Kansas 67003

20 FEBRUARY 1991

ASSESSMENT AND TAXATION COMMITTEE
HONORABLE SENATOR DAN THIESSEN, CHAIRMAN
STATE CAPITOL BUILDING
TOPEKA, KS 66612

DEAR MR. CHAIRMAN AND COMMITTEE MEMBERS:

I AM LEROY T. LELAND, HARPER COUNTY APPRAISER AND A MEMBER OF THE 1991 LEGISLATIVE COMMITTEE OF KANSAS COUNTY APPRAISER'S ASSOCIATION.

RE: SENATE BILL NO 127 - AN ACT RELATING TO PROPERTY TAXATION: EXEMPTION CERTAIN OIL PROPERTIES THEREFROM.

THIS BILL IF PASSED COULD PROVE TO BE DISASTROUS TO THE COUNTIES OF SOUTH CENTRAL AND SOUTH EAST KANSAS.

IN SOME COUNTIES 86 TO 90% OF THE VALUATION WILL BECOME EXEMPT.

DOCUMENTATION SHOWING LOSS OF VALUATION FROM THE FOLLOWING COUNTIES.

BARBER. . . . 730 ANNUAL LOSS OF 59 WELLS-TOT TAX REVENUE $27,863.10
. .1000 ANNUAL LOST OF 56 WELLS
CHAUTAUQUA. . 550 LEASES----90% LOSS OF VALUATION
HARPER. . . . ASSESSED VALUE - 1,635,536
HARVEY. . . . ASSESSED VALUE - 1,043,879 A LOSS OF 63%
KINGMAN . . . ASSESSED VALUE - 982,825-TOT TAX REVENUE $115,705
LYNN. . . . . ASSESSED VALUE - 355,054
PRATT . . . . ASSESSED VALUE - 50,694 70 LEASES--720 ANNUAL
SUMNER

IT IS OUR BELIEF THAT WELLS CURRENTLY PRODUCING 3.5 TO 4 BARRELS WILL BE MANUALLY CURTAILED TO LESS THAN 3 TO FALL UNDER THIS EXEMPTION. WHICH WOULD MEAN MORE LOSS IN VALUATION TO OUR COUNTIES.

2-20-91
7-1

DOCUMENTATION NOT INCLUDED IN THIS PACKET WILL BE MAILED TO EACH MEMBER IN THE NEXT FEW DAYS.

RESPECTIVELY SUBMITTED,

KCAA LEGISLATIVE COMMITTEE

LeRoy T. Leland

LEROY T. LELAND,
MEMBER

BARBER COUNTY

LTL:

STICKNEY CALLED @ 12:40
FOR YOUR INFORMATION:
59 WELLS IN BARBER COUNTY
730 BARRELS PER YEAR
OR LESS.
TOTAL TAX REVENUE: $27,863.10

56 WELLS IN PRODUCTION
OVER 730 BARRELS PER YEAR,
BUT LESS THAN 1000 BARRELS

1

HARPER COUNTY 1989 OIL PRODUCTION
WELLS LESS THAN 1095 ANNUAL

LEASE #	NAME	1989 PROD	GROSS RESV	ROY INT	WORK INT
0011	JOHNSTON #1	830	20,105	5,780	8,162
0027	DRAKE	1073	84,370	11,400	40,266
0028	DUNCAN MILLER	889	136,803	18,484	85,615
0029	VIRGINIA	957	54,742	8,340	13,425
0031	CRITSER #1A	563	83,630	15,027	29,107
0034	DIEL #1	538	56,251	10,108	11,393
0035	DIEL #2	546	37,599	6,756	9,863
0038	DRESSER #1C	418	61,644	12,329	8,032
0042	JACOBS #2	233	49,224	8,845	10,816
0043	MUIR #1A	1007	58,711	8,944	17,042
0045	NEWBERRY #1	736	101,280	18,199	41,798
0046	NEWBERRY #2	1054	128,570	23,102	64,735
0047	NEWBERRY #3	337	42,043	7,555	10,227
0049	VALDOIS #1A	983	33,018	4,127	9,668
0051	WILLIAMS #1A	610	68,043	8,505	20,042
0060	EASTERBY	305	45,265	8,134	11,042
0064	JACOBSEN A	1019	240,870	43,281	115,573
0068	MUIR A	906	37,578	6,752	12,591
0082	FLEMING #1	1052	105,834	22,324	50,533
0085	FRANK	493	53,840	9,674	11,195
0087	HELEN	253	105,304	18,922	53,678
0093	DAVIS	655	121,611	21,852	67,055
0097	WERNER B-1	382	105,076	13,135	50,659
0098	ANTRIM	910	79,865	14,351	24,231
0103	DARNES A-B-C	565	12,695	1,587	7,889
0107	WINGATE	869	130,759	16,345	51,510
0117	DOMBAUGH	741	22,836	3,479	8,714
0129	MORRIS T	1074	95,726	11,966	18,352
0134	WARREN	904	67,948	12,209	16,243
0141	DARNES C	1020	56,389	13,216	10,469
0143	LYDIA GAUG	998	56,901	7,113	17,338
0160	CARR A	1067	67,175	9,315	19,344
0163	DRAKE	1022	65,978	11,855	16,564
0164	GATES	1218	98,872	15,063	18,401
0165	GRABS	990	66,653	11,977	21,972
0168	MORRIS	579	46,255	8,311	9,370
0172	WARREN	1233	89,350	16,055	20,239
0173	WOODS	1034	100,650	18,086	16,612
0181	MUIR A-B	336	7,672	959	8,453
0183	ASPER A	548	39,286	5,314	10,176
0210	R ANTRIM	566	13,002	1,625	7,317
0212	GRABS	349	50,167	6,271	17,099
0240	WINGATE #1	857	58,925	7,366	18,855
0260	DUSENBURY A	481	15,133	2,719	9,023
0262	MORROW 1-34	626	16,209	2,026	9,200
0263	BRETT SCRIVNER	1085	41,798	7,524	11,209
0265	GATES D	582	79,256	14,241	25,519
0273	BILL WALL #1	403	6,478	1,253	8,304
0276	HUGHBANKS	1000	84,560	15,194	37,723
0278	ROBERTS A	507	29,710	5,339	10,219
0300	MEINEKE	907	47,202	7,191	7,307

7-4

V

HARPER COUNTY 1989 OIL PRODUCTION
WELLS LESS THAN 1095 ANNUAL

0302	PULLIAM	871	38,649	4,831	8,957
0307	MATTINGLY	736	36,642	6,584	8,581
0310	LUDEMAN	635	36,295	5,331	8,672
0318	WILCOX	215	3,114	560	8,812
0329	HUNER-JOHNSON	445	26,597	4,389	11,688
0338	JOHNSON	623	13,292	2,658	7,842
0350	STEVENS #2	343	18,139	3,301	14,838
0367	SCHROCK C	954	59,195	10,637	17,640
0372	BOB	323	80,285	14,426	25,126
0399	MCKINNEY	516	28,579	3,572	8,076
		TOTAL	3,826,724	615,814	1,330,365

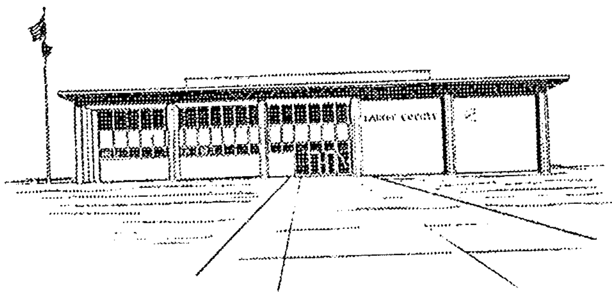
MULTIPLE WELLS

LEASE #	AMT	NAME OF LEAS	1989 PROD	GROSS RESV	ROY INT	WORK INT
0003	4	DICKSON	2865	146,906	26,397	34,354
0024	4	DARNES RANCH	3046	175,371	21,921	23,184
0062	4	GREEN	2853	162,925	29,276	48,136
0070	4	MUIR C	2047	130,717	23,488	48,758
0073	3	STEPHENS	3033	157,232	28,253	30,048
0090	2	WARREN	1408	69,869	13,373	18,009
0100	3	DARNES	2867	210,813	26,352	60,612
0104	2	GRABS B	1464	80,926	18,967	18,555
0105	4	WINGATE	2248	106,296	19,100	33,439
0108	4	BLACKWELL	3568	146,768	18,346	37,562
0111	8	BURGES A B C	7409	388,744	69,852	86,121
0121	2	HONN A	1990	150,946	27,123	41,257
0124	4	LONG	3185	157,151	28,238	40,007
0125	3	DORA MILLER	3271	443,809	79,747	265,950
0131	2	MORRIS #2#3	1676	170,105	42,526	62,171
0133	2	RALL F	1406	207,194	25,899	118,009
0136	2	WILLIAMS B-C	1678	70,179	12,610	19,864
0144	3	KERNOHAN	2357	198,659	41,808	58,739
0146	7	MARTIN A	4639	427,472	53,434	143,199
0158	2	CAMPBELL	1952	93,731	16,842	21,246
0159	2	CARR	1459	117,475	21,109	13,000
0162	4	CULVER B	3016	238,086	55,801	51,469
0166	4	JACOBS B	2933	215,733	38,765	45,060
0167	2	MARTIN	1646	115,394	20,735	28,705
0186	4	BROCE A B	2212	147,805	19,991	37,501
0188	2	BRUMMER A	1646	83,885	10,486	18,491
0189	3	BRUMMER B	2820	210,674	43,616	68,946
0197	2	WARREN A	1546	141,346	19,118	56,274
0209	4	R ANTRIM	2900	352,586	44,073	143,930
0211	2	BROCE	2012	146,844	18,356	45,923
0214	2	SIMPSON #1	1261	107,777	19,366	22,457
0243	3	BEAR	1155	30,670	5,511	22,852
0246	7	DUSENBURY A	3962	360,576	64,791	71,126
0252	4	NEWBERRY A	2922	299,788	53,868	80,788
0315	3	CD WILLIAMS	2433	114,399	21,450	48,979
0331	5	RUNNEYMEDE	3514	205,498	25,687	53,637

HARPER COUNTY 1989 OIL PRODUCTION
WELLS LESS THAN 1095 ANNUAL

0360	2	HOSTETLER	1274	53,128	6,641	23,666
0379	3	RYAN 6-9-10	2923	449,602	93,082	257,589
			TOTAL	7,087,079	1,205,998	2,299,613
TOTAL ALL WELLS				10,913,803	1,821,812	3,629,978
ASSESSED VALUE				3,274,140	546,543	1,088,993

TOTAL ASSESSED 1,635,536



OFFICE OF
COUNTY APPRAISER
HARVEY COUNTY
NEWTON, KANSAS 67114
(316) 283-6900

JOHN A. SCHOWALTER, CKA
COUNTY APPRAISER

ELYSA LOVELADY
CHIEF DEPUTY APPRAISER

MARY COSLETT
OFFICE MANAGER

Mr. Leroy Leland
Harper County Appraiser
Anthony, KS 67003

RE: HOUSE BILL No. 2125

Dear Leroy,

John requested that I do some research in relation to your phone call concerning the possible loss of oil valuation in Harvey County due to the proposed Bill 2125. This would have a disastrous effect on our oil valuation. For 1990, Harvey County oil valuation was 1,672,701. Of this amount, we could possibly lose 1,043,879. As you can see, this is 63%. In estimating the possible loss, I used wells that met the criteria for 1989 production. We have several others that meet the criteria for 1988 production and were just under for 1989. Please keep us posted on the movement of the Bill as we would suffer a considerable loss.

Sincerely,
Elysa K. Lovelady
Elysa K. Lovelady
Chief Deputy Appraiser

19 FEBRUARY 1991

KINGMAN COUNTY

TOTAL LOSS OF VALUATION - 982,825

TOTAL TAX LOSS- - - - - -$115,705

A MORE DETAILED REPORT TO FOLLOW

LINN COUNTY APPRAISERS OFFICE
315 MAIN
MOUND CITY, KANSAS 66056
TELEPHONE 913-795-2580

LINN COUNTY OIL LEASES EXEMPTED UNDER HB-2125

WORKING	ROYALTY	TOTAL ASSESSED
131	49	180
211	158	369
382	787	1169
91	212	303
464	988	1452
78329	24122	102451
932	1920	2852
11400	10390	21790
97	84	181
6516	14405	20921
6574	37135	43709
4710	15809	20519
932	3013	3945
5374	3279	8653
272	268	540
652	1979	2631
187	268	455
85	166	251
457	364	821
680	330	1010
1872	2341	4213
822	556	1378
1123	652	1775
288	289	577
1434	1282	2716
624	428	1052
385	106	491
1361	1450	2811
830	1162	1992
112	139	251
159	412	571

LINN COUNTY APPRAISERS OFFICE
315 MAIN
MOUND CITY, KANSAS 66056
TELEPHONE 913-795-2536

V

412	288	700
1211	2045	3256
360		360
196	66	262
706	26	732
184	188	372
1189	869	2058
459	191	650
2422	154	2576
2629	8716	11345
40016	14165	54181
3158	69	3227
818	2858	3676
341	909	1250
771	20	791
732	4669	5401
440	383	823
771	1582	2353
371	44	415
1416	6817	8233
258	106	364
TOTAL WORKING	TOTAL ROYALTY	TOTAL ASSESSED
186346	168708	355054

USING AVERAGE LEVY OF .070461
TOTAL LOSS IN TAX DOLLARS = 25017.46

7-10

PRATT COUNTY

720 BARRELS ANNUAL

70 LEASES

ASSESSED WORKING - 36,268
ASSESSED ROYALTY - 14,426

TOTAL LOSS OF VALUATION - 50,694

Presentation To ______________ Committee
Topeka Kansas __/__/__

Thank you for this citizen's opportunity to present his opposition to the tax increases, to measures that would harm economic growth. My passout materials assert:

1. That the reason for our being in this property classification & tax mess is the insatiable demand for more money by the public school lobby.
2. And, that the solution is to reduce the school population through incentives and CHOICE.

The attached letters to the Governor & the Speaker cite the Epson, New Hampshire, creative property tax plan which gives a $1,000 tax credit for each student NOT using public schools--- saving $4,000 per child annually. This could mean an extra $100 Million for other state needs. Also cited, TUITION for public school kids --- about $1,000 each--- asking why don't they pay TUITION like private school kids. (Those who can afford it.) This would add another $520 Million annually for other state needs--- Over $600 Million, total, for social services, health insurance, infrastructure, the truly needy, & you name it.

These suggestions are in tune with President Bush's budget plan which calls for "empowerment," CHOICE, & shifting subsidies from those who don't need them to those who do. Good luck in your work for Kansas.

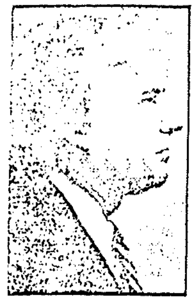
Presentation By John McDonough (913) 8884455
8530 Bradshaw Lenexa Ks 66215

2-20-91- Att 8-1

States should end subs[illegible]es

To the E[illegible]r:

I learned from the David Broder syndicated column (KJ, 1/7) that House Speaker John Martin blames your $125 million budget gap on Washington, D.C. If your state is like all the rest, you are at fault for giving your state treasury away in subsidies to people who for the most part could pay their own way.



MARTIN

Why don't public school parents start paying tuition? Like maybe about $1,000 a year per kid? Private school parents do it, and many have lots less income than many public school parents. Poor kids could still be free.

Tuition for most public school kids would leave the state treasuries rich — rich enough to fund the truly needy, infrastructure, law enforcement, Medicaid, health insurance, etc. And your speaker and Mr. Broder could quit crying around about how tough things are and blaming the feds.

About 1/21/91
Augusta, Maine

John McDonough
Lenexa, Kansas

Gov. Joan Finney, State Capitol
Topeka, Ks 66215 2/10/91

Dear Governor Finney:

I write to you because I read that you invite proposals "... to fund these property taxes." The other day I wrote Speaker Barkis, sending you a copy, as he too had invited ideas --- and I enclosed a copy of the presentation I'll be giving at several legislative committee hearings. That presentation, another copy enclosed, calls for reducing public school enrollments/costs --- the prime cause of our being in this mess in the first place. I cite the Epsom, New Hampshire approach... giving a $1,000 property tax credit for each child NOT using public schools, saving $4,000 per child annually. My estimate is that this approach would save the state $100 million a year for other Kansas needs. (e.g. SRS)

Also cited, another proposal to fund property tax reductions, is the introduction of TUITION for public school kids --- asking why don't they pay TUITION like at private schools (those that can afford to)? This would add another $520 million annually for still other Kansas needs. (e.g. health insurance, infrastructure, you name it)

In closing, please refer to the newspaper clip above --- my answer to state officials complaints about federally mandated programs. And the new federal budget philosophy includes shifting subsidies from those who don't need it to those who do. It also calls for "CHOICE," and "empowerment," for better education.

Sincerely,
John McDonough
8530 BRADSHAW
LENEXA KS 66215 (913) 888 4455

P.S. Gosh! I hope you win on INITIATIVE

8-2

Page 2:

In closing, I challenge you to start a debate at the state level on the principle of means-testing education programs --- as Richard Darman of O.M.B. calls for a related debate at the federal level, described in the David Broder article I've provided. Even the national democrats are starting to pay attention to this fairness.

2-15-91

CHOICE'S CHANCES: Educators face a tougher fight against school choice plans.

Education unions attack Bush's plan for grant programs to let parents pick where their kids go to school, public or private. If the White House thinks funding for private schools "will vastly improve education, it is sadly mistaken," declares Albert Shanker of the American Federation of Teachers. The National Education Association vows to help sink Bush's plan in Congress. WSJ

But the idea of school choice draws an unusual coalition of backers, including conservatives, liberals and blacks. "I think this year, for the first time, the dynamics are moving very much in favor of choice," says Clint Bolick of the Landmark Center for Civil Rights. Critics accuse the education unions of trying to preserve the school bureaucracies that employ their members.

Incoming Education Secretary Alexander is expected to be a much more effective advocate of school choice than previous education chief Cavazos was.

The Problem:

The Deterioration of American Public Education

Since 1963, average SAT verbal scores have fallen 54 points (11 percent) and math scores 36 points (7 percent). On the top side of the curve, the percentage of students scoring over 700 on verbal tests fell from 2.5 percent to 0.8 percent and on math tests, from 4.1 percent to 2.7 percent. On the other edge, some 40 percent of minority urban school graduates are considered functionally illiterate.

In comparison with other industrialized countries, U.S. educational achievement ranked 12th out of 14. When algebra and calculus scores of the top 5 percent students were compared, U.S. students ranked last.

In addition to declining quality, the school dropout rate across the nation is 27 percent, and accelerates greatly in urban areas and among minorities. In New York and Chicago the projected rate is over 40 percent, with certain schools approaching 75 percent. The number of black and hispanic youth who drop out is almost twice that of whites.

We are, indeed, a NATION AT RISK. Clearly this educational deterioration already has:

- created a horrendous waste of our most precious resource - our youth;
- suffocated the personal development of an entire generation;
- entrapped poor and minority children in the cycle of poverty;
- seriously reduced the productivity of the nation in industrial, intellectual and artistic endeavors;
- and each day further jeopardizes the future of our nation.

Budget 'fairness' passage sets off alarm bells

Washington Post Writers Group 2/13/91

DAVID S. BRODER

WASHINGTON — In all of Washington, there may not be two people whose minds work faster than Barney Frank and Dick Darman. Frank, the Democratic congressman from Massachusetts, and Darman, the director of the Office of Management and Budget, had an exchange at last week's House Budget Committee hearing that previewed what will be a major — and useful — political debate.

In his introduction to President Bush's budget for next year, Darman said the administration was offering "an important new emphasis for reform: increasing fairness in the distribution of benefits, reducing subsidies for those who do not need them."

That passage set off alarm bells among Democrats, who recognize that the "fairness" franchise is one of the pillars of their political power.

Two of the highlighted proposals in the Bush budget are designed to cut off farm subsidies to people with more than $125,000 in non-farm income and to raise the Medicare premiums for physician and outpatient services paid by people with equally high incomes. Bush also proposed shifting more school-lunch and college-aid funds to people from low-income families.

The immediate changes would be modest — a few hundred million dollars in a system where individuals receive more than $200 billion a year in government checks. But Darman said he wanted to "start a debate" on the principle of means-testing government programs. And Democrats recognize that is a challenge they cannot ignore — and might just turn to their advantage.

So when Darman came before the budget committee, Frank was waiting. He got Darman to acknowledge that the "losers" in his proposed school-lunch and college-aid reforms would be families with incomes well-below the $125,000 cutoff he was proposing for farm and medical benefits. Frank said the break point for school lunches would come when families reached the $21,000 level, and for college aid at about $40,000 — right at the heart of the middle class.

But Darman was not finished. "I would like to make an offer in very good faith," he said, inviting Frank and other congressional Democrats to find some income level "higher than $20,000 and lower than $125,000" and then "apply it uniformly across the board" as the cutoff point for "a whole range of mandatory (benefit) programs apart from Social Security."

"I think it is absolutely sound on the merits to have some general means-testing principle, except with respect to Social Security," he said, "and I believe genuinely that the political system will be forced in that direction . . . over the next decade."

Darman is far from the first to make that judgment. In the 1988 Democratic presidential primaries, former Arizona Gov. Bruce Babbitt argued for means-testing entitlement programs. In an era of scarce governmental resources and unrelenting demands for public services, he said that subsidies for the rich have no justification.

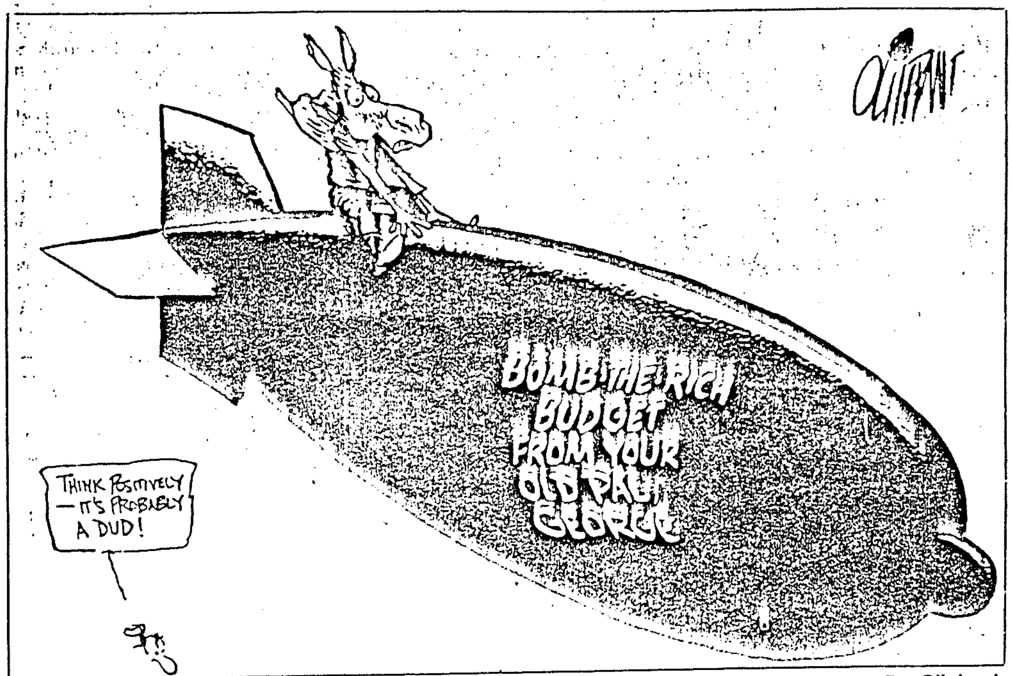
But there's a problem for Democrats, as Rep. Jim Cooper of Tennessee reflected at the hearing. "By all of a sudden taking Medicare and making it a welfare program," he told Darman, "or taking farm programs and making them a welfare program, you would be undercutting the national consensus that has built and preserved these programs. . . . Wi your ingenuity, you may well launching a very powerful concept to stigmatize the beneficiaries of big government."

Darman angrily rejected that suggestion, but Cooper's concern has strong historical roots. Over the years they controlled government, Democrats built political support for their spending programs by targeting them broadly — not narrowly — and giving millions of middle-class voters reasons to support programs that were helpful to them, but vital to the poor.

In a time of chronic deficits, few Democrats believe that policy can continue. But to win the debate, they need to broaden the definition of "fairness," as Senate Majority Lea George Mitchell of Maine did last wee

Mitchell released a Senate Democratic agenda that points out that a decade of Republican economic policies have made this a nation "in which the richest 20 percent of all Americans earn more than all the rest of our people combined." He pledged to push for policies that will "lessen the tax burden on working families" while asking the wealthy "to bear a greater share" of the bills.

Framed that way, the fairness debate Darman wants is not one the Democrats need fear. And more important, it's one from which the country can benefit.



Pat Oliphant

8-4

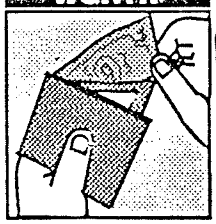
Taxes take about 37 cents of each dollar.

Four needs use about 80%: Social Security, defense, Medicare and Medicaid, foundation says.

By GENE MEYER
Staff Writer

2/17/91

YOUR MONEY'S WORTH



If yours is a fairly typical family with two wage earners and a $46,000 income, federal and state tax collectors will take more than 37 cents of each dollar you make this year, the Tax Foundation in Washington calculates.

And your opportunities for savings on taxes will decline. More than one-tenth of your income, or about $4,670, will be sopped up by the higher luxury, sales and excise taxes to which leaders are turning to keep income and property taxes from rising dramatically.

Your total tab, about $17,139, will be larger than what you pay for housing ($9,329) and transportation ($6,291), or for food, clothing, health care, recreation and other common budget items combined.

So, what do you get for your money?

The foundation estimates that nearly 80 percent of your taxes will be used to cover just four federal needs — Social Security and other income protection programs; national defense; interest on the national debt and Medicare and Medicaid.

Questions for The Chair:

Has this Committee taken a position as to how high the total tax load can rise before becoming counterproductive --- driving more jobs away than gaining them? Does the Tax Foundation's figure of 37 cents of each family dollar earned include local and school taxation?

Presentation To ____________________

At ____________________

By: John McDonough
8530 Bradshaw
Lenexa, Kansas 66215
(913) 888-4455

I'm here today to explain this citizen's view of why Kansas Classification, and Property Taxes are screwed up to a fair-thee-well. I'm here to blame free public education and its mercenaries for messing up left field so much nobody can handle it. And I want to offer solutions for getting us out of this mess, and without a Tax increase---solutions that would free up 620 million public dollars for more compassionate state and local spending; and the "CHOICE" solutions for jumping the education of Kansas youngsters miles above and beyond the anti-free market restrictions of the present public school soviet-like monopoly.

These solutions would partially end the scam that so richly funds public schools---at the expense of all those on our society's "Losers' List." You know who they are, those Losers to Mom-And-Dad-Free-School who get luxurious schooling for their kids at the public trough:

> While 550 thousand Kansans lack health insurance,
> While the truly needy don't have a home; are hungry; need help with utility bills; their kids go without the basic human necessities; many abused young and old.

Some economic justice, that is! Pres Bush' budget calls for shifting help from those who don't need it to those who do.

Losers, too, to the free school gang is our infrastructure----roads, bridges, sewers. The rest that can't be financed because the free school gang grabs off most all the tax revenues. Those "Winners" don't even leave enough to adequately fund mental health, Medi-caid, public hospitals, police protection, and other public workers---our cities' problems, our minorities' special concerns, etc.

Yeah! Some economic justice that is!

Yes, the Losers' List litany goes on and on, while we look away, while we pay out some 2,100 tax dollars a home to give Mom-And-Dad-Free-School a 5,000 dollar a year freebie education to each of their kids. Mom-And-Dad don't pay a dime---they'd have to pay the same school taxes if they were childless. But they want more, more---why are we so stingy, they wonder?

Why don't Mom-And-Dad pay TUITION like private school parents---say about 1,000 dollars yearly for each child. Many private school parents pay such TUITION even though they have less income. Mom-And-Dad with two kids will get 120 thousand dollars in free school benefits, and won't even pay that much in school taxes by the time they're 75 years old. What a scam?

And if we'd charge them a reasonable 10% interest on that bundle, they'd be into us for over 12 million dollars by age 75. Yeah! Just one, each, set of parents. And these freeloaders won't have paid a dime. Not so the Losers' List.

But here's how successful the scam is. The lobbyists for the Losers let the public school lobby get away with it. Have you ever seen a news story where the Losers' representatives throw pie in the faces of the public school lobby for aceing out every other society interest when the state budget pie is cut up in the state legislature. Nah! They're all afraid of the school lobby block bully, his political clout, his propaganda that rides the back of "our children."

Well! Enough sweet talk. Here's the first solution for getting us out of this property tax mess---maybe even soon adding on a sales tax mess---and getting us out without a tax increase.

A. Charge 1,000 dollars TUITION for about 80% of public school kids (the other 20% could still go free---poor kids.) Not a bad deal as they'd still be getting 4,000 dollars subsidy per child.

That would save the state and local treasuries about 270 million dollars a year that we could use to help the Losers, the ones that really need the public assistance. The scenario goes like this: Say 400 thousand kids in Kansas schools---50 thousand would switch to private schools to avoid tuition---80 thousand (20% of the 400 thousand) are poor and could still go free---350 thousand would still be in public schools with 270 thousand paying 1,000 dollars a year---that's 270 million the public school crowd can well do without.

B. Now those 50 thousand kids that left public schools to avoid paying TUITION---at a saving of $5,000 each because they're not in public schools anymore---that saves us another 250 million dollars for the Losers' List.

Now let's add them together to see where we're at:

A. $270 million from TUITION
B. $250 million from TRANSFERS

TOTAL $520 million SAVINGS

Hmmm! Not bad---$520 million for the state, counties and cities and taxpayers. And no tax increase. Now we're getting someplace.

Hey! This approach is so good, lets give it a name. How about -------

"The Tuition Dividend Plan."
520 Millions For Kansas.

O.K! We're on a roll. So what else can we do to cut the free school scam? To cut the Classification/the Property tax/the Sales tax messes? How about this one? They are doing it in New Hampshire---where the per pupil cost is the lowest in the nation, and the S.A.T. scores are the highest. And in Epsom, N.H. they're giving a 1,000 dollar property tax credit for each kid not using the high school---thereby saving $4,000 for each private school student ($5,000 total cost less $1,000 property tax credit to save $4,000)---and in addition not having to pour out the big bucks for a new high school.

C. So! Give a property tax credit of 1,000 dollars to each student not using public schools. That, and let's name it the "Property Tax Dividend", could mean another $100 million for Kansas, for the Losers. Here's how this scenario goes: offer the "Property Tax Dividend Plan" statewide. Assume 50 thousand more kids would leave the public schools for private schools---saving another 250 million dollars (50,000 kids X $5,000) less $1,000 property tax credit to these latest transfers, plus $1,000 of the previous 50,000 transfers, and $1,000 to the 50,000 that all along have been in private schools. (150 thousand total in private schools X $1,000=$150 millions vs. $250 millions saved by the property tax transfers=$100 millions saved.)

Now let's add 'em up again for a total saved Kansas.

A. + B.	$520 millions	"The Tuition Dividend Plan"
C.	100 millions	"The Property Tax Dividend"

Total $620 Millions Saved For Kansas To Spend On More Compassionate Priorities.

Oh No You Don't, Mr. Compassion.

(You zing-me.) You've just dropped our school population by 100 thousand kids. I suppose you'll try to justify weakening our public schools with the "CHOICE" business.

Well, first I justify my solutions here by offering you 620 millions of dollars annually, as I've just detailed. 620 mil ain't hay. Hope I can do as well on my CHOICE pitch to you. Here's the deal.

Choice means the individual gets to choose his own school---instead of you or the government choosing it for him. Power to the individual---"empowerment" is the word President bush uses. He speaks of giving the poor more control over their own lives. Self help, free market enterprise, minimal cost to government. Pres. Bush just said so in his budget message. Yes, he's for CHOICE, too. And Margaret Thatcher says it like this. "But above all, freedom, choice, competition...A new battle for Britain is under way in our schools. Labour's tattered flag is there for all to see. Limp in the stale breeze of sixties ideology. But let's be fair. Labour wouldn't neglect education. They've promised us action. That's what alarms me...Action to stamp out choice for ordinary people, and to impose State uniformity. Action to rob parents of power, and give it to Unions and administrators. Labour is stuck fast in the egalitarian sands from which the rest of the world is escaping. We, Conservatives, have run up our flag. Choice, high standards, better teachers---a wider horizon for every child from every background." (End of the Thatcher quote)

Yes, CHOICE brings quality to education, too---Like it brings better products and services to supermarkets and malls. CHOICE brings freedom to the family EMPOWERED with its own funds for its own kids. CHOICE brings safety, even escape, for kids endangered by criminal conditions in and around the public schools they're now hostage to. And, the scenario I suggested saw some 50,000 transfers from public to private schools. what if double or triple that? The savings I quoted could be far greater than I foresaw. I call upon you to officially forecast the possibilities.

8-8

"Weaken our public schools"? That's the kind of rhetorical intimidation we expected from east European dictators like Honeker and Causescu, as they entrapped their slaves in authoritarianism. Preventing those slaves from CHOICE. And like the Lithuanians, Latvians, and Estonians---the Georgians, even the Russians---and others, prevented by government power from CHOICE---so as not to "weaken" the soviet system.

Wrapping up, I argue that:

1. No tax increases are necessary in Kansas.

2. Instead, free "everything" public education should be discarded in favor of TUITION for those who have ability to pay---like private school parents.

3. That doing so will make available over 500 million dollars for more compassionate state and local spending---and property tax relief. Called it "The Tuition Dividend Plan."

4. Pointed to a New Hampshire tax credit incentive for families to exit public schools, which in Kansas could make another 100 million dollars available. Called it "The Property Tax Dividend."

5. I blamed free public education, and freeloading public school parents, and their school lobby bullies, for the property tax mess we've been pushed into.

6. And I called for you to officially forecast how many kids would transfer from public to private schools given property tax credit for doing so, and utilization of the CHOICE alternative for reducing public population + endless spending.

News Release
From John McDonough
8530 Bradshaw
Lenexa, Kansas 66215
(913) 888-4455

An opponent of tax increases said today that public school parents should pay TUITION for their school children. John McDonough of Lenexa, Kansas, called for $1,000 a year tuition "like private school parents pay." He told the ________________ ________________________ Committee that "free loading" by public school parents is the cause of the property tax "mess." He said that since public school parents would pay the same school taxes if they were childless, "they don't pay a dime of their kids' costs to the public." McDonough said that tuitions, plus a property tax credit for exiting the public schools, would annually save $620 million for property tax relief, for assisting the needy, for improving state and city infrastructure and employee pay.

McDonough went on to champion school CHOICE. He told of President Bush and former Prime Minister Thatcher endorsing the "empowering " of parents to have the final say on which schools their children attend, because the CHOICE plan gives better, safer education, and cost benefit results. He asked that the state legislature officially study costs and savings of a tax credit plan providing "choice." McDonough said his own study shows strong further economies for the taxpayers. And he presented the Committee a book he authored on related subjects.

Representative Marvin Barkis
Speaker Of The House
State Capitol, Topeka, Ks.

Copies to the Governor, Senate President, My Direct Representatives, And The News Media.

Mr. Speaker: 2/6/91

I'm encouraged to write you because the current news report quotes you as calling for restructure of the Kansas tax system; that you are determined to provide property tax relief; that you want to put everything on the table in arriving at a fair package of tax relief + restructuring.

And you challenged big lobbying organizations "to come to the table with solutions, not criticism." Hopefully you have a place at the table for the likes of me, individuals with ideas to help. My input is contained in the enclosed proposed presentation which I want to give to the appropriate committees of the legislature, + on page 4, titled "News Release," is a concise summary of my suggestions. Because my suggestions are different, unorthodox, I may be mistreated. Hopefully, you + the other addressees will consider my suggestions---especially since they relate to the proposals put forward by President Bush in his '92 budget. Empowerment, Choice, shifting subsidies from the middle class to the poor, self help, no tax increase.

Sincerely,
John McDonough

THE McDONOUGHS
8530 BRADSHAW 888-4455(913)
LENEXA, KANSAS 66215

8-10

WALL ST. JOURNAL

Property-Tax Choice

1 30 91

Epsom, New Hampshire, a small town of 4,500 people, has just become the first community in the nation to grant a property-tax credit for taxpayers who educate children outside the local public schools. As school districts elsewhere buckle under ever-rising property-tax bills and bloated personnel costs, little Epsom's model may attract attention.

Epsom's residents are generally satisified with the quality of local education. New Hampshire spends the least per pupil on education of any state, yet has the highest SAT scores in the country. But for years a bitter political battle has raged between those whose first priority is education no matter what the cost and others who feel that keeping property taxes low is most important. To heal this rift, former town Selectman Jack Kelleher fashioned a compromise in which he says everyone comes out a winner. The plan was approved last month by a unanimous vote of the town's Board of Selectmen.

Under the plan, taxpayers will receive up to $1,000 in property-tax abatements if they pay to educate a high-school student outside the regional public high school. Since the town now pays $5,000 a year in tuition for each student attending the regional school, every student using the program will save the town $4,000. Abatements are also available to relatives or businesses that pay for the education of any child so that children whose parents don't own property can participate.

Mr. Kelleher, the plan's author, says everyone gains from it. It is good for students because they have more options. It is good for parents because they have more say in where their child attends school. It is also good for taxpayers who will save money and forestall the need for Epsom to build its own costly high school. "How many other government programs do you know of where the more people who participate in it, the cheaper it gets?" asks Mr. Kelleher.

So far the only opposition to the plan has come from the local chapters of the ACLU and National Education Association, both of which have threatened lawsuits.

At least a dozen other New Hampshire towns are examining the Epsom plan, and Governor Judd Gregg singled it out for praise in his inaugural address. Since the plan not only expands choice but could lower taxes, it is a possible solution for cash-strapped communities now faced with stripping down their schools in response to property-tax revolts.

A lot of people today are seeking cures for our educational ills in the work of national commissions or state departments of education. Perhaps such efforts can offer some informed guidance. But in the best American tradition, real-world solutions are coming from the grass roots.

Innovative experiments in educational choice are springing up all over the country. In Milwaukee, thanks to Polly Williams, a Democratic state legislator, hundreds of low-income students are attending private schools using vouchers. The results are encouraging, and often dramatic. In Chicago, 27 low-income parents have filed a civil-rights lawsuit accusing the public schools of "educational malpractice" and demanding that a voucher program similar to the one in Milwaukee be adopted.

People like Polly Williams in Milwaukee and Jack Kelleher in Epsom are using the levers of local self-governance to work out practical answers to the problems and failures of their schools. That is the potential power of choice in American education.

More money doesn't mean better schools

Kansas study finds spending has little effect on outcome of students.

By SCOTT CANON
Topeka Correspondent

1 30 91 KC STAR

TOPEKA — More money doesn't necessarily buy better education, state auditors told lawmakers Tuesday.

A four-month study analyzing the link between spending and the quality of education in Kansas found that the difference between a good school and a bad one isn't the budget.

Instead, the audit concluded, a school district's spending has little, if any, bearing on how well students score on standardized tests or whether they drop out before graduation.

"Logic seems to suggest that if you get smaller classrooms, if you spend more for some things, you should get better education," said Cindy Lash, a senior auditor who led the study for the Legislative Division of Post Audit. "We didn't find anything to support that."

That is not to overlook the value of a minimum level of spending for efficient classrooms, she cautioned. Lash said the study simply found that within the ranges of spending for various Kansas school districts, those that spent more couldn't promise better education as a result.

Any real lack of significant differences in test scores and dropout rates is largely the work of the state's school aid formula, which promises even the poorest areas of Kansas a certain amount of state dollars, she said.

Still, the study found several cases of districts that spent more and seemed to get little for it.

The Shawnee Mission School District, for example, spends about 20 percent more than what the study concluded was normal for the state. Yet its dropout rate was slightly above the state median, while reading and math scores for fourth- and eighth-graders ranked only slightly above the state average.

Craig Grant, the chief lobbyist for the Kansas-National Education Association, said the study's conclusions shouldn't be cited as justification for cutting back school spending. Instead, he said, the study should force lawmakers to look more carefully at education methods.

"It's not necessarily how much money, it's how you spend it," said Grant, whose group is the largest teacher organization in the state. "Districts that spend it wisely are ones that do it based on what their staff is telling them."

Legislators skeptical of the constant calls for education funding took the report as justification to turn them down more often.

"It means we need to talk about improving education by focusing on fundamental changes in our system, not just pouring in more money," said Sen. Eric Yost, a Wichita Republican.

The study didn't uncover cost-free ideas that seemed to improve education. Indeed, it examined 10 schools in terms of parent involvement, the roles of their principals, and student-recognition activities, yet it did not discover techniques that produced tangible dividends.

"None of it seemed to make a difference," Lash said.

8-11

17921850

Member
International Association
of Assessing Officers

GARY POST, C.K.A.
SEWARD COUNTY APPRAISER

COURTHOUSE, 415 N. WASHINGTON
LIBERAL, KANSAS 67901
PHONE 626-3250

February 20, 1990

WRITTEN TESTIMONY

To: Senate Assessment and Taxation Committee
Chairman Dan Theissen

From: Gary Post, Seward County Appraiser

Subject: SB 127

The Seward County Appraiser appreciates the opportunity to present concerns regarding SB 127 via written testimony.

We have concerns regarding any bill that proposes exempting properties in these times of escalating tax burdens on businesses, individuals and others. Each time we let one of the horses out of the traces, us horses left have to work that much harder in order to accomplish our same goals in local government.

To give you a snapshot of how this proposed SB 127 would impact Seward County, please consider that for the year 1990 we had 160 oil leases. The wells in a 2 or 3 barrel per day production account for some 40% of those leases or 64 wells. If these wells were not viable options for working interest and royalty interest they would have been gone, abandoned and plugged in the last five years due to the severe stress the oil and gas industry has experienced since 1985. As County Appraisers valuing these leases an attempt is made to put a real world market value on this tangible, personal property asset. Their assessed value for 1990 represents 6.5% of the total oil valuation in Seward County. The total leases in the county support a large portion of the business community in the county, be they drillers, wielders, electricians, jobbers. The fact that local property taxes are paid on these leases allows the entire local community to share in these leases via tax dollars going to the county, the school, the Junior College, and even the state shares to a small percentage.

Oil people are tough individuals who make the most of their opportunities in a very chancy business. They have already proven they can do quite well without this exemption on small barrel per day production. The general consensus is that this exemption is not in the public good.

Thank you for the opportunity to address this issue. If you care to discuss them further, please call at (316) 626-3252.

2-20-91
ATT-9

February 19, 1991

The Honorable Dan Thiessen
Room 143-N
Kansas Statehouse
Topeka, Kansas 66611

Charles R. Warren
President

Capitol Tower Building
400 S.W. Eighth Street, Suite 113
Topeka, Kansas 66603-3957
(913) 296-1460

SUBJECT: Senate Bill No. 127

Dear Senator Thiessen:

Senate Bill No. 127 is a product of recommendations by Kansas Inc. that were developed in response to conclusions in the 1989 Arthur D. Little, Inc. report titled Strategic Analysis of the Oil and Gas Industry in Kansas. In discussing conclusions and policy options, the AD Little report notes:

> As presently structured, the ad valorem tax has several features which are detrimental to the state's oil and gas sectors as follows:
>
> 1. the ad valorem tax varies by county based on variations in local mill levies;
>
> 2. taxes are levied on ability to produce rather than production, resulting in very high taxes relative to revenues for some wells;
>
> 3. ad valorem taxes encourage premature abandonment by applying a minimum tax on non-producing marginal wells, thus creating an incentive to plug and abandon such wells.

One suggestion from the AD Little report to "rectify the weaknesses described" in the ad valorem taxation is to implement:

> ad valorem exemptions for low productivity wells similar to those in place for the severance tax.

2-20-91
ATT 10-1

This recommendation, regarding the exemption from ad valorem taxes of oil and gas wells that are exempt from the state severance tax, is the one Kansas Inc. has looked at most closely.

The fiscal impacts of this tax change vary depending on a county's resource mix and maturity of its resource base. From an economic development standpoint, Senate Bill No. 127 will keep marginal wells producing longer, preventing premature abandonment. Delaying the point at which wells are abandoned may help maintain a rural county's employment and personal income base, and permit Kansas to assist with reducing the nation's dependency on foreign oil.

Please contact me if you have questions or require additional information.

Sincerely,

Charles R. Warren,
President