Approved March 12, 1992

Minutes of the House Committee on Taxation. The meeting was called to order by Joan Wagnon, Chairperson, at 9:10 a.m. on Tuesday, February 18, 1992 in room 519-S of the Capitol.

All members were present except:

Rep. Adam, excused; Rep. Roy, excused.

Committee staff present:

Tom Severn & Chris Courtwright, Legislative Research; Bill Edds and Don Hayward, Revisors; Linda Frey, Committee Secretary; Douglas E. Johnston, Committee Assistant.

Conferees appearing before the committee:

Don Schnacke, Executive Vice President of the Kansas Independent Oil and Gas Association
James B. Devlin, Wichita President of KIOGA
J. M. Vess, President of Vess Oil Corporation
Larry Tenk, Ottowa, East Kansas Oil & Gas Association
Charles Warren, President of Kansas, Inc.
Pete McGill of Pete McGill & Associates
Bev Bradley, Kansas Assoc. of Counties

The Chair requested and received unanimous consent for the introduction of a bill requested by Rep. Harder regarding the sales tax.

Public hearings were opened on HB 2125 and HB 2616.

Don Schnacke, Executive Vice President of the Kansas Independent Oil and Gas Association, testified in favor of HB 2125 (Attachment 1). Schnacke requested the committee report HB 2616 adversely.

James B. Devlin, Wichita President of KIOGA, testified in favor of HB 2125 (Attachment 2).

J. M. Vess, President of Vess Oil Corporation testified in favor of HB 2125 (Attachment 3).

Larry Tenk, Ottowa, Eastern Kansas Oil & Gas Association testified in favor of HB 2125 (Attachment 4).

Charles Warren, President of Kansas, Inc. testified in favor of HB 2125 (Attachment 5).

In response to a question, Warren said tax measures could extend the life of the oil industry in Kansas.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

Devlin said in response to a question that there was no economic incentive for the scaling back of oil production of a well so that the well would be eligible for the exemption in HB 2125.

Written testimony was submitted from the following:

> David Collins, Kansas Geological Survey (Attachment 6)
> Toby Elster, Gas and Oil Exploration and Development (Attachment 7)
> Kelly Maclaskey, Kelly Maclaskey Oil Field Services, Inc. (Attachment 8)

Pete McGill, of Pete McGill & Associates, representing the Kansas Legislative Policy Group, testified against HB 2125 (Attachment 9). McGill said he had not seen the amendments proposed by Schnacke.

The Chair requested that McGill review the amendments proposed by Schnacke and inform the committee of the effects the amendments would have on individual counties.

The Chair requested an updated fiscal note on HB 2125 from the Dept. of Revenue that would include the balloon amendments suggested by Schnacke.

Bev Bradley, Deputy Director of Kansas Association of Counties, testified in opposition to HB 2125 (Attachment 10).

The public hearings were closed on HB 2125 and HB 2616.

Rep. Grotewiel made a motion, seconded by Rep. Larkin to report HB 2616 adversely. The motion carried.

The Chair brought up HB 2779 for discussion and action.

Rep. Glasscock moved and Rep. Long seconded amending HB 2779 as suggested in testimony. The motion carried.

Chris Courtwright, Legislative Research, said there was an Attorney General's opinion stating that cities share of county revenues raised under the local option tax in HB 2779 could be used by the city for purposes other than the original purpose of the levy.

Rep. Snowbarger moved and Rep. Crowell seconded a motion to amend HB 2779 so that funds raised by the county tax option for health care services would be spent by the county only for the

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CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Taxation, room 519-S, Statehouse, at 9:10 a.m. on Tuesday, February 18, 1992.

purposes enumerated on the ballot. The motion carried.

In reply to a question, Severn said that in the case of bicounty health departments, joint county health departments, joint resolutions could be passed by two or more counties to utilize the local option tax.

Rep. Snowbarger moved and Rep. Crowell seconded the motion to recommend HB 2779 favorably for passage carried.

The Chair brought up HB 2696 for discussion and action.

Rep. Pottorff moved and Rep. Wiard seconded a motion to recommend HB 2696 favorably for passage. The motion carried.

The committee adjourned at 10:20 a.m. The next meeting will be February 19.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

GUEST LIST

COMMITTEE: Taxation DATE: 2/18/92

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Pete McGill	Topeka	KLPG
Alan Steppat	Topeka	Pete McGill & Associates
Jim McBride	Topeka	observer
Rochelle Chronister		
Kirby L. Stegman		Dept. of Rev.
BEV BRADLEY	TOPEKA	KS Assoc of Counties
Julie Hein	Topeka	MLSC
Bernie Koch	Wichita	Wichita Chamber
Bob Corkins	Topeka	KCCI
T.C. ANDERSON	TOPEKA	KSCPA
MARK A. BURGHART	"	REVENUE
TOM DAY	TOPEKA	KCC
LARRY TENK	OTTAWA	EKOGA
WALTER DRENN	TOPEKA	EKOGA
DICK PEARCE	ELDORADO	EKOGA
NICK POWELL	OVERLAND PARK	EKOGA
Steve Stotts	Topeka	Revenue
Charles Warren	Topeka	Kansas Inc.
J. M. Vess	Wichita	Vess Oil / KIOGA
JIM DEVLIN	Wichita	KIOGA

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February 18, 1992

TO: House Taxation Committee

RE: HB 2125

Thank you for this opportunity to appear on this legislation, HB 2125.

We have had an entire year to study this issue and we suggest a revised version of HB 2125 which is reflected in the balloon of the bill which has been handed out.

We would like to say up front that after consideration of HB 2616, which is a bill on your agenda today that attempts to get at the issue of protecting marginal wells, we do not believe that concept is workable or effective. It would require a tie to a producers federal net taxable income. It would be difficult to determine the applicability of taxes to income. It would be an accounting nightmare and auditing would be difficult. We do not intend to appear in support of HB 2616.

There is a better way to protect marginal production and that is contained in the balloon of HB 2125 on which we are appearing in support of passage. The balloon version of the bill represents a simplification and removes the tie to the state severance tax statute, which contains several complex exemptions depending upon a variety of conditions.

HB 2125 as represented in the balloon will simply exempt 2 BOPD properties above 2,000' and 4 BOPD properties below 2,000'. More than likely, this production is also exempt from the severance tax and is considered distressed oil production, next in line to be abandoned and plugged.

HB 2125 would exempt only working interests - that interest that controls the decision to abandon and plug a well. HB 2125 would still allow the counties to tax equipment and royalty interests.

Last week, we had a group of oil producers visit the legislature. Some were visiting Topeka and the legislature for the first time. When our briefing ended, one young producer, age 33, approached me and wanted to know if I thought there was a future in the oil industry for him, or if he should consider getting into some other vocation. We had just completed a briefing session on the tax and regulatory climate facing our industry.

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I responded by stating that we were attempting to bring about some relief to the Kansas oil industry. I told him about the Kansas, Inc. study which states that Kansas oil and gas production is being taxed at a very high rate when compared to other states, 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 prepared in 1990 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 HB 2125. It recommended, as a tax policy of the State of Kansas, that if an oil property qualifies for exemption from the state severance tax, it should qualify for exemption from the county ad valorem tax.

HB 2125, as modified in the balloon version, falls quite short of the Kansas, Inc. report. It addresses the most sensitive and marginal oil wells. As we have stated, it addresses those wells next in line to be abandoned and plugged. The abandonment rates of Kansas oil wells over the past three years is as follows:

1989 - 1,470 1990 - 1,740 1991 - 1,837

Our industry is accustomed to having county government interests oppose any move we might suggest that would disturb the ad valorem base, even though they do not seem to oppose other interests that have been successful in acquiring exemptions. This is a proposal that is beneficial to the counties, by prolonging production and preserving jobs.

For years, we have monitored county taxation of our industry, from a low of $17 million in 1973 to a high of $131 million in 1985. Since the collapse of oil prices in 1986, the drop in oil production corresponding total county ad valorem taxes is as follows:

Year	**Kansas Oil Production**	**Total County Taxes**
1987	**60.5 million Bbl**	**$ 90.5 million**
1988	**58.8 million Bbl**	**90.5 million**
1989	**55.2 million Bbl**	**84.6 million**
1990	**55.1 million Bbl**	**113.4 million**

Please note the $28.8 million increase in 1990 over 1989. PVD announced recently that 1991 taxes will total $113.3 million.

I'd like to be able to tell the young producer who was at our meeting that there is a future for our industry in Kansas; that the legislature recognizes unfairness in taxation when they see it; and that the legislature can make adjustments that will send a signal to our industry that it supports the future existence of this industry in our state.

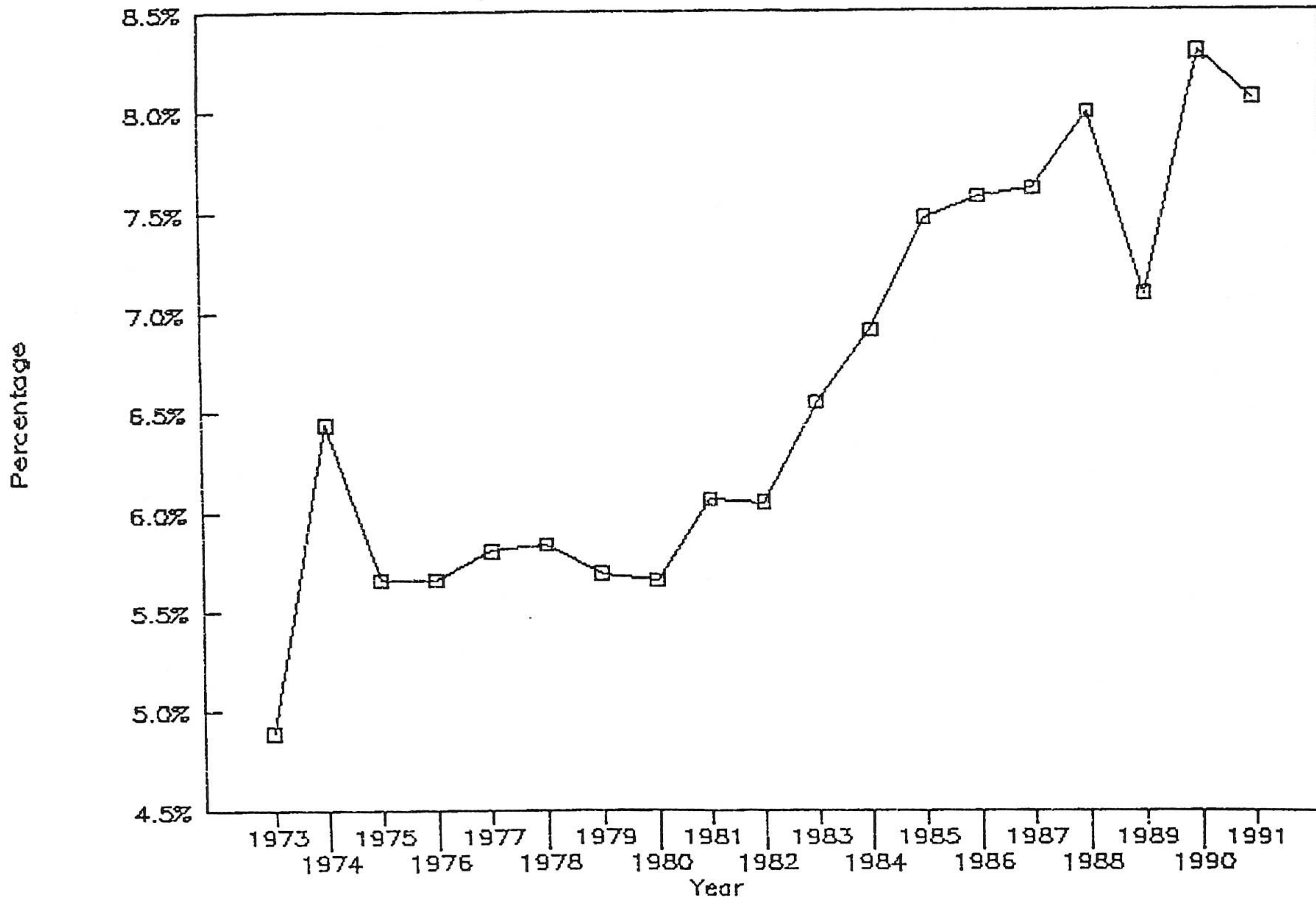
Madam Chairman, there are other witnesses in favor of HB 2125: Mr. Jim Devlin, President of KIOGA; Mr. Mike Vess, Chairman of the KIOGA Ad Valorem Tax Committee; Mr. Larry Tenk, speaking on behalf of EKOGA; and, I believe, you have invited a spokesperson for the Kansas Geological Survey who can advise the Committee regarding the impact of this bill on the State. I have also distributed a brief statement by Kelly Maclaskey, President of the Easterna Kansas Oil and Gas Association.

Donald P. Schnacke

Attch: Balloon of HB 2125
Charts: Ad Valorem Taxes on Oil & Gas
Ad Valorem Taxes as a % of Valuation
Stripper Well Abandonments in Kansas

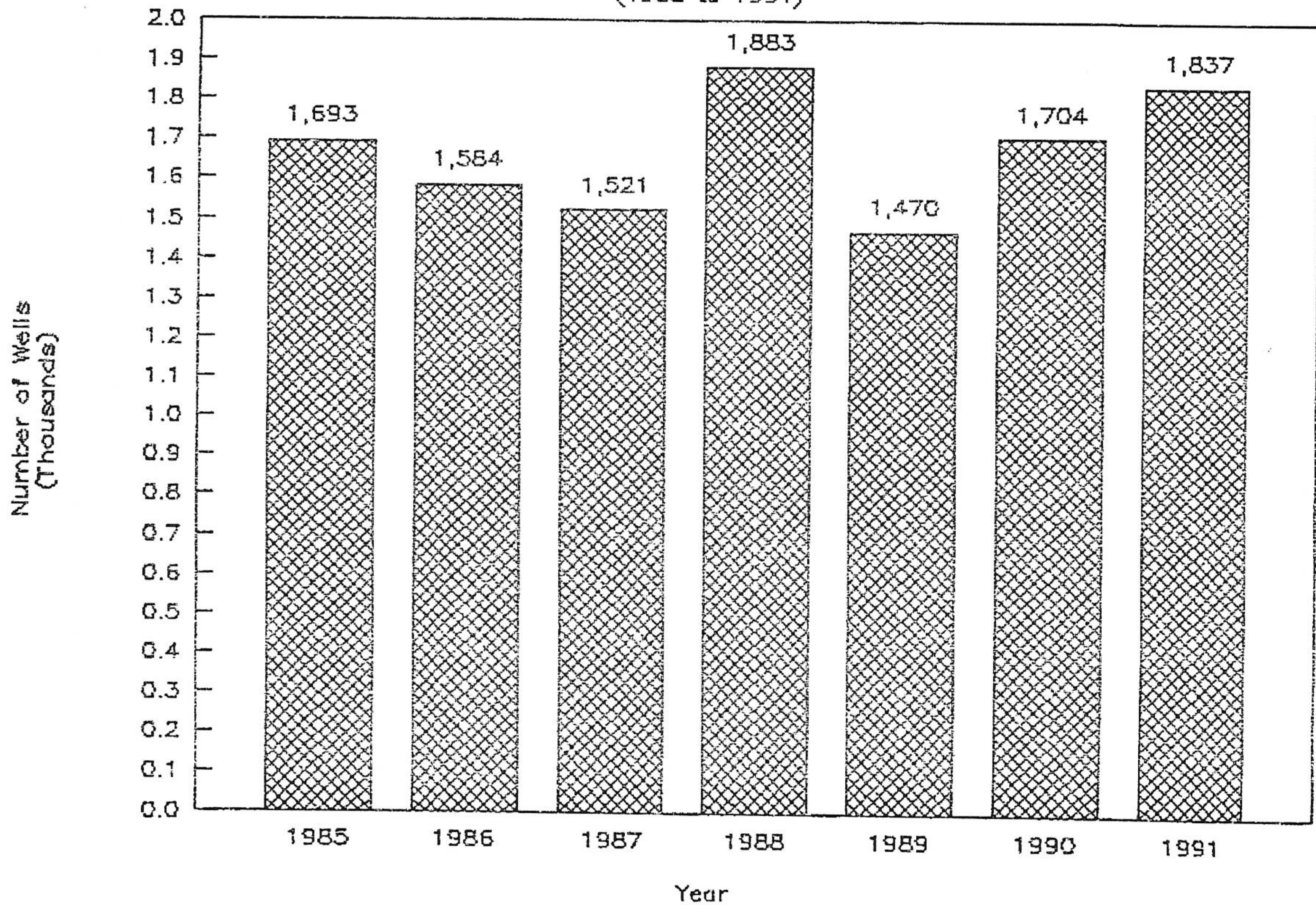
OIL AND GAS VALUATION AND TAXES

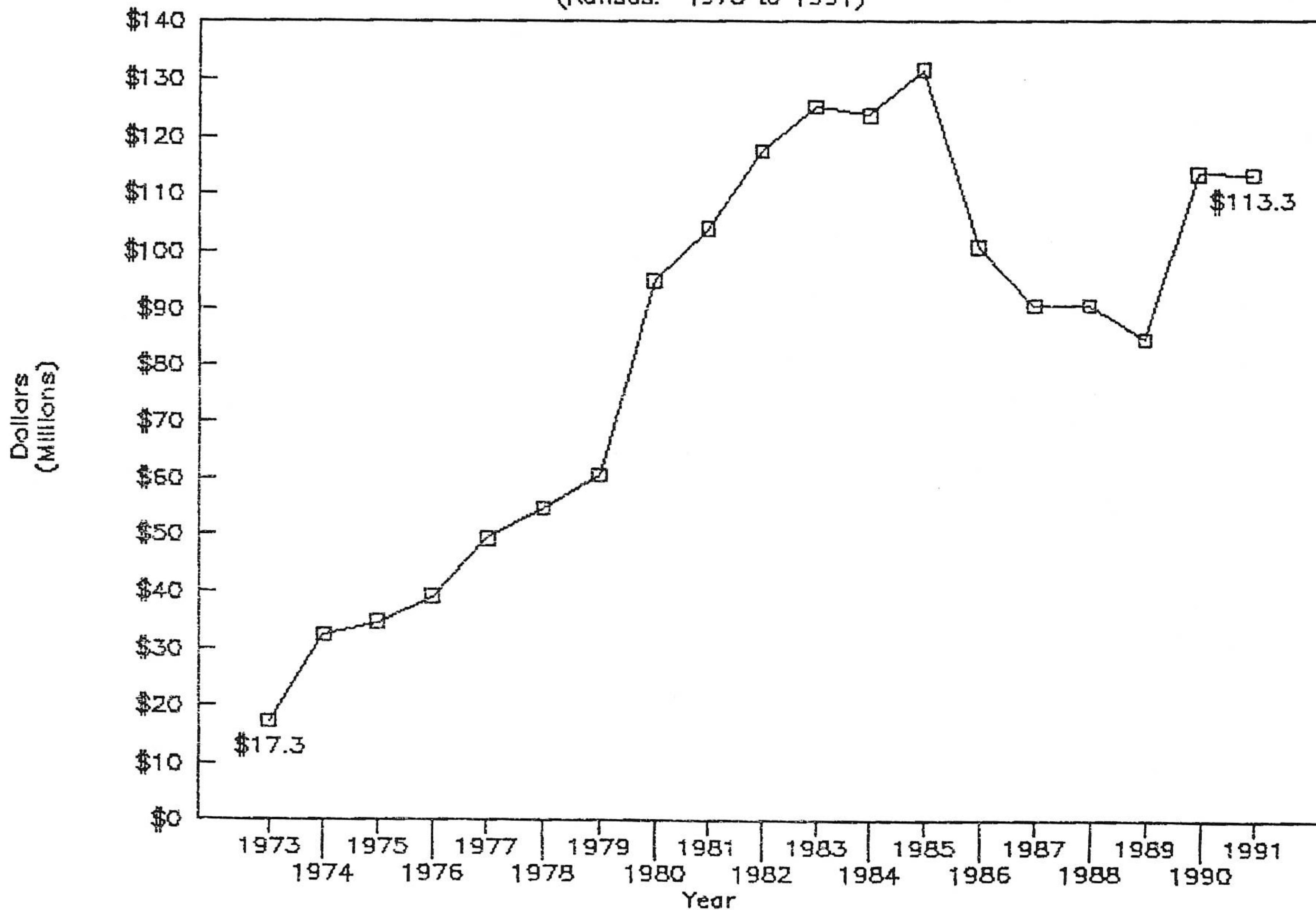
(Ad Valorem Taxes as % of Valuation)



STRIPPER WELL ABANDONMENTS IN KANSAS

(1985 to 1991)




AD VALOREM TAXES ON OIL AND GAS
(Kansas: 1973 to 1991)
Dollars (Millions)
$140
$130
$120
$110
$100
$90
$80
$70
$60
$50
$40
$30
$20
$10
$0
$17.3
$113.3
1973
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
Year

Session of 1991

HOUSE BILL No. 2125

By Committee on Taxation

2-4

8 AN ACT relating to property taxation; exempting certain oil prop-
9 erties therefrom.

11 *Be it enacted by the Legislature of the State of Kansas:*
12 Section 1. The following described property, to the extent herein
13 specified, shall be and is hereby exempt from all property or ad
14 valorem taxes levied under the laws of the state of Kansas:
15 (a) All oil leases [other than royalty interests therein,] the average daily production from which is [~~(1)~~
16 ~~Exempt from the minerals severance tax pursuant to K.S.A. 79-4217,~~
17 ~~and amendments thereto, and (2)~~] two barrels or less per producing
18 well, or [~~three~~ four] barrels or less per producing well which has a com-
19 pletion depth of 2,000 feet or more[~~; and~~
20 ~~(b) all personal property, as defined by K.S.A. 79-329, and~~
21 ~~amendments thereto, directly associated with the actual production~~
22 ~~of oil from any lease exempt from property taxation pursuant to~~
23 ~~subsection (a).~~]
24 [~~(c)~~ (b)] The provisions of this section shall apply to all taxable years
25 commencing after December 31, [~~1990~~ 1991]
26 Sec. 2. This act shall take effect and be in force from and after
27 its publication in the statute book.

Remarks by James B. Devlin, President of the Kansas Independent Oil and Gas Association before the Taxation Committee of the Kansas House of Representatives on February 18, 1992 in support of the HB 2125:

Chairman Wagnon, ladies and gentlemen: Thank you for allowing me to appear before you today to support the passage of HB 2125, which is designed to more fairly reflect the appraised value of marginal oil wells for ad valorem tax purposes.

Oil and gas properties are taxed in a different manner than any other real property. In addition to the profits being subject to federal and state income tax, they are also subject to three other taxes: State Severance Tax, State Conservation Fee Tax, and county ad valorem tax.

There are many members of the House and Senate that were not serving when the State of Kansas passed our first severance tax effective May 1, 1983. The bill called for a gross production tax (also known as severance tax) of 8%.

The exceptions to this severance tax included oil wells 0 to 2000' deep that produced an average of 2 Barrels of Oil Per Day (BOPD) or less, wells deeper than 2000' that produced an average of 3 BOPD or less, and "water flood" wells deeper than 2000' that produced an average of 4 BOPD or less. These exemptions had to be certified by the Secretary of Revenue.

There was an offset credit given to the 8% severance tax that was 3.67% to cover ad valorem taxes on oil wells and 1% on gas wells. This resulted in the net severance tax on oil wells of 4.33% and 7% on gas wells . It was assumed that the 2.67% differential between oil and gas would be refunded by the gas purchaser as a pass through.

In 1987, following the collapse of oil prices, the Kansas Legislature passed 79-4217, which adjusted the barrels exclusion from severance tax to a sliding number based on the average price per barrel for the last 6 months of the previous year. The table is as follows:

Price Per Barrel	Depth 0-2000'	Depth 2000' or more	Water flood oil 0-2000'	Water flood oil 2000' or more
$30	2bbl/day	4bbl/day	3bbl/day	5bbl/day
$24	2bbl/day	5bbl/day	3bbl/day	6bbl/day
$16	2bbl/day	6bbl/day	3bbl/day	7bbl/day

79-4219 reiterated the same credits for ad valorem taxes (3.67% for oil and 1% for gas) as the original severance tax bill of 1983. The certification by the Secretary of Revenue to gain exempt status was also retained.

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These bills of 1987 were an attempt by the legislature to recognize the high tax burden placed on marginal wells and to make some adjustments when prices drop. While the legislature recognized the importance of keeping these low productive wells alive by granting some tax relief, the counties have increased the ad valorem taxes each year making the combination of the two taxes higher with declining production. The Kansas Inc. Study last year pointed out the fact that the combination of severance and ad valorem taxes in Kansas make it the highest taxing state on oil and gas.

It is important that the marginal wells in Kansas be kept in production as long as possible for several reasons. New technology is being developed in the areas of water flooding, polymer treatments, tertiary recovery, etc. that could increase production; but if these small producers are plugged they will remain plugged forever.

HB 2125, if it is enacted, will not in and of itself change every small lease from red ink to profit, but it will affect many leases. In comparison to high production wells, these marginal wells are very labor intensive, and for every 1000 wells plugged there are many jobs lost. These wells employ pumpers, roustabouts, pulling unit crews, supply store representatives, water haulers, mechanics, truckers, etc. that for the most part live in the counties where the wells are located.

Another more subtle reason you don't want these marginal wells plugged is the fact that if they are plugged, there will be <u>no tax collected</u> on them at all.

The ad valorem taxes on all oil wells are calculated from the "Guide" issued each year by the Property Valuation Department. The assessed value of each lease consists of two parts: the present net worth of the oil to be produced and the equipment value. The present net worth of future production is determined by a series of calculations derived from the "Weinaug Theory" developed by Dr. Charles Weinaug from the University of Kansas Department of Petroleum Engineering some 35 years ago.

It is our belief that this method of appraisal over-values the 4 bbl per day and under marginal wells. HB 2125 eliminates the present net worth factor, but keeps in place the equipment value. We feel that this more fairly reflects the proper appraised value for ad valorem tax purposes. This small reduction in expenses will keep a large number of wells pumping rather than having them plugged prematurely.

The 3.67% offset to cover ad valorem taxes in both the original Severance Tax bill and in the amendments 79-4219 passed in 1987 both fall short for covering the ad valorem taxes being assessed today. The average ad valorem tax is now closer to 6%, not 3.67%. HB 2125 is a step in the right direction to correct this inequity.

There will be others that speak in support of HB 2125 and I will be happy to answer any questions now or after the other speakers.

Thank you,

James B. Devlin

HB 2125 - MARGINAL WELLS

Remarks by J.M. Vess, President of Vess Oil Corporation and Chairman of the Ad Valorem Tax Committee of the Kansas Independent Oil & Gas Association before the 1992 House Taxation Committee on February 18, 1992 in support of HB 2125:

Chairman Wagnon, ladies and gentlemen: I want to express my thanks for the opportunity to address you in support of House Bill 2125.

Having had the opportunity to speak with some of you recently concerning HB 2125 you know how important I believe this bill is to the State of Kansas.

Under HB 2125 the working interests in marginal wells would be exempt from Ad Valorem Tax. The royalty interest and equipment would be taxed in the normal manner. The bill provides a benefit to the royalty interest owner simply by prolonging the life of the royalty interest.

Marginal wells as defined by HB 2125 are those wells making 4 BOPD or less with completion depths of 2000' or more and 2 BOPD or less for wells above 2000'. There are approximately 23,000 marginal wells in Kansas using KDOR figures for Severence Exemption Certificates on November, 1987 as an indication of the marginal well count.

Using a review of 1990 and 1991 lease operating costs of over 340 wells covering approximately 28 counties shows average monthly expenditures in the range of $1000 per month per well. This equates to total annual expenditures in the range of $280,000,000 for Kansas goods and services. This figure does not even include the dollars for the royalty interest which remains in Kansas.

A consumer base of this size provides a significant number of jobs in Kansas which in turn generates additional sales taxes and income taxes which are the prime revenue source for the Kansas treasury. What more important way to share the tax burden than retaining jobs in Kansas.

The Kansas oil industry is people. The Wichita oil community is only a small part of the Kansas oil patch. Pumpers, production men, drillers, roughnecks, service company employees are families spread throughout rural Kansas. These families are depending on you for their future in Kansas and Kansas is depending on them in part for it's future.

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One of the most alarming statistics in reference to Kansas marginal wells is the current abandonment rate of these wells.

Marginal Wells Abandoned	Year
1470	1989
1704	1990
1837	1991

If abandonments continue at this rate half the current marginal wells in Kansas will be gone in 5 years.

The working interest valuation on Kansas property tax renditions for many marginal wells exclusive of royalty interest and equipment under the current evaluation system provides a negative value. Because of this a minimum value is added and the well is taxed on a "Phantom Value" over and above the equipment and royalty interest.

Data provided by Petroleum Information in Tulsa, OK and the Kansas Department of Revenue reflect that the ad valorem tax cost per barrell of oil equivalent produced in Kansas has increased over 20% in the past two years. This type of tax increase is particularly damaging to marginal wells.

Without this bill county appraisers will find they have less and less to tax in the future.

Thank you.

J.M. Vess

EASTERN KANSAS OIL & GAS ASSOCIATION, INC.
P. O. BOX 355 CHANUTE, KS 66720
PHONE: (316) 431-1020

Kelly Maclaskey
President

Jim Ferley
North Vice President

Paul Simpson
South Vice President

Cecil Prier
Secretary/Treasurer

Ellen Lessner
Executive Secretary

February 18, 1992

TO: House Taxation Committee

RE: HB 2125

My name is L.O. Tenk. I am appearing before this committee on behalf of the Eastern Kansas Oil & Gas Association in support of HB 2125.

EKOGA represents that segment of Kansas that is known as the stripper area. Production from these shallow wells averages from one-third to three barrels of oil per day. Despite their marginal nature, the amount of recoverable oil still in place in these shallow reservoirs represents a vital resource to the state of Kansas.

It should be noted that the Eastern Kansas area has acted as a proving ground for advanced recovery techniques since the 1950's. The Department of Energy has designated the TORP program at the University of Kansas a model program. The real future of our industry clearly rests with these advanced recovery techniques.

The past three years has seen the number of wells being plugged far outnumbering the intents to drill. Pressure to plug these wells is the direct result of higher taxes, increased operating costs and a vast array of state and federal regulations.

The Kansas, Inc., study declared the state administered ad valorem tax as having the greatest impact on the premature plugging of the marginal wells found in Eastern Kansas.

We support the proposal that would exempt these marginal wells from ad valorem taxes when the production is exempt from the state severance tax.

Thank you for the opportunity to appear before this committee.

L.O. Tenk, Director
Eastern Kansas Oil & Gas Association
Chanute, Kansas

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E. K. O. G. A. . . . . The United Voice of the Eastern Kansas Oil Man

HB 2125
Property Tax Exemption for Oil and Gas Leases

Testimony of
Charles R. Warren, President
Kansas Inc.

February 18, 1992
House Assessment and Taxation Committee

In June 1990, I testified before the Interim Committee on Assessments and Taxation to explain the A.D. Little study sponsored and funded by Kansas Inc. on the Oil and Gas Industry in Kansas. The A.D. Little report characterized the oil industry in Kansas in the following way:

1) a mature, low productivity, short-life resource,
2) economically marginal,
3) low costs of production,
4) threatened by low prices,
5) declining reserves and production, and
6) operated primarily by independents.

The oil industry in Kansas is predominately stripper wells. 99% of the wells are strippers, 92% of the production is, and the average barrels produced per well per day is three. The most startling figure for oil in Kansas is the reserve life index of 6 years. This is a calculation that divides the known reserves by the annual rate of production. While it would be wrong to conclude that oil production will disappear, it is evident that beyond the year 2000, there will be little remaining of an oil industry in Kansas given present conditions and trends.

The fundamental question is how can the life of this industry be extended. World prices will be a major factor, but so will the costs of production and that includes taxes. The continuing abandonment of marginal wells that have become uneconomical is a major concern.

The A.D. Little report concluded that taxes on the oil industry in Kansas were higher than in most other states, and that marginal oil wells needed tax relief. The State has already recognized that fact by exempting marginal wells from the severance tax.

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Legislation introduced in the 1990 Session (HB 2981 and SB 768) would have extended the exemption of marginal wells from the severance tax to the ad valorem tax.

HB 2125 is a more restricted version of these earlier bills. It accomplishes the same purpose: providing tax relief to the most marginal wells that are now becoming uneconomical. It will help reduce the rate of abandonment and will contribute to the policy objective of maintaining and extending the life of the oil industry of Kansas.

I urge your support of HB 2125 and encourage you to favorably recommend it for passage.

KANSAS GEOLOGICAL SURVEY

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

Statement to the House Taxation Committee on House Bill 2125
February 18, 1992

Submitted by: David R. Collins, Ph.D.
Petroleum Economist
Kansas Geological Survey

Representative Joan Wagnon and Members of the Committee:

This statement is submitted for the purpose of presenting to you the results of my analysis of impacts which would be associated with the enactment of HB 2125. I am unable to appear before the committee because of a prior commitment to a U.S. Geological Survey energy resource conference in Houston.

I have been involved in the analysis of tax policy impacts on the petroleum industry in Kansas since the early 1980's, and have frequently met with legislators in an attempt to generate appropriate tax revenues from the industry while avoiding, where possible, negative impacts on incentives for exploration and development for new production or premature abandonment of marginal production. My analysis of HB 2125 is based upon lease production data for the entire state and property valuation reports from the Department of Revenue.

For production from wells on leases completed at **depths less than 2000** feet this bill would exempt 56% of those leases, which account for 2.4 million barrels of production. This is only 14.7% of the shallow production and 4.3% of total state production.

For production from wells on leases completed at **depths of 2000 feet or more** this bill would exempt 62.4% of those leases, which account for 11.6 million barrels of production. This is 29.8% of the deep production and 20.7% of total state production.

Overall, HB 2125 would exempt 60% of all leases, but 25% of all oil production (14 million barrels).

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Because the assessment of oil producing properties is based on the concept of net value of production rather than gross value, the impact on exempted assessed value will be less than the percentages of exempted production. In addition, the exemptions in HB 2125 apply only to the working interest and, I believe, do not include exemption of assessments on equipment.

Based on these concepts and sample studies throughout the state, it is my conclusion that HB 2125 would result in the following impacts on assessed valuations and mill levies.

HB 2125 would result in the loss of about $67.5 million of assessed valuation (12-17% of the assessed value of oil producing properties in the state). This represents only about one-half of one percent of the total assessed property valuations in Kansas.

In the absence of any form of school finance reform based on a uniform statewide mill levy for public education, HB 2125 would result in mill levy increases for individual oil producing counties ranging from almost zero to as much as 10-12 mills, with the vast majority falling in the range of 2-4 mills. This conclusion is based upon the results of a study by Kansas Inc. regarding a broader exemption proposal presented October 4, 1990, to the Interim Committee on Assessment and Taxation.

It is important to note that almost all oil production occurs in rural areas where school districts typically account for 50% or more of the mill levies. Because of this fact, the current consideration of uniform statewide mill levies for school finance could have a significant effect on the local impacts of HB 2125. In general, a uniform mill levy for school finance would reduce the previously stated impacts by almost one-half. This is because the revenue lost for schools would be lost to the state rather than to the individual school districts. That loss to education would be recovered through an adjustment in the statewide levy of approximately 0.5 mill. Under these circumstances, the most adverse impacts on specific counties would be an increase of 6-7 mills, with most falling in the range of 2-3 mills.

It is the view of the Kansas Geological Survey, stated previously to other committees of the Kansas Legislature, that there are present benefits and potentially significant future benefits associated with policies which prolong production from marginal wells.

The primary policy actions available to the Kansas Legislature which can prolong production in marginal wells are those which reduce tax burdens. House Bill 2125 is very specifically targeted toward producing wells which, as a group, are the most clearly identifiable marginal wells in the state.

If I may be of assistance to the Committee at a later date, please contact me.

Respectfully submitted,

David R. Collins, Ph.D.

Toby Elster

GAS AND OIL EXPLORATION AND DEVELOPMENT
CONSULTING GEOLOGIST
BOARD OF TRADE CENTER, SUITE 501
120 S. MARKET
WICHITA, KANSAS 67202

OFF: 316 - 263-0542
RES: 316 - 685-7668

February 12, 1992

Bruce Larkin, Vice-Chairman
House Taxation Committee
State Capitol - Room #180-W
Topeka, Kansas 66612

RE: HB 2125
Relief of Stripper Oil Wells
from Ad Valorem Taxes

Dear Vice-Chairman Larkin:

I am sorry I missed you. I wanted to mention the scheduled House Taxation Committee meeting when the captioned bill will be discussed.

You will be given many facts and figures on why the Kansas Oil Industry needs any relief it can receive. The very critical is the stripper production. KDOR indicates there are over 23,000 marginal oil wells which still are a significant part of the Kansas oil production with very little, if any, profit to the well owners. Over 1470 of these wells were abandoned in 1990 and the remaining reserves left in the ground. The longer these wells can be retained and pumped is significant to the benefits of the state's economy and jobs.

But, there is another most important factor involved in Kansas oil production. The very health of the Kansas Oil Industry depends on Exploration and Development (E&D). That the Kansas oil production has been on a steady decline these past 10 years is well documented by the Kansas Department of Economics or Revenue.

What is not so well publicized is the decrease in E&D activity, which explains the decline. The average number of oil drill rigs running in Kansas 10 years ago was approximately 225. Currently there are approximately only 10% of those rigs running. The decline of E&D activity has been devastating to the Kansas oil economy. Annual oil production in Kansas from the year 1985 (75,400,000 BO produced) through 1990 (55,800,000 BO produced) shows a 26% decline. Unless the E&D activity is increased, this decline will never be halted.

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The Kansas policy toward oil and gas exploration is not totally to blame for investor disenchantment with exploration investments. The volatile market prices for oil and gas and the Federal Alternate Minimum taxes play their part. Consequently, any encouragement that can be extended to E&D would help the state's economy immeasurably and also the longevity of the oil and gas economy.

This Committee should extend this help and encourage a friendly atmosphere toward oil and gas investors by supporting HB 2125 and reporting it out of committee favorably for enactment into law.

The benefits to the State's economy would be a strong positive compared to the small amount of revenue sacrificed for a short period of time.

Sincerely,

TOBY ELSTER

TE:aw

Kelly Maclaskey Oilfield Services, Inc.
Hwy 254 & Industrial Road
P O Box 222
El Dorado KS 67042
316 321 9011

February 12, 1992

Members of the House Taxation Committee

We are writing in support of House Bill 2125 Relieving Low Producing Stripper/Hardship Oil Properties from Advalorem Tax. As it has been shown in the past these small Producers have been plugged and abandoned at an alarming rate. We hope that the future of these wells can be preserved as it is our position, they are much more important to the Kansas Oil Industry and Kansas as a whole and continue to provide a greater Tax base through their operation. Once these wells are gone the income to the Kansas Economy is forever lost. In just the last 3 years 5,000 hardship wells have been plugged. Taking the figure at 3 barrels per day per well and at $18.00 per barrel that is $270,000 per day lost income in the State of Kansas. While we are at the mercy of Foreign Governments oil pricing policies, may we please count on your support here at home?

Thank you for your time and attention.

Sincerely,

Kelly L. Maclaskey

House Taxation
Attachment 8
02-18-92

TESTIMONY

OF

PETE MCGILL
OF
PETE MCGILL & ASSOCIATES

ON BEHALF OF

KANSAS LEGISLATIVE POLICY GROUP

PRESENTED BEFORE

THE

HOUSE TAXATION COMMITTEE

FEBRUARY 18, 1992

RE: HB 2616 & HB 2125

House Taxation
Attachment 9
02-18-92

Madam Chairperson and Members of the Committee:

I am Pete McGill of Pete McGill & Associates. We appear on behalf of the Kansas Legislative Policy Group (KLPG) which is an organization of county commissioners representing 22 oil and gas producing counties from primarily the western part of the state. We have represented these counties for the past twelve years.

We appear today in opposition to House Bill 2125 and House Bill 2616. The provisions of HB 2125 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.

It must also be stated that in a few counties the short term effects of the passage of HB 2125 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.

House Bill 2616 has similar problems. Because of the unknown impact this legislation would have in the oil and gas producing counties across the state, we feel this bill would further erode many counties tax base. In addition, who would determine if the lease would receive such exemption? Would it be the county appraiser, property valuation director or the Board of Appeals?

During the last four sessions (including a special session) you have struggled to solve a property tax problem in Kansas that was partially created by the narrowing of the tax base. By creating one more exception, you simply compound the problem and move further away from a solution.

Ladies and Gentlemen of the Committee, please keep in mind, some of these same counties were here last week because of their concerns about a minimum mill levy for education that would negatively impact them as well.

Therefore, we respectfully request the Committee report HB 2125 and HB 2616 adversely.

"Service to County Government"

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Geary County Commissioner
(913) 238-7894

Executive Director
John T. Torbert, CAE

February 18, 1992

To: Representative Joan Wagnon, Chairperson
Members House Taxation Committee

From: Bev Bradley, Deputy Director
Kansas Association of Counties

Re: HB 2125 Property tax exemption for low producing oil properties

The Kansas Association of Counties is opposed to HB 2125. There is a convention approved platform statement which states, "The Kansas Association of Counties does not support the further narrowing of the ad valorem tax base by eliminating the ad valorem tax on low production oil and gas wells."

More and more responsibilities are being placed on local governments. No viable alternative source of revenue has been determined other than ad valorem tax. Therefore we oppose the further narrowing of the tax base by exempting low production wells.

TSB2125

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