Approved May 7, 1992

Minutes of the House Committee on Taxation. The meeting was called to order by Joan Wagnon, Chairperson, at 9:10 a.m. on Monday, March 16, 1992 in room 519-S of the Capitol.

All members were present except:

Rep. Bill Roy, excused; Rep. J. C. Long, excused; Rep. Bruce Larkin, 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:

Rep. Joan Adam discussed the subcommittee report on SB 339, interest rate imposed on delinquent property taxes. She said the subcommittee recommended amending HB 2874 and HB 2875 into SB 339.

It was stated during discussion that the recommended interest rate on delinquent taxes would be three percent above the prime lending rate as published in the Federal Reserve Bulletin. The interest rate on property taxes would be fixed.

In response to a question from Rep. Bob Vancrum, Steve Stotts said the Department of Revenue had no objections to the subcommittee report.

In response to a question from Rep. Jesse Harder, Don Hayward, Revisor, said the subcommittee report would decrease the interest rate on inheritance taxes.

Rep. Adam made a motion to adopt the subcommittee report. Rep. Gene Shore seconded the motion which carried.

Rep. Adam made a motion to report SB 339 favorable for passage as amended, seconded by Rep. Marvin Smith.

Rep. Aldie Ensminger requested time to develop language that would alleviate some problems for his constituents.

Rep. Adam and Rep. Smith withdrew their motion.

Chris Courtwright, Legislative Research Analyst, briefed the committee on the severance tax. He distributed to the committee a county-by-county simulation of the effect of a 29 mill levy on oil and gas properties (Attachment 1), a

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Taxation, room 519-S, Statehouse, at 9:10 a.m. on Monday, March 16, 1992.

fiscal note on a suggested amendment to lower the severance tax rate (Attachment 2) and a handout showing severance tax receipts for fiscal years 1986 and 1991 (Attachment 3). He noted that the severance tax rate on natural gas was the only one that has not been reduced since its enactment.

Ronald R. Hein, representing MESA, Inc., testified regarding the severance tax (Attachment 4).

Don Schnacke, representing the Kansas Independent Oil and Gas Association, testified regarding the severance tax (Attachment 5).

William M. Fowler, Property Tax Supervisor for Mobil Administrative Services Company, Inc., testified regarding the severance tax (Attachment 6).

Rep. Vancrum asked why natural gas prices have not fallen in conjunction with drops in taxes, but did not receive an answer.

In response to a question, Fowler said based on 1991 assessed valuation, HB 2892 would cost Mobil at least one million dollars, which Fowler said was a conservative estimate. If the severance tax on natural gas were decreased to equal that of oil then Mobil's tax liability would decrease by approximately $4 million, Fowler said.

Dick Brewster, Director of Governmental Affairs for Amoco Corporation, testified in regard to the severance tax on natural gas. Brewster said Kansas gas cannot compete with surrounding states because it is taxed approximately twice as much.

In response to a question from Rep. Bob Krehbiel, Brewster said the Hugoton natural gas field underlies parts of Kansas, Oklahoma and Texas.

Brewster said natural gas production levels are less than 20% higher in Oklahoma than Kansas.

Written testimony was received from Bob Corkins, Director of Taxation for the Kansas Chamber of Commerce and Industry (Attachment 7).

Committee minutes for March 4, 5 and 9 were approved.

The meeting adjourned at 10:28 a.m. The next meeting will be at 9:00 a.m. on March 17.

GUEST LIST

COMMITTEE: House Taxation DATE: 3/16/92

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Alan Steppat	Topeka	Pete McGill & Associates
Dan Hermes	"	DOB
BEV BRADLEY	TOPEKA	KS. ASSOC of COUNTIES
JOANN HAMILTON	LYNDON	KS. CO. TREAS ASSOC.
Jack Glaves	Wichita	[illegible] Nat Gas Policy
Mark Tallman	Topeka	KASB
KAREN FRANCE	TOPEKA	KAR
Walter DUNN	✓	EKOGA
Tom Whitaker	Topeka	Ks Motor Carriers Assn
[illegible]	Topeka	Ks. Petroleum Council
Ron Smith	"	Ks Bar Assoc
TOM AdAms	LiberAl	Mobil Oil Corp.
BILL FOWLER	DALLAS, TX	MOBIL OIL CORP
GERALD P. BIGGS	TULSA OK	TEXACO INC
Ken Peterson	KPC Topeka	
Ryan Leman	Colby	Colby High School
[illegible]	Colby	Colby H.S.
[illegible] BROWN	KC	KS [illegible] Dealers
Bob Corkins	Topeka	KCCI
Don Schnacke	"	KIOGA
E. R. Brewster	Denver CO	Amoco Corporation
Rebecca Rice	Topeka	Amoco Production
Barbara Butts	Topeka	Dept of Admin.
Debra Curry	Colby	Close-Up KS

GUEST LIST

COMMITTEE: House Taxation DATE: 3/16/92

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Angela Bailey	Colby	Close-Up Ks
Gina Jennings	Colby	Close-Up KS
MARK A. BURGHART	TOPEKA	REVENUE
Steve Stotts	"	"
JIM LUDWIG	"	KPL
Charles Warren	Topeka	Kansas Inc.
Julie Hein	Top	Mesa
Ron Hein	Topeka	Mesa

SORT ALPHABETICAL

KANSAS COUNTY NAME	MINERAL LEASEHOLD INT 1991 VALUATION	OIL & GAS PROP TAXES GENERATED BY 29 MILL STATE LEVY	EXHIBIT: COUNTY RURAL AVG 91 LEVIES	EXHIBIT: ESTIMATED FY 91 SEV TAXES (OIL & GAS)	EXHIBIT: MINERAL LEASEHOLD INT 1990 VALUATION	EXHIBIT: 90-91 CHANGE IN MIN LHOLD VALUATION
ALLEN	$1,135,083	$32,917	125.24	52,406	$1,451,636	($316,553)
ANDERSON	1,334,541	$38,702	123.50	262,381	1,127,898	206,643
ATCHISON	278,328	$8,072	115.34	0	385,666	(107,338)
BARBER	17,729,959	$514,169	108.19	1,967,386	17,643,598	86,361
BARTON	25,054,323	$726,575	124.34	1,527,516	23,088,872	1,965,451
BOURBON	486,281	$14,102	130.93	3,938	563,501	(77,220)
BROWN	16,513	$479	133.08	1,231	12,258	4,255
BUTLER	15,967,055	$463,045	122.82	967,628	14,752,766	1,214,289
CHASE	325,446	$9,438	114.27	4,813	365,838	(40,392)
CHAUTAUQUA	3,459,703	$100,331	117.71	287,634	3,337,157	122,546
CHEROKEE	0	$0	100.32	0	0	0
CHEYENNE	927,422	$26,895	98.50	37,229	630,450	296,972
CLARK	6,701,785	$194,352	116.54	770,500	7,423,915	(722,130)
CLAY	0	$0	126.16	210	0	0
CLOUD	0	$0	159.58	0	0	0
COFFEY	832,271	$24,136	46.20	25,829	979,240	(146,969)
COMANCHE	8,988,907	$260,678	111.27	959,450	8,517,232	471,675
COWLEY	10,268,235	$297,779	138.03	526,561	9,118,850	1,149,385
CRAWFORD	103,629	$3,005	98.81	38,610	92,115	11,514
DECATUR	2,105,065	$61,047	127.23	141,596	1,904,315	200,750
DICKINSON	277,635	$8,051	120.67	6,551	205,928	71,707
DONIPHAN	0	$0	131.30	0	0	0
DOUGLAS	231,120	$6,702	116.21	17,326	171,620	59,500
EDWARDS	5,438,196	$157,708	114.30	471,752	5,669,215	(231,019)
ELK	1,469,951	$42,629	125.44	143,790	1,169,471	300,480
ELLIS	38,568,529	$1,118,487	99.64	2,696,672	35,628,029	2,940,500
ELLSWORTH	3,634,248	$105,393	127.74	306,283	3,781,876	(147,628)
FINNEY	81,890,410	$2,374,822	102.17	4,767,447	88,294,230	(6,403,820)
FORD	2,028,290	$58,820	139.77	209,949	2,086,583	(58,293)
FRANKLIN	539,530	$15,646	115.75	24,736	590,383	(50,853)
GEARY	6,455	$187	98.86	605	11,450	(4,995)
GOVE	9,064,786	$262,879	109.51	752,121	8,757,448	307,338
GRAHAM	15,636,311	$453,453	127.58	1,302,581	13,884,663	1,751,648
GRANT	196,306,752	$5,692,896	60.29	11,593,385	176,009,395	20,297,357
GRAY	1,391,062	$40,341	118.48	143,270	911,579	479,483
GREELEY	6,544,612	$189,794	95.40	534,204	4,493,284	2,051,328
GREENWOOD	5,668,642	$164,391	148.19	170,280	5,199,173	469,469
HAMILTON	16,158,925	$468,609	99.74	870,907	15,519,704	639,221
HARPER	8,916,253	$258,571	118.92	561,073	8,671,852	244,401
HARVEY	2,007,493	$58,217	123.17	109,216	2,070,003	(62,510)
HASKELL	77,779,938	$2,255,618	65.67	4,219,550	77,661,530	118,408
HODGEMAN	6,355,379	$184,306	134.04	590,661	5,698,996	656,383
JACKSON	67,478	$1,957	113.30	5,245	57,941	9,537
JEFFERSON	221,420	$6,421	117.16	22,679	349,662	(128,242)
JEWELL	0	$0	135.23	0	0	0
JOHNSON	641,695	$18,609	126.08	93,470	1,104,875	(463,180)
KEARNY	146,968,026	$4,262,073	58.54	7,154,411	159,614,218	(12,646,192)
KINGMAN	18,983,925	$550,534	111.10	1,415,251	19,787,595	(803,670)
KIOWA	15,313,140	$444,081	94.05	1,582,951	12,985,892	2,327,248
LABETTE	300,945	$8,727	124.32	11,453	413,023	(112,078)
LANE	7,024,163	$203,701	133.39	662,286	6,500,112	524,051
LEAVENWORTH	1,528,153	$44,316	114.20	241,844	2,030,913	(502,760)
LINCOLN	0	$0	137.72	0	0	0
LINN	669,690	$19,421	74.83	75,135	754,120	(84,430)
LOGAN	1,600,795	$46,423	112.81	186,026	1,749,850	(149,055)

House Taxation
Attachment 1
03-16-92

SO[illegible]PHABETICAL KANSAS COUNTY NAME	MINERAL LEASEHOLD INT 1991 VALUATION	OIL & GAS PROP TAXES GENERATED BY 29 MILL STATE LEVY	EXHIBIT: COUNTY RURAL AVG 91 LEVIES	E[illegible]IT: ESTIMATED FY 91 SEV TAXES (OIL & GAS)	EXHIBIT: MINERAL LEASEHOLD INT 1990 VALUATION	[illegible]HIBIT: [illegible]0-91 CHANGE IN MIN LHOLD VALUATION
LYON	273,175	$7,922	115.62	16,107	297,655	(24,480)
MARION	3,071,035	$89,060	105.00	255,753	3,695,734	(624,699)
MARSHALL	0	$0	122.37	0	0	0
McPHERSON	7,110,559	$206,206	119.52	343,057	7,399,525	(288,966)
MEADE	13,795,445	$400,068	102.22	1,515,007	15,498,454	(1,703,009)
MIAMI	760,356	$22,050	127.03	29,986	822,217	(61,861)
MITCHELL	0	$0	128.62	0	0	0
MONTGOMERY	2,289,542	$66,397	137.19	203,448	2,495,320	(205,778)
MORRIS	1,378,797	$39,985	116.06	101,600	1,347,220	31,577
MORTON	85,346,950	$2,475,062	67.26	5,921,482	81,529,980	3,816,970
NEMAHA	1,878,863	$54,487	106.12	163,998	1,819,556	59,307
NEOSHO	426,246	$12,361	137.86	23,755	458,785	(32,539)
NESS	21,856,437	$633,837	111.17	1,770,829	18,888,391	2,968,046
NORTON	1,608,110	$46,635	125.41	52,098	1,419,830	188,280
OSAGE	3,074	$89	111.04	0	3,409	(335)
OSBORNE	1,426,507	$41,369	120.14	87,951	1,205,978	220,529
OTTAWA	0	$0	128.55	0	0	0
PAWNEE	5,178,538	$150,178	114.36	352,551	3,679,924	1,498,614
PHILLIPS	7,241,324	$209,998	125.79	428,712	6,917,080	324,244
POTTAWATOMIE	0	$0	71.54	724	0	0
PRATT	8,967,020	$260,044	128.13	975,370	10,149,247	(1,182,227)
RAWLINS	3,036,011	$88,044	143.06	317,451	2,271,500	764,511
RENO	7,762,005	$225,098	128.80	573,313	6,565,415	1,196,590
REPUBLIC	0	$0	119.83	0	0	0
RICE	11,237,576	$325,890	119.29	834,613	10,539,123	698,453
RILEY	437,762	$12,695	114.92	56,433	625,468	(187,706)
ROOKS	23,194,110	$672,629	109.88	1,759,922	22,932,051	262,059
RUSH	5,690,508	$165,025	115.90	298,376	5,816,609	(126,101)
RUSSELL	25,811,385	$748,530	117.90	1,765,585	23,707,256	2,104,129
SALINE	904,820	$26,240	96.07	39,316	1,083,399	(178,579)
SCOTT	1,854,486	$53,780	104.51	146,566	1,916,839	(62,353)
SEDGWICK	2,735,865	$79,340	131.87	207,965	2,436,610	299,255
SEWARD	59,860,394	$1,735,951	94.45	4,850,542	51,201,251	8,659,143
SHAWNEE	0	$0	128.68	0	0	0
SHERIDAN	2,652,755	$76,930	121.56	272,981	2,500,078	152,677
SHERMAN	204,832	$5,940	111.49	20,047	214,773	(9,941)
SMITH	0	$0	139.91	0	0	0
STAFFORD	19,019,811	$551,575	109.28	1,555,840	17,222,814	1,796,997
STANTON	42,471,325	$1,231,668	79.33	2,271,843	50,086,875	(7,615,550)
STEVENS	$241,580,600	$7,005,837	38.87	17,112,684	$232,279,225	9,301,375
SUMNER	6,525,890	$189,251	132.65	511,377	6,578,905	(53,015)
THOMAS	2,917,134	$84,597	119.22	262,497	2,383,059	534,075
TREGO	7,950,959	$230,578	117.62	549,340	7,007,712	943,247
WABAUNSEE	1,191,243	$34,546	111.03	98,028	996,236	195,007
WALLACE	1,662,336	$48,208	107.41	247,608	2,782,503	(1,120,167)
WASHINGTON	0	$0	126.02	179	0	0
WICHITA	322,561	$9,354	123.93	37,756	244,512	78,049
WILSON	991,324	$28,748	122.59	63,586	1,432,995	(441,671)
WOODSON	2,983,528	$86,522	115.67	61,232	3,133,763	(150,235)
WYANDOTTE	0	$0	112.50	105	0	0
State	$1,404,559,691	$40,732,231		94,675,641	$1,366,817,196	37,742,495

Source: Department of Revenue and calculations.

SOP[illegible]ALUATION

KANSAS COUNTY NAME	MINERAL LEASEHOLD INT 1991 VALUATION	OIL & GAS PROP TAXES GENERATED BY 29 MILL STATE LEVY	EXHIBIT: COUNTY RURAL AVG 91 LEVIES	E[illegible]IT: ESTIMATED FY 91 SEV TAXES (OIL & GAS)	EXHIBIT: MINERAL LEASEHOLD INT 1990 VALUATION	[illegible]HIBIT: [illegible]-91 CHANGE IN MIN LHOLD VALUATION
STEVENS	$241,580,600	$7,005,837	38.87	17,112,684	$1,451,636	$240,128,964
GRANT	196,306,752	$5,692,896	60.29	11,593,385	1,127,898	195,178,854
KEARNY	146,968,026	$4,262,073	58.54	7,154,411	385,666	146,582,360
MORTON	85,346,950	$2,475,062	67.26	5,921,482	17,643,598	67,703,352
FINNEY	81,890,410	$2,374,822	102.17	4,767,447	23,088,872	58,801,538
HASKELL	77,779,938	$2,255,618	65.67	4,219,550	563,501	77,216,437
SEWARD	59,860,394	$1,735,951	94.45	4,850,542	12,258	59,848,136
STANTON	42,471,325	$1,231,668	79.33	2,271,843	14,752,766	27,718,559
ELLIS	38,568,529	$1,118,487	99.64	2,696,672	365,838	38,202,691
RUSSELL	25,811,385	$748,530	117.90	1,765,585	3,337,157	22,474,228
BARTON	25,054,323	$726,575	124.34	1,527,516	0	25,054,323
ROOKS	23,194,110	$672,629	109.88	1,759,922	630,450	22,563,660
NESS	21,856,437	$633,837	111.17	1,770,829	7,423,915	14,432,522
STAFFORD	19,019,811	$551,575	109.28	1,555,840	0	19,019,811
KINGMAN	18,983,925	$550,534	111.10	1,415,251	0	18,983,925
BARBER	17,729,959	$514,169	108.19	1,967,386	979,240	16,750,719
HAMILTON	16,158,925	$468,609	99.74	870,907	8,517,232	7,641,693
BUTLER	15,967,055	$463,045	122.82	967,628	9,118,850	6,848,205
GRAHAM	15,636,311	$453,453	127.58	1,302,581	92,115	15,544,196
KIOWA	15,313,140	$444,081	94.05	1,582,951	1,904,315	13,408,825
MEADE	13,795,445	$400,068	102.22	1,515,007	205,928	13,589,517
RICE	11,237,576	$325,890	119.29	834,613	0	11,237,576
COWLEY	10,268,235	$297,779	138.03	526,561	171,620	10,096,615
GOVE	9,064,786	$262,879	109.51	752,121	5,669,215	3,395,571
COMANCHE	8,988,907	$260,678	111.27	959,450	1,169,471	7,819,436
PRATT	8,967,020	$260,044	128.13	975,370	35,628,029	(26,661,009)
HARPER	8,916,253	$258,571	118.92	561,073	3,781,876	5,134,377
TREGO	7,950,959	$230,578	117.62	549,340	88,294,230	(80,343,271)
RENO	7,762,005	$225,098	128.80	573,313	2,086,583	5,675,422
PHILLIPS	7,241,324	$209,998	125.79	428,712	590,383	6,650,941
McPHERSON	7,110,559	$206,206	119.52	343,057	11,450	7,099,109
LANE	7,024,163	$203,701	133.39	662,286	8,757,448	(1,733,285)
CLARK	6,701,785	$194,352	116.54	770,500	13,884,663	(7,182,878)
GREELEY	6,544,612	$189,794	95.40	534,204	176,009,395	(169,464,783)
SUMNER	6,525,890	$189,251	132.65	511,377	911,579	5,614,311
HODGEMAN	6,355,379	$184,306	134.04	590,661	4,493,284	1,862,095
RUSH	5,690,508	$165,025	115.90	298,376	5,199,173	491,335
GREENWOOD	5,668,642	$164,391	148.19	170,280	15,519,704	(9,851,062)
EDWARDS	5,438,196	$157,708	114.30	471,752	8,671,852	(3,233,656)
PAWNEE	5,178,538	$150,178	114.36	352,551	2,070,003	3,108,535
ELLSWORTH	3,634,248	$105,393	127.74	306,283	77,661,530	(74,027,282)
CHAUTAUQUA	3,459,703	$100,331	117.71	287,634	5,698,996	(2,239,293)
MARION	3,071,035	$89,060	105.00	255,753	57,941	3,013,094
RAWLINS	3,036,011	$88,044	143.06	317,451	349,662	2,686,349
WOODSON	2,983,528	$86,522	115.67	61,232	0	2,983,528
THOMAS	2,917,134	$84,597	119.22	262,497	1,104,875	1,812,259
SEDGWICK	2,735,865	$79,340	131.87	207,965	159,614,218	(156,878,353)
SHERIDAN	2,652,755	$76,930	121.56	272,981	19,787,595	(17,134,840)
MONTGOMERY	2,289,542	$66,397	137.19	203,448	12,985,892	(10,696,350)
DECATUR	2,105,065	$61,047	127.23	141,596	413,023	1,692,042
FORD	2,028,290	$58,820	139.77	209,949	6,500,112	(4,471,822)
HARVEY	2,007,493	$58,217	123.17	109,216	2,030,913	(23,420)
NEMAHA	1,878,863	$54,487	106.12	163,998	0	1,878,863
SCOTT	1,854,486	$53,780	104.51	146,566	754,120	1,100,366
WALLACE	1,662,336	$48,208	107.41	247,608	1,749,850	(87,514)

SOR[illegible]LUATION KANSAS COUNTY NAME	MINERAL LEASEHOLD INT 1991 VALUATION	OIL & GAS PROP TAXES GENERATED BY 29 MILL STATE LEVY	EXHIBIT: COUNTY RURAL AVG 91 LEVIES	E[illegible]T: ESTIMATED FY 91 SEV TAXES (OIL & GAS)	EXHIBIT: MINERAL LEASEHOLD INT 1990 VALUATION	[illegible]IBIT: [illegible]-91 CHANGE IN MIN LHOLD VALUATION
NORTON	1,608,110	$46,635	125.41	52,098	297,655	1,310,455
LOGAN	1,600,795	$46,423	112.81	186,026	3,695,734	(2,094,939)
LEAVENWORTH	1,528,153	$44,316	114.20	241,844	0	1,528,153
ELK	1,469,951	$42,629	125.44	143,790	7,399,525	(5,929,574)
OSBORNE	1,426,507	$41,369	120.14	87,951	15,498,454	(14,071,947)
GRAY	1,391,062	$40,341	118.48	143,270	822,217	568,845
MORRIS	1,378,797	$39,985	116.06	101,600	0	1,378,797
ANDERSON	1,334,541	$38,702	123.50	262,381	2,495,320	(1,160,779)
WABAUNSEE	1,191,243	$34,546	111.03	98,028	1,347,220	(155,977)
ALLEN	$1,135,083	$32,917	125.24	52,406	81,529,980	(80,394,897)
WILSON	991,324	$28,748	122.59	63,586	1,819,556	(828,232)
CHEYENNE	927,422	$26,895	98.50	37,229	458,785	468,637
SALINE	904,820	$26,240	96.07	39,316	18,888,391	(17,983,571)
COFFEY	832,271	$24,136	46.20	25,829	1,419,830	(587,559)
MIAMI	760,356	$22,050	127.03	29,986	3,409	756,947
LINN	669,690	$19,421	74.83	75,135	1,205,978	(536,288)
JOHNSON	641,695	$18,609	126.08	93,470	0	641,695
FRANKLIN	539,530	$15,646	115.75	24,736	3,679,924	(3,140,394)
BOURBON	486,281	$14,102	130.93	3,938	6,917,080	(6,430,799)
RILEY	437,762	$12,695	114.92	56,433	0	437,762
NEOSHO	426,246	$12,361	137.86	23,755	10,149,247	(9,723,001)
CHASE	325,446	$9,438	114.27	4,813	2,271,500	(1,946,054)
WICHITA	322,561	$9,354	123.93	37,756	6,565,415	(6,242,854)
LABETTE	300,945	$8,727	124.32	11,453	0	300,945
ATCHISON	278,328	$8,072	115.34	0	10,539,123	(10,260,795)
DICKINSON	277,635	$8,051	120.67	6,551	625,468	(347,833)
LYON	273,175	$7,922	115.62	16,107	22,932,051	(22,658,876)
DOUGLAS	231,120	$6,702	116.21	17,326	5,816,609	(5,585,489)
JEFFERSON	221,420	$6,421	117.16	22,679	23,707,256	(23,485,836)
SHERMAN	204,832	$5,940	111.49	20,047	1,083,399	(878,567)
CRAWFORD	103,629	$3,005	98.81	38,610	1,916,839	(1,813,210)
JACKSON	67,478	$1,957	113.30	5,245	2,436,610	(2,369,132)
BROWN	16,513	$479	133.08	1,231	51,201,251	(51,184,738)
GEARY	6,455	$187	98.86	605	0	6,455
OSAGE	3,074	$89	111.04	0	2,500,078	(2,497,004)
CHEROKEE	0	$0	100.32	0	214,773	(214,773)
CLAY	0	$0	126.16	210	0	0
CLOUD	0	$0	159.58	0	17,222,814	(17,222,814)
DONIPHAN	0	$0	131.30	0	50,086,875	(50,086,875)
JEWELL	0	$0	135.23	0	$232,279,225	(232,279,225)
LINCOLN	0	$0	137.72	0	6,578,905	(6,578,905)
MARSHALL	0	$0	122.37	0	2,383,059	(2,383,059)
MITCHELL	0	$0	128.62	0	7,007,712	(7,007,712)
OTTAWA	0	$0	128.55	0	996,236	(996,236)
POTTAWATOMIE	0	$0	71.54	724	2,782,503	(2,782,503)
REPUBLIC	0	$0	119.83	0	0	0
SHAWNEE	0	$0	128.68	0	244,512	(244,512)
SMITH	0	$0	139.91	0	1,432,995	(1,432,995)
WASHINGTON	0	$0	126.02	179	3,133,763	(3,133,763)
WYANDOTTE	0	$0	112.50	105	0	0
State	$1,404,559,691	$40,732,231		94,675,641	$1,366,817,196	37,742,495

Source: Department of Revenue and calculations.

	ACTUAL REVISED FY 1989	ACTUAL REVISED FY 1990	ACTUAL FY 1991	CONSEN APR 91 FY 1992	CONSEN NOV 91 FY 1992	CONSEN NOV 91 FY 1993	GAS TO 4.33 PCT FY 1993
<u>OIL</u>							
GROSS	57,585	54,831	56,542	52,000	55,500	53,000	53,000
EXEMPT	19,668	22,339	21,183	15,600	17,760	19,610	19,610
EX PCT	34.15%	40.74%	37.46%	30.00%	32.00%	37.00%	37.00%
TAX PRO	37,917	32,492	35,359	36,400	37,740	33,390	33,390
PRICE BB	$15.10	$18.95	$23.40	$20.00	$20.00	$19.00	$19.00
TAX VAL	$572,483	$615,588	$827,279	$728,000	$754,800	$634,410	$634,410
RATE	0.0433	0.0433	0.0433	0.0433	0.0433	0.0433	0.0433
REVENUE	$24,031	$25,454	$36,819	$31,522	$32,683	$27,470	$27,470
SGF	$22,349	$23,672	$34,242	$29,316	$30,395	$25,547	$25,547
CMPTF	$1,682	$1,782	$2,577	$2,207	$2,288	$1,923	$1,923
<u>GAS</u>							
GROSS	571,980	574,864	576,258	600,000	585,000	585,000	585,000
GR PRICE	$1.40	$1.50	$1.44	$1.65	$1.45	$1.45	$1.45
GR VALUE	798,913	864,598	831,094	990,000	848,250	848,250	848,250
EXEMPT	7.48%	7.41%	7.59%	7.25%	7.50%	7.50%	7.50%
TAX VAL	$739,144	$800,514	$768,002	$918,225	$784,631	$784,631	$784,631
RATE	0.07	0.07	0.07	0.07	0.07	0.07	0.0433
REVENUE	$51,971	$57,737	$59,242 a)	$64,276	$54,924	$54,924	$33,975
SGF	$48,333	$53,695	$55,095	$59,776	$51,079	$51,079	$31,596
CMPTF	$3,638	$4,042	$4,147	$4,499	$3,845	$3,845	$2,378
<u>COAL</u>							
TX PROD	0	0	29	0	0	0	0
RATE	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00
REVENUE	$0	$0	$29	$0	$0	$0	$0
SGF	$0	$0	$27	$0	$0	$0	$0
CMPTF	$0	$0	$2	$0	$0	$0	$0
<u>SGF</u>							
OIL	$22,349	$23,672	$34,242	$29,316	$30,395	$25,547	$25,547
GAS	$48,333	$53,695	$55,095	$59,776	$51,079	$51,079	$31,596
COAL	$0	$0	$27	$0	$0	$0	$0
TOTAL	$70,682	$77,367	$89,364	$89,092	$81,475	$76,627	$57,143 ($19,483)
CMPTF	$5,320	$5,823	$6,726	$6,706	$6,132	$5,768	$4,301 ($1,466)
Gr Total	$76,002	$83,190	$96,091	$95,798	$87,607	$82,394	$61,444 ($20,950)

a) Includes $2.3 m receipts attributable to previous years' liability.

House Taxation
Attachment 2
03-16-92

SEVERANCE TAX RECEIPTS (All Funds)

FY 1986

OIL	$56,457	57.06%
GAS	$41,713	42.16%
COAL	$680	0.69%
SALT	$87	0.09%
TOTAL	$98,937	

FY 1991

OIL	$34,242	38.32%
GAS	$55,095	61.65%
COAL	$27	0.03%
TOTAL	$89,364	

House Taxation
Attachment 3
03-16-92

HOUSE TAXATION COMMITTEE
GENERIC HEARING RE: SEVERANCE TAX
Presented by Ronald R. Hein,
Hein, Ebert, and Rosen, Chtd.
on behalf of MESA, Inc.
March 16, 1992

Madame Chairman, Members of the Committee:

My name is Ron Hein, and I am legislative counsel for Mesa. Mesa is one of the nation's five largest independent gas producers and currently has approximately 60% of its natural gas reserves in the state of Kansas.

Mesa and Kansas's other natural gas producers are currently impacted directly and significantly by the combined production taxes imposed on gas production in Kansas.

To many, the "oil and gas" industry is viewed as being one industry. But the Kansas tax burdens of oil producers and gas producers are significantly different.

In Kansas, both oil and natural gas are currently assessed at the highest classification rate, 50% above many other Kansas businesses.

But there is considerable disparity between the severance tax rate applied on gas versus oil. Gas producers are levied at a rate of 7% of gross revenues; oil is taxed at a statutory rate of 4.33%, or about 40% less. In addition, the 1990 statistics reflect that due to certain exemptions in the severance tax law, the actual effective rate of tax collected on 1990 oil production was 2.41%, which more closely approximates other Kansas gross receipt burdens. In contrast, the effective rate on gas production was 6.87%. The end result is that when viewed in relation to the value of production, natural gas producers bear a 285% greater severance tax burden than oil producers.

Kansas gas producers pay this gross receipts tax at a rate of 7% <u>in addition</u> to property taxes. Mesa currently pays an additional property tax burden of 8% of gross natural gas income.

For Mesa, this results in a 15% combined gross receipts tax since both severance and ad valorem taxes are levied and determined in part by the amount of gas a business produces.

The idea of a gross receipts tax in Kansas is not unique but other industries pay rates of approximately 1%-2%, and more significantly, their taxes are <u>in lieu of other property taxes.</u> No other Kansas industry comes close to bearing the gross receipts tax burden levied on natural gas producers, whether they are profitable or unprofitable.

House Taxation
Attachment 4
03-16-92

Based upon 1990 statistics, the total wellhead value of crude oil produced in Kansas was 50% greater than the total wellhead value of gas produced. However, it has been estimated that the ad valorem burden is about equal. This disparity of the tax burden as compared to gross revenues will increase under a statewide mill levy.

Oil is spread throughout the state, and for the most part, oil producers in the state will benefit by a uniform mill levy since most oil production is in districts which currently levy more than 29 mills. But, natural gas is heavily concentrated in one Hugoton Field where some levies will go up, even at the 29-mill levy. This would be after the mill levy increases which some school districts in Southwest Kansas voted on themselves last year in anticipation of a uniform mill levy.

When the discrepancy on ad valorem taxes between oil and gas is combined with the disparity in the severance tax rates between oil and gas, the unfairness of the current tax structure on the natural gas industry becomes painfully obvious.

The original rationale in 1983 for the severance tax being imposed on natural gas at 7%, versus 4.33% on oil, was two-fold:

1) The severance tax on natural gas could be passed out of state to out of state consumers at that time, pursuant to then existing federal regulation:

Since deregulation at the national level, it is no longer possible for natural gas producers to pass on the cost of a severance tax. Today the tax is directly on Kansas producers.

2) The credit for ad valorem tax (3.67% for oil, and only 1% for gas in recognition of the low ad valorem taxes in the Hugoton) was an attempt to keep the combined ad valorem and severance tax burdens on oil producers and gas producers equal.

The second rationale for a higher severance tax rate on gas is eliminated if a uniform mill levy passes, regardless of the size of the uniform levy.

Most industries, when facing excessive taxation, have the ability to increase the price of their product, reduce costs, or increase production in order to help mitigate the tax burden. None of these are true for the natural gas industry or for Mesa in particular.

The price of natural gas is determined to a large extent by the "spot market", which is influenced by national and international market forces. Kansas, by itself, cannot change this.

Natural gas producers have already faced the difficult task of cost reductions. Mesa, for example, is operating with 35% fewer personnel than it had one year ago today. Consider the impact on the Kansas economy if all businesses had to reduce their employees by 35%.

Lastly, gas producers in Kansas cannot apportion increased taxes over a greater amount of product, because we are regulated by law as to how much gas we can produce.

Mesa's recommendation is to help mitigate the impact on our valuable gas industry through corresponding measures to aid in the expansion of the business, or at least to curb the contraction.

One badly needed measure is to reduce the natural gas severance tax burden to parity with that imposed on oil producers and/or the other industries on which gross receipts taxes are imposed.

This, coupled with a review of current production regulatory practices by the Kansas Corporation Commission, will stimulate production and will regenerate some, if not all, of the dollars lost to the SGF by the decreased severance tax rate.

Modification of certain rules and regulations by the KCC could increase the assessed valuation of the Hugoton field, resulting in increased property tax receipts, recoupment of some lost severance tax dollars, and incentives for infill drilling.

Providing incentives to complete the infill drilling already approved by the KCC could generate $400 million in capital investment in Southwest Kansas. This results in more jobs, more taxes of all types, and more assessed valuation to benefit the region and the State.

Mesa supports regulatory controls that encourage production of natural gas at economically acceptable levels and that insure that there is not economic waste of energy producing states' valuable natural resources. However, Kansas, while being a major gas producing state, is a relatively small slice of the pie, and cannot, by itself, drive policy in the major gas producing states such as Texas and Oklahoma. Unless all gas producing states operate with approximately the same level of control, it makes no sense for Kansas to penalize Kansas taxpayers and producers unilaterally.

Until such time as other states are willing to adopt reasonable regulatory controls, Kansas should not permit its home state businesses to suffer.

Lastly, Mesa encourages regulatory controls that insure that production allowables are assigned in such a way that such production, and the tax revenue generated therefrom, are reasonably assured of being realized.

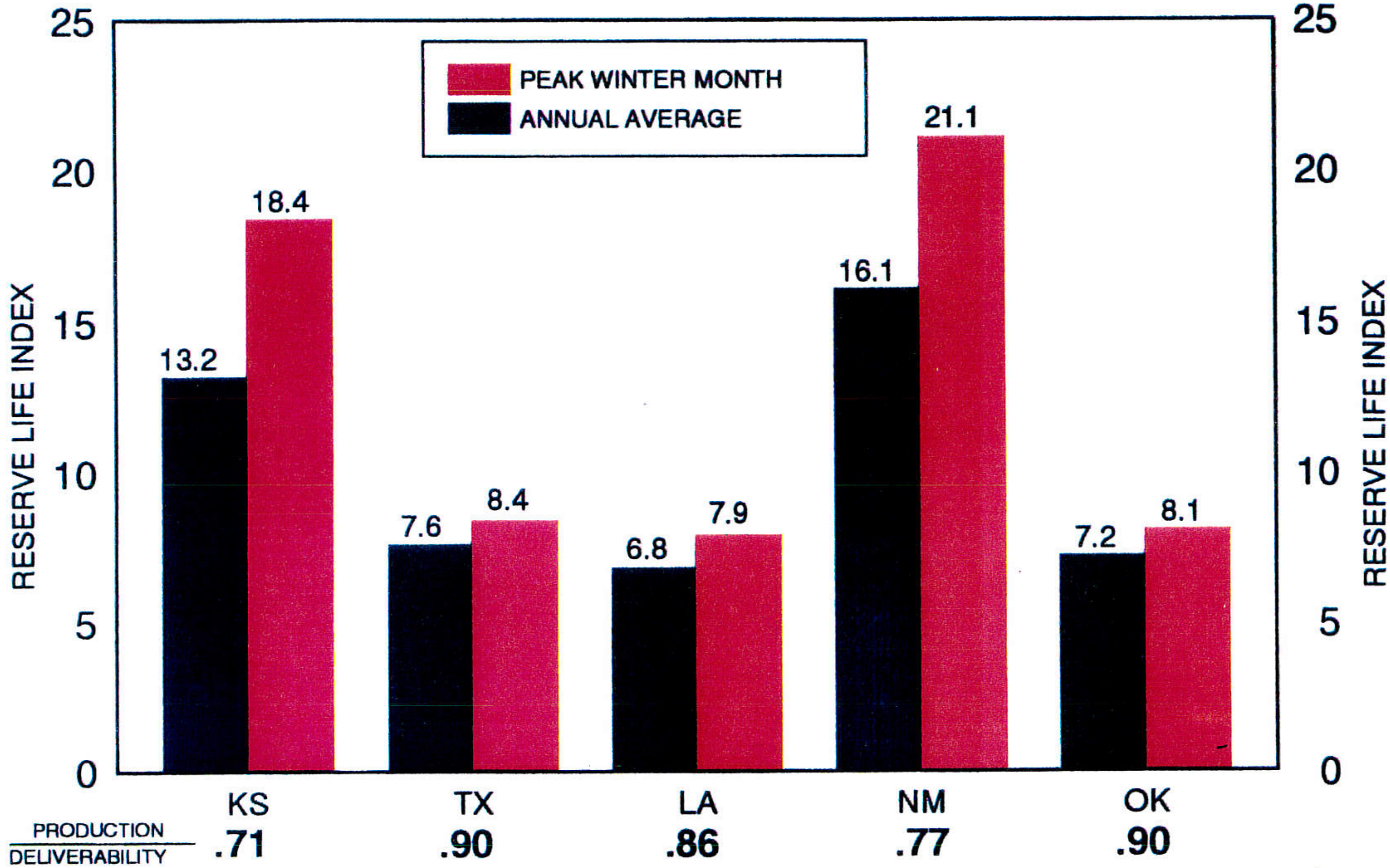
In conclusion, Mesa strongly urges the legislature, working in conjunction with the KCC, to enact a program which expands the Kansas economic tax base, and not one which raises the burden on a shrinking industry. The result will be a benefit to Kansas producers, Kansas businesses, Kansas taxpayers, and Kansas school children through a strong educational system funded in a fair and equitable manner.

Thank you very much for permitting me to testify, and I will be happy to yield to questions.

4-5

MESA

MAJOR GAS PRODUCING STATES
DELIVERABILITY VS PRODUCTION
1988 - 1990 AVERAGE

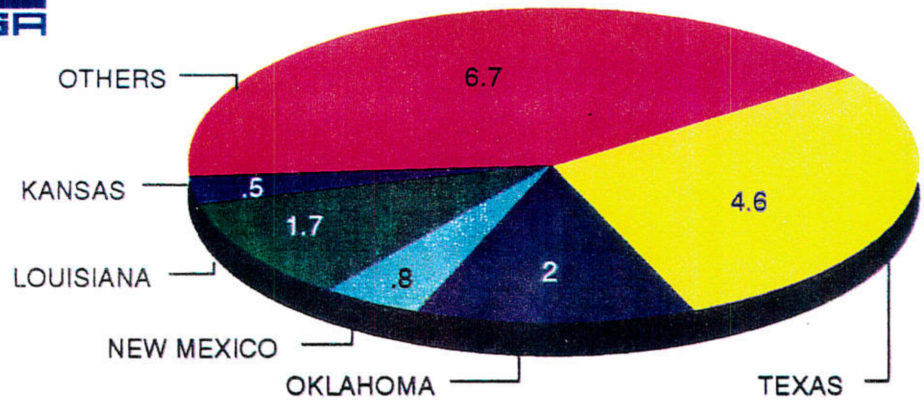


SOURCE EIA/DOE (1/21/92)

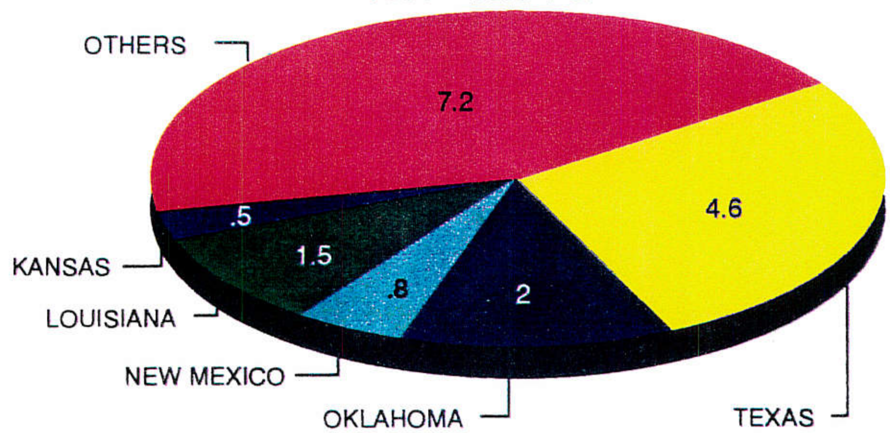
177 GLB

MESA

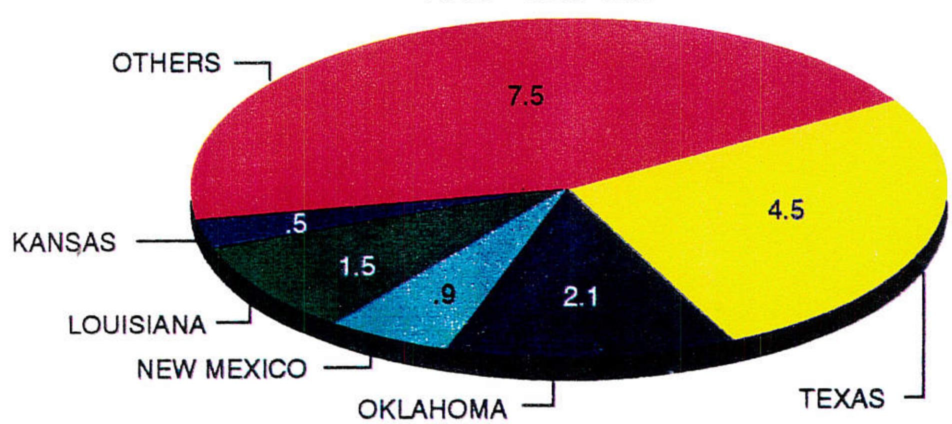
U.S. ANNUAL PRODUCTION
1988 - 16.3 TCF



U.S. ANNUAL PRODUCTION
1989 - 16.6 TCF



U.S. ANNUAL PRODUCTION
1990 - 16.9 TCF



SOURCE EIA/DOE (1/21/92)

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

TESTIMONY OF DONALD P. SCHNACKE
EXECUTIVE VICE PRESIDENT
KANSAS INDEPENDENT OIL & GAS ASSOCIATION

BEFORE THE KANSAS HOUSE COMMITTEE ON TAXATION
RE: IMPACT OF THE KANSAS SEVERANCE TAX ON THE KANSAS OIL & GAS INDUSTRY

MARCH 16, 1992

Thank you for this opportunity to present testimony regarding the impact of the severance tax on the Kansas oil and gas industry.

It is very important that you focus on taxes relating to the oil and gas industry because of the very critical position we find ourselves in today. Please refer to the attached Time magazine article of March 16, 1992 which, in a very concise manner, portrays the condition of our industry. What is stated there mirrors what is happening in Kansas. The national issue that is developing is whether there will be a viable domestic oil and gas industry in the future.

In 1983 our industry bitterly fought the imposition of the Kansas severance tax. We fought it because we were already being taxed with a significant ad valorem tax that was approximately equivalent to the level of taxation in those states that had a severance tax but not an ad valorem tax. Before 1983 California and Kansas were the lone producing states with similar ad valorem tax schemes on oil and gas production and without a severance tax. California still does not have a severance tax.

The ad valorem tax in 1983 produced $125 million and the new severance tax was projected to raise $120 million, nearly doubling the taxes on Kansas production and placing Kansas near the top of the producing states in taxes. The Kansas, Inc. study of 1990 concluded, "Kansas taxes on oil and gas production are high relative to the other states examined, and are especially high when one considers the characteristics of the Kansas resource relative to most of the other states evaluated." In the first years of collecting the severance tax, two-thirds of the tax resulted from oil production and one-third from gas production.

House Taxation
Attachment 5
03-16-92

Due to subsequent legislative action in 1987, following the dramatic drop in oil prices in 1986 and the continuation of low oil prices and corresponding decline in crude oil production, the severance tax collections have been two-thirds from natural gas production and one-third from oil production - a reverse of what was anticipated in 1983.

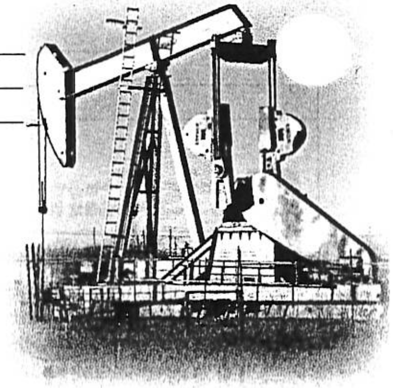
Despite the decline of prices and production during these past years since the international price drop in 1986, the producing counties have continued to increase their collections of ad valorem taxes. In 1987 the production of oil was at 60.87 million barrels with county collections totaling $90.5 million. In 1990 production of oil dropped to 55.1 million barrels, but the collection of county taxes rose to $113.4 million. 1991 county ad valorem taxes remained at $113.3 million.

High production taxes plague our industry. The school finance legislation in the House has focused on an issue that prior legislatures have ignored--the excessive severance tax on natural gas in Kansas.

In 1983 the legislature set the severance tax on natural gas at 7% because the Federal Power Commission (FPC), now the Federal Energy Regulatory Commission (FERC), allowed the pass-through of severance taxes to the rate base. FPC, and later FERC, confirmed that the Kansas ad valorem tax was similar to a severance tax and permitted the tax to be passed through. Later FERC rulings and subsequent renegotiated natural gas contracts stopped the pass-through of production taxes and so, today, almost all natural gas producers and royalty owners are paying both the county ad valorem tax and the severance tax. With an ad valorem tax ranging from a low of 12%, plus a 7% severance tax, and a school finance mill levy of 29 mills, you have a production tax in the range of 21% on seventy percent of the natural gas produced in Kansas. This natural gas, produced in counties found in the Hugoton field in Kansas with a 21% tax, is the same natural gas produced in Oklahoma from the same field and taxed at 7%.

Despite the school finance legislation, there is a strong argument for reducing the severance tax on natural gas to at least the equivalent on crude oil--4.33%. The arguments and fairness standards used in 1983 when the tax was passed, regardless of the rate, no longer apply. We urge this legislature to take action to reduce the rate during this session.

Donald P. Schnacke

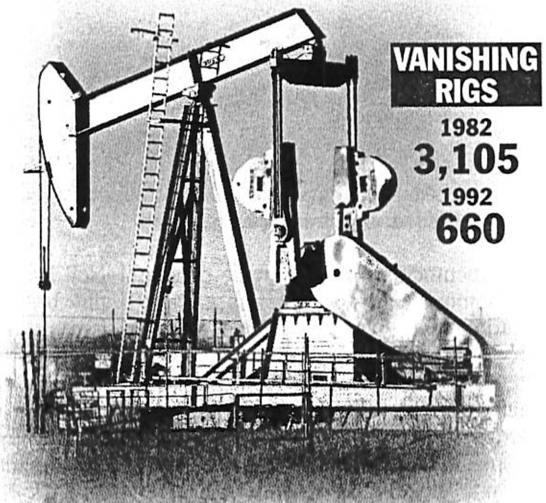


HARD TIMES

The Great Energy Bust

More than any previous recession in the U.S. oil and gas industry, this one smells dangerously permanent

By RICHARD WOODBURY
MIDLAND



Along Highway 80 in West Texas between Midland and Odessa, giant drilling rigs sit rusting in the winter sun. Gas wells that dot the bleak mesquite-covered prairie lie shut down. Downtown Midland has the stark look of an evacuated city, with empty storefronts and vacant building lobbies.

The scene across America's oil patch these days bears a chilling likeness to the bust that befell the region in the mid-1980s, when energy-production jobs plunged more than one-third. But in fact the situation today is worse. While many parts of the U.S. economy are struggling through the recession, few are as hard hit as energy. By every measure, these are among the toughest times since that first gusher at Spindletop in 1901—more akin to the Great Depression than the cyclical booms-and-busts since.

Across the South and West, drilling activity for crude oil is at its lowest point in 52 years. The rig count, the best gauge of life in the oil patch, hovered last week near an all-time low of 660. Production from existing fields has shrunk to its lowest since 1962. Scores of drillers, producers and support firms are laying off, folding up or going bankrupt. Warns Denise Bode, president of the International Petroleum Association of America: "The industry is nearing a state of economic collapse."

More distressing, this latest downturn gives every indication of being permanent. Faced with languishing prices, lower profit margins and tight environmental hurdles to new exploration, the major oil companies are selling off their properties, packing up their drilling gear and heading overseas. Ten billion dollars in assets are on the block as exploration and production head for Africa, South America and the Far East, where drilling costs can be cheaper by half and government sweeteners make new ventures enticing. As the majors lay off workers and leave, those independent companies that can are following. Others are closing up shop or retrenching. Asserts energy scholar Daniel Yergin: "We're seeing a fundamental contraction on the domestic side along with one of the greatest migrations in the history of the oil industry."

Unlike the bust of the mid-'80s, which was marked by nose-diving crude-oil prices, the immediate problem this time is natural gas. Often extracted from the same formations as oil, gas accounts for 24% of the nation's energy consumption, mainly in heavy industry. Producer prices at the wellhead have been in a free fall for months, plummeting last month to $1 per 1,000 cu. ft., down 23% from a year ago. At that price, producers say they can barely turn a profit, and many who can still afford to operate are shutting their supplies in the ground in hopes of an eventual upturn.

Campaigning in the oil patch last week, President Bush responded to the plight—and political anger—of natural-gas producers by taking steps to bolster demand. He removed regulatory barriers that have hampered utilities from converting power plants fueled by coal and oil to natural gas. At the same time, Bush lessened restrictions on the sale of compressed natural gas for cars and other vehicles. In Washington, Energy Secretary James Watkins declared, "The worst thing we could do is allow our oil and gas industries to decline the way we have."

The gas price slide has been a roundhouse punch to the big energy states of Texas, Louisiana, Oklahoma and New Mexico, still struggling to climb back from the earlier debacle. Scores of wildcatters, who find most of the domestic crude and who went after gas when the market fell apart, have folded in the past 18 months.

The impact has been just as severe in Canada, where oil and gas are a bedrock of the economy, contributing nearly 12% of the $588 billion gross domestic product. Since 1989, nearly 15% of the Canadian work force has been laid off, and major producers are shuttering refineries and closing thousands of service stations. Last year Imperial Oil, owned largely by Exxon, posted the first loss in its 111-year history. Another giant, Gulf Canada Resources Ltd., stunned the industry last month by walking away from its stake in a huge undersea oil project on the Grand

5-3

CHEAPE[illegible]S
at the pump, per gal.
1982
$1.30
1992
$1.03

Banks of Newfoundland.

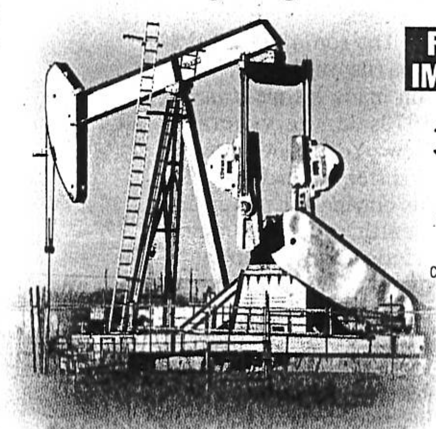
Outside the oil patch, few notice and many benefit from the price slump. Supplies of oil and gas for home heating and industry, abetted by a string of six warm winters, have remained abundant. And the price of gasoline, an average $1.03 per gal. nationwide for regular, is the lowest in months, thanks largely to OPEC and other foreign producers; they have made up the drop in domestic production by supplying 43% of U.S. oil consumption. On the other hand, the public has not benefited from the drop in natural-gas prices, as pipeline companies and distributors have gobbled up the savings before the fuel reaches households. Though prices at the wellhead have tumbled from $2.66 to $1.16 since 1984, household users in Charlotte, N.C., still pay a rate of $6.14, only 51¢ less than they did 8 years ago.

The steady rise in oil imports has alarmed many planners and industry strategists, who fear that the nation may be setting itself up for another crisis if war flares again in the Middle East. Domestic production, dropping at the rate of 300,000 bbl. a day, has declined to its lowest level in 40 years. The Congressional Office of Technology Assessment projects that by 2010 the nation could depend on imports for nearly 70% of total supply, an amount that Houston energy consultant Louis Powers estimates will take 36 supertankers a day to deliver. Warns Powers: "The mind-set is to let the Saudis give us all we need. It's a policy we will all live to regret."

In many respects, the current slump is an extension of the mid-'80s energy bust that saw prices plummet to $9 per bbl. Just as the region was attempting to diversify out of its energy dependence, the gulf crisis suddenly forced prices to $40 in 1990, spurring some drillers to crank up rigs again. But when the war ended, hopes were dashed just as quickly; prices slid back down, and the small trickle of investment money dried up.

The big concern now is the depressed market for gas, which is still the target of most drilling because its plentiful reserves are largely untapped and exploration carries tax breaks for investors. "It's a bloodbath," says gas entrepreneur and former corporate raider T. Boone Pickens. "How many more hits can the industry take?"

Faced with declining profits from U.S. oil and gas operations, such major firms as Chevron, ARCO and Phillips are putting more money into overseas exploration than they are investing at home. "You have to go where you can find the reserves and make a profit," explains Wayne Allen, president of Phillips, which has hiked foreign spending 15% since 1989 to bankroll drilling in such places as Gabon, New Guinea and Italy. All told, according to a Salomon Brothers survey, U.S. oil companies are increasing foreign investment nearly 10%. At the same time, the 21 largest firms are cutting exploration spending in this country by 13%.

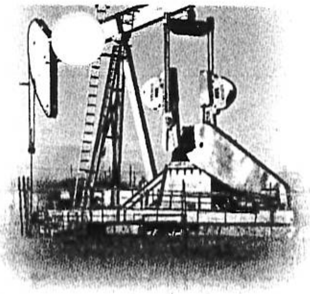


RISING IMPORTS
1982
30%
1992
43%
2010
could reach
69%

Far more troubling than price fluctuations and investment patterns is the fact that the U.S. is running out of economically recoverable oil. Known reserves that can be extracted at current market prices have been declining almost steadily for 22 years, and the current supply of 26 billion bbl. would last the nation barely four years at present usage rates. And while vast formations remain untapped, they are in environmentally sensitive areas—the Alaskan wildlife refuge and offshore California—that Congress has put off limits.

Oilmen argue that the failure to open such reserves will only speed the move overseas and increase U.S. dependence on imports. Marathon Oil Co. is pouring nearly three-fourths of its $750 million current production budget into foreign ventures. "Other countries covet our technology and the jobs we bring, and they're luring us with sweet deals," says Marathon president Victor Beghini, "while our government is turning its back."

Oil firms also complain bitterly about an array of regulations that require refineries to meet costly standards for reformulated gasoline and other clean-burning fuels. As a result, Shell, Amoco and Unocal are among big producers that plan to close or downsize facilities. Oilmen say domestic production is further threatened by proposed EPA regulations that would impose tight controls on drilling wastes and other by-products. Such rules, they warn, will force the closing of hundreds of small "stripper" wells that make up 75% of the nation's total.



FEWER JOB
1982
708,000
1992
391,000

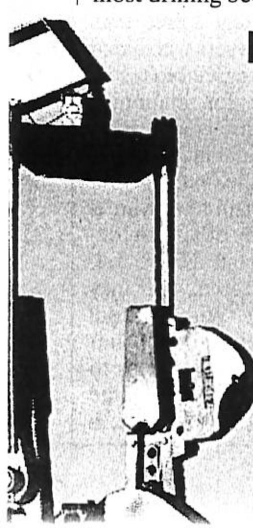
A more basic worry is that unless drilling rebounds to the 1,100-rig level and stays there, the industry's infrastructure will be so impaired that it won't be able to come back—ever—and U.S. production will slip further. Oilmen decry the lack of attention and support that they feel the industry gets—from the White House on down. "We should have a domestic energy policy, but we still don't have," asserts Pickens. Baker Hughes economist Ike Kerridge agrees: "There's a real danger in driving too many people out of business. The government ought to be concerned."

The trouble is that the oil and gas industry is one that many Americans have learned to love to hate. With the memory of Big Oil's vast profits in the 1970s and early '80s still fresh in their minds, consumers and lawmakers outside the oil patch have little sympathy for the industry's woes. But that could prove shortsighted at a time when U.S. reliance on foreign oil is rapidly on the rise.

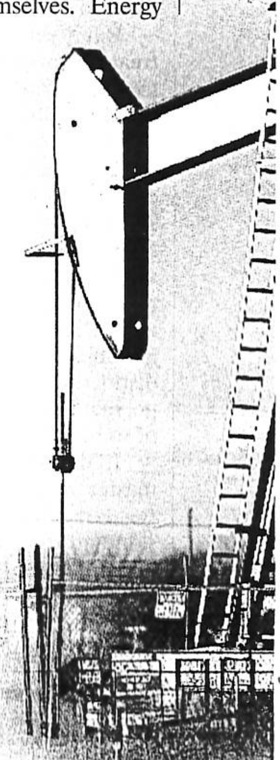
Reversing that trend will take a combined effort by Washington and consumers and the companies themselves. Energy firms should develop new technologies that will let them extract domestic oil and gas cheaply enough to make a profit even when prices are low. And motorists should be able to tolerate an oil-import fee that would raise gasoline prices a few cents a gallon at the pump; that would provide fresh incentives for domestic drilling and produce revenues to help reduce the federal deficit. Without some such policy, the U.S. could find itself paying for cheap oil and gas today with skyrocketing prices when the next energy shock hits tomorrow.

—With reporting by Courtney Tower/Ottawa

W. CODY—WESTLIGHT



SHRINKING PRICES
CRUDE OIL
per bbl.
1982
$32.75
1992
$18.55
NATURAL GAS
per thousand cubic feet
1982
$2.46
1992
$1.16



Mobil Administrative Services Company Inc.

March 16, 1992

P.O. BOX 290
DALLAS, TEXAS 75221-0290

PROPERTY TAX DEPARTMENT

STATEMENT OF

WILLIAM M. FOWLER, PROPERTY TAX SUPERVISOR

MOBIL ADMINISTRATIVE SERVICES COMPANY INC.

To the Honorable Members of the House Taxation Committee

Madam Chairperson, Ladies and Gentlemen:

The Kansas statutory Severance tax rate is 8 percent of the gross value of all oil and gas produced in the state.

A credit against the severance tax of an amount equal to 3.67 percent of the gross value of oil produced is provided in order to represent a credit allowance for ad valorem property taxes paid upon the oil, thus making the effective severance tax rate 4.33 percent of the gross value of oil produced.

However, the credit allowed against severance tax to reflect the ad valorem property tax burden on gas properties is only 1 percent, resulting in an effective severance tax rate of 7 percent of the gross value of gas produced.

The current severance tax law places an unfair burden on gas properties in the State of Kansas in that it taxes natural gas at a rate 62 percent higher (7 percent vs 4.33 percent) than that of oil.

WP031222.WMF(1)

House Taxation
Attachment 6
03-16-92

It is our understanding the rationale for this discrepancy was at the time of severance tax enactment (1983), the vast majority of natural gas produced in Kansas was priced and sold in the interstate market under FERC and NGPA guidelines, which allowed producers and royalty interest owners to recover the costs of severance and ad valorem property taxes from their gas purchasers, as a result, the producers and royalty owners ultimately did not bear the cost of severance and ad valorem taxes levied upon natural gas sold in this manner.

Therefore, the drafters of the severance tax law allowed less of a credit for ad valorem taxes against severance tax on gas produced than that of oil because of the cost reimbursement provisions on gas.

Now that virtually all natural gas produced in Kansas is sold in the spot market and not subject to gas purchaser reimbursement of severance and/or ad valorem taxes, the severance and ad valorem tax burden is now borne by gas producers and royalty owners.

According to a report prepared by Arthur D. Little, Inc., Cambridge, MA commissioned by Kansas Inc., based on 1988 data, the Hugoton Gas Area accounted for 83 percent of the state's gas production.

WP031222.WMF(2)

Mobil's Kansas oil and gas production operations are located entirely in the Hugoton Gas Area.

Ad valorem taxes as a percentage of gross production revenue averaged 6.9 percent in the Hugoton area in 1988 according to A. D. Little. This is contrasted with an average of 4.2 percent for the rest of the state.

With continuing increases in local mill levies since 1988, there is no reason to believe the ad valorem tax burden would be lower in the years post-dating 1988. In fact, with current efforts in the legislature focusing upon a statewide property tax mill levy that would dramatically raise Hugoton area schools' (most notably Hugoton, Moscow, and Rolla) tax rates, natural gas producers' and royalty owners' ad valorem tax burdens would be expected to escalate significantly.

The combined tax burden (severance plus ad valorem) in the Hugoton Field in Kansas ranges from 13 percent to 19 percent (depending upon the county where the property is located) compared to a 7 percent average for the rest of Kansas and a 7 percent rate for the Hugoton Field in the Oklahoma Panhandle (Oklahoma has no ad valorem tax on producing properties).

Under the existing tax structure, almost half of Mobil's total expenses to operate in the State of Kansas goes towards state and local taxes.

WP031222.WMF(3)

Given natural gas producers and royalty owners now bear the cost of severance and ad valorem taxes levied upon gas produced in Kansas, as well as actual average ad valorem tax costs approaching or exceeding 7 percent (rather than the 1 percent credit currently allowed against severance taxes) it seems reasonable to increase the ad valorem credit allowed against severance tax and by doing so lower the effective severance tax rate on natural gas from the current 7 percent rate.

Thank you for the opportunity to appear before your committee.

Respectively submitted,

W. M. Fowler

/lrm

W. M. Fowler

WP031222.WMF(4)

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

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

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

March 16, 1992

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Committee on Taxation

by

Bob Corkins
Director of Taxation

Madam Chairman and members of the Committee:

My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry. Thank you for the opportunity to express our members' position regarding the state severance tax rate on natural gas production.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

KCCI acknowledges the need to provide overall tax relief to this segment of our state's industry. This conclusion is substantiated in a study performed by Arthur D.

House Taxation
Attachment 7
03-16-92

Litt Inc., under contract for Kansas Inc., and KCCI endorses the recommendations outlined in that report. It verifies that Kansas' oil and gas industry, and our natural gas enterprises in particular, are placed at a severe competitive disadvantage due to this state's current tax structure.

Furthermore, efforts to establish a uniform statewide property tax levy for local school districts threaten to damage this industry to an even greater degree. KCCI supports a uniform levy of this sort. However, we anticipated its negative effects and therefore elected to support other legislation which helps counterbalance its tax burden shift to oil and gas.

For these reasons, KCCI supports a reduction in the state severance tax on natural gas. Our communications with this business sector indicate that an appropriate step would be to tax natural gas at the same severance tax rate as oil.

Though all of the industry's tax concerns would not be addressed through this measure, KCCI believes that it would be a meaningful improvement. For additional relief, KCCI also supports a reduction in the property tax assessment rate applied to oil and gas leaseholds. We will defer to the wisdom of the legislature regarding the full extent of tax relief possible for this industry at present.

KCCI stands ready to respond to any questions you may have for us on this matter. Again, thank you for the chance to submit this statement.