

Approved: 4-30-97
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION..

The meeting was called to order by Vice Chairperson Tony Powell at 9:00 a.m. on March 25, 1997 in Room 519-S of the Capitol.

Committee staff present: Chris Courtwright, Legislative Research Department
Tom Severn, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Sicilian, Department of Revenue
Ann McMorris, Committee Secretary

Conferees appearing before the committee:

Rep. Susan Wagle
Randy Allen, Kansas Association of Counties
Chris McKenzie, League of Kansas Municipalities
Rep. Vernon Correll
Roger Area, City of Parsons Economic Development Division
Jim Hough, City of Arkansas City
Shirley Sicilian, Department of Revenue
Don Schnacke, KIOGA

Others attending: See attached list

Chair Powell opened hearings on:

SB 7 - Property tax levy limitations

Proponents:

Rep. Susan Wagle (Attachment 1)

Voiced concern that a Question that will be voted on in Sedgwick County on April 1 is not clear and the voters may vote more taxes for themselves and not be aware of what their vote is accomplishing. Rep. Wagle had contacted the Revisor of Statutes and was recommending addition of language relating to charter ordinances and resolutions that would require a brief nontechnical statement expressing the intent or purpose of the proposition and the effect of a vote for and a vote against the proposition.

Moved by Rep. Johnston, seconded by Rep. Palmer, introduction of a bill to add language relating to charter ordinances and resolutions that would clarify the intent and purpose of any proposition. Motion carried.

Randy Allen, Kansas Association of Counties (Attachment 2)
Chris McKenzie, League of Kansas Municipalities (Attachment 3)

Closed hearing on **SB 7**.

Chair opened hearings on:

SB 184 - Authorization for Labette County cities to impose sales tax for economic initiative purposes

Proponents;

Rep. Vernon Correll (Attachment 4)
Roger Area, City of Parsons Economic Development Division (Attachment 5)

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, ROOM 519-S Statehouse, at 9:00 a.m. on March 25, 1997.

Jim Hough, City of Arkansas City (Attachment 6)

Written testimony only
Rep. Joe Shriver (Attachment 7)

It was noted that an amendment would be required to include Cowley County in this bill.

Closed hearing on **SB 184**.

Opened hearing on:

SB 252 - Severance tax administration

Proponents:

Shirley Sicilian, Department of Revenue (Attachment 8)
Don Schnacke, KIOGA (Attachment 9)

Closed hearing on **SB 252**.

Vice Chair announced the committee would be notified the time and place of the next meeting of the Taxation Committee.

The next meeting is scheduled for time and place to be determined, 1997.

Adjournment.

Attachments - 9

PROPOSED BILL NO. _____

By

AN ACT concerning ^{cities} counties; relating to charter ^{ordinances} resolutions;
amending K.S.A. 19-101b and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 19-101b is hereby amended to read as follows: 19-101b. (a) Any county, by charter resolution, may elect in the manner prescribed in this section that the whole or any part of any act of the legislature applying to such county other than those acts concerned with those limitations, restrictions or prohibitions set forth in subsection (a) of K.S.A. 19-101a, and amendments thereto, shall not apply to such county.

(b) A charter resolution is a resolution which exempts a county from the whole or any part of an act of the legislature and which may provide substitute and additional provisions on the same subject. Such charter resolution shall be so titled, shall designate specifically the act of the legislature or part thereof made inapplicable to such county by the passage of the resolution and shall contain any substitute and additional provisions. Such charter resolution shall require the unanimous vote of all board members unless the board determines prior to passage it is to be submitted to a referendum in the manner hereinafter provided, in which event such resolution shall require a 2/3 vote of the board. In counties with five or seven county commissioners, such charter resolution shall require a 2/3 vote of all board members unless the board determines prior to passage it is to be submitted to a referendum in the manner hereinafter provided, in which event such resolution shall require a majority vote of the board. Every charter resolution shall be published once each week for two consecutive weeks in the official county newspaper. A charter resolution shall take effect 60 days after final

publication unless it is submitted to a referendum in which event it shall take effect when approved by a majority of the electors voting thereon.

(c) If within 60 days of the final publication of a charter resolution, a petition signed by a number of electors of a county equal to not less than 2% of the number of electors who voted at the last preceding November general election or 100 electors, whichever is the greater, shall be filed in the office of the county election officer demanding that such resolution be submitted to a vote of the electors, it shall not take effect until submitted to a referendum and approved by the electors. An election if called, shall be called within 30 days and held within 90 days after the filing of the petition. The board, by resolution, shall call the election and fix the date. Such resolution shall be published once each week for three consecutive weeks in the official county newspaper, and the election shall be conducted in the same manner as are elections for officers of such county. The proposition shall be: "Shall charter resolution No. _____, entitled (title of resolution) take effect?" Following the proposition, a brief nontechnical statement expressing the intent or purpose of the charter resolution and the effect of a vote for and a vote against the charter resolution shall be printed on the ballot. The board may submit any charter resolution to a referendum without petition in the same manner as charter resolutions are submitted upon petition, except elections shall be called within 30 days and held within 90 days after the first publication of the charter resolution. Each charter resolution which becomes effective shall be recorded by the county election officer in a book maintained for that purpose with a statement of the manner of adoption, and a certified copy shall be filed with the secretary of state, who shall keep an index of the same.

(d) Each charter resolution passed shall control and prevail over any prior or subsequent act of the board and may be repealed or amended only by charter resolution or by an act of the

legislature uniformly applicable to all counties.

New Sec. 2. In addition to the requirements provided by section 5 of article 12 of the Kansas Constitution, whenever a charter ordinance is submitted for approval to the qualified electors of a city, there shall be printed on the ballot following the proposition, a brief nontechnical statement expressing the intent or purpose of the proposition and the effect of a vote for and a vote against the proposition.

Sec. 3. K.S.A. 19-101b is hereby repealed.

Sec. 4. This act shall take effect and be in force from and after its publication in the statute book.

QUESTION SUBMITTED

SHALL THE FOLLOWING BE ADOPTED?

**Shall Charter Resolution No. 51, entitled, A
CHARTER RESOLUTION OF SEDGWICK COUNTY,
KANSAS MODIFYING K.S.A. 1995 SUPP. 79-5028
PURSUANT TO K.S.A. 1995 SUPP. 79-5036(b),
take effect?**

| | | |
|--|------------|--------------------------|
| | YES | <input type="checkbox"/> |
| | NO | <input type="checkbox"/> |



"Service to County Government"

TESTIMONY

Concerning Senate Bill No. 7
House Taxation Committee

Presented by Randy Allen,
Executive Director, Kansas Association of Counties

March 25, 1997

Thank you, Chairman Kline, for the opportunity to provide comments on Senate Bill No. 7 on behalf of the Kansas Association of Counties.

The Kansas Association of Counties supports enactment on Senate Bill No. 7. The bill would have the following major impacts on counties:

- 1) SB 7 would extend the aggregate tax lid limitation for an additional four years, to July 1, 2001;
- 2) SB 7 would recognize an emerging shared priority of the State, county, and city governments in developing an integrated statewide criminal justice information system and thereby exempt local costs incurred by counties and cities in linking with the new system; and
- 3) SB 7 would abolish various individual fund levy limitations on counties which have been in statute for many years, but which have been temporarily suspended in recent years with imposition of the aggregate tax lid.

The membership of our association unanimously endorsed this proposed legislation at our annual meeting in November, 1996, despite ongoing reservations about the need for and the purpose of the aggregate tax lid. Our Association has long advocated placement of ultimate and total control of County property tax and spending decisions in the hands of those who are most directly accountable to County constituents – i.e. the boards of county commissioners. Despite our continued opposition to the aggregate tax lid, the Association views the impact of individual fund levy limits (currently suspended pursuant to K.S.A. 79-5022) as even more onerous than the aggregate tax lid and therefore supports this legislation.

Over the years, the number of statutorily authorized funds for county governments has proliferated. Currently, counties can conceivably levy taxes in 123 separate funds. Many of these funds, including the counties' general funds, have associated levy limits (expressed in mills). With the advent of the aggregate tax lid following statewide reappraisal, the individual fund levy limitations were suspended. In their place remained the aggregate tax lid, which limits dollars levied for purposes not exempt from the tax lid to those levied in 1988, with increased taxes possible based only on 1) new improvements on real estate; 2) added personal property; or 3) the use of a home rule charter resolution adopted by a board of county commissioners and subject to protest petition and election.

As shown in the supporting exhibits (attached), 33 counties have now acted to exempt taxes levied for all County purposes from the aggregate tax lid while an additional 19 counties have taken action to exempt taxes levied for certain purposes from the aggregate tax lid. Counties with partial exemptions chartered from the tax lid are largely concentrated in road/bridge; public safety; and emergency medical service expenditures.

In the absence of individual fund levy limitations over the past few years, counties' budgeting and accounting practices have been streamlined with increasing evidence of fund consolidation and appropriations collapsed into fewer funds, including (for example) a

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general fund, perhaps a road/bridge fund, and usually a debt service fund. This consolidation activity has been encouraged by the State's Division of Accounts and Reports, but it has made sense anyway as County spending and taxing priorities have been increasingly viewed as an integrated decision package rather than as a set of separate decisions as was often the case with many separate fund levies – each with their own statutory authority. In counties in which funds have been consolidated, county commissioners now have much greater flexibility to reallocate and transfer funds when the need arises.

As long as the individual fund levy limits are contained in statute, there remains the possibility that their reimposition could occur and wreak havoc on the budgeting and accounting improvements of county governments over the past few years. For example, K.S.A. 79-1946, now suspended, would if reactivated limit the mill levies in county general funds on the basis of their assessed valuation or population, as shown below:

| <u>Counties with:</u> | <u>General Fund levies limited to:</u> |
|---|--|
| Less than \$13 million assessed valuation or with a population of less than 3,500 | 6.50 mills |
| \$13 - \$30 million valuation | 4.25 mills |
| Over \$30 million to \$140 million valuation | 3.50 mills |
| Over \$140 million valuation | 4.25 mills |

To illustrate the potential impact of reimposing the individual fund levy limits, you can merely compare the actual 1996 general fund levies imposed by a sampling of counties, compared to each county's general fund limitation under K.S.A. 79-1946, if it were currently in effect:

| <u>County</u> | <u>General Fund 1996 Levy Rate expressed in mills</u> | <u>Maximum Mills Levied under K.S.A. 79-1946</u> | <u># of 1996 Levy Funds</u> |
|---------------|---|--|-----------------------------|
| Butler | 18.345 | 4.25 | 9 |
| Cowley | 4.289 | 4.25 | 18 |
| Edwards | 24.351 | 3.50 | 6 |
| Johnson | 8.846 | 4.25 | 10 |
| Pottawatomie | 23.695 | 4.25 | 4 |
| Shawnee | 30.889 | 4.25 | 2 |
| Wyandotte | 11.525 | 4.25 | 20 |

All of the counties cited above have general fund levies, expressed in mills, which exceed the maximum rate under the statute which is currently suspended. By returning to the old, individual fund levy limits, counties would regress by a necessity to reinstitute individual funds. This would set back the clock on modernizing and streamlining county budgeting and accounting practices when the taxpayers' greatest concern is the aggregate tax levies and their impact on individual property taxes, rather than on individual fund levies which are part of the total tax levies.

In summary, the Kansas Association of Counties urges your support of Senate Bill No. 7 because it improves the long-term ability of county officials to raise and spend property taxes according to the needs of their respective counties. I would be happy to respond to questions.

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KANSAS COUNTIES TOTALLY EXEMPT FROM AGGREGATE TAX LID

1. Anderson
2. Butler
3. Chautauqua
4. Edwards
5. Finney
6. Franklin
7. Gove
8. Grant
9. Gray
10. Greeley
11. Hodgeman
12. Jewell
13. Johnson
14. Kearny
15. Kiowa
16. Labette
17. Logan
18. Osborne
19. Pawnee
20. Pottawatomie
21. Republic
22. Rooks
23. Rush
24. Russell
25. Scott
26. Sheridan
27. Smith
28. Stevens
29. Sumner
30. Wabaunsee
31. Wichita
32. Wilson
33. Woodson

KANSAS COUNTIES PARTIALLY EXEMPT FROM AGGREGATE TAX LID

1. Atchison (Law Enforcement; Road and Bridge)
2. Barton (Ambulance)
3. Clay (Historical Society; Road and Bridge)
4. Ellsworth (Roads)
5. Hamilton (Road and Bridge; Appraisal; Capital Outlay)
6. Jefferson (Law Enforcement; Ambulance)
7. Kingman (General Fund)
8. Lincoln (Road and Bridge)
9. Marion (Ambulance; Sheriff)
10. Miami (Emergency Medical Service; Reappraisal; Sheriff)
11. Mitchell (Ambulance; Elderly; Extension Council)
12. Nemaha (Law Enforcement; Solid Waste)
13. Ottawa (Ambulance)
14. Pratt (Ambulance)
15. Rice (Historical Records)
16. Riley (Riley County Police Department)
17. Sherman (Roads)
18. Stafford (Ambulance; Elderly Services)
19. Trego (Road and Bridge)

2-3

~~2-2~~



**League
of Kansas
Municipalities**

LEGISLATIVE TESTIMONY

PUBLISHERS OF KANSAS GOVERNMENT JOURNAL 300 S.W. 8TH TOPEKA, KS 66603-3896 (913) 354-9565 FAX (913) 354-4186

TO: House Taxation Committee
FROM: Chris McKenzie, Executive Director
DATE: March 25, 1997
SUBJECT: SB 7--Tax Lid Legislation

Thank you for the opportunity to appear today on behalf of the 529 member cities of the League of Kansas Municipalities in general support of SB 7. This past interim the League worked with the Special Committee on Property Taxation on the question of future policy directions concerning property tax lids, and we recommended the legislation that has been drafted as SB 7. SB 7 will do two basic things:

- ① SB 7 would repeal most of the individual fund levy rate limits applicable to counties, cities and townships which were suspended by the legislature in 1989 and which have grown obsolete since that time as local financial systems have been restructured in accordance with modern municipal accounting practices. This is desirable public policy and is long overdue.
- ② SB 7 would extend the provisions of the aggregate tax lid law, K.S.A. 79-5021 *et seq.*, an additional four (4) years. It also would add one very narrow exemption, found in lines 42 - 43 of page 31, for "*(h) expenses incurred by any taxing subdivision necessary to interface with the state criminal justice information system.*" As you may know, the plans being laid now by the KBI, Koch Crime Commission, and other agencies to substantially enhance the criminal justice information system will take comparable local investments in order to have a truly integrated and well-functioning Kansas criminal justice information system. This exemption would allow cities and counties that have reached their aggregate tax lid to make criminal justice system expenditures which are compatible with state enhancements. As we all know, a new state criminal justice information system without a quality local system will be less effective.

The League came to the position of supporting this measure with great difficulty because of our long-standing opposition to tax lids of all kinds. In the final analysis, however, we felt our support is necessary and appropriate because it will eliminate some truly obsolete fund levy rate limits in the short run at the price of a four year extension in the aggregate lid.

RECOMMENDATION: We urge you to support SB 7, as amended. Thank you.

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VERNON W. CORRELL
REPRESENTATIVE, SEVENTH DISTRICT
LABETTE COUNTY
PO BOX 214
OSWEGO, KS 67356



TOPEKA

HOUSE OF
REPRESENTATIVES

TESTIMONY
on
SB 184

COMMITTEE ASSIGNMENTS
RANKING MINORITY MEMBER: FINANCIAL INSTITUTIONS
& INSURANCE
MEMBER: AGRICULTURE
TRANSPORTATION
SPECIAL CLAIMS AGAINST
THE STATE

TO THE HOUSE TAXATION COMMITTEE:

Thank you Mr. Chairman and Committee Members!

I'm here in support of SB 184, which would add Labette County to a list of Counties including Ellis, Ellsworth, Montgomery, Riley and Pottawatomie, which have the authority to place before the voters of any city in the county for their approval to collect additional retail sale tax under K.S.A. 12-187(f).

The city of Parsons, which has the prospect of a manufacture, employing some 400 workers, needs this authority to give them the opportunity to help themselves.

I believe this is one means of letting a city regulate their own tax burden in order to build a better community to live in.

Thank you and I would stand for questions but there are other persons here from the city of Parsons who like to speak and might have additional information and I would defer any questions you might have to them.

Vernon W. Correll
State Representative
District #7

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3-25-97
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P. O. Box 1037
112 South Seventeenth Street
Parsons, KS 67357-1037

CITY OF PARSONS

316-421-7030 Phone
316-421-7089 Fax

March 24, 1997

Representative Phill Kline
Senate Assessment & Taxation Committee
Kansas State Capitol
Topeka, KS 66612

Representative Kline:

The City of Parsons is requesting the State Legislature for authority to increase the retailers' sales tax by ½ cent. Parsons is presently at the maximum 1% local sales tax. The tax increase would be designated for economic development purposes.

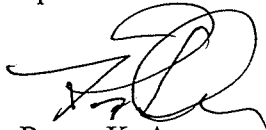
Parsons has two ½ cent sales issues in effect at present. A ½ cent issue passed last year to reduce property taxes. The other ½ cent issue passed in 1994 for capital improvements for streets, parks and recreation improvements, and economic development.

Labette County has been one of the most depressed counties in the State for several years. We have had high unemployment due to loss of the MKT Railroad, and the phasing down of the Kansas Army Ammo Plant. In the past few years the City has worked very hard to rebuild the economic base. We have had some limited success and have depleted or obligated all of our economic development resources.

The City needs the flexibility to offer substantial incentive packages to our local industry or new industry to secure new jobs.

The Parsons City Commission took formal action on February 3rd to request to State legislature to allow the sales tax increase. We understand this legislation would allow all cities in Labette County to participate in the sales tax increase. We also understand that the citizens of Parsons would have to approve the tax increase at a referendum.

We appreciate the opportunity to present this information to you and look forward to an open discussion on the tax increase proposal.



Roger K. Area
Economic Development Division, City of Parsons, Kansas

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HISTORY

The City of Parsons, located in Southeast Kansas is in an area that has historically struggled in the area of economic development. We have a very high rate of public assistance and a lower than average median income, as well as high unemployment. The per capita property valuation rank in 1994 was 102nd and the use of welfare-general assistance rank is 101st in the State. In short, we are in a depressed area.

This enabling legislation is requested because a need exists for the flexibility to levy an additional one-half cent sales tax. This need arises to be able to accomplish a goal of increasing the job opportunities for the citizens of Parsons and the surrounding area.

Like the legislature, Parsons is concerned with the property tax impact on our citizens. Therefore the governing body presented to the citizens for vote the use of a one-half cent sales tax for five years for property tax reduction. The tax passed 63% yes; 37% no. This is an astounding majority. This had a 16 mill property tax reduction impact on the citizens of Parsons.

Since the citizens had previously passed a one-half cent sales tax for three years dedicated for streets 25%; parks and recreation 25%; and economic development 50%, the City is at the maximum currently allowed by statute. As you are well aware, all sales tax issues at the local level must be submitted to the voters for passage. It is the choice of the citizens of Parsons to pay for services, economic development, and infrastructure with the use of sales tax.

Parsons had decided to do something about changing our status in the state. The opportunity to change that status appears to be now. 360 new jobs have been created in the City of Parsons in the last year through new business, and the expansion of existing businesses. The City has actively and aggressively pursued employment opportunities for its citizens. The private sector has committed \$8.2 million dollars in new and expanded facilities in the last year. This expansion has not been a single company, but a diversity of manufacturing firms.

In economic development the difference between success and failure is the ability to act in a relative short period of time. Flexibility has been a vital part of the success of the last year. In order to maintain that flexibility, help is required from the elected officials of this state by passing the legislation that would give the City of Parsons the flexibility to put before the voters an additional one-half cent sales tax, when and if the need arises.

The City of Parsons knows it is vital to have enabling legislation for the authority to put before the voters the additional ½ cent increase for the retailers sales tax for Economic Development.

I cannot stress how vital economic development is to Southeast Kansas. This legislation gives the citizens the opportunity to be in charge of their own fate. It does not ask the State legislature to pick up the price tag for them. Give our citizens the opportunity to make their own choice on economic development.

March 25, 1997

TESTIMONY NOTES FOR SB 184

I bring you greetings from Mayor Kindred, the City Commissioners of Arkansas City and the City Manager, Curtis Freeland.

Since 1990 Cowley County has lost 1,200 jobs. (Rodeo Meatpacking Plant and Total Refinery)

Between today and December 31st, Cowley County will loose approximately 800 more jobs. (Binney and Smith and Winfield State Hospital)

Since the 1990 Census the County has declined slightly in population due to unemployed people moving to where the jobs were. Many others commute approximately 1 hour to Wichita or to Ponca City, Oklahoma to jobs there.

Cowley County is unique in that there are two significant sized cities in the county, with a high quality Airport/Industrial Park in between. Winfield and Arkansas City together have two-thirds of the County population with the rest living in the County or in the four smaller cities in the County.

In the last two years, since realizing that there were to be a great many jobs lost, a significant number of large companies seriously took a look at Cowley to do business. In each case when we got to serious discussion we needed to be able to offer incentive packages to lure the jobs to the County. The going rate these days is about \$15,000 for each job but in each case we could not make an offer. (I should note that even the State needs incentive to consider locating State entities in the County; and we are in the process of providing that.)

There is a county-wide effort underway to create a county economic development agency. Funding is planned for operations-only, at this time.

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What this bill is seeking to do is to authorize Cowley County and Labette County to be able to put the economic development sales tax onto the ballot for the residents of the County to decide whether or not to impose.

Please give our counties the ability to consider economic development sufficiently to attract jobs to our counties.

A handwritten signature in black ink, appearing to read "Jim Hough", written over a circular stamp or mark.

Jim Hough

Assistant to the City Manager

City of Arkansas City

JOE SHRIVER

REPRESENTATIVE, 79TH DISTRICT
COWLEY COUNTY
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TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS

RANKING MINORITY MEMBER
FISCAL OVERSIGHT

MEMBER
JUDICIARY
TAXATION
TOURISM
ADMINISTRATIVE RULES
AND REGULATIONS

March 25, 1997

TO: Chairman Phill Kline and
Members of the House Tax Committee

FROM: Representative Joe Shriver *J.S.*

I wish to file this written testimony for SB 184.

SB 184, by Senate Assessment and Taxation, would allow cities in Labette County to assess an additional .25, .50 or .75 percent up to five years, for economic development or strategic planning initiatives, or for public infrastructure projects including buildings.

I have been working with Senator Umbarger and Representative Correll on this measure and with their blessing, offered SB 184 with the addition of Cowley county on the House Floor to HB 2107. The House amendment received strong bi-partisan support in the House. The House bill although seems to have stalled in the Senate due to the number of amendments added on.

It is no secret that Cowley County is suffering hard economic times and myself, along with other government leaders, are preparing for lean times as property tax relief enjoyed by most Kansans is but a safety net as Cowley County tax base declines due to the loss of industry, machinery and equipment and jobs.

I have asked Representative Larkin and Representative Reardon to assist me in offering the same amendment I offered on the Floor to include Cowley County to SB 184.

Proposed Amendment: Line 36 of the bill -
Class D cities. All cities in the State of Kansas located in
Cowley, Ellis, Ellsworth, Labette or Montgomery Counties....

I thank you for your consideration and look forward to returning to the Tax Committee upon Representative Dean's return.

Thank you.

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Shirley K. Sicilian, Director
Office of Policy & Research
Kansas Department of Revenue
915 SW Harrison St.
Topeka, KS 66612-1588



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Office of Policy & Research
MEMORANDUM

TO: Chairman Phill Kline
House Taxation Committee

FROM: Shirley Klenda Sicilian

RE: Senate bill 252 - Definition of "gross value" for gas which is not sold at well head

DATE: March 25, 1997

Chairman Kline and members of the House Taxation Committee, thank you for the opportunity to testify on Senate bill 252. This bill would change the statutory determination of "gross value" in K.S.A. 79-4216(d) for gas which is neither sold nor stored at the time of removal.

K.S.A. 79-4217(a), states that a tax is imposed at the rate of "8% of the gross value...". K.S.A. 79-4216(d) defines "gross value" as "the sale price of...gas at the time of removal...from the lease or production unit...". If "...no sale occurs at the time of removal...then the director shall determine the value of the oil or gas subject to tax, based on the cash price paid to producers for like quality oil or gas in the vicinity of the lease or production unit ...". However, 79-4216(d) goes on to state that "notwithstanding the foregoing, if no sale of gas occurs at the time of removal and such gas is not stored, then the gross value of gas for the purpose of taxation under this act shall be the price for which such gas is sold at the time of sale...".

When this "notwithstanding" provision was originally drafted, the first sale price was certainly a reasonable proxy for the value of gas at well-head. Most first sales did occur at well-head and those that didn't would likely occur within a physically short distance. The market for sale of gas was a local market. But today's market is a national market. The first sale of gas by a producer can occur far from well-head and may be bundled with transportation charges. The department is concerned that this price, potentially laden with transportation charges and absent the value of unprocessed components, is no longer a good proxy for well-head value. Its current application may not meet the legislative intent of the statute. Therefore, we propose this language be stricken.

If this "notwithstanding" language is stricken, the value of such gas would be determined in the same manner as the statute requires for any other type of gas which is not sold at well-head. Currently, K.S.A. 79-4216(d) would require "...the director...determine the value...based on the cash price paid to producers for like quality oil or gas in the vicinity of the lease or production unit at the time of the removal of the oil or gas...". As fewer well-head sales occur, this "backup"

provision of using an average field price also becomes less reliable. Therefore, the department proposes the statute allow for an additional alternative method "based on the cash price paid to one or more of the producers for the oil or gas." Importantly, this proposed language is neutral on the issue of whether components of natural gas are to be included in the valuation.

If these provisions are adopted, the department would need to draft regulations which specify in detail how the statute is to be applied. Our proposed statutory language would allow for regulations which would determine value based on the price paid to royalty holders.

The other recommended changes would reference mineral tax as one of those taxes which is appealed through the department appeals process.

We believe the proposal would bring the statute back in line with its original intent and do so in a way that is neutral on the issue of whether components of natural gas are to be included in the valuation.

SEVEN
YEAR

KIOGA

KANSAS INDEPENDENT OIL & GAS ASSOCIATION

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Statement of Donald P. Schnacke
Before the House Taxation Committee
March 25, 1997

RE: SB 252 Severance Tax Collection

KIOGA appears in support of the passage of SB 252. Shirley Sicillin, of the Department of Revenue, met with a group of producers in Wichita, January 17, 1997, at our request, to explain what the problem was and to explore solutions. We greatly appreciated having the opportunity to meet on this subject and be able to discuss the issue and a solution before a bill was drafted and submitted to the Legislature. We appreciate this cooperation by the Department.

In addition to the proposed amendment, we have been assured by the Department that rules and regulations would follow that would protect existing producers and contracts. We furnished copies of contracts pointing out the relationship between producers and purchasers of natural gas.

As long as the severance tax is in existence, our industry undoubtedly will be plagued with continuing issues of administration and reporting. We look forward to the day when this very regressive tax is repealed.

House Taxation
3-25-97
Attachment 9-1