

Approved: 2-11-99
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT .

The meeting was called to order by Chairperson Bill Mason at 3:30 p.m. on February 2, 1999 in Room 522-S of the Capitol.

All members were present except: Representative Larry Campbell-E
Representative Mary Compton-E
Representative Broderick Henderson-E
Representative Lloyd Stone-E
Representative Jerry Aday-E

Committee staff present: April Holman, Legislative Research Department
Lynne Holt, Legislative Research Department
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee: Donald P. Schnacke, Kansas Independent Oil & Gas Ass'n

Others attending: See Attached

April Holman, Legislative Research Department briefed the committee on HCR 5002. This bill would amend article 11, Section 13 of the Kansas Constitution, which deals with property tax exemptions for economic development. HCR 5002 would add property used in conjunction with the development, exploration and production of oil and gas to the list of purposes for which an EDX may be granted. This resolution was recommended by the Special Committee on Assessment and Taxation who held hearings on this topic last August and September.

Chairman Mason called the committees attention to written testimony presented by: Trego County Commissioners (Attachment 1) and Judy A. Moler, Legislative Services Director/General Counsel, KS Association of Counties (Attachment 2).

Don Schnacke, Kansas Independent Oil & Gas Association, appeared in support of a proposed constitutional amendment to exempt oil and gas properties from property taxation for exploration and production activity (Attachment 3).

Chairman Mason reiterated that the bill just gives the counties the option of granting tax exemptions. Mr. Schnacke clarified that this is strictly an option for counties, under their authority and has no impact on state revenues. He explained opportunities for the producers and counties through exemptions from the ad valorem taxes.

Discussion followed regarding other committees to which the bill has been presented and the pro and cons of carbon dioxide usage for removing oil from the reserves.

Representative Findley asked if the bill was put on the fast track if it could be included on the ballot for the April election? Staff responded that they would research that possibility. Mr. Schnacke added that they had previously had a constitutional amendment that reduced the ad valorem taxes from 30% to 25% and it was passed very liberally by the people of Kansas.

Chairman Mason closed the hearing on HCR 5002. Representative Stone moved the HCR 5002 be passed out favorably. Representative Kuether seconded. Discussion followed regarding the resolution being placed on the earliest possible election ballot. Representative Stone withdrew his motion, seconded by Representative Kuether. Representative Geringer moved that HCR 5002 be passed out favorably with the amendment that it be placed on the earliest possible general election ballot. Representative Osborne seconded. The motion passed.

The next meeting is February 8. The Chairman adjourned the meeting at 3:55 p.m.

February 1, 1999

To: House Committee on Economic Development

From: Trego County Commissioners

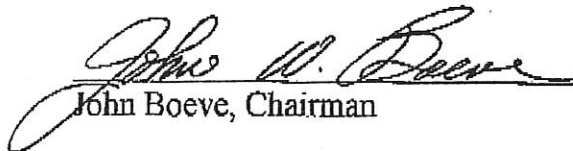
Re: ACR 5002

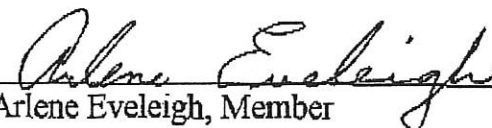
Dear Chairman and Committee Members:

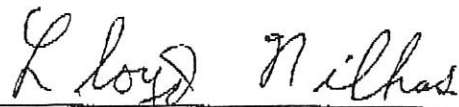
The concept behind HCR 5002 originated in Trego county when a past commissioner recognized the need to promote oil exploration as a form of economic development. Many changes have occurred since then that makes it more than just economic development. The oil industry in Kansas is a major part of non agriculture business in the state, but the welfare of the oil industry is being threatened because of the low prices for oil. This legislation will provide assistance to the industry by promoting growth and development, without the extra burden of additional taxes. While this legislation has no affect on existing wells, it can have a major impact on future wells.

We would like to pledge our continued support for this legislation and for the oil industry and ask you to pass this bill. Your support can make a big difference to the future of oil and gas exploration in Kansas. Thank you in advance.

The Board of County Commissioners of Trego County


John Boeve, Chairman


Arlene Eveleigh, Member


Lloyd Nihlas, Member

Economic Development
2-2-99
Attachment 1



KANSAS
ASSOCIATION OF
COUNTIES

TESTIMONY
Concerning House Concurrent Resolution 5002

Presented by Judy A. Moler, Legislative Services Director/General Counsel
Kansas Association of Counties
House Committee on Economic Development
February 2, 1999

Chairman Mason and members of the committee, the Kansas Association of Counties is in support of this proposed constitutional amendment which would give boards of county commissioners the **discretion** to exempt from taxation certain property used for oil and gas development, exploration and production purposes.

In some of our counties which have not experienced such a strong economic recovery as others, the capacity for county commissioners to encourage economic development in this way is certainly appealing. This is not a "one size fits all" solution; rather, it clearly recognizes that our 105 counties' economies are all somewhat different. Trego and Wichita counties have demonstrated their interest in granting such exemptions and would surely consider such an action should the Constitution be amended to allow such a policy decision to be made at the local level.

There is **no mandate** on county government associated with this proposal. The board of county commissioners in each county could decide whether such an exemption makes sense to them. The Kansas Association of Counties urges your favorable consideration of this proposed constitutional amendment.

The Kansas Association of Counties, an instrumentality of member counties under K.S.A. 19-2690, provides legislative representation, educational and technical services and a wide range of informational services to its member counties. Inquiries concerning this testimony should be directed to the KAC by calling (785) 233-2271.

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Economic Development
2-2-99
Attachment 2



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

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Before the House Committee on Economic Development
February 2, 1999

*RE: Constitutional Amendment to Exempt Oil & Gas Properties from Property Tax for
Exploration & Production Activity - HCR 5002*

I am Don Schnacke representing the Kansas Independent Oil & Gas Association, a 62 year old association representing independent oil and gas operators throughout Kansas and the supporting industry. We are appearing here in support of a proposed constitutional amendment to exempt oil and gas properties from property taxation for exploration and production activity. This was carried last session as HCR 5004, and passed the House on a vote of 111 to 11. There was a hearing this Summer and the Special Interim Committee has recommended its passage.

This proposal is a rural county economic development measure that would stimulate increased drilling and production and does not remove existing property from the tax rolls. We are pleased the Kansas Association of Counties supports this proposal.

KIOGA is doing all it can to stimulate increased activity and investment in Kansas oil and gas field activity. Since 1986 when oil prices collapsed and nearly 20,000 Kansans were put out of work, we have attempted to bring about tax reform for our industry in Kansas. The further collapse of oil prices in 1998 have stimulated action by this legislature. Governor Graves stated in his most recent legislative message, "The Kansas oil industry has been devastated" - He stated you need to do what you can to help!

One important area we have explored is the use of the ad valorem tax exemption authority arising from Section 13, Article 11 of the Kansas Constitution. Two Kansas counties, Trego and Wichita, have offered oil producers modest tax relief if they would expend money, drill for oil and gas, and develop new production. After Wichita County and a Kansas producer entered into an agreement, the State Board of Tax Appeals rejected the application.

BOTA rejected the application because the terms and facts presented did not fit the language contained in the Constitution. We would agree that the constitutional provisions better fit the traditional machine shop, warehouse, manufacturing mode than that applicable to an oil and gas operation. The legislative challenge is to seek language that would allow oil and gas producers to qualify under the constitutional authority. We talked to the BOTA Chairman after their order was issued and he believed a legislative solution for clarification is the answer. He regretted turning down the Wichita County application.

Economic Development
2-2-99
Attachment 3

Before the House Committee on Economic Development

February 2, 1999

Page Two

We believe the producing counties which have very little opportunity for economic development except farming and ranching should be given the opportunity that other Kansas counties now enjoy - the opportunity to attract capital expenditure into their counties, the creation of jobs, and expansion of their ad valorem tax base by working directly with the Kansas oil and gas industry.

We conclude by requesting that this committee look favorably on this legislation and recommend that it be passed favorably.

Thank you for your consideration of our remarks.

Donald P. Schnacke