Approved: April 27, 2001
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 11:15 a.m. on April 25, 2001, in Room 245-N of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Jack Glaves, OXY USA, Inc.
Bob Krehbiel, Kansas Independent Oil & Gas Association
Ron Hein, Pioneer Natural Resources, Inc.
Ron Gaches, The Williams Companies, Inc.
Brad Smoot, American Insurance Association

Others attending: See attached list.

Consideration and possible action regarding tax policy adjustments recommended by the Senate Ways and Means Committee.

Chairman Corbin discussed the revenue enhancements the Senate Ways and Means Committee recommended on Friday, April 20, for the following areas:

- Insurance premiums taxes. Beginning in tax year 2001, the amount of salaries paid to Kansas employees allowed to be claimed as a credit against the tax would be reduced from 30 to 15 percent. An additional limitation on such credit would be changed to provide that the credit not reduce the tax by more than 1.125 percent for certain insurance companies and by more than 0.85 percent for insurance companies having affiliates.

- Motor fuels tax. A one cent per gallon motor fuels tax increase currently scheduled to take effect on July 1, 2003, would be accelerated to July 1, 2001. Statutory distribution percentages would be adjusted to allow the accelerated money to flow exclusively to the State Highway Fund (SHF) and not to the Special City and County Highway Fund for two years. The sales tax demand transfer to the SHF would be reduced in fiscal years 2002, 2003, and 2004 by the estimated amount of accelerated motor fuels tax which would be available to the SHF during that time.

- Severance tax. Severance tax collections would be accelerated to require remittances on or before the 20th day of the first month following the end of the production month (in lieu of on or before the 20th day of the second month following the end of the production month).

Chairman Corbin called attention to a table distributed by Chris Courtwright, Kansas Legislative Research Department, which indicates the amount of taxes which would be collected for each of the proposed revenue enhancements. (Attachment 1)

Jack Glaves, representing OXY USA, Inc., testified in opposition to the acceleration of severance tax payments. He emphasized that natural gas marketing has become extremely complicated with a myriad of variations. He discussed the continuing adjustments which must be made with regard to the to the original meter volume. He noted that, given these complexities, the current statutory lag between production and severance tax remittance is necessary. Without that lag in time, severance tax payments would have to be made on an estimated basis. In conclusion, Mr. Glaves maintained that accelerating collections would impede reporting accuracy and would result in a significant fiscal note for the Kansas Department of Revenue. (Attachment 2)

Bob Krehbiel, Kansas Independent Oil and Gas Association, distributed written statements from two individuals who are involved with the payment of severance tax. One statement is from Emma C. Richmond, Redwing Gas Systems Inc., who opposes accelerating the payment date for severance taxes on natural gas because she feels it is not practical to expect severance tax remitters to remit the tax to the state before they receive the revenue or have the opportunity to analyze the supporting detail. (Attachment 3) The other statement is from Charles B. Wilson, Central Crude Corporation, who opposes accelerating severance tax payments for crude oil because it is not clear what date is meant by moving the date from two months to one month and because processing estimated severance tax payments would greatly increase the workload of the first purchaser's staff and the Department of Revenue's staff. (Attachment 4) Mr. Krehbiel went on to say that he agrees with the testimony given by Mr. Glaves.

Ron Hein, representing Pioneer Natural Resources, testified in opposition to accelerating the collection of severance taxes. He maintained that acceleration of collection of severance taxes cannot possibly be done unless more people are hired to collect necessary data in a shorter period of time. He argued that the great expense that would be involved is not worth the one-time $6 million benefit to the state. He pointed out that the extra employees hired due to the accelerated payment requirement would continue to be employees afterwards, and this would create a burden for companies.

Senator Donovan stated that, as a retailer that collects and submits sales tax, it became costly when his business went on an accelerated program. He noted that prepayment of taxes causes the Department of Revenue to spend a great deal of extra time in reconciling the prepaid amounts to the real amount shown on the paperwork at the end of the month. In his opinion, accelerated tax collection is not worth the extra time and expense it involves.

Senator Goodwin pointed out that two conferees discussed the fiscal note to the state with regard to the proposed accelerated severance tax payments and asked if a fiscal note from the Division of Budget had been prepared. In response, Chairman Corbin said that a fiscal note had not been requested.

Senator Lee stated that she could not support any of the proposals and that she felt more information is needed before the Committee acts on the recommendations by the Ways and Means Committee.

Ken Peterson, representing the Kansas Petroleum Council, distributed copies of a statement from Dick Brewster, bp, who urges that the current severance tax remittance time remain undisturbed. Mr. Brewster points out in his statement that the extensive and additional accounting process resulting from accelerating the collection of the severance tax would significantly increase the cost of producing gas in Kansas and, thus, would adversely affect the ability of Kansas to remain competitive in attracting investment dollars. (Attachment 5)

Ron Gaches, representing The Williams Companies, Inc., and Colorado Interstate Gas, stood to state that the companies share the concerns expressed by Mr. Glaves in his testimony.

There being no others wishing to testify, Chairman Corbin closed the public participation in the meeting and called the Committee's attention to copies of a table based on 1999 premium tax credit figures for several insurance companies. (Attachment 6) He called attention to the last three columns of the table. He noted that the last column indicates that $8.1 million would be raised.

Brad Smoot, representing the American Insurance Association, stood to inform the Committee that he had prepared the table in connection with a floor amendment, and it is based on Legislative Post Audit reports. He explained that the list is a sample of some of the largest insurance companies which generate most of the money and noted that many other companies would be affected. He said that 238 companies took the salary credit, meaning that they had employees in Kansas. He reported that the insurance industry's preference is the third column, and there has been general acceptance of the fourth column. However, there is substantial opposition to the final column from some companies. Senator Praeger commented that the increase from $7.3 million to $8.1 million creates a pain to the industry that is not worth the dollars which would be raised.

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE at 11:15 a.m. on April 25, 2001, in Room 245-N of the Capitol.

Chairman Corbin noted that the Ways and Means Committee picked dollar amounts to be raised and picked the areas from which they wanted the dollars to come. He went on to inform the Committee that **HB 2065**, which originally pertained to sales tax exemption for grain storage facility construction materials and services, was selected to be conceptually amended with regard to the three substantive tax policy adjustments recommended by the Ways and Means Committee.

Following a discussion regarding procedural questions raised by Senator Goodwin, Chairman Corbin said he believes that the Ways and Means Committee is asking the Assessment and Taxation Committee to codify their recommended revenue enhancements. Senator Clark suggested that, before the Committee makes a decision whether or not to pass the proposed amended bill out of committee, a member of the Ways and Means Committee should be invited to a future meeting of the Assessment and Taxation Committee to fully explain the rationale of recommending the three tax policy adjustments. Senator Praeger commented that perhaps passing a bill out of committee might be premature because all of the tax proposals had not yet been explored by the Legislature.

Chairman Corbin said that, rather than forcing the issue by asking committee members to vote on something they are not comfortable with, his intent was to delay action until such time as a member from the Ways and Means Committee could come to a future meeting and explain why the recommendations were made.

The meeting was adjourned at 12:05 p.m.

The next meeting date and time is to be announced.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: April 25, 2001

NAME	REPRESENTING
GEORGE PETERSEN	Ks Taxpayers Network
Julie Hein	Hein & Weir
Marlee Carpenter	KCCI
Bob Krehbiel	KIOGA
BILL Brady	Ks Gov't Consulting
Harrie Ann Power	KAHP
STAN STATHOPOULOS	DISCUS
Phil BRADLEY	KLBA
Nancy Shaughnessy	Farmers
Bill Sneed	Am Ins Life
Roger Swarts	Kans. Ins. Dept.
Sabrina Wells	Insurance Dept
Mel Scott	Ins. Dept
Jeremy Anderson	KS Ins. Dept
Linda McCaustin	KS Ins. Dept
Chuck Stones	KS Bankers Assn
DENNIS HILDRETH	SELF
Richard Cram	KDOR
Ken Peterson	KS Petroleum Council

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: 4-25-01

NAME	REPRESENTING
Jack Glaves	[illegible] Duke-PTH + KM
Ron Gaches	Williams, El Paso, Enron
Larry Kleeman	LKM

T ta

	SGF		Total
Severance Tax Total	$6.000	$0.452	$6.452
Gas	$4.800	$0.361	$5.161
Oil	$1.200	$0.090	$1.290

	SGF	1/2 of CMPTF for K-12	
FY 2002	$6.000	$0.226	
FY 2003	---	---	
FY 2004	---	---	
FY 2005	---	---	
FY 2006	---	---	
5-yr total	$6.000	$0.226	$6.226

Ins Premiums

FY 2002	~~$8.300~~	or	$10.000
FY 2003	~~$8.383~~		$10.100
FY 2004	~~$8.467~~		$10.201
FY 2005	~~$8.551~~		$10.303
FY 2006	~~$8.637~~		$10.406
5-yr total	~~$42.338~~		$51.010

M Fuels Accelerator
SHF Demand Transfer Reduced
by Following Amounts Relative to Current Law and Assumptions
but CTP is held harmless (~~see attached memo~~)

FY 2002	$16.400
FY 2003	$18.100
FY 2004	$1.600
FY 2005	---
FY 2006	---
5-yr total	$36.100

Senate Assessment & Taxation
4-25-01
Attachment 1

STATEMENT OF OXY USA INC. ON ACCELERATION OF SEVERANCE TAX COLLECTION

BEFORE SENATE TAX COMMITTEE
APRIL 25, 2001
BY JACK GLAVES

Natural gas marketing has become extremely complicated with myriad variations.

Although K.S.A. 79-4220 places responsibility for reporting and payment on either the producer or the first purchaser, the introduction of marketing companies and distant first purchasers has negated the cookie cutter approach to where the point of sale and measurement occurs.

There is no uniformity to the process, particularly for the larger producers. The paths to market are quite varied.

The metering may occur either at the wellhead or at a point on the gathering system, or at the tailgate of the processing plant, or entry into the transmission system, or further downstream. The meters are variously owner and controlled. It all depends on varying contractual arrangements.

Some purchasers have long-term contracts. Some are monthly, and some are even daily.

After initial measurement the gas is compressed, transported by gatherers to a processing plant. The producer may or may not share in the extraction proceeds; his volume may or may not be reduced or made up depending on contractual arrangements. The volume is also reduced by compression fuel.

All of which is to say, there has to be continuing adjustments to the original meter volume which must be accounted for in calculating the proper amount to be paid to the producer, his royalty owner, and for remittance of the severance tax to the state.

The lag in the statute between production and tax remittance is required now more than ever, given these complexities. Shortening the payment and/or reporting period would result in estimated payments with on going true-ups and added audit and review procedures that would unnecessarily burden the producers and would surely result in a significant fiscal note for the Department of Revenue.

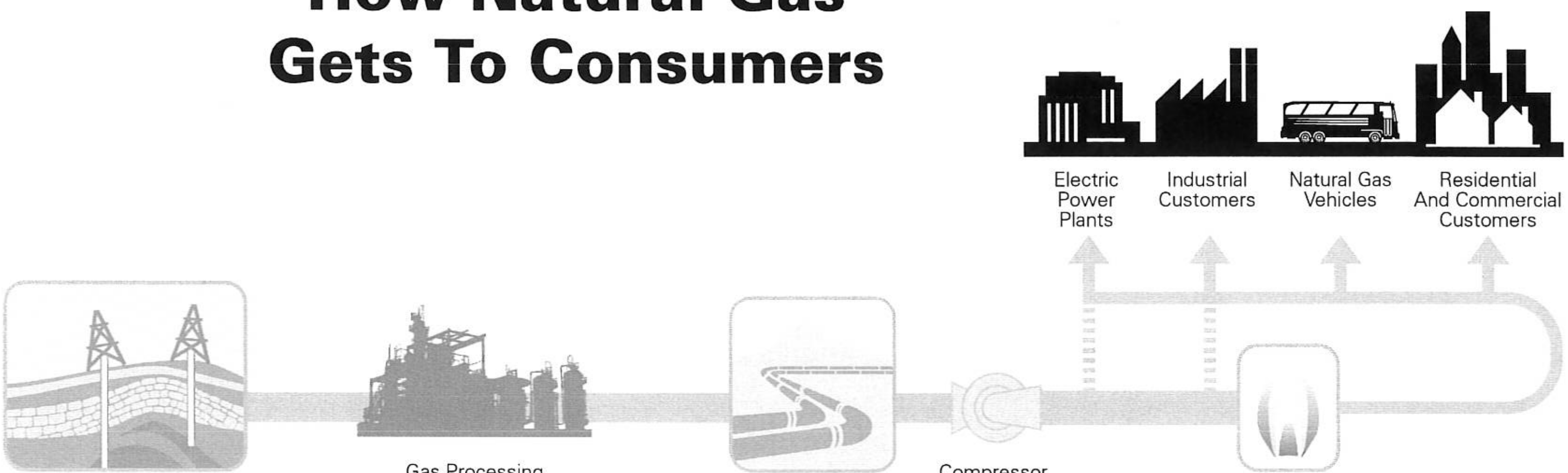
In this instance, speeding collections would impede accuracy of reporting and burdensome accounting and computation costs without ultimate benefit to the state.

Senate Assessment + Taxation
4-25-01
Attachment 2

NATURAL GAS COUNCIL

8-8

How Natural Gas Gets To Consumers



Natural gas is a naturally occurring hydrocarbon that consists mostly of methane. It is usually found in underground formations of porous rock, and sometimes is found in association with oil. During the **production process**, wells are drilled into the porous rock and pipes are used to bring the natural gas to the surface. In most wells, the pressure of the natural gas is enough to force it to the surface and into the gathering lines.

Gathering lines link production areas to central collection points. Some natural gas gathering systems include a processing facility, which removes such impurities as natural gas liquids, water, carbon dioxide or sulfur that might corrode a pipeline, or inert gases such as helium that could reduce the energy value of the gas.

The pipeline **transmission system**, the "interstate highway" for natural gas, consists of 280,000 miles of high-strength steel pipe 20 inches to 42 inches in diameter. It moves huge amounts of natural gas thousands of miles from producing regions to local natural gas utilities. Compressor stations every 70 miles boost the pressure that is lost through the friction of gas moving through steel pipe.

Local distribution companies are the "city streets" for natural gas. This is where meters measure the gas, and where a sour-smelling odorant is added to help customers smell even small quantities of natural gas. The local gas company then uses distribution pipes, or "mains," to bring natural gas service to most U.S. homes and nearly 5 million businesses. To help ensure reliable service, local natural gas companies can store natural gas underground for use during peak demand, such as cold days. Underground storage accounts for about 20 percent of the natural gas consumed each winter, on average.

April 23, 2001

Dear Bob,

We are opposed to accelerating the payment date for Kansas severance taxes on natural gas to the last day of the month following production for the following reasons:

1. We are very opposed to having to outlay payments for taxes before the associated revenue is even received by our company. The vast majority of our Gas Purchase Agreements have terms wherein payment is due on or before the last day of the month following production. For example, payment for March 2001 production is due on or before April 30, 2001. If payment is made by check, this means that payment must be mailed by this date and is thus received two to five days later.
2. It takes time to verify and process the detail of the payments. Once we have received payment and the associated documentation used by the second purchaser to calculate it, we must verify the data and see if it corresponds with what our records or calculations show. If the data is inconsistent, we must contact the second purchaser and try to reconcile the differences. Once we are comfortable about the amounts received (or to be received, if additional adjustments are forthcoming), then we process the payments. We incorporate well split data (which is received from various integration companies) and determine hours on (either from pipeline volume statements or pumper gauge reports). All of this data combined allows us to generate remittance statements and calculate taxes. Once the remittances are prepared then we can prepare the monthly tax report. All of this takes a considerable amount of time to do for a company our size. Each month we discover payment errors which are to our benefit (and the State's) to resolve.
3. Verifying data and resolving problems prior to paying taxes is extremely important to us as it takes considerably more time to file adjustments if errors are discovered after taxes are paid. If tax payments are due earlier, we would need to file adjustments each month for nearly each well on which we purchase gas.

Although we appreciate the desire of the State to raise additional tax revenues, it is not practical to expect remitters of severance taxes to remit such taxes to the State before we receive the revenue and have the opportunity to analyze the supporting detail.

Please call me if you have any questions or if you'd like additional information. I can be reached at (316) 337-8370.

Sincerely yours,

Emma C. Richmond
Manager, Redwing Gas Systems Inc.

Senate Assessment + Taxation
4-25-01
Attachment 3

.ax Note: #: 263-3021
TO: Bob Krehbiel/KIOGA Pages: 1
FROM: C. B. Wilson/Central Crude Corporation

CENTRAL CRUDE CORPORATION
401 E. Douglas, Suite 402
Wichita, KS 67202
316-265-8558
Fax #316-265-8690

April 24, 2001

Bob Krehbiel
KIOGA
105 S. Broadway, Suite 500
Wichita, KS 67202

RE: Kansas - proposed acceleration of severance tax payments

Dear Mr. Krehbiel:

Currently, Central Crude Corporation as a first purchaser of crude oil, is required to remit severance tax proceeds by the 20th of the second month following production.

Central Crude Corporation is opposed to accelerating payments to the Kansas Department of Revenue (KDR) for the following practical reasons:

1. It is not clear what date is meant by moving from 2 months to 1 month. If the due date is moved to the 20th of the 1st month following production, we would have to make estimated payments to the State, because we do not have the source documents by that date to make actual payments. If the due date were moved to the last day of the 1st month following production, we could make that deadline.

2. If the State has to process a multitude of estimated payments and accompanying adjustments to estimates, a great deal more hours will be expended by KDR employees - reconciling estimates to actuals; increasing errors of over and under payments; increasing audit scope for state auditors; and increasing the workload of the first purchaser's staff.

Please advise if we can be of further assistance and keep us apprised of further developments.

Sincerely,

Charles B Wilson / by MaryAnn McCormick
Charles B. Wilson
Vice-President

MM

Senate Assessment + Taxation
4-25-01
Attachment 4

E. R. (Dick) Brewster
4334 N. W. Expressway, Suite 275
Oklahoma City, OK 73116
405-848-0657
Director, Government Affairs

April 25, 2001

Senator Dave Corbin, Chairman
Senate Committee on Assessment and Taxation
Kansas State Capitol
Topeka, KS

Re: Kansas Severance Tax Collections

Dear Senator Corbin:

I understand that the Legislature is considering accelerating the collection of the severance tax, to provide assistance with the current budget/revenue crunch.

While I understand the need for a quick cash infusion, our accounting staff advises me that we do not have the needed information to remit the severance tax a month earlier, at least with regard to the production of natural gas.

The complexities of natural gas marketing are well outlined in comments you will receive from Jack Glaves. These complexities demonstrate clearly the need for the time now allowed by Kansas law to remit severance tax payments.

A shortened the period will require us to make estimated payments. Once adequate information is available, a prior period adjustment would have to be made on every producing property in the State, at least doubling the number of reporting lines submitted to the Revenue Department.

This extensive and additional accounting process will significantly increase the cost of producing gas in Kansas. At a time when the only answer to higher natural gas prices is increased production, we submit it is not wise to increase production costs, shortening the economically productive life of a mature gas producing area.

Additional reporting/accounting costs to BP are difficult to estimate, but could reach $500,000 per year. We believe this money could be better spent on improvements to increase our Kansas gas production.

Domestic gas producers will spend close to $40 billion a year in searching for new gas and improving production from existing operations. Kansas needs to remain competitive to attract these investment dollars. We urge you not to increase the cost of producing gas in Kansas, and to allow the current severance tax remittance time to remain undisturbed.

Respectfully Submitted,

Copy: Senator Steve Morris

Senate Assessment + Taxation
4-25-01
Attachment 5

Company	15% credit 15% cut	20% credit 20% cut	25% credit 25% cut	28% cut	20% credit 1% aff 1%	20% credit 1% aff 1.125%	15% credit 1% aff 1.125%	10% credit 1% aff 1.125%	15% credit .85% aff 1.125%
BCBS	1.1 M	1.5 M	1.8 M	2.0 M	1.5 M	738,000	738,000	738,000	738,000
KMMCO	21,000	28,000	35,000	39,000	28,000	14,000	14,000	14,000	14,000
Preferred	57,000	127,000	102,000	76,000	91,000	91,000	136,000	182,000	109,000
Universal Underwriters	18,000	25,000	31,000	34,000	24,000	12,000	12,000	12,000	12,000
American Family	702,000	570,000	458,000	342,000	407,000	407,000	611,000	814,000	889,000
Bankers Life	534,000	190,000	152,000	114,000	135,000	135,000	203,000	271,000	162,000
ERC	8,000	11,000	13,000	15,000	11,000	5,000	5,000	5,000	5,000
Hartford	20,000	136,000	169,000	189,000	136,000	122,000	122,000	141,000	13,000
New York Life	85,000	113,000	141,000	158,000	113,000	57,000	57,000	57,000	57,000
Prudential	-211,000	-211,000	-211,000	-211,000	-211,000	-211,000	-211,000	-211,000	-211,000
Farm Bureau	316,000	492,000	614,000	689,000	492,000	464,000	456,000	683,000	673,000
Farmers Alliance	55,000	81,000	107,000	123,000	81,000	81,000	81,000	81,000	144,000
AllState	211,000	287,000	364,000	410,000	287,000	287,000	287,000	287,000	472,000
Cigna	36,000	49,000	61,000	68,000	49,000	49,000	49,000	49,000	78,000
CNA	107,000	167,000	227,000	263,000	167,000	167,000	167,000	167,000	311,000
Farmers	395,000	527,000	659,000	738,000	527,000	527,000	527,000	527,000	843,000
Met Life	114,000	157,000	200,000	225,000	157,000	157,000	157,000	200,000	260,000
Royal	23,000	31,000	39,000	43,000	31,000	31,000	31,000	31,000	49,000
Safeco	161,000	218,000	276,000	311,000	218,000	218,000	218,000	218,000	357,000
State Farm	2.0 M	1.3 M	1.2 M	1.3 M	940,000	940,000	1.5 M	2.6 M	1.5 M
Travelers	122,000	175,000	228,000	260,000	175,000	175,000	175,000	175,000	302,000
Zurich	24,000	32,000	40,000	45,000	32,000	32,000	32,000	32,000	51,000
TOTAL	**8.1 M**	**8 M**	**8.7 M**	**9.3 M**	**6.9 M**	**5.9 M**	**7.3 M**	**10.1 M**	**8.1 M**
D/F 23.8%/76.2%	**24.9/75.1**	**26.5/73.5**	**27.4/72.6**	**27.8/72.2**	**27/73**	**24.9/75.1**	**24.3/75.7**	**23.7/76.3**	**23.9/76.1**

Senate Assessment + Taxation
4-25-01
Attachment 6

04/02/01

Salary Credits Yr 1 5.5 to 6 Yr 2 9+