

MINUTES OF THE HOUSE TAXATION COMMITTEE.

The meeting was called to order by Chairperson John Edmonds at 9:00 a.m. on February 6, 2003 in Room 526-S of the Capitol.

All members were present except:

Representative Paul Davis  
Representative Vaughn Flora  
Representative Ruby Gilbert

Committee staff present:

Chris Courtwright, Legislative Research Department  
April Holman, Legislative Research Department  
Gordon Self, Office of the Revisor  
Carol Doel, Committee Secretary

Conferees appearing before the committee:

Marlee Carpenter, Kansas Chamber of Commerce  
Leslie Kaufman, Kansas Farm Bureau  
Bob Krehbiel, Kansas Independent Oil & Gas Assn.  
Gary Reser, Kansas Veterinary Medical Association  
Todd Johnson, Kansas Livestock  
Denise Washburn, Hills Pet Products  
Christy Caldwell, Greater Topeka Chamber of Commerce  
Gary Hanson, Rural Water Association  
Dennis Schwartz, Rural Water Dist #8 Shawnee Cty.  
Ed Carpenter, PTMW, Inc.  
Francis Kelsey, Farmer  
Greg Krissek, Kansas Corn Growers  
Ron Appletoft, Water Dist. #1 Johnson County  
Chris Wilson, Kansas Dairy Assn.  
Doug Wareham, Kansas Feed & Grain  
Jack Glaves, Exline, Inc.

Others attending:

See attached sheet

Chairman Edmonds opened the meeting for introduction of bills. Representative Owens responded with a request for introduction of a bill which deals with tipping fees, a payment made by waste management companies and paid to local government entities.

With no objections the bill will be accepted for introduction.

Hearing no additional bill introductions, Chairman Edmonds closed the meeting for the introduction of bills and opened the meeting for hearing on **HB-2099**. Hearing no proponents for **HB-2099**, Chairman Edmonds recognized Marlee Carpenter, KCCI (Kansas Chamber of Commerce and Industry as an opponent. Ms. Carpenter testified that it is the feeling of KCCI that in order to keep Kansas competitive, the cost of business cannot be increased and opposes the blanket repeal of sales tax exemptions. (Attachment 1)

Testimony in opposition of **HB 2099** was presented by Leslie Kaufman, State Director of Kansas Farm Bureau Public Policy Division. Ms. Kaufman expressed the opinion that in these difficult economic times for the Kansas economy, as well as for individuals, the legislature must ensure that our state's tax policy will encourage, not discourage, the economic rebound we so desperately need. (Attachment 2)

Executive Vice-President of Kansas Independent Oil & Gas Association, Mr. Robert Krehbiel, was next to appear with testimony in opposition to **HB 2099**. Mr. Krehbiel's testimony covered many issues from basic knowledge of the gas and oil industry through tax policy decisions. It is the feeling of the industry that the **HB 2099** is bad for Kansas and America (Attachment 3)

Representing the Kansas Veterinary Medical Association in opposition to **HB 2099**, was Gary Reser, executive vice president of the association. The KVMA (Kansas Veterinary Medical Association) expressed

CONTINUATION SHEET

MINUTES OF THE HOUSE TAXATION COMMITTEE at 9:00 a.m. on February 6, 2003 in Room 519-S of the Capitol.

the opinion that **HB 2099** is not good for Kansas agriculture and the states' farmers and ranchers. It will result in an increased cost of business for agricultural producers during a time when they are already strapped due to drought and a sluggish economy. ([Attachment 4](#))

Addressing the committee in opposition of **HB 2099**, was Todd Johnson, Governmental Affairs staff for the Kansas Livestock Association. At a time when the agricultural economy of our state is depressed due to market and weather conditions, the association urged the legislature not to add another burden to our producers and others involved in any manufacturing business by passing **HB 2099**. ([Attachment 5](#))

Senior Corporate Tax Manager for Hill's Pet Nutrition, Denise Washburn, expressed opposition to **HB 2099**. This company expressed the fact that **HB 2099** would have a long term negative effect on any potential expansions and investments into the manufacturing facility in Topeka. ([Attachment 6](#))

The Greater Topeka Chamber of Commerce was represented by Christy Caldwell, Vice President of Government Relations. In opposition to **HB 2099** her testimony states that removal of the sales tax exemption would put our local manufacturers at a competitive disadvantage. ([Attachment 7](#))

The KRWA (Kansas Rural Water Association) opposes **HB 2099** because it would undo the simplification that was achieved as a result of the 2001 legislation and once again subject rural water districts to the complex web of sales tax rules as **they** apply to water systems. This testimony was delivered by Gary H. Hanson, the attorney representing KRWA. ([Attachment 8](#))

Dennis Schwartz, Director of the Kansas Rural Water Association and General Manager of Shawnee County Rural Water District No. 8, presented testimony opposing **HB 2099**. Mr. Schwartz' testimony respectfully requested that **HB 2099** not be approved as it is currently drafted as it in effect represents double taxation for more than 800 cities and water systems. ([Attachment 9](#))

Presenting testimony for PTMW, Inc., was Edwin Carpenter. PTMW is a company whose primary manufacturing business is the fabrication of original equipment for the railroads. PTMW opposes **HB 2099** with the feeling that sales tax exemptions on consumables used in manufacturing may result in either the death of their company or the necessity that its' operations be moved to a more favorable economic climate. ([Attachment 10](#))

Next to appear in opposition to **HB 2099**, was Francis Kelsey, a farmer in the Kansas River Valley in northwest Shawnee County. Mr. Kelsey perceived that passage of **HB 2099** would, indeed, have a definite effect on his business along with a negative impact on his operational bottom line. ([Attachment 11](#))

Kansas Grain Sorghum Producers Association was represented by Greg Krissek, Director of Operations for the Kansas Corn Growers Association. Mr. Krissek's testimony provided information regarding the slim margin of Kansas corn producers and the operational challenge which passage of **HB 2099** would create. ([Attachment 12](#))

Ron Appletoft, Governmental Affairs Coordinator for Water One of Johnson County, appeared before the committee in opposition of **HB 2099**. In his testimony for the water district, Mr. Appletoft stated that supplying water to the public in Kansas is essentially a governmental service and thus should be tax exempt. It is also their feeling that this would cause an unnecessary administrative burden. ([Attachment 13](#))

The Kansas Dairy Association, Kansas Agricultural Aviation Association, and Kansas Seed Industry Association were represented by Chris Wilson in opposition to **HB 2099**. Testimony for these industries stated any increases in revenue should be broad-based, because increased taxes will be difficult for many Kansas citizens and businesses to pay. ([Attachment 14](#))

Doug Wareham presented testimony before the committee in opposition of **HB 2099**. Mr. Wareham represented Kansas Grain & Feed Association as well as Kansas Agribusiness Retailers Association. His testimony revealed that passage of this bill would place an increased financial burden on agribusiness across Kansas as well as increase costs to be passed on to agricultural producers. ([Attachment 15](#))

CONTINUATION SHEET

MINUTES OF THE HOUSE TAXATION COMMITTEE at 9:00 a.m. on February 6, 2003 in Room 519-S of the Capitol.

Testimony was also presented by Jack Glaves of Duke Energy who also felt that passage of **HB 2099** would create undue challenges for Kansas businesses. (No written testimony)

Each person testifying before the committee stood for questions following the delivery of his or her testimony.

Written testimony only, was presented by Wichita Independent Business Association (Attachment 16); Kansas Agricultural Alliance (Attachment 17); Representative Tom Sloan, 45<sup>th</sup> District (Attachment 18); Southwest Kansas Royalty Owners Association (Attachment 19); Wichita Area Chamber of Commerce (Attachment 20); Southwest Kansas Irrigation Association (Attachment 21); and Kansas Ready Mixed Concrete Association (Attachment 22).

Chairman Edmonds called for any other opponents which wished to testify before the committee and seeing none closed the hearing on **HB 2099**.

With no further business, Chairman Edmonds adjourned the meeting.

GUEST LIST

DATE February 6, 2003

NAME	REPRESENTING
Christy Caldwell	Topeka Chamber of Commerce
Denise Washburn	Hill's Pet Nutrition, Inc.
George Peterson	KTN
Andy Shaw	SWKIA
Doug Wareham	KGFA / KARA
Todd Johnson	KLA
Leslie Kaufman	Ks Farm Bureau
Doug Smizer	SWKROA
Ed Carpenter	DTMW, Inc.
Bernie Koch	Wichita Area Chamber
Francis G. Kelsey	Shawnee County Farm Bureau
Keith Mill	Barton County Farm Bureau
Stella Smith	SRW Corp
Hal Hudson	MFIB / KS
Gary Schmitt	Ks Rural Water Assoc
Gary Hanson	Ks Rural Water Assoc.
Woody Mosier	Ks. Agg. Prod. Assn
Joe Duke	KCBPU

# LEGISLATIVE TESTIMONY



*The Unified Voice of Business*

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HB 2099

February 6, 2003

## KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony before the House Taxation Committee  
By Marlee Carpenter, Director of Taxation and Small Business

Chairman Edmonds and members of the Committee:

I am Marlee Carpenter with the Kansas Chamber of Commerce and Industry testifying in opposition to HB 2099. We believe that in order to keep Kansas competitive, the cost of doing business in the state cannot be increased. KCCI opposes the blanket repeal of sales tax exemptions. Each exemption was justified at the time of enactment and voted on by legislators like you. Sales tax exemptions should be looked at as a whole, within the context of the entire tax structure. Sales tax exemptions make Kansas competitive with other states and/or avoid the double taxation of goods and services.

The repeal of the ingredients and component parts sales tax exemption, KSA 79-3606(n), imposes a sales tax on the raw materials that go into the manufacture of a good. This would result in the double taxation of a good. Consumers, in purchasing the end product, would pay the sales tax on the raw material as well as the sales tax on the final product. In addition, many companies cannot pass on additional expenses in the cost of their final product to compete. These companies would simply absorb these costs and not pass them on to the consumer. Removal of this sales tax exemption would increase the cost of doing business as well as the final cost to the consumer.

Removal of this sales tax exemption would make Kansas non-competitive. A majority of states have a sales tax exemption that includes ingredient and component parts. Companies may find it economical to move their operations to one of the many states that do have this exemption. I have attached a list of sales tax exemptions from surrounding states. These states have a sales tax exemption for ingredient and component parts. For Kansas to remain competitive, we must retain this sales tax exemption.

Finally, the manufacturing exemptions may not be looked at as exemptions for small businesses. This is simply not true. According to the US Department of Commerce, 89% of manufacturers in the state of Kansas have less than 100 employees. This issue affects all businesses, regardless of their size.

House Taxation  
Attachment 1  
Date 2-6-03


KCCI opposes the repeal of the sales tax exemption in HB 2099. Passage of this bill would amount to do taxation of goods and make Kansas non-competitive. KCCI believes that in order to keep Kansas competitive, the cost of doing business in the state cannot be increased. Thank you for your time and I will be happy to answer any questions.

**About the Kansas Chamber of Commerce and Industry**

The Kansas Chamber of Commerce and Industry (KCCI) is the leading broad-based business organization in Kansas. KCCI is dedicated to the promotion of economic growth and job creation and to the protection and support of the private competitive enterprise system.

KCCI is comprised of nearly 2,000 businesses, which includes 200 local and regional chambers of commerce and trade organizations that represent more than 161,000 business men and women. The organization represents both large and small employers in Kansas. 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.



**Business Taxes and Costs:  
A Cross State Comparison  
2001 Update**

administered by

**Charlie Ranson,  
President**

and

**Kent Qandil,  
Senior Research Analyst**

of

**Kansas, Inc.**

authored by

**Patricia Oslund  
David Burress**

and

**Luke Middleton,**

**Research Economists**

of the

**Policy Research Institute  
University of Kansas**

December 2001

**Table 4-2:  
State Sales Tax Applicability and Exemptions, 2001**

State	Important Items Specifically Included	Important Items Specifically Excluded
Colorado	Sales of goods at retail plus selected services. – <i>Consumers</i> : telephone and telegraph services; restaurant meals; hotel and motel rooms. <i>Businesses</i> : gas and electricity sold for commercial (not industrial) consumption.	<i>Consumers</i> : sales of prescription drugs; sales of electricity, natural gas, fuel oil, coal, and other energy sources to residences; sales of food. <i>Businesses</i> : sales for resale; sales out of state; charges for internet access; <u>sales of goods which become ingredients or component parts of manufactured, compounded, or finished goods</u> ; sales of electricity, natural gas, and fuel oil for use in processing, manufacturing, mining, irrigation, construction, communication, and all other industrial uses; ink, newsprint, and packaging. All purchases of machinery, machine tools and parts used directly and primarily in manufacturing are exempt from sales tax if purchase is over \$500. Pollution control equipment may be eligible for refunds contingent on state budget surpluses. Exemption from local sales tax is a local option.
Iowa	Sales at retail plus enumerated services. – <i>Consumers</i> : gas and electricity (though will be phased out by 2006); intrastate communications; water; amusements; repairs; barbers; dry cleaning; maintenance, and many other services. <i>Businesses</i> : intrastate communications, repairs, and maintenance.	<i>Consumers</i> : food (except for immediate consumption) and prescription drugs. Internet access charges. <i>Businesses</i> : sales for resale; sales out of state; building materials for resale; industrial machinery and computers; farm equipment; medical devices; services connected with construction or remodeling; chemicals, fuels, and electricity used in processing; <u>materials used in processing</u> .
Kansas	Sales of goods at retail plus selected services. – <i>Consumers</i> : restaurant meals and drinks; telephone; hotel and motel rooms. <i>Businesses</i> : computer software; out of state sales; installations; electricity; gas; water, unless consumed directly in production; repairs; and telecom.	<i>Consumers</i> : drugs, when prescribed; sales of gas, electricity, and heat to residential customers (though not exempt from local sales taxes). <i>Businesses</i> : sales for resale; sales of used farm machinery; all sales of tangible personal property or services used in constructing or enlarging a new or expanding qualified business facility; component parts of manufactured or produced goods or services; goods consumed (including those dissipated or depleted within one year) in the production of tangible personal property or services; all sales of machinery and equipment used as an integral or essential part of operation by manufacturing or processing plant. Gas, electricity, water (when consumed by manufacturing, mining, irrigation, or service producing processes), and new construction services.



State	Important Items Specifically Included	Important Items Specifically Excluded
Missouri	Sales of goods at retail plus selected services – <i>Consumers</i> : communications except basic phone charge, meals and drinks. <i>Businesses</i> : electricity, water, and gas unless otherwise exempted, and communications.	<i>Consumers</i> : water, natural gas, and electricity for domestic use; prescription drugs; basic phone; internet access fees. <i>Businesses</i> : sales for resale; materials and manufactured goods which, when used, <u>become component parts of new goods</u> ; ingredients, machinery and equipment used to establish or expand manufacturing, mining, or fabricating plants, when the machinery is used directly in production; machinery and equipment replacements due to design or product changes; replacement parts for machinery and equipment used directly in production; electrical energy used in the actual manufacturing, processing, or mining of a product, if the total cost of electricity so used exceeds 10 percent of total production costs; farm machinery; natural gas; machinery and equipment used to abate air pollution.
Nebraska	Gross receipts from sales of goods at retail plus selected services. – <i>Consumers</i> : admissions to events; restaurant meals, utilities, cable TV, and intrastate communications; internet purchases. <i>Businesses</i> : computer software, utilities unless otherwise exempt, and intrastate communications.	<i>Consumers</i> : prescription drugs; food products for human consumption (excluding prepared meals). <i>Businesses</i> : sales for resale; goods shipped out of state; electricity, coal, gas, and other fuels, when more than 50 percent of the amount purchased is used directly in processing, manufacturing, refining, irrigation, farming, or generation; agricultural machinery, equipment and chemicals; <u>goods which become an ingredient or component part of manufactured, processed, or fabricated goods</u> . Also, qualified new business facilities with at least \$20 million investment or \$3 million investment and 30 new employees are entitled to a refund of sales and use taxes paid on the purchase of property for the new investment.
Oklahoma	Sales at retail plus selected services. – <i>Consumers</i> : hotel and motel rooms; telephone and telegraph; restaurant meals; and admissions to events. <i>Businesses</i> : sales of services and property used to develop or improve real estate, including materials, supplies, and equipment.	<i>Consumers</i> : electricity, water, and natural gas utility bills; sales of farm products directly to consumers; and prescription drugs. <i>Businesses</i> : sales for resale; sales out of state; sales of goods, wares, merchandise, <u>tangible personal property, machinery, and equipment to a manufacturer for use in a manufacturing operation</u> (here a manufacturing operation begins at the point where the materials enter the manufacturing site and ends at the point where a finished product leaves the manufacturing site); agricultural machinery and equipment; sales of tangible personal property to a qualified manufacturer to be consumed or incorporated in a new manufacturing facility (here qualified manufacturers must invest \$5 million and hire 100 employees, or invest \$50 million and hire 75 employees).

Note: The basic tax base in most of the states is the sale of tangible personal property at retail plus sales of selected services.

Sources: CCH Incorporated, *Business Incentives Guide, 2001*; Federation of Tax Administrators, *Sales Taxation of Services: 1996 Update*; and information from individual states including state web sites.



## **Kansas Farm Bureau**

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### **PUBLIC POLICY STATEMENT**

#### **SENATE COMMITTEE ON ASSESSMENT & TAXATION**

**Re: HB 2099 -- repealing sales tax exemptions related to minerals, oil, gas and consumables.**

**February 6, 2003  
Topeka, Kansas**

**Presented by:  
Leslie J. Kaufman, State Director  
KFB Public Policy Division**

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Mr. Chairman and members of the Committee, thank you for the opportunity to present comments regarding the elimination of certain sales tax exemptions. I am Leslie Kaufman, State Director of Governmental Relations for Kansas Farm Bureau (KFB). As I am sure you are aware, KFB is the state's largest general farm organizations and represents more than 41,000 agricultural producers through the 105 county Farm Bureau Associations across Kansas. I appear before you on behalf of Farm Bureau in opposition to HB 2099.

Farm Bureau members have a vested interest in the state's tax structure. As such, our delegates have enacted policy on a wide variety of tax issues:

- *Kansas has appropriately created justifiable sales tax exemptions for agriculture, business, industry and many not-for-profit groups.*
- *This has been done to assist economic development and provide for competitiveness with our neighboring states.*
- *The ingredient or component part exemption should be maintained for the sound practice of economic development and for the assistance of manufacturing, business, industry and agriculture in this state.*
- *The sales tax should be applied at the retail level.*
- ***Existing exemptions should remain in place.***

House Taxation  
Attachment 2  
Date 2-6-03

These are strong policy statements that demonstrate how firm our members are in preserving tax exemptions. As such, a removal of sales tax exemptions falls outside our member-adopted policy.

The state's budget troubles are directly paralleling those of her agricultural producers. Low commodity prices, poor crops, bad weather conditions and changes in federal farm policy are having a significant impact on producer's bottom lines. The state must make sure tax policy changes do not further depress an already sluggish economy or any single sector of the economy.

In specific regard to the agriculture industry, the elimination of a tax exemption results in increased expenses. Unlike most other businesses and industries, agricultural producers are almost always price-takers in the marketplace, not price-setters. Generally, a producer does not have the ability increase the price for his or her commodity if expenses go up. Taxes are a significant expense in the business of producing food, fiber and renewable fuel.

Kansas Farm Management Association statistics reflects that, on average, agricultural producers paid \$7,247 a year in taxes (based on 1997-2001 data). Yes, farmers and ranchers do pay taxes – income, property, business sales tax and personal sales tax. Their estimates for re-imposing agricultural-related sales tax, some of which would be accomplished by the bill before you today, reach more than \$7,800. That is more than twice the tax burden agricultural producers currently shoulder. The average estimates for Farm Management producer's places the 2002 average income at \$10,000. At that income level, if the current ag exemptions were repealed and the cost of doing business increased, their average farm family would be left with \$2,200 to feed, clothe, provide medical insurance/care, and cover all their other consumer spending. Farm families cannot bear that burden.

Kansas's farmers and ranchers trade commodities in a global marketplace, with prices set by world supplies. Kansas government can affirm its commitment to the agricultural community by keeping costs of production – which cannot be passed from the farmer to the marketplace – as competitive as possible.

In closing, we would reiterate our policy tenant that Kansas has created justifiable sales tax exemptions to assist economic development and competitiveness with neighboring states. As such, the justification for these exemptions was

demonstrated at the time they were enacted. Particularly in these difficult economic times for the Kansas economy and individuals, the legislature must ensure that our state's tax policy will encourage, not discourage, the economic rebound we so desperately need.

We appreciate this opportunity to briefly convey our opposition to HB 2099 and share our members' support for maintaining sales tax exemptions. Thank you.

*Kansas Farm Bureau represents grassroots agriculture. Established in 1919, this non-profit advocacy organization supports farm families who earn their living in a changing industry.*

STATE OF KANSAS  
HOUSE OF REPRESENTATIVES  
COMMITTEE ON TAXATION

FEBRUARY 6, 2003  
HEARING ON  
HB 2099

TESTIMONY OF  
ROBERT E. KREHBIEL, EXECUTIVE VICE PRESIDENT  
KANSAS INDEPENDENT OIL & GAS ASSOCIATION

House Taxation  
Attachment 3  
Date 2-6-03

STATE OF KANSAS  
HOUSE OF REPRESENTATIVES  
COMMITTEE ON TAXATION

HEARING ON HB 2099  
FEBRUARY 6, 2003

Introduction

Chairman Edmonds and members of the Committee, my name is Robert E. Krehbiel. I am appearing on behalf of the Kansas Independent Oil & Gas Association in opposition to HB 2099.

The Kansas Independent Oil & Gas Association (KIOGA) was organized in 1938 to address issues of common concern to independent oil and gas producers and to promote the development of oil and gas production in the state of Kansas. 65 years later, with over 780 members, this Association remains strong and active.

Scope of Comments

It is difficult to discuss tax policy as it relates to a specific industry without some basic knowledge of that industry, its history and current state. It is even more difficult to discuss tax policy relating to that industry one tax at a time. The sales tax is one of many taxes paid by oil and gas producers. Isolating and evaluating the sales tax without regard to all other taxes may distort policy decisions. For these reasons the following comments are more general in nature, intended to be informative and to provide a basic background for tax policy decisions.

Outline of Comments

A. THE GROWING COSTS OF IMPORTING ENERGY.

1. America's strength was built on an abundant supply of cheap domestic energy. Today, a growing dependence on hostile foreign crude supplies is a threat to our national security and the U.S. economy.

2. U.S. imports of foreign crude oil are approaching 60% of consumption and is expected to increase. (See Exhibit A(1),(2),(4),(5) & (6)).
3. Crude oil imports are increasingly harmful to the U.S. economy, accounting for 1/3 of the U.S. trade deficit. (See Exhibit A(3)).
4. Giant Kansas oil and gas fields discovered in the early 1900s, with wells capable of producing 10,000 to 20,000 barrels per day, made Kansas a major source of energy. Now, after nearly a century of being one of the nations' leading energy exporters, Kansas is a net energy importer. (See Exhibit B)
5. By 2007 Kansas could be importing more than \$2.5 billion of energy to meet its demand. (See Exhibit B).
6. Energy self sufficiency will depend on extending the state's existing oil and gas fields and developing new sources of energy. ( See Exhibit B).

TAX POLICY CONSIDERATION: Achieving energy self sufficiency at both the state and federal level should be a significant policy consideration in any tax debate. Will a tax on the goods and services consumed in the exploration and production of these raw products, crude oil and natural gas, help achieve energy independence?

B. THE CHARACTER OF THE OIL AND GAS EXPLORATION AND PRODUCTION INDUSTRY HAS CHANGED DRAMATICALLY IN THE LAST 15 TO 20 YEARS.

1. The giant Kansas oil and gas fields once made Kansas a base for many major integrated oil companies. The major companies have now focused their efforts offshore and overseas in search of large reserves. Kansas oil producers now consist primarily of small family owned businesses operating most of the oil wells and one-third of the gas wells in the state.
2. Independent producers now account for 85% of the wells drilled in the U.S. The twenty largest producers of crude oil in Kansas are Independent producers.

TAX POLICY CONSIDERATION: In times past it was argued that a tax on Kansas' production would be paid by "big oil", that is, major integrated oil companies, most frequently headquartered out of state. It is considered good State tax policy to have out of state companies pay Kansas' taxes. Today a tax on the goods and services consumed in the exploration and production of crude oil and natural gas will be paid by Kansas producers, most of whom are small businesses headquartered in Kansas.

C. THE ECONOMIC REALITIES OF THE OIL AND GAS EXPLORATION AND PRODUCTION INDUSTRY HAVE CHANGED SIGNIFICANTLY IN THE LAST 15 TO 20 YEARS.

1. After a century of exploration and production Kansas is now a mature producing province. The giant fields, such as El Dorado and Hugoton have been discovered, with no reasonable expectation of discovering other fields of this magnitude.
2. Once the home of Middle Eastern size wells, Kansas is now the home of 37,462 oil wells which average only 2.5 barrels of oil per day. 91.4% of all Kansas' oil wells make less than 5 barrels of oil per day. (See Kansas Geological Survey, Open-File Report 2003-10)
3. Kansas' low volume wells are cost and price sensitive. When the costs of production exceed the value of production these wells will be plugged and abandoned. When the price of crude oil falls below \$16 per barrel this industry is in a crisis.
4. Costs continue to increase. Electricity, as a percentage of total costs escalates as water drive reservoirs mature and as water intensive secondary and tertiary recovery projects in Kansas develop. Service costs rise as companies exit the state or go out of business. Labor costs increase as industry tries to attract and retain experienced labor, and the industry is now spending about \$2 per barrel produced to comply with federal and state environmental regulations.
5. Kansas producers, like Kansas farmers, are price takers, not price makers. The price of crude oil and natural gas is set by world markets, not by producers. Any increase in costs, such as taxes would have to be absorbed by the producer.

TAX POLICY CONSIDERATIONS: Will a tax on goods and services consumed in the exploration and production of oil and gas be recovered by the producer? Does industry have the ability to absorb more new taxes?

D. MUCH OF KANSAS' CURRENT TAX POLICY RELATING TO THE EXPLORATION OF OIL AND GAS EXPLORATION AND PRODUCTION WAS BASED ON ERRONEOUS ASSUMPTIONS.

1. Much of Kansas' tax policy relating to the exploration and production of crude oil and gas was developed in the early 1980's when price projections were fatally flawed. A dramatic price decrease in the mid 1980's followed by price instability put the first nail in the coffin of many Kansas producers. (See Exhibit C).



2. The Kansas Severance Tax was passed, effective May 1, 1983, based on these erroneous price projections. Some of the debate, in those years, centered around whether the proposed severance tax should be "in lieu of" the already existing ad valorem tax, or whether it should be "in addition to" the ad valorem tax. It was argued by proponents of the severance tax that this industry was going to become so wealthy that they could pay both a severance tax and the already existing ad valorem property tax. The proponents, hungry for money to balance the state's budget, much like today, prevailed. This drove the second nail in the coffin of many Kansas producers.
3. During the later 1980's Reappraisal and Classification burdened oil and gas production with a 30% assessment, subsequently adjusted to 25% only because of the political backlash which came from commercial real estate owners. The severance tax, now coupled with the ad valorem tax combined to create an effective tax rate ranging from 6 to 12% on oil and gas production compared to 2.6% on commercial and industrial real estate and 2.85% on machinery and equipment industries. The belief that the oil and gas producing segment of this industry could bear the brunt of this double taxation was based on the erroneous assumptions described above and drove the third nail in the coffin of Kansas' oil and gas producers.
4. By 1986 Kansas had lost over one half of this industry. The rig count, a good measure of industry health, fell from 196 in 1981 to 47 by 1986. Today there are 9 active rigs reported in Kansas. At the same time employment in oil and gas extraction was cut in half, falling from 17,900 to 9,000 and today is less than 7,000. Exhibits D and E document the rapid decline of the Kansas Oil and Gas Industry following these events.

TAX POLICY CONSIDERATION: Does the current tax structure adequately reflect economic reality? Is it appropriate to tax one industry at three times the effective tax rates of other industries in Kansas? Will an additional tax on goods and services consumed in the exploration and production of crude oil and natural gas alleviate or exacerbate current inequities?

E. TODAY, THE KANSAS OIL AND GAS INDUSTRY REMAINS A VITAL PARTNER WITH THE STATE AND NATION.

1. Kansas oil and gas exploration and production, though marginally economical, still creates from \$1.5 to \$3 billion annually in well head value, even though it may be at a loss to the producer. This is roughly the equivalent of all of the agricultural crops grown in the State.
2. The average Kansas oil and gas operator employs 3 people in oil and gas extraction, nearly 7,000 people statewide, and an additional 16,600 jobs are created downstream for transporters, refiners, marketers and retailers.

3. 2,288 operators reported oil production in Kansas totaling 33,585,682 barrels, or 14,679 barrels per operator per year. (See Kansas Geological Survey, Open File Report 2002-53) Using EIA reported per capita consumption one could borrow a slogan from the agricultural industry and suggest that "the average Kansas crude oil producer fuels 575 Americans and you".
4. Nationwide, America's stripper wells provide as much crude oil as we import from Saudi Arabia.
5. Using refining statistics typically applied to Kansas production, the average 2.5 barrel per day oil well provides 17,794 gallons of gasoline, 8,395 gallons of diesel fuel, 3,741 gallons of jet fuel and various other products.

TAX POLICY CONSIDERATION: Will a sales tax on property and services consumed in the exploration and production of crude oil and natural gas create more well head value, increase the number of Kansas jobs, or increase Kansas production?

F. A BARREL OF CRUDE OIL CURRENTLY GENERATES NEARLY \$15 PER BARREL IN TAXES BEFORE SALES TAX IS CONSIDERED.

1. Exhibit F allows you to calculate taxes generated by one barrel of crude oil, and includes the severance tax, the ad valorem property tax, the conservation tax and the motor fuel tax.

TAX POLICY CONSIDERATION: The basic principle of the Sales Tax Act is that the ultimate consumer should pay the tax and no article should carry more than one tax. The sales tax act is designed to avoid pyramiding taxes and is not a turnover tax imposed at each step of the production and distribution process. Southwestern Bell Tel. Co. v. State, 168 Kan. 227, 228, 212 P.2d 363, (1949). Is a tax on the goods and services utilized in the exploration and production of oil and gas, in fact a tax on production reflecting a pyramiding of taxes?

G. KANSAS TAXES ON OIL AND GAS RELATIVE TO OTHER STATES AND ATTRACTING INVESTMENT CAPITAL.

1. A recent study commissioned by Kansas, Inc. determined that "Kansas taxes on oil and gas production are high relative to other states examined and are especially high when one considers the characteristics of the Kansas resource relative to most of the other states evaluated". Strategic Analysis of the Oil and Gas Industry in Kansas, Arthur D. Little, Inc., April, 1990.

2. The two adjoining states, Oklahoma and Colorado, that compete with Kansas for investment capital in exploration and production of oil and gas both provide the same sales tax exemption for property consumed in production and provide a lower effective tax rate on oil and gas than does Kansas. Much of the Kansas activity has already moved in those directions.
3. Developing and testing new technology is the key to sustaining Kansas' oil and gas production. Hundreds of millions of barrels of crude oil are known to remain in existing reservoirs in Kansas following primary and secondary recovery production methods. Kansas independent producers rely heavily on the Kansas Geological Survey at the University of Kansas and the Tertiary Oil Recovery Projects to develop that knowledge and information. Investments in gelled polymer treatments and CO2 flooding involve substantial investments that have the potential to add a half billion barrels of crude oil to Kansas' reserve base and 6,000 new jobs for Kansas' workforce.
4. Attracting outside risk capital for exploration for exploration is the primary concern of Kansas operators. Until prices stabilize at approximately the \$25 per barrel level it will be difficult to attract any capital. Today's markets suggest that the price of crude oil will average about \$20 per barrel over the next five years. Therefore, most exploration capital must be generated from existing production. Increasing the costs of production will reduce available capital.

TAX POLICY CONSIDERATION: Does Kansas tax structure attract investment capital to the State? Will an additional sales tax on goods and services consumed in the exploration and production of oil and gas help or hinder the problem?

#### G. SALES TAX ON OIL AND GAS EXPLORATION AND HB 2099

1. Oil and gas producers pay a lot of sales tax on the purchase of most all tangible personal property such as drilling rigs and workover rigs of all kinds, engines, pipe, pumps and all types of equipment utilized in the exploration and production of oil and gas. The Department of Revenue can and has covered that subject in great detail. "Drilling contractors and other businesses that service oil and gas wells must pay sales tax to their vendors when they buy or rent machinery and equipment, when they pay for repair and maintenance services, and when they buy cement, casing, and other components of the well. The only equipment that is not taxed are drill bits. Materials that drilling contractors and well service providers may buy exempt include explosives and certain consumables...drilling contractors may claim exemption on their purchases of drilling mud, chemicals, lubricants, electricity, diesel fuels, and similar items that are consumed in the process of drilling and servicing wells. Revenue Ruling 19-2002-2, October 21, 2002.

2. Today in Kansas, if you purchase an engine and utilize that engine to run an irrigation system to produce soybeans or corn, you will not pay sales tax on that engine, or repairs and replacement parts. If you purchase that same engine and utilize it in the manufacturing process to produce widgets you will not pay sales tax on that engine or repairs and replacement parts. If you purchase that same engine and utilize it on a pump to produce crude oil you will pay sales tax on that engine and you will pay sales tax on repairs and replacement parts for that engine. Certainly there are some inequities in the Sales Tax Code that are difficult to explain.

TAX POLICY CONSIDERATION: Wouldn't repeal of the sales tax on that engine utilized to produce crude oil help grow the economy, create more jobs, more investment and ultimately more revenue for the State as it does in the agricultural and manufacturing industries? Wouldn't repeal of all sales tax on tangible personal property and services on which result in the production of crude oil help restore and grow the Kansas economy, create more value and generate more jobs for Kansas people? Will another tax on the goods and services utilized by productive people to explore for and produce the energy Kansas and America needs be the final nail in the coffin of what is left of the Kansas exploration and production industry?

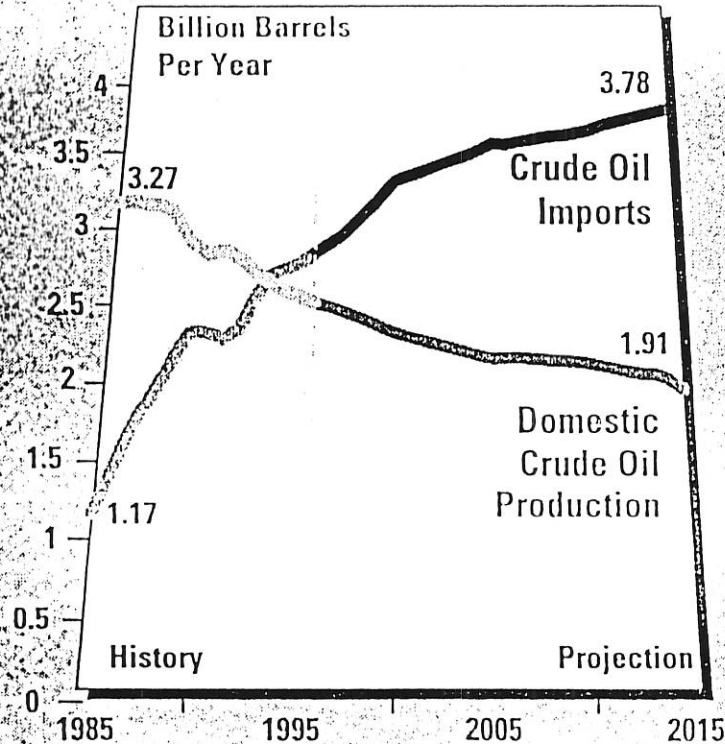
We believe that HB 2099 is not only bad for industry, it is bad for Kansas and America. Thank you very much for the opportunity to appear in opposition to this bill.

# U.S. Oil Trends

# Domestic Production Is Declining

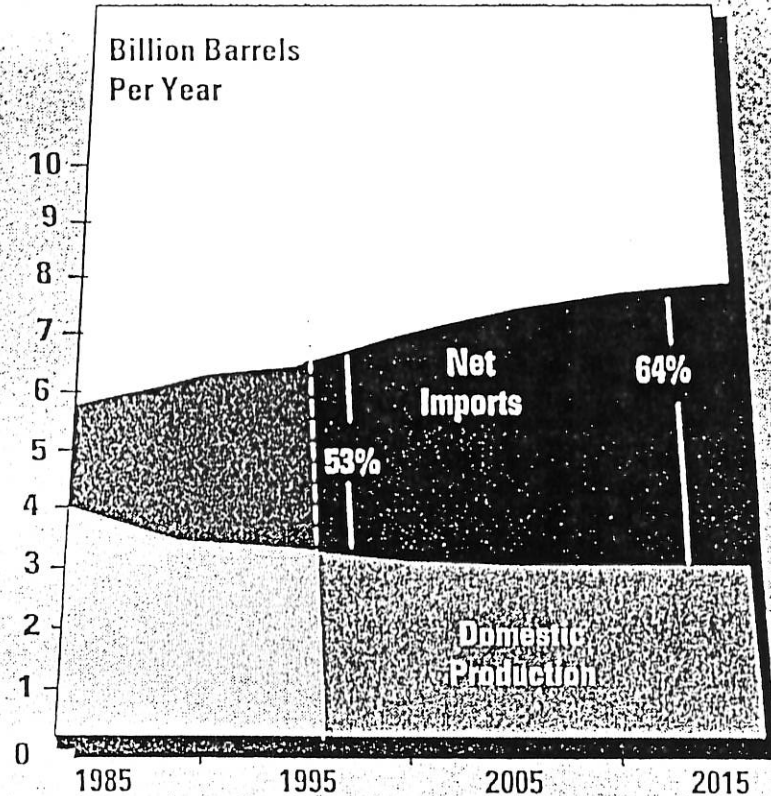
3-9

## Imports vs. Domestic Production



Source: EIA Estimate, February 1997  
EIA Annual Energy Outlook, 1997

## Domestic Production and Consumption

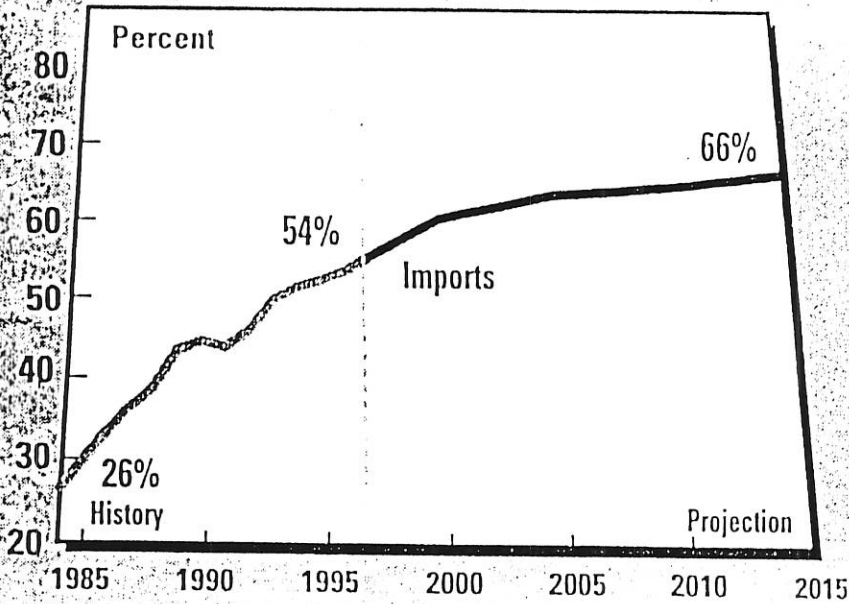


*Finding cleaner, cheaper, smarter ways to fuel America's economy*



# U.S. Oil Trends

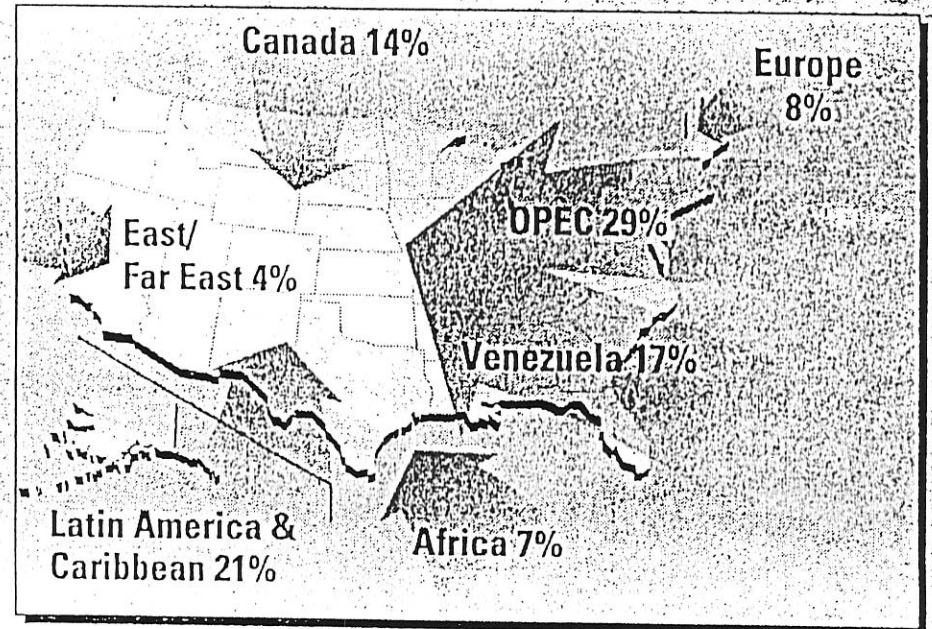
## Import Share of Crude Oil Supply



Source: EIA estimate as of February 1997  
EIA Annual Energy Outlook, 1997

# Crude Imports Are Rising

Crude Imports in 1995:  
7.23 Million Barrels Per Day

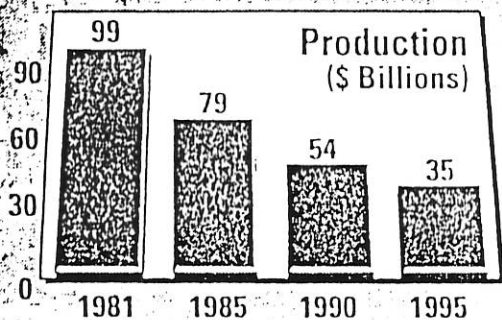


Source: EIA, 1997

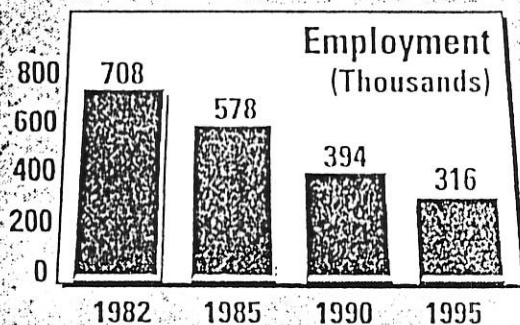
*Finding cleaner, cheaper, smarter ways to fuel America's economy*



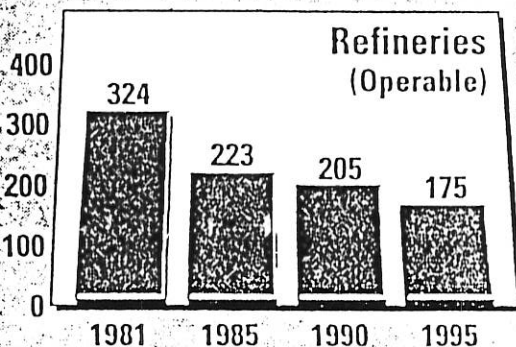
# U.S. Oil Trends



• 65% decrease in value of domestic oil production



• 55% of petroleum production jobs lost

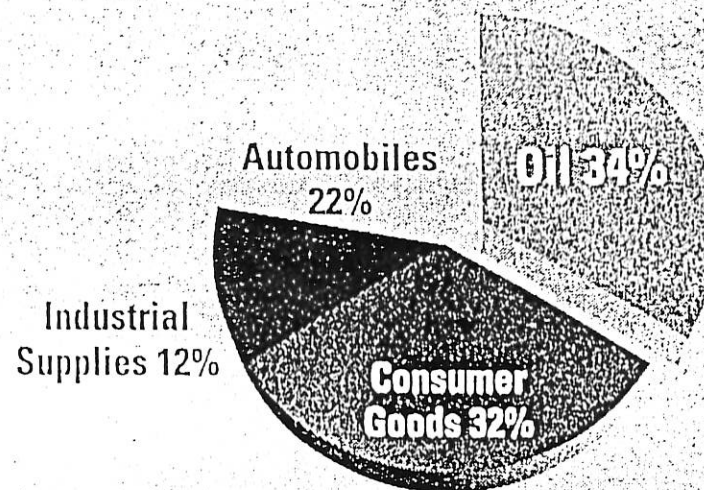


• 46% of domestic refineries closed

Source: EIA Annual Energy Review, 1995

# Crude Imports Increasingly Harmful to U.S. Economy

Petroleum Imports Account for One-Third of the U.S. Trade Deficit



1995 Merchandise Trade Deficit: \$152 Billion

Source: U.S. Dept. of Commerce, 1996

*Finding cleaner, cheaper, smarter ways to fuel America's economy*



**Table 5.1 Petroleum Overview, 1949-2001**  
(Thousand Barrels per Day)

Year	Production					Other Domestic Supply <sup>2</sup>	Trade			Stock Change <sup>3</sup>	Crude Oil Losses and Unaccounted for <sup>4</sup>	Petroleum Products Supplied
	Crude Oil			Natural Gas Plant Liquids	Total		Imports	Exports	Net Imports			
	48 States <sup>1</sup>	Alaska	Total									
1949	5,046	0	5,046	430	5,477	-2	645	327	318	-8	38	5,763
1950	5,407	0	5,407	499	5,906	2	850	305	545	-56	51	6,458
1951	6,158	0	6,158	561	6,719	7	844	422	422	101	31	7,016
1952	6,256	0	6,256	611	6,867	7	952	432	520	108	16	7,270
1953	6,458	0	6,458	654	7,111	20	1,034	402	633	142	22	7,600
1954	6,342	0	6,342	691	7,033	23	1,052	355	698	-29	26	7,756
1955	6,807	0	6,807	771	7,578	R34	1,248	368	880	(s)	37	8,455
1956	7,151	0	7,151	800	7,951	43	1,436	430	1,006	179	46	8,775
1957	7,170	0	7,170	808	7,978	42	1,574	508	1,007	167	50	8,809
1958	6,710	0	6,710	808	7,517	64	1,700	276	1,425	-140	27	9,118
1959	7,053	1	7,054	879	7,932	86	1,780	211	1,569	51	10	9,527
1960	7,034	2	7,035	929	7,965	146	1,815	202	1,613	-83	8	9,797
1961	7,166	17	7,183	991	8,174	179	1,917	174	1,743	111	9	9,976
1962	7,304	28	7,332	1,021	8,353	175	2,082	168	1,913	32	9	10,400
1963	7,512	29	7,542	1,098	8,640	202	2,123	208	1,915	3	10	10,743
1964	7,584	30	7,614	1,154	8,769	217	2,259	202	2,057	10	10	11,023
1965	7,774	30	7,804	1,210	9,014	220	2,468	187	2,281	-8	10	11,512
1966	8,258	39	8,295	1,284	9,579	245	2,573	198	2,375	104	10	12,084
1967	8,730	80	8,810	1,409	10,220	292	2,537	307	2,230	173	9	12,560
1968	8,915	181	9,096	1,504	10,599	R319	2,840	231	2,609	152	-17	13,393
1969	9,035	203	9,238	1,590	10,827	335	3,166	233	2,933	-48	7	14,137
1970	9,408	229	9,637	1,660	11,297	R359	3,419	259	3,161	103	16	14,697
1971	9,245	218	9,463	1,693	11,155	R382	3,926	224	3,701	71	-45	15,212
1972	9,242	199	9,441	1,744	11,185	R388	4,741	222	4,519	-232	-43	16,367
1973	9,010	198	9,208	1,738	10,946	R483	6,256	231	6,025	135	11	17,308
1974	8,581	193	8,774	1,888	10,462	R516	6,112	221	5,892	179	38	16,653
1975	8,183	191	8,375	1,833	10,008	R497	6,056	209	5,846	32	-3	16,322
1976	7,958	173	8,132	1,604	9,736	R515	7,313	223	7,090	-58	-83	17,461
1977	7,781	464	8,245	1,618	9,862	R575	8,807	243	8,565	548	22	18,431
1978	7,478	1,229	8,707	1,567	10,275	R549	8,363	362	8,002	-94	73	18,847
1979	7,151	1,401	8,552	1,584	10,135	R571	8,456	471	7,985	173	6	18,513
1980	6,980	1.6 7	8,597	1,573	10,170	R641	6,909	544	6,365	140	-20	17,056
1981	6,962	1,609	8,572	1,609	10,180	R558	5,996	595	5,401	160	-78	16,058
1982	6,953	1,696	8,649	1,550	10,199	R583	5,113	815	4,298	-147	-68	15,296
1983	6,974	1,714	8,688	1,559	10,246	R541	5,051	739	4,312	-20	-112	15,231
1984	7,157	1,722	8,879	1,630	10,509	R599	5,437	722	4,715	280	-183	15,726
1985	7,146	1,825	8,971	1,609	10,581	R612	5,067	781	4,286	-103	-145	15,726
1986	6,814	1,867	8,680	1,551	10,231	R674	6,224	785	5,439	202	-139	16,281
1987	6,387	1,962	8,349	1,595	9,944	R703	6,678	764	5,914	41	-145	16,665
1988	6,123	2,017	8,140	1,625	9,765	R708	7,402	815	6,587	-28	-196	17,283
1989	5,739	1,874	7,613	1,546	9,159	R722	8,061	859	7,202	-43	-200	17,325
1990	5,582	1,773	7,355	1,559	8,914	R763	8,018	857	7,161	107	-257	16,988
1991	5,618	1,798	7,417	1,659	9,076	R807	7,627	1,001	6,626	-10	-195	16,714
1992	5,457	1,714	7,171	1,697	8,868	R900	7,888	950	6,938	-68	-258	17,033
1993	5,264	1,582	6,847	1,738	8,582	R1,020	8,620	1,003	7,618	151	-168	17,237
1994	5,103	1,559	6,662	1,727	8,388	R1,025	8,996	942	8,054	15	-266	17,718
1995	5,076	1,484	6,560	1,762	8,322	R1,078	8,835	949	7,886	-246	-193	17,725
1996	5,071	1,393	6,465	1,830	8,295	R1,150	9,478	981	8,498	-151	-215	18,309
1997	5,156	1,296	6,452	1,817	8,269	R1,192	10,162	1,003	9,158	143	-145	18,620
1998	5,077	1,175	6,252	1,759	8,011	R1,267	10,708	945	9,764	239	-115	18,917
1999	4,832	1,050	5,881	1,850	7,731	R1,262	10,852	940	9,912	-422	-191	19,519
2000	R4,851	970	R5,822	1,911	R7,733	R1,325	R11,459	1,040	R10,419	R-69	-155	R19,701
2001 <sup>P</sup>	4,884	968	5,853	1,864	7,716	1,305	11,619	982	10,637	58%	309	19,593

<sup>1</sup> United States excluding Alaska and Hawaii.  
<sup>2</sup> Refinery processing gains and field production of other hydrocarbons, hydrogen, oxygenates (ethers and alcohols), gasoline blending components, and finished petroleum products.  
<sup>3</sup> A negative number indicates a decrease in stocks and a positive number indicates an increase. Distillate stocks in the "Northeast Heating Oil Reserve" are not included.  
<sup>4</sup> "Unaccounted for" represents the difference between crude oil supply and disposition.  
R=Revised. P=Preliminary. (s)=Less than 500 barrels per day.  
Notes: • Crude oil includes lease condensate. • For the definition of petroleum products supplied, see

Notes 1, 2, and 3 at end of section. • Totals may not equal sum of components due to independent rounding.  
Web Page: [http://www.eia.doe.gov/oil\\_gas/petroleum/info\\_glance/petroleum.html](http://www.eia.doe.gov/oil_gas/petroleum/info_glance/petroleum.html).  
Sources: • 1949-1975—Bureau of Mines, Mineral Industry Surveys, *Petroleum Statement, Annual*, annual reports. • 1976-1980—Energy Information Administration (EIA), *Energy Data Reports, Petroleum Statement, Annual*, annual reports. • 1981-2000—EIA, *Petroleum Supply Annual*, annual reports. • 2001—EIA, *Petroleum Supply Monthly* (February 2002).



UNITED STATES CRUDE OIL IMPORTS BY SOURCE<sup>1</sup>

(Thousands of Barrels)

Year	Total North							Total South							Total Africa	
	Canada	Mexico	America	Colombia	Ecuador	Trinidad	Venezuela	America	Algeria	Angola	Congo	Egypt	Gabon	Nigeria		Zaire
1945	...	2,501	2,501	8,610	...	...	57,781	71,836	...	...	...	...	...	...	...	
1946	...	2,869	2,869	8,351	...	...	69,533	83,082	...	...	...	...	...	...	...	
1947	...	5,578	5,578	10,944	...	...	75,499	91,568	...	...	...	...	...	...	...	
1948	...	3,601	3,601	8,542	...	...	89,062	102,311	...	...	...	...	...	...	...	
1949	...	4,797	4,797	11,678	...	...	99,648	111,939	...	...	...	...	...	...	...	
1950	...	12,307	12,307	16,159	...	...	107,019	123,789	...	...	...	...	...	...	...	
1951	493	13,862	14,355	16,312	...	...	107,439	123,749	...	...	...	...	...	...	...	
1952	1,116	8,483	9,599	16,209	...	...	121,963	138,172	...	...	...	...	...	...	...	
1953	2,527	2,897	5,424	15,860	...	...	120,178	136,128	...	...	...	...	...	...	...	
1954	2,565	3,018	5,583	12,415	...	...	128,377	142,427	...	...	...	...	...	...	...	
1955	16,810	5,510	22,320	8,125	...	...	140,754	150,816	...	...	...	...	...	...	...	
1956	42,739	4,666	47,405	9,009	...	...	167,050	177,602	...	...	...	...	...	...	...	
1957	55,131	2,441	57,572	8,366	...	...	193,756	204,166	...	...	...	...	...	...	...	
1958	30,426	672	31,098	9,411	...	...	158,167	168,158	...	...	...	...	...	...	...	
1959	33,730	112	33,842	12,437	...	...	165,883	178,865	...	...	...	...	...	...	...	
1960	41,349	925	42,274	14,799	...	...	172,887	187,955	284	...	...	1,167	...	...	1,451	
1961	66,614	3,655	70,269	10,050	...	...	155,751	167,726	...	...	...	1,887	...	...	1,887	
1962	85,152	3,644	88,796	8,614	...	...	168,993	178,884	1,543	...	...	1,543	...	...	3,086	
1963	90,394	3,657	94,051	8,293	...	...	174,537	184,882	380	...	...	1,772	...	...	2,152	
1964	101,607	3,577	105,184	9,606	...	...	174,222	183,828	2,249	...	...	1,077	...	...	3,326	
1965	107,762	2,552	110,314	15,211	...	...	157,852	173,063	3,256	...	...	881	...	5,296	9,433	
1966	126,712	...	126,712	14,424	...	...	147,427	163,088	1,400	...	...	852	...	4,114	6,366	
1967	150,409	...	150,409	11,855	...	...	131,089	150,593	1,447	...	...	1,318	...	1,432	21,659	
1968	169,418	...	169,418	11,981	...	...	125,737	146,559	1,944	...	...	10,795	...	3,131	15,870	
1969	203,298	...	203,298	15,551	...	...	111,722	134,549	358	...	...	14,778	...	17,958	82,380	
1970	245,258	...	245,258	7,313	...	...	97,996	106,108	2,093	...	...	7,626	...	17,490	27,209	
1971	263,294	...	263,294	3,175	...	...	110,574	114,010	4,685	1,301	...	6,924	...	34,826	47,736	
1972	312,440	...	312,440	1,695	5,331	8,626	93,300	109,359	31,753	5,785	...	3,091	...	88,887	129,516	
1973	365,370	489	365,859	778	17,229	...	125,742	165,488	43,619	17,753	...	5,296	...	163,687	230,355	
1974	288,763	597	289,360	...	15,225	23,045	116,437	154,707	65,764	17,536	67	3,227	8,552	254,358	356,121	
1975	219,175	25,660	244,835	...	20,679	42,097	144,221	208,937	96,459	26,051	...	1,687	9,811	272,265	488,515	
1976	135,690	31,670	167,360	2,041	13,671	38,142	88,139	148,842	149,190	2,426	3,142	6,311	9,685	370,962	7,038	716,661
1977	101,778	64,711	166,489	...	20,229	48,841	91,331	161,979	198,468	6,150	2,440	13,034	12,632	412,498	...	912,631
1978	90,490	115,426	205,916	...	13,910	51,974	66,125	139,708	231,253	2,290	5,454	7,395	13,841	332,035	263	830,773
1979	99,031	159,616	258,697	...	11,010	44,950	106,794	177,823	222,042	14,088	909	20,205	15,328	390,116	1,379	912,631
1980	73,004	184,326	257,330	...	5,765	42,007	56,491	118,359	165,371	13,091	2,273	11,250	9,065	304,090	4,691	723,908
1981	59,904	171,263	231,267	...	13,967	37,186	53,590	120,701	95,165	16,528	1,276	12,155	12,633	222,981	5,977	486,766
1982	78,041	235,298	313,339	...	11,788	33,541	56,434	116,360	32,714	15,248	456	14,683	14,429	186,329	6,914	282,706
1983	100,142	279,703	379,845	...	20,594	30,207	59,854	115,669	64,274	25,763	6,616	8,958	21,415	109,807	8,158	247,555
1984	124,687	241,054	365,741	...	17,066	31,939	92,728	142,219	71,074	31,172	12,226	3,485	20,838	75,669	11,460	225,928
1985	170,800	261,019	431,819	...	20,334	35,595	111,627	171,927	30,524	37,889	5,962	956	18,797	102,134	12,569	213,090
1986	208,163	226,533	434,696	20,715	23,408	34,060	151,937	233,760	28,423	37,076	7,188	3,620	8,959	159,683	9,490	255,669
1987	221,981	219,552	441,533	41,809	8,217	27,408	178,163	255,976	41,932	65,657	5,960	19,884	12,655	193,004	8,128	347,220
1988	249,077	246,545	495,622	38,640	12,240	26,119	160,747	240,872	21,123	74,325	10,747	9,560	5,664	222,094	11,470	368,674
1989	230,043	261,244	491,287	49,615	29,208	26,815	180,593	290,507	21,841	101,943	3,997	5,515	17,774	292,165	9,493	469,676
1990	234,516	251,345	485,861	51,041	13,886	27,803	242,910	340,866	23,035	86,095	8,457	9,005	23,349	286,126	8,468	451,171
1991	271,375	276,864	548,239	44,924	19,199	26,433	243,986	338,078	15,990	92,839	10,598	6,322	30,556	249,403	9,852	423,148
1992	291,616	288,206	579,822	37,473	22,675	25,514	302,348	399,731	8,730	122,797	15,692	12,494	45,056	243,365	6,320	458,832
1993	328,504	314,961	643,465	51,520	28,378	20,209	368,641	475,067	8,746	122,741	19,222	24,688	54,952	263,532	6,826	504,307
1994	358,955	342,598	701,553	53,129	33,333	22,674	377,525	501,764	7,714	117,641	10,390	17,666	70,806	227,638	4,949	458,828
1995	379,518	374,719	754,237	75,436	35,098	22,589	419,996	572,118	9,789	131,281	7,316	11,718	83,642	226,574	5,233	476,879
1996	393,571	441,632	835,203	82,796	35,203	21,265	476,751	636,888	2,964	125,845	11,963	13,852	67,475	217,911	5,487	446,879
1997	437,396	496,275	933,671	98,461	41,567	20,300	508,730	711,427	2,195	155,298	17,178	12,989	84,109	251,608	7,599	531,416
1998	462,228	482,252	944,480	127,487	35,593	19,423	502,552	737,461	3,526	169,580	19,527	4,130	75,543	251,315	6,219	530,216
1999	429,962	457,655	887,617	165,078	41,567	14,748	419,893	690,709	9,305	130,168	16,645	8,127	61,247	227,471	900	455,487
2000	493,256	480,469	973,725	116,311	45,685	20,331	447,736	657,657 <sup>2</sup>	211	107,820	15,422	1,630	52,237	320,137	2,844	501,859 <sup>3</sup>
2001	494,796	508,715	1,003,511	94,844	41,403	18,562	471,243	656,074 <sup>2</sup>	3,966	117,254	14,430	0	51,065	307,173	345	495,488 <sup>3</sup>

<sup>1</sup> Totals may include amounts from countries not listed.<sup>2</sup> Includes 21,013 from Argentina, 2,524 from Peru, and 6,485 from Guatemala.<sup>3</sup> Includes 1,255 from Cameroon.

# UNITED STATES CRUDE OIL IMPORTS BY SOURCE<sup>1</sup>

(Thousands of Barrels)

Year	Neutral Zone							United <sup>2</sup> Arab Emirates		Total Middle East	United Kingdom			Total All Countries
	Iran	Iraq	Kuwait	Oman	Qatar	Saudi Arabia	Other	Indonesia	Malaysia	Norway	Other	Other	Other	
1945	...	...	...	...	...	...	...	...	...	...	...	...	74,337	
1946	...	...	115	...	...	...	...	...	115	...	...	...	86,066	
1947	...	...	111	...	...	...	...	...	275	...	...	...	97,532	
1948	4,507	766	3,442	...	...	...	...	14,466	...	23,181	...	...	129,093	
1949	1,107	341	23,445	...	...	...	...	12,057	...	36,950	...	...	153,686	
1950	111	...	26,741	...	...	...	...	14,650	...	41,618	...	...	177,714	
1951	...	...	21,601	...	...	...	...	15,900	...	37,501	...	...	179,103	
1952	...	705	26,444	...	...	...	...	29,407	...	56,556	3,640	...	209,591	
1953	...	2,287	38,611	...	...	...	...	36,668	...	80,934	13,969	...	236,455	
1954	204	2,188	41,046	2,983	...	...	...	27,819	...	77,764	13,705	...	239,479	
1955	3,202	6,988	48,954	6,639	...	...	...	29,050	...	100,344	11,941	...	285,421	
1956	7,257	9,650	50,953	3,072	...	...	...	27,670	...	103,517	13,309	...	341,833	
1957	6,624	4,477	51,389	2,050	...	...	...	21,011	...	87,798	23,719	...	373,255	
1958	5,348	8,972	68,098	12,007	...	...	...	27,081	...	123,019	21,053	...	348,007	
1959	8,961	7,667	59,169	15,091	...	...	...	24,756	...	115,875	20,023	...	352,344	
1960	13,056	6,363	47,512	16,363	...	...	...	28,232	...	113,175	26,720	...	371,575	
1961	21,970	7,362	44,311	19,278	...	...	...	22,501	...	118,997	22,669	...	381,548	
1962	17,735	856	40,749	15,837	...	...	...	24,359	...	109,071	24,480	...	411,039	
1963	22,717	321	29,680	15,855	...	...	...	28,806	...	103,214	21,340	...	412,660	
1964	24,143	...	23,263	17,565	...	...	...	35,464	1,112	108,841	23,047	...	438,643	
1965	28,633	5,695	20,208	9,756	...	...	...	48,235	5,035	121,908	22,170	...	452,040	
1966	30,833	9,447	9,543	7,028	...	...	...	45,771	4,781	107,579	18,198	...	447,120	
1967	23,781	1,716	6,859	4,006	...	...	...	29,679	1,936	67,977	22,519	...	411,649	
1968	21,154	...	15,863	10,749	...	...	...	18,959	5,605	72,330	26,555	...	472,323	
1969	15,306	...	12,539	15,864	...	...	...	12,665	5,051	61,616	32,271	...	514,114	
1970	12,184	...	12,123	8,398	...	...	...	6,140	23,047	61,892	25,670	...	483,293	
1971	38,576	3,932	10,650	...	...	...	...	41,971	29,026	124,155	40,232	...	613,417	
1972	49,700	1,315	13,205	...	...	...	...	63,626	26,873	155,982	59,633	966	811,135	
1973	78,990	1,529	15,208	...	...	2,663	168,525	25,764	292,988	73,055	234	...	1,183,996	
1974	168,956	...	1,820	...	236	6,189	159,827	25,153	362,186	103,482	510	322	1,269,155	
1975	101,575	707	1,444	...	492	6,657	256,036	42,585	409,496	138,270	1,951	4,552	1,498,181	
1976	109,073	9,542	451	...	10,943	8,631	447,071	93,105	681,184	196,599	5,914	12,831	1,935,012	
1977	193,415	26,894	15,434	...	27,140	24,281	501,072	121,640	910,744	184,984	20,257	17,628	2,414,327	
1978	202,357	22,673	1,718	...	22,240	23,224	416,910	140,653	832,305	194,620	13,677	37,815	2,319,826	
1979	108,269	32,052	1,898	...	13,466	11,450	491,514	102,709	765,249	138,528	18,954	27,523	2,381,732	
1980	2,625	10,119	7,182	...	7,747	7,920	456,475	65,553	558,408	112,302	22,213	51,718	1,910,680	
1981	...	...	...	...	8,702	2,665	406,059	27,950	447,518	116,126	12,143	41,542	1,604,705	
1982	12,854	974	904	...	8,183	2,600	193,536	29,509	248,560	82,315	6,574	37,299	1,273,216	
1983	17,575	3,758	2,641	...	12,281	...	117,325	6,641	160,221	115,156	930	23,836	1,215,226	
1984	3,706	4,554	8,780	...	3,755	1,497	113,078	32,966	168,336	111,404	...	40,927	1,253,949	
1985	9,919	16,889	1,316	...	655	...	48,044	12,760	89,583	106,654	301	11,311	1,168,297	
1986	7,078	29,401	10,106	...	2,897	4,365	225,627	13,806	293,280	108,376	3,883	19,403	1,524,978	
1987	35,942	29,842	25,630	...	12,831	...	234,213	20,602	359,060	95,775	4,464	25,395	1,705,922	
1988	25	125,515	29,381	3,274	2,439	...	330,194	8,270	509,826	68,127	6,868	22,570	1,869,005	
1989	...	161,017	56,536	...	6,671	767	407,236	7,513	643,217	57,636	14,079	46,390	2,132,761	
1990	...	187,485	28,942	...	13,037	1,293	436,193	3,300	678,056	35,912	14,749	34,878	2,151,387	
1991	11,821	...	2,033	...	1,311	...	621,766	557	646,204	37,231	8,590	27,009	2,110,532	
1992	...	...	14,231	...	1,500	...	584,682	...	600,413	25,685	3,709	43,394	2,226,341	
1993	...	...	125,524	...	10,070	...	467,753	4,352	616,385	23,907	3,643	49,931	2,477,230	
1994	...	...	112,073	...	16,746	...	473,356	4,031	615,692	33,526	2,361	69,304	2,578,072	
1995	...	...	77,903	...	7,137	...	459,826	1,953	548,297	23,258	2,046	94,231	2,638,810	
1996	...	423	86,127	...	12,808	...	456,896	930	557,234	16,155	2,064	107,223	2,747,839	
1997	...	32,530	92,229	...	1,511	...	472,093	...	598,363	18,657	2,850	105,048	3,002,299	
1998	...	122,518	109,412	...	...	504	512,452	995	745,881	18,328	9,375	80,820	3,177,584	
1999	...	264,764	89,914	...	...	332	506,272	...	861,282	25,371	7,708	96,147	3,186,663	
2000	...	226,804	96,367	...	782	...	557,569	1,001	882,523	13,338	10,671	110,653	3,319,816	
2001	...	289,998	86,535	...	7,138	69	588,075	7,802	979,617	14,759	5,643	102,724	3,404,894	

<sup>1</sup> Totals may include amounts from countries not listed.

<sup>2</sup> Listed formerly as Abu Dhabi.

<sup>3</sup> Included with Saudi Arabia 1971-1987.

## Executive Summary

After nearly a century of being one of the nation's leading energy exporters, Kansas is now a net energy importer (Figure 1). Kansas's net energy balance is expected to worsen for the foreseeable future, with serious implications for the economic well being of the state. Fossil energy fueled the Kansas economy and provided substantial exports to other states for much of the 20<sup>th</sup> century. By about twenty years ago, Kansas's energy production and consumption were roughly in balance. This was due to a combination of declining oil, gas, and coal production, and increasing imports of coal for electricity generation and gasoline for transportation. However, since 1997, the net energy balance has shifted strongly to the negative side (Figure 1). By 2007, we estimate that Kansas's net imports will be 650 trillion Btu a year, which means that Kansas could be importing more than \$2.5 billion of energy to meet its demand.

The State Energy Resources Coordination Council (SERCC) is tasked with developing plans to increase the state's energy self-sufficiency and restore the state to being a net energy exporter. Specific tasks of the Council include preparing a comprehensive energy plan, updated annually. The Council is also tasked with developing forecasts of

Kansas energy production and consumption for the next five years.

Achieving energy self-sufficiency will likely require a combination of the following:

- extending the life of the state's oil and gas fields,
- increasing conservation and efficiency, and
- developing new sources of energy, of which the most promising in the near-term appear to be ethanol, wind, and coalbed methane.

### Energy Production and Consumption Forecasts

The Kansas energy balance continues to worsen, with production declining and demand increasing. Imports are increasing sharply to make up the shortfall. The state production and demand were about balanced from 1982 to 1997 (Figure 1). Since 1997, however, the state has become a net importer of energy. By 2007, the state is projected to need 650 trillion Btu more energy annually than it produces. Unless conservation and production increase dramatically, the shortfall will have to be made up from imports.

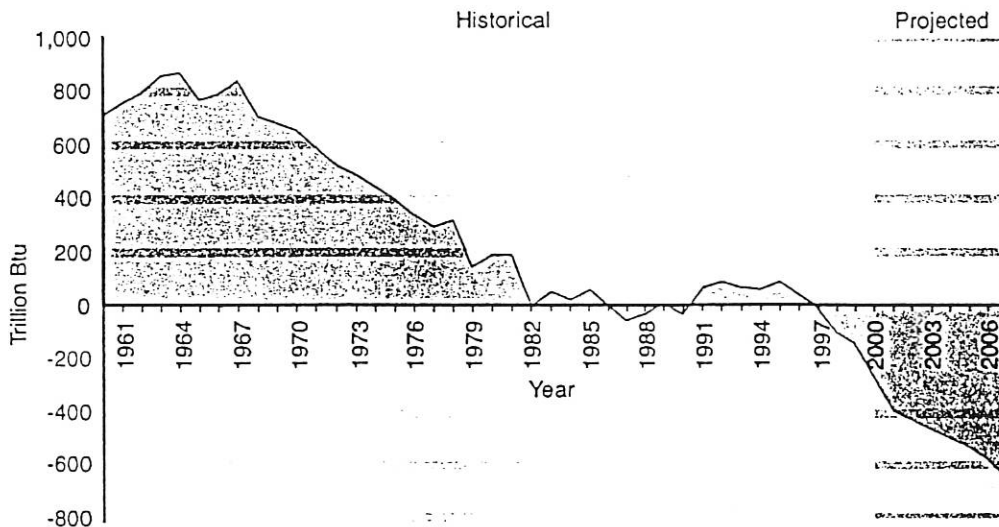
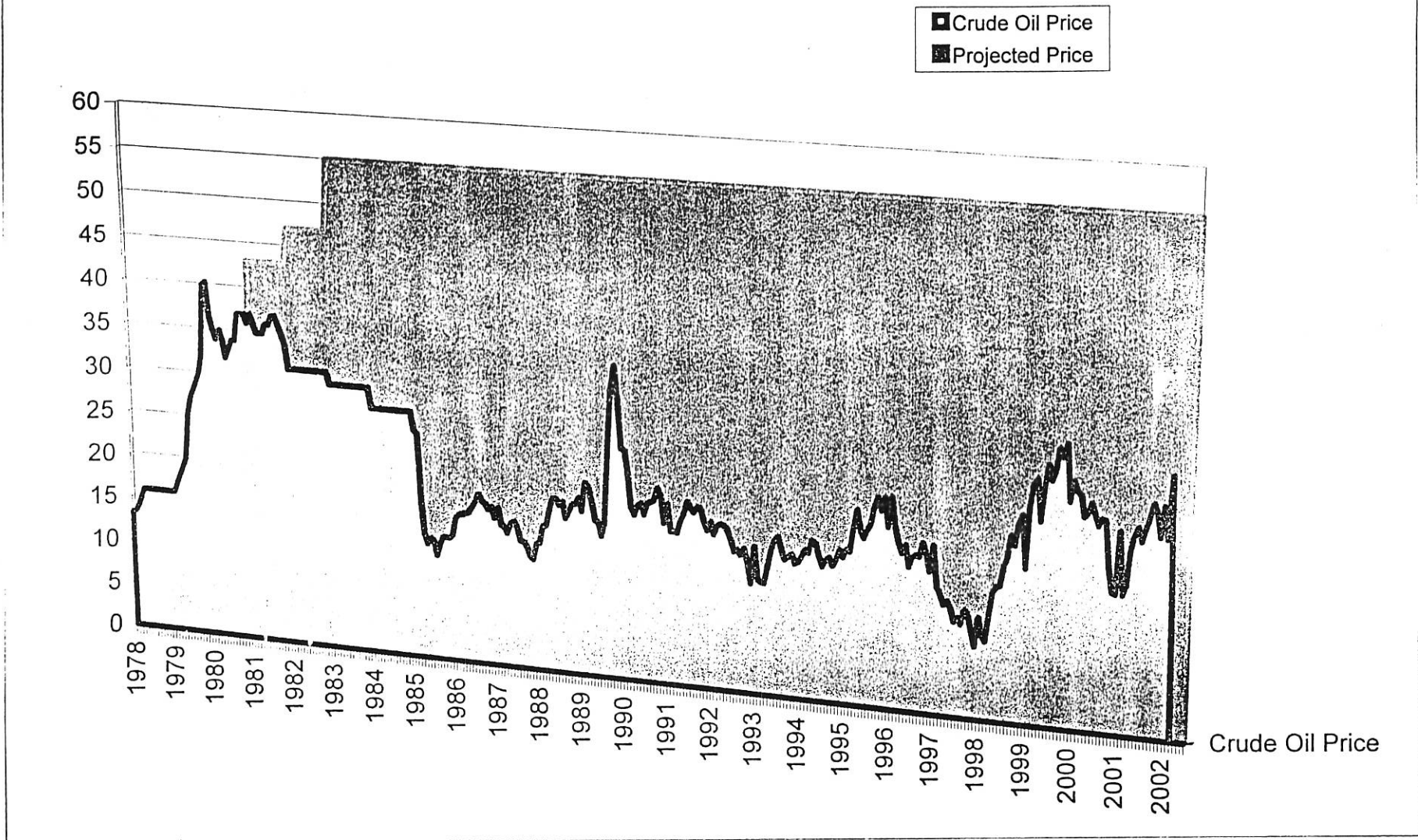


Figure 1—Kansas net energy balance, 1960 to 1999, with projections to 2007. Positive numbers show energy produced in excess of consumption (exports), while negative numbers show energy consumed in excess of production (imports).

# THE BIG MISTAKE



### Active Rig Count—Mid-Continent Region

State/District	Latest Data Jan 10, 2003	Week Ago Jan 3, 2003	Month Ago Dec 13, 2002	Year Ago Jan 11, 2002
Arkansas	2	2	0	1
Kansas	9	9	8	9
Missouri	0	0	0	0
Nebraska	0	0	0	1
Oklahoma	102	100	95	71
Tex Pan RRC 10	16	15	20	8
<b>Mid-Continent Total</b>	<b>129</b>	<b>126</b>	<b>123</b>	<b>90</b>
<b>U.S. Total</b>	<b>851</b>	<b>837</b>	<b>850</b>	<b>856</b>

Source: Hughes Christensen

### Mid-Continent Well Completions 2001/2002 Comparison January-December

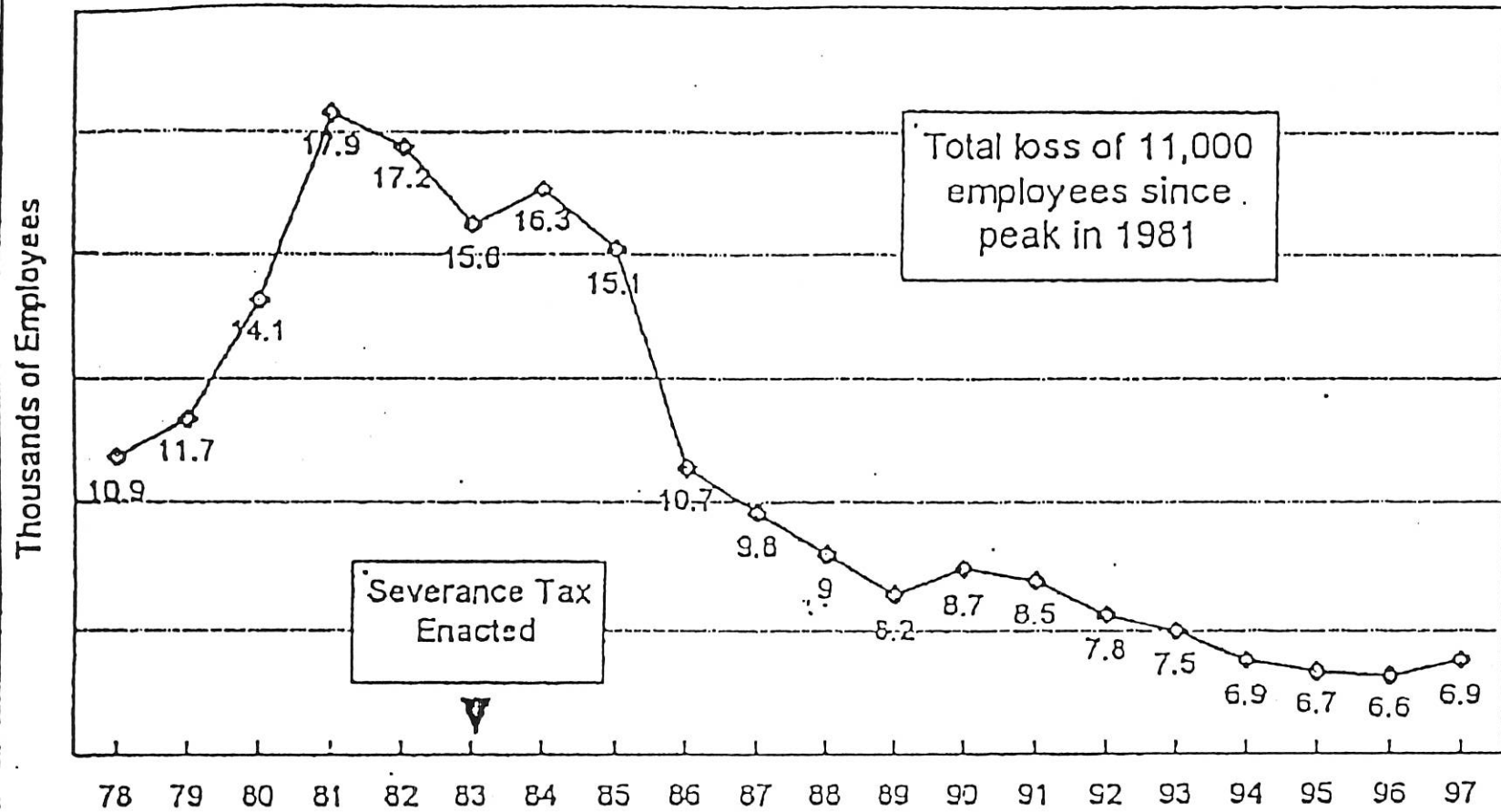
State	New Field Wildcats				Other Exploratory				All Wells Drilled					
	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total	Footage	
<b>N. Arkansas</b>														
2002	0	1	1	2	0	0	0	0	0	89	24	113	613,731	
2001	0	3	11	14	0	2	0	2	0	119	37	156	854,049	
% chg	—	-66.7%	-90.9%	-85.7%	—	-100.0%	—	-100.0%	—	-25.2%	-35.1%	-27.6%	-28.1%	
<b>Kansas</b>														
2002	33	20	92	145	29	27	47	103	241	324	296	861	2,811,377	
2001	32	34	121	187	35	48	74	157	280	409	398	1087	3,792,930	
% chg	3.1%	-41.2%	-24.0%	-22.5%	-17.1%	-43.8%	-36.5%	-34.4%	-13.9%	-20.8%	-25.6%	-20.8%	-25.9%	
<b>Missouri</b>														
2002	0	1	0	1	0	0	0	0	0	1	0	1	425	
2001	0	0	1	1	0	0	0	0	0	0	0	1	542	
% chg	—	—	-100.0%	0.0%	—	—	—	—	—	—	—	0.0%	-21.6%	
<b>Oklahoma</b>														
2002	6	14	23	43	2	20	8	30	381	1,095	307	1,783	11,410,195	
2001	9	35	41	85	8	42	17	67	491	1,487	370	2,348	15,312,120	
% chg	-33.3%	-60.0%	-43.9%	-49.4%	-75.0%	-52.4%	-52.9%	-55.2%	-22.4%	-26.4%	-17.0%	-24.1%	-25.5%	
<b>Texas RRC 10</b>														
2002	1	1	4	6	1	6	3	10	26	242	34	302	1,963,108	
2001	1	4	8	13	0	11	4	15	69	397	48	514	3,271,643	
% chg	0.0%	-75.0%	-50.0%	-53.8%	—	-45.5%	-25.0%	-33.3%	-62.3%	-39.0%	-29.2%	-41.2%	-40.0%	
<b>Region Total</b>														
2002	40	37	120	197	32	53	58	143	648	1,751	661	3,060	16,798,836	
2001	42	76	182	300	43	103	95	241	840	2,412	853	4,106	23,231,284	
% chg	-4.8%	-51.3%	-34.1%	-34.3%	-25.6%	-48.5%	-38.9%	-40.7%	-22.9%	-27.4%	-22.5%	-25.5%	-27.7%	

## SEISMIC ACTIVITY AND ROTARY RIGS RUNNING IN THE UNITED STATES

Year	Rotary Rigs Running (Monthly Average)							Total U.S.	Seismic Activity (Avg. Crews/Mo.)
	California	Kansas	Louisiana	Oklahoma	Texas	Wyoming	All Other States		
1949	173	115	239	238	922	78	252	2,017	476
1950	134	129	231	269	1,063	65	263	2,154	448
1951	157	165	243	302	1,230	88	359	2,544	545
1952	165	162	257	326	1,173	83	475	2,641	663
1953	169	164	280	344	1,039	102	515	2,613	639
1954	138	157	312	330	1,018	90	463	2,508	572
1955	143	178	401	326	1,059	79	500	2,686	591
1956	119	169	442	286	1,054	71	479	2,620	568
1957	97	155	423	243	951	65	495	2,429	524
1958	80	130	309	204	719	58	423	1,923	422
1959	93	138	332	226	750	74	461	2,074	425
1960	80	112	287	179	604	63	425	1,750	385
1961	82	105	275	197	628	58	415	1,760	380
1962	97	101	261	174	570	53	381	1,637	326
1963	85	96	265	158	500	55	341	1,500	331
1964	93	87	282	158	477	48	357	1,502	342
1965	89	70	270	163	425	50	320	1,387	354
1966	79	56	256	141	387	48	306	1,273	306
1967	83	41	235	101	340	44	290	1,134	278
1968	87	35	233	106	329	75	304	1,169	272
1969	78	38	230	120	322	81	325	1,194	263
1970	52	30	204	98	302	71	271	1,028	195
1971	46	29	194	90	291	45	281	976	221
1972	46	24	215	90	338	61	333	1,107	251
1973	51	28	205	115	376	70	350	1,195	250
1974	72	44	203	146	508	107	391	1,471	305
1975	80	57	228	177	638	107	373	1,660	284
1976	89	51	231	186	653	86	360	1,656	262
1977	90	67	292	233	779	118	422	2,001	308
1978	94	76	338	258	855	137	497	2,255	352
1979	96	66	347	247	770	147	503	2,176	400
1980	120	120	427	397	988	156	702	2,910	530
1981	155	196	456	698	1,316	191	957	3,969	681
1982	129	158	344	623	994	143	726	3,117	588
1983	106	124	283	285	796	96	539	2,229	473
1984	107	128	310	319	850	115	599	2,428	494
1985	80	91	282	251	677	93	495	1,969	378
1986	49	47	143	142	313	36	240	970	201
1987	61	48	136	137	296	40	218	936	177
1988	60	40	164	126	281	37	228	936	182
1989	49	43	140	122	266	34	215	869	132
1990	49	47	151	125	349	37	252	1,010	125
1991	47	37	115	106	317	31	207	860	104
1992	35	27	88	98	251	38	182	719	76
1993	34	29	105	105	265	38	174	750	79
1994	30	33	132	106	274	33	167	775	87 <sup>1</sup>
1995	27	29	141	96	251	24	155	723	...
1996	27	23	156	106	283	24	160	779	...
1997	32	19	193	103	357	39	200	943	...
1998	28	13	187	85	302	39	176	830	...
1999	18	7	137	60	217	30	134	603	...
2000	24	22	194	99	342	41	192	914	...
2001	36	23	215	131	464	55	238	1162	...

<sup>1</sup> Monthly average is based on 7 months. Data not available after July 1994.

# Oil & Gas Extraction Employment 1978 to 1997



Ex E

## ***What a barrel of crude oil makes\****

<b><u>Product</u></b>	<b><u>Gallons per barrel</u></b>
<b>Gasoline</b>	<b>19.5</b>
<b>Distillate fuel oil</b> (includes both home heating oil and diesel fuel)	<b>9.2</b>
<b>kerosene-type jet fuel</b>	<b>4.1</b>
<b>residual fuel oil</b> (heavy oils used as fuels in industry, marine transportation and for electric power generation)	<b>2.3</b>
<b>liquefied refinery gasses</b>	<b>1.9</b>
<b>still gas</b>	<b>1.9</b>
<b>coke</b>	<b>1.8</b>
<b>asphalt and road oil</b>	<b>1.3</b>
<b>petrochemical feedstocks</b>	<b>1.2</b>
<b>lubricants</b>	<b>0.5</b>
<b>kerosene</b>	<b>0.2</b>
<b>other</b>	<b>0.3</b>

**\*Figures based on 1995 average yields for U.S. refineries. One barrel contains 42 gallons of crude oil. The total volume of products made is 2.2 gallons greater than the original 42 gallons of crude oil. This represents "processing gain."**

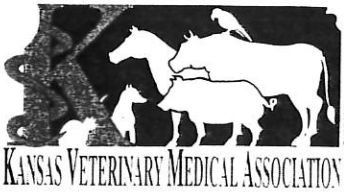


**ONE BARREL OF  
KANSAS CRUDE OIL  
MAKES**

<u>Product</u>	<u>Gallons</u> Per Barrel	<u>Federal Tax</u> Per Gallon	<u>State Tax</u> Per Gallon	<u>Total Tax</u> Per Gallon	<u>Total Tax</u> Per Barrel
Gasoline	19.5	\$0.184	\$0.220	\$0.404	\$7.88
Diesel Fuel	9.2	\$0.244	\$0.240	\$0.484	\$4.45
Jet Fuel	4.1	\$0.219	\$0.050 <sup>(1)</sup>	\$0.269	\$1.10
(1) City Tax (2) Tax Varies with Price		(2) State Severance Tax Per Barrel			\$0.45
		(2) Ad Valorem Property Tax Per Barrel			\$0.87
		Oil Conservations Tax Per Barrel			\$0.05
		Total Tax Per Barrel			\$14.80

**AND GENERATES  
\$14.80 PER BARREL  
IN TAXES**

<b>Data Sources:</b>	FY 2001 Crude Oil Production - 34,273,233 barrels	Kansas Geological Survey
FY 2001 Severance Tax Paid on Crude Oil - \$15,287,260		KDOR
FY 2001 Ad Valorem Tax paid on Crude Oil \$29,666,283		KDOR-PVD
Oil Conservation Tax Rate - \$.05 per bbl		Kansas Tax Facts
Gasoline	\$.22 per gal State .184 per gal Federal	Kansas Tax Facts
Diesel	\$.24 per gal State .244 per gal Federal	Kansas Tax Facts
Jet Fuel	\$.0 State .219 per gal Federal .05 per gal City	Kansas Tax Facts



816 SW Tyler, Suite 200, Topeka, KS 66612-1635 ■ (785) 233-4141 ■ FAX: (785) 233-2534

Testimony  
**House Taxation Committee**  
**9:00 a.m. Thursday, Feb. 6**  
Room 519 South  
State Capitol Building

Rep. Edmonds and members of the House Taxation Committee, my name is Gary Reser. I am executive vice president of the Kansas Veterinary Medical Association (KVMA), the professional association representing the Kansas veterinary profession through legislative, regulatory, education, communications, and public awareness programs.

The KVMA has approximately 750 members in Kansas and about 400 in all other states.

**The KVMA appears today in opposition to H.B. 2099 and respectfully urges you to vote “no” on the bill.**

**K.S.A. 79-3606(n)** is struck from H.B. 2099 and therefore eliminates the current sales tax exemption on items consumed in the production of livestock, poultry, and animals intended to be resold. The exemption extends to livestock operations, poultry and dairy operations, and dog and cat breeding operations.

The consumed in production exemption is narrow in application and is limited to items actually consumed or dissipated. The production process begins with conception and continues through the raising and fattening of livestock for market.

Examples of exempt “products” relating to veterinary medicine might include, but would not be limited to, antibiotics, pharmaceuticals, vitamins, minerals, worm medicines, insecticides, and ear tags.

Another sales tax exemption under (n) is for professional services, which extends to veterinary services as they relate to livestock production.

H.B. 2099 is not good for Kansas agriculture and the state’s farmers and ranchers. It will result in an increased cost of business for agricultural producers during a time when they are already strapped due to drought and a sluggish economy.

The measure will place Kansas production agriculture at a competitive disadvantage in regard to neighboring states and their sales tax situations. Livestock operations and dairy operations may relocate to other states or choose Kansas’ neighbors for new operations.

Keeping track of the amounts or portions of items used in providing veterinary services to production agriculture and assigning the appropriate sales tax would be an administrative headache, to say the least.

House Taxation  
Attachment 4  
Date 2-6-03

As an example, twenty-eight inches of a 30 foot roll of gauze was used on an animal and the roll's retail cost was \$12.78. The veterinarian would have to measure the amount of gauze used on the wound, determine the percentage of the gauze compared to the entire roll, and assess and bill for that tax amount. The same scenario would apply to suture materials, salves, creams, surgical staples, and a myriad of other products.

A client requests a copy of his animal's medical file. The veterinarian uses 17 pages out of a 500 page ream. He would have to determine the percentage of the ream used for the file and assess and collect sales tax on that amount of paper. This illustration could also be applied to radiograph materials and ultrasound film.

The veterinary code of ethics and practice act obligates veterinarians to focus on the care of the patient above all else. Determining during surgery how much of that care must be documented, assigning a sales tax to it, and collecting it from the client could potentially serve as a distraction to quality patient care and treatment. This would appear to justify a sales tax exemption for veterinarians, like those exemptions in place for other health care professionals.

The increased costs for veterinarians to determine and assess sales tax will also have to be passed on to farmers, ranchers, and feedlots.

Many veterinarians perform thousands of dollars a year in charitable and "pro bono" work. Their code of ethics and practice act demand that an injured or dying animal receive the highest level of care regardless of fee and ability to pay. Any professional services deemed necessary in these instances must meet the "standard of care."

Many of the above types of cases are billed with little or no hope of ever collecting fees. If veterinary services are subject to a sales tax, veterinarians would be forced to pay the delinquent taxes that are part of these fees out of net profits from other clinic services. The veterinarian cannot and would not want to deny these services, but good clients might be picking up the costs.

The exemptions covered in H.B. 2099 made sense for agriculture when they were passed into law and still make sense today.

**Please vote "no" on H.B 2099.**

Thank you for the opportunity to be here today.



*Since 1894*

## TESTIMONY

To: House Taxation Committee  
Representative John Edmonds, Chairman

From: Todd Johnson, Governmental Affairs Staff

Subject: **HB 2099** – Sales Tax Exemptions  
K.S.A. 2002 Supp. 79-3606, paragraph (n)

Mr. Chairman and committee members, I am Todd Johnson, Governmental Affairs staff for the Kansas Livestock Association. The Kansas Livestock Association represents over 6,000 independent members, encompassing all segments of the livestock industry - seedstock, cow-calf, stocker and feedlot operators. I appear before you today in opposition to HB 2099, which would repeal the sales tax exemption for paragraph (n), sales of tangible personal property consumed in the production of personal property.

The imposition of a tax on products and services consumed in the production of beef essentially results in a value-added tax, adding costs to all segments of the production chain. Livestock producers, grain farmers and other “first input” providers in a manufacturing system are price takers, not price setters. Our members have no ability to “pass on” any added expenses, or to “mark up” their product when selling to the next segment of the system. Any additional taxes imposed on our producers become expenses for them to deduct from an already small, or nonexistent, operating margin.

In 2001, Kansas ranked second in the nation in cattle processed (7.27 million head) and second in value of live animals and meat exported to other countries. We have achieved this status, and built a meat packing industry that employs over 18,000 people, because of our ability to add value to beef. To date, Kansas’ laws have encouraged this growth; however, any changes to these laws that would put Kansas at a competitive disadvantage to other states certainly would encourage the migration of this industry away from our state.

Today, beef is marketed as a brand-name product in convenient, ready-to-eat forms. By adding value, beef is able to demand a higher price at the retail level, ultimately recouping a larger amount of consumer tax dollars. Collecting the tax on beef is done much more efficiently at the retail level rather than throughout the production chain.

At a time when the agricultural economy of our state is depressed due to market and weather conditions, we urge you to not add another burden to the bottom line of our producers, and others involved in any manufacturing business.

House Taxation  
Attachment 5  
Date 2-6-03



Hill's Pet Nutrition, Inc. and Subsidiaries  
400 SW 8th  
Topeka, KS 66603  
(785) 368-5070 Fax: (785) 368-5132

Denise Washburn, CPA  
*Senior Corporate Tax Manager*

February 6, 2003

Mr. Chairman and members of the Committee:

My name is Denise Washburn. I am the Senior Corporate Tax Manager for Hill's Pet Nutrition here in Topeka. I am here today to express our opposition to House Bill 2099 concerning the removal of the sales tax exemption on the sale of personal property consumed in production and manufacturing.

Hill's Pet Nutrition, the world leader in specialty pet food, has a manufacturing facility located here in Topeka, KS. The enactment of House Bill 2099 would revoke the current sales and use tax exemption available to our Topeka plant on purchases of items consumed in the production of our products such as: natural gas, electricity, water, and other supplies directly consumed in our production process. In 2002 our Topeka plant had over \$2.7 Million dollars in expenses which under the proposed change would now be taxed and would increase our manufacturing cost an additional \$200,000 in Kansas.

This type of increase in overhead expense cannot be passed to the end consumer and therefore must be absorbed by the company. Our manufacturing facilities in California, Kentucky and Indiana will have a clear advantage over our Topeka plant when competing for additional investment and production without the burden of this additional cost. Therefore, when comparing the cost of production at our Topeka plant with our other manufacturing locations in the US, the adoption of House Bill 2099 will become a clear disadvantage to increasing or maintaining production at our Topeka Plant.

The fact is that House Bill 2099 will have a long term negative effect on any potential expansions and investments into the manufacturing facility in Topeka as products produced here would have to compete with lower production costs at other locations due to the higher sales and use tax burden.

Thank you for your consideration.

House Taxation  
Attachment 6  
Date 2-6-03

Testimony on HB 2099  
Taxation Committee  
February 6, 2003  
By Christy Caldwell, Vice President  
Greater Topeka Chamber of Commerce

Mr. Chairman and members of the committee, my name is Christy Caldwell, Vice President Government Relations for the Greater Topeka Chamber of Commerce. I am here today to oppose HB 2099, focusing on section 1(n) concerning the removal of the sales tax exemption on personal property consumed in production.

This sales tax exemption is extremely important to manufacturing interests in our community and the state. Removal of this sales tax exemption would put our local manufacturers at a competitive disadvantage. All the states surrounding Kansas currently provide a sales tax exemption for materials consumed in production. I have asked representatives from two local manufacturing firms to appear today to explain the impact on their companies: PTMW, Inc. and Hills Pet Nutrition, Inc.

As I testified last week, I have to believe there is no good reason that we would want to create a disincentive to retain and grow Kansas businesses. Isn't growth in the economy what we need right now? When Kansas businesses succeed, the state succeeds. Let's not reverse the strides we have already made in Kansas to create and retain business growth. Let's remind ourselves of the goal in the '80's and continue down the path of prosperity. Mr. Chairman and Committee, we ask that you keep your eye on the goal – more Kansas business investment, more Kansas jobs, and more Kansas income. That goal will bring our state the revenues it needs to fund the state operations we all desire. We ask that you not approve HB 2099 or any other bills that remove business sales tax exemptions.

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Tom R. Barnes II  
Todd A. Luckman  
Wesley F. Smith

Walter G. Stumbo  
(1911 - 1998)

gary@stumbolaw.com

February 6, 2003

Chairman John Edmonds  
House Committee on Taxation

**Re: Testimony in Support of House Bill 2099**

Dear Chairman Edmonds and Members of the Committee:

I represent the Kansas Rural Water Association (KRWA). The Association opposes HB 2099.

KRWA is a state-wide organization that provides training and assistance to public water supplies across Kansas. Its membership includes 435 cities and 286 rural water districts.

Among other things, HB 2099 would repeal the sales tax exemption for direct and indirect purchases by rural water districts by repealing K.S.A. 79-3606(s). This exemption was passed by the 2001 Legislature as a part of an overall package concerning sales tax on purchases by public water supplies. Aside from the philosophical question of whether one level of government should be taxing the sales of another, the primary goal for proponents like KRWA for these sales tax exemptions was to eliminate some very hard to apply rules to the taxation of purchases by these systems.

However, in recognition of the fiscal note attached to this exemption, as a trade-off for the tax exemption the Legislature enacted a Clean Drinking Water Fee which is imposed at the rate of 3¢ per 1,000 gallons of water sold at retail by a public water supply. This fee is now found at K.S.A. 82a-2101. This fee was set at this amount for the specific purpose of offsetting any revenue loss that would be otherwise realized by the state as a result of the tax exemption.

KRWA opposes HB 2099 because it would undo the simplification that was achieved as a result of the 2001 legislation and once again subject rural water districts to the complex web of sales tax rules as they apply to water systems. In addition, because HB 2099 does not contain a repeal of K.S.A. 82a-2101, RWD's would apparently be subject to both the sales tax and the Clean Drinking Water Fee, and not just one or the other, resulting in a 100% tax increase for rural water districts, and as a result, to their customers. Further, HB 2099 repeals the sales tax exemption for rural water districts and certain water supply districts, but it does not affect public water supply systems operated by cities, which were made exempt by the Legislature in the same Bill in 2001 as a result of amendments to K.S.A. 79-3606(b).

For the reasons above, KRWA opposes HB 2099 and urges the Committee to kill the entire Bill or delete the repeal of K.S.A. 79-3606(s).

Sincerely,



GARY H. HANSON

House Taxation  
Attachment 8  
Date 2-6-03



KANSAS  
RURAL  
WATER  
*association*

Quality water, quality life

P.O. Box 226 • Seneca, KS 66538 • 913/336-3760 • FAX 913/336-2751

**Comments on House Bill No. 2099  
Before the House Taxation Committee  
February 6, 2003**

Mr. Chairman and Members of the Committee:

I am Dennis Schwartz, Director of the Kansas Rural Water Association, and General Manager of Shawnee County Rural Water District No. 8.

On behalf of the nearly 300 Rural Water Districts and Public Wholesale Water Supply Districts in Kansas, I would like to state our opposition of HB 2099, and most specifically the deletion of Subsection "s" which provides for the exemption of sales tax for purchases by Rural Water Districts, Public Wholesale Districts and Water One.

Kansas Rural Water worked for 5 years help accomplish this exemption. Why did we do that? It was mainly to end the very confusing and complicated rules that were applied to the collection of sales tax on purchases by public water supply systems. Finally the legislature granted the exemption in 2001 after systems agreed to replace the lost revenue to the State by instituting a Clean Drinking Water Fee of 3 cents per thousand gallons sold at retail. We believe that this new fee has completely offset the lost revenue, and know that it has greatly clarified the sales tax applications for all water systems.

Our request for the exemption that was granted to public water supply systems was never about money. Our considerable research indicated that there was a wide disparity in the interpretation of sales tax rules by the Department of Revenue, by contractors providing services to water systems, and the water systems themselves. The exemption provided for simplification for all parties involved, without a negative fiscal impact for the State of Kansas.

We implore you to not undo the very positive changes that were made in the 2001 Legislative session. Water systems that are paying the Clean Drinking Water Fee are supporting the State of Kansas. We respectfully request that you not approve HB 2099 as it is currently drafted as it in effect represents double taxation for more than 800 cities and water systems.

Sincerely,

Dennis F. Schwartz, Director  
Kansas Rural Water Association

House Taxation  
Attachment 9  
Date 2-6-03



# PTMW, INC.

O.E.M. METAL FABRICATION AND ASSEMBLY

3501 NW Hwy 24  
TOPEKA, KANSAS 66618

(785) 232-7792 Fax (785) 232-7793

February 6, 2003

**HAND DELIVERED**

The Honorable John Edmonds, Chairman  
**HOUSE TAXATION COMMITTEE**  
Room 519 South  
State Capitol Building  
Topeka, KS 66612

**RE: HOUSE BILL NO. 2099  
RELATED TO SALES TAX EXEMPTIONS  
PROPOSAL TO REMOVE SALES TAX EXEMPTION ON TANGIBLE  
PERSONAL PROPERTY CONSUMED IN THE MANUFACTURING PROCESS**

## WRITTEN TESTIMONY OF EDWIN P. CARPENTER

Mr. Chairman and distinguished members of the Committee:

My name is Ed Carpenter, and I am here today to discuss with you the adverse affect that the repeal of *K.S.A. 2002 Supp. 79-3606(n)* which provides an exemption from sales tax to manufacturers who use materials and supplies in the production of finished products to be sold at retail.

I thank you all for taking time from your busy schedules to permit me to address these issues with you.

At the outset, you should know that you have the "*second string*" here today. The president of the company that I am going to tell you about this morning, is at a trade show, and could not be here on such short notice. In any event, I want to tell you about PTMW, Inc., which is a Kansas corporation located in Topeka, Kansas. PTMW is owned by a bright, young woman named Patti Christensen. PTMW and what it does is one of the best kept business secrets in Kansas, but it is a company that may be in serious jeopardy if the exemption on consumables used in manufacturing is repealed.

PTMW was created in 1983 by the Goff family here in Topeka. It started out with just four family members and a garage, it has now grown to a corporation that has two manufacturing facilities – one on Highway 24 right behind the Del Monte Pet Food Plant and the other one right outside of Meriden, Kansas.

The company's primary manufacturing business is the fabrication of original equipment for the railroads — principal of which is the manufacture of steel and aluminum signal houses. Its customers include the Union Pacific, Burlington Northern Santa Fe, CSX Transportation, and numerous small railroads and public transit authorities through the United States and Canada.

House Taxation  
Attachment 10

Date 2-6-03

In addition, it produces signal houses for utility companies and has other ancillary markets.

The company's annual gross sales are approximately \$19,000,000. It employs, on the average, one hundred thirty (130) workers in its two plants, and does so with a management team of only eleven (11) men and women. Further, during the primary manufacturing season, an additional thirty (30) or so temporaries are employed.

The problem that PTMW faces, however, is that its manufactured products are very material intensive. Steel and aluminum are the primary materials used. The material components of the equipment fabricated represent approximately 57% of the retail price of a manufactured product. Therefore, if it is required to pay sales tax on the materials utilized to manufacture finished signal houses, its cost of goods sold could increase by almost \$800,000 per year.

The railroad signal house business is extremely competitive. Adding seven percent to its cost of goods sold would make its retail pricing above that of other manufacturers and would in all probability result in the retail business going to a competitor. The only short run choice is to absorb these additional costs, thus substantially eroding profitability and affecting plant reinvestment options. Moreover, PTMW has long term contractual commitments with certain railroads that may result in sales at losses on a per unit basis over the balance of the term of those contracts. Finally, if one considers the net profit of this company (*which is put back into the company in the form of debt reduction on its massive fixed costs*), one can see that the return on the risk may no longer be justified if the costs of goods sold is increased by a sales tax increment.

In short, all things being equal, the repeal of the sales tax exemption on consumables used in manufacturing may result in either the death of this company or the necessity that its operations be moved to a more favorable economic climate. The latter option is available as a variable choice as PTMW leases its manufacturing facilities in Kansas. It doesn't have to be in Kansas to manufacture and sell its products; although, that would be Ms. Christensen's preference.

The loss of PTMW to the Topeka community and to the State of Kansas would not be unsubstantial. Last year, PTMW's gross payroll was \$4,428,439.00.

If one considers a modest economic multiplier of four (4), the loss of the payroll alone to the gross domestic product of Kansas is approximately \$18,000,000.

In addition, the local vendors and suppliers to PTMW would be adversely affected. For example, there are two companies in the greater Topeka area that make parts for PTMW at the aggregate level of approximately \$2,000,000 per year. The trucking companies that transport PTMW's products to the customer's locations would no longer have that business.

I could go on, but I believe you get the point. Are the loss of 130 jobs in Topeka or potential demise of PTMW worth the repeal of the exemption? What would you do if you were in Patti Christensen's shoes?

February 6, 2003

Page 3



Our judgment is that PTMW is not alone. All small manufacturing companies in Kansas are plagued by increasing costs of goods sold and decreasing or steady retail prices in order to maintain sales. These companies have survived because of improved technology, effective and efficient production methods, and just plain will power. Legislated increases in costs of goods sold may be the variable "*straw that broke the camel's back.*"

We all know that you, as legislators, face tough decisions related to the financial crisis that the State of Kansas and its local governments currently face. However, the increase of sales tax, which is regressive in form, cannot be the answer. The consequences to small businesses such as PTMW will be serious, disabling, and may even result in their demise.

We would respectfully request that you reconsider the repeal of this logical exemption and look for more practical ways to lower costs, just as companies such as PTMW have to do on a daily basis.

Thank you for your consideration.

*(I have attached an article from [the\\_fabricator.com](http://the_fabricator.com) that gives more detail about PTMW, Inc.)*

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THE FABRICATOR®

### Metamorphosis

#### Topeka fabricator automates to emerge "just in time"

By Mike Dorcey, Managing Editor

October 10, 2002

A contract manufacturer of railroad and telecommunication signal house enclosures had long relied on job shops to supply the sheet metal parts, which it then assembled. But the president, Patti jon Christensen, wanted to bring all the manufacturing under her own roof so she could build the company's future on parts that met her company's quality standards and timely deliveries. The company installed a flexible manufacturing system (FMS) from Finn-Power in March 2000 and has achieved its goals, to the point that it plans to add a second FMS.

Patti jon Christensen might be amused to hear the changes her company, PTMW Inc., Topeka, Kan., has undergone in recent years compared to those of a butterfly. But they have been no less dramatic and produced equally remarkable results.

Today she laughs when she talks about her company's transformation from an assembly to a manufacturing operation. And she off-handedly mentions ordering a comprehensive automated sheet metal punching and forming line before she had a building to put it in.



Signal equipment houses are nearly completed in production and await a shipping date in the PTMW fabrication facility in Topeka, Kan. Products are fabricated from aluminum, steel, stainless steel, and galvalume. Powder coating, bulletproofing, and wiring options are available.

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But the process she and her company went through at the time was more calculated than it appears from her anecdotes now.

## Thinking Automation

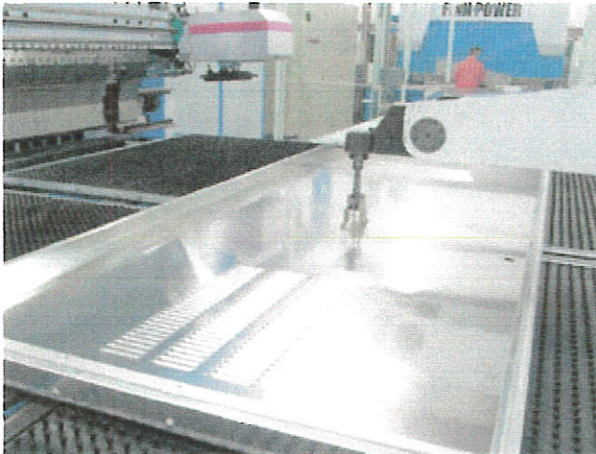
PTMW has been in the fabricating business for 18 years. Christensen is the president and sole owner of the company that her dad originally started in the chemical business. In its infancy as an assembly plant, the company sold other companies' equipment to the railroad industry. Times were not always good, so Christensen earned her degree from Hard Knocks University.

"This company was on the brink of falling apart several times," she said. "At times I've worked three other jobs, in addition to this one, to keep going."

In 1987 one of her major customers encouraged Christensen to start building signal houses, those little metal buildings that sit along railroad rights-of-way. Recognizing this as an opportunity for expansion, she transformed her sales organization into an assembly operation, contracting the actual manufacturing of the parts for its products to fabricators in the Topeka area.

"Our first big break was with Union Pacific," she said. "It bought into our company, not just our products."

Some PTMW products are as small as a 4- by 4-foot case but can range in size from 10 by 40 ft. up to its latest 12- by 100-ft. house with two levels.



A louvered panel receives the finishing touches at the folding machine. In the background, a Finn-Power press brake is used to bend parts that exceed the folder's capability.

But, Christensen said, "By 1998 I decided the time had come to bring manufacturing in-house."

She says this—a decision involving millions of dollars—in the same way do-it-yourselfers announce that they'll buy a new table saw on Saturday. The cost would be that high because Christensen was not going to buy just some fabricating machines and hire a few operators. She had decided already that her first venture in manufacturing would be as automated as possible.

"You can manufacture parts in one of two ways," she said. "You can do it with labor, or you can do it with technology."

Experience as an assembler also had left Christensen feeling she had no other choice. With all parts being produced off-site, operations were at the mercy of suppliers that were not keeping pace with technological developments and consequently lagged behind the company's production schedules.

"It was not a mind-boggling decision," she said. "It was actually simple. We had been in an assembly mode for so long, and our suppliers had batch mentality, which meant we had to keep a large inventory of parts. It was a very easy decision once we did our homework."

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[info@thefabricator.com](mailto:info@thefabricator.com)



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Christensen started analyzing her operations and asked potential vendors to conduct time studies. The results convinced her that automation would address a number of issues for her company.

By manufacturing its own parts, PTMW's crew could begin to set delivery schedules based on when it wanted to make the end product, not when suppliers could deliver parts. That meant being able to deliver products when customers wanted them—a capability critical to the company's success, according to Christensen.

Making parts as needed enabled the company to lower its inventory levels and introduce just-in-time (JIT) manufacturing, keeping money in the bank instead of in parts and semifinished products sitting on the shop floor.

Manufacturing many of its own parts also enabled the company to control and maintain quality better.

But control is more complex than just having parts when you need them, at least in PTMW's business.

"Every customer has different specifications for size and how the houses are finished," Christensen said. "They all differ in the types and amount of insulation, how they are painted, and the kind of wood in them. We even offer the option to bulletproof certain types of cases or houses. We maintain 1,500 part numbers.

"This business is not about volume; it is about flexibility," Christensen said. "It is not about how long it takes to make a part, but about flexibility of the system. Another system we looked at may have been able to make the individual part faster, but then that part might sit for a long time in queues waiting to be worked. Our JIT is truly just in time."



A worker clamps a vertical support in place before joining it with a weld. PTMW employs approximately 21 welders, who use GMAW and GTAW processes on aluminum, mild steel, and stainless parts.

After automating, the company was able to shorten delivery time on some products by as much as five weeks.

Christensen admits she had another advantage in making her decision: a clean slate.

"We had no sins from the past, you might say," she said. "We took the opportunity to progress to the most automated methods available. We could have invested half the money, but would have spent twice as much on labor."

## Transformation

Transforming her assembly company into a manufacturing operation was not an overnight event. First Christensen hired Tim Gardner to be vice president of manufacturing. Gardner's experience included three decades of assembly and manufacturing management with major agricultural manufacturers.

Gardner describes the changes at PTMW as "the natural flow of integration for a

company that started out in a garage," and his own role as "bringing to the table the vision" of how to implement Christensen's decision to automate.

Before the company invested in automated equipment, Christensen and Gardner traveled to Europe to see the automated equipment first-hand by touring factories of the two manufacturers whose systems they were considering.



Patti Jon Christensen transformed PTMW from the chemical sales business started by her father to the metal enclosure fabrication facility it is today. In 1999 she decided to manufacture parts in-house with flexible automation.

"What sold me were the site visits where this equipment was installed and the visits to the manufacturers' facilities," Christensen said. "These visits provide education well worth the manufacturers' expense to bring their customers in."

Gardner seconded. "It makes a world of difference once you can see it," he said.

Their research led them to choose Finn-Power International to provide the equipment they wanted.

"They have a lot of standard design, more modules to add to the system," Gardner said. "For instance, adding shelf capacity would be a six-month process, made of all standard parts. And Finn-Power makes all the parts that go into the system. The big deal for us was that Finn-Power was a system development house."

When the time came to decide what to buy, Gardner said a more critical factor than the hardware itself influenced the choice. "Finn-Power brought to PTMW an experienced, professional technical staff with more willingness to address our problems,"

Gardner said. "It is a partnership that is concerned about future development.

"You can't buy a system as complex as this and not have a partner," he said. "Finn-Power makes good equipment, but any machine will break down. They provide good tech support, and they work well as a team with us."

The company's new system included the Night Train® flexible manufacturing system (FMS) with automated sheet storage, retrieval, and loading; integrated punching and shearing; unloading; and inline automated bending. To complete the process for some pieces, PTMW added a Finn-Power manually operated press brake.

## Taking Flight

PTMW ordered its flexible manufacturing system in May 1999. At the time the company had not begun to construct the building that would house the system. The system arrived in January 2000, and four months later it was up and running.

"By the end of that year we had run 1 million pounds of material through the system," Gardner said, "using six people without missing one shipping date because of a lack of parts it makes."

While the idea of automation can present philosophical problems for some

companies because it reduces labor inputs, this fabricator's production staff supported the move.

"They want to make every part we use," Gardner explained. "That way, if they need a part, they get a part. If they have a problem, corrective action comes quickly."

And, though it requires fewer people, the company has found that automation presents its own labor challenge: the need for higher skill levels.

To keep the skilled operators, welders, and laborers it needs, the company maintains 130 year-round employees. The company's sales cycle fluctuates with the construction season, so the number of employees ratchets up beginning about March 1 and peaks between 180 and 200 in July and August.

Production begins to slow down in late September, with the staff level back at 130 by Thanksgiving.

This plan allows the company to retain its best employees. "Our core employees—the most skilled and reliable—never leave us," Gardner said. "We augment them with laborers in the summer, and some of them join our permanent staff."

This approach apparently pays off. Experience with the new system has produced significant improvements. "Our productivity improved 30 percent in year two over year one," Gardner said.

### More Changes?

With yet another major transformation well in hand, in 2002 Christensen has moved beyond a concern for keeping up with orders to growing her operation. The company introduced new products in 2002, such as its 12- by 50-ft. control house for railroad switching yards. And, going beyond bringing on line new products for the railroad industry, she is investigating other markets that will enable the company to diversify.

Meanwhile the company continues to add parts to its FMS production repertoire. With 1,500 parts on line already, it will add another 650 before it is finished.

"We expect to be running this system 24-7, with some lights-out operation by the end of this year," Christensen said.

She also leaves no doubt about how she feels about her decision to bring her fabrication in-house.



Bob McCann, assistant manager of metal fabrication, left, and Tim Gardner, vice president of manufacturing, check the results of their turret punch as the piece comes out of the folding machine. After automating, the company was able to shorten delivery time on some products by as much as five weeks.



"We have two ways to do this," she said, "the conventional way or the right way."

But expanding markets and more parts mean adding more capacity and capabilities. Christensen says her company still outsources \$2.25 million in parts each year. She wants to bring those parts in-house.

"We are in the purchase mode again," she said. "The next decision will be more difficult. I am definitely in the automation mode, so we are looking at the most automated system available. One question we have to address is whether we bring in Brand X and run totally different software. Our second purchase will be much tougher."

Whatever equipment the company purchases, its homecoming will be warmly anticipated this time. The building that will house it is ready and waiting.

Managing Editor Mike Dorcey can be reached at [miked@thefabricator.com](mailto:miked@thefabricator.com).

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Testimony of Francis Kelsey  
February 6, 2003  
House Bill 2099

To the Members of the House Taxation Committee:

My name is Francis Kelsey and I am a farmer in the Kansas River Valley in northwest Shawnee County. I wish to offer my testimony in opposition to House Bill 2099, which will have a very definite effect on my business along with a negative impact on my operational bottom line

The world of production agriculture has undergone many changes in the last 10 years, one of which is the decrease in the margins that I as a producer have in my operation. It is becoming harder each year to remain profitable, when we have so little control over the price of inputs and equipment that we purchase, much less the prices that we receive for the products that we raise. Removing the sales tax exemption on purchases of irrigation equipment and for the repairs to that equipment will have a definite effect on my income at the end of the year. This past summer, I needed to have some repairs made to an irrigation system on one farm. The bill for this work came to more than \$5000. At the current rate of sales tax in Shawnee County, this would have increased the bill by more than \$300.00. My neighbor, who is contemplating installing a center pivot irrigation system on his property at a cost of \$38,000, would be looking at an increased cost of over \$2,300.00.

Those of us in production agriculture are suffering financially just as the state of Kansas is currently. The current exemptions were placed into law as one way to encourage the continued development of agriculture in our state. I would encourage the committee to not support this bill.

House Taxation  
Attachment 11  
Date 2-6-03



---

**Testimony Regarding House Bill No. 2099  
Before the House Taxation Committee  
February 6, 2003**

Good morning Chairman Edmonds and members of the House Taxation Committee, my name is Greg Krissek. I am Director of Operations for the Kansas Corn Growers Association. I appreciate the opportunity to make brief comments opposing HB 2099. My comments also reflect the position of the Kansas Grain Sorghum Producers Association.

HB 2099 would repeal the sales tax exemption available for all sales of personal property that, among other things, is consumed in the production of personal property, such as agricultural crops, and in the irrigation of crops ultimately for sale.

Corn producers purchase a variety of products, including seed, fertilizer, and pesticides, that may qualify either for the sales tax exemption provided in KSA 79-3606 (n), and proposed for repeal in this bill, or in KSA 79-3606 (m), subject of another bill in your committee.

Further, over sixty-five percent of the corn produced in Kansas in the past several years was grown under irrigation. Irrigation systems can expand the number and type of inputs that are used in the production of corn.

Unfortunately, in the last several years most Kansas agricultural producers have experienced very challenging financial and growing season conditions. Almost exclusively, farmers are price takers when they sell their products. Drought during 2002, also in some portions of the state in 2000 and 2001, and generally low commodity prices if production has been successful, have all seriously weakened agricultural balance sheets and financial strength.

In 2002 alone, Kansas State University's Farm Management Association estimated that the drought cost corn producers \$314 million in farm gate values of production. In 2001, the same entity estimated that the average Kansas farm received 142% of its net farm income from federal government payments – a level that actually declined from previous years results. Disaster aid for 2002 for Kansas producers is currently being considered by Congress, but even its passage remains uncertain.

Thus, many Kansas corn producers currently do not have positive operating margins. Even for those who do, the margins are very slim – almost exclusively less than five percent.

(continued on back)

## H.B. 2099 - Sales Tax Treatment of Water District Purchases

Testimony Presented at the  
House Committee on Assessment and Taxation  
On February 6, 2003  
By Ron Appletoft, Governmental Affairs Coordinator

Water District No. 1 of Johnson County appears in opposition to H.B. 2099 which would in part eliminate the sales tax exemption currently provided those publicly owned water utilities that chose to pay an equivalent fee in lieu of paying sales tax.

Water District No. 1 is organized as a regional public water utility and serves over 370,000 consumers in and around Johnson County. The Water District is operated as a quasi-municipal corporation pursuant to K.S.A. 19-3501 et seq.

For many years publicly owned water utilities in Kansas attempted to obtain a sales tax exemption on purchases of property and services used in construction, operation and maintenance. There were two primary arguments used to justify an exemption. First, supplying water to the public in Kansas is essentially a governmental service and thus should be tax exempt similar to other governmental services provided to the public. Second, the sales tax laws as they apply to public water utilities are complex, vague and cause an unnecessary administrative burden. For the most part legislators agreed with both of these points but were reluctant to support sales tax exemption legislation due to the fiscal note to the state. To overcome legislators' concerns, a compromise was crafted and passed during the 2001 legislative session in which those publicly owned water utilities that chose to avail themselves of an exemption would hold the state harmless by paying an equivalent fee into the Clean Drinking Water Fund.

Since providing water to the public is a governmental function and there is no fiscal note to the state for those public water suppliers that opted for a sales tax exemption, Water District No. 1 urges your opposition to H.B. 2099.

House Taxation  
Attachment 13  
Date 2-6-03

**STATEMENT OF KANSAS DAIRY ASSOCIATION  
KANSAS AGRICULTURAL AVIATION ASSOCIATION  
KANSAS SEED INDUSTRY ASSOCIATION**

**TO THE HOUSE TAXATION COMMITTEE**

**REPRESENTATIVE JOHN EDMONDS, CHAIR**

**REGARDING H.B. 2099**

Mr. Chairman and Members of the Committee, I am Chris Wilson, representing Kansas Dairy Association, Kansas Agricultural Aviation Association and Kansas Seed Industry Association, statewide trade and professional organizations. These associations represent over 1100 Kansas farms and agribusinesses.

H.B. 2099 would remove the sales tax exemption for "tangible personal property which is consumed...in the production... of tangible personal property..." This includes inputs to agricultural production according to the Department of Revenue analysis. Inputs to crop production are covered under KSA 79-3606 (m) as well as (n).

Sales taxes are pennies on the dollar. But pennies on the dollar are what profit margins (if any are realized) are made of. Profit margins, as you know, are scarce in agriculture today. Attached to this statement is information regarding prices paid and received in agriculture. Sources are the Topeka Capital Journal, National Milk Producers Federation and the Kansas Farm Management Association. As you know, farmers are price takers, not price makers. They cannot increase prices or pass taxes on to the consumer. A sophisticated international marketing system determines prices paid to producers. Agribusinesses are dependent on the farmer. They cannot charge more for their products or services than the market will allow the farmer to pay.

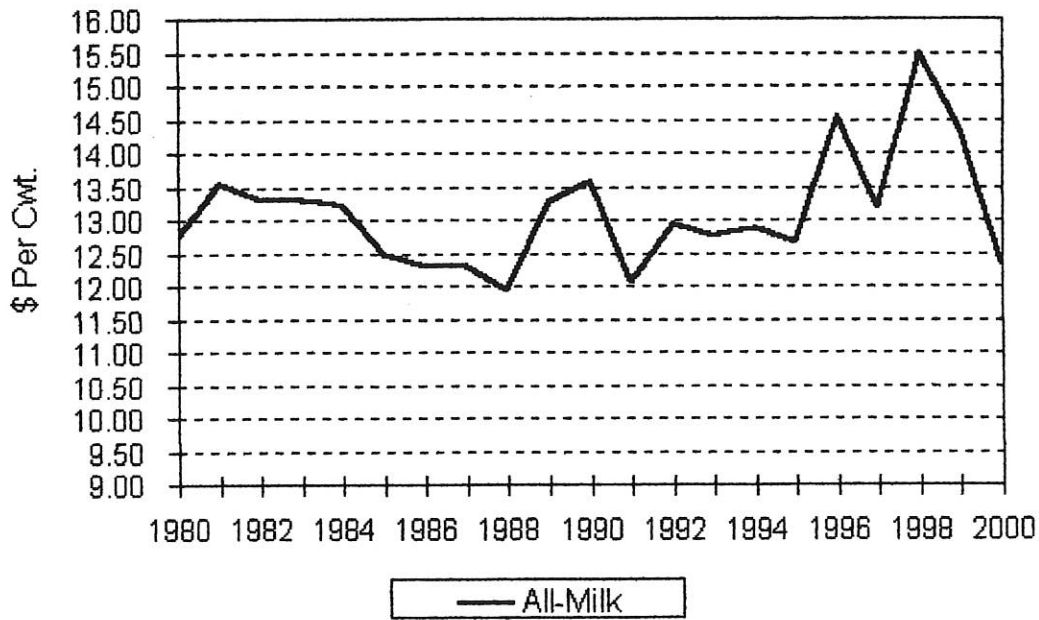
A key reason exemptions such as 3606(n) are in the law is the theory of avoiding double taxation by taxing the end product and not items consumed in its production.

Sales tax exemptions are in the law for good reasons and should only be removed for good reasons. Any increases in revenue should be broad-based, because increased taxes will be difficult for many Kansas citizens and businesses to pay. Their effects definitely will be felt. Low prices and income and high costs do drive businesses out of business. Decisions to increase taxes should be done as a last resort, based on revenue expectations and budget needs, because there are good policy reasons for not increasing taxes.

Thank you for the opportunity to address H.B. 2099.

House Taxation  
Attachment 14  
Date 2-6-03

### All-Milk Price 1980-2000



Business

The Topeka Capital-Journal

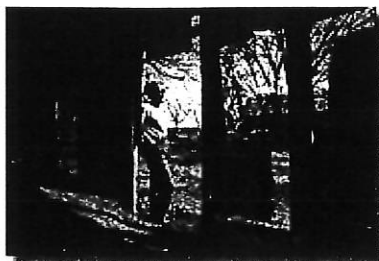
Getting Around

Last modified at 12:17 a.m. on Saturday, April 21, 2001

# Down on the farm

Comparison of '77 and 2001 crop prices, expenses unsettling to farm wife.

By JONNA LORENZ  
The Capital-Journal



The financial records Faye Howbert has kept for her family farm since she was married in 1956 make her sick.

She looks at the records -- which show expenses shooting up while grain prices stay the same or, worse, go down -- and her stomach starts churning.

"I've started doing this comparison and it has made me sicker and sicker," Howbert said. "You wonder why you're out here knocking yourself out."

The records on her southeast Shawnee County farm compare 1977's expenses and commodity prices to today's.

In 1977, for example, soybeans brought \$8.28 per bushel -- more than twice Friday's \$4.01 price at the Shawnee Terminal Elevator. Howbert pointed out that during the same period the price of a combine more than quadrupled, going from \$40,000 to approximately \$175,000.

Corn prices, \$2.32 a bushel in 1977, have fallen to around \$1.85 today. A bushel of wheat that sold for \$2.33 then goes for only slighter more now -- \$2.94.

Meanwhile, expenses have skyrocketed. The price of corn and milo seed, as well as fertilizer, has more than doubled. A pickup truck that cost \$5,500 in 1977 costs \$22,000 in 2001.

"How do family farms survive?" Howbert asked. "Well, some of them don't."

Last year, the number of Kansas farmers dropped to 64,000 from 65,000, according to Kansas Agricultural Statistics Service. It was the first major downturn since 1996.

### Price comparison

Item	1977	2001
Wheat	\$2.33	\$2.94
Corn	\$2.32	\$1.85
Milo	\$1.93	\$1.87
Soybeans	\$8.28	\$4.01
Milo seed	\$25	\$56

Howbert wanted her husband, Jerre, to quit farming a year and a half ago. But her husband believes a farmer is a farmer all of his life. So the Howberts plug on.

They operate a diversified farm on about 840 acres of land they own, and they rent several other farms in Shawnee County. The Howberts are the fifth generation in the family to farm that land.

Philip Carlson/The Capital-Journal

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Corn seed	\$45	\$112.50	
Cattle*	\$61.33	\$85.50	Only one of their four sons remains in farming, but his main source of income is working as a firefighter, Howbert said.
Hogs*	\$46.25	\$47.50	
Minimum wage	\$2.30	\$5.15	
Tires	\$60.40	\$120.82	Last year, the Howberts got by with the help of crop insurance, government payments and selling part of two years worth of crops in one year.
Fertilizer	\$162.05	\$385	
Combine	\$40,000	\$175,000	
Pickup	\$5,500	\$22,000	
House	\$49,319	\$138,000	"You do pay a big price to farm," Howbert said, "but we're paying a bigger and bigger price all the time."
Scoop shovel	\$7.50	\$25	
Claw hammer	\$4.25	\$25	
Diesel	\$0.42	\$1.04	This year, the Howberts paid \$263.58 in real estate taxes on the same 80-acre plot where taxes were \$146.43 in 1977.
Water	\$1.75	\$2.50	
Propane	\$0.34	\$1.15	
Telephone	\$6.75	\$20.21	In 1962, the Howberts borrowed \$11,000 at 6 percent interest to build an 1,800-square-foot home. They sold that home in 1995 for \$97,500.
Milk	\$0.85	\$2.50	
Bread	\$0.36	\$2.20	
Dr. office call	\$16	\$68	
(* Per hundredweight)			The appraisal of all of their property went up \$26,180 just this year, creating a higher property tax burden.

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Development is encroaching on farmland, adding to the burden of farmers.

"Our cattle herd has gotten smaller simply because we can't get pasture," said Howbert, noting that cattle is the one commodity that currently is profitable.

Farmers can't make enough selling their grain to keep up.

Sen. Pat Roberts, R-Kan., said U.S. sanctions on 70 countries, record crop production worldwide and economic hardships in Asian countries have led to decreasing exports and low grain prices.

In 1997, U.S. agricultural exports totaled about \$60 billion, Roberts said. This year, they have dropped to about \$50 billion.

"Our competitors are being very aggressive and they're taking our markets," he said.

A decade ago, the United States captured 23 percent of the agricultural market worldwide. That has dropped to 16 percent, the senator said.

"We're going to have to think out of the box and do a lot more," Roberts said.

One bright spot, he said, is that land values have remained strong. Also, the nation has avoided the kind of economic depression farmers experienced in the 1980s.

Howbert fears the way of life she grew up in will disappear as family farms sell out to larger operations.

"I think eventually we're going to have corporate farming," she said. "I don't know who else is going to do it."

Four years ago, the Howberts were pressured to become more efficient themselves. They bought a semi-truck and trailer to haul more grain to the elevator at once.

"I don't think a woman should have to learn to drive a semi at 59," Howbert said.

In an effort to draw awareness to the lifestyle farm families have enjoyed for generations, she has been active in many farm organizations lobbying the Legislature and teaching children about the importance of farming.

14-4



"Farming has been a wonderful life for us," Howbert said. "I wouldn't trade it for anything in the world."

But if grain prices don't improve, many Kansas farmers won't have a choice.

Jonna Lorenz can be reached at

(785) 295-1294 or [jlorenz@cjonline.com](mailto:jlorenz@cjonline.com).

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Kansas News

The Topeka Capital-Journal

Getting Around

Last modified at 12:42 a.m. on Sunday, April 15, 2001

## Kansas loses 1,000 farmers

*First major downturn since 1996.*

By ROXANA HEGEMAN  
The Associated Press

ELLIS -- At age 43, Kansas farmer Gene Bittel dusted off his old college diploma in economics and went out on his first job interview.

He had been farming his third-generation northwest Kansas farm since he was big enough to reach the peddles on the tractor. But he was deeply in debt. The market outlook for his crops was grim, and government payments weren't nearly enough. His marriage was falling apart.

Bittel realized that without a drastic change, he would lose it all. It was time to quit farming.

"It wasn't a hard decision to make," he said.

Two years later, Bittel is a successful pharmaceutical salesman making a good income. He has health insurance, a company car and vacation. His only investment is five business suits.

Bittel isn't the only beleaguered Kansas farmer who has had enough.

Last year, the number of Kansas farmers dropped from 65,000 to 64,000, according to Kansas Agricultural Statistics Service. It was the first major downturn since 1996.

Most of those getting out sold to bigger farm operations. That is reflected in the government statistics showing the same total amount of land in farms in Kansas -- about 47.5 million acres.

The average farm size increased to 752 acres in Kansas last year, up from 731 acres average of the previous four years, KASS reported.

Bittel is among the luckier ones. He will probably be able to hang on to the home place: 1,000 acres of mostly wheat he still works on weekends and vacation just to pay off the bank loan. He keeps 20 head of cattle to eat the grass and keep weeds down.

At one time, Bittel Farms -- a partnership of Bittel, his brother and his father -- farmed as many as 7,500 acres. They grew feed crops, wheat and cattle. They fed 1,500 cattle until state environmental regulators demanded they put in \$100,000 of pollution controls during the last downturn in the cattle market.



Gene Bittel was silhouetted against the setting sun as he drove his tractor on his farm near Ellis recently. Bittel is one of the 1,000 Kansas farmers who stopped farming last year.

*Charlie Riedel/The Associated Press*

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Heavily in debt, and with the cattle market in the doldrums at the time, Bittel sold off the cattle instead.

In the past two years, the family has liquidated most of its equipment and let go of all the farmland they were leasing.

His father has retired. His brother works as a paramedic in Ellis.

Bittel has since divorced, something he blames in part on farming's financial stress.

As farmers, Bittel, his ex-wife and their two children lived on \$1,500 a month. That was the amount of borrowed money the bank allotted them for living expenses. The family lived on their equity.

As a pharmaceutical salesman for Roche Laboratories, Bittel makes \$50,000 annually. He recently bought the first new vehicle he has ever owned: a Harley-Davidson motorcycle.

He is no longer tied down on the farm, feeding cattle seven days a week and planting crops he can't sell for enough money to meet his costs.

"A tough day is when your bank calls your note and working your way out of it. It is a tough day to watch this ruin my father's health. So I don't miss that now," he said. "I have a Harley and go to the lake now. Why not enjoy life like other people do?"

While the government figures reflect only those farmers who quit between 1999 and 2000, indications are the state will lose many more farmers this spring as high fertilizer prices and poor wheat crops push more farm families over the edge.

Among those on the front lines of the troubled agricultural economy is Duane Hund, a farm analyst from Kansas State University who works with struggling farm families.

"It is simply slowing down the transition of farmers exiting the business, but it is not stopping it," Hund said of the government farm bailout. "The largest reason for that is that the price of wheat today has to be as bad, if not worse, as it was in the depression if you use a comparative analysis," he said.

The rate of farmers quitting the land is expected to accelerate this year because many are now financially feeling the aftereffects of last season's dry weather and the continuation of low commodity prices, Hund said.

"Northwest and north-central Kansas have a pretty tough time right now, but not a whole lot worse off than the rest of the state," he said. "We don't have what I consider a huge problem out there, but the problem is significant."

About 18 percent of Farm Service Agency borrowers were delinquent as of Feb. 10 this year, compared to 16 percent for the same time a year ago, said Forrest Buhler, staff attorney at Kansas Ag Mediation Service. A loan is counted as delinquent if the Dec. 30 payment hasn't been made.

FSA deals primarily with family farmers who are unable to get credit elsewhere. It had 645 delinquent borrowers as of Feb. 10, compared to 578 at the same time last year.

Buhler said that increase came primarily from grain farmers in northwest and north-central Kansas, the areas hardest hit by the drought in Kansas. The weather, coupled with low grain prices, drove the increase, he said.

Bittel likes to tell others about the 1918 photograph that his father has showing a horse-drawn wagon on the scale at the Claflin elevator. The price of wheat shown in the photograph was \$2.65 a bushel -- about the same as farmers get today with the added government payments.

"Why cry in your beer?" Bittel said. "It was my choice to do it and it was my choice to get out."

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Number of Kansas farms, average farm size land in farms per year

2000: 64,000 farms, 742 acres, 47.5 million acres

1999: 65,000 farms, 731 acres, 47.5 million acres

1998: 65,000 farms, 731 acres, 47.5 million acres

1997: 65,000 farms, 731 acres, 47.5 million acres

1996: 65,000 farms, 731 acres, 47.5 million acres

1995: 66,000 farms, 721 acres, 47.6 million acres

1994: 66,000 farms, 721 acres, 47.6 million acres

1993: 66,000 farms, 723 acres, 47.7 million acres

1992: 67,000 farms, 713 acres, 47.8 million acres

1991: 69,000 farms, 694 acres, 47.9 million acres

1990: 69,000 farms, 694 acres, 47.9 million acres

1980: 75,000 farms, 644 acres, 48.3 million acres

1970: 87,000 farms, 574 acres, 49.9 million acres

1960: 110,000 farms, 456 acres, 50.2 million acres

-- Source: Kansas Agricultural Statistics Service The Associated Press

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Opinions

The Topeka Capital-Journal

Last modified at 11:43 p.m. on Saturday, April 28, 2001

# Growing impossible

*Imagine paying twice what you used to for materials and getting half the return than you used to. How long could you make it?*

By The Capital-Journal editorial board

You're a widget manufacturer. Have been since the 1970s, just like your father and grandfather before you.

But funny thing is, the price you get for your widgets in 2001 is, in some cases, less than half of what you got in 1977. That's depressing enough. While the cost of most things has gone up -- including your materials and equipment -- the return on your investment has stayed the same or been cut in half.

And that's despite the fact that you're more productive than ever, turning out more widgets and better quality widgets than before.

But add to that the fact that other countries' governments, especially in Europe, subsidize their widget manufacturers each year, making their products cheaper on the open market. Meanwhile, your government has been doing its darnedest to wean you from government payments.

All the while, your ability to make widgets is largely dependent on the weather, which has tended to go haywire in the last few years.

It all adds up to one thing: You're certifiably crazy for being in the widget business.

You've just imagined what it's like to be an American farmer in the year 2001.

Even knowing the difficulties involved in farming -- the vagaries of the weather, the capriciousness of the politics, the indifference of the public -- seeing the numbers is still a shock to the system.

Family farmer Faye Howbert has been keeping the numbers on her southeast Shawnee County farm since 1977. And they make you wonder how anyone in farming could survive.

Corn that sold for \$2.32 a bushel in 1977 goes for \$1.85 today. Milo selling for \$1.93 back then brings \$1.87 now. Soybeans that brought \$8.28 a bushel in 1977 sell for about \$4 today.

The word "scandalous" comes to mind.

At the same time, milo seed has gone from \$25 to \$56, corn seed from \$45 to \$113. Meanwhile, the cost of tires and fertilizer has doubled, the price of a scoop shovel has risen from \$7.50 to \$25 and a combine that put you back \$40,000 in 1977 might dent you for \$175,000 today.

The numbers just don't make sense -- especially when you consider that the price of a loaf of bread has gone from 36 cents to \$2.20.

Someone's making money on food production. It sure doesn't seem to be the family farmer.

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Indeed, perhaps that is why this state lost 1,000 of its 65,000 farmers last year.

"I've started doing this comparison," said Howbert, "and it has made me sicker and sicker. You wonder why you're out here knocking yourself out."

Well, only two possible answers: 1) farming isn't just a business with some people -- it's a calling; 2) the world needs Kansas farmers.

No one feeds the world like Kansas farmers, and other American farmers. What do those billboards by the Kansas Agri-Women say? "One Kansas farmer feeds you and a gazillion others"? Well, it's something like that. The point is, this "widget" they're making down on the farm isn't a luxury. Try making it without the food they produce. Chicken parts don't grow in your grocer's butcher shop, you know.

Better yet, try making it today as a farmer.

You'll know pretty quickly not to criticize farmers, especially with your mouth full.

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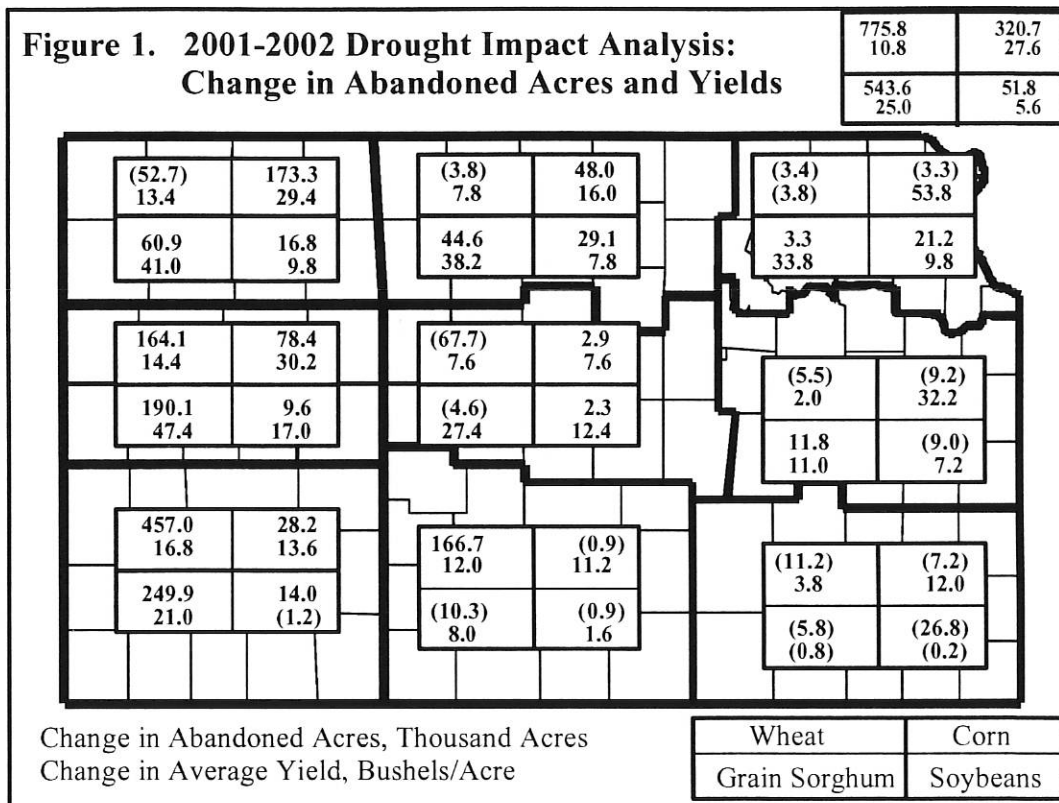
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## Economic Impact of the 2001-2002 Drought: Income and Financial Condition of Kansas Farmers

- ✓ Drought related crop losses are over \$1.1 billion in 2002 in Kansas
- ✓ Kansas will produce 346.34 million less bushels of its four primary crops
- ✓ Kansas producers abandoned 1.69 million acres more than normal of its primary crops
- ✓ Crop insurance payments of \$358.45 million have offset 32.1% of the financial losses
- ✓ Livestock losses total nearly \$300 million
- ✓ Pasture conditions in Kansas are rated at 62% poor to very poor
- ✓ Pastures need a recovery period to rejuvenate the forage and water availability
- ✓ Net farm income is forecast to average approximately \$10,000 in 2002
- ✓ Net farm income will be \$35,000 short of covering family living expenses and income taxes
- ✓ Government payments will drop approximately 60% or \$24,000 per farm
- ✓ Current assets (primarily grain inventories) will decline again in 2002 due to lower production and cash flow needs
- ✓ Financial stress on the farm is felt by agribusiness and non-ag businesses

### Drought Impact on Crop Production and Revenue

Utilizing National Agricultural Statistical Service (NASS) estimates, the change in yields and production was calculated for 2002 versus the 5-year average (1997-2001). Figure 1 reports



these estimates at the state and crop reporting district level for wheat, corn, grain sorghum, and soybeans. For example, SW Kansas abandoned 457,000 more wheat acres and experienced a 16.8 bu/acre lower yield than the 5-year average. At the state level, Kansas producers abandoned

775.8, 320.7, 543.6, and 51.8 (thousands) acres of wheat, corn, grain sorghum, and soybeans respectively vs. 'normal'. Average yields for these four major crops were 10.8, 27.6, 25.0, and 5.6 bushels per acre lower as well. Thus, Kansas farmers harvested significantly less bushels/acre from less total acres.

The financial impact stands at just over \$1.0 billion for wheat, corn, grain sorghum, and soybeans. Harvest-time prices for each region were utilized to calculate the lost gross revenue illustrated in Figure 2. The state also lost over 346 million bushels of wheat, corn, grain sorghum, and soybean production. Again, this lost production stems from the combination of reduced yields and abandoned acres.

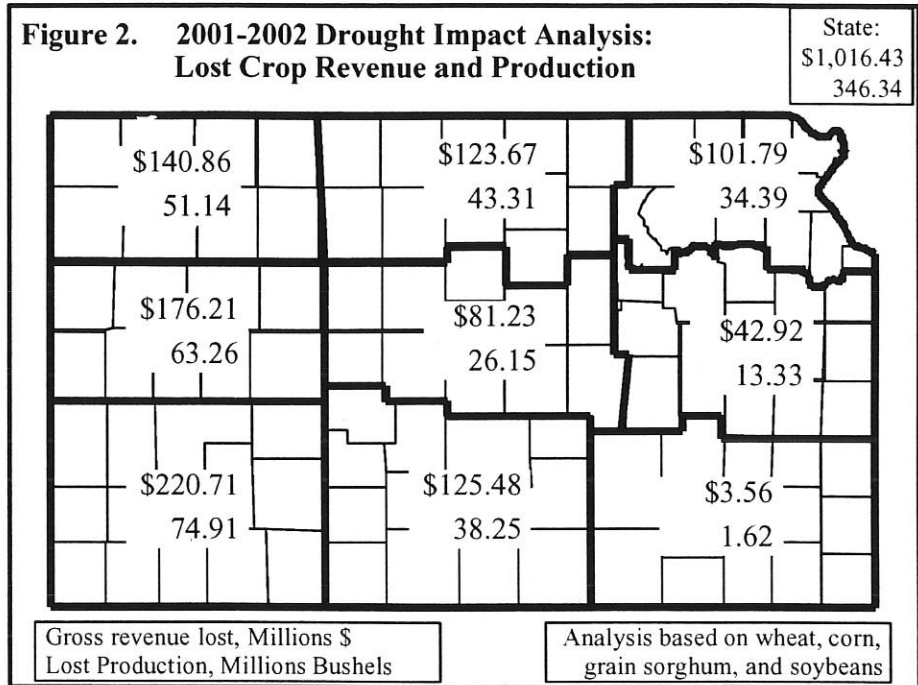


Table 1 provides detailed information by crop at the state level. Data are not yet available by

**Table 1. 2001-2002 Drought Impact Analysis: Lost Crop Production and Revenue by Crop**  
(Millions Bushels/Tons/LBS and Dollars)

Crop	BU / Tons / LBS	Dollars
Wheat	111.98	\$387.69
Corn	103.77	\$260.64
Grain Sorghum	112.29	\$271.58
Soybeans	18.30	\$96.52
Alfalfa	0.80	\$68.00
Other Hay	0.41	\$20.50
Oats	0.56	\$1.02
Barley	0.04	\$0.12
Sunflowers	81.92	\$9.01
Edible Beans	12.70	\$2.03
<b>TOTAL:</b>	-	\$1,117.11

crop reporting district for alfalfa, other hay, and the other minor crops, so only state level estimates are possible. Including the miscellaneous forages and crops, the estimated lost revenue totals \$1.117 billion. In addition to the financial impact of the



lost revenue to farmers and agribusinesses, the lost production represents significant lost revenue for custom harvesters, grain elevators, and transportation providers who depend on this volume for their own businesses.

Table 2 reveals that crop insurance payments did partially offset the crop losses. FCIC data from the Risk Management Agency website indicate Kansas producers had collected \$358.45 million

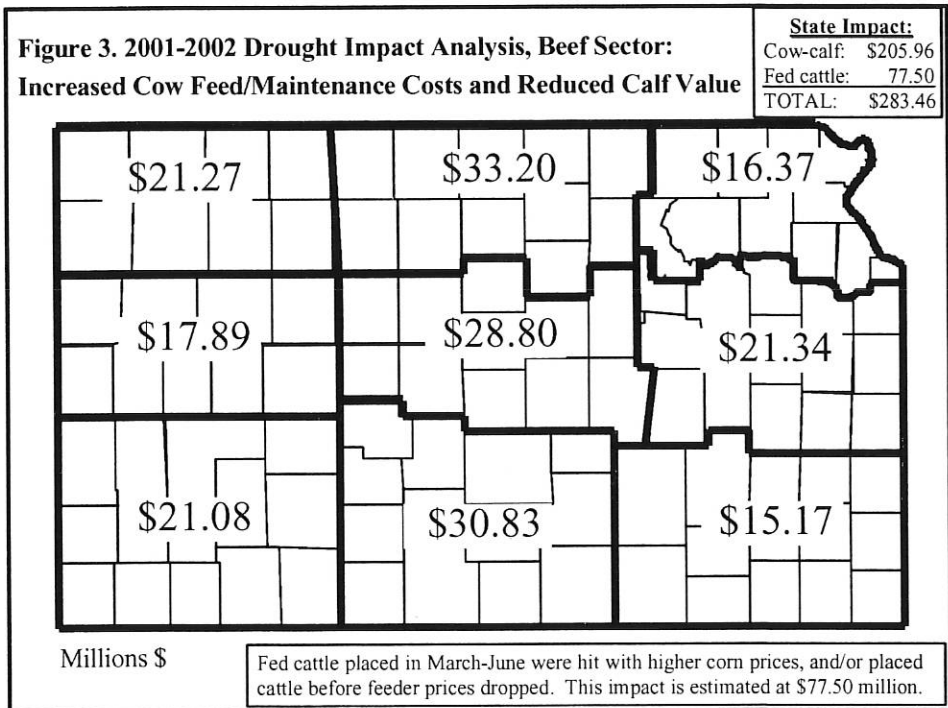
	Total	Wheat	Corn	Grain Sorghum	Soybeans	All other crops
Premiums	169,499,026	73,035,280	39,699,599	30,246,879	22,784,657	3,732,611
Indemnity payments	358,451,946	126,676,513	111,878,125	82,166,018	29,956,264	7,775,026
Loss Ratio	2.11	1.73	2.82	2.72	1.31	2.08

as of December 30, 2002. Many crop insurance plans were particularly ineffective, especially for those producers whose yields averaged close to their elected coverage levels, i.e. 60-70%. To date, indemnity payments have covered 32.1% of the estimated drought related crop losses (\$358.45 / \$1,117.11 = 32.1%).

### Drought Impact on Beef Operations

The livestock sector has been impacted by climbing feed costs stemming from poor pasture conditions and rising hay, feed grain and protein prices. Government statistics reported Kansas pasture conditions at 62 percent poor to very poor and overall U.S. pasture conditions at 41 percent poor to very poor as of October 28, 2002, which is an improvement from conditions earlier in the year. The total impact was estimated at nearly \$300 million for the beef sector alone.

The poor pasture conditions have forced producers to take cattle off of pastures and supplement their rations with purchased feed or feed grown on the farm. That's increased the feed and maintenance costs for a cow-calf pair anywhere from \$50 to \$150 in the western half of the state. In addition, higher corn prices increased feeding costs of gain by about 10 cents per pound for cattle coming out of Kansas feedlots. The higher feed costs will eventually drive the price of feeder cattle lower, which eventually impacts the cow-calf producer.

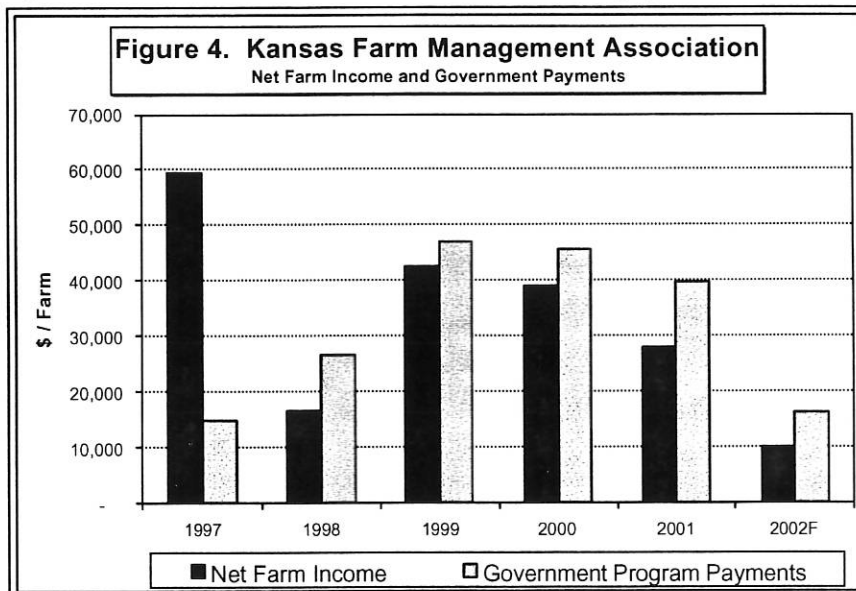


## Farm Level Impact of the Drought

The Kansas Farm Management Association (KFMA) program is one of the largest publicly funded farm management programs in the U.S. Twenty-three Association Economists, who are faculty members in the Department of Agricultural Economics at Kansas State University,

Region	What % of incomes were:			Change in grain inventory	Change in Government Payments	Net Farm Income Forecast
	Higher	Lower	Flat			
State KFMA	10%	69%	20%	-52%	-59%	\$10,147.06
NW KFMA	6%	85%	9%	-85%	-67%	\$4,000.00
SW KFMA	2%	86%	13%	-30%	-56%	\$5,000.00
NC KFMA	10%	60%	27%	-50%	-60%	\$15,333.33
SC KFMA	14%	67%	18%	-25%	-45%	\$9,500.00
NE KFMA	10%	69%	21%	-58%	-71%	\$5,000.00
SE KFMA	20%	50%	30%	-30%	-53%	\$27,500.00

comprise the professional staff of the KFMA program and work cooperatively with farm families in providing production and financial management information to members for use in decision making. Membership in the KFMA program includes over 2,700 farms and over 3,500 families. The KFMA Economists meet with each of their member farms in November-December to assist with year-end tax management planning and record completion. These consultations along with other farm visits throughout the year provide the KSU Economists with unique insight into the profitability and financial status of Kansas farms. Table 3 summarizes survey information provided by the KFMA Economists. The data reveal that that 69% of the 2002 incomes are expected to be lower than 2001, grain inventories will drop 52%, government payments will be 59% lower in 2002, and net farm income will average just over \$10,000 for the state. Grain inventories are significantly lower due to lower production in 2002 (and prior years in some regions) as well as the farmer's need to liquidate current assets to generate cash flow and optimize their income tax situation. Government payments are forecast to decline because of



lower loan deficiency payments (LDP's), no 2002 Market Loss Assistance (MLA) or double AMTA payment, and changes in the payment pattern of Direct or Fixed payments as dictated by the 2002 farm bill.

Figure 4 illustrates two things. First, farm income for Kansas

producers is forecast to be lower for the 3<sup>rd</sup> year in a row. Secondly, the importance of government payments to Kansas producers is readily apparent. Without government payments, net income would have been negative each year from 1998-2002.

**How much Net Farm Income is Needed?**

Every farm operator has different income and return on asset goals, but some general guidelines are useful when trying to put net farm income (NFI) averages in perspective. Net farm income is strictly the return to an

operator's labor, management, and net worth computed on an accrual basis. NFI does not cover family living expenses (e.g. food,

	5-Year Avg	2002 est.
Net Farm Income	37,162	10,147
Family Living Expenditures	34,546	37,000
Income Taxes	8,725	8,500
Total Non-Farm Expense	\$43,271	45,500
Available for debt service / net worth, etc.	(\$6,109)	(\$35,353)

clothing, medical, recreation, etc.) or income taxes. Thus, approximately \$45,000 of NFI is needed to merely cover these requirements, not to mention allowing for loan payments, net worth appreciation, etc. A NFI forecast of \$10,147 leaves the average Kansas farm over \$35,000 short of this goal. This shortfall is covered by off-farm income, increased debt, and/or declining net worth.

**Sample Data from Western Kansas Farms**

Actual data were collected from western Kansas (primarily crop) farms to substantiate the previous analyses. Seventy-two western Kansas farms expect significant declines in government

Variable	2001	2002	Change
Crop Insurance	\$14,685	\$38,432	\$23,747
Government Payments	\$82,415	\$23,650	(\$58,764)
Gross Income	\$356,620	\$303,443	(\$53,177)
Total Expenses	\$327,566	\$290,277	(\$37,289)
Net Cash Farm Income*	\$29,054	\$13,166	(\$15,888)

\* inventory adjustment not included

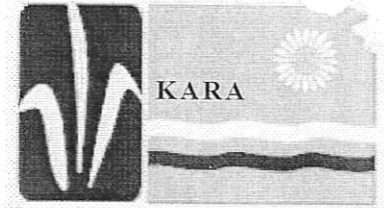
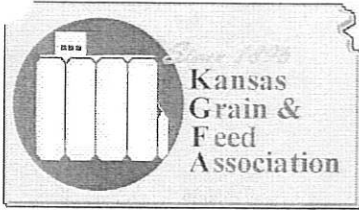
payments, gross income, and net farm income. Crop insurance proceeds are forecast to increase \$23,747, but revenue losses will exceed that amount. Expenses will be lower because many crops were abandoned, reducing or eliminating harvest related costs, labor, and some irrigation pumping costs. However, net cash farm income is expected to be less than 50% of the previous year's level.

## **Impact Reaches Far Beyond The Farm Gate**

Agriculture is usually the most significant driving economic force in rural areas. As a farmer's cash flow declines, they have less disposable income to spend in town for farm equipment, inputs, debt retirement, and personal items for the family. Thus, local businesses feel the impact of problems in the farm sector as well. These include ag-related businesses such as grain elevators, implement dealers, providers of such inputs as fertilizer and seed, trucking companies and custom harvesters. The impact goes even deeper to non-farm businesses large and small, such as restaurants, auto dealers, health care providers, and countless other retailers. The multiplier effect is very important to the health of an economy. For every \$1 that comes into a rural community, that \$1 typically generates at least another \$0.50-1.00 in money spent in the community. Local tax bases are also vulnerable in the form of lower sales tax receipts. The budget difficulties currently facing Kansas might well be evidence of this relationship.

Prepared January 2003

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Kansas Farm Management Associations  
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[www.agecon.ksu.edu/kfma/](http://www.agecon.ksu.edu/kfma/)



STATEMENT OF THE  
KANSAS GRAIN & FEED ASSOCIATION  
AND THE  
KANSAS AGRIBUSINESS RETAILERS ASSOCIATION  
SUBMITTED TO THE  
HOUSE TAXATION COMMITTEE  
REGARDING HOUSE BILL 2099  
REPRESENTATIVE JOHN EDMONDS, CHAIR  
FEBRUARY 6, 2003

House Taxation  
Attachment 15  
Date 2-6-03

KGFA & KARA MEMBERS ADVOCATE PUBLIC POLICIES THAT ADVANCE A SOUND ECONOMIC CLIMATE FOR AGRIBUSINESS TO GROW AND PROSPER SO THEY MAY CONTINUE THEIR INTEGRAL ROLE IN PROVIDING KANSANS AND THE WORLD THE SAFEST, MOST ABUNDANT FOOD SUPPLY.

The following statement is presented on behalf of the Kansas Grain and Feed Association (KGFA) and the Kansas Agribusiness Retailers Association (KARA). The KGFA is a voluntary state association with a membership encompassing the entire spectrum of the grain receiving, storage, processing and shipping industry in the state of Kansas. KGFA's membership includes over 1,100 Kansas business locations and represents 98% of the commercially licensed grain storage in the state. KARA's membership includes nearly 750 agribusiness firms that are primarily retail facilities that supply fertilizers, crop protection chemicals, seed, petroleum products and agronomic expertise to Kansas farmers. KARA's membership base also includes ag-chemical and equipment manufacturing firms, distribution firms and various other businesses associated with the retail crop production industry.

KGFA and KARA are opposed to House Bill 2099, which would eliminate the sales tax exemption for tangible personal property, which is consumed in production. House Bill 2099 would increase the tax burden on grain elevators, flour mills, feed mills, fertilizer manufacturers, seed conditioners and various other segments of the agribusiness industry. Property consumed in production by agribusiness and in turn their farmer customers range from the purchase of electricity for the purpose of blending, drying and aerating grain to the purchase of vitamins and antibiotics for feed mills that manufacture feed rations for Kansas livestock to the purchase of crop protection chemicals for the control of weed, insects and plant diseases.

House Bill 2099 would place an increased financial burden on agribusiness across Kansas and will cause those costs to be passed on to agricultural producers that are already reeling from the ongoing drought that has plagued Kansas for the past two years. At this present time, Congress is considering emergency disaster assistance for Kansas producers and the Kansas House Agriculture Committee held a hearing earlier this week on a House Concurrent Resolution (H.C.R. 5003) calling upon Congress to enact disaster relief for agricultural producers. It does not seem reasonable to be considering increasing the tax burden on the agriculture industry at a time where agricultural producers and the agribusinesses in Kansas that depend upon the financial viability of those producers are suffering substantial losses.

For additional information contact Doug Wareham, Senior Vice President at (785) 234-0461 or [doug@kansasag.org](mailto:doug@kansasag.org).



**Wichita Independent Business Association**

*THE VOICE OF INDEPENDENT BUSINESS*

**House Committee on Taxation  
February 5, 2003  
Written Testimony in Opposition to HB 2099**

Chairman Edmonds and Honorable Committee Members,

My name is Natalie Bright and I am submitting written testimony in opposition to HB 2099 on behalf of the Wichita Independent Business Association (WIBA) and the Kansas Organization for Private Enterprise (KOPE). WIBA is a Wichita based business association comprised of over 1,300 business members while KOPE, whose membership is just under 400, is a subsidiary established to meet the needs of independent businesses through out the Kansas. Collectively, WIBA and KOPE represent over 21,000 jobs in the State of Kansas.

HB 2099 is of great concern to our manufacturing members. The bill proposes to eliminate the sales tax exemption for all tangible personal property consumed in production. The elimination of this exemption will increase the cost of producing Kansas products. When the economy is thriving it is often more plausible for a manufacturer to pass along cost increases to buyers. Today, the competitive manufacturing market no longer allows the producer to pass along such costs. Kansas small manufacturers must be competitive in a global market and therefore will be forced to absorb the increase. At first glimpse it might seem that a 5.3% increase in producing a Kansas product is not paramount. However, in today's competitive market such an increase is significant to small Kansas manufacturers who in reality work with profit margins smaller than the proposed tax increase.

I also would like to note that by taxing products consumed in production this committee would be adopting a value added tax policy. Such a policy is not consistent with tax laws of our surrounding states and will act as a deterrent for manufacturers to locate or keep their businesses in Kansas. At a time when we are trying to grow our economy, I would urge you not enact legislation that will stifle this effort.

The economy in Wichita is heavily dependent on the manufacturing industry. Over the past year, we have endured over 14,000 lay offs, with a majority of these coming from the manufacturing sector. Eliminating the consumed in production exemption will only further delay our economic recovery.

The members of WIBA and KOPE understand the dilemmas you are faced with as you try to make the State budget balance. Many of our members are facing comparable issues as they struggle to stay in business. There has been a great amount of discussion by the committee on how you might address the budget deficits and I assure you the members of WIBA and KOPE want to be a part of the solution. As such, we encourage you to continue to explore ways to reduce spending and when, and if, you are forced to raise revenues, you do so in manner that is broad-based.

If you have any questions regarding this testimony, please feel to contact me at (316) 640-1422.

House Taxation

Attachment 16

Date 2-6-03

415 S. Main Street / Wichita, KS 67202-3719

316-267-8987 / 1-800-279-WIBA / FAX 316-267-8964 / E-mail: [information@wiba.org](mailto:information@wiba.org)



# KANSAS AGRICULTURAL ALLIANCE

## HOUSE COMMITTEE ON TAXATION

**RE: HB 2099 – an act relating to elimination of certain sales tax exemptions.**

**February 6, 2003  
Topeka, Kansas**

**Presented by:  
Greg Krissek, President-Elect  
Kansas Agricultural Alliance**

*Kansas Agribusiness  
Retailers Association*

*Kansas Agricultural  
Aviation Association*

*Kansas Agri-Women*

*Kansas Association of  
Agriculture Educators*

*Kansas Association of  
Conservation Districts*

*Kansas Association of  
Wheat Growers*

*Kansas Corn Growers  
Association*

*Kansas Cooperative Council*

*Kansas Dairy Association*

*Kansas Electric  
Cooperatives*

*Kansas Ethanol Association*

*Kansas Farm Bureau*

*Kansas Grain & Feed  
Association*

*Kansas Grain Sorghum  
Producers*

*Kansas Livestock  
Association*

*Kansas Nursery &  
Landscape Association*

*Kansas Pork Association*

*Kansas Seed Industry  
Association*

*Kansas Soybean Association*

*Kansas Veterinary Medical  
Association*

Good morning Chairman Edmonds and members of the House Taxation Committee. I am President-Elect of the Kansas Agricultural Alliance (KAA). The KAA is a group of twenty farm and rural organizations. The alliance only takes positions on legislation when it's members are unanimous in their support or opposition to a bill.

At it's meeting earlier this week, the KAA voted to oppose the provisions of HB 2099 which would repeal the sales tax exemptions currently provided by KSA 79-3606(n)(s)(aa)(pp). These sales tax exemptions apply to several items including inputs used in the production and/or irrigation of agricultural crops.

KAA members represent a wide variety of agricultural endeavors. Kansas agriculture has faced significant negative financial and weather conditions in the past few years. Any additional costs of productions, such as additional sales taxes, will further the dire consequences faced by many farmers and ranchers and their small businesses.

Many of the groups within KAA are ardently seeking financial assistance for their members from the U.S. Congress in the form of disaster payments. It would be ironic if such assistance is obtained as a stopgap measure, only to see additional sales tax costs incurred at the state level for many Kansas operations.

We ask you to oppose favorable recommendation of HB 2099 when you hold your deliberations on this legislation.

Thank you.

House Taxation  
Attachment 17  
Date 2-6-03



TOM SLOAN  
 REPRESENTATIVE, 45TH DISTRICT  
 DOUGLAS COUNTY

STATE CAPITOL BUILDING  
 ROOM 446-N  
 TOPEKA, KANSAS 66612-1504  
 (785) 296-7677  
 1-800-432-3924

772 HWY 40  
 LAWRENCE, KANSAS 66049-4174  
 (785) 841-1526  
 sloan@house.state.ks.us



TOPEKA

HOUSE OF  
 REPRESENTATIVES

COMMITTEE ASSIGNMENT: TS  
 CHAIRMAN: HIGHER EDUCATION: JN  
 MEMBER: UTILITIES  
 ENVIRONMENT  
 GENERAL GOVERNMENT &  
 HUMAN RESOURCES  
 BUDGET

Testimony in Opposition to HB 2099 – Tax Committee

Mr. Chairman, Members of the Committee, I appear in opposition to HB 2099. Page 6, lines 12-17 remove the sales tax exemption for rural water districts, public wholesale water supply districts, and municipal water systems. Prior to the 2000 Legislative Session, drinking water systems paid sales taxes on all purchases, but waste water systems did not. For many municipalities this created bookkeeping nightmares.

For example, if a city purchased pipe or valves for the waste water operation, no sales tax was due. If that same pipe and valves were purchased for the drinking water treatment operation, taxes were due. If pipe purchased for the waste water operation was subsequently transferred to the drinking water side, the city would legally need to retroactively calculate the appropriate tax liability and remit that money to the state.

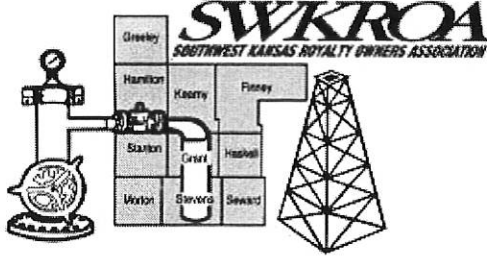
For rural water systems, the problem was less convoluted, but no less real. Because most water districts have few employees, many of whom are part-time, keeping track of what items were taxable and which were not became a bookkeeping “nightmare.” During the 2000 Session, it was well documented that even with the best of intentions, water systems consistently underpaid and overpaid the taxes due.

To simplify the water system operators’ tasks and to generate the amount of revenue that the Department of Revenue believed was “owed,” the Legislature removed the sales tax burden from drinking water systems and SUBSTITUTED a per thousand gallon Clean Drinking Water Fee that is paid into the State General Fund (just like sales taxes are). Sub. for SB 332 was revenue neutral, but simplified the operations for water systems. Thus, water systems did not receive a “break” from paying, but switched from a sales tax to a fee for water sold that is easier to collect and audit. To be equitable, if you recommend HB 2099 favorable for passage, you should also remove the corresponding 3 cents fee per 1,000 gallons of treated water sold. Water systems will pay their fair share, they simply ask to not be taxed twice.

The Committee’s Chairman and Ranking Minority Member should well remember the issue and the Conference Committee that resulted in legislative approval for the sales tax exemption-fee imposition trade. The Chairman graciously appointed me to serve as the third member of that Conference Committee.

Because the fee system is far simpler for the state’s water systems to calculate and remit; and because the Department of Revenue recommended the fee rate that is revenue neutral (relative to the sales taxes owed), I ask you to defeat HB 2099 or at least remove water systems from the bill on page 6, lines 12-17.

House Taxation  
 Attachment 18  
 Date 2-6-03



209 E. 6<sup>th</sup>/ PO Box 250  
Hugoton, Kansas 67951

Phone (620) 544-4333  
Fax (620) 544-2230  
Email: [SWKROA@pld.com](mailto:SWKROA@pld.com)

**Statement of  
Erick E. Nordling, Executive Secretary  
Southwest Kansas Royalty Owners Association  
Hugoton, Kansas**

**February 6, 2003**

To the Honorable Members of the House Committee on Taxation:

Chairman Edmonds and Members of the Committee:

My name is Erick E. Nordling. I am Executive Secretary of the Southwest Kansas Royalty Owners Association (SWKROA). I am submitting testimony on behalf of members of our Association and on behalf of Kansas royalty owners in opposition to House Bill No. 2099 relating to sales tax exemptions on mining, water, minerals and oil and gas property.

SWKROA is a non-profit Kansas corporation, organized in 1948, for the primary purpose of protecting the rights of landowners in the Hugoton Gas Field. We have a membership of over 2,500 members. Our membership primarily consists of landowners owning mineral interests in the Kansas portion of the Hugoton Field who are lessors under oil and gas leases, as distinguished from oil and gas lessees, producers, operators, or working interest owners.

As with all Kansans, we are very concerned about the State's severe budget crisis. Because of this concern, we understand the need to carefully review exemptions which have been granted from sales tax to determine the purpose of the exemption and whether continuing the exemption will help the State's budget concerns.

House Bill 2099 eliminates the exemptions provided to the gas and oil industry for a list of activities related to the oil and gas industry. It also eliminates the exemption for sales tax for services or the irrigation of crops. Further, it eliminates the exemption related to the transmission of natural gas outside the State of Kansas.

As you know, the production of natural gas and oil, and crops harvested from irrigated lands have been cornerstones of our Kansas economy for many, many years.

Although we are concerned about the exemption with regard to irrigation gas for watering crops, and we oppose the bill, our remarks will be focused on the exemptions for gas and oil exploration, production, and transmission of gas to distant markets.

House Taxation  
Attachment 19  
Date 2-6-03

The Hugoton Gas Field located in Southwest Kansas has been a very stable long-term supply of natural gas. Natural gas and oil fields are depleting natural resources, which means that it is necessary for the industry to keep investing technology and money to extend the life of the fields to their full potential. Also, most of the “easy” gas and oil reserves have already been discovered and now we must rely on operators who are willing to expend resources to locate and tap new pockets of gas and oil.

The removal of the sales tax exemption could have a negative impact on maximizing production and exploring for new reserves. Continuing the exemption from sales tax will likely have more benefit to Kansans than the amount of sales tax that could be collected if the exemption were removed.

If companies slow down maintenance and exploration activities because of the overall tax burden, then it could also have a trickle down effect which impacts not only the State of Kansas, with reduced severance, ad valorem, and income tax receipts, but also impacts companies which service the gas and oil industry at the local level. Royalty owners would also be impacted with the potential of fewer wells being drilled or wells which are abandoned prematurely. It could also have an impact on disposable income dollars being spent in Kansas which could trigger sales tax collections on goods and services purchased with the disposable income.

For these reasons, we feel that elimination the sales tax exemption on the oil and gas industry would be harmful to the industry and may cause premature abandonment of some wells and likely have a negative impact on exploring and drilling for new wells to find new reserves and we ask your committee to retain such exemptions.

Thank you for this opportunity to present these concerns to your honorable committee.

Respectfully submitted,

Erick E. Nordling,  
Executive Secretary, SWKROA



**the Chamber**  
Wichita Area Chamber of Commerce

**House Taxation Committee  
Submitted testimony on  
House Bill 2099**

**Bernie Koch  
Wichita Area Chamber of Commerce  
February 6, 2003**

Mr. Chairman and members of the committee, thank you for the opportunity to submit written testimony to you on House Bill 2099.

As I expect to appear before you on other sales tax exemptions of importance to my members, I thought it best to save your time and mine by submitting written testimony on this particular bill.

On page 5, beginning on line 17, House Bill 2099 contains removal of the sales tax exemption for "tangible personal property which is consumed in the production, manufacture ...of tangible personal property..."

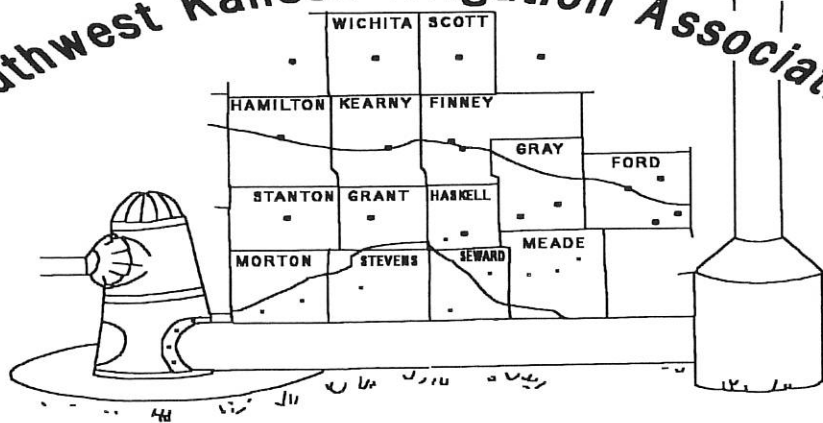
This would subject materials used in the manufacturing process to sales tax. These would include items like lubricating materials, drill bits, and certain tools and dies. We oppose this change.

This sales tax exemption was one of several designed to encourage the expansion of manufacturing in Kansas. In a time when thousands of manufacturing workers have lost their jobs (one reason for the state's current fiscal crisis) it would seem imprudent to add roadblocks to economic recovery and the rehiring of workers, thus compounding the state's fiscal problems.

I appreciate your attention to these written comments.

House Taxation  
Attachment 20  
Date 2-6-03

# Southwest Kansas Irrigation Association



Southwest Kansas Irrigation Association  
922 W Oklahoma ▪ Ulysses, Ks. 67880 ▪ 620-356-3021

## Written Testimony provided to the House Taxation Committee Regarding HB 2099

Dear Chairman Edmonds and Committee members:

Our organization represents approximately 600 irrigators and businesses directly tied to irrigation in Southwest Kansas.

It is our understanding that you have introduced legislation to repeal the sales tax exemption on all sales of tangible personal property, including the sales and service of irrigation equipment.

Repealing the sales tax exemption on irrigation equipment and services related to irrigation would have a negative economic impact on the state of Kansas.

Repealing the sales tax would put an economic hardship on an industry that already is severely depressed.

Since the conception of our organization we have had conservation of the Ogallala Aquifer as one of our top priorities. We have been involved in and supported research efforts focused on water conservation. We have continually encouraged our membership to invest in new conservation technologies.

Conserving and extending the life of the Ogallala Aquifer is the top priority for all the stakeholders over the aquifer. Increased conservation is best achieved through new technology and research. This technology is expensive by itself, increasing the cost will only deter more conservation.

House Taxation  
Attachment 21  
Date 2-6-03

We are continually looking for ways to increase the number of young irrigators to keep our organization alive. Initial capital requirements for a young farmer, is probably the most inhibiting factor in getting started in an independent operation. To require an individual who wishes to start farming to pay a sales tax on new or used equipment purchases would be very negative. The participants hurt the most would be without a doubt the young farmer trying to get established.

Certainly the argument can be made, increased investment increases revenue, and increased revenue increases tax revenues collected by the state. We all know Kansas maintains a very strong agriculture economy. Agriculture as an industry contributes enormously to our state's general fund through economic development. We strongly oppose any effort to discourage any expansion or further development of our industry.

We certainly hope this committee will consider all the negative impacts that would be inflicted on the economy of the state of Kansas before it goes any further in considering the repealing of the exemption. This state's budget problems will not be solved in the long run by repealing these exemptions.

The state of Kansas has been able to operate for many years with these exemptions in place and I believe we can find a way to continue. We are respectfully requesting that this exemption stay in place.

Sincerely,

Southwest Kansas Irrigation Association

**KRMCA**

Kansas Ready Mixed  
Concrete Association

**KAPA**

Kansas Aggregate  
Producers' Association

Testimony

By the  
Kansas Aggregate Producers' Association  
Kansas Ready Mixed Concrete Association

Before the  
House Committee on Taxation

Regarding HB 2099

February 6, 2003

Good morning, Mr. Chairman and members of the committee. My name is Woody Moses Managing Director of the Kansas Aggregate Producers' Association, and the Kansas Ready Mixed Concrete Association. Thank you for the opportunity to submit written testimony on HB 2099. The Kansas Aggregate Producers' Association (KAPA) and The Kansas Ready Mixed Concrete Association (KRMCA) is a statewide trade association comprised of over 250 members and one of the few industries to be represented in every county of this state.

The Kansas Aggregate Producers' Association and the Kansas Ready Mixed Concrete Association are opposed to HB 2099, a bill which would remove the sales tax for "materials consumed in production". We are opposed to this bill for the following reasons:

- Removal of this exemption would put us in an unfair competitive situation with neighboring states. This is particularly true in the Kansas City Metro area where over 600 Ready Mixed Concrete Trucks are based and greatest amount of construction aggregate is produced
- The removal of the sales tax exemption would be counterproductive as KDOT and other political subdivisions would be forced to pay a higher price to cover the increase. 70 – 75 % of our sales are to the public sector.
- The relocation of plant and equipment to surrounding states would lead to the loss of property tax base.

In the past sales tax exemptions have been granted as a method of good tax policy. Now is not the time to abandon good tax policy in favor of poor revenue raising policy. Please do not support HB 2099.

Thank you for the opportunity to provide these comments.

House Taxation  
Attachment 22  
Date 2-6-03