

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Stephen Morris at 10:35 a.m. on February 24, 2004, in Room 123-S of the Capitol.

All members were present.

Committee staff present:

Alan Conroy, Director, Kansas Legislative Research Department
J. G. Scott, Chief Fiscal Analyst, Kansas Legislative Research Department
Amy Deckard, Kansas Legislative Research Department
Susan Kannarr, Kansas Legislative Research Department
Norman Furse, Revisor of Statutes
Jill Wolters, Senior Assistant, Revisor of Statutes
Judy Bromich, Administrative Analyst
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Representative Bill Light
Representative Gary Hayzlett
Bob Boaldin, President, Kansas Legislative Policy Group and Morton County Commission
Madison Traster, Ulysses, Kansas, Grant County Commission
David Bozone, Hugoton, Kansas, Stevens County Commission
Gene Schwein, Ulysses, Kansas, Grant County Commission
Neal Gillespie, Director, Stevens County Economic Development and Mayor of Hugoton, Kansas
Richard Veach, General Manager, Pioneer Communications, Ulysses, Kansas
Jerry Davis, Chairman, Finney County Board of Directors
Melvin Webb, Stevens County Board of Commissioners
Ken Peterson, Kansas Petroleum Council
John Crump, President, Board of Directors, Southeast Kansas Royalty Owners Association
(written)
Dennis Jones, Kearny County Attorney, Lakin, Kansas (written testimony)
Board of County Commissioners, Meade County (written testimony)
Alan Goering, on behalf of Barber County (written testimony)
Ray Brown, on behalf of Haskell County (written testimony)

Others attending:

See Attached List.

Bill Introductions

Senator Adkins moved, with a second by Senator Helgerson, to introduce two bills: an act concerning certain postsecondary educational institutions; relating to out-district tuition (3rs2020) and an act concerning sales taxation; relating to exemptions; aircraft and aircraft repair (3rs1716). Motion carried on a voice vote.

Chairman Morris opened the public hearing on:

SB 487--Creating the gas valuation depletion trust fund and providing for distribution of moneys therefrom

Chris Courtwright, Principal Economist, Kansas Legislative Research Department, briefed the committee on the bill. Mr. Courtwright distributed the following information:

- Flow Chart and the estimated fiscal impact of **SB 487** (Attachment 1)
- Oil and Gas Fields in Kansas (Attachment 2)

CONTINUATION SHEET

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE at 10:35 a.m. on February 24, 2004, in Room 123-S of the Capitol.

- Statewide Natural Gas Production; Mineral Tax Collections, Natural Gas; and Natural Gas Prices FY 1996 - FY 2005 (Attachment 3)

Chairman Morris explained that southwest Kansas is the home of the Hugoton Gas Field which is one of the world's largest gas fields. He noted that unfortunately it is in a state of decline in that it has lost half of its production. This has serious implications for the State of Kansas and for the residents in southwest Kansas. Since severance tax was enacted twenty years ago there has been over \$1 billion put into the state's coffers from severance tax.

The Chairman noted that the Hugoton field has been a great resource for the State of Kansas and southwest Kansas has had jobs because of it, but during the past ten years southwest Kansas has lost hundreds of jobs. The concern is that once that resource is completely depleted after producing billions of dollars over the years there will not be anything left from this resource and **SB 487** is a very modest attempt to try to put a small minute portion of the money back to where this resource started.

The Chairman welcomed the following conferees that testified on **SB 487**:

Representative Bill Light expressed his support of **SB 487**. (No written testimony was submitted.) He explained that he, as a Legislator, represents a number of the counties that will be discussed in the bill. Representative Light felt that this was a very important subject for the committee to take up at this time, not only for the counties present, but also for the State of Kansas because of the depletion of the Hugoton gas field.

Representative Gary Hayzlett testified in support of **SB 487**. (No written testimony was submitted.) He explained that he also comes from one of the affected counties. Representative Hayzlett mentioned that he served as a county commissioner for sixteen years and the decline of the Hugoton gas field was one of the fears that they always discussed and what it would do to their area from an economic standpoint. He feels that **SB 487** will address that fear and he is very supportive of the bill.

Bob Boaldin, President, Kansas Legislative Policy Group, Proponent, spoke in support of **SB 487** and explained that this is not a new tax (Attachment 4). He noted that the bill provides a portion of the severance tax currently remitted to the state to be held in a trust for the benefit of local governments and the bill prescribes the distribution method.

Madison M. Traster, Grant County Commissioner, testified in support of **SB 487** (Attachment 5). Mr. Traster explained that as resources in western Kansas are depleted, there will be a profound decrease in their tax contribution to the state. He noted while they are working hard to diversify the economy to cushion the economic and social impact of the ultimate depletion of their natural gas reserves, they believe these funds should be set aside to be used as we adjust to new economic conditions and as they shift to other businesses and industries to rebuild their tax base.

Dave Bozone, Stevens County Commissioner, spoke in support of **SB 487** (Attachment 6). Mr. Bozone mentioned that, in reference to the Hugoton gas field, most of this natural resource has not only left the county, but the State of Kansas as well. He explained that their counties are sparsely populated, so a small group of citizens will carry the tax burden when the mineral base is depleted. He expressed the hope for help from state government in preparing for the financial security of Stevens county. Mr. Bozone noted that they favor the establishment of a trust fund for this purpose.

Gene Schwein, Grant County Commissioner, testified in support of **SB 487** (Attachment 7). Mr. Schwein explained that the bill would give their counties a bigger proportionate share of the severance tax, which is already in place without an increase in taxes. He mentioned that he has some reservations about some of the wording in the bill, but felt that it could be corrected by amendments.

Neal Gillespie, Stevens County Economic Development Director and Mayor of Hugoton, spoke in support of **SB 487** (Attachment 8). Mr. Gillespie expressed concern that the second largest gas field, Hugoton, not be pulled out from under Kansas without setting aside a reserve for future generations. He noted that the

CONTINUATION SHEET

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE at 10:35 a.m. on February 24, 2004, in Room 123-S of the Capitol.

Hugoton field will continue blessing long after it is depleted if acted on quickly and wisely.

Richard Veach, General Manager, Pioneer Communications, headquartered in Ulysses, Kansas, testified in support of **SB 487** (Attachment 9). Mr. Veach noted that as the Hugoton field declines, it not only affects the natural gas and oil portion of valuation, it also affects value of support industries. He mentioned that the impact of this occurring is impossible to measure; however, it will certainly be devastating to their local and regional economy.

Jerry Davis, Chair, Board of County Commissioners of Finney County, spoke in support of **SB 487** (Attachment 10). Mr. Davis explained that mineral valuation is a significant part of the total valuation of Finney County as well as a number of other counties in southwest Kansas. He noted that **SB 487** proposes to create a fund that will enable them to deal with any abrupt changes in valuation that may occur in future years.

Melvin Webb, Stevens County Board of Commissioners, asked support of **SB 487**. He provided a brief history of the discovery and development of Gas and oil in southwest Kansas (Attachment 11). Mr. Webb explained that **SB 487** would provide some assistance during a time of transition as they seek other avenues of growth of their tax base in Stevens County.

Ken Peterson, Kansas Petroleum Council and authorized to speak on behalf of KIOGA, presented neutral testimony regarding **SB 487** (Attachment 12). Mr. Peterson explained industry concerns in detail in his written testimony.

Written testimony was submitted by the following conferees:

John Crump, President, Southwest Kansas Royalty Owners Association (Attachment 13)

Thomas W. Wright IV, Chairman Board of County Commissioners, Kearney County and Dennis C. Jones, Kearney County Attorney (Attachment 14)

Max Johanson, Chairman; Harold Rickers and Bob Glenn, Mead County Commissioners (Attachment 15)

Alan C. Goering, on behalf of Barber County (Attachment 16)

Ray Brown, Haskell County Commissioner (Attachment 17)

There being no further conferees to come before the committee, the Chairman closed the public hearing on **SB 487**.

The meeting adjourned at 11:30 a.m. The next meeting is scheduled for February 25, 2004.

**SENATE WAYS AND MEANS COMMITTEE
GUEST LIST**

DATE February 24, 2004

NAME	REPRESENTING
Madison Raster	Grant County
Gene Schweer	Grant Co.
David Boggs	Stevens Co.
Raymond H. Brown	HASKELL CO.
Malvin H. Kell	Stevens Co.
Neal B. Gilbani	" "
Judy Shaw	Kearney Associates Inc
David Rogers	KLP II
THOMAS J. FUCHSMANN	LANDMARK APPRAISAL, INC.
Jeremy M Davis	KINNEY Co -
Jillie Hein	Hein Law Firm
Rt. May	HEIN LAW FIRM
Jack Gups	Dupe - P. H + KM
Rubing Cunn	KDOR
Ein Sand	Sen. David Adkins
Bob Boaldin	Morton County
RICHARD VEACH	PIONEER COMMUNICATIONS
Mike Huttles	Ks. Gov't Consulting
John Pinegar	Kansas Legislative Policy Group
Mark Low	Meadow County
Patricia Inaster	Grant Co.
Shirley Boggs	Stevens County

SENATE WAYS AND MEANS COMMITTEE
GUEST LIST

DATE February 24, 2004

NAME	REPRESENTING
Ed Cross	KIOGA
Ken Peters	KS Petroleum Council

Counties with at least \$0.5 million in gas severance tax receipts in FY 2003 (14).
(Barber, Comanche, Finney, Grant, Hamilton, Haskell, Kearny, Kingman, Kiowa, Meade, Morton, Seward, Stanton, Stevens)

Account established on behalf of each such county with new fund, Gas Valuation Depletion Trust Fund (GVDTF).

New Gas Sev Tax Disposition of Revenue

(7%)

(93%)

FY 2007
FY 2008
FY 2009
FY 2010

	CMPTF	SGF	GVDTF
	7.00%	88.04%	4.96%
	7.00%	85.56%	7.44%
	7.00%	83.07%	9.93%
	7.00%	80.59%	12.41%

All Other (91) Counties

(No Change in Current Disposition of Revenue)

(7%)

(93%)

CMPTF

SGF

All Counties with Accounts in GVDTF Use Gas Leasehold Valuation for TY 05 as Baseline

GVDTF Counties with gas values less than 50% of TY 2005 for a Given Future Tax Year

All Other GVDTF Counties

20% of Trust Account Distributed to Each County by Jan 15 of Next Tax Year

GVDTF Counties with gas val REMAINING < 50% of TY 2005 for a Next Future Tax Year

GVDTF Counties with gas val returning to 50% or more of TY 2005 value -- No Distribution

20% of Trust Account Distributed to Each County by Jan 15 of Next Tax Year

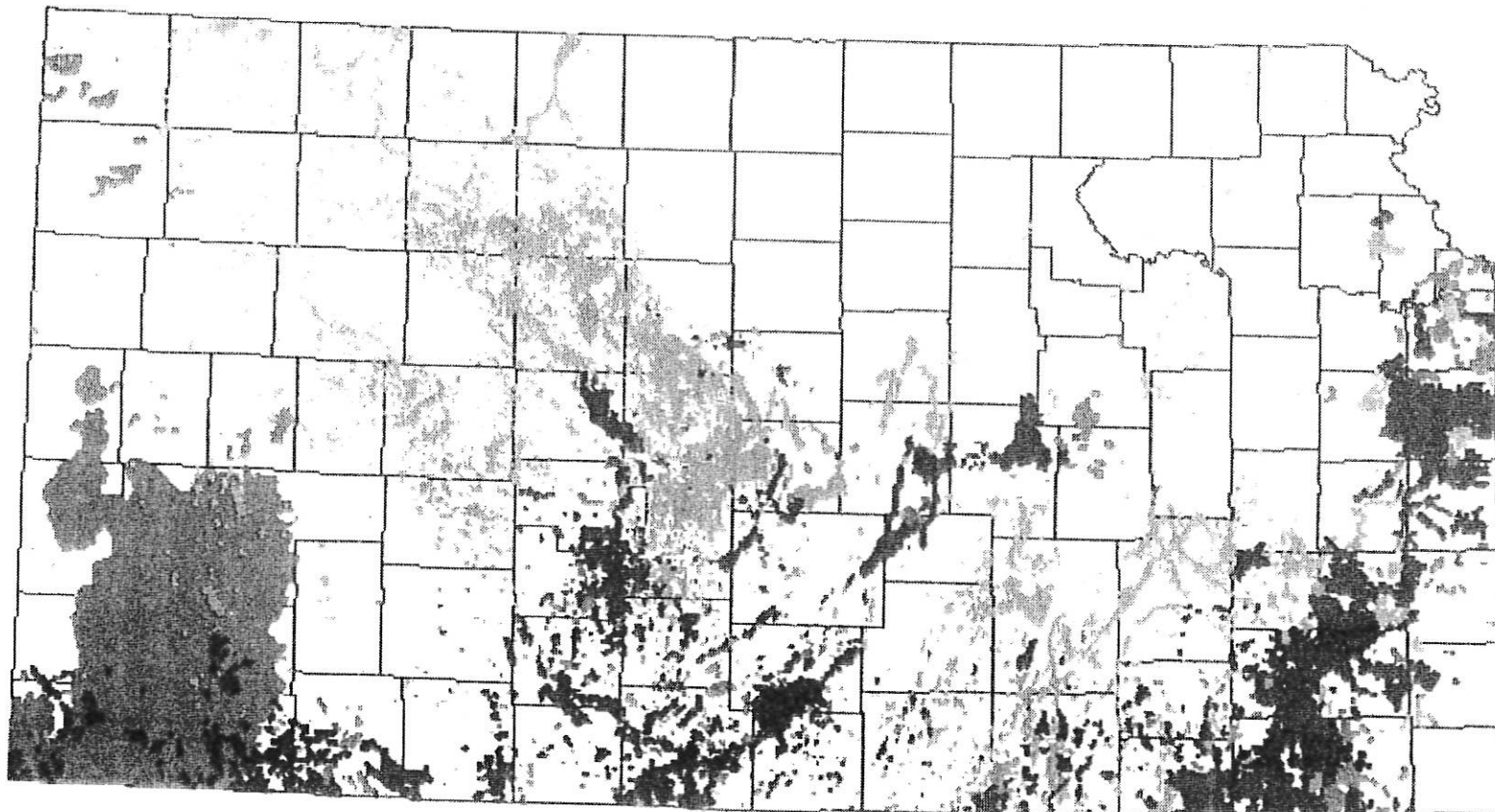
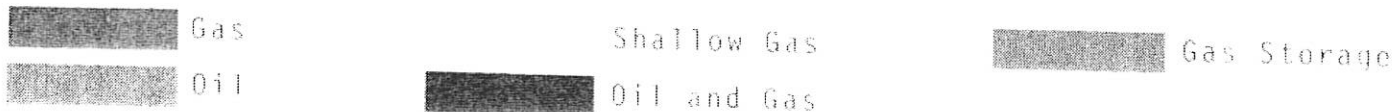
Estimated Fiscal Impact of SB 487:

(\$ in millions)

	SGF	GVDTF
FY 2005	---	---
FY 2006	---	---
FY 2007	(\$2.7)	\$2.7
FY 2008	(\$3.9)	\$3.9
FY 2009	(\$4.9)	\$4.9
FY 2010	(\$5.7)	\$5.7

(Based upon continued gas production declines and assuming the price per mcf remains at \$3.90 indefinitely.)

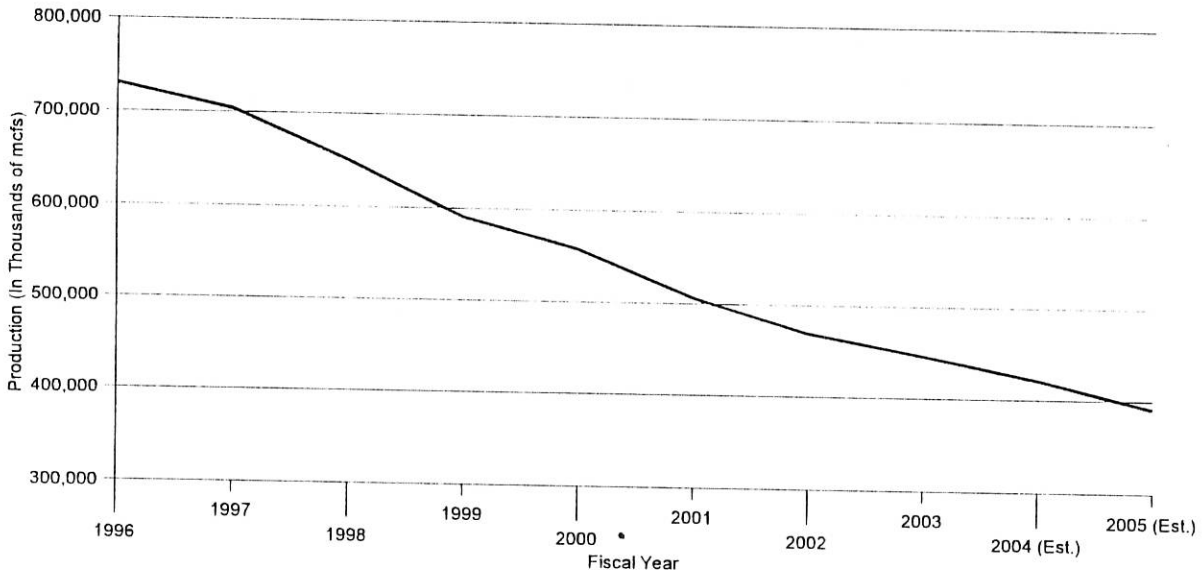
Oil and Gas Fields in Kansas



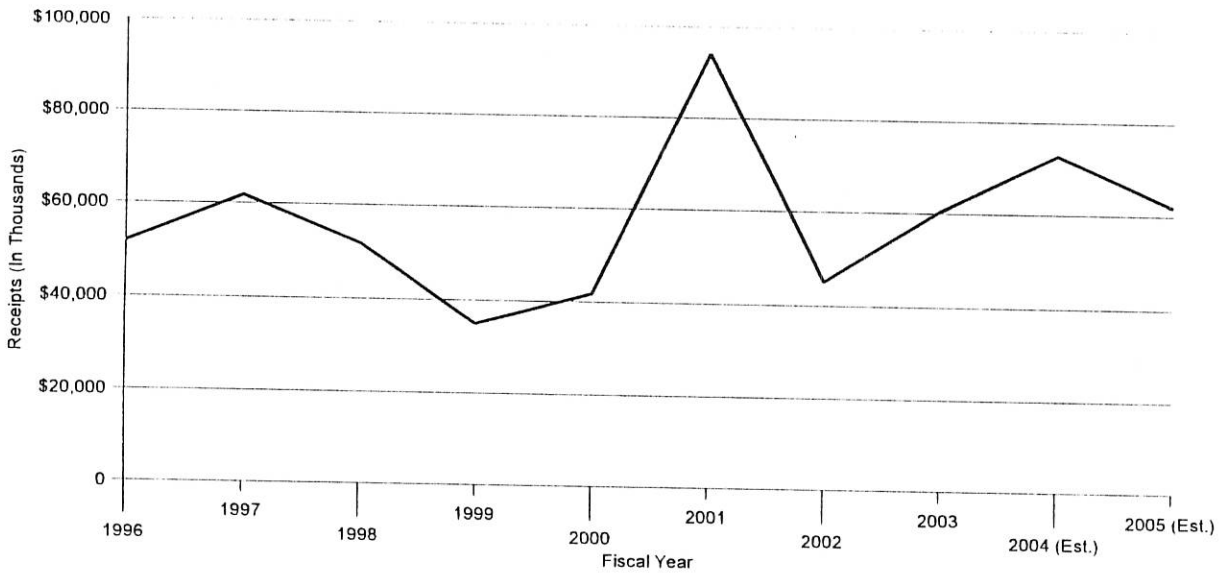
0 50 mi

Senate Ways and Means
2-24-04
Attachment 2

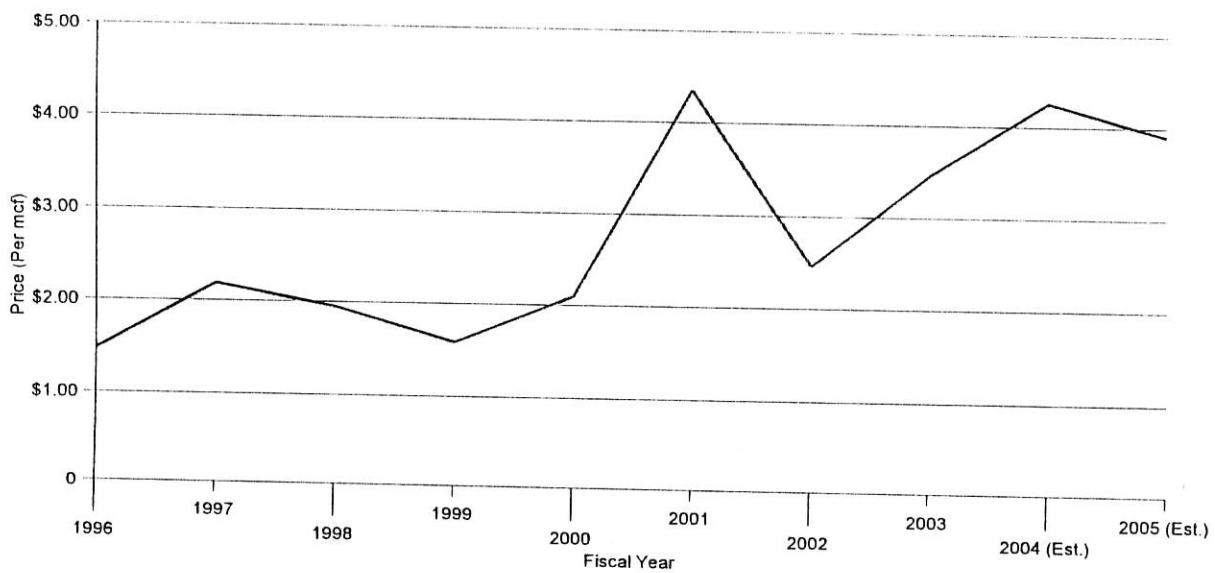
STATEWIDE NATURAL GAS PRODUCTION (In Thousands of mcfs)



MINERAL TAX COLLECTIONS NATURAL GAS (In Thousands)



NATURAL GAS PRICES FY 1996-FY 2005 (Per mcf)



Senate Ways and Means
2-24-04
Attachment 3



Kansas Legislative Policy Group

Senate Ways and Means Committee

Senate Bill No. 487

February 24, 2004

By: Bob Boaldin, President

Kansas Legislative Policy Group

Good morning Mr. Chairman and members of the Committee. Thank you for allowing me the opportunity to testify today. I'm Bob Boaldin, president of Kansas Legislative Policy Group (KLPG), which is a coalition of over 30 western Kansas counties. I'm a native of Elkhart, Kansas and a businessman who owns a rural telephone company, and a farmer and rancher. In 2003, I received the Governor's Award of Excellence for my company Epic Touch Communications. I have served Elkhart and Morton County for 28 years in elected positions. I was the youngest elected mayor of Elkhart and have been a member of the Morton County Board of County Commissioners since 1986.

KLPG was organized in early the 1980's to address concerns and oppose imposition of the severance tax. As you know, we lost the severance tax battle. Since enactment of the severance tax, the natural gas fields have transferred to the Kansas general fund coffers over one billion dollars (1983-2003; \$1,010,113,000 Source: Kansas Department of Revenue). In 1982 when the severance tax issue was before the Kansas Legislature, a compromise with natural gas producing counties was reached, permitting 7% of the severance tax (4.33%) returned back to the county where the natural gas was produced or "severed".

The amount returned back to the counties was greatly appreciated. 50% of the funds have been used to support public education and 50% to support the local unit's of government. These funds have been judiciously expended with the best interest of our constituents at heart.

Due to the decline of the Hugoton Gas Field city, county and school officials are becoming increasingly concerned about the future of our tax base. We are aware the Hugoton Field has a limited life expectancy. How long the field will continue remains unknown.

Southwest Kansas is entering a period when we can no longer rely on natural gas and those related industries to provide the necessary tax base of our local governments and schools.

*Senate Ways and Means
2-24-04
Attachment 4*

Today we seek your cooperation in supporting Senate Bill 487. This is not a new tax. It simply provides a portion of the severance tax currently remitted to the state to be held in a trust for the benefit of local governments. The bill prescribes the distribution method.

Thank you for allowing me to testify and I am pleased to answer any questions.

4187

Kansas Department of Revenue
Mineral Tax Collections by Fiscal Year

Dollars are in Thousands

<u>Fiscal Year</u>	Oil		Gas	
	<u>Gross</u>	<u>SGF</u>	<u>Gross</u>	<u>SGF</u>
1983	\$ 8	\$ 3	\$ 11	\$ 11
1984	\$ 70,763	\$ 65,814	\$ 42,926	\$ 39,921
1985	\$ 66,508	\$ 61,836	\$ 41,930	\$ 38,995
1986	\$ 56,473	\$ 52,505	\$ 42,171	\$ 39,219
1987	\$ 28,671	\$ 26,294	\$ 32,602	\$ 30,320
1988	\$ 34,669	\$ 31,933	\$ 43,622	\$ 40,568
1989	\$ 24,117	\$ 22,349	\$ 52,161	\$ 48,510
1990	\$ 25,699	\$ 23,671	\$ 58,070	\$ 54,005
1991	\$ 36,853	\$ 34,242	\$ 59,381	\$ 55,224
1992	\$ 29,491	\$ 27,427	\$ 55,732	\$ 51,831
1993	\$ 24,538	\$ 22,820	\$ 74,724	\$ 69,493
1994	\$ 19,621	\$ 18,248	\$ 81,871	\$ 76,140
1995	\$ 17,102	\$ 15,905	\$ 60,034	\$ 55,832
1996	\$ 16,704	\$ 15,535	\$ 51,662	\$ 48,046
1997	\$ 19,670	\$ 18,293	\$ 61,742	\$ 57,420
1998	\$ 15,576	\$ 14,486	\$ 51,690	\$ 48,072
1999	\$ 9,130	\$ 8,491	\$ 34,883	\$ 32,441
2000	\$ 15,346	\$ 14,272	\$ 41,610	\$ 38,697
2001	\$ 15,287	\$ 14,217	\$ 93,892	\$ 87,320
2002	\$ 14,939	\$ 13,893	\$ 44,933	\$ 41,788
2003	\$ 17,758	\$ 16,515	\$ 60,496	\$ 56,261
Total	\$ 558,925	\$ 518,749	\$ 1,086,143	\$ 1,010,113

Senate Ways and Means Committee
Senate Bill No. 487
February 24, 2004
By: Madison M. Traster
Grant County Commission

Mr. Chairman and members of the Committee. Thank you for allowing me to appear before you in support of Senate Bill 487. My name is Madison M. Traster, I have been a county Commissioner for 7 years. In all the years I have seen many changes. Western Kansas is an island of prosperity, due in large part to our mineral resources. The production of these minerals, primarily natural gas, is the basis of a large economy generating tax revenue for the state in the form of individual income tax, property tax and severance tax. These minerals also support a large work force. For example, we have nine facilities in Grant County that either process or compress the natural gas on its way to the eastern markets.

As these resources are depleted, there will be a profound decrease in our tax contribution to the state. The domino effect will travel through Topeka to Kansas City, Wichita, and over our entire state.

States like Alaska and Wyoming, to name two have learned their lessons from the past and set up trust funds from the sale of their minerals. We need to establish such a fund for the counties that now produce this tax revenue.

While we are working very hard to diversify our economy to cushion the economic and social impact of the ultimate depletion of our natural gas reserves, we

Senate Ways and Means
2-24-04
Attachment 5

believe these funds should be set aside to be used as we adjust to new economic conditions, and as we shift to other businesses and industries to rebuild our tax base.

We are a proud bunch of people. Even now we are putting funds into economic development, as we do not want to become dependent on the state in the future. We are asking the legislature to set aside some of these monies to help level out our economy in future years. It took millions of years to lay down these mineral deposits and we are about to deplete them. This bill will alleviate, at least partially, the shock of the depletion as we apply our energies, our ingenuity and our resourcefulness to create a new economy.

Thank you.

Senate Ways and Means Committee
Senate Bill 487

Mr. Chairman and Members of the Committee:

Thank you for allowing me to address you today.

My perspective of Senate Bill No. 487 is from two separate occupations.

First, as a Commissioner of Stevens County, I and previous commissions have enjoyed a large valuation base to levy taxes from in order to meet the needs of the citizens of the county. This is due to the fact that the county is centered over the largest natural gas field in the U.S.

The assessed natural gas valuation for Stevens County in 2003 was over \$175 million. This fact alone looks great. When you examine the data and see that two years prior, the tax base totaled over \$260 million, a red flag is immediately visible. This is a loss of \$85 million of tax base in a 2-year period, or, to state it another way, the county has lost nearly 33% of its tax base in 2 years.

When the Hugoton gas field was discovered in Stevens County in 1926, wells were drilled, they came in with hundreds of pounds of pressure waiting for valves to be opened and pipelines to be laid. At the present time most wellhead pressures are below 10 lbs. and many are on a vacuum. Most of this natural resource not only left our county but has left the State of Kansas as well. I have learned recently that gas companies are cutting off supplies to irrigators in the county. This will create an additional economic hardship on the county as irrigated land is changed to dryland thus lowering the county tax base even further.

My second perspective of Senate Bill No. 487 is that of a farmer and as a taxpayer. Being a second-generation landowner in Stevens County, my wife and I can appreciate what a burden taxes can be. We realize that property taxes are necessary to pay for the county services that we enjoy, however, it is a burden each year to meet this expense. As a taxpayer, my concern is that income from the gas production is mostly realized by large, out of state companies. As this field declines we will need to pick up larger tax bills in our later years. We feel that our county and state should get ready for this loss of tax base. Farming and ranching is a tough way to make a living and additional taxes will tend to make it economically impossible.

I see the solutions to a tax base loss as three fold:

1. Raise the tax levy to offset the loss. Stevens County mill levies have been increased almost 27% in last 2 years. The County

Senate Ways and Means
2-24-04
Attachment 6

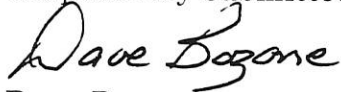
Commission has also cut expenses and reduced overtime of our county employees.

2. Promote economic development in the county. We have an eco-devo board and director that are presently working to promote the development of wind farms and ethanol plants.
3. Save some of these moneys now to get ready for the inevitable future when our tax base will be much less.

We want to prepare for the "storm" that will hit our county and its citizens when this unrenovable resource is exhausted. Our counties are sparsely populated, so a small group of citizens will carry the tax burden when the mineral base is depleted. We would very much appreciate help from our state government in preparing for the financial security of our county. We favor the establishment of a trust fund for this purpose.

Thank you for your time and consideration of my concerns.

Respectively submitted



Dave Bozone

Testimony
Senate Ways and Means Committee
Senate Bill No. 487
February 24, 2004
By: Gene Schwein

Mr. Chairman and Members of the Committee:

I would like to show my support for Senate Bill 487. This is a good bill because it does not create a new tax.

As a farmer, royalty owner and a county commissioner, I understand the impact of taxes on our community. With our dwindling gas reserves, which by the way makes up just under 60% of our county's valuation, the burden on taxes will be shifting from primarily the gas industry to the private sector. If we want to maintain and keep the infrastructure our county has developed over the years, the tax impact will be sorely felt by Grant countians without the passage of this bill.

When this bill was first being discussed, the county commission was trying to find a vehicle that we as a county could put back funds in a trust account to help offset the advalorem taxes as our minerals deplete. This bill will give our counties a bigger proportionate share of the severance tax, which is already in place without an increase in taxes.

I do have some reservations about some of the wording in the bill but I am sure that can be corrected with some amendments.

Thank you for the opportunity to appear before you.

Respectfully submitted,


Gene Schwein

Senate Ways and Means
2-24-04
Attachment 7

Testimony in Support of SB487, Ways & Means Committee, February 24, 2004

Good Morning!

I'm Neal Gillespie, Stevens County Economic Development Director and the Mayor of Hugoton. I'm here to voice my support for SB 487.

I have long believed that if you receive a great sum of money that won't last forever, (i.e. an inheritance, lottery winnings, a sports contract, income from a depleting natural resource), the wisest move you can make with that money is to invest as much as possible and live off of the earnings forever. As I was preparing my testimony, I heard a news report that a baseball player had just signed a contract for a quarter of a billion dollars! That's mind boggling, but to put things in perspective, close to a quarter billion dollars worth of gas will be extracted from Stevens County alone this year. When you add up the other counties where gas is being extracted, the total will be nearly half a billion dollars and this depletion has been going on for decades. Most of those dollars will go out-of-county and out-of-state. The billions of dollars that have been generated have helped some small gas companies become international giants.

In Public Information Circular 5, published by the Kansas Geological Survey in January 1997, they state that "Economically, the Hugoton area is Kansas's most important natural resource." What will happen to Hugoton, and the 13 counties in southwest Kansas that benefit from the field, when the Hugoton Gas Field is depleted? How will the state make up for this loss of revenue? The counties that could be devastated by this economic train-wreck don't want to become a welfare problem for the state and federal government. We want to take proactive steps to avoid a "Riches to Rags" story. SB487 is one such proactive step.

The State of Alaska has garnered a lot of well-deserved praise for setting aside a portion of the wealth that is being taken out from under them. I believe you're all aware that the citizens of Alaska pay no state taxes and they actually receive a dispersal from the state each year. Wouldn't that be a nice change for our state? We are late in the game to try and duplicate their success, but every penny we set aside lessens the coming blow for the citizens of the affected counties and our state.

I believe Alaskans learned a painful lesson from the boom-and-bust Gold Rush. Outsiders came and took their valuable natural resource and left a mess. Oil reserves gave Alaska a second chance that Kansas probably won't get. Wise men learn from the experience of others. I hope and pray that we can look back someday and say the enactment of SB487 was an extremely wise move on the part of the ladies and gentlemen we elected to look out for us. Don't allow the second largest gas field in the world to be pulled out from under us without setting aside a reserve for future generations. The Hugoton Gas Field has blessed countless people and corporations for over 70 years. It will continue blessing long after it is depleted if we act quickly and wisely.

Thank you for your time and consideration.

Senate Ways and Means
2-24-04
Attachment 8



120 West Kansas Avenue
P.O. Box 707
Ulysses, Kansas 67880-0707

Tel: 620 / 35.
Fax 620 / 356-3242
Internet: www.pioncomm.net

**Senate Ways and Means Committee
Senate Bill No. 487
February 24, 2004
By: Richard Veach**

Good morning Mr. Chairman and members of the Committee. Thank you for allowing me the opportunity to testify today. I'm Richard Veach General Manager of Pioneer Communications that is headquartered in Ulysses. Pioneer Communications provides a variety of telecommunications services to more than twenty-five communities in southwest Kansas.

We employ 150 full-time and 20 part-time employees. Pioneer Communications is the second largest employer in Grant County. I am particularly proud that Pioneer Communications has been successful in recruiting and attracting college graduates to return to their roots. In the past five years we have hired six outstanding college graduates to "come home" and work at Pioneer Communications. I am speaking as both a businessperson as well as a resident of southwest Kansas. My purpose is to express support for Senate Bill 487.

I have lived in Ulysses for over 18 years. It is a wonderful town and my wife and I enjoyed raising our two children in the community. They grew-up in a small town atmosphere and received excellent public education.

When our family moved to Ulysses, 17 to 18 new homes a year were constructed. For the past few years, just a few new homes have been constructed annually. The biggest growth spurt occurred in 1989 when Amoco moved offices from Liberal to Ulysses.

Ulysses is blessed to be a major player in the natural gas industry. It is home to several major gas producers and support industries such as natural gas and oil exploration companies, well maintenance and water hauling. The majority of our local ad valorem tax base is gas and oil related. The industry has literally been the foundation of our community for 60 years. When I began as general manager of Pioneer Communications, approximately 80% of assessed ad valorem tax was based on natural gas and oil. Today, it represents approximately 60%. As the Hugoton Field declines it not only affects the natural gas and oil portion of valuation it also affects value of

Senate Ways and Means
2-24-04
Attachment 9

support industries. The impact of this occurring is impossible to measure. However, it will certainly be devastating to our local and regional economy.

From the standpoint of Pioneer Communication, we have noticed the access lines for local exchange service has flattened out. There has been downsizing in some local businesses. We notice more vacant residential and commercial properties. There are more homes for sale in the community than normally witnessed in the market.

We all are aware the Hugoton Field has a limited life expectancy. How long the field will continue is unknown. However, there is no question the field is in decline and this is substantiated by the Kansas Geological Survey, the Kansas Corporation Commission and expert testimony to the Kansas Department of Revenue, Oil and Gas Committee.

Senate Bill 487 is an intregal part of the continued success of southwest Kansas. As the decline of the Hugoton Field progresses we must work to identify ways to relieve the financial burden of the loss of valuation on businesses, farmers, ranchers and future generations.

Personally, I want Pioneer Communications to continue to be a leading edge communications provider. I also want our community to continue to be a wonderful place for our children to return once they have completed their college studies, work and raise their families in Ulysses. I believe Senate Bill 487 is a good step in the right direction. I ask for your support.

Thank you for allowing me to testify today. I would be happy to answer any questions.

February 23, 2004

Senator Stephen Morris, Chair
Ways and Means Committee
Room No. 120-S
Capitol, 300 SW 10th Avenue
Topeka, Kansas 66612

Dear Senator Morris:

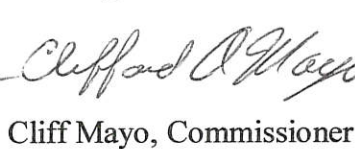
The Board of County Commissioners of Finney County would like to voice support for SB487 that provides for the establishment of a trust fund for counties that may be adversely affected by declines in mineral production. As you are aware, mineral valuation is a significant part of the total valuation of Finney County as well as a number of other counties in southwest Kansas.

SB487 proposes to create a fund that will enable us to deal with any abrupt changes in valuation that may occur in future years. This type of budget management tool is one that will assist Finney County and others to minimize the impact of valuation losses as they may affect other property owners. With the knowledge that the safety net proposed by SB487 will be available county governments will have the ability to adjust to changes in mineral production through a smooth transition rather than having to deal with last minute emergency budgeting.

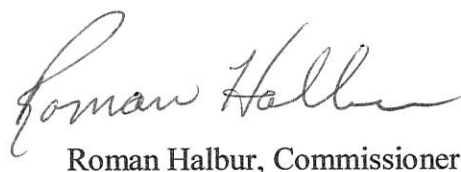
The support of you and your fellow committee members is solicited and it is hoped that this beneficial legislation can be advanced successfully. Please do not hesitate to contact us if we may provide any additional information.

Sincerely,

 *Jerry Davis*
Jerry Davis, Chair

 *Cliff Mayo*
Cliff Mayo, Commissioner

 *Alan Fankhauser*
Alan Fankhauser, Commissioner

 *Roman Halbur*
Roman Halbur, Commissioner

 *Irv Stephens*
Irv Stephens, Commissioner

OFFICE OF THE COUNTY ADMINISTRATOR
Peter H. Olson, County Administrator
admin@finneycounty.org

Office Phone 620-272-3542

Office Fax 620-272-3599

Senate ways and means
2-24-04
Attachment 10

Mr. Chairman and Members of the Committee:

Please allow me a few minutes of your valuable time as I attempt to provide a brief history of the discovery and development of gas and oil in southwest Kansas.

1930's - The 1930's brought in the dust bowl days, depression and also the first gas well drilled in the Hugoton Field.

1940's - We saw the further development of the gas field and we were proud to know we lived in the largest gas pool in the United States. As an incidental benefit of the natural gas exploration, was the discovery of an abundance of water, which initiated a vast development of irrigation in the area.

1950's - This decade brought further development of the gas and water industries and created what seemed like an oasis out of a semi-arid plain with a growing season idealistic to the growth of many agricultural commodities. Carbon black plants came to southwest Kansas because of the natural gas development.

1960's - This era brought an abundance of gas and inexpensive costs of energy. Life was good. Agricultural and gas related industries flourished.

1970's - The gas industry continued to develop and due to the low cost of energy, commercial feed lots and packing plants located in southwest Kansas. The local economy was strong.

1980's - The 1980's brought national and statewide changes that we could not control. Suddenly, attention was focused on southwest Kansas as an untapped source of revenue for the State. In 1983, the severance tax was enacted. In the late 1980's, southwest Kansas was experiencing new production in the Hugoton field known as "infill drilling" which created additional dollars for the State of Kansas. Along with additional dollars, came over production of wells and the more rapid depletion of the Hugoton Field.

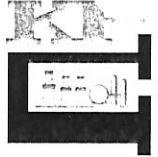
1990's - Southwest Kansas continued to maintain a stable economy, however, the depletion of the gas and water was becoming a grave concern. During the mid to late 1990's, pressures had dropped to the extent that compression of the field became necessary in an attempt to maintain volume. The added cost of compression and an increase in natural gas prices for irrigation had a negative impact on the agricultural industry in this area. A still existing drought also began. The late 1990's brought about increased awareness of the fragile nature of the county assets in southwest Kansas.

Senate Ways and Means
2-24-04
Attachment 11

2000 – Current – These years brought about several businesses closing their doors and leaving the area. This is due to the depletion of natural gas and water. Our tax base is dwindling as well.

Members of the Committee, I am grateful to all those who took the time to read this and I would ask for your support of Senate Bill 487. This would provide some assistance during a time of transition as we seek other avenues of growth of our tax base.

Melvin G. Kelly
2-24-04



COMMENTS SUBMITTED TO THE SENATE WAYS AND MEANS COMMITTEE
ON SENATE BILL 487

FEBRUARY 24, 2004

Mr. Chairman and members of the Committee, I appreciate the opportunity to offer comments on Senate Bill 487, a bill to create a Gas Valuation Depletion Trust Fund with severance tax dollars. I submit these remarks on behalf of the Kansas Petroleum Council, and have been authorized to speak on behalf of KIOGA as well.

We understand the reasoning for this bill, and can appreciate the support shown today by various local governments and businesses from some of the 14 counties that would benefit if this legislation becomes law.

We believe, however, that industry concerns also should be part of the record.

While we neither support nor oppose this legislation, we wish to express two concerns we hope the Committee will look at as it works on Senate Bill 487.

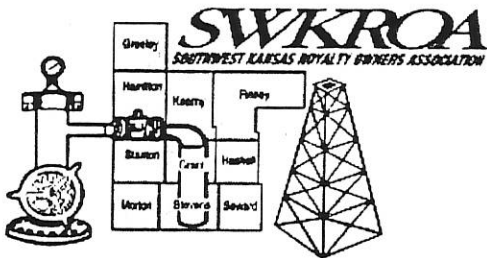
First, the loss of severance tax dollars to the general fund could easily create a perceived need to raise the severance tax rate to make up the difference, or to make the bill "revenue-neutral," if you will. Both of our organizations have heard that the severance tax rate may need to be "tweaked" to offset general fund losses from Senate Bill 487.

I can tell you that even if the comments were meant in jest, we find no comfort even with a "tweak." Kansas gas producers pay severance and ad valorem taxes. This double taxation – no other industry in the state has such a tax burden – creates an effective tax rate of 11.3 percent right off the top.

Senate Bill 487 establishes yet another fund for severance tax receipts. Tying severance dollars to a multitude of funds makes it even more difficult to reduce or eliminate the severance tax in the future.

Thank you for allowing us to express the petroleum industry's concerns about Senate Bill 487.

- Ken Peterson, executive director



209 E. 6th P.O. Box 250
Hugoton, Kansas 67951

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

**Testimony in Support of
Senate Bill No. 487
Senate Ways and Means Committee
February 24, 2004**

Dear Chairman Morris and Members of the Senate Ways and Means Committee:

My name is John Crump and I reside in Lakin, Kansas. I am the President of the Board of Directors of the Southwest Kansas Royalty Owners Association. Our association has obviously always been interested in the Hugoton gas field and I thank you for the opportunity to present my views on Senate Bill No. 487. I support this bill, not because it is good for royalty owners but because it is good for Southwest Kansas and indeed for all of Kansas; it is not good for the state to have one area not do well economically when steps can be taken to relieve that economic distress.

Those of us in Southwest Kansas are aware of the great contribution to our well being made by the Hugoton field over the past 60 years. We are also aware that period of well being is facing a decline. We cannot predict accurately when the field will stop producing but we know it is approaching the end of its productivity. We know this from declining volumes of production and lower pressures in the field -- we look around and see compressors in our farm fields, compressors which are necessary to produce the gas and to force the gas down pipelines where it once flowed of its own natural pressure.

That decline in production has been somewhat masked because income levels from royalties and taxation remain elevated because of high prices. And, those high prices may be necessary to prolong the life of the field because they will help with the expense of technical advances which will help explore, develop and maintain the field.

Nevertheless, the field will deplete -- not evenly, not suddenly, but income flows to companies, individuals and local governments will decline and then cease. The gas companies have contributed greatly to our economies, and to the economy of the State of Kansas, over the last six decades with local purchases, employment and population. In some of our counties, up to 75% of local taxes come from the gas industry; all this will come to a halt. Knowing this will inevitably occur places a responsibility on us to prepare for it as best we can. This legislation (SB 487) is an attempt at that kind of preparation by establishing a fund which can be drawn on when those times arrive. It is fair and forward-looking. I urge your favorable consideration. Thank you.

John E. Crump
President
Southwest Kansas Royalty Owners Association

Board of County Commissioners

— KEARNY COUNTY —

BOX 86

Lakin, Kansas 67860

February 24, 2004

The Honorable Stephen R. Morris
Kansas State Senate -- 39th District
Suite 120 S
State Capitol Building
300 S. W. Tenth Avenue
Topeka, Ks. 66612

Telefax Number: (785) 296-6718

Dear Mr. Chairman:

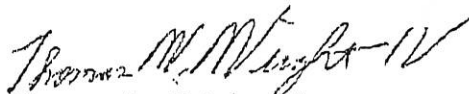
Naturally occurring mineral resources have been a blessing to Southwest Kansas and to Kearny County. However, those resources are a depleting one, and it is time to face the reality that our "underground treasure" that we have all come to depend on will one day no longer be available.

I encourage you, Mr. Chairman, to follow the lead of other states, Alaska and Wyoming to name but two, and to establish a trust fund into which some of the proceeds of our current mineral wealth is directed. We desperately need such forward thinking and planning if the counties that have come to rely on this source of revenue are to survive in the future.

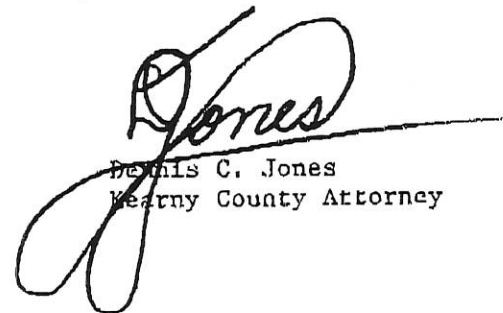
Natural gas and the industry it spawned have been good to Kearny County. Millions and millions of dollars have flowed into the state's economy and into the pockets of companies and individuals alike who have prospered from that resource.

However, it is time to recognize that the gas will someday be gone, and that NOW is the time to prepare for that inevitability. The proposal contained in Senate Bill No. 487 is a good beginning toward a realistic and responsible plan for the future of Southwest Kansas. We urge its adoption.

Sincerely,



Thomas W. Wright IV
Chairman, Board of County Commissioners of
Kearny County, Kansas



Dennis C. Jones
Kearny County Attorney

Senate Ways and means
2-24-04
Attachment 14

Harold Rickers
316/563-7551
Plains, KS 67869

Max Johannsen
316/873-2605
Meade, KS 67864

Bob Glenn
316/646-5784
Fowler, KS 67844

BOARD OF COUNTY COMMISSIONERS

MEADE COUNTY

February 19, 2004

Mr. Steve Morris
Chairman of Ways and Means Committee

Topeka, Ks. 66612

Meade County agrees that the mineral resources of Southwest Kansas are depleting at an extremely rapid rate. For small counties in Western Kansas, these mineral resources are a large part of our tax base. It helps stimulate our economy and also the economy of the state. It concerns us that out-of-state entities are using all of the Kansas resources and are not contributing anything back to the communities. We believe this fund can genuinely help save small rural Kansas counties from future tax increases.

Western Kansas counties can also use this money to offset unfounded mandates from Federal and State Government. Meade County is also working very hard to diversify our economy to cushion the economic and social impact that these depleted reserves will have on the county.

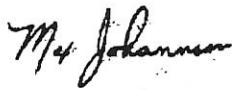
We applaud States like Alaska and Wyoming that have the insight to look into the future of the well being of their states and local governments. We would hope that the State of

P.O. Box 278 • Meade, Kansas 67864 • 316/873-8700

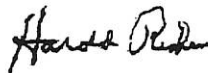
Kansas would follow along the same path and establish this fund to help with the future of the State and Kansas counties.

We would like to encourage the Ways and Means Committee to pass Senate Bill 487.

Sincerely,



Max Johannsen, Meade County Commission Chairman



Harold Rickers, Meade County Commissioner



Bob Glenn, Meade County Commissioner

February 23, 2004

Honorable Steve Morris
Chairman, Ways and Means Committee
Kansas Senate
Statehouse
Topeka, Kansas 66612

Re: SB487

Dear Senator Morris:

I understand your committee will be soon be taking up for consideration SB487.

I am writing to note my support of this proposed bill.

As you know, rural Kansas has been on a precipitous economic decline. One thing that has kept our areas vital is the oil and gas production from some of our rural counties. However, as oil and gas is produced, that source of revenue steadily declines.

SB487 would have the effect of enabling counties that have a substantial amount of oil and gas revenues to put money aside for economic development in other areas.

Obviously, as oil and gas is depleted, we will need to find other sources of economic vitality. Allowing counties to keep a small portion of these revenues as seed money for other economic and/or industrial development could enable our rural areas to survive and even prosper. Thank you very much for your consideration.

Very truly yours,

Alan C. Goering

ACG:jn

Senate Ways and Means
2-24-04
Attachment 16

Testimony
Senate Ways and Means Committee
Senate Bill No. 487
February 24, 2004
Haskell County Commissioner
By: Ray Brown

Mr. Chairman and Members of the Committee:

Thank you for the privilege of appearing before you in support of Senate Bill 487.

My name is Ray Brown. I am a commissioner from the great county of Haskell, located in southwest Kansas. Haskell is a small, rural county, which happens to enjoy benefits derived from an active gas field usually referred to as the Hugoton Field.

We support Senate Bill 487 because we realize that sometime in the future the gas field will be depleted, jobs will be lost and our tax base will be severely reduced. When this becomes a fact it will help to have the trust fund established in this bill to use in order to protect our tax base. The portion of the severance tax that we currently receive is used to keep our local mill levies low.

I would like to point out to the committee that these counties have contributed over one billion dollars to the State of Kansas economy in the last 20 years. We consider the monies set out for our use in this trust fund as a welcome beginning to insure a more stabilized tax base as the gas field depletes.

Respectively submitted and representing all Haskell County Commissioners.

Ray Brown, Haskell County Commissioner

Senate Ways and Means
2-24-04
Attachment 17