

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Dwayne Umbarger at 10:30 A.M. on February 15, 2005 in Room 123-S of the Capitol.

All members were present.

Committee staff present:

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

Conferees appearing before the committee:

Senator Stephen Morris  
Madison M. Traster, Grant County Commissioner  
Carl Higgs, Grant County Commissioner  
Bob Boaldin, President, Kansas Legislative Policy Group and Morton County Commissioner  
Dave Bozone, Stevens County Commissioner  
Gary Baker, Stevens County Commissioner  
John Crump, President, Southwest Kansas Royalty Owners Association  
Edward P. Cross, Executive Vice President, Kansas Independent Oil & Gas Association  
Gene Schwein, Citizen, Ulysses, Kansas (written)  
Melvin Webb, Stevens County Commissioner (written)  
Hamilton County Board of Commissioners (written)  
Stanton County Board of Commissioners (written)  
Thomas W. Wright, IV, Chairman, Kearny County Board of Commissioners (written)  
Ray Brown, Haskell County Commissioner (written)

Others attending:

See attached list.

Chairman Umbarger opened the public hearing on:

**SB 128--Creating the oil and gas valuation depletion trust fund and providing for distribution of moneys therefrom**

Staff briefed the committee on the bill.

The Chairman welcomed the following conferees on **SB 128**:

Senator Stephen Morris testified in support of **SB 128 (Attachment 1)**. Senator Morris explained that the bill creates a Gas and Oil Valuation Depletion Trust Fund for 46 counties in Kansas that is derived from severance tax proceeds. He mentioned that this is an economic aid measure targeted to those counties that are losing a significant portion of their tax due to rapidly declining mineral valuations.

Madison M. Traster, Grant County Commissioner, spoke in support of **SB 128 (Attachment 2)**. Mr. Traster mentioned that the production of the mineral resources in Western Kansas, primarily natural gas, is the basis of a large economy generating tax revenue for the state in the form of individual income tax, property and severance tax. He noted that those minerals also support a large work force, and as an example, explained

CONTINUATION SHEET

MINUTES OF THE Senate Ways and Means Committee at 10:30 A.M. on February 15, 2005 in Room 123-S of the Capitol.

that there are nine facilities in Grant County that either process or compress the natural gas on its way to the eastern markets. Mr. Traster mentioned that the bill would alleviate, partially, the shock of the depletion of the mineral deposits as they apply their energies, ingenuity and resourcefulness to create a new economy.

Carl Higgs, Grant County Commissioner, Ulysses, Kansas, testified in support of **SB 128** (Attachment 3). Mr. Higgs addressed the depletion of the natural resources of both gas and oil. He noted that over one billion dollars has been collected through the severance tax on natural gas alone over the past twenty years. Mr. Higgs urged following other states (Wyoming and Alaska) that have established a similar fund years ago in order to extend the tax life of their mineral resources.

Bob Boaldin, President, Kansas Legislative Policy Group and Morton County Commissioner, spoke in support of **SB 128** (Attachment 4). Mr. Boaldin explained that Southwest Kansas is entering a period when they can no longer rely on natural gas and the related industries to provide the necessary tax base of the local governments. He noted that the bill provides a portion of the severance tax currently remitted to the State to be held in a trust fund for the benefit of local governments.

Dave Bozone, Stevens County Commissioner, testified in support of **SB 128** (Attachment 5). Mr. Bozone expressed concern that the counties in southwest Kansas are sparsely populated, so a small group of citizens would carry the tax burden when the mineral base is depleted. He provided the following solutions:

- Raise the tax levy to offset the loss.
- Promote economic development in the county.
- Save some of the moneys now to get ready for the inevitable future when the tax base will be much less.

Gary Baker, Stevens County Commissioner, spoke in support of **SB 128** (Attachment 6). Mr. Baker provided a brief history of the discovery and development of natural gas and oil in southwest Kansas. He noted that **SB 128** would provide some assistance during a time of transition as other avenues of growth of the tax base are being sought.

John Crump, President, Southwest Kansas Royalty Owners Association (SWKROA), testified in support of **SB 128** (Attachment 7). Mr. Crump explained that the subject of the bill is not specifically a matter for royalty owners, but he represented a long-established and well-regarded group which is concerned about the production of natural gas from the Hugoton Field. He noted that SWKROA urges favorable consideration of the bill primarily from a sense of fairness and that the Hugoton Field has contributed millions in tax revenues over the years. The bill would help ease the transition as the Field finally depletes.

Edward P. Cross, Executive Vice President, Kansas Independent Oil & Gas Association (KIOGA), spoke in opposition to **SB 128** (Attachment 8). Mr. Cross explained that **SB 128** has serious implications for the State of Kansas which are addressed in his written testimony. He urged the committee to consider the facts presented in his written testimony and to not pass **SB 128**.

Written testimony was submitted by the following conferees:

Gene Schwein, Citizen, Ulysses, Kansas (Attachment 9)  
Melvin Webb, Stevens County Commissioner (Attachment 10)  
Hamilton County Board of Commissioners (Attachment 11)  
Stanton County Board of Commissioners (Attachment 12)  
Thomas W. Wright, IV, Chairman, Kearny County Board of Commissioners (Attachment 13)  
Ray Brown, Haskell County Commissioner (Attachment 14)

There being no further conferees to come before the committee, the Chairman closed the public hearing on **SB 128**.

Copies of the Kansas Legislative Research Department Budget Analysis Report for FY 2005 and FY 2006 were available to the committee.

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MINUTES OF THE Senate Ways and Means Committee at 10:30 A.M. on February 15, 2005 in Room 123-S of the Capitol.

**Subcommittee budget reports on:**

**Kansas Lottery (Attachment 15)**

Subcommittee Chairwoman Jean Schodorf reported that the subcommittee on the Kansas Lottery and Kansas Racing and Gaming Commission concurs with the Governor's recommendation in FY 2005 with adjustments and observations and concurs with the Governor's FY 2006 recommendations with adjustments and observations.

Senator Schodorf moved, with a second by Senator Barone, to adopt the subcommittee budget report on the Kansas Lottery in FY 2005 and FY 2006. Motion carried on a voice vote.

Senator Schodorf moved, with a second by Senator Barone, to adopt the subcommittee budget report on the Kansas Racing and Gaming Commission in FY 2005 and FY 2006. Motion carried on a voice vote.

**State Board of Tax Appeals (Attachment 16)**

Subcommittee Chairwoman Vicki Schmidt reported that the subcommittee on the State Board of Tax Appeals concurs with the Governor's recommendation in FY 2005 with observation and with the Governor's FY 2006 recommendations with adjustments and observations.

Senator Schmidt moved, with a second by Senator Kelly, to adopt the subcommittee budget report on the State Board of Tax Appeals in FY 2005 and FY 2006. Motion carried on a voice vote.

The meeting adjourned at 11:45 a.m. The next meeting is scheduled for February 16, 2005.

## SENATE WAYS AND MEANS GUEST LIST

Date February 15, 2005

NAME	REPRESENTING
Stephanie Buchanan	DOB
Julie Thomas	DOB
Ed Cross	KIOGA
<del>Thomas J. Johnson</del>	GRANT, HASKELL, MORTON, STANTON & STEVENS COUNTIES
Don Kerr	Pinegar, Smith + Assoc
Allen Tucker	Morton County Kansas
Ron McManis	Morton Co.
Bob Boaldin	LI II
Doug Smith	SWKROA
CARL EDWARDS	BOTA
Don R Paxson	BOTA
Trevor Wohlford	BOTA
John D. Smith	Stanton Co.
C. Shannon Dimitt	Stanton Co.
Ann Lepay	Grant Co.
Patricia S. Traster	Grant Co.
PHILIP HURLEY	PAT HURLEY & CO.
Shirley Kzone	Stevens Co.
Bob McManis	Stanton Co.
David W. Carter	Finney Co.
Clarence Matthews	Finney Co.
Leo HANNEMAN	FINNEY CO
Charles L. Boy	KRGC





STEPHEN MORRIS

SENATOR, 39TH DISTRICT  
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STATE CAPITOL, ROOM 359-E  
TOPEKA, KS 66612  
(785) 296-2419

State of Kansas



Senate President

TESTIMONY

BY

SENATOR STEPHEN R. MORRIS

TO

SENATE WAYS AND MEANS COMMITTEE

Tuesday, February 15, 2005

Re: SB 128

COMMITTEE ASSIGNMENTS

CHAIRMAN: LEGISLATIVE COORDINATING  
COUNCIL  
ORGANIZATION, CALENDAR AND  
RULES  
NCSL AGRICULTURAL AND RURAL  
DEVELOPMENT

MEMBER: AGRICULTURE  
WAYS AND MEANS  
LEGISLATIVE BUDGET  
STATE BUILDING CONSTRUCTION  
PENSIONS, INVESTMENT AND  
BENEFITS  
STATE FINANCE COUNCIL  
CSG AGRICULTURE TASK FORCE

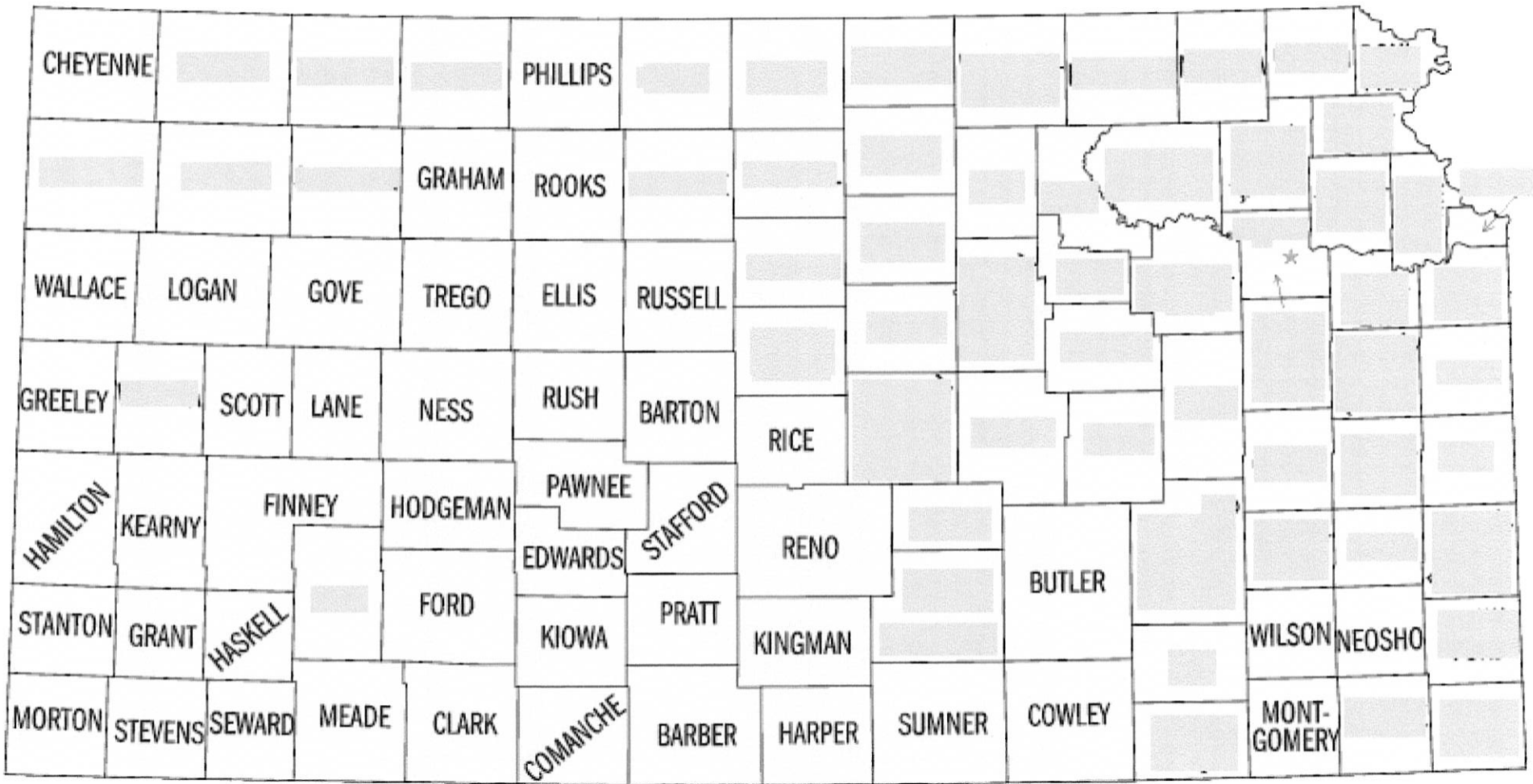
Mr. Chairman, and fellow Committee members, SB 128 creates a Gas and Oil Valuation Depletion Trust Fund for 46 counties in Kansas that is derived from severance tax proceeds. This is an economic aid measure targeted to those counties that are losing a significant portion of their tax due to rapidly declining mineral valuations. A prime example is the 50 percent reduction in gas production from the Hugoton Field during the last ten years.

Beginning in 2009, counties would be entitled to receive distributions from their accounts within the Trust Fund by January 15, when the previous tax year's gas leasehold property valuation was less than 50 percent of such valuation in tax year 2006. This distribution would be 20 percent of the moneys credited to a county's trust account. Thus, the damage dealt to counties losing funds from devaluation would be dulled over time instead of having the major part of the impact happen over two or three years.

This legislation is very important to the economic "well-being" of a significant number of counties in Kansas. The fiscal note is based on current production and current prices. The actual fiscal note is likely to be much less because of the rapid decline in production (10 percent loss each year).

Thank you for your consideration of this vital piece of legislation impacting our mineral producing counties.

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Attachment 1



Testimony By  
Madison M. Traster  
Grant County Commission  
To  
Senate Committee on Ways and Means  
Tuesday, February 15, 2005  
Regarding Senate Bill 128

Mr. Chairman and members of the Committee, thank you for allowing me to appear before you in support of Senate Bill 128. My name is Madison M. Traster, I have been a county commissioner for 8 years. 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.

The Hugoton gas field is a unique phenomenon of nature. The sale of natural gas from this field has contributed over a billion dollars in revenue to the State of Kansas in the form of severance tax as well as hundreds of jobs, business opportunities, etc. That is the good news. The bad news is that the Hugoton field is being depleted. The Hugoton field is a contributor of taxes, not an industry that asks for tax – never asking for tax abatement.

Asking for a trust fund to be set up is not without precedent. The same kinds of things happened in Alaska and Wyoming. These states have learned their lesson and started putting some of these funds in a trust for those affected.

As the 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.

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 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

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Attachment 2*

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.



Testimony  
by  
Carl Higgs  
817 N. McCall  
Ulysses, Ks. 67880

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to appear before you in support of S.B. 128. I have been a county commissioner in Grant County for the past 10 years. During these years I have watched as the natural resources of both gas and oil have depleted.

Grant County is located in the heart of the Hugoton field and has enjoyed the benefits of a healthy tax base due to our location for many years. We, along with other counties, have shared our wealth with the State of Kansas. Over one billion dollars has been collected through the severance tax on natural gas alone over the past 20 years.

By the passage of S.B. 128 a trust fund will be established which will help the counties whose tax base will be severely impacted by the loss of gas and oil valuation. I urge you to follow the lead of other States, such as Wyoming and Alaska, who established a similar fund such as this many years ago, in order to extend the tax life of their mineral resources.

Respectfully Submitted,



Carl Higgs  
Grant County Commissioner

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Attachment 3

Senate Ways and Means Committee  
Senate Bill No. 128  
February 15, 2005  
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 the early 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.

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.

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Attachment 4

Today we seek your cooperation in supporting Senate Bill 128. 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.

Bob Boaldin  
610 South Cosmos Street  
Elkhart, Kansas 67950  
Telephone 620-697-2111

Senate Committee on Ways and Means  
Senate Bill No. 128  
February 15, 2005  
By: Dave Bozone

Mister Chairman and Members of the Committee:

Thank you for allowing me to address you today.

My perspective of Senate Bill No. 128 is from two separate occupations.

First, as a Commissioner of Stevens County, previous commissions and I 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 2004 was over \$215 million. This fact alone looks great. When you examine the data and see that three years prior, the tax base totaled over \$260 million, a red flag is immediately visible. This is a loss of \$45 million of tax base in a 3-year period, or, to state it another way, the county has lost nearly 17% 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. 128 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 rural mill levies have been increased almost 15% in last 3 years. The County

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Attachment 5

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, dairies 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 unrenowable 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



**Senate Committee on Ways and Means**  
**February 15, 2005**  
**By: Gary Baker**  
**Stevens County Commissioner**  
**Regarding Senate Bill 128**

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.

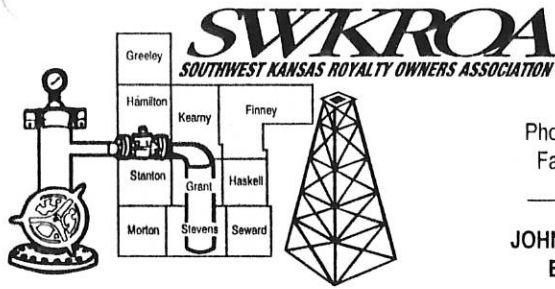
1980's - The 1980's brought national and statewide changes that we could not control. Suddenly, attention was focused on southwest Kansas as an untapped source of revenue for the State. In 1983, the severance tax was enacted. In the late 1980's, southwest Kansas was experiencing new production in the 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.

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*Attachment 6*

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 128. This would provide some assistance during a time of transition as we seek other avenues of growth of our tax base.



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JOHN CRUMP, President

JIM KRAMER, Vice President

JOE LARRABEE, Treasurer

ERICK NORDLING, Executive Secretary

B.E. NORDLING, Ass't Secretary

**Testimony Before the  
Senate Ways and Means Committee  
Senate Bill No. 128  
February 15, 2005**

Chairman Umbarger and Members of the Senate Ways and Means Committee:

I am John Crump of Lakin in Kearny County, located in Southwest portion of our State. I serve as President of Southwest Kansas Royalty Owners Association (SWKROA). Our Association has existed for more than 55 years. Our mission is to protect the interests of royalty owners in the Hugoton Gas Field. Our Board has directors representing each of the 10 counties in the Field and I am appearing this morning on the basis of that representation.

The subject of SB 128 is not specifically a matter for royalty owners as such, but I represent long established and, I think, well regarded group which is concerned about the production of natural gas from Hugoton Field

As you know, that Field is huge, containing more than 11,000 wells and covering more than 2.6 million acres in Southwest Kansas. In 2003, these 10 counties paid more than \$70 million in severance tax to state, but the economic impact in our area is more than the severance taxes paid. Although those taxes are significant; there are income taxes from companies and individuals, ad valorem taxes from companies and individuals. In fact, 75% of all tax revenues generated in Grant County are from gas production, not to mention employment in area and impact of infrastructure.

But, that will change and is already changing. Production is decreasing, although lower volumes of production are masked by higher mcf prices (11 cents in early fifties vs. almost \$7.00 today). The Kansas Geological Survey estimates that 85% of the Field is already depleted, although it notes "ultimate cumulative production consistently has been underestimated".

We see the decline mostly in loss of pressure - more than 300 psi in old days vs vacuum today (years ago the gas flowed freely from the ground, now we are literally sucking the gas out of the ground).

Production companies are doing several things to prolong production - compressors, fracking, some redrilling. The Hugoton Field is still a very active field, but we are aware it is declining.

I urge your favorable consideration this bill. We make this recommendation primarily from sense of fairness. The Hugoton Field has contributed millions in tax revenues over the years and this bill would help ease the transition as the Field finally depletes. Especially, in those areas which have made that contribution - to loss of important source of income

We are not the only area in Kansas producing gas. Southeast Kansas is now becoming an important area in gas production and much of state has been historically important in oil production.

We cannot speak for those areas, but for Southwest Kansas, we feel relief offered by this bill would be fair and equitable.

Those of us who reside in Southwest Kansas are aware that as citizens of Kansas we have an obligation support state as whole, not just our group of counties. We have been and are continuing provide that support. We feel it would be only fair for the State of Kansas to be prepared grant us some assistance as Hugoton Field begins its decline.

Thank you for your consideration.

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**Kansas Independent Oil & Gas Association**

**800 S.W. Jackson Street – Suite 1400**

**Topeka, Kansas 66612**

**Phone: 785-232-7772 Fax 785-232-0917**

**Email: kiogaed@swbell.net**

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**Testimony to the Senate Ways & Means Committee**

**Senate Bill 128 – Creating the oil and gas valuation depletion trust fund and providing for distribution of moneys therefrom**

**Edward P. Cross, Executive Vice President  
Kansas Independent Oil & Gas Association**

**February 15, 2005**

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Good morning Chairman Umbarger and members of the committee. I am Edward Cross, Executive Vice President of the Kansas Independent Oil & Gas Association (KIOGA). KIOGA is an association of independent oil and gas producers with over 800 members from all regions of the state. My comments today are also supported by the Kansas Petroleum Council and the Eastern Kansas Oil & Gas Association. I am here today to express our opposition and concerns surrounding Senate Bill 128 (SB 128).

SB 128 sets up an oil and gas valuation depletion trust fund to be accessed in the future by those counties who collected \$100,000 or more in oil and gas severance taxes in FY 2005 or any fiscal year thereafter. The trust fund is funded through severance taxes paid by those eligible counties.

The intent of the bill is noble. Helping rural areas is good policy for states like Kansas. However, SB 128 has serious implications for the state of Kansas. The concept proposed in SB 128 was presented last year as SB 487. Governor Sebelius outlined the serious implications in her veto message. Governor Sebelius said, "I support and will continue to search for ways to strengthen the rural Kansas economy. However, I believe that a much more extensive analysis of both provisions in SB 487 is needed because of their potential far-reaching consequences on the state budget and the future development of southwest Kansas. For these reasons I find it necessary to veto SB 487."

The Kansas oil and gas industry is a \$3 billion industry and is the second largest industry in Kansas in terms of gross domestic product. The oil and gas industry contributed nearly \$205 million in taxes during calendar year 2003. According to production data provided by the Kansas Department of Revenue, total natural gas production in Kansas has declined by an average of 5.1% over the last 8 years and crude oil production has declined by an annual average of 2.4% over the same period. However, total oil production actually increased 3 of the last 4

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years including last year's 1.3 million barrel increase. While there is no doubt that crude oil and natural gas production in Kansas is gradually declining, the industry is not going to walk away from a \$3 billion asset anytime soon. The oil and gas industry will remain a core component of the Kansas economy for decades to come.

Generally, as production declines, so too does tax receipts. However, marginal oil and gas prices have increased in the last 4 years and this increase in marginal prices have more than offset the decline in production in terms of taxes collected. Marginal gas prices have increased by 25.6% over the last 3 years and marginal oil prices have increased by 20.9% over the last 3 years. As a result, the Kansas Department of Revenue reports that Kansas collected \$35.7 million more in oil and gas severance tax receipts in calendar year 2003 than in calendar year 2002 and \$47 million more in calendar year 2003 than in calendar year 1999. Kansas also collected \$6 million more in oil and gas ad valorem tax receipts in 2003 than in 2002 and \$34.8 million more in oil and gas ad valorem tax receipts in calendar year 2003 than in calendar year 1999. Oil and gas ad valorem tax receipts for Kansas have increased by 45.5% from 1999 to 2003. Oil and gas ad valorem tax collections are conspicuously absent from consideration in SB 128.

SB 128 basically raids the state's general fund of a portion of the oil and gas severance tax collections for the formation of a trust fund for a select few counties who are fortunate enough to have relatively high levels of oil and gas production. The oil and gas severance tax is a state-wide tax with proceeds arising from many counties and dedicated to the general fund for the good of the entire state. Dedicating general fund monies to specific regions will no doubt encourage other regions and industries to pursue similar raids on the general fund for regional interests. SB 128 has the potential to create regional tax fights across the state. In addition, a diversion of a portion of the severance tax collections from the general fund could trigger a need to increase taxes to replenish the general fund.

Last year's SB 487 affected 14 counties in Kansas. Ad valorem tax collections on natural gas production in the 14 county region addressed by SB 487 increased by 23.3% from 1999 to 2003 and ad valorem tax collections on oil production in that region increased by 186.1% over the same period. That 14 county region collectively collected \$15,260,500 more in natural gas production ad valorem taxes in 2003 than in 1999. In addition, the same 14 county region collectively collected \$4,885,450 more in oil production ad valorem taxes in 2003 than in 1999. That 14 county region collectively collected \$20,145,950 more in oil and gas ad valorem taxes in 2003 than in 1999. SB 128 affects 47 counties, but in reality will boil down to roughly the same 14 counties addressed in SB 487 give or take a few.

SB 128 ignores oil and gas ad valorem tax collections and further ignores the fact that oil and gas ad valorem taxes have increased statewide by 45.5% since 1999 and by 29.64% for the 14 county region mostly affected by SB 128. Ad valorem taxes go straight to the counties.

SB 128 is ahead of its time. The problem SB 128 is trying to address is decades away. Severance tax collections for the state of Kansas have increased by 100% from 1999 to 2003 (from \$46.9 million to \$93.9 million). SB 128 ignores the fact that oil and gas ad valorem taxes have increased by 23.3% from 1999 to 2003 and the fact that counties keep all the ad valorem tax collections. In addition, severance tax collections and ad valorem tax collections are sure to increase next year with assessed values for oil properties increasing by 25% and natural gas properties increasing by 39%. The counties already receive 7% of the severance tax collections generated in their respective counties. Schools receive 3 ½% and the counties use the other 3 ½% as they see fit. Perhaps the counties could use part or all of the 3 ½% of severance tax receipts and a portion of their growing oil and gas ad valorem tax receipts to initiate an oil and gas valuation depletion trust fund.

We urge the committee to consider these facts and not pass SB 128. Thank you for your time and consideration. I stand for questions.

Testimony  
by  
Gene Schwein  
3492 E. Road 17  
Ulysses, Kansas 67880

Mr. Chairman and Members of the Committee:

I would like to show my support for Senate Bill 128. This is a good bill because it does not create a new tax.

As a farmer, royalty owner and former county commissioner, I understand the impact of taxes on our community. With our dwindling gas reserves, which by the way makes up just over 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 ad valorem 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.

Thank you for the opportunity to appear before you and I will stand for questions.

Respectfully submitted,

  
Gene Schwein

Senate Ways and Means  
2-15-05  
Attachment 9

**Testimony  
By  
Melvin Webb  
Box 85  
Moscow, KS 67952**

Mr. Chairman and Members of the Committee:

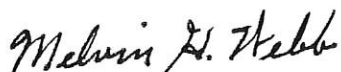
Thank you for the opportunity to submit this request for passage of Senate Bill 128. This is a good bill that reflects sound business practice, as it will assist counties in providing required services when the oil and gas fields are depleted. In other words, "Save for a rainy day".

Stevens County is located in the heart of the Hugoton gas field and approximately 70 - 80% of the local tax base is generated from the oil and gas industry. The passage of this bill would generate a "savings account" for our future. Over 200 million dollars has been collected from severance tax in Stevens County alone over the past 20 years. "Hindsight is 20/20" indicates that this legislation should have been in place from the beginning. It is time for the passage of this legislation, which will enable the areas of the state affected by a depleting asset, over which they have no control, to save for the future.

As a commissioner, representing Stevens County, the funding of the hospital, rest home, law enforcement and other services required by the public is of great concern to me. The establishment of this trust fund will help assure the continuation of these basic services, which will benefit the State of Kansas as well as Stevens County.

Thank you for your consideration.

Respectfully Submitted,



Melvin Webb  
Stevens County Commissioner

**Hamilton County Commissioners**  
**P. O. Box 1167**  
**Syracuse, KS 67878**

Telephone 620-384-5880  
Fax No 620-384-5853

February 8, 2005

The Honorable Duane Umbarger, Chairman  
Senate Ways & Means Committee  
Room 123-South, State Capitol  
Topeka, KS 66612

RE: **Senate Bill 128**

Dear Mr. Chairman and Members of the Committee:

The Hamilton County Commissioners respectfully present their support, individually and as a Commission, for Senate Bill 128. Oil and gas valuation account for over 48% of Hamilton County's total valuation. This bill would help secure our County's future as our gas fields are depleted.

Hamilton County encourages the development of the dairy industries in Southwest Kansas, as well as related businesses. A new high school building was completed three years ago at a cost of eight million dollars. We are also about to start construction of a new airport runway with federal, state, and local funds. Maintenance of these facilities and the other County infrastructure would be impossible without the funds received from the oil and gas taxes.

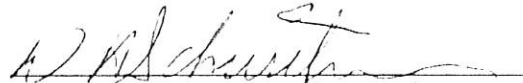
The trust fund would help us to insure that Hamilton County would be solvent for many years to come.

Respectfully,

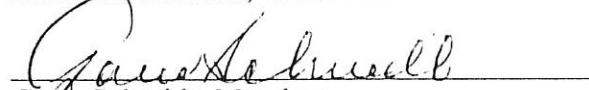
HAMILTON COUNTY BOARD OF COMMISSIONERS



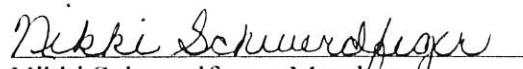
Randall Braddock, Chairman



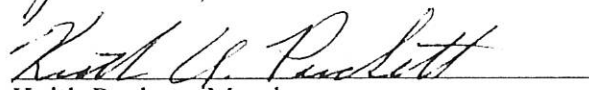
Dave Schwieterman, Vice-Chairman



Gano Schmidt, Member



Nikki Schwerdfeger, Member



Keith Puckett, Member

Senate Ways and Means  
2-15-05  
Attachment 11



REGISTER OF DEEDS PAGE 02  
*Board of County Commissioners*

STANTON COUNTY, KANSAS

BIG BOW: MARTIE FLOYD  
MANTER: C. SHANNON DIMITT  
STANTON: JOHN D. SMITH

P.O. Box 190  
201 NORTH MAIN  
JOHNSON, KS 67855-0190  
(620) 492-2140

February 9, 2005

Re: Senate Bill 128

Mr. Chairman and Members of the Committee:

The Board of Stanton County Commissioners would like to offer their support for passage of Senate Bill 128.

As County Commissioners, we have always encouraged economic development. Because of this, we now have dairy farms, hog farms, a local pharmacy, doctors, a dental office and a recently completed assisted living center.

This development is an example of our efforts to encourage new types of business to help offset the decline of our tax base brought about by the depletion of the oil and gas in this area.

Senate Bill 128 will be an effective tool to continue these efforts into the future. It will enable us to fund projects at the local level. By making monies available after a 50% reduction in our valuation, this will make the continuation of these efforts possible at a time when they will be needed.

We believe that the passage of this bill is of significant importance to the local area as well as that of the State of Kansas.

Respectfully Submitted,

Stanton County Commissioners

  
C. Shannon Dimitt

  
Martie Floyd

  
John D. Smith

Senate Ways and Means  
2-15-05  
Attachment 12

THE  
**BOARD OF COUNTY COMMISSIONERS**  
OF  
**KEARNY COUNTY, KANSAS**  
*Kearny County Courthouse*  
*304 N. Main Street*  
*Lakin, Ks. 67860*  
*Phone: 620-355-6422*

February 15, 2005

The Honorable Dwayne Umbarger  
Chairman -- Committee on Ways & Means  
Kansas State Senate  
State Capitol Building  
Topeka, Kansas

RE: SB 128

Dear Mr. Chairman:

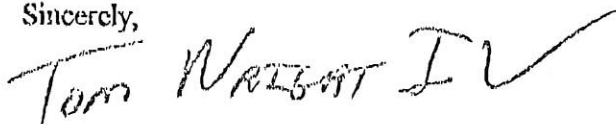
Please be advised that The Board of County Commissioners of Kearny County, Kansas solidly support the passage and adoption into law the provisions contained in Senate Bill 128.

As county government begins now to prepare for the future, the creation of a depletion trust fund is a solid and progressive attempt to allow those counties, who are most affected by a significant revenue source that is very quickly diminishing, a unique and important mechanism to prepare for the future.

We commend you for your courage and leadership in championing this effort, and want you to know we are fully committed to doing anything we can to assist in getting this legislation passed. Please let us know if we can be of any assistance.

Thank you for your time and your dedication.

Sincerely,



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

Senate Ways and Means  
2-15-05  
Attachment 13

**Testimony**  
**Senate Ways and Means Committee**  
**Senate Bill No. 128**  
**February 15, 2005**  
**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 128.

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 128 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

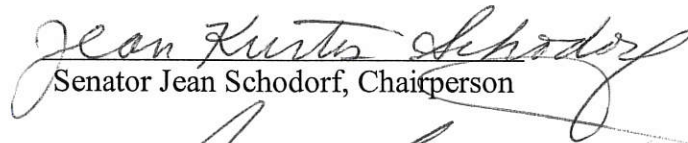
Senate Ways and Means  
2-15-05  
Attachment 14

**SENATE SUBCOMMITTEE REPORT**

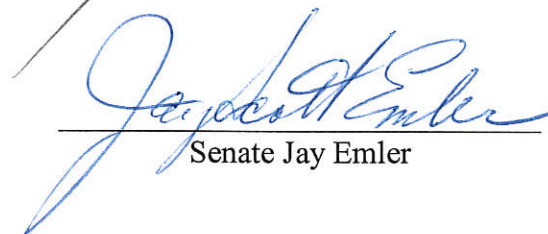
**Kansas Lottery**

**Kansas Racing and Gaming Commission**

February 15, 2005

  
Senator Jean Schodorf, Chairperson

  
Senator Jim Barone

  
Senate Jay Emler

## Senate Subcommittee Report

**Agency:** Kansas Lottery

**Bill No.**

**Bill Sec.**

**Analyst:** Efird

**Analysis Pg. No.**

**Budget Page No. 317**

Expenditure	Agency Est. FY 05	Governor Rec. FY 05	Senate Subcommittee Adjustments
<b>Operating Expenditures:</b>			
State General Fund	\$ 0	\$ 0	0
Other Funds	59,862,333	59,718,383	143,950
TOTAL	\$ 59,862,333	\$ 59,718,383	\$ 143,950
FTE Positions	87.0	87.0	0.0

### Agency Estimate/Governor's Recommendation

Sales of \$219.2 million are estimated by the agency, an increase of \$3.7 million from the approved amount, with approximately \$2.4 million attributed to the two instant scratch games designated to benefit veterans' programs. Administrative costs are requested at \$20,555,398, an increase of \$995,542 from the approved amount. These administrative expenditures are appropriated as both limited and non-limited line items. Costs of sales, such as instant ticket printing, on-line communications charges, and on-line vendor payments are appropriated as no limit line items. Other agency operating costs, such as advertising and personnel, are paid from a limited account. A reduction of \$92 in the approved expenditure limitation of \$9,303,945 is requested for the Lottery Operating Fund's agency operations account. Prizes are paid from the Lottery Prize Fund and the estimated expenditures will increase \$1,969,825 from the approved amount. Staffing is maintained at 87.0 FTE positions.

The Governor concurs with the revised estimate for sales of \$219.2 million and prizes of \$37,963,290 paid by the state. The Governor recommends a net reduction of \$143,950 in administrative costs, specifically in agency operations by reducing \$329,323 and by adding Kansas Savings Incentive Program (KSIP) expenditures of \$185,373. The Governor's recommendations would reduce the approved expenditure limitation for agency operations by \$329,415 and allow other administrative expenditures (cost-of-sales) to increase \$851,592 from the FY 2005 approved amount. The Governor concurs with continued staffing of 87.0 FTE positions.

The agency estimates State Gaming Revenues Fund transfers totaling \$63,250,000 in FY 2005. The amount estimated by the agency for the Veterans' game transfers is \$710,000 in FY 2005. In FY 2005, previously approved transfers to the State General Fund (SGF) of \$500,000 and \$668,277 are included in the agency's budget request. The Governor recommends a SGRF transfer of \$64.25 million in FY 2005, an increase of \$1.0 million. The Governor concurs in other FY 2005 transfers, including \$710,000 for Veterans games and the previously approved one-time transfers to the SGF of \$500,000 and \$668,277.

### Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the recommendations of the Governor, with the following adjustments and observations:

1. **Change from FY 2005 Approved.** The Subcommittee notes that the Governor's FY 2005 revised recommendation does not include a State General Fund adjustment and that no FY 2005 State General Fund expenditures were approved by the 2004 Legislature.
2. **Review at Omnibus.** The Subcommittee recommends that Lottery sales and transfers to the State Gaming Revenues Fund be reviewed during Omnibus to make any adjustments based on estimates in April 2005.
3. **Shrinkage Savings Adjustment.** The Subcommittee heard a report from the Lottery concerning a projection for expenditures to pay salaries and benefits through the end of FY 2005, and as a result the Subcommittee believes that the \$353,100 amount of shrinkage savings in the Governor's revised recommendations will not be achieved without layoffs or furloughs, or a shift of funds from other operating expenditures that the Governor recommends. This issue will be addressed in the next recommendation.
4. **Expenditure Limitation Adjustment.** The Subcommittee recommends a no limit expenditure limitation to replace the dollar amount recommended by the Governor for the agency operations account of the Lottery Operating Fund. The Subcommittee believes that the Lottery is being operated in a business-like manner and that as a business, the flexibility of a no limit account will allow the Lottery to operate more effectively. The Subcommittee recommendation for a no limit agency operations account also would allow the restoration of \$143,950 of the agency's revised FY 2005 estimated expenditures, with the Governor's FY 2005 savings recommendations to be achieved, if possible, but not mandated through a reduction in expenditure authority that might adversely affect ticket sales.

## Senate Subcommittee Report

**Agency:** Kansas Lottery

**Bill No.**

**Bill Sec.**

**Analyst:** Efird

**Analysis Pg. No.**

**Budget Page No.** 317

Expenditure	Agency Req. FY 06	Governor Rec. FY 06	Senate Subcommittee Adjustments*
<b>Operating Expenditures:</b>			
State General Fund	\$ 0	\$ 0	0
Other Funds	61,280,846	61,210,240	(248,913)
TOTAL	<u>\$ 61,280,846</u>	<u>\$ 61,210,240</u>	<u>\$ (248,913)</u>
 FTE Positions	 87.0	 87.0	 0.0

\* The entire adjustment reflects deletion of the Governor's recommended salary plan adjustments.

### Agency Request/Governor's Recommendation

Sales of \$223.5 million are estimated by the agency, an increase of \$4.3 million from the current fiscal year, with approximately \$2.4 million attributed to the two instant scratch games designated to benefit veterans' programs. Administrative costs are requested at \$22,590,892. An expenditure limitation of \$9,865,192 is requested for those administrative expenses that are subjected to a limited appropriation. Staffing is maintained at 87.0 FTE positions.

The Governor concurs with estimated sales of \$223.5 million. The Governor recommends \$22,520,286 for administrative costs and an expenditure limitation of \$9,794,586, which is an increase of \$561,339 over the current fiscal year recommendation. The Governor concurs with continued staffing of 87.0 FTE positions.

The agency estimates State Gaming Revenues Fund (SGRF) transfers totaling \$64,490,000 in FY 2006. The amount estimated by the agency for the Veterans' game transfers is \$710,000 in FY 2006. The Governor recommends SGRF transfers of \$66.0 million in FY 2006, including the \$710,000 for Veteran's games within the total estimated transfer amount.

### Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the recommendations of the Governor, with the following adjustments and observations:

1. **Pay Plan Adjustment.** Delete \$94,711, including none from the State General Fund, to remove pay plan funding recommended by the Governor (a 2.5 percent base salary adjustment for all state employees) for consideration in a separate bill.
2. **Other Salary and Wage Adjustments.** Delete \$153,572, including none from the State General Fund, to remove funding recommended by the Governor for the 27th payroll period (\$140,282), and for the Kansas Public Employees Retirement System (KPERS) death and disability increase (\$13,290) for later Committee



consideration.

3. **Change from FY 2005 Approved.** The Subcommittee notes that the Governor's FY 2006 recommendation does not include any expenditures from the State General Fund and that none were approved in FY 2005 by the 2004 Legislature.
4. **Expenditure Limitation Adjustment.** The Subcommittee recommends a no limit expenditure limitation to replace the dollar amount recommended by the Governor in FY 2006 for the agency operations account of the Lottery Operating Fund. The Subcommittee believes that the Lottery is being operated in a business-like manner and that as a business, the flexibility of a no limit account will allow the Lottery to operate in a more business-like manner, as pointed out in the current fiscal year's recommendation. The Subcommittee in concurring with the Governor's FY 2006 adjustments, such as shrinkage savings of \$375,334, believes that the added flexibility of the no limit account for agency operations will allow the Lottery to attempt to meet the Governor's recommendations, but if such savings are not possible, then the agency will not be punished by a shrinkage savings rate that might adversely affect ticket sales and staffing the agency.
5. **Review at Omnibus.** The Subcommittee recommends that Lottery sales and transfers to the State Gaming Revenues Fund be reviewed during Omnibus to make any adjustments based on estimates in April 2005, and to evaluate the impact of Oklahoma instituting a new lottery. In addition, the Subcommittee recommends further review of FY 2006 operating expenditures by considering the impact of a proposed change in instant ticket distribution and possible adjustments in expenditures that will result.

## Senate Subcommittee Report

**Agency:** Kansas Racing and Gaming Commission

**Bill No.**

**Bill Sec.**

**Analyst:** Efird

**Analysis Pg. No.**

**Budget Page No.** 329

Expenditure	Agency Est. FY 05	Governor Rec. FY 05	Senate Subcommittee Adjustments
<b>Operating Expenditures:</b>			
State General Fund	\$ 0	\$ 0	0
Other Funds	6,154,006	5,976,508	0
TOTAL	<u>\$ 6,154,006</u>	<u>\$ 5,976,508</u>	<u>\$ 0</u>
 FTE Positions	 107.0	 67.0	 0.0

### Agency Estimate/Governor's Recommendation

The agency requests a \$50,858 loan from the State General Fund in order to maintain a \$200,000 cash balance in the State Racing Fund. In addition, the agency reduces total approved expenditures by a net of \$283,548 in the current fiscal year. Finally, the agency requests a staffing increase of 40.0 FTE positions for the State Gaming Agency and no additional funding for those salaries in FY 2005 in order to begin advertising and hiring staff in conjunction with a proposed new tribal casino in the Kansas City area for which a tribal compact has been negotiated.

The Governor concurs with the agency's reduction of \$283,548 in expenditures and recommends further reductions of \$177,498 in FY 2005. No State General Fund loan or additional FTE positions are recommended.

The agency requests no transfers be made to State Gaming Revenues Fund in FY 2005 in order to maintain a cash balance of \$200,000 in the State Racing Fund at the end of the fiscal year. The 2004 Legislature approved a transfer of \$115,016 to the State Gaming Revenues Fund in FY 2005. The Governor recommends the FY 2005 State Gaming Revenues Fund transfer be reduced from \$115,015 to \$75,000 and that the State Racing Fund ending balance be maintained at \$207,557 by making further expenditure reductions.

State Racing Fund Resource Estimate	Actual FY 2004	Agency Estimate* FY 2005	Gov. Rec. FY 2005	Agency Request* FY 2006	Gov. Rec. FY 2006
Beginning Balance	\$ 456,071	\$ 404,274	\$ 404,274	\$ 216,887	\$ 207,557
Net Receipts*	2,901,893	2,702,203	2,635,373	2,941,828	2,651,345
Total Funds Available	<u>\$ 3,357,964</u>	<u>\$ 3,106,477</u>	<u>\$ 3,039,647</u>	<u>\$ 3,158,715</u>	<u>\$ 2,858,902</u>
Less: Expenditures	2,675,530	2,889,590	2,757,090	2,941,828	2,854,664
Less: Transfers	278,160	0	75,000	0	0
Ending Balance	<u>\$ 404,274</u>	<u>\$ 216,887</u>	<u>\$ 207,557</u>	<u>\$ 216,887</u>	<u>\$ 4,238</u>

\* Includes SGF loans requested by the agency of \$50,858 in FY 2005 and \$290,483 in FY 2006.

## Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the recommendations of the Governor, with the following adjustments and observations:

1. **Change from FY 2005 Approved.** The Subcommittee notes that the Governor's FY 2005 revised recommendation does not include a State General Fund adjustment and that no FY 2005 State General Fund expenditures were approved by the 2004 Legislature.
2. **Eliminate Transfer Amount.** The Subcommittee recommends deleting the \$75,000 recommended transfer in FY 2005 to the State Gaming Revenues Fund in order to enhance the agency's balance in the State Racing Fund for FY 2006 when a cashflow problem appears likely without an infusion of revenue. This action will reduce the revenue to the State General Fund by \$75,000 in FY 2005 and thereby is a revenue reduction in the amount of State General Fund receipts that were recommended in the *Governor's Budget Report*. The Subcommittee feels that this action will maintain an adequate balance in the State Racing Fund to offset potential decreases in the estimated FY 2005 revenues, and will allow sufficient operating balances through the fiscal year to maintain the appropriate regulatory role that is required under statutes authorizing the Kansas Racing Commission. The indirect use of the State General Fund financing (the \$75,000 recommended for transfer ultimately to the State General Fund by way of the State Gaming Revenues Fund) will allow the Commission to fulfill its duty of maintaining the integrity of the parimutuel industry.

## Senate Subcommittee Report

**Agency:** Kansas Racing and Gaming Commission    **Bill No.**

**Bill Sec.**

**Analyst:** Efird

**Analysis Pg. No.**

**Budget Page No.** 329

Expenditure	Agency Req. FY 06	Governor Rec. FY 06	Senate Subcommittee Adjustments*
<b>Operating Expenditures:</b>			
State General Fund	\$ 0	\$ 0	0
Other Funds	8,652,756	6,143,531	(209,572)
TOTAL	\$ 8,652,756	\$ 6,143,531	\$ (209,572)

FTE Positions	107.0	67.0	0.0
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\* The entire adjustment reflects deletion of the Governor's recommended salary plan adjustments.

### Agency Request/Governor's Recommendation

The agency requests a \$290,483 loan from the State General Fund in order to maintain a \$200,000 cash balance in the State Racing Fund. The agency requests Racing Operations expenditures increase from \$3,121,805 in FY 2005 to \$3,174,359 in FY 2006 for agency operating costs. In addition, the agency requests enhancement funding of \$2,487,849 from the Tribal Gaming Fund and 40.0 FTE positions in conjunction with a proposed new tribal casino in the Kansas City area for which a tribal compact has been negotiated.

The Governor recommends no enhancement funding of \$2.5 million or new FTE positions in Gaming Operations and no State General Fund loan is recommended for Racing Operations. The Governor's recommendations include reductions of \$140,948 in base salaries and \$75,000 in other operating expenditures requested by the agency in FY 2006 for Racing Operations. The Governor's recommendations provide an increase of \$100,651 for Gaming Operations over the current fiscal year recommendation, and an adjustment of \$66,372 for Racing Operations for salary plan adjustments, the 27th payroll period, and increase contributions for death and disability insurance.

The agency estimates there will be no State Gaming Revenues Fund transfers in FY 2006, and proposes to maintain a cash balance of \$200,000 in the State Racing Fund at the end of the fiscal year. The Governor recommends no State Gaming Revenues Fund transfers in FY 2006 and reduces the ending balance of the State Racing Fund to \$4,238 in order to finance increased expenditures.

### Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the recommendations of the Governor, with the following adjustments and observations:

1. **Pay Plan Adjustment.** Delete \$80,352, including none from the State General Fund, to remove pay plan funding recommended by the Governor (a 2.5 percent base salary adjustment for all state employees) for consideration in a separate bill.

2. **Other Salary and Wage Adjustments.** Delete \$129,220, including none from the State General Fund, to remove funding recommended by the Governor for the 27th payroll period (\$119,022), and for the Kansas Public Employees Retirement System (KPERs) death and disability increase (\$10,198) for later Committee consideration.
3. **Change from FY 2005 Approved.** The Subcommittee notes that the Governor's FY 2006 recommendation does not include any expenditures from the State General Fund and that none were approved in FY 2005 by the 2004 Legislature.
4. **Provide New Funding.** The Subcommittee's FY 2005 recommendation adds \$75,000 in carryover to FY 2006 by not making the Governor's recommended transfer to the State Gaming Revenues Fund. For FY 2006 cashflow purposes, since the ending balance does not reach the \$200,000 amount, the Subcommittee recommends that \$200,000 of the \$450,000 State General Fund loan to the State Gaming Agency shall be transferred to the State Racing Fund, provided that the transfer shall be made after the first \$200,000 in reimbursements from the tribes is deposited in the Tribal Gaming Fund as certified by the Executive Director of the State Gaming Agency. The Subcommittee feels that this action will maintain an adequate balance in the State Racing Fund to offset any potential decreases in the estimated FY 2005 and FY 2006 revenues, and to allow sufficient operating balances through the fiscal years to maintain the appropriate regulatory role that is required by statutes authorizing the Kansas Racing Commission. The use of the State General Fund financing will allow the Commission to fulfill its duties of maintaining the integrity of the parimutuel industry.

State Racing Fund Resource Estimate	Actual FY 2004	Gov. Rec. FY 2005	Subcommittee Adjustment FY 2005	Gov. Rec. FY 2006	Subcommittee Adjustment FY 2006
Beginning Balance	\$ 456,071	\$ 404,274	\$ 404,274	\$ 207,557	\$ 282,557
Net Receipts	2,901,893	2,635,373	2,635,373	2,651,345	2,851,345
Total Funds Available	<u>\$ 3,357,964</u>	<u>\$ 3,039,647</u>	<u>\$ 3,039,647</u>	<u>\$ 2,858,902</u>	<u>\$ 3,133,902</u>
Less: Expenditures	2,675,530	2,757,090	2,757,090	2,854,664	2,854,664
Less: Transfers	278,160	75,000	0	0	0
Ending Balance	<u><u>\$ 404,274</u></u>	<u><u>\$ 207,557</u></u>	<u><u>\$ 282,557</u></u>	<u><u>\$ 4,238</u></u>	<u><u>\$ 279,238</u></u>

5. **Tribal Gaming Compact.** The Subcommittee notes that the Governor has not submitted a proposed compact to the 2005 Legislature and therefore, the Subcommittee will review during Omnibus any actions that might be needed in responding to such a submission. The Subcommittee notes that the State Gaming Agency proposes staffing and funding to carry out its required duties under a new compact, but that the Governor does not recommend the budget enhancements at this time. The Subcommittee understands that it will take at least 12 months to construct the casino after the Legislature and other entities approve the compact and proposal to take land into trust for the tribes. The hiring of oversight personnel must be undertaken in advance of the opening in order to allow sufficient time for recruiting and training approximately 40 new staff in the State Gaming Agency.

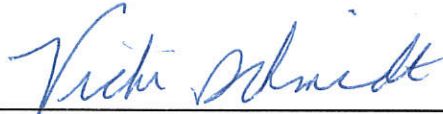
6. **Review at Omnibus.** The Subcommittee recommends reviewing the State Racing and Gaming Commission's budget during the Omnibus period in order to monitor developments in the Racing Operations and Gaming Operations areas of the agency.

**SENATE WAYS and MEANS SUBCOMMITTEE**

**FY 2005 and FY 2006**

**on**

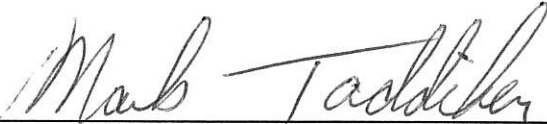
**State Board of Tax Appeals**



\_\_\_\_\_  
Senator Vicki Schmidt, Chairperson



\_\_\_\_\_  
Senator Laura Kelly



\_\_\_\_\_  
Senator Mark W. Taddiken



## Senate Subcommittee Report

**Agency:** State Board of Tax Appeals

**Bill No.**

**Bill Sec.**

**Analyst:** Alishahi

**Analysis Pg. No.**

**Budget Page No. 399**

Expenditure Summary	Agency Estimate FY 05	Governor's Recommendation FY 05	Senate Subcommittee Adjustments
Operating Expenditures:			
State General Fund	\$ 1,479,018	\$ 1,479,018	\$ 0
Other Funds	252,608	252,608	0
<b>TOTAL</b>	<b>\$ 1,731,626</b>	<b>\$ 1,731,626</b>	<b>\$ 0</b>
FTE Positions	26.0	26.0	0.0
Non FTE Uncl. Perm. Pos.	0.0	0.0	0.0
<b>TOTAL</b>	<b>26.0</b>	<b>26.0</b>	<b>0.0</b>

### Agency Estimate/Governor's Recommendation

The **agency** estimates a current year operating budget of \$1,731,626, an increase of \$144,213 or 9.1 percent above the approved amount. The agency estimates FY 2005 State General Fund expenditures of \$1,479,018, an increase of \$184,819 or 14.3 percent above the approved amount. The difference between the approved amount and the agency's revised estimate is the result of an unlimited reappropriation of FY 2004 State General Fund savings totaling \$16,882, an additional \$167,937 for Kansas Savings Incentive Program (KSIP) expenditures, and \$40,606 in reduced expenditures from special revenue funds.

The **Governor** concurs with the agency's revised estimate.

### Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the recommendations of the Governor, with the following observation:

1. **Change from FY 2005 Approved.** The Subcommittee notes that the Governor's FY 2005 revised recommendation is a State General Fund increase of \$184,819 or 14.3 percent above the FY 2005 State General Fund amount approved by the 2004 Legislature.

## Senate Subcommittee Report

**Agency:** State Board of Tax Appeals

**Bill No.**

**Bill Sec.**

**Analyst:** Alishahi

**Analysis Pg. No.**

**Budget Page No. 399**

Expenditure Summary	Agency Request FY 06	Governor's Recommendation FY 06	Senate Subcommittee Adjustments*
Operating Expenditures:			
State General Fund	\$ 1,296,773	\$ 1,371,092	\$ (74,319)
Other Funds	269,000	271,500	0
<b>TOTAL</b>	<b>\$ 1,565,773</b>	<b>\$ 1,642,592</b>	<b>\$ (74,319)</b>
FTE Positions	26.0	26.0	0.0
Non FTE Uncl. Perm. Pos.	0.0	0.0	0.0
<b>TOTAL</b>	<b>26.0</b>	<b>26.0</b>	<b>0.0</b>

\* The entire adjustment reflects deletion of the Governor's recommended salary plan adjustments.

### Agency Request/Governor's Recommendation

The **agency** requests an FY 2006 operating budget of \$1,565,773, a decrease of \$165,853 or 9.6 percent below the revised current year estimate. The agency requests FY 2006 State General Fund expenditures of \$1,296,773, a decrease of \$182,245 or 12.3 percent below the revised estimate. The reduction in State General Fund expenditures mainly reflects Kansas Savings Incentive Program (KSIP) expenditures budgeted in FY 2005 that are not planned to reoccur in FY 2006.

The **Governor** recommends an FY 2006 operating budget of \$1,642,592, a decrease of \$89,034 or 5.1 percent below the FY 2005 recommendation. The Governor recommends State General Fund expenditures of \$1,371,092, a decrease of \$107,926 or 7.3 percent below the current year recommendation. The recommendation is \$76,819 or 4.9 percent more than the agency's request and includes:

- An additional \$74,319 from the State General Fund for the 2.5 percent salary increase, the 27<sup>th</sup> payroll period, and the increase in the Kansas Public Employees Retirement System (KPERs) death and disability contribution rate; and
- An additional \$2,500 from the BOTA Filing Fee Fund for capital outlay.

### Statutory Budget Submission

KSA 75-6701 requires that the budget submitted by the Governor and the budget ultimately approved by the Legislature provide for a State General Fund ending balance of at least 7.5 percent of expenditures for FY 2006. To comply with this provision, Volume 1 of the Governor's Budget

Report includes a "statutory budget" designed to provide for a 7.5 ending balance. In general, th requires a 8.9 percent reduction to the FY 2006 State General Fund executive branch budget recommendations submitted by the Governor. That reduction has not been applied to school finance funding in the Department of Education, to the Board of Regents and its institutions, or to the judicial or legislative branches. **For this agency, the reduction to the Governor's recommended FY 2006 State General Fund budget would total \$122,429.**

## Senate Subcommittee Recommendation

The Senate Subcommittee concurs with the recommendations of the Governor, with the following adjustments and observations:

1. **Pay Plan Adjustment.** Delete \$28,497 from the State General Fund to remove pay plan funding recommended by the Governor (a 2.5 percent base salary adjustment for all state employees) for consideration in a separate bill.
2. **Other Salary and Wage Adjustments.** Delete \$45,822 from the State General Fund to remove funding recommended by the Governor for the 27th payroll period (\$42,218), and for the Kansas Public Employees Retirement System (KPERs) death and disability increase (\$3,604) for later Committee consideration.
3. **Change from FY 2005 Approved.** The Subcommittee notes that the Governor's FY 2006 recommendation is a State General Fund increase of \$76,893 or 5.9 percent above the FY 2005 State General Fund amount approved by the 2004 Legislature. Absent the above pay plan and salary and wage adjustments, the recommendation is an increase of \$2,574 or 0.2 percent above the approved amount.
4. **Board Members.** The Subcommittee recommends an interim study to review the current structure of the Board of Tax Appeals membership, particularly regarding the issue of when Board members have a conflict of interest in certain cases. The agency indicated that the reduction of BOTA members from five to three, with the implementation of 2003 HB 2005, raises the problem of how to handle cases when one or two members have a conflict of interest.
5. **Vacant Positions.** The Subcommittee notes that the agency recently filled an attorney position, but still has three vacant clerical positions that have not been filled due to a lack of funding. The Subcommittee also notes the agency does intend to fill the clerical positions as the funds become available.
6. **Microfilming Files.** The Subcommittee notes that the agency followed the recommendation made by the 2004 Senate Subcommittee to utilize the less expensive services offered by the Department of Revenue in microfilming their closed files. The Subcommittee also notes that the agency has completed approximately 70.0 percent of the microfilming of the closed files from 1997 to 1999. The Subcommittee recommends the agency continue microfilming its closed files.