Approved: April 20, 2006
Date

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Dwayne Umbarger at 10:35 A.M. on February 7, 2006, in Room 123-S of the Capitol.

All members were present.

Committee staff present:
Jill Wolters, Revisor of Statutes Office
Michael Corrigan, Revisor of Statutes Office
Alan Conroy, Director, Kansas Legislative Research Department
J. G. Scott, Kansas Legislative Research Department
Amy Deckard, Kansas Legislative Research Department
Audrey Dunkel, Kansas Legislative Research Department
Julian Efird, Kansas Legislative Research Department
Debra Hollon, Kansas Legislative Research Department
Judy Bromich, Chief of Staff
Mary Shaw, Committee Secretary

Conferees appearing before the committee:
Duane Goossen, Secretary, Kansas Department of Administration
Representative Tom Sloan (written)
Edward P. Cross, Executive Vice President, Kansas Independent Oil & Gas Association
Erick Nordling, Southwest Kansas Royalty Owners Association (written)

Others attending:
See attached list.

Bill Introductions

Senator Teichman moved, with a second by Senator Schodorf, to introduce a Senate Concurrent Resolution urging the study of the design and implementation of an electronic motor vehicle financial security verification system (5rs2011). Motion carried on a voice vote.

Copies of the State General Fund (SGF) Receipts, July through January, FY 2006, were distributed by the Kansas Legislative Research Department (Attachment 1).

Chairman Umbarger welcomed the following conferees regarding an overview and update of the Department of Administration Elimination of the Motor Pool:

Julian Efird, Principal Analyst, Kansas Legislative Research Department, (Attachment 2). Mr. Efird explained the history of the elimination of the Motor Pool, sale of cars and the vehicle moratorium.

Chairman Umbarger welcomed Duane Goossen, Director of the Division of the Budget and Secretary, Kansas Department of Administration, provided information and spoke regarding the Governor's State Vehicle Policy (Attachment 3). Mr. Goossen distributed the following information:

- State Vehicle Operational Expenses (Attachment 4).
- Letter addressed to The Honorable Dwayne Umbarger, Chairperson of Senate Ways and Means Committee and The Honorable Melvin Neufeld, Chairperson of House Appropriations Committee, regarding the Kansas Department of Administration's Motor Vehicle's Compliance Report (Attachment 5).

Mr. Goossen explained that the basic fleet was reduced from 4,279 vehicles to 3,602 by February 2004 and is expected to be further reduced by the end of FY 2007. He also gave information in attachment number three regarding vehicle purchases (amounts do not include the Kansas Highway Patrol or the universities).

Committee questions and discussion followed.

Chairman Umbarger opened the public hearing on:

SB 433--Oil and gas research, KUERC oil and gas research fund, funding

Staff briefed the Committee on the bill.

Written testimony was submitted by Representative Tom Sloan (Attachment 6).

The Chairman welcomed Edward P. Cross, Executive Vice President, Kansas Independent Oil and Gas Association, who testified in opposition to **SB 433** (Attachment 7). Mr. Cross explained that they oppose the structure of the bill. He proposed changing the structure of the research fund oversight to include industry representatives as a better solution. Mr. Cross suggested a 3-year sunset clause be amended into the bill so that the program stays focused and a performance evaluation can be made to determine the value of the research and development efforts.

Written testimony was submitted by Erick Nordling, Southwest Kansas Royalty Owners Association, Hugoton (Attachment 8).

There being no further conferees to come before the Committee, the Chairman closed the public hearing on **SB 433.**

The meeting adjourned at 11:40 a.m. The next meeting was scheduled for February 8, 2006.

SENATE WAYS AND MEANS
GUEST LIST

Date February 7, 2006

NAME	REPRESENTING
Duane Goossen	D of A
Ed Cross	KIOGA
Ken Peterson	KS Petroleum Council
Doug Smith	SWKROA
Julie Hein	Hein Law Firm
Ethan Erickson	KDOT
Chris Howe	Purchases - Administration
Jackie Montfort Fange	KCC
Molly Coplen	LPA
Chris Clarke	LPA
Philip Hurley	Pat Hurley & Co.
Mark Baranyak	Enterprise ~~Pro~~
Lon Stanton	Northern Natural Gas Co

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February 3, 2006

To: Legislative Budget Committee

STATE GENERAL FUND (SGF) RECEIPTS
July through January, FY 2006

This is the third month of experience under the revised estimate of SGF receipts in FY 2006 made by the Consensus Estimating Group on November 3, 2005. The figures in both the "Estimate" and "Actual" columns under FY 2006 on the following table include actual amounts received in July-October. That means that this report deals mainly with the difference between estimated and actual receipts in November through January.

Total receipts through January of FY 2006 were $69.4 million, or 2.4 percent, above the estimate. The component of SGF receipts from taxes only was $77.4 million, or 2.7 percent, above the estimate. Total SGF taxes only at the end of December were $31.8 million, or 1.3 percent, above the estimate. Total receipts at the end of December were $24.2 million, or 1.0 percent, above the estimate.

Taxes that **exceeded** the estimate by more than $1.0 million were corporation income ($37.1 million, or 31.2 percent), individual income ($28.0 million, or 2.2 percent), retail sales ($4.1 million, or 0.4 percent), severance ($2.9 million, or 3.9 percent), insurance premiums ($2.5 million, or 5.6 percent), estate ($2.5 million, or 8.6 percent), and compensating use ($1.2 million, or 0.8 percent). Individual income receipts from estimated payors this January ($105.0 million and the highest such monthly total on record) exceeded January 2005 by $27.2 million. Individual income tax withholding payments also exceeded last year's payments by $15.8 million.

The only tax source that **fell below** the estimate by more than $1.0 million was cigarette ($2.0 million, or 2.8 percent).

Agency earnings and interest earnings both fell below the estimate by $8.1 million and $2.0 million, respectively. Net receipts from unclaimed property continue to be less than anticipated. Net transfers were $2.2 million more than expected.

Total SGF receipts through January of FY 2006 were $280.4 million, or 10.3 percent, above FY 2005 receipts for the same period. Tax receipts only for the same period exceeded FY 2005 by $281.0 million, or 10.5 percent.

This report excludes the July 1 deposit to the SGF of $450 million, pursuant to issuance of a certificate of indebtedness. This certificate will be discharged prior to the end of the fiscal year.

Senate Ways and Means
2-7-06
Attachment 1

STATE GENERAL FUND RECEIPTS
July-January, FY 2006
(dollar amounts in thousands)

	Actual FY 2005	FY 2006 Estimate*	FY 2006 Actual	FY 2006 Difference	Percent increase relative to: FY 2005	Percent increase relative to: Estimate
Property Tax:						
Motor Carriers	$ 12,951	$ 14,000	$ 14,072	$ 72	8.7%	0.5%
General Property	484	25	40	15	(91.7)	60.0
Motor Vehicle	1,258	775	1,308	533	4.0	68.8
Total	$ 14,693	$ 14,800	$ 15,420	$ 620	4.9%	4.2%
Income Taxes:						
Individual	$ 1,170,115	$ 1,271,000	$ 1,298,984	$ 27,984	11.0%	2.2%
Corporation	93,950	118,800	155,869	37,069	65.9	31.2
Financial Inst.	8,089	12,300	12,010	(290)	48.5	(2.4)
Total	$ 1,272,154	$ 1,402,100	$ 1,466,863	$ 64,763	15.3%	4.6%
Estate Tax	$ 35,296	$ 28,500	$ 30,961	$ 2,461	(12.3)%	8.6%
Excise Taxes:						
Retail Sales	$ 982,081	$ 1,027,000	$ 1,031,076	$ 4,076	5.0%	0.4%
Comp. Use	143,661	160,000	161,210	1,210	12.2	0.8
Cigarette	68,610	70,000	68,033	(1,967)	(0.8)	(2.8)
Tobacco Prod.	3,016	3,000	2,946	(54)	(2.3)	(1.8)
Cereal Malt Bev.	1,269	1,235	1,248	13	(1.6)	1.1
Liquor Gallonage	9,499	9,850	10,068	218	6.0	2.2
Liquor Enforce.	25,363	25,900	26,298	398	3.7	1.5
Liquor Drink	4,285	4,550	4,550	0	6.2	0.0
Corp. Franchise	12,947	12,000	11,885	(115)	(8.2)	(1.0)
Severance	59,533	75,200	78,141	2,941	31.3	3.9
Gas	43,778	53,500	57,861	4,361	32.2	8.2
Oil	15,754	21,700	20,280	(1,420)	28.7	(6.5)
Total	$ 1,310,264	$ 1,388,735	$ 1,395,456	$ 6,721	6.5%	0.5%
Other Taxes:						
Insurance Prem.	$ 42,594	$ 44,300	$ 46,780	$ 2,480	9.8%	5.6%
Miscellaneous	2,161	2,300	2,638	338	22.1	14.7
Total	$ 44,755	$ 46,600	$ 49,418	$ 2,818	10.4%	6.0%
Total Taxes	$ 2,677,162	$ 2,880,735	$ 2,958,118	$ 77,383	10.5%	2.7%
Other Revenue:						
Interest	$ 12,098	$ 33,300	$ 31,258	$ (2,042)	158.4%	(6.1)%
Transfers (net)	$ (27,602)	$ (28,300)	$ (26,104)	$ 2,196	(5.4)	7.8
Agency Earnings and Misc.	$ 55,609	$ 42,500	$ 34,361	$ (8,139)	(38.2)	(19.2)
Total	$ 40,105	$ 47,500	$ 39,515	$ (7,985)	(1.5)%	(16.8)%
TOTAL RECEIPTS	$ 2,717,267	$ 2,928,235	$ 2,997,634	$ 69,399	10.3%	2.4%

* Consensus estimate as of November 3, 2005.
Excludes $450 million to State General Fund due to issuance of a certificate of indebtedness.

NOTES: Details may not add to totals due to rounding.

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February 6, 2006

To: Senate Committee on Ways and Means

From: Julian Efird, Principal Analyst

Re: Eliminating the Central Motor Pool

In November of 2003, the Governor announced the elimination of the central motor pool. In addition, the Governor imposed a moratorium on the purchase of new vehicles. The state had a contract with Enterprise Leasing Company of Kansas to provide short-term vehicle rental options for state agencies that needed vehicles, and that option remained available after the central motor pool was closed.

Elimination of the Motor Pool. The central motor pool, operated by the Department of Administration, consisted of a dispatch pool of 185 vehicles and another 1,434 vehicles assigned to various state agencies on a long-term basis. There was a total of 4,279 vehicles in the state fleet in November of 2003, excluding those owned by the Highway Patrol and Regents' institutions. Responsibility for the 1,434 long-term-assigned vehicles was transferred to the agencies using those vehicles. In July of 2004, $5.1 million of motor pool special revenue fund balances were transferred to the State General Fund. Of that amount, $3.3 million was transferred from the motor pool's operating fund, and $1.8 million was transferred from the motor pool's service depreciation fund, which had been used for new vehicle purchases.

Sale of Cars. As the central motor pool was disbanded, newer cars that had been in the motor pool were exchanged for older, higher-mileage cars owned by agencies. The older cars and other cars determined to be underutilized by agencies were sold, initially through the state surplus property process, with the remaining vehicles sold at auction. Proceeds from the sale of 677 vehicles totaled approximately $1.6 million, which was deposited in the State General Fund.

Vehicle Moratorium. The Governor imposed a two-year moratorium on new car and light truck purchases beginning in November of 2003. Certain law enforcement vehicles, such as those for the Highway Patrol, were exempted. Because the moratorium was imposed in November of 2003, agencies had budgeted for the purchase of new vehicles in FY 2005. In order to implement the moratorium and capture the savings, funds totaling $3.1 million were removed from agency budget requests as part of the Governor's FY 2005 budget recommendation. Of that amount, $0.4 million represented direct reductions to State General Fund appropriations, and $2.7 million was reduced from special revenue funds and then transferred to the State General Fund.

Under the Governor's recommendation, the moratorium ended in November of 2005. Agencies that wished to replace high-mileage vehicles made requests for new vehicle purchases. The Division of the Budget reviewed all requests. Recommendations on replacement vehicles were included in the Governor's FY 2006 and FY 2007 budgets for each state agency affected.

Senate Ways and Means
2-7-06
Attachment 2

Short-Term Vehicle Rentals. To make vehicles available for state employee use in light of the decision to eliminate the central motor pool, the state maintained a contract with Enterprise Leasing Company of Kansas to provide daily motor vehicle rental services. The initial contract was good through October 31, 2004. A subsequent two-year contract, also with Enterprise, was entered into effective November 1, 2004, to provide daily vehicle rentals.

Governor's State Vehicle Policy

(Announced November 2003)

Sale of Unneeded Cars **Savings: $1.6 million to date**

The basic fleet was reduced from 4,279 vehicles to 3,602 by Feb. 2004 and is expected to be further reduced to 3,402 by the end of FY 2007. The initial sale of 677 vehicles yielded $1.6 million.

Vehicle Purchase Moratorium **Savings: $24 million over 4 years**
(Nov. 2003 to Nov. 2005)

In the 4 fiscal years leading up to the moratorium, the state spent an average of $9.5 million to purchase new cars and pickups. During the two years of the moratorium a "time-out" from purchases occurred saving the state approximately $9 million per year. When replacement purchases were resumed in FY 2006, the total amount approved was over $3 million lower than the previous spending averages. The replacement amounts recommended for FY 2007 are also over $3 million lower than the previous spending averages.

Elimination of the Dispatch Pool **Savings: $5.1 million initially plus $2-3 million per year**

The central dispatch pool was eliminated by February 2004 and the state entered into a contract with Enterprise Rent-a-Car to provide short-term vehicle rental options for agencies. $5.1 million was transferred from motor pool balances to the State General Fund when the dispatch pool closed. In the two years following the close of the dispatch pool, statewide vehicle operational costs have been $2-3 million lower than the last year in which the dispatch pool operated.

Post-moratorium Replacement Policy

1. A new vehicle can be purchased only to replace another vehicle in the fleet.
2. The replacement vehicle must have reached 100,000 miles for cars and 140,000 miles for pickup trucks.
3. The vehicle purchased must be similar in type and size to its replacement.

Vehicle Purchases (Amounts do not include Highway Patrol and universities)

FY 2000 – FY 2003 (average each year)	FY 2004	FY 2005	FY 2006 (approved)	FY 2007 (recommended)
$9,527,906	$660,847	$526,417	$6,085,505	$6,119,380

Senate Ways and Means
2-7-06
Attachment 3

STATE VEHICLE OPERATIONAL EXPENSES

Object Code		CY 2003	CY2004	CY2005
2511	private car mileage----in state	3,486,335	4,316,127	4,484,923
2512	private car mileage----out-of-state	491,294	694,618	753,294
2521	hire of passenger cars----in state	793,689	1,314,594	1,701,893
2522	hire of passenger cars----out-of-state	893,940	765,896	1,015,937
2531	state car expense----in state	1,335,957	1,660,366	2,158,029
2532	state car expense----out-of-state	226,776	234,990	294,712
2541	motor pool operating charge----in state	6,596,785	414,976	-
2542	motor pool operating charge----out-of-state	43,083	17,503	-
	Subtotal Vehicle Charges	13,867,859	9,419,070	10,408,788
2410	passenger car repair and service	1,238,746	1,381,409	1,766,618
3508	motor vehicle parts	836,796	1,312,243	1,146,255
3590	other parts, supplies, accessories	6,277,072	6,864,021	6,851,083
	Subtotal Repairs	8,352,614	9,557,673	9,763,956
	Subtotal Vehicle Charges plus Repairs	22,220,473	18,976,743	20,172,744
3510	gasoline	5,829,083	6,128,150	6,498,647
3520	diesel	3,932,287	4,803,873	6,744,756
3530	gasohol	834,966	2,023,353	3,039,266
3560	motor oil	234,720	213,428	204,295
	Subtotal Fuel	10,831,056	13,168,804	16,486,964
	Grand Total	33,051,529	32,145,547	36,659,708

Senate Ways and Means
2-7-06
Attachment 4

DUANE A. GOOSSEN, SECRETARY
CAROL L. FOREMAN, DEPUTY SECRETARY

KANSAS

DEPARTMENT OF ADMINISTRATION

KATHLEEN SEBELIUS, GOVERNOR

January 9, 2006

The Honorable Dwayne Umbarger, Chairperson
Ways and Means Committee
Room 120-S, Statehouse
Topeka, Kansas 66612

The Honorable Melvin Neufeld, Chairperson
Appropriations Committee
Room 517-S, Statehouse
Topeka, Kansas 66612

Dear Senator Umbarger and Representative Neufeld:

Attached is the Department of Administration's Motor Vehicle Compliance Report required by Section 82(a) of Senate Substitute for HB 2482.

Sincerely,

Duane A. Goossen
Secretary of Administration

Enclosure

Senate Ways and Means
2-7-06
Attachment 5

Department of Administration
Motor Vehicle Compliance Report

January 9, 2006

In accordance with Senate Substitute for HB 2482, the Department of Administration submits the following motor vehicle compliance report.

BACKGROUND

Vehicle Policy. In November 2003, the Governor began initiating changes that have significantly altered the way the state manages motor vehicles. The size of the state's fleet of cars and light trucks has been dramatically reduced. A two-year moratorium on the purchase of new vehicles has been successfully completed. A process has been put in place to replace high-mileage vehicles only when necessary.

Fleet Size. By the beginning of FY 2007, the size of the state's basic fleet of cars and light trucks will have been reduced by over 20 percent. The chart below illustrates that in November 2003 the state had a basic fleet of 4,279 vehicles.[1] At that time, the Governor asked for a careful examination of the fleet and an agency-by-agency review of vehicle usage. As a result of that effort, 677 vehicles were sold at auction in February 2004. Since that time, agencies have continued to review the number of vehicles they use. By the beginning of FY 2007, an additional 200 vehicles are expected to have been removed from the basic state fleet, bringing the size down to 3,402.

State Vehicle Fleet: Cars, Pickups/Vans

Total Vehicles in Fleet November 2003 (excludes trailers, large trucks, university fleet, KHP fleet)	4,279
Vehicles Sold February 2004	- 677
Net Reductions to be Completed by July 2006	- 200
FY 2007 Expected Fleet Size	**3,402**

[1] In November 2003, the grand total of all "tagged vehicles" in the state fleet was 8,777. To calculate the basic fleet number, 1,118 trailers, 25 motorcycles, and 1,545 large trucks and other large vehicles were deducted from the count. Also 1,170 vehicles owned by the Regents universities and 640 vehicles owned by the Kansas Highway Patrol were deducted from the fleet count to arrive at a basic fleet number of 4,279. The Highway Patrol has not been expected to participate in the vehicle reduction effort. The Patrol has a long-standing policy in place to effectively manage its fleet. The Regents universities have participated in the two year purchase moratorium and are following the high mileage vehicle replacement policy, but were not part of the effort to reduce the state's basic fleet.

Vehicle Moratorium. Also in November 2003, the Governor imposed a two-year moratorium on new car and light truck purchases. Necessary law enforcement vehicles, such as those for the Kansas Highway Patrol, were exempted. The moratorium was successfully completed in November 2005. With the completion of the moratorium, agencies were allowed to begin appropriately replacing high mileage vehicles and will be monitored for compliance with K.S.A. 75-4616. However, the total amount authorized to be spent on replacement in FY 2006 and the total amount recommended in the Governor's FY 2007 budget does not exceed the average annual vehicle purchases made by the state in the four-year period before the moratorium began. The moratorium has been a two-year "time out" from new vehicle purchases and has allowed the state to save the money that otherwise would have been spent to buy vehicles.

Replacement Policy. Vehicles being purchased in FY 2006 and those recommended for purchase in FY 2007 are governed by three criteria.

1. A vehicle can only be purchased if it is replacing another vehicle in the fleet.
2. The vehicle being replaced must have reached 100,000 miles if it is a car and 140,000 miles if it is a pickup truck.
3. The vehicle being purchased must be a similar type and size to the one being replaced.

In FY 2006 agencies were approved to purchase 334 replacement vehicles (158 cars and 176 pickups/vans). Orders began to be placed in November 2005.

RECOMMENDATIONS

Agencies wishing to replace high mileage vehicles in FY 2006 and FY 2007 made requests for vehicle purchases as part of their budget submission. The Division of Budget reviewed all of the requests and the results of that review for FY 2007 have been included in the Governor's budget for each agency affected. The table below lists the number of vehicles recommended for replacement along with the estimated cost. The estimated cost represents the purchase price of the replacement vehicles and does not include any revenue from potential sales of the old vehicles. The recommendations will not result in an increase in the total state fleet and the costs do not exceed the average annual vehicle purchases made by the state in the four-year period before the moratorium began.

FY 2007 Replacement Recommendations

Agency	No.	SGF	All Funds
Passenger Cars:			
Administration	5	11,731	32,731
KCC	1	--	12,500
Commerce	3	--	37,500

5-3

Agency	No.	SGF	All Funds
Lottery	1	--	12,500
Racing & Gaming	2	--	40,000
Revenue	8	11,630	103,080
Cosmetology	1	--	12,000
Mortuary Arts	1	--	12,500
Pharmacy	1	--	20,000
SRS	20	183,830	292,488
Aging	18	101,214	202,428
Health & Environment	35	260,000	545,600
Labor	5	--	66,454
Corrections	5	--	80,000
KBI	7	--	129,500
Agriculture	11	36,280	142,608
KDOT	31	--	442,800
Pickups and Vans:			
KCC	6	--	93,000
Lottery	7	--	109,100
Revenue	2	--	32,006
Banking	2	--	32,800
Judiciary	1	16,400	16,400
Veterans Affairs	2	32,800	32,800
Education	4	17,300	65,100
School for the Blind	1	32,800	32,800
School for the Deaf	2	32,800	32,800
Ks. Juv. Corr. Complex	1	19,000	19,000
Adjutant General	3	4,325	48,174
Fire Marshal	8	--	158,715
Agriculture	12	85,511	204,071
Animal Health	1	19,000	19,000
Wildlife & Parks	42	--	781,725
KDOT	100	--	2,257,200
Total	**349**	**$ 864,621**	**$ 6,119,380**

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STATE OF KANSAS

TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
CHAIRMAN: HIGHER EDUCATION
MEMBER: UTILITIES
ENVIRONMENT
AGRICULTURAL & NATURAL RESOURCES BUDGET

KANSAS WATER AUTHORITY

Testimony on SB 433 - Senate Ways & Means Committee

February 7, 2006

Mr. Chairman, Committee Members: SB 433 is one of 16 bills and 3 resolutions recommended for introduction by the Select Joint Committee on Energy. The Committee made recommendations in five areas: Developing Energy Strategies, Increasing Energy Production from Existing Hydrocarbon Fields, Increasing Production of Bio-Fuels and Renewable Energy, Increasing Investments in Energy Conservation, and Increasing Consumption of Bio-Fuels and Renewable Energy in Kansas and the U.S.

SB 433 would dedicate one percent of severance tax revenues, approximately $1.2 million, to the KU Energy Research Center at the Kansas Geological Survey for: 1) funding oil or gas energy demonstration projects (70 percent of available money), 2) seed or research money for the development of long-range oil or gas projects (25 percent of available money), and 3) administration (5 percent).

Members of the Special Joint Committee on Energy believe that the state's long term best interests are served by maximizing production of oil and gas from our reserves. Providing a reliable funding source will accelerate research in new production technologies and techniques. Funding pilot projects in partnership with the private sector will not only increase production, but potentially offer royalties from the technologies developed. Committee members believe that if we invest a relatively small amount of money in such research, the benefits to the state are potentially enormous.

Mr. Chairman, SB 433 is a simple bill that obviously has potentially significant consequences not only for energy production in Kansas, but also for other programs. The Committee specifically focused on the severance tax as a revenue stream because the research to be funded applies to the oil and gas industry. However, the source of the revenue stream is less important than that the research and pilot projects are conducted.

Thank you for your attention, I will be pleased to respond to your questions.

Senate Ways and Means
2-7-06
Attachment 6

Voice of the Kansas Independent Petroleum Industry

Kansas Independent Oil & Gas Association
800 SW Jackson Street – Suite 1400
Topeka, Kansas 66612-1216
785-232-7772 Fax 785-232-0917
Email: kiogaed@swbell.net

Testimony to Senate Ways & Means Committee
Senate Bill 433 – An Act relating to oil and gas research; establishing the KUERC oil and gas research fund; providing for the funding thereof

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

February 7, 2006

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 represents the interests of independent oil and gas producers in Kansas. I am here today to express our opposition and concerns surrounding Senate Bill 433 (SB 433).

SB 433 sets up a Kansas University Energy Research Center (KUERC) oil and gas research fund. Monies for the fund would created by earmarking 1% of oil and gas severance taxes collected each fiscal year, except that not less than $1.2 million would be credited to the fund annually. All monies credited to the KUERC research fund shall be used as follows:

- 70% to fund oil and gas energy demonstration projects, including the use and development of technology new to Kansas;
- 25% for seed money for the development of long-range oil or gas energy projects; and
- 5% for administration of the fund.

Oil and gas research and development (R&D) is vital in order to maintain oil and gas production from existing sources and to find and produce new ones. Kansas organizations like the Tertiary Oil Recovery Project (TORP) and the North Midcontinent Petroleum Technology Transfer Council (PTTC) create a conduit to move R&D into the hands of Kansas producers, where it becomes a production tool. KIOGA, along with many other independent oil and gas associations, works hard at the national level to maintain federal oil and gas R&D programs. We continue to do so today. We are supportive of oil and gas industry R&D.

Senate Ways and Means
2-7-06
Attachment 7

While the oil and gas industry is supportive of oil and gas R&D, we do have reservations about establishing a statutory funding mechanism and doing so without industry participation in oversight. R&D is important for the industry, as long as the R&D is focused on the technologies and enhancements relevant to the Kansas oil and gas industry. The oil and gas R&D efforts need to be responsible to the needs of the oil and gas industry and not just an annual $1.2 million or greater allocation to find "oil and gas R&D" projects to study.

Several oil and gas R&D organizations exist in Kansas. Organizations like TORP, PTTC, and the Kansas Geological Survey appear to overlap with their R&D efforts. We in the oil and gas industry are not clear how these organizations work together or independently. Each of these groups has advisory boards that are not legally constituted. The KUERC board consists of representatives from KU Departments of Engineering, Geology, Geography, Physics and Astronomy, and the Geological Survey. We question who will have oversight of the funds. Will the R&D organizations compete for the same dollars? Will each of the groups have equal opportunity to R&D monies? How is industry assured that the R&D is focused on what the industry needs versus esoteric R&D projects implemented to consume the statutory allocation?

Perhaps changing the structure of the research fund oversight to include industry representatives is a better solution. We feel that oil and gas R&D programs should be directed by the oil and gas industry. An oil and gas industry board should be formed to direct the focus of the R&D program. In addition, a much more responsible oil and gas R&D program could be developed if the monies allocated from the state general fund could only be accessed to the amount matched by non-state dollars, i.e. money from the Kansas oil and gas industry and/or federal grants, not to exceed $1 million. The design aligns the R&D focus with the needs and commitment of the Kansas oil and gas industry and produces a much more meaningful program for the Kansas oil and gas industry. Finally, a 3-year sunset clause should be amended into the bill so that the program stays focused and a performance evaluation can be made to determine the value of the R&D efforts.

We are not opposed to the concept brought forward by SB 433. We think the bill needs more thought to make meaningful legislation that creates value for the Kansas oil and gas industry. Thank you for your time and consideration. I stand for questions.

SWKROA

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Testimony before the Senate Ways and Means Committee
Senate Bill No. 433
February 7, 2006

Chairman Umbarger and Members of the Committee:

My name is Erick Nordling, of Hugoton, Kansas. I would like to submit remarks on behalf of the members of SWKROA and on behalf of other Kansas royalty owners in opposition to Senate Bill 433.

The concept of needing to conduct research and experiment with ways to maximize production from the oil and gas reserves in Kansas is good. As we understand SB 433, the funds generated would be used to fund energy demonstration projects and as seed money for long-range planning projects. Undoubtedly, there are a lot of oil and gas reserves in this state that may not be recoverable using existing technology. KU and the Kansas Geological Survey have an excellent track record of working with industry to cooperate on this type of research.

SWKROA has concerns over the proposed bill for a couple reasons. First, SWKROA is concerned that if the severance tax would become a source for funding special projects, such funding could have an impact on the severance tax available for the State's General Fund, which in turn may lead to requests to increase the severance tax burden. As a portion of severance taxes are collected from royalty interests, SWKROA opposes any potential for increases to severance tax rates.

SB 433 imposes a new distribution of one percent, but not less than $1.2 million, from severance tax collections.

SWKROA has concerns over the long term implications of this measure and the potential for future expanded use of severance tax funds.

Another concern of SWKROA is that royalty owners are not burdened with production costs under the terms of the oil and gas lease. They obviously should not be burdened with research and development costs incurred to increase production. The lessee must alone bear such costs. As we understand, the proposed legislation attempts to shift a portion of research and development costs to the royalty owner to the extent that it imposes a severance tax on royalty owners for that purpose. If KU or others want to use a portion of the severance tax for that purpose, the totality of the tax should be borne by the producer.

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The State should be reluctant to contribute severance tax dollars bound for the State General Fund to experimental projects. Pressure should be placed on the producer companies to provide exploration capital from their own earnings and record profits for investment in break-through technology. The burden of exploration and production should be on the producer, not a by-product of state funds or taxes paid by royalty owners.

Once the project is completed and the production technology is successful, the State may never receive a return on the investment made, although the owners and shareholders of these companies will profit. It seems that if this is an important and ongoing effort there should be mechanism for the State to share in recovery of the investment.

SWKROA does not oppose the concept that this type of research is needed, but feels that the proposed bill does not provide an appropriate mechanism for generating the necessary funds.

Thank you for your consideration.

Respectfully submitted,

/s/ Erick E. Nordling

Erick E. Nordling
Executive Secretary, SWKROA