

CHAPTER 173
HOUSE BILL No. 2390

AN ACT concerning oil and gas; relating to the taxation thereof; creating the oil and gas valuation depletion trust fund and providing for distribution of moneys therefrom; also relating to drilling wells; raising financial assurance responsibilities; amending K.S.A. 2004 Supp. 55-155 and 79-4227 and repealing the existing sections.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 2004 Supp. 55-155 is hereby amended to read as follows: 55-155. (a) Operators and contractors shall be licensed by the commission pursuant to this section.

(b) Every operator and contractor shall file an application or a renewal application with the commission. Application and renewal application forms shall be prescribed, prepared and furnished by the commission.

(c) No application or renewal application shall be approved until the applicant has:

(1) Provided sufficient information, as required by the commission, for purposes of identification;

(2) submitted evidence that all current and prior years' taxes for property associated with the drilling or servicing of wells have been paid;

(3) demonstrated to the commission's satisfaction that the applicant complies with all requirements of chapter 55 of the Kansas Statutes Annotated, all rules and regulations adopted thereunder and all commission orders and enforcement agreements, if the applicant is registered with the federal securities and exchange commission;

(4) demonstrated to the commission's satisfaction that the following comply with all requirements of chapter 55 of the Kansas Statutes Annotated, all rules and regulations adopted thereunder and all commission orders and enforcement agreements, if the applicant is not registered with the federal securities and exchange commission: (A) The applicant; (B) any officer, director, partner or member of the applicant; (C) any stockholder owning in the aggregate more than 5% of the stock of the applicant; and (D) any spouse, parent, brother, sister, child, parent-in-law, brother-in-law or sister-in-law of the foregoing;

(5) paid an annual license fee of \$100, except that an applicant for a license who is operating one gas well used strictly for the purpose of heating a residential dwelling shall pay an annual license fee of \$25;

(6) complied with subsection (d); and

(7) paid an annual license fee of \$25 for each rig operated by the applicant. The commission shall issue an identification tag for each such rig which shall be displayed on such rig at all times.

(d) In order to assure financial responsibility, each operator shall demonstrate annually compliance with one of the following provisions:

(1) The operator has obtained an individual performance bond or letter of credit, in an amount equal to \$.75 times the total aggregate depth of all wells (including active, inactive, injection or disposal) of the operator.

(2) The operator has obtained a blanket performance bond or letter of credit in an amount equal to the following, according to the number of wells (including active, inactive, injection or disposal) of the operator:

(A) Wells less than 2,000 feet in depth: 1 through 5 wells, ~~\$5,000~~ \$7,500; 6 through 25 wells, ~~\$10,000~~ \$15,000; and over 25 wells, ~~\$20,000~~ \$30,000.

(B) Wells 2,000 or more feet in depth: 1 through 5 wells, ~~\$10,000~~ \$15,000; 6 through 25 wells, ~~\$20,000~~ \$30,000; and over 25 wells, ~~\$30,000~~ \$45,000.

(3) The operator: (A) Has an acceptable record of compliance, as demonstrated during the preceding 36 months, with commission rules and regulations regarding safety and pollution or with commission orders issued pursuant to such rules and regulations; (B) has no outstanding undisputed orders issued by the commission or unpaid fines, penalties or costs assessed by the commission and has no officer or director that has been or is associated substantially with another operator that has any such outstanding orders or unpaid fines, penalties or costs; and (C) pays a nonrefundable fee of ~~\$50~~ \$100 per year.

(4) The operator pays a nonrefundable fee equal to ~~3%~~ 6% of the amount of the bond or letter of credit that would be required by subsec-

tion ~~(d)(1) or by subsection~~ (d)(2).

(5) The state has a first lien on tangible personal property associated with oil and gas production of the operator that has a salvage value equal to not less than the amount of the bond or letter of credit that would be required by subsection (d)(1) or by subsection (d)(2).

(6) The operator has provided other financial assurance approved by the commission.

(e) Upon the approval of the application or renewal application, the commission shall issue to such applicant a license which shall be in full force and effect until one year from the date of issuance or until surrendered, suspended or revoked as provided in K.S.A. 55-162, and amendments thereto. No new license shall be issued to any applicant who has had a license revoked until the expiration of one year from the date of such revocation.

(f) If an operator transfers responsibility for the operation of a well or gas gathering system or for underground porosity storage of natural gas to another person, the transfer shall be reported to the commission in accordance with rules and regulations of the commission.

(g) The commission shall remit all moneys received from fees assessed pursuant to subsection (c)(7) of this section to the state treasurer in accordance with the provisions of K.S.A. 75-4215, and amendments thereto. Upon receipt of each such remittance, the state treasurer shall deposit the entire amount in the state treasury. Twenty percent of each such deposit shall be credited to the state general fund and the balance shall be credited to the conservation fee fund created by K.S.A. 55-143, and amendments thereto.

(h) The commission shall remit all moneys received pursuant to subsections (d)(3) and (d)(4) to the state treasurer in accordance with the provisions of K.S.A. 75-4215, and amendments thereto. Upon receipt of each such remittance, the state treasurer shall deposit the entire amount in the state treasury to the credit of the well plugging assurance fund.

Sec. 2. K.S.A. 2004 Supp. 79-4227 is hereby amended to read as follows: 79-4227. (a) All revenue collected or received by the director from the tax imposed by this act shall be remitted to the state treasurer in accordance with the provisions of K.S.A. 75-4215, and amendments thereto. Upon receipt of each such remittance, the state treasurer shall deposit the entire amount in the state treasury. The state treasurer shall first credit such amount as the director shall order to the mineral production tax refund fund created under subsection (b) of this section. *Except as otherwise provided by this section*, the state treasurer shall credit the remainder of such amounts as follows: (1) Seven percent to the special county mineral production tax fund created under subsection (c) of this section; and (2) the remainder shall be credited to the state general fund. *On and after July 1, 2008, and thereafter, the state treasurer shall credit the remainder of such amounts for oil and gas for any county which in fiscal year 2005 or any fiscal year thereafter had \$100,000 or more in receipts of the excise tax upon the severance and production of oil and gas as follows: (1) Seven percent to the special county mineral production tax fund created under subsection (c); (2) 4.96% from July 1, 2008, through June 30, 2009, to the oil and gas valuation depletion trust fund; 7.44% from July 1, 2009, through June 30, 2010, to the oil and gas valuation depletion trust fund; 9.93% from July 1, 2010, to June 30, 2011, to the oil and gas valuation depletion trust fund; and 12.41% from July 1, 2011, and thereafter, to the oil and gas valuation depletion trust fund; and (3) the remainder shall be credited to the state general fund.*

(b) A refund fund designated as "mineral production tax refund fund" not to exceed \$50,000 is hereby created for the prompt payment of all tax refunds. The mineral production tax refund fund shall be in such amount, within the limit set by this section, as the director shall determine is necessary to meet current refunding requirements under this act.

(c) There is hereby created a special county mineral production tax fund. On December 1, 1983, and quarterly thereafter, the director of taxation shall distribute all moneys credited to such fund to the county treasurers of all counties in which taxes were levied under K.S.A. 79-4217, and amendments thereto, for the severing and producing of coal, oil or gas from property within the county, in the proportion that the taxes levied upon production in each county bears to the total of all of such taxes levied in all of such counties. Such distribution shall be based on returns filed, with any adjustments or corrections thereto made by the

director of taxation.

(d) The secretary of revenue shall make provision for the determination of the counties within which taxes are levied under K.S.A. 79-4217, and amendments thereto, for the severance of coal, oil or gas and shall certify the same to the director of accounts and reports.

(e) The director of accounts and reports shall draw warrants on the state treasurer payable to the county treasurer of each county entitled to payment from the special county mineral production tax fund upon vouchers approved by the director of taxation. Upon receipt of such warrant, each county treasurer shall credit 50% of the amount thereof to the county general fund and shall distribute the remaining 50% thereof to the treasurer of each school district all or any portion of which is located within the county in the proportion that the assessed value of coal, oil and gas properties within each district bears to the total of the assessed value of all coal, oil and gas properties within the county. Such assessed valuation shall be determined upon the basis of the most recent November 1 tax roll. The treasurer of each school district shall credit the entire amount of the moneys so received to the general fund of the school district.

New Sec. 3. (a) There is hereby created in the state treasury the oil and gas valuation depletion trust fund. The director of taxation shall administer the oil and gas valuation depletion trust fund. All amounts credited to the oil and gas valuation depletion trust fund pursuant to the provisions of K.S.A. 79-4227, and amendments thereto, shall be credited to a separate trust account which shall be established within such fund for each county which in fiscal year 2005 or any fiscal year thereafter had \$100,000 or more in receipts of the excise tax upon the severance and production of oil and gas. Each county's trust account shall be credited in the proportion that the amount of oil and gas valuation depletion trust fund receipts collected from that county bears to the total amount of moneys credited to the oil and gas valuation depletion trust fund pursuant to K.S.A. 79-4227, and amendments thereto. Commencing July 1, 2008, and thereafter on an annual basis, such moneys shall remain credited in such account in trust for such county for distributions pursuant to this section.

(b) For any tax year that the oil and gas leasehold ad valorem valuation of any county, which has a trust account established and maintained in the oil and gas valuation depletion trust fund as provided by this section, is less than 50% of the oil and gas leasehold ad valorem valuation of such county for the second succeeding tax year which commences January 1 following the end of the fiscal year in which the county had \$100,000 or more in receipts of the excise tax upon the production of oil and gas and the county had a trust account established in the oil and gas valuation depletion trust fund as provided by this section, as certified by the property valuation division, on or before January 15 of the year following such tax year, the director of taxation shall distribute 20% of the moneys credited to such county's trust account to the county treasurer of such county. In any year in which a county's oil and gas leasehold valuation is 50% or more of the oil and gas leasehold valuation of such county for tax year as described in this subsection, such county shall not receive a distribution of trust moneys pursuant to this section for such tax year. On an annual basis, the director of taxation shall certify to the director of accounts and reports the counties entitled to a distribution pursuant to this section. The director of accounts and reports shall draw warrants on the state treasurer payable to the county treasurer of each county entitled to payment from such county's trust account in the oil and gas valuation depletion trust fund upon vouchers approved by the director of taxation.

Sec. 4. K.S.A. 2004 Supp. 55-155 and 79-4227 are hereby repealed.

Sec. 5. This act shall take effect and be in force from and after its publication in the statute book.

Approved April 18, 2005.
