



March 2012

Re: Opposition to severance tax increase in Senate Bill 430

Mr. Chairman and members of the Senate Assessment and Taxation Committee:

Once again, the Kansas Petroleum Council expresses its opposition to the severance tax increase, this time contained in Senate Bill 430. The Council opposed an identical severance tax increase in Senate Bill 339 during hearings by this committee on February 15.

Nothing has changed, so I have attached a copy of my opposition comments delivered to this committee.

The severance tax increase is targeted directly at new exploration in south central Kansas. The proposed elimination of the severance tax exemption constitutes a tax increase on economic activity before it has a chance to take root in the area.

Please make no mistake about the severance tax portion of this or any other bill. √

It is a tax increase. It plays favorites. It makes Kansas even less competitive with surrounding states in attracting oil and gas investments, and it could jeopardize the new drilling opportunities in south central Kansas where exploration is just beginning.

The severance increase in this or any other tax bill runs counter to the purported underlying reasons for any tax bill: to boost the economy, grow jobs, establish an even playing field and make Kansas competitive with surrounding states. It deserves to be stricken from the bill.

Oil and gas producers are not like an aircraft manufacturer who can pull out of the state. Producers must go where they suspect nature created oil and gas deposits. The exploration in south central Kansas is an expensive undertaking that could reap huge future benefits for local governments, employment and severance revenues for the state. But it must be allowed to flourish without a rules change at the start of the game and the repeal of an investment tool.

Thank you for your time and courtesy.

A handwritten signature in black ink that reads "Ken Peterson". The signature is written in a cursive, flowing style.

Ken Peterson

Executive Director

Sn. Assmnt & Tax

3-13-12

Attachment # 2

COMMENTS TO THE SENATE ASSESSMENT AND TAXATION COMMITTEE  
OPPOSING REPEAL OF THE SEVERANCE TAX EXEMPTION IN SENATE BILL 339

FEBRUARY 15, 2012

Thank you, Mr. Chairman and members of the Committee. One of the most overlooked parts of this tax plan is repeal of the two-year severance tax exemption on new pools. Make no mistake about this provision. It is a tax increase. It repeals a tool designed to attract investment and create jobs, and runs counter to the purported reason for the underlying tax legislation: to boost jobs, create economic development, establish an even playing field and help Kansas compete with other states.

A severance tax is not the only tax Kansas imposes on oil and gas production. Kansas also levies an ad valorem tax on reserves in the ground, based on estimates. In other words, oil and gas producers pay ad valorem taxes on production they have not realized. Combined, our state's severance and ad valorem taxes are a double-whammy on every barrel of crude oil and mcf of natural gas produced here, and compares unfavorably with neighboring states. For instance, Oklahoma has a severance tax, but imposes no ad valorem tax. Guess where the investment would be more attractive?

Repeal of the severance tax moratorium targets potential development of the Mississippi Limestone formation in south central Kansas, even before it starts and definitely before the production companies know what's there.

During town hall meetings last fall and winter at Chaparral High School and in Wellington, three of the companies in the Mississippi Limestone were reticent in their predictions about what the ultimate outcome would be from their initial exploration. They were honest with local residents and made no grandiose promises about what their exploration would find. All said they really wouldn't know for 12 to 18 months. So far, leaseholds have been established over huge acreages in south central Kansas, local residents have benefitted from the activity and cities and counties have welcomed the potential jobs and dollars invested in the area.

Development in the Mississippi Limestone formation of south central Kansas could be an economic boon for the state, for jobs, for landowners and for local governments and communities. We respectfully ask that the committee carefully consider the ramifications of repealing this investment tool, and request that it be dropped from the bill. Thank you for your time and courtesy.

Ken Peterson, executive director