

## Testimony of the Kansas Association of Counties to the House Tax Committee on March 3, 2016 Supporting House Bill 2701 (Valuation of Oil and Gas)

## Mr. Chairman and Members of the Committee:

Thank you for the opportunity to testify in support of HB 2701, a bill that clarifies the process for determining fair-market value on oil-and-gas wells. The legislation addresses a concern over the information used to establish the fair-market value for a well on January 1, as is the Kansas statutory requirement<sup>1</sup>. Kansas uses information filed in renditions (*see page 2 for KDOR's form*) to list taxpayer information, the property's location, well data, and production data, along with additional valuation information. The renditions—filed annually by April 1<sup>2</sup>—provide historical data, which the State uses to estimate future production. The change in HB 2701 will ensure a consistent and uniform approach to valuation by disallowing new data in tax appeals that should be used for future valuation. This will prevent abuses of the tax-appeals system and better ensure accurate appraisals across the State.

Currently, some taxpayers are using post-appraisal data to reduce their taxes for past valuation periods. This backwards-looking approach allows some individuals to game the system by appealing and subsequently paying less for previous years after production has declined. HB 2701 sets a clear line for well valuation, and our member counties support this measure. We ask the House Committee on Taxation to similarly support HB 2701.

Respectfully, Nathan Eberline Legal Counsel

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<sup>1</sup> K.S.A. 79-301.

## Addendum | KDOR Form for Gas Assessment Rendition (reflecting K.S.A. 9-329 through 79-333)

Schedule 2 (Class 2B) (Rev. 12/12)	IENT RENDITI	ON		FILED WITH	THE COUNT	Y APPRAISE Tax Year	R BY APRIL 1	
Statement of				Operator ID#				
P.O. Address	City			State -			Zip	
Name of Property				KDOR ID#(s)				
Section I-Location	n of Property (required)		Section V	II-Abstract Val	ue (for county use only	2)		
Description	, , , , , , , , , , , , ,			Appraised	Assessed	Penalty	Total	
		Total Working Interest (Sec. VI.						
	Adn. Twp.	Royalty & ORRI Interest (Sec. V.				XXXXXXXXX		
	Twp. City School Dist	Itemized Equipment (Sec. VI. Lin	ne 9) Total					
Tax Ullit	SCHOOL DISC							
n 1 · m 1 n	T1 27 D 1 .		ell Data (required	,	4 D 1D 1	CITIES	D 4	
Producing Well: Pump Producing Field Name	Flow Non-Producing BTU Content			ater per Day	Ave Prod Depth	Total WI Decima	Depth	
( )Infill ( )Commingle		Spud Date: Mo/Yr al Total Depth Horizontal		Comp Date: мо/Yi ame/Number Tie		Total RI&ORRI		
Water Disposal: Hauler/Sy		( ) SWD Syst					Dec	
Address		Phone		Prior Yr Gross Weighted Ave \$/Mcf (Adjusted for DTU Content)  Less Allowable Deductions \$/Mcf (Gathering, Transportation, etc)				
Gatherer Name				Effective Jan 1 Net Price \$/Mcf (Prior Yr Net Weighted Ave Price \$/Mcf)				
Address		Phone		e Jan 1 Net Price S				
	tion IV-Production Dat	'9 (id)			Notation			
Year	Cond(Bbls)	Gas(Mcf)	Decline Rate:	%	TOTATION			
	roduction	Gus(IVICI)	Decime rate.	70	l			
	roduction	1	t				l	
	roduction		t					
	roduction		İ					
2012 Annual P	roduction		Ī					
Total Production (5 yr cum	ulative)		1					
Annual Production (Prior	Yr)		[					
Condensate (Converted to Mc	f) XXXXXXXXX							
Total Annual Production	n (Mcf + condensate conversion)		]					
Conden	sate Production Data (	onversion calculation)	1					
X	= /	=						
Prod (Bbls) X Net \$/Bbl O	il = Income / Net \$/Mcf	Gas = Total Mcf (cond conv)						
	Section V-Gross Res	erve Calculation (Total 8/8ths In	iterest)		Schedule (A)	Owner (B)	Appraiser (C)	
1. Annual Production - M	Icf (Total Annual Prod Sec IV	)						
<ol><li>Effective Jan 1 Net Pri</li></ol>	ce \$/Mcf (Sec II)	\$ X market adjust facto	er .	adj inc/dec				
<ol><li>Estimated Gross Incom</li></ol>	ne Stream (Multiply Line 1 X	Line 2)						
	Based on Decline Rate-Apply							
<ol><li>Estimated Gross Reserved</li></ol>	ve Value (Total 8/8ths - Multi	ply Line 3 X Line 4 - Transfer Tot	al to Section VI, L	ines 1 & 2)				
	Section VI-Gross Res	erve Value X Decimal Int	terest		Schedule (A)	Owner (B)	Appraiser (C)	
1. Royalty & Overriding I	Royalty Interest Valuation	Fotal Sec V, Line 5 X Total RI & ORRI Inter	rest)	ζ				
	ation (Total Sec V, Line 5 X Total WI		X	(Tbl B Water Cr Adj)				
<ol><li>Deduct Operating Cost</li></ol>	Allowance for Producing V							
4a. Deduct Wellhead Com				(Expense Factor-Tbl)				
4b. Deduct Water Expense	e Allowance (Tbl A Annual Exp; T	bl B Annual Exp if Actual)	X	(Expense Factor-Tbl)				
4b. Deduct Water Expense 4c. Deduct Water Expense	e Allowance (Tbl A Annual Exp; T e Allowance Table C per SV	bl B Annual Exp if Actual)  VD Well (Deduct SWD Expense for each)		(Expense Factor-Tbl)				
4b. Deduct Water Expense 4c. Deduct Water Expense 5. Working Interest Subto	e Allowance (Tbi A Annual Exp; T e Allowance Table C per SV otal (Sec VI, Line 2 minus Lines 3, 4a,4	bl B Annual Exp if Actual)  VD Well (Deduct SWD Expense for each) b & 4c)	Prod Well if SWD Syste	(Expense Factor-Tbl)				
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