

Testimony of Lance Leis, Cowley County Appraiser
Before the House Taxation Committee
In support of House Bill No. 2701
March 3, 2016

Chairman Kleeb and Representatives of the House Taxation Committee

My name is Lance Leis and I come to testify in support of House Bill No. 2701 as a concerned tax payer, County Appraiser and Chair of KCAA Oil and Gas Committee. First as a tax payer of Sedgwick County the tax burden should be applied equally and consistently across all classes of property.

Oil and gas is considered personal property within the State of Kansas and KSA 79-301 and KSA 79-501 require that personal property shall be listed and appraised at its fair market value as of January 1 of each year.

I have served as the Cowley County Appraiser Since July 1st of 2013. I have also worked in Harper, Morris and Pratt Counties in their appraiser's offices. I have valued numerous oil and gas leases for taxation purposes. As a county appraiser we are provided a guide prescribed by Property Valuation Department each tax year. By KSA 79-1412a and KSA 79-1456 we as county appraisers are required to follow the policies, procedures, and guidelines issued by the Director of the Division of Property Valuation. PVD also holds an annual guide meeting that is open to industry and appraisers before releasing the guide for that tax year. The Oil price and the market adjustment factor for gas are within the Kansas guide for that tax year. Again the director before setting those values reaches out to the oil and gas industry and county appraisers allowing them to submit documentation to be considered in the prices. They also consider futures within the trade markets. When you compare the value that has been set for taxation purposes and the yearly average of oil prices over the last ten, the ratio falls within acceptable appraisal guidelines so I believe that process is working. Also within the guide are acceptable appraisal methodologies for valuing oil and gas properties for taxation purposes. Production data twelve to eighteen months after our January 1st appraisal date is not among these methodologies within the guide.

The first factor in valuing an oil property is to adequately estimate the production you feel the lease is capable of producing. While doing this the appraiser utilizes the rendition filed with his/her office on or before April 1st. On oil property the prior two years of production is required in monthly totals on the rendition. The appraiser uses the history of production to estimate the current year production. It may be necessary to annualize production within a certain time frame to eliminate flush production or down time. In the Kansas guide under the production heading within the oil section, it is stated it may be necessary to adjust the prior year production to reflect the lease production capability for the current valuation year. It goes on to say example may be annualizing six month or quarterly production, and considering the current year first quarter production. After the appraiser estimates the production for the current year a decline rate must be established. The oil and gas guide suggests using a thirty percent decline when a reasonable rate of decline cannot be established. Existing leases use a formula of 2014 production minus 2015 production divided by 2014 production or using a plotted decline curve from past years production history. The guide also states that a leases neighborhood decline can be applied when the leases are within the same reservoir. It is also noted that no production less than four to six months should be used to determine decline curve. The estimated gross reserve is calculated by taking the annual production amount multiplied by the guide prescribed price which equals the