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Testimony in Support of HB 2701
Kansas House Tax Committee
March 3, 2016

Chairman KleeB and members of the committee, thank you for this opportunity to appear before you regarding HB 2701, which concerns valuation of oil and gas properties for purposes of ad valorem taxation.

As you know, all property which is subject to ad valorem taxation in Kansas is appraised based on its value as of January 1 of each year. Like most other classes of property, oil and gas wells are valued based on their market value. For these properties the concept of market value involves estimating the amount of product underground and available to be extracted economically.

Each individual well will decline in production as time passes, and this rate of decline is termed the decline curve. Accurately estimating the decline curve is essential to fairly appraising the property. If a well has been producing for a period of years it is fairly simple to obtain an accurate appraisal based on the historical decline curve. But each well possesses a unique decline curve, and that makes accurate appraisal of new wells difficult when there is inadequate production data to adequately characterize the decline curve.

Because of this problem unique to valuing new wells, it has become rather common for producers to appeal their valuations or pay taxes under protest when production data from months after the January 1 valuation date reveal a steeper decline curve than was estimated on January 1. PVD has recognized this problem by suggesting that it may be appropriate to allow first quarter post-valuation production data to be introduced and considered on appeal, in an effort to fairly appraise the property.

Recently, however, producers have been introducing production data far past the first quarter, and the data has been allowed and considered by Board of Tax Appeals in making their ruling.

This raises two issues which are worthy of consideration:

1. Oil and Gas properties are given an advantage over every other class of property which is subject to ad valorem taxation. To my knowledge no other property class is subject to revisions to appraised value based on data from a date later than the date of valuation.
2. Late appeals and payments under protest create very serious cash flow and budget issues for counties and school boards when they must abate taxes well into the budget year. Some of the oil producing counties have repaid hundreds of thousands of dollars in a single budget cycle.

HB 2701 is merely an attempt to add clarity and certainty to the situation by placing in statute the recommendation already in use in the PVD guide.

Monthly production data (barrels per day)
Six Lane County Oil Wells over their first eighteen months of production

