

**Testimony of Paul Harbaugh, Barber County Commissioner
Before the House Taxation Committee
In Support of House Bill No. 2701
March 3, 2016**

Chairman Kleeb and Members of the House Taxation Committee:

My name is Paul Harbaugh and my home is in Kiowa, Kansas. I serve as a County Commissioner in Barber County. I am here today on behalf of my County Commission and the member counties of Kansas Legislative Policy Group (KLPG) to testify in support of House Bill No. 2701.

I would like to thank you for the opportunity to provide testimony. For Barber County and our 4,900 residents, and for the oil and gas producing counties in KLPG, this is an important issue. KLPG is a non-partisan, non-profit organization comprised of elected county commissioners representing the collective interests of 36 rural Kansas counties.

House Bill No. 2701 codifies in statute the production data that may be used to determine the fair market value of oil and gas properties for ad valorem property tax purposes. As you know, under the law, oil and gas properties must be listed and assessed as of the first day of January 1 of each tax year. And the county appraiser must appraise all oil and gas properties at their market value as of January 1.

In certain instances, where valuation cannot reasonably be determined from the oil and gas production data from the previous calendar year, a county appraiser is authorized to consider production data from the first quarter of the tax year.

When establishing the fair market value of an oil and gas property, county appraisers are required under the law to follow the Oil and Gas Appraisal Guide developed by the Property Valuation Division of the Kansas Department of Revenue. The Guide requires the taxpayer to fill out a document which is known as a rendition and provide it to the county appraiser by April 1st of each year. The rendition has a column that specifies the oil and gas production for the previous calendar year which is to be provided by the taxpayer (oil and gas operator). The rendition and the information related to the production of oil and gas is then used to establish the fair market value.

As previously mentioned, in certain instances when the decline rate of a well is in question, the Guide permits the taxpayer and the county appraiser to consider production data from the first quarter following January 1 of the tax year. However, a problem has arisen with the consideration of post-valuation date production information. The problem this proposed bill is designed to correct is that a growing number of appeals have been filed, both before the Small Claims Division of the Board of Tax Appeals and the Board of Tax Appeals, in which the Small Claims and the Board has considered post valuation date production data that is not limited to the above time period imposed by the Guide. The use of post-valuation date production data beyond the first quarter following January 1 of the tax year is inappropriate and unfair to all other taxpayers including the counties

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that must begin planning budgets the first of July in order to meet the required budget submission and publication deadlines.

There have been instances, some in Barber County, where subsequent production data, up to almost two years after the January 1 valuation date, has been submitted and accepted as evidence in valuation appeals. Hindsight is not an appropriate method to determine valuation. Permitting some oil and gas operators to use an unlimited amount of post-valuation date production information, while limiting others to the previous calendar year production data is not fair and equal to all taxpayers and makes it impossible for the counties to make fair estimates of budget revenues necessary to operate.

House Bill No. 2701 provides clarity on a reasonable time or cut-off point and codifies the time period in which post valuation data can be considered consistent with the requirements of the Guide. Without the certainty this clarification brings, the budget and planning process for governmental units (Counties, Schools, Hospital Districts and Townships) cannot occur without financial risk. Many counties have made significant refunds after budgets have been set, because of the effect of the consideration of unrestricted amounts of post valuation date production data.

I'd like to be very clear: We greatly appreciate the Kansas oil and natural gas industry. In many counties the industry is one of the largest employers and most significant contributors to the local economy. We appreciate and want the oil and gas businesses in our counties. I am not at all against the oil and gas industry and hope they grow and prosper for many, many years to come. County officials strive to fairly assess and collect the proper amount of tax revenues and treat all taxpayers on a uniform and equal manner. Having a moving revenue target makes it extremely difficult to budget and manage limited county financial resources.

House Bill No. 2701 provides for fairness in the rules, equity to all taxpayers and certainty in the values. I encourage you to support House Bill No. 2701. Thank you for your consideration and the opportunity to present testimony to the Committee.

Paul Harbaugh
County Commissioner
Barber County

Kansas Legislative Policy Group member counties are:

*Barber, Barton, Clark, Cloud, Ellis, Finney, Ford, Gove, Grant, Gray, Hamilton,
Harper, Haskell, Hodgeman, Kearny, Kiowa, Lane, Logan, Meade, Morton, Ness,
Norton, Rawlins, Rice, Russell, Rush, Scott, Seward, Sheridan, Sherman, Stanton,
Stevens, Thomas, Trego, Wallace and Wichita*

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