Approved: Feb 4, 1993
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:05 a.m. on January 26, 1993 in Room 519-S of the Capitol.

Members present: Senator Langworthy, Senator Tiahrt, Senator Martin, Senator Bond, Senator Corbin, Senator Feleciano Jr., Senator Hardenburger, Senator Lee, Senator Reynolds, Senator Sallee, Senator Wisdom

Committee staff present: Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Bill Edds, Revisor of Statutes
Elizabeth Carlson, Committee Secretary

Conferees appearing before the committee: Don Schnacke, KIOGA
Jim Devlin, KIOGA
Bob Corkins, KCCI
Jack Glaves, OXY USA
Ken Peterson, KS Petroleum Council
Ron Hein, MESA
Charles Warren, Kansas Inc.

Others attending: See attached list

SB 3 Gas property tax credit from severance tax. Re Proposal No. 7

Senator Langworthy began the meeting by calling on the first conferee, Don Schnacke, representing KIOGA. Mr. Schnacke read from a prepared statement. (Attachment 1) He gave a brief history of the severance tax and stated that there are many independent producers in the Hugoton field and throughout Kansas who are directly affected by this tax. He stated Kansas doesn't even approach equity in the tax rate on natural gas in Kansas compared with other states. He thinks there has been adequate study and debate on the subject and urges the Committee to pass the bill out and to support its passage on the floor of the Senate.

Jim Devlin, also of KIOGA, added to the history of the tax and stated that Kansas is the only state with a high severance tax and a high ad valorem tax. He said it is an extremely high tax on gas and urged the passage of this bill.

Bob Corkins, KCCI, spoke from a prepared statement (Attachment 2) and said that KCCI sees the need to provide overall tax relief to this segment of our state's industry. The study done for Kansas, Inc. verifies that Kansas'oil and gas industry are placed at a severe competitive disadvantage due to the current tax structure. KCCI's position has been for the repeal of the severance tax in full. Questions from the committee were what the KCCI would suggest for a replacement of the tax revenue. Mr. Corkins stated KCCI was for an increase in the sales tax. Discussion took place regarding the reaching of a maximum on the sales tax and if Kansas would be competitive with other states if the sales tax is raised.

Jack Glaves, representing OXY USA, said his company paid $16.4 million dollars in ad valorem taxes in 1992. He spoke about the fiscal impact which would result from the enactment of SB 3. (Attachment 3) He feels if this bill is passed it will stimulate growth in the Hugoton field. He also stated the fiscal note is dependent upon price and volume. He feels passage of the bill will increase drilling and exploration.

Ken Peterson, representing Kansas Petroleum Council, stated in some cases the tax rate has increased 50 percent in the past two years.(Attachment 4) No other indstury has such a burdensome tax rate. With the passage of SB 3 it would signal to gas producers that Kansas wants to develop its resources and would allow them to compete in an open market with other states. He urged the committee to pass favorably SB 3.

Ron Hein, was the next conferee. He stated he represented Mesa, one of the nation's five largest independent gas producers and they currently have approximately 60% oftheir natural gas reserves in Kansas. He said Mesa is paying a combined tax rate of 17 percent . (Attachment 5) He thinks reduction of the severance tax would help stimulate production. The result would be more jobs, more taxes for the state and more assessed valuation.

Charles Warren, President, Kansas, Inc., spoke in support of the bill to reduce the severance tax on natural gas. He reminded the committee that every group that has reviewed this issue has concluded that the severance tax on natural gas must be reduced. He urged the passage of SB 3. (Attachment 6)

There were questions and discussion from the committee about what should be done about a loss in revenue and what services should be cut with this loss.

Senator Langworthy closed the hearing with the introduction of Dr. David Collins of the Kansas Geological Survey, Kansas University. Dr. Collins testified at an interim committee meeting.

Senator Bond moved the approval of the minutes for January 13, 14, and 15, 1993 with the correction of the spelling of Senator Feleciano's name. The motion was seconded by Senator Martin. Motion carried.

The meeting adjourned at 12:05 p.m.

The next meeting is scheduled for January 27, 1993.

GUEST LIST

COMMITTEE: Senate ASSESSMENT & TAXATION DATE: Jan 26, 1993

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Bill F. Bryan	Box 26100 OKC, OK 73126	OXY USA INC.
Russ Bishop	~~Box~~ Houston Texas	Panhandle Eastern
MIKE McGRAW	Box 300 Tulsa 74102	OXY USA Inc
Mary Camarata	Topeka	Senator Frahm
Jack Glaves	Wichita	Oxy USA
Don Schnacke	Topeka	KIOGA
George Goebel	Topeka	AARP SLC CCTF
HAROLD PITTS	Topeka	AARP-CCTF
Jim Devlin	Wichita	KIOGA Pres.
SPENCER DEPEW	WICHITA	KIOGA
C.R. Duffy	Topeka	Ks Petro Council
Ann Bonner	Lawrence	intern
BEV BRADLEY	TOPEKA	KS Assoc of Counties
MARY E. TURKINGTON	Topeka	Ks. Motor Carriers Assn
TOM DAY	TOPEKA	KCC
Kathryn Gregg	Lawrence	D. Corbin Intern
WALT DARLING	TOPEKA	KS DIVISION OF BUDGET
DAVID R. COLLINS	Lawrence	Ks Geological Survey
Lee Gerhard	LAWRENCE	Ks Geological Survey
Carol Osborne	St. George	
VERN OSBORNE	ST. GEORGE	
Gordon T. Garrett	Topeka	CPAK
Julie J. Hein	"	Hein, Ebert, Rosen
Ron Hein	"	"
Jim Allen	"	EKOGA

KIOGA

KANSAS INDEPENDENT OIL & GAS ASSOCIATION

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TESTIMONY OF DONALD P. SCHNACKE
BEFORE THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION
RE: SB 3 - SEVERANCE TAX ON NATURAL GAS

January 26, 1993

On January 1, 1993 all federal price controls were removed from natural gas, ending a long legislative campaign to deregulate from price controls this important industry. What few contracts existed prior to January 1, 1993 that provided for reimbursement to the producer no longer exist due to 1) new transportation arrangements, or 2) the producer selling directly to the end-user rather than a pipeline.

In 1974, KIOGA spearheaded an effort by then Governor Robert Docking and KCC Chairman Dale Saffels to recognize the Kansas county ad valorem tax as "*similar to and the same as*" a severance tax and subject to pass through the rate base and not be borne by producers. The Federal Power Commission and its successor the Federal Energy Regulatory Commission still recognize the county tax as the same as a severance tax, but, unfortunately, most, if not all, contracts no longer provide for the pass through concept. The producers and the royalty owners now bear all production taxes.

We have heard from some wondering why KIOGA supports a reduction in the severance tax contained in SB 3 when 70% of the natural gas affected arises from the Hugoton field and much of the production is owned by major oil companies. First of all, KIOGA was a party to conceiving the 7% tax rate in 1983. This rate took advantage of the pass-through concept and allowed the legislature and the Governor to reach their budgetary goals. Now that this pass-through is not permitted, in the name of equity and fairness, it is only right to reduce the severance tax rate.

Additionally, there are independent producers in the Hugoton field and throughout Kansas who are directly affected by this tax.

In 1990 Kansas, Inc. authorized a study of taxes relating to Kansas oil and gas production. It calls attention to the change in Kansas taxing strategy which no longer allowed Kansas producers to export the tax on natural gas.

Even with the reduction of the severance tax on natural gas, the overall tax rate on natural gas in Kansas will remain approximately three times that of the taxes on the same gas produced from the same field in Oklahoma. This is because of the ad valorem tax imposed by the counties. In the Hugoton, the percentage equivalent continues to run from 10% to 17%. Add to this a reduced severance tax rate of 4.33% and the overall tax rate runs from 14% to 21% as compared to a 7% severance tax in Oklahoma. What is being suggested in SB 3 is no panacea for the industry. It doesn't even approach equity with other states.

Sen. Assess. + Tax
Jan. 26, 1993
Attach. #1-1

TESTIMONY OF DONALD P. SCHNACKE
BEFORE THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION
RE: SB 3 - SEVERANCE TAX ON NATURAL GAS
January 26, 1993

The 1991 legislature authorized the Kansas Natural Gas Policy Commission (SCR 1626). Its goal was to provide the legislature and the Governor with a strategy to develop the full economic potential of the substantial natural gas reserves found in Kansas. The study was extended by the 1992 legislature (SCR 1633). The study is now complete. It emphasizes that the State of Kansas must assist the development of the natural gas industry. It states, "*Clearly, taxes are too high and are being borne solely by the producer.*"

Its first recommendation includes the concept of SB 3, the reduction of the state severance tax to an equivalent rate applicable to crude oil--4.33%. (See report.)

In the 1992 session, HB 3181, which is the same as the present SB 3 now being considered, passed the House 96-27. It got entangled in the intrigue of the closing days of the session and, although it passed out of the Senate Assessment and Taxation Committee, it was not considered on the floor of the Senate before adjournment.

Governor Finney called for an interim study on taxes relating to oil and gas production. After in-depth hearings, the Interim Committee this past fall recommended the introduction of the same bill passed last session by the House, now contained in SB 3.

Madam Chairman and members of the Senate Assessment and Taxation Committee, we think adequate debate has taken place on this subject. You have a recent official study committee endorsing the concept of SB 3. You have the report of the Special Interim Committee on Assessment and Taxation asking that SB 3 be introduced. It is time to act. We urge you to pass SB 3 out of Committee and support its passage on the floor of the Senate.

Donald P. Schnacke

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

500 Bank IV Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321

A consolidation of the Kansas State Chamber of Commerce, Associated Industries of Kansas, Kansas Retail Council

SB 3

January 26, 1993

KANSAS CHAMBER OF COMMERCE AND INDUSTRY
Testimony Before the
Senate Committee on Assessment and Taxation
by
Bob Corkins
Director of Taxation

Madam Chair and members of the Committee:

My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry. Thank you for the opportunity to express our members' position regarding the state severance tax rate on natural gas production and our support for SB 3.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

KCCI acknowledges the need to provide overall tax relief to this segment of our state's industry. This conclusion is substantiated in a 1990 study performed by Arthur D. Little, Inc., under contract for Kansas Inc., and KCCI endorses the recommendations

Sen. Assess + Tax.
Jan. 26, 1993
Attach. #2-1

c… …ned in that report. It verifies that Kansas' oil and gas industry, and our natu… gas enterprises in particular, are placed at a severe competitive disadvantage due to this state's current tax structure.

The ultimate disadvantage, however, is to consumers through the inflationary affects of the tax and the loss of field jobs due to constrained oil and gas production.

The situation has clearly not improved since 1990. The new school finance tax changes have damaged this industry to an even greater degree -- both the minimum USD property tax levy and the sales tax on utilities consumed in manufacturing. KCCI supported a uniform levy of this sort. However, we anticipated its negative effects and therefore supported other legislation which would help to counterbalance its tax burden shift to oil and gas.

For these reasons, KCCI supports a reduction in the state severance tax on natural gas. Our information indicates that an appropriate step would be to tax natural gas at the same severance tax rate as oil. The change is justified immediately, but we acknowledge the prudence of SB 3's phase down. KCCI's long standing position has been for the eventual repeal of the severance tax in full.

Though all of the industry's tax concerns would not be addressed through this measure, KCCI believes that it would be a meaningful improvement. I appreciate your time and concern, and I am available for any questions you may have.

Remarks of Jack Glaves Before Senate Committee
on Assessment Taxation
In Behalf of Oxy USA

RE: SB3-Severance Tax on Natural Gas

My client, Oxy USA, may sound like a foreign company but, in fact, it's roots are deep in Kansas. Oxy's predecessor companies include the Old Empire Fuel and Gas Company, that was exploring for oil and gas in Southern Kansas during the early 1900's. Empire and later, Cities Service, leased 30,000 acres around the city of El Dorado in 1915. Discovered oil at a depth of only 549 feet in that year and by 1917 over 1,000 wells were completed in the El Dorado field. Oxy today is still operating wells in that field and is, in fact, the largest oil producer in the state and is a very active operator in Southwest Kansas gas area with 1305 wells in the Hugoton Field area. It is an enduring corporate citizen which paid 16.4 million dollars in 1992 in ad valorem ($9 million) and severance ($7.4 million) taxes.

Oxy is the applicant in the pending proceedings before the KCC that is seeking revisions in the proration rules that it believes will result in stimulating additional investment of $60 million by it alone in the drilling of infill wells and facilities, which would result in increased production from the field to the benefit of the Southwest Kansas economy and the state and local tax revenues.

Sen. Assess. + Taxation
Jan. 26, 1993
Attach. #3-1

I will concentrate my remarks on the fiscal impact resulting from the enactment of Senate Bill 3.

The revenues from the severance tax on natural gas depend, of course, upon volume of production and the price received. The tax revenue produced are displayed in the interim study report as to Proposal Number 7, and range from a low for FY87 of $32 million which increased steadily until 1991 to over $59 million. That, however, included 2.3 million in receipts attributable to the previous year's liability. In fiscal year 1992 the gas severance tax produced $55,477M, but here again this included 1.4 million in receipts from the previous year. For the latest six months, the Research Department memorandum to the Budget Committees indicates that for July-December of this fiscal year, the severance tax on gas has produced $27.8 million which is $2.8 (11%) above the consensus estimate of November 16, 1992, and about 6 million dollars above the actual tax revenue for the like period in '92 ($21,891,000) - a 27.3% increase.

The proposed phase-in of the reduction in the property tax credit which would reduce the effective tax rate to 6 percent on July 1 of this year has a $7.5 million fiscal note (according to the Proposal 7 interim report) for all of FY94. This is only $1.5 million larger than the actual experienced increase for just the past 6 months. These data point up the extreme difficulty of trying to project revenue and fiscal impact of the reduction in the severance tax rate, but also places in perspective the ability to negate the fiscal impact on state revenues of decreasing the tax rate by increased production and/or increased price.

Interestingly, 70 percent of the natural gas in Kansas is produced in just six counties in the Southwest corner of Kansas (Grant, Stevens, Kearney, Morton, Seward and Stanton). Oxy believes that production can be substantially increased for the Hugoton Field under the proposed revised proration rules which it contends would assign allowables to the capable wells. The demand for gas is increasing. The National Energy Policy Act requires increased use of alternative fuels by private companies and government entities that own 50 or more vehicles. The goal is to reduce pollution as well as the country's dependance on imported oil. The United States has conservatively a fifty year supply of gas at today's consumption rates. We believe that it is evident that this Government policy, as well as the Clean Air Act, will create a large market for alternative fuels by the conversion of motor vehicles to run on CNG and the greatly expanded use of natural gas in generation of electricity.

The KCC increased the current winter market demand for Hugoton to 240 bcf from 212 bcf for last winter. All of this bodes well for greater production of Kansas gas which can enhance, rather than diminish, revenues to the state from the severance tax at the proposed reduced rate. The price is problematic but in the overall picture it is evident that the last several warm winters dampened demand with resultant historic low prices for natural gas. The price increased considerably last fall, but has moderated since. This increase, of course, is reflected in the increased revenues over the consensus estimate and we believe it reasonable to assume that future price of gas is more likely to be higher rather than lower, thus increasing the revenues to the state, offsetting a reduced severance tax rate.

Additionally, the reduction in the tax rate, we believe, will help accelerate further development in the gas producing areas. It can be a determinant in industry decisions as to where to spend exploration dollars. The Hugoton Field, for example, extends across three states. Oklahoma has a seven percent severance tax and no ad valorem tax on producing properties. This contrasts to Oxy's effective tax burden (severance and ad valorem) in Kansas in 1992 which equated to about 16% of gross revenue on the average in the big gas producing area.

Obviously, when there is a choice to be made as to where exploration dollars are spent, the more than doubled Kansas tax burden is a compelling factor. Potential for added investment in Kansas is tremendous. Only about 36 percent of the infill wells that could be drilled in the Hugoton Field, for example, have been drilled. Unquestionably, the pending proceedings before the KCC can have a great effect on the pace of further development, given the fact that a single operator with over 750 wells has only drilled about 10 percent of its potential infill wells. It is apparent that regulation, economic, or political decisions will eventually result in a great number of those wells being drilled.

Only about 1,400 out of a potential of 4,000 have, in fact, been drilled. If 85 percent of the potential locations are, in fact, drilled, the additional 2,600 wells would involve an investment in Southwest Kansas of well over $500 million. We don't contend that the reduction in severance tax alone is going to cause this investment, but the tax burden is certainly a large impediment to exploration in Kansas vis a vis other states. The current tax burden is counter productive and short sighted.

Adoption of SB3 would send a loud and clear signal to the industry that economic development is desired by this legislature and is a policy gaol of our state.

TESTIMONY TO THE SENATE ASSESSMENT AND TAXATION COMMITTEE
IN SUPPORT OF SENATE BILL 3
JANUARY 26, 1993

Good morning, Madam Chairman and members of the committee. I appreciate the opportunity to submit testimony in support of Senate Bill 3, an interim committee recommendation to gradually increase the property tax credit against the severance tax on natural gas.

My name is Ken Peterson. I am executive director of the Kansas Petroleum Council, a trade association that represents some of the companies with production interests in the Hugoton natural gas field of Southwest Kansas.

We support this legislation as a matter of fairness and equity and because it will put Kansas natural gas on a more favorable competitive edge with other production states.

A lot has happened to the energy market since the Kansas Legislature enacted the severance tax in 1983. The statutory severance tax was 8 percent of gross production, but lawmakers granted property tax credits that resulted in an effective tax rate of 4.33 percent for oil and 7 percent for natural gas.

The Legislature justified the tax differential because oil producers could not pass along the tax. Most natural gas, on the other hand, was sold under long-term contracts. The Federal Energy Commission said these contracts allowed the pass-through of production taxes.

However, in the decade since the severance tax was enacted, natural gas deregulation and subsequent FERC rulings have basically disallowed the pass-through of the severance tax on natural gas. Gas producers today are in the same situation as oil producers.

The Arthur D. Little Report commissioned by Kansas Inc. pointed out that the effective tax rate on Kansas oil and gas is 9.7 percent compared to 3.3 percent on commercial and industrial property. The tax burden is even more distorted for gas properties in the Hugoton field. Depending upon location in the Hugoton field, the effective tax rate on natural gas - property and severance tax - ranges from 13 to 20 percent. In some cases, the tax rate has increased 50 percent in the past two years. I doubt if you will find any other industry in Kansas that has such a burdensome tax rate, especially one that comes right off the top.

Sen. Assess. & Tax
Jan. 26, 1993
Attach. # 4-1

Senate Bill 3 is a step toward bringing some equity and fairness into the severance tax rate. Obviously, it is not a cure-all and we are not here today promising that enactment of this measure will create immediate increases in the production and sale of Kansas natural gas.

However, what we can say is that this legislation will allow Kansas natural gas to compete and provide long-term benefits to gas producers, royalty owners and the state.

I would like to stress two final points:

First, we all know that natural gas is becoming increasingly popular as an energy source. It is clean, relatively abundant and has great promise as a so-called "bridge fuel." The Hugoton natural gas field is a tremendous natural resource for Kansas if the state nurtures it. A key ingredient of proper management is a fair tax policy, not one that imposes a 7 percent severance tax rate and adds at least that much again in property taxes.

Second, as many of you know, the energy industry continues to suffer from a tremendous downturn. More than 400,000 jobs have been lost since the early 1980s, a staggering figure that should be a national scandal but instead appears to be a national secret. Oil and gas companies continue to reduce their work force, tighten their budgets and look hard at new expenditures, particularly in the depressed domestic exploration and production area. Competition is keen for every dollar, and a highly taxed project becomes less attractive and less profitable.

Senate Bill 3 would send a signal to gas producers that Kansas wants to develop its resources. It would allow Kansas natural gas to compete in an increasingly open market with gas produced by other states.

We urge this committee to favorably recommend Senate Bill 3 for passage.

Thank you.

HEIN, EBERT AND ROSEN, CHTD.
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Ronald R. Hein
William F. Ebert
Eric S. Rosen

SENATE ASSESSMENT AND TAXATION COMMITTEE
HEARING RE: SB 3
Presented by Ronald R. Hein,
on behalf of MESA, Inc.
January 26, 1993

Madam Chairman, Members of the Committee:

My name is Ron Hein, and I am legislative counsel for Mesa. Mesa is one of the nation's five largest independent gas producers and currently has approximately 60% of its natural gas reserves in the state of Kansas.

To many, the "oil and gas" industry is viewed as being one industry. But the Kansas tax burdens of oil producers and gas producers are significantly different.

Although both oil and natural gas are currently assessed at the highest classification rate, 50% above many other Kansas businesses, there is considerable disparity between the severance tax rate applied on gas versus oil.

Gas producers are levied at a rate of 7% of gross revenues; oil is taxed at a statutory rate of 4.33%, or about 40% less.

Furthermore, 1990 statistics reflect that due to certain existing exemptions in the severance tax law, the actual effective rate of tax collected on <u>oil</u> production was <u>2.41%</u>, which more closely approximates other Kansas gross receipt burdens. In contrast, the effective rate on <u>gas</u> production was <u>6.87%</u>. When viewed in relation to the value of production, <u>natural gas producers bore a 285% greater severance tax burden than oil producers</u>.

As you know, Kansas gas producers pay this disproportionate large gross receipts tax <u>in addition</u> to property taxes. Mesa currently bears an additional property tax burden of approximately 10% of gross natural gas income, as significantly increased by the school finance legislation passed last year.

For Mesa, this results in a combined gross receipts tax in excess of 17% since both severance and ad valorem taxes are levied and determined in part by the amount of gas a business produces. For comparative purposes, the combined gross receipts taxes represents a 35% +/- greater cost to gas producers than what is paid to the typical landowner for his minerals.

The idea of a gross receipts tax in Kansas is not unique but other industries pay rates of approximately 1%-2%, and more significantly, their taxes are <u>in lieu of other property taxes.</u> No other Kansas industry comes close to bearing the gross

Sen. Assess. & Taxation
Jan. 26, 1993
Attach. # 5-1

receipts tax burden levied on natural gas producers, which is levied irrespective of whether they are profitable or unprofitable.

Based upon 1990 statistics, the total wellhead value of crude oil produced in Kansas was 50% greater than the total wellhead value of gas produced. However, it had been estimated that the ad valorem burden was about equal before the statewide mill levy. This disparity of the tax burden as compared to gross revenues has increased under a statewide mill levy as a result of the following:

> Oil is spread throughout the state, and for the most part, oil producers in the state have benefited by a uniform mill levy. But, natural gas is heavily concentrated in the Hugoton Field where levies were increased by the uniform mill by as much as 100%.

When the discrepancy on ad valorem taxes between oil and gas is combined with the disparity in the severance tax rates between oil and gas, the unfairness of the current tax structure on the natural gas industry becomes painfully obvious.

The original rationale in 1983 for the severance tax being imposed on natural gas at 7%, versus 4.33% on oil, was two-fold:

1) The severance tax on natural gas could be passed to out of state consumers pursuant to then existing federal regulation:

Subsequent deregulation at the national level makes it no longer possible for natural gas producers to pass on the cost of a severance tax. Today the tax is directly on Kansas producers.

2) The credit for ad valorem tax (3.67% for oil, and only 1% for gas) recognized the low ad valorem taxes in the Hugoton area and was an attempt to keep the combined ad valorem and severance tax burdens on oil producers and gas producers equal.

> This rationale was eliminated with the passage of a uniform mill levy.

Most industries, when facing excessive taxation, have the ability to increase the price of their product, reduce costs, or increase production in order to help mitigate the tax burden. None of these are true for the natural gas industry or for Mesa.

The price of natural gas is determined to a large extent by the "spot market", which is influenced by national and international market forces. Kansas, by itself, cannot change this.

Natural gas producers have already faced the difficult task of cost reductions. Mesa, for example, is operating with 35% fewer personnel than it had two years ago.

Lastly, gas producers in Kansas cannot apportion increased taxes over a greater amount of product, because producers are regulated by law as to how much gas can be produce.

Part one of the solution is to increase the severance tax credit for property tax on natural gas to 3.67%, thus reducing the severance tax rate to 4.33% on gas, the same rate now imposed on oil.

Part two involves removing regulatory dis-incentives for growth in the natural gas industry. The KCC is currently reviewing revision to its production allowable procedures which potentially could lead to increased production from both new and existing wells. Such increased economic activity will potentially regenerate some, if not all, of the dollars lost to the SGF by the decreased severance tax rate. The KCC and the Executive Branch are to be commended for their foresightedness in recognizing that Kansas has been losing production revenues to other states. Now, the Legislature must assist by insuring that the combined severance tax and property tax rates do not discourage production here.

Reduction of the Severance tax would help stimulate production, thereby increasing the assessed valuation of the Hugoton field (resulting in increased property tax receipts) and providing incentives to complete the infill drilling already approved by the KCC which alone would generate $400 million in capital investment in Southwest Kansas. The result would be more jobs, more taxes of all types, and more assessed valuation to benefit the region and the State.

Kansas, while being a major gas producing state, is a relatively small slice of a very big pie. Estimated 1991 overseas oil and gas exploration expenditures totalled $31.4 billion, while domestic exploration was $17.7 billion. Five years ago, domestic and foreign exploration and development were about equal. Kansas currently produces a smaller portion of its available resource than the other major energy producing states of Oklahoma, Texas, and Louisiana.

Kansas needs to "jump start" the industry. The KCC has stepped up to this problem for the industry and for Kansas. Now, it is time for the Legislature to assist by reducing the severance tax. Mesa strongly urges the legislature to reduce the severance tax on natural gas to at least parity with oil, by increasing the property tax credit to 3.67% for natural gas.

Thank you very much for permitting me to testify, and I will be happy to yield to questions.

MESA

SEVTAX.WK1
26-Jan-93
10:22 AM

(1,000's)	Concensus Apr 92 FY93	FY93					
Production mcf	590,000	618,000	618,000	670,000	670,000	570,000	618,000
Price	$1.38	$1.60	$2.00	$1.60	$2.00	$1.10	$1.60
Gross Revenue	$814,200	$988,800	$1,236,000	$1,072,000	$1,340,000	$627,000	$988,800
Exempt	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Tax Value	$753,135	$914,640	$1,143,300	$991,600	$1,239,500	$579,975	$914,640
Revenue @ 7%	$52,719	$64,025	$80,031	$69,412	$86,765	$40,598	$64,025
Revenue @ 4.33%	$32,611	$39,604	$49,505	$42,936	$53,670	$25,113	$39,604
Fiscal Note	$20,109	$24,421	$30,526	$26,476	$33,095	$15,485	$24,421
SGF	$18,701	$22,711	$28,389	$24,622	$30,778	$14,401	$22,711
CMPTF	$1,408	$1,709	$2,137	$1,853	$2,317	$1,084	$1,709

Senate Committee on Assessments and Taxation
The Kansas Legislature

Testimony of Charles R. Warren, Ph.D.
President, Kansas Inc.

January 26, 1993

Senate Bill 3, Severance Tax Reduction

Madame Chairman, members of the Committee, I speak in support of Senate Bill 3 to reduce the severance tax on natural gas.

In 1990, the A.D. Little report, Strategic Analysis of the Oil and Gas Industry, commissioned by Kansas Inc., suggested reducing the severance tax for natural gas since it can no longer be exported under federal gas price regulation.

The report of the Natural Gas Tax Force, which I Chaired, of Governor's Finney's Committee on Kansas Energy Policy, has recommended a reduction in the severance tax on natural gas.

The report of the Legislative Commission on Natural Gas Policy established by S.C.R. 1991 and extended by the 1992 Legislature has recommended that the severance tax on natural gas be reduced. The report of the Commission will be released next month.

The 1993 Kansas Strategy for Economic Development was approved by the Kansas Inc. Board of Directors and Strategic Planning Committee on January 22. Among its recommendations is a reduction in the severance tax on natural gas.

As you know, the House of Representatives in in its 1992 session approved a bill to reduce the severance tax on natural gas, and the 1992 Interim Committee on Assessments and Taxation has recommended the reduction of the severance tax on natural gas.

Every group that has reviewed this issue in recent years has concluded that the severance tax on natural gas must be reduced. The committee should recommend S.B. 3 for passage.

Sen. Assess. + Tax.
Jan. 26, 1993
Attach. #6-1