

Approved: 2/22/94
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson Keith Roe at 9:00 a.m. on February 17, 1994 in Room 519-S of the Capitol.

All members were present except: Representative Lowther, excused

Committee staff present: Chris Courtwright, Legislative Research Department
Tom Severn, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Bill Edds, Revisor of Statutes Office
Lenore Olson, Committee Secretary

Conferees appearing before the committee:

Representative Henry Helgersen
Representative Kent Glasscock
Brian Gilpin - Tobacco Free Kansas
Betty Dicus - American Cancer Society
Chip Wheelen - Kansas Medical Society
Dr. Dwight Lee - Tobacco Institute; University of Georgia Professor of Economics
Frances Kastner - Kansas Food Dealers
Ron Hein - R. J. Reynolds Tobacco
Elizabeth Taylor - Kansas Tobacco & Candy Distributors and Vendors
Donald Schnacke - Kansas Independent Oil & Gas Association (KIOGA)
David Bleakley - East Kansas Oil & Gas Association
Jack Glaves - OXY USA

Others attending: _____

Chairperson Roe reopened the hearing on HB 2224. A previous hearing was held February 18, 1993.

HB 2224 - tax on tobacco products to fund programs for prevention and treatment of tobacco related diseases.

Representative Henry Helgersen testified in support of HB 2224 and said raising cigarette taxes will not only reduce cigarette consumption, but is also an excellent source of revenue for Kansas. Representative Helgersen stated this tax will raise approximately \$17-20 million in fiscal year 1995 (Attachment 1).

Representative Kent Glasscock testified in support of HB 2224. He said that he supports this bill because the State of Kansas spends millions of tax dollars each year to pay the health care expenses of tobacco users who are without resources (Attachment 2).

Brian Gilpin, Tobacco Free Kansas, testified in support of HB 2224 and said this tax would partially compensate for the tremendous cost smoking imposes on the economy. He also said these costs are estimated at more than \$65 billion per year for the U.S. and \$594 million in Kansas alone (Attachment 3). Mr. Gilpin was requested to provide additional information on the \$594 million cost, the addictive properties of nicotine, and the \$4 billion figure quoted by him as spent by the tobacco industry to induce children to smoke.

Betty Dicus, American Cancer Society, testified in support of HB 2224 and said that for every ten percent increase in tax, there will be a four percent decrease in tobacco consumption (Attachment 4).

Chip Wheelen, Kansas Medical Society, testified they support of HB 2224 because they believe the higher cost of such products discourages consumption. Mr. Wheelen suggested this bill be amended to direct the revenue from the new tax be invested in the existing state Medical Assistance Program rather than the expenditure categories outlined in the bill (Attachment 5).

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, Room 519-S Statehouse, at 9:00 a.m. on February 17, 1994.

Dr. Dwight Lee, Professor of Economics, University of Georgia, representing the Tobacco Institute, testified in opposition to HB 2224. Dr. Lee said that this proposed tax will significantly reduce cigarette sales in Kansas, will do a great deal of damage to Kansas retailers and raise less revenue than anticipated (Attachment 6).

Frances Kastner, Kansas Food Dealers, testified in opposition to HB 2444 and said they have always been against earmarking taxes for any reason as it is a dangerous precedent (Attachment 7).

Ron Hein, R.J. Reynolds Tobacco Company, testified in opposition to HB 2444 stating this bill is a regressive tax that hits the poor harder than anybody else. Mr. Hein said that if there is going to be a tax increase, all taxpayers should pay proportionately, not just a few as proposed in this bill (Attachment 8).

Elizabeth Taylor, Kansas Tobacco and Candy Distributors and Dealers, testified in opposition to HB 2224. Ms. Taylor said they are opposed to singling out any legal product and taxing it greater than any other legal product. She also said passage of this bill would hurt the smaller, family-owned wholesalers and would lend to bootlegging of cigarettes.

Written information on HB 2444 was submitted by:
Kansas Department of Health and Environment (Attachment 9)
Smokeless Tobacco Council, Inc. (Attachment 10)
Kansas Hospital Association (Attachment 11)

Chairperson Roe concluded the public hearing on HB 2444.

The Chair opened the hearing on HB 2791.

HB 2791 - sales tax exemption for utility services used in severing oil.

Don Schnacke, Kansas Independent Oil & Gas Association (KIOGA), testified in support of HB 2791. Mr. Schnacke said that the intent of this bill is to put pumping related to oil and gas wells on the same exempt status as irrigation pumping. Mr. Schnacke estimates the impact of this bill to be between \$1 and \$2 million (Attachment 12).

David Bleakley, Eastern Kansas Oil and Gas Association, testified in support of HB 2791. He said that the Kansas oil producer is in serious financial trouble and the state that has in the past received so much financial help from this industry should be looking for ways to alleviate its tax burdens (Attachment 13).

Jack Glaves, OXY USA, testified in support of HB 2791. Mr. Glaves said the elimination of this tax would send a positive signal to the oil producers in Kansas that the legislature recognizes the desperate state of the industry and is willing to extend a helping hand in trying to continue the viability of its economic life in Kansas (Attachment 14).

Chairperson Roe concluded the hearing on HB 2791.

Chairperson Roe directed the Committee to return to possible action on HB 2888. He reminded them of the original motion made on February 16, 1994, by Representative Lahti, seconded by Representative Welshimer, to pass HB 2888 favorably as amended.

Staff distributed information showing adjustments resulting from a new classification "E" (Attachment 15). They also distributed a chart comparing current law and HB 2888 as introduced and with proposed amendments (Attachment 16).

A substitute motion was made by Representative Krehbiel, seconded by Representative Mays, to amend HB 2888 as shown by the adjustments resulting in adding new classification "E" on (Attachment 15). The substitute motion to amend carried.

A motion was made by Representative Glasscock, seconded by Representative Wagon, to pass HB 2888 favorably as amended. The motion carried with a vote count of 16 ayes and 4 nays. Representative Rock requested to be recorded as voting no.

The meeting adjourned at 10:50 a.m.
The next meeting is scheduled for February 18, 1994.

HENRY M. HELGERSON, JR.
REPRESENTATIVE, EIGHTY-SIXTH DISTRICT
4009 HAMMOND DRIVE
WICHITA, KANSAS 67218-1221



TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS

MEMBER: APPROPRIATIONS
ECONOMIC DEVELOPMENT
ELECTIONS
JOINT COMMITTEE ON ECONOMIC
DEVELOPMENT
KANSAS, INC.

HB 2224

FEBRUARY 17, 1994

TESTIMONY BEFORE THE HOUSE TAXATION COMMITTEE
BY
REPRESENTATIVE HENRY HELGERSON, JR.

Mr. Chairman and members of the Committee:

Thank you for the opportunity to testify before you on House Bill 2224, which increases the excise tax on cigarettes and other tobacco products. This bill also directs the monies generated by the tax into the Tobacco-related disease health protection fund for distribution to programs that benefit the health care system in Kansas.

Today, it is widely accepted in the medical community and the general public that smoking is hazardous to a person's health. It contributes to the development of cancer, heart disease, peptic ulcer disease, and acute and chronic lung problems. More than one of every six deaths is attributable to smoking. Annually, an estimated 450,000 Americans died

2/17/94
House Taxation Cmte
Attachment 1

as a result of smoking. These deaths and illnesses resulted in \$69 billion in health care costs and lost productivity in the United States. Of these deaths, an estimated 3,888 Kansans died due to smoking related illnesses. In addition, smoking prolongs the recovery period from both smoking related illnesses as well as unrelated health problems. Of the State employee population, smokers incur 33% more hospital admissions and average 41% more hospital days than smokers. In 1991, smoking-attributable illness cost Kansans \$594 million. The total average claim payment per employee was \$282.62 more for smokers than non-smokers. (25.69 more per month).

With the new released EPA report classifying second hand smoke as a Class A carcinogen similar to asbestos and radon, there is additional justification to further discourage tobacco use.

It is the position of the Tobacco Free Kansas Coalition that is contrary to good public policy, good health and fiscal responsibility to condone smoking and that we should develop policies that discourage tobacco usage.

Raising cigarette taxes will not only reduce cigarette consumption, which

benefits both individuals and public health, but is also is an excellent source of revenue for Kansas. It has been shown that for every 10% increase in price on a package of cigarettes there is a consumption reduction of approximately 4%. This argument alone shows validation for raising the price on tobacco products.

Unfortunately, many still argue against taxing these products. The tobacco industry argues that the tax would burden the poor and would restrict the freedom on current smokers. These arguments fall short when you consider the fact that the tobacco industry itself regularly raises the prices on their products, as often as twice a year, without regard for these same concerns.

It has been shown that increasing cigarette taxes will help encourage some adults to stop smoking. The heaviest impact, though would be on young people, who due to limited spending money are more sensitive to price changes. In this group the tax will act as a deterrent to those already smoking, thus decreasing addiction rates, and will prevent many from even starting.

The cigarette tax will raise approximately \$17- 20 million in fiscal year

1995. This money will be a welcome help in Kansas' Health Care System. Current health care costs related directly and indirectly to smoking in Kansas run about \$600 million a year. The cigarette tax will allow us to recover some of these considerable expenses while funding programs aimed at shrinking the size of the current smoking population through education of the health risks caused by use of tobacco products.

You may wonder how is it to establish a fund that uses its monies to shrink the population of the group being taxed to maintain it. This, though, is just what the tax is ideally created to do. As the smoking population decreases so does the amount of medical costs incurred by smokers. Thus, there is a declining need for the tax money needed makes sound economic sense.

No matter how sound these arguments for the cigarette tax are to our financial and health care conscious Legislature there are some who will still say this is unfair to smokers. I believe that we must in this situation listen to the 75-80% of our constituents whom polls show support cigarette tax increases. These constituents obviously feel that if smokers must help pay for the substantial medical costs incurred by this exposure. Recent polls conducted by the Kansas Commission on the Future

of Health Care Inc, and an opinion poll in Sedgwick County found that Kansans support additional taxes on tobacco products to help pay for health care costs 82% and 78% respectively.

In closing, I would like to give an example of a program similar to the one proposed in this bill which is currently in place. In 1988 the state of California undertook a strong campaign to reduce its smoking population. It raised the taxes on tobacco products and created a fund to promote education of smoke related health hazards, reduce its number of current smokers and pay for some of the health care costs that smoking causes.

Just one year after California raised its cigarette tax 25 cents in 1989-- earmarking some of it for anti-smoking campaigns--per capita consumption declined 9 percent and 17% over 3 years. Researchers estimate that a 50-cent tax increase would result in 2.5 million fewer smokers.

Finally, in fiscal year 1992, federal excise taxes on tobacco generated more than \$5 billion in revenue and state excise taxes, \$6 billion. An additional \$1.6 billion in revenue came from state sales taxes on tobacco. Yet, cigarette taxes in the United States are lower than in many other countries (table). Moreover, while there have been three federal excise

tax increases on cigarette since 1983, taxes as a percent of the average retail price for a pack have declined dramatically-- from 47 percent in 1970 to only 30 percent in 1993, while tobacco company profits rose sharply.

CIGARETTE TAXES INTERNATIONAL COMPARISONS

Tax as a percent of price	

Denmark	85%
France	76%
India	75%
United Kingdom	75%
Brazil	74%
Germany	72%
Canada	69%
Japan	60%
Thailand	54%
United States	30%

I hope you will join with me, the Tobacco Free Kansas Coalition, and the 70 to 80 percent of your constituency to promote good health and support House Bill 2224.

RAISING TOBACCO TAXES IS GOOD HEALTH AND FISCAL POLICY

INTRODUCTION

Raising cigarette taxes not only reduces cigarette consumption which benefits both individuals and the public health, but it also is an excellent source of revenue for financially strapped governments. With the economy stagnating and the tobacco-related death and disease toll rising, now is an opportune time for concerned advocates to urge their state and (where applicable) local governments to increase cigarette and other tobacco taxes.

Significantly, approximately 75-80% of the general public supports cigarette tax increases in every major survey conducted in recent years, including one by the renowned Gallup organization. Thus, it is not surprising that 12 states--including North Carolina--raised their cigarette tax in 1991 and 7 states have done so in 1992. Similar to California in 1989, Massachusetts raised the tax through a ballot referendum in 1992, while the other states used the legislative process.

DECREASE CIGARETTE CONSUMPTION

Increasing cigarette taxes decreases cigarette consumption benefiting not only smokers who quit, but also children who never start and innocent bystanders who won't have to breathe as much environmental tobacco smoke. Studies have shown that for every 10% increase in the price of cigarettes, consumption falls about 4%.

PREVENT CHILDREN FROM SMOKING

While increasing cigarette taxes will help to encourage some adults to stop smoking, young people are even more likely to be affected as they are particularly sensitive to price changes because they generally have only limited amount of money to spend. In fact, a General Accounting Office (G.A.O.) report concluded that raising the Federal excise tax could have a considerable impact on teenage smoking. Some would be prevented from even starting and others would be compelled to stop before they become addicted.

RECOVER HEALTH AND PRODUCTIVITY COSTS

In 1985, the Office of Technology Assessment estimated that cigarette smoking costs our economy \$65 billion annually in health care and lost productivity costs. This amounts to \$2.17 per pack in lost productivity and smoking related health care costs. With inflation, the amount would be much higher today.

BENEFIT THE POOR

The tobacco industry consistently argues that tobacco taxes are regressive, meaning that they would place an undue burden on the poor. That is so hypocritical. The tobacco

industry regularly raises cigarette prices twice a year in total disregard for the undue burden this places on the poor. Retail sales prices have increased dramatically more than tobacco taxes. As the following chart shows, the percentage of the retail price attributable to taxes have fallen from almost 50% in 1955 to less than 25% in 1990.

AVOID SMUGGLING

Another favorite tobacco industry argument is that higher taxes in one state will cause smuggling from a lower tax state. First of all the cost differential as well as the expense and inconvenience of travelling out-of-state have to be significant enough to cause someone to undertake clandestine activity. That simply doesn't happen in most cases.

Where it might present a problem, governments can take preventive measures. Just as with the illegal sales to minors, governments can increase enforcement efforts and impose higher penalties for smuggling activities. Additionally, officials from neighboring jurisdictions can decide to cooperate and both raise tobacco taxes rather than allowing the tobacco industry to play them off against each other and deprive both jurisdictions of needed revenue.

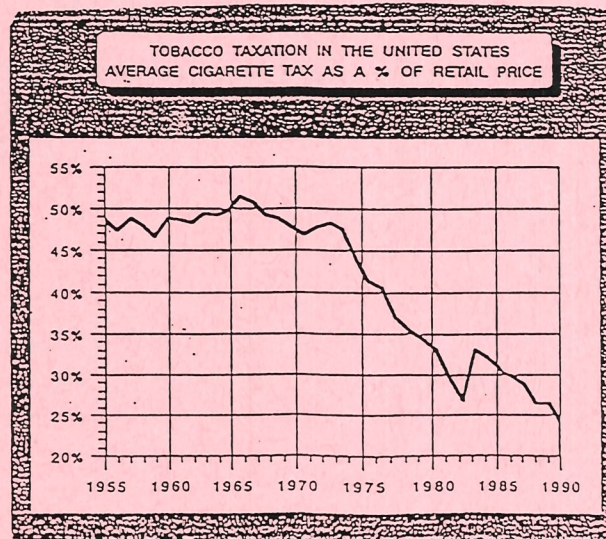
TOBACCO INDUSTRY FEARS

With so many advantages and very few significant disadvantages to raising tobacco taxes, the tobacco industry has good reason to fear additional tobacco tax increases in the near future. Reports received by ASH indicate that higher tobacco taxes are one of the tobacco companies biggest concerns - along with ETS and advertising restrictions.

From: Action on Smoking and Health, 2013 H St., N.W., Washington D.C. 20006
(202) 659-4310

H612 -- Cigarette Excise Taxes November 5, 1992

LEGAL ACTION AND EDUCATION ON THE HAZARDS OF SMOKING * PROTECTING THE RIGHTS OF THE NONSMOKING MAJORITY



1-9

ACTION on SMOKING and HEALTH (ASH)

2013 H St., N.W.
Washington D.C. 20006
(202)659-4310

State Tobacco Taxes

ASH on 05-Jan-94 at 04:03 PM state cigarette excise tax rates

Except for the Michigan cigarette tax increase recently posted on SCARCNet (Smoking Control Advocacy Resource Center Network), following is the January 1, 1994 ranking of state cigarette excise tax rates:

STATE CIGARETTE EXCISE TAX RATES
Cents-per-20-pack as of January 1, 1994

Dist. Col	65.0	New Hampshire	25.0
Hawaii	60.0	Delaware	24.0
New York	56.0	Kansas	24.0
Washington*	54.0	Ohio	24.0
Massachusetts	51.0	Oklahoma	23.0
Minnesota	48.0	South Dakota	23.0
Connecticut+	47.0	New Mexico	21.0
Illinois	44.0	Colorado	20.0
North Dakota	44.0	Louisiana	20.0
Rhode Island	44.0	Vermont	20.0
Texas	41.0	Arizona	18.0
New Jersey	40.0	Idaho	18.0
Oregon (33.0)	38.0	Mississippi	18.0
Wisconsin	38.0	Montana	18.0
California (35.0)	37.0	Missouri	17.0
Maine	37.0	West Virginia	17.0
Iowa	36.0	Alabama	16.5
Maryland	36.0	Indiana	15.5
Nevada	35.0	Tennessee	13.0
Nebraska	34.0	Georgia	12.0
Florida	33.9	Wyoming	12.0
Arkansas	31.5	South Carolina	07.0
Pennsylvania	31.0	North Carolina	05.0
Alaska	29.0	Kentucky	03.0
Utah	26.5	Virginia	02.5
Michigan	25.0		

() = figures in parentheses are 1993 excise tax rates

+ = Connecticut increases to 50.0 cents on 7/1/94

* = Washington increases to 56.5 cents on 7/1/94, 74.0 cents on 7/1/95, 75.0 cents on 7/1/96.

★---- 14 states increased their cigarette tax in 1993 (CT, DC, HI, IL, MA, MO, ND, NE, NM, NY, OH, OR, RI, WA)

Review of Tobacco Use Opinions Survey-Sedgwick County

The Kansas Department of Health and Environment, Office of Chronic Disease and Health Promotion, conducted a telephone survey of Sedgwick county residents to assess their opinions and attitudes towards tobacco practices and policies in Sedgwick county. The Tobacco Use Opinions Survey was commissioned by the Tobacco Free Wichita Coalition, a group that includes the Wichita-Sedgwick County Health Department, the Kansas Health Foundation, Project freedom and the American Heart Association. Funds to conduct the survey were provided by the Kansas Health Foundation. No state general funds or tax dollars were used.

The Tobacco Use Opinions Survey used the methodology designed by the Centers for Disease Control and Prevention for the national Behavioral Risk Factor Survey. The Behavioral Risk Factor Survey is part of a nationwide program to assess health risk behaviors related to chronic diseases and injuries.

In July of 1993, 703 Sedgwick county residents age 18 and older were surveyed. Data analyses have proven that the survey sample is representative of Sedgwick county residents and is statistically valid with a 95% confidence interval of +/- 5%. This means that if we were to conduct another survey including every resident in Sedgwick County we would be 95% sure that the responses we received would be within +/- 5% of our original survey response.

Survey Population

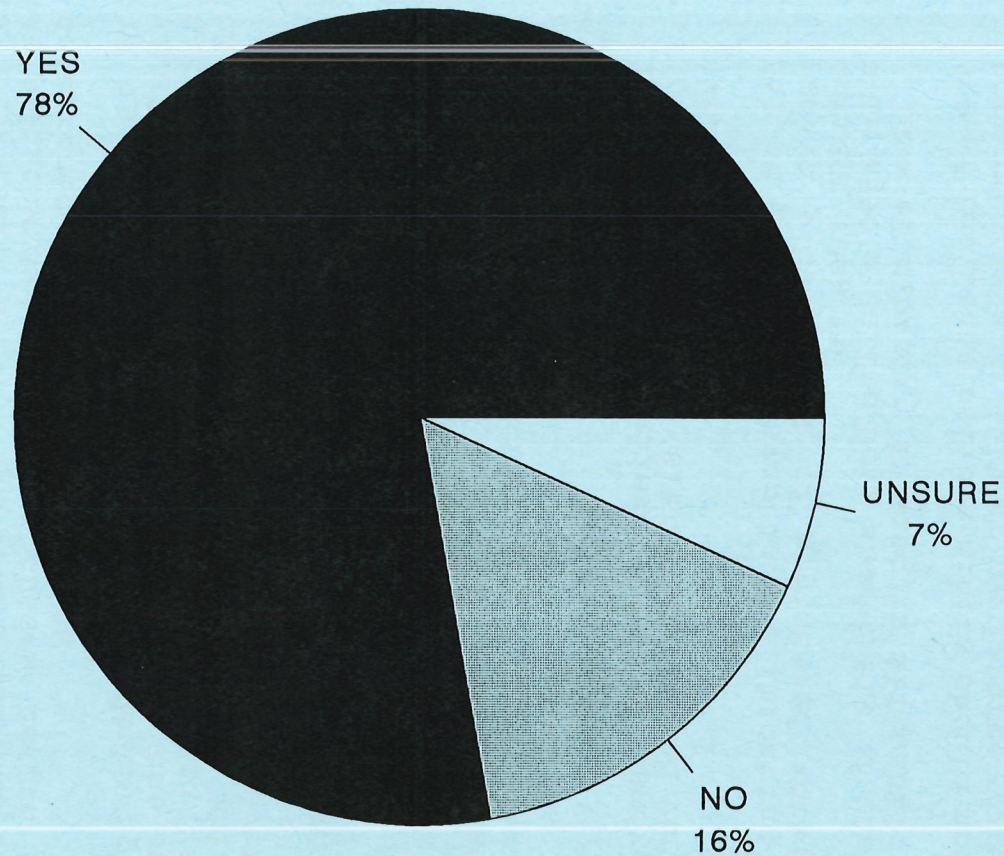
- ◆ 78% of residents are registered voters.
- ◆ 22% of residents are current cigarette smokers.
- ◆ 18% of registered voters are current cigarette smokers.

Survey Summary

- ◆ 82% of residents believe secondhand smoke is harmful to nonsmokers' health (81% of registered voters; and 55% of current smokers).
- ◆ 54% of residents favor laws eliminating smoking in all public places (58% of registered voters; and 13% of current smokers).
 - In 1990 a Gallup Poll showed 51% of the nation favored laws eliminating smoking in all public places.
- ◆ 90% of residents believe minors should not be able to buy tobacco products (91% of registered voters; and 85% of current smokers).
- ◆ 76% of residents believe merchants who sell tobacco products to minors should at least be fined (77% of registered voters; and 75% of current smokers).
- ◇ 78% of residents would vote yes on a ballot to increase tax on tobacco products to help pay for health services.

TOBACCO USE OPINIONS SURVEY-SEDGWICK COUNTY*

1-12



INCREASE THE TAX ON TOBACCO PRODUCTS

IF THERE WERE AN ELECTION TODAY, WOULD YOU VOTE YES OR NO ON A BALLOT THAT WOULD INCREASE THE TAX ON TOBACCO PRODUCTS TO HELP PAY FOR HEALTH SERVICES. GENERAL POPULATION: 703 RESPONDENTS

LARRY MATHEWS, Senior

The editor's opinion

Hike the tax

Smokers should pay more for ills they cause

Kansas smokers ought to jump at the chance to pay a dime more for their cigarettes. That dime excise tax, if enacted by the Legislature, would finance stop-smoking programs that might encourage them to quit.

At worst, the tax would help finance the health care that smokers need to battle smoking-related diseases.

But the dime-a-pack tax, tiny though it is in comparison to the ills of smoking, is hardly a shoo-in. Legislators get weak knees when they find themselves in the path of powerful lobbying groups, and the tobacco industry is strongly opposed to higher cigarette taxes.

That's odd, because the profit-hungry tobacco industry has been pushing up the price of cigarettes at a rate that overshadows even the inflation in health care. In the decade of the 1980s, cigarette prices climbed more than 150 percent.

Higher cigarette profits are OK, the tobacco industry says, but higher cigarette taxes are not.

Legislators ought to stand up to the

industry, and to smokers, and insist that they pay a greater share of the cost that smoking imposes on society.

The proposed 10-cent excise tax would raise about \$25 million annually in Kansas.

Compare that with the \$65 million cost of smoking in Kansas. That figure, from Azzie Young, secretary of the Kansas Department of Health and Environment, includes the cost of health care and lost worker productivity.

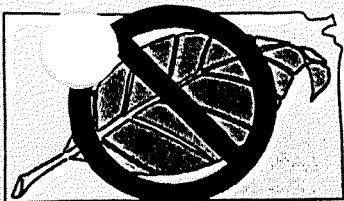
It's wrong for smokers to pass that cost on to others.

It would be wonderful if, as the tobacco industry fears, the higher tax would curb consumption of cigarettes. But that's not likely. Even in the face of dire health warnings and sharply increasing prices, cigarette consumption in the U.S. has fallen only slightly in recent years.

Smokers likely would absorb the dime tax in stride. It's a pity. Their health would benefit if they would quit smoking.

But with the 10-cent tax, at least smokers would help offset the health and lost productivity costs their habit imposes on society.

At the very least, they should do that.



Tobacco Free Kansas

900 SW Jackson, Room 901 North, Topeka, KS 66612-1290 913/296-1207 FAX 913/296-8059

Coalition Members

American Cancer Society, Kansas Division
American Heart Association Kansas Affiliate, Inc.
American Lung Association of Kansas
Cancer Information Service
Dickinson County Council on Alcohol and Drugs, Inc.
Extension Human Development and Family Studies, Kansas State University
Governor's Office of Drug Abuse Programs
Group to Alleviate Smoking Pollution
Kansas Academy of Family Physicians
Kansas Association of Local Health Departments
Kansas Dental Association
Kansas Department of Administration
Kansas Department of Health and Environment
Kansas Department of Human Resources
Kansas Employer Coalition on Health
Kansas Health Foundation
Kansas Respiratory Care Society
Kansas State Board of Education
Kansas State Nurses Association
Kansans for Non-smokers Rights
National Council on Alcoholism
New Mondays Seminars
Preventative Cardiology, PA
Project Freedom
Smoky Hill Family Practice Residency Program
Stormont-Vail Regional Medical Center
Topeka-Shawnee County Health Department
University of Kansas Medical Center
Wichita-Sedgwick County Department of Community Health

EXCISE TAXES on TOBACCO PRODUCTS Position Paper

Background

In addition to its devastating health effects, smoking has a significant impact on Kansas. A 1991 analysis by KDHE (SAMMEC) estimates that cigarette smoking costs the Kansas economy \$594 million dollars in health care and lost productivity costs. Taxpayers must share the burden of these excessive costs. Employers and non-smokers bear the cost of increased health care expenditures through higher insurance premiums and lost productivity at work. The report concluded that in 1991, each pack of cigarettes sold cost the Kansas economy \$2.68.

Current Status

In Kansas, the state tax on cigarettes is 24 cents per pack of 20 cigarettes as it has been since 1985 when an increase of 8 cents per pack was enacted. Taxes on tobacco products are based on a percentage of their wholesale price.

Proposed Legislation

The proposed legislation would increase the tax on cigarettes to 34 cents per pack. The additional 10 cents per pack would be used to establish the state preventive health advisory fund to be used for tobacco-use control education, prevention and intervention, and for direct services.

Position

Tobacco Free Kansas, Inc. supports an increase in the state tax on tobacco products. There is evidence to show that increasing the price of a pack of cigarettes will generate a 6% decrease among smokers. TFK also supports the use of funds to support education, prevention, cessation, as well as direct services.

Justification

- Cigarette smoking is the number one preventable cause of premature death and disability in this nation as well as Kansas.
- Increasing the cost of a pack of cigarettes by ten percent is predicted to reduce the number of new teenage smokers by 14%; 6% all ages included.
- Reducing cigarette consumption in Kansas will lead to a healthier society, with Kansans living longer, being sick less often, being more productive workers and depending less on government support for health care.
- A recent opinion poll KDHE opinion poll showed 78% of Sedgwick Co. residents support increasing the taxes on tobacco products in Kansas if proceeds went to health needs.
- Implementing a 10 cent per pack is estimated to increase 18 million dollars in new revenue for fiscal year 1995.

Excise Taxes and Preventing Tobacco Use In Young People *by David Sweanor*

We need to reexamine the approaches taken in the worldwide fight against tobacco use. We need to consider the evidence of our success to date, not on the basis of justifying past action, but with the aim of increasing our effectiveness. We need to be reminded that during our 25-year fight against tobacco, world cigarette production has doubled and per capita consumption has increased 25%.

In most parts of the world, like my own country of Canada, the resources committed to tobacco control are very limited. This means the few people working to reduce tobacco use must use the most effective tools available. It is my view that the economics of tobacco have defeated our worldwide efforts to date and that turning the economics to our favor is the single most effective thing we can do to reduce tobacco use.

Affordability of tobacco appears to be, for many countries, the single largest determinant of how many children will start smoking.

Fortunately, the cost of cigarettes need not be determined solely by tobacco companies: tax policy can dictate prices and health concerns can dictate tax policy. It is time to use the incredibly cost-effective tool of tax policy as central to any strategy to reduce tobacco use and to prevent

young people from ever becoming addicted in the first place.

The Economics of Tobacco Control

It is hardly surprising that those who came early to the fight against tobacco use chose the well-tried weapons of previous health campaigns; first, the search for a cure. When that failed, we looked to health education. Only when we came to realize that much greater gains could be made, did we resort to legislative action.

Each of these successive approaches has been a movement toward dealing with the source of the problem. We started with the symptoms and moved to the cause. The closer we have come to the source of the problem, the more effective the intervention has been. As we examine the various legislative avenues available, it is clear that some are more effective. I believe that economics is about the most effective tool available, and legislative intervention in the area of tobacco tax policy is the way to turn this tool to our advantage.

We know that controlling tobacco use is different from other health battles—because the foe is not a virus or bacteria, but a powerful industry with a vested interest in making money from the product causing the disease.

It can fairly be said that the profits from marketing tobacco are so great that some companies are willing to kill

for them. Cigarettes are very cheap to manufacture, they are addictive, and virtually every national market is controlled by no more than three companies. The result is often little price competition, so retail prices edge upward, and profits skyrocket.

However, there is a flaw in marketing a deadly product—built-in obsolescence not of the product, but of its consumers. The tobacco industry has to recruit new consumers to survive. The profile of these new recruits varies from country to country but with one universal constant: the new users of tobacco products are overwhelmingly young people. As a result, we know that the real battle is to stop the tobacco industry from recruiting young people. A person who has not become a tobacco user by age 20 is likely to never become one.

We also know that, despite decades of health education, young people do not grasp the magnitude of the risk associated with tobacco use. For example, in Canada, despite the best efforts of health educators, a recent survey¹ found that only a small minority could recall that smoking caused heart disease, many did not know that lung cancer is fatal, and few realized that the risk of heart disease declines dramatically soon after someone quits smoking.

David Sweanor is Legal Counsel for the Non-Smokers' Rights Association of Canada.

Presented at the 8th World Conference on Tobacco OR Health, Buenos Aires, Argentina, March 30-April 3, 1992.

1-15

But there is one piece of knowledge we and the tobacco industry have in common—that price is the key. If the price of tobacco goes down, use goes up. If tobacco becomes less affordable, consumption goes down.

Price has the greatest influence among those who are not yet addicted: the young. The industry needs to get them into the market.

We need to keep them out.

Cigarette Prices and Young People

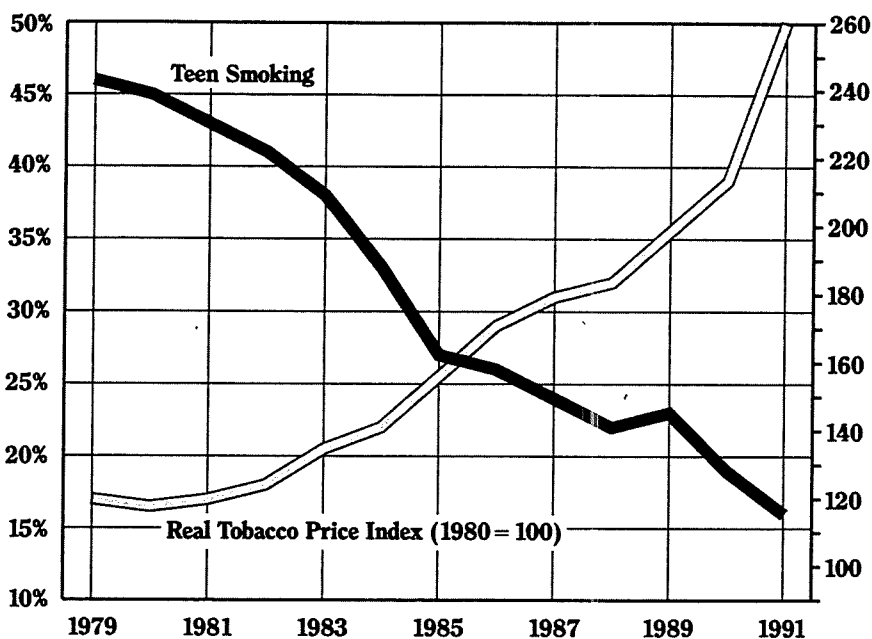
Evidence from the United States² has suggested that every 10% increase in the real (i.e., after inflation) price of cigarettes leads to roughly a 10% reduction in tobacco use among teenagers. This evidence, which has existed for at least a decade, led some of us in Canada to decide to focus on tax increases as an integral part of our approach to tobacco control.

These efforts have been successful. We have obtained very large tobacco tax increases that have caused dramatic increases in tobacco prices and resulted in stunning falls in the number of young people using tobacco.

In 12 years—from 1979 to 1991—the real price of tobacco increased by a total of 158% and teenage tobacco use fell by two thirds (Figure 1). This is startling progress toward the goal of a tobacco-free society.

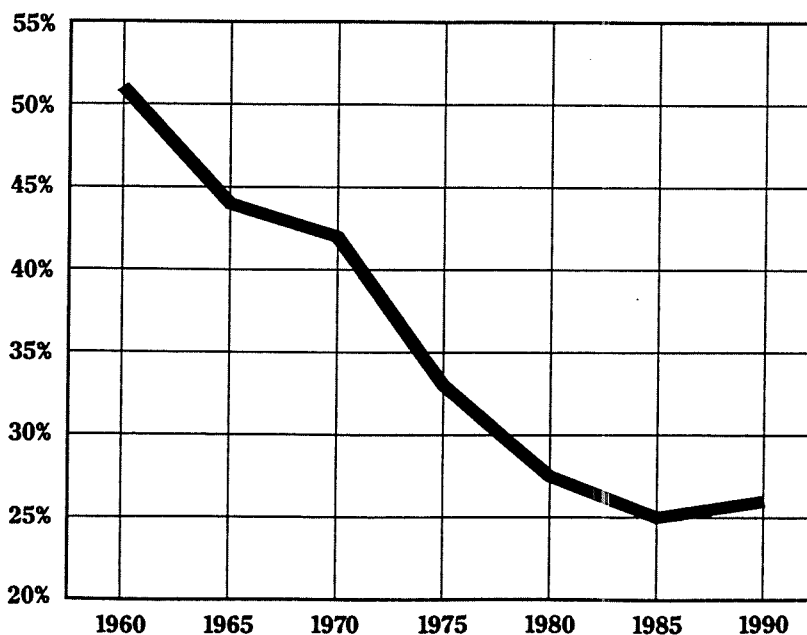
In determining the extent to which the decline in Canadian teenage tobacco use has been induced by tax-based price increases, various factors can be considered. Public education campaigns do not explain this drop, since countries like Canada (such as the United States) ran similar campaigns but experienced no comparable decline in teenage smoking. Even our ad ban, health warnings, and laws protecting nonsmokers cannot explain

Figure 1: Real cigarette prices and cigarette smoking among Canadians age 15 to 19



Source: Statistics Canada, Labour Force Survey, 1991; Canadians and Smoking: An Update. Health and Welfare, Canada, 1991.

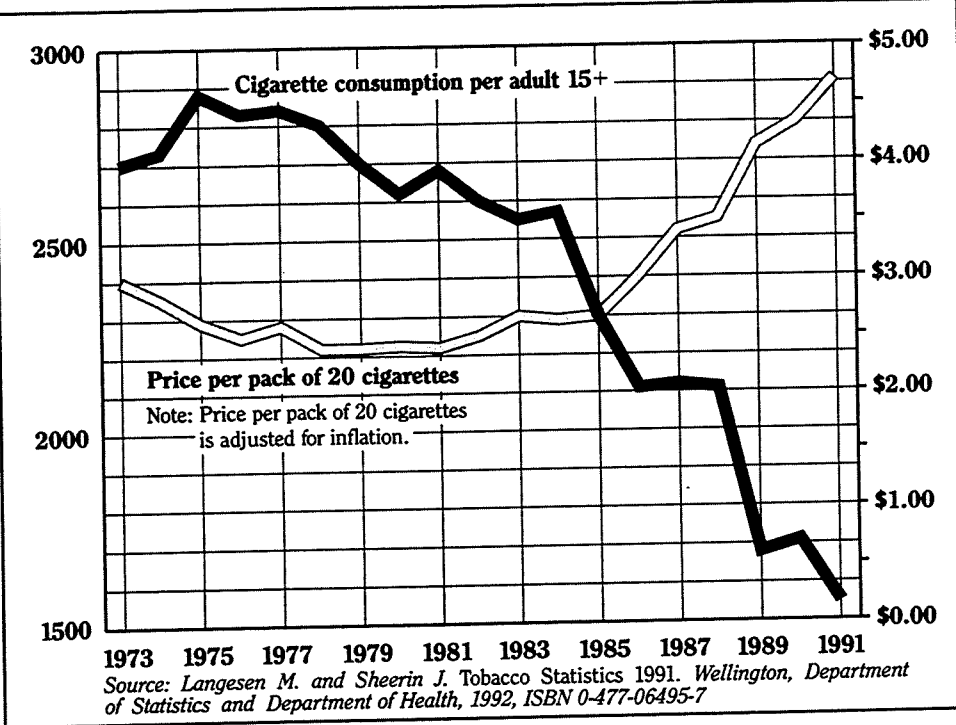
Figure 2: Tobacco taxation in the United States—average cigarette tax as a % of retail price



Source: The Tax Burden on Tobacco, The Tobacco Institute, Volume 25, 1990, pp. 72-108.

1-16

Figure 3: Cigarette consumption versus pack price—New Zealand, 1973-1991



this fall, since these are recent measures. A 1991 study³ found that the price sensitivity of Canadian teenagers is much in line with what the US studies had suggested.

Unlike many other interventions, the impact of tax changes is immediate and dramatic. Whereas other interventions often require a great commitment of resources, the cost of a tax intervention can work out to no more than pennies per life saved. All that is needed is a little knowledge, some persuasive advocacy, and persistence.

How Can We Use This Information?

It seems clear that tobacco taxation is a strategy that works. Why then is it so underutilized? Why have so few governments used taxes to reduce tobacco consumption? Why have some countries—like the United States—let the tax component of retail prices

slump (Figure 2) while research showed the impact of tobacco use and the role of taxation in reducing such use? Why do some governments who are prepared to see tobacco advertising banned, still protect the cheap cigarettes produced by their national tobacco monopolies?

One reason must be that the health lobby has been so reluctant to put tobacco tax increases at the top of its agenda. Unlike the tobacco industry, we have failed to realize the power of economics. Because we are less experienced in talking to government finance officials than dealing with the health departments. Because it means talking an unfamiliar language to people who may—at the start—be unsympathetic.

But the experience of places such as Hong Kong, Britain, New Zealand, and Canada shows that the effort is

repaid many times over. In fact, the benefits from the impact on youth smoking are greatly compounded by the impact on adult tobacco consumption. An analysis of countries around the world shows the powerful inverse relationship between price and consumption. New Zealand is but one example (Figure 3).

Finance ministers are willing to listen to a well-presented health case. This could be due to a combination of pure expediency, since tobacco taxes are a convenient way to raise money, and a recognition of the role of fiscal policy in preventing disease. Once convinced, these officials can be powerful allies within government.

Another lesson is that tax increases are the fastest, surest way of achieving large reductions in tobacco consumption. And that in turn opens the way for further initiatives. Fewer smokers make it easier to get restrictions on workplace smoking, to get smoke-free transportation, and to get rid of advertising. The higher taxes can also increase a government's willingness to implement bold marking schemes that make smuggled tobacco easier to identify while reducing the attractiveness of tobacco packaging. These measures are part of a strategy that reinforces the message to the next generation, that smoking is an activity on the way out.

Obstacles to Action

The tobacco industry resists tobacco tax increases with an intensity commensurate with its certainty that such measures reduce consumption. The industry will throw any obstacle in the way of a sizable tax increase. It will also seek loopholes that keep cheap products in the market as a lure for those who might otherwise not

start—or quit—as the price rises.

Favorite tactics of the industry include focusing attention on the plight of local tobacco growers and tobacco factory workers. It will also attempt to portray the tax as unfair to the poor, to enlist the services of those with strong government ties to oppose you, or to promote the idea that higher taxes will increase crime.

Fortunately, all these tactics of the tobacco industry have already been effectively countered in some countries. Anyone now embarking on a campaign for health-oriented tobacco tax policies can become an “instant expert” simply by learning the lessons of the campaigns run to date. The arguments the tobacco industry makes with respect to economics can be shown as no more credible than the position the industry takes on health.

The major obstacle to date has been the reluctance of health organizations to move strongly into the area of tobacco pricing. The tobacco industry and governments have done exactly as would be expected on tobacco pricing given their respective interests and methods of operation. It is the “health lobby” that has been rather absent from this field. As a

result, we have left the area of economic policy firmly in the hands of the tobacco industry and placed ourselves at a great disadvantage in our efforts to reduce youth smoking.

Conclusion

If the health community remains reluctant to get seriously involved in the economics of tobacco, we will almost undoubtedly see worldwide tobacco sales continue to increase in the foreseeable future. The increasing affordability of tobacco is probably the major reason world cigarette production has doubled in the last 25 years. If we do not move on this front, far too many of the planet’s young people—the people we talk so earnestly of saving from tobacco addiction—will be making their debut as mortality statistics 25 years from now.

If we choose to get involved, to change the economic landscape in tobacco control, the impact on world tobacco consumption could be beyond anything achieved to date. The level of smoking among young people could be suddenly and significantly reduced. The impact of these same price changes among adults could lead to an unprecedented decline in world

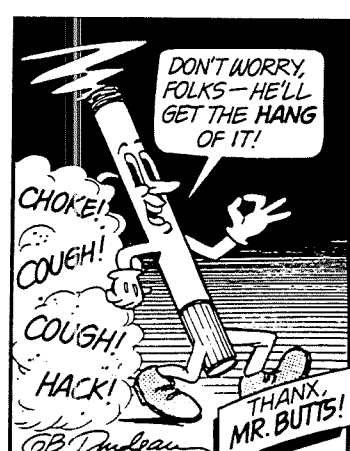
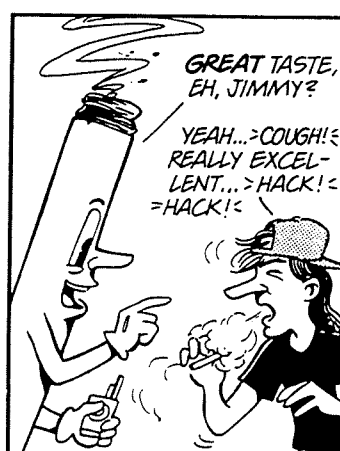
tobacco sales.

A quarter of a century ago, at the First World Conference on Smoking and Health, Senator Robert F. Kennedy said: “The industry we seek to regulate is powerful and resourceful. Each new effort to regulate will bring new ways to evade.... This is a battle that can be won.” These words are as true today as they were when first spoken. They are no less true in the area of tax policy than any other area of tobacco control. Our major challenge today is to use what we know to finally start winning that battle. 🌐

References

1. Canadian Council on Smoking and Health. *Awareness of Health Hazards Due to Smoking*. Environics Research Group Limited, Toronto, December 1990.
2. US Department of Health and Human Services. *Smoking and Health in the Americas: A 1992 Report of the Surgeon General*, with the Pan American Health Organization. US DHHS, Public Health Service, Centers for Disease Control, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 1992, pp.127-136.
3. Roberta Ferrence, et al. *Effects of Pricing on Cigarette Use Among Teenagers and Adults in Canada 1980-1989*. Addiction Research Foundation, Toronto, February 1991.

Doonesbury



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Passive Smoke a Leading Cause of Cancer

By Michael Weisskopf,
The Washington Post, December 6, 1990

"A panel of independent science advisers to the Environmental Protection Agency concluded that involuntary exposure to tobacco smoke causes lung cancer in non-smokers and increases the risk of respiratory illness in children.

The decision is expected to solidify plans by the EPA to rank environmental tobacco smoke (ETS) as a known

Passive Poison

human carcinogen, a move that would have major implications for employers nationwide. The Labor Department is waiting for a final EPA assessment, at least [two] months off, to determine whether ETS should be regulated in the workplace. Morton Lippmann, a

scientist who chairs the indoor air quality panel of the EPA's Science Advisory Board, emphasized that the panel's judgment was tentative, based on its initial review of an EPA study that he said was 'not fully developed.' He called for further refinement of the data, saying EPA 'should be able to make that case.'

The 16-member panel was asked to review the EPA study because of controversy last May over its designation of passive smoke as one of just a handful of substances known as human carcinogens. That study also offered the first official estimate of ETS's toll: 3,800 cancer deaths a year, the third largest cause after radon and direct smoking."

Environmental tobacco smoke's toll: 3,800 lung cancer deaths a year, the third largest cause after radon and direct smoking.

Smoking Raises State Health Care Costs

For the third year in a row, Blue Cross and Blue Shield of Kansas has found that state employees who smoke incur higher medical expenses than state employees who don't smoke.

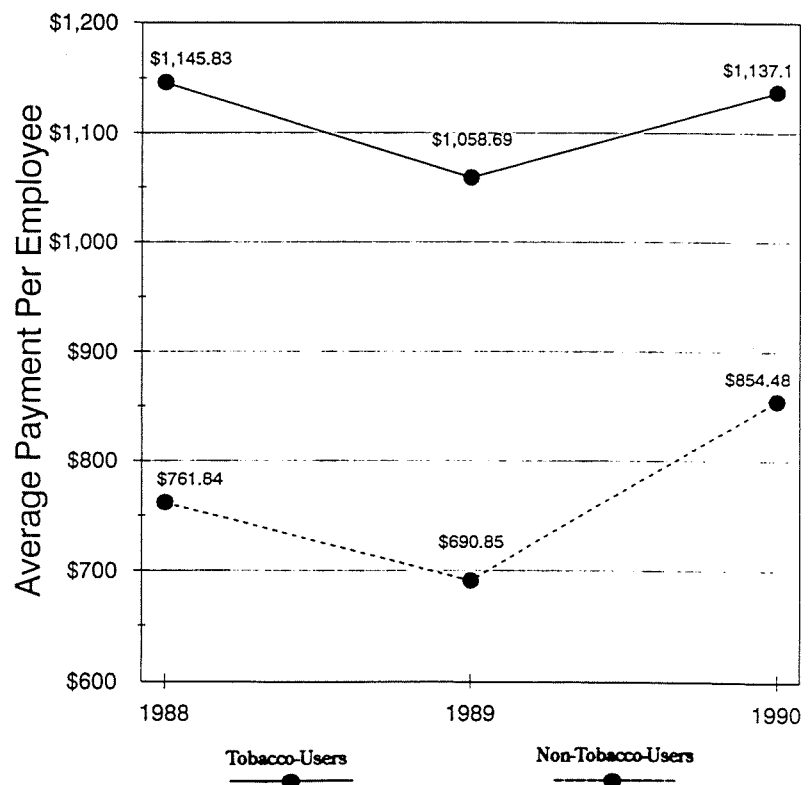
In a review of medical claims from approximately 25,000 state employees with Blue Cross or Blue Select coverage, the company found that:

- Smokers incurred 33% more hospital admissions than non-smokers;
- Smokers averaged 41% more days in the hospital than non-smokers; and
- Smokers had total average medical claims that were approximately \$300 a year higher than for non-smokers.

"In general, state employees who smoke cost the State \$25.69 more each month than their non-smoking counterparts. This drives up costs for everyone in the health plan," said Kansas Health Benefits Administrator Dave Charay.

"The State of Kansas has recognized the medical and financial impact of smoking since 1987, when we instituted a \$10 per month, non-tobacco-user's health insurance discount. The U.S. Surgeon General has stated that smoking is one of the most identifiable lifestyle choices causing health care costs to rise," Charay said.

Average Medical Payments For Kansas State Employees:
Tobacco-Users Vs. Non-Tobacco-Users



Based on 1988, 1989 and 1990 Blue Cross Data

1-19

M E M O R A N D U M

TO: Ms. Gloria M. Timmer, Director
Division of Budget

DATE: February 17, 1993

FROM: Kansas Department of Revenue

RE: House Bill 2224
As Introduced
**"Revised Fiscal
Impact"**

BRIEF OF BILL:

House Bill 2224, as introduced, is new legislation levying a new tax upon cigarettes and other tobacco products for the purpose of providing funds for programs for the prevention of tobacco-related diseases.

Section 1 states the intended purpose of the act to use the produced revenue to defray costs incurred by taxpayers of the state resulting from use of tobacco and to improve the overall health of the population of the state.

Section 2 defines the terms "cigarettes" and "tobacco products" as used in the act.

Section 3 provides that, in addition to all other occupation or privilege taxes imposed by the State that there is to be levied upon the privilege of selling, distributing and giving away cigarettes and tobacco in the State a tax: 1) at the rate of \$.10 on each package of cigarettes and 2) at the rate of 20% of the wholesale value of tobacco products.

Section 4 outlines the filing requirements of the wholesale dealer or distributor.

Section 5 provides administrative procedures relating to distributors failing to file a return who are required to do so.

Section 6 levies an interest rate and penalty provisions for delinquent returns.

Section 7 is administrative in nature.

Section 8 provides for administrative hearings before the Director of Taxation.

Section 9 allows for appeals to the Board of Tax Appeals.

Section 10 empowers the Secretary of Revenue with the responsibility of making and enforcing necessary rules and regulations to administer the provisions of this act.

Section 11 provides that violation is a misdemeanor punishable by a fine of not more than \$1,000 or imprisonment for not more than one year, or both.

Section 12 provides for the deposit of revenues into the Tobacco-related Disease Health Protection Fund and outlines the purposes for which expenditures may be made.

Section 13 provides that on or before January 1, 1994, and each year thereafter, The Kansas State Preventive Health Advisory Committee is to make recommendations to the Legislature for expenditures from the Tobacco-Related Disease Health Protection Fund with 1/3 dedicated to

1-20

prevention and intervention, 1/3 dedicated to health education and public information and 1/3 dedicated for direct services.

The effective date of this bill would be July 1, 1993.

FISCAL IMPACT:

It is estimated that passage of this bill would result in approximately \$22.0 million in Fiscal Year 1994 revenues.

The Fiscal Year 1994 consensus estimate for cigarette tax receipts is \$50.0 million at a tax rate of \$.24 per pack of 20 cigarettes. This would be the result of sales of \$208.3 million packs of cigarettes. According to a study published in the January 1992 issue of the American Journal of Public Health, for every 1 cent increase in cigarette taxes, sales fell by about 0.6%. Using this criteria, a \$.10 increase as a result of this bill would result in a 6% decrease in consumption. The \$.10 tax increase would amount to \$19.58 million per full year (\$208.3 million x .94 x .10). The impact for Fiscal Year 1994 would be 11/12 of the full year figure or \$17.95 million.

The consensus estimate for Fiscal Year 1994 for tobacco products is \$2.35 million at a tax rate of 10%. This bill calls for an additional 20% tax at the wholesale level. Assuming a similar 6% decline in consumption, the increase would amount to \$4.4 million (\$23.5 million x .2 x .94). The impact for Fiscal Year 1994 would be 11/12 of the full year figure or \$4.05 million.


ADMINISTRATIVE IMPACT:

2224
Passage of House Bill ~~3048~~ would result in no significant administrative costs or problems for the Department of Revenue.

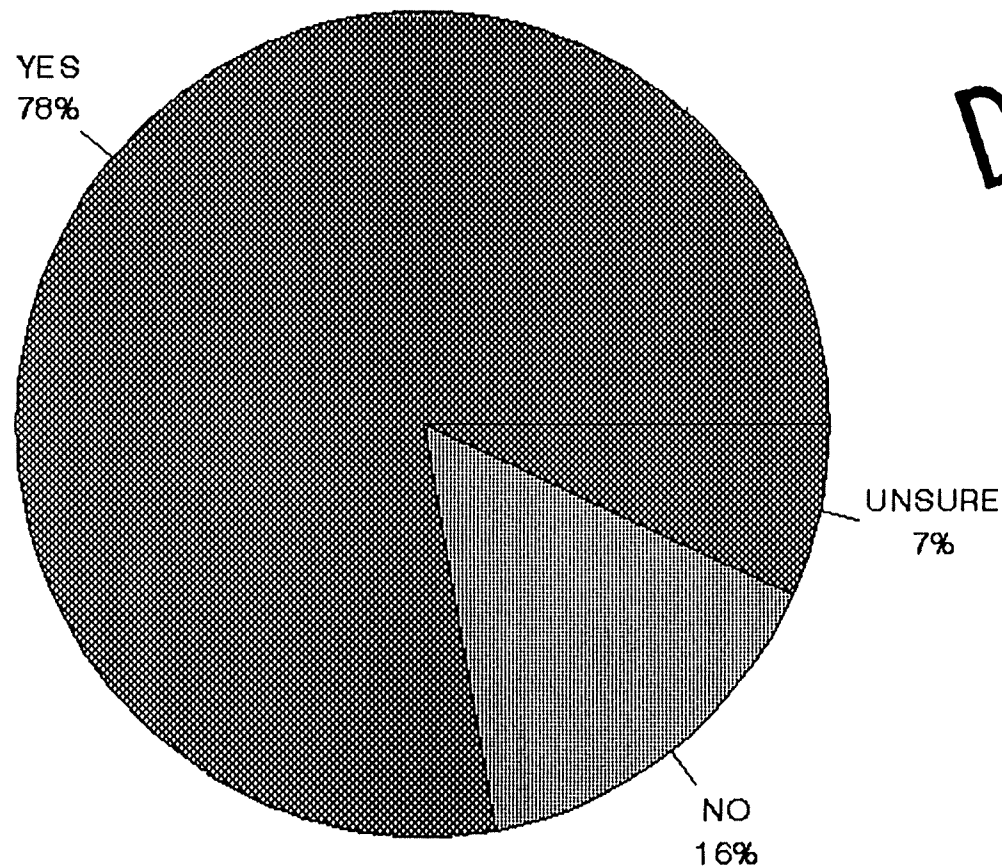
ADMINISTRATIVE COMMENTS:

This bill does not provide for an inventory or floor tax upon cigarette and tobacco products already on hand as of the effective date of the bill. In the past, when the tax upon these products has been raised, provision has been made for the taxing of such inventories to bring the tax up to the new amount.

APPROVED BY:


Nancy Parrish
Secretary of Revenue

TOBACCO USE OPINIONS SURVEY-SEDGWICK COUNTY⁺



1-2-1

INCREASE THE TAX ON TOBACCO PRODUCTS

IF THERE WERE AN ELECTION TODAY, WOULD YOU VOTE YES OR NO ON A BALLOT THAT WOULD INCREASE THE TAX ON TOBACCO PRODUCTS TO HELP PAY FOR HEALTH SERVICES. GENERAL POPULATION: 703 RESPONDENTS

Table of Rates

¶ 55-100

The following are rates of state cigarette taxes per pack of 20 cigarettes exclusive of any local taxes. For details, see the following state summaries.

State	Rate	State	Rate
Alabama	16.5 ¢	Montana	18 ¢ ¹³
Alaska	29 ¢	Nebraska	34 ¢
Arizona	18 ¢	Nevada	35 ¢
Arkansas	31.5 ¢	New Hampshire	25 ¢
California	37 ¢	New Jersey	40 ¢
Colorado	20 ¢	New Mexico	21 ¢
Connecticut	47 ¢ ²	New York	56 ¢
Delaware	24 ¢	North Carolina	5 ¢
District of Columbia	65 ¢	North Dakota	44 ¢
Florida	33.9 ¢	Ohio	24 ¢
Georgia	12 ¢	Oklahoma	23 ¢
Hawaii	60 ¢	Oregon	38 ¢ ¹⁶
Idaho	18 ¢	Pennsylvania	31 ¢
Illinois	44 ¢	Rhode Island	44 ¢
Indiana	15.5 ¢	South Carolina	7 ¢
Iowa	36 ¢	South Dakota	23 ¢
Kansas	24 ¢	Tennessee	13 ¢ ¹⁸
Kentucky	3 ¢ ⁴	Texas	41 ¢
Louisiana	20 ¢	Utah	26.5 ¢ ¹⁹
Maine	37 ¢	Vermont	20 ¢
Maryland	36 ¢	Virginia	2.5 ¢
Massachusetts	51 ¢ ⁸	Washington	54 ¢ ²¹
Michigan	25 ¢	West Virginia	17 ¢
Minnesota	48 ¢	Wisconsin	38 ¢ ²³
Mississippi	18 ¢ ¹⁰	Wyoming	12 ¢
Missouri	17 ¢ ¹¹		

[The next page is 5521.]

² Connecticut: Rate increases to 50¢ per pack on July 1, 1994.

⁴ Kentucky: Plus a \$.001 enforcement tax on each package of cigarettes.

⁸ Massachusetts: The tax rate is increased by any amount by which the federal excise tax on cigarettes is less than 8 mills.

¹⁰ Mississippi: If the federal cigarette tax is reduced, the state rate will be increased by the amount of the federal tax reduction.

¹¹ Missouri: The rate will drop to 13¢ per pack when the Legislature appropriates a specified amount to the health initiative fund.

¹³ Montana: Tax increased to 19.26¢ per pack through August 14, 1993.

¹⁶ Oregon: Rate reduced to 28¢ per pack on July 1, 1995.

¹⁸ Tennessee: An additional 0.05¢ per pack fee is imposed on dealers or distributors.

¹⁹ Utah: The tax rate will be increased by the same amount as any amount of reduction in the federal excise tax on cigarettes.

²¹ Washington: Rate increased to 56.5¢ per pack on July 1, 1994, to 71¢ per pack on July 1, 1995 (taking into account the expiration of an additional tax), and to 72¢ per pack on July 1, 1996, and thereafter.

²³ Wisconsin: An additional tax of 16¢ per pack of 20 cigarettes is imposed minus the federal cigarette tax.

Mr. Chairman, I rise in support of HB 2224 because the plain fact is that the State of Kansas spends millions of tax dollars each year to pay the health care expenses of tobacco users who are without resources. Nationally, about 8% of all health care costs are attributed to tobacco use. The SRS medical services budget for the state this year is nearly \$750 million. This budget **increases** by over \$50 million each year. Applying the 8% to the total taxpayer supported medical services means that the state is spending \$50-60 million to fund this particular voluntary high risk behavior. To me, this is an outrage. Why should I, or any taxpayer, be forced to pay hard-earned income because some people choose to conduct themselves in an inherently high risk manner? For my own part, the answer to this question is that taxpayers shouldn't.

How does this bill help my concern? As I read it, the measure will do one of two things: (1. Raise additional revenue from the voluntary high-riskers which can be used to keep other taxes down as we continue to fund tobacco related medical services, or (2. Reduce demand for tobacco products which will ultimately reduce the demand on the state general fund for those same medical services. In my mind, it's that simple.

Now, before you chastise me for being just another "tax or don't spend" Republican, let me tell you that in keeping with my personal repugnance to taxpayer funding of high risk behavior, I have asked the SRS sub-committee of House Appropriations to seek a federal waiver (we can't just do it on our own) to test whether states are **obliged and mandated** to fund the medical results of voluntary, high risk behavior. Do the voluntary high-riskers have the power to dictate state funding priorities through an automatic and irrevocable right to draw on the state treasury? I think not. Almost certainly, the federal government will not agree. Until they do, the drain on state funds continues.

HB 2224 will either help stop this drain on tax dollars by reducing demand for tobacco products, ultimately reducing state funded medical services or it will raise badly needed revenue from the voluntary high riskers themselves which can be used to fund the huge annual increase in tobacco related taxpayer supported medical services.

Thank you Mr. Chairman, I will stand for questions.

TESTIMONY IN SUPPORT OF HB 2224
House Taxation Committee
2-17-94

Brian Gilpin
Tobacco Free Kansas Coalition
American Heart Association
913-272-7056

HEALTH TAX: FIRST STEP TOWARDS HEALTH CARE REFORM

This health tax provides a unique opportunity for government to save lives and simultaneously raise substantial revenues to ease the burden of health care costs. This health tax would partially compensate for the tremendous cost smoking imposes on the economy. These costs are estimated at more than \$65 billion per year for our country and \$594 million in Kansas alone. Each pack of cigarettes sold in Kansas cost the Kansas economy \$2.68.

Inflation has eroded the excise tax that we currently have in regards to the total percentage of wholesale price. The ten cent hike in the excise tax will not really effect consumption except for maybe among children who try to purchase tobacco products. The tobacco industry has dropped the price on their premium cigarettes over thirty cents over the course of the past year. So with the great range of pricing ability by the tobacco industry an extra ten cents to the cigarette excise tax will really be quite negligible in regards to total consumption.

The tobacco companies spend nearly \$4 billion each year on youth-oriented advertising designed to promote smoking as sophisticated and sexy. We need to make an effort to try to counter this marketing of tobacco products to children and with the revenue from the ten cent excise tax there would be some new funds available to educate our children on the health hazards of smoking.

Kansans believe that if people want to smoke then that is their right and they should be allowed to do so. However, Kansans are sick and tired of having to pick up the tab for smokers who now have cancer, emphysema, and heart disease and can't pay their way. There is a new liberal notion that is telling people that they are no longer responsible for their actions. Well we need to hold people accountable. If people want to make the free choice to smoke, then they must also pay the freight for their health care costs that they will incur down the road.

A note on regressivity:

While all excise and sales taxes are, by definition, regressive, the disease and disability brought on by tobacco use are far more regressive to its victims and to our state and national economy.

2/17/94
House Taxation Cmte
Attachment 3



Tobacco Free Kansas

900 SW Jackson, Room 901 North, Topeka, KS 66612-1290 913/296-1207 FAX 913/296-8059

Coalition Members

American Cancer Society, Kansas Division
American Heart Association Kansas Affiliate, Inc.
American Lung Association of Kansas
Cancer Information Service
Dickinson County Council on Alcohol and Drugs, Inc.
Extension Human Development and Family Studies, Kansas State University
Governor's Office of Drug Abuse Programs
Group to Alleviate Smoking Pollution
Kansas Academy of Family Physicians
Kansas Association of Local Health Departments
Kansas Dental Association
Kansas Department of Administration
Kansas Department of Health and Environment
Kansas Department of Human Resources
Kansas Employer Coalition on Health
Kansas Health Foundation
Kansas Respiratory Care Society
Kansas State Board of Education
Kansas State Nurses Association
Kansans for Non-smokers Rights
National Council on Alcoholism
New Mondays Seminars
Preventative Cardiology, PA
Project Freedom
Smoky Hill Family Practice Residency Program
Stormont-Vail Regional Medical Center
Topeka-Shawnee County Health Department
University of Kansas Medical Center
Wichita-Sedgwick County Department of Community Health

EXCISE TAXES on TOBACCO PRODUCTS Position Paper

Background

In addition to its devastating health effects, smoking has a significant impact on the Kansas economy. A 1991 analysis by KDHE (SAMMEC) estimates that cigarette smoking costs the Kansas economy \$594 million dollars in health care and lost productivity costs. Taxpayers must share the burden of these excess costs. Employers and non-smokers bear the cost of increased health care expenditures through higher insurance premiums and lost productivity at work. The report concluded that in 1991, each pack of cigarettes sold cost the Kansas economy \$2.68.

Current Status

In Kansas, the state tax on cigarettes is 24 cents per pack of 20 cigarettes, as it has been since 1985 when an increase of 8 cents per pack was enacted. Taxes on tobacco products are based on their wholesale price.

Proposed Legislation

The proposed legislation would increase the tax on cigarettes to 34 cents per pack. The additional 10 cents per pack would be used to establish the state preventive health advisory fund to be used for tobacco-use control education, prevention and intervention, and for direct services.

Position

Tobacco Free Kansas, Inc. supports an increase in the state tax on tobacco products. There is evidence to show that an increase in the price of a pack of cigarettes will generate a 6% decrease among youth. TFK also supports the use of funds to support education, prevention, cessation, as well as direct services.

Justification

- Cigarette smoking is the number one preventable cause of premature death and disability in this nation, as well as Kansas.
- Increasing the cost of a pack of cigarettes by ten percent is predicted to reduce the number of new, teenage smokers by 14%, 6% all ages included.
- Reducing cigarette consumption in Kansas will lead to a healthier society, with Kansans living longer, being sick less often, being more productive workers and depending less on government support for health care.
- A recent KDHE opinion poll showed 78% of Sedgwick Co. residents support increasing the taxes on tobacco products in Kansas if proceeds went to health needs.
- Implementing a 10 cent per pack increase is estimated to create more than \$18 million in new revenue for fiscal year 1995.

3-2

Press Clipping Division
Press Service, Inc.
of Kansas Press Association
Topeka, Kansas 66601

KANSAS
Salina Journal

MAR 18 1992

KEI WALLACE, Associate Editor

125 LARRY MATHEWS, Senior Editor

30A-7 284

The editor's opinion

Hike the tax

Smokers should pay more for ills they cause

Kansas smokers ought to jump at the chance to pay a dime more for their cigarettes. That dime excise tax, if enacted by the Legislature, would finance stop-smoking programs that might encourage them to quit.

At worst, the tax would help finance the health care that smokers need to battle smoking-related diseases.

But the dime-a-pack tax, tiny though it is in comparison to the ills of smoking, is hardly a shoo-in. Legislators get weak knees when they find themselves in the path of powerful lobbying groups, and the tobacco industry is strongly opposed to higher cigarette taxes.

That's odd, because the profit-hungry tobacco industry has been pushing up the price of cigarettes at a rate that overshadows even the inflation in health care. In the decade of the 1980s, cigarette prices climbed more than 150 percent.

Higher cigarette profits are OK, the tobacco industry says, but higher cigarette taxes are not.

Legislators ought to stand up to the

industry, and to smokers, and insist that they pay a greater share of the cost that smoking imposes on society.

The proposed 10-cent excise tax would raise about \$25 million annually in Kansas.

Compare that with the \$65 million cost of smoking in Kansas. That figure, from Azzie Young, secretary of the Kansas Department of Health and Environment, includes the cost of health care and lost worker productivity.

It's wrong for smokers to pass that cost on to others.

It would be wonderful if, as the tobacco industry fears, the higher tax would curb consumption of cigarettes. But that's not likely. Even in the face of dire health warnings and sharply increasing prices, cigarette consumption in the U.S. has fallen only slightly in recent years.

Smokers likely would absorb the dime tax in stride. It's a pity. Their health would benefit if they would quit smoking.

But with the 10-cent tax, at least smokers would help offset the health and lost productivity costs their habit imposes on society.

At the very least, they should do that.

3-3



TESTIMONY OF BETTY DICUS, TOPEKA
CHAIRMAN OF THE BOARD
AMERICAN CANCER SOCIETY, KANSAS DIVISION, INC.

HOUSE TAXATION COMMITTEE
FEBRUARY 17, 1994
HOUSE BILL 2224

Mister Chairman and Members of the Committee:

My name is Betty Dicus and I currently serve as Chairman of the Board of Directors for the American Cancer Society, Kansas Division, Inc. We thank you for the opportunity to appear before you in support of House Bill 2224.

The use of tobacco is the single largest cause of preventable death in this country. It is the only legal product which kills its users when used in exactly the way its manufacturers intend it to be used. More than one of three long-term users will die from it and many more will be disabled. It has no safe level of consumption. It is highly addictive and virtually all new users are children.

Attached to my testimony are three pages that show graphic information that is pertinent to this bill. The first graph shows that smoking kills more Americans every year than alcohol, car accidents, AIDS, suicides, homicides, fires, and drugs combined. The second graph shows that average cigarette taxes as a percentage of the retail price of cigarettes has declined by nearly 20% over the past 25 years. The third graph shows that the United States ranks last among other developed nations in taxing cigarettes.

The rationale for increasing tobacco taxes is very simple—it will save lives, it will raise government revenue, and it will reduce long-term health care costs. It is estimated that for every ten percent increase in tax, there will be a four percent decrease in tobacco consumption.

2/17/94
House Taxation Comte
Attachment 4

Increasing taxes of any kind is seldom a popular action to take. However, poll after poll at the national level has found more than 70 percent of the public support higher cigarette taxes. The strong support for higher tobacco taxes has stood firm in the face of aggressive media campaigns by the tobacco industry. Eleven states approved increased cigarette taxes in 1993, despite media efforts by the tobacco industry, which outspent health groups by more than 13 to 1.

Of particular concern in this issue is the rate at which young people are beginning to smoke. Approximately 3,000 teenagers begin each day. Despite public health programs aimed at reducing teenage smoking and despite the fact that it is illegal to sell cigarettes to children, the smoking initiation rate remains high and the age at which they begin smoking continues to fall. This is no accident, as cigarette companies spend nearly \$4 billion annually overall on youth-oriented advertising and gimmicks designed to promote and reinforce the image of smoking as youthful and sophisticated.

Teenagers are at least as responsive as adults, and perhaps even more so, to changes in prices on cigarettes. This is significant in that an increased tax will provide the desired effect from a public health perspective -- it will discourage young people from starting and encourage current smokers to quit.

Kansas currently ranks 29th in the country with its cigarette tax of 24 cents per pack. We do not even meet the national average state tax, which is 28 cents per pack.

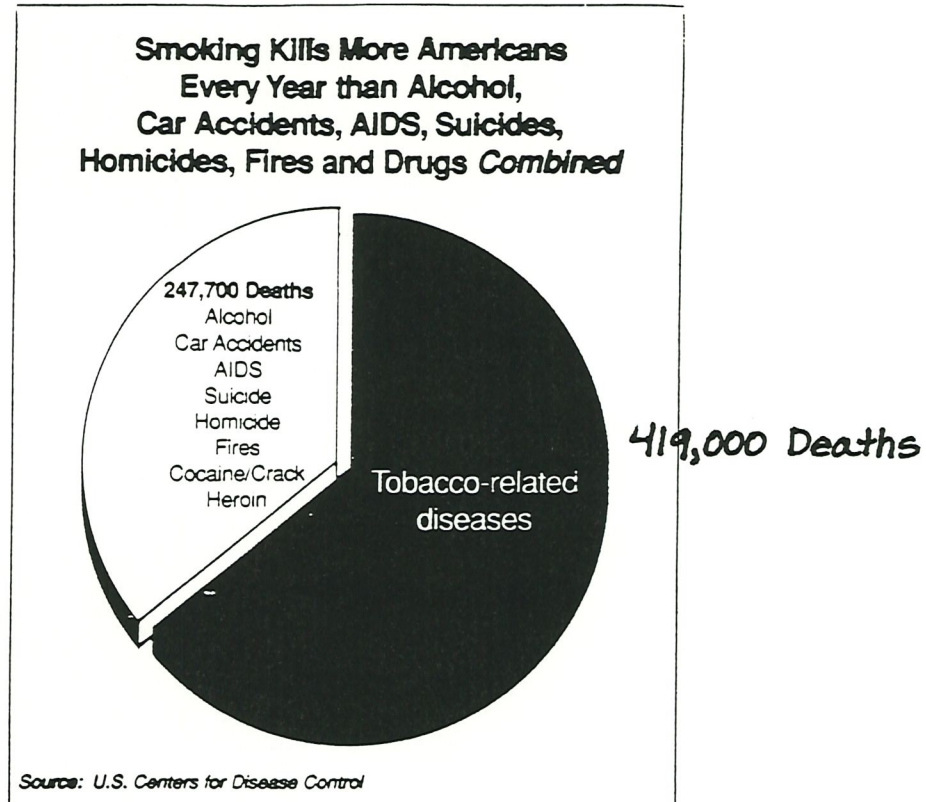
Now is the time to approve a health tax on tobacco products for multiple reasons -- (1) The health of Kansas citizens, particularly children, is at stake; (2) The potential for additional state revenue exists; and (3) A tobacco tax is one of the few taxes that is supported by the public.

We request your favorable consideration of House Bill 2224. Thank you.

CIGARETTES: AMERICA'S LEADING PREVENTABLE CAUSE OF DEATH

Nearly thirty years after the 1964 Surgeon General's Report sounded the health alarm on smoking, one-fourth of the nation's adult population remains addicted to cigarettes, and smoking remains the leading preventable cause of premature death and crippling disease in the United States. In all, smoking now kills an estimated 435,000 Americans each year -- more than alcohol, heroin, crack, automobile and airplane accidents, homicides, suicides and AIDS combined.

Figure 1



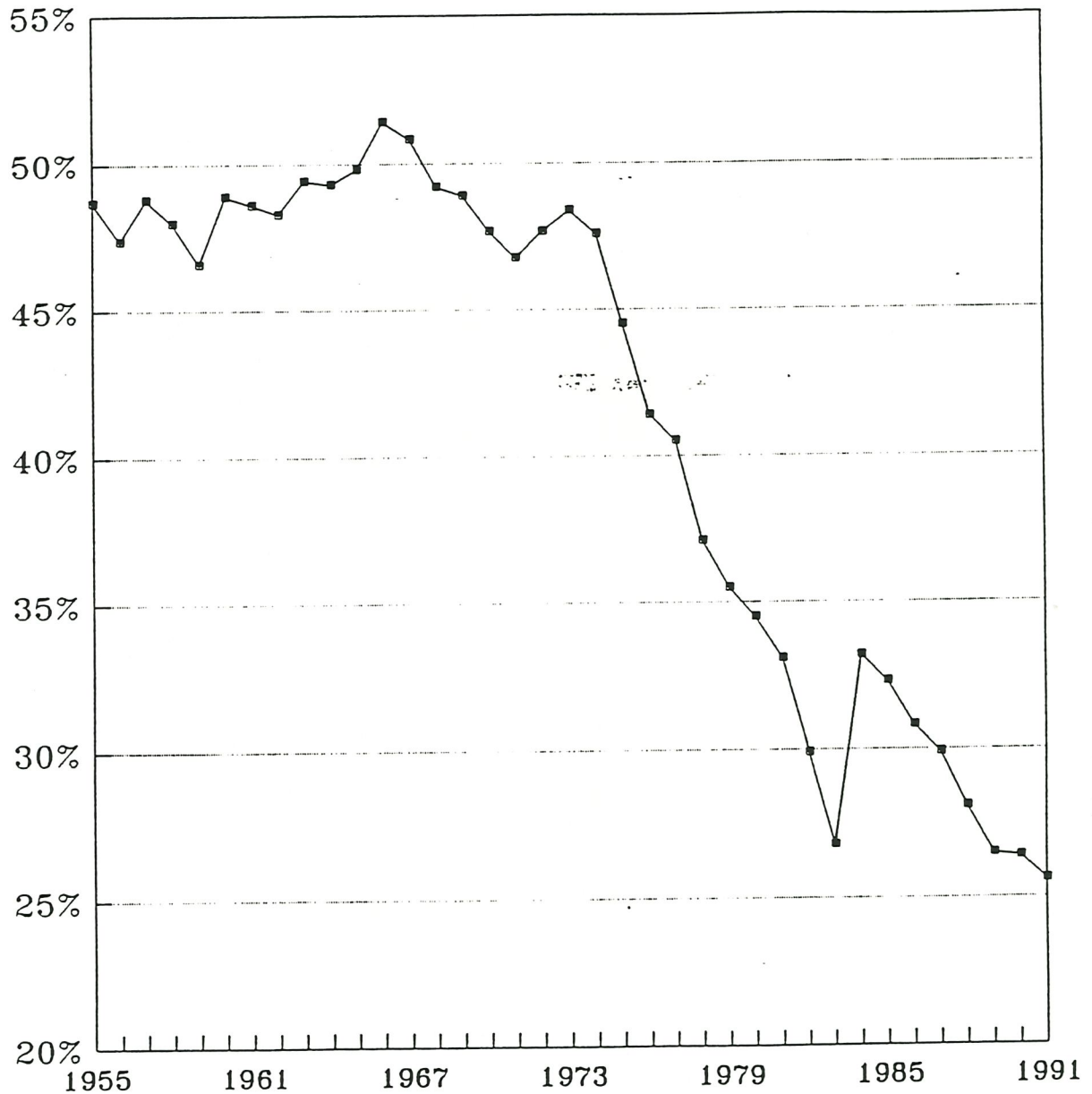
The cigarette is the only legal product that:

- * kills more than one out of three long-term users and disables many more, when used as intended
- * has been determined to be a major cause of heart disease, lung cancer, mouth and throat cancer, emphysema, chronic bronchitis, chronic obstructive pulmonary disease, low birthweight babies, strokes and a variety of other diseases¹
- * is as addictive as cocaine or heroin

¹ U.S. Department of Health and Human Services. Reducing the Health Consequences of Smoking: 25 Years of Progress. A Report of the Surgeon General. DHHHS Publication No. (CDC) 89-8411, 1989.

Figure 4

TOBACCO TAXATION IN THE UNITED STATES
AVERAGE CIGARETTE TAX AS A PERCENTAGE
OF RETAIL PRICE

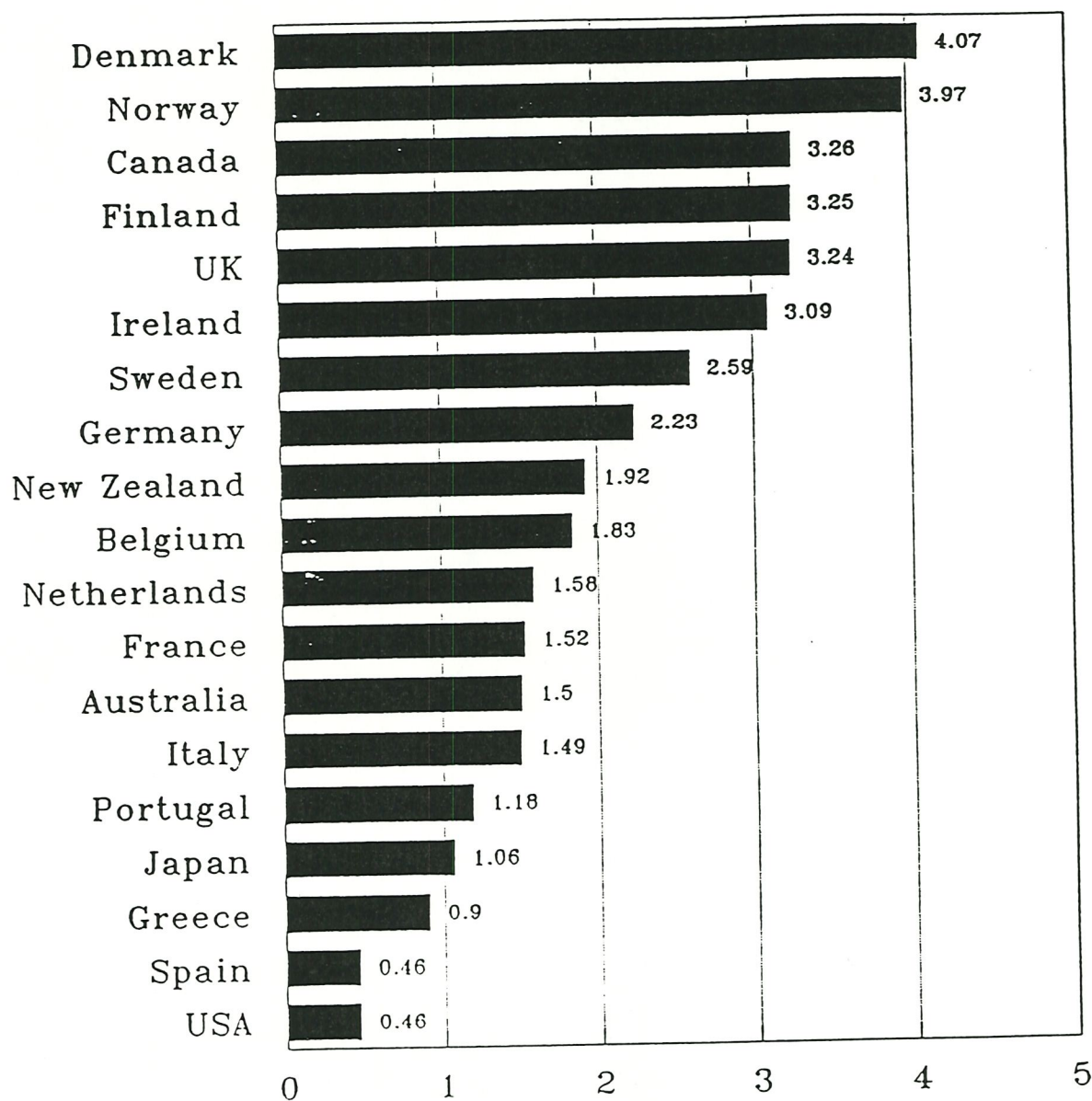


Source: The Tax Burden on Tobacco,
The Tobacco Institute,
Volume 26, 1991, p. 230

Figure 7

Cigarette Taxes in Developed Nations

Data from 1991 & 1992



Notes:

U.S. Dollars Per Pack

1. Foreign taxes expressed in U.S. dollars are approximate due to currency fluctuations.
2. Data provided by the Non-Smokers' Rights Association of Canada; analysis by Public Citizens' Health Research Group; chart produced by the Coalition on Smoking OR Health.



KANSAS MEDICAL SOCIETY

623 SW 10th Ave. • Topeka, Kansas 66612 • (913) 235-2383
WATS 800-332-0156 FAX 913-235-5114

February 18, 1993
and February 17, 1994

TO: House Taxation Committee
FROM: Chip Wheelen
KMS Director of Public Affairs
SUBJECT: House Bill 2224 as Introduced

The Kansas Medical Society generally supports legislation which imposes higher taxes on cigarettes and other tobacco products for a simple reason; the higher cost of such products discourages consumption. Our position is based upon the many studies that have conclusively determined that consumption of tobacco products causes morbidity. Perhaps the relationship between consumption of tobacco products and the ensuing development of cancer and cardiovascular disease is the most compelling reason as to why consumers of such products should pay significant taxes that are dedicated to expenditures for health care services.

We do, however, wish to suggest that perhaps the revenue derived from the new tax in HB 2224 could be invested in the existing state Medical Assistance Program rather than the expenditure categories outlined in the bill. If the new 10¢ per pack tax were credited to a special revenue fund dedicated to the Medical Assistance Program, we could leverage federal financial participation that would generate almost \$1.50 for each dollar of state money spent on Medicaid.

We respectfully request that you consider our suggested amendment prior to favorable action on HB 2224. Thank you for your consideration.

CW:cb

2/17/94
House Taxation Cmte
Attachment 5



KANSAS MEDICAL SOCIETY

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WATS 800-332-0156 FAX 913-235-5114

Position Statement on the Medical Assistance Program January, 1993

Background Information

Like other states, Kansas has annually increased its expenditures in support of the Medical Assistance Program (Medicaid). Oftentimes, when representatives of the Department of Social and Rehabilitation Services appear before legislative committees or interview with news reporters they explain the budget growth in terms of "medical inflation" or "provider cost increases." Because of this, it is frequently inferred by legislators and the public that physicians, hospitals, and other providers of medical care are charging ever increasing fees for their services. Such explanations are extremely misleading and are terribly unfair to health care providers who participate in Medicaid.

The actual reason for growth in Medicaid expenditures can be summarized by saying that the State is providing substantially more health care to needy Kansans. In 1992 a Senior Fiscal Analyst of the Kansas Legislative Research Department reported to a special legislative committee that, "The approved medical assistance budget for FY 1993 totals \$623.2 million, an increase of \$77.6 million from the approved FY 1992 budget of \$545.6 million. This represents a 14.2 percent increase in expenditures from FY 1992. The approved medical assistance budget includes no funding for provider rate increases or inflationary adjustments." Yet SRS officials continue to rationalize their budget by alluding to "staggeringly high medical inflation" and "cost of provider services."

The truth is that physician services rendered to Medicaid patients are reimbursed to the physician at rates that are substantially below the rate paid by health insurance companies for the same service. Most of the physician payment rates are based on the 50th percentile of a 1976 survey of customary fees and have never been increased.

Physicians who render services to Medicaid patients recognize that they must forego income that could otherwise be earned, but they participate in the program because of a sense of responsibility. In many instances the physician knows that the overhead expense involved in providing the care exceeds the reimbursement and that his or her medical practice will experience a net loss beyond foregone income. In other words, they subsidize the program.

Trends

A few years ago the eligibility criteria for a woman who was pregnant or was the mother of infant children was 60% of the federally defined poverty level. Then our Legislature made a very conscious decision to budget funding for a substantial increase in the Medicaid eligible population of pregnant women and infant children. Not long thereafter, the Congress mandated that all states do what Kansas had already chosen to do. Recognizing that eligibility does not necessarily address access to medical services, Congress also mandated that Medicaid payments for prenatal, obstetric, and targeted pediatric care be improved.

The Legislative Research Department report mentioned in the background information said this about the FY 1993 Medical Assistance Program budget. "The increase of \$45.7 million in caseload growth represents both an increase in total clients and an increase in the average cost per client. Increases in the average cost per client indicate changes in the types or amount of services utilized by existing clients. The major client groups contributing to the caseload increase in order of significance include: the special pregnant women and children population (42.9 percent projected increase in persons served); the AFDC population (6.9 percent projected increase in persons served); and the SSI disabled and blind population (11.4 percent projected increase in persons served, 4.2 percent increase in cost per person)."

These changes in the Medicaid Program could also be listed under the heading of "success stories" because the result is more medical care delivered to a larger population. We are now spending substantially more than in the past to serve needy Kansans who otherwise might have been neglected.

Financing

During the 1991 interim between sessions the SRS Task Force concluded that consideration should be given to the establishment of a tax on Medicaid providers which would generate revenue needed to ostensibly fund, among other things, improved reimbursement rates. The letter from the finance subcommittee chair to provider organizations described a scenario which would have assured participating providers a net increase in Medicaid payments even after accounting for the cost of a provider tax.

The lucrative hypothetical scenario changed very dramatically in late November 1991 when Congress passed HR 3595, the "Medicaid Voluntary Contribution and Provider-Specific Tax Amendments of 1991." The provisions of the new federal law were obviously intended to prevent states that had not already done so from

implementing a leveraging method. When 1992 SB 797 was introduced with language that conformed to the new federal restrictions, it elicited for a variety of reasons an extremely negative reaction among physicians and some of the others who would have been the subjects of taxation.

Physicians participating in the Medical Assistance Program are already paying an indirect tax which is the difference between customary fees or charges versus Medicaid payment rates. Any additional tax or "assessment" imposed on physicians would be perceived as discriminatory and punitive. The result could potentially be counterproductive if the tax would alienate physicians and exacerbate access problems for patients.

In contrast, the concept of a tax that resembles a user fee is usually more acceptable to the public because it is inherently more fair. It would, however, be absurd to consider imposing a tax on consumers of health care services under the Medical Assistance Program. On the other hand, there are certain lifestyle decisions that have a major bearing on health status and directly contribute to frequency and severity of illnesses and diseases.

It has been determined time and time again that consumption of tobacco products contributes to or causes morbidity, particularly pulmonary and cardiac diseases. Perhaps the link between consumption of tobacco products and development of cancer and cardiovascular disease is the most compelling argument as to why consumers of tobacco products should pay taxes that are dedicated to funding health care services. In addition, it has been shown that one of the best ways of discouraging consumption of tobacco products is to increase the price of such products by imposing excise taxes. While public education as to the risks of smoking or chewing tobacco is important, cost appears to have a greater bearing on consumption. Unlike other sources of revenue, declining tobacco tax collections signal a positive trend because it means consumption is being curtailed.

Abuse of alcohol products also contributes significantly to frequency and severity of health care episodes. While consumption of liquor and cereal malt beverages can affect one's health status, the effect is more often in the form of injury. Any law enforcement officer or emergency care physician can attest to the frequency of injuries resulting from shootings and other violent acts that involved abuse of alcohol products. The relationship between abuse of alcohol and incidence of motor vehicle accidents is well documented. Furthermore, some of these crimes and accidents result in permanent disabilities which require many years of costly, long-term nursing facility care. In the recent past, epidemiologists and other researchers have discovered a correlation between abuse of alcohol products (or other psychoactive

substances) and uninhibited sexual activity that corresponds with a virtual epidemic of sexually transmitted diseases, including human immunodeficiency virus. When all these consequences are considered, it becomes abundantly clear that abuse of alcohol products is a major contributor to utilization of health care services and, of course, associated costs.

Because consumption of tobacco and abuse of alcohol products contribute significantly to frequency and severity of illnesses and injuries, taxes paid by consumers of such products should be dedicated to state expenditures for diagnosis and treatment of illnesses and injuries. Therefore, tax revenues derived from the sale of tobacco and alcohol products should be credited to a special fund created for the purpose of financing a portion of the costs of the Medical Assistance Program. This would closely resemble a user fee and would make it far more politically feasible to raise taxes when needed to fund improvements in the Medical Assistance Program. If higher taxes on tobacco and alcohol products result in reduced consumption, a valuable, secondary benefit would be derived.

**TOPEKA, KANSAS
17 FEBRUARY 1994**

MY NAME IS DWIGHT LEE.

**I'M A PROFESSOR OF ECONOMICS AT THE UNIVERSITY OF
GEORGIA.**

**I'VE TAUGHT AND PUBLISHED IN THE FIELD OF PUBLIC
FINANCE FOR ALMOST 20 YEARS.**

**I AM HERE AT THE REQUEST OF THE TOBACCO INSTITUTE TO
COMMENT ON THE THE PROPOSED 10-CENT PER PACK
INCREASE IN THE KANSAS CIGARETTE TAX,
WHICH WOULD INCREASE THE TAX TO 34 CENTS PER PACK.
I WANT TO MAKE MY COMMENTS FROM THE PERSPECTIVE OF
ITS EFFECT ON CIGARETTE SALES IN KANSAS AND STATE
REVENUE FROM THOSE SALES.**

**THE FACT IS, THE PROPOSED INCREASE WILL SIGNIFICANTLY
REDUCE CIGARETTE SALES IN KANSAS, WILL DO A GREAT
DEAL OF DAMAGE TO KANSAS RETAILERS AND RAISE LESS
REVENUE THAN ANTICIPATED.**

*2/17/94
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THE PROBLEM IS THAT WHILE THE STATE LEGISLATURE CAN INCREASE THE PRICE OF CIGARETTES IN KANSAS, IT CAN DO LITTLE TO INCREASE THE PRICE KANSAS SMOKERS PAY FOR CIGARETTES.

THE REASON FOR THIS IS THAT THE LEGISLATURE CANNOT CONTROL WHERE SMOKERS BUY THEIR CIGARETTES.

THE MOST IMPORTANT FACTOR IN DETERMINING WHERE KANSAS SMOKERS BUY THEIR CIGARETTES IS THE PRICE OF CIGARETTES IN KANSAS COMPARED TO THE PRICE OF CIGARETTES IN NEARBY STATES.

KANSAS IS ESPECIALLY VULNERABLE TO THE PROBLEM OF CROSS-BORDER CIGARETTE SALES BECAUSE APPROXIMATELY 25% OF THE POPULATION IN KANSAS LIVES WITHIN THE KANSAS CITY AREA.

IF KANSAS INCREASES ITS CIGARETTE EXCISE TAX TO 34 CENTS PER PACK, KANSAS SMOKERS COULD SAVE \$1.70 PER CARTON BY BUYING THEIR CIGARETTES IN MISSOURI.

THIS MEANS THAT A TWO SMOKER FAMILY, EACH SMOKING 1.5 PACKS PER DAY, WOULD SAVE OVER \$186 A YEAR IF THEY BUY THEIR CIGARETTES IN MISSOURI.

KANSAS SMOKERS WOULD SAVE \$1.40 PER CARTON BY BUYING THEIR CIGARETTES IN COLORADO. THIS WOULD SAVE THE TWO SMOKER FAMILY OVER \$150 A YEAR.

A CARTON OF CIGARETTES WOULD BE \$1.10 LESS IN OKLAHOMA THAN IN KANSAS.

THE CROSS BORDER PRICE DIFFERENCES ARE FURTHER AGGREGATED BY THE PRESENCE OF INDIAN RESERVATIONS IN KANSAS.

CIGARETTE SALES ON INDIAN RESERVATIONS ARE USUALLY EXEMPT FROM SALES AND EXCISE TAXES, OR SUBJECT TO ONLY VERY MODEST TAXES.

THE PRESENCE OF INDIAN RESERVATION HAVE HAD AN IMPACT IN OTHER STATES THAT HAVE RAISED THEIR CIGARETTE TAX.

FOR EXAMPLE:

1. BETWEEN 1988 AND 1993 NEW YORK INCREASED ITS STATE CIGARETTE TAX BY 35-CENTS PER PACK.

OVER THAT SAME PERIOD OF TIME CIGARETTE SALES ON INDIAN RESERVATIONS WENT FROM NEGLIGIBLE TO OVER 7% OF TAX REPORTED SALES IN NEW YORK.

2. BETWEEN 1987 AND 1993 NEVADA INCREASED ITS CIGARETTE TAX FROM 15 TO 35 CENTS A PACK, AND SALES ON NEVADA INDIAN RESERVATIONS WENT FROM 11% TO 23% OF TAX REPORTED SALES.

MILITARY BASES PROVIDE ANOTHER WAY FOR KANSAS CITIZEN TO OBTAIN UNTAXED CIGARETTES.

6-4

THERE IS PLENTY OF EVIDENCE THAT THE DECISION OF SMOKERS ON WHERE TO BUY THEIR CIGARETTES IS QUITE SENSITIVE TO CROSS-BORDER PRICE DIFFERENCES.

CONSIDER THE TREND IN PER-CAPITA SALES IN KANSAS COMPARED TO MISSOURI AS THE KANSAS CIGARETTE TAX PULLED AHEAD OF THE MISSOURI TAX.

IN 1982 THE KANSAS TAX WAS 11-CENTS PER PACK AND PER-CAPITA SALES WERE 130.9 PACKS.

IN 1982 THE MISSOURI TAX WAS 9-CENTS PER PACK AND PER-CAPITA SALES WERE 139.7 PACKS.

MISSOURI'S PER-CAPITA SALES WERE 6.7% GREATER THAN IN KANSAS.

IN 1992 THE KANSAS TAX WAS 24-CENTS PER PACK AND PER-CAPITA SALES WERE 90 PACKS.

IN 1992 THE MISSOURI TAX WAS ONLY 13 CENTS AND PER-CAPITAL SALES WERE 122.3 PACKS.

36% GREATER THAN IN KANSAS.

IT IS IMPORTANT TO EMPHASIZE THAT THESE PER-CAPITA SALES FIGURES DON'T SUGGEST THAT KANSAS CITIZENS ARE NOW SMOKING A LOT LESS THAN MISSOURI CITIZENS.

THEY REFLECT INSTEAD THAT KANSAS CITIZENS ARE BUYING A LOT OF THEIR CIGARETTES SOMEWHERE OTHER THAN KANSAS.

THE EVIDENCE FROM OTHER STATES THAT HAVE INCREASED THEIR CIGARETTE EXCISE TAX ALSO SHOW SIGNIFICANT DECREASES IN SALES ^{as a result of} ~~FROM~~ CROSS BORDER EFFECTS.

A FEW OF MANY EXAMPLES:

On January 1, 1989 California increased the excise tax on cigarettes by \$.25 per pack and during that year cigarette sales in the state declined by 13.1 percent.

On the first day of fiscal year 1989 Rhode Island increased the excise tax on cigarettes by \$.10 per pack and during that fiscal year cigarette sales in the

state declined by 16 percent.

On the first day of fiscal year 1989 Wyoming increased the excise tax on cigarettes by just \$.04 per pack and during that fiscal year cigarettes sales in the state declined by 12.8 percent.

BASED ON EVIDENCE FROM OTHER STATES, A REASONABLE ESTIMATE, GIVEN THE PROXIMITY OF KANSAS TO LOWER EXCISE TAX STATES, IS THAT THE PROPOSED 10 CENT INCREASE IN THE CIGARETTE EXCISE TAX WOULD REDUCE CIGARETTE SALES IN KANSAS BY 10 PERCENT.

THIS TRANSLATES INTO AN ESTIMATED
\$39.1 MILLION IN LOST RETAIL CIGARETTE SALES
AND

\$27.3 MILLION IN LOST ~~RELATED~~ SALES *of Items bought in conjunction with cigarettes.*
TO KANSAS RETAILERS.

6-7

IT IS ESTIMATED THAT THE AVERAGE CONVENIENCE STORE IN
KANSAS WILL LOSE ABOUT \$4,000 DOLLARS ^{in gross profits / year} ~~FROM LOST~~
~~CIGARETTE SALES.~~

THESE LOSSES WOULD BE CONCENTRATED ON THOSE
RETAILERS LOCATED ALONG THE BORDER WITH OTHER STATES.

IT SHOULD BE EMPHASIZED THAT MY ESTIMATES HERE ASSUME
THAT THERE WILL BE NO INCREASE IN THE FEDERAL EXCISE TAX
ON CIGARETTES.

IF THE FEDERAL CIGARETTE EXCISE TAX IS INCREASED BY 75
CENTS PER PACK, THERE WILL BE AN EVEN LARGER DECREASE
IN KANSAS CIGARETTE SALES, AND EXCISE TAX REVENUES.

THE U.S. DEPARTMENT OF THE TREASURY RECENTLY REQUESTED THE FEDERATION OF TAX ADMINISTRATORS (FTA), AN ORGANIZATION OF STATE TAX COMMISSIONERS, TO EXAMINE THE IMPACT OF, AMONG OTHER THINGS, THE PROPOSED 75 CENT PER PACK INCREASE IN THE FEDERAL CIGARETTE EXCISE TAX ON STATE REVENUE AS A RESULT OF THE ADDITIONAL LOST CIGARETTE SALES IF THE 75 CENTS PER PACK INCREASE IS IMPLEMENTED, THE FEDERATION OF TAX ADMINISTRATORS ^TESTIMATED THAT KANSAS WOULD LOSE OVER \$7.5 MILLION IN STATE CIGARETTE EXCISE TAXES.

AS A MEANS OF RAISING ADDITIONAL REVENUE, THE CIGARETTE EXCISE TAX IS NEAR EXHAUSTION, CERTAINLY A STRONG CASE CAN BE MADE THAT IT IS NOT GOOD TAX POLICY TO EARMARK SUPPORT FOR ~~THE~~ ^S IMPORTANT STATE FUNCTION WITH REVENUES OBTAINED FROM A DECLINING TAX BASE.

AND IT SHOULD ALWAYS BE KEPT IN MIND THAT THE CIGARETTE
EXCISE TAX IS ONE OF THE MOST REGRESSIVE OF ALL TAXES.

IN FACT ACCORDING TO ONE RECENT STUDY, THE ONLY STATE
TAX FOUND THAT WAS MORE REGRESSIVE THAN THE
CIGARETTED EXCISE TAX WAS A TAX ON THE USE OF COIN
OPERATED WASHING MACHINES.

I APPRECIATE THE OPPORTUNITY TO SPEAK TO YOU THIS
AFTERNOON.

IF YOU HAVE ANY QUESTIONS, I'LL BE HAPPY TO TRY TO
ANSWER THEM.

6-10



EXECUTIVE DIRECTOR
JIM SHEEHAN
Shawnee Mission

HOUSE TAXATION COMMITTEE OPPOSING HB 2224 2-17-94

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Carbondale

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Overbrook

BILL REUST
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LEROY WARREN
Colby

BILL WEST
Abilene

DIRECTOR OF
GOVERNMENTAL AFFAIRS

FRANCES KASTNER

I am Frances Kastner, Director of Governmental Affairs for the Kansas Food Dealers Association, and I appreciate the opportunity to express some of our views to you today.

We have always been against EARMARKING TAXES for any reason. If a function of state government is necessary and desired by the majority of Kansans, and the legislative process works as it should, then those necessary and desired programs or functions of government should be supported with board-based taxes.

If indeed you want to put more money into education and public information on the hazards of tobacco products, then do so, by using the existing agencies, rather than adding another layer of bureaucracy.

Section 12, starting on line 39, page 3, creates a "tobacco-related disease health protection fund". On page 4, we find five uses for that money. I am particularly concerned about items (d) and (e) -- payments to hospitals, clinics and physicians for service to patients unable to pay for such services. Who will be entitled to those funds? Is it on a "first come--first served" basis. What kind of substantiation will be required to certify the illness is tobacco-related?

Section 13, creates a "health advisory committee" which will ANNUALLY advise the legislature on how to divide the funds. There are specific guidelines in lines 18-21 directing one-third be spent for prevention and intervention; one-third for health education and public information; and the remaining one-third for direct services. Is the Legislature not capable of making that determination with the guidelines offered?

We see earmarking taxes on specific items in this manner as setting a dangerous precedent. What is the next product that will have a tax assessed against it for treating an actual or perceived illness?

We respectfully request that this committee does NOT recommend HB 2224 for passage.

2/17/94
House Taxation Comte
Attachment 7

HEIN, EBERT AND WEIR, CHT.
ATTORNEYS AT LAW
5845 S.W. 29th Street, Topeka, KS 66614-2462
Telefax: (913) 273-9243
(913) 273-1441

Ronald R. Hein
William F. Ebert
Stephen P. Weir

HOUSE TAXATION
TESTIMONY RE: HB 2224
PRESENTED BY RONALD R. HEIN ON BEHALF OF
R. J. REYNOLDS TOBACCO COMPANY
February 17, 1994

Mr. Chairman, members of the Committee:

My name is Ron Hein, and I am legislative counsel for R. J. Reynolds Tobacco.

On behalf of our customers who will pay this tax increase, we oppose HB 2224. This is not a tax increase on tobacco and this is not a tax increase on tobacco companies. HB 2224 is, pure and simple, a general tax increase on citizens in this state. According to the Tobacco Institute, approximately 29% of the adults will pay this tax increase.

At a time when the voters are begging their legislators not to vote for any more tax increases, this direct tax increase on hundreds of thousands of Kansans is being considered.

You have heard testimony before that a cigarette tax increase is a regressive tax that hits the poor harder than anybody else.

You have also heard before what a cigarette tax increase will do on border sales. It is possible that you will be able to measure the lost cigarette tax collections resulting from an increase in the rate, but it is doubtful that you will be able to measure the lost sales tax revenue or gasoline tax revenue which results from persons purchasing tobacco products and at the same time, gasoline and other grocery articles across the state line. Do not be deceived that simply because you are increasing the rate of the tax that the state will collect more tax revenue.

I understand that the State might have shortfalls in SRS or other areas. Just like the private sector, the state must sometimes tighten its belt. If expense cutting fails, and there is going to be a tax increase to pay for general state programs, then all taxpayers should pay proportionately, not just a few as proposed in HB 2224.

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The concept of this legislation is frightening. What will the next piece of special interest legislation look like? Will we have a tax on meat because some group wants to advertise their message about potential risks of red meat? Will farmers be taxed to advertise dangers of pesticides? Should we have a salt tax to pay for the demonstrated costs of hypertension? How far should this Orwellian type of legislation go to permit the state to social engineer individual conduct?

RJR believes this type of legislation unfairly discriminates against a class of citizens, who oftentimes are treated like second-class citizens. Meanwhile, the non-smokers can choose whatever lifestyle they desire, with no similar government mandated behavior program to follow.

Lastly, since the Federal government is considering significant cigarette tax increases, an increase at the state level will unduly punish this one group of citizens.

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



Department of Health and Environment

Robert C. Harder, Secretary

Testimony presented to

House Taxation Committee

by

The Kansas Department of Health and Environment

House Bill 2224

KDHE takes no position on HB2224 with respect to increasing the excise tax on tobacco products. We do, however, speak in support of the importance of education programs to prevent and reduce the use of tobacco.

Smoking is now the second leading cause of death in Kansas, responsible for nearly 4,000 deaths annually, which is 18% of all deaths in the state. Smoking-related diseases also cost the Kansas economy over \$500 million in direct and indirect morbidity and mortality. Since almost one-half of smoking-attributable years of potential life lost occurs in persons less than 65 years of age, smoking is responsible for an annual loss of more than 20,000 years of productive life before retirement age. Reducing the public health burden of tobacco use is dependent upon two factors: 1) preventing smoking initiation in the young; and 2) promoting smoking cessation in older age groups.

More than 80% of smokers born since 1930 started smoking before 21 years of age. A 1990 national survey of high school students found that 36% reported tobacco use during the previous month. Advertising and availability of tobacco products to minors contribute to this continuing trend.

Similarly, a 1990 survey of Kansas adults conducted by the KDHE, found that 61% of current cigarette smokers reported at least one serious attempt to stop smoking. Although more than 90% of smokers who successfully quit do so on their own, advice from a physician or other health-care professional is an important element in motivating smokers to make an attempt to quit.

The provisions in House Bill 2224 to direct funds to programs for the prevention and reduction in the use of tobacco, for health education and public information regarding tobacco and other health issues, to invest in the state's strategic preventive health plan and to pay for treatment for those can't otherwise afford health care treatment are appropriate strategies for addressing the health problems associated with tobacco use.

The Kansas State Preventive Health Advisory Committee referred to in Section 13 has been established by KDHE in accordance with Section 1905 of the federal law which authorizes the Preventive Health and Health Services Block Grant in order to secure important public involvement in developing and implementing our state's preventive health plan. The purpose of the committee is: 1) to hold public hearings on the State's plan to use Preventive Health and Health Services Block Grant funds; and 2) to make recommendations regarding the development and implementation of the plan, including assessment of the public health of Kansans.

The committee is chaired by the State's Director of Health, Dr. Steven R. Potsic, and consists of members from Kansas Health Foundation, Education, Preventive Medicine, KUMC, Local Public Health and Medically Underserved, Social Services, and other representative organizations (see attached membership list). The committee meets a minimum of twice a year and would be able to access data from many sources to aid in the recommendation process.

Testimony presented by:

Paula Marmet

Director, Office of Chronic Disease and Health Promotion

February 17, 1994

2/17/94

Wittler

PREPARED STATEMENT OF THE
SMOKELESS TOBACCO COUNCIL, INC.
IN OPPOSITION TO HOUSE BILL 2224
February 17, 1994

Mr. Chairman, Members of the Committee:

My name is Bill Sneed and I am Legislative Counsel for the Smokeless Tobacco Council, Inc. The Smokeless Tobacco Council, Inc., an association of smokeless tobacco manufacturers with its headquarters in Washington, D.C., appreciates the opportunity to present testimony in opposition to House Bill 2224. The Council represents the major domestic manufacturers of smokeless tobacco products in Kansas and throughout the nation. I have attached an exhibit to my remarks which lists the members of the Smokeless Tobacco Council.

On February 18, 1993, the House Taxation Committee held a hearing in regard to H.B. 2224. As was the case in 1993, the Council and its various members have concerns regarding the implementation of the programs in H.B. 2224. Further, we submit that the tax proposal under consideration by this Committee, which is included as the funding mechanism for the goals, is neither fair nor an effective way of providing such funding.

FAIRNESS

Initially, it is important to point out the demographics of those consumers who use smokeless tobacco products. They are typically individuals between the ages of 20 and 35 years old, high school graduates, and retain jobs which are commonly referred

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Attachment 10

to as blue collar occupations. Thus, it is imminently clear, as has been demonstrated by other opponents of the bill, that the proposed tax would be severely regressive in nature and affect those individuals with the least amount of financial ability to pay for such a tax. In this era of attempting to provide various types of tax relief to those Kansas citizens with the least amount of financial wherewithal, we contend approval of the proposed bill would go directly to those Kansas citizens for whom the Legislature has been attempting to provide tax relief. In short, a tax on smokeless tobacco is a highly regressive tax because its burdens are concentrated on people with relatively low incomes.

ADDITIONAL TAXATION

I am sure the Committee is aware, but I would be remiss by not reminding the Committee of the substantial federal tax increase my client incurred effective January 1, 1991. By virtue of the new tax law, my client was assessed a 25% tax increase in federal taxes on January 1, 1991, and as of January 1, 1993, my client was assessed an additional new 25% tax increase.

This issue is compounded by the fact that smokeless tobacco products are currently double taxed. There is the current 10% state excise tax, and in addition, a state sales tax at the time of purchase is added to the already taxed product.

CROSS-OVER ISSUE

You will hear testimony today of the problems that occur due to the significant differences in state tax rates between the various states. Although you could argue that a slight tax rate increase in Kansas versus a lower tax rate in another state could

lend only minor bootlegging of products, in our case it is even more dramatic. Currently the state of Missouri has NO tax on smokeless tobacco products. This is even more striking in that even in Jackson County in Missouri there is NO tax on smokeless tobacco products. Thus, we believe that any increase in the tax in Kansas will lead to a major loss in revenue.

Further, the impact extends well beyond the immediate impact on smokeless tobacco sales and tax revenues. Again, as has been testified to by other opponents, people who travel to buy smokeless tobacco will buy other things as well as long as they are making the trip. Thus, the cross-over effect is far reaching as it relates to sales tax revenues.

CONCLUSION

The Smokeless Tobacco Council opposes enactment of H.B. 2224 because it believes such a proposed tax would be an extraordinarily heavy and punitive levy. Further, the burden of the tax would be shouldered predominately by citizens with comparatively low incomes, and despite the regressive and punitive character of the proposed tax, little contribution would be made to the State of Kansas.

We appreciate this opportunity to appear before the Committee today, and we will be happy to answer any questions.

Respectfully submitted,



William W. Sneed
Legislative Counsel
The Smokeless Tobacco Council, Inc.

SMOKELESS TOBACCO COUNCIL, INC.
Member Companies

Brown & Williamson Tobacco Corporation

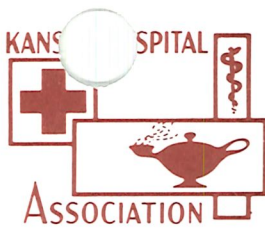
Conwood Company L.P.

Helme Tobacco Company

National Tobacco Company

The Pinkerton Group, Inc.

U.S.T., Inc.



Memorandum

Donald A. Wilson
President

February 17, 1994

TO: House Taxation Committee
FROM: Kansas Hospital Association
RE: **HOUSE BILL 2224**

The Kansas Hospital Association appreciates the opportunity to comment regarding the provisions of HB 2224. We support this proposal.

HB 2224 would place a tax on tobacco products for the purpose of the following: (1) programs for the prevention and reduction in the use of tobacco; (2) programs for health education and public information regarding tobacco and other health issues; (3) development of a state strategic health plan; and (4) indigent care.

Legislators have heard before the substantial costs for the use of tobacco-related products in our society. There is no need to repeat that information here. The issue that needs to be resolved is what to do about dealing with these costs. We think House Bill 2224 is one way to focus on solutions. Thank you for your consideration of our comments.

TLB / pc

*2/17/94
House Taxation Committee
attachment 11*



KANSAS INDEPENDENT OIL & GAS ASSOCIATION

105 S. BROADWAY • SUITE 500 • WICHITA, KANSAS 67202-4262
(316) 263-7297 • FAX (316) 263-3021

800 S.W. JACKSON • SUITE 1400 • TOPEKA, KANSAS 66612-1216
(913) 232-7772 • FAX (913) 232-0917

HOUSE COMMITTEE ON TAXATION

FEBRUARY 17, 1994

RE: HB 2791 - SALES TAX EXEMPTION FOR UTILITY SERVICES USED IN SEVERING CRUDE OIL

*Statement of Donald P. Schnacke
Executive Vice President, KIOGA*

For you who were unable to attend the 1.5 hour presentation Tuesday in the Old Supreme Court Chambers on the current status of the Kansas oil industry, we have put together all of the exhibits in an envelope for you to have. There is no question, the oil industry in Kansas is in deep economic trouble. There is little or nothing you can do about the national energy policy, low oil prices and the importation of cheap crude oil from foreign producers. However, we hope the Kansas legislature will take appropriate action, as in other sister producing states, to address tax and regulatory issues that can prolong Kansas production, protect marginal oil wells, protect associated jobs, support the local county tax base and the state and local income and sales taxes which arise from this industry. HB 2791 is one of those bills which would help.

You will recall that you passed similar legislation twice last year that related to all sales tax applicable to utilities serving manufacturing and production. That bill became a part of the so-called *trifecta* legislation which was vetoed twice by the Governor. HB 2791 is different. It is very limited in scope and applies only to the extraction of crude oil and pumping oil wells.

In 1992 Sen. Subs. for HB 2892 was passed and it struck out the sales tax consumption exemption for electricity, gas and water (Sec. B). That bill established a 2.5% sales tax on the sale of electricity, gas and water for certain purposes. The definitions of the purposed defined as taxable are broad based, but have been interpreted by the Department of Revenue as applicable to electricity and gas used in pumping oil wells (Sec. U). The 1992 definitions specifically indicate that "*the irrigation of crops*" was subject to the 2.5% tax (Sec. U), but the Department ruled that the later catch-all agricultural use exemption excluded "*the irrigation of crops*" despite the fact irrigation of crops was specifically taxed (Sec. W).

We believe it was the intent of the legislature to protect oil and gas activity. Repr. Wagon, the sponsor of HB 2791 and the definitions relating to services in 1992, will confirm that certain services were allowed to remain exempt under the act and those include services related to oil and gas wells (Sec. P).

2/17/94
House Taxation Committee
Attachment 12

HOUSE COMMITTEE ON TAXATION

FEBRUARY 17, 1994

**RE: HB 2791 - SALES TAX EXEMPTION FOR UTILITY SERVICES
USED IN SEVERING CRUDE OIL**

Page 2

The intent of HB 2791 is to put pumping related to oil and gas wells on the same exempt status as irrigation pumping. Both are necessary activities related to producing crops and producing oil. Electricity and gas add to the overhead of these producers as operating costs. These costs are not able to be passed along in the price of the product produced. Both farmers and oil operators depend entirely on a publicly posted price for their products.

We have estimated the impact of this bill to be \$1-2 million. It could even be a lot less today because so many marginal wells are shut-in due to low oil prices. We do believe, however, that by passing HB 2791 you will recognize the fairness of exempting oil well pumping as the same as irrigation well pumping, and you will make a contribution to reducing operating and lifting costs for Kansas oil producers who are faced with the dilemma of low oil prices which is forcing premature abandonment and plugging of a valuable Kansas natural resource.

We urge favorable action by passage of HB 2791.

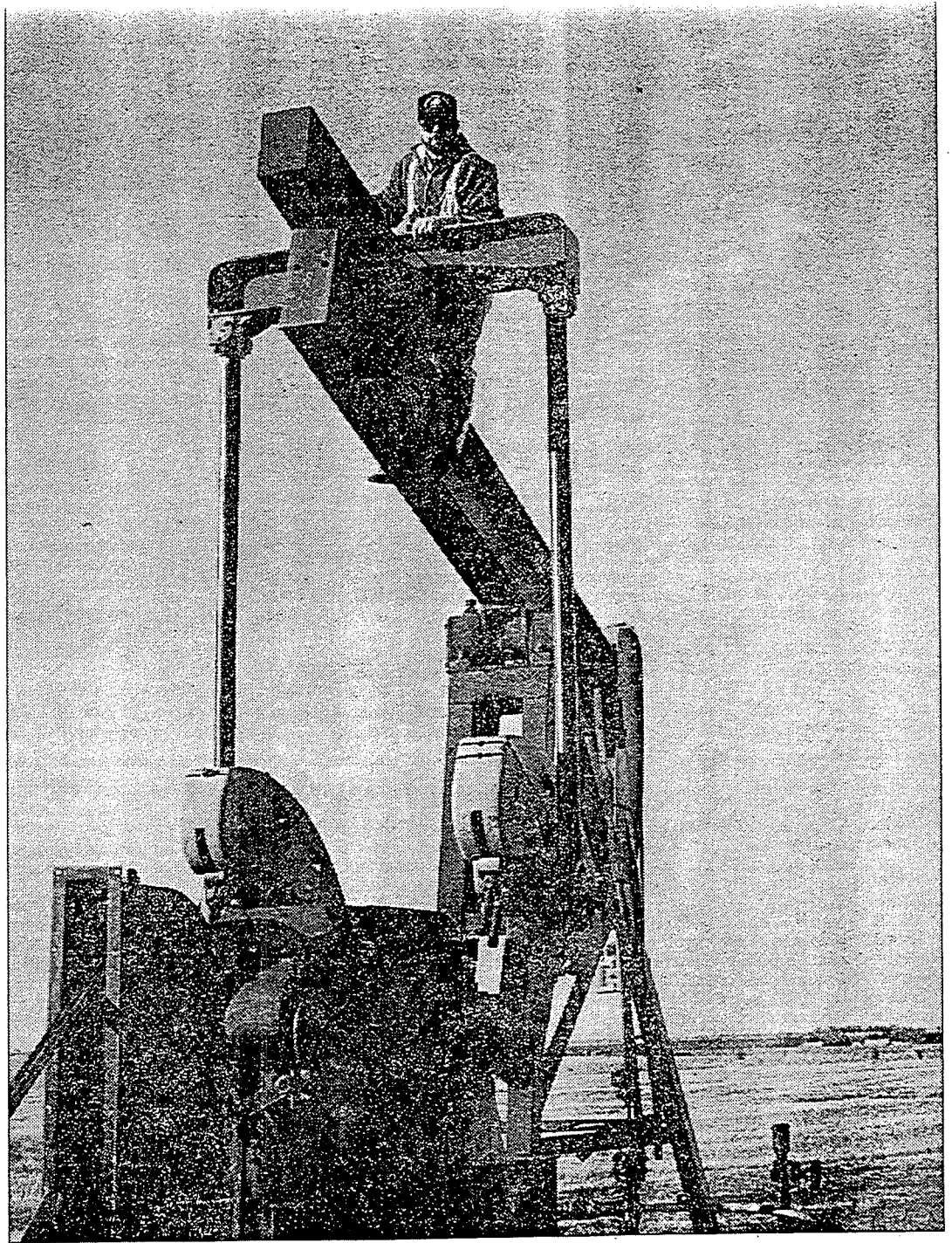
Donald P. Schnacke

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12-2

The people who still earn their living in the Kansas oil patch survived the last downturn. But this one was sudden and unexpected. And no one knows how long it will last. "It's spooky, is all I've got to say."

Curtis Hitchmann



Guy Beaton/The Wichita Eagle

Curtis Hitchmann hasn't been hurt too badly by the downturn; but his brother has, and Hitchmann figures his time's coming: "I guess that in 30 days I could be in as bad a shape as my brother."

A MARGIN SO THIN

(over)

12-3

By Guy Boulton

The Wichita Eagle

GREAT BEND — Driving his pickup along the wheatfields and pastures of Barton County, Curtis Hitchmann points to two oil wells, then five more, then another two, all of them in less than a mile, all of them shut down since oil prices collapsed in late November.

"And this is just what you see off the blacktop," Hitchmann says.

The motionless pumps are a daily reminder that his livelihood, the job he's had for 14 years, is threatened.

Hitchmann, a contract pumper, earns his living maintaining 28 of the thousands of wells that mark the landscape of central Kansas.

The wells are the vestige of once prolific fields. Wells that once produced hundreds of barrels a day now produce only a few barrels a day. Many of them are unprofitable.

So far, Hitchmann has lost only two wells. But he knows that could change any day.

Prices for the highest quality of crude oil produced in Kansas fell from an average of \$17 a barrel in June to an average of \$12.54 a barrel in December. Lately, prices have hovered around \$13 a barrel. And thousands of wells in Kansas are losing money.

Approximately 35,000 of Kansas' 46,000 oil wells produce fewer than five barrels a day. No other oil-producing state could be hurt worse by the recent collapse in prices.

Thousands of wells throughout the state have probably been shut down since December. The exact number is unknown and the evidence is anecdotal. More than half the wells maintained by Hitchmann's brother, for instance, have been temporarily shut down.

"I guess that in 30 days," Hitchmann says, "I could be in as bad a shape as my brother."

About 7,200 people work in the state's oil fields, according to the Kansas Independent Oil & Gas Association. The jobs are scattered among hundreds of small companies — from geologists in Wichita to oil field workers such as Hitchmann.

The price collapse is already being felt. Companies have started laying off workers. But the layoffs come in ones and twos, and have none of the drama of a large layoff by one company.

The impact, though, could be as severe.

"As time goes on, more and more wells will be shut in," says J.O. Farmer III, president of J.O. Farmer Inc. in Russell.

Oil companies can temporarily shut-in a well — basically turn off the pump — for up to 90 days. They then must get approval from state regulators to keep the well shut in for one year. They also generally must get approval from the owner of the mineral rights. Shutting in a well is one step short of plugging and permanently abandoning a well.

Farmer estimates that 30 percent of the company's 230 wells in Kansas and other states are unprofitable. The company has shut in about 15 wells since December, and it laid off two of its 19 employees at the first of the year.

J.O. Farmer is not alone.

"In December, it was like flipping off a light switch. Our business was gone," says Bob Harris, district manager for Service Fracturing Co.

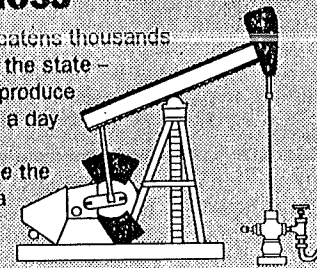
The company uses acid or high-pressure water to "fracture" the rock in an oil-bearing formation, thereby increasing the flow of oil to the well.

Serfco laid off two of its six employees in Great Bend after the holidays.

"If something doesn't happen pretty soon, I'm afraid it is going to be the straw that broke the camel's

Pumping at a loss

The collapse in oil prices threatens thousands of marginal wells throughout the state — particularly those wells that produce less than three barrels of oil a day or those that produce large quantities of water. Below are the revenues and expenses for a well in Ness County that produces 2.7 barrels of oil and about 21 barrels of water a day. Costs will vary throughout the state and from well to well, but these figures are representative of a marginal well in Kansas.



Per-barrel revenue

Oil price	\$12.50
Deduction for "western" Kansas crude	-.25
Deduction for low gravity (33.6 degrees)	-.96
12.5 percent royalty	-1.41
5.47 percent override for geologist	-.62
Total	\$9.26

Monthly Revenues (2.7 barrels a day at \$9.26 a barrel)

\$760.06

Monthly Expenses

Pumper wages and car allowance	\$152.50
Electricity	135.55
Well servicing	160.03
Supplies and repairs	110.37
Chemicals	79.57
Salt water disposal	30.08
Administration/miscellaneous	386.73
Taxes	44.15 (a)
Total	-\$1,098.98

Monthly loss (a) Based on 1993 property taxes of \$529.77

(\$348.92)

Source: Pickrell Drilling Co.

See OIL, Page 2F

The Wichita Eagle

OIL

From Page 1F

back," Harris said over morning coffee at the Black Angus restaurant in Great Bend.

The unknown is how long oil prices will stay down.

Most analysts expect them to strengthen by the second half of this year. Supply and demand are more or less in balance, and even a slight increase in demand would boost prices.

"Anytime now, you could see a one or two dollar upward adjustment," says John Parry, a senior research associate at John S. Herold Inc., an oil research company in Greenwich, Conn.

This is the consensus. John Spears, president of Spears & Associates, an energy forecasting company in Tulsa, expects oil prices to increase \$3 a barrel by the end of the year.

But he also warns that almost 10 percent of the wells in the United States — about 50,000 wells — could be shut in if prices do not increase.

Kansas and Oklahoma would account for a disproportionate number of those wells.

"These wells in Kansas and Oklahoma," Spears says, "are among the most marginal in the world."

Each well's break-even point varies. Some produce large quantities of water, which increases pumping costs. Others produce low-gravity oil, which may sell for \$2 a barrel less than the highest-quality crude oil. Costs vary throughout the state.

Low prices, for instance, will particularly hurt eastern Kansas, where some shallow wells may produce only one-fourth barrel a day.

"When you cross 10 miles east of

Eureka, it's a different world," says Dick Pearce, president of Rexoco in El Dorado. "It's tough on them. Really tough on them now. But it's tough on everyone right now."

He estimates that 30 percent of Rexoco's wells are unprofitable. The company has shut in 25 of its 178 wells and, since the holidays, it has laid off two of its 16 employees.

No part of the state may be more vulnerable, however, than central Kansas, where most wells produce large quantities of water and have high pumping costs.

One of the wells that Hitchmann maintains produces 3.34 barrels of oil a day and 190 barrels of water — roughly 57 barrels of water for every barrel of oil.

"I'm sure they're losing money on this well," Hitchmann says.

His best well produces 13 barrels of oil a day; it also produces more than 200 barrels of water.

Yet Ellis, Russell, Rooks and Barton counties remain the four largest oil producers in the state. Most of their oil production comes from marginal wells — the very ones most susceptible to a sustained drop in oil prices.

These counties sit on or border an underground geological formation — the Central Kansas Uplift, or "the arch" — that has produced many of the state's largest oil fields.

The fields have surprisingly long lives; many were discovered more than 60 years ago.

Hitchmann maintains a well that produced 600 barrels of oil a day when discovered in 1939. Fifty-five years later, its pumping jack still draws 3.4 barrels a day out of the porous rock 3,000 feet below.

Hitchmann, 35, a soft-spoken man with a trim beard, drives 150 miles a day as he makes his way from well to well. He wears a pair of oil-stained coveralls and works quickly and efficiently.

At each tank battery, he drops a weighted tape measure into the oil tanks and then swiftly circles each tank to check for leaks. At each well, he greases the pumping units and does other routine maintenance.

He can often detect a problem simply by the sound of the pumping unit. He likens it to the way a rancher knows his cattle. At one well, a squeaking sound is audible among the put-put of the engine.

"If oil was \$18 a barrel," he says, "I'd replace those belts."

Hitchmann, the father of three children, ages 10 to 15, enjoys working alone and at his own pace. But he also works seven days a week, the year round, to earn a modest living.

Most contract pumpers charge about \$150 a month for each well and oversee 30 or so wells — grossing about \$54,000 a year. From this, they must pay for their truck, fuel, insurance and tools. They generally work more than 50 hours a week to clear about \$20,000 a year.

Hitchmann can count 15 other contract pumpers who work just in northern Barton County. There are probably more.

Well-servicing and supply companies — Bovaird Piping Resources, Oilfield Manufacturers Warehouse, Petroleum Electric Service, Bentley & Associates, Chase Well Service, Serfco, Gressel Oilfield Service — line Patton Road in Great Bend.

These companies were among the first to be hurt by the price collapse.

"Business has got to pick up to be slow," says Donald Bentley of Bentley & Associates, a manufacturers representative.

He sits at the counter at the Bovaird supply store, talking and drinking coffee with several other

men in the oil business. They joke and laugh. Their jokes have an undertone of worry and of uncertainty.

One person says that he recently came upon a cartoon from the early 1980s with the caption, "Stay Alive 'Til '85."

He crossed out "'85" and wrote "'95."

"The outlook is scary," says Frank Felst, manager of the Bovaird store in Great Bend.

Sales are down 60 percent to 70 percent since oil prices collapsed.

"I've been laid off twice, and it looks like it could happen again," says Felst, 48, as he sits in his small office.

Shortly before Christmas, he put in for a transfer to Siberia — literally. The Tulsa-based company plans to open a store there. He would spend 28 days in Siberia followed by 28 days in the United States.

He has little choice. "I've been in this 25 years," he says wearily, "and this is all I know."

Companies such as Bovaird survived the oil bust that culminated in the price crash of 1986. It was the death knell for the speculative excesses of the oil boom. And the Kansas oil industry is less than half the size it was 10 years ago.

Yet it remains an important part of the Kansas economy. Oil still accounts for 10.7 percent of the tax base in Barton County. And the state last year produced more than \$800 million worth of oil.

The typical marginal well costs \$13,000 a year to operate — generating jobs for contract pumpers and revenues for well-servicing companies, suppliers and utilities, says Mike Vess of Vess Oil Corp.

"All these marginal wells are individual consumers," he says.

In this sense, the loss of 10,000 wells could have the same economic impact as the loss of 5,000 jobs pay-

ing \$26,000 a year.

"We are trying to get out the word on what this industry means to the state," says Danny Biggs, president of KIOGA and general superintendent of Pickrell Oil Co.

More wells would have been shut down by now were it not for potential corrosion and mechanical problems caused by temporarily shutting them in. Most oil companies prefer to operate a well at a loss for a few months than to chance repairs costing hundreds, even thousands, of dollars.

When wells need work, though, the companies will simply shut in the well.

The downturn may be less harsh for other parts of the state.

Prices for natural gas are the highest they've been in years. And some companies are focusing their exploration on the state's southern counties, where gas is more plentiful.

Companies are actively exploring the deeper geological zones in southwest Kansas. It is one of the state's most lucrative oil plays. And many of the wells found in southwest Kansas, particularly those closer to Oklahoma, produce gas as well as oil.

Moreover, many companies — particularly those with new wells — have the financial resources to endure a sustained drop in prices.

Kevin McCoy, vice president of

McCoy Petroleum Co., said the company will be more selective about where it drills and may postpone some projects.

"I don't think the answer is to stop and wait," McCoy says. "I think it is important to continue to move forward. (But) the pace and priority change."

McCoy Petroleum has discovered dozens of new wells in southwest Kansas in recent years. Few companies have been as active. The vast majority of the state's oil companies have done little or no exploration in recent years and depend on older wells.

"If you've got marginal properties, it's devastating," McCoy says.

Those properties, and the jobs they support, depend on the vagaries of the world oil market.

Hitchmann's daily route takes him past five shut-in wells that his brother pumped. Contract pumpers, who are self-employed, do not qualify for unemployment insurance. And he's seen his brother's income cut in half.

"You can tell it works on him," Hitchmann says.

The people who still earn their living in the Kansas oil patch survived the last downturn. But this one was sudden and unexpected. And no one knows how long it will last.

"It's spooky, is all I've got to say," Hitchmann says. "A lot of people have the attitude that we made it through the last one. But this one could be here a while."

(Over)

Kansas oil industry trying to find niche in world market

By Guy Boulton
The Wichita Eagle

GREAT BEND — The Kansas oil industry is struggling to compete against other oil-producing regions that simply have a competitive advantage.

"We are trying to compete in a worldwide market now, and when you have low-productivity wells, it's very difficult," says J.O. Farmer, president of J.O. Farmer Inc. in Russell.

The prolific wells in Saudi Arabia, for instance, can produce oil at a cost of several dollars a barrel. By comparison, the Kansas Independent Oil & Gas Association estimates that Kansas oil costs an average of \$8.50 a barrel to produce.

For years, Kansas and other domestic oil producers have pushed for an import fee that would set a floor price for domestic oil — about \$18 a barrel.

What would benefit the Kansas oil industry, however, would raise costs for all consumers. And Congress has shown little interest in an import fee.

It's a bitter frustration. Kansas oil producers note the cost of the Persian Gulf War. And they note the emphasis on revitalizing Russia's oil industry.

"That's the only energy policy we have that I know of: Revitalize Russia's domestic oil industry while we let ours die," says Danny Biggs, president of KIOGA and general superintendent of Pickrell Drilling Co.

The country's small oil producers regularly note that the United States imports more than 50 percent of its oil. And they contend that a healthy domestic oil industry is essential to national security.

The warning has largely been ignored. And many question its validity.

The world oil market is more geo-



Guy Boulton/The Wichita Eagle

"That's the only energy policy we have that I know of: Revitalize Russia's domestic oil industry while we let ours die." — Danny Biggs, Kansas Independent Oil & Gas Association president

graphically diverse and more stable than it was 20 years ago, says Cheryl Trench, executive vice president of the Petroleum Industry Research Foundation, a research organization funded primarily by major oil companies.

The market "reacts very quickly to changes in supply and demand

and rebalances very quickly," Trench says. "And that rebalancing mechanism is tremendously important."

The recent price collapse, in fact, has been blamed on new wells in the North Sea — not on OPEC.

A shortage anywhere in the world, Trench adds, is now a short-

age everywhere.

"It will appear whether we import 55 percent, 50 percent or 45 percent," she says.

She adds: "Self-sufficiency is simply not available."

The United States is the most intensely explored country in the world. And the country's major oil companies now focus their exploration elsewhere.

This appears to be the prevailing wisdom. For certain, Washington has shown little interest in the domestic oil industry in recent years.

The Department of Energy's recent "Domestic Gas and Oil Initiative," as its title subtly indicates, largely ignored oil and instead emphasized natural gas.

What can be done to help the Kansas oil industry?

On Monday, Gov. Joan Finney and a new energy advisory committee will meet with U.S. Energy Secretary Hazel O'Leary. But some Kansas oil producers have given up on Washington and are instead focusing on Topeka.

The state could take a number of steps to help the oil industry, says Mike Vess of Vess Oil Corp. It could remove the sales tax on electricity to run oil pumps, lower insurance rates for workmen's compensation and remove some environmental regulations.

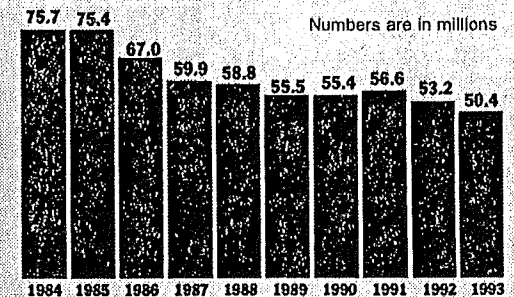
"Every piece helps," Vess says.

Do Kansas producers, many of whom depend on high-cost, marginal wells, face the same fate as other high-cost producers in a global economy? Is the slow death of the Kansas oil industry inevitable?

"They've been saying that for many years," says Farmer — adding, "We were supposed to be running out of oil in the 1950s."

Kansas oil production

Kansas oil production has fallen 33 percent since 1984. Last year, the state's estimated production was the lowest in 60 years and far below the peak production of 124.5 million barrels in 1956.



(a) Estimate by Kansas Geological Survey
Source: Department of Energy and Kansas Geological Survey

The Wichita Eagle

Biggs, too, can recall previous predictions that the Kansas oil industry was doomed. But he acknowledges that finding oil in Kansas was easier in the 1960s. "Your chances of finding a good well were a lot better," he says.

More than 300,000 wells have been drilled in the state and its large fields were discovered long ago. Oil production peaked in 1956 at 124.5 million barrels. Last year, the state produced an estimated 50.4 million barrels.

Still, Lee Gerhard, director of the Kansas Geological Survey, says Kansas still has plenty of prospects — and the decline of the industry is not inevitable.

"There are new targets to drill. There are new prospects. There are

horizons that haven't been adequately tested," he says.

Kansas, with its relatively low exploration costs, does have advantages over other states.

"You can't put a deal together cheaper anywhere else than in Kansas," says Raul Brito of Brito Oil Co.

Kansas still holds promising areas for exploration, Brito says. But companies must focus on finding large prospects — wells that can initially produce 100 barrels a day instead of 25 barrels a day.

"The people who are drilling now are looking for the bigger stuff," he says.

He's given up on trying to predict oil prices.

"It all boils down to finding reserves."

VESS OIL CORPORATION

KANSAS ECONOMIC CRISIS: OIL

Kansas oil production has slumped to a 59 year low. In 1992 Kansas oil producers, through all drilling activity, discovered total new oil reserves equivalent to only 29 days of current daily Kansas production. Total 1992 Kansas oil production represented 16% of all Kansas proved reserves of December 31, 1992. While Washington D.C. finds the Kansas Oil and Gas Industry expendable and is content to allow it to dwindle to economic extinction it remains a vital segment of the Kansas economy.

Kansas is a marginal well state, home to over 35,000 marginal wells. While many of these wells make less than 3 BOPD their contribution to the Kansas economy is significant. The marginal wells cast no vote gaining little political consideration despite their sizeable economic presence across the State. Political apathy will be expensive for all Kansans. Each marginal well is a resident Kansas consumer expending almost \$13,000 annually on Kansas goods, services, labor and utilities. This represents over \$400,000,000 annually in Kansas consumption. It is estimated that it would take almost 30,000 new jobs in Kansas to offset the loss of the marginal well base:

Potential job loss equivalent - Marginal Wells	
- Direct oilfield employment	4,500
- Estimated associated employment	4,500
- Marginal well employment equivalent	<u>20,800</u>
Job loss equivalent	<u>29,800</u>

The typical marginal well dollar expended goes approximately 40% to labor, 35% to utilities and 25% to goods and services.

Loss of the marginal well base will result in increased unemployment along with higher taxes, increased electric rates for all Kansans and a significant reduction in royalty income to the agricultural community. Low oil prices, punitive taxing policies, escalating insurance costs, expanding federal regulatory programs and high electric rates have contributed to the steady deterioration of the Kansas Oil and Gas Industry.

12-7

The following trends have been sending a clear message as to the condition of this industry:

Kansas Oil and Gas Industry
Trends at a Glance

	<u>1984</u>	<u>1987</u>	<u>1993 (E)</u>	<u>1984-1993 Trend</u>
Kansas Oil Production (In Thousands)	75,845	60,545	50,000	34% Decline
Net Kansas Oil Price Working Interest Owner \$/Bbl.	25.18	15.49	14.69	42% Decline
Oilfield Employment	16,700	9,800	7,200	57% Decline
Active Rotary Rigs	130	50	28	78% Decline
Kansas Wells Drilled	15,198	5,214	2,300	85% Decline

A concerted effort is necessary to slow down the rapidly growing deterioration. Kansas oilfield workers make less today than 8 years ago. Kansas oil and gas producers work on thinning margins operating properties close to the breakeven point. Recognition of the importance of this industry to the Kansas economy by the Governor's office and the Kansas Legislature should prompt urgent responses which include the following:

1. Repeal/exemption of 2.5% sales tax on power/fuel consumed in marginal well production.
 - Sales tax on power/fuel consumed cannot be passed through to consumers.
 - Oil and gas production of a finite resource differs from manufacturing or construction.
 - Currently power/fuel consumed to produce irrigation water is exempt.
2. Establishment of "Marginal Well Rate Class" for electric consumption.
 - Electric costs are generally the single largest factor in marginal well production costs. Electric rates in one area may differ as much as 30-40% between suppliers.

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3. Continued cooperation between government/industry on analysis and implementation of federal mandated policies effecting the Kansas marginal well base.
4. Assistance in accelerating the review and analysis of procedures, methods and formulas used to determine Workmans Compensation rates on oil and gas producers. While many rate categories declined for other industries oil and gas production increased.

REFERENCE SOURCE DETAIL

In 1992 Kansas oil producers, through all drilling activity, discovered total new oil reserves equivalent to only 29 days of current daily Kansas production. Total 1992 Kansas oil production represented 16% of all Kansas proved reserves of December 31, 1992.

SOURCE: Energy Information Administration 1992 Annual Report

Kansas Oil and Gas Industry Trends

	<u>1984</u>	<u>1987</u>	<u>1993(E)</u>	1984-1993 <u>Trend</u>
Kansas Oil Production (In Thousands)	75,845	60,545	50,000	34% Decline

The last time Kansas annual production was less than 50,000,000 barrels was in 1934. This is a 59 year low.

SOURCE: 1984 - Present - Kansas Department of Revenue
1978 - 1984 - Energy Information Administration
1925 - 1977 - Bureau of Mines, Mineral Yearbook
Volumes I and II

	<u>1984</u>	<u>1987</u>	<u>1993(E)</u>	
Kansas Oil Price Working Interest Owner \$/Bbl. (.875 NRI)	25.18	15.49	14.69	42% Decline

SOURCE: Monthly postings taken from Koch Oil Company/NCRA price bulletins. Kansas Common - 40 gravity.

	<u>1984</u>	<u>1987</u>	<u>1993(E)</u>	
Oilfield Employment	16,700	9,800	7,200	57% Decline

SOURCE: Kansas Department of Human Resources Labor Market Survey.

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	<u>1984</u>	<u>1987</u>	<u>1993(E)</u>	
Kansas Wells Drilled	15,198	5,214	2,300	85% Decline

SOURCE: Kansas Corporation Commission

There are approximately 31,000 marginal lease certificates issued by the Kansas Department of Revenue. There are many more marginal wells which exceed the severance tax definition, but are economically marginal. A sample of 210 wells in 14 counties indicated average well expenditures of \$1060 per well per month. This converts to \$12,720 annual consumption per well. The typical dollar expended by a marginal well goes to the following:

Labor	- 40%
Utilities	- 35%
Goods/Service	- 25%

SOURCE: Vess Oil Corporation

CALCULATION DETAIL

Direct Oilfield Employment - Marginal Wells

31,000 Marginal Wells	= 62% of Active Well Base
50,000 Active Wells	
Total direct oilfield employment	7,200 (2)
Marginal well base employment	<u>4,500</u>
(7,200 x .62)	

Marginal Well Employment Equivalent

Annual Kansas consumption per average marginal well (excluding direct labor)	\$ 11,160 (3)
Annual disposable income per average Kansas job	\$ 16,700 (4)

$\frac{11,160}{16,700} = .67$ marginal well job equivalent ratio

Marginal well job equivalent 20,800
(.67 x 31,000)

ESTIMATED ANNUAL UTILITY CONSUMPTION

Average annual utility consumption per
marginal well 4,450 (3)

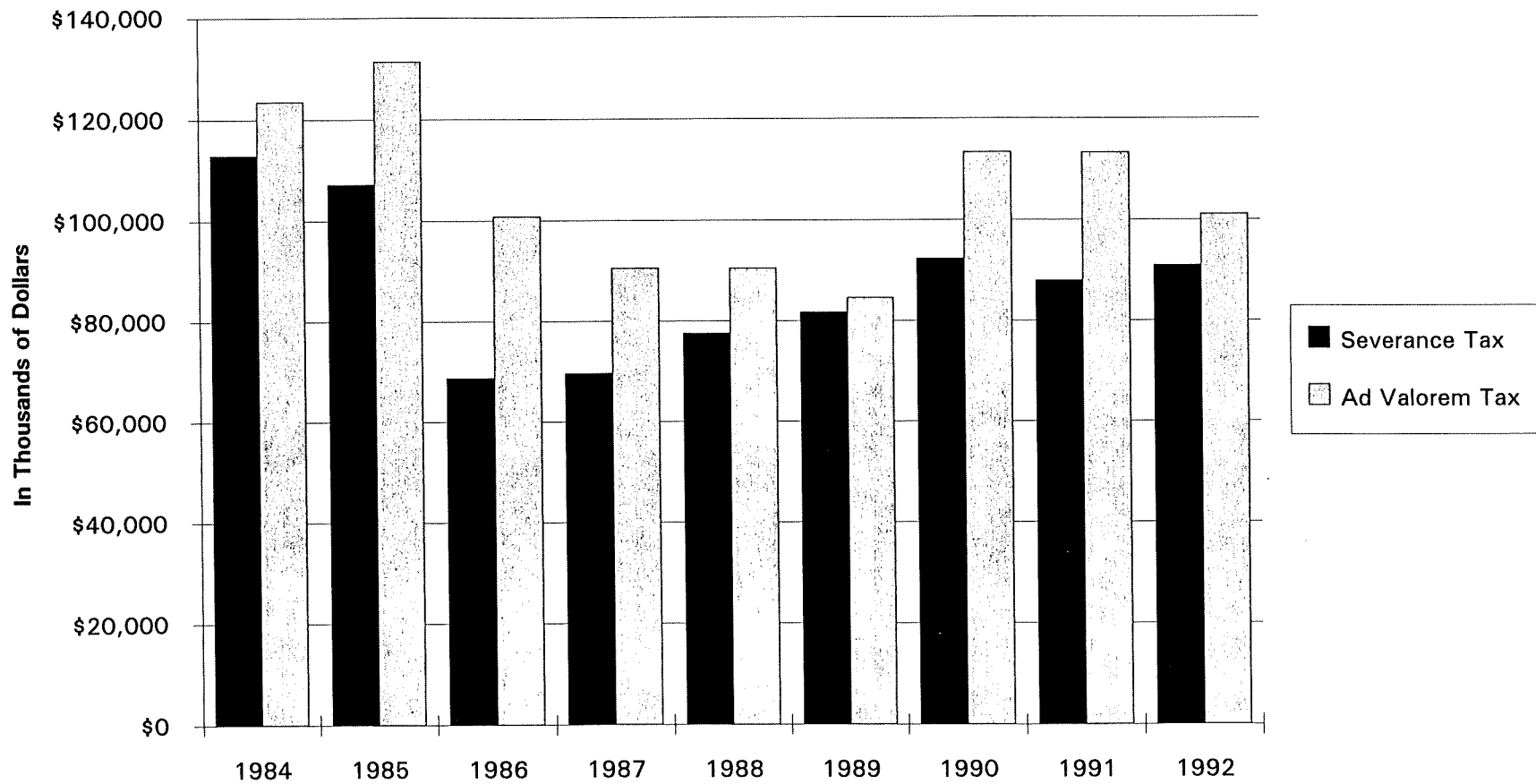
Total estimated annual utility \$138,000,000
consumption

- (1) Kansas Dept. of Revenue marginal well certificates
- (2) Kansas Dept. of Human Resources Labor Marketing Survey (1992)
- (3) 210 well samples/14 counties
- (4) Kansas Dept. of Human Resources Statewide Annual
Wage Average (1991)

Total Private Wages	\$20,993
Fed/State WH	<u>4,385</u>
Disposable Income	<u>\$16,608</u>

12-12

Kansas Severance Tax and Ad Valorem Tax Collections on Oil and Gas Production

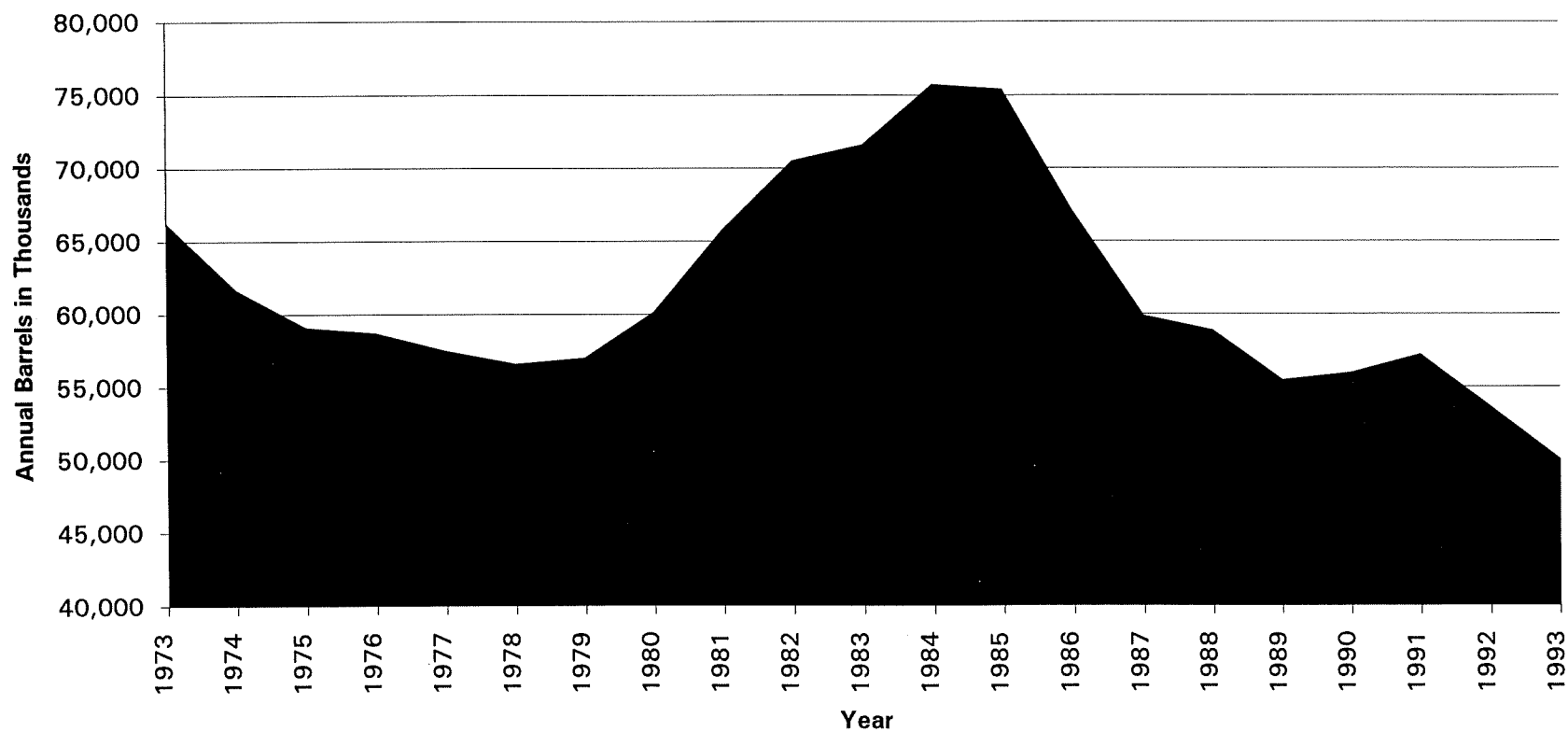


Provided by: Vess Oil Corporation

12-13

Kansas Oil Production - Barrels Produced per Year

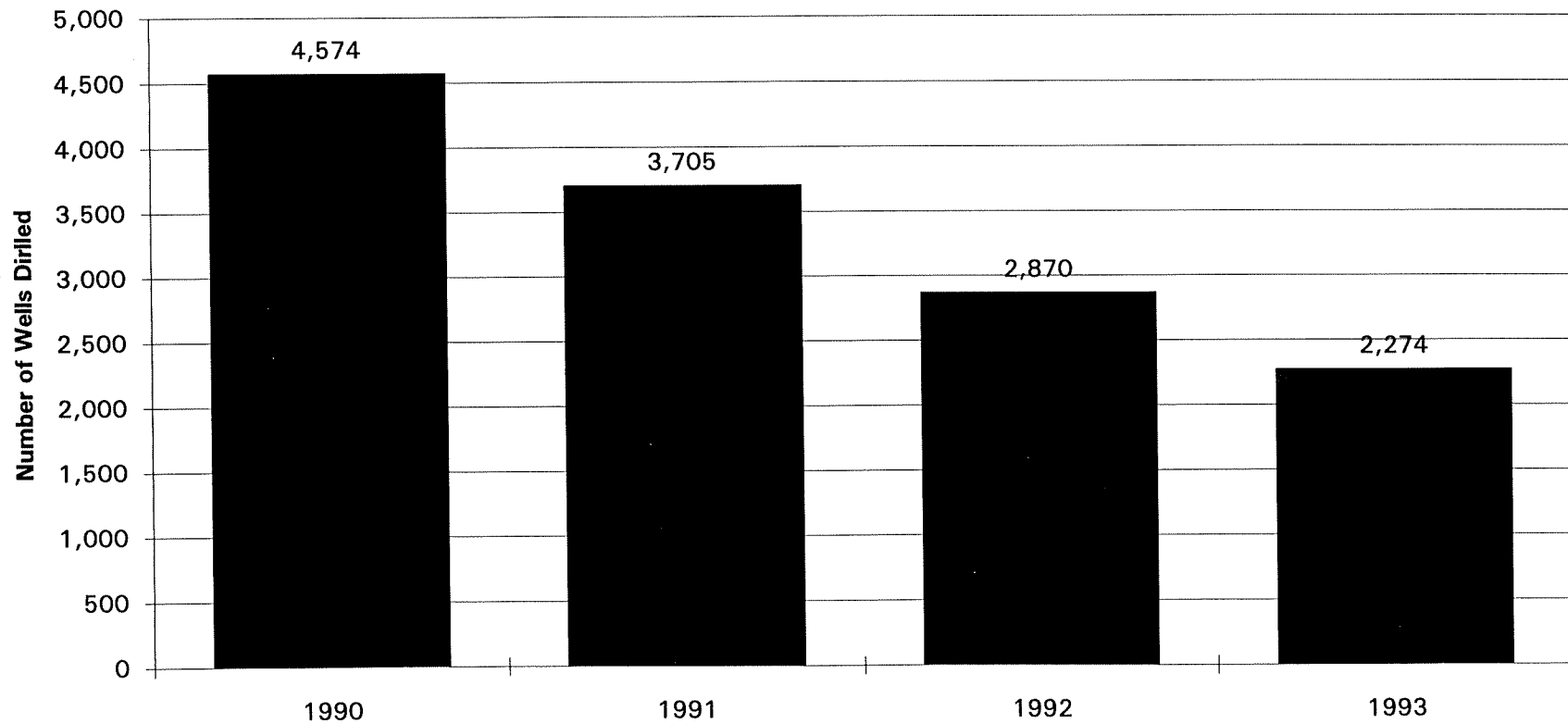
Information Source: Kansas Department of Revenue; Energy Information Administration; Bureau of Mines



12-14

Kansas Drilling Activity - Number of Oil and Gas Wells Drilled

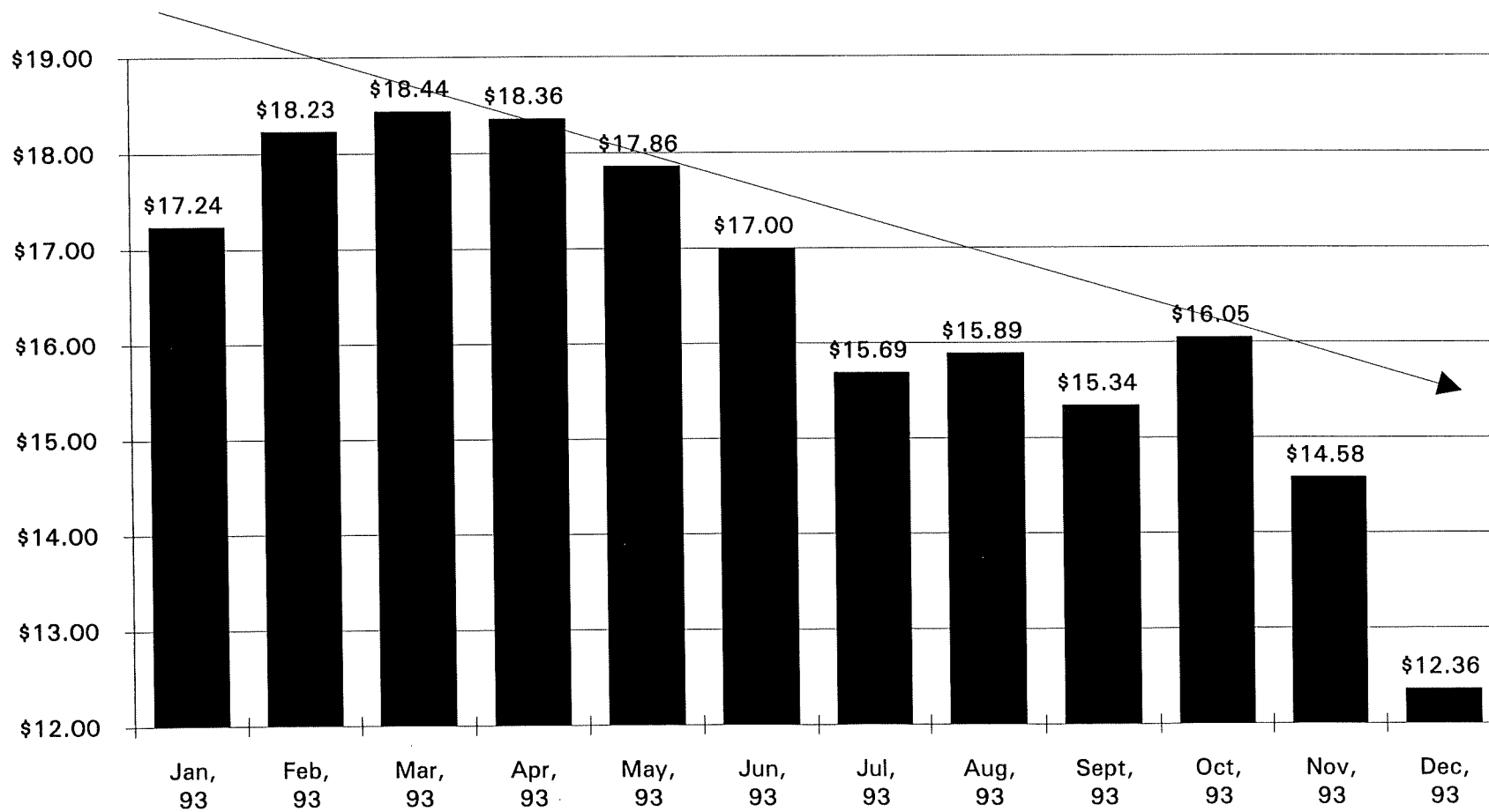
Information Source: Kansas Corporation Commission - Drilling Intents Filed.



12-15

Weighted Average Monthly Posting - Kansas Common / 40 Gravity Oil

Crises at \$15.50



12/16



INTERSTATE OIL AND GAS COMPACT COMMISSION

900 Northeast 23rd Street ■ P.O. Box 53127 ■ Oklahoma City, Oklahoma 73152-3127 ■ Phone: 405/525-3556 ■ Fax: 405/525-3592

RESOLUTION

Pertaining to a Current National Crisis in Crude Oil Production and Price Stability

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Joan Finney
Governor of Kansas

Chairman-Elect:

Gaston Caperton
Governor of West Virginia

Past Chairmen:

David Walters
Governor of Oklahoma

Mike Sullivan
Governor of Wyoming

Edwin W. Edwards
Governor Louisiana

Bruce King
Governor of New Mexico

Executive Director:

Christine Hansen

MEMBER STATES:

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ARIZONA, ARKANSAS,
CALIFORNIA,
COLORADO, ILLINOIS,
INDIANA, KANSAS,
KENTUCKY, LOUISIANA,
MARYLAND, MICHIGAN,
MISSISSIPPI,
MONTANA, NEBRASKA,
NEVADA, NEW MEXICO,
NEW YORK, NORTH
DAKOTA, OHIO,
OKLAHOMA,
PENNSYLVANIA,
SOUTH DAKOTA, TEXAS,
UTAH, VIRGINIA,
WEST VIRGINIA,
WYOMING

ASSOCIATES:

GEORGIA, IDAHO,
NORTH CAROLINA,
OREGON, SOUTH
CAROLINA, WASHINGTON

Whereas, the 29 member and 6 associate member states of the Interstate Oil and Gas Compact Commission have the responsibility of providing crude oil for this country's energy needs while preventing waste and protecting correlative rights; and

Whereas, the national security of the United States of America is threatened by the ever-increasing reliance on imported offshore crude oil and the sharp decline in domestic production within the producing states; and

Whereas, the United State's annual energy import bill is about \$55 billion and projected to be over \$100 billion by the year 2000, creating a huge negative balance of trade; and

Whereas, conservation of America's finite oil resources is dependent on our oil producers receiving a fair price; and

Whereas, along with the current national crisis relating to crude oil production throughout the United States, as a result of current devastating crude oil price decrease, the infrastructure consisting of drilling rigs, equipment, and jobs relating directly to the industry is quickly disappearing and is no longer readily available; and

Whereas, the employment in the U. S. oil and gas exploration and production industry has decreased fifty percent over the past half dozen years, from 700,000 to 350,000 today; and

Whereas, increasing regulation by the federal and individual state governments is contributing to this national crisis in crude oil production by mandating implementation of new and expanded regulations and shifting the cost of these regulations to domestic operators; and

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Whereas, failure by national, state and congressional political leadership to take corrective action to stimulate crude oil production and insure price stability with tax incentives, minimum price guarantees, or other appropriate means has, is, and will continue to allow the domestic oil producing industry to collapse to the point where the industry will no longer be a viable national industry able to contribute to the well-being of its citizens; and

Whereas, any program designed to conserve and maximize the production of domestic oil reserves must be in the national interest and not simply a transfer of wealth from one area of the country to another;

Now, Therefore; be it Resolved that, the Interstate Oil and Gas Compact Commission, convened at its annual meeting in Santa Fe, New Mexico, December 7, 1993, recognizes the seriousness of the current national crisis in domestic crude oil production in the United States of America and recommends that the following action be taken immediately to preserve this important segment of the economy:

- 1) Urge the 35 member states and the federal government to take immediate action to relieve domestic crude oil producers of excessive and regressive taxes and regulations, the result of which will encourage domestic production; and
- 2) Urge the President of the United States and the U. S. Congress to take immediate action to enact energy tax initiatives, credits and deductions that will reward and stimulate private investment in increased exploration, drilling and production of domestic crude oil, including but not limited to:
 - a) Full deductibility for federal income tax purposes of actual exploration, drilling and completion costs; and
 - b) Income tax credit for all crude oil produced from new field discovery wells, and enhanced recovery projects.
- 3) Urge the President of the United States and the U. S. Department of Energy to focus national attention on this precipitous decline in domestic crude oil production and price; and

- 4) Urge the U. S. Congress to use restraint in instituting new regulatory initiatives that restrict and penalize and which charge the cost thereof to the domestic oil produced; and
- 5) Urge the U. S. Congress and the President of the United States, in the strongest possible terms to adopt without delay one or more of the following measures to stimulate new, domestic exploration, drilling, and production, and to prevent premature abandonment of many thousands of existing stripper oil wells, and the irretrievable loss of reserves otherwise recoverable from those wells as follows:
 - a) A federal import tariff or a federal transportation tax on all non-North American crude oil and refined products imported into the United States of a sufficient size to insure that producers receive the minimum fair price required to ensure optimum conservation while protecting the interests of the consuming public. Such import tariff or tax should only be activated when the price of non-North American crude oil drops below the minimum fair price and the tariff or tax would only reflect the price differential between domestic and non-North American crude. All proceeds of this tariff should be used exclusively for reduction of the federal deficit; and
 - b) A federal tax credit or transferable voucher payable to producers of domestic crude oil of sufficient size to ensure that domestic producers receive an amount equal to the differential between imported and domestic crude oil to ensure the greatest benefit to the energy consumer.

And be it Further Resolved, that a copy of this resolution be sent to the President of the United States; and the Vice President; the Secretary of the U. S. Department of Energy; all members of the U. S. Congress; and the Governors of the states participating in the Interstate Oil and Gas Compact Commission.

LEGISLATIVE AND ADMINISTRATIVE REMEDIES

Donald P. Schnacke, Executive Vice President
Kansas Independent Oil & Gas Association
February 15, 1994

- 1) **Adopt a joint legislative resolution** directed at the President, the Secretary of the U.S. Department of Energy, and the U.S. Congress demanding federal recognition of the issue of low crude oil prices and increasing foreign oil imports and the threat to the Kansas domestic oil industry. (See IOGCC Resolution.)
- 2) **Repeal the 2.5% sales tax on energy used in pumping oil wells** putting oil producers on par with irrigation pumpers (SB 4, SB 203, HB 2791).
- 3) Recognize the plight of shut-in production. **Declare a severance tax and ad valorem tax holiday on all oil production of 5 BOD or less.**
- 4) Recognize the mistake of doubling the taxes on oil and gas production in Kansas 11 years ago. **Repeal the severance tax and/or the ad valorem tax** and return this Kansas industry to parity with Oklahoma and other states.
- 5) A minimal alternative to outright repeal of the severance tax would be to **reduce the severance tax on natural gas production to equal that on crude oil** because of changed federal rules (SB 3, SB 203, H. Sub. for SB 324).
- 6) **Continue workers compensation insurance reform** to address why oil and gas industry rates increased 13-28% in 1993 in six job classifications.
- 7) **Control state administrative costs and fees** which result in increased industry overhead and operating costs and which have the effect of indirect taxation, i.e. clarification of the underground excavation "one-call" legislation (SB 644), and an effort to reduce the KCC Conservation Fee Fund assessments--not further increases.
- 8) Make a special effort to **enact incentive legislation** such as that recommended in the "Strategic Analysis of the Oil and Gas Industry in Kansas" by Arthur D. Little, April, 1990; the Governor's "Kansas Energy Policy Committee Report", February, 1993; and the Kansas Commission on Natural Gas Policy "Report to the Kansas Legislature" January, 1993; Kansas, Inc. Recommendations of January, 1994. Examples of this would be HB 2706 and HB 714 which would exempt from the severance tax production from wells which have been inactive for three years or more.

Several states faced with problems similar to Kansas are aggressively sponsoring legislation and regulatory measures designed to help relieve the problems associated with low oil prices and shut-in oil production.

12-20

Statement of David Bleakley
President-elect of Eastern Kansas Oil & Gas Association
&
Director of Acquisitions & Land Management
Colt Energy, Inc.

The operators and service companies in eastern Kansas are in an economic struggle for survival. More and more wells are being shut down everyday, because the cost to operate them exceeds the income they generate. Our company has shut down almost 200 wells and laid off 20% of our work force which now stands at 37 employees. Operating cost average \$12 to \$13 per barrel and the price received for an average barrel of oil in eastern Kansas is \$9.00 to \$10.00. This is a serious situation which has most operators wondering whether they will still be in business next year.

Electricity is generally 20% to 40% of the operating cost to produce oil in eastern Kansas. So even a small tax on electricity has a noticeable negative effect on the bottom line. Given the current and projected price of oil, it does not take much of an additional burden on a well to place it on the shut down list. Some wells will be pumped, even if they are losing money, if they are part of a waterflood. This is because you never regain the same production level when you restart the flood. So an operator will continue to produce at a loss for some period of time to maintain his production. Waterfloods also require a larger amount of electricity to run the large water pumps to move the water under pressure down injection wells. There are a great number of waterfloods currently losing money for every barrel they produce, which are bearing the burden of this tax.

The Kansas oil producer is in serious financial trouble and the state that has in the past received so much financial help from this industry, when it was healthy, should be looking for ways to alleviate its tax burdens and give it every chance of survival, not be adding taxes. It is important to understand that, like the farmer, we can not pass the cost of additional taxes onto the consumer as other industries do. The price for oil is set by the commodities market and is greatly influenced by the flow of cheap foreign oil into the U.S.

Please let our Kansas producers know that this legislative body can give back as well as take when times are tough by passing HB 2791.

2/17/94
House Taxation Cmte
Attachment 13

REMARKS OF JACK GLAVES
IN SUPPORT OF HOUSE BILL 2791
ON BEHALF OF OXY USA, INC.
BEFORE COMMITTEE ON TAXATION
FEBRUARY 17, 1994

First, I would like to put this issue in historical perspective. In the 1992 session, in connection with the school finance issue, the House voted to remove the sales tax exemption on electricity, gas and water used in manufacturing and production processes defined under K.S.A. 79-3602(m)(b), which was done without benefit of committee deliberation, the measure being a floor amendment. I don't believe it was mentioned during the floor debate that removing the exemption impacted Kansas oil and gas producers, adding significantly to the level of the cost of lifting crude oil and brine at a time when lifting costs often exceed the price received for the crude oil produced. It was a new tax borne by producers. The 1992 session attempted to protect marginal oil wells, which granted a modest exemption to marginal wells from ad valorem taxes, but ended up adding a new sales tax on the same wells with the result that instead of paying the counties the producers now pay the state. The 1991 legislature authorized the Kansas Natural Gas Policy Commission to provide the legislature and the governor with a strategy to develop the potential Kansas natural gas reserves. The study was extended by the 1992 legislature. It recommended elimination of the 2 1/2% sales tax on utilities consumed in production, noting, among other things, that the oil and gas industry was singled out for imposition of the tax while irrigators, for example, remained exempt.

The exemption of irrigation pumping resulted from a Department

2/17/94
House Taxation Committee
Attachment 14

of Revenue ruling due to supposed conflicting language. The 1992 interim session resulted in Senate Bill 4, that was introduced last year, which became a part of Trifecta, but which remains pending in the Senate Assessment and Taxation Committee.

In the meantime, the price of oil has plummeted. Many wells have been shut down, unable to cover the lifting costs, with the result that electric revenues for the utilities have declined as well as revenues to the state from the sales tax collection. Most importantly, oil production has declined and the prospects for reactivating marginal wells with high water cuts is an ever growing problem leading to permanent abandonment, to the detriment of operators, royalty owners and the taxing authorities.

The reducing trend is evident from a couple of utilities. Midwest Energy in Hays had oil field pumping revenues in 1992 of \$16,349,000, 1993 revenues were \$15,062,000, for reduction of over \$1.25 million with the same rates in effect. KPL and KG&E combined revenues for 1992 were \$10,357,920, and I am advised that the 1993 revenue was \$9.9 million for a reduction of nearly half a million dollars. Interestingly, KG&E provided service to 3,365 oil wells in 1992 and KPL to 3,840, I don't have the 1993 numbers. Overall, 1992 revenues for at least an estimated 80% of the statewide electric service, was \$50,683,000, I have a detailed list available to you. The list excludes Kansas City Power and Light, but virtually all of the remaining oil producing areas are included. I don't have the 1993 figure, but it will obviously be less.

In the 1992 discussions, it was estimated that the impact on

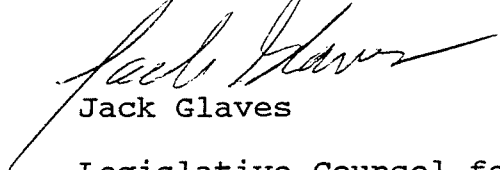
Kansas oil and gas producers was 5.7 million. That, of course, would have included the sales tax not only on electricity and gas used in producing oil but also on the electricity that is used in connection with the production of gas and that is used in compressors, helium and natural gas liquids extraction facilities, and all other industry uses.

In summary, the fiscal impact on eliminating the 2 1/2% tax on electricity for oil field pumping, for the utilities shown on the schedule for 1992 would have been \$1,267,000. It would most certainly be less for 1993 and the ensuing period.

In the instance of OXY, which is the largest oil producer in Kansas, electricity equates up to approximately 40% of its lifting costs. Its electric bill in the El Dorado field, for example, in 1993 was over \$1 million, even though it owns the distribution system. In the El Dorado and Plainville district, it has about 885 wells which average about five barrels a day. The El Dorado field has had a few relatively good producers that were drilled in 1993, which distort the average. A typical well makes about three barrels a day. OXY's taxes paid in 1993 in Kansas amounted to \$20.6 million, which compares to taxes paid in 1992 of \$16.4 million. Compared to the ad valorem and severance taxes, the sales tax is relatively minor, but it is simply one new and added part of the tax burden when applied to marginal production that becomes important when every expense item must be looked at in making the abandonment versus continued production decision.

The elimination of this tax would send a positive signal to the oil producers in Kansas that the legislature recognizes the desperate state of the industry, and is willing to extend a helping hand in trying to continue the viability of its economic life in Kansas.

Respectfully submitted,



Jack Graves

Legislative Counsel for
OXY USA

Summary: Survey of Electric Utility Oil Field Service

25 Jan '94

Total/Average for All Rates and All Counties Served

< estimated (7500 kWh/kW)

Utility Name	Abb.	Utility Name	Oil Field Motors	Oil Wells	kWh Energy	kWh/ Well	Peak kW/ Well	kW @ System Peak	Total Revenue	Revenue per kWh
MWE		Midwest Energy, Inc.	2422	unk	280487029			36762	18403000	\$0.0830
KPL		The Kansas Power and Light Co	943	3848	83801749	21772	4.1	15814	4121800	\$0.0892
KG&E		Kansas Gas and Electric Company	1184	3355	78187135	573613.02	4.3	14454	5744870	\$0.0738
WPE		West Plains Energy	1284	1382	77706347			12714	4513050	\$0.0861
WCEA		The Western Cooperative Electric Assn., Inc.	1155		74104850			8881	8426041.88	\$0.0897
NDEC		The Norton-Decatur Electric Coop	575	1053	33052310	31383		4408	3272300	\$0.0990
REC		The Radiant Electric Coop	864	unk	18578888			2210	1285000	\$0.0775
WEC		Wheatland Electric Coop	321	321	9174051			2008	855100	\$0.0932
NWKEC		Northwest Kansas Electric Coop	121	180	13428140			1880	1172000	\$0.0873
PEC		Pioneer Electric Coop		348	12823465			1883	1180375.1	\$0.0843
LSEC		The Lane-Scott Electric Coop	515	unk	28416728	unk		1545	2487989	\$0.0849
BREC		The Butler Rural Electric Coop	138	381	7200808	18847	3.1	1134	845050	\$0.0698
SPS		Southwestern Public Service Co	4	4	8813880			922	300000	\$0.0834
AEC		Atchafalpa Electric Coop	129	142	4072751	28881	4.9	701	326518	\$0.0788
CVEC		The Carney Valley Electric Coop	1308	unk	14525000	unk	unk	324	1550500	\$0.1087
NMEC		The Nemaha-Marshall Electric Coop	20	20	2478158			240	105000	\$0.0888
PRAW		The P.R. & W. Electric Coop	2	21	808869			150	77180	\$0.0853
SCEC		The Sedgewick County Electric Coop	7	17	1025853			137	78910	\$0.0788
VEC		The Victory Electric Coop	4	5	770590			103	54401	\$0.0708
CWEC		The C & W Rural Electric Coop		4	52318			7	5443	\$0.1040
AVEC		The Ark Valley Electric Coop	No Response to Survey, Cost per kWh Estimated from Commercial Rate Tariffs on File with the KCC							\$0.1100
BAEC		Brown-Atchison Electric Coop	No Oil Field Service							
CMS		The C.M.S. Electric Coop	No Response to Survey, Cost per kWh Estimated from Commercial Rate Tariffs on File with the KCC							\$0.1000
DEC		The Doniphan Electric Coop	No Oil Field Service							
DS&O		DS&O Electric Coop	Information on Cost of Oil Field Service Obtained by Phone							\$0.0900
EDIC		The Empire District Electric Co	No Oil Field Service							
FHIC		Flint Hills Electric Coop	No Response to Survey, Cost per kWh Estimated from Commercial Rate Tariffs on File with the KCC							
JMEC		Jewell-Mitchell Electric Coop	No Response to Survey, No Oil Field Service Likely							
KCPL		Kansas City Power & Light Co	No Response to Survey, Cost per kWh Estimated from Commercial Rate Tariffs on File with the KCC							\$0.1070
KVEC		The Kaw Valley Electric Coop	No Oil Field Service							
LCIC		Lyon-Coffey Electric Coop	No Response to Survey, Cost per kWh Estimated from Commercial Rate Tariffs on File with the KCC							\$0.1100
LJEC		Leavenworth-Jefferson Electric Coop	No Response to Survey, Cost per kWh Estimated from Commercial Rate Tariffs on File with the KCC							\$0.1320
NCK		NCK Electric Coop	No Oil Production in Area							
MREC		The Minnekahta Rural Electric Coop	No Response to Survey, Cost per kWh Estimated from Commercial Rate Tariffs on File with the KCC							\$0.1000
SCEC		Sumner-Cawley Electric Coop	No Response to Survey, Cost per kWh Estimated from Commercial Rate Tariffs on File with the KCC							\$0.0800
SEC		The Selkirk Electric Coop	Survey Response Indicates Data Not Available.							
SECI		Sunflower Electric Coop	No Retail Sales							
SVEC		Smoky Valley Electric Coop	merged with DSO							
TVEC		The Twin Valley Electric Coop	No Response to Survey, Cost per kWh Estimated from Commercial Rate Tariffs on File with the KCC							\$0.1100
UEC		United Electric Coop	No Response to Survey, Cost per kWh Estimated from Commercial Rate Tariffs on File with the KCC							\$0.0900
Totals					726422855			108178	\$50,683,536	\$0.0681

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TEL NO:913-661-0310

ID:MERIDIAN-M HANNIFAN

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FEB-11-'94

HB 2888

Source Taxation Conto

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2/17/94

CALENDAR YEAR	A	B	C	D	(E)	F	CLASS	G	H	I	J	K	L
	0-1,000	1,000-3,000	3,000-5,000	5,000-8,000	8,000-11,000	11,000-16,000	16,000-26,000	26,000-36,000	36,000-50,000	50,000-70,000	70,000-100,000	100,000+	
Calendar year preceding model year of vehicle and calendar year coinciding with model year of vehicle	\$24	\$60	\$120	\$180	240	\$300	\$360	516	\$480	672	\$600	840	\$720
1st calendar year following model year of vehicle	18	54	108	168	180	276	336	468	444	612	552	780	672
2nd calendar year following model year of vehicle	12	48	96	156	168	252	312	432	408	564	504	732	624
3rd calendar year following model year of vehicle	12	42	84	144	156	228	288	396	372	516	456	660	576
4th calendar year following model year of vehicle	12	36	72	132	144	204	264	360	336	456	408	576	528
5th calendar year following model year of vehicle	12	30	60	120	132	192	240	324	312	420	384	516	480
6th calendar year following model year of vehicle	12	24	54	108	120	180	216	288	288	384	360	492	432
7th calendar year following model year of vehicle	12	18	48	96	108	168	192	252	264	360	336	456	384
8th calendar year following model year of vehicle	12	12	42	84	96	144	168	216	240	324	288	384	336
9th calendar year following model year of vehicle	12	12	36	72	84	132	144	192	204	276	264	360	288
10th calendar year following model year of vehicle	12	12	30	60	72	108	120	156	168	228	216	288	240
11th calendar year following model year of vehicle	12	12	24	48	60	84	96	132	132	180	168	228	192
12th calendar year following model year of vehicle	12	12	18	36	48	60	72	96	96	132	120	168	144
13th calendar year following model year of vehicle	12	12	18	30	36	48	60	72	78	96	96	132	120
14th and all calendar years thereafter following model year of vehicle	12	12	18	24	30	36	48	60	60	72	72	96	96

KREHBIEL/ROE
FEB 17

94Baseline2888newest

COUNTY	94 BASELINE	2888	Difference	% Change
ALLEN	\$1,269,682	\$1,250,114	(\$19,568)	(1.54%)
ANDERSON	\$678,855	\$701,676	\$22,821	3.36%
ATCHISON	\$1,250,124	\$1,305,602	\$55,478	4.44%
BARBER	\$588,955	\$606,252	\$17,297	2.94%
BOURBON	\$1,335,275	\$1,197,088	(\$138,187)	(10.35%)
BROWN	\$846,205	\$890,334	\$44,129	5.21%
BARTON	\$3,269,789	\$2,867,468	(\$402,321)	(12.30%)
BUTLER	\$5,356,136	\$5,129,428	(\$226,708)	(4.23%)
CLARK	\$270,171	\$268,014	(\$2,157)	(0.80%)
CLOUD	\$1,153,088	\$904,796	(\$248,292)	(21.53%)
COFFEY	\$557,152	\$953,760	\$396,608	71.18%
CHEROKEE	\$1,297,402	\$1,792,620	\$495,218	38.17%
COWLEY	\$3,446,480	\$3,053,322	(\$393,158)	(11.41%)
COMANCHE	\$269,620	\$261,834	(\$7,786)	(2.89%)
CHEYENNE	\$295,928	\$376,338	\$80,410	27.17%
CHAUTAUQUA	\$402,530	\$385,428	(\$17,102)	(4.25%)
CRAWFORD	\$3,030,263	\$3,025,854	(\$4,409)	(0.15%)
CHASE	\$251,980	\$280,608	\$28,628	11.36%
CLAY	\$849,804	\$787,020	(\$62,784)	(7.39%)
DECATUR	\$340,610	\$374,154	\$33,544	9.85%
DOUGLAS	\$6,771,602	\$7,031,570	\$259,968	3.84%
DICKINSON	\$1,518,554	\$1,661,738	\$143,184	9.43%
DONIPHAN	\$671,646	\$647,460	(\$24,186)	(3.60%)
EDWARDS	\$399,411	\$390,642	(\$8,769)	(2.20%)
ELK	\$298,438	\$285,354	(\$13,084)	(4.38%)
ELLIS	\$2,369,822	\$2,535,680	\$165,858	7.00%
ELLSWORTH	\$530,636	\$592,754	\$62,118	11.71%
FINNEY	\$2,872,079	\$2,962,754	\$90,675	3.16%
FORD	\$2,488,140	\$2,339,768	(\$148,372)	(5.96%)
FRANKLIN	\$1,832,538	\$1,915,890	\$83,352	4.55%
GEARY	\$1,644,838	\$1,601,856	(\$42,982)	(2.61%)
GRAHAM	\$347,843	\$337,412	(\$10,431)	(3.00%)
GREELEY	\$171,440	\$198,966	\$27,526	16.06%
GOVE	\$329,860	\$374,034	\$44,174	13.39%
GRANT	\$611,286	\$910,910	\$299,624	49.02%
GREENWOOD	\$755,844	\$674,586	(\$81,258)	(10.75%)
GRAY	\$622,864	\$613,470	(\$9,394)	(1.51%)
HODGEMAN	\$284,877	\$250,848	(\$34,029)	(11.95%)
HAMILTON	\$238,789	\$272,736	\$33,947	14.22%
HARPER	\$732,227	\$702,648	(\$29,579)	(4.04%)
HASKELL	\$316,326	\$497,480	\$181,154	57.27%
HARVEY	\$2,674,361	\$2,680,382	\$6,021	0.23%
JACKSON	\$993,087	\$984,726	(\$8,361)	(0.84%)
JEFFERSON	\$1,508,961	\$1,632,054	\$123,093	8.16%
JOHNSON	\$56,091,750	\$51,482,658	(\$4,609,092)	(8.22%)
JEWELL	\$391,688	\$404,922	\$13,234	3.38%
KEARNY	\$288,614	\$475,662	\$187,048	64.81%
KINGMAN	\$722,116	\$863,142	\$141,026	19.53%

94Baseline2888newest

COUNTY	94 BASELINE	2888	Difference	% Change
KIOWA	\$357,789	\$409,668	\$51,879	14.50%
LABETTE	\$2,044,148	\$1,832,488	(\$211,660)	(10.35%)
LINCOLN	\$386,884	\$321,738	(\$65,146)	(16.84%)
LANE	\$335,257	\$285,194	(\$50,063)	(14.93%)
LOGAN	\$298,385	\$327,564	\$29,179	9.78%
LINN	\$529,267	\$834,648	\$305,381	57.70%
LEAVENWORTH	\$4,427,272	\$4,757,492	\$330,220	7.46%
LYON	\$2,986,220	\$2,717,682	(\$268,538)	(8.99%)
MITCHELL	\$770,594	\$703,056	(\$67,538)	(8.76%)
MEADE	\$422,406	\$490,716	\$68,310	16.17%
MONTGOMERY	\$3,470,179	\$3,024,446	(\$445,733)	(12.84%)
MIAMI	\$2,453,628	\$2,385,516	(\$68,112)	(2.78%)
MARION	\$1,021,283	\$1,161,890	\$140,607	13.77%
MCPHERSON	\$2,549,418	\$2,675,076	\$125,658	4.93%
MORRIS	\$562,618	\$595,914	\$33,296	5.92%
MARSHALL	\$1,051,636	\$1,056,744	\$5,108	0.49%
MORTON	\$296,493	\$421,212	\$124,719	42.06%
NEMAHA	\$943,146	\$1,035,678	\$92,532	9.81%
NEOSHO	\$1,651,730	\$1,467,846	(\$183,884)	(11.13%)
NESS	\$432,196	\$447,456	\$15,260	3.53%
NORTON	\$526,280	\$516,732	(\$9,548)	(1.81%)
OSBORNE	\$495,433	\$461,486	(\$33,947)	(6.85%)
OSAGE	\$1,271,476	\$1,501,830	\$230,354	18.12%
OTTAWA	\$553,477	\$530,844	(\$22,633)	(4.09%)
PHILLIPS	\$605,571	\$600,750	(\$4,821)	(0.80%)
PAWNEE	\$766,788	\$730,902	(\$35,886)	(4.68%)
PRATT	\$1,102,796	\$1,017,374	(\$85,422)	(7.75%)
POTTAWATOMIE	\$1,194,437	\$1,679,788	\$485,351	40.63%
RAWLINS	\$320,670	\$321,252	\$582	0.18%
RICE	\$960,124	\$974,340	\$14,216	1.48%
RUSH	\$382,872	\$366,564	(\$16,308)	(4.26%)
RILEY	\$3,643,004	\$3,574,274	(\$68,730)	(1.89%)
RENO	\$5,877,905	\$5,501,684	(\$376,221)	(6.40%)
ROOKS	\$606,459	\$612,000	\$5,541	0.91%
REPUBLIC	\$610,305	\$630,098	\$19,793	3.24%
RUSSELL	\$846,280	\$834,718	(\$11,562)	(1.37%)
SALINE	\$4,030,321	\$4,893,512	\$863,191	21.42%
SCOTT	\$572,745	\$619,304	\$46,559	8.13%
SHERIDAN	\$338,945	\$337,908	(\$1,037)	(0.31%)
STAFFORD	\$512,906	\$522,924	\$10,018	1.95%
SEDGWICK	\$37,996,837	\$39,728,614	\$1,731,777	4.56%
SHERMAN	\$715,233	\$691,632	(\$23,601)	(3.30%)
SMITH	\$471,122	\$473,670	\$2,548	0.54%
SHAWNEE	\$18,338,522	\$15,030,238	(\$3,308,284)	(18.04%)
STANTON	\$239,532	\$319,598	\$80,066	33.43%
SUMNER	\$2,700,287	\$2,223,806	(\$476,481)	(17.65%)
STEVENS	\$365,444	\$669,240	\$303,796	83.13%
SEWARD	\$1,531,248	\$1,822,458	\$291,210	19.02%

94Baseline2888newest

<u>COUNTY</u>	<u>94 BASELINE</u>	<u>2888</u>	<u>Difference</u>	<u>% Change</u>	
THOMAS	\$863,686	\$831,690	(\$31,996)	(3.70%)	
TREGO	\$365,158	\$364,734	(\$424)	(0.12%)	
WALLACE	\$184,361	\$211,668	\$27,307	14.81%	
WABAUNSEE	\$532,098	\$650,210	\$118,112	22.20%	
WICHITA	\$305,045	\$284,106	(\$20,939)	(6.86%)	
WILSON	\$904,870	\$870,000	(\$34,870)	(3.85%)	
WOODSON	\$340,753	\$352,578	\$11,825	3.47%	
WASHINGTON	\$580,163	\$603,416	\$23,253	4.01%	
WYANDOTTE	\$15,107,683	\$10,820,774	(\$4,286,909)	(28.38%)	
TOTAL	\$248,991,071	\$240,862,552	(\$8,128,519)	(3.26%)	

Comparing Current Law and HB 2888
Introduced and with Proposed
Amendments (Feb 17)

93 avg levy		Coffey County	Pott County	Saline County	Wallace County	Sedgwick County	Johnson County	Lyon County	Shawnee County	Wyandotte County
		66.528	83.483	95.938	102.250	110.964	120.688	131.212	144.156	170.704
1992 Mercury Grand Marquis Sedan 4D LS (MSRP: \$20,644 KS Car Val: \$17,000)	95 Taxes – Current Law	\$201.10	\$252.35	\$290.00	\$309.08	\$335.42	\$364.81	\$396.63	\$435.75	\$516.00
	95 Taxes – HB 2888	\$288.00	\$288.00	\$288.00	\$288.00	\$288.00	\$288.00	\$288.00	\$288.00	\$288.00
	95 Taxes – Prop Am	\$396.00	\$396.00	\$396.00	\$396.00	\$396.00	\$396.00	\$396.00	\$396.00	\$396.00
1993 Toyota Tercel Sedan 2D (MSRP: \$6,998 KS Car Val: \$5,625)	95 Taxes – Current Law	\$79.21	\$99.40	\$114.23	\$121.75	\$132.12	\$143.70	\$156.23	\$171.65	\$203.26
	95 Taxes – HB 2888	\$156.00	\$156.00	\$156.00	\$156.00	\$156.00	\$156.00	\$156.00	\$156.00	\$156.00
	95 Taxes – Prop Am	\$156.00	\$156.00	\$156.00	\$156.00	\$156.00	\$156.00	\$156.00	\$156.00	\$156.00
1989 Ford Ranger Pickup 5–speed Half–Ton (MSRP: \$7,693 KS Car Val: \$7,500)	95 Taxes – Current Law	\$52.59	\$65.99	\$75.83	\$80.82	\$87.71	\$95.39	\$103.71	\$113.94	\$134.93
	95 Taxes – HB 2888	\$108.00	\$108.00	\$108.00	\$108.00	\$108.00	\$108.00	\$108.00	\$108.00	\$108.00
	95 Taxes – Prop Am	\$108.00	\$108.00	\$108.00	\$108.00	\$108.00	\$108.00	\$108.00	\$108.00	\$108.00
1984 Chevrolet Pickup El Camino (MSRP: \$8,522 KS Car Val: \$7,500)	95 Taxes – Current Law	\$21.99	\$27.60	\$31.71	\$33.80	\$36.68	\$39.90	\$43.37	\$47.65	\$56.43
	95 Taxes – HB 2888	\$48.00	\$48.00	\$48.00	\$48.00	\$48.00	\$48.00	\$48.00	\$48.00	\$48.00
	95 Taxes – Prop Am	\$48.00	\$48.00	\$48.00	\$48.00	\$48.00	\$48.00	\$48.00	\$48.00	\$48.00
1993 Lexus LS 400 (MSRP: \$42,200 KS Car Val: \$35,000)	95 Taxes – Current Law	\$492.89	\$618.51	\$710.79	\$757.55	\$822.11	\$894.15	\$972.12	\$1,068.02	\$1,264.71
	95 Taxes – HB 2888	\$408.00	\$408.00	\$408.00	\$408.00	\$408.00	\$408.00	\$408.00	\$408.00	\$408.00
	95 Taxes – Prop Am	\$564.00	\$564.00	\$564.00	\$564.00	\$564.00	\$564.00	\$564.00	\$564.00	\$564.00
Olds Regency Elite (MSRP: \$26,195 KS Car Val: \$25,000)	95 Taxes – Current Law	\$352.07	\$441.79	\$507.70	\$541.11	\$587.22	\$638.68	\$694.37	\$762.87	\$903.37
	95 Taxes – HB 2888	\$312.00	\$312.00	\$312.00	\$312.00	\$312.00	\$312.00	\$312.00	\$312.00	\$312.00
	95 Taxes – Prop Am	\$432.00	\$432.00	\$432.00	\$432.00	\$432.00	\$432.00	\$432.00	\$432.00	\$432.00
1990 Ford Taurus LX 4–Dr Sedan (MSRP: \$16,000 KS Car Val: \$15,000)	95 Taxes – Current Law	\$125.20	\$157.11	\$180.55	\$192.43	\$208.83	\$227.13	\$246.93	\$271.29	\$321.26
	95 Taxes – HB 2888	\$192.00	\$192.00	\$192.00	\$192.00	\$192.00	\$192.00	\$192.00	\$192.00	\$192.00
	95 Taxes – Prop Am	\$192.00	\$192.00	\$192.00	\$192.00	\$192.00	\$192.00	\$192.00	\$192.00	\$192.00
1994 Vehicle Orig Valued at \$10,500 (MSRP: \$11,200 KS Car Val: \$10,500)	95 Taxes – Current Law	\$176.03	\$220.90	\$253.85	\$270.55	\$293.61	\$319.34	\$347.19	\$381.44	\$451.68
	95 Taxes – HB 2888	\$276.00	\$276.00	\$276.00	\$276.00	\$276.00	\$276.00	\$276.00	\$276.00	\$276.00
	95 Taxes – Prop Am	\$180.00	\$180.00	\$180.00	\$180.00	\$180.00	\$180.00	\$180.00	\$180.00	\$180.00

2/19/94
House-Transportation Cmte
Attachment 16