KLPG

Testimony of Paul Steele, Thomas County Commissioner
President of Kansas Legislative Policy Group
Before the House Committee on Energy and Utilities
RE: House Bill No. 2624
February 7, 2012

Member Counties
Barber
Cheyenne
Clark
Cloud
Ellis
Finney
Gove
Grant
Gray
Hamilton
Harper
Haskell
Lane
Logan
Meade
Morton
Ness
Norton
Rawlins
Rice
Russell
Scott
Sheridan
Stanton
Stevens
Thomas
Trego
Wallace
Wichita

Dear Chairman Holmes and Members of the Committee:

The Kansas Legislative Policy Group (KLPG) is providing testimony in support of House Bill No. 2624. KLPG is a bi-partisan, non-profit corporation of elected county commissioners from 29 counties across Kansas. We appreciate the opportunity to submit remarks on this issue, because our members recognize that this matter is of great importance to our communities and it is equally important for legislative committees to hear from constituent groups.

In 2004, counties came to the Legislature seeking a method to help communities prepare and transition away from the reliance on mineral valuations for our county budgets as the mineral resources in our areas deplete. One year later, in 2005, the Kansas Legislature adopted the policy position and established the Oil and Gas Valuation Depletion Fund (in K.S.A. 79-4227 and 79-4231) as a resource for counties when future mineral valuations declined and less revenue was available as a result of this valuation decline. Beginning on July 1, 2008, counties that had $100,000 or more in receipts from the severance tax on oil and gas in fiscal year 2005 or any year after had a separate trust fund set up by the Director of Taxation within the Department of Revenue. Starting in October of 2009, a portion (currently 12.41%) of the severance tax remitted to the State is being credited proportionally to each county's account and held in trust for the benefit of the local governments in the oil and gas producing counties across Kansas. Currently 67 of the 90 producing counties across Kansas have oil, gas or oil and gas production sufficient enough to have funds credited to their respective trust accounts, the remaining 23 counties have not met the annual $100,000 statutory threshold. An automatic release of trust account funds (a 20% distribution) is triggered for a participating county when the county's mineral valuation has fallen 50% for two succeeding years.

To date only one county has hit the two-year valuation decline threshold for eligibility to receive a payment from the fund – Chase County received $352.91 in October, 2011. Several counties have met the requirement for one year, but saw valuation changes in the second year that removed them from eligibility.

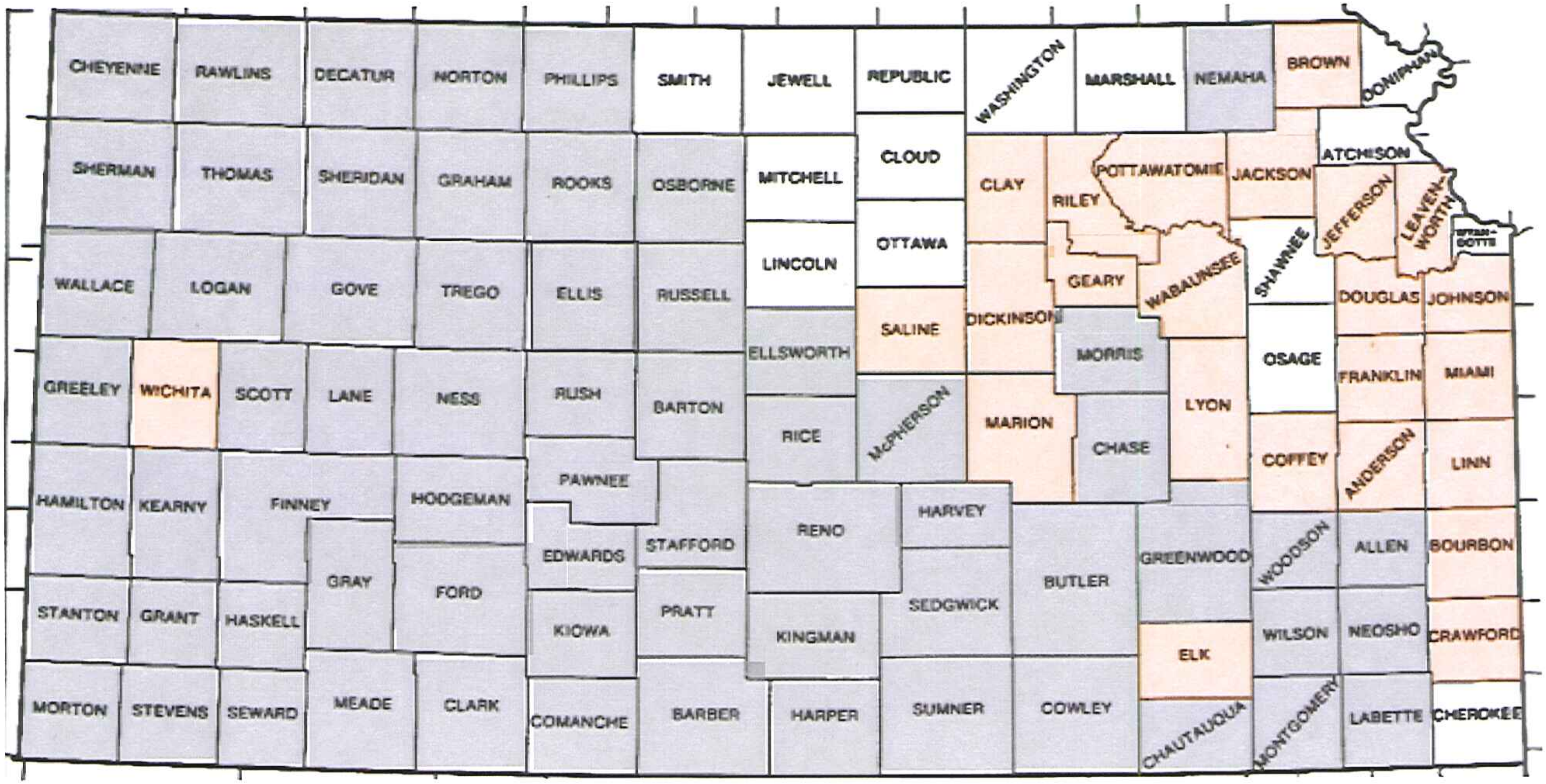
Kansas has been blessed with the development of oil and gas for more than a century that means that most of the oil and gas fields in Kansas are mature fields and are past their peak production volumes. Overall, oil and gas mineral interests make up 6.37% of the total real and personal property values statewide (2010 KDOR PVD Summary). However, for KLPG member counties those mineral values range from 0% in Cloud County to a high of 75.56% in Haskell County and average for our member counties at 33.35%.

House Bill No. 2624 would annually transfer the funds set-aside at the State to the County Treasurer in each county, to be held in a trust account by the Treasurer until release is authorized by the Director of Taxation pursuant to the current statutory mechanism, protecting and reserving the funds for their intended purpose and separate them from potential fund/fee sweeps.

This bill isn't about the public policy of a depletion fund, the House of Representatives, Senate and Governor addressed that in 2005. This is about focusing on the objective of the funds and securing their long-term future. These funds are important to the well being of our community's future.

Kansas Legislative Policy Group encourages this Committee to act favorably on House Bill No. 2624.

Thank you for your consideration and the opportunity to present these remarks.



Counties with Mineral Tax Depletion Trust Fund

Counties with no mineral production

Counties with mineral production, but no Mineral Tax Depletion Trust Fund