

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Stephen Morris at 10:35 a.m. on February 24, 2004, in Room 123-S of the Capitol.

All members were present.

Committee staff present:

Alan Conroy, Director, Kansas Legislative Research Department
J. G. Scott, Chief Fiscal Analyst, Kansas Legislative Research Department
Amy Deckard, Kansas Legislative Research Department
Susan Kannarr, Kansas Legislative Research Department
Norman Furse, Revisor of Statutes
Jill Wolters, Senior Assistant, Revisor of Statutes
Judy Bromich, Administrative Analyst
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Representative Bill Light
Representative Gary Hayzlett
Bob Boaldin, President, Kansas Legislative Policy Group and Morton County Commission
Madison Traster, Ulysses, Kansas, Grant County Commission
David Bozone, Hugoton, Kansas, Stevens County Commission
Gene Schwein, Ulysses, Kansas, Grant County Commission
Neal Gillespie, Director, Stevens County Economic Development and Mayor of Hugoton, Kansas
Richard Veach, General Manager, Pioneer Communications, Ulysses, Kansas
Jerry Davis, Chairman, Finney County Board of Directors
Melvin Webb, Stevens County Board of Commissioners
Ken Peterson, Kansas Petroleum Council
John Crump, President, Board of Directors, Southeast Kansas Royalty Owners Association
(written)
Dennis Jones, Kearny County Attorney, Lakin, Kansas (written testimony)
Board of County Commissioners, Meade County (written testimony)
Alan Goering, on behalf of Barber County (written testimony)
Ray Brown, on behalf of Haskell County (written testimony)

Others attending:

See Attached List.

Bill Introductions

Senator Adkins moved, with a second by Senator Helgerson, to introduce two bills: an act concerning certain postsecondary educational institutions; relating to out-district tuition (3rs2020) and an act concerning sales taxation; relating to exemptions; aircraft and aircraft repair (3rs1716). Motion carried on a voice vote.

Chairman Morris opened the public hearing on:

SB 487--Creating the gas valuation depletion trust fund and providing for distribution of moneys therefrom

Chris Courtwright, Principal Economist, Kansas Legislative Research Department, briefed the committee on the bill. Mr. Courtwright distributed the following information:

- Flow Chart and the estimated fiscal impact of **SB 487** (Attachment 1)
- Oil and Gas Fields in Kansas (Attachment 2)
- Statewide Natural Gas Production; Mineral Tax Collections, Natural Gas; and Natural Gas

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Prices FY 1996 - FY 2005 (Attachment 3)

Chairman Morris explained that southwest Kansas is the home of the Hugoton Gas Field which is one of the world's largest gas fields. He noted that unfortunately it is in a state of decline in that it has lost half of its production. This has serious implications for the State of Kansas and for the residents in southwest Kansas. Since severance tax was enacted twenty years ago there has been over \$1 billion put into the state's coffers from severance tax.

The Chairman noted that the Hugoton field has been a great resource for the State of Kansas and southwest Kansas has had jobs because of it, but during the past ten years southwest Kansas has lost hundreds of jobs. The concern is that once that resource is completely depleted after producing billions of dollars over the years there will not be anything left from this resource and **SB 487** is a very modest attempt to try to put a small minute portion of the money back to where this resource started.

The Chairman welcomed the following conferees that testified on **SB 487**:

Representative Bill Light expressed his support of **SB 487**. (No written testimony was submitted.) He explained that he, as a Legislator, represents a number of the counties that will be discussed in the bill. Representative Light felt that this was a very important subject for the committee to take up at this time, not only for the counties present, but also for the State of Kansas because of the depletion of the Hugoton gas field.

Representative Gary Hayzlett testified in support of **SB 487**. (No written testimony was submitted.) He explained that he also comes from one of the affected counties. Representative Hayzlett mentioned that he served as a county commissioner for sixteen years and the decline of the Hugoton gas field was one of the fears that they always discussed and what it would do to their area from an economic standpoint. He feels that **SB 487** will address that fear and he is very supportive of the bill.

Bob Boaldin, President, Kansas Legislative Policy Group, Proponent, spoke in support of **SB 487** and explained that this is not a new tax (Attachment 4). He noted that the bill provides a portion of the severance tax currently remitted to the state to be held in a trust for the benefit of local governments and the bill prescribes the distribution method.

Madison M. Traster, Grant County Commissioner, testified in support of **SB 487** (Attachment 5). Mr. Traster explained that as resources in western Kansas are depleted, there will be a profound decrease in their tax contribution to the state. He noted while they are working hard to diversify the economy to cushion the economic and social impact of the ultimate depletion of their natural gas reserves, they believe these funds should be set aside to be used as we adjust to new economic conditions and as they shift to other businesses and industries to rebuild their tax base.

Dave Bozone, Stevens County Commissioner, spoke in support of **SB 487** (Attachment 6). Mr. Bozone mentioned that, in reference to the Hugoton gas field, most of this natural resource has not only left the county, but the State of Kansas as well. He explained that their counties are sparsely populated, so a small group of citizens will carry the tax burden when the mineral base is depleted. He expressed the hope for help from state government in preparing for the financial security of Stevens county. Mr. Bozone noted that they favor the establishment of a trust fund for this purpose.

Gene Schwein, Grant County Commissioner, testified in support of **SB 487** (Attachment 7). Mr. Schwein explained that the bill would give their counties a bigger proportionate share of the severance tax, which is already in place without an increase in taxes. He mentioned that he has some reservations about some of the wording in the bill, but felt that it could be corrected by amendments.

Neal Gillespie, Stevens County Economic Development Director and Mayor of Hugoton, spoke in support of **SB 487** (Attachment 8). Mr. Gillespie expressed concern that the second largest gas field, Hugoton, not be pulled out from under Kansas without setting aside a reserve for future generations. He noted that the Hugoton field will continue blessing long after it is depleted if acted on quickly and wisely.

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Richard Veach, General Manager, Pioneer Communications, headquartered in Ulysses, Kansas, testified in support of **SB 487** (Attachment 9). Mr. Veach noted that as the Hugoton field declines, it not only affects the natural gas and oil portion of valuation, it also affects value of support industries. He mentioned that the impact of this occurring is impossible to measure; however, it will certainly be devastating to their local and regional economy.

Jerry Davis, Chair, Board of County Commissioners of Finney County, spoke in support of **SB 487** (Attachment 10). Mr. Davis explained that mineral valuation is a significant part of the total valuation of Finney County as well as a number of other counties in southwest Kansas. He noted that **SB 487** proposes to create a fund that will enable them to deal with any abrupt changes in valuation that may occur in future years.

Melvin Webb, Stevens County Board of Commissioners, asked support of **SB 487**. He provided a brief history of the discovery and development of Gas and oil in southwest Kansas (Attachment 11). Mr. Webb explained that **SB 487** would provide some assistance during a time of transition as they seek other avenues of growth of their tax base in Stevens County.

Ken Peterson, Kansas Petroleum Council and authorized to speak on behalf of KIOGA, presented neutral testimony regarding **SB 487** (Attachment 12). Mr. Peterson explained industry concerns in detail in his written testimony.

Written testimony was submitted by the following conferees:

John Crump, President, Southwest Kansas Royalty Owners Association (Attachment 13)

Thomas W. Wright IV, Chairman Board of County Commissioners, Kearney County and Dennis C. Jones, Kearny County Attorney (Attachment 14)

Max Johanson, Chairman; Harold Rickers and Bob Glenn, Mead County Commissioners (Attachment 15)

Alan C. Goering, on behalf of Barber County (Attachment 16)

Ray Brown, Haskell County Commissioner (Attachment 17)

There being no further conferees to come before the committee, the Chairman closed the public hearing on **SB 487**.

The meeting adjourned at 11:30 a.m. The next meeting is scheduled for February 25, 2004.