

COMMENTS TO THE HOUSE TAXATION COMMITTEE

OPPOSING REPEAL OF THE SEVERANCE TAX EXEMPTION IN HOUSE BILL 2560

FEBRUARY 9, 2012

One of the overlooked parts of the Governor's tax plan is repeal of the two-year severance tax exemption on new pools. We encourage the committee to take a serious look at this provision because enactment could jeopardize the ability of Kansas to compete with investment capital as the oil and gas industry looks at incentives offered by other states.

On January 19, Dr. Arthur Laffer told this committee, "If you do have a severance tax, I would use it every day of the week and twice on Sunday." He didn't tell the whole story, and it has a direct bearing on how Kansas competes with other states, especially Oklahoma, for investment in exploration and production.

A severance tax is not the only tax Kansas imposes on oil and gas production. Kansas also levies an ad valorem tax on reserves in the ground, based on estimates. In other words, oil and gas producers pay ad valorem taxes on production they have not realized. Combined, our state's severance and ad valorem taxes are a double-whammy on every barrel of crude oil and mcf of gas produced in Kansas, and it compares unfavorably with neighboring states. Oklahoma has a severance tax, but imposes no ad valorem tax. Guess where the investment would be more attractive?

The repeal directly targets potential development of the Mississippi Limestone formation in south central Kansas, even before it starts and definitely before the companies actually know what's there.

During town hall meetings last fall and winter at Chaparral High School and in Wellington, three of the m companies in the Mississippi Limestone were reticent in their predictions about what the ultimate outcome will be. They were honest with local residents and made no grandiose promises about what their exploration will find. All said they really wouldn't know for 12 to 18 months. So far, leaseholds have been established over huge acreages in south central Kansas, local residents have benefitted from the activity, and cities and counties have welcomed the potential jobs and dollars invested in their area.

Development in the Mississippi Limestone formation of south central Kansas could be an economic boon for the state, for jobs, for landowners and for local governments and communities. We respectfully ask that the committee carefully consider the ramifications of repealing the severance tax moratorium and ask that it be dropped from the bill. Thank you for your time and courtesy.

Ken Peterson, executive director

