

April 29, 2015

The Honorable Marvin Kleebl, Chairperson
House Committee on Taxation
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative Kleebl:

SUBJECT: Fiscal Note for HB 2264 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2264 is respectfully submitted to your committee.

HB 2264 would classify certain equipment and material used in operating oil and gas wells and certain equipment and material temporarily used at an oil or gas well site as personal property and assessed property taxes as commercial machinery and equipment beginning in tax year 2015. In order to qualify as personal property, the equipment and materials would be required to be used for a specific purpose on an oil and gas well site and cannot be attached to the real property.

Passage of HB 2264 would decrease property tax revenues by allowing certain property that is currently classified as real property to be classified as personal property. The Department of Revenue indicates the bill has the potential to reduce the assessed valuation for certain equipment and material used in operating oil and gas wells. The state funds directly affected by this bill are the two building funds, the Educational Building Fund (EBF) and the State Institutions Building Fund (SIBF). The Department of Revenue estimates this bill would decrease revenues to these two funds by \$70,128 in FY 2016, with \$46,752 going to the EBF and \$23,376 going to the SIBF. The bill would decrease property tax revenues by \$935,047 that school districts would receive through the state's uniform mill levy. The bill would also decrease revenues to any local government that levies a property tax.

To develop these estimates, the Department examined the assessed valuation for certain equipment and material used in operating oil and gas wells. The Department of Revenue indicates that itemized equipment used in operating oil and gas wells had assessed valuation of \$46,752,337 in tax year 2014. Assuming that this equipment was acquired after June 30, 2006, the machinery and equipment would fall under the existing commercial and industrial machinery and equipment property tax exemption. Any fiscal effect associated with HB 2264 is not reflected in *The FY 2016 Governor's Budget Report*.

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The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would reduce local property tax collections by lowering the assessed valuation on certain equipment and material used in operating oil and gas wells. However, they do not have data to be able to provide an accurate estimate of the amount of reduced property tax collections from this type of property to make a precise estimate of the fiscal effect on local governments.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, KDOR
Larry Baer, LKM
Melissa Wangemann, KAC
Amy Gilbert, KCC
Dale Dennis, Education