Approved: April 27, 2001
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 11:15 a.m. on April 25, 2001, in Room 245-N of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Jack Glaves, OXY USA, Inc.
Bob Krehbiel, Kansas Independent Oil & Gas Association
Ron Hein, Pioneer Natural Resources, Inc.
Ron Gaches, The Williams Companies, Inc.
Brad Smoot, American Insurance Association

Others attending: See attached list.

Consideration and possible action regarding tax policy adjustments recommended by the Senate Ways and Means Committee.

Chairman Corbin discussed the revenue enhancements the Senate Ways and Means Committee recommended on Friday, April 20, for the following areas:

- Insurance premiums taxes. Beginning in tax year 2001, the amount of salaries paid to Kansas employees allowed to be claimed as a credit against the tax would be reduced from 30 to 15 percent. An additional limitation on such credit would be changed to provide that the credit not reduce the tax by more than 1.125 percent for certain insurance companies and by more than 0.85 percent for insurance companies having affiliates.

- Motor fuels tax. A one cent per gallon motor fuels tax increase currently scheduled to take effect on July 1, 2003, would be accelerated to July 1, 2001. Statutory distribution percentages would be adjusted to allow the accelerated money to flow exclusively to the State Highway Fund (SHF) and not to the Special City and County Highway Fund for two years. The sales tax demand transfer to the SHF would be reduced in fiscal years 2002, 2003, and 2004 by the estimated amount of accelerated motor fuels tax which would be available to the SHF during that time.

- Severance tax. Severance tax collections would be accelerated to require remittances on or before the 20th day of the first month following the end of the production month (in lieu of on or before the 20th day of the second month following the end of the production month).

Chairman Corbin called attention to a table distributed by Chris Courtwright, Kansas Legislative Research Department, which indicates the amount of taxes which would be collected for each of the proposed revenue enhancements. (Attachment 1)

Jack Glaves, representing OXY USA, Inc., testified in opposition to the acceleration of severance tax payments. He emphasized that natural gas marketing has become extremely complicated with a myriad of variations. He discussed the continuing adjustments which must be made with regard to the to the original meter volume. He noted that, given these complexities, the current statutory lag between production and severance tax remittance is necessary. Without that lag in time, severance tax payments would have to be made on an estimated basis. In conclusion, Mr. Glaves maintained that accelerating collections would impede reporting accuracy and would result in a significant fiscal note for the Kansas Department of Revenue. (Attachment 2)

Bob Krehbiel, Kansas Independent Oil and Gas Association, distributed written statements from two individuals who are involved with the payment of severance tax. One statement is from Emma C. Richmond, Redwing Gas Systems Inc., who opposes accelerating the payment date for severance taxes on natural gas because she feels it is not practical to expect severance tax remitters to remit the tax to the state before they receive the revenue or have the opportunity to analyze the supporting detail. (Attachment 3) The other statement is from Charles B. Wilson, Central Crude Corporation, who opposes accelerating severance tax payments for crude oil because it is not clear what date is meant by moving the date from two months to one month and because processing estimated severance tax payments would greatly increase the workload of the first purchaser's staff and the Department of Revenue's staff. (Attachment 4) Mr. Krehbiel went on to say that he agrees with the testimony given by Mr. Glaves.

Ron Hein, representing Pioneer Natural Resources, testified in opposition to accelerating the collection of severance taxes. He maintained that acceleration of collection of severance taxes cannot possibly be done unless more people are hired to collect necessary data in a shorter period of time. He argued that the great expense that would be involved is not worth the one-time $6 million benefit to the state. He pointed out that the extra employees hired due to the accelerated payment requirement would continue to be employees afterwards, and this would create a burden for companies.

Senator Donovan stated that, as a retailer that collects and submits sales tax, it became costly when his business went on an accelerated program. He noted that prepayment of taxes causes the Department of Revenue to spend a great deal of extra time in reconciling the prepaid amounts to the real amount shown on the paperwork at the end of the month. In his opinion, accelerated tax collection is not worth the extra time and expense it involves.

Senator Goodwin pointed out that two conferees discussed the fiscal note to the state with regard to the proposed accelerated severance tax payments and asked if a fiscal note from the Division of Budget had been prepared. In response, Chairman Corbin said that a fiscal note had not been requested.

Senator Lee stated that she could not support any of the proposals and that she felt more information is needed before the Committee acts on the recommendations by the Ways and Means Committee.

Ken Peterson, representing the Kansas Petroleum Council, distributed copies of a statement from Dick Brewster, bp, who urges that the current severance tax remittance time remain undisturbed. Mr. Brewster points out in his statement that the extensive and additional accounting process resulting from accelerating the collection of the severance tax would significantly increase the cost of producing gas in Kansas and, thus, would adversely affect the ability of Kansas to remain competitive in attracting investment dollars. (Attachment 5)

Ron Gaches, representing The Williams Companies, Inc., and Colorado Interstate Gas, stood to state that the companies share the concerns expressed by Mr. Glaves in his testimony.

There being no others wishing to testify, Chairman Corbin closed the public participation in the meeting and called the Committee's attention to copies of a table based on 1999 premium tax credit figures for several insurance companies. (Attachment 6) He called attention to the last three columns of the table. He noted that the last column indicates that $8.1 million would be raised.

Brad Smoot, representing the American Insurance Association, stood to inform the Committee that he had prepared the table in connection with a floor amendment, and it is based on Legislative Post Audit reports. He explained that the list is a sample of some of the largest insurance companies which generate most of the money and noted that many other companies would be affected. He said that 238 companies took the salary credit, meaning that they had employees in Kansas. He reported that the insurance industry's preference is the third column, and there has been general acceptance of the fourth column. However, there is substantial opposition to the final column from some companies. Senator Praeger commented that the increase from $7.3 million to $8.1 million creates a pain to the industry that is not worth the dollars which would be raised.

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Chairman Corbin noted that the Ways and Means Committee picked dollar amounts to be raised and picked the areas from which they wanted the dollars to come. He went on to inform the Committee that **HB 2065**, which originally pertained to sales tax exemption for grain storage facility construction materials and services, was selected to be conceptually amended with regard to the three substantive tax policy adjustments recommended by the Ways and Means Committee.

Following a discussion regarding procedural questions raised by Senator Goodwin, Chairman Corbin said he believes that the Ways and Means Committee is asking the Assessment and Taxation Committee to codify their recommended revenue enhancements. Senator Clark suggested that, before the Committee makes a decision whether or not to pass the proposed amended bill out of committee, a member of the Ways and Means Committee should be invited to a future meeting of the Assessment and Taxation Committee to fully explain the rationale of recommending the three tax policy adjustments. Senator Praeger commented that perhaps passing a bill out of committee might be premature because all of the tax proposals had not yet been explored by the Legislature.

Chairman Corbin said that, rather than forcing the issue by asking committee members to vote on something they are not comfortable with, his intent was to delay action until such time as a member from the Ways and Means Committee could come to a future meeting and explain why the recommendations were made.

The meeting was adjourned at 12:05 p.m.

The next meeting date and time is to be announced.