

Nick Jordan, Secretary
David N. Harper, Director

Sam Brownback, Governor

TO: Representative Marvin Kleeb, Chairman
House Standing Committee on Taxation

FROM: David Harper, Director
Kansas Division of Property Valuation

DATE: March 3, 2016

SUBJECT: House Bill 2701

The purpose of House Bill 2701 as introduced is to establish a standard cut-off date for which information may be considered in establishing the fair market value of producing oil or gas leases.

The Division of Property Valuation supports the addition of a date to K.S.A. 79-331 to clearly establish the time frame for which post appraisal date data may be considered. This will add uniformity and clarity for county appraisers, taxpayers, hearing officers and appeal boards.

It has been established through various Kansas court rulings that production data pertaining to periods after January 1 is relevant, particularly when there have been significant changes in production late in the calendar year. There are also a number of factors currently referenced in policy and statute which support the establishment of a post January 1 cut-off date for the allowance of data as it relates to the appraisal of oil or gas leases.

- The PVD Oil and Gas Appraisal Guide supports the validity of considering first quarter production when sufficient data is not available as of January 1 of the appraisal year.
- Kansas court rulings support the validity of the acceptance of post appraisal date data for new and flush production leases. Typically the first quarter of the year has been noted as sufficient, but PVD staff has recognized data through June may need to be considered if first quarter data is insufficient to establish changes in production.
- The Uniform Standards of Appraisal Practice (USPAP) recognizes retrospective appraisals (effective date of the appraisal prior to the date of the report) may be required for property tax matters. USPAP advisory opinions offer “Data subsequent to the effective date may be considered in developing a retrospective value as a confirmation of trends that would reasonably be considered by a buyer or seller as of that date.”

USPAP also advises the appraiser to determine a logical cutoff for the data to be used. To add uniformity to our appraisal process in Kansas, it appears having the “cutoff date” clearly established and universally applied provides the greatest benefit to our property tax system.

- The property tax calendar:
 - April 1 – deadline for taxpayers to file oil and gas property renditions with the county
 - May 1 – notification of value for personal property
 - May 15 – deadline in which taxpayer may file an equalization appeal for personal property
 - June 15 – certification of final value by the county appraiser to the county clerk

A specific date prior to June 15 seems to be a logical cutoff for the data which will be considered for the current year appraisal.

PVD appreciates the House Tax Committee's willingness to review this matter. The number of properties for which this is an issue is a likely a relatively small number, but it would be beneficial to all involved in the valuation process to have a specific cut-off date listed in statute.