

March 3, 2026

The Honorable Emil Bergquist, Chairperson
House Committee on Local Government
300 SW 10th Avenue, Room 281-N
Topeka, Kansas 66612

Dear Representative Bergquist:

SUBJECT: Fiscal Note for HB 2775 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2775 is respectfully submitted to your committee.

HB 2775 would provide a three-year exemption from oil and gas severance taxes for new wells. The bill would become effective in tax year 2026.

The Department of Revenue estimates that HB 2775 would decrease state revenues by \$2.1 million in FY 2027. Of that total, the State General Fund is estimated to decrease by \$1,533,000, the Mineral Production Education Fund is estimated to decrease by \$420,000, and the Special County Mineral Production Tax Fund is estimated to decrease by \$147,000. The bill would have similar results in future years; however, future reductions to severance tax collections are dependent on future oil and gas prices and production levels.

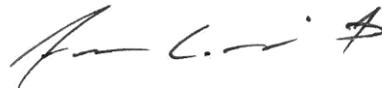
To formulate these estimates, the Department of Revenue reviewed data on mineral tax statistics from tax year 2024, and data on mineral tax and well counts from the Kansas Geological Survey (KGS). The KGS data was used to estimate the amount of severance tax that is received from recently established wells. Most oil and gas wells in Kansas are vertical wells with a relatively consistent rate of production throughout their use that slowly declines over decades. KGS data show that 2.2 percent of oil and gas wells in Kansas were started in the last three years. A total of \$2.2 billion of oil and gas gross value was produced in tax year 2024. With an effective tax rate of 4.33 percent, the bill would decrease severance tax collections by approximately \$2.1 million per year. The bill is retroactive to the start of tax year 2026, with the first impact being seen in FY 2027.

The fiscal effect on severance tax collections has the potential to increase or decrease based on oil and natural gas prices and the number of rigs exploring for new wells. As crude oil and natural gas prices have declined in recent years, the number of rigs exploring for new wells has also declined. If oil and natural gas prices increase in the future and remain high for a sustained length of time, this could spur exploration that could lead to establishing new and productive wells. According to the Department, reissuing publications, creating new exemption certificates, and revising forms would cost \$3,140 from the State General Fund in FY 2027.

The Department of Education indicates that the bill would decrease state revenues to the Mineral Production Education Fund as noted above. Less Mineral Production Education Fund revenue would also affect state expenditures for aid to school districts. To the extent that less Mineral Production Education Fund revenue would be available to fund expenditures for school districts, the state would be required to provide additional state aid from the State General Fund through the school finance formula. Any fiscal effect associated with HB 2775 is not reflected in *The FY 2027 Governor's Budget Report*.

The Kansas Association of Counties indicates the bill would reduce revenues that counties receive from the Special County Mineral Production Tax Fund. Counties receive quarterly distributions from the Department of Revenue based on the amount of severance tax collected in each county. The amount of the reduction would vary by county.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam C. Proffitt", with a stylized flourish at the end.

Adam C. Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Gabrielle Hull, Department of Education
Bruce Chladny, Kansas Association of Counties