

**First Regular Session
Seventy-fifth General Assembly
STATE OF COLORADO**

REVISED

*This Version Includes All Amendments Adopted
on Second Reading in the Second House*

LLS NO. 25-0165.01 Clare Haffner x6137

SENATE BILL 25-040

SENATE SPONSORSHIP

Roberts and Simpson, Bridges, Marchman, Pelton B., Amabile, Pelton R.

HOUSE SPONSORSHIP

McCormick and Martinez,

Senate Committees

Agriculture & Natural Resources
Appropriations

House Committees

Agriculture, Water & Natural Resources
Appropriations

A BILL FOR AN ACT

101 **CONCERNING THE CREATION OF THE FUTURE OF SEVERANCE TAXES**
102 **AND WATER FUNDING TASK FORCE, AND, IN CONNECTION**
103 **THEREWITH, MAKING AN APPROPRIATION.**

Bill Summary

(Note: This summary applies to this bill as introduced and does not reflect any amendments that may be subsequently adopted. If this bill passes third reading in the house of introduction, a bill summary that applies to the reengrossed version of this bill will be available at <http://leg.colorado.gov/>.)

Water Resources and Agriculture Review Committee. The bill creates the future of severance taxes and water funding task force (task force).

The department of natural resources is required to contract with a third party to conduct a study on severance taxes and water funding and

Shading denotes HOUSE amendment. Double underlining denotes SENATE amendment.
Capital letters or bold & italic numbers indicate new material to be added to existing law.
Dashes through the words or numbers indicate deletions from existing law.

HOUSE
Amended 2nd Reading
May 1, 2025

SENATE
3rd Reading Unamended
April 15, 2025

SENATE
Amended 2nd Reading
April 14, 2025

develop recommendations for ways to continue funding water needs in the face of decreasing severance tax revenue (study). The purpose of the task force is to work with the third party to conduct the study and develop recommendations.

No later than January 15, 2026, the third party must submit a draft report, detailing the results of the study and any recommendations, to the department of natural resources and the task force for review. The task force is required to provide input on the draft report. No later than July 15, 2026, the third party must submit a final report, which incorporates the input of the task force, to the water resources and agriculture review committee (committee). The task force must present the final report to the committee during the 2026 legislative interim.

Be it enacted by the General Assembly of the State of Colorado:

SECTION 1. Legislative declaration. (1) The general assembly finds and declares that:

(a) Severance taxes provide a source of revenue to the state and the state's political subdivisions;

(b) A portion of revenues derived from severance taxes is used to fund the development and conservation of the state's water resources;

(c) Another portion of revenues derived from severance taxes is made available to local governments to offset the impact created by nonrenewable resource development;

(d) The state also relies on severance tax revenue to fund staff positions in the department of natural resources and the department of local affairs;

(e) In times of need, the state has relied on severance tax revenue to backfill the state budget, which depletes funding from programs that would otherwise benefit local governments; and

(f) There is a need to study how the state can:

(I) Avoid using severance tax revenue to backfill the state budget in the future;

1 (II) Begin to pay back the severance tax revenue previously used
2 to backfill the state budget; and

3 (III) Continue to fund water needs and grants to local
4 governments without relying on the revenues derived from severance
5 taxes.

6 **SECTION 2.** In Colorado Revised Statutes, **add** 37-98-106 as
7 follows:

8 **37-98-106. Future of severance taxes and water funding task**
9 **force - created - membership - third party to conduct study - report**
10 **- definitions - repeal.** (1) AS USED IN THIS SECTION, UNLESS THE
11 CONTEXT OTHERWISE REQUIRES:

12 (a) "COMMITTEE" MEANS THE WATER RESOURCES AND
13 AGRICULTURE REVIEW COMMITTEE CREATED IN SECTION 37-98-102
14 (1)(a)(I).

15 (b) "TASK FORCE" MEANS THE FUTURE OF SEVERANCE TAXES AND
16 WATER FUNDING TASK FORCE CREATED IN SUBSECTION (2) OF THIS
17 SECTION.

18 (c) "THIRD PARTY" MEANS THE THIRD PARTY HIRED BY THE
19 DEPARTMENT OF NATURAL RESOURCES PURSUANT TO SUBSECTION (5)(a)
20 OF THIS SECTION.

21 (2) (a) THE FUTURE OF SEVERANCE TAXES AND WATER FUNDING
22 TASK FORCE IS CREATED IN THE DEPARTMENT OF NATURAL RESOURCES.

23 (b) THE TASK FORCE CONSISTS OF THE FOLLOWING MEMBERS:

24 (I) THE EXECUTIVE DIRECTOR OF THE DEPARTMENT OF NATURAL
25 RESOURCES OR THE EXECUTIVE DIRECTOR'S DESIGNEE;

26 (II) THE DIRECTOR OF THE COLORADO WATER CONSERVATION
27 BOARD CREATED IN SECTION 37-60-102 OR THE DIRECTOR'S DESIGNEE;

1 (III) THE COMMISSIONER OF AGRICULTURE OR THE
2 COMMISSIONER'S DESIGNEE;

3 (IV) A REPRESENTATIVE OF AN ENVIRONMENTAL ADVOCACY
4 ORGANIZATION, APPOINTED BY THE SPEAKER OF THE HOUSE OF
5 REPRESENTATIVES;

6 (V) A REPRESENTATIVE OF THE OIL AND GAS INDUSTRY WITH
7 EXPERIENCE IN SEVERANCE TAX ISSUES, APPOINTED BY THE MINORITY
8 LEADER OF THE SENATE;

9 (VI) A REPRESENTATIVE OF A WATER CONSERVATION DISTRICT,
10 APPOINTED BY THE PRESIDENT OF THE SENATE;

11 (VII) A REPRESENTATIVE OF THE AGRICULTURE INDUSTRY WITH,
12 TO THE EXTENT POSSIBLE, EXPERIENCE IN THE INTERSECTION OF
13 AGRICULTURE, WATER PROJECTS, AND THE OIL AND GAS INDUSTRY,
14 APPOINTED BY THE MINORITY LEADER OF THE HOUSE OF
15 REPRESENTATIVES;

16 (VIII) A COUNTY COMMISSIONER FROM A COUNTY THAT CONTAINS
17 OIL AND GAS OPERATIONS, APPOINTED BY THE GOVERNOR; ■

18 (IX) AN ELECTED MUNICIPAL OFFICIAL OR CITY OR TOWN
19 MANAGER FROM A CITY, TOWN, OR CITY AND COUNTY THAT HAS BEEN
20 SOCIALLY OR ECONOMICALLY IMPACTED BY THE DEVELOPMENT,
21 PROCESSING, OR ENERGY CONVERSION OF OIL AND GAS OPERATIONS
22 SUBJECT TO TAXATION UNDER ARTICLE 29 OF TITLE 39, APPOINTED BY THE
23 GOVERNOR; AND

24 (X) THE EXECUTIVE DIRECTOR OF THE DEPARTMENT OF LOCAL
25 AFFAIRS OR THE EXECUTIVE DIRECTOR'S DESIGNEE.

26 (3) THE PURPOSE OF THE TASK FORCE IS TO CONSULT AND
27 COORDINATE WITH THE THIRD PARTY IN THE DEVELOPMENT OF A STUDY

1 REGARDING THE FUTURE OF SEVERANCE TAXES AND WATER FUNDING IN
2 THE STATE.

3 (4) (a) NO LATER THAN SEPTEMBER 1, 2025, THE APPOINTING
4 AUTHORITIES SHALL MAKE APPOINTMENTS TO THE TASK FORCE.

5 (b) THE DEPARTMENT OF NATURAL RESOURCES SHALL PROVIDE
6 STAFF AND OTHER RESOURCES TO SUPPORT THE WORK OF THE TASK FORCE.

7 (c) THE TASK FORCE SHALL CONDUCT MEETINGS AS NECESSARY TO
8 PERFORM ITS DUTIES PURSUANT TO THIS SECTION. EVERY MEETING OF THE
9 TASK FORCE MUST BE OPEN TO THE PUBLIC AND INCLUDE AN OPPORTUNITY
10 FOR PUBLIC TESTIMONY.

11 (d) THE MEMBERS OF THE TASK FORCE SERVE WITHOUT
12 COMPENSATION BUT MAY BE REIMBURSED FOR ANY REASONABLE
13 EXPENSES INCURRED IN THE PERFORMANCE OF THE DUTIES REQUIRED
14 UNDER THIS SECTION.

15 (5) (a) THE DEPARTMENT OF NATURAL RESOURCES SHALL
16 CONTRACT WITH A THIRD PARTY TO CONDUCT A FUTURE OF SEVERANCE
17 TAXES AND WATER FUNDING STUDY. THE PURPOSE OF THE STUDY IS TO
18 EXPLORE WAYS TO CONTINUE FUNDING WATER NEEDS AND ENERGY
19 IMPACT GRANTS DISTRIBUTED PURSUANT TO SECTION 39-29-110 (1)(b)(I)
20 IN THE FACE OF THE DECREASING AVAILABILITY OF SEVERANCE TAX
21 REVENUE COLLECTED PURSUANT TO ARTICLE 29 OF TITLE 39 AND TO
22 DEVELOP RELATED RECOMMENDATIONS. THE STUDY MUST FOCUS ON
23 IDENTIFYING WAYS TO ALLEVIATE THE NEED TO TRANSFER REVENUES
24 DERIVED FROM SEVERANCE TAXES TO THE GENERAL FUND AND TO
25 REPLACE SEVERANCE TAX REVENUE THAT WAS PREVIOUSLY
26 TRANSFERRED.

27 (b) NO LATER THAN JANUARY 15, 2026, THE THIRD PARTY SHALL

1 SUBMIT A DRAFT REPORT TO THE DEPARTMENT OF NATURAL RESOURCES
2 AND THE TASK FORCE DESCRIBING THE STUDY'S FINDINGS AND ANY
3 RECOMMENDATIONS. THE TASK FORCE SHALL REVIEW AND PROVIDE INPUT
4 ON THE DRAFT REPORT.

5 (c) NO LATER THAN JULY 15, 2026, THE THIRD PARTY SHALL:

6 (I) IN CONSULTATION WITH THE DEPARTMENT OF NATURAL
7 RESOURCES AND THE TASK FORCE, CREATE A FINAL REPORT THAT
8 INCORPORATES THE TASK FORCE'S INPUT REGARDING THE DRAFT REPORT;
9 AND

10 (II) SUBMIT THE FINAL REPORT TO THE COMMITTEE.

11 (d) FOLLOWING THE SUBMISSION OF THE REPORT TO THE
12 COMMITTEE, THE TASK FORCE SHALL PRESENT A SUMMARY OF THE REPORT
13 TO THE COMMITTEE DURING THE 2026 LEGISLATIVE INTERIM.

14 (6) THE TASK FORCE SHALL BE FUNDED SOLELY WITH MONEY FROM
15 THE SEVERANCE TAX PERPETUAL BASE FUND CREATED IN SECTION
16 39-29-109 (2)(a)(I.5).

17 (7) THIS SECTION IS REPEALED, EFFECTIVE DECEMBER 31, 2026.

18 SECTION 3. In Colorado Revised Statutes, 39-29-105, amend
19 (2)(b)(II) and (2)(d) introductory portion; and repeal (2)(c) as follows:

20 39-29-105. Tax on severance of oil and gas.

21 (2) (b) (II) (A) With respect to oil and gas there is allowed, as a credit
22 against the tax computed in accordance with the provisions of subsection
23 (1)(b) of this section for each taxable year commencing on or after
24 January 1, 2024, but prior to January 1, 2026 2027, an amount equal to
25 seventy-five percent of all ad valorem taxes assessed during the taxable
26 year in the case of accrual basis taxpayers or paid during the taxable year
27 in the case of cash basis taxpayers upon oil and gas leaseholds and

1 leasehold interests and oil and gas royalties and royalty interests for state,
2 county, municipal, school district, and special district purposes, except
3 such ad valorem taxes assessed or paid for such purposes upon equipment
4 and facilities used in the drilling for, production of, storage of, and
5 pipeline transportation of oil and gas.

6 (B) WITH RESPECT TO OIL AND GAS THERE IS ALLOWED, AS A
7 CREDIT AGAINST THE TAX COMPUTED IN ACCORDANCE WITH SUBSECTION
8 (1)(b) OF THIS SECTION FOR EACH TAXABLE YEAR COMMENCING ON OR
9 AFTER JANUARY 1, 2027, BUT PRIOR TO JANUARY 1, 2028, AN AMOUNT
10 EQUAL TO EIGHTY-SEVEN AND FIVE-TENTHS PERCENT OF ALL AD VALOREM
11 TAXES ASSESSED DURING THE TAXABLE YEAR IN THE CASE OF ACCRUAL
12 BASIS TAXPAYERS OR PAID DURING THE TAXABLE YEAR IN THE CASE OF
13 CASH BASIS TAXPAYERS UPON OIL AND GAS LEASEHOLDS AND LEASEHOLD
14 INTERESTS AND OIL AND GAS ROYALTIES AND ROYALTY INTERESTS FOR
15 STATE, COUNTY, MUNICIPAL, SCHOOL DISTRICT, AND SPECIAL DISTRICT
16 PURPOSES, EXCEPT SUCH AD VALOREM TAXES ASSESSED OR PAID FOR SUCH
17 PURPOSES UPON EQUIPMENT AND FACILITIES USED IN THE DRILLING FOR,
18 PRODUCTION OF, STORAGE OF, AND PIPELINE TRANSPORTATION OF OIL AND
19 GAS.

20 (c) For a taxable year beginning on or after January 1, 2026, but
21 before January 1, 2027, for each well that is not exempt from the state
22 severance tax pursuant to subsection (1)(b) of this section, there is
23 allowed a credit against the tax computed in accordance with the
24 provisions of subsection (1)(b) of this section in an amount calculated by
25 the formula $C = 0.65625 \times GI \times ML$, where:

26 (I) C is the amount of the credit;

27 (II) GI is the gross income attributable to the well for the current

1 taxable year; and
2 (III) ML is the total of all mill levies, fixed not later than
3 December 22 of the preceding calendar year pursuant to section 39-1-111,
4 by all local governments for property at the well's location.
5 (d) For a taxable year beginning on or after January 1, 2027 2028,
6 for each well that is not exempt from the state severance tax pursuant to
7 subsection (1)(b) of this section, there is allowed a credit against the tax
8 computed in accordance with subsection (1)(b) of this section in an
9 amount calculated by the formula $C = 0.7656 \times GI \times ML$, where:
10 **SECTION 4. In Colorado Revised Statutes, 39-29-108, amend**
11 (2)(e)(I) and (2)(e)(III)(B) as follows:
12 **39-29-108. Allocation of severance tax revenues - definitions**
13 **- repeal.** (2) (e) (I) Except as provided in subsection (2)(e)(II) of this
14 section, for the state fiscal years 2023-24 through 2026-27, the state
15 treasurer shall credit the discrete increased amount of severance tax for
16 oil and gas production that is attributable to the reduction of the credit
17 against tax pursuant to section 39-29-105 (2)(b)(II) and 39-29-105 (2)(c)
18 to the decarbonization tax credits administration cash fund created in
19 section 24-38.5-120 (2).
20 (III) As used in this subsection (2)(e), unless the context otherwise
21 requires:
22 (B) "Discrete increased amount of severance tax for oil and gas
23 production" means the amount of tax collected that is attributable to a
24 twelve and one-half percent reduction in the severance tax credit for oil
25 and gas production set forth in section 39-29-105 (2)(b)(II) for tax years
26 beginning on or after January 1, 2024, but before January 1, 2026. and a
27 ten and nine hundred thirty-five thousandths percent reduction set forth

1 in section 39-29-105 (2)(c) for tax years beginning on or after January 1,
2 2026, but before January 1, 2027.

3 **SECTION 5. Appropriation.** (1) For the 2025-26 state fiscal
4 year, \$198,592 is appropriated to the department of natural resources for
5 use by the executive director's office. This appropriation is from the
6 severance tax operational fund created in section 39-29-109 (2)(b)(I),
7 C.R.S. To implement this act, the office may use this appropriation as
8 follows:

9 (a) \$192,566 for personal services; and

10 (b) \$6,026 for operating expenses.

11 (2) Any money appropriated in subsection (1) of this section not
12 expended prior to July 1, 2026, is further appropriated to the department
13 through December 31, 2026 for the same purpose.

14 **SECTION 6. Act subject to petition - effective date.** This act
15 takes effect at 12:01 a.m. on the day following the expiration of the
16 ninety-day period after final adjournment of the general assembly; except
17 that, if a referendum petition is filed pursuant to section 1 (3) of article V
18 of the state constitution against this act or an item, section, or part of this
19 act within such period, then the act, item, section, or part will not take
20 effect unless approved by the people at the general election to be held in
21 November 2026 and, in such case, will take effect on the date of the
22 official declaration of the vote thereon by the governor.