First Regular Session
Seventy-fifth General Assembly
STATE OF COLORADO

REREVISED

This Version Includes All Amendments Adopted in the Second House

LLS NO. 25-0165.01 Clare Haffner x6137

SENATE BILL 25-040

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Senate Committees
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A BILL FOR AN ACT

CONCERNING THE CREATION OF THE FUTURE OF SEVERANCE TAXES AND WATER FUNDING TASK FORCE, AND, IN CONNECTION 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
3rd Reading Unamended
May 2, 2025

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;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(II) SUBMIT THE FINAL REPORT TO THE COMMITTEE.

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

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

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

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

39-29-105. Tax on severance of oil and gas. (2) (b) (II) (A) With respect to oil and gas there is allowed, as a credit against the tax computed in accordance with ~~the provisions of~~ subsection (1)(b) of this section for each taxable year commencing on or after January 1, 2024, but prior to January 1, ~~2026~~ 2027, an amount equal to seventy-five percent of all ad valorem taxes assessed during the taxable year in the case of accrual basis taxpayers or paid during the taxable year in the case of cash basis taxpayers upon oil and gas leaseholds and leasehold interests and oil and gas royalties and royalty interests for state, county, municipal, school district, and special district purposes, except such ad valorem taxes assessed or paid for such purposes upon equipment and facilities used in the drilling for, production of, storage of, and pipeline transportation of oil and gas.

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

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

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

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

~~taxable year; and~~

~~(III) ML is the total of all mill levies, fixed not later than December 22 of the preceding calendar year pursuant to section 39-1-111, by all local governments for property at the well's location.~~

(d) For a taxable year beginning on or after January 1, ~~2027~~ 2028, for each well that is not exempt from the state severance tax pursuant to subsection (1)(b) of this section, there is allowed a credit against the tax computed in accordance with subsection (1)(b) of this section in an amount calculated by the formula C = 0.7656 x GI x ML, where:

SECTION 4. In Colorado Revised Statutes, 39-29-108, **amend** (2)(e)(I) and (2)(e)(III)(B) as follows:

39-29-108. Allocation of severance tax revenues - definitions - repeal. (2) (e) (I) Except as provided in subsection (2)(e)(II) of this section, for the state fiscal years 2023-24 through 2026-27, the state treasurer shall credit the discrete increased amount of severance tax for oil and gas production that is attributable to the reduction of the credit against tax pursuant to section 39-29-105 (2)(b)(II) ~~and 39-29-105 (2)(c)~~ to the decarbonization tax credits administration cash fund created in section 24-38.5-120 (2).

(III) As used in this subsection (2)(e), unless the context otherwise requires:

(B) "Discrete increased amount of severance tax for oil and gas production" means the amount of tax collected that is attributable to a twelve and one-half percent reduction in the severance tax credit for oil and gas production set forth in section 39-29-105 (2)(b)(II) for tax years beginning on or after January 1, 2024, but before January 1, 2026. ~~and a ten and nine hundred thirty-five thousandths percent reduction set forth~~

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

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

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

(b) $6,026 for operating expenses.

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

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