

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

**ENGROSSED**

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

LLS NO. 25-0165.01 Clare Haffner x6137

**SENATE BILL 25-040**

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**SENATE SPONSORSHIP**

**Roberts and Simpson,** Bridges, Marchman, Pelton B.

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**McCormick and Martinez,**

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**Senate Committees**

Agriculture & Natural Resources  
Appropriations

**House Committees**

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**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.**

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**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.

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.

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*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; AND

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.

24 (3) THE PURPOSE OF THE TASK FORCE IS TO CONSULT AND  
25 COORDINATE WITH THE THIRD PARTY IN THE DEVELOPMENT OF A STUDY  
26 REGARDING THE FUTURE OF SEVERANCE TAXES AND WATER FUNDING IN  
27 THE STATE.

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

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

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

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

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

25           (b) NO LATER THAN JANUARY 15, 2026, THE THIRD PARTY SHALL  
26 SUBMIT A DRAFT REPORT TO THE DEPARTMENT OF NATURAL RESOURCES  
27 AND THE TASK FORCE DESCRIBING THE STUDY'S FINDINGS AND ANY

1 RECOMMENDATIONS. THE TASK FORCE SHALL REVIEW AND PROVIDE INPUT  
2 ON THE DRAFT REPORT.

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

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

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

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

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

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

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

18 **39-29-105. Tax on severance of oil and gas.**

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

1 such ad valorem taxes assessed or paid for such purposes upon equipment  
2 and facilities used in the drilling for, production of, storage of, and  
3 pipeline transportation of oil and gas.

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

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

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

25 (II) GI is the gross income attributable to the well for the current  
26 taxable year; and

27 (III) ML is the total of all mill levies, fixed not later than

1 December 22 of the preceding calendar year pursuant to section 39-1-111,  
2 by all local governments for property at the well's location.

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

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

10 **39-29-108. Allocation of severance tax revenues - definitions**  
11 **- repeal. (2) (e) (I) Except as provided in subsection (2)(e)(II) of this**  
12 **section, for the state fiscal years 2023-24 through 2026-27, the state**  
13 **treasurer shall credit the discrete increased amount of severance tax for**  
14 **oil and gas production that is attributable to the reduction of the credit**  
15 **against tax pursuant to section 39-29-105 (2)(b)(II) and 39-29-105 (2)(c)**  
16 **to the decarbonization tax credits administration cash fund created in**  
17 **section 24-38.5-120 (2).**

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

20 **(B) "Discrete increased amount of severance tax for oil and gas**  
21 **production" means the amount of tax collected that is attributable to a**  
22 **twelve and one-half percent reduction in the severance tax credit for oil**  
23 **and gas production set forth in section 39-29-105 (2)(b)(II) for tax years**  
24 **beginning on or after January 1, 2024, but before January 1, 2026. and a**  
25 **ten and nine hundred thirty-five thousandths percent reduction set forth**  
26 **in section 39-29-105 (2)(c) for tax years beginning on or after January 1,**  
27 **2026, but before January 1, 2027.**



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

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

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

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

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