



**Fiscal Note**  
**Legislative Council Staff**  
Nonpartisan Services for Colorado’s Legislature

**SB 25-040: FUTURE OF SEVERANCE TAXES & WATER FUNDING TASK FORCE**

**Prime Sponsors:**  
Sen. Roberts; Simpson  
Rep. McCormick; Martinez

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**Fiscal note status:** The revised fiscal note reflects the reengrossed bill. The bill was recommended by the Water Resources and Agricultural Review Interim Committee.

**Summary Information**

**Overview.** The bill creates a task force to explore the impact of severance taxes on water resources and delays for two years the implementation of a modified severance tax ad valorem credit calculation.

**Types of impacts.** The bill is projected to affect the following areas through FY 2027-28:

- State Revenue
- State Expenditures

**Appropriations.** For FY 2025-26, the bill requires an appropriation of \$198,592 to the Department of Natural Resources.

**Table 1**  
**State Fiscal Impacts**

Type of Impact	Budget Year FY 2025-26	Out Year FY 2026-27	Out Year FY 2027-28
State Revenue (Cash Funds	\$2.8M to \$13.1M	\$5.9M to \$27.7M	\$3.0M to \$13.9M
State Expenditures (Cash Funds)	\$198,592	\$29,718	\$0
Transferred Funds	\$0	\$0	\$0
Change in TABOR Refunds	\$2.8M to \$13.1M	\$5.9M to \$27.7M	not estimated
Change in State FTE	0.0 FTE	0.0 FTE	0.0 FTE

## **Summary of Legislation**

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The bill creates the Future of Severance Taxes and Water Funding Task Force in the Department of Natural Resources (DNR). The 9-member task force will hire a contractor to conduct a study and develop recommendations. The contractor must explore options to continue funding water needs for the state while severance tax revenue is expected to decrease.

Appointments to the task force must be made by September 1, 2025. Members of the task force may conduct meetings as necessary to oversee and revise the contractor's work. The contractor must submit a draft report to the task force by January 15, 2026, and a final report from the task force is due to the Water Resources and Agriculture Review committee by July 15, 2026.

Lastly, the bill shifts implementation of a modified severance tax ad valorem credit calculation from tax year 2026 to tax year 2028.

## **Background**

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### **Severance Tax Ad Valorem Credit**

Colorado imposes a severance tax on the value of oil and natural gas that is severed, or removed, from the earth and sold. Taxpayers are allowed a nonrefundable credit against their severance tax liability based on the amount of property taxes they pay. This credit is commonly referred to as the ad valorem credit. The ad valorem credit significantly increases the volatility of oil and gas severance tax collections as the incidence of production on property taxes and when credits are claimed can lag up to two years. Additionally, the ad valorem credit lag can create volatility as it interacts with an oil well's production cycle.

### **Modified Severance Tax Ad Valorem Credit**

House Bill 22-1391 created a modified ad valorem credit, originally set to begin in tax year 2025. The modified credit shifted the credit from a percent of ad valorem (property) taxes paid, to a percent of gross income for the taxable year multiplied by the mill levy for the preceding calendar year at the well's location. House Bill 23-1272 delayed the implementation of the new calculation from tax year 2025 to tax year 2026.

House Bill 22-1391 also established a working group consisting of the director of the Office of State Planning and Budgeting and the executive directors of the departments of Revenue, Natural Resources, Education, and Local Affairs to develop an implementation plan for the bill's severance tax changes that included changing the legal incidence of tax from interest owners to operators while maintaining revenue neutrality. The modified credit was expected to reduce severance taxes in general due to taxpayers under the original credit not being able to claim the full value of credits available to them each year.

## State Revenue

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Delaying the implementation of the modified severance tax ad valorem credit until tax year 2028 is estimated to increase state revenue to various severance tax cash funds by between \$2.8 million and \$13.1 million in FY 2025-26 (a half-year impact), between \$5.9 million and \$27.7 million in FY 2026-27, and between \$3.0 million and \$13.9 million in FY 2027-28 (a half-year impact). Severance tax revenue is subject to TABOR.

The fiscal note assumes that modifying the credit would reduce severance tax revenue between 3 and 14 percent, and assumes the Legislative Council Staff March 2025 forecast for severance tax. A forecast of severance tax revenue beyond FY 2026-27 is not available and the estimate assumes constant revenue into FY 2027-28. There is significant uncertainty on the magnitude of the impact of a modified ad valorem credit on severance tax revenue and wide variability is expected year-to-year.

## State Expenditures

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The bill increases state expenditures in the DNR by \$199,000 in FY 2025-26 and \$30,000 in FY 2026-27. These costs, paid from the Severance Tax Operation Fund, are summarized in Table 2 and discussed below. The bill also minimally affects workload in the Department of Revenue and the Governor's Office.

**Table 2**  
**State Expenditures**  
**Department of Natural Resources**

<b>Cost Component</b>	<b>Budget Year FY 2025-26</b>	<b>Out Year FY 2026-27</b>
Third-Party Contract	\$175,000	\$25,000
Meeting Expenses and Support	\$23,592	\$4,718
<b>Total Costs</b>	<b>\$198,592</b>	<b>\$29,718</b>
<b>Total FTE</b>	<b>0.0 FTE</b>	<b>0.0 FTE</b>

## Department of Natural Resources

### Third-Party Contract

As required by the bill, the DNR will hire a contractor to provide policy, economic, and financial analysis for the study. The total estimate for the contract is \$200,000, which is based on similar analysis completed in the DNR. Of this, \$175,000 is expected to be expensed in the first year and the remaining \$25,000 will be spent in the second year.

## Meeting Expenses and Support

Members of the task force serve without compensation, but can be reimbursed for any meeting expenses. Overall, the task force is expected to meet a total of six times between September 2025 and July 2026. Some members of the commission will require hotels, mileage reimbursement and per-diem expenses for any in person meetings, which is estimated to total \$8,636. Additionally, DNR will hire a temporary contract Program Assistant to prepare for each of the six meetings, process reimbursements, transcribe meeting notes and conform with accessibility standards. In total, DNR is expected to require 580 hours of temporary contract program assistance at \$33.92 per hour, resulting in \$19,674 in administrative support expenses. Approximately 75 percent of these expenses will occur in the budget year, with the remainder occurring in the out-year.

## Other Agency Impacts

### Governor's Office of Boards and Commissions

The Governor's Office will spend approximately 20 hours to identify the appropriate representatives to serve on the task force. This additional workload can be accomplished within existing resources.

### Department of Revenue

The Division of Taxation in the Department of Revenue will support the task force with information on severance taxes and gathering the required data requested from the third party. This additional workload can be accomplished within existing resources. Modifying the ad valorem credit one year later than under current law will delay programming and implementation in DOR's GenTax software system. No change in appropriations is required for this shift in workload.

## TABOR Refunds

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The bill is expected to increase the amount of state revenue required to be refunded to taxpayers by the amounts shown in the State Revenue section above. This estimate assumes the March 2025 LCS revenue forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2026-27. Because TABOR refunds are paid from the General Fund, increased cash fund revenue will reduce the amount of General Fund available to spend or save.

## Effective Date

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The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

## State Appropriations

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For FY 2025-26, the bill requires an appropriation of \$198,592 from the Severance Tax Operation Fund to the Department of Natural Resources.

## State and Local Government Contacts

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Agriculture

Natural Resources

Counties

Revenue

Governor's Office