TASK FORCE REPORT

The Future of Severance Taxes and Water Funding

COLORADO WATER CENTER
COLORADO STATE UNIVERSITY

COLORADO STATE UNIVERSITY

July 2026

About the Task Force

Senate Bill 25-040 established the Future of Severance Taxes and Water Funding Task Force and specified appointments.

The Future of Severance Taxes and Water Funding Task Force

- **Lauren Ris,** *Director, Colorado Water Conservation Board*
- *Designated by DNR Executive Director:* **Carly Jacobs,** *Chief Financial Officer, Department of Natural Resources*
- *Designated by CDA Commissioner:* **Robert Sakata,** *Agriculture Water Policy Advisor, Colorado Department of Agriculture*
- *Designated by DOLA Executive Director :* **Eric Bergman,** *Director of the Division of Local Government, Department of Local Affairs*
- *Appointed by the Speaker of the House of Representatives:* **Brian Jackson,** *Director of Western Water, Environmental Defense Fund, representative of an environmental advocacy organization*
- *Appointed by the Senate Minority Leader:* **Doug Dennison,** *Director of Oil and Gas Services, EcoPoint Incorporated, representative of the oil and gas industry with experience in severance tax issues*
- *Appointed by the President of the Senate:* **Steve Wolff,** *General Manager, Southwestern Water Conservation District, representative of a water conservation district*
- *Appointed by the House Minority Leader:* **Shawn Bolton,** *Agriculture Representative, representative of the agricultural industry who, to the extent possible experience in the intersection of agriculture, water projects, and the oil and gas industry*
- *Appointed by the Governor:* **Jim Yahn,** *County Commissioner, Logan County, a county commissioner from a county that contains oil and gas operations*
- *Appointed by the Governor:* **Elyse Ackerman Casselberry,** *City Manager, Delta, Municipal Official, 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*

Nate Pearson, *Department of Natural Resources Assistant Director for Water, served as the project manager.*

This report is a product of the Colorado Water Center, developed with input and advice from the task force. While the task force includes state agencies, this report does not necessarily represent recommendations or budget or legislative priorities of any state department or agency. Budget and legislative priorities of the Departments are evaluated on an annual basis as part of the Governor's legislative and budget agenda development process.

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The Chimney Hollow Reservoir Project construction was backed by a $155 million loan from the Colorado Water Conservation Board. Photo courtesy of Northern Water.

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Executive Summary

Water is a critical resource that provides a wide range of public and private benefits to residents and visitors of Colorado. Given the public nature of these benefits, water projects often critically rely on a mix of federal, state, and local funds. Colorado severance tax—taxes on oil, gas, and mineral extraction—are a primary example of state funding that supports water projects and local governments. While it is difficult to estimate a precise number, study results demonstrate that Colorado's water project and local government funding needs are in the billions of dollars, span every county in the state, and exceed existing state and federal funding sources. The state plays an important partner role in meeting funding needs in this landscape, especially given the uncertainty and trends in federal funding and the limited feasible options for local governments.

Two state agencies, the Department of Natural Resources (DNR) and Department of Local Affairs (DOLA), manage severance tax revenue, which support a wide range of projects to benefit communities across the state and maintain specific programs and operations. However, there are several challenges in the reliability of severance tax revenue as a long-term funding source, including year-over-year revenue volatility driven by commodity prices and the ad valorem tax credit, the increasingly common transfer of severance tax revenues to the general fund (also called a "sweep"), the state's Taxpayer's Bill of Rights (TABOR) constraints on new revenue, and the potential decline in severance tax revenue as the energy sector evolves in response to global markets and policy shifts.

Senate Bill 25-040 (Colorado General Assembly, 2025) established the Future of Severance Taxes and Water Funding Task Force to examine the long-term sustainability of Colorado's severance tax system, including past and future sweeps of funds, and its ability to support water projects and local governments. The Colorado Water Center at Colorado State University was designated as the independent third-party research entity responsible for conducting the technical analysis underlying this report, with the task force providing guidance and expertise on its development. While previous efforts have examined specific aspects of severance tax structure and policy, this report focuses on 1) describing the broader picture of water and local government funding needs, and 2) presenting a menu of alternative funding options for future water project and local government funding needs and to backfill past sweeps. The report's findings are based

Challenges to Using Severance Tax Revenue for Long-Term Project Funding

- Year-over-year revenue volatility
- Transfers of severance tax revenues to the general fund
- The state's Taxpayer's Bill of Rights (TABOR) constraints
- Potential decline in severance tax revenue

on interviews with task force members, additional experts, and stakeholders as well as existing data. The findings also draw upon an examination of severance tax history and structure in Colorado and examples of how other states approach severance tax structures and water project funding.

Severance tax revenues are one source of funding in a complex landscape, which local governments often combine with other sources to finance their water project and infrastructure needs. For reasons mentioned earlier, severance taxes do not provide a reliable and long-term funding source for these critical and significant needs, and the future of sustainable, stable water and local government funding will require sources beyond the current landscape. Without adequate state and federal support, a larger share of project costs would fall directly on municipal ratepayers, agricultural producers, and other local users, many of whom may not have the capacity to absorb the full cost of needed projects. This creates a risk that essential water infrastructure and water security projects are delayed, scaled back, or not implemented.

The report presents alternative funding options ranging from changing the current severance tax structure to establishing new revenue streams. The options vary in implementation complexity, revenue potential, sweep protection, and whether they require voter approval. Given the significant funding needs and variety of funding recipients, no single mechanism is likely to be sufficient to replace severance tax revenue. A diversified approach will likely be more effective than any single policy change or replacement for severance tax revenue.

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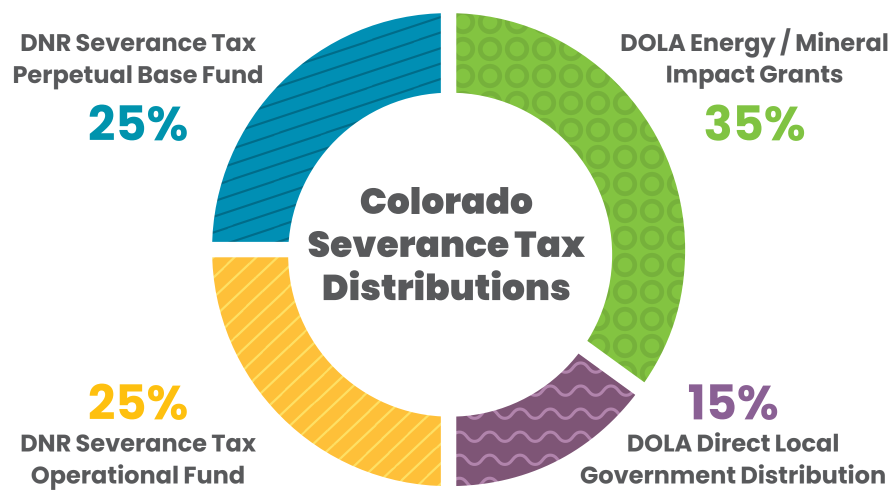
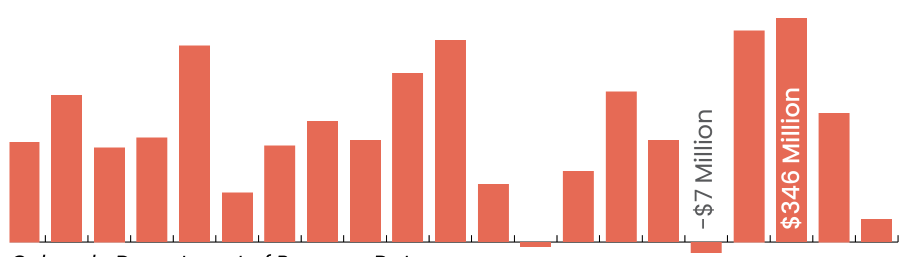




Colorado Department of Revenue Data

Severance Tax Annual Net Collections

FY 04-05 to FY 24-25

Introduction

Overview of Senate Bill 25-040

This report is a deliverable of Senate Bill (SB) 25-040 (2025), entitled the "Future of Severance Taxes & Water Funding Task Force," which established a task force to examine the future of Colorado's severance tax and the long-term funding of water projects and local governments. The bill reflects growing concern among policymakers and stakeholders that Colorado's current reliance on severance tax revenues—taxes on oil, gas, and mineral extraction—creates substantial fiscal uncertainty for programs that require stable, long-horizon funding commitments.

Specifically, SB 25-040 identifies the need to study how the state can:

- Identify alternatives to the current severance tax revenue distributions in order to more reliably support Colorado's water funding needs and local government needs (e.g., energy impact grants)
- Provide recommendations to mitigate future transfer of severance tax revenues to the General Fund
- Explore options to replace severance tax revenue previously transferred to the General Fund.

Per SB 25-040, the Future of Severance Taxes and Water Funding Task Force was created in the Division of Natural Resources (DNR), and consists of representatives from state agencies, an environmental organization, the oil and gas industry, a water conservation district, and the agricultural industry, in addition to a county commissioner and an elected municipal official or city/town manager from an area impacted by oil and gas operations. The bill directs the task force to evaluate the sustainability, adequacy, and structure of the severance tax system and to consider alternative or complementary funding mechanisms that could better support Colorado's long-term water and local government needs. The bill directs DNR to contract an independent third-party entity, which was designated as the Colorado Water Center at Colorado State University, to coordinate and consult with the task force to develop the study.

Historically, severance tax revenues in Colorado have played a critical role in financing water infrastructure, natural resources programs, and support for local governments in regions impacted by mineral and energy extraction. Severance tax revenues also support ongoing operations and permanent staff positions. However, these revenues are inherently volatile. They depend on commodity prices, production levels, local, state, and federal policy, and broader macroeconomic conditions. Volatility is also driven by the structure of the tax itself and the various credits and exemptions associated with severance taxes. Over time, this volatility has created several structural challenges:

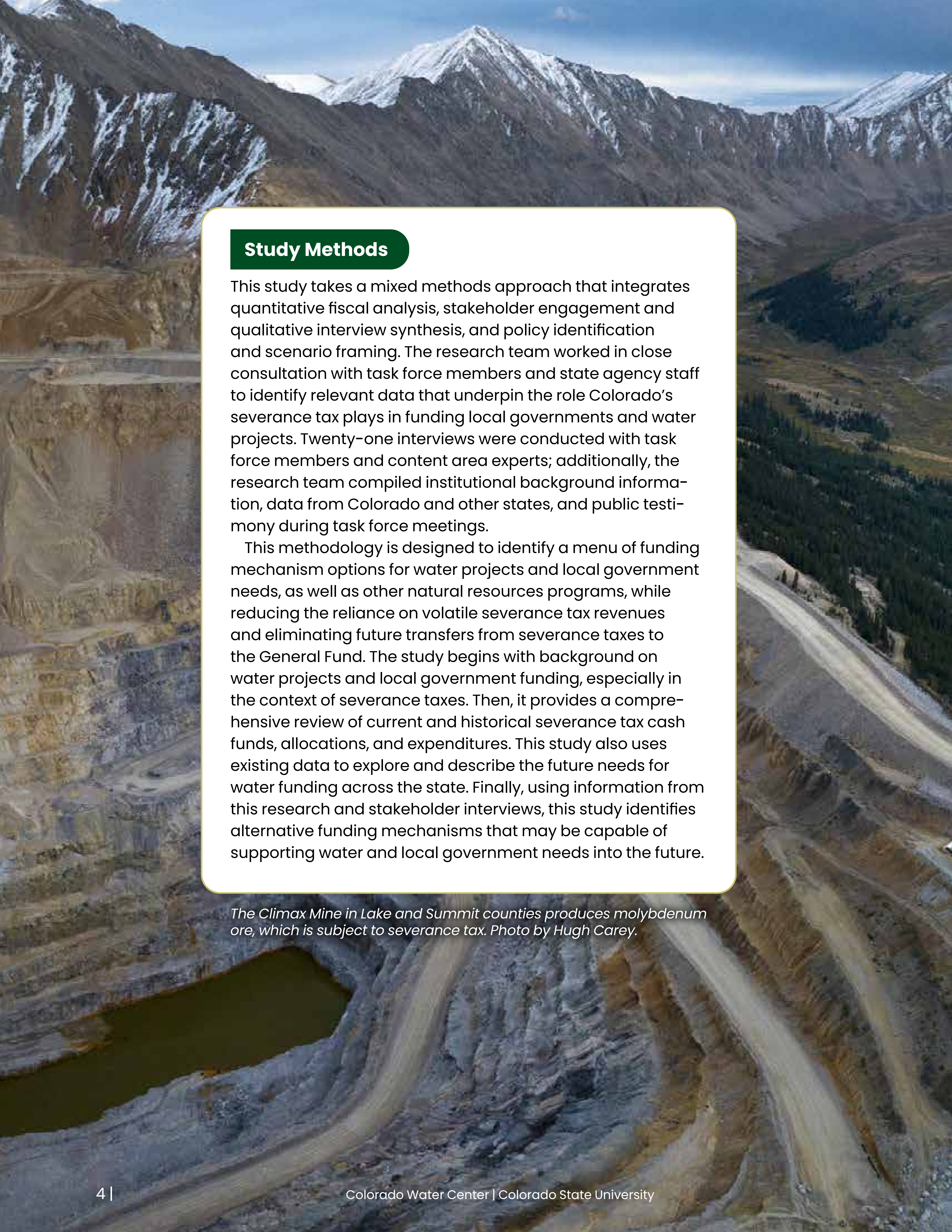
- Unpredictable funding levels for water, natural resources programs, and local government programs that require long-term planning and multi-year investment horizons
- Consistent pressure to transfer or "sweep" severance tax revenues into the General Fund to address state budget constraints
- Increasing misalignment between the timing of revenue availability and the timing of infrastructure and resilience needs
- Growing uncertainty about the long-run trajectory of extractive industries in the context of global energy markets and federal, state, and local policies (e.g., decarbonization)

At the same time, Colorado faces substantial and increasing water-related investment needs, driven by population growth, aging infrastructure, climate variability, wildfire risk, and long-term supply reliability challenges. Many of these needs extend decades into the future and require stable, predictable funding sources to plan, finance, and execute effectively. In this context, the General Assembly has charged the task force and this study to provide a data-driven assessment of the current severance tax system, the risks inherent in continued reliance on it, and the feasibility of alternative funding models for future needs and to backfill past sweeps.

Study Methods

This study takes a mixed methods approach that integrates quantitative fiscal analysis, stakeholder engagement and qualitative interview synthesis, and policy identification and scenario framing. The research team worked in close consultation with task force members and state agency staff to identify relevant data that underpin the role Colorado's severance tax plays in funding local governments and water projects. Twenty-one interviews were conducted with task force members and content area experts; additionally, the research team compiled institutional background information, data from Colorado and other states, and public testimony during task force meetings.

This methodology is designed to identify a menu of funding mechanism options for water projects and local government needs, as well as other natural resources programs, while reducing the reliance on volatile severance tax revenues and eliminating future transfers from severance taxes to the General Fund. The study begins with background on water projects and local government funding, especially in the context of severance taxes. Then, it provides a comprehensive review of current and historical severance tax cash funds, allocations, and expenditures. This study also uses existing data to explore and describe the future needs for water funding across the state. Finally, using information from this research and stakeholder interviews, this study identifies alternative funding mechanisms that may be capable of supporting water and local government needs into the future.



The Climax Mine in Lake and Summit counties produces molybdenum ore, which is subject to severance tax. Photo by Hugh Carey.

Background

Water Projects Background

Senate Bill 25-040 (2025) outlines the need to assess how the state can "continue to fund water needs and grants to local governments without relying on the revenues derived from severance taxes." It is important to define and understand what water needs are in this context. "Water projects" refers to a wide range of initiatives, including infrastructure needed to accommodate population growth, replace aging capital, and short and long-term conservation initiatives. Conservation initiatives themselves are wide-ranging in scope, and can include projects focused on urban water conservation, alternative low-water use crop development, watershed health and water quality, and a vast array of other projects and studies. Water projects often have a regional or river basin-wide focus involving multiple parties and types of water users. Importantly, the variability in scale, cost, parties involved, geography, and legal jurisdictions associated with different projects all combine to create a complicated landscape of funding needs and sources.

The Colorado Water Plan

The Colorado Water Plan is a critical piece in the overall puzzle of understanding how water projects and funding needs are defined and determined in Colorado. The Colorado Water Conservation Board (CWCB) under DNR developed the Colorado Water Plan (CWCB, 2015, 2023) out of a recognized need to address water challenges at the state level and bridge an identified water supply-demand gap through critical water development and conservation projects. As part of the water plan development, nine basin roundtables representing the state's eight major river basins and the Denver metropolitan area identified potential water projects and costs, reflecting all sectors of water use (including agricultural, environmental, municipal, and recreational). The projects and cost estimates do not include water distribution and wastewater projects, as the water plan focuses primarily on the intersection of water supply and demand. The projects and cost estimates that stemmed from the roundtable discussions and the 2023 Colorado Water Plan analysis of future project costs are used in the analysis of funding needs portion of this report (see page 23).

Water Project Needs and Funding in Colorado

Securing adequate funding for water management, infrastructure, and conservation is one of the most pressing challenges facing Colorado today. Historically, funding for water projects has relied on a three-tiered system: federal, state, and local/private entities. However, the dynamics of this trifecta have shifted significantly over the last several decades. Federal funding for water projects has seen a steady proportionate decline, shifting from federal grant programs in the mid-20th century to loan-centric programs today. This transition places pressure on states to find alternative ways to finance infrastructure previously subsidized by the federal government. Consequently, when state funding streams experience downturns, the financial burden cascades down to the local level. Ultimately, these project costs fall directly onto individual water users, local governments, and utility customers, through increased utility rates and property taxes—or the project does not happen at all.

Currently, there exists a significant and growing gap between Colorado's water project needs and the availability of funding (CWCB, 2023). Unlike some states that rely on broad general fund allocations, Colorado's state-level water funding is highly dependent on specific, cash-funded revenue streams, most notably severance taxes, sports betting revenues, and federal mineral lease returns. The following represent the different major, state-level sources of funding available for water projects in Colorado.

Colorado Water Conservation Board Funding

CWCB plays a key role in funding water projects and programs throughout the state. The majority of CWCB revenue comes from cash funds from a variety of sources including: severance taxes, taxes on sports betting, interest earned on water project loans, and federal mineral lease revenue. Revenue from these sources is deposited into three funds, which are used by CWCB to make water-related project investments for the state of Colorado:

» The Construction Fund (Section 37-60-121, C.R.S.): Created approximately 50 years ago with a $10 million initial investment, the goal of this fund is to provide loans for water projects and remain self-supporting through repaid principal and interest. Revenue comes from interest earned on water project loans and mineral lease returns. Annually, it earns around $15 million from loan and treasury interest, $10 million from federal mineral lease distributions, and $10 million from principal loan repayments. This fund is included in the state's Taxpayer Bill of Rights (TABOR) emergency reserve—a mandatory savings account requiring state and local governments to set aside at least 3% of their annual spending.

» The Severance Tax Perpetual Base Fund (Section 39-29-109, C.R.S.): Established in the 1990s to supplement the Construction Fund, this fund receives 25% of the state's severance tax revenues. In addition to operating a loan program, it serves as the primary funding source for the Water Supply Reserve Fund (WSRF), the Interbasin Compact Committee operations fund, and Colorado's nine basin roundtables. Starting in Fiscal Year (FY) 26-27 (July 1, 2026-June 30, 2027) it also provides up to $3 million annually for water-related species conservation projects (due budget balancing and House Bill (HB) 26-1387; See Appendix B (page 44) for more information). Currently, the fund receives roughly $16 million annually from loan interest, an average of $40 million from severance tax distributions, and $13 million in principal loan repayments. Because severance taxes fluctuate with the energy market, this funding source can be volatile. This fund is also included in the state's TABOR emergency reserve.

» The Water Plan Implementation Fund (section 37-60-123.3, C.R.S.): Adopted to support the Colorado Water Plan, this fund aims to meet growing agricultural, urban, and environmental water challenges through collaborative action. Established in 2020 by voter approval of Proposition DD, it uses revenue from taxes placed on legalized sports betting to fund grants for projects advancing the Water Plan. Tax revenue from the legalization of sports betting has steadily increased reaching $36,819,069 in FY24-25 (Colorado Department of Revenue, Division of Gaming, 2025).

This report summarizes CWCB funding based on a more detailed overview provided by CWCB to the task force. For more details, refer to current CWCB documents (e.g., presentations for the Joint Budget Committee on the Colorado General Assembly's website, https://leg.colorado.gov/).

Energy/Mineral Impact Assistance Fund Grant

The Department of Local Affairs (DOLA) administers the Energy/Mineral Impact Assistance (EIAF) grant program, which is funded through severance tax and to a lesser degree federal mineral lease proceeds and supports sustainable community development of areas that are socially and/or economically impacted by energy and mineral industries. Because EIAF eligibility criteria are broader than those of CWCB, many water projects that do not qualify for CWCB funding pursue EIAF funding. Water projects receiving EIAF funds are frequently co-eligible for Colorado Department of Public Health and Environment (CDPHE) funding. Eligible project types include upgrades or new development of water treatment facilities, water collection or rehabilitation, and stormwater management, among others.

Other Colorado State Funding

Beyond CWCB and EIAF funds, the state assists local entities through drinking water and clean water state revolving funds (SRFs), administered jointly by CDPHE and the Colorado Water Resources and Power Development Authority. These funds have also been variable due to federal budget negotiations, and the amounts of these funds are uncertain for the future. SRFs provide low-interest loans for drinking water and wastewater infrastructure. While these funds originate from federal capitalization grants through the U.S. Environmental Protection Agency (EPA), the state provides a required 20% match, leveraging state dollars to help local governments and utilities meet federal Safe Drinking Water Act and Clean Water Act requirements.

Federal Funding

As noted, federal support for water projects has decreased substantially over the past 50 years. While recent federal legislation, such as the American Rescue Plan Act and the Infrastructure Investment and Jobs Act, has provided temporary injections of capital, the long-term trend has been a marked decrease in the proportion of total project costs covered by federal funding sources. According to the American Society of Civil Engineers (ASCE) and the Value of Water Campaign, the federal government's share of capital investment in the water sector declined from 63% in 1977 to less than 10% in 2017 (2020). Specific to utility investments in water supply and wastewater treatment facilities, the Congressional Budget Office estimates that state and local governments are now responsible for approximately 96% of all public spending on water and wastewater utilities (Congressional Budget Office, 2018). The decline in federal support combined with growing needs has led to a funding gap. The ASCE projects that if current funding trends continue, the national investment gap between available funds and needs for water infrastructure will total $655 billion between 2024 and 2033 (ASCE, 2025).

Key federal agencies that fund water-related projects include the U.S. Department of the Interior (such as WaterSMART and other grant programs managed by the Bureau of Reclamation), the U.S. Department of Agriculture (such as grants and loans managed by Rural Development), and the U.S. Department of Housing and Urban Development (such as the Community Development Block Grant Program). Today, these federal programs often require substantial local or state cost-share matches, and the funding is highly competitive.
The historical shift away from substantial federal subsidization means states and local governments must shoulder a much larger percentage of total project costs than they did in the 20th century.

Local and Private Funding

When federal and state funding are insufficient to support water projects and/or there is a matching requirement, the funding gap is often closed at the local level. Local entities—such as municipal water providers, special water districts, and private ditch companies—fund projects primarily through enterprise funds. These are supported by:

- **Tap Fees / System Development Charges:** Fees levied on new construction to buy into the existing water system.
- **Utility Rates:** Monthly charges billed to residential, commercial, and industrial water users.
- **Revenue Bonds:** Debt issued by local utilities, which is paid back over decades through customer utility bills.
- **Agricultural Mutual Ditch Assessments:** Annual or periodic fees charged by a mutual ditch company to its shareholders (farmers, ranchers, and other water-right owners).

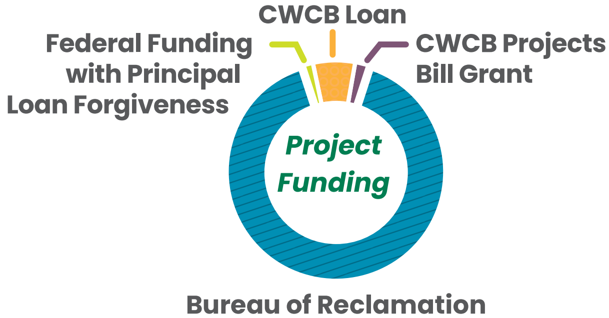
Because local utilities must maintain service and meet regulatory standards regardless of state or federal funding availability, any shortfall at the higher levels directly translates into increased utility rates and financial burdens on individual water users, many of whom operate in rural areas that lack the tax base to pay more.

Water Project Funding Case Studies

Successful funding of large water projects is often made possible by project proponents' ability to leverage different funding sources from CWCB and other partners. Brief case studies, provided by CWCB and DOLA, demonstrate how revenue distributed to the Severance Tax Perpetual Base Fund and EIAF have been leveraged with other funding sources to support water projects in Colorado.

Arkansas Valley Conduit
CWCB loan leveraged

This project is a 130-mile pipeline that will deliver reliable water from Pueblo Reservoir to 39 communities and 50,000 people east of Pueblo. The current water supply for many people in the area currently is from groundwater contaminated with naturally occurring radioactive materials and salts. The project was initially authorized in 1962 but was not constructed due to local communities' inability to fund construction costs. In 2009, Congress amended the original legislation to include a cost-sharing plan with 65% federal and 35% local funding. In 2019, CWCB committed to providing a $90 million loan from the severance tax perpetual base fund and a $30 million grant. This commitment drove the federal government to supply the remaining necessary funds to get the project underway, which officially broke ground in 2023. Congress passed the Finish the Arkansas Valley Conduit Act in December 2025, which would have eased repayment terms and lowered interest rates for local communities. However, a presidential veto of the Act in January 2026 has left pipeline construction once again in limbo.



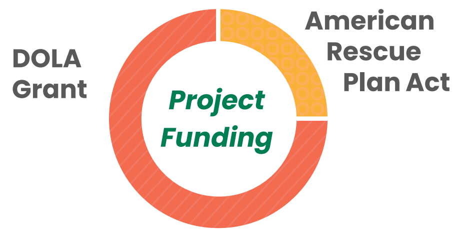
Maybell Diversion Structure
WSRF grants leveraged

This project rehabilitated the Maybell Diversion Structure, one of the largest diversions on the Yampa River in Northwestern Colorado. By the early 2020s, the diversion structure was well beyond its useful life and the productivity of 2,000 irrigated acres was threatened by its deteriorating condition. A new diversion was designed to not only provide water security for agricultural producers, but to improve boater safety and fish passage, especially for the endangered and threatened Bonytail, Colorado Pikeminnow, Razorback Sucker and Humpback Chub fish species. CWCB contributed $1.2 million in WSRF grants, supported by severance tax, toward the project cost of $6.8 million. CWCB grants helped provide the momentum and certainty necessary to secure other funds including a $1.9 million federal Bureau of Reclamation WaterSMART grant.

Blue Mesa Reservoir is located on the upper reaches of the Gunnison River in Gunnison County.

Hugo Sewer Line Replacement
EIAF grant

This project replaced a city block of collapsed asbestos cement sewer line. This critical upgrade served Hugo, an economically disadvantaged community with a population of 784. The project eliminates the risk of raw sewage exposure and backups into homes and businesses, protecting the community from waterborne diseases. Without funding from severance tax, this sewer line would not have been replaced, making another collapse within the section imminent. The town exhausted its municipal budget and allocated all remaining federal American Rescue Plan Act funds to this effort. Severance tax funding allowed for a $225,000 grant to fund this project.



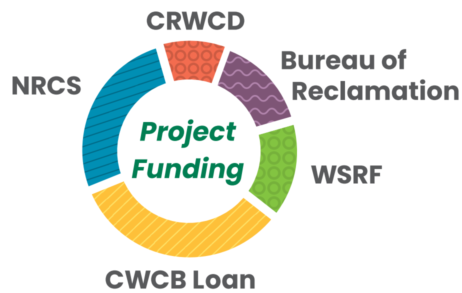
Aging infrastructure before replacement. Photo courtesy of the Town of Silt and DOLA.

Silt I-70 Water Main Boring Project
EIAF grant

This project improved local water infrastructure by creating a connection between the Town of Silt's main water line on the north side of Interstate 70 and the River Frontage Road on the south side. The Town of Silt is a small municipality with a population of 3,596. The project involved boring underneath both the Union Pacific railroad tracks and the Colorado Department of Transportation right-of-way to install a new 36-inch steel carrier pipe containing a 12-inch water main. The project replaced a critical potable water trunk line at the end of its useful lifespan and heavily coated with manganese, thereby securing the town's main water supply and eliminating the risk of a catastrophic pipe failure beneath major transportation corridors. Without this funding, the project would have been extremely difficult to complete as Silt was simultaneously trying to fund major, non-negotiable upgrades to its water treatment plant at a cost exceeding $20 million, a burden for local rate payers in this small community. For this project, severance tax funds were used to provide a grant in the amount of $767,325.

Crawford Clipper Ditch
WSRF/CWCB loans leveraged

The Crawford Clipper Ditch Company, which has operated in Delta County in the Gunnison Basin since 1885 for agricultural water users, implemented an improvement project that reduces seepage and sedimentation, while also improving water quality, water management reliability, adaptability and accuracy. These are important factors for both environmental health and agricultural productivity. The company was awarded a $225,000 WSRF grant and a $757,000 low interest CWCB loan towards the $1.7 million dollar project. Over $700,000 of additional funding came from the Bureau of Reclamation, Natural Resources Conservation Service (NRCS), and the Colorado River Water Conservation District (CRWCD).



Water Funding and Agency Coordination in Other States

Across the United States, water-related projects are generally funded from multiple sources including taxes or fees (such as severance taxes), state grant and loan programs, and federal grant and loan programs. States administer federal funds, such as the clean water and drinking water SRFs, to help support public water systems and infrastructure needs. States will also allocate or directly appropriate funds, sometimes creating dedicated funds or task forces to address a variety of water related needs, such as implementation of state water plans and other priorities.

Examples from other states that could be useful models are those with sustainable long-term funding and those that have been successful in attaining voter support to incorporate water funding in state constitutions, including:

- The Minnesota Clean Water Fund is used for water management activities and receives revenues established by a 2008 constitutional amendment that increased sales and use taxes from 2009 through 2034. An interagency team of seven state agencies coordinates the use of this funding to protect water quality (Minnesota Pollution Control Agency, 2026).
- The New Mexico Finance Authority provides loans and grants through the Water Project Fund and as recommended by the Water Trust Board and then, authorized by the legislature. This fund provides assistance for projects under five types: water conservation, recycling, and reuse projects, flood prevention, Endangered Species Act collaboration, water storage, conveyance and delivery, and watershed restoration and management (New Mexico Finance Authority, 2026). The Water Project Fund receives an earmark from severance tax bonding capacity and a distribution from the Water Trust Fund, which is funded by general fund appropriations. After being established in the state treasury in 2001, New Mexico voters supported protecting the Water Trust Fund in the state constitution in 2006. However, there is debate on whether this fund has received the full allocations as initially intended (Hilton & Bushnell, 2015).
- The Texas Water Development Board administers the Texas Water Fund, which does not provide direct funding but rather transfers funds to other accounts, including the Clean Water and Drinking Water SRFs, the Rural Water Assistance Fund, state water plan project implementation, public awareness, and other targeted funds. Voters approved a legislatively referred ballot measure in 2023 to establish the fund outside of the general fund, and in 2025, voters also approved additional ballot measure that dedicated up to $1 billion per year of state sales and use tax revenue for 20 years.

State water plans can be an effective tool for coordinating across agencies and engaging stakeholders and determining priorities for state funding. While the purpose and focus of state water plans differ, there are some shared challenges and effective approaches. In 2018, the American Water Resources Association conducted a review of 17 state water plans' common themes, such as long-term planning to address water scarcity and the importance of data, science, and monitoring to inform decision-making (Bateman et al., 2018). While these themes are not directly related to new or innovative funding, there could be applicable approaches to support coordinated approaches across multiple levels of government and to maximize limited funding resources.

A challenge for water funding and its administration at the state level is the fragmentation of funds and the need to coordinate among multiple agencies and programs. To address this challenge, states have looked at reorganizing state agencies, establishing frameworks to promote coordination, or providing collaborative support to local governments and communities accessing state agency resources. In 2021, South Dakota created the Department of Agriculture and Natural Resources, which merged two agencies, and oversees water planning projects and processes. As part of this state agency, the South Dakota Board of Water and Natural Resources approves potential water projects listed on the State Water Facilities Plan. Recently, Utah has taken steps to develop the state's new approach with the Unified Water Infrastructure Plan, which coordinates across three state agencies, provides financial assistance for a range of water projects and infrastructure, and promotes proactive planning. This new approach will not be fully implemented until after July 1, 2026 (Utah Division of Water Resources, 2026). The Utah Legislature has also created a new Water Infrastructure Fund and authorized an infrastructure fee study; however, the state has not moved forward with a new fee or tax as of 2026 to address the identified gap. The three state agencies each manage funding from state (such as sales tax designated for water projects) and federal (such as state revolving funds) sources and were asked to identify funds for consolidation in the newly created fund.

Depending on a particular state's governance framework, states can allocate funding, set priorities, and require local governments to align projects with state water plans or other planning priorities. Many states, including Colorado, explicitly connect their state water plans to project funding, using the plans to prioritize loans, grants, and infrastructure investments. In some states, only projects included in an approved plan are eligible for state financial support (Bateman et al. 2018). States can provide funding and technical assistance to local governments to develop and implement programs related to water planning, such as long-term supply reliability (National Conference of State Legislatures, 2022). For example, the New Mexico Water Project Fund has been amended to include a technical assistance program to support regionalization and system planning, especially for small and disadvantaged communities.

States are responding to increasing pressure on water supplies, aging infrastructure, and water quality concerns. In response, states are updating laws, reorganizing agencies, improving coordination, and investing in water needs. However, the state's budget process and fiscal health will ultimately inform next steps for water funding. While some water project funding approaches from other states may be helpful examples, implementation of new approaches will likely be constrained by the state's budgeting, taxation, and other revenue structures.

The Colorado River as seen near the Grand Canyon.

Local Government Funding in Colorado

In Colorado, local governments with taxing and spending authority include municipalities (cities and towns), counties, and school districts. Special districts also exercise taxing and spending powers for specific services such as fire protection, water, sanitation, libraries, parks, or metropolitan infrastructure. Table 1 summarizes the revenue structure of these local governments using data from the 2022 Census of Local Governments. Specifically, the table shows percentages for how each type of government funds its own activities.

The table shows that counties, school districts, and special districts rely overwhelmingly on general revenue, while municipalities have a more mixed revenue structure. General revenue accounts for nearly all county revenue, all school district revenue, and 93.3% of special district revenue. Municipalities differ because utility revenue accounts for 20.4% of total municipal revenue, reflecting the role many cities and towns play in providing water, wastewater, electric, stormwater, and other utility services. Within general revenue, taxes are the largest source for municipalities and special districts, accounting for 52.3% and 54.6% of general revenue, respectively. Counties rely on a more balanced mix of taxes and intergovernmental aid, while school districts depend most heavily on intergovernmental aid, which accounts for 59.7% of their general revenue.

The composition of tax revenue also differs sharply across local governments in Colorado. Property taxes are the dominant tax source for school districts and special districts, accounting for 99.1% and 94.3% of their tax revenue, respectively. Property taxes also provide the largest share of county tax revenue, at 60.5%, while sales taxes account for another 33.3%. Municipalities are the exception: sales taxes account for 62.8% of municipal tax revenue, compared with 28% from property taxes. This difference reflects the more commerce-oriented tax base of cities and towns, where retail activity, local sales taxes, and use taxes are central to municipal finance.

Special districts are also special-purpose

Table 1: *Percentage of Revenue in Colorado by Local Government Type (2022).*

Categories	County	Municipality	School District	Special District
Panel A: Major Total Revenue 1. General Revenue	99.8%	79.6%	100.0%	93.3%
Panel A: Major Total Revenue 2. Utility Revenue	0.2%	20.4%	0.0%	6.7%
Panel B: General Revenue 1.1 Total Taxes	47.2%	52.3%	33.0%	54.6%
Panel B: General Revenue 1.2 Intergovernmental Aid	35.8%	20.1%	59.7%	15.7%
Panel B: General Revenue 1.3 Charges and Other Revenue	17.0%	27.6%	7.3%	29.7%
Panel C: Total Tax Revenue 1.1.1 Property Taxes	60.5%	28.0%	99.1%	94.3%
Panel C: Total Tax Revenue 1.1.1 Sales Taxes	33.3%	62.8%	0.1%	2.0%
Panel C: Total Tax Revenue 1.1.1 Income Taxes	2.2%	2.7%	0.7%	3.1%
Panel C: Total Tax Revenue 1.1.1 All Other Taxes	4.1%	6.6%	0.0%	0.5%
Panel D: Intergovernmental Aid 1.2.1 Federal Aid	22.8%	13.8%	1.9%	12.4%
Panel D: Intergovernmental Aid 1.2.2 State Aid	70.0%	58.5%	97.4%	30.8%
Panel D: Intergovernmental Aid 1.2.3 Local Aid	7.2%	27.7%	0.7%	56.8%

Source: *U.S. Census Bureau, Census of Local Governments 2022, (2024).*

governments, but they vary widely in function, size, fiscal capacity, and administrative sophistication. Colorado has many types of special districts, including water and sanitation districts, fire protection districts, recreation districts, library districts, ambulance districts, hospital districts, and metropolitan districts. Some rely heavily on property taxes, while others rely more on user charges, service fees, tap fees, or other charges connected to infrastructure or service provision. Larger districts with substantial rate bases may have significant bonding capacity and dedicated staff to pursue state and federal funding programs, while smaller rural districts may have limited administrative capacity and face greater difficulty navigating competitive grant and loan processes. Because of this variation, special districts are difficult to characterize as a single fiscal category.

In addition to property taxes and sales and use taxes, local governments receive state and federal distributions that can be especially important for communities affected by natural resource development. Similar to DOLA's Local Government Severance Tax Fund, distributions from the Federal Mineral Leasing program and the Highway Users Tax Fund provide funding to local governments based on statutory formulas and program rules. These distributions can help support infrastructure, roads, public services, and other local needs in communities affected by energy development, public lands, transportation demands, or resource extraction.

The DOLA Local Government Severance Tax Fund is an important funding source for communities where oil, gas, and mineral extraction represent a substantial part of the local economy. These distributions are discussed in greater detail in the Severance Tax Direct Distributions section (see page 16). DOLA provides best management practice guidance encouraging local governments to use these funds for infrastructure improvements, capital projects, and one-time expenses. However, the final use of the funds is generally determined by the local government. If severance tax distributions are used to support recurring operating expenses, communities may face fiscal pressure if production declines, commodity prices fall, or when they transition from current producing communities to historical producing communities where extraction has ceased or substantially diminished.

Colorado's Taxpayer's Bill of Rights

TABOR is a constitutional amendment adopted in 1992 that restricts how state and local governments raise and retain revenue (Colorado Municipal League, 2018) and is central to understanding challenges around current severance tax revenue. TABOR requires voter approval for most tax rate increases, new taxes, and many forms of government debt, and it caps the growth of revenue that the state is allowed to keep from year to year. While TABOR does apply to local governments as well, the majority of counties, municipalities, and school districts have removed restrictions from TABOR through voter approval. At the state level, the TABOR growth revenue cap is based on inflation and population growth, subject to the rules established by Referendum C. Importantly, the TABOR limit applies to statewide nonexempt revenue, not only to General Fund revenue. Many cash-fund revenues, including revenues dedicated to particular programs, may still count toward the TABOR cap unless they are exempt through voter approval, enterprise status, or another applicable exemption.

This distinction is important for severance tax policy. Colorado severance tax revenue is generally deposited into dedicated cash funds that support natural resource programs, water-related investments, and energy-impacted communities, but severance tax revenue is still subject to TABOR. As a result, severance tax collections can increase resources available for dedicated severance-tax purposes while also increasing statewide nonexempt revenue. If total nonexempt revenue exceeds the TABOR limit, the excess generally must be refunded to taxpayers, and those refunds are paid from the General Fund. In this way, cash-fund revenue can create or enlarge a statewide TABOR surplus even though the resulting refund obligation reduces General Fund budget capacity.

When collections exceed the TABOR limit, the excess generally must be refunded to taxpayers unless voters authorize the state to retain it (often referred to as "de-Brucing"). While TABOR applies to tax revenues, it treats exempt enterprise revenue differently. Government-owned enterprises that are funded primarily through fees and user charges operate outside the TABOR limit, and their revenues and expenditures are not subject to the same constitutional cap. The long-term strategy for Colorado's severance tax system must not only consider revenue volatility, but also TABOR's constraints.

In practice, TABOR affects Colorado's fiscal system in two main ways. First, it limits the ability of the General Assembly and local governments to create new tax revenue without voter approval. A new tax and increase in an existing tax rate, an extension of an expiring tax, or a tax policy change that directly increases net tax revenue generally must be approved by voters. Second, TABOR limits how much revenue the state may retain even under existing tax rates. If revenue exceeds the state's constitutional limit, the excess must generally be refunded rather than used for public programs unless voters have approved retention.

Several terms and concepts are important for understanding how TABOR interacts with severance tax policy.

TABOR Surplus: A TABOR surplus is revenue collected above the amount the government is constitutionally allowed to retain and spend. At the state level, surplus revenue above the Referendum C cap must be refunded to taxpayers. These refunds are paid from the General Fund, which means that even some cash fund revenue interactions can affect General Fund budget capacity.

De-Brucing: "De-Brucing" refers to a process for voter approval that allows a government to retain and spend revenue that would otherwise have to be refunded under the TABOR revenue limit. The term refers to Douglas Bruce, the author of TABOR. A government that has "de-Bruced" has received voter authorization to keep some or all revenue above its TABOR limit, typically under existing tax rates. De-Brucing does not necessarily create a new tax or raise a tax rate; instead, it changes whether revenue already collected under existing law must be refunded or may be retained for public purposes. Most Colorado counties, municipalities, and school districts have adopted some form of de-Brucing, while statewide de-Brucing has been more limited.

Sweeps: In the context of this report, a "sweep" refers to a legislative transfer or redirection of money from a dedicated cash fund to another use, often the General Fund, during the state budget process. Sweeps are not unique to severance tax; however, the severance tax has historically experienced significant sweeps. When these funds are swept, revenue originally intended for water projects or energy-impacted communities may instead be used to address broader state budget pressures.

Enterprise Revenue and Fee-Funded Activities: Enterprise revenue refers to revenue collected by a government-owned enterprise that operates more like a business and is funded primarily through fees, user charges, or payments connected to a specific service, benefit, or regulatory purpose. Under TABOR, qualifying enterprise revenue is generally excluded from the state or local government revenue cap. However, not all fee revenue is enterprise revenue. Fees collected by a regular state program or deposited into a non-enterprise cash fund may still count as nonexempt TABOR revenue. For this reason, fee-based alternatives to severance taxes should be evaluated based on whether they are collected by a qualifying enterprise, whether the fee is sufficiently connected to the service or regulatory purpose being funded, and whether the resulting revenue would remain inside or outside the TABOR limit.

TABOR is central to this report because it shapes both the feasibility and design of any long-term water project and local government funding strategy. Severance tax revenues are volatile because they depend on commodity prices, production levels, and tax structure. TABOR adds a separate constraint by limiting how new tax revenue can be raised and how excess revenue can be retained. This means that reform options cannot be evaluated only by asking whether they would generate adequate or stable revenue. They should also be evaluated by whether they require voter approval, whether the revenue would count against the TABOR cap, whether the funding could be protected from future sweeps, and whether alternative fee-based or enterprise structures are legally and administratively appropriate.

Severance Tax in Colorado

Colorado severance tax was enacted in 1977 and is imposed on the income from nonrenewable natural resources removed from the earth. Specifically, metallic minerals, molybdenum (ore), oil and gas, oil shale, and coal are subject to taxation. The amount of the severance tax ranges depending on gross income, the type of resource, the amount produced, and the credits, deductions and exemptions that apply. See Appendix A (page 43) for more information.

Severance tax is a tax on the income received from the industry, meaning that all owners are subject to tax. As much of the production of these industries are conducted by operators, information must be provided by the operators to the owners to file the tax each year. The statutory tax rate is dependent on the income the individual received from the related sales of the mineral, oil, and gas industry and ranges from 2% to 5% depending on the income amount (Hansen, 2025). However, due to the ad valorem tax credit and other credits the effective tax rate can be considerably lower. Taxes are paid for the previous annual year; for example, taxes paid in early 2026 reflect both extraction and prices of 2025 plus any tax credits or exemptions.

Due to the inherent characteristics of oil and gas extraction and the structure of the severance tax, severance tax revenues fluctuate significantly from year to year. Figure 1 shows severance tax revenues from FY04-05 to FY24-25, demonstrating the drastic swings in revenues from year to year. Negative net tax collections are caused by the Ad Valorem tax credit being greater than the collections.

A variety of reasons cause yearly volatility in severance tax revenues including:

- **Fluctuations in global oil and gas markets**
  The majority of severance tax revenues come from the value of oil and gas production, with prices fluctuating year to year based on the global markets and geopolitical factors. The price changes can cause large swings in severance tax revenue even if production levels remain steady.
- **Changes in production and well life cycles**
  Oil and gas wells are most productive in their first two to three years, after which output declines. Fewer new permits and changing regulatory and market conditions mean that even without price shocks, longer-term production declines are possible. Increasing efficiency in the oil and gas industry is a countervailing force that makes forecasting production levels challenging.
- **Statutory credits and deductions, particularly ad valorem tax credits**
  The timing of the ad valorem credit creates additional complexity in severance tax revenue forecasting. Severance taxes are levied on current-year production income, while the offsetting ad valorem credit reflects property taxes assessed on production values from up to two years prior, meaning the credit amount and the tax liability it offsets are rarely calculated on the same underlying production conditions.
- **State budget backfilling and budget balancing transfers**
  Over the past several decades, severance tax funds have been transferred, or swept, to the General Fund. These sweeps create a second layer of volatility that is policy-driven rather than market-driven, making long-term planning especially difficult. There are two key motivations for the sweeps. The first is to compensate for years when the collected severance tax revenue is much higher than the forecast. In high-revenue years, sweeps have been used as a budget management tool, in part to address interactions with the TABOR revenue cap. Sweeps have also occurred in years where the General Fund needs additional revenue and when severance taxes have a disproportionately large impact on TABOR revenues/refunds.

Severance Net Tax Collection

Oil, Gas, Coal, Metallic Mineral, and Molybdenum Ore by Fiscal Year (July 1 through June 30)

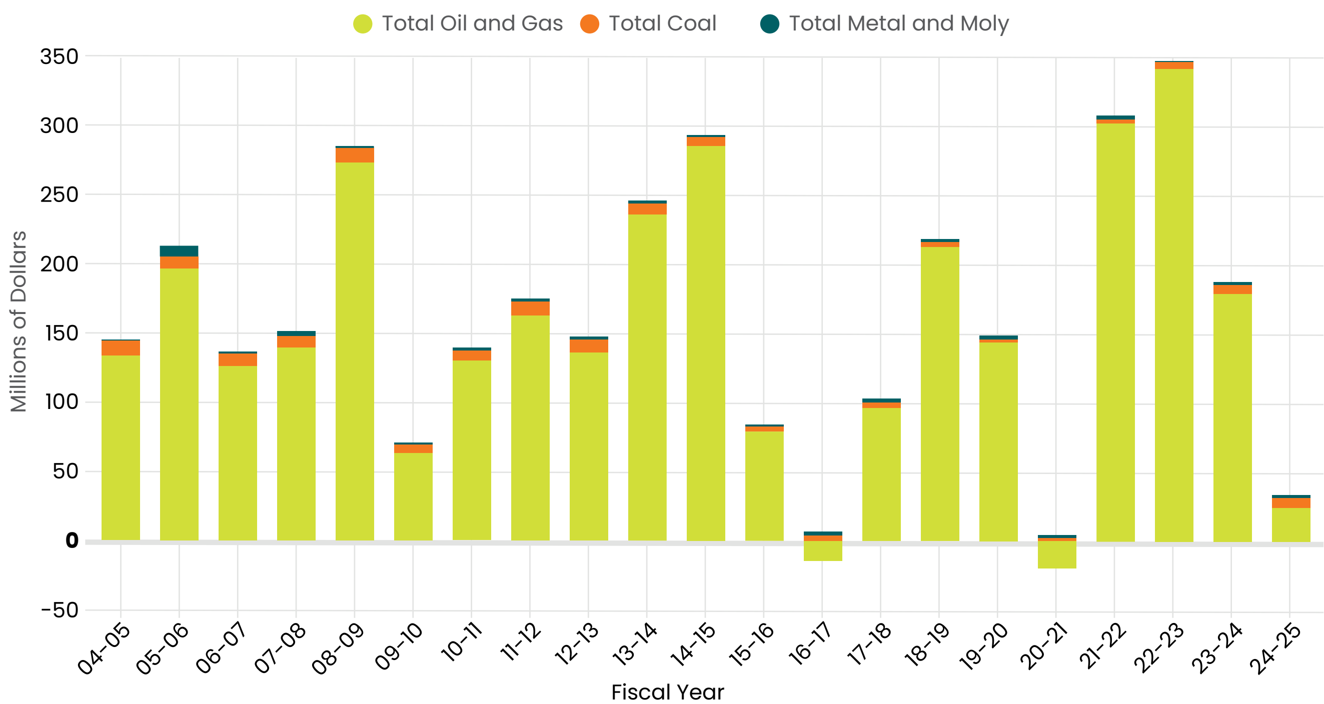


Figure 1. *Annual severance net tax collections from FY04-05 to FY24-25. Data sourced from the Colorado Department of Revenue (2024).*

Severance Tax Distribution Structure and Uses

State statute directs the distribution of severance tax revenues after deductions, credits, and distributions to the Just Transitions and Decarbonization Tax Administration Cash Funds (Section 39-29-108, C.R.S). The remaining collected severance tax is split between the DNR State Severance Tax Fund and the DOLA's Local Government Severance Tax Trust Fund (Figure 2). The DNR fund is further split 50-50 between the CWCB Perpetual Base Fund and the DNR Operational Fund. The DOLA portion is further split with 30% going directly to communities impacted by the industries taxes and the other 70% to support the EIAF.

CWCB Perpetual Base Fund

The Perpetual Base Fund, administered by the CWCB, finances loans for state water projects to construct or improve flood control, water supply, hydroelectric energy, and recreational facilities, excluding domestic water treatment and distribution systems.

DNR Operational Fund

The Severance Tax Operational Fund supports programs administered by DNR spanning oil and gas regulation and broader natural resource management. The fund is divided into two program groups, core and discretionary, reflecting the need to account for severance tax revenue volatility. Prior to the passage of HB 26-1379, the Operational Fund has historically supported permanent staff and ongoing operations for the following programs (Colorado General Assembly, Joint Budget Committee Staff, 2026):

- Energy and Carbon Management Commission
- Colorado Geological Survey
- Avalanche Information Center
- Colorado Water Conservation Board
- Division of Reclamation, Mining, and Safety
- Colorado Parks and Wildlife

In addition to core programs, the Operational Fund has supported annual appropriations for the following programs in each fiscal year

Colorado's Severance Tax Distributions

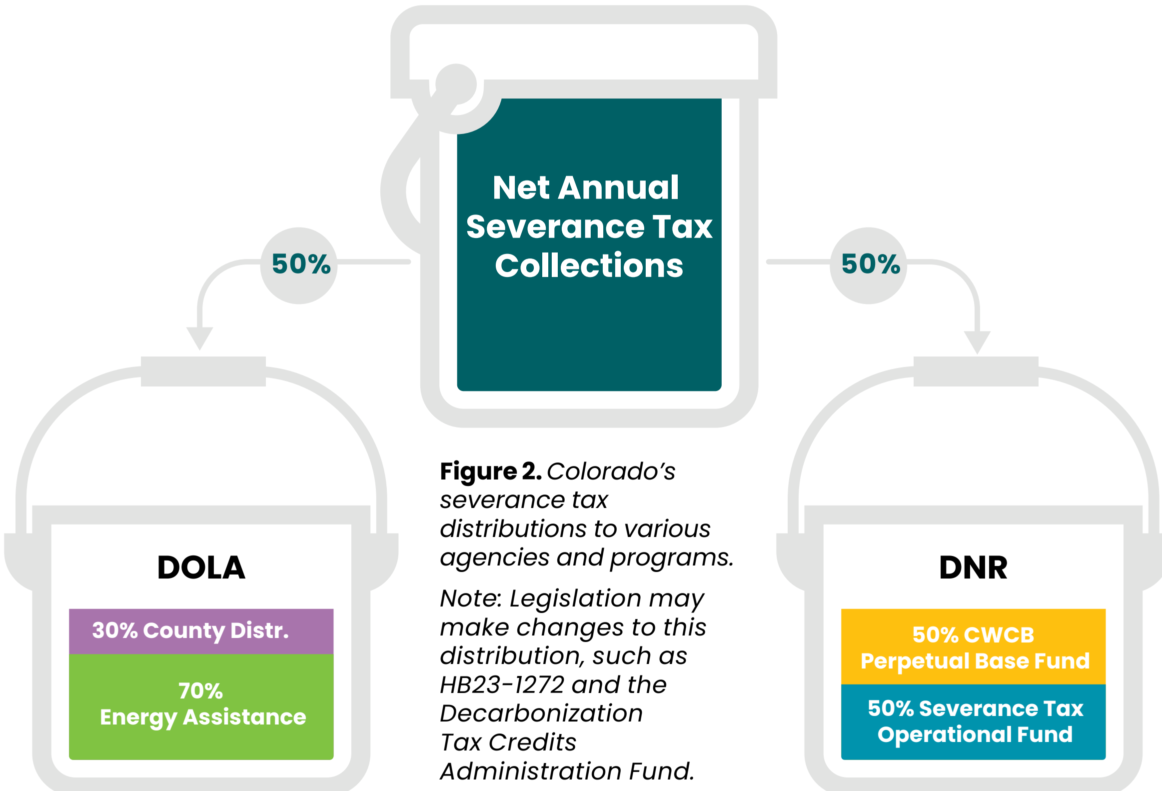


Figure 2. *Colorado's severance tax distributions to various agencies and programs.*

Note: Legislation may make changes to this distribution, such as HB23-1272 and the Decarbonization Tax Credits Administration Fund.

since legislation in 2021 established the current Operational Fund structure:

- » Species Conservation Trust Fund (up to $5 million)
- » Aquatic Nuisance Species Fund (up to $4.6 million)
- » Conservation District Grant Fund (up to $700,000)
- » Wildfire Mitigation Capacity Development Fund (up to $5 million)

See discussion of SB 21-281 and other recent legislation in Appendix B (page 44).

DNR is also permitted to retain a reserve of up to 200% of Operational Fund appropriations in the current fiscal year, which helps protect the funding needed to sustain its programs, grants, and personnel during periods of fund volatility. Program appropriations, along with required cash reserves, represent the primary uses of the DNR Operational Fund. Any revenue remaining above and beyond the reserve requirement at fiscal year end is transferred to the Perpetual Base Fund.

Historically, the DNR Operational Fund has been crucial for sustaining the staff and operations needed for several key conservation, environmental, and regulatory programs of the state to function. But programs supported by the Operational Fund are more exposed to risk when severance tax revenue declines because of the permanent and ongoing nature obligations. While some programs with Operational Fund appropriations have other sources of revenue, severance tax is an important component of total funding for most programs that receive it, including the Aquatic Nuisance Species Fund, the Colorado Avalanche Information Center, the Coal Regulatory Program and Minerals Program, and CO Strategic Wildfire Action Program grants. While the reserve can help to cushion the DNR Operational Fund programs from volatility, it is dependent on available revenue and not consistently maintained at full capacity in part due to budget balancing sweeps from the fund, which can leave programs without adequate financial protection.

Recent budget balancing actions for FY26-27 also refinanced certain programs from Operational Fund support to alternative funding

DNR natural resource programs utilize severance tax revenue distributions to benefit wildlife. Photos by stock.adobe.com and Nate Pearson respectively.

sources on an ongoing basis (see Appendix B for discussion of recent legislation including HB 26-1387, 2026). As recommended by the Joint Budget Committee and as part of a bill package, HB 26-1387 refinances the DNR Operational Fund appropriations for specific programs to alternate fund sources and establishes an ongoing transfer from the Operational Fund to the General Fund. These actions both reduce revenue available for current obligations supported by other cash funds, including water project loans and grants, and generate approximately $14.2 million in annual Operational Fund savings, which HB 26-1387 directs to the General Fund on an ongoing basis through an annual transfer from the Severance Tax Operational Fund to the General Fund. For this report, HB 26-1387 and the related budget balancing actions are significant because it represents a structural and ongoing redirection of severance tax revenues. Rather than a one-time sweep, the bill creates an annual statutory mechanism under which the DNR Operational Fund capacity made available through refinancing is transferred to the General Fund. This directly relates to one of the central concerns of the task force: whether severance tax revenues intended to support water, natural resources, and impacted communities are sufficiently protected from recurring budget-balancing transfers.

DOLA Direct Formula Distributions

Of the DOLA severance tax distribution, 30% is distributed directly to local governments impacted by mineral extraction based on a formula incorporating the geographic location of energy industry employees, mine and well permits, and overall mineral production levels. The formula applies to counties, special districts, and certain cities. Both current and historically producing counties receive distributions, though allocations to historic producing communities (those where extraction has ceased or substantially declined) are significantly lower.

The stated goal is to provide communities with resources for capital improvements. Use of the funds is neither tracked nor restricted, though DOLA recommends against using distributions for ongoing operating expenses. Communities retain full discretion over how funds are spent.

DOLA EIAF

The other 70% of the DOLA severance tax distribution supports discretionary impact grants and loans to local governments socially or economically impacted by mineral extraction through EIAF. These funds can be used for planning, construction, and maintenance of public facilities or the provision of public services.

EIAF's broad eligibility and flexible use requirements make it consistently oversubscribed;

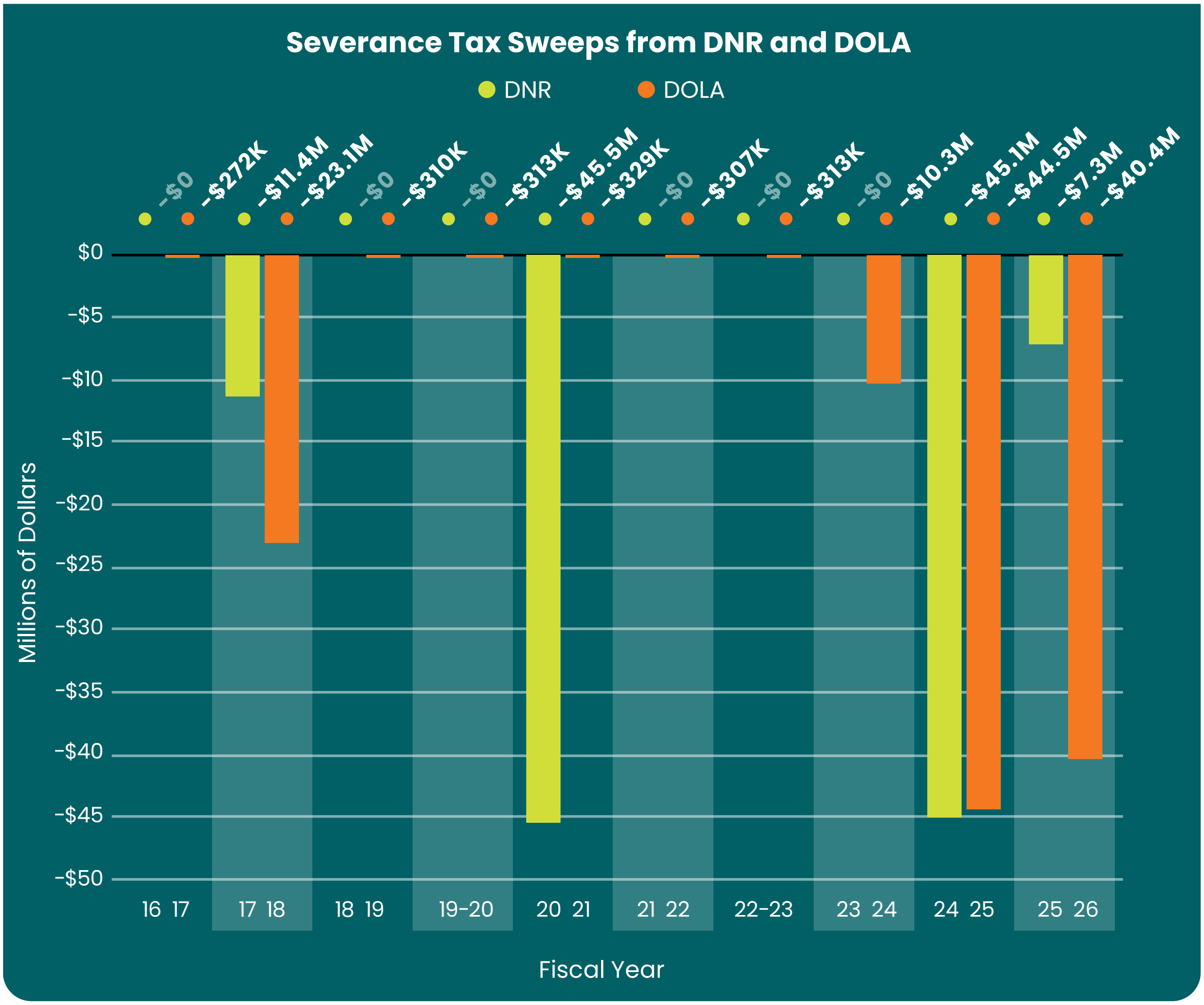


Figure 3. Diversion of Colorado severance taxes from DNR and DOLA into the General Fund. Data sourced from the DNR (2025) and DOLA (2025). Note: FY25-26 for DOLA is projected and DNR is actual dollars. This figure reflects direct transfers only and excludes legislation that used severance tax for budget-balancing purposes but did not direct transfers to the General Fund. Data are rounded.

the program historically receives more funding requests than available revenue. EIAF grants are also frequently used as local matches for additional state or federal loans. To reduce impacts from volatility, direct distributions are based on prior-year revenue rather than projected collections. However, the money remaining for grants and programmatic needs is reliant on uncertain monthly distributions in the current year. Because demand is high and the program supports everything from planning to maintenance, a lower-funding year tends to generate increased applications the following year as unmet needs carry forward.

Key Colorado Severance Tax Topics

Historical Use of Severance Taxes to Backfill the State Budget (Sweeps)

In times of need, the state has relied on severance tax revenues to backfill deficits in the state budget, which contributes to severance tax volatility from year to year. Figure 3 above illustrates sweeps from severance tax cash funds to backfill the state budget from FY16-17 to FY25-26. Severance tax sweeps have occurred to both the DNR and DOLA severance tax allocations. In the timeframe of FY20-21 to FY24-25, the special transfers to the general fund totaled $90.59 million being swept out of DNR and $55.73 million being swept out of DOLA.

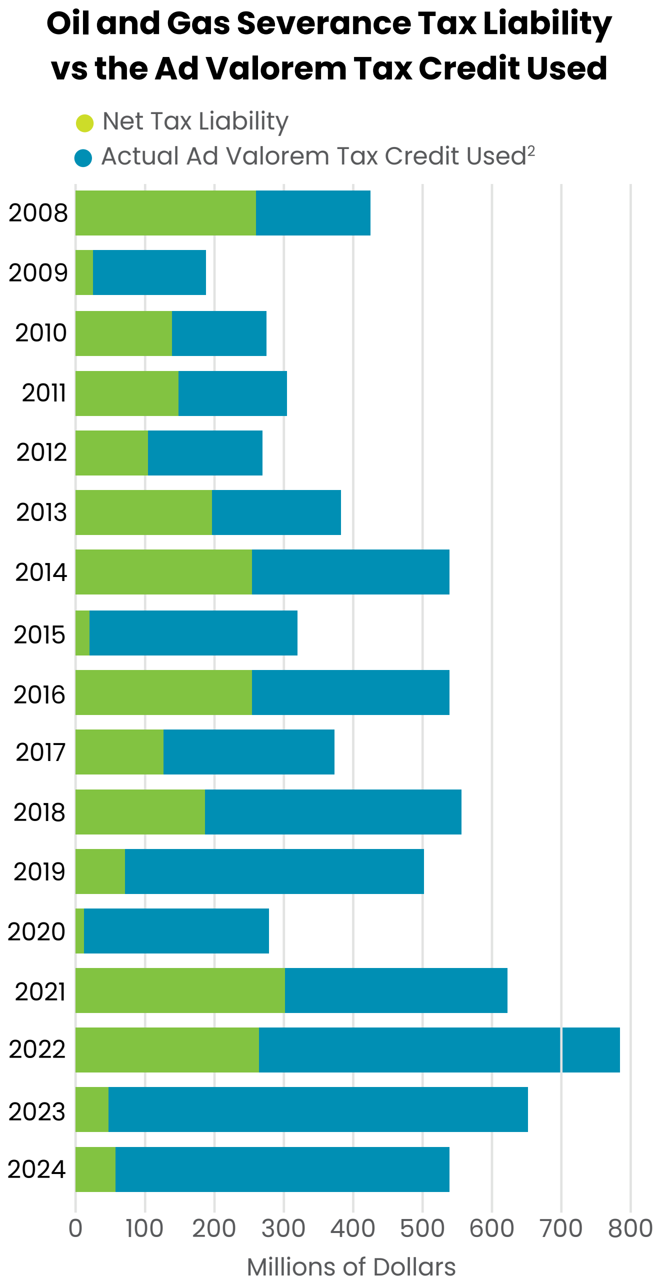


Figure 4. Oil and Gas Severance Tax Liability and the Ad Valorem Tax Credit Used by Income Tax Year[1]. Data sourced from the Colorado Department of Revenue (2024).The width of the bar (the orange and green combined) is the total severance tax liability each year, the orange represents the Ad Valorem Tax Credit amount each year, and the green represents the net severance taxes collected after accounting for the Ad Valorem Tax Credit.

[1] Year is the year that a taxing period began.

[2] Actual Ad Valorem Credit Used is a calculated field by the Department of Revenue that estimates the actual amount of credit used

Ad Valorem Credits

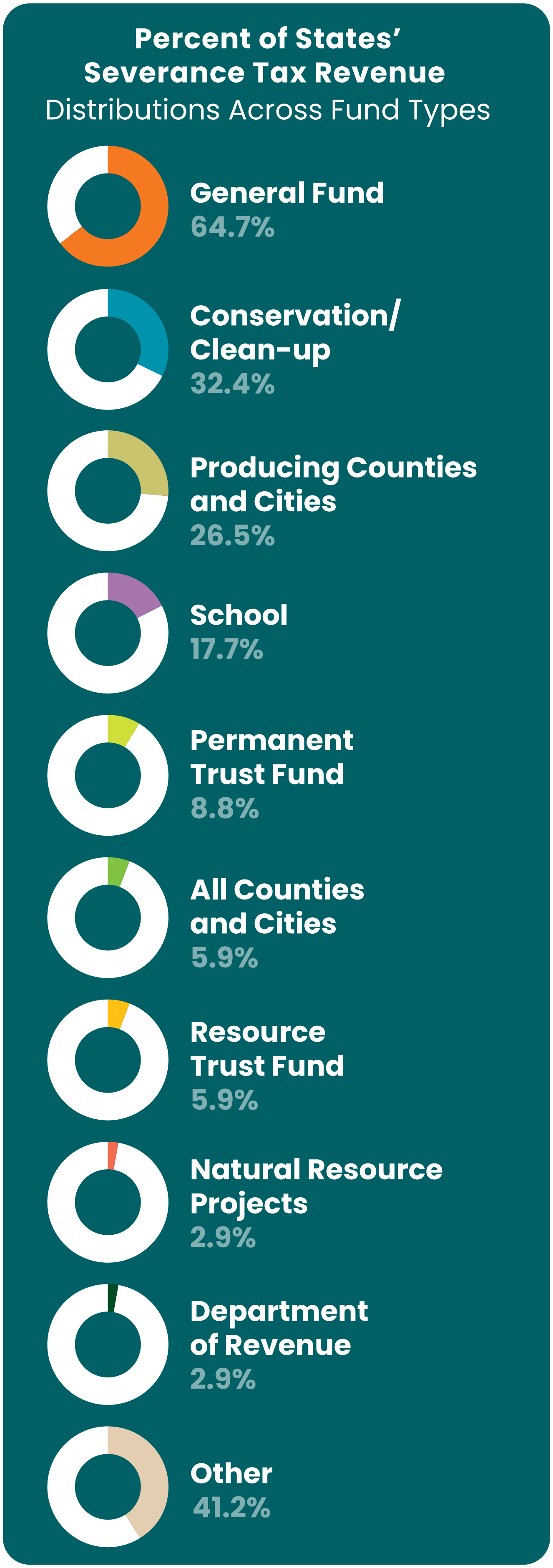
Severance tax Ad Valorem Credits on oil and gas produced within local government boundaries contribute to the year-over-year volatility in severance tax revenue. Colorado oil and gas producers and non-exempt interest owners are eligible for an ad valorem tax credit for oil and gas production subject to local government property taxes. This credit allows producers to offset their state severance tax liability on eligible wells by a percentage of the real property taxes paid to local governments. In some cases, this credit fully offsets a producer's severance tax obligation, resulting in no severance tax liability to the state (Colorado General Assembly, Office of the State Auditor, 2020), illustrating the importance of the credit to the revenue generated from severance taxes (Figure 4).

Ad Valorem Tax Credit

Colorado allows oil and gas producers and royalty owners to claim a credit equal to 87.5% of local ad valorem property taxes paid on actual production. This credit can be used to directly offset state severance tax liability, though it is non-refundable and cannot be carried forward or backward.

Severance Tax Revenue Distribution in Other States

Thirty-four states, including Colorado, have a tax or fee associated with the extraction and production of non-renewable natural resources, including oil, gas, and minerals. In recent years, legislative proposals in several states have been put forward to address changes in the amount or structure of these taxes or fees. While the structure varies from state to state, many states use severance tax revenues to support priorities and impacts associated with natural resource development and typically do not allocate funds to a single sector or program (Wagner, 2026). Some states distribute funds similarly to Colorado and follow guidelines based on a percentage basis to different state government agencies and programs. To provide insights into how states with severance taxes distribute their sever-



ance taxes, Figure 5 shows what percentage of the 34 states distribute any of their severance tax funds to the following categories which are grouped by similar statutory or budgetary destinations of revenues:

» General Fund: Revenue deposited into the state's general fund

» School Fund: All direct allocations to designated education funds, including state school funds or dedicated K–12 or higher education financing accounts

» Producing Counties or Cities: Revenue distributions directed specifically to local governments located in resource-producing areas.

» All Cities and Counties: Revenue-sharing programs in which severance tax revenue is distributed to all counties and/or municipalities, regardless of production status.

» Permanent Trust Fund: Long-term state investment vehicles designed to preserve resource wealth.

» Resource Trust Fund: Trust-based funds established to manage or invest severance tax revenue derived from natural resources such as mineral trust funds and other broader resource trust funds.

» Conservation/Cleanup: Revenue dedicated to environmental protection, remediation, and regulatory management of resource extraction.

» Natural Resource Projects: Revenue targeted for specific natural resource-related projects or operational activities.

» Department of Revenue: Revenue directly assigned to the state Department of Revenue or equivalent tax administration agency.

» Other: All remaining allocations that do not fit into the categories above, including a wide range of statutory recipients.

Figure 5. Percentage of the 34 states with severance tax that allocate revenue across various fund types. Data sourced from National Conference of State Legislatures (2018) and author calculations. "Other" category includes other funds (i.e. County Aid Fund, Special Revenue Fund, Legacy Fund, Highway Fund, etc.), Economic Development, Board Expenses, Enforcement of the Tax, Revitalization for the Uintah Basin and Navajo in Utah.

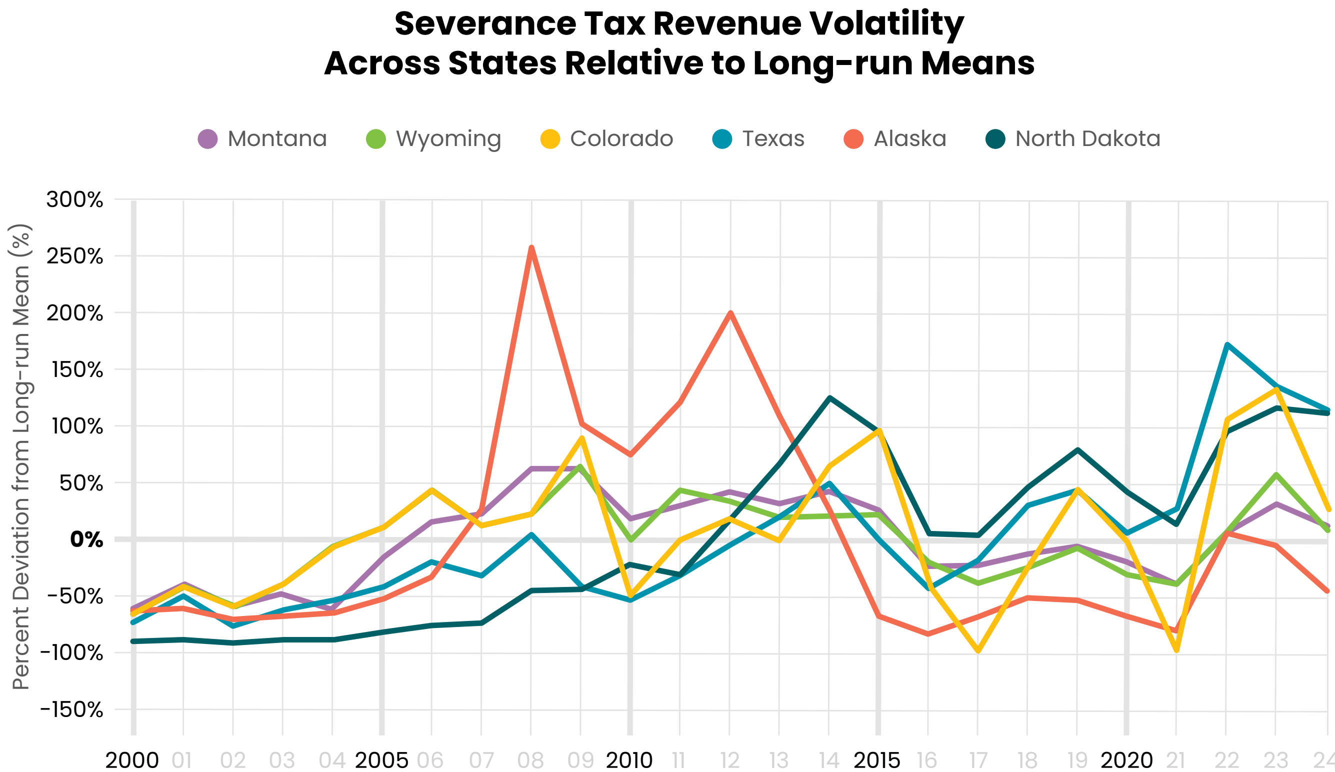


Figure 6. Severance tax revenue variance from the mean from 2000-2024 for Montana, Wyoming, Colorado, Texas, Alaska, and North Dakota. Data sourced from multiple series from the Federal Reserve Bank of St. Louis (FRED) database (n.d.): *MTSVRNCTAX, WYSVRNCTAX, COSVRNCTAX, TXSVRNCTAX, AKSVRNCTAX, NDSVRNCTAX.*

Overall, how states distribute severance tax funding is variable; out of the 34 states with severance tax, approximately 65% of them distribute severance tax revenue to the general fund, over 30% to conservation/clean-up funds, 28% to producing counties and cities, and 19% of states distribute revenue to schools.

States differ in how they structure and administer severance taxes and other similar resource extraction revenues. Examples of these differences for Wyoming and Utah, two states in our region, are described below for illustrative purposes. The severance tax is 6%, and 1.5% is constitutionally required to be deposited in Wyoming's Permanent Mineral Trust Fund. The statutorily determined severance tax is distributed to the general fund, water-specific funds, cities, towns, counties, the highway fund, and the County Road Construction Fund up to a cap of $155 million. Any revenue above the statutory cap of $155 million collected from severance tax is distributed to the permanent Wyoming mineral trust fund and the common school account (Wyoming Legislature, Legislative Service Office, n.d.). Utah distributes revenues among the general fund, the Uintah Basin Revitalization fund, and the Navajo Revitalization fund, the permanent state trust fund, multiple state agencies, and special funds and programs, such as aviation fuel incentives and the transportation investment fund.

State Level Variation in Severance Tax Revenues

The revenue generated from severance tax varies by state, with year-to-year volatility in severance tax revenues being a common challenge among all (Figure 6). Each state has different levels of natural resource extraction and collects severance tax differently making comparison of actual tax revenue amounts across states less informative. By assessing the variance from the mean of severance tax revenue by state, Figure 6 shows that severance tax variability is ubiquitous across the sample of states in the Western US that collect severance taxes, and is not just a problem in Colorado.

Analysis

Overview of Colorado's Future Water Funding Needs

Water projects in Colorado need upgrades and improvements that outpace current available funding from state, federal, and local sources. This is demonstrated in the stakeholder interview summaries in the following section and through the increasing number of applications for available state grants and loans that often exceed available funds. This study attempts to describe the full scope of Colorado's water project needs using existing data sources and reports in order to better understand the role of severance taxes in that landscape and the gaps that could be filled by alternative funding sources.

When assessing Colorado's water project needs, cost estimates from existing data sources generally put costs into two overlapping spheres: "pipes and plants'" (municipal drinking water and wastewater infrastructure), and "supply and rivers" (raw water storage, agricultural irrigation, and watershed health). The ASCE 2025 Report Card for Colorado's Infrastructure (Uludag et al., 2025) provides benchmark cost estimates associated with the "pipes and plants" sphere. The 2025 report card sections on drinking water and wastewater relies heavily on data from the U.S. EPA's 7th Drinking Water Infrastructure Needs Survey and Assessment and the Clean Watersheds Needs Survey. These report sections focus primarily on civil engineering needs such as replacing aging distribution pipes, upgrading drinking water treatment plants to handle new contaminants, and modernizing wastewater systems. Relying on the EPA's 20-year time horizon, the 2025 ASCE assessment identifies a total projected capital need of $10 billion for Colorado's drinking water systems and an additional $6.2 billion in required infrastructure investment for wastewater systems serving populations of 10,000 or more. These figures represent the large capital price tag required to keep safe water flowing to residents' taps but notably exclude the costs of securing raw water supplies or supporting the agricultural or environmental sectors.

Relying on the EPA's 20-year time horizon, the 2025 ASCE assessment identifies a total projected capital need of $10 billion for Colorado's drinking water systems and an additional $6.2 billion in required infrastructure investment for wastewater systems serving populations of 10,000 or more.

The costs associated with the "supply and rivers" sphere is assessed in the 2023 Colorado

Estimated capital needs for Colorado's drinking water and wastewater systems excludes the costs of securing raw water supplies.

Water Plan (CWCB, 2023), developed by CWCB. The plan evaluates the costs of closing the state's water supply-and-demand gap through 2050 by drawing upon local basin implementation plans developed by basin roundtables that include prioritized water project needs. The state plan focuses on building statewide water resilience in the face of climate change, population growth, and water scarcity to promote vibrant communities, robust agriculture, thriving watersheds, and resilient planning. Example initiatives include new raw water storage, municipal water reuse, turf replacement, water-efficient agricultural infrastructure, soil health practices, stream restoration, nature-based solutions, and future scenario planning around drought and extreme weather. The basin roundtables identified over $20 billion in potential projects through 2050; however, not all projects are expected to advance to implementation, nor do all of them need state funding. The Water Plan estimated that a total of $3.85 billion is needed from CWCB to fund projects in the 30-year timeline, but that they have an estimated $2.35 billion in existing funding sources (including projections of additional Water Plan grant funds from Proposition DD (2019) and assuming sustained funding levels). Thus, the projected Water Plan funding gap is estimated at $1.5 billion by 2050, or $50 million per year over a 30-year timeline.

According to the 2023 Colorado Water Plan, the projected Water Plan funding gap is estimated at $1.5 billion by 2050, or $50 million per year over a 30-year timeline.

Additionally, while the $1.5 billion represents CWCB's funding gap to meet the Water Plan project needs, the Water Plan (CWCB, 2023) also notes that there are other water-related projects the state funds through the Colorado Department of Public Health and Environment, DOLA, Colorado Parks and Wildlife (CPW), and others, which could represent $18.2 billion in additional needs. Considering those additional needs, the Water Plan notes that there is "**a clear need for state funding of at least $20 billion**"—which again, represents **the state funding gap**, assuming sustained existing funding sources (CWCB, 2023).

Complexities around water projects and water funding make it exceedingly difficult to synthesize a single, comprehensive price tag for Colorado's future water project needs. The numbers provided in the previous paragraphs cover different timelines (20-year window for the EPA data versus a 30-year window for the Colorado Water Plan) as well as distinct types of projects. Additionally, there is likely overlap in some of the projects identified in each dataset; thus, combining the numbers could make for an inaccurate total estimate. The two datasets also likely fail to capture the full spectrum of costs. For example, neither estimate fully accounts for the cost of managing urban stormwater runoff, the private burden of failing residential wells and septic systems, the ongoing cash payments required to compensate agricultural users for voluntary water conservation, or local utility costs required to meet regulatory requirements.

Even if a single overarching number could be estimated, a unified state "funding gap" would be challenging to determine, as state and federal revenue sources are often restricted to specific types of projects; for example, a surplus in federal wastewater funding could not legally be diverted to pay for an agricultural irrigation retrofit.

While a precise total funding gap estimate was not able to be determined in the scope of this report, the above paragraphs clearly describe the fact that Colorado's water project needs far exceed available state and federal resources. Severance taxes are an important contribution to existing state funding, averaging around $163 million per year in collections (Colorado Department of Revenue, 2024), which is then distributed via grants and loans to support water projects, local government, and natural resource programs. However, the volatility and questionable long-term viability of severance taxes further adds to the high-cost burden of water projects that inevitably falls onto municipal/utility ratepayers and agricultural producers in the absence of state and federal funding. If individuals cannot shoulder the cost, the projects will not be implemented, putting the state's water security, economies, and residents' livelihoods in jeopardy.

The Geographic Scope and Scale of Funding Needs

To better understand the geographic scope and scale of water project funding needs in Colorado beyond the high-level estimates, the task force recommended the research team analyze two existing public datasets in more detail: the CWCB Projects Database (2025) and the Colorado Water Pollution Control Revolving Fund (WPCRF) Intended Use Plan eligible projects list (2026). Assessing these databases can illustrate the geographic scope of the state's funding needs and highlight the significant range of per capita project costs in Colorado's rural and urban areas. However, due to the large number of projects in each database and limited scope of this report, the project team was unable to cross-reference the datasets to eliminate potential duplication across the two. Additionally, both datasets include a variety of projects ranging from those already in planning stages to highly conceptual/potentially unrealistic projects. It was beyond the scope of this report to determine which projects were "realistic" versus not, in order to most accurately describe a total funding need. Also, it was not possible to provide a more comprehensive assessment of what projects the two datasets included versus what additional potential needed projects were not.. For example, task force members noted that additional datasets on agricultural water project funding needs are not currently available but would be helpful for future analysis.

The above caveats are important to understand in the context of presenting the assessment of water project funding needs. The research team compiled the data available from the CWCB and WPCRF datasets, even though the resulting combined project needs estimates are likely inaccurate. Despite those limitations, the information in this analysis provides important context on the wide geographic scope and scale of water funding needs across Colorado.

Overview of Projects included in Geographic Analysis

The CWCB projects database (2025) is an interactive project database that tracks current CWCB funded projects and basin roundtable-identified future projects through 2050 as part of the Colorado Water Plan and Basin Implementation Plans. It serves as a high-level planning tool which catalogs various water supply, municipal, agriculture and environmental initiatives across the state. The projects in the database are organized by their readiness and implementation timing, ranging from immediate needs to long-term objectives. The projects represent a snapshot of basin projects and may not always accurately reflect the full need for those projects or provide the full list of project needs in a given basin. Additionally, the estimated costs in the CWCB projects database are

Efforts were made to only include projects that were under development and likely to be implemented in the next 20 years.

total project costs and do not break down the amount of costs covered by CWCB versus other funding sources. Finally, task force members and CWCB staff have described the list of projects in the database as a "wish list," in that it includes projects that may not be realistic or feasible to implement in the future.

Efforts were made to only include projects that were under development and likely to be implemented in the next 20 years. From the CWCB database, the sample was limited to projects with estimated costs, identified project readiness levels, and a project title. In addition, projects were not included whose status was listed as "concept" or "completed." The analysis included 839 listed projects out of the original 1,867 listed in the database. Of those removed, 780 were missing information (project title, cost, readiness level) and an additional 248 were removed due to their project status. Projects span all nine basin roundtables in Colorado and include a proposed project in every county in Colorado. There are varying levels of planning stages, with the majority of the projects anticipated to start in 10 years or less. Some projects planned for the long-term (not starting for 10 or more years) are marked as already in the implementing project status, and

Total Estimated Cost by County

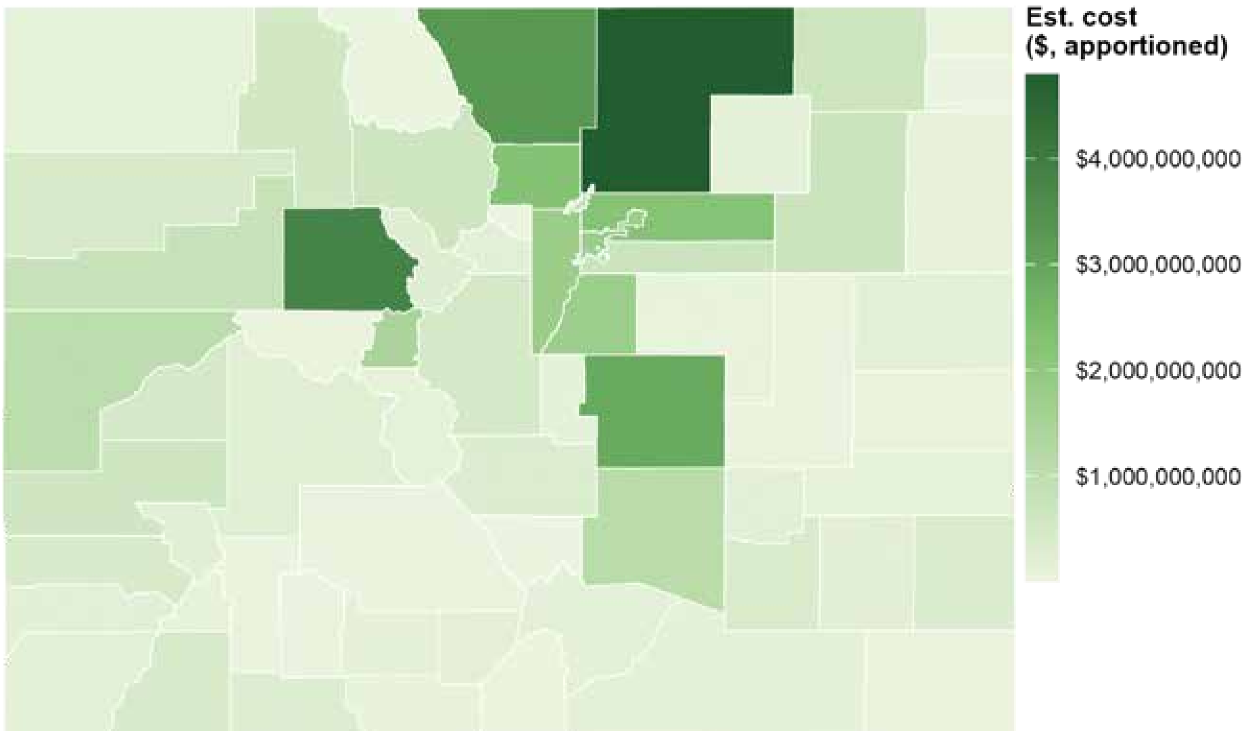


Figure 7. Total estimated water projects cost by county. Data sourced from CWCB Projects Database (2025) and the WPCRF Intended Use Plan (2026).

Note: Multi county projects are apportioned equally across their counties. Population data is from the 2022 US Census.

Total Estimated Cost per Capita by County

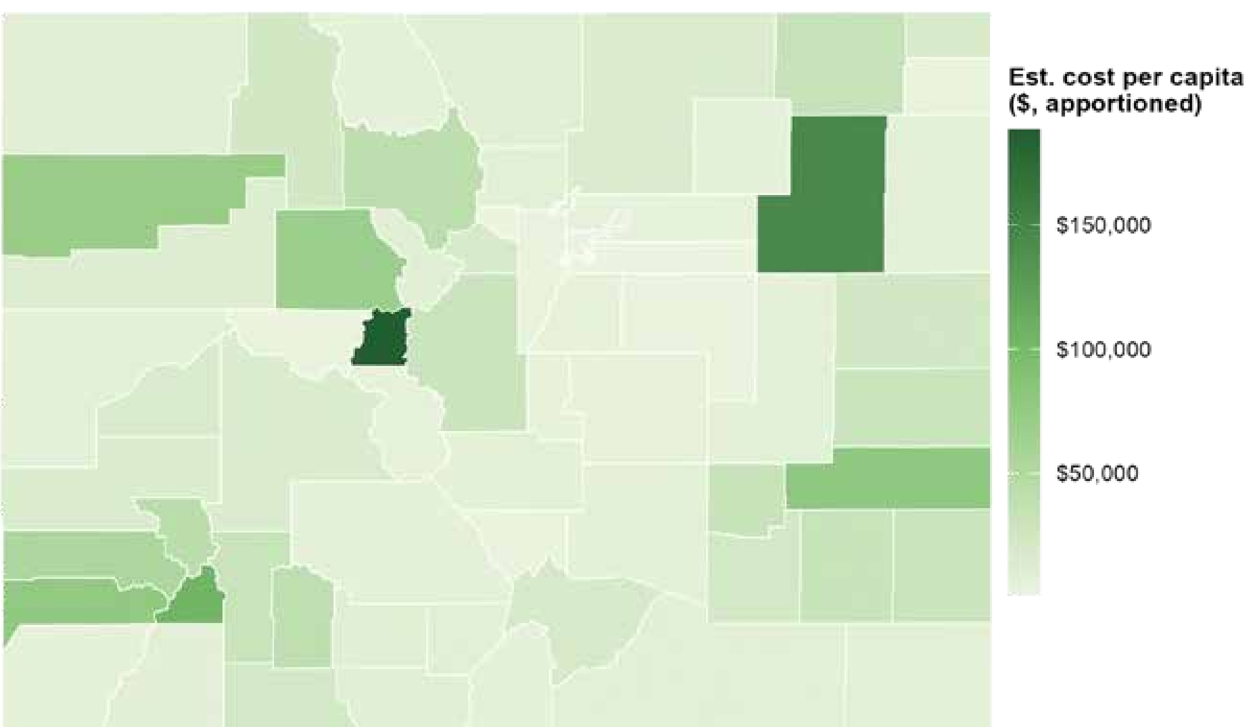


Figure 8. Total estimated water project cost per capita by county. Data sourced from CWCB Projects Database (2025) and the WPCRF Intended Use Plan (2026).

Note: Multi county projects are apportioned equally across their counties. Population data is from the 2022 US Census.

so were included. This shows the complexity and long-term thinking with certain water projects. Table 2 below demonstrates the variation in project costs, with the very largest projects accounting for only 4% of the total number of projects, but 78% of the total cost.

The majority of the projects are lower in cost but represent a small portion of the overall cost of projects in the data. More than half of projects cost under $1 million each and represent just 1% of total project costs.

The projects identified by the WPCRF Intended Use Plan often overlap with water related projects funded by the EIAF grant program and is the second main dataset used to identify water project needs. The WPCRF contains information on all projects for which an entity/public water system completed an eligibility survey. The list is intended to capture the 20-year capital improvement needs for anticipated eligible water quality projects including wastewater point source, nonpoint source, stormwater, and source water assessment projects. The WPCRF dataset contains similar caveats as described above, and thus, results should not be interpreted as accurate future water needs, but instead used to illustrate the vast water project funding needs across the state of Colorado.

The original dataset includes 706 project entries which range in cost and type across the state. Similar to the CWCB database, large projects which represent 20% of the total number of projects account for about 88% of the total cost of all projects in the database.

The analysis of the CWCB projects database and the WPCRF data demonstrates a tremendous need for water projects in Colorado over the next 20-30 years, with at least one project identified in every Colorado county (Figure 7). While there is a higher total cost of projects in front range counties, they have a lower per capita cost than some of the more rural counties (Figure 8), illustrating that water projects are needed across diverse geographies and economies in the state.

Key Takeaways on Colorado's Future Water Funding Needs

There is a strong demonstrated need for new water infrastructure and management systems and upgrades/improvements across the state in the future. With current challenges of severance tax revenue volatility and potential long-term declines, decreased federal funding for water infrastructure compared to past years, and increasing cost of living for Coloradans, which limits the feasibility of utility rate increases, the issue of how to fund these projects, including the role of state government, remains pertinent. This analysis looks at different sources of estimated water project funding needs but does not address what portion of the potential costs the state could support through either grant programs or low-interest loans. However, as previously described, the 2023 Colorado Water Plan identified a CWCB funding gap of $1.5 billion dollars for plan implementation over the next 30 years. Thus, looking comprehensively at the range of water project needs across the state, it is clear that the funding needs in the short-, mid- and long-term, vastly outweigh currently available state funding.

Table 2: *Water Projects by Cost.*

Per Project Cost Range	# of Projects	% of Total Projects	% of Total Cost
Under $1M	471	56%	1%
$1M–$5M	167	20%	2%
$5M–$25M	122	15%	7%
$25M–$100M	47	6%	11%
$100M+	32	4%	78%

Source: *CWCB Project Database (2025).*

Stakeholder Interviews

In order to gain an understanding of the current state of funding for local governments and water projects, challenges faced by diverse stakeholders around severance tax structure, and suggestions for potential solutions to the challenges, the research team conducted 21 interviews (23 people) with task force members and additional subject matter experts and community representatives. Interviewees ranged from local government to state government, nonprofits, and oil and gas industry representatives to ensure broad representation of the issue being investigated.

Interview Methodology

A qualitative method was used to summarize the interviews. After each interview, short descriptions of responses to each question were recorded in a tracking document. Following Colorado State University research protocols, artificial intelligence tools were used to assist with initial summarization of each interview, and these summaries were then reviewed against the original interview materials to verify accuracy. This review process ensured the summaries reflected what participants said.

Themes were tracked systematically using three summary spreadsheets. The first organized responses by interview question; the second captured themes that came up across multiple questions; and the third tracked suggested solutions/alternative funding options. Each theme was rated as high, medium, or low frequency based on how commonly it appeared across interviews and how much time was spent on the theme. The specific ideas or solutions raised across the interviews were tracked by priority level (high, medium, low, not mentioned, unlikely/negative). Levels were set based on how long interviewees spoke about the idea and the level of interest they used in describing it. This set of trackers served as the foundation for analyzing both the key challenges with severance tax funding and the range of alternative funding options that stakeholders identified.

Six Major Themes were Assessed and Scored

- Long-term versus short-term funding challenges
- How the political context affects potential alternative funding sources and severance tax challenges
- TABOR implications and budget sweeps
- Tax revenue volatility
- Diversification of funding strategies
- Community-based solutions

Key Themes and Challenges

There was a general consensus among stakeholders that the extensive capital needs for both local governments and water projects is a long-standing concern, with many interviewees noting that much of Colorado's infrastructure is being maintained rather than replaced, leaving communities vulnerable to future failures and costly emergency repairs. Several participants stressed the importance of systemwide upgrades to address these risks proactively, but the loss of many federal funding programs has compounded the financial strain on local governments. Additionally, the limited ability to increase utility rates due to economic pressures faced by Colorado residents further restricts the capacity to fund critical infrastructure upgrades.

Stakeholders emphasized the vital role of severance tax revenue in supporting these projects, through both grants and direct distributions, but also noted the challenges posed by severance tax volatility. With billions of dollars needed to meet water project needs (as outlined in the needs assessment of this report), participants expressed concern about the long-term ability of current funding mechanisms to meet this need.

Based on stakeholder engagement and qualitative interview synthesis, six major themes were assessed and assigned a score for the extent of attention on each. The extent of attention is coded as major, moderate, brief, or not mentioned and was based on the amount of time the interviewee spent speaking about the theme. The themes are: 1) long-term versus short-term funding challenges, 2) how the political context affects potential alternative funding sources and severance tax challenges, 3) TABOR implications and budget sweeps, 4) tax revenue volatility, 5) diversification of funding strategies, 6) and community-based solutions. The most commonly discussed themes were long-term versus short-term funding challenges, how the political context affects feasibility of potential alternative funding sources, and TABOR implications and budget sweeps, each of which were mentioned by at least eighteen interview participants.

Discussion of long-term versus short-term challenges with severance tax funding was not only the most mentioned, but the highest number of interviewees gave it a major focus. Discussion on this topic revolved around the fact that while there are short-term challenges that come from the current volatility in severance tax, the greater challenge is ensuring there is a long-term funding source for the programs currently supported by severance tax. The long-term challenges included the expectation of continued short-term volatility but also the expectation that the oil and gas industry in the state may decline in the future, thereby shrinking severance tax with it.

An assessment of how the political context affects potential alternative funding sources and the challenges severance tax faces was the next most commonly brought up theme with the majority of the mentions either discussing it as a major focus or in a comment related to a different issue. Political context presented multiple challenges around feasibility of alternative funding options. Firstly, ballot measures would be needed to implement many of the suggested alternative options from the task force in order to avoid the same issues as severance taxes currently have in their vulnerability to general fund sweeps and TABOR. Alternative funding options therefore were constrained by the lens of what would be feasible to pass through a ballot measure, as well as the fact that ballot measures often require financial backing to be successful. The political context also relates to the general political climate in Colorado, recognizing that citizens generally dislike additional taxes and that urban and rural populations often have different priorities related to taxation uses.

The next common theme was TABOR implications and budget sweeps. While almost all participants mentioned this theme, the amount of time dedicated to discussing it differed across individuals. It was mentioned when asked about major challenges as well as when speaking about the importance of having a plan to protect any new revenue source from sweeps. Often, discussions around TABOR revolved around the complexity of the topic and the nuances of how different proposed solutions would interact with TABOR policies or even exacerbate challenges with other items funded through the state budget. Even those well-informed about how TABOR works were often questioning themselves and their statements on if or how potential solutions interact with TABOR rules. In regards to discussion about budget sweeps aside from revenue volatility, several interviewees had questions on how decisions were made regarding what to sweep.

Tax revenue volatility was a common theme

Silverton has utilized local government funding. Photo courtesy of DOLA.

and was a major focus in half of the 16 interviews where it was brought up. The volatility was expressed as a challenge by those that use the funds as there is uncertainty in how much funding will be available. It was also expressed that for certain tax cash funds in years following low revenue years, the demand for the funds is much higher due to lower awards the previous year. It was also mentioned that the agencies have become skilled at managing the volatility, using prior year distributions for grants and loans, but it still is a challenging aspect of these funds.

The Ballot Measure Process

A ballot measure or initiative is a complex process that can involve market research, legislative sponsors, collecting signatures, and a full campaign. Ballot measures can only include one proposed change at a time, meaning reforms would need to be voted on incrementally. The cost of a campaign varies based on the amount of opposition and public education needed, and can be significant. The most expensive ballot measure in Colorado's history cost $38 million in 2018 (Woodruff, 2024).

The diversification of funding strategies was mentioned as a potential long-term solution to fund water projects. This theme was a major focus for half of the interviewees.. There was concern that many of the proposed alternatives would not replace the full amount of revenue currently collected by severance tax. For example, multiple, smaller alternative revenue sources to provide funding for the current distributions supported by severance tax revenue could be more likely than one single funding source.

Half of the interviewees also stressed the importance of community-based projects and local priorities. Many interviewees mentioned that they like that funds from severance taxes support communities and local governments to pursue projects that they locally prioritize.. It was also mentioned that any alternative funding sources should maintain this framework.

Severance Tax Alternative Options

During interviews with task force members and other experts, participants were asked to identify ideas to address challenges with water projects and local government funding related to severance tax revenue. Over twenty ideas were raised across interviews, but many were only mentioned by one person. To narrow the list, the research team did not assess ideas with only a single mention, deprioritized those that were similar to other ideas or received less focus, and grouped the remaining ideas by theme. Themes were presented at task force meetings and the top prioritized options were pursued in more depth. The final list of eight ideas was determined by the research team as a menu of possible options to fund water projects and local government in the future.

The eight ideas address the three priority areas that were charged to the task force to assess: backfilling past sweeps, preventing future sweeps to the General Fund or establishing structural protections, and identifying new and diversified funding sources. Throughout the interviews, it was stressed that no single option would provide enough revenue to support the needs of water projects. A diversified portfolio of funding mechanisms may therefore be more realistic than relying on one replacement source for severance tax revenue. As discussed in this section, implementing these options requires careful distinction between taxes and fees as well as TABOR implications.

The goal of this section is to provide an initial exploration of each idea, including a brief description, implementation considerations, and anticipated challenges when relevant. These ideas will need further exploration to address questions of legality, pursue collaborations with other impacted industries, and understand public sentiment in the case of ballot measures. A brief summary of the ideas and key descriptors are included in Table 3.

Several of the ideas require voter approval, as any new tax or increase in an existing tax in Colorado must go to voters under TABOR. Ideas that do not require voter approval are generally those that restructure existing revenue or establish new accounting rules rather than generating new revenue. Several ideas also require partnership

Table 3: *Key Characteristics of Alternative Funding Options.*

Idea	Requires Voter Approval?	Needs Partnership?	Creates New Revenue?	TABOR / Implementation
Revolving Loan Fund	No, if capitalized with existing revenue or appropriations; potentially yes if backed by new tax revenue or certain debt structures	Yes	No, unless paired with a new revenue source	Improves leverage and recycling of existing dollars but does not itself create a new tax base.
School Finance Stabilization Rule	No for accounting/ reporting; potentially yes if paired with a dedicated repayment revenue source	No	No	Could document cumulative diversions and create a statutory repayment target, but statutory rules can be changed by future legislatures.
Incremental Severance Reforms	Conditional	No	Conditional	Administrative or timing changes may not require voter approval; rate increases, exemption repeal, or tax-credit changes that increase net tax revenue likely would.
Constitutional Dedication / De-Brucing of Severance Revenue	Yes	No	No, unless paired with a tax increase	Strongest protection against future sweeps, but reduces legislative flexibility and requires careful ballot design.
Optional Utility Bill Programs	No if truly voluntary; conditional if structured as a mandatory government charge	Yes	Yes, but likely limited	Voluntary donations or round-up programs are administratively feasible but unlikely to replace major severance tax revenue.
New Taxes or Fees on Current Industries Related to Water	Yes	Yes	Yes	Requires voter approval and should include retention/ dedication language if the goal is to avoid TABOR refund pressure.
Fees on Emerging Sectors, such as Data Centers	Conditional	Yes	Yes	True regulatory or user fees may be possible by statute; broad revenue-raising charges are more likely to be treated as taxes. Enterprise structure may be relevant.
Renewable Energy Permanent Trust	Conditional; likely yes if funded by a new tax or constitutional dedication	Yes	Conditional	A trust is a revenue-management structure, not a revenue source. It requires a dedicated inflow to be meaningful.

with another sector or industry. This adds an additional layer of coordination and stakeholder engagement before they could be pursued. The ideas that require both voter approval and sector partnership likely have highest barriers to implementation, but in some cases, also the greatest potential for new, dedicated revenue.

It should also be noted that while it would not constitute an alternative funding stream, nonetheless voter approval could be used to de-Bruce an existing revenue source. This would allow the state to retain and spend revenue that would otherwise count toward the TABOR limit and potentially be refunded. De-Brucing could apply broadly to severance tax revenue, to a defined subset of severance tax revenue, or to another severance-related revenue source, such as a fee or levy (e.g. the Colorado Energy and Carbon Management Commission mill levy), if that revenue is otherwise subject to TABOR. This could make severance-related revenue more useful as a long-term funding source and may reduce the incentive to sweep those funds for broader budget management purposes. However, de-Brucing primarily addresses the state's authority to retain and spend revenue; by itself, it does not necessarily protect that revenue from future legislative reallocation. While many local taxing authorities, such as school districts and municipalities, have de-Bruced significant portions of their revenue, there are still few examples of this process at the state-level.

Voter approval could also be used to provide stronger protection against future sweeps. Protections established only in statute can be modified or overridden by the General Assembly through the annual appropriations process. Thus, dedicated funds may remain vulnerable to future reallocation. A constitutional amendment, pursued through a ballot measure, would provide the strongest protection by dedicating revenue for specific purposes and limiting future legislative reallocation. The ideas below vary in the degree of sweep protection they would provide, and that tradeoff is noted where relevant. Additional considerations around ballot measures are discussed at the end of this section.

As shown in Table 3, several of the ideas explored in this report require voter approval because they involve new taxes, which must go to voters under TABOR. For ideas that do not require voter approval to implement, a ballot measure could still be pursued to provide stronger protection from future sweeps. In those cases, voter approval is not a requirement but an option for those interested in maximizing the durability of the funding source. The decision to pursue a ballot measure for any of these ideas should be weighed against the costs and constraints outlined at the end of this section.

Photo courtesy of Northern Water.

Backfill Past Sweeps

While one of the main charges of the task force was to explore options to backfill past sweeps, no ideas were brought to the research team that would directly address this goal, as options to backfill past sweeps are highly constrained —other than a continued prioritization by future General Assemblies to sponsor legislation that transfers revenue from the General Fund to Severance Tax Funds. Of the ideas from the task force, there are two options that are loosely related to backfilling sweeps.

Revolving Loan Fund Capitalized from Existing State Funds

One option is to dedicate a portion of existing large public state funds, such as those currently in relatively low-yield investments, to a revolving loan fund for water projects and local government. The fund would divert current investments but could be designed to earn similar rates of return. It would not directly backfill past sweeps, but would allow existing state capital to support water projects and local government without requiring new revenue. It is important to acknowledge that investment income from existing funds are currently used for other high-priority purposes and may not be accessible to divert depending on the requirements of those distributions, posing potential challenges.

This idea is especially relevant for large water projects that require loans that are often too large to come from a single year of severance tax allocations. With a few projects accounting for a very high portion of the total costs in the needs assessment, identifying alternative funding for large upfront costs would reduce reliance on complex capital stacks. Implementation options could include:

- Capitalizing the fund with a one-time large General Fund appropriation;
- Using future severance tax revenue above a defined threshold;
- Redirecting a defined share of future severance tax revenue before other allocations;
- Using federal, philanthropic, or local matching funds.

TABOR implications depend on the source of capitalization. If the fund is capitalized with existing state revenue, it likely does not require voter approval, though the appropriated money remains part of the state budget framework. If the fund is capitalized through a new tax, an increased tax rate, or a tax-policy change that increases net revenue, voter approval would likely be required. If the state issues debt backed by tax revenue, additional constitutional or statutory requirements may apply. However, if the fund is operated through an enterprise, the enterprise would need to meet the requirements for enterprise status, including financial independence, user-funded revenue, and authority to issue revenue bonds.

Challenges: A revolving loan fund would not fully address the loss of past severance tax revenue unless it receives substantial capitalization. Loans are also not an appropriate substitute for other types of funding mechanisms (e.g. grants) in all communities. Smaller, rural, or fiscally constrained communities may lack the rate base or revenue capacity to repay loans, even at favorable interest rates. For those communities, a revolving loan fund may need to be paired with grants, principal forgiveness, or disadvantaged-community criteria. The fund would also require administrative capacity, underwriting rules, project eligibility standards, and a governance structure for prioritizing projects.

School Finance Style Stabilization Rule

School finance funding has also previously been swept to the General Fund in Colorado, and additional rules were enacted to document the scale of the sweeps through the Budget Stabilization Factor. A similar rule applied to severance tax distributions could provide clearer accounting for the cumulative scale of redirected funding. If pursued, a past sweep repayment mechanism could also be explored. Under this approach, the state could establish an annual accounting mechanism that reports:

- the amount of severance tax revenue that would have gone to water projects and local governments under the baseline distribution formula;
- the amount actually distributed;
- the annual difference; and
- the cumulative balance of past reductions or transfers.

TABOR implications depend on whether the rule is only an accounting mechanism or is paired with a new revenue source. A reporting-only rule should not require voter approval because it does not create new revenue or change tax policy. A repayment rule using existing revenue may also be enacted by statute, but future appropriations would remain subject to annual budget constraints. If repayment is funded by a new tax, tax increase, or voter-approved retention of revenue above the TABOR limit, voter approval would likely be required.

Challenges: The school finance rule benefitted from a positive political environment of contributing to funding for children, a relatively salient topic for the general public. A similar rule for severance tax distributions would likely face a more difficult political environment, particularly if a repayment requirement were included.

Prevent Future Sweeps / Structural Protection

Past task forces have looked into this issue, but as challenges continue, protection from future sweeps, often driven by TABOR requirements, was one of the charges of this task force. These ideas aim to address the issue through both major reforms and incremental changes, both with potential challenges for implementation.

Incremental Severance Fund Stability Reforms

Changes to the structure of severance tax have been pursued in past task forces and thus were not a major focus of this task force, but a group of novel recommendations were proposed in interviews. These include simplifying/reforming the ad valorem tax credit, possibly removing the tax credit and lowering the overall severance tax rate, investigating if certain portions of the recipients of the severance tax are legally protected from sweeps, and removing exemptions, among others.

These ideas differ substantially in their TABOR implications. Some changes are primarily administrative or procedural. For example, changing distribution timing, creating reserve rules, smoothing distributions based on a multi-year average, or improving reporting may not require voter approval if they do not increase tax revenue. By contrast, increasing severance tax rates, reducing exemptions, or modifying credits in a way that increases net tax revenue would likely require voter approval under TABOR. A revenue-neutral reform, such as lowering rates while reducing credits, would require fiscal analysis to determine whether it creates a net revenue gain.

Many of these ideas are either procedural or have been brought up in past task forces. Because of that, none of these individual ideas are pursued in depth. Incremental changes,

Buena Vista used EIAF grant funding for a water treatment plant expansion to secure reliable water sources to meet current and future demands. Photo courtesy of DOLA.

especially those that lessen fluctuations in year to year revenue, may be worth revisiting based on stakeholder interview priorities.

Challenges: These ideas have been brought up in the past and decisions were made not to pursue them. Understanding why decisions were made and reevaluating if the same factors are at play now would be essential before pursuing any of the ideas.

Constitutional Dedication of Revenue

A constitutional dedication of severance tax revenue would provide the strongest protection against future sweeps. Under this option, voters would be asked to dedicate some or all severance tax revenue to specified purposes, such as water projects, natural resources programs, and local governments. A constitutional dedication would be more difficult for future legislatures to alter than a statutory distribution formula.

This option can be designed in several ways. A narrow version could constitutionalize the current statutory distribution formula. A more flexible version could dedicate revenue to broad categories, such as water-project funding and energy-impacted local governments, while allowing the General Assembly to define specific programs by statute. Finally, a partial version could protect only a share of severance tax revenue, only revenue above a threshold, or only the portion currently allocated to specific funds.

Furthermore, including de-Brucing or other voter approved revenue retention language could be helpful. Severance tax revenue is subject to TABOR. A ballot measure would need to be carefully designed if the goal is both to protect the use of severance tax revenue and to reduce the incentive to transfer it during tight budget years. A voter-approved revenue change could allow the state to retain and spend designated revenue for the specified purpose without increasing TABOR refund obligations, depending on the legal structure of the measure. Thus, the strongest structural protection would likely combine both elements: a voter-approved dedication of the revenue and voter-approved authority to retain and spend it for the designated purposes.

Challenges: Constitutionalizing the current distribution would require specifying the recipients in the ballot language, meaning any future changes to the distribution formula would also require a ballot measure. Market research would need to be done to understand public perception of this ballot measure before pursuing it, and the costs and constraints of a ballot measure campaign should be carefully considered. Additionally, this option does not address the long-term sustainability issues of severance taxes, with declining revenues anticipated over time.

New and Diversified Funding Sources

Voluntary Opt-In Water Utility Bill Programs

In an effort to avoid increasing water fees or utility bills for the average Coloradan, an alternative is to provide an optional opt-in water utility bill program. This could be in the form of an optional higher fee or a roundup program. Both options have been used by utilities for other initiatives but have not been used to fund water projects.

If the program is truly voluntary, it is less likely to raise TABOR concerns than a mandatory tax or fee. The revenue would resemble donations or voluntary payments rather than compulsory government revenue. However, implementation would depend on the type of utility. Municipal utilities, special districts, private investor-owned utilities, and cooperative providers operate under different governance and regulatory structures. Investor-owned utilities may need approval through the Colorado Public Utilities Commission. Municipal utilities or special districts may require approval by a governing board or local ordinance.

Challenges: While optional higher rates and roundups for household energy bills have been used to support renewable energy development or subsidize low-income household energy use, they have not been used for water-related projects. These programs would likely need to go through an approval process based on the utility's governance structure. Voluntary programs may have low participation rates and uncertain annual revenue. They also require administrative systems for enrollment, collection, accounting, and transfer of funds. If the program is statewide, the state would need to determine whether funds remain

A new tax on sod is one of the alternative revenue sources identified in this report.

local, are pooled regionally, or are distributed through a state grant program. Equity concerns would also need to be considered, particularly if voluntary contributions are concentrated in communities with less severe infrastructure needs. Roundups are also limited in their ability to raise sufficient funds.

New Taxes on Current Industries Related to Water

Another option is to create new dedicated taxes on industries that are connected to water use, water demand, land development, tourism, recreation, or other activities that affect water infrastructure needs. This category could include narrowly targeted taxes, surcharges, or excise taxes, depending on the industry and policy objective. These ideas could resemble "sin" taxes, where the idea is to disincentivize consumption of the product and to increase funding for water projects. As with any sin tax, if a goal is to disincentivize the industry, then it is likely that the industry is not expected to grow over the long term. This should be taken into consideration when evaluating these options and sin taxes generally.

Under TABOR, this option would require voter approval if it creates a new tax, increases an existing tax rate, or changes tax policy in a way that increases net revenue. The ballot measure could also specify whether the state may retain and spend the revenue as a voter-approved revenue change and whether the revenue is dedicated to water projects, local governments, or both. Without retention and dedication language, new revenue could still create TABOR refund pressure or become vulnerable to future budget tradeoffs.

The fiscal advantage of this option is potential creation of a revenue source not tied to oil, gas, or mineral production. That would reduce reliance on a declining or volatile severance tax base. The policy challenge is identifying a tax base large enough to matter, sufficiently connected to water needs, and politically feasible. A narrowly targeted tax may have a stronger policy rationale but limited revenue potential. A broader tax may generate more revenue but face greater political resistance.

Sod

With concerns about water availability in Colorado, various local programs exist to incentivize low water use landscaping (also known as xeriscaping, water-wise landscaping, and Colorado-wise landscaping). In addition, with historically low spring snowpack levels this winter and spring (2026), Denver Water implemented early limits to watering grass (TAP Staff, Denver Water, 2026). A new additional tax on sod would work to disincentivize installing new water intensive grass species and provide additional funding for water projects. Similar to bottled beverages (see below), the tax could be applied at different points in the supply chain, including at the producer or grower level, at the point of sale, or as a consumer excise tax.

Challenges: The sod industry in Colorado is relatively small compared to other potential tax sources, which may limit the revenue potential of this idea. However, a new tax may result in disincentivizing water-intensive landscaping, which could lead to a decline in long-term tax revenue and additionally have economic implications for other sectors linked to the sod industry.

Bottled Beverages

A new tax on bottled beverages (e.g., water, soda, beer) could be structured in a few ways. It could involve a tax on those bottling the beverages, which would impose a tax on the production of bottled beverages, no matter where they are consumed. It could also involve a tax on the purchase of bottled beverages, which would

Figure 9: *A snapshot of severance tax distributions, what types of projects and entities receive these funds, and the alternative options presented in this report. This table does not go into detail on the myriad of other available state, federal, local, and private funding sources that may also contribute to these funding recipients. The lists of what the disbursement funds is not comprehensive.*

Colorado Severance Tax Distributions

25%
DNR Severance Tax Perpetual Base Fund
What it Funds
- Competitive grants for local government infrastructure
- Special initiatives that benefit local governments
- Operating funds
- Emergency reserve

35%
DOLA Energy / Mineral Impact Grant
What it Funds
- Water and wastewater systems
- Other community development and administrative needs

25%
DNR Severance Tax Operational Fund
What it Funds
- Energy and Carbon Management Commission
- Avalanche Information Center
- Reclamation, Mining, and Safety
- CPW Parks
- DNR Species Conservation Trust Fund
- CPW Aquatic Nuisance Species Fund
- CO Strategic Wildfire Action Program
- CO Department of Agriculture Soil Conservation Grant Fund
- Colorado Geological Survey
- Statutory required reserve

15%
DOLA Direct Local Government Distribution
What it Funds
- Competitive grants for local government infrastructure
- Special initiatives that benefit local governments
- Operating funds
- Emergency reserve

Severance Tax Alternative Funding Options

Preventing Future Sweeps and Other Considerations
- Preventing Future Sweeps:
  - Incremental Severance Fund Stability Reforms
  - Constitutional Dedication of Revenue
- Other current or potential sources of existing revenue streams

New and Diversified Sources
- Optional Utility Bill Programs
- New Taxes on Current Industries Related to Water
- Taxes or Fees on Emerging Sectors
- Renewable Energy Production Fee to Fund a Permanent Trust

be imposed on the consumer, no matter where the products are manufactured. Or, it could be similar to a soda tax, where it functions as a sin tax, disincentivizing the purchase while providing additional revenue.

Challenges: According to stakeholder interviews and discussions with the task force, this idea has been brought up previously in policy discussions and the idea did not move forward. For example, Colorado HB11-1247 (Colorado General Assembly, 2011) proposed a 5 cent deposit system for bottled beverages; however, it did not move out of committee. Additional policy discussions and past efforts in Colorado have considered the feasibility but have not moved forward. To move forward with this idea, an understanding of past discussions would be needed.

Fees on Emerging Sectors

With the recent passing of Proposition DD in 2019 legalizing sports betting and dedicating a portion of the revenue, stakeholders raised ideas to potentially work with emerging industries and include new taxes dedicated to water projects as part of legalization.

Taxes vs. Fees

Taxes raise revenue for general public services and are paid by all taxpayers, regardless of if they use the specific services funded.

Fees raise revenue to recover the cost of a specific service or to regulate a particular industry/activity and are paid by only the individuals or businesses directly using or benefiting from the service.

This category requires careful distinction between taxes and fees. A fee is generally designed to defray the cost of providing a service, administering a regulatory program, or mitigating impacts associated with the payer's activity. A charge that is primarily designed to raise broad public revenue, with little relationship between the payer and the use of funds, is more likely to be treated as a tax and would likely require voter approval. Therefore, a fee on emerging sectors would need a clear nexus between the activity being charged and the costs being funded.

Hinsdale County received over $1 million from an EIAF grant for the new operations building. Photo courtesy of DOLA.

Data centers are one emerging industry that could be considered for establishing a new revenue source to replace severance tax revenue. Photo by Rsparks3/Wikimedia.

Data Centers

As more data centers are proposed in Colorado with the expansion of artificial intelligence technologies, the question of how to regulate them to ensure that local communities are not negatively impacted is under consideration. This is especially true for utilities, with reports of increased residential rates due to data centers (Colorado Public Radio, 2026). As data centers use water for cooling systems, even in a closed loop system, interview participants commonly brought up water projects as a natural part of the conversation around how to place fees on the emerging industry.

A data center tax or fee would likely need to focus on identifiable water-related impacts, such as water-demand planning, energy-water infrastructure coordination, drought resilience, permitting, or mitigation of local infrastructure burdens or impacts. A broad statewide fee on data centers to fund unrelated water projects would potentially be legally and politically challenging. If the state created an enterprise to collect and spend the revenue, that enterprise would need to satisfy enterprise requirements, including being a government-owned business, receiving revenue in exchange for goods or services, maintaining financial independence from state and local government support, and having authority to issue revenue bonds.

Challenges: The Colorado General Assembly has considered new legislation related to tax policy and environmental regulation for data centers in both the 2025 and 2026 legislative sessions. However, as of June 2026, no new policy related to data centers has gained enough support to be passed into law. A new tax on data centers would face the same challenges under TABOR as any new fee. Furthermore, instituting a tax is politically challenging, when according to the National Conference of State Legislatures, many states are using tax incentives (i.e., subsidies to attract data centers) (National Conference of State Legislatures, n.d.). To include support for water projects, proponents would need to engage with industry and advocates in the context of active policy processes.

Expanded Gambling

Proposition DD legalizing sports betting created a precedent for a portion of the revenue from sports betting to support water projects through the newly created Water Plan Implementation Fund. As discussions arise about the possible expansion of legalization for sports and online betting, it was recommended in interviews to collaborate with those industries and pursue a similar tax distribution structure as Proposition DD.

Proposition DD explicitly authorized a state tax on casinos' net sports betting proceeds. The taxes and fees are for the regulation of sports betting, a hold harmless fund, and gambling addiction services with the remaining tax and fee revenue to water projects and water-related obligations (Colorado General Assembly, 2019). However, there has been a subsequent rise in prediction markets, such as Kalshi and Polymarket, that also allows avenues to wager on sports among other events. Prediction markets have a different regulatory structure under the federal Commodity Futures Trading Commission. The rise of prediction markets is important for two reasons. First, it is an alternative to traditional casino-like sports betting and could erode tax revenue in the future associated with Proposition DD. Second, after the success of Proposition DD, prediction markets could yield another avenue for revenue generation.

Challenges: When Proposition DD was passed, the lack of direct connection between water and sports betting raised questions as to whether the revenue distribution should include water projects. This commentary should be addressed if this idea is pursued.

Renewable Energy Production Fee Funding a Permanent Trust

Several other states have established permanent trusts capitalized by extraction taxes to provide a stable, long-term revenue source that is less vulnerable to year-to-year budget pressures. Wyoming's Permanent Mineral Trust Fund, created in 1974, is the most commonly cited example. The fund's principal, the total amount deposited into the trust, remains protected and is never spent. Only the investment earnings generated by the principal are distributed annually (Richards & Fleming, 2024). The Colorado Legislative Task Force on Permanent Funds reviewed this model in 2024 and recommended that the legislature explore creating a similar fund, but did not identify a preferred capitalization source, noting that the question is primarily political and stakeholder-driven (Richards & Fleming, 2024).

A trust may be better suited as a long-term complement to other funding sources rather than an immediate replacement for severance tax distributions.

A trust is a revenue-management structure, not necessarily a revenue source. Its effectiveness depends on the size and reliability of deposits. Potential deposit sources could include a new tax, fee, lease payment, royalty-like charge, voluntary payment, settlement revenue, or a share of existing revenue associated with renewable energy development. Each source has different legal and TABOR implications. A new tax or tax increase would require voter approval. A fee would need a clear nexus to the services or

The Town of Hugo has utilized severance tax revenue through the EIAF grant program for projects such as community-led downtown revitalization and waste water infrastructure improvements. Photo courtesy of DOLA.

impacts being funded. A voluntary industry contribution would not create the same legal issues but would likely produce less predictable revenue. A constitutional trust would provide stronger protection than a statutory trust, but it would also be less flexible.

One idea raised in interviews to address this capitalization question is a fee on renewable energy production, specifically wind and solar, with proceeds deposited into a new permanent trust for water projects and local government. Once the trust's principal reaches a sufficient size to generate meaningful investment earnings, those earnings could be used to fund water projects currently supported by the DNR Severance Tax Perpetual Base Fund or the EIAF grant program. Rules governing the minimum principal size before distributions begin, the distribution rate, and trust governance would need to be established as part of implementation.

It is difficult to estimate the potential revenue from a new tax on the sector or how long it would take to capitalize the fund to the size needed to begin withdrawing for grants or loan programs. Following the model that Alaska uses, which includes an annual five percent draw on the overall balance of the trust, a $2 billion dollar balance would be required to use $100 million from the trust (Legislative Finance Division, 2024). Or put another way, $20 million is needed in the trust for each $1 million being removed to fund water projects and local government.

The fiscal advantage of a permanent trust is long-term stability. By preserving principal and spending only earnings or a defined annual draw, the state could create a durable funding source that is less sensitive to annual budget cycles. The tradeoff is that a trust takes time to build. Unless initial deposits are large, early annual distributions may be modest. A trust therefore may be better suited as a long-term complement to other funding sources rather than an immediate replacement for severance tax distributions.

Challenges: Renewable energy is still a nascent industry in Colorado and is currently being actively incentivized by the state. The state would need to determine whether renewable energy development will provide a sufficient and appropriate tax or fee base for water and local government funding. It would also need to assess impacts on electricity costs, renewable energy investment, local host communities, and existing state energy-policy goals. Additionally, the renewable energy sector has not been engaged yet on this idea of a production tax or fee, and further discussions would be needed before pursuing it. The design and governance of a permanent trust also represent a significant administrative undertaking, as noted by the Colorado Legislative Task Force on Permanent Funds.

Conclusions and Next Steps

An important consideration running through this analysis is that severance tax revenue supports more than water projects. Local governments in energy-impacted communities and critical DNR operational programs have relied on this funding.

Colorado's water project needs are substantial. Over $20 billion has been identified as a state funding gap over the next 30 years, with water project needs spanning every county in the state. At the same time, although the annual average severance tax net collection is approximately $163 million (Colorado Department of Revenue, 2024), the funding that has historically supported water projects, local governments, and critical state agency operations is volatile and likely to decline over the long term as the energy sector evolves. The gap between the identified need and available funding is a current challenge visible in oversubscribed grant and loan programs, aging infrastructure, and the growing difficulty local governments face in accessing capital for large projects.

Budget sweeps have redirected hundreds of millions in severance tax revenues over the past two and a half decades. The ad valorem credit continues to introduce year-over-year volatility that complicates planning and forecasting. And HB 26-1387 establishes an ongoing annual transfer from the DNR Severance Tax Operational Fund to the General Fund, establishing a consistent transfer of severance tax revenue. This reflects a recurring pattern of dedicated severance tax funds being redirected to meet broader budget needs.

An important consideration running through this analysis is that

Photo courtesy of Nate Pearson.

severance tax revenue supports more than water projects. Local governments in energy-impacted communities depend on direct formula distributions and EIAF grants for a wide range of public facilities and services. Critical DNR operational programs, from oil and gas regulation to avalanche forecasting to species conservation, also historically relied on severance tax funding. Any strategy to diversify or replace severance tax revenue must account for this full range of current beneficiaries, not only the water project funding needs that are the primary focus of this report.

Stakeholders identified more than twenty potential approaches to funding water projects and protecting existing revenue, and the eight concepts developed in the severance tax alternative options section represent a portfolio of options that vary in implementation complexity, revenue potential, and degree of sweep protection. Several of the ideas explored in this report require additional groundwork before they can be pursued. Legal questions around TABOR classification, the feasibility of enterprise structures, and the design of a permanent trust all warrant further analysis. Ideas involving partnership with emerging industries, including renewable energy, data centers, and expanded gambling, require early engagement with those sectors before legislative or ballot pathways can be evaluated.

Stakeholders identified more than twenty potential approaches to funding water projects and protecting existing revenue.

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Local, state and federal officials wield shovels during ground breaking ceremony for the Arkansas Valley Conduit Project that will bring clean drinking water to some 50,000 people in the region. (April 28, 2023) Photo courtesy of Shanna Lewis/KRCC News.

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Appendices

Appendix A

Colorado Severance Tax Exemptions

	Tax Rate	Tax Collection Frequency	Exemptions	Credits/Deductions
Oil and Gas	Based on Gross Income: Under $25,000 = 2% $25,000-$99,999 = 3% $100,000-$299,999 = 4% Over $300,000 = 5%	Monthly if over $5,000 in net liability Annually if under $5,000 in net liability and true-ups for monthly filers*	Up to 15 barrels per day of oil or up to 90,000 cubic feet per producing day of gas are exempt (known as Stripper well exemption)	2024-2025: 75% of all property taxes paid except those imposed on equipment and facilities used for production, transportation, and storage. 2026: 75% of all ad valorem taxes assessed during the taxable year for accrual basis taxpayers or paid during the taxable year for cash basis taxpayers, *except those imposed on equipment and facilities used for production, transportation, and storage 2027: 87.5% of all ad valorem taxes assessed during the taxable year for accrual basis taxpayers or paid during the taxable year for cash basis taxpayers *except those imposed on equipment and facilities used for production, transportation, and storage
Coal	Above exemption amount at $1.083 per ton (Which was the annual monthly average in 2020)	Quarterly if over $5,000 in net liability Annually if under $5,000 in net liability and true-ups for quarterly filers	2021: First 300,000 tons per quarter 2022: 240,000 tons 2023: 180,000 tons 2024: 120,000 tons 2025: 60,000 toms 2026: 0 tons	2021: 50% of the severance tax liability for coal produced by underground mines or for lignitic coal* 2022: 40% 2023: 30% 2024: 20% 2025:10% 2026: 0%

	Tax Rate	Tax Collection Frequency	Exemptions	Credits/Deductions
Metallic Minerals	2.25% of gross income	Quarterly if over $5,000 in net liability Annually if under $5,000 in net liability and true-ups for quarterly filers	First $19 million in gross income is exempt	Property taxes paid capped at 50% of the state severance tax liability
Molybdenum	$0.05 per ton	Quarterly if over $5,000 in net liability Annually if under $5,000 in net liability and true-ups for quarterly filers	First 625,000 tons are exempt	No exemptions
Oil Shale	4% of gross proceeds	Quarterly if over $5,000 in net liability Annually if under $5,000 in net liability and true-ups for quarterly filers	No exemptions	No exemptions

Note: Reprinted with minor modifications from *Severance tax*, by Colorado General Assembly, Legislative Council Staff (n.d.), and *Senate Bill 25-040*, by Colorado General Assembly (2025).

Photo courtesy of Emmett Jordan.

Appendix B

Recent State Legislation Impacting Severance Tax

This section builds upon past legislation and studies concerning severance tax in Colorado and the related context and implications of TABOR. Relevant legislation addressed here are Senate Bill (SB) 21-281 and House Bill (HB) 22-1391, which was modified by HB 23-1272. Additionally, task force members indicated that SB 24-230, which addresses oil and gas production fees, is important in the context of this report. Lastly, the HB 26-1387 from the most recent session is discussed, which modifies the use of funds in the severance tax trust fund.

Senate Bill 21-281

SB 21-281 made internal structural changes to the Severance Tax Operational Fund and Perpetual Base Fund by repealing grant program transfers from the Severance Tax Operational Fund and redirecting funding for certain natural resources and water programs through alternative appropriations, including transfers from the Severance Tax Perpetual Base Fund. The bill mandated a comprehensive review of the state severance tax system with stakeholder input and required newly created metropolitan districts to reimburse the state for severance tax ad valorem credits, with those funds allocated as severance tax revenue. The comprehensive review was published in December 2021 and proposed a series of recommendations. These recommendations were informed by research and stakeholder outreach under the guidance of the established working group. The group recommended that the Joint Budget Committee consider the following adjustments to severance tax code:

1. **Shift from taxing all interest owners to only operators**
   Interest owners own a share of the oil or gas production (and the income from it) but do not run the well, while operators run and manage the actual well production. The working group identified several advantages of shifting taxation to only operators. It would consolidate the taxpayer base, reducing the estimated active oil and gas severance tax accounts from 13,000 active oil and gas severance tax accounts to as few as 200. These remaining taxpayers are likely to have greater resources for tax compliance and access to the information necessary to complete the return. It would also eliminate the need for the inefficient severance tax holding system. The working group acknowledged that this change would not be revenue-neutral and suggested possible remedies for this.
2. **Base the ad valorem credit on severance-tax-year gross income and prior-year mill levy rate**
   Since 2008, ad valorem credits have accounted for an average of 67% of taxpayers gross tax liabilities. There is a gap between production and payment of ad valorem taxes and the payment of severance tax, which is a major contributor to year-over-year volatility in severance tax revenue. To reduce this volatility without adjusting the size of the credit, the working group identified a shift to utilizing estimated ad valorem taxes based on the prior year's mill levy as a potential solution to this problem.
3. **Implement and require an electronic filing system**
   The severance tax return filing process is solely paper-based, making data captured for reporting limited. In order to collect additional data, the filing process needs to be modernized and moved to an electronic platform.
4. **Require additional reporting**
   The Department of Revenue collects the data needed to successfully administer state severance tax, but there are likely benefits from the collection and reporting of additional data using the return filing process as a mechanism to collect that data. This additional data would allow for a more granular analysis of the tax and give decision-makers information needed to make informed policy decisions.
5. **Further evaluate SB 21-281 impacts on metropolitan districts and additional considerations for metropolitan district service plan approval**

The working group looked at how oil, gas and other natural resource industries pay property taxes to local "special districts," in particular metropolitan districts, and how this impacts state severance tax revenues. They found that industry only pays property taxes to these districts, and that these payments are a very small share of the districts' revenues. However, there is a small but important group of metropolitan districts that rely heavily on industry, sometimes for more than 70% of their property tax revenue. Because industry property taxes rise and fall with production, this heavy reliance creates financial instability for those districts and the state as well since the state refunds part of these property taxes through the ad valorem credit. The report recommended a targeted approach including strengthening review standards when new metropolitan districts are approved, and avoiding overlapping districts that provide duplicate services.

6. **Potential shifts in distribution methodology**
   When revenue is collected, transfers are made into beneficiary funds; when refunds exceed collections, the negative balance is carried forward. The Department of Revenue is not able to carry a negative balance into the following fiscal year. Thus, it is required to distribute the negative balance to beneficiary funds, and they must recall previously distributed revenue from the beneficiary funds. As an alternative, the working group recommended an arrears distribution model to smooth monthly revenue fluctuations.

7. **Creation of a constitutional severance tax perpetual trust**
   The working group recommended the creation of a long-term "perpetual trust" funded by severance taxes. Other states, such as Wyoming and New Mexico, have set up constitutionally protected trust funds decades ago, allowing them to invest a portion of their mineral tax revenues and use earnings to support government services more steadily over time. Because Colorado would be starting from scratch, the proposal suggests first ensuring existing programs are fully funded, then depositing excess revenues into a trust that could be tapped during downturns or used to support beneficiaries in the long run. Key decisions would include how much revenue flows into the trust, when money could be withdrawn, and whether the funds protections should be written into the state constitution to prevent future legislatures from repurposing it.

8. **Evaluate stripper well exemption thresholds**
   A severance tax exemption was put in place for stripper wells, or wells that produce at very low rates, to encourage continued production from low-producing wells that would otherwise be plugged or abandoned. The working group recommended study on the current exemption thresholds and an analysis of the costs and benefits of potential changes to the exemption.

House Bills 22-1391 and 23-1272

Building on the recommendation of SB 21-281 to look more into the structure of the Ad Valorem Credit, HB 22-1391 focused on the implications of the Ad Valorem Credit for state revenue stability, tax administration, and equity among taxpayers. The bill called for an implementation plan to be submitted to the Joint Budget Committee by January 15, 2024; however, HB 23-1272 extended this deadline to January 15, 2025. This legislation created a workgroup to draft and inform the implementation plan; stakeholders included representatives from oil and gas industry, royalty interest owners, local governments, and environmental advocates. In the implementation plan, the workgroup found that the recent statutory changes to the Ad Valorem Credit, which were intended to modernize the credit and reduce timing mismatches, introduced significant revenue volatility. Quantitative analysis by the work group suggested that the new Ad Valorem Credit formula could reduce state severance tax revenues by an average of two-thirds annually, with wide variation from year to year. The work group recommended further research and targeted 2028 for the implementation of a new Ad Valorem Credit to allow for expanded data collection and a more robust fiscal analysis. The report identified a series of recommendations including:

1. **Keep severance tax incidence on interest owners but make operators liable for remitting**
 Currently, Colorado's severance tax is owed by "interest owners" - those that earn income from oil and gas production - but this means thousands of separate owners may have to file paperwork for a single well, making the system complicated. The workgroup recommended that the tax is legally owed by the interest owners, but require operators (the companies that run the wells) to calculate and send in all the tax payments on their behalf. This would simplify administration, reduce errors, and cut the number of tax returns the state has to process from thousands to a few hundred. While this change would take time to implement and require upfront system changes, it could save money in the long run and improve accuracy.
2. **Change tiered severance tax structure to flat rate (5%)**
 One of the barriers to implementing the prior recommendation is that the current severance tax rate structure is tiered. The workgroup recommended shifting to a flat 5% severance tax rate, which would allow operators to easily compute royalty owners' tax liability.
3. **Mandate electronic filing of severance tax**
 Severance tax is the only major tax type in Colorado where electronic filing is not required, or possible. The workgroup recommends aligning severance tax with other tax types by requiring the electronic filing of returns.
4. **Require additional well-level data collection on oil and gas severance tax forms**
 None of the currently required severance tax forms require the submission of well-level data. Without this data the state is unable to compute the Ad Valorem Credit claims per well, the total amount of netback deductions each year and the netback deduction claims per well.

Based on the above recommendations, changes to the methods for calculating oil and gas operators' Ad Valorem Tax Credits that were set to go into effect in 2026 have been delayed for further study.

Senate Bill 24-230

SB 24-230 (2024) created new oil and gas production fees beginning in FY25-26. Although these fees are distinct from Colorado's severance tax, they are relevant to this report because they apply to oil and gas production and create a new production-based revenue stream outside the traditional severance tax structure. The fees are collected through two existing state enterprises: the Clean Transit Enterprise in the Colorado Department of Transportation and Colorado Parks and Wildlife in the Department of Natural Resources. The Department of Revenue administers the fee collection process. Because the revenues are collected by enterprises, the revenue is exempt from TABOR, except for the small portion retained by the Department of Revenue for administrative costs.

The fee structure is tied to oil and natural gas market conditions. For oil, maximum fee amounts increase as the average spot price rises, beginning at a maximum of $0.04 per barrel for the Clean Transit Enterprise and $0.01 per barrel for Colorado Parks and Wildlife when oil prices are at or below $40 per barrel. At prices above $60 per barrel, the maximum fee increases incrementally with the spot price. A parallel structure applies to natural gas, with maximum fees assessed per thousand cubic feet and increasing as the Henry Hub natural gas spot price rises. The Henry Hub spot price is the benchmark daily cash-market price for natural gas delivered at Henry Hub in Louisiana, and is widely used as the reference price for U.S. natural gas markets. (Note: HB 26-1076 amended the definitions to create flexibility for a benchmark other than Henry Hub.) The Energy and Carbon Management Commission is responsible for calculating quarterly average oil and gas spot prices and providing market guidance, after which the enterprises set the applicable fee amounts.

Revenue from SB 24-230 is dedicated primarily to transit, passenger rail, wildlife, land, and habitat-related purposes. Within the Clean Transit Enterprise, fee revenue is allocated across three new cash funds: 70% to the Local Transit Operations Cash Fund, 10% to the Local Transit Grant Program Cash Fund, and 20% to the Rail Funding Program Cash Fund. The Colorado Parks and Wildlife share is credited to the Climate Resilient Wildlife and Land Cash Fund for investments in land, wildlife, habitat conservation, and restoration. The final fiscal note estimated total fee revenue of approximately $109.4 million in FY25-26 and $175.3 million in FY26-27, though the fiscal note emphasized that collections will vary with commodity prices, production levels, and the fee amounts ultimately set by the enterprises.

For this study on the severance tax, SB 24-230 is important because it illustrates a recent policy approach that separates production-related revenue from the severance tax system and channels it through enterprise-based fees. This structure may reduce direct exposure to TABOR limits relative to tax revenue, but it also dedicates the resulting revenue to specific statutory purposes rather than to water projects or local government severance tax distributions.

House Bill 26-1387

The Joint Budget Committee recommended HB 26-1387 as part of the Committee's FY26-27 budget package and appropriations legislation (i.e., HB 26-1410; also referred to as the "Long Bill"). Several budget balancing actions reduced DNR Operational Fund appropriations starting in FY26-27 and refinanced approximately $14.2 million with various cash funds. These include refinancing $5 million for the Energy and Carbon Management Commission to the ECMC Cash Fund; $1.2 million for the CWCB to the CWCB Construction Fund; $2.4 million for state park operations to the Parks Cash Fund; $400,000 for soil conservation grants in the Department of Agriculture soil conservation grants to the Agricultural Management Fund; and $2.0 million for the Species Conservation Trust Fund to the Wildlife Cash Fund.

HB 26-1387 modifies the use of money in the Operational Fund by refinancing appropriations for specific programs to alternate fund sources and establishing an ongoing transfer from the Operational Fund to the General Fund. These actions reduce revenue available for current obligations supported by other cash funds, such as water project loans and grants, and generate approximately $14.2 million in annual Operational Fund savings, which HB 26-1387 directs to the General Fund on an ongoing basis through an annual transfer from the Severance Tax Operational Fund to the General Fund.

HB 26-1387 allows the CWCB to direct the transfer of up to $3 million annually from the Severance Tax Perpetual Base Fund to the Species Conservation Trust Fund. This replaces, or partially offsets, prior Operational Fund support for the Species Conservation Trust Fund with money from the Perpetual Base Fund. However, the Species Conservation Trust Fund continues to be eligible under statute to receive up to $5 million from the Operational Fund if future General Assemblies decide to direct funding from this fund after other program priorities are met. Beginning in FY26-27, the transfer equals the lesser of $14.2 million or the remaining projected Operational Fund revenue.

For this report, HB 26-1387 is significant because it represents a structural and ongoing redirection of severance tax revenues. Rather than a one-time sweep, the bill creates an annual statutory mechanism under which the DNR Operational Fund capacity made available through refinancing is transferred to the General Fund. This directly relates to one of the central concerns of the task force: whether severance tax revenues intended to support water, natural resources, and impacted communities are sufficiently protected from recurring budget-balancing transfers.

Appendix C

Task Force Meeting Summaries

Task Force Meeting 1 (Oct. 1, 2025):

The first meeting introduced the charge of the task force to identify alternatives to severance tax funding for water projects, to alleviate the need to transfer severance tax revenues to the state's General Fund, and to explore repayment of previously transferred funds. Members reviewed the current severance tax structure and discussed the volatility of severance tax revenues. The group also distinguished this task force from prior severance tax work groups, noting that previous efforts focused on tax structure and volatility within the existing system, while this task force has a broader mandate to examine future funding alternatives. Members identified key near-term tasks to provide input on with the third-party research team, including compiling background research, reviewing previous state efforts, and analyzing how other states fund water projects.

Task Force Meeting 2 (Nov. 3, 2025):

The second task force meeting focused on building a shared understanding of Colorado's current structure of funding systems supported by severance taxes and how constraints may shape future options. This meeting included presentations from DNR, CWCB, and DOLA, which described how severance tax revenues are allocated across programs, water projects, and other entities. Speakers highlighted the impacts of declining and unpredictable revenues, history of severance tax transfers to the general fund, statutory requirements, and the growing demands on aging water and infrastructure in the state. The meeting also provided an overview of key constitutional and legal constraints under TABOR, including limits on new taxes that may narrow the range of feasible solutions. The task force discussed the research team's approach of developing a menu of potential funding options, including prioritizing strategies that may insulate severance tax funds from future transfers to the state general fund.

Task Force Meeting 3 (Dec. 9, 2025):

The third task force meeting focused on reviewing and refining the draft report outline and clarifying priorities for the research team's deliverable. Task force members discussed challenges associated with projecting long-term severance tax revenues. The group considered the importance of showing how severance tax sweeps affect other funding sources and projects. The research team outlined next steps to work with the task force on, including developing and prioritizing a list of funding options for in depth analysis, identifying the implementation or decision-making processes (i.e., ballot measure, legislation, etc.), and setting an early February deadline for new concepts to inform the research and analysis for the final report.

Task Force Meeting 4 (Jan. 27, 2026):

The fourth task force meeting provided an opportunity for discussion of the draft report. As required by Senate Bill 25-40 (2025), the Colorado Water Center provided a draft report to DNR and the task force by Jan. 15, 2026, for review and to provide input on preliminary findings and recommendations. During the meeting, the task force discussed feedback on how to calculate the needs assessment and considerations for local government funding analysis and options.

Task Force Meeting 5 (Mar. 2, 2026):

The fifth task force meeting focused on a review of potential alternative funding options. The research team presented general recommendations based on stakeholder interviews and initial analysis and requested feedback on what may be missing and the level of analysis for particular options or categories of options. Given the timeframe and scope of the research, the research team explained the feasibility of providing different levels of analysis for options and the need to prioritize research and analysis efforts.

Task Force Meeting 6 (Apr. 6, 2026):

The sixth task force meeting focused on the opportunity to provide input on key components of the final report. The research team presented the approach for the needs assessment including available data sources. The research team also presented the list of potential alternative options and analysis based on the three major charges of the task force.

Dillon Reservoir contributes to the state's water resource management and local economies. Photo courtesy of DOLA.

Task Force Meeting 7 (May 18, 2026):
The seventh task force meeting focused on presentation and discussion of the complete draft report. The research team requested comments within a two-week time frame to allow time for revisions and final graphic design. The task force discussed how the needs assessment was approached, including dynamics with available data sources.

Task Force Meeting 8 (Jun. 8, 2026):
The eight task force meeting focused on summarizing feedback received and discussing the plans to revise the report based on this feedback. Key points of discussion included the needs assessment and the alternative options. The discussion revisited the broad scope of work for the report and the previous input from task force members regarding the needs assessment and selection of available data sets. The group also discussed ideas for designing the report, including graphics and potential inclusion of quotes.

Appendix D

Stakeholder Interview Questions

1. Please introduce yourself and the expertise you have that brings you to this task force.
2. How would you characterize the current water funding landscape in Colorado overall? How important are severance taxes in this landscape?
3. How would you characterize the local government funding landscape in general?
4. Characterize the challenges that you see associated with severance tax funds over the next 5-10 years, both how it might impact you specifically and the state/water community as a whole?
5. What potential solutions do you see to these challenges? Feel free to be creative with solutions that may not have been brought forward in the past.
6. What potential barriers do you see to getting those solutions implemented?
7. Are there any impact fee alternatives you could see being utilized?
8. What are other states doing that we can consider?
9. One potential alternative is to generate additional revenues through a severance tax like fee applied to other sectors, what sectors would you identify as potential candidates and what sectors would you stay away from?
10. What are we not thinking of? What question(s) should we have asked?
11. What resources already exist that are relevant to this that you could share with us?
12. Who should we be talking to? What industries/policy makers and other stake-holders need to be at the table?

TASK FORCE REPORT

The Future of Severance Taxes and Water Funding

COLORADO WATER CENTER
COLORADO STATE UNIVERSITY

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