



Joint Budget Committee

Staff Budget Briefing FY 2026-27

Department of Natural Resources Severance Tax

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December 12, 2025

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Severance Tax

This issue brief discusses severance tax, which is imposed on the extraction of Colorado’s natural resources. It is highly volatile due to the dynamics of natural resource markets and the structure of the tax itself. This instability has downstream effects on programming administered by the Department of Natural Resources and the Department of Local Affairs, who each receive a portion of severance tax revenue.

Summary

- In FY 2023-24, severance tax on oil and gas generated \$178.1 million in revenue, compared to just \$6.6 million and \$1.7 million from coal and metallic minerals, respectively.
- Between FY 2006-07 and FY 2024-25, severance tax revenue ranged from -\$15,280,441 in FY 2020-21 to \$345,958,742 in FY 2022-23.
- Between 2013 and 2022, the average *effective* severance tax rate for oil and gas was 1.6 percent, compared to the 2.0 to 5.0 percent as written in statute.

Discussion

Colorado’s severance tax, established in 1977, is levied on the production of nonrenewable resources in order to account for the value that is “irretrievably lost” when such resources are extracted.¹ These include oil and natural gas, which generate the greatest amount of revenue, in addition to coal, molybdenum, oil shale, and some metallic minerals. As directed in statute, the revenue generated from severance tax is allocated towards offsetting the burdens that communities have faced as a result of natural resource extraction.²

Natural Resources in Colorado

Colorado is home to significant oil and natural gas operations and ranks as the fourth-largest and eighth-largest producer of oil and natural gas, respectively, in the United States.³ Most of this is exported as energy to other states, but Colorado is able to retain the value of its rich reserves in the form of severance tax revenue. Extraction of both oil and natural gas takes place in basins across the state, most notably in Northeastern Colorado from the Denver-Julesburg basin as well as in the West from the Piceance basin. The production of oil and natural gas is largely concentrated in a small number of counties across the state that have access to the basins below. In 2024, the largest producers of oil were Weld, Arapahoe, and Adams Counties, and the largest

¹ Section 39-29-101 (1), C.R.S

² Section 39-29-101, C.R.S

³ “Colorado: State Profile and Energy Estimates”, *U.S. Energy Information Administration*, last modified July 2025, <https://www.eia.gov>

producers of natural and coalbed gas were Weld, Garfield, and La Plata Counties.⁴ The shaded areas below represent Colorado’s oil and gas basins, and their locations relative to counties across the state.



Coal mining was once an abundant industry in Colorado but has since declined. In 2014, coal-fired power plants accounted for approximately 60.0 percent of the state’s energy generation.⁵ In 2024, however, this proportion declined to 27.0 percent and all remaining coal-fired plants are set to close by 2029.⁶ The decline in coal production largely stems from reduced prices of natural gas and the use of renewable energy sources, as well as carbon dioxide (CO2) emission regulations.⁷ Minerals and metals are also important resources in the state. In 2023, Colorado was the second largest producer of molybdenum in the United States.⁸ The majority of production comes from just two mines which are located on the border of Summit and Lake Counties as well as in Clear Creek County.

⁴ “Production by County”, *Energy and Carbon Management Commission*, 2024, <https://ecmc.colorado.gov/data-maps/production-by-county>

⁵ “Colorado: State Profile and Energy Estimates”, *U.S. Energy Information Administration*, last modified July 2025, <https://www.eia.gov>

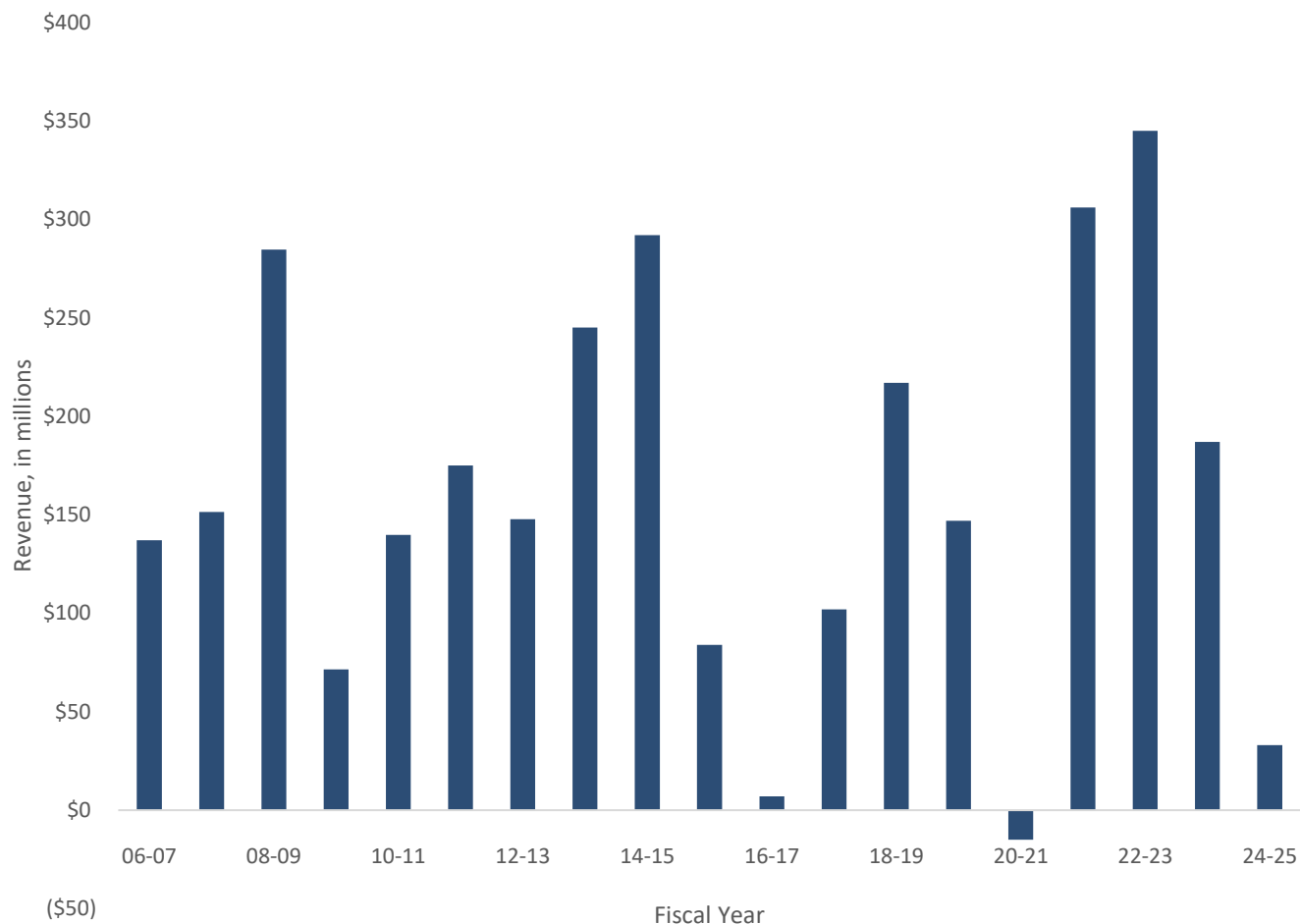
⁶ “Coal in Colorado”, *Colorado Department of Labor and Employment*, <https://cdle.colorado.gov/offices/the-office-of-just-transition/coal-in-colorado>

⁷ Michael O’Keefe, “Colorado Mineral and Energy Industry Activities 2023-2024”, *Colorado Geological Survey Information Series 87: 13*, <https://coloradogeologicalsurvey.org>

⁸ Michael O’Keefe, “Colorado Mineral and Energy Industry Activities 2023-2024”, *Colorado Geological Survey Information Series 87: 18*, <https://coloradogeologicalsurvey.org>

Factors Driving Severance Tax Revenue

Total Severance Collections from FY 2006-07 to FY 2024-25



The graph above shows severance tax revenue collections between FY 2006-07 to FY 2024-25. Severance tax revenue has ranged from -\$15,280,441 in FY 2020-21 to \$345,958,742 in FY 2022-23 during that period, showing the drastic volatility that can occur. This volatility can be explained through a set of compounding factors.

Market Conditions

Severance tax revenue is highly responsive to changes in the gross income of producers of natural resources. In the case of oil and gas in particular, changes to supply, demand, and market price can have drastic impacts on producers’ income and, as a result, severance tax revenue. For example, as the market price of a resource increases due to a spike in demand, production of that resource is likely to increase as more value can be derived from each unit extracted. On the other hand, as the market price decreases, production is also likely to decrease as it is no longer economical to continue extracting at a higher rate. Geopolitical events can also have drastic impacts on the supply, demand, and price of oil and gas, which can then impact severance tax revenue.

Tax Structure and Ad Valorem Credit

Severance tax is levied on the extraction of natural resources at the following rates:

Tax and Credit Structure for Severance Tax

Resource	Tax Rate	
	Gross Income	Percentage of Gross Income:
Oil and gas	< \$25,000	2.0
	\$25,000 - \$99,999	3.0
	\$100,000 - \$299,999	4.0
	> \$300,000	5.0
Coal	\$1.083 per ton	
Molybdenum	\$0.05 per ton	
Metallic minerals	2.25% of gross income	

In order to offset the cost of severance tax, producers of oil and gas may take a credit against their severance tax liability, known as the ad valorem credit,⁹ which is calculated using the following formula:

$$\text{Credit} = 0.7656 \times \text{Gross Income} \times \text{Mill Levy}$$

This structure can have significant revenue impacts due to the variable levels of earned income from one year to the next, as well as the discrepancy between the production year when credits are calculated versus when they are applied. If production is high in one year, the resulting ad valorem credits will be proportionally high for the following year when they can be applied. However, if production levels fall in the next year, the amount in credits can be greater than the actual severance tax liability. These two factors can compound to reduce the effective severance tax rate to far below the rate established in statute. Between 2013 and 2022, for example, the average *effective* severance tax rate for oil and gas was 1.6 percent as a result of the tax credit.¹⁰

Transfers to General Fund

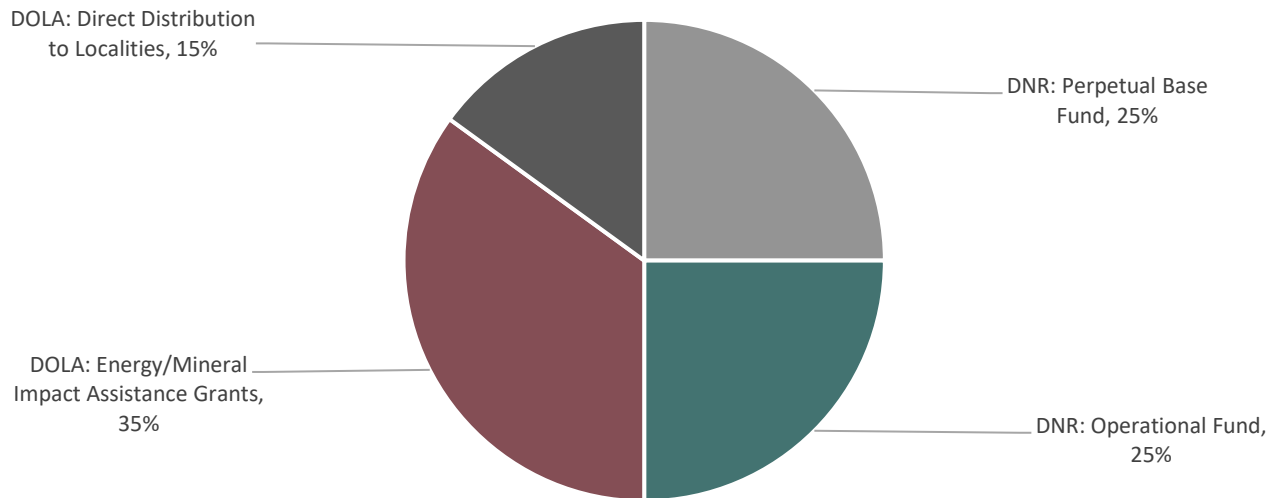
Severance tax has also been subject to various transfers to the General Fund as a budget balancing measure, which has impacted the amount of available revenue. The list below details some recent, significant transfers of severance tax revenue to the General Fund:

- S.B. 17-260 (Severance Tax Cash Fund Transfers to General Fund) transferred a total of \$45.7 million from the Operational Fund, Perpetual Base Fund, and Local Government Severance Tax Fund to the General Fund.
- H.B. 20-1381 (Cash Fund Transfers to General Fund) transferred \$45.5 million from the Perpetual Base Fund to the General Fund.
- H.B. 24-1413 (Severance Tax Transfers) transferred a total of \$44.3 million from the Operational Fund, Perpetual Base Fund, and Local Government Severance Tax Fund to the General Fund.

⁹ Section 39-29-105 (2), C.R.S

¹⁰ "Effective Severance Tax Rates on Oil and Natural Gas", *Legislative Council Staff*, p.6, <https://leg.colorado.gov>

Severance Tax Revenue Distribution to Departments



Department of Natural Resources

Half of all severance tax revenue collected is distributed to the Department of Natural Resources and credited to the Severance Tax Trust Fund. This allocation is then divided equally between the Perpetual Base Fund and the Operational Fund, which receive 25.0 percent of total severance tax revenue each.

Perpetual Base Fund

Broadly, the Perpetual Base Fund supports the water needs of the state by supporting projects that construct, maintain, or improve facilities that contribute to flood control, water supply, hydroelectric power generation, and recreation.¹¹ Many projects are funded through loans and grants administered by the Colorado Water Conservation Board, which has provided over \$123.0 million in funding to water projects across the state.¹²

Operational Fund

The Operational Fund provides support to various programs administered by the Department of Natural Resources:

- Energy and Carbon Management Commission (up to 35.0 percent of the Operational Fund)
- Colorado Geological Survey (up to 15.0 percent)
- Avalanche Information Center (up to 5.0 percent)
- Colorado Water Conservation Board (up to 5.0 percent)
- Division of Reclamation, Mining, and Safety (up to 25.0 percent)
- Division of Parks and Wildlife (up to 15.0 percent)

¹¹ Section 39-29-109, C.R.S.

¹² "Water Supply Reserve Fund", *Colorado Water Conservation Board*, p. 1, <https://dnrweblink.state.co.us>

In S.B. 21-281 (State Severance Tax Trust Fund Allocation), the General Assembly restructured Operational Fund allocations to create a secondary tier of discretionary programs. As a result, the following programs became subject to annual appropriation:

- Species Conservation Trust Fund (up to \$5.0 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 \$5.0 million)

Additionally, the Department may maintain a 200.0 percent reserve for the Operational Fund, which is intended to insulate the funding necessary to maintain its programs, grants, and personnel when the fund faces volatility. The actual reserve balance depends on the Department's unspent revenue from the previous fiscal year and any current-year funds not used for Operational Fund programming. If the Department meets both its programmatic and reserve funding requirements, any leftover revenue meant for the Operational Fund then spills over into the Perpetual Base Fund.

Programmatic Impact

State water projects administered by the Colorado Water Conservation Board from the Perpetual Base Fund face some degree of risk when severance tax revenues take a downturn. Less available severance tax revenue can put current and future water projects at risk of being minimally funded or rejected entirely.

Programs funded through the Operational Fund face a higher degree of risk when severance tax revenue is low. Some programs within the Department receive funding from a wide variety of sources and rely less on severance tax revenue, such as the Division of Parks and Wildlife which received just 2.0 percent of its funding from severance tax revenues in FY 2023-24.¹³ Other programs rely far more on severance tax revenue, such as the Aquatic Nuisance Species Fund, the Colorado Avalanche Information Center, the Coal Regulatory Program and Minerals Program within the Division of Reclamation, Mining, and Safety, the Colorado Water Conservation Board, the Species Conservation Trust Fund, and CO Strategic Wildfire Action Program (COSWAP) grants. Although there is a generous reserve allowance in place to protect the Department's Operational Fund programming, this reserve is not always full, leaving the Department's programming without a sufficient safety net.

Department of Local Affairs

The other half of severance tax revenue is distributed to the Department of Local Affairs and credited to the Local Government Severance Tax Fund. This allocation is then split between Energy/Mineral Impact Assistance Fund Grants, which receive 70.0 percent of the revenue in the Local Government Severance Tax Fund, and direct distributions to local governments, which receive the remaining 30.0 percent.

¹³ "Funding Colorado Parks and Wildlife", *Colorado Division of Parks and Wildlife*, <https://cpw.state.co.us/funding-colorado-parks-and-wildlife>

Energy/Mineral Impact Assistance Fund Grants

Energy/Mineral Impact Assistance Fund (EIAF) Grants are intended to offset the impact of natural resource extraction on communities. These grants fund the construction and maintenance of public facilities and infrastructure that offer public services, and provide administrative help for design and planning studies.¹⁴ In addition to severance tax revenue, these grants receive part of their funding from federal mineral lease revenue. In 2025, there have been two grant cycles that awarded a total of \$48.4 million to projects across the state.¹⁵

Direct Distribution to Local Governments

Local governments across the state directly receive a portion of severance tax revenue, the use of which is at their discretion. The amount of money that is given to each county or municipality is determined by a combination of factors including:

- Number of local residents employed in an extraction industry
- Number of mine and well permits within a jurisdiction
- Amount of mineral production that occurs within a jurisdiction

Each of these factors are weighted at least 30.0 percent, and the exact percentage is determined by the Executive Director of the Department of Local Affairs along with the Energy Impact Assistance Advisory Committee.¹⁶ In 2025, approximately \$2.0 million in total was distributed to counties and municipalities across the state. The top three county recipients were Weld, Moffat, and Gunnison.¹⁷

Programmatic Impact

Severance tax volatility can have drastic impacts on communities and local governments across the state. When revenue is particularly low, local governments receive a low amount in direct distributions, which impacts the services they are able to provide and projects they are able to take on. Energy/Mineral Impact Assistance Fund grants face a similar risk. As a result of a dip in severance tax revenue, the number of grant cycles and available funds are reduced, and proposed projects may only receive minimal funding or be rejected entirely. Although these grants also receive funding from federal mineral leases that can offset some reduced severance tax revenue, severance tax is still the primary source of funding.

Legislative Actions

The General Assembly has addressed different aspects of severance tax through legislation in order to reduce volatility and sustainably manage available funds. Through S.B. 21-281 (State Severance Tax Trust Fund Allocation), the General Assembly altered the funding structures for various programs in the Department of

¹⁴ “Energy and Mineral Impact Assistance Fund Program Grant Application Guidelines”, *Colorado Department of Local Affairs*, February 9, 2023, <https://drive.google.com/file/d/1GWdTQFLUHMwEzUQiXQIINesolz6x1-nm/view>

¹⁵ “Energy and Mineral Impact Assistance Fund Program Awards”, *Colorado Department of Local Affairs*, <https://dlg.colorado.gov/EIAF-funding-awards>

¹⁶ “Severance and Federal Mineral Lease Direct Distribution”, *Colorado Department of Local Affairs*, <https://dlg.colorado.gov/severance-and-federal-mineral-lease-distribution>

¹⁷ “Direct Distribution – Severance Tax and Federal Mineral Lease”, *Colorado Department of Local Affairs*, <https://dlg.colorado.gov/direct-distribution-severance-tax-federal-mineral-lease>

Natural Resources that received funding through the Operational Fund, making them subject to annual appropriation. Additionally, this bill established a working group meant to study ways to reduce the time discrepancy and volatility of severance tax revenue. As per the working group's suggestion, the General Assembly passed H.B. 22-1391 (Modifications to Severance Tax) which created the current formula used to calculate the credit. Previously, ad valorem credits were equal to 87.5 percent of a producer's property tax liability from production and there was a lag of one or two years between when production occurred and when credits were applied. The new formula limits this time discrepancy to just one year. Finally, S.B. 25-040 (Future of Severance Tax & Water Funding Task Force) established a working group tasked with studying the best way to manage severance tax revenue and meet its funding obligations within the broader context of balancing the state budget. The task force is to present their findings to the Water Resources and Agriculture Review Committee by mid-2026.

Appendix A: EIAF Grant Projects in 2025

The following table details the Energy/Mineral Impact Assistance Fund (EIAF) Grant awards in calendar year 2025, by project.

2025 Energy/Mineral Impact Assistance Fund Grant Awards

Name of Project	Amount
Dacono Grandview Blvd. Waterline Extension	\$200,000
Hugo 4th Avenue Water Line Replacement	200,000
Strasburg Sanitation & Water Dist. Water Tank Refurbish	150,000
Norwood Water Commission Transmission Main	175,000
Pritchett Water System Improvements	159,905
Fort Garland Water & San. Dist. Master Plan & Well Improvements	105,000
Fort Lupton Water Strategy Plan	100,000
Piedra Park Metro Dist. Water Meter Replacement	110,000
Burlington WWTF Design & Engineering	100,000
Arriba Wastewater Preliminary Engineering Report	43,750
Limon WWTF Discharge Compliance Reports	67,250
Flagler Wastewater Treatment Preliminary Engineering Report	59,750
Elbert Water & San. Dist. WW Treatment Preliminary Engineering Report	43,750
Akron Wastewater Treatment Preliminary Engineering Report	35,000
Elizabeth Police Department Renovation	54,000
Crested Butte Marshal's Facility Design	130,000
Iliff Town Hall Construction	112,500
Leadville Community Center Planning & Design	50,000
Garfield School Dist. Early Childcare Center Engineering	66,500
Fort Collins Front Range Passenger Rail Planning Study	200,000
Weld County Keenesburg Grader Facility	200,000
Steamboat Springs Passenger Rail Station Site Study	100,000
Fort Morgan Comprehensive Plan Update	50,000
Alamosa Comprehensive Plan Update	100,000
Upper San Juan Health Service Dist. Emergency Safety Upgrade	150,000
St. Vincent General Hospital Dist. Portable X-Ray	92,258
Sedgwick County Fiscal Financial Advisor	95,337
Yuma Water Infrastructure Improvements	850,000
Orchard City 2100 Road Waterline Replacement	500,000
La Plata Archuleta WD Fox Fire Subdistrict Distribution System	280,000
South Swink Water Auth. Water System Improvements	600,000
Mesa Water & Sanitation Dist. Water Distribution System Improvements	482,285
Ovid Water System Improvements	416,250
Trinidad Old Sopris Road Water Main Replacement	750,000
Victor Road 81 Water Main Replacement	750,000
Saguache Water Distribution and System Rehabilitation	600,000
Basalt Sanitation Dist. Fryingpan River Sewer Crossing	250,000
Yampa Valley Housing Auth. Mobile Home Park Utility Replacement	750,000
Hayden Sewer Infrastructure Rehabilitation	300,000
Dacono Grandview Blvd Improvements Phase 2	500,000
Canon City Clock Tower Plaza Rehabilitation	350,000
Akron Colorado Plains Regional Airport Terminal	599,765
Sterling Police Department Architectural & Engineering Phase 1	342,500

Name of Project	Amount
Granby Nuche Village Affordable Housing Infrastructure Phase 2	750,000
Eaton 10th Street Reconstruction	500,000
Poncha Springs Water System Improvements	70,000
Craig Raw Water Control Valve	50,000
Florissant WSD Water Tank Refurbish & Repair	90,500
Somerset Domestic Waterworks Dist. WTP Improvements	26,000
Cortez Water Network Master Plan	82,500
Eads Wastewater Treatment Facility Preliminary Engineering Reports	70,000
Rangely Wastewater Treatment Plant SCADA Upgrade	68,400
Breckenridge Drainage Master Plan	100,000
Eaton Stormwater Master Plan	100,000
Yampa Fire Protection Dist. Feasibility & Facility Study	85,000
Rattlesnake FPD Fire Station 253 Remodel	106,400
Mineral County - Commodore Mine Const. Documents and Site Evaluation	125,000
Mountain Village - Mountain Munchkins Childcare Expansion	188,726
Weld County 2025 Comprehensive Plan	200,000
Yuma Comprehensive Plan	92,500
Crowley County Regional Comprehensive Plan	150,000
Victor Brian's Park Improvements	150,000
Steamboat Springs Childcare & Workforce Housing Construction Documents	124,000
Upper San Juan Health Service Dist. PSMC Sterile Processing Upgrade	180,000
Gunnison County - Mt. Crested Butte Corridor Plan	200,000
SECOG Mini-Grant Program	120,000
AGNC 2025 Mini-Grant Program	50,000
Region 10 Mini-Grant Program	50,000
Pikes Peak Area COG - Regional Visioning Initiative	100,000
Parachute Cardinal Way Improvements - Grand Valley High School	150,000
Dove Creek Town Manager	160,000
MHN Avon Sun Road Housing Conceptual Design & Fiscal Analysis	60,000
CRC Winter Park Climate Action Plan	200,000
Swink Water Tower Restoration	336,929
Manitou Springs Mesa Water Storage Tank Rehab	577,726
Springfield Water System Improvements	1,000,000
Craig 10th Street Water Line Replacement	554,760
Paonia West Water Loop Replacement	1,000,000
Baca Grande WSD Water System Improvements	750,000
Project 7 Water Authority - Regional Water Supply Resiliency Program	500,000
Eureka Water Authority System Improvements	1,000,000
Rangely Middle Zone Tank Recoating	345,000
Sterling Waterline Replacement	799,630
Silverthorne Hummingbird Circle Water and Sewer Replacement: Phase 2	500,000
Glenwood Springs Blake Ave. Utility Reconstruction Phase 2	759,189
Mancos Wastewater Treatment Plant Headworks Upgrade	882,500
Del Norte WWTP Design & Engineering	298,500
Kremmling Sanitation District Wastewater System Improvements	451,675
Pagosa Area WSD Vista Wastewater Treatment Plant Upgrade Construction	1,000,000
Victor Wastewater Main Replacement - 5th & Diamond	227,000
Salida Police Department Remodel	758,000
Jackson County Airport Runway Reconstruction	1,000,000
Routt County Regional Airport Taxiway B Construction	800,000
Northern Chaffee County Library Dist. Buena Vista Expansion	850,000
Alamosa Sanitation Shop Construction	500,000
Akron Town Hall Remodel	280,000

Name of Project	Amount
Fraser Early Childhood Education Center	1,000,000
Upper San Juan Library Dist. Expansion & Renovation - Pagosa Springs	840,000
Lone Tree Justice Center Solar Canopy and Carport Array	250,000
Erie Floating Solar - North Water Reclamation Facility	900,000
Kiowa County Hospital Dist. Health Phase 1- Clinic Construction	1,000,000
Las Animas County Roads 13.0 & 31.9 Improvements	1,000,000
Weld County Road 29 Improvements	950,000
Milliken Center Drive Reconstruction	1,000,000
MHN Grand Junction - The Current Housing Infrastructure	500,000
MHN Breckenridge Runway Housing Infrastructure	1,000,000
MHN Douglas County Ponderosa Pines Roadway Infrastructure	580,844
MHN Westcliffe Housing Utility Infrastructure	558,506
MHN Cripple Creek High Country Haven Utility Infrastructure	670,917
MHN Fraser Workforce Community Housing Infrastructure	1,500,000
MHN Parachute - The Gateway Affordable Housing Infrastructure	1,027,636
CRC Grand County EMS Headquarters and Resiliency Hub Phase 1	1,842,870
CRC Wray Civic Center Construction Phase II - Resiliency Hub	1,842,869
CRC Golden Police & Municipal Building Climate Resiliency & Sustainability	800,000
CRC Winter Park Public Works Facility Microgrid	300,000
Total	\$48,404,377

Appendix B: Direct Distribution of Severance Tax Revenue to Counties in 2025

The following table details the direct distribution of severance tax revenue to counties by the Department of Local Affairs in 2025.

2025 Direct Distribution of Severance Tax Revenue by County

County	Amount
Weld	\$195,868
Moffat	108,678
Gunnison	65,354
Delta	62,769
Rio Blanco	58,897
Mesa	54,834
Lake	54,159
La Plata	46,611
Garfield	42,685
Teller	41,419
Park	33,401
Clear Creek	30,032
Montezuma	25,093
Ouray	23,369
Routt	21,588
Gilpin	20,171
Adams	17,419
Montrose	13,585
Las Animas	13,486
Fremont	12,472
Archuleta	11,584
Jefferson	9,244
Larimer	8,970
Grand	8,838
Chaffee	7,781
El Paso	6,743
Denver	6,432
Hinsdale	6,249
Morgan	5,490
Arapahoe	5,460
Broomfield	5,307
Boulder	5,229
Elbert	5,036
Summit	4,448
Saguache	3,985
Mineral	3,737
Pitkin	3,346
Cheyenne	3,124
Douglas	3,056
Jackson	3,000
Yuma	2,840

County	Amount
Lincoln	2,030
Pueblo	1,974
Dolores	1,962
Washington	1,622
Logan	1,089
Huerfano	549
Kiowa	495
Otero	381
Prowers	237
Alamosa	236
Custer	214
Costilla	203
Crowley	201
Eagle	173
Bent	115
Rio Grande	94
Sedgwick	87
Phillips	72
San Miguel	53
Kit Carson	52
Baca	12
Conejos	0
San Juan	0
Total	\$1,073,642