

The *Colorado Public Expenditure Council* would like to gratefully acknowledge the research performed by several graduate students from the Daniels College of Business, Reiman School of Finance at the University of Denver.



# EXECUTIVE REPORT

August 31, 2000

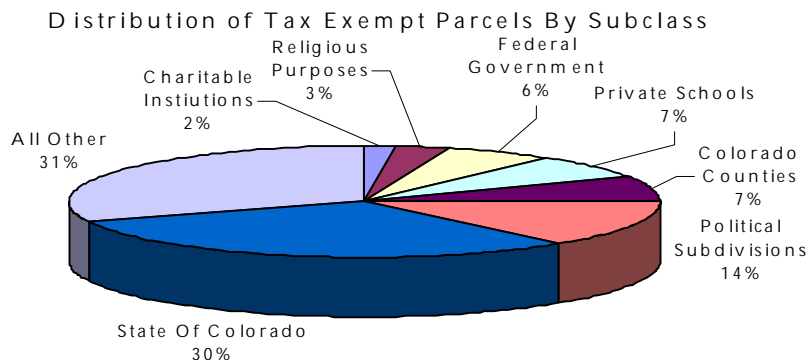
## Tax Exempt Lands In Colorado 1980 through 1999

There are eight different subclasses of tax exempt property and in 1999 the total value of tax exempt lands was \$8.46 billion. Government entities, which include the subclasses of Federal Government, State of Colorado, Colorado Counties and Political Subdivisions, account for about 78% of the total value of all exempt lands in Colorado. Actual values of these lands were reviewed from 1980 through 1999 for the 14 different planning districts throughout the state. From 1980 to 1999 the tax exempt actual values increased at an average rate of 5.7% each year. The table below shows the actual values of tax exempt land by Planning District. In 1999, each district on average would have increased its actual property values by over \$604 million if these lands were not declared tax exempt.

District	1998 Actual Values of Exempt Property	1999 Actual Values of Exempt Property
1	\$152,719,462	\$111,170,680
2	\$974,484,339	\$1,185,360,670
3	\$3,502,156,960	\$4,625,558,340
4	\$1,120,296,310	\$733,074,470
5	\$26,441,530	\$28,325,620
6	\$90,356,590	\$88,427,843
7	\$53,359,200	\$56,374,330
8	\$68,946,540	\$71,258,680
9	\$307,708,255	\$345,338,715
10	\$486,858,790	\$540,270,055
11	\$234,760,900	\$271,673,910
12	\$344,742,940	\$296,933,390
13	\$70,092,018	\$72,003,990
14	\$39,794,780	\$42,074,820
Total	\$7,472,718,614	\$8,467,845,513
Average	\$533,765,615	\$604,846,108

Planning District Three which includes Adams, Arapahoe, Boulder, Clear Creek, Denver, Douglas, Gilpin and Jefferson counties accounts for approximately 55% of all the exempt lands in the State with regards to actual values. However, the value of tax exempt property in this district is only accountable for 15% of the value of all the land in District Three. In Planning District Ten, which comprises the counties of Delta, Gunnison, Hinsdale, Ouray, Montrose and San Miguel, the concentration of tax exempt land is 32% of the total value of the land in that district. But, District Ten's value of tax exempt land is only 6% of all the tax exempt land in the state. This means that in Planning District Ten only 68% of the total actual value of land in that district is taxable while in Planning District Three 85% of the total actual value of land is taxed.

The number of tax exempt parcels increased by 5% between 1998 and 1999. However, this does not include parcel information reported by Park County. This data was removed from the calculations due to some reporting system changes at the county level. The pie chart below shows the distribution by subclasses for all parcels of tax exempt lands in Colorado in 1999 with the largest percent attributable to Other followed by the State of Colorado.





# TAXPAYER REPORT

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## Tax Exempt Land Trends 1980 through 1999

### Introduction

Colorado Revised Statutes 39-2-117 and 39-3-113 through 116 govern tax exempt lands in Colorado. The statutes describe criteria for various types of tax exempt property classes including religious purposes, ditches, canals, public libraries and not-for-profit schools. Additionally, if property is exempt from property taxes and is used for any purposes other than the purposes specified by the governing statute, the property will be exempt if:

- The property is used for such other purposes for less than 208 hours during the calendar year or
- The result of the property for such other purposes results in less than \$10,000 of gross income to the owner in one year.

The Division of Property Taxation collects data from the local county assessors on tax exempt lands and incorporates this information into their annual reports. In a review of this information, the actual values for these tax exempt lands were analyzed for the years 1980 through 1999. Exempt property is a total property value or measurement of the organizations, businesses and land which is currently not earning tax revenue, or is not currently adding to the property tax base of the community.

### Subclasses

All exempt property is broken down into eight different subclasses. Until 1993 there were nine subclasses, the additional subclass was Parsonages. This subclass was combined with Religious Worship, which is now referred to as Religious Purposes. The following table defines these subclasses and provides some examples.

Table 1 - Tax Exempt Property Subclasses

Subclass	Definition	Example
Federal Government	Federal Government operations residing in the State of Colorado	National Forest, Military Bases
State of Colorado	State Government offices and lands required to run the State of Colorado	State parks, Capitol building, State offices
Colorado Counties	County functions within the 63 Colorado counties	Denver International Airport
Political Subdivisions	Cities and townships, including special water and fire districts	City Halls, Town lands, water and fire district property
Religious Purposes	Any property used for a religious purpose, adjoining buildings, sometimes including schools and residences	Churches, Synagogues, and other types of houses of worship
Private Schools	Schools that are funded by privately generated revenue	Charter and privately funded school grounds
Charitable Institutions	Institutions as defined by statute as a gift to be applied consistently with existing laws for the benefit of an indefinite number of persons by erecting or maintaining public buildings or works or otherwise lessening the burdens of governments.	Scouting, Drug and alcohol rehabilitation program facilities
Other	Includes organizations that do not fit in any other category	Canals, Ditches, Flumes

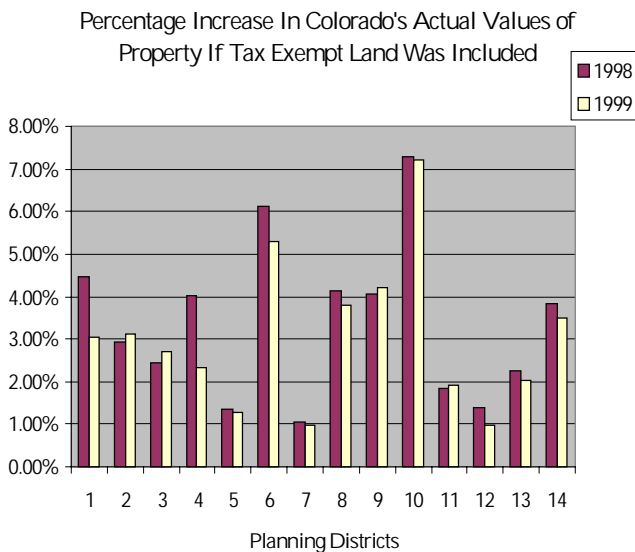
For ease of reporting, the data for all 63 counties was converted and categorized into the 14 planning districts recognized by state statute. These planning regions and the counties they represent are shown on the map on page 6.

It is important to note that the data did contain some abnormalities. For example, in 1992 the subclass of Parsonages was discontinued and those numbers were absorbed into other categories, mainly Religious Purposes. Additionally in 1985, 1994, and 1995 Jefferson County did not report any tax exempt data to the state. Therefore, totals for those years are understated.

### Analysis

The Division reports tax exempt information in actual values. The illustration below shows the percent each planning district's pool of taxable property's actual values would increase if these lands were taxable. Therefore, the state and local governments are forfeiting \$8.46 billion in 1999 in actual values of property since the state has declared these lands tax exempt. This might be a consideration as more and more property is removed from the tax roles and classified as exempt. Consequently, districts that have a lower taxable property base such as Planning District Ten require higher levels of state back-filling for education. As the trend for the State to backfill education continues, these funding levels will increase as more tax exempt lands are removed from the tax roles. In which case, local governments may have to look for other sources of revenue for the funding of essential services.

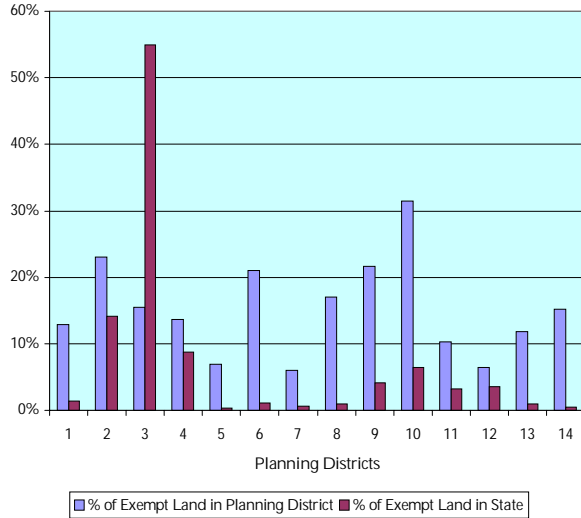
Graph 1



Graph 1 shows two of the fourteen planning districts would increase their total taxable actual values by 5% or greater if these lands were not tax exempt. Planning District Ten's actual values would increase over 7% if these lands were converted to taxable property. Property that is not tax exempt off sets the tax ratios for all taxable property classes and would have showed an overall increase of 3% in 1999.

Graph 2

Percentage of Exempt Land in Planning District vs. Percentage of Total Exempt Lands in State (1999)



Graph 2 illustrates each district's share of the statewide pool of exempt property as well as the district's percent of exempt land compared to the total land in that district. Planning District Three, which encompasses the Denver metro area including Adams, Arapahoe, Boulder, Clear Creek, Denver, Douglas, Gilpin and Jefferson counties, accounts for approximately 55% of all of the exempt lands in the State. Planning District Two, which contains Larimer and Weld counties, has the second highest value of exempt lands with a value of 14.9% of the total value of exempt lands in Colorado. Planning District Ten requires higher levels of state back-filling for education.

Four includes Park, Teller, and El Paso counties and ranks third with 8.7%. All three of these planning districts encompass what is popularly known as the I-25 corridor spanning from Fort Collins to Colorado Springs. It is apparent that there may be a clustering of the majority of exempt properties in terms of total state value surrounding the major metropolitan areas in Colorado. These three planning districts represent approximately 78.6 % of the value of exempt lands in the state. However, it should be

noted that these conclusions are based on the value of the land and not the total area of all exempt lands in each planning district. An analysis of the total acreage in each planning district may yield different results. (Acreage data was not available at the time of this report.)

Table 2 -Top 3 Planning Districts By Share of Total Exempt Lands in State and Concentration of Exempt Lands in Planning District

Share of Exempt Lands In State	Concentration of Exempt Lands In Planning District
1. Planning District 3 (55%)	1. Planning District 10 (31%)
2. Planning District 2 (14%)	2. Planning District 2 (23%)
3. Planning District 4 (9%)	3. Planning District 9 (22%)

The first column in Table 2 shows the districts with the highest values of exempt lands compared to the total values of the State's tax exempt land. The second column in Table 2 represents the percentage of exempt lands in a district compared to the value of all the lands in that district. This figure allows for a comparison of the relative concentration of exempt lands on a district by district basis. By comparing the value of exempt lands in a district to the total value of property in that district, the relative price differences of land between districts are minimized. The result is the relative concentration of exempt properties in a district.

Counties that had the largest total share of tax exempt lands in the state, (e.g. Planning District Three) did not rank in the top five districts with the highest percentage of tax exempt land per district. The planning district with the highest concentration of tax exempt land value was Planning District Ten with a concentration of 31%. Planning District Ten contains the counties of Delta, Gunnison, Hinsdale, Ouray, Montrose and San Miguel. A comparison of Planning District Three to Planning District Ten shows that while Planning District Three has approximately 55% of the total exempt property in the state, exempt lands account for only 15% of the property in that Planning District. Planning District Ten has approximately 6.4% of the exempt lands in the state, but exempt land accounts for 31% of the total land in that Planning District. Only Planning District Two ranks in the top three for both its share of total exempt property in the State and the concentration of exempt property within the planning district. This indicates that Weld and Larimer Counties have

Weld and Larimer Counties have large shares of the total exempt properties in the state, and have a large concentration of exempt properties within the district.

not only a large share of the total exempt properties in the state, but they also have a relatively large concentration of exempt properties in the planning district, lowering the percentage of taxable property.

When converting the county data into district data some of the statistics were slightly obscured. For example, Planning District Ten, which includes Hinsdale County, contained the highest concentration of exempt lands at 31%. Hinsdale County, one of the smaller counties in the state, had the highest concentration of tax exempt land in the state at 85%. Thus, the county's taxable property is only 15% of the total land value in the county. In comparison, Denver receives property tax from 82.3% of the property in the county. When converting this county data to the planning district data, some of these extreme scenarios were not as apparent. This suggests that counties such as Hinsdale may be in greater need of backfilling from the state for school funding which is currently allowed for by the School Finance Act.

### Great Outdoors Colorado Act

In 1992, voters of Colorado endorsed the creation of the Great Outdoors Colorado Trust Fund (GOCO) which receives its funding through Colorado Lottery proceeds. Fifty-percent of the net lottery proceeds capped at \$35 million in 1992 dollars/adjusted annually for inflation are contributed to GOCO for funding grants for outdoor recreation, wildlife, open space and local government outdoor projects. Organizations that apply for grants from the trust include Colorado State Parks, local governments, non-profit land conservation organizations and the Division of Wildlife. A 15-member Board of Trustees, which is appointed by the governor, reviews the applications and approves or denies them.

To date, \$238.3 million in grants has been awarded for a total of 1,370 projects.<sup>1</sup> Of these 1,370 projects, 227,320 acres of open space has been preserved, 47,041 acres has been acquired for future parks, and 557 miles of trails have been constructed.<sup>1</sup> These awards are usually in conjunction with partnership awards from other funding organizations. In fact, one of the criteria for the application process is to review partnerships in terms of either in-kind services or funding. These partnerships may include another state agency, federal or local government, private sector, non-profit organizations, or

<sup>1</sup> Great Outdoors Colorado Progress Report 2000

volunteers. Other criteria for the applications include leverage, planning, integration, environmental education, sustainability, impact, and urgency.

In 1996 a GOCO Legacy grant was awarded to the I-25 Conservation Corridor Project to work with landowners along a twelve-mile stretch of I-25 to purchase land for open space. By mid 1999 10,200 acres were declared tax exempt through this conservation program. In March of 2000 the Conservation Fund purchased the Greenland Ranch.<sup>1</sup> This ranch consists of 17,400 acres to the east of I-25 and 3,700 acres to the west. GOCO along with Douglas County each contributed \$9.2 million for the purchase of the acres west of I-25.<sup>1</sup> Projects similar to these have been increasing which consequently reduces the amount of taxable lands available to local governments.

### Trends of Exempt Lands

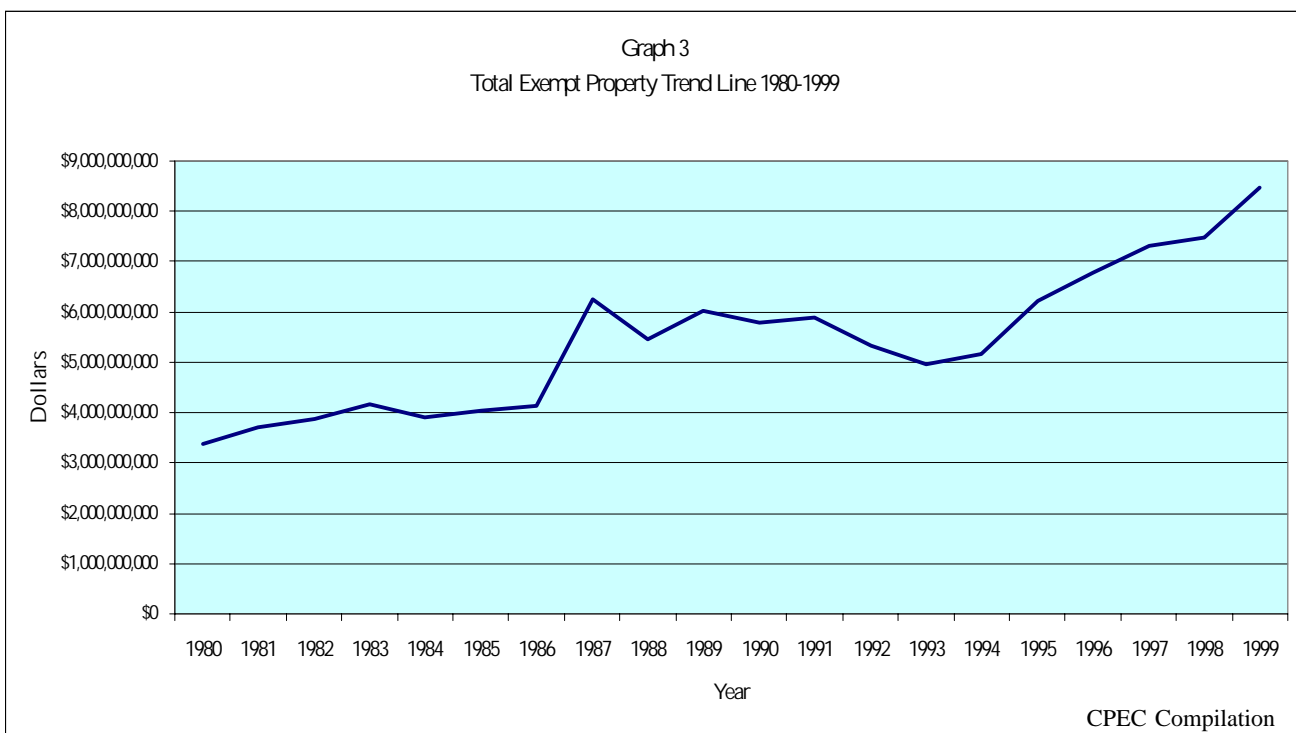
Between 1980 and 1999 the total dollar value of tax-exempt property in Colorado increased at an average rate of 5.7% per year from \$3.39 billion in 1980 to \$8.46 billion in 1999.<sup>2</sup> The growth has been somewhat steady and is illustrated in Graph 3 but has seen significant increases at different intervals. For example, from 1980 to 1985 the total amount of exempt property gained just over \$658 million. This was mainly a result of a 37% cumulative increase in the Religious Purposes subclass. However, from

1986 to 1996 the total amount of exempt property jumped to over \$6 billion, an increase of approximately \$2.6 billion over a ten year period. This was due mainly to an increase in the Private Schools subclass.

From 1986 to 1996 the amount of exempt property jumped to over \$6 billion, an increase of approximately \$2.6 billion over a ten year period mainly due to an increase in Private Schools.

While these growth trends have remained positive, there are some examples of declines in the total value of exempt property. The most dramatic decline was between 1991 and 1993. This decrease was mainly a result of a decrease in Federal Government lands that dropped from \$2.09 billion in 1991 to \$1.15 billion in 1993, representing a 44.9% decrease in the value of federal lands over the three-year period.<sup>2</sup> Unfortunately, the data was not available to determine if this drop was due to land values alone or, if actual federal acres were removed from a tax exempt status.

### Subclass Trends



<sup>2</sup> Division of Property Taxation Annual Reports 1980 through 1999 and CPEC Compilation

Five subclasses had 20-year growth rates that were greater than the growth rates of the total value of tax exempt lands as a whole. These five subclasses included State of Colorado (6.1%), Political Subdivisions (6%), Religious Purposes (7.2%) Private Schools (18.2%) and Charitable Institutions (9%).

Government entities - (Subclasses include Federal Government, State of Colorado, Colorado Counties and Political Subdivisions) These subclasses on average accounted for 78% of the value of all exempt lands in Colorado during the time period of 1994 through 1999. During the years 1997 to 1999, the value of Federal Government lands fell from approximately \$2.4 billion in 1997 to \$2.3 billion in 1999. Accordingly, the share of exempt property that the Federal Government lands represented dropped from 34% to 27%. This was mainly a result of a reporting system change in Park County.

Non-government entities – (Subclasses include Private Schools and Religious Purposes) These two particular subclasses had large shifts in percentage shares of tax exempt lands in the state over the last two-year period. Private Schools accelerated to almost 6% in 1999, compared with 3% in 1994. Between 1995 and 1996, Religious Purposes value of tax exempt land increased at an average of 6.3% per year, accounting for 9.6% of total exempt property in Colorado in 1999.

#### Planning District Trends

Planning District Five contained the lowest concentration of exempt lands in 1994. This district includes Cheyenne, Elbert, Kit Carson, and Lincoln counties and 1% of the total land in the district was exempt from property taxes in 1994. In 1999, the lowest concentration of exempt property was found in Planning District Seven, which consists of Pueblo County, with 6% of total land classified as exempt. This is an indicator that shows the amount of exempt land in acres is actually increasing. In 1994, the district with the least amount of tax exempt land was 1%, five years later the district with the lowest amount of tax exempt land was 6%. By comparing the lowest concentration percentages from year to year for all of the planning districts, it is apparent that the acres of tax exempt lands are increasing.

## Conclusion

The total amount of acres of tax-exempt land in Colorado seems to be increasing at an unknown acre by acre rate but the value of that land has increased 5.7% from 1998 to 1999. This means that the tax base available to counties has decreased. In 1999, the state's actual values would have increased 3% if tax exempt properties were included as taxable property. On average, each planning district's actual values of taxable property would have increased by \$604 million if these properties were declared taxable. By increasing the amount of tax exempt property there is an added burden on taxable property and to the State for education backfilling. Strengthening tax exempt regulations could result in broadening the tax base for the local governments. However, TABOR limitations may become a factor for those local governments who have not passed de-Brucing measures.

There also appears to be a clustering of tax exempt land by value along the I-25 corridor. This is most likely a result of these areas representing the major metropolitan areas of the state, which would be assumed in general to have higher property values than other places in the state. Finally, through the analysis it is apparent that government controlled exempt properties make up the vast majority of exempt lands in Colorado, averaging 78% of the total amount of exempt property in Colorado over the past six years. Therefore, keeping the government type of exempt properties to a minimum will help to preserve taxable properties, a valuable resource for local government funding.

# Colorado Planning and Management Regions

