

PAYING FOR SCHOOLS: DOES SMART GROWTH MATTER?
Growth Patterns in El Paso County and the Falcon School District

Prepared by the Center for Colorado Policy Studies
University of Colorado at Colorado Springs

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I. Executive Summary

A. Key Findings

- Three factors have combined to create an unsustainable solution for both homeowners and school districts in some of the most rapidly growing areas in the Pikes Peak region.
 - the segregation of residential from commercial and industrial property
 - the “Gallagher amendment” effect on residential property assessments
 - the existence of sixteen separate school districts in El Paso County¹
- Falcon School District 49 is a classic example of heavily residential development having trouble funding needed services from a limited property tax base.
 - Without sufficient commercial property, homeowners must pay higher taxes to fund infrastructure than they would in more diversified districts
 - City and county zoning have favored increased residential vs. commercial development in these high growth areas
- Despite concern in the Pikes Peak region over both tax levels and housing affordability, little thought appears to have been given by planners and elected officials as to how school districts are drawn, how development patterns affect public (vs. private) costs, and how to best work within the framework of state laws to provide K-12 education in an affordable manner.
- Although the Falcon school district has a total mill levy comparable to many other local districts, the cost per household of funding additional school facilities will be much higher than in Colorado Springs 11 or Harrison 2, as outlined below.
- Location of commercial/industrial job centers in reasonable proximity to new residential areas would reduce the property tax levies of residents in these areas relative to what they would pay for the same infrastructure costs without these
- Changes in school district boundaries, state law regarding school capital construction funding, or the residential assessment ratio appear unlikely, as outlined below. Therefore, to avoid a collision between capital construction costs of schools and other infrastructure, the Gallagher amendment, and the historical boundaries of school districts in El Paso County the options are as follows:

¹ Note that El Paso county is unique in Colorado, including all or part of sixteen separate school districts, while both Denver and Jefferson county have one consolidated district and Pueblo and Boulder county each have two districts.

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B. Options

1. Accept increasingly insufficient school construction and infrastructure
2. Pay substantially higher mill levies to fund school infrastructure
3. Depend on developers to voluntarily fund schools (Meridian Ranch, Falcon D49 and Soaring Eagles, Widefield, D3) and other infrastructure
4. Revise the zoning and planning approach practiced by the city of Colorado Springs and El Paso County to include more commercial/industrial property in high growth school districts
5. Focus economic development efforts on locating major employers in high growth school districts such as Falcon

C. The “Smart Growth” Approach

Smart growth is best defined as growth that preserves or increases quality of life while being affordable to private individuals as taxpayers as well as consumers. It therefore involves planning for public fiscal impacts as well as costs incurred privately by individuals. Since most home buyers will be uninformed as to the costs of future infrastructure needs and will not adjust their behavior accordingly, only city or county zoning and planning can have substantial influence on the costs per resident of school capital construction or other types of infrastructure.

II. Introduction

Falcon School District 49 is in the news these days as northeast Colorado Springs and adjoining areas of unincorporated El Paso County boom with new housing starts. The Falcon district is completely east of Powers Boulevard, centered around Meridian Road, Woodmen Road and Highway 24. Formerly rural, it is now primarily made up of entry level homes attractive for their relative affordability. The district includes areas annexed to Colorado Springs such as Springs Ranch, Stetson Hills, and the yet to be developed Banning-Lewis Ranch, and unincorporated areas in El Paso County such as Woodmen Hills, Meridian Ranch, Cimarron Hills, and the proposed Santa Fe Springs development.

More middle income homes generally mean more children – and this holds true in the Falcon district. A major factor in the lower housing prices that have attracted young families is that land prices are lower than in the more central areas. But a lack of infrastructure, including schools, is a major contributor to the lower land prices. Over time, substantial new property taxes on residents will be requested to pay for public investments in roads, drainage, water supply, and schools. Developers, planners and taxpayers have been engaged in an ongoing argument over how much should be spent for

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new roads and drainage and how much of the spending should be borne by new homeowners vs. countywide taxpayers.²

Colorado requires that property owners in a school district pay the full cost of new school construction, despite the recognized need for distribution of substantial state aid to annual operating budgets in low property value school districts. State law also establishes that property values will be re-assessed every two years and restricts the ability of even rapidly growing school districts to bond more than 25% of their assessed value to fund capital construction. The looming problem of how to pay for needed school expansion given the constraints of our school finance act was addressed in *Colorado Schools: The Great Divide* in 2001 (available at web.uccs.edu/ccps).

Falcon School District has run up against the bonding limit of 25% of total assessed property value several times in the last decade, limiting its ability to build. It is now attempting to use a mill levy override, but was unable to get voter approval for the most recent proposed increase in the mill levy (Fall 2003).³ The need for new facilities has resulted in classrooms operating at 50% above capacity, students being housed in temporary trailers and discussion of year round schools. The district will be going to voters with another mill levy override proposal in November 2004 to authorize property tax increases sufficient to pay the costs of two new elementary schools, a new middle school and a new high school in the next few years, as well as to fund several additions to existing schools. If population growth projections hold true, these schools will be at capacity when they open and the district will face more tax increases in the future as it continues to build more schools for more students.⁴

A study we recently completed at the Center for Colorado Policy Studies demonstrates how much more costly school construction is to the average taxpayer in districts transitioning from a rural to a suburban status, such as Falcon 49.⁵ As we show below, the average tax payer in Falcon 49 must pay more to fund capital construction than those in urban El Paso County districts. It should be noted that 1) this is not because the new school is more expensive to build, but because the tax base is limited in several ways that

² Developers are required to build certain parts of the infrastructure up front and cover that cost in new home prices. In addition, many new special districts have been approved in these developments with mill levies of their own to pay for additional infrastructure. Facing shortfalls in its infrastructure budget, both the city of Colorado Springs and El Paso County are supporting an additional sales tax targeted to infrastructure and transit projects across the region through a new Regional Transportation Authority (for more on the RTA see www.cml.org/pdf_files/TransportationPikesPeak.pdf). Several new elementary schools in eastern El Paso county school districts have been voluntarily funded, in part, by developers due to the funding crisis we outline here

³ Note that using mill levy overrides to meet the payments on certificates of participation (COPs) raises the interest rate the district would pay relative to issuing bonds.

⁴ For more detail on the Falcon school district and its current mill levy override proposal, see www.d49.org

⁵ Data on population and households was provided by the Pikes Peak Council of Governments. School mill levies were provided by the Colorado Department of Education and the El Paso County Assessor's office. Data on residential and commercial zoning and property values was provided by El Paso County.

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we outline below ⁶ and that 2) the total mill levy has actually declined in Falcon and most other school districts as the state has contributed more toward operating budgets.⁷

III. The Impact on Schools

When a primarily rural district grows quite rapidly (Falcon has had the fastest rate of growth in student population of any school district in Colorado during the last decade) there are a number of financial stresses which make it difficult to provide sufficient facilities.

1. **Property tax assessments lag changes in the actual value of property by as much as two years**, given the assessment cycle specified by law in Colorado. This means that a large apartment complex may be constructed and fully inhabited by families with children ready for school before the higher taxes from the conversion of property to this use are ever recognized. Adding in the time lag necessary for planning and construction of schools and the need to propose and pass bond issues or mill levy overrides increases the lag even further. This is a major economic argument for school impact fees, which have been ruled unconstitutional by the Colorado Supreme Court. Without an upfront fee, however, new school facilities will often be needed in rapidly growing districts before higher property values have even been realized.
2. **The smaller size of the district significantly raises the cost per household of building a new school**, as shown in Figure 3 and discussed below. Larger school districts can spread the cost of building a new school across a much larger population of households, so that each one bears a smaller part of the burden. While larger districts need more schools, they have invested in building them over the years and are unlikely to see such a sharp spike in school facility needs.
3. **The conversion of agricultural property to residential use increases service costs much more rapidly than it increases property tax revenues.** Even without the lag discussed in [1], above, researchers at Colorado State University found that local governments do not fare well when agricultural land is converted to ranchettes or traditional suburbs, unless the homes are extremely high value properties.⁸ The biggest losers financially were school districts, whose increase in student enrollment far outweighed increases in property tax revenues.
4. **The wide difference in commercial and residential assessment rate means that middle income districts without substantial commercial or industrial**

⁶ According to Gene Logas, Asst. Superintendent of Finance in the Falcon district, the financial pinch has led the district to build schools lacking amenities found in other local districts in order to keep costs down.

⁷ The TABOR and Gallagher amendments have also each played a major role in the decline in mill levies.

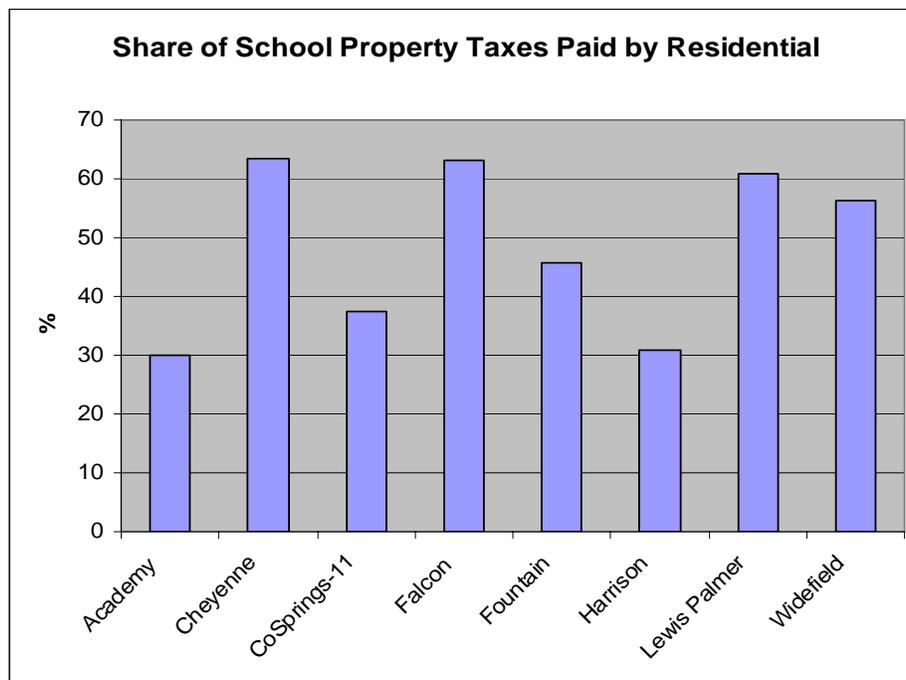
⁸ Coupal, R. and A. Seidl. 2003. *Rural Land Use and Your Taxes: The Fiscal Impact of Rural Residential Development in Colorado*. Agricultural and Resource Policy Report, Colorado State University, March 2003, APR03-02. <http://dare.agsci.colostate.edu/csuaecon/extension/docs/landuse/apr03-02.pdf>

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property must raise mill levies much more steeply than a diversified district would spend an equal amount on school construction. But developers and planners in both unincorporated El Paso County and in the city of Colorado Springs have followed traditional “separation of uses” models in their zoning and planning. Commercial and industrial properties remain clustered in certain parts of the city and county. While it has become clear that this causes transportation bottlenecks and requires additional public spending in the public works areas, there has been little attention to the impact on school facilities. The planning assumption has been that limited retail development will follow residential development and be sufficient to serve the needs of the area.⁹

IV. The Impact on Homeowners

Figure 1.



⁹ The *Falcon/Peyton Comprehensive Plan*, October 1993, recognizes that population in the Falcon/Peyton area more than doubled between 1980 and 1990 (three times the rate of growth of El Paso county) and correctly predicted that this trend would be sustained or intensified. In a brief discussion (p. 41) it recognizes that there is a “burden on homeowners as their [sic] is little industry in the district to assist with the financing or present and future schools.” In the summary of critical issues (p. 102) the lag between bonding capacity and the need for schools is referenced in this study of the early 1990’s. Yet instead of dealing with the connection between rapid growth, need for new schools, and an inadequate tax base without more commercial/industrial development the county planning document states that “there is no relationship between zoning and assessed property valuation since assessments are ordinarily based upon actual use rather than zoning” (p. 75). It encourages financial help from developers for school facilities.

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The share of property taxes for schools paid by homeowners varies considerably within metropolitan El Paso County. The lowest is 36.9% in Harrison District 2 and the highest is 71.1% in Cheyenne Mountain District 12. Colorado Springs' largest district, #11, raises 43.6% of total taxes from residential property while Falcon District 49 raises 63% from residences, as shown in Figure 1, above. The disparities are due to a much higher concentration of commercial and industrial property in the more urbanized districts.¹⁰

In addition to variations in commercial property, the Gallagher amendment requirement that no more than 45% of total *statewide* property taxes be borne by residences has driven down the residential assessment rate from 22% in 1982 to less than 8% today.¹¹ At the same time, assessment rates on commercial property have risen to 29%. As the gap between the residential and commercial rates widens, the ability to pay for services in middle income highly residential areas shrinks. However, in affluent areas such as Cheyenne Mountain and Lewis-Palmer taxpayers have demonstrated a willingness to fund mill levy overrides and bond issues even at higher tax rates.

Falcon's basic operating cost mill levy of 28.8 is only slightly higher than the mill levies in District 11, Fountain, Widefield, Lewis-Palmer, or Academy but 37% higher than the mill levy of 20.9 in Harrison District 2 as shown in Figure 2, below.¹² The full bar in Figure 2 shows the total mill levy for schools in El Paso County urban/suburban districts, which includes the operating levy and all increases approved by taxpayers to fund various bond issues and overrides. Among the urban districts in El Paso County, the total mill levy ranges from a low of 27.69 in Fountain/Ft. Carson District 8 to a high of 60.22 in Academy District 20. Falcon falls in the middle at 44.57. However, as we outline below, these differences are exacerbated when districts are compared as to how much change in mill levy is needed to fund new growth in schools.

¹⁰ Table 3 (Appendix) shows the share of total property that is residential in local school districts.

¹¹ Note that while homeowners are protected by the Gallagher amendment from paying more than 45% of total statewide taxes, in any one particular taxing district they may pay a much larger share due to the composition of the district. Prior to adoption of the Gallagher amendment all property was taxed on 30% of assessed value.

¹² Operating mill levies are set under the School Finance Act, based on the property tax wealth of the district. Basic mill levies are from the Colorado Department of Education for the 2002-2003 school year.

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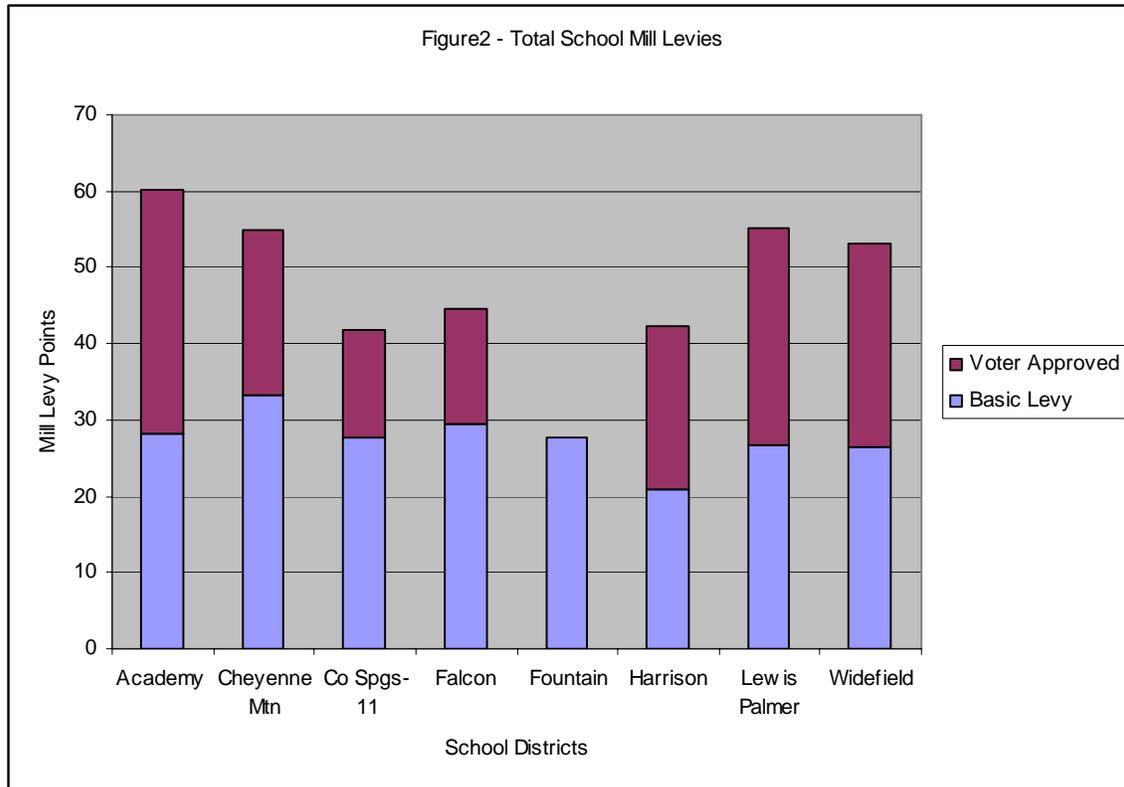


Figure 3, below, shows the average cost per residential taxpayer fund five million dollars of construction debt service.¹³ The cost per average taxpayer over \$183 in Falcon 49 is over six times the cost of \$30 in Colorado Springs 11.

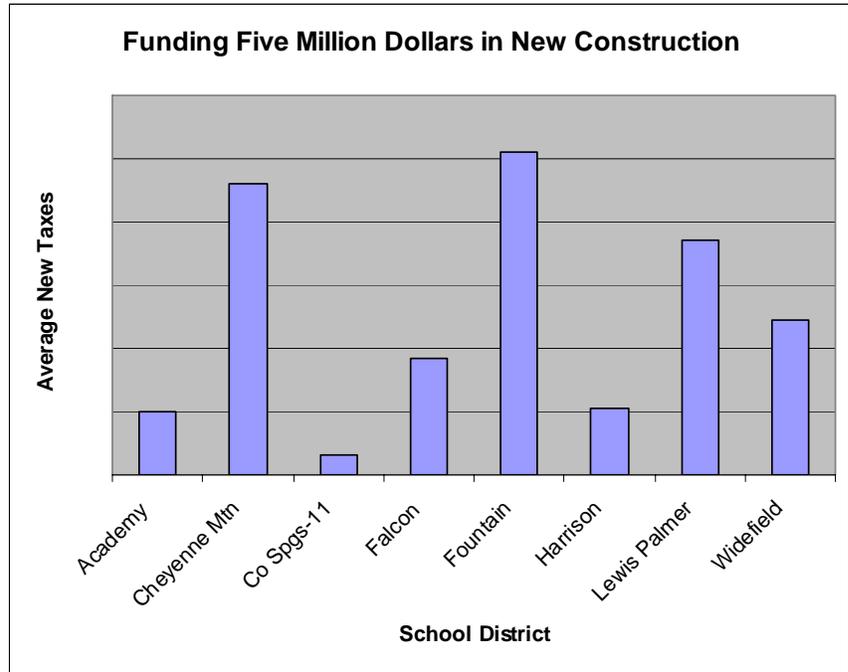
There are two key reasons why the bill is so much higher in Falcon and some other eastern El Paso County school districts. First, there is much less commercial or industrial property to help pay for the cost of the school. Second, there are far fewer homeowners in these districts to help pay the cost of any one new school than there are in the much larger District 11.

This different mix of residential and commercial results in a much higher tax burden for the average household. It may have led to the defeat of the 2003 mill levy override despite an obvious and growing need for schools. Despite having a lower mortgage payment than they would have had on a comparable house in urbanized Colorado Springs and the ability to deduct any property taxes paid when calculating federal income tax, there appears to be significant resistance to the increases in the mill levy on property which would be necessary to pay for new school construction.

¹³ Five million dollars is approximately the total costs of a new elementary school in the Pikes Peak region, and slightly higher than the projected spending for 2005 in Falcon’s current proposal to taxpayers.

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Figure 3



V. Conclusions

This report shows that existing homeowners pay substantially more taxes for the construction of new schools when development occurs

- In areas with little commercial/industrial property
- In areas with a small existing population relative to the anticipated growth in student enrollment
- As new properties are able to defer increases in assessed value for up to two years under Colorado law

The greater difficulty of raising money for school construction in low property value districts places their students at a disadvantage in the condition of their schools.¹⁴

Quality schools have been shown to be a primary determinant of long-term home values nationally. As a result, areas which do not adequately fund needed school construction will eventually have lower property values than they would otherwise. But

¹⁴ Note that while other districts have used mill levy overrides for quality improvements to their operations, a rapidly growing district like Falcon must use them to supplement the fact that it has insufficient bonding capability for its capital construction needs.

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new home buyers are likely to be unaware of the increase in future property taxes that would be needed to fund all anticipated infrastructure needs. When they are comparison shopping for price vs. value in a home, if they make their home purchase decision based in part on past tax levels, they may be highly resistant to a rapid change in that tax level.

Unless either a) school district boundaries are changed or consolidated b) the state changes the way new school construction is funded or c) the provisions of the Gallagher amendment are altered continued separation of commercial/industrial and residential uses will increase the infrastructure and school capital construction costs to local taxpayers. But there is little public or legislative support for changes in school district boundaries or construction funding mechanisms and voters soundly rejected a measure to modify the Gallagher amendment by freezing the residential assessment ratio at 8%. The ratio will continue to decline, resulting in even greater disparities in revenue raising ability between districts rich in commercial property and those that are primarily residential.

What does all of this have to do with “smart growth”?¹⁵ The continuation of historical zoning and approval patterns which are not sensitive to the needs of school districts or the future taxpayers of those districts has created a long term problem for taxpayers in these districts. There is a disconnect between zoning and planning decisions made in both the city of Colorado Springs and El Paso County and the needs of both local school districts and new home buyers. School districts need to be able to fund construction of schools in newly developed areas. New home buyers want to be able to predict the level of property taxes they will pay in these areas. Neither will be able to without the partnership of the city and county in its planning and economic development decisions.

Although increases in the population base of a district such as Falcon 49 will allow the costs of any new school to be spread over a larger population in the future, the district is unlikely to “grow its way” out of the problem for two reasons. The first is that a large proportion of the new homes will contain new students. The second is that without changes in planning and development patterns the district will continue to be predominantly residential and to lack the commercial/industrial base which helps other urban school districts pay for new infrastructure.

About the authors

Daphne Greenwood (B. A. 1972, Northern Illinois University; M. A. 1974, University of Houston, Ph. D. 1980, University of Oklahoma) is Professor of Economics and Director of the Center for Colorado Policy Studies at the University of Colorado at Colorado Springs. She has published in numerous policy areas, including public finance, the distribution of wealth, education and health care policy. Dr. Greenwood was previously corporate economist with Esmark, Inc., visiting scholar at the U. S. Treasury Department, Honors Professor at the U. S. Naval Academy, and a member of the Colorado House of Representatives.

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¹⁵ “Smart growth” refers to growth that is affordable in the public as well as the private sector. See “*Smart Growth*” and *Colorado Tax Policy*, Center for Colorado Policy Studies website, web.uccs.edu.

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APPENDIX TABLE 1—
 DISTRICT POPULATION AND RESIDENTIAL TAXPAYERS

School District	Population	Residential Tax Units
Academy	77180	24694
Calhan	2925	1204
Cheyenne Mtn	20195	7744
Co Spgs-11	221785	71054
Edison	280	109
Ellicott	4175	1874
Falcon	29965	17212
Fountain	20555	5196
Hanover	900	603
Harrison	67030	17489
Lewis Palmer	19605	8826
Manitou Spgs	8375	3625
Miami/ Yoder	1795	873
Peyton	3325	1380
Widefield	38665	13155

Sources: Pikes Peak Area Council of Governments (2000), El Paso County Assessor's office (2003).

APPENDIX TABLE 2—
 SCHOOL DISTRICT MILL LEVIES: TOTAL AND BASIC OPERATING

School District	Basic Mill Levy	Total Mill Levy
Academy	28.274	60.216
Calhan	33.271	42.124
Cheyenne Mtn	33.207	54.800
Co Spgs-11	27.628	41.698
Edison	36.195	36.195
Ellicott	32.833	49.211
Falcon	29.370	44.575
Fountain	27.696	27.697
Hanover	9.067	21.717
Harrison	20.917	42.256
Lewis Palmer	26.659	55.181
Manitou Springs	25.324	51.061
Miami Yoder	24.130	35.829
Peyton	27.974	41.042
Widefield	26.324	53.196

Sources: Colorado Department of Education 2002-2003, basic mill levy for operating expenses under the School Finance Act , El Paso County Assessor, 2003, total mill levy

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APPENDIX TABLE 3—
 RESIDENTIAL TAXES AS SHARE OF TOTAL SCHOOL TAXES PAID

	Assessed Residential Value	All Non-Exempt Property	% of taxes paid
Academy	\$449,606,070	\$915,102,190	0.491
Calhan	\$8,740,900	\$16,270,840	0.537
Cheyenne Mtn	\$194,001,010	272,758,430	0.711
Co Spgs-11	\$927,053,060	2,125,576,030	0.436
Edison	\$509,680	\$1,967,420	0.259
Ellicott	\$11,768,380	\$21,797,540	0.540
Falcon	\$198,981,820	\$315,635,430	0.630
Fountain	\$5,753,990	\$88,844,130	0.065
Hanover	\$4,112,960	\$47,906,580	0.086
Harrison	\$178,420,750	\$483,521,130	0.369
Lewis Palmer	\$184,153,560	\$281,092,320	0.655
Manitou Springs	\$55,603,420	\$82,415,270	0.675
Miami Yoder	\$5,076,670	\$10,716,660	0.474
Peyton	\$15,142,790	\$26,406,200	0.573
Widefield	\$132,817,710	\$207,259,240	0.641

Source: El Paso County Assessor, 2003