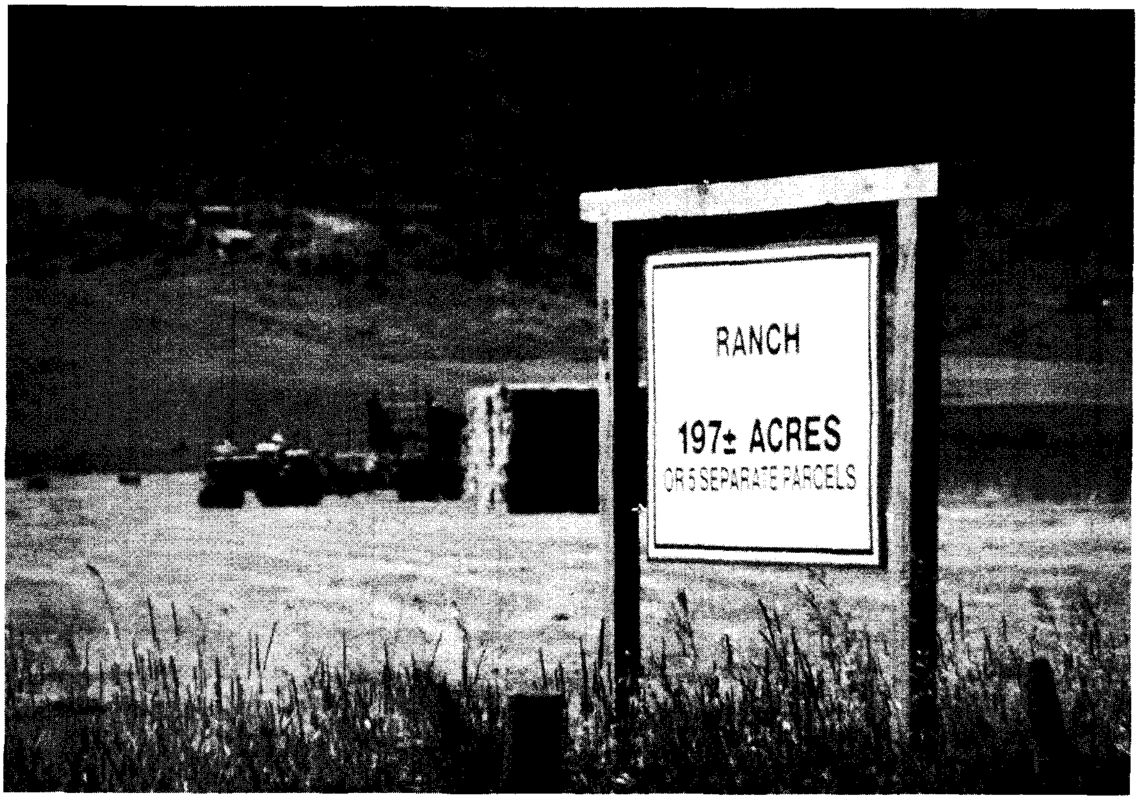
The Last Roundup?

How Public Policies Facilitate Rural Sprawl and The Decline of Ranching in Colorado's Mountain Valleys

Summary Report
by American Farmland Trust



The Competition for Land in America

The third in a series of reports from

American Farmland Trust

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About American Farmland Trust

American Farmland Trust is a private nonprofit organization founded in 1980 to protect our nation's farmland. AFT works to stop the loss of productive farmland and to promote farming practices that lead to a healthy environment. Its action-oriented programs include public education, technical assistance in policy development and direct farmland protection projects. For membership or program information, please call 202-331-7300 or visit AFT's Web page at **www.farmland.org**. For more information about this study or AFT's activities in the Rocky Mountain region, call 970-464-4963.

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"They call it Paradise.
I don't know why.
Somebody laid the mountains low
While the town got high."

– *The Last Resort,* by Don Henley & Glenn Frey
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Foreword

As the twentieth century draws to a close, America is engaged in an intensifying competition for land. Struggling cities compete with mushrooming suburbs; the suburbs compete with open space, farms and forests; agriculture and forestry compete with wildlife habitat and the last remaining places of solitude. The country's population continues to grow. Automobiles, computers and other technologies enable us to spread out across the land, altering it as never before. Meanwhile, recoiling from this "progress," many Americans increasingly resist changes in the use of land in order to protect their environment or the way of life they have come to enjoy.

The controversy surrounding cattle grazing on public lands, in the Rocky Mountain region and elsewhere, is familiar to anyone who follows natural resource issues. Ranchers often complain about government's heavy-handed regulation of public grazing lands, arguing that it cuts their herd size and their profitability. Environmentalists, for their part, argue that ranchers graze too many cattle on public lands, threatening wildlife and the land's overall productivity, degrading riparian habitat and the rivers and streams of the region.

Commercial ranching today is competing with something far more formidable than grazing regulations—"recreational ranching" and second home development.

Whatever the merits of these arguments, commercial ranching today is competing with something far more formidable than grazing regulations. Americans' penchant for outdoor activities of all sorts is resulting in substantial "recreational ranching"—raising livestock for the lifestyle rather than a living—and second home development, especially in those places that both showcase the region's spectacular landscapes and offer ready access, by highway or airport. The Rocky Mountain region, moreover, is witnessing explosive population growth. Lured by an idyllic setting and abundant recreational opportunities, affluent newcomers to Colorado and other parts of the region are buying so-called "ranchettes," 35 acres or so carved out from larger parcels by ranchers and farmers willing to sell at prices that dwarf the land's agricultural value. As a consequence, the region's traditional ranching way of life is losing ground and may be headed for "the last roundup."

It is not just the future of the region's ranching community that hangs in the balance as this transformation occurs. The proliferation of rural estates makes management of open range for wildlife, for water resources, as well as for ranching, near impossible. Some of the most scenic and productive agricultural lands are dramatically altered by ski resorts and the lucrative condominium complexes and other real estate development that accompanies them.

American Farmland Trust (AFT) is concerned about the decline of ranching in the region and the impacts of what has all too often become the alternative: sprawling recreational and second home development and the parcelization of rural lands into tracts too small to remain viable for ranching or natural resource management. In this region and across the country the broader competition for land is adversely affecting the nation's agricultural land base. Why is it happening? What can and should be done to curb the kind of rural ranchette sprawl that threatens commercial cattle raising in the Rockies?

To find answers, AFT has sponsored a series of research projects to investigate the competition for land in America, especially how the choices being made by private landowners—affecting agricultural lands, cities and the environment—are being influenced by the policy decisions of government. This report, the third in a series, focuses on the competition between working ranches and development of ranchettes and recreational facilities on the private mountain meadows that have supplied essential cattle forage for generations. It summarizes a more detailed technical research paper prepared at our request by two resource economists at Colorado State University. To obtain a copy of the technical paper or learn more about the Competition for Land project, we invite you to visit AFT's Web site at **www.farmland.org.**

Edward Thompson, Jr.
American Farmland Trust
Senior Vice President for Public Policy

Executive Summary

Cattle ranching has throughout history been the heart and soul—and the economic mainstay—of the American West. Today, however, ranching in the Rocky Mountains is being transformed from a commercial activity into a lifestyle or pastime; a mere backdrop for outdoor recreation and the development that has followed it into the scenic valleys and foothills. Yet, cattle raising in the 32 counties comprising Colorado's *mountain* region still contributes one-eighth of the state's total agricultural output and employs one out of five agricultural workers in the state. And precisely because it is an activity that leaves the scenic landscape relatively untouched, the economic and social importance of ranching to the state, its people and its many visitors, goes well beyond the production of beef.

But this is all in jeopardy. In Colorado and elsewhere in the Rocky Mountain region, highly lucrative second homes, ski resorts and other recreational developments, and so-called "ranchettes" are competing for the land that traditionally has supported commercial ranching. The prices that developers and newcomers are willing to pay exceed the agricultural production value of the land by 30 to 100 times. This outcome is not merely a function of the free market at work. Powerful demographic forces and rising public demand for recreation underlie the region's transformation. Yet government policy decisions have a pervasive influence on the market for land, and thereby also contribute to the proliferation of rural sprawl and to the decline of commercial ranching.

This conclusion is based on a study of policies affecting land use patterns in two fairly typical Colorado counties, Routt and Gunnison, conducted by Colorado State University economists. More specifically—

- Private valley lands near ski resorts are prized as non-commercial ranchettes. The market price is potentially well above the $2,500 per acre paid for large ranches. It is this virtually unconstrained market pressure, encouraging the sale of working ranches to absentee owners, that is seen as the principal threat to the ongoing viability of the traditional ranching communities.

- Ironically, it is the presence of adjoining public lands—very scenic, but not as agriculturally productive—that drives up the price of private, valley-floor land for residential and recreational ranch use by guaranteeing that open space, wildlife habitat and other amenity values will be preserved.

- Colorado's land use policies generally facilitate recreational development by minimizing the holding costs of land speculators and by making it possible to subdivide land into parcels larger than 35 acres virtually without review or approval by any government body.

- The most significant counterweight to policies that facilitate rural sprawl in Colorado's mountain valleys is the conservation easement acquisition program of Great Outdoors Colorado (GOCO). It offers the only financially attractive alternative to the sale of ranches for non-commercial purposes, but must be expanded to realize its full potential.

- With development pressures threatening the future of commercial ranching in the county, leaders and citizens of Routt County came together in a consensus-building process to prepare an open space protection plan using voluntary conservation easements and other innovative strategies to protect a core of ranchland. This could become a model for broader efforts to maintain ranching in the Rockies.

To lend further perspective on our research, we asked a group of local public and private sector leaders to review our draft report and to come together to discuss its contents and implications. Generally, they pointed to the absence of a political consensus as the biggest obstacle to significant reform of the ground rules for development in Colorado. Yet there was broad agreement that, while such a consensus is being built, there is a need to take action immediately if traditional commercial ranching is to survive in the Colorado Rockies. Among the recommended actions that could be taken now are—

- Adopt an official state policy favoring the conservation of ranchland and maintenance of commercial ranching. Such a policy should require review of, and changes in, state programs and actions that could lead to unnecessary parcelization of ranchland or decrease the competitiveness of cattle raising.

- Educate the public about the importance of public lands to the survival of traditional commercial ranching in Colorado and its contribution to the Rocky Mountain "experience" while providing additional incentives to ranchers for improving environmental management of public rangelands.

- Promote a broader conception of the business of agriculture in Colorado by helping commercial ranchers find new ways of capitalizing on the amenity values of public lands without resorting to the kind of development that forecloses commercial cattle raising.

- In other Rocky Mountain communities, provide incentives, technical assistance and peer guidance to promote the kind of collaborative planning and ranchland protection process pioneered by Routt County and furthered by the Colorado Cattlemen's Agricultural Land Trust.

- Significantly increase the commitment of Great Outdoors Colorado conservation easement acquisitions funds to commercial ranchland in communities that have adopted variations of the Routt County model.

Actions that could have even more dramatic results, but which will be controversial, deserve further study to build consensus for reform, including—

- On a very limited and selective basis, consider opening additional public lands with low agricultural and environmental amenity values to recreational and ranchette development to take some of the market pressure off valley floor meadows.

- Consider a change in the state tax code to capture revenue when agricultural lands are developed, so as to realize some public benefit from the gains of land speculators who capitalize on the amenity values of public lands. Earmark the proceeds for GOCO easement acquisitions.

- Consider ending or reducing the federal mortgage interest deduction for second or recreational homes over a certain value, or impose a state surcharge to recapture the subsidy this tax break provides to large second homes and non-commercial ranchettes.

- Consider allowing local jurisdictions, at their option, to increase the size of parcels that escape planning and subdivision review from 35 acres to larger, commercial ranch-sized tracts that would truly discourage the formation of non-commercial ranchettes. To protect ranchers' equity, consider grandfathering the vested right to subdivide parcels at the currently permitted density for purposes of setting future prices for the acquisition of conservation easements or the transfer of development rights to private or public land.

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How Public Policies Facilitate Rural Sprawl and The Decline of Ranching in Colorado's Mountain Valleys

Introduction

Cattle ranching has throughout history been the heart and soul—and the economic mainstay—of the American West. Today, however, ranching in the Rocky Mountains is being transformed from a commercial activity into a lifestyle or pastime; a mere backdrop for outdoor recreation and the development that has followed it into the scenic valleys and foothills. Yet, cattle raising in the 32 counties comprising Colorado's mountain region still contributes one-eighth of the state's total agricultural output and employs one out of five agricultural workers in the state. And precisely because it is an activity that leaves the scenic landscape relatively untouched, the economic and social importance of ranching to the state, its people and its many visitors, goes well beyond the production of beef.

But this is all in jeopardy. In Colorado and elsewhere in the Rocky Mountain region, highly lucrative second homes, ski resorts and other recreational developments, and so-called "ranchettes" are competing for the land that traditionally has supported ranching. The prices that developers and newcomers are willing to pay far exceed the agricultural production value of the land. Not surprisingly, although ambivalent about surrendering their way of life, many ranchers are eager to capitalize on the surging values by selling some or all of their land.

As this report helps explain, this outcome is not merely a function of the free market at work. Powerful demographic forces and rising public demand for recreation underlie the region's transformation. But just as significant are government policy decisions that have a pervasive influence on the market for land, and thereby also contribute to the proliferation of rural sprawl and to the decline of ranching. If Colorado and other states in the region want to alter this outcome, the people of the state, through their elected and appointed officials, will have to change the policies that are driving it.

This conclusion is based on a study of policies affecting land use patterns in two Colorado counties, Routt and Gunnison, conducted by Colorado State University economists under the sponsorship of American Farmland Trust. The study is part of a larger effort by AFT to investigate how public policy affects the use of land and its environmental, social and economic consequences.

How We Did the Study

The hypothesis of this study is that public policy decisions have a significant impact on patterns of land use by sending economic signals to private landowners. Government taxing, spending and regulatory decisions can encourage or discourage certain land uses by making them more or less profitable. Though few economic, social or demographic forces are within government's control, the "free market" is much less free than conventional wisdom might suggest. The implication, then, is that if we want to change land use patterns, we must change public policy.

In Colorado, we tested this idea by asking two resource economists from Colorado State University, Drs. Robert Kling and Edward Sparling, to identify public policies that influence the competition for open space. They looked at ranching, on the one end of this competition, and outdoor recreation, second home and recreational developments, and rural estates, on the other. We asked them to describe and quantify where possible the effects of selected policies on land values and to consult with ranchers and other regional stakeholders. The preliminary findings of this research were reviewed and discussed by a group of state officials, ranchers, conservationists, developers and representatives of other interests brought together by American Farmland Trust.

Drs. Kling and Sparling reviewed the academic literature, the 1992 Census of Agriculture and county land records. They interviewed ranchers and local officials, and collected and analyzed data on land use and ranching. They selected two counties, Routt and Gunnison, for in-depth study. These two counties, each containing a popular ski resort, are experiencing the kind of rapid growth evident in accessible, scenic places throughout the region. They were chosen because the researchers, at the start, believed they provided good illustrations of similar forces at play yet with contrasting approaches to growth management. Discussion with local officials bolstered by the researchers' analysis soon indicated that the goals and plans of the two counties, in fact, were not as dissimilar as first thought.

This report summarizes the researchers' technical paper, *Competition for Ranch Lands: Public Policy and Ranching versus Recreation in the Colorado Rockies,* as well as the stakeholders' reactions to its findings. Despite its ambitious scope, this research was necessarily limited by time and funding. Federal and state policies in managing public lands, topics worthy in their own right for study, were considered only to a limited extent. Therefore, the research should not be seen as comprehensive or the final word on the land use challenges facing the region. Nonetheless, it is, we hope, a significant contribution to the public dialogue about public policy, land use and the future of the Rocky Mountain region.

Overview of Trends

Ask a group of Colorado ranchers what's troubling them and their first reaction will probably be about heavy-handed government regulation that makes grazing on public lands more difficult and more costly, about rules governing endangered species, water quality, wetlands—a litany of familiar complaints about environmental laws. Press harder, however, and you will hear a deeper concern: about rapid development and how outsiders are paying huge sums of money for certain ranchlands, making it enormously appealing for struggling ranchers to sell a piece of their holdings, if not the entire spread. And you also will hear about the clash of cultures between traditional residents and the newcomers. It all comes down to this: development is transforming the region and the traditional way of life that ranchers have enjoyed for decades.

Consider the context: powerful demographic forces are operating in the region. Population in the Rocky Mountain states has been growing rapidly, at a much faster pace than the nation as a whole (Figure 1). Many newcomers to the region are transplants from California and elsewhere, who are escaping congestion and other urban ills or coming to secure their own piece of paradise. They may be retiring. They may be telecommuting. They may be affluent enough that they don't have to work for a living.

It all comes down to this: development is transforming the region and the traditional way of life that ranchers have enjoyed for decades.

Figure 1

Population Data for the Mountain States

	Population 1980 (1,000)	Population 1990	Population 1998 (est)	% Change 1980-1998	% Change 1990-1998
Colorado	2,890	3,294	3,971	37	21
Gunnison Co.	11	10	12*	9*	20*
Routt Co.	13	14	17*	31*	21*
Region Total#	11,372	13,659	16,813	48	23
U.S. Total	226,542	248,765	270,299	19	9

* County estimates

Includes Arizona, Colorado, Idaho, Montana, Nevada, New Mexico and Wyoming.

They are settling in places that are accessible because of state or interstate highways or because airport improvements have made commercial jet service possible. They are flocking, especially, to those places that have amenity values—scenic landscapes and abundant opportunities for skiing, camping, backpacking and other outdoor activities.

Land values, of course, are a complex result of the inherent character of the land, as well as of the private investment an owner might bring in improving or working the land. Land with spectacular scenery or close to favorite recreational opportunities will be worth more. Affluent newcomers and recreational land developers are bidding up land values with these characteristics to a point where they far exceed the agricultural production value of ranchland. Working ranches are being sold at prices from 30 to 100 times their production value.

Outsiders often seek out ranchland adjoining public lands, which are in abundance throughout the West (Figure 2). Whereas most of the ranches need access to public lands for summer and fall forage in order to remain viable, the newcomers value the public lands for something different—as open space and wildlife habitat, and for their other conservation and recreational values. The newcomers settle on what once were private valley ranches, but the fact that the high-country public lands are more or less permanently dedicated to open space is what attracts them. Yet there is no charge for this "use" of the public lands, at least nowhere near what commercial ranchers are charged for their agricultural use.

Figure 2

Percentage of Public Lands in the Rocky Mountain States

Arizona	47
Colorado	36
Gunnison Co.	80
Routt Co.	45
Idaho	62
Montana	49
Nevada	83
New Mexico	32
Utah	64
Wyoming	28
Mountain States Average	53
Total U.S. (excluding Alaska)	11

Whereas most of the ranches need access to public lands for summer and fall forage in order to remain viable, newcomers value the public lands as open space. Yet there is no charge for this "use" of the public lands.

The pressure to transfer private ranchlands out of the hands of traditional ranching families is increasing. Colorado's land use policies generally facilitate development by keeping the holding costs of speculators to a minimum and by making it possible to subdivide land into parcels larger than 35 acres without review or approval by any government body. Under state law, only subdivisions of less than 35 acres require county planning review. The absence of more stringent land use policies has already been capitalized into the rapidly rising land values.

Even more pronounced than the ranchette phenomenon is second home and recreational development, a primary impetus for transformation of the landscape. Along with those drawn to Colorado to retire or work are those who come for leisure and recreation. The public's appetite for outdoor recreation seems insatiable. For example, according to a national survey, between 1982 and 1995, there was a 58 percent increase in participation in downhill skiing, 67 percent in backpacking, 34 percent in snowmobiling and 44 percent in off-road driving. All of these activities are especially popular in Colorado's mountain region. Many of the readily accessible, scenic valleys have been developed with resorts and the accompanying second home real estate developments that yield greater profits than the ski facility itself.

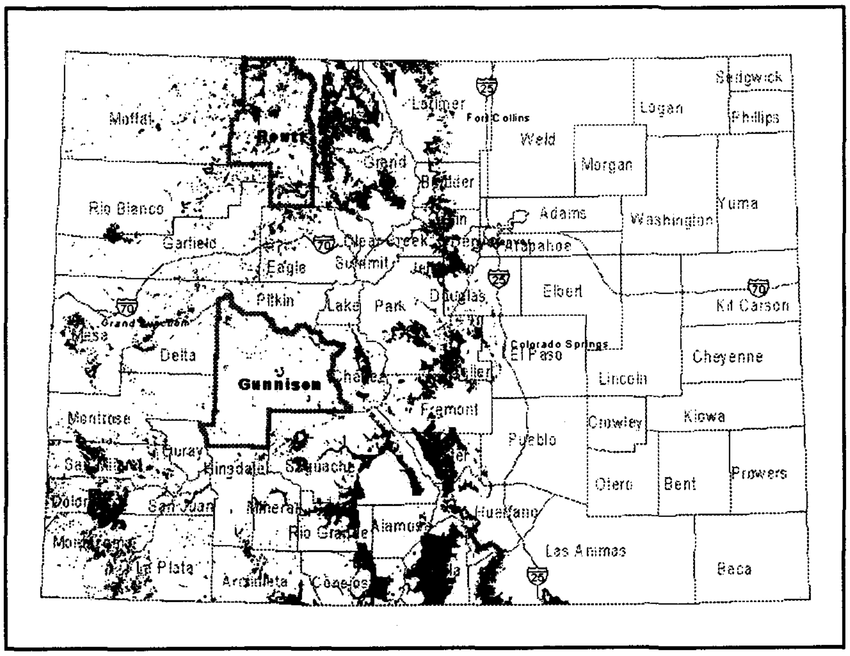
The rapid escalation of land values and the ease of converting land are making it harder for ranchers to hold on. Ranchers, too, have depended on the privately owned valley meadow lands, which provide about 45 percent of the winter forage they need. Without the hay from these valley meadows, the costs of feeding a herd, with imported hay, would rise dramatically. Some ranchers, of course, may welcome the sharp rise of the development value of their land. They can sell off 35 acres to finance a child's college education or to secure their retirement years. Yet as more newcomers buy working ranches, the critical mass for maintaining a ranching community erodes. And more conflicts erupt. Examples include the competition for scarce water supplies between irrigated pasture and snow-making at ski resorts (as well as inter-basin transfers to serve development), and between grazing and hiking or camping on public lands.

Study Sites: Routt and Gunnison Counties

Professors Kling and Sparling studied two Colorado counties in depth, Routt and Gunnison (Figure 3). Both include pristine alpine settings and relatively few people. Both have nationally known ski resorts dating to the 1960's, Steamboat Springs in Routt and Crested Butte in Gunnison. Both also offer world-class hunting, fishing and back country experiences, including wilderness and wildlife areas. Neither is conveniently served by an interstate highway, but both have airports with commercial jet service. Agriculture in both counties revolves around grazing livestock, chiefly beef cattle. Both have fertile mountain river valleys that produce irrigated meadow hay. Public lands, which are critical to ranchers, are a dominant feature in each county.

Figure 3

Study Counties and Mountain Valley Ranchlands



Shaded areas are an approximate representation of Colorado's mountain valley ranchlands between 6,000 and 11,000 feet elevation. Because of the map scale, tracts of ranchland smaller than 1,550 acres are not visible. Thus, Gunnison County (one of our case study sites) has more ranchland than is apparent from this map.

Both counties also have seen a decline in agriculture over the past generation. A few decades ago, their economies were based completely on commercial use of natural resources, including agriculture, timber and mining. Today, recreation is on the rise. The payroll of the recreation sector is several times larger than agricultural sales, which indicates an economy in transition. In this respect, the sample counties are typical of what is occurring throughout the region. Aspen, in Pitkin County, is perhaps the most advanced and extreme example of the change, with places like Montrose County undergoing a more recent transition.

The effect of public policies on ranch owners depends on their particular circumstances. To characterize ownership patterns, our researchers conducted a census of ranches over 250 acres in Gunnison County and those over 250 acres in Routt County, classifying ranches by type of owner (Figure 4).

Figure 4
Profile of Ranches in Gunnison & Routt Counties (Kling & Sparling, 1998)

Gunnison County	Ranches	Percent	Acres (1,000)	Percent
Locally owned	122	47	163	47
Working ranches	67	26	112	32
Leased/avocation	55	21	51	15
Absentee owned	134	52	189	54
Working ranches	17	7	45	13
Leased/avocation	117	45	144	41

Routt County	Ranches	Percent	Acres (1,000)	Percent
Locally owned	176	66	241	44
Working ranches	66	25	169	31
Leased/avocation	110	41	72	13
Absentee owned	92	34	304	54
Working ranches	24	9	178	33
Leased/avocation	68	25	126	23

While ranchers rely on high country public lands grazing for 20 to 30 percent of their livestock feed, their private, irrigated valley hay meadows supply as much as 45 percent.

Only a quarter of the ranches and a third of the private ranchlands in both counties are owned by local people and operated as agricultural businesses. This means the ranching community is now concentrated in a few dozen ranches in each county. These are the classic ranches, the backbone of the ranching community. The shift out of this category since the 1950s has been substantial, according to the research team's census. More than 60 percent of the privately owned ranchland, by acreage, is not managed for cattle ranching although this land could be providing a supply of rental grazing land for the remaining working ranches. What is this land owned by people from outside the county used for? It could be second or vacation homes, it could signal the land is being held for speculation, or both.

In the 1992 agriculture census, in both counties, more than 90 percent of irrigated land, the hay meadows, was still owned by working ranches. These private lands are an important source of cattle feed, providing about 45 percent of the supply, according to the researchers' tally. Ranchers also depend on public lands, which supply 20 to 30 percent of their cattle feed. The researchers noted that private meadow lands are not yet being converted to ranchettes at a significant rate. But they are directly in the path of development. And the market price for this land is undoubtedly well above the $2,500 per acre paid for large ranches. The difference is a direct gauge of development pressure. It is this market pressure, along with the sale of working ranches to absentee owners—even though they represent voluntary sales by ranch owners cashing out—that is seen as the principal threat to the ongoing viability of the ranching communities in Routt and Gunnison counties.

Findings: The Public Policies That Facilitate Market Trends Toward Rural Sprawl And Non-Commercial Ranchettes Are Much Stronger Than Those That Help Maintain Commercial Ranching

As their principal objective, the researchers were asked to identify and examine policies that either encourage the demise, or promote the continuation of commercial ranching. In general, they found that the former are much stronger and influential than the latter.

The paradox of public lands in the Colorado Rockies, and probably throughout the Intermountain West, is that the more they are protected, the greater the development pressure on private ranchlands.

Policies Favoring the Conversion of Private Ranchlands to Ranchettes and Recreational Development

Public Lands Policy

The paradox of public land management in the Colorado Rockies, and almost certainly throughout the Intermountain West, is that the protection of public lands tends to increase development pressure on private ranchlands. The Bureau of Land Management, U.S. Forest Service and other agencies holding public lands have adopted relatively restrictive policies toward development. The unintended but important side effect is to encourage the development of private ranchlands. The maintenance of the public domain as open space—spectacularly scenic open space—has contributed significantly to the demand for leisure and recreational development in the region. At the same time, the restrictions on development of public lands have limited the potential supply of developable land in the region, which, in the face of the demand created by scenic open space and recreational opportunities, further increases the development value of adjoining, private valley ranchlands.

Property Taxes

The relentless pressure for conversion of private land into ranchettes and resorts is abetted by tax and land use policies. Although a number of taxes figure in landowners' decisions about the use of their land, a couple stand out in facilitating the conversion of ranchlands to other uses. Agricultural land is taxed for its agricultural use, rather than its potential for development, which is considerably higher. This helps retain ranchland in commercial ranching. But it also facilitates land speculation and development. Unlike other states that offer this tax benefit to landowners, Colorado does not require any payback of taxes when agricultural land is sold for development. The effect is to reduce the cost of land ownership for those who are simply holding it in anticipation of subdivision and development.

Further, purchasers of non-commercial ranchettes are rewarded by a liberal definition of agricultural land for tax purposes. Ranchettes that might have but a token agricultural use nonetheless are classified as agricultural and receive the property tax break, even though the parcelization of working ranches arguably undercuts the original purpose of use value taxation, namely to avoid hardship to those whose livelihood depends on commercial agricultural use of the land. Moreover, it is possible that proliferating ranchettes demand proportionately more public services than larger, commercial working ranches, so that extending the tax break to them contributes to a tax imbalance. The net effect is to make it cheaper for non-farmers to buy and keep ranchettes, and to shift the cost of public services from ranchette owners onto commercial ranchers and others who live and work in the mountain valleys.

The value of the property tax break enjoyed by ranchette owners can be more than a quarter of the land's purchase price!

For example, if a ranchette were purchased at $2,000 per acre when its agricultural value was less than $400 an acre, with a typical property tax rate of 15 mils, the annual tax savings would be $24 per acre on the $1,600 differential. Capitalized at 5 percent, the value of this break is $480, or *nearly a quarter of the purchase price!* It is not uncommon for river valley ranchland to sell at more than $3,000 per acre, which would translate into even greater savings to ranchette owners.

Income Taxes

Another tax that facilitates the conversion of ranchland to second homes or ranchettes is the federal income tax deduction for mortgage interest. Like the property tax break, this deduction enables buyers of second homes or ranchettes to afford to pay more for these properties, contributing to the inflation of land prices and promoting the ranchette phenomenon. Take the example of a 35-acre ranchette. Assume the buyer could afford to put $15,000 down and pay a monthly mortgage of $500. At a purchase price of $2,500 per acre, the buyer could afford to pay almost $90,000 for the property. With the mortgage interest deduction, however, the purchaser could afford to pay a third more—or about $120,000—without having it cost him or her an additional penny.

The home mortgage deduction is a highly successful public policy intended to promote widespread home ownership. But its contribution to the demise of farming and ranching is an unintended side effect that has no apparent relationship to the original goal of this policy.

While the home mortgage is a highly successful public policy intended to promote widespread home ownership, its contribution to the demise of farming and ranching is an unintended side effect that has no apparent relationship to the original goal of this policy. The extension of this deduction to large second homes and ranchettes—the current limit on mortgage deductibility is $1 million worth of debt on two residences—represents a significant subsidy to the parcelization and development of ranchlands into luxurious, recreational housing. Combined with the effect of property tax breaks for ranchettes, the mortgage interest deduction is a powerful force contributing to the demise of commercial ranching in the Colorado Rockies and elsewhere.

Land Use Regulation

Environmental regulations related to wildlife habitat, grazing, water pollution and water management have preoccupied the attention of ranchers and environmentalists alike. But our researchers found that, while ranchers cited these as problems, they were more concerned about the pressures of the land market and the threat of land parcelization and development than about the nuisance of environmental rules.

This concern is prompted by a 1972 Colorado law, which has allowed virtually unlimited, cost-free subdivision of ranchland, if the subdivided parcels are at least 35 acres in size—an amount of land that far exceeds what is needed, strictly speaking, for residential use in a rural area. Only subdivisions smaller than 35 acres are subject to review by county land use planning commissions. And, because such a review can entail significant time and expense to landowners, and alert county authorities to a growing demand for costly public services, there is a clear incentive to subdivide ranchland into 35-acre ranchettes.

Ranchers appear to be more concerned about the threat of development than about the nuisance of environmental rules.

Soon after this law was enacted, Gunnision County, in particular, witnessed a rash of 35-acre subdivisions. At the time of this study, most of the parcels remain unsold. But when market conditions are ripe, the potential exists for rapid conversion of ranchland and the accompanying rise in demand for public services.

The law has unleashed unintended consequences for working ranches that neighbor non-commercial ranchettes. Among these are complaints about livestock as a nuisance, the absence of any incentive to maintain the irrigation system essential to productive pastures—a task traditionally seen as the collective responsibility of landowners—and increased demand for such public services as plowing roads to remove snow. Routt County ranchers report that newcomers monopolize snow removal, expecting perpetually open driveways. Working ranches receive much less plowing than had been customary. Ranchers describe 35-acre estates as "too small for efficient grazing, too big for proper maintenance." Yet few of them appear willing to accept limits on the subdivision of ranchland into such estates, at least, not without compensation.

In the mid-1990s, Governor Roy Romer's administration sought to advance smart growth and development options for the state. One proposal would have changed the 35-acre rule to permit counties to approve or disapprove of subdivisions above this threshold. But the opposition of landowners was among the reasons consensus on this proposal was not reached and it was not adopted.

Thirty-five acre ranchettes are too small for efficient grazing, too big for proper maintenance. Yet, only subdivisions smaller than 35 acres are subject to review by county land use planning commissions.

Policies Favoring Retention of Commercial Ranching

Policies favoring the retention of commercial ranching are not nearly as strong as those favoring parcelization of the land into ranchettes. Yet, recent public and private initiatives offer hope that it can at least be slowed.

Property Taxes

As suggested above, the current system of property taxation of ranchland helps keep commercial ranching viable by avoiding the hardship that taxes on the full market value of the land would impose on working ranchers. Like many other states, Colorado assesses land in agricultural use at its value for ranching, rather than its value for estates or more intensive development. This is not only helpful, it is also fair, since working ranches, like most agricultural operations, demand few costly public services. However, this tax regime works in favor of commercial ranching *only* as long as ranchers do not wish to subdivide and sell ranches for recreational purposes. Then it very definitely favors parcelization.

Income and Estate Taxes

The retention of ranchland in commercial ranching is somewhat encouraged by federal and state income tax incentives for the voluntary donation of conservation easements. These include a federal income tax deduction for property value relinquished due to easement limitations on development, and the exclusion of a portion of the value of restricted ranch property from one's taxable estate. A similar state income tax deduction was recently modified by the Colorado Legislature to permit a limited state income tax *credit* that offers even greater value to landowners who donate easements or sell them at less than full market value. Taking advantage of these incentives with proper planning, it is quite possible for a ranch family to recover more than half of the reduction in property value that typically occurs when easements limit land development. These tax breaks offer ranchers an attractive alternative to subdivision and development as a means of recovering equity in their property. But to the extent that such incentives may also be available to owners of non-commercial ranches—an easement protecting a scenic 35-acre ranchette would almost certainly qualify—their effect may actually be to encourage parcelization by reducing the cost of purchasing recreational properties.

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Grazing Permits and Fees

A key policy that favors commercial ranching is the availability of grazing permits from federal land management agencies, notably the Forest Service and the Bureau of Land Management. These permits allow ranchers to use public lands as a source of seasonal feed for their animals at relatively low cost and with little risk. Most permit holders in the two study counties are local owners of working ranches who rely on grazing public lands for a significant share of their livestock feed—22 percent in Routt and 32 percent in Gunnison. Some critics contend that grazing permits subsidize ranchers. But others have pointed out that only the initial recipient of the grazing permit received a subsidy because the value of the permits tends to be capitalized into the price of the private lands with which they are associated, and are passed along to subsequent buyers.

Grazing permits are transferable, subject to approval by the federal agencies, and thus have a status similar to a property right. Changes in federal grazing regulations can and do affect the value of these permits. Thus, policy changes could be viewed by some as a "taking of property," though the courts tend to view grazing permits as a license or privilege, rather than an entitlement. The extent to which federal grazing permits are considered private property remains a contentious issue between those who hold permits and those who criticize public lands grazing policy for subsidizing ranching and degrading the condition of the range, wildlife habitat, and rivers and streams. While the issue remains controversial, ranchers' views about permits are hardly monolithic. In interviews for this study, one rancher said he did not use permits because of the range's poor condition while others reported successful collaboration with federal land managers to improve range conditions.

One thing, however, is clear: without access to public grazing lands, few if any ranches in the study counties—or, indeed, throughout the Rockies—could survive because of their great dependence on the forage that these lands provide. Our researchers calculated, for example, that the agricultural value of a grazing permit to the average Colorado rancher can be almost as great as the value of his or her private ranchland. If this value is reduced either by more restrictions on grazing or by higher fees, it will almost certainly mean additional pressure to subdivide and convert working ranches into recreational properties.

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Conservation Easement Purchases

The latest, and perhaps most promising, response to the growing competition for ranchland in the Colorado Rockies has been the advent of a state conservation easement purchase program. A conservation easement is a voluntary restriction on the use of land, limiting development with the intent of keeping it available for agricultural or other open space uses. Landowners are financially compensated for agreeing to the restriction, whether in cash, tax incentives or both. Easement purchases, and to a lesser extent, donations, allow ranchers to realize part of the development value of their land without seriously diminishing its agricultural value.

The Great Outdoors Colorado Trust Fund (GOCO) earmarks funds from state lottery revenues for the purchase of conservation easements. These purchases typically involve cost-sharing with counties and a partnership with nonprofit institutions that supply technical assistance or hold title to the easements. A very promising partnership is with the Colorado Cattlemen's Agricultural Land Trust, the first such organization in the nation to be established by an institution representing commercial farmers. To date, GOCO has acquired easements on about 31,000 acres of agricultural land, much of it in the Rocky Mountain valleys, at a cost of $32 million. Both Routt and Gunnison counties are making use of these funds to preserve ranchland open space. In these counties, the purchase price of conservation easements has ranged from $500,000 to $3 million per ranch, offering ranchers a significant incentive to resist subdivision of their land for ranchettes and other types of recreational development. Indeed, the purchase of conservation easements is, at present, the most significant counterweight to policies favoring non-commercial ranchettes.

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Cooperative Land Conservation

The growing popularity of conservation easements has been a stimulus to cooperative ranchland conservation initiatives in some Colorado ranching communities, most notably Routt County. With the spur of development pressures that threatened the future of ranching, ranchers, extension agents and other leaders of Routt County came together in a consensus-building process, which promised mutual benefits to the variety of stakeholders. They reached consensus on an open space protection plan emphasizing the preservation of private irrigated meadows, wildlife habitat and scenic amenities. Relying on state planning policy, the plan calls for expedited approval of subdivisions of less than 35 acres that advance the plan's basic objective by arranging housing and commercial structures so that they are concentrated in areas less desirable for commercial agriculture and which are not environmentally sensitive. The open space plan also relies on conservation easement purchases to assure that ranchers receive full value for lands that are not developed. Many agricultural, conservation and government leaders who were interviewed by our researchers agree that cooperative land conservation, which achieves a creative synthesis of policies favoring the perpetuation of commercial agricultural use of ranchland, offers perhaps the best hope for averting the "last roundup" in the Colorado Rockies.

Conclusions and Recommendations

The competition between recreational development and the continued viability of ranching in the Rocky Mountain region is a complex phenomenon. Public attitudes now seem to favor wildlife and recreational uses of public land over their commercial agricultural use. Water issues are becoming even more prominent, including new demands for greater in-stream flows to maintain fisheries and better maintenance of riparian habitat. The price of beef fluctuates significantly and international competition in the beef industry has increased dramatically, in part because of trade liberalized by the North American Free Trade Agreement. Each factor in its own way is playing a significant role in the transformation of the region. Combined, they present a formidable challenge to agriculture.

However, at the core of the transformation occurring in scenic, accessible places across the Rocky Mountain states is rapid population growth and in-migration. Mountain and valley landscapes, and abundant opportunities for outdoor recreation, are a powerful magnet for people. The result is that an economy and culture once dominated by traditional commercial activities such as ranching, farming, logging and mining, is giving way to a new economic order based on outdoor recreation, second home development and the subdivision and settlement of the countryside by affluent newcomers. More than anything, it is the land that is being transformed, as its value for recreational development far exceeds the return it can produce from raising cattle.

The development value of ranchland is bolstered by the immense amenity values of open space, spectacular mountain and valley views, and proximity to a growing array of outdoor recreational opportunities, from skiing and snowmobiling to backpacking and bird watching. These amenity values are abundant on the public lands that also make private ranching viable by providing seasonal forage. Ironically, amenity values are also high on the privately owned valley meadows that ranchers have relied on for winter hay. Because much of the high country public land is off-limits to development, it is the much-scarcer private valley meadows—the core resource for ranching in the Rockies—that are most at risk of development.

While scenery and recreational demand drive the market for ranchland in the Colorado Rockies, public policies have a strong influence on the pace, character and location of development. Generally speaking, they facilitate ranchettes and recreational development by subsidizing them and taking a *laissez faire* approach to the subdivision of private land.

Some policies do help traditional, commercial ranching survive. Property taxes on ranchland are commensurate with their relatively low agricultural return. Estate tax reform has considerably lessened the burden on ranchers. Grazing fees also appear proportional to the return ranchers can earn from their use of public lands. Environmental policies affecting agriculture do not appear as onerous as conventional wisdom would have it. Conspicuously absent, however, is an official state policy favoring the encouragement of commercial ranching and conservation of ranchland. Instead, Colorado appears to have a *de facto* policy of promoting the development of ranchland and, by implication, the demise of ranching in the Rocky Mountains.

While scenery and recreational demand drive the market for ranchland in the Colorado Rockies, public policies facilitate ranchettes and recreational development by subsidizing them and taking a *laissez faire* approach to the subdivision of private land.

Viewed as a whole, the state's policy framework facilitates the subdivision of ranchland into recreational estates and ranchettes, exerting a much more powerful influence than those policies that help livestock agriculture survive, making development—which hardly needs the encouragement—more, not less competitive with commercial ranching. The same property tax structure that benefits commercial ranchers also benefits what some ranchers call "Ralph Lauren cowboys," lowering the cost of acquiring and holding land. In Colorado, unlike in some other states, there is no tax on the conversion of agricultural land. Even more important may be the deductibility of mortgage interest on second homes—no matter how big or where they are located—which constitutes perhaps the biggest subsidy of all to recreational development. Meanwhile, federal land management policies result in the concentration of much of the demand for development on private mountain valleys rather than the more abundant and less productive foothills of the high country. And Colorado's policy of allowing the subdivision of land into 35-acre ranchettes, practically without limit or planning review, virtually guarantees that the Rocky Mountain valleys and foothills will be carved up into pieces that are, in the words of one rancher, "too small for efficient grazing, but too big for hobby ranchers to properly care for." Along with parcelization of the land comes deterioration of the infrastructure of commercial agriculture and conflicts with new neighbors who don't understand cattle raising.

If there is a ray of hope in this otherwise cloudy scenario for commercial ranching, it is that ranchers themselves are taking the initiative to chart an alternative future for their land and livelihood. The cooperative planning process pioneered by ranchers in Routt County—concentrating development to minimize intrusion on ranchland, while maintaining the agricultural core—demonstrates that the demand for recreational development can be accommodated without a total transformation of the landscape, the ranch economy and the culture of the Colorado Rockies. This kind of community-based process of conserving ranchland by reconfiguring development is made more attractive to ranchers by the GOCO purchase of conservation easements program. By offering landowners a competitive alternative to subdivision and development as a means of recovering the equity in their property, it has become the single most powerful policy in the arsenal of those who believe traditional ranching should be kept alive. But easement purchase dollars, which are scarce compared to the potential demand, would go much farther if the tax and other subsidies to ranchette development were reduced, eliminated or targeted.

In summary, policies facilitating the parcelization of ranchland for recreational development significantly outweigh those that help maintain commercial ranching.

Colorado appears to have a *de facto* policy of promoting the development of ranchland and, by implication, the demise of ranching in the Rocky Mountains.

Recommendations

Based on our analysis of the competition between commercial cattle ranching and recreational estate development in the Colorado Rockies, AFT suggests that the following steps be taken to restore the competitive balance between these uses and, thus, help traditional ranching to survive.

Among the recommended actions that could be taken now are—

- Adopt an official state policy favoring the conservation of ranchland and maintenance of commercial ranching. Such a policy should require review of, and changes in, state programs and actions that could lead to unnecessary parcelization of ranchland or decrease the competitiveness of livestock production.

- Educate the public about the importance of public lands to the survival of traditional ranching in Colorado and its contribution to the Rocky Mountain "experience," while promoting environmentally sound agricultural use of public lands with additional incentives to maintain the ability of commercial ranches to remain competitive with recreational use and development.

- Promote a broader conception of the business of agriculture in the region by helping commercial ranchers find new ways of capitalizing on the amenity values of public lands without resorting to the kind of development that forecloses cattle raising.

- Provide incentives, technical assistance and peer guidance to promote the kind of collaborative local planning and ranchland protection process pioneered by Routt County and furthered by the Colorado Cattlemen's Land Trust.

- Significantly increase the commitment of funds to Great Outdoors Colorado conservation easement acquisitions and concentrate them on

GOCO easement purchase dollars, which are scarce compared to the potential demand, would go much farther if the tax and other subsidies to ranchette development were reduced, eliminated or targeted.

working commercial ranchland in communities that have adopted variations of the Routt County model.

Actions that could have even more dramatic results, but which will be controversial, deserve further study to build consensus for reform, including—

- On a limited and selective basis, consider opening additional public lands with low agricultural and environmental amenity values to recreational and ranchette development to take some of the market pressure off valley floor meadows.

- Consider a capture provision in the state tax code when agricultural lands are developed to realize some public benefit from the gains of land speculators who capitalize on the amenity values of public lands. Earmark proceeds for GOCO ranchland conservation easement acquisitions.

- Consider ending or reducing the federal mortgage interest deduction for second or recreational homes over a certain value, or impose a state surcharge to recapture the subsidy this tax break provides to non-commercial ranchettes.

- Consider allowing local jurisdictions, at their option, to increase the size of parcels that escape planning and subdivision review from 35 acres to larger parcel sizes that would truly discourage the formation of non-commercial ranchettes. To protect ranchers' equity, consider grandfathering the vested right to subdivide parcels at the currently permitted density for purposes of setting future prices for the acquisition of conservation easements or the transfer of development rights to private or public land.

Appendix

Local Leaders Who Reviewed and Discussed the Report
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Peter Decker, former Colorado Commissioner of Agriculture
Niles Jordy, USDA Natural Resources Conservation Service
Tom Hoyt, Developer, McStain Enterprises
Susan Mutt, Colorado PIRG
Will Shafroth, Great Outdoors Colorado
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American Farmland Trust