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An Evaluation of the Douglas County Surplus and Property Taxes

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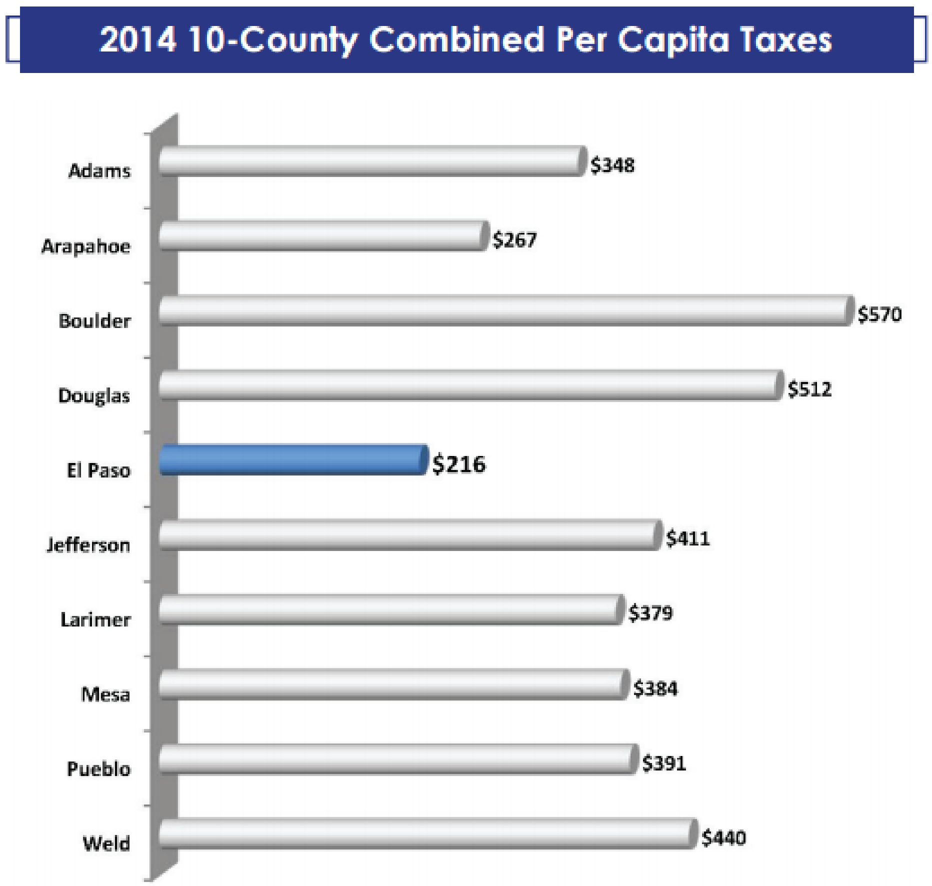
As a general rule every county should seek a surplus, but when does too much become a problem? Recently George Allen, CPA, and a Douglas County Republican District Captain addressed the County Commissioners regarding our County tax, spending, and balance sheet asserting that our mill levy should have been decreased years ago. Well those sound like fighting words, but good luck trying to change your property taxes, figuring out how they are calculated and who should change them. But that's just what I've done. Not because it's fun, but because the surplus that's derived from taxes has been made a political issue in Douglas County and its complexity compounded. The issue cannot be easily explained by politicians, accountants, realtors, financiers, sociologists, and even the county assessor; so I'll provide the perspective of an economist intended to make sense, but without making a recommendation, letting you decide. To understand how the mill levy is applied, your taxes calculated, and who's accountable for changing taxes refer to summary section at the bottom of this discussion.

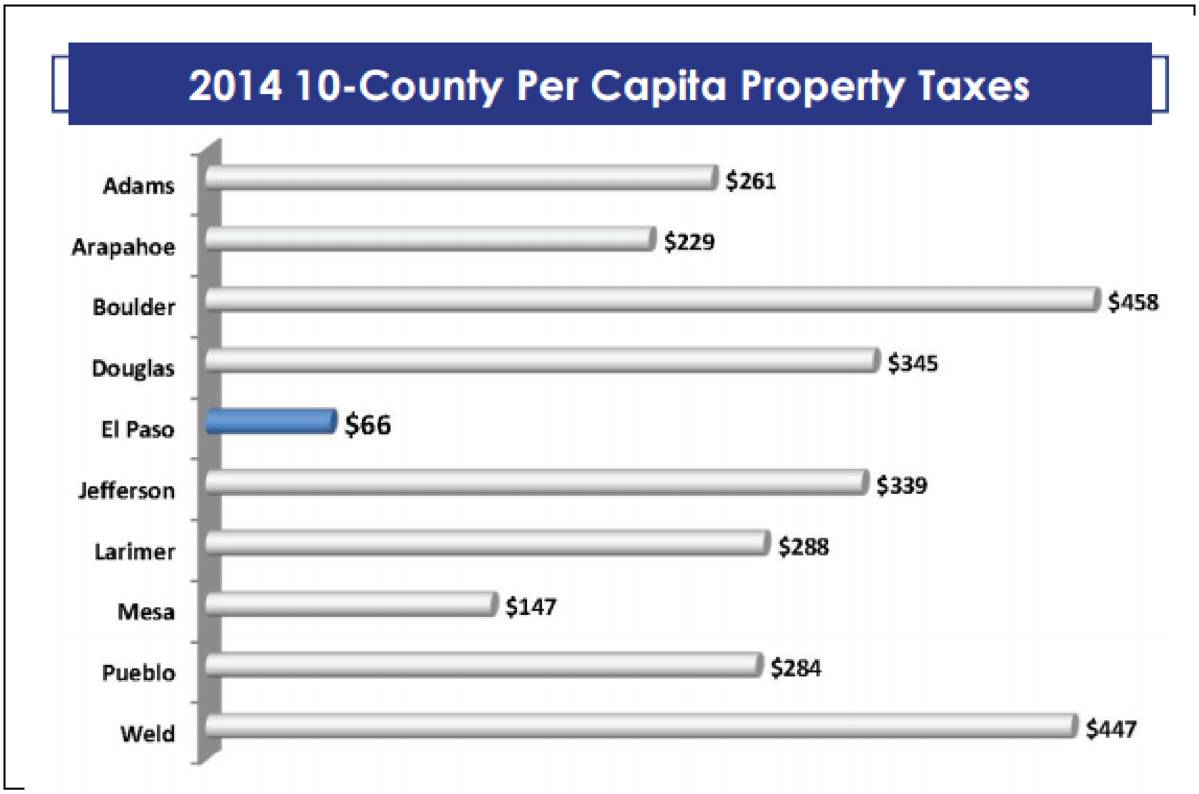
A surplus is intuitively important; just ask a squirrel during the winter, but it wasn't clarified until 1776 when Adam Smith, the father of modern economics, first defined a surplus in the "The Wealth of Nations". In a nutshell, a surplus is a keystone to a prosperous economy whether on an island, a nation, or in Douglas County. In terms of macro-economics a surplus for a free market system is created where people work, the economy grows with household income and savings greater than expenditures, exports greater than imports, unemployment and inflation kept in balance by demand and supply, and prosperity continues because savings have the effect of bringing interest rates down thus stimulating investment and additional growth. This is the way the American free enterprise system works and how a surplus is naturally created during periods of prosperity, but the surplus will grow and shrink with business cycles and can turn into a deficit during a recession.

Like many economic factors a surplus is not something you plan at the national, state, or county level; it's not a goal in and of itself. That said, and bringing the issue home to Douglas County, why is George Allen crying that a surplus is such a problem since it seems like a benefit? For one thing, he uses the figures below where it's troublesome to see that Douglas County is second only to Boulder County. Instead, George Allen argues that as a conservative he believes that we should have a mill levy more like El Paso County where any conservative clearly knows that nothing good can come from aspiring to be like Boulder … but really, El Paso?



There are a few things wrong with George Allen's information in the chart above, for one thing it's a composite of different types of taxes that for Douglas County includes four towns and cities, each with their own sales tax. Second, El Paso should not be used as a standard for any type of taxes. El Paso would love to have more sales tax revenue, but the population is too poor. Then consider the impact of recreational marijuana sales on Boulder taxes since legalized in 2014. This graph may be informative, but considering the economics of indirect influences, it demonstrates just how useless this graph is for a comparative analysis.

But seriously, decreasing the mill levy in Douglas County has been proposed so let's take a look at the argument and stay focused on property taxes using the chart below. Keep in mind that property taxes are ridged by design and not intended to be changed and that once lowered require putting the issue on the ballot to raise to previous levels again (Fools rush in where Angels fear to tread!) Douglas County is effectively tied with Jefferson County for fourth place, $345 to $339 per capita and an average needs to be used that's representative of Douglas County demographics. The representative average should be recalculated by discarding the two poorest counties El Paso and Mesa because Douglas County and the other counties on the graph neither compare nor aspire to be like them. Thus using a representative sample Douglas County is 4 percentage points away from the recalculated mean of $331, not bad.



Summary

The Douglas County Assessors web page Taxing Authorities attempts a high level explanation about who is responsible for determining property taxes, the values used to calculate, and the process repeated each year. The algorithm for the property tax you pay each year can be expressed as follows.

- Step 1: Each odd numbered year the state legislature can change the percentage, or assessment rate, on residential property which is currently 7.96 percent.
- Step 2: Taxing authorities determine the mill levies
- Step 3: The mill levies are submitted to the County Commissioners by Dec. 15 (who review and certify, but have no authority to change)
- Step 4: The County Assessor receives the certified mill levies by Dec. 22 who calculates the taxes due, for example:

(1) A home with an assessed value of $500,000 is multiplied by the above assessment rate of 7.96% gives $39,800
(2) The effective mill levy is determined based on where the property is located and the taxing authorities serving that location which add up to a single value to be multiplied by the above example of $39,800.
(3) And Voila! The tax due for the home is $4,000 determined using the assessment of $39,800 multiplied by the mill levy

Step 5: The County Treasurer receives the tax warrant from the County Tax Assessor to begin collection by Jan 10 after which the Treasurer cuts a monthly check for each taxing authority

It's important to understand the parties who can effect property taxes and it should be noted that the County Commissioners, notwithstanding the mill levy for operating Douglas County government, have no authority to change property taxes (they only rubber stamp the mill levies received). With regard to the mill levy the County Commissioners control, they only have authority to change the mill levy for the county government which is only one of 261 listed on http://www.douglas.co.us/documents/tax-authority-contact-list-2015.pdf (Helen Kellogg 303-660-7340 is the contact person.) Any change the commissioners make will have no impact on the county surplus (a.k.a. a reserve).

Authorities who can affect your property tax include:

1) County Tax Assessor – an elected position mandated by state law to assess property at 100% of market value as of the statutory Appraisal Date
2) Taxing authorities in a local area – the public school, police, etc. who collectively contribute to the mill levy, can lower, but because of the Colorado Taxpayers Bill of Rights (Tabor) cannot raise the tax rate without putting it on the ballot
3) State Legislature – each odd year can change the percentage (currently 7.96%) for the approved assessment rate
4) Voters – can put an issue on the ballot for increasing taxes, e.g., for a new (bond issue) or existing tax authority. Voter approval is not required to lower taxes

There are a number of arguments that can be raised regarding a property tax surplus, but in any case a balance budget for the county is required. Douglas County must pay off debts, that's not an option, and must provide a balanced budget. Douglas County has very little debt service, $4.5 million for 2014 (down from $24 million in 2012) or 1.86% of total 2014 expenditures.