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THE REAPPRAISAL PROGRAM FOR DENVER*

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Any attempt to discuss the reappraisal project within a 15 or 20 minute period requires at the outset a definition of the subject matter to be presented. The subject offers an unending opportunity to review each and every problem with which the assessor has struggled during the last 50 or 60 years. I wish to assure you now that I shall by-pass these problems and limit this discussion to the following three points: (1) The assessor's responsibilities and the favored taxpayer; (2) The need for the reappraisal program; and (3) The probable effect on your tax bill. I will discuss briefly each of these points.

THE ASSESSOR'S RESPONSIBILITY AND THE FAVORED TAXPAYER

State law places upon the assessor the duty to properly value for assessment purposes land, improvements, and personal property. This responsibility requires the assessor to encompass an extremely broad area of appraisal work as may be seen from the fact that the total assessed valuation of the three classes of property in Denver amounts to \$578,000,000, and the annual property taxes total \$30,000,000. The appraisal of land involves consideration of value-influence factors relating to many uses represented by areas such as: the single-family residential area, the multiple-family residential area, the down-town commercial area, the neighborhood shopping area, the business strip-streets (e.g. E. Colfax and S. Broadway), the warehouse district area, and the industrial area. In addition to these classes of land with their various subdivisions, there are other classes to consider, such as, tax-exempt property and land owned by public utilities used for non-utility or non-operating purposes.

The appraisal of improvements involves consideration of value-influence factors relating to at least 20 different use type buildings. These 20 classes must be further considered according to type and quality of construction. In addition to the numerous classifications of buildings for which proper assessment formulae must be developed, there is the ever present problem of depreciation, including physical, functional, and economic depreciation.

* An address made before the April 10 meeting of the Denver Bar Association. Because of the timeliness and importance of Mr. Willson's subject, the editors of DICTA decided to publish his remarks for the benefit of those members who were not present as a result of the mix-up on meeting dates.

The appraisal of personal property involves consideration of numerous problems relating to the evaluation of household goods, business furniture and fixtures, business machinery and equipment, and merchandise inventories. The time required merely to enumerate these problems, each of which requires a decision, would take considerable time and space; consequently, I will not burden you with the details.

The broad area of appraisal work outlined above requires many personal judgments on the part of the assessor. For this reason, the favored taxpayer presents an extremely difficult problem. The manipulation of assessed valuations has been a common practice wherever political machines have controlled the assessor's office. There are, however, several safeguards that the taxpayer of a community should insist upon. Among these are the requirements that (1) the assessor's office be required to maintain adequate records which show all changes in assessed valuations and the reasons for such changes; (2) the assessor's office be audited by an independent public accountant as carefully as the county treasurer's office is audited; and (3) the report of the independent public accountant be made a public record and full publicity given to all important changes in assessed valuations and exemptions together with the reasons for such changes.

This phase of the assessor's work has been outlined first so that they may be kept in mind later when the need for the reappraisal is considered.

NEED FOR THE REAPPRAISAL PROGRAM

The reappraisal program will cost the city of Denver approximately \$350,000. This amounts to approximately \$.85 per capita. Based on the work completed to date, it is apparent that taxes collected the first year from property that has never been on the tax rolls, or has been assessed at an extremely low value, will more than pay for the reappraisal.

Since we are spending \$350,000 on this project, the question of whether or not the program is needed should be analyzed. We believe that it is definitely needed for several basic reasons. In the first place, no systematic review of assessments has been made during the last 25 years. Property was reappraised in 1924 and 1925, and for the most part, these values have been carried on the tax rolls up to the present time. This means that in the vast majority of cases valuations have not been adjusted to reflect the changes caused by the economic development of the city. Another very important reason is that there is, in the assessor's office, an accumulation of clerical errors, both intentional and unintentional, resulting from 25 years of manual posting. More than 200,000 manual post-

ings are made each year without a mathematical control over the correctness of such postings. A third reason for the need of the reappraisal is that buildings have been constructed in Denver which have never been on the tax rolls. Improvements and additions have been made on properties which have never been reflected in valuations. Finally, the General Assembly, through the State Tax Commission, has ordered all counties to reappraise real property. Cooperating with this state-wide project will definitely benefit Denver.

A few actual illustrations will serve to emphasize the need for a systematic review of assessments. In 1948, we analyzed approximately 1,000 actual sales of real estate made in July and August of that year and related the sale prices to their respective assessed valuations. The study showed that the ratio of assessed valuations to sales prices varied from 7 to 110 per cent. This means that some very inequitable situations exist. Lots assessed years ago at \$12.50 are still being carried at that figure notwithstanding the fact that they are selling today for \$500, \$600, and \$700. A pair of lots on East Colfax sold several months ago for \$12,000; however, they were assessed at \$800, about six and one-half per cent of today's value. A piece of industrial land which was assessed for \$1,000 recently sold for \$22,000.

Large residential dwellings have been converted into apartment houses and rooming houses without any adjustment of the obsolescence which had been allowed on the building as a one-family dwelling. One such building sold a few weeks ago for \$72,000; it is assessed for \$5,300.

With respect to clerical errors over which there is no mathematical control, one year ago, a taxpayer called to our attention a clerical error of \$100,000 which increased his assessed valuation. The number of other clerical errors made in favor of the taxpayer during the last 25 years is impossible to determine. With regard to buildings constructed and not on the tax rolls, we have found, during the past few months, three warehouses which had been constructed in 1942, 1943, and 1946 and which had never been placed on the tax rolls.

These are only a few actual examples of the urgent need for a complete physical inventory of property in Denver assessed on a fair and uniform basis.

THE PROBABLE EFFECT ON YOUR TAX BILL

From the beginning of this project, Mayor Newton and I have stated that the revenue problem of the city will be entirely divorced from the reappraisal program. The project is strictly an equaliza-

tion program designed to place a uniform and equitable assessment on all property. The total assessed valuation within the city after the reappraisal, except for new construction, will not exceed the total assessed valuation of 1949. In other words, whereas the total valuation will not increase, the equalization within this total may increase the assessed valuation of certain property, and at the same time, the assessed valuation of other property will be decreased. The State Tax Commission, in its program for state-wide reappraisal, has selected the values of the year 1941 as the guide to be used in determining the level of assessed valuations for reappraisal purposes. Denver and other counties are following this recommendation.

It is difficult to state, except in a very general way, the effect of the reappraisal program on the assessed valuation of real property in Denver. However, we do know that certain changes will take place. For the majority of property owners, the reappraisal program will probably not change the assessed valuation of their property, either up or down, more than four or five per cent. However, taxpayers who have constructed garages, added rooms, or made major improvements on their property, without having secured a building permit, may expect to have these items added to their valuations. Persons who have purchased land in an area which has had considerable economic development in the last ten years should expect an increase in the assessed valuation of such land. Owners of large residential buildings which have been converted to commercial uses may expect an increase equal to the obsolescence factor which had been allowed in the past. Property owners who have been under-assessed because of clerical or other errors may expect to have these errors corrected. On the other hand, owners of property in areas which have declined on a relative basis may expect a reduction in valuation.

We have recognized for some time that the assessed valuations of merchandise inventories, machinery, and equipment, where fully assessed, have been unduly high when compared with real property. The reappraisal program will make adjustments on this class of property.

REVIEW OF ASSESSMENTS

Whatever the effect may be on your tax bill, I know that you are interested in the opportunities for reviewing the valuation. One of the basis policies of Mayor Newton's administration has been to encourage citizen participation in all functions of the city government. To accomplish this objective in the reappraisal project, three advisory committees have been appointed. These com-

mittees are (1) a general advisory committee (selected by 21 civic and professional groups) with a membership of 21 persons representing a cross section of the city's taxpayers, (2) a technical advisory committee consisting of six men experienced in Denver real estate values, and (3) a business, personal property advisory committee selected by the Colorado Society of Certified Public Accountants and the Denver chapter of NACA.

These committees will review the general program of the reappraisal project and also the more technical phases of the program. This procedure will give a representative group of citizens an opportunity to review the basic methods used in arriving at valuations generally.

Concerning the review of the valuations placed on specific parcels of property, a plan will be used which will provide for the notification of each property owner of the new assessed valuation that has been placed on his property. This notice will be given sometime between May 1st and July 1st of this year. Each taxpayer will be given an opportunity to review his assessment with the assessor's office. We plan to have the office open from five to nine o'clock two nights each week for the convenience of those who are unable to take time during the day. Our records will be open to the public. Any taxpayer who wishes to compare his assessment with that of his neighbor across the street or his neighbor next door may do so. The problem in this respect is actually very simple. Either we have made a mistake in determining the assessed value, or the valuation is correct. If we have made a mistake, we will want to correct it. If the valuation is correct, we will want the taxpayer to be satisfied that he has been treated on a basis that is uniform and equitable with other taxpayers.

COMING ATTRACTIONS

The June issue of *Dicta* will be devoted to articles on various aspects of the Law of Oil and Gas. It is possible that other issues in the near future will be devoted to such subjects as Criminal Law and Procedure, Domestic Relations, and (if it is the wish of *Dicta* readers) the Law of Flying Saucers.

The editors of *Dicta* are always appreciative of any suggestions from members of the bar with regard to particular phases of the law to which an issue of *Dicta* might be devoted. The accompanying suggestions of possible *contributors* are equally welcome.

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