

**Oversight of Metropolitan
Districts
Department of Local Affairs**

**Presented by
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Special Districts

- Originally enacted in 1963, repealed and reenacted in 1981 as the Special District Act
- Purpose
 - Provide services not otherwise available through county or municipality
 - Direct benefit/direct cost (taxes or fees)
- Examples:
 - Fire protection, water, sanitation, parks and recreation



State of Colorado
Number and Type of Special Districts

District Type	Through 1980 ¹	1981- 1989	1990- 1999	2000- 2004	Total as of Dec. 2004	% Increase From 1980 Through 2004
Metropolitan Districts	43	122	129	359	653	1419%
Fire Protection Districts	155	33	53	10	251	62%
Water & Sanitation Districts	107	9	7	5	128	20%
Sanitation Districts	68	10	1	0	79	16%
Water Districts	57	7	11	2	77	35%
Park & Recreation Districts	30	11	5	5	51	70%
Hospital/Health/Ambulance Districts	25	9	8	2	44	76%
Miscellaneous Special Districts	5	3	0	0	8	60%
Total Special Districts	490	204	214	383	1,291	163%

Source: Office of the State Auditor, Local Government Audit Division.

¹ Created prior to the Special District Act, Section 32-1-101, C.R.S., et seq., which was effective in 1981.

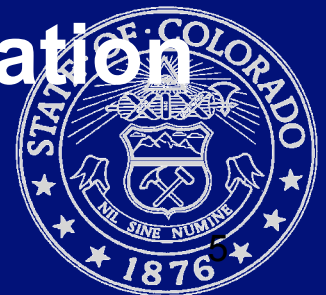
Metropolitan Districts

- Provides two or more services
- Typically formed by developers
- Used to finance infrastructure
 - **G.O. Bonds**
- Created by
 - **Eligible electors**
 - Minimum number
 - Authority
 - **Debt**
 - **Taxes**
 - **Board members**
- Oversight by Approving Local Governments
- Technical assistance provided by Department of Local Affairs



Why Focus on Metropolitan Districts?

- Growth
- Unanticipated property tax increases
- Concern with oversight by approving local governments
- Lack of consistent financial information from districts to approving local governments
- Lack of complete technical information provided by Department of Local Affairs



Approving Local Governments

- Defined through boundaries
- Accountability of metropolitan districts
 - Service plans
 - Annual report
 - Required for first five years, then by request
 - Provides progress on implementation of the service plan
 - Other information as defined by approving local government(s)
 - Five-year report
 - By request of approving local government
 - Report on debt issuance and authorization
 - Allows for cancellation of authorized but unissued debt by approving local government(s)



Department of Local Affairs

- Establishes and maintains files
 - All special districts, including metropolitan districts
 - Board members
 - Boundary changes
- Prescribes a form
 - Report authorization or issuance of G.O. bonds
 - Recorded by county clerk and recorder
- Confers with board members
 - District unable to discharge its existing or proposed indebtedness
- Receives a copy of annual report
- Provides technical assistance to local governments



Our Focus and What We Found

- **Part I**
 - **Authorized but unissued debt**
 - **Annual reports**
 - **Five-year reports**
- **Part II**
 - **Assessment of metropolitan districts' financial condition**



Authorized but Unissued Debt

- **Seven-county Denver metropolitan area**
 - **390 metropolitan districts**
 - **260 metropolitan districts reporting authorized but unissued debt**
 - **\$255 billion authorized but unissued debt reported in 2004**
 - Average almost \$1 billion per district
 - Does not include debt issued
 - Comparison
 - **As of December 2004, City and County of Denver reported \$7 billion investment in infrastructure since 1980, prior to depreciation**
- **Potentially leads to unanticipated tax increases for taxpayers who ultimately live in the district**



Annual Reports

- Metro districts are not consistently submitting their annual reports to the approving local governments or Department of Local Affairs (Department)
- The Department is not tracking receipt of these reports and assisting local governments with follow up on reports not received



Five-Year Reports

- Approving local governments
 - **Are not requesting five-year reports**
 - Three approving local governments
 - Provide oversight to approximately 150 metro districts
 - Never requested the five-year report
 - **May not be able to take timely action on canceling authorized but unissued debt**
 - Statutes only allow this option during five-year process
- Department's technical guidance to approving local governments
 - **Does not mention five-year report**
 - **Does not provide information on canceling authorized but unissued debt**



Recommendations to the Department

- **Work with the General Assembly to**
 - **Repeal the five-year report**
 - **Require that five-year reporting information be included in the annual report**
 - **Require that annual reports be submitted if the district has authorized but unissued debt**
 - **Allow approving local government to cancel authorized but unissued debt through the annual report review process**



Additional Recommendations to the Department

- Provide additional technical assistance to approving local governments
 - Oversight responsibilities
 - Monitoring districts' financial condition through the annual report
- Assist local governments in
 - Tracking reports submitted by districts
 - Following up where reports are not received



Assessment of Metropolitan Districts' Financial Condition

- Lack of consistency and completeness of information reported by the districts
 - We reviewed all 19 annual reports submitted by Denver-area metropolitan districts for 2005
 - 10 districts reported only budgeted financial information, not actual revenue or expenses
 - 8 districts did not report the district's total outstanding debt
 - 10 districts did not report the current year principal payments on debt
 - 11 districts did not report the authorized but unissued debt



Review of Annual Reports by Approving Local Governments

- We interviewed three approving local governments
 - Provide oversight to approximately 150 metropolitan districts
 - One provides limited or no review
 - One only looks for major changes from prior report
 - One does not have a review process, but intends to formalize a review policy



Statutory Requirements

- By statute, the Office of the State Auditor (OSA) is required to
 - Review the annual reports submitted by districts
 - Report to the Department
 - “Any apparent decrease in the financial ability of the district to discharge its existing or proposed indebtedness in accordance with the service plan.”
- Annual reports do not provide sufficient information for this determination



Gathering Data

- Database created by the OSA from
 - Districts' audited financial reports
 - Property Tax Annual Report prepared by the Department
- Critical elements
 - Assessed valuations
 - Debt service mill levy/ Total mill levy
 - Authorized but unissued debt
 - Outstanding debt
 - Principal payments on debt



Evaluation of Districts' Fiscal Health

- Ratios and indicators created by the OSA to evaluate fiscal health over a three-year period
 - **Focus of ratios**
 - Property tax coverage
 - Developer advances required
 - Stability of growth to debt
 - Capacity for increased debt
 - Principal payments to total debt
 - Mill levy changes



Results of Evaluation

- 390 metropolitan districts evaluated by OSA
 - **83 districts had warning indicators**
 - 3 had three warning indicators
 - 13 had two warning indicators
 - 67 had one warning indicator
- Further evaluation of the 83 districts
 - **Continue to monitor those districts with more than one indicator**
 - Report to the Department



Recommendations to Department

- Work with districts and the OSA to determine specific information to be included in the annual report
- Work with General Assembly
 - **Authorize the Department to require**
 - Specific information in the annual report
 - Prescribe format for the annual report
- Improve technical assistance to approving local governments



Audit Report

- To obtain a copy
 - <http://www.leg.state.co.us>
 - **Select OSA Audit Report (menu bar on the left)**
 - **By Department/Entity**
 - **Local Affairs**
 - [Oversight of Metropolitan Districts, Performance Audit September 2006, Department of Local Affairs](#)
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