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How developers use bonds, mill levies to ensure they are repaid

CPA Kevin Collins answers budget questions ...

Joe Amon, The Denver Post CPA Kevin Collins answers budget questions during the Thompson Crossing Metro Districts 3-6 meeting at the Abundant Life Tabernacle in Johnstown on Sept. 17, 2019.

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Metropolitan districts raise money by issuing bonds to pay for the costs of infrastructure.

For new districts, the bonds are generally unrated and are sold by an underwriter, a business that markets them to investors, such as banks or pension funds.

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A developer's history or financial strength – Oakwood Homes and Lennar Homes are among the largest in the Denver metropolitan area developing metropolitan districts – can entice investors to buy the bonds.

The bonds must be repaid, generally over a 30-year period, and that money comes from property taxes assessed annually to each homeowner. Many metro districts limit themselves to assessing each homeowner no more than 50 mills in property taxes to cover the costs of repaying the bonds.

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That's a bit misleading, though, because the state's Gallagher Amendment – a requirement that assessed values of commercial and residential real estate in a community remain at a 55-45 percentage split – can lead to that 50-mill limit growing to as high as 60 or 70 mills, depending on the district, to keep revenue from falling.

While the law would normally require districts to ask voters for permission to raise the mill levy past its cap, districts such as Cross Creek and Sorrel Ranch already included that permission in their original formation documents long before there were any homeowners to cast a contrary vote.

There is another key loophole to the 50-mill restriction, although The Denver Post could find no examples of it having been used as yet. The 50-mill restriction can be lifted if a district's debt load is less than the total assessed value of the houses being taxed.

A mill is one-thousandth of a percent multiplied against the assessed value of a property. So a home with an assessed value of $35,000 in an area with a total property tax assessment of 55 mills will be levied $1,925 (0.055 x 35,000).

A district's mill levy to cover its debts lasts only as long as the bonds it issued remain unpaid.

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