

# Metropolitan Districts 101

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# General Information

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- Metropolitan districts (“Metro Districts”) are authorized by Colorado Revised Statutes to fund public improvements for a particular neighborhood or community. Metro Districts localize the cost of public improvements to fund new development rather than spreading those costs throughout the entire municipality.
- There are thousands of Metro Districts throughout Colorado, and Metro Districts have become one of the primary financing tools for the construction of public improvements in the state.
- Metro Districts have the ability to fund public improvements in a cost-effective way through tax-exempt financing. Tax-exempt financing results in lower interest rates and is often much cheaper than privately financing public improvements. Financing public improvements spreads the initial cost over decades and along with the tax-exempt nature of the bonds results in more purchasing power for homeowners.

# Overview of Metro Districts

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- Purpose
- Formation
- After Organization
- Open Meetings
- Elections
- Transparency and Notice
- Powers
- Revenue-Raising Authority
- Gallagher Adjustment and Maximum Mill Levy
- Advantages

# Purpose of a Metro District

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- Construction of public improvements;
- Cost effective financing of public improvements;
- Provide on-going operations and maintenance for public areas, clubhouses, pools, parks, and open space areas; and
- Covenant enforcement.

# Formation

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- Metro Districts are governed by the Special District Act, § § 32-1-101, *et seq.*, C.R.S.
- The Special District Act requires the Metro District to operate within its approved Service Plan. The Service Plan is the Metro District's governing document and is similar to a town charter or constitution.
- The Service Plan is reviewed and approved by the municipality or, if being organized in an unincorporated county, the county where the Metro District is located.

## Formation (cont.)

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- After the Service Plan is approved, the property owners within the proposed Metro District will file a Petition for Organization with the District Court.
- If the petition meets the statutory requirements, the Court will hold a public hearing and order an election for the organization of the proposed Metro District.
- If a majority of the votes cast are in favor of the organization, the Court issues an order and decree organizing the Metro District which is recorded against the real property within the Metro District.

# After the Metro District is Organized

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- Metro Districts are local governments, and their Boards of Directors (each a “Board”) operate similarly to a the City or Town Council or Board of County Commissioners.
- The Board of the Metro District is its governing body. The Board may have 5 or 7 members who are elected to staggered terms of office at elections held in May of even years.
- Anyone who is an eligible elector as defined in the Colorado Special District Act is eligible to vote for and serve on the Board of the Metro District. Unlike a homeowners association, eligible electors are not required to wait until the Metro District achieves a certain level of built out before serving on the Board.

# Open Meetings

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- Metro Districts are required to follow Colorado's Open Meetings (Sunshine) Law, § § 24-6-401, *et seq.*, C.R.S.
- The Board must post notice in the community at least 72 hours and 24 hours in advance of any meeting.
- The Board must keep minutes of meetings and those minutes are open to public inspection upon request.



# Elections

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- Most Metro District Boards consists of five members.
  - At the organizational election two members are elected for a two-year term and three members are elected to a four-year term. After the initial election all members are elected to four-year terms.
  - Example: Organizational Election is November 6, 2018. Two members serve until May 2020 and three members serve until May 2022.

# Transparency and Notices

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- Most Service Plans require the Metro District to provide a written notice of disclosure to all initial purchasers of property within the Metro District. The written notice describes the impact of the Metro District's mill levy and fees on each residential property along with the purchase contract. Often, the Metro District is required to record the notice with the clerk and recorder.
- After formation, the Order and Decree organizing the Metro District is recorded with the clerk and recorder and provides notice of the Metro District to any purchaser of property within the Metro District.
- The Metro District is required to provide annual notice of contact information, regular meeting dates, the current mill levy, and information about elections pursuant to § 32-1-809, C.R.S.
- Information such as the Metro District's budget, audits, Board of Director contact information, election information, maps, and the Service Plan can be found online through the Colorado Department of Local Affairs website.
- All public records of the Metro District, as defined by law, are open to inspection by the public.

# Transparency and Notices (cont.)

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- Metro Districts are publicly accountable to the residents of their community and the Town.
  - Must hold open meetings with due notice to members of the public.
  - Must maintain minutes of all meetings and other records for public inspection.
  - Must hold elections for the governing board of directors.
  - Must adopt annual budgets.
  - Must undergo an annual financial audit.

# Powers under the Colorado Special District Act

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- Metro Districts can provide any two or more of the following services to a community:
  - Street improvements;
  - Water facilities and services;
  - Sanitation facilities and services;
  - Park and recreation facilities;
  - Traffic-related safety protection improvements;
  - Transportation facilities and services;
  - Television relay and transmission facilities and services;
  - Mosquito control facilities and services;
  - Security services; and
  - Covenant enforcement services.

# Powers (cont.)

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- Power of eminent domain (condemnation).
- Power to levy taxes and assess fees, rates, tolls, charges and penalties.
- Power to issue bonds and other forms of financial obligations.
- May provide for the construction and ongoing operation and maintenance of the public improvements within the community.

# Revenue-Raising Authority

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- Metro Districts can raise revenue to fund public improvements within a community through ad valorem property taxes, fees, and the issuance of bonds.
- Example of ad valorem property taxes:
  - $\$400,000$  (market value of a residence within the Metro District) \* 7.20% (residential assessment ratio) =  $\$28,800$  (assessed value)
  - $\$28,800$  \* 50 mills =  $\$1,440$  in property taxes paid to the Metro District

# Gallagher Adjustment and Maximum Mill Levy

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- The Gallagher Amendment, passed in 1982, was designed to maintain a constant ratio between the property tax revenue that comes from residential property and from business property.

Commercial Property	Residential Property
55% of the total amount of state property taxes	45% of the total amount of state property taxes
Assessment ratio is fixed at 29%	Assessment ratio adjusts to maintain the 45/55 balance

# Gallagher Adjustment and Maximum Mill Levy (cont.)

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- Metro Districts are governed by their Service Plan. The Service Plan may state a Maximum Mill Levy such as 50 mills for debt. The actual Maximum Mill Levy the Metro District is permitted to impose may be higher than the number in the Service Plan.
- If there is a Gallagher adjustment that reduces the residential assessment ratio, the Metro District may impose a higher Maximum Mill Levy so that the Metro District is able to bring in the same revenue, see the example on the next slide.



		Gallagher Adjustment Reduced Residential Assessment Ratio
Faire Market Value of House	\$500,000	\$500,000
Residential Assessment Ratio	7.96%	<u>7.2%</u>
Assessed Value of House	$\$500,000 * 7.96\% =$ \$39,800	$\$500,000 * 7.2\% =$ \$36,000
Maximum Mill Levy	50 mills	55.277 mills
Property Taxes Paid to Metro District	$\$39,800 * 50$ mills = \$1,990	$\$36,000 * 55.277$ mills = \$1,989.97

# Advantages

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- Publicly accountable (public meetings, open records, elected Board) very similar to the Town.
- Ability to impose ad valorem property taxes to pay for public improvements. Ad valorem property taxes are tax deductible to residents and can be collected through the County Assessor at a low cost. Metro Districts often achieve 100% collection rates because they have the power to impose a tax lien.
- Ability to finance public improvements over long period of time which presents a savings to residents who can pay for public improvements over time instead of upfront in the purchase price of their home.
- Ability to issue tax-exempt bonds with a lower interest rate than private funding or taxable bonds.
- Sophisticated insurance pool resulting in lower insurance costs.
- Governmental immunity.
- As a local government, the Metro District is exempt from State sales and use tax when purchasing supplies and equipment resulting in lower construction costs.

## Advantages (cont.)

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- Provision of public improvements and services to new and existing developments that the Town or the County may be unable or unwilling to provide.
- Covenant enforcement services to preserve property values and ensure uniform aesthetics throughout the community. Metro Districts can provide similar services to a homeowners association and may be able to eliminate the need for a homeowners association and the associated HOA fees in some communities.
- As the cost of development in Colorado has increased Metro Districts have become a popular and statutorily authorized way to fund the necessary public improvements in a cost-effective way that results in savings for residents.