EAST COUNTY HOUSING OPPORTUNITY COALITION
ECHO
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What are Metro Districts?

(Testimony provided by ECHO's Annmarie Jensen to Erie Board of Trustees, June 21, 2022)

Metro districts are taxing authorities created by subdivision developers, with the consent of the local government, for the sole purpose of selling government-like bonds to finance their projects. Repayment of the bonds is tied to future property taxes assessed to the homes that will eventually be built.

The local governments in which metro districts are created have a lot of authority to regulate the district. The legislature has tried the last two years to reign in the power of metro districts and has been fought hard by lobbying groups representing the building industry, and no reform legislation has yet passed.

According to the Denver Post, "Colorado law permits developers to elect themselves to serve on a district's board of directors, then use that position to approve tens of millions of dollars in public financing for their businesses and leverage the property taxes on homes they haven't yet built. No regulations stop these developer-controlled boards from approving arrangements that are financially advantageous to their business, allowing them to finance overly ambitious plans without fear of liability, knowing future homeowners ultimately shoulder the burden." The homeowners pay these investment returns through their property taxes. The returns the developers get on their investment, and which is paid by the homeowners property tax, is extraordinarily high and many would consider it usury abuse.

Metro districts are beneficial to developers because they can borrow money at government bond rates, and these bonds are tax exempt. Ideally if these savings are passed on to the consumer, it keeps costs down. However, there are currently over 1800 metro districts in Colorado, and only two have successfully paid off their bonds. The bonds are issued when a project is new, and the initial residents must pay the bonds, even if only a portion of the development is ever built.

When a prospective buyer seeks information about property taxes in a metro district, they are often unable to get good information because the district, if it is new, will not have a tax history. Historically these districts have low initial payments which entice homebuyers, and the rates balloon in the future. Thus, while a home seemed initially affordable, it may not be at all in the future. Tax advisories and transparency notices are filed with the Department of Local affairs rather than given to homeowners. This is a real problem with lack of transparency to help homeowners make well-informed decisions about what they can afford.

In a recent expose, the Denver Post found "at least a dozen large metro districts in Colorado are dangerously underwater with hundreds of millions of dollars of debt and homeowners swimming in hefty property tax bills. The debt obligations are so much higher than the assessed value of the homes leveraged to repay them – some as much as 200 percent higher – that they are unlikely to ever catch up. A few will never stop paying. The amount of debt that developer-controlled metro districts have authorized statewide already sits at nearly 100 times Colorado's state government debt of $17 billion, according to a Denver Post review of thousands of pages of district filings with state and local government offices detailing that debt."

There are no conflict of interest prevention rules in state law regarding metro districts, so that the initial board of the metro district is the developer, and their friends and family who are the recipients of the money from the bonds. This method of operating lacks accountability and transparency. Many homeowners have been told through the rules of the metro district that they cannot run for the board, when state law says they can.

There are other alternatives to help the developer finance infrastructure. Many believe the initial cost of infrastructure, if tacked on to the cost of the home, would be a much more reasonable cost. Mortgages would finance those costs over the life of the loan and spread it out, the bond fees are much higher than a 5% interest rate, and the developer can include much more than the initial cost of infrastructure in the bonded indebtedness.