

Colorado Department of Local Affairs

Colorado Special Districts Fiscal Health Analysis Calendar Years 2020-2022

Informational Report
December 2024
2449S



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December 5, 2024

Members of the Legislative Audit Committee:

Please find attached the fiscal health analysis of selected special districts in accordance with Section 32-1-207(3)(d), C.R.S. The Office of the State Auditor is required to review the annual reports submitted by special districts created on or after July 1, 1991 and report to the Department of Local Affairs any apparent decrease in a district's financial ability to discharge its indebtedness.

This report provides the results of that analysis and required reporting for the 3-year period ending December 31, 2022.

Kerri L. Hunter



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OFFICE OF THE STATE AUDITOR • LOCAL GOVERNMENT AUDIT DIVISION

KERRI L. HUNTER, CPA, CFE • STATE AUDITOR

Fiscal Health Analysis of Special Districts Created after July 1, 1991 Calendar Years Ending December 31, 2020 through December 31, 2022

Date: December 5, 2024

To: Department of Local Affairs—Maria De Cambra, Executive Director;
Eric Bergman, Division of Local Government Director

From: Crystal Dorsey, CPA, Local Government Audit Manager

Background

Special districts are independent, special-purpose governmental units that exist separately from other local governments such as county, municipal, and township governments, and have substantial administrative and fiscal independence. They are formed to perform a single function or a set of related functions. In Colorado, as of November 2024, there were more than 2,700 special districts—nearly 2,000 of those special districts were organized on or after July 1, 1991.

Special districts in Colorado have several requirements for reporting to the Department of Local Affairs (DOLA) and the Office of the State Auditor (OSA). For example, as outlined in Section 32-1-207 et seq., C.R.S., special districts are required to report changes in boundaries, intergovernmental agreements, and the status of construction of public improvements, for the preceding calendar year to DOLA. For financial reporting, all local governments, including special districts, are required to follow the Local Government Audit Law (Audit Law) in Section 29-1-601 et seq., C.R.S., which requires an annual submission to the OSA of either audited financial statements, or an application for exemption from audit. All special districts in Colorado have a fiscal year end of December 31 and are required by the Audit Law to submit an application for exemption from audit to the OSA by March 31 of the following year or, when the special district does not qualify for an exemption, submit an audited financial statement report to the OSA by July 31, or by September 30 with an OSA-approved extension.

Section 32-1-207(3)(d), C.R.S. requires the OSA to review annual reports submitted by special districts and, for certain districts, to report to DOLA any apparent decrease in the district's financial ability to discharge its indebtedness. During the 2021 legislative session, Senate Bill 21-262 was

passed which made modifications to Sections 32-1-207(3)(d) and 32-1-207(3)(c)(I), C.R.S., effective with the 2022 Calendar Year. Specifically, the bill changed which special districts are subject to the annual report requirements based on their creation date. Previously, special districts created on or after July 1, 1991 were subject to the annual report submission requirement; however, the bill modified this statutory provision to apply only to districts created after July 1, 2000, beginning with Calendar Year 2022. For the purpose of this informational report, however, we have continued to summarize the OSA's fiscal health analysis for all special districts created under Title 32 C.R.S., on or after July 1, 1991. Our review included special districts' Calendar Years 2020, 2021, and 2022 applications for exemption from audit or audited financial statements that were submitted to the OSA, which represented the most recent, complete, 3-year data available for assessing a district's financial ability to discharge its indebtedness. Our report presents the results of our required review pursuant to Section 32-1-207(3)(d), C.R.S.

This informational report is intended to highlight those districts that triggered fiscal health indicators developed by the OSA for the 3-year period ended December 31, 2022, and to identify any districts that may have trouble repaying their outstanding debt. Exhibit 1 summarizes the total number of special districts and the periods that they were created. Our analysis included 1,973 districts that were created on or after July 1, 1991 and before December 31, 2022.

Exhibit 1 Special District Population

(A)	(B)	(C)	(D)	(A)+(B)+(C)+(D) =
Special Districts Created Prior to July 1, 1991 ¹	Special Districts Created On or After July 1, 1991 and before July 1, 2000	Special Districts Created On or After July 1, 2000 and Before December 31, 2022	Special Districts Created After January 1, 2023 ²	Total Special Districts ³
613	154	1,819	186	2,772

Source: Office of the State Auditor analysis of the special district audits and applications for exemption from audit for the years ending December 31, 2020 through 2022.

¹Special Districts not included in our analysis, but included in total special districts.

²Special districts created after December 31, 2022 did not meet the criteria for inclusion in our analysis.

³Total Special Districts as of November 26, 2024.

Self-Reported Financial Obligation Concerns

As part of our review, we consider whether there are any districts that are having difficulties meeting their financial obligations. Exhibit 2 contains a list of districts that self-reported in their most recent audited financial statement report or application for exemption from audit that they have been or will be unable to make principal or interest payments as they become due. We recommend that DOLA consider possible further investigation of these 21 districts to determine if they are experiencing difficulties meeting their financial obligations.

Exhibit 2

Special Districts Who Self-Reported Difficulty Making Current or Future Debt Service Payments

District	Calendar Year		
	2020	2021	2022
Aberdeen Metropolitan District No. 1 ¹	-	✓	✓
Buckhorn Valley Metropolitan District No. 2	✓	✓	✓
Conifer Metropolitan District ¹	✓	✓	✓
Country Club Highlands Metropolitan District	-	✓	✓
Deer Meadows Metropolitan District	✓	✓	✓
Eastpark 70 Metropolitan District	✓	✓	✓
Estancia Metropolitan District ¹	-	✓	✓
Flying Horse Metropolitan District No. 1 ¹	✓	✓	✓
Harvest Crossing Metropolitan District No. 4 ²	-	-	✓
Hyland Village Metropolitan District ¹	✓	✓	✓
Jeffco Business Center Metropolitan District No. 1	-	✓	✓
Lowell Metropolitan District ¹	✓	✓	✓
Marin Metropolitan District ¹	✓	✓	✓
Murphy Creek Metropolitan District No. 3	✓	✓	✓
Neu Towne Metropolitan District ¹	✓	✓	✓
NP125 Metropolitan District ¹	-	✓	✓
Old Ranch Metropolitan District ¹	✓	✓	✓
Southwest Timnath Metropolitan District No. 4	✓	✓	✓
Tamarron Metropolitan District ¹	✓	✓	✓
Tri Pointe Commercial Metropolitan District ¹	✓	✓	✓
Valagua Metropolitan District	✓	✓	✓

Source: Office of the State Auditor analysis of the special district audits and applications for exemption from audit for the years ending December 31, 2020 through 2022.

¹Districts who triggered one, two, or three warning indicators. See Exhibit 7 for further information.

²2022 is the first full year of financial activity for Harvest Crossing Metropolitan District No. 4. The district was inactive for 2020 and did not report any financial activity for 2021.

Modified Opinion

Based on our review of special districts' submitted audited financial statement reports, we identified one district for which the auditor reported a modification in the auditors' opinion that may warrant further investigation by DOLA, which we discuss on the next page. The audit opinion describes at a high level the work the independent certified public accountant performs, responsibilities of management, and provides some assurance that the financial statements are fairly stated in all material respects. In accordance with professional standards, independent auditors may modify an audit opinion to describe certain things in the financial statements that are considered critical to the understanding of the financial statements, or to highlight issues identified by the auditor. Auditors are also required to evaluate whether or not there is substantial doubt of an entity's ability to be able to continue its operations for at least a year beyond the date of the financial statements. If there is

substantial doubt as to an entity's ability to continue operations for the upcoming year, the auditor is required by auditing standards to include an emphasis-of-matter paragraph in the report to reflect their conclusion.

The auditors for Lowell Metropolitan District included an emphasis-of-matter paragraph indicating a going concern in their opinion on the District's most recently-reviewed 2022 audited financial statement report. We also reviewed prior reports for the District and determined that the auditors included similar paragraphs in the District's 2013 through 2021 audited financial statement reports. The auditors indicated in their opinion that the District has been unable to make its full principal and interest payments on its limited tax general obligation bond Series 2004 due to assessed property valuations being lower than originally estimated when the bonds were issued due to economic conditions. Based on current estimates, the District will be unable to meet future obligations when due, which will result in accrued interest that is accumulating faster than the District can pay it. Overall, the absence of available sources of liquidity and increasing amounts of accrued interest have raised a substantial doubt about the District's ability to continue as a going concern.

Fiscal Health Warning Indicators

The results of our analysis in this informational report include a population of 1,973 special districts that were reviewed to determine if they met all of the following criteria:

- Were organized on or after July 1, 1991
- Were in existence for all 3 years of our analysis (2020, 2021, 2022)
- Submitted financial information to the OSA for each of the 3 years by the end of our analysis (November 19, 2024).

Districts that were inactive or delinquent (as defined by the Audit Law [Section 29-1-601, et seq., C.R.S.]) for any of the 3 years do not meet these criteria.

Based on the above criteria, we were able to include 1,598 districts in our fiscal health analysis. The remaining 375 districts did not meet the criteria above for our review due to reasons including that (1) they were newly-created districts at some point during the time period, (2) they were inactive for a portion of the time period, or (3) they had not submitted their audited financial statement report or application for exemption from audit as statutorily-required by the end of our review. We discuss delinquent special districts in more detail later in this informational report.

We applied 11 fiscal health ratios to analyze special districts meeting the criteria for our analysis. The OSA added two new fiscal health ratios to this year's analysis: Ratio 10 - Asset Sufficiency Ratio, and Ratio 11 - Operating Margin Ratio. Both are commonly used ratios to analyze financial condition and the addition of those ratios should provide additional cues to warn of possible fiscal stress. Further details regarding these ratios can be found in the following descriptions.

Warning Indicator and Ratio Descriptions

The warning indicators use ratios designed to analyze key financial information, and a warning indicator triggers when the ratios decline over the 3-year period under review. The analysis used the information from the 2020, 2021, and 2022 audits and applications for exemption from audit submitted to the OSA, and includes assessed valuations and mill levy information from DOLA's Property Tax Division.

The descriptions of the 11 ratios with information on the calculation of each ratio and the criteria for triggering a warning indicator are described in the following sections.

Ratio 1: Property Tax Coverage of Expenditures

Ratio 1 Formula
$\frac{\text{Intergovernmental Revenues [from Other Districts] + Property Taxes}}{\text{Total Expenditures + Transfers to Other Districts}}$

This ratio focuses on the relationship between revenues and other inflows to expenditures and other outflows. This ratio measures the coverage of the existing property taxes to the current expenditures, including debt service, operations or capital projects, and the transfers out to other districts. A decline in this ratio could be attributed to rising expenditures, shrinking taxes, larger transfers needed by other districts, or a combination of these factors.

Warning Indicator: Continuous decline in the ratio over the 3 years under review.

Ratio 2: Developer Advances Required

Ratio 2 Formula
$\frac{\text{Net Developer Advances}}{\text{Total Expenditures + Transfers to Other Districts}}$

This ratio is another measure of the coverage of expenditures and indicates whether or not the district is requiring more and more funding by the developer. The net amount of developer advances is used in order to reflect any repayments to the developer by the district. An increase in this ratio could indicate a greater need each year for developer advances, which could lead to higher taxes or issuance of more debt.

Warning Indicator: Continuous increase in the ratio over the 3 years under review.

Ratio 3: Stability of Growth to Debt

Ratio 3 Formula
$\frac{\text{Outstanding General Obligation Bonds}}{\text{Assessed Valuation}}$

This ratio focuses on how stable the growth of the district is in relation to the amount of outstanding principal for general obligation bonds. If the assessed valuation is not growing sufficiently in relation to debt, or the assessed valuation is shrinking in relation to debt, the district may need to consider a raise in the mill levy to increase property tax collections in order to pay off the outstanding general obligation bonds.

Warning Indicator: Continuous increase in the ratio over the 3 years under review.

Ratio 4: Capacity for Increased Debt

Ratio 4 Formula
$\frac{\text{Authorized but Unissued Debt}}{\text{Assessed Valuation}}$

This ratio evaluates the amount of the remaining debt that has not yet been issued to the assessed property value of the district. This may indicate that the assessed valuation is shrinking and the district cannot support additional debt.

Warning Indicator: Continuous increase in the ratio over the 3 years under review.

Ratio 5: Principal Payments to Total Debt

Ratio 5 Formula Factors
$\begin{array}{c} \text{District Has Outstanding Debt for 2 or More Consecutive Years} \\ \text{and} \\ \text{Principal Payments Equal Zero for All 3 Years} \end{array}$

This calculation is not a ratio but is designed to evaluate whether total outstanding debt has consistently increased over the 3 years of this analysis while no principal payments have been paid on the debt. This could be attributed to a longer term for the debt, graduated payments, or balloon payments in future years. These possibilities could lead to higher taxes or a longer amount of time required to support the debt.

Warning Indicator: Continuous increase in debt over the 3 years under review without any principal payments being made.

Ratio 6: Mill Levy Changes

Ratio 6 Formula
$\frac{\text{Debt Service Mill Levy}}{\text{Total Mill Levy}}$

This ratio measures the relationship between the mill levy tied to debt and the district's total mill levy. Increases in this ratio would indicate that the debt-related mill levy is increasing, or the total mill levy is decreasing. This could mean the growth projected in the district's service plan has not been realized.

Warning Indicator: Continuous increase in the ratio over the 3 years under review.

Ratio 7: Principal Payments to Total Outstanding Debt

Ratio 7 Formula
$\frac{\text{Governmental Funds Principal Payments} + \text{Enterprise Funds Principal Payments}}{\text{Total Outstanding Debt}}$

This ratio measures the relationship between principal payments and outstanding debt for both governmental and enterprise funds. Decreases in this ratio would indicate that the debt is consistently increasing, or principal payments are consistently decreasing. It would be normal for a district to have a substantial increase in the year debt was issued, but after that, the ratio will normally increase as the debt is paid down.

Warning Indicator: Continuous decline in the ratio over the 3 years under review.

Ratio 8: Working Capital

Ratio 8 Formula
$\frac{\text{Enterprise Funds Current Assets}}{\text{Enterprise Funds Current Liabilities}}$

This ratio measures the liquidity of a district's enterprise funds. A decline in this ratio would indicate that the district's cash position is deteriorating over time and could be an indication that other funds are subsidizing business-type activities.

Warning Indicator: Continuous decline in the ratio over the 3 years under review, or a most recent ratio of less than one.

Ratio 9: Cash and Investments over Expenditures

Ratio 9 Formula

$$\frac{\text{Cash and Investments (Governmental \& Enterprise Funds)}}{\text{Total Expenditures/12}}$$

This ratio measures the short-term liquidity of a district's governmental and enterprise funds. Total expenditures include governmental plus enterprise funds' operating and non-operating expenses. A decline would indicate that a district would not have enough resources to pay one month of expenses if its revenue streams were to stop suddenly. Best practices indicate that a district should maintain a sufficient cash balance to cover at least 1-month's expenses.

Warning Indicator: Continuous decline in the ratio over the 3 years under review and the most recent ratio is less than one.

Ratio 10: Asset Sufficiency Ratio (ASR)

Ratio 10 Formula

$$\frac{\text{Governmental Funds Total Assets + Deferred Outflows}}{\text{Governmental Funds Total Liabilities + Deferred Inflows}}$$

This ratio measures how much coverage a district's total governmental assets have over its total governmental liabilities. When a district has an ASR of 1.0, it means that it has exactly enough total assets to cover its total liabilities. An ASR less than 1.0 indicates that the district's total governmental liabilities exceed its total governmental assets.

Warning Indicator: Continuous decline from year 1 to year 3, with year 3 less than 1.0; or less than 1.0 all 3 years.

Ratio 11: Operating Margin Ratio (OMR)

Ratio 11 Formula

$$\frac{\text{Governmental Fund Total Revenue - (Governmental Fund Total Expenditures, Net Of Transfers)}}{\text{Governmental Fund Total Revenue}}$$

This ratio indicates the amount added to reserves for every \$1 in total governmental funds gross revenue. When the OMR is zero, it means that the district has equal revenue and expenditures. An OMR greater than zero is positive and indicates that the district has more revenue than expenditures. An OMR of less than zero means that the district has more expenditures than revenues.

Warning Indicator: Decline in OMR from year 1 to year 3, with year 3 less than zero; or OMR less than zero in all 3 years.

Fiscal Health Watch Indicators

In addition to the fiscal health ratios and warning indicators described in the previous section, we also applied two watch indicators to our review of special districts. While these watch indicators alone may not indicate fiscal stress, we believe that they may help to anticipate potential problems in the future.

The first watch indicator includes those districts that have authorized but unissued debt in excess of \$500 million. For the 2022 filing year, 485 districts reported authorized but unissued debt in excess of \$500 million. Section 29-1-605(2) C.R.S., requires a special district that has authorized but unissued debt to specify in its annual audited financial statement report or application for exemption from audit the amount of authorized but unissued debt and any current or anticipated plans to issue debt as of the end of its fiscal year.

The amount of authorized but unissued debt reported by the districts may be further restricted by its approved service plan. However, those restrictions and possible amendments are not consistently reported to the OSA, either in the service plan or in the audited financial statement report or application for exemption from audit. The 485 districts that reported authorized but unissued debt in excess of \$500 million are grouped by level of authorized but unissued debt in Exhibit 3.

Exhibit 3

Watch Indicator 1: Number of Special Districts with Authorized but Unissued Debt Greater than \$500 Million

Authorized but Unissued Debt	Number of Districts
\$500 million – \$749 million	86
\$750 million – \$999 million	61
\$1.0 billion – \$2.49 billion	165
\$2.5 billion – \$9.9 billion	113
\$10.0 billion – \$49.9 billion	50
Greater than \$50 billion	10
Total	485

Source: Office of the State Auditor analysis of special district audits and applications for exemption from audit for the years ending 2020 through 2022

The 10 districts with the largest watch indicator for authorized but unissued debt greater than \$50 billion are shown in Exhibit 4. As disclosed in the districts' respective service plans and audit submissions all 10 districts are related and have various agreements in place which govern the relationships between the districts with respect to financing, construction and operation of public improvements within their combined service area.

Exhibit 4

Districts with Largest Watch 1 Indicator Greater than \$50 Billion

District	Total Authorized Debt ¹	Remaining Authorized but Unissued Debt as of 12/31/2022	Service Plan Limit	Most Recent Service Plan Date ²
Aerotropolis Area Coordinating Metropolitan District	\$104,000,000,000	\$103,569,495,430	\$8,000,000,000	February 28, 2022
Green Valley Aurora Metropolitan District No. 1	\$56,605,000,000	\$56,605,000,000	\$4,000,000,000	October 16, 2017
ATEC Metropolitan District No. 1	\$56,000,000,000	\$56,000,000,000	\$4,000,000,000	April 23, 2022
ATEC Metropolitan District No. 2	\$56,000,000,000	\$56,000,000,000	\$4,000,000,000	April 23, 2022
Aurora Highlands Metropolitan District No. 1	\$54,405,000,000	\$54,405,000,000	\$4,000,000,000	April 23, 2022
Aurora Highlands Metropolitan District No. 2	\$54,405,000,000	\$54,405,000,000	\$4,000,000,000	April 23, 2022
Aurora Highlands Metropolitan District No. 3	\$54,405,000,000	\$54,405,000,000	\$4,000,000,000	April 23, 2022
Green Valley Ranch East Metropolitan District No. 7	\$54,404,000,000	\$54,404,000,000	\$4,000,000,000	August 22, 2022
Green Valley Ranch East Metropolitan District No. 8	\$54,404,000,000	\$54,404,000,000	\$4,000,000,000	August 22, 2022
Green Valley Ranch East Metropolitan District No. 6	\$52,000,000,000	\$51,953,375,000	\$4,000,000,000	August 22, 2022

Source: Office of the State Auditor analysis of special district audits and applications for exemption from audit for the years ending 2020 through 2022 and approved service plans.

¹ Authorized debt approved through the election process. Approved service plans may limit the amounts a district is allowed to issue.

² Most recent approved service plan, including any amendments as of December 31, 2022.

The OSA also reviewed the most recent service plans available on DOLA's website for these districts, and although the districts have authorized the amounts listed through an elections process, the districts' approved service plans, including any subsequent amendments, may restrict the amounts they are allowed to issue. Only Aerotropolis and Green Valley Ranch East Metropolitan District No. 6 submitted audited financial statement reports to the OSA for each of the 3 years reviewed. The remaining 8 districts filed an application for exemption from audit.

The second watch indicator includes those districts with a total mill levy in excess of 50 mills. There were 574 districts who reported an excess of 50 mills and they are grouped by mill levy amount in Exhibit 5.

Exhibit 5

Watch Indicator 2: Number of Special Districts with Mill Levies Greater than 50 Mills

Mill Levies	Number of Districts
50.01 – 59.99 mills	183
60.00 – 69.99 mills	244
70.00 – 79.99 mills	99
80.00 – 89.99 mills	27
90.00 – 99.99 mills	9
Greater than 100.00 mills	12
Total	574

Source: Office of the State Auditor analysis of special district audits and applications for exemption from audit for the years ending 2020 through 2022

The 12 districts with the largest mill levies (greater than 100 mills) are indicated in the following listing.

Total Mill Levy Greater than 100.00:

- Buffalo Highlands Metropolitan District – 138.17
- Sky Ranch Metropolitan District No. 3 – 126.34
- Sky Ranch Metropolitan District No. 5 – 126.34
- Aspen Village Metropolitan District – 117.61
- Yarrow Gardens Metropolitan District – 116.97
- Indy Oak TOD Metropolitan District – 112.28
- Bellevue Place Metropolitan District – 111.78
- Cornerstone Metropolitan District No. 2 – 110.00
- Avon Station Metropolitan District – 109.59
- Riverdale Peaks II Metropolitan District – 107.26
- Cornerstar Metropolitan District – 106.76
- Homestead Hills Metropolitan District – 105.76

Trend Analysis

For the purpose of our trend analysis, we focused our review on those districts identified with four or more warning indicators; for those districts, we reviewed whether they also triggered any of the previously discussed watch indicators. As shown in Exhibit 6, 16 districts triggered four or more warning indicators during the period reviewed. It should be noted that the presence of a warning indicator does not always mean that a district is facing fiscal stress; however, it does prompt the need for further examination. The more warning indicators that exist for a district, the more likely it is that the district may be facing fiscal stress.

Exhibit 6

Special Districts with Four or More Indicators

District	Warning Indicator											Watch Indicators	
	1	2	3	4	5	6	7	8	9	10	11	1	2
9 th Avenue Metropolitan District No. 1	-	✓	-	-	✓	-	-	-	-	✓	✓	✓	-
Base Village Metropolitan District No. 1	-	✓	-	✓	✓						✓	-	-
City Center West Residential Metropolitan District No. 2	-	✓	-	✓	✓	-	-	-	-	-	✓	-	✓
Cottonwood Hollow Residential Metropolitan District	✓	-	✓	✓	✓						✓	-	✓
Denver Gateway Meadows Metropolitan District	✓	✓	✓	✓	✓	-	-	-	-	-	-	-	-
Flatiron Meadows Metropolitan District	✓	-	-	-	-	✓	-	-	✓	-	✓		✓
Great Western Park Metropolitan District No. 3	-	✓	✓	-	✓	-	-	-	-	-	✓	-	✓
Highland Estates Metropolitan District	✓	-	✓	✓	✓	-	-	-	-	-	✓	-	✓
JDV Metropolitan District	✓	✓	-	✓	✓	-	-	-	-	-	-	-	-
Jefferson Center Metropolitan District No. 2	✓	-	-	✓	-	-	-	-	✓	-	✓	✓	-
Johnstown Farms East Metropolitan District	-	✓	✓	✓	✓	-	-	-	-	-	-	-	-
Meadowbrook Heights Metropolitan District	-	-	✓	✓	✓	-	-	-	-	-	✓	-	✓
Mountain Sky Metropolitan District	-	-	✓	✓	-	-	✓	-	-	-	✓	-	✓
Range View Estates Metropolitan District	✓	-	✓	✓	-	-	-	-	-	-	✓	-	✓
Verve Metropolitan District No. 1	-	-	✓	✓	-	-	✓	-	-	-	✓	✓	✓
West Point Metropolitan District	-	-	-	-	-	✓	-	-	✓	✓	✓	-	-
Totals	7	7	9	12	10	2	2	0	3	2	13	3	9

Source: Office of the State Auditor analysis of the special district audited financial statement reports and applications for exemption from audit for the years ending 2020 through 2022

The most common warning indicator triggered was ratio number 11, where 13 out of the 16 districts triggered this warning indicator. Ratio number 11 looks at the operating margin ratio, which indicates the amount added to reserves for every \$1 in total governmental funds gross revenue. This ratio is triggered when, over the 3-year period under review, there is a decrease in the amount added to reserves from year 1 to year 3 (with year 3 being less than zero), or when the ratio is less than zero in all 3 years. A ratio of less than zero means that the district has more expenditures than revenues.

The second most common warning indicator triggered was ratio number four, where 12 out of the 16 districts triggered this warning indicator. Ratio number four looks at authorized but unissued debt compared to a reduction of assessed valuation. Upon further analysis, we found that only one of these 12 districts disclosed plans to issue future bond debt: Verve Metropolitan District No. 1 planned to issue bond debt to fund capital expenditures in 2023.

The third most common warning indicator triggered was ratio number five, where 10 out of the 16 districts triggered this warning indicator. Ratio number five looks at principal payments to total debt. This ratio is triggered when there is increasing debt and no principal payments made over the 3-year period under review. Upon further investigation, we found that seven out of the 10 districts had outstanding general obligation debt ranging from \$1.1 million to \$30.1 million; however, the districts did not have any required principal payments due during the 3-year period under review. City Center West Residential Metropolitan District No. 2 has the earliest principal payment due date, which begins in 2025.

The largest general obligation debt of \$30.1 million was for Cottonwood Hollow Residential Metropolitan District. Cottonwood Hollow disclosed that there are no scheduled principal payments prior to the final maturity date of 2051. The debt is structured as cash flow bonds, meaning that payments are made only when pledged revenue is available, which consists mainly of property taxes. The remaining three districts have outstanding debt that consisted of developer advances ranging between \$20,000 to \$6.2 million. Based on our review of those district's audits or applications for exemption from audit, the disclosures did not specify the terms of any developer repayment agreements or specify if there were any required future payments coming due.

In addition to the warning indicators, we reviewed the data to determine if any of the 16 districts also triggered the watch indicators as previously discussed and found that 11 of the 16 districts also triggered at least one watch indicator. In terms of watch indicators, the most commonly triggered watch indicator was indicator 2. We noted that nine of the 16 districts triggered watch indicator 2, which is triggered when a district has a mill levy in excess of 50 mills. The mill levies ranged between 55.00 and 75.66 mills, with Meadowbrook Heights Metropolitan District having the highest mill levy of those districts that triggered four or more warning indicators.

Three districts triggered watch indicator 1, which includes districts with authorized but unissued debt in excess of \$500 million: Verve Metropolitan District No. 1 had \$2,052,740,863 in authorized but unissued debt; 9th Avenue Metropolitan District No. 1 had \$2,080,000,000; and Jefferson Center Metropolitan District No. 2 had the highest authorized but unissued debt amount of those districts that triggered four or more warning indicators, with \$4,460,000,000.

Financial Obligation Concerns – Fiscal Health Analysis

Exhibit 2 lists 21 districts that self-reported difficulty making current or future debt service payments. We reviewed the districts' financial information to determine if any triggered the warning indicators. There were nine of the 21 districts that did not trigger any of the warning indicators because they showed some positive financial results in other areas such as revenues greater than expenditures, or assets larger than liabilities. We found that, although the districts reported that the required debt service payments were not being made, the districts were complying with the terms of their bond agreements because they were levying the maximum mill levy allowed and debt service payments are being made to the extent pledged revenues are available.

The following 12 districts in Exhibit 7 triggered one or more warning indicators. In addition to the concern expressed with the inability to meet required debt service payments, we recommend that DOLA review this information to consider if closer investigation of these 12 districts is warranted.

Exhibit 7

Special Districts Who Self-Reported Difficulty Making Current or Future Debt Service Payments – With One or More Indicators

District	Warning Indicator											Watch Indicators	
	1	2	3	4	5	6	7	8	9	10	11	1	2
Aberdeen Metropolitan District No. 1	-	-	-	-	-	✓	-	-	-	-	-	-	✓
Conifer Metropolitan District	-	-	✓	-	-	-	-	✓	-	-	-	-	-
Estancia Metropolitan District	-	-	-	-	-	-	-	-	-	-	✓	-	✓
Flying Horse Metropolitan District No. 1	-	-	-	-	-	-	-	-	✓	-	-	-	-
Hyland Village Metropolitan District	✓	-	-	-	-	✓	-	-	-	-	-	-	-
Lowell Metropolitan District ¹	-	-	-	-	-	-	-	-	✓	✓-	✓	-	✓
Marin Metropolitan District	-	-	-	-	-	-	-	-	-	-	✓	-	-
Neu Towne Metropolitan District	-	-	-	-	-	-	-	-	-	-	✓	-	-
NP125 Metropolitan District	-	-	-	-	-	-	-	-	✓	-	-	-	✓
Old Ranch Metropolitan District	-	-	-	-	-	-	-	✓	✓	-	-	-	-
Tamarron Metropolitan District	✓	-	-	-	-	-	-	-	-	-	-	-	✓
Tri Pointe Commercial Metropolitan District	-	-	-	-	-	-	-	-	✓	-	-	✓	-
Totals	2	0	1	0	0	2	0	2	5	1	4	1	5

Source: Office of the State Auditor analysis of the special district audits and applications for exemption from audit for the years ending December 31, 2020 through 2022.

¹The independent auditors report for Lowell Metropolitan District indicates a substantial doubt about the District's ability to continue as a going concern. See discussion on the modified opinion beginning on Page 3 for further details.

Delinquent Special Districts

As previously mentioned, there were 375 special districts that did not meet the criteria for our review. For example, some districts had not submitted their audited financial statements or applications for exemption from audit by the statutorily-required due date. Specifically, we determined that, in total, 37 of the 375 were delinquent in complying with the Audit Law by failing to file either an audit or application for exemption from audit for one or more of the 3 calendar years in our analysis by the end of our review. Notably:

- 9 of the 37 districts failed to submit audited financial statement reports or applications for exemption from audit for any of the 3 calendar years.
- 11 of the 37 districts failed to submit audited financial statement reports or applications for exemption from audit for 2 of the 3 calendar years.
- 17 of the 37 districts failed to submit audited financial statement reports or applications for exemption from audit for 1 of the 3 calendar years.

Districts that have failed to comply with the Audit Law for at least two consecutive years may be considered for administrative dissolution by DOLA as authorized under Section 32-1-710, C.R.S. However, statute also specifies that districts that have remaining financial obligations may not be administratively dissolved. A total of 20 districts failed to comply with the Audit Law for two or more consecutive years during our review period and are shown in Exhibit 8. We obtained documentation from DOLA that two of the districts we list in Exhibit 8 have also been identified by DOLA staff as candidates for administrative dissolution and are in the process of being dissolved; however, as we have not yet received final court order documentation on their dissolutions, we have included them in Exhibit 8 below.

Exhibit 8

Special Districts Formed After 1991 Delinquent with the Audit Law 2 or More Years as of November 19, 2024

	Years Delinquent			Delinquent Since	Financial Obligations ¹
	2022	2021	Prior		
Castle Oaks Metropolitan District No. 2 ²	✓	✓	-	2021	Yes
Castle Pines Town Center Metropolitan District No. 1 ³	✓	✓	✓	2015	-
E 470 Potomac Metropolitan District ²	✓	✓	✓	2019	Yes
Football Stadium Metropolitan District ³	-	✓	✓	2019	Yes
Fourth North Metropolitan District No. 2	✓	✓	-	2021	-
Future Legends Sports Park Metropolitan District No. 2	✓	✓	✓	2020	-
Johnstown Village Metropolitan District No. 3 ³	✓	✓	-	2021	-
Mead Place Metropolitan District No. 3 ³	✓	✓	✓	2019	-
Mead Place Metropolitan District No. 4 ³	✓	✓	✓	2019	-
Mead Place Metropolitan District No. 5 ³	✓	✓	✓	2019	-
Mead Place Metropolitan District No. 6	✓	✓	✓	2019	-
Montava Metropolitan District No. 1 ³	✓	✓	-	2021	-
Montava Metropolitan District No. 2	✓	✓	-	2021	-
Montava Metropolitan District No. 3	✓	✓	-	2021	-
Montava Metropolitan District No. 4	✓	✓	-	2021	-
Montava Metropolitan District No. 5	✓	✓	-	2021	-
Montava Metropolitan District No. 6	✓	✓	-	2021	-
Montava Metropolitan District No. 7	✓	✓	-	2021	-
Prairie View Ranch Water District ³	✓	✓	✓	2019	-
Stone Ridge Metropolitan District No. 2	✓	✓	✓	2011	Yes

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

¹Districts marked with a "Yes" in this column have financial obligations from debt on the most current audited financial statement or application for exemption from audit submission and, therefore, may not be eligible for administrative dissolution.

²Per DOLA staff, district is pending dissolution.

³District has submitted an audit or application for exemption from audit for one or more missing years, but the OSA is unable to approve the submission due to unresolved compliance issues related to the submission.

It is important to note that, although our current informational report focuses on those districts formed on or after July 1, 1991, as previously required by Section 32-1-207(3)(d), C.R.S., the statute outlining the requirements for administrative dissolution [Section 32-1-710, C.R.S.] does not make this distinction. Therefore, in addition to the districts listed above, we want to bring to your attention the following district in Exhibit 9, formed before July 1, 1991, that is also considered delinquent with the Audit Law:

Exhibit 9
Special Districts Formed Prior to 1991 Delinquent with the Audit Law 2 or More Years
as of November 19, 2024

	Years Delinquent			Delinquent Since	Financial Obligations ¹
	2022	2021	Prior		
Granada Sanitation District	✓	✓	✓	2017	-

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

¹Districts marked with a checkmark in this column have financial obligations from debt on the most current audited financial statement or application for exemption from audit submission and, therefore, may not be eligible for administrative dissolution.

We appreciate the opportunity to provide this information to DOLA. Please feel free to contact us if you have any questions regarding the information included in this informational report.

Appendix

Understanding the Fiscal Health Ratios and Indicators

Ratio		Calculations	Description
1	PTC Property Tax Coverage of Expenditures	$\frac{\text{Intergovernmental Revenues from Other Districts} + \text{Property Taxes}}{\text{Total Expenditures} + \text{Transfers to Other Districts}}$	Indicates the coverage of existing property taxes, including transfers from other districts, to current total expenditures
2	DAR Developer Advances Required	$\frac{\text{Net Developer Advances}}{\text{Total Expenditures} + \text{Transfers to Other Districts}}$	Indicates whether the district is requiring more and more funding by the developer to cover its expenditures
3	SGD Stability of Growth to Debt	$\frac{\text{Outstanding General Obligation Bonds}}{\text{Assessed Valuation}}$	Indicates whether assessed valuation is growing sufficiently in relation to debt
4	CID Capacity for Increased Debt	$\frac{\text{Authorized but Unissued Debt}}{\text{Assessed Valuation}}$	Evaluates the amount of remaining debt that has not yet been issued to the district's assessed valuation
5	PP-TD Principal Payments to Total Debt	<p>District has Outstanding Debt for 2 or More Consecutive Years and Principal Payments Equal Zero for All 3 Years</p>	Indicates whether total outstanding debt has continuously increased over the 3 years reviewed while no principal payments have been made on the debt
6	MLV Mill Levy Changes	$\frac{\text{Debt Service Mill Levy}}{\text{Total Mill Levy}}$	Measures the relationship between the mill levy tied to debt and the district's total mill levy
7	DS-TD Principal Payments to Total Outstanding Debt	$\frac{\text{Governmental} + \text{Enterprise Funds Principal Payments}}{\text{Total Outstanding Debt}}$	Measures the relationship between principal payments and outstanding debt for both governmental and enterprise funds
8	WC Working Capital	$\frac{\text{Enterprise Funds Current Assets}}{\text{Enterprise Funds Current Liabilities}}$	Measures the liquidity of a district's enterprise funds
9	CI-E Cash and Investments over Expenditures	$\frac{\text{Cash and Investments (Governmental} + \text{Enterprise Funds)}}{\text{Total Expenditures} / 12}$	Measures the short-term liquidity of a district's governmental and enterprise funds
10	ASR Asset Sufficiency Ratio	$\frac{\text{Governmental Funds Total Assets} + \text{Deferred Outflows}}{\text{Governmental Funds Total Liabilities} + \text{Deferred Inflows}}$	Indicates the coverage of governmental fund assets to governmental fund liabilities.
11	OMR Operating Margin Ratio	$\frac{\text{Governmental Funds Total Revenue} - \text{Governmental Fund Total Expenditures, Net Of Transfers}}{\text{Governmental Funds Total Revenue}}$	Indicates the amount added to reserves for every \$1 in total governmental fund gross revenue.

Benchmark	Warning Indicators
An PTC of 1.0 indicates that property taxes + transfers from other districts equals total expenditures	Continuous decline in PTC from year 1 to year 3
An DAR of zero would indicate that the district is not dependent on developer advances to cover its expenditures	Continuous increase in DAR from year 1 to year 3
An SGD of 1.0 indicates that assessed valuation equals outstanding debt	Continuous increase in SGD from year 1 to year 3
An CID of 1.0 indicates that assessed valuation equals authorized but unissued debt	Continuous increase in CID from year 1 to year 3
An increasing PP-TD indicates increases in total outstanding debt with no principal payments	Continuous increase in PP-TD from year 1 to year 3, without any principal payments being made
An increasing MLV indicates the debt-related mill levy is increasing, or the total mill levy is decreasing	Continuous increase in MLV from year 1 to year 3
Consistent decreases in DS-TD indicates that the debt is increasing, or principal payments are consistently decreasing	Continuous decline in DS-TD from year 1 to year 3
An WC of 1.0 indicates that current assets equals current liabilities	Continuous decline in WC from year 1 to year 3 or WC less than 1.0 on year 3
An CI-E of 1.0 indicates that total cash and investments equals total expenditures	Continuous decline in CI-E from year 1 to year 3, with year 3 less than 1.0
An ASR of 1.0 indicates that total assets equals total liabilities.	Continuous decline in ASR from year 1 to year 3, with year 3 less than 1.0 or ASR less than 1.0 all 3 years
An OMR of zero means that revenue equals expenditures.	Decline in OMR from year 1 to year 3, with year 3 less than zero or OMR less than zero in all 3 years





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