Metro District Impacts on Housing Costs

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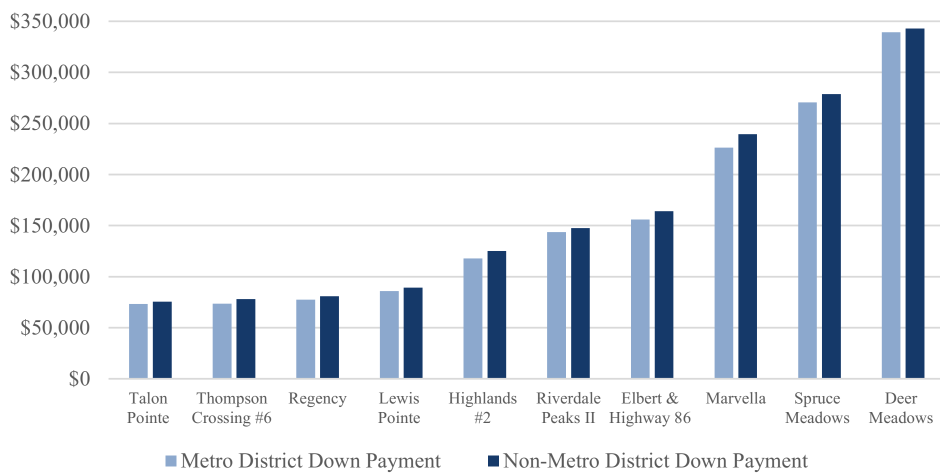
ANDERSON ECONOMIC GROUP

A growing number of new homes built in Colorado are being built in metro districts. Metro districts are governmental entities that have the authority to issue debt and levy property taxes to repay outstanding debt. Developers that build new subdivisions often form these districts to issue bonds to cover a new subdivision's infrastructure costs. The metro district then levies property taxes on homeowners in the district to repay the debt. The proliferation of these districts has led to increased scrutiny over the impact that districts have on housing costs.

AEG analyzed the impact of metro districts on housing costs across ten districts in Metropolitan Denver and Northern Colorado. AEG's analysis compared housing costs for a typical home in each district to what housing costs would have been if the same home was built outside of a metro district.

Metro districts present home buyers with cost trade-offs. Metro districts offer home buyers lower up-front costs in exchange for higher housing costs over the long term. The metro districts AEG reviewed reduced the amount needed for a 20% down payment by an average of 4% ($5,800) per home, since shared infrastructure costs are not capitalized into metro district home sales prices. If these same homes had been built outside of metro districts, infrastructure costs would have been included in the home's selling price, making the home more expensive.

FIGURE 1. Payment Amount Required for 20% Down Payment for Metro District and Non-Metro District Homes



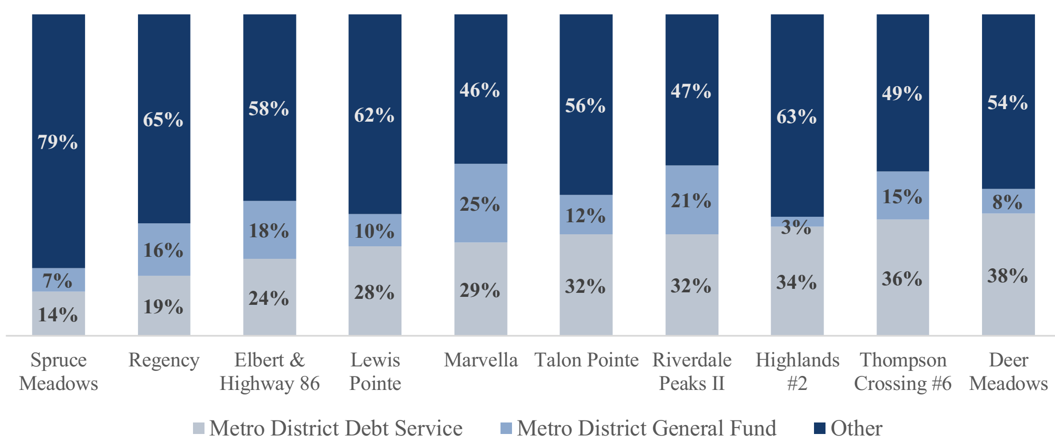
Source: AEG analysis of base data from metro district initial bond disclosure documents.

However, metro districts also levy higher property taxes on homeowners in order to repay the debt they issue. These property taxes typically result in higher long-term housing costs compared to non-metro district homes. The districts AEG reviewed saw an average increase in long-term housing costs of 2% ($16,200) over 30 years. This trade-off may appeal to some buyers for whom saving enough for a down payment may be a challenge.

When metro districts fail to make scheduled debt payments, homeowners pay higher costs. In metro districts where homes are not built or sold as quickly as planned, districts may not generate enough property tax revenue to pay down the debt they issue. This unpaid debt can accrue additional interest and increases the amount home owners must pay to the metro district. AEG found that two of the ten districts reviewed were not currently meeting their debt obligations. AEG estimates that homeowners' long-term housing costs in these districts will be 7% ($50,000) higher on average than if those homes were built and sold outside of a metro district.

Metro district property taxes could take homeowners by surprise. In 2020, debt service property taxes constituted 28% of the average tax bill in the metro districts AEG studied. The typical metro district tax payment increased by 10% per year during the first four years of homeownership. These rapidly-rising costs may place increased financial pressure on home owners in each district. AEG found no evidence that these costs have led to higher foreclosure rates or depressed home values in these districts.

FIGURE 2. Metro District Property Tax Levies as Proportion of Total Property Taxes Paid, 2020



Source: AEG analysis of base data from county assessor property records and metropolitan district financial documents.

Metro district best practices. County and municipal governments can reduce risks to homeowners by carefully scrutinizing proposals to form new metro districts and denying those applications with overly aggressive development schedules. Local governments should also utilize their oversight in existing districts by monitoring the financial health of districts in their jurisdictions. Policymakers should consider requiring developers to disclose a metro district's debt service schedule and anticipated future property tax liability to prospective home buyers as early as possible in the transaction process in order to educate buyers about the risks and ramifications of buying a home in a metro district.

About the Study's Author. Anderson Economic Group is a research and consulting firm specializing in economics, public policy, finance, business valuation, and industry analysis. The firm has offices in East Lansing, Michigan and Chicago, Illinois.

For more information on metro district impacts, see the full report, "The Impact of Metropolitan Districts on Housing Costs in Colorado," March, 2021.