



Issues to Consider When Analyzing a Special District's Financial Condition

Below are some issues for consideration when reviewing special district information. This list does not include all possible issues that could impact a district's financial condition. It is also important to remember that every situation is unique and an apparent financial problem in a district may or may not be significant when taken in context of that specific district's situation. Any area of concern should lead to further inquiry with the district's representatives.

- **Year of Organization.** If a metropolitan district was organized just prior to a recession it is possible that the district's development was negatively affected by the economic downturn. Both real estate sales and property value can be impacted by a recession. The infrastructure (roads, water, sewer, etc.) paid for by debt issued may have been constructed for development on a scale greater than the market could deliver during and immediately after a recession. These "development districts", which they are sometimes called, may not have achieved the goal of their service plan and can have trouble meeting their bond payments with pre-recession mill levies. Such districts may be under pressure to raise their property tax mill levies to avoid default. This information can usually be found in the "Notes" section of districts' financial statements.
- **Current Level of Construction Compared to Planned "Build-out".** This information is available from the special district. Knowing how near to completion the development is will help in estimating the tax burden per property. The cost of the infrastructure construction (for which the debt was issued) is apportioned per lot for repayment over the term of the debt. When development is complete each property pays for its apportioned cost. Less than build-out means that the presently developed properties are responsible for more than their apportioned amount. They may be obligated to pay for the debt for infrastructure associated with the unsold or undeveloped properties.
- **Debt to Assessed Value Ratio.** This ratio shows a special district's ability to support debt based on the value of real property in the district. It is calculated by dividing the total outstanding debt by the total assessed value of the district. There is not a specific percent figure that defines an absolute problem, but debt comprising more than 50% of the assessed value should prompt questions about the current rate of increase in the assessed valuation of the district since the district's organization. A related question would be "How many properties are being added to the tax roll each year?" The amount of currently outstanding debt can be found in the "Long-Term Debt Notes" of the district's financial statements.
- **Amount of Unissued Debt.** At the election to authorize indebtedness, ballot questions were approved for the maximum funding necessary for the full development. Bonds may have been issued only for the amount of money needed at the time, for example, for the first phase of a multi-phase development. When the district issues additional bonds from the authorized debt, taxpayers face increased payment obligations. This information is available in the "Long-Term Debt Notes" section of the district's financial statements.
- **Current Ratio.** This is a financial indicator used to evaluate whether or not a district is in a good position to pay expenditures due in the next year with reasonably assured assets such as cash and accounts receivable. The ratio is calculated by dividing the current assets by current liabilities. Smaller, newer special districts dependent almost entirely on property tax will often have weaker current ratios. Questions should be asked about the nature and levels of the district's revenue sources. Current assets and current liabilities are available on the "Balance Sheet" of a district's annual financial statements.
- **Are Current Reserves from Operations and the Debt Mill Levy Sufficient to Make Debt Service and Pay for Operations?** A review of the special district's financial statements will show whether the district's revenue from its operations, its debt mill levy, and other revenue sources such as fund balance, are sufficient to make debt service payments. If these revenues are not sufficient, where is the needed revenue coming from? Developers will sometimes make contributions to offset the shortfall in revenue. Questions should then be asked about how much longer the contributions will continue. When will the burden of the total debt obligation be placed on the property owners?