



# Issue Backgrounder

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## Debt Detective

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There are many new initiatives in 2009 that attempt to bring transparency and openness to government. The Independence Institute decided to see how easy it would be to determine how much debt has been incurred by local governments (cities, counties, etc.) in Colorado. After all, government debt is really *our* debt. It's taxpayers' debt. Our research found that information on local government debt IS available to the public ... on two conditions. First, citizens must have Sherlock Holmes-like instincts. Information about local debt can be found, but plan on digging for it. And, second, the results of your search may yield information that is considerably outdated.

To have transparency and openness, information must be easily accessible and complete. Within the state government of Colorado, the Department of Local Affairs (DOLA) compiles data on debt. However, the data is incomplete, poorly publicized, and difficult to use. DOLA should employ interactive internet communication to make information on local government debt more up-to-date and more accessible to Colorado taxpayers.

DOLA's website does provide some useful information about the debt of Colorado cities and counties. In fact, this is the only place we located where one can find *centralized* data of local government debt online. The Department prepares a financial compendium (abstract) in which data from financial statements of each of Colorado's municipalities and counties is summarized into a single document. The compendium breaks down the financials for each

municipality and county, providing details on revenues and expenditures. And, under the expenditure category, there is information on debt. However, these debt figures are considerably outdated. As of May 2009, the 2004 financial compendium was the most recent compendium available on the DOLA website.

Within DOLA's financial compendiums, debt is broken down into three parts: general obligation debt, revenue debt, and other debt (see text box). Of particular importance is the debt categorized under "other debt." Other debt includes Certificates of Participation (COPS). COPS are becoming a popular form of debt issuance worthy of taxpayers' attention (see text box, page 3).

Although the Department of Local Affairs keeps tabs on different kinds of debt issued by city and county governments, it is important to note that details on COPS and lease purchases are not available in the online financial compendium put together by the Department. Such information is only available in the hard copies of the financial statements of cities and counties. Some of these financial statements can be accessed online. Others cannot. However, most city and county financial statements are available as hard copies or electronic copies at the Department of Local Affairs or the State Auditor's Office ... if one has the time to travel to the state capitol, and to compile data, and is somewhat adept at reading audited financial statements.

DOLA reports a considerable lag time from the point the financial reports are released by local

**General obligation debt** is debt that is funded by the general tax revenues of a local government and is issued to fund particular government projects. For example, a city that wants to construct sewers will issue general obligation bonds to the public to fund the sewer project and will then pay those bonds back at a later date using general tax revenues. The bond is shown as general obligation debt.

**Revenue debt** is debt backed by a revenue stream or by the revenue flows generated from a particular government project. For instance, if the state decides to build a toll road, it may issue revenue bonds to fund the project. Once the toll road opens, the revenues generated from tolls will pay off the bonds.

**“Other” debt** is debt that is neither general obligation or revenue debt. It includes Certificates of Participation (COPS), lease purchases, and loans. COPS and lease purchases are very similar. Both involve regular government payments on an asset over a period of time. When the payments finish, ownership over the asset transfers to the government.

governments until Local Affairs makes the financial compendium available to the public.<sup>1</sup> Someone who takes the time to track down debt figures may be disappointed to discover that, at the end of their long journey, the only data available is five years old. Reports from five years ago do not reflect the true, up-to-date financial burden that today’s taxpayers carry. A researcher’s only option?

Park yourself at DOLA or the State Auditor’s Office (any taxpayer can do this) and conduct a city-by-city or county-by-county search for debt ... and total the debt from all the cities and counties yourself. In effect, you can create your own compendium. While this method will yield more up-to-date information for all cities and counties (data from 2007 rather than 2004), it will be a very cumbersome and time-consuming process, especially considering there are 64 counties and 271 municipalities in Colorado.

Governments often speak of transparency. But transparency is meaningless if accessibility is difficult. The Department

of Local Affairs is the only source in Colorado that has centralized data on local debt of city and county governments. Yet, as noted earlier, without a ton of patience, some skill at reading financial statements, and a willingness to accept data that is often years out of date, tracking down aggregate figures on debt will likely be a very time-consuming exercise. At a minimum, DOLA’s compendium should be updated to the most recent fiscal year, be easily accessible online, and list all debt (breaking down “other debt” into COPS and lease purchases). Implementing such measures would make information on local debt truly accessible to the public.

Our search for a central repository also took us to Colorado Counties, the Colorado Municipal League, the Special District Association, and the State Auditor’s Office. While helpful, these contacts all redirected our research back to the State Department of Local Affairs.

**Colorado Counties** – Colorado Counties is a nonprofit that offers assistance to county commissioners and encourages them to work together on common issues. They keep counties up-to-date on issues that affect county operations. Colorado Counties did not have centralized data on debt.<sup>2</sup>

#### **Colorado Municipal League**

– The Colorado Municipal League (CML) is a nonprofit that represents Colorado’s cities and towns in matters before the state and federal government. It

**Other Debt Continued**  
... Take, for example, a local government that decides to construct a new parking structure. As with any project, the local government will issue bonds to fund the construction of the facility. But rather than own the parking structure outright during the construction period, the government will lease the facility and make regular payments on the lease until construction is completed. When construction is completed, ownership of the parking structure transfers to the government. Investors will purchase shares of these lease revenues, and the local government will make regular payments to the investors. If the government were to default on payments to investors, investors will obtain control over the parking facility. COPS are simply proof that the investor is taking part in the bond issuance.

also provides information services to assist municipal officials in managing their governments. CML

### **Want to know how much debt your city/county owes?**

To find data for local government debt online, visit the following link which directs you to the financial compendiums put together by the Department of Local Affairs.

[http://www.dola.state.co.us/dlg/resources/financial\\_compendium/index.html#electronic](http://www.dola.state.co.us/dlg/resources/financial_compendium/index.html#electronic)

The State Department of Local Affairs also has hard copies of the compendiums at its office. For more specific information on debt (i.e. the cost of bonds being issued, how much has been paid off, and what the debt is funding), one must look in the actual financial statements of city and county governments. This information is typically under the section “Notes to the Financial Statements.” Some cities post this information online, and for those who do not, this information can be obtained by visiting the Department of Local Affairs or the State Auditor’s Office.

is not a repository for data on local debt, but Sam Mamet, executive director at CML, did point us in the right direction to find such information. He recommended we speak with the State Department of Local Affairs and State Auditor’s Office.<sup>3</sup>

### **Special Districts**

**Association** – The Special Districts Association mission is to preserve and enhance the political and legal environment for the special district form of government. They make available information and technical assistance to special districts so that they perform their jobs efficiently and effectively. Special Districts Association does not have centralized data on debt. Evan Goulding, executive director at Special Districts Association, suggested we talk to the State Department of Local Affairs and State Auditor’s Office to learn more about local debt.<sup>4</sup>

### **State Auditor’s Office**

– The State Auditor’s Office is a division operating under the control of the legislature. It conducts audits of the State’s agencies, colleges, and universities. It also reviews audits of local entities. According to Crystal Dorsey, the State Auditor’s Office is a repository for all the city

and county audits. It has the financial statements of local governments, but there is no specific cataloging of debt. Figures on the debt of individual cities and counties are available in the financial statements of each city/county. Not all the financial reports of local governments are available in electronic form, but the reports can be viewed at the Auditor’s Office.<sup>5</sup>

### **COPS – The Unknown Debt**

There is an advantage to governments issuing COPS. According to the Colorado Department of the Treasury, “COPs do not constitute a multi-year fiscal obligation and so can be issued without voter approval” because of the option not to appropriate the payments in any year. Thus, COPS are becoming an attractive financing tool for local governments.

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## Endnotes

<sup>1</sup> State Department of Local Affairs. Interview. Don Merrion. April 16, 2009.

<sup>2</sup> Colorado Counties. Interview. Chip Taylor. April 7, 2009.

<sup>3</sup> Colorado Municipal League. Interview. Sam Mamet. April 14, 2009.

<sup>4</sup> Special Districts Association. Interview. Evan Goulding. April 9, 2009.

<sup>5</sup> State Auditor's Office. Interview. Crystal Dorsey. April 14, 2009.

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ADDITIONAL RESOURCES on this subject can be found at: <http://www.independenceinstitute.org/> or call 303-279-6536.

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