

RatingsDirect®

Summary:

Arvada, Colorado; Appropriations; General Obligation

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Table Of Contents

Rationale

Outlook

Related Research

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Credit Profile

US\$11.295 mil certs of part ser 2016 dtd 08/24/2016 due 12/01/2036

Long Term Rating AA+/Stable New

Arvada ICR

Long Term Rating AAA/Stable Upgraded

Rationale

S&P Global Ratings raised its issuer credit rating (ICR) to 'AAA' from 'AA+' on Arvada, Colo. In addition, S&P Global Ratings assigned its 'AA+' long-term rating to the city's series 2016 certificates of participation (COPs). The outlook is stable.

The rating action reflects our view of the city's improved wealth and income indicators. The rating action also reflects our view of the city's increased available reserves as a result of positive general fund performances in recent years.

The 'AA+' rating on the series 2016 COPs is based on our opinion of the appropriation risk associated with lease payments made by the city, as lessee, to UMB Bank, as lessor, for the use and possession of the leased assets (police substations and a wastewater administration building). There is no debt service reserve securing the lease revenue bonds, but sufficient lag between the start of the city's fiscal year and the lease payment date allows for late budget adoption. The base rental payments are subject to annual appropriation by the city council. Although general fund revenue is not pledged to the repayment of the certificates, we understand that the city plans to fund the annual base rental payments from the general fund and from the city's golf course enterprise fund.

The city is eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above the Sovereign," published Nov. 19, 2013 on RatingsDirect, U.S. state and local governments are considered to have moderate sensitivity to country risk.

The rating reflects our view of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 46% of operating expenditures;
- Very strong liquidity, with total government available cash at 145.2% of total governmental fund expenditures and 32.6x governmental debt service, and access to external liquidity we consider strong;

- Very strong debt and contingent liability position, with debt service carrying charges at 4.4% of expenditures and net direct debt that is 28.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 82.9% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Arvada's economy very strong. The city, with an estimated population of 112,287, is located in Adams and Jefferson counties in the Denver-Aurora-Lakewood MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 118% of the national level and per capita market value of \$117,446. Overall, the city's market value grew by 23.1% to \$13.2 billion in 2015. The weight-averaged unemployment rate of the counties was 3.5% in 2015.

Arvada is 10 miles northwest of the City and County of Denver and encompasses approximately 38 square miles. Residents have access to employment opportunities throughout the Denver area by way of Interstates 70 and 76. Health care, government, and retail services are well represented among the city's largest employers. We consider the city's tax base very diverse, with the leading 10 taxpayers accounting for 7.5% of total AV. The city experienced good AV growth in recent years, largely as a result of significant residential development. Property values are assessed every two years to reflect an 18-month lag in market activity. Fiscal 2016 is a revaluation year, which reflects market activity for the period of Jan. 1, 2013 to June 30, 2014. City officials also report that commercial development has also been strong in recent years, contributing to greater sales tax revenue collections. In 2015, residential property accounted for 69% of total AV, while commercial and industrial property made up a combined 22%. The Regional Transportation District (RTD) of Denver is opening a light rail train route in the fall of 2016 that will run through Arvada. Management anticipates the new RTD route will provide further contributions to the local economy.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The FMA reflects our view of the following:

- The city uses external sources to help forecast revenue streams while taking a systematic and realistic approach to salary increases year over year.
- Budget-to-actual reports are provided to the city council quarterly.
- The city maintains a 10-year capital plan with funding sources identified.
- The city has an investment management policy and reviews investment holdings and budget-to-actual performance for investments quarterly.
- The city follows state guidelines to help guide large financing decisions.
- The city has a minimum reserve requirement for all its funds, including maintaining a general fund balance of at least 17%.

Strong budgetary performance

Arvada's budgetary performance is strong, in our opinion. The city had surplus operating results in the general fund of 8.9% of expenditures in fiscal 2015, but a deficit result across all governmental funds of 2.0%.

Total governmental funds have been adjusted to account for recurring items. The city has seen substantial revenue growth in recent years, contributing to three consecutive years of general fund surpluses. Officials report that commercial development has been strong since the recession, leading to an aggregate sales and use tax revenue increase of 31.4% since 2012. In 2015, sales and use taxes generated roughly 69% of general fund revenue. Management also attributes the positive performance to conservative and comprehensive budgeting. The city's 2015 expenditure profile had its largest year-over-year increase since 2012, which was largely due to a one-time purchase of property. We expect no significant one-time expenditures for the city within the next year.

The city is budgeting for continued revenue growth in fiscal 2016, and year-to-date to sales tax collections seem to support those projections. As of April 2016, sales and use tax collections were up 5.17% from the prior-year period. Current budget estimations show a modest deficit in 2016, but we note that the city has historically ended the year ahead of budget. The city's budget also includes realistic expenditure assumptions, such as up-to-date salary figures and anticipated health care cost increases.

Very strong budgetary flexibility

Arvada's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 46% of operating expenditures, or \$34.4 million.

Our calculation of available fund balance combines assigned and unassigned portions of the general fund balance. Available reserves have grown at an average annual rate of 19% since 2012, which equates to approximately \$4.6 million of additional available reserves per year. Although the city is budgeting for a modest deficit in 2016, management does not expect the fund balance to drop in fiscal years 2016 and 2017. While we don't expect the city to continue the trend of significant growth in fund balances, we expect the city's budgetary flexibility to remain very strong as a result of the council-approved reserve policy.

Very strong liquidity

In our opinion, Arvada's liquidity is very strong, with total government available cash at 145.2% of total governmental fund expenditures and 32.6x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

In our view, the city has strong access to external liquidity if necessary, as it has issued debt several times in the past 20 years. We do not consider the city's investments aggressive, as it primarily invests in U.S. government securities. We do not expect that liquidity will weaken over the next several years, as the city's adheres to its board-approved investment policy. The policy requires much of the city's portfolio to hold maturities of no more than 10 years while also setting investment-grade rating standards.

Very strong debt and contingent liability profile

In our view, Arvada's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.4% of total governmental fund expenditures, and net direct debt is 28.7% of total governmental fund revenue. Overall net debt is low at 1.2% of market value, and approximately 82.9% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The city entered into a direct purchase agreement with UMB Bank in 2015 (refunding COPs, series 2015A and 2015B),

with a par amount of \$11.8 million. Similar to the series 2016, the series 2015A and 2015B COPs are payable through lease payments made by the city, as lessee, to UMB Bank, as lessor, and base rental payments are subject to annual appropriation by the city council. The lease agreement contains no acceleration provisions and proceeds were used to refund portions of the city's 2005 COPs outstanding. We do not view the 2015A and 2015B debt as a material risk to the city's reserve or cash position.

The city has no variable-rate debt supported by the general fund outstanding. Management reports that the city has no official plans to issue additional debt in the next 12 to 18 months.

Arvada's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 0.1% of total governmental fund expenditures in 2015. The city made 167% of its annual required pension contribution in 2015.

The city has one defined benefit pension plan, which covers one fully vested participant that elected to not participate in the Arvada Police Pension Plan. This program had an unfunded actuarial accrued liability (UAAL) equal to \$108,464 in 2012, and the city budgeted \$20,000 per year starting in 2012 to fund the unfunded actuarial liability of the plan. The city plans to fully fund the plan's UAAL outstanding in 2016. The city has three defined contribution programs: the City of Arvada Retirement Program for its regular employees, the Arvada Police Pension Plan for its uniformed police officers, and the Executive Management Program for the appointed management team. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement Nos. 67 and 68, the city's net pension liability was \$149,041 as of Dec. 31, 2015; 70.6% funded using its fiduciary net position as a percentage of the total pension liability. The city also offers a defined benefit health care plan, which, as of Jan. 1, 2016, had a UAAL of roughly \$2.7 million.

Strong institutional framework

The institutional framework score for Colorado cities and towns with a budget greater than \$500,000 is strong.

Outlook

The stable outlook reflects our view of the city's very strong and stable economy given its participation in the Denver-Aurora-Lakewood MSA. Recent growth in the local economy has allowed for significant improvement in key economic indicators. The stable outlook also reflects our view of the city's very strong reserves and management's ability to consistently balance the budget. We do not expect to change the rating within the two-year outlook horizon. We could lower the ratings if the city were to experience sustained structural imbalance, resulting in a significant decline in available fund balances to levels no longer in line with those of similarly rated peers.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- 2015 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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