S&P Global Ratings

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Summary:

Arvada, Colorado; Water/Sewer

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US$14.59 mil wastewtr enterprise rev bnds ser 2025 due 12/01/2054		
Long Term Rating	AA-/Stable	New
Arvada wastewtr enterprise rev bnds ser 2022 dtd 12/20/2022 due 12/01/2052		
Long Term Rating	AA-/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to the city of Arvada, Colo.'s $14.59 million series 2025 wastewater enterprise revenue bonds.
- At the same time, S&P affirmed its 'AA-' rating on Arvada's outstanding wastewater revenue bonds.
- The outlook is stable.

Security

The 2025 bonds will be used to fund several two-trunk line programs to increase capacity to accommodate estimated build-out flows; the city has plans for additional bonding in 2027 of $42.5 million. Arvada's wastewater enterprise revenue bonds are secured by net revenues of the city's wastewater system. We view the bond provisions as credit neutral. Key bond provisions include a rate covenant set at 1.20x annual debt service and an additional bonds test set at 1.20x maximum annual debt service.

Credit overview

The city benefits from its location within the Denver-Lakewood-Aurora metropolitan statistical area (MSA), which has incomes that are higher than the national average, providing rate flexibility and consistent residential growth. The city's customer base is primarily residential and is in our view diverse, which provides a more predictable revenue stream. Arvada's sewer system is collection-only; as such, Arvada has an agreement with Metro Water Recovery under which Metro treats Arvada's wastewater. Although the city has a pre-approved rate plan, any unforeseen increases in operating and maintenance expenses could result in an uneven financial performance. The rating could be pressured if the city begins to rely on growth-related fees to meet its debt obligations.

We view the system's all-in coverage and liquidity position as healthy and we anticipate it is likely to remain so, even considering management's planned debt. As referenced above, debt service coverage (DSC) is somewhat reliant on growth-related fees. Based on our projections in 2022, we anticipated a possible drop in DSC to 1.1x in 2025 given the increase in debt service payments subsequent to the 2025 debt issuance. However, all-in coverage in fiscal 2025 is likely to end up much higher at around 1.6x, even including S&P's treatment of certain fixed costs to Metro Water as debt-related instead of operating expenses. This was due, in part, to a 2025 rate increase of approximately 15.4% as well as an increase in tap fees in 2023. All-in coverage is our internally adjusted DSC metric that we believe best tracks the use of every dollar of utility operating revenue, regardless of lien, accounting treatment, or ultimate purpose. It also incorporates recognition of fixed costs or charges, which we define as certain long-term recurring items that are debt-like in nature. For the city, we have included a fixed cost related to the wastewater treated by Metro Water Recovery. All-in coverage was 1.44x in fiscal 2023 and unaudited 2024 coverage is expected to be around 1.5x. Given management's planned rate increases, we expect coverage to remain around 1.6x moving forward.

Our view of the rating also reflects the:

- Service area participation in the city of Denver-Lakewood-Aurora's MSA, as Arvada is only nine miles northwest of downtown Denver;
- Wastewater rates that are currently affordable relative to local incomes and poverty rates near 7.4% in 2025, despite moderately planned rate increases through 2032 to fund capital improvements on the utility systems;
- Good operational management assessment, as reflected by a proactive approach to increasing capacity, a robust maintenance schedule, and forward-looking rate-setting measures.
- Stable liquidity for a conveyance system, with a nominal amount of about $5.1 million cash for fiscal 2023, equivalent to 140 days of operating expenses; however, due to the planned capital-intensive period, management believes it may not meet its internal working capital target in 2029; and
- Good financial management represented by formalized policies, quarterly financial updates to the board, and annual ten-year projections.

Environmental, social, and governance

We analyzed the city's environmental, social, and governance risks relative to its enterprise and financial risk profiles and view its environmental risk as moderately elevated in our credit rating analysis. We view physical risk for the region as a negative credit consideration, reflecting the arid climate that elevates drought and wildfire risk. In addition, although not an issue for the city at this time, dealing with per- and polyfluoroalkyl substances (PFAS) regulations is an emerging risk in the region. We view governance risk for the city as credit neutral, reflecting the annually updated long-term projections, as well as a codified cyber security policy and comprehensive succession planning. We view social risks as credit neutral. Current rates are moderately affordable, and despite planned rate increases, we do not expect the city's planned rate increases to pressure the residential bill.

Outlook

The stable outlook reflects our opinion that the system's coverage and liquidity will remain stable during the two-year outlook horizon, even considering the planned 2027 issuance and rate increases will proceed as projected, barring any unforeseen reduction in operating margins or growth-related revenues.

Downside scenario

We could lower the rating if all-in coverage metrics decline or if cash is spent down to fund unforeseen capital projects, although we do not anticipate this. In addition, we could lower the rating if completion of the capital improvements takes longer than anticipated or if costs associated with Metro's treatment of the city's wastewater increase, resulting in higher operating expenses associated with wastewater treatment costs.

Upside scenario

We could raise the rating if all-in coverage continues to outperform projections, excluding growth-related fees, as management progresses through the system's capital plan, or if cash stays strong during the plan.

Credit Opinion

Arvada is in north-central Colorado about nine miles northwest of Denver's city center. The city covers approximately 38 square miles and serves a population of around 124,000. Its customer base has easy access to the larger Denver MSA, which has a broad and diverse economy. We view the service area's income levels as strong based on Arvada's median household effective buying income (MHHEBI), which was 138% of the national median for 2025. The system's customer base is primarily residential and is in our view diverse. The city currently serves about 38,000 residential customers.

Arvada's wastewater is treated by Metro, with annual charges imposed according to the amount and quality of the sewage delivered. Arvada also has an agreement with Ralston Valley Water and Sanitation District (RVWSD) to collect RVWSD's sewage and transport it to Metro using RVWSD's infrastructure. Service charges are calculated based on metered flow from the RVWSD service area to and through the city's system.

The city bills its customers on the property tax bill for water, wastewater, and trash services. The wastewater rates consist of a wastewater base share and a volumetric component per 1,000 gallons of wastewater usage. We view the system's market position as favorable, given the affordable service rates in the context of the service area's strong income metrics and low county poverty rate. For a typical residential customer producing an average of 6,000 gallons of wastewater per month, the monthly-equivalent bill is affordable, at about 0.47% of the city's MHHEBI. We understand the board generally plans to pursue annual 10% volumetric rate increases, although management reviews system rates annually and will adjust as needed.

Arvada, Colorado--Economic and financial data

		Fiscal year-end			
	Most recent	**2023**	**2022**	**2021**	**Median (AA-)**
Economic data					
MHHEBI of the service area as % of the U.S.	138.0				105.0
Unemployment rate (%)	2.9				3.6
Poverty rate (%)	7.4				11.3
Water rate (6,000 gallons or actual) ($)	--				37.7
Sewer rate (6,000 gallons or actual) ($)	35.2				40.8
Annual utility bill as % of MHHEBI	0.5				1.2
Operational management assessment	Strong				Good
Financial data					
Total operating revenues ($000s)		15,625	15,209	16,684	15,647
Total operating expenses less depreciation ($000s)		13,266	14,060	11,516	11,314
Net revenues available for debt service ($000s)		5,192	998	5,279	--
Debt service ($000s)		2,741	--	--	--

Arvada, Colorado--Economic and financial data (cont.)

		Fiscal year-end			
	Most recent	2023	2022	2021	Median (AA-)
S&P Global Ratings-adjusted all-in DSC (x)		1.4	1.3	2.8	2.0
Unrestricted cash ($000s)		5,103	5,927	5,083	16,768
Days' cash of operating expenses		140	154	161	610
Total on-balance-sheet debt ($000s)		49,608	50,402	1	29,615
Debt-to-capitalization ratio (%)		38.5	40.9	0.0	31.0
Financial management assessment	Good	--	--	--	Good

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.