Arvada, Colorado [Water]

Public Finance
Water & Sewer
United States

Assessment

Standalone Credit Profile (SCP)	aa+

Outlooks

SCP and Revenue Bonds	Stable

New Issues

$90,000,000 Water Enterprise Revenue Bonds, Series 2025	AA+

Sale Date

Week of June 23 via competitive bid

Outstanding Debt

Issuer Ratings Information

Applicable Criteria

U.S. Water and Sewer Rating Criteria (February 2025)

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (January 2025)

Related Research

Fitch Rates Arvada, CO's Series 2025 Water Revs 'AA+'; Outlook Stable (June 2025)

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The 'AA+' water revenue bond rating reflects the system's 'Very Strong' financial profile in the context of its 'Very Strong' revenue defensibility and 'Very Strong' operating risk profile, both assessed at 'aa'. The system's leverage of -0.8x in fiscal 2023 (FYE December 31), measured as net adjusted debt to adjusted funds available for debt service (FADS), indicates cash and investments available for debt service being greater than net adjusted debt. However, it is projected to increase to a peak of 7.2x in fiscal 2027 in Fitch's Analytical Stress Test (FAST) rating case.

The system is expected to move into a capital-intensive cycle and issue more debt over the next five to seven years to fund its participation in the Gross Reservoir Expansion project and replace one of its water treatment plants (WTP). This will likely push leverage above 7.0x in some years through 2030. However, in the longer term, leverage is expected to peak around this time before declining to a level consistent with the current rating, as capital spending moves back to historical levels, debt amortizes, and FADS grows with future rate increases.

Security

The bonds are secured by a first lien on the net revenues of the water system after payments of operations and maintenance expenses.

Key Rating Drivers

Revenue Defensibility - aa

Very Favorable Service Area, Affordable Rates for the Vast Majority of the Population

The city retains the legal authority to adjust rates as needed without external oversight. Fitch considers the monthly residential water bill affordable for about 90% of the service area population based on standard monthly usage of 7,500 gallons. The very favorable service area is characterized by stronger income levels, a moderate unemployment rate relative to the nation and midrange customer growth. Customer growth registered a five-year compound annual growth rate of 0.8% as of fiscal 2023. Income levels are about 44% higher than the national median as of 2023. The unemployment rate was 3% in 2023 and has averaged 17% less than the national level over the past four years.

Operating Risk - aa

Very Low Operating Cost Burden, Moderate Investment Needs

In fiscal 2023, the system's operating cost burden was considered very low at $6,787 per million gallons (mg), consistent with the operating risk assessment. The life cycle ratio was very low at 27% in fiscal 2023. Capex to depreciation is robust averaging 510% over the last five fiscal years from 2019 to 2023. Planned capital spending for the next five years should generally outpace historical depreciation, supporting a continued very low life cycle ratio.

The five-year capital improvement plan (CIP) including estimated actual 2024 and projected 2025-2028 spend totals about $406.9 million. A large portion of the CIP includes the city's share of the Denver Water Moffat Project (Gross Reservoir Expansion). This project is currently expected to complete construction around 2027, with filling of the reservoir after. In addition, the CIP includes replacement of the Arvada WTP.

Financial Profile - aa

Leverage to Increase

The system had leverage of -0.8x as of fiscal 2023 since available cash exceeds adjusted debt. Exceptionally low leverage increased in recent years as the system incurred debt as it moves into a more capital-intensive period. The liquidity profile is neutral to the overall assessment with current days cash on hand of 1,262 and coverage of full obligations (COFO) of 4.9x. Fitch-calculated total debt service coverage for fiscal 2023 was 7.6x, which excludes fixed service expense.

The FAST considers the potential trend of key ratios in a base case and stress scenario over a five-year period. The stress scenario is designed to impose capital costs 10% above expected base case levels and evaluate potential variability in projected key ratios. The FAST reflects Fitch's view of a reasonable scenario, which is generally informed by publicly available and/or management provided information with respect to capital expenditures, user charges and rate of revenue and expenditure growth.

In the base case scenario, the leverage ratio is expected to increase to 6.4x in fiscal 2027, then decline to 4.9x in fiscal 2028. In the stress scenario, which is considered the rating case, the leverage ratio is projected to increase to 7.2x in fiscal 2027, then decrease to 5.8x in fiscal 2028. Fitch expects the liquidity profile to remain neutral to the assessment over the five-year horizon.

Asymmetric Additional Risk Considerations

No asymmetric additive risk considerations affected this rating determination.

Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Leverage sustained above 7.0x in Fitch's rating case after 2030, likely driven by sustained elevated capital spending.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Leverage sustained below 5.0x assuming maintenance of the current revenue defensibility and operating risk profile assessments. Due to the higher expected capital spending falling after 2027, an upgrade is not likely in the short term.

Profile

The system serves a growing population of about 122,000 via 40,100 individual connections. The service area lies about 10 miles northwest of Denver, CO and benefits from the economic diversity of Denver's larger metropolitan statistical area. Local economic statistics are very favorable with the city exhibiting above-average income, low rates of unemployment, and steady customer growth.

Approximately 80% of raw water supply is provided by the Denver City and County Board of Water Commissioners (Denver Water; revenue bonds rated AAA/Negative) made available through two perpetual supply contracts. Remaining supply is from the city-owned Arvada Reservoir. While supply is sufficient over the medium term, the city and Denver Water are working together on the Denver Water Moffat Project (Gross Reservoir Expansion), which is anticipated to provide a drought-resistant supply through build-out.

Fitch considers the system a related entity of the city for rating purposes due to the city's oversight of the system, including the authority to establish rates and direct operations. The credit quality of the city does not currently constrain the bond rating. However, as a result of being a related entity, the issue rating could become constrained by a material decline in the general credit quality of the city.

Updated U.S. Environmental Protection Agency (EPA) Regulations

The city is addressing new regulations set forth by the U.S. Environmental Protection Agency (EPA). The EPA's enhanced focus on lead and copper lines and per- and polyfluoroalkyl substance (PFAS) contaminants has led to finalized Lead and Copper Rule Improvements (LCRI) along with specific testing requirements for PFAS chemicals. The system does not currently have any issues with detected PFAS compounds in treated water. In addition, the system is monitoring and replacing galvanized service lines to comply with the LCRI.

Revenue Defensibility

Revenue Source Characteristics

All revenue is derived from services or business lines exhibiting monopolistic characteristics.

Service Area Characteristics

Service area characteristics are considered very favorable. The five-year total customer count CAGR was midrange at around 0.8% in 2023. The city recently went through a growth period and is now expected to grow 1%-2% annually. Buildout is expected in the 2040 timeframe.

Income levels are considered stronger. The service area MHI was 144% the national average in 2023. Unemployment is considered midrange, at about 83% the nation rate in 2023.

Rate Flexibility

Residential rates include a fixed-charge component representing approximately 16% of the customer bill, which has been increasing over the last several years (fixed-charge component was 8% of monthly bill in 2021). The remainder of the bill is tied to usage. Based on Fitch's standard usage assumption of 7,500 gallons per month, the monthly bill was $44.64 in 2023. This is affordable to the vast majority of the population.

Prior to 2022, rates increased incrementally at about 3%-4%. More recently, as the system entered a capital-intensive phase, rates increased more significantly. Fiscal 2022, 2023, and 2024 rates grew by around 10%, 16%, and 15%, respectively. Double digit rate increases are expected for the system through around 2030 to keep up with capital costs. Given the currently affordable rates, Fitch does not expect these rate increases to significantly impact overall affordability.

The 2022 rate adjustments also included the fee for new connections doubling from $19,275 to about $38,000. Connection fee revenue doubled in 2022 as a result. Connection fees remain higher than historical levels as the city continues to invest in growth, particularly in multi-family units.

Asymmetric Factor Considerations

No asymmetric rating factor considerations affect the revenue defensibility assessment. There is no concentration within the top 10 customers.

Operating Risk

Operating Cost Burden

The system's operating cost burden is considered very low at around $6,800 per mg in 2023. This is over a 30% increase from the prior year, largely due to 2023 being a particularly wet year, causing water demand to decline by around 25%.

The system anticipates seeing small increases in purchased water costs over the next couple years. Management currently forecasts rates charged by Denver Water to increase by around 0.5% per year.

Capital Planning and Management

The system's life cycle ratio is considered very low at around 27%. Capital investment has been very robust over the past five years, and in 2023, the system had a five-year capex-to-depreciation average of 512%. Capital spending is expected to increase through 2030, as the system executes on a number of projects related to water supply and system infrastructure.

Estimated actual spending in 2024 along with budgeted spending between 2025 and 2028 CIP totals around $406.9 million, a large portion of which includes the city's share of Denver Water's Moffat Project. This project will expand Denver Water's Gross Reservoir, which will allow the system to supply the city with water at full buildout needs. This is expected to be completed by 2027 and cost around $96 million. In addition, the system is planning a replacement of its Arvada WTP. The WTP is expected to provide enough capacity to treat 27 million gallons per day (mgd), resulting in a combined capacity of 63 mgd when including the Ralston WTP's capacity. This is expected to be sufficient to handle full build out of the system's service area.

Other projects also focus on line replacements to address the EPA's lead and copper rule, meter replacements, and various projects tied to the Ralston WTP.

The CIP is anticipated to be largely debt funded, including the current issuance. Future debt issuances are currently slated for fiscals 2027, 2029, and 2032 at $150 million, $150 million, and $13 million, respectively.

Asymmetric Factor Considerations

No asymmetric rating factor considerations affect the operating risk profile assessment.

Financial Profile and FAST Analysis

Leverage jumped year over year in 2022, from -5.2x to around -2.2x. This was mainly due to a $50 debt issuance in November 2022. Leverage in 2023 remains extremely low at -0.8x. The liquidity profile is neutral. COFO was around 4.9x, and DCOH was about 1,262 in 2023. Fitch-calculated all-in debt service was 7.6x for the year.

Fitch Analytical Stress Test (FAST)

The FAST considers the potential trend of key ratios in a base case and a stress case. The base case reflects Fitch's expectation of both historical financial results and expected performance in a normal operating-cost environment, while the stress case is designed to impose capital costs 10% above expected base case levels and evaluate potential variability in projected key ratios.

The base case was informed by management and assumes that capital spending increases significantly over the next five years, to around $406.9 million. To fund this, the system expects to issue around $240 million over the forecast period and significant rate increases through at least 2030. Estimated 2024 revenues and expenditures were provided by management. The system also expects small increases in its purchased water costs. The FAST assumes that Denver Water increases its wholesale rate by 0.5% every year.

Factoring in the assumptions, leverage increases through the forward look to around 6.4x and 7.2x, in base and rating case, respectively. The metric is expected to continue to increase, as elevated capital spending continues until 2030. Thereafter, leverage should decrease to a level supportive of the current rating, as the system moves out of its capital-intensive cycle.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Financial Summary

(Audited Fiscal Years Ended Dec. 31)	2019	2020	2021	2022	2023
Revenue Defensibility					
Revenue Source Characteristics					
% of Total Revenue from Monopolistic Services	100	100	100	100	100
Service Area Characteristics					
Service Area Population	122,051	124,402	123,512	121,608	121,706
Total Customer Count	38,829	39,162	39,441	39,770	40,100
5—Year Total Customer Count CAGR(%)	1.8	1.6	1.2	0.9	0.8
Service Area Median Household Income ($)	84,717	92,669	96,677	106,014	113,396
Service Area MHI/U.S. Median Household Income (%)	135	143	140	141	144
Service Area Unemployment Rate (%)	2.4	6.4	5.0	2.7	3.0
Service Area Unemployment Rate/U.S. Unemployment Rate (%)	65	79	94	75	83
Rate Flexibility					
Total Monthly Bill ($) (7,500 Gallons Water/6,000 Gallons Sewer)		33.90	35.09	38.52	44.64
% of Population with Unaffordable Bill	-	9	9	9	10
Operating Risk					
Operating Cost Burden					
Operating Cost Burden ($/mg)	5,259	4,727	5,365	5,101	6,787
Capital Planning and Management					
Life Cycle Ratio (%)	33	33	32	30	27
Annual CapEx/Depreciation (%)	324	254	347	685	950
5—Year Average Capex/Depreciation (%)	187	213	271	372	512
Financial Profile ($000, unless otherwise indicated)					
Current Unrestricted Cash/Investments	71,929	72,068	61,379	106,575	83,260
Current Restricted Cash/Invest (Available Liquidity)	-	-	-	-	-
Current Cash Available	71,929	72,068	61,379	106,575	83,260
Noncurrent Unrestricted Cash/Investments					
Noncurrent Restricted Cash/Invest (Available Liquidity)					
Available Cash	71,929	72,068	61,379	106,575	83,260
Current Restricted Cash/Invest (Debt Service or Debt Service Reserve)					
Noncurrent Restricted Cash/Invest (Debt Service or Debt Service Reserve)					
Funds Restricted for Debt Service					
Total Debt	2,279	424	259	50,818	50,748
Capitalized Fixed Charges	11,106	14,078	12,255	14,850	13,482
Adjusted Net Pension Liability					
Available Cash	71,929	72,068	61,379	106,575	83,260
Funds Restricted for Debt Service					
Net Adjusted Debt	-58,544	-57,566	-48,865	-40,907	-19,030
Total Operating Revs	23,459	29,748	26,311	35,534	30,009
Purchased Water/Sewer Services	4,533	5,746	5,002	6,061	5,503
Other Operating Expenses	15,873	15,809	17,268	19,117	18,574

Financial Summary

(Audited Fiscal Years Ended Dec. 31)	2019	2020	2021	2022	2023
EBITDA	3,053	8,193	4,041	10,356	5,932
Investment Income/(Loss)	3,357	2,662	-598	-2,246	5,448
Non—Operating Revenues from Taxes					
Other Cash Revenues/(Expenses)					
BAB Subsidy					
Capital Contributions	5,832	4,781	4,273	8,653	11,851
Funds Available for Debt Service	12,242	15,636	7,716	16,763	23,231
Fixed Services Expense	1,587	2,011	1,751	2,121	1,926
Net Transfers In/(Out)	-719	88	-95	-245	-910
Pension Expense					
Adjusted Funds Available for Debt Service	13,110	17,735	9,372	18,639	24,247
Net Adjusted Debt/Adjusted Funds Available for Debt Service (x)	**-4.5**	**-3.3**	**-5.2**	**-2.2**	**-0.8**
Funds Available for Debt Service	12,242	15,636	7,716	16,763	23,231
Fixed Services Expense	1,587	2,011	1,751	2,121	1,926
Net Transfers In/(Out)	-719	88	-95	-245	-910
Adjusted FADS for Coverage of Full Obligations	13,110	17,735	9,372	18,639	24,247
Total Annual Debt Service	2,271	2,367	424	224	3,059
Fixed Services Expense	1,587	2,011	1,751	2,121	1,926
Adjusted Debt Service (Includes Fixed Services Expense)	3,858	4,378	2,175	2,345	4,985
Coverage of Full Obligations (x)	3.40	4.05	4.31	7.95	4.86
Coverage of Full Obligations Excluding Connection Fees (x)	1.89	2.96	2.34	4.26	2.49
Current Days Cash on Hand	1,287	1,220	1,006	1,545	1,262
Liquidity Cushion Ratio (Days)	1,287	1,220	1,006	1,545	1,262
All—In Debt Service Coverage (x)	5.39	6.61	18.20	74.83	7.59

Notes: Fitch may have reclassified certain financial statement items for analytical purposes. N.A. - Not Available.
Sources: Fitch Ratings, Fitch Solutions, Arvada (CO)

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

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