FitchRatings

Public Finance
Water & Sewer
United States

Arvada, Colorado [Sewer]

The 'AA' wastewater revenue bond rating and 'aa' SCP reflect the system's 'Very Strong' financial profile within the framework of 'Very Strong' revenue defensibility and 'Very Strong' operating risk profiles, both assessed at 'aa'. The system's leverage, measured as net adjusted debt to adjusted funds available for debt service (FADS), was exceptionally low at 1.8x in fiscal 2023 (FYE Dec. 31) and is projected to increase to a peak of 8.5x in fiscal 2027 in Fitch's Analytical Stress Test (FAST) rating case, assuming full execution of the capital plan, which would retain limited headroom for the rating.

Leverage increases in the near term as the system ramps up capital spending and issues additional debt to fund two sewer trunk line improvement projects. The metric is anticipated to move to around 7.0x as the system exits its capital-intensive phase around 2028.

Security

The bonds are secured by a first lien on the net revenues of the wastewater enterprise system.

Assessment

Standalone Credit Profile (SCP)	aa

Outlooks

SCP and Revenue Bonds	Stable

New Issues

$15,000,000 Wastewater Enterprise Revenue Bonds, Series 2025	AA

Sale Date

Week of June 23 via competitive bid

Outstanding Debt

Issuer Ratings Information

Applicable Criteria

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

Related Research

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

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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 sewer bill affordable for approximately 93% of the service area population based on standard monthly usage of 6,000 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 has decreased to 3% since 2020 but was still 19% less than the national average in 2023.

Operating Risk - aa

Very Low Operating Cost Burden, Moderate Investment Needs

In fiscal 2023, the system's operating cost burden was very low at $4,215 per million gallons (mg), consistent with the operating risk assessment. The life cycle ratio was very low at 28% in fiscal 2023. Capex to depreciation has been robust, averaging 255% 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 $131.5 million. A large portion of the CIP is focused on the city's North Trunk Program and Central Ralson Trunk Program. Funding is anticipated to include about $57.5 million of new debt, including the current issuance, with the remainder funded through pay-go.

Financial Profile - aa

Leverage to Increase Yet Remain Consistent with Current Rating

The system had exceptionally low leverage of 1.8x as of fiscal 2023. Despite debt issued in fiscal 2022, an increase in available cash and higher FADS drove leverage that year to its lowest point over the last five years. The liquidity profile is neutral to the overall assessment with current days cash on hand of 1,518 and coverage of full obligations (COFO) of 1.5x. Fitch-calculated total debt service coverage was 2.1x in fiscal 2023, 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 7.8x in fiscal 2027, then decrease to 6.6x by fiscal 2028. In the stress scenario, which is considered the rating case, the leverage ratio is projected to increase to 8.5x in fiscal 2027, then decline to 7.4x by fiscal 2028. The liquidity profile is expected 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

- Increased leverage to above 9.0x on a sustained basis in Fitch's rating case.

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

- Leverage below 7.0x on a sustained basis in Fitch's ratings case, after executing on upcoming capital projects.

Profile

The system serves a population of about 122,000 via around 38,600 individual connections, the vast majority of which are residential. 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 midrange customer growth. The system consists of collection infrastructure with treatment provided by Metro Water Recovery (Metro) pursuant to a long-term service contract.

Fitch considers the system a related entity of the city for rating purposes given 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 related entity, the issue rating could become constrained by a material decline in the general credit quality of the city.

Revenue Defensibility

Revenue Source Characteristics

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

Service Area Characteristics

The service area is considered very favorable. Customer growth is moderate; the five-year customer CAGR was 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 national 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 7% of monthly bill in 2021). The remainder of the bill is tied to usage. Assuming Fitch's 6,000 gallons of sewer flows per month, the system's monthly bill was $41.36 in 2023. This was affordable to the vast majority of the population.

Prior to 2022, rates increased incrementally at about 3%. More recently, as the system began to invest more heavily in capital, rates increased more significantly. In fiscal 2022, 2023, and 2024 rates grew by around 8%, 14%, and 14%, respectively. Double digit rate increases are expected for the system through around 2028 to keep up with capital costs. Given the currently affordable rates, Fitch does not expect these rate increases to significantly impact overall affordability.

In 2022, city council approved a significant increase in the connection fee charge. Starting in 2023, the rate charged to developers to connect to the system increased from $1,579 to $10,400. 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 risk factors 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 very low and was around $4,215 per mg in 2023. The system sends its flows to Metro for treatment; as a result, around 60% of operating expenses are related to purchased service costs. Looking forward, the system forecasts Metro rates to increase between 7%-8% per year. These increases are not expected to increase the operating cost burden materially.

Capital Planning and Management

The life cycle ratio is considered very low at around 28%. Capital investment has been very robust over the past five years, and in 2023, the system had a five-year capex-to-depreciation around 255%. Capital spending is expected to increase through 2028 as the system executes on a number of projects related to system infrastructure.

The system plans to spend about $131.5 million over the next five years. The CIP focuses on implementing two trunk line repair/improvement projects, the North Trunk Program (NTP) and the Central Ralston Trunk Program (CRTP). These projects are intended to provide sufficient sewer capacity to serve the entire service area in build-out.

The CIP is anticipated to be funded with about $57.5 million in debt, including the current $15 million issuance. A future debt issuance is currently slated for fiscal 2027 in the amount of $42.5 million.

Asymmetric Factor Considerations

No asymmetric risk factors affect the operating risk assessment.

Financial Profile and FAST Analysis

Fitch's leverage calculation was 1.8x at the end of 2023. The metric declined by around 50% year over year mainly due to an improvement in FADS as a result of lower expenses and improved investment income. The liquidity profile is neutral, COFO was around 1.5x and DCOH was about 1,518 in 2023. Fitch calculated all-in debt service coverage was 2.1x 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.

Fitch's base case was informed by management and assumes full execution of planned capex of $131.5 million. To fund this, the system expects to issue around $57.5 million in debt in the forecast period and increase rates significantly through 2028. The system expects Metro to increase rates between 7%-8% in the forecast period.

Factoring in these assumptions, leverage increases to around 7.8x and 8.5x in fiscal 2027 in the base and stress (rating) cases, respectively. As the system moves back to more historical levels of spending following completion of large-scale projects around 2028, leverage is expected to settle around 7.0x.

Asymmetric Additive Risk Considerations

No asymmetric additive risk considerations affect the rating.

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	37,656	37,957	38,221	38,286	38,585
5—Year Total Customer Count CAGR(%)				0.8	0.7
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)	31.72	32.56	33.46	36.24	41.36
% of Population with Unaffordable Bill	7	7	7	7	7
Operating Risk					
Operating Cost Burden					
Operating Cost Burden ($/mg)	3,754	3,676	3,591	4,697	4,215
Capital Planning and Management					
Life Cycle Ratio (%)	30	29	29	30	28
Annual CapEx/Depreciation (%)	263	431	116	102	365
5—Year Average Capex/Depreciation (%)			243	234	255
Financial Profile ($000, unless otherwise indicated)					
Current Unrestricted Cash/Investments	4,196	1,348	5,083	55,927	55,103
Current Restricted Cash/Invest (Available Liquidity)	-	-	-	-	-
Current Cash Available	4,196	1,348	5,083	55,927	55,103
Noncurrent Unrestricted Cash/Investments					
Noncurrent Restricted Cash/Invest (Available Liquidity)					
Available Cash	4,196	1,348	5,083	55,927	55,103
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	409	596	619	50,886	50,207
Capitalized Fixed Charges	20,765	19,874	20,419	24,504	22,446
Adjusted Net Pension Liability					
Available Cash	4,196	1,348	5,083	55,927	55,103
Funds Restricted for Debt Service					
Net Adjusted Debt	16,978	19,122	15,955	19,463	17,550
Total Operating Revs	12,601	12,801	16,684	15,209	15,625
Purchased Water/Sewer Services	8,476	8,112	8,334	10,002	9,162
Other Operating Expenses	2,745	2,791	2,960	3,736	4,088
EBITDA	1,380	1,898	5,390	1,471	2,375
Investment Income/(Loss)	401	317	111	-151	2,833
Non—Operating Revenues from Taxes					

Financial Summary

(Audited Fiscal Years Ended Dec. 31)	2019	2020	2021	2022	2023
Other Cash Revenues/(Expenses)					
BAB Subsidy					
Capital Contributions	697	518	378	746	1,406
Funds Available for Debt Service	2,478	2,733	5,879	2,066	6,614
Fixed Services Expense	2,966	2,839	2,917	3,501	3,207
Net Transfers In/(Out)	-334	-454	-222	-322	-16
Pension Expense					
Adjusted Funds Available for Debt Service	5,110	5,118	8,574	5,245	9,805
Net Adjusted Debt/Adjusted Funds Available for Debt Service (x)	**3.3**	**3.7**	**1.9**	**3.7**	**1.8**
Funds Available for Debt Service	2,478	2,733	5,879	2,066	6,614
Fixed Services Expense	2,966	2,839	2,917	3,501	3,207
Net Transfers In/(Out)	-334	-454	-222	-322	-16
Adjusted FADS for Coverage of Full Obligations	5,110	5,118	8,574	5,245	9,805
Total Annual Debt Service	1,535	409	596	576	3,225
Fixed Services Expense	2,966	2,839	2,917	3,501	3,207
Adjusted Debt Service (Includes Fixed Services Expense)	4,501	3,248	3,513	4,077	6,432
Coverage of Full Obligations (x)	1.14	1.58	2.44	1.29	1.52
Coverage of Full Obligations Excluding Connection Fees (x)	0.98	1.42	2.33	1.10	1.31
Current Days Cash on Hand	136	45	164	1,486	1,518
Liquidity Cushion Ratio (Days)	136	45	164	1,486	1,518
All—In Debt Service Coverage (x)	1.61	6.68	9.86	3.59	2.05

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.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.