

RatingsDirect®

Summary:

Arvada, Colorado; Water/Sewer

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Credit Profile

US\$86.28 mil wtr enterprise rev bnds ser 2025 due 12/01/2054

Long Term Rating AA+/Stable New

Arvada wtr 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 \$86.28 million series 2025 water enterprise revenue bonds.
- At the same time, S&P affirmed its 'AA+' rating on Arvada's outstanding water revenue bonds.
- The outlook is stable.

Security

The 2025 bonds will be used to fund the replacement of certain parts of the water system and to build its overall resiliency, as well as to increase total raw water supply through the Gross Reservoir Expansion Project. Additional bonding totaling \$300 million is planned for 2027 and 2029. Arvada's water enterprise revenue bonds are secured by net revenues of the city's water system. We view the bond provisions as credit neutral. Key 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 maintains robust liquidity and strong all-in coverage that in our view will likely remain so even with the planned issuance of another \$150 million of debt in 2027, although coverage may be pressured by the planned issuance of a second \$150 million in 2029. The city's customer base is primarily residential and is in our view diverse, which provides a more predictable revenue stream, especially since Arvada also functions as a wholesaler for the local Ralston Valley Water and Sanitation District (RVWSD). In addition, the city is contracted with Denver Water for Denver to provide 81% of the water treated by Arvada.

Coverage has remained over 6x over the past few fiscal years. Based on projections, we expect all-in coverage to remain at or well above 2.0x as the city layers in additional debt. The system raised rates by approximately 11.3% in 2025 (volumetric rates were raised 10% and fixed rates were raised by \$4) and increased tap fees in 2023. We view the system's liquidity position as healthy and anticipate that it is likely to remain so, as liquidity in fiscal year 2023 was about \$83 million, equivalent to 1,216 days' cash, despite the city's plans to issue an additional \$300 million of debt over the next four years to fund capital spending. All-in coverage is our internally adjusted debt service coverage 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. The rating could be pressured if the city begins to rely on growth-related fees to meet its debt obligations.

The rating reflects our view of the water system's:

- Service area participation in the city of Denver-Lakewood-Aurora metropolitan statistical area, as Arvada is only nine miles northwest of downtown Denver;
- Water rates that are affordable based on local incomes and a poverty rate of about 7.4% in 2022, even considering annual rate increases tentatively planned through 2032; and
- Thorough operational and financial management practices, as reflected by a proactive approach to increasing capacity, forward-looking rate-setting measures, 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, the city receives a significant majority of its water from Denver Water, and any environmental challenges faced by Denver would likely affect Arvada's ability to provide service to its customers. That said, Denver Water has demonstrated its commitment to reducing water use through efficiency and conservation, and Arvada uses a four-tiered block rate structure to encourage conservation.

We view governance risk for the city as credit neutral, reflecting its annually updated long-term projections, codified cyber security policy, and comprehensive succession planning. We view social risks as credit neutral. Current rates are affordable and we do not expect the city's planned rate increases to pressure the residential bimonthly bill.

Outlook

The stable outlook reflects our opinion that the system's financial performance will remain sustainable during the two-year outlook horizon barring any unforeseen reduction in operating margins or growth-related revenues. It also reflects the primarily residential customer base and diverse water rights.

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 capital improvements take longer than expected to complete, resulting in higher operating expenses associated with water treatment.

Upside scenario

We could raise the rating if all-in coverage and cash increases after the city completes a substantial portion of its capital improvement plan, especially as the city progresses through the planned debt issuance.

Credit Opinion

Arvada is located in north central Colorado, about nine miles northwest of Denver 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 broad and diverse economy of the Denver metropolitan area. We view the service area's income levels as strong based on the city's median household effective buying income, which was 138% of the national median for 2025. The system's customer base is primarily residential and in our view is diverse. Residential customers, who currently number around 38,000, account for more than 69% of system usage. Customer growth has averaged around 1% annually over the last eight years.

Arvada provides service to both the city of Arvada and RVWSD, a water and sanitation district surrounded by Arvada. The city bills RVWSD monthly. Arvada also has a series of intergovernmental agreements with Jefferson Center Metropolitan District (JCMD). These agreements allow the district to purchase water from the city if future water rights are acquired, provided that the water is used in the JCMD area. The agreements also allow JCMD to receive discounted charges based on water rights and/or facilities conveyed at no cost to the city by the district.

The city owns and operates two water treatment plants, the Ralston Water Treatment Plant and the Arvada Water Treatment Plant. The city's Ralston plant, which has an estimated 25 years of life remaining, receives purchased water from Denver Water, which is delivered from Denver Water's Ralston Reservoir. The city has two contracts with Denver Water for Denver to provide up to 19,500 acre feet of water per year, which represents 81% of Arvada's water. The Arvada plant, on the other hand, draws water from the city-owned Arvada Reservoir. The combined real capacity is 47 mgd; average demand is approximately 16.7 mgd. The anticipated capacity after completion of the planned improvements is 63 mgd.

Arvada, Colorado--Economic and financial data

	Most recent	Fiscal year-end			Median (AA+)
		2023	2022	2021	
Economic data					
MHHEBI of the service area as % of the U.S.	138.0				112.0
Unemployment rate (%)	2.9				3.4
Poverty rate (%)	7.4				10.2
Water rate (6,000 gallons or actual) (\$)	31.8				33.9
Sewer rate (6,000 gallons or actual) (\$)	--				38.6
Annual utility bill as % of MHHEBI	0.4				1.0
Operational management assessment	Strong				Good
Financial data					
Total operating revenues (\$000s)		30,017	36,016	26,804	41,982
Total operating expenses less depreciation (\$000s)		24,995	25,905	22,858	31,740
Net revenues available for debt service (\$000s)		22,321	16,518	7,621	--
Debt service (\$000s)		2,723	--	--	--
S&P Global Ratings-adjusted all-in DSC (x)		6.0	15.1	8.8	2.5

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

	Fiscal year-end				Median (AA+)
	Most recent	2023	2022	2021	
Unrestricted cash (\$000s)		83,260	56,575	61,379	55,536
Days' cash of operating expenses		1,216	797	980	650
Total on-balance-sheet debt (\$000s)		49,689	50,482	1	74,352
Debt-to-capitalization ratio (%)		12.6	13.5	0.0	25.0
Financial management assessment	Good	--	--	--	Good

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

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