

# RatingsDirect®

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## Summary:

# Arvada, Colorado; Sales Tax

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## Summary:

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### Credit Profile

US\$7.23 mil sales and use tax rev bnds ser 2023 due 12/01/2042

*Long Term Rating* AAA/Stable New

Arvada sales tax

*Long Term Rating* AAA/Stable Affirmed

## Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to Arvada, Colo.'s \$7.2 million series 2023 sales and use tax revenue bonds.
- At the same time, we affirmed our 'AAA' rating on the city's existing sales and use tax bonds.
- The outlook is stable.

## Security

The bonds are secured by a first lien on a 3.0% sales and use tax imposed by the city. Our assessment reflects the application of our priority-lien tax revenue debt criteria, published Oct. 22, 2018, on RatingsDirect, which factors in both the strength and stability of the pledged revenues, as well as the general credit quality of the city as obligor (the obligor's creditworthiness, or OC). The priority-lien rating on the series 2019 bonds is not limited by our view of the OC, which we currently rate 'AAA'. Bond proceeds will fund certain road and sidewalk improvements within the city.

## Credit overview

Arvada's local economy participates in the Denver-Aurora-Lakewood metropolitan statistical area (MSA), which provides its 120,000 residents access to a broad and diverse economic base. Within the city, retail, government, and health care services are well-represented among the largest employers. Income levels are what we consider very strong, with median household effective buying income (EBI) and per capita EBI at 129% and 126% of the national levels, respectively. The city's sales tax revenues have experienced strong growth of more than 3% in the last four years, reflective of a strong rebound in consumer demand, ongoing growth within the tax base, and inflation. Based on the preliminary debt service schedule for the series 2023 bonds and the city's fiscal 2022 pledged revenues, we calculate coverage on the lien at 15.8x, which we consider extraordinarily strong.

We believe current positive sales tax revenue trends combined with continued economic expansion will continue to support generally stable key credit factors in the near term, bolstering our enhanced view of credit quality. Given the city's robust coverage levels, reliance on excess revenue for general fund expenditures, and lack of new-money debt plans, we expect coverage will remain very strong in the near term, with substantial cushion to withstand potential fluctuations should any potential risks related to recessionary macroeconomic headwinds materialize.

Key credit considerations include:

- A strong-to-very strong economic base with ongoing development, which benefits from the city's access to and participation in the Denver-Aurora-Lakewood MSA;
- Our view that sales taxes have historically demonstrated low volatility nationwide and are additionally supported by a relatively strong taxing base; and
- Extraordinarily strong maximum annual debt service (MADS) coverage for the sales and use tax revenue bonds of 15.8x, with a strong reliance on pledged revenues that we believe serves as a deterrent to dilute coverage.

### **Environmental, social, and governance**

Our rating considers the environmental, social, and governance (ESG) risks relative to Arvada's economic indicators, financial position, and debt levels. Overall, we view these risks as neutral within our credit rating analysis.

### **Outlook**

The stable outlook reflects our view of the city's favorable economic profile and continued pledged revenue growth, which have generated very strong MADS coverage, and our anticipation that growth will continue over the next two years, enhanced by ongoing development within the city. Given these strengths, we do not anticipate changing the rating within the two-year outlook horizon.

### **Downside scenario**

We could lower the rating if our assessment of the OC materially weakens, or if MADS coverage significantly deteriorates as a result of a decline in pledged revenues or the issuance of additional parity debt.

### **Related Research**

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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