

RatingsDirect®

Summary:

Grand Junction, Colorado; Appropriations

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Credit Profile

US\$28.865 mil rfdg certs of part ser 2019 dtd 06/03/2019 due 12/01/2040

Long Term Rating AA-/Stable New

Grand Junction Pub Fin Corp, Colorado

Grand Junction, Colorado

Grand Junction Pub Fin Corp (Grand Junction) COPs

Long Term Rating AA-/Stable Upgraded

Rationale

S&P Global Ratings raised its long-term rating to 'AA-' from 'A+' on Grand Junction, Colo.'s certificates of participation (COPs) outstanding. At the same time, S&P Global Ratings assigned its 'AA-' long-term rating to the city's series 2019 refunding COPs. The outlook is stable.

The raised rating reflects our view of the city's positive operating performance and maintenance of a very strong reserve position, coupled with a reduction in the city's overall net debt burden. While the local economy has seen a relatively slow recovery from the recession, stable growth in recent years and the broader region's efforts to diversify the employment base have resulted in an overall stable revenue growth trend in recent years, contributing to the positive operations. Additionally, the implementation and formalization of what we consider strong financial management policies and practices have enhanced our view of credit quality, as management's efforts have proved fruitful in balancing the budget and replenishing the general fund reserve in a timely manner. We believe these strengths will persist throughout the foreseeable future.

Security and purpose

The series 2019 COPs represent an interest in the city's base rental payments made by the city, as lessee, to Zions Bancorporation, National Assn., as lessor, for the use and possession of the leased assets, which consists of the city's police building, including a 911 emergency dispatch center. Under the lease purchase agreement, the obligation of the city to pay base rent during the lease term is absolute and unconditional and shall not be abated or offset for any reason related to the leased property. The lease terms renew automatically and annually, subject to annual appropriation by the city council. While the existing 2010 agreement requires a debt service reserve fund equal to the lowest of 10% of the par amount of the certificates, 125% average fiscal-year debt service, or maximum annual debt service for the series 2010 COPs, the 2010B and 2019 series do not have debt service reserve funds. In accordance with our criteria, we do not view the lack of a debt service reserve as a significant credit weakness because the sufficient lag between the start of the city's fiscal year (Jan. 1) and the debt service due date (June 1 and Dec. 1) mitigates late budget adoption risk. We rate these obligations one notch lower than the city's general creditworthiness to account for the appropriation risk associated with the lease payments.

The series 2019 COPs will be issued in a par amount of approximately \$26.3 million, and proceeds will be used to refund a portion of the city's series 2010B COPs outstanding for interest savings. Following the refunding, approximately \$1.7 million of the series 2010B COPs will remain outstanding.

Credit fundamentals

The rating reflects our view of the city's:

- Adequate economy, with projected per capita effective buying income at 86.5% of the national level and market value per capita of \$111,942;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 54.6% of total governmental fund expenditures and 6.5x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 8.4% of expenditures and net direct debt at 62.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Adequate economy

We consider Grand Junction's economy adequate. The city, with an estimated population of 63,361, is the largest city in western Colorado and the seat of Mesa County. The city is located along Interstate 70 near the Utah border, and is the last major settlement on the western slope of the Rocky Mountains before the sparsely populated desert basin of eastern Utah. Historically focused on farming and ranching, the city's local economy has since diversified into oil and natural-gas development, health care, and tourism. While there is not petroleum extraction within the city limits, Grand Junction serves as a market center for supplies as well as a home to many of the energy economy employees, which has contributed to some volatility in revenue and employment related to petroleum and related industries. The city is home to Colorado Mesa University, which has been expanding in recent years and currently has a student population of approximately 12,000 students, or nearly 19% of the city's total population. The city has a projected per capita effective buying income of 86.5% of the national level and per capita market value of \$111,942. The county unemployment rate was 4.0% in 2017.

Property values in Colorado are assessed every two years to reflect an 18-month lag in market activity. We note 2018 was a nonreassessment year, and therefore, property in Colorado will be reassessed in the middle of the city's 2019 fiscal year (reflecting market activity for the period of Jan. 1, 2017, to June 30, 2018). The city's assessed value (AV) has experienced modest year-over-year growth since 2015, increasing by a cumulative 5.6% over the last five years to \$974.1 million in 2019. The city's market value has followed a similar trend, growing stably since 2015 and most recently increasing by 1.8% over the past year to \$7.1 billion in 2019. Management anticipates continued, steady growth in coming years as the local economy continues to recover and as new construction continues. The city has

been promoting its outdoor recreation in recent years, which has brought new industry-related employers to the city and has spurred tourism in the area. Ongoing development within the city includes an outdoor recreation business park, renovations to the city's convention center, and new residential developments.

Strong management

We view the city's management as strong. We revised the view of financial policies and practices to good from standard under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them. The revision reflects the implementation of a five-year general fund forecast and 10-year capital improvement plan. Highlights of key policies include the following:

- The city uses historical data and external sources to help forecast revenue streams while taking a systematic and realistic approach to all line items in the budget every year;
- Finance department staff review line item budgets on a monthly basis, with budget-to-actual reports for revenue provided to city council monthly and budget to actuals for expenditures reported annually;
- The city maintains an annually updated five-year financial forecast for the general fund and 10-year capital plan, with funding sources identified for the first five years of projects;
- The city has an investment management policy that ultimately reflects state guidelines and reviews investment holdings and earnings twice a year with the city council;
- The city has a minimum reserve requirement for its general fund of between 20% and 25% of expenditures, including the Taxpayer Bill of Rights (TABOR) reserve, which the city has complied with in recent years. The policy includes a replenishment requirement, stating that, if brought to a level below the minimum requirement, the city must replenish to the target level within the next budget year.

We note that the city currently lacks a formal debt management policy beyond the statutory limitations.

Strong budgetary performance

Grand Junction's budgetary performance is strong, in our opinion. Following four years of general fund drawdowns, the city reported operating surpluses of 4.6% of expenditures in the general fund and of 3.5% across all governmental funds in fiscal 2017. Management attributed the prior deficits primarily to a planned use of reserves for certain one-time capital projects. In an effort to rebuild the fund balance, the city implemented various structural changes, including management of staffing levels, which proved fruitful for the city in fiscal 2017, when it reported a surplus operating result. Based on unaudited actuals, the city reported an additional operating surplus in fiscal 2018 of about 9.9% of estimated expenditures.

The city is reliant on relatively volatile revenue streams, as sales, use, and lodging tax revenue accounts for 59% of total general fund revenue, with property taxes accounting for 12.5%. While sales, use, and lodging tax revenue have remained relatively stable overall, it declined by approximately 2.6% in fiscal 2016 as a result of a slowing in the oil and gas industry. Sales taxes have increased at a strong rate of upwards of 5.5% in the last two years as the local tax base has grown and the city has conservatively budgeted for continued growth of about 3% in fiscal 2019. Due to the recent strong growth in sales tax revenue in fiscal 2018, the city exceeded the TABOR revenue growth limitation. However, the electorate approved the use of excess TABOR funds for the repair and maintenance of street infrastructure, providing the city with additional flexibility.

Looking ahead, the city has budgeted for balanced operations in fiscal 2019. Management indicated that revenues and expenditures are currently tracking in line with the adopted budget, and it does not foresee any major deviations for the current budget year. We note that the city intends to go to voters this year for three sales tax increases dedicated to street improvements, park and recreation improvements, and public safety expenses, with the latter boosting general fund revenue, if successful.

Very strong budgetary flexibility

Grand Junction's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 22% of operating expenditures, or \$14.5 million. We note that our calculation excludes the city's TABOR reserve of 3% of expenditures, which is restricted. While management indicated that the council could approve the use of reserves in the future for certain one-time projects, it noted that it intends to maintain its available fund balance at the current level for the foreseeable future, in compliance with its formal reserve policy.

Very strong liquidity

In our opinion, Grand Junction's liquidity is very strong, with total government available cash at 54.6% of total governmental fund expenditures and 6.5x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary, as it has issued COPs and sales tax bonds within the last 20 years, and we have no reason to believe access has diminished. We have confirmed that the city has no direct purchase or variable-rate debt outstanding. We do not consider the city's investments aggressive, as it invests primarily in the state investment pools. The city council has formally established an investment policy allowing investments to have maturities beyond five years and to include mutual funds, composed of U.S. government obligations, and collateralized mortgage obligations.

Adequate debt and contingent liability profile

In our view, Grand Junction's debt and contingent liability profile is adequate. Total governmental fund debt service is 8.4% of total governmental fund expenditures, and net direct debt is 62.7% of total governmental fund revenue. After the refunding, the city's direct debt will total approximately \$65.7 million in fiscal 2019, which includes \$8.3 million in tax increment debt incurred by the city's downtown development authority, a component unit of the city, which we exclude from the city's debt service carrying charges. Overall net debt is low, at 2.2% of market value, which is in our view a positive credit factor. While the city does not have established additional debt plans at this time, we understand that the city intends to go to voters for a sales tax measure in 2019.

Grand Junction's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 1.6% of total governmental fund expenditures in 2017. Of that amount, 0.3% represented required contributions to pension obligations, and 1.3% represented OPEB payments. The city made its full annual required pension contribution in 2017.

The city maintains several defined contribution retirement plans for various classes of employees. Under city ordinances, substantially all full-time city employees, other than sworn police officers and firefighters and elected officials, are covered by a mandatory contributory defined contribution retirement plan administered by the International City Manager's Association Retirement Corporation (ICMA-RC). New hire (after April 8, 1978) sworn police and firefighters contribute to the New Hire Police Money Purchase Pension Plan and the New Hire Fire Money Purchase Pension Plan, which are maintained by ICMA-RC. Additionally, the city, on behalf of certain full-time paid

firefighters and police officers hired before April 8, 1978, contributes to the Fire Old Hire Pension Fund and the Police Old Hire Pension Fund, both defined benefit, agent multiple-employer plans that are affiliated with the Fire and Police Pension Assn. of Colorado. As of December 31, 2017, the city's net pension liability for the Fire Old Hire Pension Fund, the largest defined benefit plan, was \$4.6 million and the plan maintained a funded ratio of 63.8%.

Strong institutional framework

The institutional framework score for Colorado municipalities required to produce an audit is strong.

Outlook

The stable outlook reflects our view of the city's growing local economy, which, although slow, has begun to recover from the recent recession and has been growing at a sustainable pace. The outlook further reflects our expectation that the city will maintain its very strong reserves and strong budgetary performance over the next two years, supported by what we consider strong financial management policies and practices. We do not expect to change the rating within the two-year outlook horizon.

Upside scenario

We could raise the rating if the tax base continues to grow, further strengthening wealth and income indicators, and if the city's revenue profile diversifies into less volatile revenue streams, while flexibility and liquidity remain very strong.

Downside scenario

Should the city experience a sustained operational imbalance, resulting in a deterioration in reserves to levels we no longer consider very strong, we could consider lowering the rating.

Related Research

2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of March 27, 2019)		
Grand Junction COPs (taxable BABs) (Public Safety Bldg Proj)		
<i>Long Term Rating</i>	AA-/Stable	Upgraded

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