S&P Global
Ratings

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Summary:

Fruita, Colorado; Moral Obligation; Sales Tax

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Credit Profile		
US$10.8 mil sales and use tax rev rfdg and imp bnds ser 2019 due 10/01/2039		
Long Term Rating	AA-/Stable	New
Fruita GO (ASSURED GTY)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its long-term rating to 'AA-' from 'A+' on Fruita, Colo.'s sales and use revenue bonds. At the same time, S&P Global Ratings assigned its 'AA-' long-term rating to the city's series 2019 sales and use tax revenue refunding and improvement bonds. The outlook is stable.

The raised rating reflects our view of management's ability to maintain the city's very strong financial position, exemplified through maintenance of reserve in excess of 75%, and strong budgetary performance with surplus operating results in recent years. Our rating further reflects our opinions of the city's stable tax base and financial practices and policies that we view as good.

A 1% city sales tax and a debt service reserve that is funded at maximum annual debt service (MADS) secure the bonds. In addition to the sales tax pledge, a city bond ordinance provides for a moral obligation, whereby the city manager is required to submit to the city council a request to restore the debt service reserve to its requirement 90 days before debt service is due. Under the ordinance, the city council could, but is not required to, make an appropriation to restore the reserve to its full requirement. If the supplemental reserve is released from the pledge to bondholders, as permitted under circumstances described above, the same 90-day period to submit a request for a make-up appropriation to the city council will be required if the debt service reserve is below its MADS requirement. The enacted bond ordinance states that the city council's intention is to honor its moral obligation pledge, although it is not legally required to make such an appropriation, and it is not an event of default if it doesn't.

In our opinion, the rating reflects the stronger pledge of the moral obligation of the city, subject to annual appropriation, to replenish the required reserves in the reserve account to MADS.

The ratings reflect our assessment of the following factors:

- Adequate economy, with projected per capita effective buying income at 89.5% of the national level and market value per capita of $80,837;
- Strong management, with good financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level

in fiscal 2018;

- Very strong budgetary flexibility, with a high available fund balance in fiscal 2018 of 122% of operating expenditures;
- Very strong liquidity, with total government available cash at 102.8% of total governmental fund expenditures and 13.4x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 7.7% of expenditures and net direct debt that is 128.8% 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 Fruita's economy adequate. The city, with an estimated population of 13,983, is located in Mesa County. The city has a projected per capita effective buying income of 89.5% of the national level and per capita market value of $80,837. Overall, the city's market value grew by 11.2% over the past year to $1.1 billion in 2018. The county unemployment rate was 4.1% in 2018.

The city is located in Mesa County in the west central portion of the state roughly 13 miles west of Grand Junction encompassing an area of roughly 7 square miles. The city's local economy is based on a mixture of tourism, recreation, oil and gas, and ranching/farming. Overall, the city has seen robust growth in terms of market values of roughly 23% over the last four years. Currently, management is projecting continued increases in the upcoming years as the city continues to see residential and commercial growth. Based on the trend and continued development, we view these expectations to be likely.

Residents of the city have various employment opportunities within the city, though the proximity to Grand Junction presents ample employment opportunities. Leading employers within the area are in education, health care, and government, all of which we believe to be stable.

Strong management

We view the city's management as strong, with good financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Some of management highlights include:

- Use of at least three years of historical information in the formulation of the upcoming years revenue and expenditure assumptions with the help of outside sources and a line-by-line approach to budgeting;
- Monthly reporting of budget-to-actual performance to the council with the ability to make amendments to the budget as needed;
- No formalized long-term financial planning outside of the budget year;
- Formalized long-term capital plan with sources and uses of funds identified and updated on an annual basis that goes out five years;

- Formalized investment management policy with monthly reporting of investments and holdings to the council;
- No formalized debt management policy, though it adheres to state guidelines; and
- Formalized fund balance policy to maintain 25% reserves for cash flow needs.

Strong budgetary performance

Fruita's budgetary performance is strong in our opinion. The city had operating surpluses of 24% of expenditures in the general fund and of 14.7% across all governmental funds in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2018 results in the near term.

Based on historical performance and budgeting practices of the city, we believe it will likely maintain strong budgetary performance since it has consistently been able to outperform the budget and end with favorable operating results.

For fiscal 2018 (Dec. 31), the city's primary sources of revenue include sales and use taxes (64.7%) and property tax revenues (13.4%). We made adjustments for annually recurring transfers in and out of the general fund as revenues and expenditures, respectively. The city originally had budgeted for a slight negative net result of $432,000, but ended better than budgeted and ended the year with a positive net result of $1.7 million in its general fund (after adjustments for transfers). The city ended with a positive net result across total governmental funds of $2.2 million. Management attributes the positive variance in conservative budgeting practices of the city.

For fiscal 2019, the city adopted budget calls for a $772,000 general fund deficit, and, year to date, are trending positively. Based on historical performance, we believe the city will likely end the year with a positive variance. From a total governmental standpoint, we expect the city to report break-even net result after adjustments for one-time capital expenditures.

Very strong budgetary flexibility

Fruita's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2018 of 122% of operating expenditures, or $8.6 million. We expect the available fund balance to remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Based on the current budget for the fiscal 2019, we believe the city's available fund balance as a percentage of expenditures will remain very strong. The city currently has no plans to draw down on fund balance, so our expectations is that fund balance will remain in excess of 75%

Very strong liquidity

In our opinion, Fruita's liquidity is very strong, with total government available cash at 102.8% of total governmental fund expenditures and 13.4x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

We believe that the city has strong access to external liquidity since it has issued debt in the last 10 years. We do not expect its cash position, with respect to its total governmental expenditures and debt service, to change much during the next two years. Rather, we believe it will remain very strong. We understand that the city currently does not have any potential contingent liabilities that could have an adverse impact on its cash position. The city invests in highly rated securities. Therefore, we do not consider the city's investments aggressive.

Adequate debt and contingent liability profile

In our view, Fruita's debt and contingent liability profile is adequate. Total governmental fund debt service is 7.7% of total governmental fund expenditures, and net direct debt is 128.8% of total governmental fund revenue. Overall net debt is low at 2.3% of market value, which is in our view a positive credit factor. We understand that the city currently does not have any plans to issue additional debt and management has confirmed that it does not use alternative financing.

The city made its full annual required pension contribution in 2018. The city maintains two defined-contribution retirement plans for various classes of employees to include the city of Fruita Retirement Plan and Fruita Police Department Retirement Plan.

Strong institutional framework

The institutional framework score for Colorado cities and towns is strong.

Outlook

The stable outlook reflects our view that the city is likely to maintain strong budgetary performance with maintenance of very strong reserves, so we do not expect to revise the ratings within the two-year outlook period.

Downside scenario

A lower rating is possible if the city were to have weak or very weak budgetary performance causing a decline in reserves to levels we no longer consider very strong and in excess of 75%.

Upside scenario

While unlikely, a higher rating is possible if the city's economic metrics to include income levels and market value per capita were to increase to levels commensurate with those of higher-rated peers.