

Summary:

Frederick-Firestone Fire Protection District, Colorado; General Obligation

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Credit Profile

US\$2.995 mil go rfdg bnds ser 2011 due 12/01/2022

Long Term Rating

AA-/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating and stable outlook to Frederick-Firestone Fire Protection District, Colo.'s series 2011 general obligation (GO) refunding bonds.

The rating reflects our view of the district's:

- Growing population and service area with access to Denver's diverse economic and employment base;
- Strong wealth and income;
- Stable finances, supported by, what we consider, very strong general fund reserves; and
- Moderate overall debt with no additional debt plans.

We believe the moderately concentrated property tax base and the potential for additional growth-related capital expenditures somewhat limit these strengths.

The district's full-faith-and-credit GO pledge secures the bonds. Officials plan to use bond proceeds to refund the district's series 2002 GO bonds for interest cost savings.

Frederick-Firestone Fire Protection District serves an estimated 20,000 residents within the towns of Frederick and Firestone, as well as unincorporated portions of central-northern Colorado's Weld County. The district, which operates three fire stations, encompasses approximately 32 square miles, roughly 25 miles north of Denver.

Frederick-Firestone's location along Interstate 25 provides residents with direct access to economic and employment opportunities throughout the Denver metropolitan area. In addition, Frederick and Firestone have been among Colorado's fastest growing municipalities; their respective populations have more than doubled since the 2000 U.S. Census. According to district officials, the construction of new homes, albeit at a slower pace recently, continues to attract residents to the area; the potential for further growth is significant since officials believe the district is less than 50% built out.

In addition to residential and commercial properties, a large portion of assessed valuation (AV) includes oil and gas property, the valuation of which has fluctuated recently. Following a 3% decline in fiscal 2011, preliminary fiscal 2012 AV has increased by 10% to \$346 million; corresponding full market value is an estimated \$2 billion, or, in our view, an extremely strong \$102,064 per capita. In our view, the property tax base is moderately concentrated with the 10 leading taxpayers, which include several energy companies, accounting for 33% of AV. Kerr-McGee Oil & Gas Onshore LP is the leading taxpayer, accounting for 10.3% of AV. Officials report operations among the leading taxpayers have been stable. County income is, in our view, good with median household and per capita

effective buying income at 99% and 89%, respectively, of national levels. In our view, however, Frederick and Firestone income levels are stronger with median household and per capita effective buying income in excess of 110% and 95%, respectively, of national levels.

In our view, finances are stable and supported by, what we consider, very strong general fund reserves. For fiscal 2011, ending Dec. 31, officials appropriated \$1.7 million of designated general fund reserves for capital projects, including the construction of a new fire station to accommodate recent growth. Excluding appropriations for capital projects, officials report revenue outpaced budgeted expenditures by roughly \$250,000 through August 2011. Current projections show the district closing fiscal 2011 with approximately \$3.4 million of total general fund reserves, or, in our opinion, a very strong 75% of budgeted operating expenditures, excluding capital expenses. Officials plan to adopt a balanced fiscal 2012 budget without using reserves.

Financial operations have improved during each of the past three audited fiscal years. Due primarily to, what we regard as, conservative budgeting practices and below-budget expenditures, officials closed fiscal 2010 with a \$1.2 million general fund surplus that increased the total general fund reserve to \$4.86 million, or 145% of operating expenditures, most of which management classified as unreserved. Management, however, designated \$1.7 million for capital projects; this reduced the unreserved, undesignated general fund reserve to \$3 million, or, in our view, a still very strong 90% of operating expenditures. Property taxes generated 90% of general fund revenue in fiscal 2010 while service charges and other grants and donations accounted for a majority of the remainder. Primary expenses are personnel related for fire protection.

Standard & Poor's considers the district's financial management practices "standard" under its Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. In addition to using historical information to complete the budget, officials share budget-to-actual financial results and investment holdings and earnings with the board monthly. Officials do not maintain a long-term financial plan, but they regularly review a capital improvement plan that focuses on expansion and new construction. Management does not maintain a formal general fund reserve policy, but it targets the maintenance of general fund reserves at no less than \$1 million.

Following the refunding, the series 2011 bonds will be Frederick-Firestone's only debt. Therefore, direct debt is, in our view, a very low \$150 per capita, or less than 1% of estimated market value. After accounting for approximately \$73 million of debt obligations from overlapping school districts and other governmental entities, overall net debt is, in our opinion, a more-moderate \$3,813 per capita, or 3.7% of estimated market value. Despite the limited budget, debt service carrying charges are, what we view as, moderate: They typically account for 10% of governmental expenditures less capital outlays. Amortization of the series 2011 bonds is, what we consider, rapid with officials planning to retire 100% of principal by 2022. We understand officials do not currently have any additional debt plans.

Frederick-Firestone participates in two pension plans: the volunteer firefighters' pension plan and the statewide defined contribution plan for paid firefighters. The Colorado Fire & Police Pension Administration administers both plans. The district annually funds 100% of the required contribution for both plans. As of Jan. 1, 2009, the most recent valuation showed the \$317,450 actuarial accrued liability was 54% funded.

Outlook

The stable outlook reflects Standard & Poor's opinion that management will likely continue to monitor its budget closely to ensure the maintenance of balanced general fund operations and, what Standard & Poor's considers, very strong reserves. Although we do not think we will change the rating over the outlook's two-year period, we believe we could lower the rating if reduced property tax revenue or additional capital needs pressure operations and reserves. The district's low direct debt and access to the diverse Denver metropolitan area provide additional rating stability.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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