

## Fitch Affirms Grand Fire Protection District, CO GO's at 'AA-'; Outlook Stable

Written by Australian Business

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NEW YORK--( [BUSINESS WIRE](#) )--Fitch Ratings has affirmed Grand Fire Protection District, Colorado's (the district) bonds as follows:

--\$5.5 million outstanding general obligation (GO) bonds, series 2004 and 2012 at 'AA-'.

The Rating Outlook is Stable.

### SECURITY

The bonds are secured by the full faith and credit of the district, which levies an unlimited property tax to pay debt service.

### KEY RATING DRIVERS

**LIMITED ECONOMY:** The district is very small, geographically isolated and characterized by below average resident wealth levels and a large tourism presence.

**STRONG FINANCIAL POSITION:** The district's financial position is characterized by very large reserves, ample liquidity, and high levels of expenditure flexibility.

**CONTRAINED REVENUE:** The district's tax base has been very sensitive to the housing market collapse, as evidenced by notable decline in assessed value (AV) from peak levels in fiscal year 2011 to fiscal year 2014. The volatility caused a precipitous decline in property tax revenue.

**WEAKER LONG-TERM LIABILITY PROFILE:** Debt levels are moderate to high and supported by a sizable seasonal population. Offsetting Fitch's concerns regarding the district's poorly funded pension position are the relatively small size of the plan itself and the fact that the plan is largely funded by state contributions.

## RATING SENSITIVITIES

**RESERVES OFFSET RISKS:** Management's maintenance of high reserve levels is necessary to mitigate the risks posed by the district's limited economy, modest scale, and volatile tax base. Material depletion in reserves beyond the district's planned draws for capital needs could negatively pressure the rating.

## CREDIT PROFILE

The district was formed in 1951 to provide fire, rescue and emergency services to a 150-square mile area, located 86 miles northeast of Denver in east-central Grand County around the town of Granby. The 2013 estimated district population was 2,800.

## AV DECLINES EXPECTED TO STABILIZE

The district's tax base has experienced a precipitous drop in area home values, as reflected in a 33.4% decline in AV from fiscal 2011 to fiscal 2014. The valuation collapse wipes out all of the district's tax base gains since 2006.

Management expects the tax base to stabilize and post mild growth in fiscal year 2015 before Colorado's two-year reassessment cycle incorporates greater AV growth in fiscal year 2016. Fitch believes this expectation to be reasonable upon consideration of the lagged recessionary impact on the assessment cycle, solid housing market recovery throughout rural towns in the State of Colorado, and a projected 25% increase in fire impact fee collections in year-to-date 2014 over year-to-date 2013.

## LIMITED ECONOMY

The district's rural location and geographic isolation in the mountains of Colorado limit economic activity, with tourism by far the district's largest economic driver. The district's large presence of high-end second homes and multi-seasonal outdoor activities promote a year-round tourism presence.

Wealth levels in Grand County are comparable to those of the state and above the national average; however, Granby, the largest town within the district, exhibits slightly lower wealth metrics than the surrounding county. The county has posted solid employment gains over the past year, driving the unemployment rate from 5.8% in April 2013 to 4.6% in April 2014, well below the state and national averages.

## STRONG FINANCIAL POSITION

The district has accumulated very high general fund reserves over many years of district operations. 2012 unrestricted fund balance totaled \$3.48 million, 467% of general fund spending, and is projected to decline very slightly in fiscal year 2013. Unaudited 2013 results show unrestricted general fund balance of 484% of general fund spending.

Property tax revenue, the district's largest general fund revenue source, is estimated to have declined 21% from their peak level in 2011 to 2013. Management expects property taxes to decline a further 16% in fiscal year 2014, mirroring the AV decline incorporated in the last reassessment cycle. Revenue flexibility is limited, as the operating millage is at its maximum level of 4.427 per \$1,000 AV without a referendum, which management has no plans to introduce.

Due to the largely volunteer nature of the district, expenses have historically been related to firefighting and capital expenditures, with the latter expense being largely deferrable. This expenditure flexibility has allowed the district to adjust spending in light of the revenue declines. The district tends to budget very conservatively and has kept operating deficits to a minimum.

Fitch believes that the district's conservative approach to budgeting and very strong reserve position offset concerns regarding the district's constrained and volatile revenue environment.

### HIGH BUT MANAGEABLE DEBT BURDEN

Debt service costs are high at 44% of total governmental spending, which is reflective of both the rapid pay down of debt (85% of principal is repaid within 10 years) and the district's limited-purpose nature. Overall debt is moderate to high at 4.8% of fiscal year 2014 market value. Debt per capita is a very high \$15,618 which Fitch attributes to a large presence of second homes. District officials report no additional borrowing plans as its capital needs will be funded with current resources.

### LOW PENSION FUNDING; MITIGANTS EVIDENT

The funded position of the district's pension plan for its all-volunteer fire fighting force declined from 70% in 2007 to a low 51% as of Jan. 1, 2013 despite fully funding its annual pension costs. Using Fitch's more conservative 7% discount rate assumption, the funded position declines to approximately 48%.

Offsetting concerns over the plan's poorly funded position are the relatively small size of the plan itself and the sizable state contributions to the plan. A recent actuarial study recommended three more manageable alternative pension plans with differing benefit payouts and actuarial assumptions; the district board is expected to discuss and vote on these plans in August 2014.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors, and Zillow.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686015](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)

U.S. Local Government Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=685314](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

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