S&P Global
Ratings

RatingsDirect®

Summary:

Queen Creek, Arizona; General Obligation; Miscellaneous Tax; Sales Tax

Primary Credit Analyst:
Daniel Golliday, Dallas 214-505-7552; daniel.golliday@spglobal.com

Secondary Contact:
Kyron Smith, Chicago 4649271564; kyron.smith@spglobal.com

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Credit Profile		
US$69.65 mil excise tax bnds ser 2024 due 08/01/2054		
Long Term Rating	AA+/Stable	New
Queen Creek Twn excise tax and state shared rev obs		
Long Term Rating	AA+/Stable	Affirmed
Queen Creek Twn excise tax and st shared rev rfdg obligated		
Long Term Rating	AA+/Stable	Affirmed
Queen Creek Twn ICR		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to Town of Queen Creek, Ariz.'s estimated $69.7 million series 2024 excise tax and state-shared revenue obligations.
- At the same time, we affirmed our 'AA+' long-term rating on the city's existing excise tax and state-shared revenue obligations.
- The outlook is stable.

Security

Installment payments by the town under a purchase agreement between the town and the trustee secure the excise tax revenue obligations. Payments are not subject to appropriation and are secured by a first lien on the town's excise taxes, which include transaction privilege (sales), state-shared sales, income, and vehicle license taxes, franchise fees, licenses and permits, charges for services, and construction sales tax.

Proceeds from the 2024 pledged revenue obligations will partially finance the construction of three public safety related facilities and various road projects.

Credit overview

The obligations' credit profile reflects very strong provisions, supported by an additional bonds test (ABT) that requires a maximum annual debt service (MADS) coverage of 3.00x as well as pro forma MADS coverage that we characterized as very strong at 6.32x. It also reflects the broad taxing boundary on taxable goods in which pledged revenues are levied, given the city's growing footprint and exceptional population gains. Queen Creek also functions as the retail center for the unincorporated San Tan Valley allowing the town to capture additional revenue from the sale of local taxable goods and services.

We think positive sales tax revenue trends combined with substantial economic development will continue to spur consumer spending supporting generally stable key credit factors in the near term. Given the city's current coverage levels and lack of material debt plans, we assess that the coverage will remain at least very strong in the near term, with substantial cushion to withstand potential fluctuations should any potential risks materialize related to unforeseen external or internal circumstances.

For more information on the city's general creditworthiness, see our analysis, published Sept. 27, 2024, on RatingsDirect.

The rating further reflects our view of the senior-lien obligations, including:

- Strong economic base, with a local population of more than 83,000 that continues to experience annual gains well above national and state averages, above-average income levels, expanding labor pool, and its integration within the largest economic center in the state. We expect that continued population increase and robust growth prospects will further bolster the town's economic trajectory;
- Very strong coverage and liquidity assessment based on a 3.00x ABT, with 2024 unaudited collections providing 6.32x MADS coverage. Annual average debt service coverage (DSC), in our opinion, is very strong at 10.75x. Annualized DSC, with 0% growth applied, will range from 6.32x-25.14x through maturity (2055). MADS occurs in fiscal 2026 and slightly declines through maturity, further supporting our expectation that coverage will remain very strong in the near term. Based on our stress scenarios, we calculate that the town could withstand a 53%, or $84.8 million, decline in pledged revenues before MADS coverage would decline to less than 3x. Given the town's near-term debt plans of approximately $75 million, we assess coverage levels will slightly moderate to 6.28x based on 2024 unaudited collections and remain very strong;
- Low volatility of the pledged revenue stream supported by our view of the revenue stream's diversity and historical performance through economic cycles, which increased at a compound annual rate of 13% the past 17 years;
- Close relationship between the excise tax pledge and the obligor's creditworthiness given that the flow of funds leads to a one-notch upward limitation compared with the town's general creditworthiness. The close linkage with Queen Creek's general creditworthiness does not constrain the credit factors of the pledged revenue structure.

Environmental, social, and governance

Similar to other Arizona local governments, Queen Creek is exposed to natural capital risks from persistent drought conditions and water-supply stress and long-term physical climate risks such as extreme heat exposure, which could ultimately affect future pledged revenue growth. For more information on our view how the state is managing these risks, see "Arizona Water Utility And Local Governments Credit Brief: Future Rating Stability Boils Down To Managing Supply Variability," published Nov. 9, 2023. We recognize that Queen Creek has addressed natural capital risks from water-supply stress through proactive efforts that secured a reliable source of renewable water that is projected meet increasing customer demand and maintain its statutory 100-year supply requirement for projected development. The town purchased perpetual water rights on the Colorado River and is aggressively continuing its acquisition of water-supply assets such as the Bartlett Dam Project and Harquahala Basin purchase. While the town does not have a designation of assured water supply certificate, it expects to become a designated provider by 2030. Compared with other areas in the U.S., the town's strong population growth presents a social opportunity as service costs are spread across a larger base and ongoing economic development translates to tax base growth and consumer spending. However, these benefits are somewhat mitigated by the increasing service and infrastructure demands of a growing community, leading to potentially higher operating costs and continued need for capital investment.

Outlook

The stable outlook reflects our view of the bonds' very strong coverage supported by continued pledged revenue growth as well as our expectation that the town's economic growth trends.

Downside scenario

We could lower the rating if coverage levels for the obligation dilutes significantly, either due to issuance of parity debt or reduction in pledged revenue, such that coverage is no longer sustained at very strong levels, or if the city's general creditworthiness deteriorates.

Upside scenario

All else equal, we could raise the rating if the city's economy continues to grow, strengthening underlying economic metrics leading to improvements in key economic metrics affecting the pledged revenue stream. We could also raise the rating if the city maintains coverage at extraordinarily high levels on a sustained basis through economic cycles.

Queen Creek, Arizona--key credit metrics

	Metric
Economic data	
Economy	Strong
EBI level per capita % of U.S.	109
Population (obligor)	83,700
Population (MSA)	5,015,678
Financial data	
Revenue volatility	Low
Coverage and liquidity	Very Strong
Baseline coverage assessment	ABT
MADS coverage (x)	6.32
MADS year	2026
Annual debt service coverage (x)	7.82
3-year pledged revenue change (%)	43.39
Bond provisions	
ABT (x)	3.00
ABT type	MADS
ABT period	Historical
DSRF type	None
Obligor relationship	
Obligor linkage	Close
PL rating limit (number of notches above OC)	1

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. MSA--Metropolitan statistical area. MADS-Maximum annual debt service. ABT--Additional bonds test. DSRF--Debt service reserve fund. PL--Priority lien. OC--Obligor creditworthiness.N/A--Not available. 3-pronged test--MADS, 10% of principal, or 125% of average annual debt service.

Related Research

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