

# **Bond Case Briefs**

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## **Colorado Scores Best Rally of '14 on Denver Revival: Muni Credit.**

Investors looking to tap into the best-performing state in the U.S. municipal bond market barely need to leave Denver International Airport.

Tax-exempt securities issued a year ago to build a 519-room hotel, public plaza and transit station at the nation's fifth-busiest airport trade with yields close to record lows. Bonds from that sale that mature in November 2025 changed hands July 11 to yield an average of 3.1 percent, down from about 4.1 percent at issue.

Debt of Colorado, with an economy buoyed by energy and tourism, has outperformed the market for five straight years. Securities from the state have earned 7.5 percent in 2014, the best among 27 states tracked by S&P Dow Jones Indices and beating the broader market's 6.1 percent gain.

"People are saying downtown Denver is cool — it has all these up-and-coming, diverse neighborhoods," Ron Speaker, president of Carbondale-based Equus Private Wealth Management, which oversees \$100 million and specializes in Colorado munis, said in an interview. "When I lived downtown in 1986 it was quiet and ugly and dangerous."

### **Mountain Mirror**

Colorado mirrors trends driving the \$3.7 trillion market for state and city debt. Its localities and authorities have sold about \$1.3 billion of munis this year, down 66 percent from 2013, and compared with a 17 percent decline across the entire market, according to data compiled by Bloomberg. The Centennial state's issuers also include riskier, lower-rated debt that's been in demand in 2014 with benchmark yields close to generational lows.

The economy is also an appeal. Colorado posted the second-fastest growth in personal income among U.S. states in the year through March, the latest period available, according to the Bloomberg Economic Evaluation of States. The gains helped push Colorado to fifth-best in economic health in the period. At 5.5 percent in June, Colorado's jobless rate was below the 6.1 percent national average.

"The state has performed well," said Greg Gizzi, a senior vice president who helps manage the \$194 million Delaware Tax-Free Colorado Fund (VCTFX) from Philadelphia. "They are attracting people into the state and there are jobs and they are hiring people."

### **Companies Lured**

Companies including DaVita HealthCare Partners Inc. (DVA) have moved or expanded in downtown Denver to take advantage of a surge of 25-to-34-year-olds relocating to the foot of the Rocky Mountains. More millennials moved to Colorado's capital from 2006 to 2012 than to any city in the country, according to a November analysis by the Washington-based Brookings Institution.

"We serve a nine-county metropolitan region from Colorado Springs to the Wyoming border and in 2013 we did 29 major corporate relocations," a record, said Tom Clark, chief executive officer of the Metro Denver Economic Development Corporation.

The transformation of the capital's downtown from a gritty industrial center to a place where the population is growing five times faster than the national rate is focused around a \$54-million refurbishment of 133-year-old Union Station, a transit hub that will link Denver to its suburbs and the airport.

## \$2.6 Billion

"We expect the corridor of opportunity between DIA and downtown to have a \$2.6 billion impact on our economy and provide 40,000 new jobs over the next three decades," Mayor Michael Hancock said in his state-of-the-city address July 14.

Development downtown includes metropolitan districts near Union Station, where as many as 6,000 new apartments and condominiums are under construction — a doubling of the housing stock. Another issuer, Denver Water, with \$414 million in debt at the end of 2013, benefited from increased construction that increased tap revenue.

Businesses settling in the city's core boosted residential real estate prices to an all-time high this year and fed sales and property-tax gains.

Denver and Dallas are the only cities among the 20 tracked by the S&P/Case-Shiller home price index where prices surpassed pre-crash peaks and reached records in 2014. Property-tax revenue in the city and county of Denver rose about 16 percent in 2013, with sales taxes up 9 percent, budget documents show.

## Revenue Translation

"Growing spending and increased property values translate to more revenue for issuers," Equus's Speaker wrote in a May blog posting. "These added revenues reduce the relative burden of debt payments and increase the overall credit quality of the bonds."

Citing economic growth in the region, Moody's Investors Service revised its outlook on Denver airport bonds to stable from negative on June 19. The company affirmed the A1 rating, fifth highest, of \$3.72 billion in airport system revenue bonds and the A2 grade of \$719 million in subordinate revenue bonds.

Moody's said that cost overruns in the hotel and light-rail station project, on top of a 10 percent increase in the \$672 million expansion's budget, could cause it to reconsider its rating.

Situated on 53 square miles of land, Denver's airport is the country's largest in terms of area. DIA averaged more than 1,550 flights daily in 2013 and served 52.5 million passengers, according to the airport. The light-rail line connecting the airport to the capital is key to Mayor Hancock's vision to develop land around DIA, which opened in 1995.

The city is transforming the former Stapleton International Airport, about nine miles from downtown, into a development mixing neighborhoods, office and retail space.

For now, cranes rising above DIA's main terminal, with its trademark triangular roof designed to mimic the Rocky Mountains, signal optimism in the potential of the region at the base of the peaks known as the Front Range.

"If the Front Range is the nucleus of the Colorado bond market, a strong Denver perpetuates all the way through," Equus's Speaker said.

Bloomberg

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