

RatingsDirect®

Scottsdale, Arizona; General Obligation

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Scottsdale, Arizona; General Obligation

Credit Profile		
US\$107.0 mil GO bnds (Projects of 2019) ser 2025 due 07/01/2045		
Long Term Rating	AAA/Stable	New
Scottsdale GO		
Long Term Rating	AAA/Stable	Affirmed
Scottsdale GO		
Long Term Rating	AAA/Stable	Affirmed
Scottsdale GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the City of Scottsdale, Ariz.'s anticipated \$107 million series 2025 general obligation (GO) bonds.
- At the same time, we affirmed our 'AAA' long-term rating on the city's GO bonds outstanding.
- The outlook is stable.

Security

Unlimited ad valorem taxes levied on taxable property in the city secure the GO bonds. Proceeds from the 2025 GO bonds will fund various capital projects authorized by the electorate in Scottsdale's 2019 bond election.

Credit overview

Scottsdale's creditworthiness is anchored by a dynamic and affluent local economy characterized by a well-educated workforce and sustained economic activity. The city is adeptly governed by a sophisticated administrative team operating within a comprehensive policy and planning framework that fosters fiscal stability and the preservation of above-average reserves despite an elevated debt burden relative to its population and potential cost escalations tied to its Public Safety Personnel Retirement System (PSPRS) legacy retirement plans.

Despite a rapidly shifting macroeconomic landscape marked by increasing probabilities of an economic slowdown stemming from federal policies on trade and tariffs, immigration, and federal workforce reductions (see "U.S. Business Cycle Barometer: Increasing Likelihood Of A Slowdown," published March 13, 2025, on RatingsDirect), we assess that Scottsdale is well positioned to effectively navigate potential economic headwinds. We base our assessment on the city's robust and affluent economic foundation, complemented by management's proactive planning that effectively addresses both external and internal risks through a comprehensive annual budgeting process.

Credit fundamentals further supporting the city's general creditworthiness include the following:

- Scottsdale boasts a resilient, affluent, and expanding economic base that is intricately connected to the state's largest economic center. The city features above-average median household and per-capita incomes, significantly

outpacing both county and national averages, which enhances our baseline economic assessment. We anticipate that ongoing capital investments and favorable socioeconomic trends will further strengthen Scottsdale's economic trajectory despite the city's economic link to the high-end retail and the tourism industry.

- The city's conservative budgetary framework and expanding revenue streams provide a solid foundation for Scottsdale's sound financial profile, resulting in significant financial reserves that enable the city to withstand economic cycles. We anticipate that the city's financial position will remain relatively stable over the next two years, reinforced by fiscal discipline and consistent outperformance of its annual budget.
- Robust planning practices demonstrate the management team's ability to navigate the challenges posed by evolving economic conditions and sustained growth. This capability is underscored by comprehensive budgetary planning and analysis, regular updates to the council, and an annually revised five-year capital improvement plan. In addition, the city employs extensive long-term financial planning and adheres to formal investment, debt, and reserve policies. Furthermore, management is proactively implementing measures to mitigate cyber risk.
- Elevated debt and fixed cost burden is influenced by various revenue-backed debt, but is manageable given strong economic growth, coupled with sufficient coverage provided by the revenue supporting the respective obligations. Scottsdale's aggressive amortization schedule allows the city to generate additional debt capacity to address capital needs outlined in its long-term planning.
- Despite the potential for contribution volatility stemming from optimistic plan assumptions, Scottsdale's legacy PSPRS plans are sufficiently funded and are unlikely to cause financial strain in the near term, given management's deliberate efforts to reduce liabilities, which we expect will continue.
- For more information on our institutional framework assessment for Arizona municipalities, see "Institutional Framework Assessment: Arizona Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

Similar to other Arizona local governments, Scottsdale is exposed to natural capital risks from persistent drought conditions and water-supply stress as well as long-term physical climate risks such as extreme heat exposure. For more information on our view of 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 Scottsdale has addressed natural capital risks from water supply stress through proactive efforts such as infrastructure investments and comprehensive policies that identify strategies to provide a reliable 100-year water supply to satisfy its growing demand, which has helped it maintain its designation of assured water supply status. The city's social and governance factors are neutral in our credit rating analysis.

Rating above the sovereign

Scottsdale's GO bonds are eligible to be rated above the sovereign because we assess that the city can sustain superior credit characteristics compared to the U.S. in a stress scenario. According to our criteria outlined in "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" (published Nov. 19, 2013), U.S. local governments exhibit moderate sensitivity to country risk. The GO pledge serves as the primary security for the debt, significantly mitigating the likelihood of adverse sovereign intervention in the city's debt servicing or operational activities. Locally generated revenue constitutes the principal revenue source, and Scottsdale benefits from independent treasury management. Furthermore, there is no historical precedent for negative federal intervention affecting a local government's revenue in the U.S.

Outlook

The stable outlook signifies the city's ability to uphold fiscal stability across economic cycles, underpinned by a dynamic economy and comprehensive financial policies and practices.

Downside scenario

Although we view this as unlikely, should Scottsdale's financial performance deteriorate, leading to significant fund balance drawdowns, we could lower the rating. In addition, we could take a negative rating action if the city's debt and liability profile substantially weakens to levels that are no longer comparable with those of similarly rated peers, whether due to a considerable increase in debt burden or mismanagement of retirement liabilities.

Credit Opinion

Economy

Scottsdale is a principal city for the Phoenix metropolitan statistical area, renowned for its affluent and highly sought-after community, which exhibits substantially higher wealth and income metrics relative to peer medians. The city boasts a well-educated workforce, with approximately 62% of the population holding a bachelor's degree or higher, providing employers in the metroplex with access to a competitive labor pool. Furthermore, Scottsdale's strong business climate and overall quality of life has facilitated constant job creation and the corresponding human capital. Ongoing capital and infrastructure investments have fostered the expansion of high-paying job opportunities in sectors such as finance, health care, and IT services, leading to steady increases in household incomes and enhancing the community's purchasing power. Furthermore, Scottsdale functions as a premier tourist destination, drawing approximately 11 million visitors annually, which catalyzes economic activity through increased consumer spending and job creation. Scottsdale's proximity to major markets, globally recognized tourist destination, and application of economic-development tools and infrastructure investments form a strong foundation for sustained economic growth.

Management

The city's proactive financial management is characterized by robust policies and practices that enhance credit quality, including a strong culture of long-term planning, forward-looking budgeting, and clearly defined policies. Key elements include comprehensive planning and analysis to formulate revenue and expenditure assumptions grounded in historical trends, with regular updates provided to the governing body. The multiyear financial planning framework serves as a critical budget-planning tool, guiding decision-making by identifying and monitoring potential expenditure pressures. This forecasting process informs management and policymakers of the long-term implications of service-level decisions while providing a roadmap for achieving balanced budgets in the outyears. Furthermore, in conjunction with the annual capital planning process, officials update Scottsdale's five-year capital improvement plan annually, and the city identifies sources and uses of funding. Its well-articulated financial policies encompass a debt management framework that establishes thresholds for monitoring leverage, as well as an investment policy that outlines permissible instruments, portfolio objectives, and monitoring requirements, including monthly reporting to the council. Furthermore, Scottsdale's drought management and water strategic plan, along with the city's cybersecurity practices, exemplify a commitment to proactive risk management.

Financial performance, reserves, and liquidity

The city's strong financial health is characterized by a conservative fiscal framework that incorporates financial restraint, diligent budget monitoring, and expanding revenue sources, all of which have produced consistent and favorable financial performance. This has enabled Scottsdale to provide a broad range of services and cash-fund a sizable portion of capital-related expenditures while sustaining its exceptional reserve position. Adding to the city's credit strength are extensive and longstanding financial policies and practices resulting in predictable and stable financial performance, ensuring preservation of Scottsdale's robust reserve and liquidity position. Continuing the city's budgetary and economic momentum, Scottsdale will continue a pattern of positive operating results reflecting a projected net surplus of \$11.6 million in fiscal 2025. We understand the city's fiscal 2026 proposed budget forecasts a \$79.6 million operating deficit that largely reflects a \$50 million discretionary payment to the PSPRS legacy policy plan, coupled with operating transfers to support Scottsdale's capital program. However, we anticipate that the city's financial position will remain relatively stable over the next two years, given Scottsdale's historical outperformance of the budget.

Despite the potential for softening in budgetary performance stemming from recent state policy decisions and potential economic headwinds, we anticipate operations will remain stable supported by anticipated economic growth and prudent, comprehensive planning that employs conservative assumptions. In our view, Scottsdale's financial stability has been underpinned by the city's history of conservative budgeting and long-term financial planning, reflected in positive revenue and expenditure variances that have fostered a sustained trend of favorable budgetary outcomes, thereby ensuring that reserves and liquidity position remain exceptionally strong. Further reinforcing Scottsdale's sound financial profile is a formalized fund balance policy that mandates the maintenance of an operating reserve of at least 20% of expenditures to accommodate unforeseen events, along with a replenishment clause to ensure fiscal resilience.

Debt and liabilities

While Scottsdale's debt burden is comparatively high on a per-capita basis, it remains affordable when assessed in relation to the city's full cash value and total governmental revenue. Although the city's excise tax bonds, supported by Scottsdale's enterprise funds, are factored into our debt metrics, we have incorporated the utility support into our comprehensive evaluation of the city's debt and liability profile. Furthermore, we consider Scottsdale's relatively high fixed cost burden to be manageable, supported by a rapid amortization schedule and a favorable economic environment that has led to increased tax revenue collections, enhancing operating cash flows to meet debt obligations and flexibility to make excess contributions to the city's PSPRS legacy plans. Continued revenue growth and proactive financial stewardship have resulted in adequately funded retirement plans; however, the city remains exposed to potential cost escalations linked to its PSPRS legacy plans. Although Scottsdale is well positioned to continue making deliberate efforts to reduce the collective unfunded liability and ensure a healthy funded ratio, we regard its inability to effectively manage its retirement liabilities as the most significant risk to long-term credit stability.

The city participates in the following plans, reflecting each plan's most recent measurements:

- Arizona State Retirement System (ASRS): 75% funded using a 7% discount rate, with a proportionate share of net pension liability (NPL) of \$161.1 million.

- PSPRS legacy tier fire plan: 83% funded using a 7.2% discount rate, with an NPL of \$34.4 million.
- PSPRS legacy tier police plan: 67% funded using a 7.2% discount rate, with an NPL of \$156.5 million.
- Other postemployment benefits (OPEB) in the form of retiree health care benefits funded on a pay-as-you-go basis, with a total OPEB liability of \$863,000.

The city's legacy PSPRS police and fire plans feature a deferred retirement option plan (DROP), which provide lump-sum payments when the DROP period ends or at termination. We do not consider the city's DROP as a material liquidity risk given the relatively small number of participants; eligible members may only participate for a period up to 60 months; and that interest is no longer granted after the conclusion of the DROP period.

For further information on PSPRS and ASRS, see "Pension Spotlight: Arizona," published Dec. 6, 2021.

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Table 2

Scottsdale, Arizona--key credit metrics				
	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	101	--	101	101
County PCPI % of U.S.	97	--	97	97
Market value (\$000s)	125,899,993	99,807,677	79,199,631	73,985,867
Market value per capita (\$)	508,225	402,897	319,708	293,476
Top 10 taxpayers % of taxable value	3.3	3.4	3.6	3.6
County unemployment rate (%)	3.2	3.2	3.2	3.3
Local median household EBI % of U.S.	140	--	140	141
Local per capita EBI % of U.S.	185	--	185	189
Local population	247,725	--	247,725	252,102
Financial performance				
Operating fund revenues (\$000s)	--	456,178	408,192	354,371
Operating fund expenditures (\$000s)	--	376,386	326,124	332,964
Net transfers and other adjustments (\$000s)	--	(59,785)	(46,967)	(811)
Operating result (\$000s)	--	20,007	35,101	20,596
Operating result % of revenues	--	4.4	8.6	5.8
Operating result three-year average %	--	6.3	8.3	9.5

Table 2

Scottsdale, Arizona--key credit metrics (cont.)				
	Most recent	2024	2023	2022
Reserves and liquidity				
Available reserves % of operating revenues	--	93.0	87.1	74.1
Available reserves (\$000s)	--	424,400	355,365	262,505
Debt and liabilities				
Debt service cost % of revenues	--	13.4	12.6	14.6
Net direct debt per capita (\$)	3,914	2,171	2,427	2,348
Net direct debt (\$000s)	969,684	537,860	601,215	591,977
Direct debt 10-year amortization (%)	81	88	--	--
Pension and OPEB cost % of revenues	--	8.0	6.0	13.0
NPLs per capita (\$)	--	1,414	1,422	1,438
Combined NPLs (\$000s)	--	350,368	352,160	362,525

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

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