MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Pima County Community College District's (AZ) Aa1 general obligation bond rating; assigns negative outlook

Global Credit Research - 13 May 2013

Rating affirmation and negative outlook affects $3.3 million of outstanding rated general obligation debt

New York, May 13, 2013 -- Moody's Investors Service has affirmed Pima County Community College District's (AZ) Aa1 general obligation bond rating. The rating affirmation and negative outlook affects $3.3 million of outstanding debt. The bonds are secured by the district's general obligation unlimited tax pledge. The outlook is negative.

RATINGS RATIONALE

The Aa1 rating affirmation reflects the district's favorable debt position, diverse economic base coterminous with Pima County, and strong financial position with ample reserves and liquidity. The negative outlook reflects the recent placement of the district's accreditation on probation following a review by the Higher Learning Commission (HLC) of the North Central Association which cited several internal procedural and personnel control deficiencies. While it is likely that the district will remedy the deficiencies within the two-year period, the negative outlook reflects the uncertainty of the district's accreditation status and the cliff risk associated with the possible elevation to a more severe sanction or termination of accreditation.

STRENGTHS

- Stable market position supported by a diverse economic base with significant public sector and military employment providing stability

- Strong operating performance with ample liquidity

- Low debt burden with limited plans to issue new debt in the near-term

CHALLENGES

- Accreditation placed on probation; loss of accreditation would have a significant impact on enrollment and fiscal operations

- Decreases in major revenue sources

- Declining enrollment attributed to the improving economic environment

Outlook

The negative outlook reflects the significant cliff risk the district faces if accreditation were terminated. Should the issue be resolved within the next two years and the college's financial position remains stable or improved, it is likely the negative outlook could be removed.

WHAT COULD CHANGE THE RATING -- UP (or removal of the negative outlook)

- Reaffirmation of accreditation status

- Continued positive operating margins

- Significant tax base growth and strengthening of demographic profile

WHAT COULD CHANGE THE RATING -- DOWN

- Loss of accreditation status or elevation of sanction

- Deterioration of financial operations

- Material declines on tax base and/or demographic profile

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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