STANDARD & POOR'S RATINGS SERVICES

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Summary:

Pima County Community College District, Arizona; General Obligation

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Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AA' long-term rating on Pima County Community College District, Ariz.'s existing general obligation (GO) bonds. The outlook is stable. The rating reflects our view of the district's:

- Large and diverse tax base, situated in Pima County and Tucson;
- Strong historical and projected financial operations; and
- Low debt levels, with limited future financing plans.

The above strengths are somewhat mitigated by recent declines in the county property tax base.

The GO bonds are secured by an unlimited ad valorem tax on taxable property. Pima County Community College District is coterminous with Pima County and serves an estimated 998,454 residents. District income levels are good in our opinion, with median household effective buying income at 91% of national levels. Like most places in Arizona, assessed value (AV) has decreased significantly in recent years, with an aggregate 22.7% decline since fiscal 2010 to $7.6 billion in fiscal 2014. Market value has followed a similar trend, with 2014 market value dropping to $74.6 billion or $80,277 per capita, which we consider very strong, from $88.1 billion in 2010. Full-time student equivalents (FTSEs) generally increase during economic downturns and decrease during economic upturns. As such, FTSEs increased an aggregate 13.3% to 22,906 in fiscal 2011 from fiscal 2008 levels, although FTSEs declined 3.8% in fiscal 2012 and management anticipates another 10% decrease in fiscal 2013. We understand that management anticipates minimal declines going forward.

Financial operations remain strong in Standard & Poor's view. The district's unrestricted net assets increased for the fifth-straight year in fiscal 2012 to just more than $100 million or 49.5% of expenses, which we consider very strong. The district's cash position has also recently increased, but due to a new financial adviser, the district opted to invest more of its cash in fiscal 2012, transferring $50 million to short-term investments and decreasing its cash position from $109 million in fiscal 2011 to only $32.5 million in fiscal 2012. In fiscal 2012, the district received 45% of its total revenues from property taxes, 31% from grants, and 26% from net tuition. In recent years, the state has been decreasing its funding to community college districts, and in response, many have been increasing tuition at a higher rate than normal. The district took a unique approach in recent years by introducing differential tuition, basing its tuition per unit on the expense of teaching a class, so that classes with more expensive equipment, for example, are more expensive per unit than those without such equipment. The most expensive in-state tuition in fiscal 2013 is $89 per unit, compared to regular tuition of $63.50 per unit.

The district's management practices are considered "good" under Standard & Poor's financial management assessment (FMA) methodology. An FMA of "good" indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. We consider the district's overall net debt burden to be very low on a per capita basis, at $879, and low as a percent of market value at 1.0%. The district contributes to a pension plan, health-care plan, and a long-term disability plan through the Arizona State Retirement System. The district has contributed the full required amounts for the past three years, including a total of $6.9 million in fiscal 2012, which was 3.4% of total government expenditures.

Outlook

The stable outlook reflects our view of the university's continually strong finances during a period of significantly reduced state funding. However, despite the district's very steady finances, which are somewhat offset by the strained state funding environment and recent declines in the tax base, we do not anticipate changing the rating during the two-year outlook horizon.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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