

RatingsDirect®

Summary:

Pima County Community College District, Arizona; General Obligation

Primary Credit Analyst:

Kate R Parmer, San Francisco (1) 415-371-5081; kathleen.parmer@standardandpoors.com

Secondary Contact:

Sussan S Corson, New York (1) 212-438-2014; sussan.corson@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Pima County Community College District, Arizona; General Obligation

Credit Profile

Pima Cnty Cmnty Coll Dist GO

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

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.