



New Issue: MOODY'S ASSIGNS Aa3 RATING AND STABLE OUTLOOK TO REGIONAL TRANSPORTATION AUTHORITY OF PIMA COUNTY EXCISE TAX REVENUE BONDS SERIES 2011

Global Credit Research - 19 May 2011

APPROXIMATELY \$151 MILLION OF DEBT AFFECTED

County
AZ

Moody's Rating

ISSUE	RATING
Transportation Excise Tax Revenue Bonds (Pima County Regional Transportation Fund) Series 2011	Aa3
Sale Amount	\$151,200,000
Expected Sale Date	05/25/11
Rating Description	Transportation Excise Tax Revenue Bonds

Opinion

NEW YORK, May 19, 2011 -- Moody's Investors Service has assigned a Aa3 rating with a stable outlook to the Regional Transportation Authority of Pima County, Arizona's Transportation Excise Tax Revenue Bonds (Pima County Regional Transportation Fund) Series 2011 expected to be issued in the amount of approximately \$151.3 million. The current offering is secured by a first lien gross pledge on a half-cent transportation excise tax levied within Pima County. Bond proceeds from the current offering will help finance the construction of or improvements to roadways freeways and other transportation-related construction projects throughout Pima County.

RATINGS RATIONALE

The rating assignment recognizes the Authority's large and diverse service area and economy despite stresses currently experienced in the state and region, and still sound debt service coverage despite recent declines in pledged revenues. The rating also incorporates a 2.0 times peak debt service additional bonds test, the lack of a debt service reserve requirement and a short capital program management history by the authority.

STRENGTHS

- Stabilizing university presence and employment diversity
- Strong population growth

CHALLENGES

- Housing market continues to be an economic drag
- Declining revenue trend and lack of debt service reserve

DETAILED CREDIT DISCUSSION

ALTHOUGH STILL CHALLENGED, REGIONAL ECONOMY BENEFITS FROM DIVERSE EMPLOYERS AND PRESENCE OF UNIVERSITY OF ARIZONA; SOUND COVERAGE OF DEBT SERVICE

The pledged transportation excise tax is imposed within Pima County (UTGO rated Aa2), the state's second largest county, which is located in southern Arizona. The county's 2010 estimated population was 980,263 residents, or nearly 15% of the state's total population. About half of the county's population resides in the City of Tucson (UTGO rated Aa2), the county seat and home to the University of Arizona (Revenue bonds rated Aa2 with a negative outlook). In addition to the University of Arizona, other large employers include a diverse mix of military and defense entities, retail, and local government. Similar to the state overall, the housing-driven recession prompted a contraction in the local economy and continues to be a significant drag on employment growth and consumer spending. As of March 2011, the unemployment rate for the county was stable relative to the prior year at 8.5% and below the City of Tucson (9.4%), state (9.3%) and nation (9.2%).

Prior to fiscal 2008, excise tax revenue collections within the county experienced steady growth with above average annual increases in FY 2005 (7%) and FY 2006 (11%). Then as the economy contracted, pledged revenue collections reflected reduced consumer activity beginning with a FY 2008 decline of 1.7%, followed by a subsequent drop of 10.1% in FY 2009. Pledged revenues declined again for a third year in FY 2010 by 6.4% to \$62.9 million which was below the Authority's revised revenue projections. FY 2010 pledged revenues were comprised of local retail sales taxes (51%), utilities (11%), restaurant and bar-related transactions (11%), property leasing and rental-related sales taxes (10%), as well as other categories. FY 2010 pledged revenues provided a sound 4.7 times coverage of maximum annual debt service (MADS); debt service is level through 2026. The Authority has plans to issue a total \$335 million and revenue projections are reasonable indicating 2.3 times coverage of maximum annual debt service by FY 2010 pledged revenues. Year-to-date monthly collections in FY 2011 indicate some improvement over the prior year with a slight increase in FY 2011 collections expected. Going forward, Authority officials project revenues to increase between 3% and 5% annually. However, prior to any additional issuance the Authority prudently plans to reevaluate current economic and revenue assumptions in 2012 and has put a hold on certain new projects until the reevaluation has been completed.

LEGAL PROVISIONS ARE GENERALLY SOUND

In May 2006, Pima County voters approved both a 20-year transportation excise tax to be levied against the county's transaction privilege tax base as well as a 20-year Regional Transportation Plan; both expire June 30, 2026. Once enacted, the county is prohibited from taking any action to lower or terminate the tax. The State of Arizona Department of Revenue is responsible for tax collections. Collections are transferred on a monthly basis to the Authority for deposit into the Regional Transportation Fund (RTF). Amounts from the RTF are then deposited into the bond account held in trust on a monthly basis equal to one-sixth of subsequent year's semi-annual interest payment plus one-twelfth of annual principal. Bonds mature June 1, 2026, one month prior to the expiration of the transportation excise tax. Importantly, the state has pledged not to limit or alter the transportation excise tax or the authority of the board that would adversely affect the rights of bondholders while bonds are still outstanding.

The Regional Transportation Plan is divided into four separate 5-year construction periods. The ambitious plan comprises \$2.1 billion of capital projects and is expected to be funded from a combination of the transportation excise tax, along with regional and local contributions. Projects include roadway improvements, safety, environmental and economic vitality elements and transit. Moody's notes the regional economic downturn will likely challenge the authority's ability to fund voter-approved projects given reduced consumer activity and weakened local resources, although the Authority is experiencing a favorable construction bid environment.

The additional bonds test is sound for the senior lien bonds at 2.0 times maximum annual debt service (MADS) using pledged collections from any 12 of the last 18 months. No subordinate lien bonds are currently outstanding; issuances under the subordinate lien will be required to meet a 1.2 times combined MADS additional bonds test for senior and subordinate lien obligations. The absence of a debt service reserve for the senior lien bonds is a weakness, but not a material credit concern. Legal provisions also allow for swap transactions, although none are contemplated at this time.

SIZEABLE CAPITAL PLAN REMAINS

The Authority anticipates borrowing \$180.0 million in 2016 for a total program borrowing amount of about \$335 million through 2026. Similar to other capital intensive programs, the pledged excise taxes are expected to be leveraged for senior lien bonds near levels outlined by the 2.0 times additional bonds test. All of the long-term obligations currently issued are comprised of fixed-rate obligations. The debt structure is favorable with level debt service from 2012 to maturing in 2026.

Outlook

The outlook on the Regional Transportation Authority of Pima County is stable. The outlook reflects the expectation that management will continue to prudently respond to challenging economic conditions, adjusting its borrowing plans as necessary to maintain sound coverage of debt service. While the regional economy will remain under stress in the near term, longer run it should benefit from strong population growth, a diverse employment base, and affordable living and business costs.

WHAT COULD MAKE THE RATING GO UP

Significant and sustained improvements in pledged revenue trend and coverage levels

Significant improvement in the area economy with fundamental improvement in area income levels

WHAT COULD MAKE THE RATING DOWN

Significant deterioration of debt service coverage levels due to decline in sales tax receipts

Significant deterioration of debt service coverage levels due to additional debt

Significant deterioration of the Authority's overall financial operations

KEY STATISTICS:

FY10 Pledged Revenues: \$62.4 million (-6.4% from FY09): 4.7 times MADS

Pledged revenue collections as of April 2011: 2.3% over the prior year

Additional Bonds Test: 2.0 times MADS for seniors

The principal methodology used in this rating was Piercing the G.O. Ceiling published in December 2008.

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