

## Regional Transportation Authority of Pima County, Arizona; Miscellaneous Tax

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# Regional Transportation Authority of Pima County, Arizona; Miscellaneous Tax

## Credit Profile

US\$151.26 mil transp excise tax rev bnds ser 2011 due 06/01/2026

Long Term Rating

AA/Stable

New

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to the Regional Transportation Authority (RTA) of Pima County, Ariz.'s transportation excise tax revenue bonds (Pima County Public Transportation Fund), series 2011. The outlook is stable.

The rating reflects our view of the authority's:

- Deep and diverse local economic base, anchored by Tucson's role as a regional employment, education, and service center for southern Arizona, which generates the pledged sales tax;
- Strong 4.74x coverage by fiscal 2010 pledged revenues of future maximum annual debt service (MADS) after this issuance; and
- A 2.0x additional bonds test (ABT).

Partially offsetting the above factors is our view of:

- The authority's additional parity bonding plans, estimated by management at up to \$200 million in its current five-year capital improvement program (CIP), which could potentially lower coverage to the 2.0x ABT, and
- A recent decline in pledged tax revenues (although the authority projects collections will begin to increase in fiscal 2011).

The bonds are secured by a first lien on a dedicated county transaction privilege (sales) tax collected within Pima County at the rate of approximately 10% of the base state sales tax rate in effect in 1990. The pledged tax is collected by the state on behalf of the county. On May 16, 2006, voters approved the 0.5% privilege tax authorized for a 20-year period expiring June 30, 2026. A debt service reserve fund does not secure the bonds.

Bond proceeds will be used to fund roadway, environmental, and transit improvements within Pima County.

The authority was established in 2004 to plan, operate, and determine funding for regional public transit improvements in Pima County. It is run by a nine-member board composed of elected city and county officials. The RTA is a \$2.1 billion, 20 year multi-model plan covering roadway improvements; safety; and environmental, economic, and transit elements. Local jurisdictions have committed roughly \$400 million. The road projects will occur in the cities of Tucson, Marana, Oro Valley, and Sahuarita. It has been presented to us that the local projects will be delegated at the city level and the burden of any over-budget costs will be placed on that respective city to identify funding sources. The voter-approved 0.5% tax cannot be raised; furthermore, the countywide pledged excise taxes that the authority receives are not affected by whether cities opt in or out of participation in the authority.

Pima County encompasses 9,184 square miles in southern Arizona and had a 2009 estimated population of approximately one million, 54% of whom reside in Tucson. The county's population has grown steadily in recent years, increasing by an average annual rate of 2.3% from 2000 to 2009. A stable yet growing local economy, coupled with favorable weather, good educational opportunities, and affordable housing has continued to draw new residents. However, similar to national trends, this growth has slowed over the past two years: since fiscal 2006, building permits have continued to decline to record lows, and residential housing permits totaled a very low 1,238 for fiscal 2010, compared with 9,082 in fiscal 2006. According to the county, the value of total building permits decreased to \$0.5 billion in fiscal 2010 from \$1.9 billion in fiscal 2006.

Services, government, and the military remain the county's primary employment sectors. For fiscal 2010, these included retail (52%), restaurants and bars (11%), and utilities (11%). Raytheon Missile Systems (12,140 employees) surpassed The University of Arizona (10,363) as the leading employer in 2010, followed by the state government (8,708), Davis-Monthan Air Force Base (7,755) and WalMart stores (7,192). Tourism, particularly in the Tucson area, is another major economic driver, and visitors are attracted to the area's climate, nature areas, conventions, baseball spring training, and golf. Total tourist expenditures exceeded \$1.82 billion in 2010, which was 1.5% higher than the prior year. The county's unemployment rate has increased over the past two years, but remained below the national average in fiscal 2010 at 8.7%, compared to the national average of 9.7% for the same year. Income indicators are, in our view, good, with median household and per capita effective buying incomes measuring 93% and 97% of the national levels, respectively.

Although the first full year of pledged revenues was in fiscal 2008, the authority has provided to us hypothetical collections covering fiscals 2005 and 2006. Pledged revenues grew by a cumulative 17.6% during fiscals 2005 through 2007 to \$76 million (fiscal 2007 collections are annualized based on 11 months of collections). Since fiscal 2008, pledged revenues have declined as a result of the contraction in the regional and national economies. Most recently, pledged revenues declined by 10.65% and 6.85% for fiscals 2009 and 2010, respectively. In our view, the most significant declines in revenues have come from contracting (which is tied to building activities), retail, and property rental industries -- all of which are cyclical industries, in our view. Pledged revenues totaled \$62.9 million for fiscal 2010, which provided for what we consider to be very strong 4.74x coverage of MADS, which occurs in 2019. The authority is projecting to collect nearly \$64 million in pledged revenues for fiscal 2011, based on a run rate of collections to date, which we calculate could provide coverage of 4.8x MADS.

The authority currently estimates that it would issue the remaining \$200 million in authorized additional debt secured by the pledged revenues as part of its current five-year CIP in fiscal 2014. The senior-lien ABT requires historical tax revenues for 12 months to equal at least 2x MADS on outstanding and proposed debt, as adjusted for increases in tax rates or additional revenue pledges and adjusted by certain assumptions on variable-rate and capital appreciation bond debt service. The ABT does not include the federal interest subsidy (if applicable) in its calculation of pledged revenues.

Pledged sales taxes are collected by the state from within Pima County in an amount effectively equal to approximately 10% of the state sales tax rate. Pledged revenues are transferred to the state treasurer and deposited into the RTA fund, which is held with the fiscal agent. Each month, money allocated to the RTA is deposited into the bond account (designated and pledged for debt service payments) equal to one-sixth interest and 1/12 principal deposit on senior-lien debt. The money then goes to pay the monthly allocation of subordinate-lien debt service; subordinate-lien-related credit enhancement, liquidity, other contractual fees, and subordinate-lien debt service reserve deposits, if established by supplemental resolution; and finally construction account to pay project costs.

Currently, the board does not expect to establish debt service reserves for debt outstanding or future debt issuances for either senior- or junior-lien debt.

## Outlook

The stable outlook reflects our view of Pima County's large and diverse economic base, which generates the pledged tax. We expect MADS to remain what we consider strong, although we realize coverage could decline to the ABT level should the authority issue additional debt. Recent decreases in pledged sales taxes and future planned additional parity bonding are partially mitigated by our view that the 2x senior-lien ABT provides some level of protection against potentially low coverage.

## Flow Of Funds

Pledged sales taxes are collected by the state from within Pima County in an amount effectively equal to about 10% of the state sales tax rate. Pledged revenues are transferred to the state treasurer and deposited into the RTA fund, which is held with the fiscal agent. Each month, money allocated to the RTA is deposited into the bond account (designated and pledged for debt service payments) equal to one-sixth interest and one-twelfth principal on the senior-lien debt. The money then goes to pay the monthly allocation of subordinate-lien debt service; subordinate-lien related credit enhancement, liquidity, other contractual fees; subordinate-lien debt service reserve deposits, if established by supplemental resolution; and finally into a construction account to pay project costs. We understand that, currently, the board does not expect to establish debt service reserves for debt outstanding or future debt issuances for either senior- or junior-lien debt.

## Related Criteria And Research

USPF Criteria: Special Tax Bonds, June 13, 2007

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