MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 rating to Maricopa County, AZ's COPS, 2015

Global Credit Research - 01 Jun 2015

Aaa Issuer Rating affirmed

MARICOPA (COUNTY OF) AZ
Counties
AZ

Moody's Rating

ISSUE	RATING
Certificates of Participation, Series 2015	Aa1
Sale Amount $200,000,000	
Expected Sale Date 06/10/15	
Rating Description Lease Rental: Appropriation	

Moody's Outlook STA

NEW YORK, June 01, 2015 --Moody's Investors Service has assigned a Aa1 to the Maricopa County, AZ $200 million Certificates of Participation, Series 2015. At this time, Moody's has affirmed Maricopa's previously issued lease revenue bonds outstanding in the amount of approximately $97 million and also affirms the county's Aaa Issuer Rating.

SUMMARY RATING RATIONALE

The Aaa Issuer Rating incorporates the county's strong credit characteristics including its diverse economy and large population that comprises about two-thirds of the state's population, anchored by the city of Phoenix and a very large tax base. Financial operations are well-managed with reserve levels above the median for Aaa-rated counties. The rating also considers very low debt levels reflective of infrequent borrowing. Maricopa County also has an above average but manageable pension burden.

The Aa1 rating on the COPs primarily reflects the county's strong general credit characteristics and the essentiality of the leased asset. The rating also incorporates satisfactory legal provisions, although the absence of a debt service reserve requirement is a weakness. Finally, although we view the annual lease burden as high relative to operating revenues, this is mitigated by substantial reserve levels and the requirement for the county to appropriate just over one year in advance of the required principal and interest payment dates.

OUTLOOK

Maricopa's stable outlook reflects its role as the state's economic center. The outlook also incorporates management's sound practices and proven ability to make necessary operating adjustments to address budget challenges and maintain sizeable available reserves. Additionally, Maricopa benefits from a very large tax base that has begun to increase after sizeable declines in prior years.

WHAT COULD MAKE THE RATING GO UP

- Not applicable

WHAT COULD MAKE THE RATING GO DOWN

- Deterioration of the county's financial position

- Significant additional leverage of operating revenues with non-voted debt

- Substantial growth in pension liabilities

STRENGTHS

- Regional center with large tax base and stabilizing institutions

- Sound financial management practices and healthy reserve levels

- Infrequent borrower, rapid payout of debt

CHALLENGES

- Trend of declining reserve levels

- Reliance on economically sensitive revenues

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

TAX BASE AND LOCAL ECONOMY: IMPORTANT STATE ECONOMIC CENTER

Maricopa's economy continues to recover from the Great Recession as evidenced by continued population gains that are outpacing the nation, a trend of job growth - particularly in finance, tourism and professional services - that has pushed unemployment to its lowest levels in several years and a return to growth in taxable values for the first time since 2009.

The county is home to the state's two largest cities, Phoenix and Mesa and has an estimated 4 million residents or nearly two-thirds of the entire state population within an area comprising 9,225 square miles. Population growth has historically been strong in the county. From 2010 to 2014 in-migration pushed the county's population up by another 5%, largely focused on the Phoenix metropolitan area. The county's largest employers are diverse and include sectors such as government, retail, healthcare, banking and technology and manufacturing entities. Despite this employment diversity, we believe the housing sector will remain an obstacle to even greater growth levels at least for the near-term. Over the long-term, strong credit fundamentals including historically healthy in-migration, diverse employment and relatively well-paying jobs and lower business costs relative to neighboring states further ensure the county will be an above average performer relative to other Aaa-rated counties nationally.

The county's unemployment rate improved from the year prior to 4.7% (March 2015), and remains below the state (5.4%) and nation (5.6%).

Real estate values remain well below peak levels and lagging taxable values continued to decline through 2014. From 2009 to 2014 the full market value dropped a substantial 47% due to the housing crisis. However, as further evidence of renewed economic expansion, Maricopa's very large full value of $276 billion for 2015 was nearly 12% above the prior year. Full value per capita of $73,326 is below the median for Aaa-rated counties. Resident income levels for the county are average with median family income at 100% of the nation based on the 2012 American Community Survey.

In 2012, Arizona voters approved the Property Tax Assessed Valuation Amendment (the Amendment) which limits assessed value growth to 5% plus new construction beginning in FY2016. The Amendment amended the state constitution related to property taxes and establishes a single property valuation class (the LPV) for property tax purposes, rather than the current two classes (primary and secondary). Importantly, we note the Amendment does not affect local governments' unlimited ability to increase the property tax rate sufficient to repay general obligation bonds.

We believe increases in full cash value should surpass limited property value (LPV) growth rates over the medium-term given housing values are up substantially since at least the fourth quarter of 2011, the state's 18 to 24 month lagged assessment cycle and due to the recent voter-approved Property Tax Assessed Valuation Amendment.

Maricopa's economy will continue to benefit from its role as a regional center for the entire state. Moody's Economy.com report (December 2014) for the Phoenix metropolitan area, the county's economic engine, states that growth at both ends of the income spectrum will soon push the area from recovery to expansion.

FINANCIAL OPERATIONS AND POSITION: HISTORICALLY WELL MANAGED FINANCIAL OPERATIONS AFFORD THE COUNTY OPERATING FLEXIBILITY

The county is conservatively managed and operating reserve levels provide the county sound operating flexibility. In 2014 the county realized a sizeable and above average operating deficit (equal to about 11% of operating expenditures) relative to prior years due primarily to transfers out for one-time purposes. The county has consistently transferred out a sizeable portion of resources in order to pay-go fund capital projects and is the primary reason debt levels are very low. The county's available operating fund balance has steadily dropped since 2009 but at 52.8% of operating revenues remains well above median levels for large Aaa-rated cities and counties nationally. Going forward, we expect that the county's currently healthy reserve levels and sound financial profile positions it well to mitigate a growing burden from increasing benefit related fixed costs. The county's commitment to maintaining budget balance and solid reserve levels has been an important factor in Moody's credit evaluation of Maricopa County.

For the current fiscal year (2015) the county was originally faced with a very small operating deficit in its detention center fund, one of the county's major operating funds (operating funds defined as the general fund, detention center fund and debt service fund). The identified gap is slightly larger than prior year and again required increased support from the general fund. The small imbalance stems from a slower-than-projected growth in county-wide jail excise tax revenues, as well as increased growth in benefit and other detention-related operating costs. Still, year-to date estimates indicate combined available operating reserves will end slightly higher than FY 2014.

The 2016 proposed budget is balanced after identifying another comparatively small budget gap in the detention center fund. The county has noted challenges to the upcoming budget largely stem from continued slow growth in primary operating revenues including sales, vehicle license and jail taxes as well as cost increases associated with the Public Safety Personnel Retirement System (PSPRS) and one-time court order costs. The county's costs with complying with a 2013 federal court order in a civil rights lawsuit are tentatively budgeted at nearly $24 million. Positively, the county is confident that improving unemployment rates and consumer confidence, as well as well as a spending boost from the recent Super Bowl will increase state-shared sales taxes while a slight increase to the county's primary property tax levy will be more than sufficient to offset a roughly 1% expenditure increase for FY 2106. We also note that the county maintains sound expenditure flexibility given that an average of 8% of general fund expenditures has gone toward one-time capital purposes annually. Further, the county's primary property tax levy is about $157 million (13% of FY 2014 expenditures) below the maximum amount it could legally levy, if necessary. Although tapping into this additional revenue would be politically difficult, it does represent a potential resource.

The county's strong financial and budgeting management team will continue to take timely and prudent action in order to conservatively manage its budget and generate a fiscal position that will remain steady and satisfactory for the rating level. Similar to most major municipalities, Maricopa will continue to face its share of budget challenges due to the rising pension, health and benefit costs.

Liquidity

Liquidity maintained in the county's operating funds was healthy at nearly $603 million as of fiscal year-end 2014 (48.3% of operating revenues). Management notes cash designated for capital purposes will be drawn down as planned while year-to-date cash estimates for operations and reserves indicate a slight improvement in cash for the current fiscal year (2015) and expect liquidity to improve again by year-end 2016.

DEBT AND OTHER LIABILITIES: VERY LOW DIRECT DEBT BURDEN; HIGH LEASE BURDEN

Moody's expects that debt levels will remain low given a history of infrequent borrowing, consistent practice of pay-as-you-go financing, rapid principal payout, and expected tax base growth. Direct debt is very low at 0.1% of full value and primarily consists of the current issuance. The county does not have any general obligation debt outstanding at this time, and has no plans to go to voters for GOULT borrowing authorization.

The peak lease payment for Maricopa's certificates of participation, including the current issuance, comprises a high 10% of FY 2014 general fund revenues. Lease payments are subject to annual appropriation and notably, there is no debt service reserve requirement for the current sale. We consider the risk of non-payment for Maricopa's lease as remote given strong management, the modest appropriation burden and essential municipal uses for the leased assets.

Debt Structure

Current principal amortization is rapid with the current sale repaid by 2018.

Debt-Related Derivatives

All of Maricopa's direct debt consists of fixed rate obligations.

Pensions and OPEB

The county's employees participate in several pension programs, including the Arizona Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer public employee retirement system; and the Arizona State Retirement System (ASRS) a multi-employer, cost-sharing plan for general employees. PSPRS costs will rise significantly over the near-term as the county restores benefits that had been cut under SB 1609 back in 2011; in the "Fields" case, the Arizona Supreme Court ruled that those cuts, sometimes referred to as a permanent benefit increase, violated the state's constitution. A similar case, known as the "Hall" case, is currently in litigation; the potential impact of "Hall" has not yet been finalized but is expected to increase pension costs although at a lower level than the Fields case. The county's PSPRS contribution in 2016 will grow to $22.2 million, up from $17.99 million in 2015 and the county expects to repay this increased Fields-related pension cost on a one-time basis, rather than 3-year phase-in.

Maricopa's 2013 combined pension contributions totaled $71.7 million, or a relatively modest 6.0% of operating revenues. Moody's fiscal 2013 adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data, is $2.3 billion, or 1.90 times operating revenues. The three year average of the county's ANPL to Operating Revenues is 1.7 times, while the three-year average of ANPL to full value is a low 0.8%. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions and the related credit impact on companies, government, and other entities across the globe, please visit Moody's on Pensions at www.moodys.com/pensions.

MANAGEMENT AND GOVERNANCE

Arizona counties have an institutional framework score of 'Aa', or strong. Revenues, primarily property taxes, are generally predictable but counties have minimal ability to increase revenues above statutory caps. Expenditures are moderately stable and predictable and counties have the ability to reduce expenditures as necessary.

KEY STATISTICS

-Full Market Value (Net Full Cash), Fiscal 2015: $276 billion

-Full Market Value Per Capita (Net Full Cash), Fiscal 2015: $73,326

-Median Family Income as % of US Median (2012 American Community Survey): 100.4%

-Fund Balance as % of Revenues, Fiscal 2014: 52.8%

-5-Year Dollar Change in Fund Balance as % of Revenues: -29.1%

-Cash Balance as % of Revenues, Fiscal 2014: 48.3%

-5-Year Dollar Change in Cash Balance as % of Revenues: -10.2%

-Institutional Framework: "Aa"

-5-Year Average Operating Revenues / Operating Expenditures: 0.94x

-Net Direct Debt as % of Assessed Value: 0.11%

-Net Direct Debt / Operating Revenues: 0.2x

-3-Year Average ANPL as % of Assessed Value: 0.79%

-3-Year Average ANPL / Operating Revenues: 1.7x

OBLIGOR PROFILE

Maricopa County is located in the south-central portion of the State. Its boundaries enclose the greater metropolitan Phoenix area, which is comprised of the cities of Phoenix, Glendale, Mesa, Scottsdale, Tempe, Peoria and Chandler, the towns of Gilbert and Paradise Valley and other smaller cities and towns and all of the unincorporated areas of the County. Phoenix is the capital of the State and the metropolitan area is the state's major economic, political and population center.

LEGAL SECURITY

Lease payments, subject to annual appropriation by the Board of Supervisors for the County are expected to be made from monies from the County's General Fund. The County's obligation under the Lease to pay Lease Payments during the term of the Lease will be absolute and unconditional, but subject to the County's annual right to terminate the Lease as of the end of each Fiscal Period by failing to budget and appropriate the full amount necessary to make all Lease payments due in the next fiscal period. If the Board does not budget and appropriate funds sufficient to pay Lease Payments in any succeeding Fiscal Period, the Lease will terminate as of the last day of the Fiscal Period for which Lease Payments were made, and the County will be required to vacate and return possession of the Leased Property to the Trustee under terms of 20-year Ground Lease. The leased assets include the recently constructed South Court Tower (2012) located on an approximately 2.9 acre site in downtown Phoenix. The capitalized cost of construction for the tower is an estimated $319 million and the land was recently appraised at $2.9 million. The county must maintain property and casualty insurance on the property.

USE OF PROCEEDS

Proceeds of the current issuance will fund various one-time needs including a public radio system, technology infrastructure upgrades, additions to the justice court and other projects.

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. An additional methodology used in the lease revenue rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Analysts

Dan Steed
Lead Analyst
Public Finance Group
Moody's Investors Service

William Oh

Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA