

MOODY'S

RATINGS

Rating Action: Moody's affirms Pima County Community College District, AZ's Aa2 issuer and Aa3 revenue bond ratings; outlook stable

28 Mar 2024

New York, March 28, 2024 -- Moody's Ratings ("Moody's") has affirmed Pima County Community College District, AZ's (PCC or the district) Aa2 issuer and Aa3 revenue bond ratings. The college had approximately \$51.5 million in total debt outstanding as of June 30, 2023. The outlook is stable.

RATINGS RATIONALE

The affirmation of the Aa2 issuer rating is driven by its very good brand and strategic position as the main provider of low-cost two-year higher education and vocational training in the Tucson, Arizona (Aa3 stable) metropolitan area. The college's strong wealth and liquidity, with approximately \$192 million in total cash and investments and over 300 monthly days cash on hand in fiscal 2023, continue to provide good financial flexibility and strong coverage of expenses and debt. Enrollment remains well below pre-pandemic levels, but enrollment growth in fall 2023 and the expansion of in-demand vocational programs will continue to support the college's market position. PCC's operating performance weakened significantly in fiscal 2023 due to substantial expense inflation growth, but net tuition revenue growth, growing tax revenue and expense control measures instituted by the college's disciplined financial management team provide good prospects for improved EBIDA margins and debt service coverage over the next two fiscal years. PCC's leverage profile remains manageable, as the college maintains a low direct debt burden and continues to fund ongoing capital projects with financial reserves and existing bond proceeds.

The affirmation of the Aa3 revenue bond, one notch below the issuer rating, rating reflects the underlying credit characteristics of the college as well as the limited nature of pledged revenues.

RATING OUTLOOK

The stable outlook reflects Moody's expectation that PCC's operating performance will

improve in fiscal years 2024 and 2025 as the college grows net tuition revenue and enacts expense control measures, with improved EBIDA margins and annual debt service coverage above 2x. It also incorporates expectations that the college's leverage profile will remain manageable, with no additional issuance of revenue backed debt.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Notable increase in operating scale and market share, reflected in material operating revenue growth and sustained increases in FTE enrollment beyond current level of 16,585
- Material increase in total cash and investments that outpaces peers and provides greater coverage of debt and expenses

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Continued deterioration of operating performance with low single-digit EBIDA margins and annual debt service coverage well below 2x.
- Notable increase in leverage from additional debt issuance without accompanying financial reserve, tax revenue and/or operating scale growth
- Significant reduction in unrestricted liquidity below 200 monthly days cash on hand

LEGAL SECURITY

The district's revenue bonds are secured by a broad gross pledge of tuition and fees, auxiliary revenue and other student charges. PCC pledges to maintain sum sufficient debt service coverage from pledged revenue and must ensure maximum annual debt service (MADs) on all revenue bonds not exceed 8% of the college's current expenditures. MADs of \$5.3 million is less than 3% of Moody's adjusted operating expenses.

PROFILE

Pima County Community College District is the main provider of two-year education and vocational training across five campuses in Pima County, Arizona. The district served fall 2023 enrollment of 16,585 full-time equivalent students and had operating revenue of approximately \$210 million in fiscal 2023.

METHODOLOGY

The principal methodology used in these ratings was Higher Education Methodology published in August 2021 and available at <https://ratings.moodys.com/rmc-documents/72158>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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