

# MOODY'S

## INVESTORS SERVICE

### **Rating Action: Moody's assigns Aa3 to Pima County Community College District's (AZ) revenue bonds; outlook stable**

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20 Dec 2018

New York, December 20, 2018 -- Moody's Investors Service has assigned a Aa3 to Pima County Community College District's (AZ) proposed approximately \$57.6 million of Revenue Bonds, Series 2019. The outlook is stable.

#### RATINGS RATIONALE

The Aa3 reflects Pima County Community College District's (PCC or the district) excellent strategic positioning given its prominent role as a low-cost provider of higher education and vocational training in the increasingly economically vibrant Tucson, Arizona (Aa3 stable GO) metropolitan area. PCC benefits from its large operating scale and robust property tax support from its Pima County (Aa2 stable) tax base. Financial reserve levels and unrestricted liquidity are strong relative to community college peers providing a sound cushion for expenses and for a growing, yet manageable debt burden. Operating performance has improved, driven by state mandated expenditure limitations and continued growth of tax revenue, the district's primary revenue source. However, PCC's enrollment prospects remain challenged due to an improving regional economy. Other offsetting credit factors include a lack of state operating appropriations, very high age of plant and an elevated pension burden relative to peers.

#### RATING OUTLOOK

The stable outlook reflects expectations of stabilizing enrollment, steady operating performance, and of limited material near-term debt issuance.

#### FACTORS THAT COULD LEAD TO AN UPGRADE

- Sustained improvement in operating performance
- Greater revenue diversity through state operating appropriations, higher tuition revenue or gift support

#### FACTORS THAT COULD LEAD TO A DOWNGRADE

- Sustained deterioration of operating performance or of pledged revenues available for debt service
- Significant reduction of unrestricted liquidity
- Prolonged contraction of tax base or deterioration of resident wealth levels

#### LEGAL SECURITY

The district's proposed revenue bond obligations will be 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. Estimated Series 2019 MADs of \$4.5 million is less than 3% of 2019 budgeted current expenditures. In fiscal 2018, pledged gross revenues of \$34 million, representing 19% of total operating revenue, covered MADs 7.55x.

#### USE OF PROCEEDS

Proceeds from the bonds will be used to support various capital projects including the expansion and renovation of facilities for applied technology, public safety and allied health programs as well as to pay costs of issuance.

#### PROFILE

Pima County Community College District (PCC or the district) is the main provider of two-year education and

vocational training across six campuses in Pima County, Arizona. The district served a fall 2018 enrollment of nearly 23,000 students and had operating revenue of over \$178 million in fiscal 2018.

#### METHODOLOGY

The principal methodology used in this rating was Community College Revenue-Backed Debt published in June 2018. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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