MEMORANDUM

Date: November 8, 2011

To: Chairman and Members
Pima County Bond Advisory Committee

From: C.H. Huckelberry
County Administrator

Re: **Debt Capacity and Management**

TABLE OF CONTENTS

I. INTRODUCTION

The Pima County Bond Advisory Committee (BAC) requested a comprehensive review of County debt; both voter authorized bond issues, as well as all other debt instruments of the County. The purpose of this review is to obtain an understanding of financial obligation necessary to support debt repayment, as well as to understand how the issuance of new debt may affect repayment as well as tax or fee obligations for timely repayment. The magnitude of debt scheduled for repayment and repayment burden are all important factors in understanding the legal and practical capacity to incur additional debt for capital investment. This report will give the BAC a clear understanding of these concepts and principles and how they apply in practice to the County.

II. CONSTITUTIONAL PROPERTY TAX SUPPORTED DEBT CAPACITY BY COUNTY GOVERNMENTAL ENTITY

The County is authorized by the Arizona Constitution and State statutes to issue debt. The amount of debt issued is limited by the Constitution.

General obligation bonding is property tax debt repaid with a secondary property tax levy. The amount of the tax varies with the property tax rate set by the Board of Supervisors for repayment and the individual assessed value of each parcel. General obligation bonds are generally considered the most secure financial debt of local government, including the County, because they are backed by the full faith and credit of the County. It is a debt obligation that is superior to all other debts and financial obligations of the County, and the tax rates for repayment are not limited by any Constitutional property tax limitation.

The Constitutional limit of general obligation debt is 15 percent of the County's net secondary assessed value. The County also has two special districts that can issue property tax based debt. They are the Regional Flood Control District (RFCD) and the Library District. The debt limit for the RFCD is established by Arizona Revised Statute §48-3619 and is five percent of the assessed value of the district. No debt limit has been set for library districts. The assessed value of the Library District is identical to the County. The RFCD assessed value is based only on the value of real property in the County, not personal property. Therefore, the assessed value of the RFCD is always lower than the total net assessed value of the County, which includes both real and personal property.

Table 1 below gives the current assessed value of Pima County, the Library District and the RFCD and their debt limit as specified by the State Constitution or statute.

Table 1: Debt Limits.

County Authority	2012 Assessed Value	Constitutional Limitation	Total Limit
General Obligation	$8,448,281,586	15 percent	$1,267,242,237
Flood Control	7,634,237,253	5 percent	381,711,862
Library	8,448,281,586	Not Applicable	No Limit
Total			$1,648,954,099

Table 2 below indicates the total bond authorization since 1997, the amount of bonds sold and the remaining amount of debt to be sold.

Table 2: Bond Sales.

Bonds	Total Authorization (millions)	Total Bond Sales (millions)	Remaining Authorization (millions)	Percent Remaining
1997 General Obligation	$ 257.0	$ 243.8	$ 13.2	5
1997 Sewer Revenue	105.0	105.0	0.0	0
1997 HURF Revenue	350.0	242.2	107.8	31
2004 General Obligation	582.2	467.9	114.3	20
2004 Sewer Revenue	150.0	150.0	0.0	0
2006 General Obligation	54.0	42.7	11.3	21
Total	**$1,498.2**	**$1,251.6**	**$246.6**	**16**

III. REVENUE BOND INDEBTEDNESS LIMITATIONS

There are no Constitutional limits on the issuance of revenue debt instruments. Revenue debt is generally defined as indebtedness that can be entered into based on anticipated revenues from fees or recurring general government revenues other than real property taxes. The two most common types of revenue debt used by the County are Highway User Revenue Funds (HURF) and sewer revenue debt.

HURF bonds are bonds issued based on the recurring annual revenue of the State of Arizona distribution of primarily gas tax and motor vehicle license taxes to counties.

Sewer revenue debt is supported by revenues from the sewer system, which are generally user fees and connection fees. User fees are those monthly fees paid by users for operation and maintenance services associated with operating the sewer system, including conveyance and treatment of sewage. Connection fees are one-time fees charged for new connections of homes and businesses to the public sewer system.

Revenue debt is generally limited by certain ratios of debt service to net revenue where it must be demonstrated that the amount of revenues, after subtracting normal operating and maintenance costs, are sufficient to repay the debt obligation incurred.

In Pima County, there has been only one HURF bond authorization, which occurred in 1997, when $350 million in County HURF bonds were authorized for issuance. To date, only $242.2 million of these revenue bonds has been issued. Debt repayment of the outstanding HURF bond indebtedness is $131.4 million. Issuance of further HURF debt will be accomplished very carefully and in limited amounts due to concerns over the stability of the repayment revenue stream.

Since 1974, a total of $363,400,000 in sewer revenue bonds has been authorized by the voters. All of these bonds have been issued. Based on a number of factors, including general utility financing methodology, the County has now been issuing sewer obligations, which are similar to revenue bonds but do not require voter authorization. If revenue streams and rate structures are sufficient to support the planned debt, debt financing without voter approval is common for utilities. It is sewer obligation debt that is now financing the major reconstruction and modification of the region's largest wastewater treatment facilities at Ina Road and Roger Road. To date, $165 million in sewer obligation debt has been issued, and $545 million remains to be used to fully comply with rehabilitation environmental compliance and treatment capacity increases required by regulatory agencies. Of the $545 million, the County is issuing a series of sewer obligations in November 2011 totaling approximately $200 million.

In summary, revenue bond indebtedness is limited by the demonstrated ability to repay the indebtedness after subtracting operation and maintenance expenses from recurring revenues.

IV. CERTIFICATES OF PARTICIPATION OR LEASE/PURCHASE METHODS

While general obligation and revenue bonding have been a common practice for debt financing for local governments for decades, another debt financing mechanism used extensively by local governments is lease/purchase, or Certificate of Participation, debt financing.

The concepts are relatively simple. A government that owns assets, such as existing buildings, may "mortgage" an asset that is free and clear of debt by selling the asset to a lender and leasing it back to finance another asset. If default occurs, the creditor can terminate the lease and sell the asset to satisfy the debt obligation.

While many local governments have extensively used lease/purchase or Certificates of Participation for financing, the County has not. We have used this type of financing to purchase existing buildings, such as the Legal Services Building, previously known as the Great American Tower for $9.3 million and the County/City Public Works Building, formerly known as Lawyers Title of Arizona, for $15 million. The County also used this form of debt financing in 2007 to purchase the Bank of America Building and to finance the Jackson Learning Center. The lease/purchase terms for the Legal Services Building and the Public Works Center were both 15-year lease/purchase financing and were fully repaid by 2004. The lease/purchase price of the Bank of America building was $30.3 million. Today, the remaining outstanding indebtedness of this purchase is $24.2 million. The Bank of America Building will be fully paid for in 2022.

The County also used the traditional lease/purchase debt financing option in 1997 to construct the Major League Baseball spring training facility at Kino Veterans Memorial Stadium, formerly known as Tucson Electric Park, for the Arizona Diamondbacks and Chicago White Sox. The initial debt financing for this facility was approximately $36 million. Today, $18.6 million remains to be repaid. The Kino Stadium debt will be fully paid in 2018.

The County has also used Certificate of Participation financing in another very nontraditional manner for Constitutional expenditure limit compliance. The County receives significant cash payments, other than property tax, for services provided. Some of these cash payments are in the form of development-related fees: sewer connection fees and transportation impact fees. These cash contributions can amount to significant capital investments totaling tens of millions of dollars. If these non-tax revenue cash receipts are spent by the County as they are received, they count against the County's Constitutional expenditure limit, even though they have nothing to do with property tax. To avoid the conundrum of having non-property tax payments count against our Constitutional expenditure limit, the County occasionally issues relatively short term, generally three years, Certificates of Participation debt. A recent example of such occurred in 2008 when the County issued $50 million, and in 2009 issued $34.4 million, of Certificates of Participation. These debt instruments allowed the County to expend the non-property tax receipts for the purposes intended; to improve sewer or transportation systems while not counting against our expenditure limitation. Of this $84.4 million, $80 million has been repaid, and the remaining Certificates of Participation will be fully repaid on June 1, 2012.

The only other significant issuance of Certificates of Participation occurred with the recent County purchase of a new financial management system. The total cost to purchase and install this system is approximately $20 million. These Certificates of Participation have been issued, and the County is in the second year of converting to this new financial management system. The purchase of such systems by the County occurs every 20 to 25 years; hence, it was appropriate to finance this system acquisition with Certificates of Participation. These Certificates are scheduled to be paid off in 2019, less than 10 years after the date of issuance; hence, they would generally be classified as a medium term debt.

V. HISTORY OF BONDING IN PIMA COUNTY

Since 1974, voters have authorized over $2 billion in general obligation, sewer and HURF bonding (Attachment 1). The total bonding of $2,041,950,000 breaks down as $1,307,950,000 in general obligation bonds, $363,400,000 in sewer revenue bonds, $350,000,000 of HURF bonds, and $20,600,000 of RFCD bonds. In addition, if one includes the $365 million of sewer obligations now being issued by the County, this total increases to $2,406,950,000. If the $158,990,000 of Certificates of Participation and/or lease/purchases issuances is included, the total debt financing of the County since this period is $2,565,940,000, or nearly $2.6 billion.

Based on repayment schedules for each of the authorizations and issuances of bonds, the present outstanding general obligation debt of the County is $452,750,000: $131,410,000 for HURF bonds, $206,149,257 for sewer revenue bonds and $165,000,000 for sewer obligation bonds, as well as $65,460,000 for lease/purchase or Certificates of Participation issuances.

While we have issued a significant amount of debt, we have also repaid a significant amount of this debt, and the public has benefited from the capital investments made in our public infrastructure. Table 3 below shows the total debt issued by type and the present outstanding indebtedness by type since 1974.

Table 3: Pima County Debt Summary – 1974 to 2011.

Type of Debt	Amount Authorized By Voters	Bonds Previously Issued	Amount Outstanding At End Of 2011	Amount Already Repaid	Remaining Unissued
Bonds:					
General Obligation Bonds	$1,307,950,000	$1,169,269,000	$452,750,000	$716,519,000	$138,681,000
HURF Bonds	350,000,000	242,200,000	131,410,000	110,790,000	107,800,000
Sewer Bonds	363,400,000	363,400,000	206,149,257	157,250,743	0
Flood Control District Bonds	20,600,000	20,600,000	0	20,600,000	0
Totals	$2,041,950,000	$1,795,469,000	$790,309,257	$1,005,159,743	$246,481,000

	Previously Issued an Anticipated to be Issued	Previously Issued and Anticipated to be Issued	Amount Outstanding At End Of 2011	Amount Already Repaid	Additional Amount Anticipated
Sewer Revenue Obligations:					
Issued in 2010	$165,000,000	$165,000,000	$165,000,000	$0	$0
Issued in 2011	200,000,000	200,000,000	200,000,000	0	0
Future Sewer Obligations					345,000,000
Totals	$365,000,000	$365,000,000	$365,000,000	$0	$345,000,000

Certificates of Participation	$158,990,000	$158,990,000	$65,460,000	$93,530,000	

Totals for All Types of Debt	Authorized Bonds and Other Debt Issued Through 2011	Bonds and Other Debt Issued Through 2011	Amount Outstanding At End Of 2011	Amount Already Repaid	Amount of Future Debt Expected
Totals	$2,565,940,000	$2,319,459,000	$1,220,769,257	$1,098,689,743	$591,481,000

VI. CONSERVATIVE DEBT MANAGEMENT PRINCIPLES

Over the years, as can be seen from previous sections of this report, the County has issued significant amounts of debt. We have also followed very conservative debt management principles to maximize public benefit of our debt issuance and minimize the risk to the taxpayers who must repay these debts. These are conservative debt management principles.

A. Timing of Capital Investment. Debt issuance and project development timing to be as close to countercyclical for local economic conditions as possible. Simply stated, when private sector spending or construction activity decreases due to unfavorable economic conditions, it is general County policy to advance public capital investment programs through bonding to offer a countercyclical stimulus approach for the local economy. While the timing is not always optimal, the County has generally been able to advance large capital investment programs during periods of slow private sector economic activity. The most recent example is the advance of a significant capital investment program beginning in 2008 to counteract the adverse impacts of the great recession on construction employment. Countercyclical investment patterns occurred with all of the recent large County bond authorizations beginning in 1980, 1986 and 1997.

B. Term of Debt. The County restricts the length or term of debt compared to almost all other local governments. The County's debt is considered short-term, when considering general obligation, HURF or sewer revenue bonding. We have, as a matter of policy, limited the term of our debt from the time of issuance to full retirement to no more than 15 years, even though it is common among local governments to issue bonded indebtedness for 20, 30 or more years. In general, 90 percent of our bond indebtedness is retired within 11 years, with 100 percent retired at or before 15 years. This is why, as of June 30, 2011, our total general obligation debt will be approximately $452,750,000, while over the time period since 1974, we have issued $1,307,950,000 in general obligation bonds. After a scheduled sale of $60,000,000 during early 2012 of the 2004 general obligation authorization, only $78,681,000 will remain for sale out of the total $582,250,000 2004 authorization.

Based on the projected principal repayment of $56,980,000 in 2012, the approximately $513 million outstanding (sale of $60,000,000 in 2012 will add to outstanding debt of $452,750,000 on June 30, 2011) could be paid off in the next 10 years. This is because we have sustained principal debt repayment averaging $50 million annually over the last few years and can do so for the foreseeable future.

C. Interest Rate Caps. We also set interest rate caps on the issuance of our bonded indebtedness. These interest rate caps are generally set in the question that is approved by the voters and is viewed as a maximum interest rate the County is willing to pay for debt financing. Should economic conditions occur in the market that force interest rates higher than the interest rate caps, bonds are not sold. This mechanism guarantees that even though indebtedness may have been authorized by voters, bonds are not sold and debt is not incurred when interest rates are high. Fortunately, we have been in a period of record low interest rates. The average interest rate on our general obligation bond sales in the last 10 years has been 3.8 percent, 3.9 percent for HURF bonds and 3.8 percent for sewer obligation bonds. In the case of the 2006 bond election, the interest rate cap was 12 percent.

D. Voluntary Property Tax Rate Caps. In our bond implementation, ordinances now required for future bond authorizations since the County Code was amended in 2004 to include the Truth in Bonding provision, the County is required to pass a very detailed implementation plan for voter authorized bonds. This plan assures voters they will get what they voted for, and if circumstances change to make the project different than anticipated, there is a very structured process for public disclosure and discussion regarding the change, why it is needed, and whether it is justified.

A key regulator of the issuance of our public bond debt relates to voluntary caps placed on secondary property tax rates to repay general obligation bond debt. This debt planning principle is used to avoid surprises for property taxpayers who are required to repay the general obligation bond indebtedness of the County. As the overall assessed value of the County increases, these rate caps have been reduced from $1.00 per $100 of assessed value in 1997 to $0.815 in the 2004 authorization. The actual secondary property tax rates since Fiscal Year 1991/92 are shown in Table 4 below. Fiscal Year 1991/92 was the highest the tax rate has been at $1.1091. Since then, the lowest property tax rate for debt service related to County general obligation bond indebtedness has been $0.6050; far below the rate cap established for the authorization of 2004. However, given declining aggregate assessed value within the County, these tax rates have begun to increase to maintain the short-term period to retire voter authorized bonding. We continue to believe it is important to maintain this short-term debt to enable investment in the community without significant property tax fluctuations to repay voter authorized debt.

Table 4: Secondary Property Tax Rates

Fiscal Year	Secondary Property Tax Rate
1991/92	$1.1091
1992/93	$1.1048
1993/94	$1.1031
1994/95	$1.0201
1995/96	$1.0201
1996/97	$0.9701
1997/98	$1.0000
1998/99	$0.9650
1999/00	$0.9350
2000/01	$0.9350
2001/02	$0.8950
2002/03	$0.8150
2003/04	$0.8150
2004/05	$0.8150
2005/06	$0.7150
2006/07	$0.7150
2007/08	$0.6850
2008/09	$0.6050
2009/10	$0.7100
2010/11	$0.7500
2011/12	$0.7800

VII. COMPARISON OF DEBT LIMITS WITH PRESENT DEBT AND MAJOR FACTORS ASSOCIATED WITH ISSUING NEW OR ADDITIONAL GENERAL OBLIGATION BOND DEBT

Comparing existing County debt with Constitutional debt limits or revenue limitations associated with revenue bonds requires continuous annual evaluation, primarily because general obligation debt is a function of total taxable assessed value in the County, and such varies year to year. In the past, assessed value has been a steadily increasing value with a few years where state and national economic conditions moderated annual total assessed value increases. Since the great recession, the assessed value of the County has been declining. Adjusting and reducing the significant increases of assessed value began in 2009. It is estimated these reductions in total assessed value will continue for another two to three years, but the shrinkage in total taxable value will be less than in previous years.

The total assessed value of the County has declined from $9,860,980,900 in 2009 to $8,448,281,586 for 2012. This is a reduction of 14.3 percent. Using the 15 percent Constitutional debt limit for 2011, the total general obligation bond debt limit of the County would have been $1,401,384,178. Due to the decline in the total taxable value of the County in 2011, this limit decreased to $1,267,242,237; however, the actual amount of bonded indebtedness was approximately $453 million – well below the Constitutional debt ceiling.

A. General Obligation Bond Debt. The most significant constraint to the amount of general obligation debt of the County relates to the self-imposed secondary property tax rate cap for debt repayment. For each major bond authorization, the voluntary maximum property tax rate is set for debt repayment. These rates have varied from as high as $1.11 in 1992 to the present rate cap of $0.8150 for the 2004 authorization. During periods when the property tax base expanded, the rate could actually be reduced given a relatively constant rate of issuing new debt. During times when the property tax base is constant or contracts, such as now, the rate must be increased to keep pace with required debt payments again assuming relatively constant debt issuance on the last authorization and short-term payment.

   After the sale of $60 million 2004 authorized bonds in 2012, only $78,681,000 of the 2004 authorization will remain to be sold; hence, no additional debt will be incurred after 2013, or at the latest 2014. It is anticipated that for the budget year 2012/13, the secondary property tax rate will be increased to the 2004 rate cap to keep pace with the generally accelerated repayment period for our general obligation debt. Therefore, the timing of a new general obligation bond authorization would be ideal in 2013, which means new debt could begin to be issued starting in 2014 or 2015 as old debt is retired. If there is a desire to accelerate capital investment for any number of reasons, including economic development, such could occur; however, it would require an upward adjustment of the present secondary property tax rate cap of $0.8150 to at least $0.96.

B. HURF Bonds. Pima County is the only county in Arizona to ever have issued HURF bonds. These bonds were made possible by legislation in 1996 that redistributed HURF funds among counties as a result of an equity debate wherein Pima County, due to our high unincorporated population, received substantial additional HURF revenues. Because of historical inequity in distribution, significant transportation investments within the County lagged need; hence, the desire to advance improvements bonding – the additional HURF revenue coming from equity redistribution of HURF funds among counties.

   In 1997, voters authorized up to $350 million of HURF revenue bonds to be issued. To date, only $242.2 million have been issued, and the issuance of additional HURF bonds will be closely evaluated due to shrinking HURF monies due to state funds transfers as well as reduced travel and highway user related revenues, specifically gasoline taxes, due to higher gas prices and lower fuel consumption.

In the last few years, the Arizona Legislature has diverted funds away from the HURF to assist in balancing their budget. These diversions occurred to fund the State's Department of Public Safety and the Motor Vehicle Division of the Arizona Department of Transportation. In total, because of these diversions, HURF have been reduced between 2007 and 2012 from $58.5 million to $45.2 million, a decrease of $13.3 million, or 23 percent. Hence, when bonding is used to finance capital transportation investments and the revenues that support bonding debt repayment are being reduced by the Legislature, additional sale of HURF bonds becomes problematic. A total of $242.2 million of bonds have been issued, and the remaining outstanding bonds are approximately $107.8 million. The average annual debt service to support repayment of the outstanding bonded indebtedness for HURF bonds is approximately $16 million, which has a significant impact based on the legislative diversion and overall reduction in HURF funds to the County's Transportation Department operating budget.

There will be no future HURF bond authorizations requested of the voters of Pima County, and it is problematic as to when and if additional authorized HURF bonds will be issued.

C. Sewer Revenue Bonds and Sewer Obligations. Of the $363.4 million of sewer revenue bonds that have been issued since 1974, presently $206.1 million of these issued bonds remain to be repaid. In addition, the County has, because of general changes in how utilities fund their capital investments, now uses sewer obligations instead of voter authorized sewer revenue bonds. First use of sewer obligation debt occurred in 2010 with the issuance of $165 million in obligations. An additional $200 million is scheduled to be issued in November 2011, followed by authorizations of $200 million in 2012, $80 million in 2013, and $65 million in 2014. It is anticipated the issuance of these obligations will allow the Regional Optimization Management Plan (ROMP) to be fully implemented with complete reconstruction of one major wastewater treatment facility at Roger Road, replacing the more than 60 year old facility with a new water campus. The other major regional wastewater treatment facility at Ina Road will be fully compatible with all environmental requirements.

While these debts are significant, they are all supported by fee structures and rate increases that have been adopted by the Board of Supervisors. When the ROMP is fully completed, the regional, as well as other treatment facilities (11 in total) will have a combined treatment capacity of 95 million gallons per day (gpd). The current daily flow rate into these 11 facilities is approximately 63 million gpd; therefore, the system has or will soon have approximately 32 million gpd of excess capacity. Using the typical sewage flow generation rates for residential development, it is likely that another 100,000 housing units could be connected into the system without any significant additional capital investment in the system. Based on a range of connection fees, it is likely connecting these additional housing units to the system would generate approximately $500 million or more in connection fees that can be used to retire debt or used as pay-as-you-go financing for future capacity expansion. All of this assumes future residential growth is distributed such that it does not overload any single wastewater facility and that there are no significant additional environmental treatment requirements imposed on the County by regulatory agencies in the next 10 years.

Following completion of the Regional Optimization Master Plan (ROMP) program, major capital investment in the system will not be required for a number of years, allowing most of the debt now being incurred to be repaid.

D. <u>Certificates of Participation – Lease/Purchase</u>. These financing mechanisms have been used sparingly by the County in the past and will likely be used infrequently in the future and unpredictably depending on the specific need. Therefore, little additional discussion is needed regarding the use of lease/purchase or Certificate of Participation debt financing.

VIII. FINANCIAL STRENGTH OF REPAYMENT – INDEPENDENT ANALYSIS AND RATING

Before any new debt is created through bond borrowing, the County's financial stability and ability to repay the incurred debt is considered. This is commonly referred to as "bond ratings." These ratings are conducted by nationally recognized rating agencies. In the past, we have been rated by Standard and Poor's, Fitch and Moody's. Today, we are commonly rated by Fitch and Moody's. The last debt ratings by Fitch and Moody's are attached for your information as Attachment 2.

The County fiscal position is now stronger than it has been in some time. This fiscal stability is a result of a variety of actions taken by the County in the past.

Rating agencies want predictability and stability as well as accurate financial forecasts. In the past, the financial instability of operating and funding a hospital, as well as marginal fund balances, had caused rating agency concern over our financial stability. Our recent transition of hospital ownership and management to The University of Arizona Health Network has resolved the fiscal unpredictability of our hospital support. In addition, our fund balances have been bolstered to amounts that provide a significant buffer for uncertain external economic conditions such as a declining tax base and State legislative cost transfers of County funds to support the State budget.

IX. FORECAST OF OVERALL TAX BASE TO SUPPORT DEBT

In determining our fiscal capacity to support ongoing general obligation debt, there are a number of variables that enter into the analysis. First, and likely most important, is the overall tax base and its growth position to support debt repayment. The County tax base has been shrinking for two reasons since approximately 2007. Table 5 below shows the tax base actual position since 2004 and the forecasted position into FY 2017/18, or approximately five years from today.

Table 5. Secondary Net Assessed Value Compared to Constitutional Debt Limit.

Fiscal Year	Projected Secondary Net Assessed Value	Percentage Change	Constitutional Debt Limit	Outstanding General Obligation Debt
2004/05	$5,620,156,274	7.64	$ 843,023,441	$267,270,000
2005/06	6,050,950,040	7.67	907,642,506	231,310,000
2006/07	6,869,955,457	13.54	1,030,493,319	289,590,000
2007/08	8,220,395,835	19.66	1,233,059,375	348,335,000
2008/09	9,594,861,519	16.72	1,439,229,228	386,845,000
2009/10	9,860,980,900	2.77	1,479,147,135	417,995,000
2010/11	9,342,561,193	-5.26	1,401,384,179	452,750,000
2011/12	8,448,281,586	-9.57	1,267,242,238	395,770,000[1]
2012/13	7,985,315,755	-5.48	1,197,797,363	356,745,000
2013/14	7,759,331,519	-2.83	1,163,899,728	321,390,000
2014/15	7,834,596,833	097	1,175,189,525	286,725,000
2015/16	7,971,702,278	1.75	1,195,755,342	251,240,000
2016/17	8,131,136,323	2.00	1,219,670,448	214,460,000
2017/18	8,375,070,413	3.00	1,256,260,562	180,135,000

[1]Assumes no additional issuance of remaining general obligation authorization and illustrates the relative rapid repayment of debt.

As can be seen from Table 5, the tax base has been contracting since 2007 or 2008, largely due to market conditions associated with the housing industry. This contraction is expected to continue. Adding to the tax base contraction are legislative modifications to Arizona's tax structure enacted by the State Legislature. The Legislature adopted into law further reductions in assessment ratios (tax value measures) for commercial properties, vacant land and agricultural properties that will reduce the tax bases associated with each of these land uses.

Beginning in FY 2013/14, the assessment ratio for commercial properties will decrease by 0.5 percent each year until it reaches 18 percent; it is currently 20 percent. Beginning in FY

2016/17, the assessment ratio for vacant land and agricultural property will decrease from 16 percent to 15 percent. These legislative modifications to the assessment ratios, in addition to real estate market adjustments, will further reduce the tax base. We presently foresee the tax base of Pima County continuing to decline until FY 2016/17 when it experiences very modest growth from $7.97 billion to $8.13 billion. Our most recent tax base forecast was completed almost a year ago; a new update will be completed in late December of this year.

Other variables with regard to supporting continuing general obligation debt relate to the term or length of the debt issue. We continue to issue 15-year debt and do not believe it is appropriate or beneficial to lengthen the term of our debt to either 20 or 30 years.

The interest rate paid during the term of the debt is also a variable regarding debt capacity. In the last few years, we have been experiencing, and will continue to experience, at least for the near future, very favorable borrowing interest rates. These interest rates are at or near historic lows and will continue to be so for likely the next one to three years.

Even with a declining property tax base, the County continues to experience a wide margin between constitutional debt and actual debt. Table 5 previously provides a calculation of constitutional debt, compared with forecasted net assessed value, compared to the actual scheduled debt based on continuing debt repayment during the period and the issuance of no further debt after debt now scheduled to be issued early next year and assuming the secondary property tax rate is set at its cap during the period – $0.815 per $100 of assessed value. This also assumes retaining a 15-year debt period and interest rates as set by past sales.

In summary, even though the tax base continued to decline, the County's general obligation debt is far below the legal debt margin, and repayment of relative short-term debt continues while maintaining the voter promised tax rate cap. If, for any reason, new debt was to be substantially issued in 2013 or 2014, it could occur; however, it is likely the rate cap would need to be increased – perhaps to the cap established for the 1997 bond authorization of $1.00 per $100 of assessed value.

X. CONCLUSION

The County has historically issued general obligation bonds to meet much of the community capital investment needs for public facilities. These investments, and the accruing benefits, are made possible by the issuance of debt. The County has issued significant debt over the last 30 years, nearly $2.6 billion; however, much of this debt has been repaid.

The County issues general obligation, HURF, sewer revenue or obligation and lease/purchase or Certificate of Participation debt. These debt instruments are all somewhat different. General obligation and HURF bonds are issued through voter authorization; sewer obligation, lease/purchase and Certificates of Participation may be issued by a decision of the County.

The County employs conservative debt management principles by issuing debt well below constitutional debt margins (approximately one third) for relatively short terms (no more than 15 years) and at low interest rates (three to four percent). The County also employs very strict, transparent and detailed bond oversight programs and procedures as defined by the County Code. Oversight is provided by an independent Bond Advisory Committee with mandatory disclosure requirements.

The graphs in Attachment 3 summarize the debt issued by category, the amount of outstanding debt as of this date after repayment, and the remaining debt to be issued.

Finally, the County also annually reports our debt through the Comprehensive Annual Financial Report (CAFR) as well as an annual report of indebtedness to the Arizona Department of Revenue as required by statute. In addition, each issuance of indebtedness is tracked individually through the Pima County Long-term Debt Manual. All of these documents are available upon request.

CHH/mjk

Attachments

c: The Honorable Chairman and Members, Pima County Board of Supervisors
Martin Willett, Chief Deputy County Administrator
Hank Atha, Deputy County Administrator for Community & Economic Development
John Bernal, Deputy County Administrator for Public Works
Jan Lesher, Deputy County Administrator for Medical & Health Services
Tom Burke, Director, Finance and Risk Management
Michelle Campagne, Deputy Director, Finance and Risk Management
Robert Johnson, Budget Manager, Finance and Risk Management
Craig Horn, Financial Projects, Coordinator, Budget Division, Finance and Risk Management
Nicole Fyffe, Executive Assistant to the County Administrator
Diana Durazo, Special Staff Assistant to the County Administrator

ATTACHMENT 1

COUNTY DEBT MANAGEMENT

I. DIRECT VOTER AUTHORIZATIONS

Date	Question	Type	Amount
February 5, 1974	Health Care/Treatment Facilities	General Obligation	$17,225,000
	Sanitary Sewer/Disposal Facilities	General Obligation	19,095,000
	Public Safety Facilities	General Obligation	2,000,000
	Government Support Facilities	General Obligation	3,275,000
	Street/Bridge Improvements	General Obligation	7,205,000
	Parks/Recreation/Open Space	General Obligation	9,910,000
	Green Belt/Open Space	General Obligation	4,500,000
		TOTAL APPROVED	**63,210,000**
June 5, 1979	Corrections Facilities	General Obligation	25,110,000
	Transportation Corridors	General Obligation	18,100,000
	Highway Safety	General Obligation	5,000,000
		SUBTOTAL	48,210,000
	Flood Control	Flood Control District	20,600,000
	Sewer Revenue	Sewer Revenue	21,500,000
		TOTAL APPROVED	**90,310,000**
February 5, 1980	Highway Safety	General Obligation	12,500,000
	Major Highway Improvement	General Obligation	47,500,000
		SUBTOTAL	60,000,000
	Sewer Revenue	Sewer Revenue	12,900,000
		TOTAL APPROVED	**72,900,000**
November 2, 1982	Sanitary Landfills	General Obligation	9,100,000
	Effluent Reuse/Sewer Improvement	Sewer Revenue	10,000,000
		TOTAL APPROVED	**19,100,000**
February 21, 1984	Flood Repair/Reconstruction/Improvements	General Obligation	63,800,000
		TOTAL APPROVED	**63,800,000**
May 21, 1985	Highway Safety	General Obligation	5,000,000
	Sewer Repair/Replacement	Sewer Revenue	10,000,000
		TOTAL APPROVED	**15,000,000**
May 6, 1986	Traffic Safety/Transportation Improvements	General Obligation	64,300,000
	Park Development/Recreation	General Obligation	28,000,000
	Law Enforcement/Public Safety/Courts	General Obligation	23,850,000
	Land Acquisition/Flood Control	General Obligation	24,900,000
	Libraries/Pubic Facilities	General Obligation	13,650,000
	Solid Waste Disposal	General Obligation	10,700,000
		SUBTOTAL	165,400,000
	Sewer Repair/Replacement	Sewer Revenue	54,000,000
		TOTAL APPROVED	**219,400,000**
May 20, 1997	Juvenile Detention and Court Facilities	General Obligation	42,000,000
	Public Safety, Law Enforcement and Superior Court	General Obligation	50,000,000
	Parks/Recreation/Open Space	General Obligation	52,650,000
	Sonoran Desert Open Space and Historic Preservation	General Obligation	36,330,000
	Public Health, Safety, Recreational and Cultural Facilities	General Obligation	42,000,000
	Flood Control Improvements	General Obligation	21,500,000
	Solid Waste Improvements	General Obligation	12,500,000
		SUBTOTAL	256,980,000
	Sewer System Revenue Bonds	Sewer Revenue	105,000,000
		TOTAL APPROVED	**361,980,000**
November 4, 1997	Transportation Bond Improvement Plan	HURF Revenue Bonds	350,000,000
		TOTAL APPROVED	**350,000,000**
	Sonoran Desert Open Space and Habitat Protection; Preventing Urban Encroachment of DMAFB	General Obligation	174,300,000
	Public Health and Community Facilities	General Obligation	81,800,000

COUNTY DEBT MANAGEMENT

Date	Question	Type	Amount
May 18, 2004	Public Safety and Justice Facilities	General Obligation	183,500,000
	Parks and Recreational Facilities	General Obligation	96,450,000
	River Parks and Flood Control Improvements	General Obligation	46,200,000
		SUBTOTAL	582,250,000
	Sewer System Revenue Bonds	Sewer Revenue	150,000,000
		TOTAL APPROVED	**732,250,000**
May 16, 2006	Psychiatric Urgent Care Facilities	General Obligation	18,000,000
	Psychiatric Inpatient Hospital Facilities	General Obligation	36,000,000
		TOTAL APPROVED	**54,000,000**
	TOTAL ALL BONDS APPROVED		**$2,041,950,000**
	TOTAL GENERAL OBLIGATION BONDS APPROVED		**1,307,950,000**
	TOTAL SEWER REVENUE BONDS APPROVED		**363,400,000**
	TOTAL HURF REVENUE BONDS APPROVED		**350,000,000**
	TOTAL FLOOD CONTROL DISTRICT BONDS APPROVED		**20,600,000**

II. MAJOR LEASE/PURCHASE OR CERTIFICATES OF PARTICIPATION DEBT ISSUANCE

Date	Description	Amount
1988	Purchase Legal Services Building	$9,300,000
1992	Purchase and Build County/City Public Works Building	15,000,000
1997	Build Spring Training Baseball Complex	36,000,000
2007	Purchase Bank of America Building	30,300,000
2008, 2009	Short-term Borrowing for Wastewater Connection Fees and Transportation Impact Fees to Meet Expenditure Limitation	84,400,000
2010	Purchase and Install New Countywide Financial Management System	20,000,000
	TOTAL	**$195,000,000**

III. SEWER OBLIGATION DEBT TO MEET ROMP ENVIRONMENTAL COMPLIANCE REGULATORY REQUIREMENTS

Date	Description	Amount
Previous	Sewer Obligations	165,000,000
November 2011	Sewer Obligations	200,000,000
Future	Sewer Obligations	345,000,000
	TOTAL	**$710,000,000**

ATTACHMENT 2

Tax Supported
New Issue

Pima County, Arizona

Ratings

New Issue

General Obligation Bonds, Series 2011	AA
Outstanding Debt	
General Obligation Bonds	AA
Certificates of Participation (Series 2008, Series 2009, and Series 2010)	AA−

Rating Outlook

Stable

Analysts

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New Issue Details

Sale Information: $75,000,000 General Obligation Bonds, Series 2011, to be sold during the week of May 2 via negotiation.
Security: General obligation bonds: unlimited ad valorem tax levied against all taxable property in the county; Certificates of participation: lease payments subject to annual appropriation.
Purpose: Various municipal improvements.
Final Maturity: July 1, 2012—July 1, 2026.

Related Research

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria
- *Tax-Supported Rating Criteria, Aug. 16, 2010*
- *U.S. Local Government Tax-Supported Rating Criteria, Oct. 8, 2010*

Other Research
- *Fitch Rates Pima Co., AZ GOs 'AA−'; Outlook Stable, Nov. 3, 2009*
- *Fitch Rates Pima Co., AZ 2009A COPs 'A+' Affirms GOs & Hwy Revs at 'AA−'; Outlook Stable, Nov. 9, 2009*

Rating Rationale

- Pima County maintains a sound financial profile, with healthy operating reserves.
- County management has responded aggressively to the economic downturn and accompanying drops in intergovernmental and local revenues, making necessary spending adjustments to maintain a satisfactory financial cushion.
- Tax base growth reversed modestly in fiscal 2011, and management is anticipating several more years of declines before values stabilize and begin to climb.
- The county's debt burden is manageable and debt repayment is rapid; the capital improvement plan (CIP) is sizable, but consistent with an entity of this size.
- The local economy remains a positive long-term credit consideration, with its diverse elements providing stability.
- The COP structure meets analytical requirements for a one-notch distinction from the county's GO rating.

Key Rating Drivers

- While further state budgetary pressures are anticipated, Fitch Ratings expects county management to adjust in a timely manner to any additional reductions in intergovernmental revenues and to maintain reserve levels consistent with the current 'AA' rating level.
- Any further declines in taxable value may not affect operations materially, given the statutory levy limitation; the county can increase the operations tax rate to offset valuation declines.

Credit Summary

The county's financial profile remains sound, characterized by healthy operating reserves. After recording a string of positive general fund results from fiscal years 2005–2008 (and the unreserved fund balance nearly doubling from $33 million to $65 million during that period), fiscal 2009 witnessed a drawdown of roughly $30 million as the county continued its practice of accumulating reserves to pay off outstanding COPs every several years. Despite the drawdown, the fiscal 2009 unreserved balance totalled more than $35 million and represented a satisfactory 6.6% of spending (exceeding the county's 5% policy minimum). Fiscal 2010 results included net income of more than $41 million and a corresponding increase in reserves, as management continued with expenditure reduction measures first introduced in fiscal 2008. These measures have included staff reductions (primarily through attrition) and periodic, measured reductions in department budgets. To date, the county has been able to avoid large-scale layoffs, furloughs and pay reductions and service cutbacks. The fiscal 2010 results also were aided by a $15 million refund from the state associated with healthcare programs. The county adopted GASB 54 reporting methodology for fiscal 2010, and the general fund unassigned balance was $73.8 million, or 16% of spending.

Fitch credits the county with extending the previous spending reductions into the fiscal 2011 budget, which included a nearly 11% decline in general fund spending. Operating revenues and other sources were budgeted at 98.5% of prior-year revenues. The budget

Rating History — GO Bonds

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	4/15/11
AA	Revised	Stable	4/30/10
AA−	Assigned	Stable	11/03/09

Rating History — COPs

Rating	Action	Outlook/ Watch	Date
AA−	Affirmed	Stable	4/15/11
AA−	Revised	Stable	4/30/10
A+	Assigned	Stable	11/09/09

also included a set aside of roughly $13.4 million in a budget stabilization fund to pay for additional healthcare-related outlays and an additional $22 million set aside for anticipated tax base declines and subsequent impact on property tax revenues. Current projections call for a $20 million decline in general fund reserves for fiscal 2011, which roughly equates to the amount being transferred out for the property tax stabilization reserve.

Debt Statistics

($000)

This Issue	75,000
General Obligation Bonds	417,995
Street and Highway Revenue Bonds	141,940
Certificates of Participation	88,885
Other	20,690
Total Direct Debt	**744,510**
Plus: Overlapping Debt	888,311
Total Overall Debt	**1,632,821**
Debt Ratios	
Direct Debt Per Capita ($)[a]	731
As % of Full Cash Value[b]	1.0
Overall Debt Per Capita ($)[a]	1,604
As % of Full Cash Value[b]	2.1

[a]Population: 1,018,012 (2009 estimate).
[b]Full cash value: $77,358,317,302 (fiscal 2011). Note: Numbers may not add due to rounding.

A primary source of budgetary pressure has been the steady decline in intergovernmental support (largely state) over the past three fiscal years. The second largest general fund revenue support source, intergovernmental revenues peaked in fiscal 2007 at more than $152 million and by fiscal 2010 had decreased to $129 million; the budgeted amount for fiscal 2011 was $122 million, or roughly 20% below the fiscal 2007 total. Given the ongoing recessionary pressures in Arizona, Fitch believes the close monitoring and prompt action displayed by county administrators over the past several years will continue to be critical over the near term to preserving adequate reserves and maintaining the current rating level.

Debt

Series 2011 GO bond proceeds include funding for various municipal projects, including completion of several large public health, public safety, and courts projects. County officials anticipate a manageable $0.03 tax rate impact from this offering, assuming the currently anticipated secondary assessed value (SAV) declines of between 5% and 10% for fiscal 2012 and smaller declines for the following two years. SAV dipped a manageable 5% in fiscal 2011 to $9.3 billion. County overall debt ratios are moderate at about $1,600 per capita and 2% of fiscal 2011 market value. Payout of GO debt is rapid with nearly 90% repaid in 10 years. General government capital needs through fiscal 2015 appear manageable at $672 million, while wastewater system capital needs total roughly $742 million.

The COP structure meets the analytical requirements for a one-notch distinction from the county's GO rating; essential purpose of leased property, the county owns the facilities at the end of the lease term, one annual appropriation for all COP leases, the county budget officer covenants in the lease agreement to include an appropriation request in the annual budget sufficient to make all COP debt payments, loss of the use of the pledged asset in the event of non-appropriation, and the estimated value of facilities posted as collateral exceeds the amount of debt issued. The county has aggressively paid down COP principal, retiring $40 million in fiscal 2010 and planning another $20 million reduction in June 2011. The total amount of COPs currently outstanding is $70.3 million, including $25.9 million series 2007A COPs not rated by Fitch.

Economy

With a population of roughly one million, Pima County is home to Tucson, which is Arizona's second largest city. Fitch cites as a positive credit factor the area's

General Fund Financial Summary

($000, Audited Fiscal Years Ended June 30)

	2006	2007	2008	2009	2010
Taxes	242,948	252,350	268,493	281,749	304,441
Licenses and Permits	2,536	2,795	2,971	2,747	2,738
Intergovernmental	143,982	152,271	148,158	131,966	128,927
Charges for Services	27,102	33,604	32,307	35,330	40,356
Fines and Forfeits	5,786	5,526	5,020	4,720	7,011
Investment Earnings	2,491	3,321	3,343	1,084	1,198
Miscellaneous	4,935	6,828	8,314	7,099	4,868
Total Revenues	**429,780**	**456,695**	**468,606**	**464,695**	**489,539**
General Government	168,394	181,329	192,839	184,434	184,606
Public Safety	96,687	106,825	118,623	121,704	117,378
Health	2,401	2,526	2,906	2,767	2,702
Welfare	102,496	96,684	106,502	115,481	87,089
Culture and Recreation	13,104	14,694	16,325	15,580	14,671
Education and Economic Opportunity	16,682	16,407	17,418	16,368	13,996
Debt Service	3,047	3,021	5,924	5,942	5,920
Total Expenditures	**402,811**	**421,486**	**460,537**	**462,276**	**426,362**
Operating Surplus/(Deficit)	**26,969**	**35,209**	**8,069**	**2,419**	**63,177**
Transfers In/Other Sources	3,585	3,560	47,854	50,888	8,643
Transfers Out/Other Uses	(16,206)	(32,784)	(43,094)	(83,530)	(30,446)
Net Income/(Loss)	**14,348**	**5,985**	**12,829**	**(30,223)**	**41,374**
Total Fund Balance	51,575	57,560	70,389	40,166	81,541
As % of Expenditures and Transfers Out	12.3	12.7	14.0	7.4	17.9
Unreserved, Undesignated Fund Balance	46,423	48,671	64,974	35,803	73,837
As % of Expenditures and Transfers Out	11.1	10.7	12.9	6.6	16.2

Note: Numbers may not add due to rounding.

historically diverse economy, featuring higher education, healthcare, government, technology, tourism, and manufacturing as primary anchors. Major southern Arizona employers include Raytheon Missile Systems (10,500 employees), the University of Arizona (10,481), the State of Arizona (8,866), Davis-Monthan Air Force Base (8,462), the U.S. Army Intelligence Center & Fort Huachuca (6,225), and Freeport-McMoRan Copper & Gold Inc. (4,803).

After a series of annual increases dating back to 2000, county employment levels dipped 0.4% in 2010 compared to the prior-year period, and unemployment jumped from 5.6% to 8.3%; however, this level remained below the state and national averages. The most recent monthly data (January 2011) indicates employment has slipped around 0.5% from the prior-year period and the unemployment rate has held steady at 9.1%. While the housing sector has weakened considerably, residential foreclosure and delinquency numbers are below U.S. averages and well below those of the Phoenix market due to less speculative building in the Tucson area over the past decade. County wealth levels are moderately below state and national averages; median household income is $46,229, compared to the Arizona average of $51,124 and the U.S. average of $52,175.

STANDARD
&POOR'S

Global Credit Portal
RatingsDirect®

April 20, 2011

Summary:
Pima County, Arizona; Appropriations; General Obligation

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Table Of Contents

Summary:

Pima County, Arizona; Appropriations; General Obligation

Credit Profile		
US$75. mil GO bnds ser 2011 due 07/01/2028		
Long Term Rating	AA-/Stable	New
Pima Cnty GO		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating to Pima County, Ariz.'s series 2011 general obligation (GO) bonds and affirmed its 'AA-' underlying rating (SPUR) on the county's GO debt outstanding. At the same time, Standard & Poor's affirmed its 'A+' rating on the county's certificates of participation (COPs) series 2009A outstanding. The outlook is stable on all ratings.

The ratings reflect our view of Pima County's:

- Deep and diverse local economic base, anchored by Tucson's role as a regional employment, education, and service center for southern Arizona;
- Strong financial management policies and practices; and
- Low overall debt levels.

Tempering factors include our view of the county's projections of decreasing secondary AV, with anticipated drops of 3% to 4% annually during the next three years due to a softened real estate market. An additional offsetting credit factor is the county's continued financial support of its public hospital under an operating agreement.

Revenue from an unlimited ad valorem property tax pledge secures the county's GO bonds. We understand that the series 2011 GO bond proceeds will be used to fund certain county capital projects.

Pima County encompasses 9,184 square miles in southern Arizona and has a 2009 estimated population of approximately one million, 54% of whom reside in Tucson. The county's population has grown steadily in recent years, with average annual increases of 2.3% during 2000 through 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: Building permits have continued to decline since fiscal 2006 to record lows, and residential housing permits totaled a very low 1,238 for fiscal 2010, compared with 9,082 in 2006. According to the county, the value of total building permits decreased to $0.5 billion in 2010 from $1.9 billion in 2006.

Services, government, and the military remain the primary employment sectors. 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 during the last two years, but remains at 9% for fiscal 2010, below the national average of 9.6% for the same year. Income indicators are, in our view, good, with median household and per capita effective buying income measuring 93% and 97% of the national levels, respectively.

Although due to the recent national trend in the housing market, secondary AV has declined for fiscal 2011, construction activity, particularly in the residential sector, has historically supported the county's property tax base growth. Secondary AV had increased at a 12% average annual rate during fiscals 2005 through 2010 to reach $9.9 billion. Arizona's AV tax roll exhibits a two-year lag from market trend, and as such, secondary AV declined by 5.3% for fiscal 2011. Full property valuation for fiscal 2011 totals $77.3 billion, which we consider to be strong, at $74,886 per capita. The tax base is, in our view, diverse, with the 10 largest taxpayers accounting for 6.8% of secondary AV. The county projects secondary AV to decline by approximately 9% for fiscal 2012.

Finances and debt

Based on audited fiscal 2010 results, the county had a $41 million surplus, which raised its unreserved fund balance to $76 million, or a very strong 18% of expenditures. The higher surplus was mainly due to lower welfare expenditure costs for the year as a result of a one-time refund received from the Arizona Long-Term Care System (ALTCS) and Arizona Health Care Cost Containment System (AHCCCS). General fund revenues were $489 billion for fiscal 2010, an increase of 5.3% from the prior year, set against expenditures of $426 million. General fund revenues are primarily generated from property tax revenues (62%), followed by intergovernmental revenues at 26%. For fiscal 2011, the county projects reducing its general fund balance level by $22.4 million by transferring funds into an unreserved property tax stabilization fund, which is has been expressed to us as being unrestricted funds. For fiscal 2011, the county projects state-shared tax revenues to be slightly higher than in 2010; however the growth is projected to be partially mitigated by a slight decline in vehicle license tax revenues. The county projects overall general fund revenues to be slightly lower as a result of lower property tax revenues. Overall, the county projects closing fiscal 2011 with an unreserved fund balance of approximately $50 million, or what we consider to be a strong 12% of expenditures.

For fiscal 2012, the county is not expecting to increase the property tax levy rate although they project a contraction in property tax revenues. The county has expressed that the proposed fiscal 2012 state budget will not have a noticeable impact on the county's state-shared funding and, during the last few years, the county has taken measurable steps in reducing its various departmental expenditures in anticipation of declining revenues. It is our understanding that the county will be paying the remaining portion of a certificate of participation note early in fiscal 2012. The payment will be made from the general fund reserves although the county has expressed to us that the designated balance was in previous years transferred to the general fund from the county's wastewater fund. The county projects it will close fiscal 2012 with an unreserved fund balance of approximately $25 million, or 6% of expenditures, which we consider good, and the county does not expect its unreserved general fund balance to slide below its aimed policy of 5% of expenditures, which would be $25 million (in fiscal 2011).

In addition, the county entered into a 25-year lease, effective June 2004, with University Physicians Healthcare (UPH), a nonprofit organization affiliated with the University of Arizona School of Medicine. Under this agreement, UPH assumes full responsibility for the operations of Kino Community Hospital, while the county pays UPH an annual service fee if operating costs exceed revenue generated by UPH at the hospital. We understand the county will provide $20 million to UPH in fiscal 2011. Although we believe this agreement provides a moderate degree of financial uncertainty, the county has indicated it does not project the payments to exceed the negotiated amount.

Pima County's management practices are considered "strong" under Standard & Poor's Financial Management Assessment (FMA) methodology. In our framework, an FMA of "strong" indicates that practices are strong, well embedded, and likely sustainable.

Overall net debt levels are low, in our view, at $1,423 per capita and 1.9% of market value. We consider amortization of the county's direct GO and COP debt to be rapid, with approximately 75% of principal maturing in 10 years and all retired in 20 years. Thus, the county's carrying charge is what we consider elevated, at 15.6%. We understand that the county plans to issue additional GO debt within the next few years depending on secondary AV growth. The county contributes to the Arizona State Retirement System, the Corrections Officer Retirement Plan, and the Public Safety Personnel Retirement System. The county does not offer other post-employment benefits to employees and has expressed to us that it does not have an unfunded liability associated with post-employment benefits.

Outlook

The stable outlook reflects our expectation that the county will properly manage its financial operations, over the next two years based on further potential reductions in revenues. We do anticipate that the county will reduce its general fund reserves over the next year to levels that we consider to be good. If the county is unable to appropriately balance its budget and becomes heavily reliant on its reserves, the rating could be lowered.

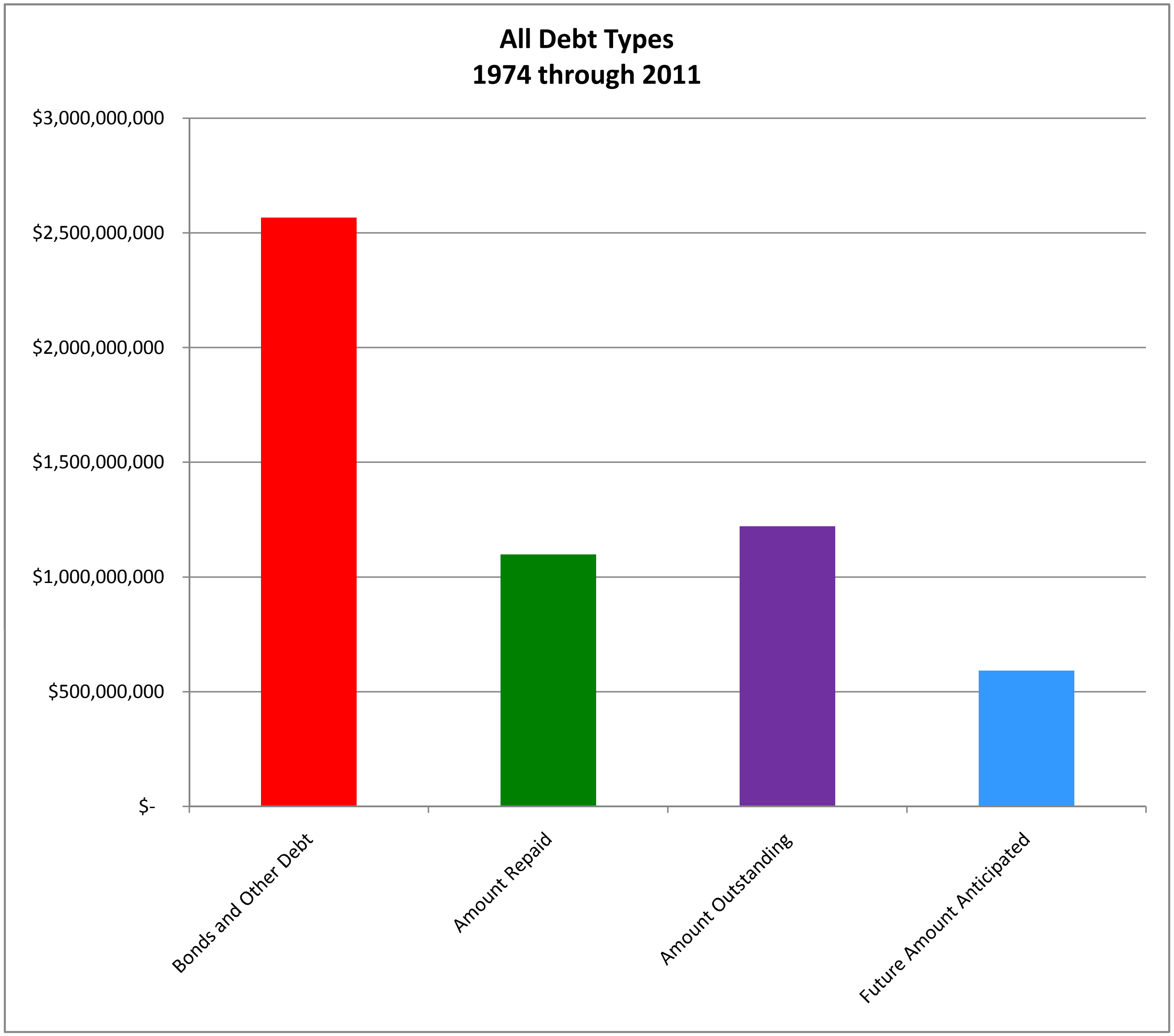
Related Criteria And Research

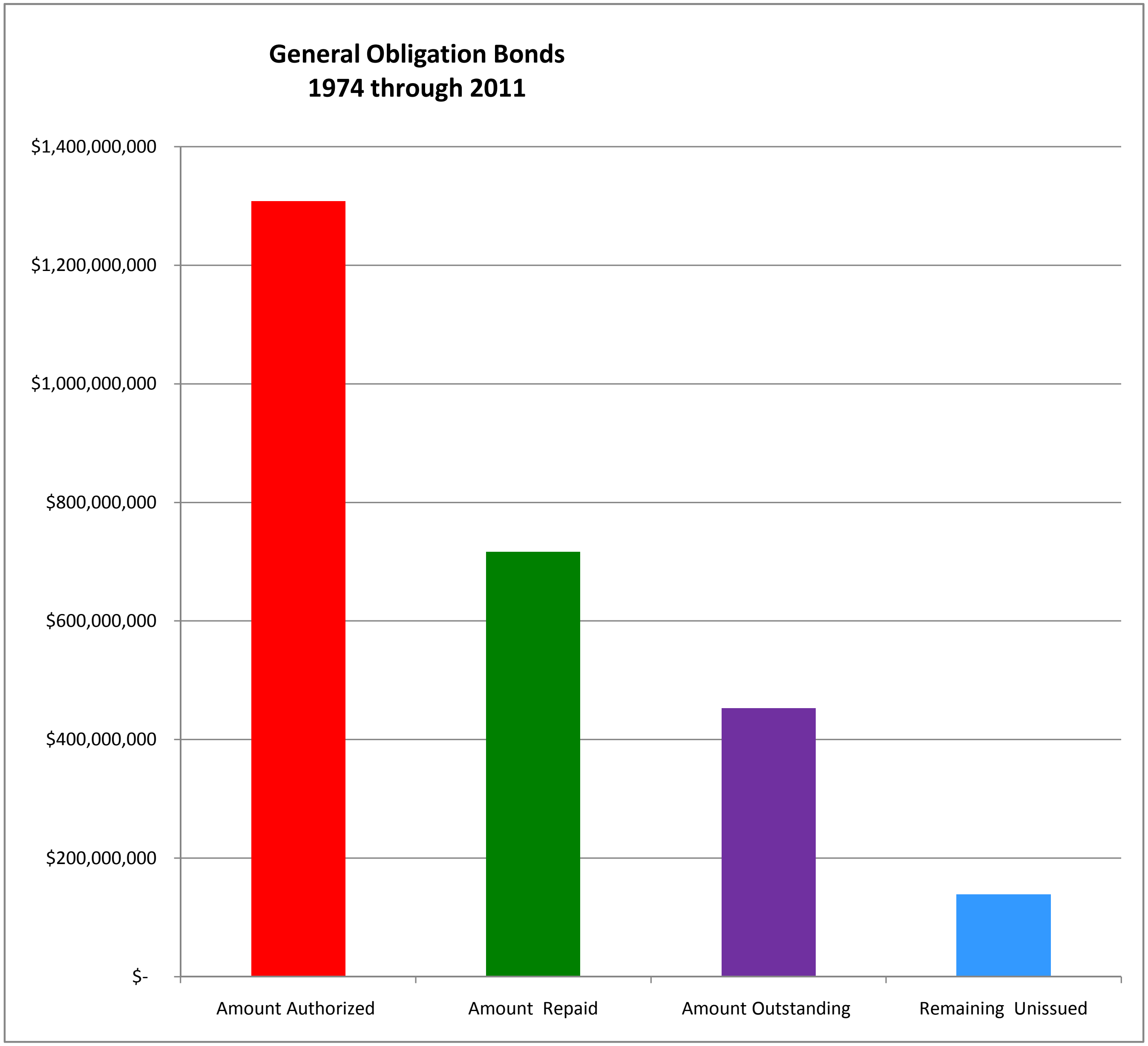
USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of April 20, 2011)		
Pima Cnty COP ser 2008		
Long Term Rating	A+/Stable	Affirmed
Pima Cnty COP ser 2009		
Long Term Rating	A+/Stable	Affirmed
Pima Cnty COP ser 2010 due 06/01/2019		
Long Term Rating	A+/Stable	Affirmed
Pima Cnty GO bnds ser 2009		
Long Term Rating	AA-/Stable	Affirmed
Pima Cnty certs of part (Justice Bldg Proj) ser 2007		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Pima Cnty GO		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

ATTACHMENT 3


All Debt Types
1974 through 2011
$3,000,000,000
$2,500,000,000
$2,000,000,000
$1,500,000,000
$1,000,000,000
$500,000,000
$-
Bonds and Other Debt
Amount Repaid
Amount Outstanding
Future Amount Anticipated


General Obligation Bonds
1974 through 2011
$1,400,000,000
$1,200,000,000
$1,000,000,000
$800,000,000
$600,000,000
$400,000,000
$200,000,000
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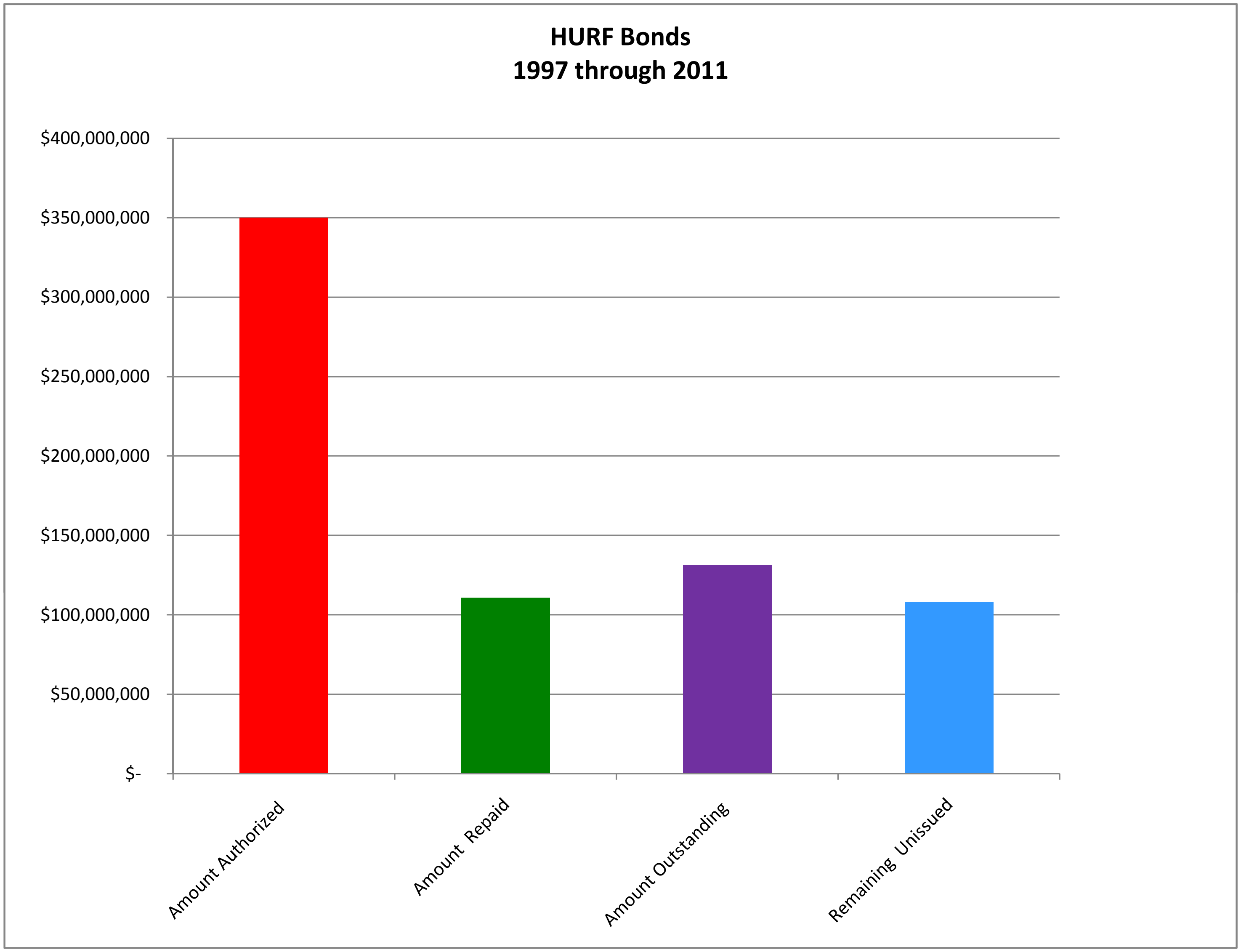
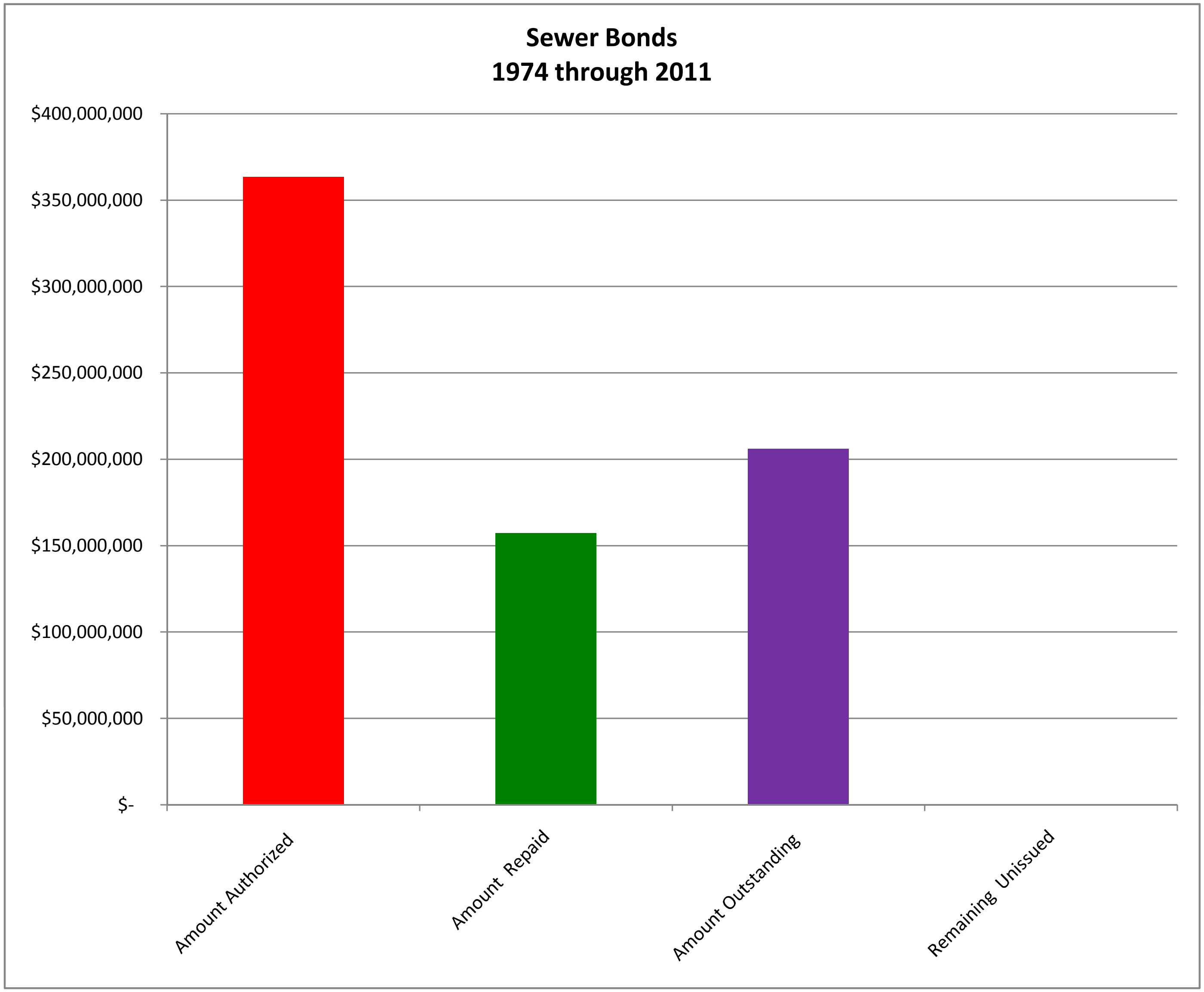
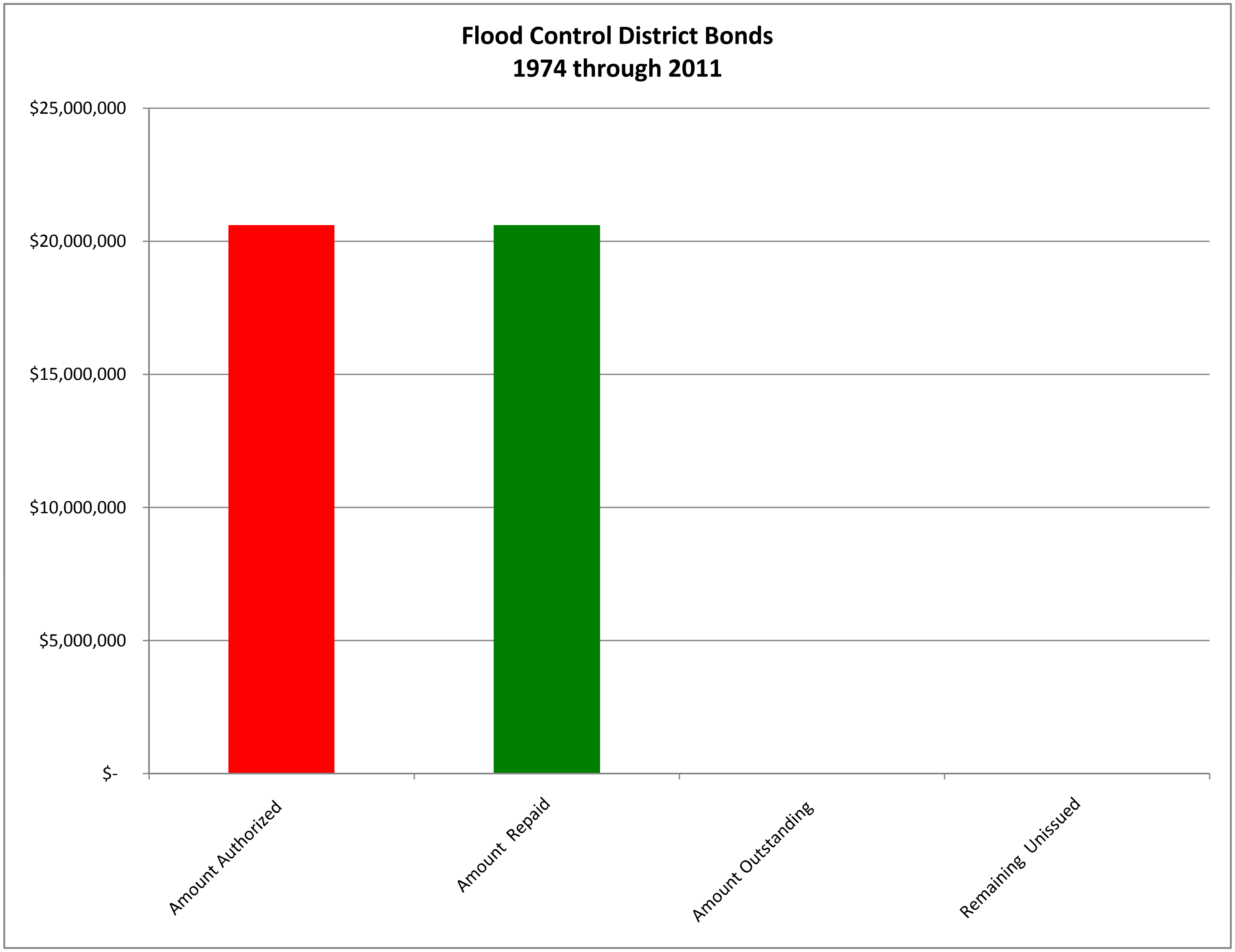
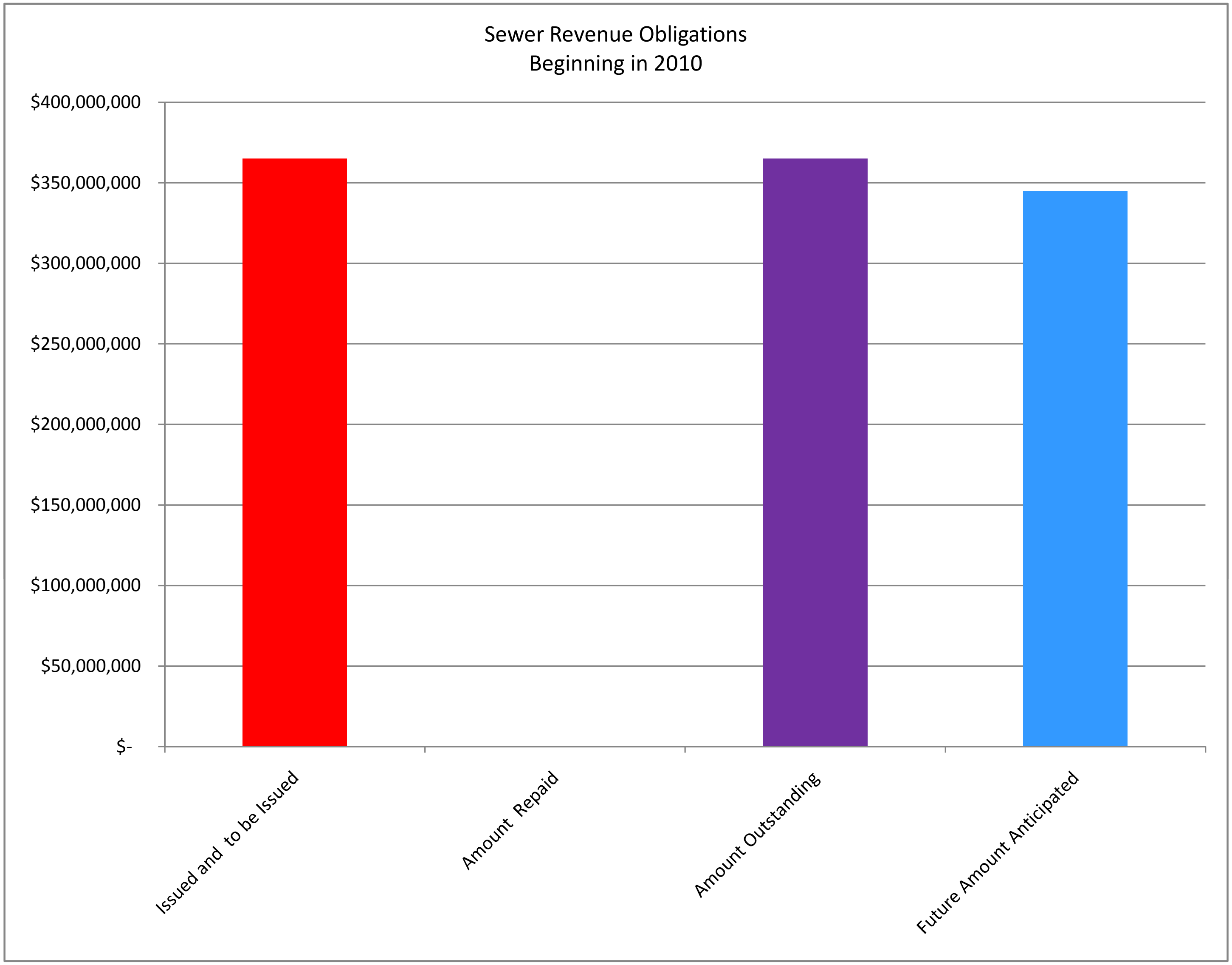
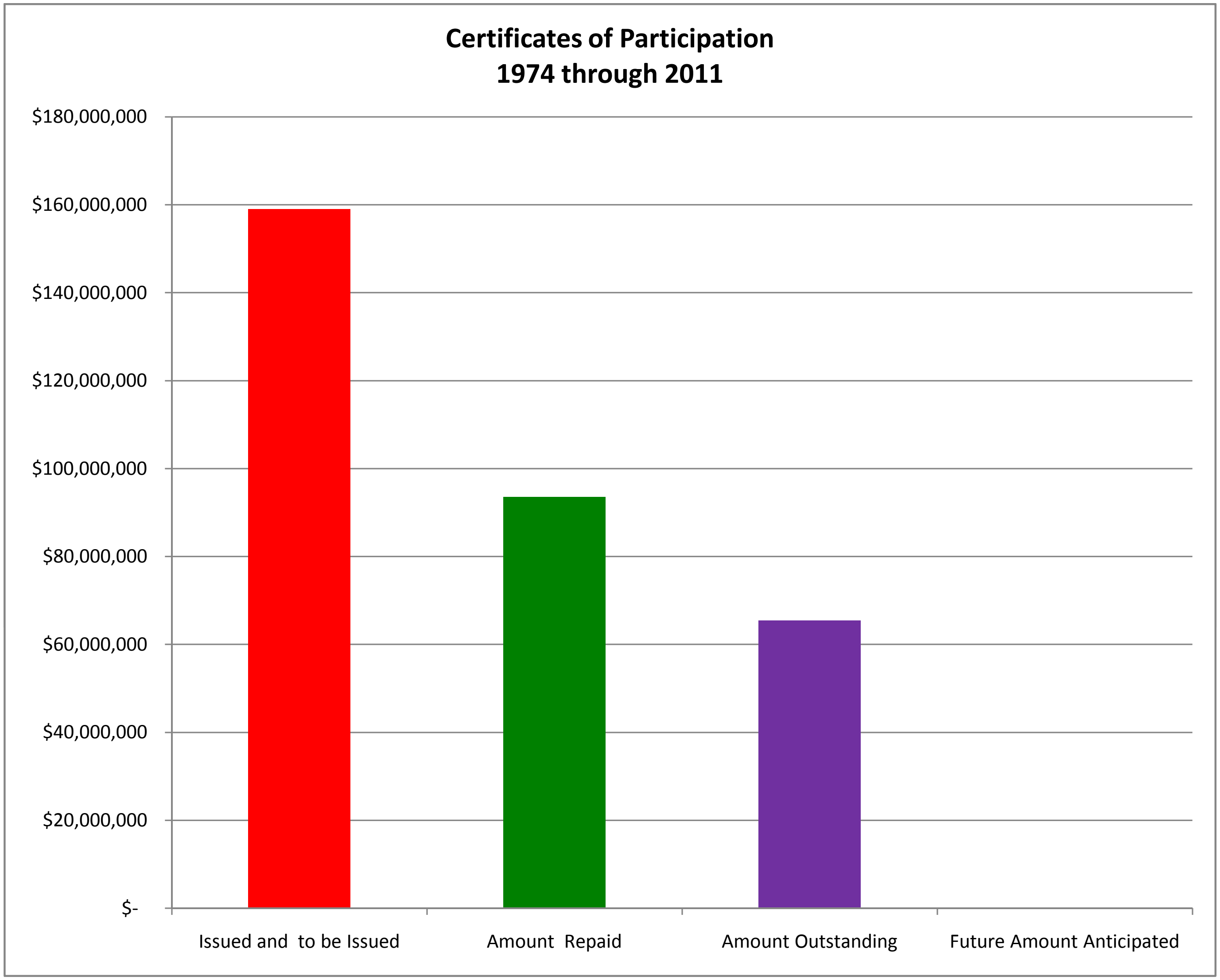
Amount Authorized
Amount Repaid
Amount Outstanding
Remaining Unissued


HURF Bonds
1997 through 2011
$400,000,000
$350,000,000
$300,000,000
$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$-
Amount Authorized
Amount Repaid
Amount Outstanding
Remaining Unissued


Sewer Bonds
1974 through 2011
$400,000,000
$350,000,000
$300,000,000
$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$-
Amount Authorized
Amount Repaid
Amount Outstanding
Remaining Unissued


Flood Control District Bonds
1974 through 2011
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$-
Amount Authorized
Amount Repaid
Amount Outstanding
Remaining Unissued


Sewer Revenue Obligations
Beginning in 2010
$400,000,000
$350,000,000
$300,000,000
$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$-
Issued and to be Issued
Amount Repaid
Amount Outstanding
Future Amount Anticipated


Certificates of Participation
1974 through 2011
$180,000,000
$160,000,000
$140,000,000
$120,000,000
$100,000,000
$80,000,000
$60,000,000
$40,000,000
$20,000,000
$-
Issued and to be Issued
Amount Repaid
Amount Outstanding
Future Amount Anticipated