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Summary: Maricopa County, Arizona; Appropriations; General Obligation

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Credit Profile		
Maricopa Cnty ICR		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AAA' issuer credit rating (ICR) on Maricopa County, Ariz. At the same time, Standard & Poor's affirmed its 'AA+' rating on the county's series 2007A and 2007B lease revenue refunding bonds reflecting the county's covenant to budget and appropriate lease payments for the use of various leased properties.

The issuer credit rating reflects what we view as the county's:

- Diversified economic base and Arizona's primary economic and population center;
- Consistently strong and improving general fund financial position despite declines in revenue due the recent economic downturn and the county's proactive budget adjustments;
- Very low debt ratios and manageable capital needs, which have historically been addressed with cash; and
- Complete insulation from the county's health care system--and the burden associated with its liabilities and historically required general fund support--due to the system's transfer in 2005 to a newly created, separate health district with its own property tax levy.

Although the economic slowdown and home price declines of the past few years have resulted in lower revenues and declining tax base trends, we believe Maricopa County's strong financial management, reflected in its proactive budgetary adjustments and continued strong reserves, continues to provide support for the 'AAA' rating.

The lease revenue bonds represent an interest in lease payments by the county to the Maricopa County Public Finance Corp. for use of various leased property, which includes the downtown consolidated justice courts, the Forensic Science Center and garage, the Superior Court Customer Service Center and garage, the security building, Estrella Jail, the animal care and control facility, the southwest justice court land, and the administration building land.

Maricopa County (population 4.023 million) remains Arizona's major economic, political, financial, and population center; the county enjoys a diverse economy that includes trade, mining, construction, tourism, and high-tech manufacturing. In our opinion, the real estate downturn of the past several years has dampened the county's population growth, property values, and employment. The Case-Shiller Home Price Index reflected a 54% decline in home prices in the Phoenix metropolitan statistical area (MSA) between the peak in June 2006 and current prices in November 2010. Due to a lag between actual value declines and reassessment of property, secondary assessed value (AV) for the county continued to rise through fiscal 2009 before declining by 0.5% in fiscal 2010 and 14% in fiscal 2011 to $49.7 billion; officials expect another 22% drop in fiscal 2012 and further tax base declines until fiscal

2015 when they expect values will stabilize. The county's full cash value fell 14% in fiscal 2011 to $444 million, or $110,400 per capita, and officials expect another 19% decline in fiscal 2012. Median household and per capita income levels are what we consider good at 110% and 104% of the national average, respectively. Although the economic and housing downturn in the past few years has resulted in rising unemployment rates for Maricopa County, its nonseasonally adjusted unemployment rate of 8.4% in November 2010, according to Bureau of Labor Statistics, remains below the state level of 9.6%.

The county's unreserved general fund balance has remained above 45% of expenditures in the past nine audited fiscal years. Although general fund revenues declined in fiscals 2008 and 2009, by 6.5% annually, on average, Maricopa County has adjusted general fund expenditures and transfers for capital to maintain very strong ending unreserved general fund balances. In fiscal 2009, it drew down $102 million in the fund balance due to one-time transfers out of the general fund for various capital needs. In audited fiscal 2010, the county posted a $79 million operating surplus after transfers, which restored the unreserved general fund balance to $489 million, or what we consider a very strong 64% of expenditures. Furthermore, liquidity for the county is strong with 84% of the fiscal 2010 balance in cash and investments. Maricopa County typically budgets only for a reserve for cash flow and a 5% budget stabilization fund per county policies, which totaled $162 million, or what we consider a strong 12% of budgeted expenditures and 15% of revenues, in fiscal 2011; however, due primarily to the county's practice of budgeting for contingencies in the operating fund, actual reserves at year-end have been stronger than budgeted. Its fiscal 2011 budget projected flat general fund revenues and 37% higher general fund expenditures and transfers out compared to the previous year. To date, fiscal 2011 actual revenues are tracking slightly above budgeted levels and actual expenditures are tracking below the year-to-date budget. The current year-to-date fund balance totals $368 million, or what we view as a very strong 27% of budget; county officials do not have an official estimate for the fiscal 2011 year-end reserve, but expect that property tax collections and limited remaining cash transfers out for capital purposes through the end of the fiscal year could result in a larger general fund reserve balance at the fiscal year-end. The county's five-year financial forecast includes a designated reserve for cash flow and budget stabilization equal to 15% of projected general fund revenue.

Maricopa County's primary general fund revenue sources include: property taxes (which represent 45% of general fund budgeted revenues), state-shared sales taxes (35%), and vehicle license taxes (10%) of revenues. The county has experienced declines in sales taxes and vehicle license fees in the past three years; however, the property tax revenue continued to grow through fiscal 2010 with AV growth. To offset AV declines in 2011, the county increased its primary property tax rate for operations to $1.05 per $100 of AV from 99 cents to generate the same level of property tax revenue as the previous year. Due to Arizona's budgetary pressures, the county has also experienced increased mandatory contributions to the state for public services in fiscals 2009 through 2011 averaging $24 million per year, or 2.5% of budget. County officials estimate that Arizona could increase costs to the county by $25 million in fiscal 2012 based on the state executive's proposed budget. To mitigate declining revenue and additional costs imposed by the state, officials estimate the county has reduced its budget through fiscal 2010 by a cumulative $342 million, or 20% since fiscal 2007, primarily through eliminating vacant positions and delaying capital expenditures. Maricopa County also received $104 million of one-time Federal Medical Assistance Percentage funding for fiscals 2010 and 2011, which it has used for nonrecurring purposes, including technology investments and building projects. In addition to regular annual transfers from the general fund for capital purposes, the county makes annual transfers to the detention fund for more than 50% of that fund's operations; in fiscal 2010, it transferred $174 million, or 17% of general fund expenditures and transfers, to the detention fund. In addition to the general fund transfer, the detention fund collects a one-fifth-cent sales tax for operations that provides 33% of the detention fund's annual budgeted revenues in fiscal 2011. The county recently discovered that a portion of detention funds in previous years were misspent on purposes for which they were not originally intended; the final amount is still being determined but officials estimate up to $80 million might have to be reimbursed to the detention fund from the general fund. According to county management, the inmate population has declined in the past two years; however, jail operations could come under pressure should the state implement previously proposed measures requiring counties to provide state juvenile detention services or house more state prisoners.

The county's management practices are considered "strong" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of strong indicates that practices are strong, well embedded, and likely sustainable. Maricopa County has formal written policies that cover investment and debt management policies as well as a policy that requires a 5% budget stabilization reserve in addition to a cash flow reserve. Investment results are reviewed monthly, as well as actual to budget variances for general fund revenues and expenditures. The county also engages in multiyear financial planning, with a five-year forecast, and its capital plan also covers a period of five years and identifies potential funding sources and uses of funds.

Maricopa County's overall direct and overlapping net debt burden is what we consider low at approximately $1,609 per capita and 1.3% of market value. It has no outstanding general obligation debt, but approximately $153 million in lease revenue bonds are outstanding. Amortization of debt is below average, in our opinion, with 51% of principal retired in 10 years and 76% in 20 years. The debt service carrying charge of 1.7% of governmental expenditures, less capital outlay, in fiscal 2010 is what we consider low. The county contributes to four pension plans and has consistently funded its annual required contribution, which totaled $64.7 million in fiscal 2010, or about 8.4% of the county's fiscal 2010 general fund expenditures. The largest sheriff pension plan is 67% funded and the next largest (Administrative Office of the Courts Probation) is 76% funded; the corrections plan is 84% funded. Arizona covers other postemployment benefits for retirees and consequently, the county has no liability associated with these benefits. Strong financial results have enabled Maricopa County to bolster its reserve positions and avoid large-scale borrowings by cash funding various most projects. It has no additional debt plans.

Outlook

The stable outlook reflects what we view as Maricopa County's deep and diverse economic base, long track record of strong reserve levels, formalized reserve policies, and low debt burden. We believe the county's strong management practices will result in continued strong margins and contingency reserves and the ability to provide funding for critical capital projects, which limits expected debt financing. We also expect the county to continue to adjust its budget as necessary to maintain strong reserve levels. The recent stabilization of the sales tax revenues and the county's practice of maintaining a flat property tax levy should mitigate recent and projected AV declines.

Economy

Maricopa County, the fourth-largest county in the country with a population of just over 4 million, is in south-central Arizona and includes among a number of other cities and towns, Phoenix (AAA/Stable), the county seat, as well as the cities of Chandler, Glendale, Mesa, Scottsdale, and Tempe. About 60% of the state's population of 6.7 million lives within Maricopa County. Leading employers for the county have remained stable and in 2010 included the state (52,420 employees), Wal-Mart Stores Inc. (31,280), Banner Health Systems (27,431), the City of Phoenix (16,375) and Wells Fargo & Company (14,000). The county also has a high-tech presence including Intel in

Chandler and Phoenix-based Honeywell Aerospace, which employs 10,145. Although Honeywell Aerospace has laid off some workers, Intel is planning a new $5 billion facility to open in Chandler in 2013, which could employ an additional 1,000 permanent workers. Although IHS Global Insight Inc. reported a 4.4% decline in employment for the Phoenix MSA between 2008 and 2010, due primarily to losses in construction jobs, employment stabilized at the end of 2010 and Global Insight has forecast 2.5% average annual growth for the area between 2010 and 2012.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

Ratings Detail (As Of March 28, 2011)		
Maricopa Cnty Pub Fin Corp, Arizona		
Maricopa Cnty, Arizona		
Maricopa Cnty Pub Fin Corp (Maricopa Cnty) lse ser 2007A		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Maricopa Cnty Pub Fin Corp (Maricopa Cnty) lse ser 2007B		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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