STANDARD & POOR'S RATINGS SERVICES
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Summary:

Maricopa County, Arizona; Appropriations; General Obligation

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Credit Profile		
US$200.0 mil certs of part ser 2015 due 07/01/2018		
Long Term Rating	AA+/Stable	New
Maricopa Cnty ICR		
Long Term Rating	AAA/Stable	Affirmed
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

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Maricopa County, Ariz.'s approximately $200 million series 2015 certificates of participation (COPs). At the same time, Standard & Poor's affirmed its 'AAA' issuer credit rating (ICR) and its 'AA+' long-term rating and underlying rating (SPUR) on the county's existing lease revenue bonds. The outlook is stable.

Securing the COPs are lease payments from the county, as lessee, to U.S. Bank National Association, the lessor and trustee, for the use and possession of the Downtown Court Tower (the leased asset). Under the lease agreement, the county has covenanted to budget and appropriate annual lease payments for use of the leased assets. Lease payments are triple net, without right of set-offs, and the county is responsible for the maintenance, taxes, and utilities of the leased property. The county cannot abate lease payments in the event of damage to, or the destruction of, the assets. Debt service payments are due on Jan. 1 and July 1 annually, and lease payments are due Dec. 15 and June 15. We understand that the county will use proceeds from the 2015 COPs for various capital projects.

The rating reflects our view of the county's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies;
- Weak budgetary performance, with operating deficits in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 32% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash of 65.4% of total governmental fund expenditures and 46.7x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 1.4% and net direct debt that is 5.4% of total governmental fund revenue and low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Strong economy

We consider Maricopa County's economy strong. Maricopa County, with an estimated population of 4 million, is located in the Phoenix-Mesa-Scottsdale MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 91.2% of the U.S. level and per capita market value of $84,701. Overall, the county's market value grew by 9.4% during the past year to $339.5 billion in 2015. The county unemployment rate was 5.9% in 2014.

The county is the fourth-most populous in the nation, with a diverse economy based on manufacturing, high tech, retail, service industries, tourism, government, and agriculture. The county's top employer is the state of Arizona, and other major employers include healthcare, education, and aerospace.

Very strong management

We view the county's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

We believe the county's proactive and sophisticated financial management is reflected in its formalized policies and practices. The county employs an external economist for forecasting revenues along with historical trend analysis. The county maintains a five-year capital improvement plan, which is linked to its five-year financial plan, with funding sources for capital projects identified. The county shares its budget to actuals and investment holdings with its board monthly. The county has detailed investment and debt management policies. The county recently changed its reserve policy to a separate reserve of two months of operating expenditures or about $187 million, as per the Government Finance Officers Association of Arizona (GFOAZ) recommendations. While overall reserves exceed this amount, the separate reserve account currently has about $129 million of the $187 million with the remainder budgeted to be transferred in fiscal 2016.

Weak budgetary performance

Maricopa County's budgetary performance is weak in our opinion, with operating deficits of negative 4.5% in the general fund and negative 6.2% across all governmental funds in fiscal 2014.

The county has been drawing down its reserves in recent years for capital projects after several years of building them up. According to management, the county started building up its reserves in anticipation of the recession in fiscal 2006, thanks to projections from the external economist the county employs. In recent years, as the economy, and therefore revenues, have begun to rebound, the county has been spending down some of its very strong built-up reserves for large capital projects. Although it budgeted for a $114 million drawdown for fiscal 2015, the county actually anticipates it will end the year with an operational surplus of about $50 million due to both revenues coming in over budget and expenditures coming in significantly under budget. However, the county is budgeting for another significant draw down in fiscal 2016, and although the county has historically come in better than budget, we are uncertain if performance will be better than current levels.

Very strong budgetary flexibility

Maricopa County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 32% of operating expenditures, or $354.7 million. The available fund balance includes $121.2 million (10.8% of expenditures) in the general fund and $233.5 million (21% of expenditures) that is outside the general fund but legally available for operations. In addition, the county has the flexibility to raise additional revenues despite statewide tax caps, which we view as a positive credit factor.

The county has not historically levied at its maximum levy capacity. In fiscal 2015, the county levied $443 million of its $605 million maximum possible levy, providing an additional $163 million levy capacity or about 15% of budgeted 2015 expenditures. We understand that management anticipates levying about $157 million under the maximum levy in fiscal 2016. County management does not anticipate using its reserves outside the general fund, and, per the county's reserve policy, we anticipate the county will maintain very strong reserves in the future.

Very strong liquidity

In our opinion, Maricopa County's liquidity is very strong, with total government available cash of 65.4% of total governmental fund expenditures and 46.7x governmental debt service in 2014. In our view, the county has strong access to external liquidity if necessary.

We believe the county's exceptional access to external liquidity is supported by several issuances of lease revenue bonds and certificates of participation during the past 20 years. The county has consistently had very strong liquidity and we do not anticipate a change to these ratios. The vast majority of the county's investments are in U.S. agency securities and other municipal bonds and securities.

Very strong debt and contingent liability profile

In our view, Maricopa County's debt and contingent liability profile is very strong. Total governmental fund debt service is 1.4% of total governmental fund expenditures, and net direct debt is 5.4% of total governmental fund revenue. Overall net debt is low at 2.1% of market value, which is in our view a positive credit factor.

Maricopa County's combined pension and other postemployment benefits (OPEB) contributions totaled 4.8% of total governmental fund expenditures in 2014. The county made its full annual required pension contribution in 2014.

The county largely pays for its large capital projects on a pay-as-you-go basis, however periodically issues general fund debt. The county is currently issuing $200 million of its $289 million in near-term capital needs, and may issue the other $89 million in COPs within the next two years.

The county contributes to four pension plans and has consistently funded its annual required contribution. Arizona covers other postemployment benefits for retirees and, consequently, the county has no liability associated with these benefits. The majority of county employees participate in three main pension plans, Arizona State Retirement System (ASRS), the Public Safety Personnel Retirement System (PSPRS), and the Corrections Officer Retirement Plan (CORP). The funded status of PSPRS and CORP are low in our opinion, with a weighted average 52% funded. For PSPRS, the county elected to immediately start paying the employer contributions related to a recent Arizona Supreme Court Case on calculating cost-of-living increases, as opposed to phasing-in as some municipalities chose to do.

Strong institutional framework

The institutional framework score for Arizona counties is strong.

Outlook

The stable outlook reflects our view that the county will not draw on its reserves to below a level we consider strong. The outlook also reflects our anticipation that the county will not issue significant debt or engage in contingent liabilities to the degree that it would significantly decrease its debt score. We do not anticipate any of these occurring during the outlook's two-year horizon.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Arizona Local Governments

Ratings Detail (As Of June 3, 2015)		
Maricopa Cnty Pub Fin Corp, Arizona		
Maricopa Cnty, Arizona		
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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