



Fitch Downgrades Maricopa Co. Stadium Dist, AZ's Revs to 'BBB-'; Outlook Negative

Ratings

07 Apr 2011 4:18 PM (EDT)

Fitch Ratings-Austin-07 April 2011: During the course of routine surveillance, Fitch Ratings has taken the following rating action on Maricopa County Stadium District, Arizona's (the district) revenue bonds:

--\$37.9 million revenue refunding bonds, series 2002 downgraded to 'BBB-' from 'BBB+'.

The Rating Outlook is Negative.

RATING RATIONALE:

--The downgrade to 'BBB-' from 'BBB+' and Negative Outlook reflect ongoing weakness in car rental tax collections, which have reduced current collections to less than 1.0 times (x) annual debt service (ADS) on the district's outstanding revenue bonds.

--The district maintains other funds that supplement pledged revenues for debt service, and these reserves provide a multi-year cushion assuming no increase in pledged revenues from the budgeted fiscal 2011 total.

--Although certain indicators (e.g. sales tax and car rental tax revenues) suggest modest improvement in recent months, near term prospects for the Phoenix area economy remain uncertain, raising the possibility of further declines in pledged car rental tax revenues.

WHAT COULD TRIGGER A DOWNGRADE?

--While the amount of funds presently available for debt service provides a sizable cushion, further declines in pledged revenues over an extended period or the use of available special revenue funds for other purposes would erode this cushion and likely would further impact the rating.

--The district has no additional significant borrowing plans, as future capital outlays for the Arizona Cactus League (the spring training league for major league baseball) will be funded by the Arizona Sports and Tourism Authority (the authority).

SECURITY:

The bonds are secured by a first lien on the pledged revenues, which are derived from car rental surcharge revenues collected within Maricopa County after payment of specified Cactus League operations (approximately \$115,000 for fiscal 2011) and other accounts specified in the indenture. The current car rental surcharge is the greater of 3.25% of the cost of the rental or \$2.50.

CREDIT SUMMARY:

Pledged car rental tax revenues have declined over the past two years due to the severe recession impacting business and recreational travel to the Phoenix metropolitan area. After registering nearly 7.5% average annual gains from fiscal 2004 to fiscal 2006, revenues declined around 3% in fiscal 2007 and 2008, then experienced more dramatic drops of 12% or more in both fiscal 2009 and 2010. This trend has reduced annual revenues from a peak of nearly \$6.5 million in fiscal 2006 to \$4.7 million in fiscal 2010. At this level, annual revenues (including investment earnings) fall short of the annual debt service requirement of \$5.4 million, reaching just 0.86x coverage for fiscal 2010.

The negative coverage margin is a major credit concern. Given that economic conditions in the Phoenix area suggest only a gradual recovery, a return of surcharge revenues to amounts sufficient to meet annual debt service requirements is likely several years off. However, Fitch derives comfort from available reserves that provide a sizable cushion presently for debt service. These include debt service funds, the cash portion of which totaled \$5.9 million at fiscal 2010 year-end, and available special revenue funds that totaled \$3.4 million. While available, Fitch notes that the special revenue funds are not restricted for debt repayment and can be used for other purposes. Despite these additional reserves, Fitch observes that the possibility of additional surcharge revenue declines would further erode the cushion provided by these reserves, and if such declines occur the rating would likely be under additional downward pressure.

The district was created in 1991 and is governed by the county board of supervisors. The district was authorized to issue bonds or other obligations to acquire land, construct and finance new facilities or promote the use of existing facilities for Cactus League operations. Pursuant to a 2003 intergovernmental agreement between the district and the authority, surplus monies as of June 1 (after distributed in flow of funds priority, including funding of the subsequent year's debt service) are transferred to the authority for Cactus League related expenditures. The district assigned to the authority its right to receive car rental tax revenues, and this assignment is subordinate to the pledge of these revenues to bonds' flow of funds. Given recent weakness in car rental tax revenues, no transfer of surplus funds occurred in fiscal 2010 and none is expected for fiscal 2011.

Additional legal provisions are satisfactory, including allowing additional parity bonds to be issued with historical 1.50x maximum ADS (MADS) coverage. However, Fitch does not expect any additional debt issuance since future Cactus League capital projects will be funded by the authority. The rate covenant requires the district to maintain the surcharge at no lesser than the maximum rate allowed by law or the rate the produces revenue equal to 2.0x MADS; the current rate is the legal maximum. Fitch notes that neither the additional bonds test nor the rate covenant are significant credit factors presently, given the decline in revenues and the fact that that the surcharge rate is at the statutory maximum.

Maricopa County is the economic and population center of Arizona, encompassing Phoenix and surrounding suburbs within its over 9,000 square mile boundary. Phoenix was the nation's fastest growing major U.S. city from 1990-2000, with a 34% population increase. Growth in the surrounding cities contributed to a more than 40% increase in county population during this decade, and the period from 2000-2009 saw the county population jump from 3.07 million to slightly more than 4 million. This rapid growth fed the housing construction boom that ultimately led to the collapse of the housing market beginning in 2008. From a peak of nearly 37,000 in 2007, housing starts in the Phoenix metropolitan area plummeted to less than 10,000 by 2010; the average price of an existing home has dropped from more than \$310,000 in 2007 to less than \$180,000. While some observers anticipate the start of a modest rebound in residential construction in 2012, recent home price data suggest any meaningful resumption of building activity may be further off. Fitch notes that the large number of foreclosures and vacancies, as well as depressed prices, is likely to be a drag on the economic recovery for some time.

Contact:

Primary Analyst
Steve Murray
Senior Director
+1-512-215-3729
Fitch, Inc.
111 Congress Ave., Suite 2010
Austin, TX 78701

Secondary Analyst
Jose Acosta
Senior Director
+1-512-215-3726

Committee Chairperson
Douglas Scott
Managing Director
+1-512-215-3725

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, LoanPerformance, Inc., and IHS Global Insight.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria', dated Aug. 16, 2010;
--'U.S. Local Government Tax-Supported Rating Criteria', dated Oct. 8, 2010.

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

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT

POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.

Copyright © 2011 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries.