Maricopa County, Arizona

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Credit Profile		
ICR		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' issuer credit rating (ICR) to Maricopa County, Ariz.

The rating reflects the following credit strengths:

- An increasingly strong financial profile and a continued robust and diversified underlying economic base with low unemployment and slightly above-average income levels;
- High and increasing unreserved fund balances due to conservative financial planning and continued strong revenue growth, with additional financial flexibility provided by the county's low property tax rate;
- A track record of consistent operating surpluses in the general fund, with five consecutive surpluses during fiscals 2002-2006 owing to strong revenue growth and conservative spending patterns;
- A deep and diverse economy that exhibits continued strong growth in employment, assessed valuation (AV), and especially commercial and industrial development;
- Very low debt ratios and manageable capital needs; 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 its transfer in 2005 to a newly created, separate health district with its own property tax levy.

Maricopa County (population 3.9 million) is the state's major economic, political, financial, and population center and enjoys a diverse economy that includes trade, mining, construction, tourism, and high-tech manufacturing. Its unemployment rate continues to be below the state and national averages at 3.5% versus 4.1% for the state and 4.6% for the nation in 2006. Median household and per capita income levels are 8% and 5%, respectively, above the national average. County secondary AV grew an extremely high 37% in fiscal 2007 alone to $49 billion after increasing 9% the year prior, and county full cash value—or market value—grew an even stronger 43% in 2007 to $432 billion. Market value per capita is now a strong $109,669 as of fiscal 2008.

The county's financial position grew even stronger in fiscal 2006, driven by continued strength in the local economy and strong state-shared sales taxes. Unaudited fiscal 2006 general fund revenues grew 11% to $1.15 billion, with property taxes increasing a healthy 8%. State shared sales taxes rose a very strong 15%, while state shared vehicle license tax also displayed strength growing 12%. Given the county's conservative budgeting and expenditure controls, its general fund ended fiscal 2006 with a $136 million surplus, even higher than the strong $112 million surplus recorded in 2005. This brought the county's 2006 unreserved fund balance to $540 million or a very high 53% of expenditures. Within the county's unreserved fund balance is its budget stabilization designation of $165 million or approximately 16% of expenditures and transfers out. The county's preliminary estimates for fiscal 2007 project a general fund deficit after transfers of $101 million and an unreserved fund balance of $439 million or 35% of expenditures. It will maintain its budget stabilization reserve. The $100 million spend down is mainly due to a one-time transfer out of the general fund of $214 million for various capital needs. Continued positive financial results in the general fund demonstrate the county's continued strong economic growth, which has translated into revenues far exceeding budget. When combined with strong expenditure controls, these results have enabled the county to bolster its reserve positions and avoid large-scale borrowings by cash funding various most projects. The budget for fiscal 2008 is balanced.

The county's management practices are considered 'strong' under Standard & Poor's Financial Management Assessment (FMA). An FMA of 'strong' indicates that practices are strong, well embedded, and likely sustainable. The county has formal written policies that cover investment and debt management policies as well as a policy that requires a budget stabilization reserve and 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.

The county's overall direct and overlapping net debt burden is very low at approximately $1,649 per capita and 1.5% of market value. The county has no outstanding GO debt, but approximately $198 million in lease revenue bonds are outstanding, including the county's recent $140 million lease revenue bonds issuance from May 2007.

Outlook

The stable outlook reflects the county's deep and diverse economic base, strong reserve levels, formalized reserve policies, financial flexibility given its low tax rate, very low debt burden, and a long track record of consistently strong financial results. The county's robust economy, when combined with very strong management practices, is expected to result in continued strong margins and contingency reserves, limited debt financing, and the ability to provide funding for critical capital projects.

Economy Strong, Although Slower Growth On The Horizon

Maricopa County is located in south-central Arizona and has an estimated population of 3,936,231, making it the fourth-largest county nationally; the City of Phoenix ('AAA/Stable') the county seat. About 60% of the state's population of 6.5 million lives within Maricopa County, and recent population growth has been approximately 3.3% annually. Within the county are several other 'AAA'-rated rated cities with strong economies and robust financial positions, including Scottsdale, Tempe, and Chandler. Arizona led the nation in population growth in 2006 and was second only to Nevada in job growth, and the county had the largest jump in population during 2000-2006 of any county in the U.S. The county encompasses more than 9,200 square miles, larger than the seven smallest U.S. states, and its diverse economy includes high technology manufacturing, light manufacturing, retail and wholesale trade, service companies, tourism, government, and agriculture. Leading employers include the state (49,305 employees), Wal-Mart (28,800), Banner Health Systems (16,400), the City of Phoenix (14,166) and the county itself (13,274). Within the county is Arizona State University, located in Tempe, which is one of the three largest universities in the U.S. and employs more than 12,000 residents. The county also has a significant high-tech presence with Intel, employing 10,100, and with Honeywell Aerospace, employing 10,700. The county's unemployment rate continues to be below the state and national averages at 3.5% versus 4.1% for the state and 4.6% for the U.S. in 2006. Between 2000 and 2006, job growth in the greater Phoenix area exceeded nationwide job growth by 6.7 times, due in part to a strong local job market but also a weak national job market. Job growth for fiscals 2008-2015 is forecasted at a range of 2.9%-3.5%. Per capita income is about 8% greater than the national level and 5% higher than the state level. Median household income levels are 9% higher than national levels but just 8% above state levels.

The visitor industry in the county is very robust; in 2006 airline traffic at Sky Harbor International Airport increased for the fifth consecutive year, with total arrivals and departures of 41.4 million versus 35.5 million in 2002, an average annual increase of 4%. The county has at least 10 large-scale resort-hotels with more than 500 rooms each, and taxable lodging sales rose to $1.4 billion in 2006 versus $1.3 billion in 2005 and $994 million in 2002, for an average annual growth rate of 9.5%. The county's location near the Mexican border and also near San Diego and Las Vegas helps to mitigate airline-based tourism declines. County retail sales have likewise been strong, and wholesale and retail trade represent the largest employment sector in the county. Taxable retail sales reached $37.3 billion in 2006, up an average rate of 9% since 2002. However, the recent robust double-digit growth rates in sales tax performance is expected to decline to 3%-5% for fiscals 2008 and 2009.

While the residential real estate market has slowed recently in the county as it has nationally, strong new commercial and industrial growth continue to contribute to growth in AV and full cash value. The total of all residential units sold decreased 10% in 2006 versus 2005, but the median sales price rose 22% in calendar year 2006 over calendar year 2005. New housing starts were 42,346 in 2006, a 14% decline over 2005 levels, and the value of residential building permits declined 29% to $6.5 billion in the same year. However, commercial and industrial building permit value increased 7% in 2006 so that the overall building permit values declined a more moderate 13% in that year. Office vacancy rates in 2006 were 12.6%, a five-year low, but the county expects office vacancy rates to rise slightly to 13.6% by 2008. In 2006, retail space vacancy rates hit a 20-year low of 5.1%. Industrial space vacancy rates hit a 20-year low of 5.6% in 2005 before rising to 6.7% in 2006.

The S&P/Case-Shiller national housing index composite shows a 2.8% decline in median sales price for existing single-family residences (May 2007, year-over-year); the localized index for the Phoenix market over the same period fell a larger 5.5%. However, one aspect that differentiates Maricopa county from the nation as a whole and other housing markets is that the local market continues to attract new residents and create additional jobs. Even though the local Phoenix MSA is overbuilt in terms of housing, the relatively strong population in-migration expected for 2007 and 2008 is expected to correct the imbalance.

Nevertheless, county secondary AV and full cash value continue to grow rapidly, rising 37% and 43% in fiscal 2008 alone, respectively, and increasing an annual average of 15% and 17%, respectively, from 2003-2008, due to both new construction and reappraisals. The tax base remains diverse, with the 10 leading taxpayers representing just 4.5% of total AV.

Home foreclosures and loan defaults recorded have increased recently given the effects of subprime home mortgage loans, a trend also seen nationwide. Foreclosures rose more than 170% in Maricopa County in July 2007 compared with July 2006, with a total of 1,931 notice of trustee sales filed in July 2007; the cities of Phoenix, Mesa, and Glendale were the hardest hit. Other factors responsible for the increase include increasing home inventories and minimal home appreciation.

County Financial Condition Continues To Strengthen

The county's financial position demonstrated another year of improvement in unaudited fiscal 2006. Key to the county's continued general fund operating surpluses has been better-than-budgeted revenue growth in virtually every major category, and the county has continued its recent track record of excellent expenditure controls. County management also prudently monitors forecast data quarterly and makes appropriate budget adjustments based on findings.

The strength in the local economy continues to drive the county's strong financial performance. Unaudited fiscal 2006 general fund revenues grew 11% to $1.15 billion in fiscal 2006, with property taxes growing a large 8%. Because of continued conservative budgeting and controlled spending, the general fund ended fiscal 2006 with a $136 million surplus after an equally strong $112 million surplus in 2005. This brought the county's 2006 unreserved fund balance to $540 million or 53% of expenditures. Within the county's unreserved fund balance is its budget stabilization designation of $165 million or approximately 16% of expenditures and transfers out. As of fiscal 2006, total county general fund cash was $472 million or 88% of its total fund balance versus a ratio of just 63% in 2001.

In its preliminary estimates for fiscal 2007, the county is projecting an unreserved fund balance of $439 million or 35% of expenditures, and it will maintain its budget stabilization reserve. The $100 million decline is due to a one-time $214 million transfer for capital needs. Continued positive financial results in the general fund demonstrate the county's continued strong economic growth, which has translated into revenues far exceeding budget. When combined with strong expenditure controls, these results have enabled the county to bolster its reserve positions and avoid large-scale borrowings by cash funding various most projects. The budget for fiscal 2008 is balanced.

Designated county reserve levels are strong, and the county's declining tax rate offers additional financial flexibility. Property tax rates are at their lowest levels in 27 years. The county calculates annually its minimum reserve requirement in order to avoid any short-term borrowing in the general fund; the fiscal 2007 calculation result is $94 million or 8% of budget, which must also equal at least 25% of outstanding general fund debt par amount. The county also has an additional 5% budget stabilization reserve in place as policy.

Financial Management Assessment: 'Strong'

The county's management practices are considered 'strong' under Standard & Poor's Financial Management Assessment (FMA). An FMA of 'strong' indicates that practices are strong, well embedded, and likely sustainable. The county has formal written policies that cover investment and debt management policies. Budget stabilization reserves must be of no less than 5% of operations, and no less than 25% of outstanding principal must be held in the county's cash flow reserve, which totaled 8% of expenditures in 2006. Both investment results and actual-to-budget variances for general fund revenues and expenditures are reviewed on a monthly basis. The county also engages in multiyear financial planning, with a five-year general fund forecast, and major revenue categories are forecasted out 10 years with three different scenario assumptions provided by the county's economist. The county updates forecasts quarterly and makes intrayear adjustments if needed. Revenues are conservatively budgeted using the "pessimistic" scenario. The county also engages in historical trend analysis and follows various local, state, and national leading economic indicators. The county's capital plan also covers a period of five years and fully identifies potential funding sources and uses of funds.

Creation Of Health Care District Eliminates Substantial Burden On County

In the November 2003 election, county voters approved the creation of a special health care district to operate the county health care system. By January 2005, all assets were transferred to the district, and as of Jan. 1, 2005, the district was dropped from the county's reporting entity. Other than a June 2005 $20.7 million assistance package consisting of a $15 million loan and other funding, the county has no remaining financial or operating responsibility for the health care district, nor is it obligated to provide loans to the district. During fiscals 2002-2006, the county's average subsidy to the system was $25 million. The district's cash flow, however, is substantially improved, and cash flow has been positive since the transfer. The district's current cash position is $55 million.

Debt And Capital Plan Manageable

The county's 1986 GO bonds matured on July 1, 2004, leaving the county with no general obligation debt outstanding, and hence no secondary property tax levy. The county's latest five-year capital improvement plan has identified a list of projects totaling $595 million, with $392 million to be funded by highway user revenue funds. The county plans to issue $122 million in lease revenue bonds in 2008 for two justice court projects and likely another $350 million for a new 25-story court tower that was not included in the original five-year plan. However, given the county's currently low debt burden, additional bonding is not a credit concern. The county's overall direct and overlapping net debt burden is approximately $1,598 per capita and 1.7% of market value. Debt servicing consumes a small 3% of the county's general fund, providing further credit comfort. The county also has no existing liabilities associated with its pension plan, nor does it have any liability associated with other post-employment benefits.

Ratings Detail (As Of 21-Aug-2007)		
Maricopa Cnty ICR		
Long Term Rating	AAA/Stable	New Rating