FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Pima County CCD, AZ's IDR at 'AA+' and Rev Bonds at 'AA-'; Outlook Stable

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Fitch Ratings - Austin - 12 Aug 2025: Fitch Ratings affirms Pima County Community College District, AZ's Issuer Default Rating (IDR) at 'AA+' Fitch has also affirmed the rating on approximately $47.5 million outstanding combined fee revenue bonds series 2019 at 'AA-.'

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Pima County Community College District (AZ)	LT IDR	AA+ Rating Outlook Stable Affirmed	AA+ Rating Outlook Stable
Pima County Community College District (AZ) /Combined Fee Revenues/1 LT	LT	AA- Rating Outlook Stable Affirmed	AA- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

The district's 'AA+' IDR reflects 'aaa' financial resilience assessment, based on a 'High Midrange' level of budgetary flexibility and Fitch's expectation that the district will continue to maintain net working capital above 10% of total expenses (less depreciation and non-cash items). The rating also reflects the district's mixed demographic and economic strength metrics due to an improving population trend that is now assessed at 'Midrange' and 'Midrange' demographic and economic level metrics. The rating further accounts for 'Strongest' long-term liability burden metrics, but the rating also reflects a model deviation related to long-term liabilities discussed below.

The 'AA-' combined fee revenue bond ratings reflect Fitch's expectation for below inflation pledged revenue growth, absent management action. The ratings also reflect ample resilience to pledged revenue declines and 8x coverage at assumed leverage of current maximum annual debt service (MADS) at. The combined fee revenue bond rating is capped at the district's IDR, although the cap is not currently an active constraint.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

For the IDR:

--A material increase in long-term liabilities due to additional debt and/or growth in net pension liabilities;

--A decline in net working capital to a level below 10% of total expenses (less depreciation and non-cash items), which would lower Fitch's assessment of financial resilience;

--A weakening of demographic and economic performance, including but not limited to declines in population or resident income and/or an increase in the unemployment rate as compared to the national average.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

and the rating on the bonds;

--A downgrade in the IDR below 'AA-' due to the revenue bonds are capped at the IDR.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

For the IDR:

--A sustained improvement in local area economic fundamentals including population, unemployment, median household income, and educational attainment.

--A sustained approximately 25% decrease in long-term liabilities and carrying costs assuming current levels of personal income and governmental resources;

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

For the Combined Fee Revenue Bonds:

--A sustained increase in the growth prospects of pledged revenues.

SECURITY

The outstanding series 2019 revenue bonds are payable from a gross revenue pledge of and first lien on the district's tuition and fees, rental and contract revenues, interest earnings, and other certain operating revenues.

FITCH'S LOCAL GOVERNMENT RATING MODEL

The Local Government Rating Model generates Model Implied Ratings, which communicate the issuer's credit quality relative to Fitch's local government rating portfolio. (The Model Implied Rating will be the IDR except in certain circumstances explained in the applicable criteria.) The Model Implied Rating is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher (AAA), 9.0 (AA+), 8.0 (AA), and so forth down to 1.0 (BBB- and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile and a structured framework to account for Additional

Pima County Community College District Model Implied Rating: 'AAA' (Numerical Value: 10.24)

-- Metric Profile: 'AAA' (Numerical Value: 10.24)

-- Net Additional Analytical Factor Notching: 0.0

Pima County Community College District's Model Implied Rating is 'AAA'. The associated numerical value of 10.24 is at the lower end of the range for a 'AAA' rating.

KEY RATING DRIVERS

DEVIATIONS FROM MODEL IMPLIED RATING

A model deviation of minus one (-1) has been applied to the 'AAA' Model Implied Rating, reflecting concerns that the district's long-term liability metrics may weaken as the district seeks voter approval for a $150 million to $200 million bond authorization, which could be issued in a single installment. Should the district's metrics remain stronger than anticipated and the Model Implied Rating remain above 10.0, a positive rating action may be considered.

FINANCIAL PROFILE

Financial Resilience - 'aaa'

Pima County Community College District's financial resilience is driven by the combination of its 'Midrange' revenue control assessment and 'High' expenditure control assessment, culminating in a 'High Midrange' budgetary flexibility assessment.

-- Revenue control assessment: Midrange

-- Expenditure control assessment: High

-- Budgetary flexibility assessment: High Midrange

-- Minimum fund balance for current financial resilience assessment: >=10.0%

Revenue Volatility - 'Weak'

Pima County Community College District's weakest historic three-year revenue performance has a modest negative impact on the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenues dating back to 2005): 11.5% decrease for the three-year period ending fiscal 2014

-- Median issuer decline: -4.3% (2024)

DEMOGRAPHIC AND ECONOMIC STRENGTH

Population Trend - 'Midrange'

Based on the median of 10-year annual percentage change in population, Pima County Community College District's population trend is assessed as 'Midrange'.

Population trend: 0.9% Analyst Input (48th percentile) (vs. 0.8% 2023 median of 10-year annual percentage change in population)

Unemployment, Educational Attainment and MHI Level - 'Midrange'

The overall strength of Pima County Community College District's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2024 are assessed as 'Midrange' on a composite basis, performing at the 54th percentile of Fitch's local government rating portfolio. This is due to high education attainment levels and low unemployment rate offsetting low median-issuer indexed adjusted MHI.

-- Unemployment rate as a percentage of national rate: 90.0% 2024 (61st percentile)

-- MHI as a percent of the portfolio median: 90.5% (2023) (35th percentile)

Economic Concentration and Population Size - 'Strongest'

Pima County Community College District's population in 2023 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 1,080,149 Analyst Input (above the 15th percentile) (vs. 1,068,579 2023 Actual)

-- Economic concentration: 24.3% (2024) (above the 15th percentile)

Analyst Inputs to the Model

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may otherwise skew the time series.

The analyst incorporated the most recent population data.

LONG-TERM LIABILITY BURDEN

Long-Term Liability Burden - 'Strongest'

Pima County Community College District's long-term liability metrics remain broadly strong across each of the three dimensions: liabilities to personal income, liabilities to governmental revenue, and carrying costs to governmental expenditures. The long-term

-- Liabilities to governmental revenue: 67.7% (2024) (95th percentile)

-- Carrying costs to governmental expenditures: 8.0% (2024) (90th percentile)

DEDICATED TAX SECURITY

The outstanding series 2019 revenue bonds are payable from a gross revenue pledge of and first lien on the district's tuition and fees, rental and contract revenues, interest earnings, and other certain operating revenues.

DEDICATED TAX KEY RATING DRIVERS

Growth Prospects for Revenues - 'bbb'

Due to the district's enrollment history and despite some modest pledged revenue growth in recent years, Fitch believes natural pledged revenue growth prospects (absent management action to increase tuition and fees) remain largely stagnant and in line with a 'bbb' revenue growth assessment. This is underpinned by Fitch' expectation for some stabilization in the long-term enrollment trend given the district's expanding technical and skill training workforce contracts with local employers in a growing local economy.

Although a more modest portion of the district's overall operating revenues, tuition and fees provide the majority of pledged revenues at roughly 80%. Steady enrollment loss since counter-cyclically peaking during the Great Recession led to a trend of modest to moderate annual declines in pledged revenues, with revenues showing growth starting in fiscal 2023.

The 10-year revenue compound annual growth rate is below 2.4%, the first time it has been positive since 2014. The fiscal 2024 pledged revenues of $45.9 million in fiscal 2024 reflects the second year of sizeable rebounds with a roughly 30% year-over-year gain. However, some of this growth is attributed to raises in tuition. A sustained reversal of the historical trend of stagnant revenues, as the district expects, could lead to positive pressure on the rating.

Sensitivity and Resilience - 'aaa'

To evaluate the sensitivity of the pledged revenue stream to cyclical decline, Fitch considers

Based on the pledged revenue history, Fitch's Analytical Sensitivity Tool (FAST) generates a 9.6% revenue decline in a -1% U.S. GDP scenario.

The largest historical decline was 36% from fiscal years 2021 through 2022; however, Fitch believes this pandemic period decline overstates the sensitivity to typical economic cyclicality. Therefore, Fitch uses the largest pre-pandemic decline of 18.3% (fiscal 2011 through fiscal 2018). Future large declines in revenue could alter our fundamental view of the stability of the revenue base and pressure the resilience assessment. Assuming leverage to current MADS, the bond structure could tolerate an approximate 90% decline in pledged revenues before MADS ($4.4 million in 2026) coverage reaches 1x. This level of tolerance is equivalent to 9x the FAST estimate and roughly 5x the largest actual revenue decline. Fitch considers these results consistent with a 'aaa' resilience assessment.

The mandate to increase the rate at which pledged revenues are charged also positively affects the assessment. The district covenants in its bond documents to maintain rates and charges sufficient to produce sum sufficient pledged revenue coverage of aggregate annual debt service.

Exposure To Related Government

The combined fee revenues pledged to the bonds do not meet the requirements set out in Fitch criteria for treatment as "pledged special revenue" under section 902(2) of the bankruptcy code and are not otherwise insulated from the operating risk of Pima County Community College District. Therefore, the rating of the debt is capped at the IDR.

PROFILE

Pima County has a population of over one million people and is home to Tucson, the second largest city in Arizona. The county's diverse economy features higher education, healthcare, government, technology, tourism and manufacturing as primary anchors. The district operates multiple comprehensive campuses throughout its taxing jurisdiction of the county. County population has expanded by roughly 10% since 2010, comparable with the U.S, but below the state's rate of growth.

District revenues are largely driven by local factors such as student enrollment and taxable assessed valuation (TAV). Full-time student equivalent (FTSE) counts peaked in fiscal 2011, Countywide assessed valuations (AV) have continued to grow at a steady pace post-recession beginning in fiscal 2015, and the five-year compound annual growth rate (CAGR) through fiscal 2024 was nearly 5%. District management expects additional near-term tax base growth based on current residential construction activity and appreciation of existing properties.

Sources of Information

In addition to sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from DIVER by Solve.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

FITCH RATINGS ANALYSTS

Brittany Pulley
Director
Primary Rating Analyst
+1 512 813 5652
brittany.pulley@fitchratings.com
Fitch Ratings, Inc.
2600 Via Fortuna, Suite 330 Austin, TX 78746

emmanuelle.lawrence@fitchratings.com

Jose Acosta
Senior Director
Committee Chairperson
+1 512 215 3726
jose.acosta@fitchratings.com

MEDIA CONTACTS

Cristina Bermudez
New York
+1 212 612 7892
cristina.bermudez@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

U.S. Public Finance Local Government Rating Criteria (pub. 02 Apr 2024) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.1.1 (1)

U.S. Local Government Rating Model, v1.2.0 (1)

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Endorsement Policy

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