



Fitch Upgrades Various Arizona Local Govt. GOs Based on Statutory Lien Law

Fitch Ratings-Austin-09 August 2017: Fitch Ratings has upgraded the Fitch-rated general obligation unlimited tax (GO) bonds of the following Arizona local governments as a result of amendments to Arizona Revised Statutes passed by the state legislature earlier this year and signed into law by the governor that became effective Aug. 9, 2017. The legislation does not affect Fitch's Issuer Default Ratings (IDRs) on the governments.

Apache Junction Unified School District No. 43
City of Casa Grande
Deer Valley Unified School District No. 97
Maricopa County Unified School District No. 89-Dysart
Nadaburg Unified School District No. 81 of Maricopa County
Paradise Valley Unified School District No. 69
Pendergast Elementary School District No. 92
City of Peoria
City of Phoenix
Pima County
City of Tolleson
City of Tucson
Tucson Unified School District No. 1
Vistancia Community Facilities District (Peoria)
Yuma County Free Library District

The list of outstanding GO unlimited tax bonds affected by this action is attached.

Based on the provisions of the enacted law, Fitch will provide a two-notch uplift above the IDR for GO bonds issued by any Arizona local government covered by the statutory lien.

KEY RATING DRIVERS

The Arizona legislature in its 2016 and 2017 sessions (52nd and 53rd legislatures) approved amendments to various sections of the Arizona Revised Statutes that provide GO bondholders with a statutory lien on ad valorem taxes of cities, towns, counties, school districts, community college districts and various special districts in the state. Fitch has reviewed the statute and believes it provides bondholders with a substantial preferential right in a bankruptcy proceeding, warranting a GO bond rating up to two notches higher than the entity's IDR. The statutory lien applies only to ad valorem tax revenues and applies both to GO bonds previously issued and to be issued in the future.

The 2017 amendments (HB 2452) were signed into law by the governor in early May and became effective Aug. 9th. Fitch's rating action on these local government GO bonds reflects the additional recovery protections afforded by the statutory lien feature.

RATING SENSITIVITIES

GO BOND RATINGS LINKED TO IDRs

The GO bond rating of these entities is linked to their IDR, and any change in credit quality that affects the IDR will also impact the GO bond rating.

CREDIT PROFILE

STATUTORY LIEN BACKGROUND

As discussed in Fitch's tax-supported rating criteria, a statutory lien is defined in Section 101(53) of the U.S. Code as a lien arising automatically by force of statute on specified circumstances or conditions. The statutory lien preserves bondholder rights to tax revenues securing the tax-backed bond received by the municipality after it enters bankruptcy court.

Although the automatic stay provisions of the Code would not prevent a payment default, the holder of a statutory lien is entitled to recover the value of the lien in the bankruptcy proceeding. The determination of value is not detailed in the Code, but recovery values will be substantially higher than an

unsecured credit that competes with other general claimants for a claim on the municipality's revenues. As a result of the robust protection afforded bondholders benefiting from a statutory lien in a bankruptcy, Fitch rates ULTGO bonds backed by revenues with a statutory lien for bondholders up to two notches higher than the IDR.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

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Additional information is available on www.fitchratings.com

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017)
(<https://www.fitchratings.com/site/re/898466>)

Related Research

Fitch Upgrades Various Arizona Local Govt. GOs Based on Statutory Lien Law (<https://www.fitchratings.com/site/re/902294>)

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