



MEMORANDUM

Date: September 12, 2011

To: The Honorable Chairman and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to read "CHH", is written over the printed name "C.H. Huckelberry".

Re: **Moody's Investment Service Downgrades of State Highway Revenue Bonds**

Attached is an article that appeared in the September 9, 2011 *Arizona Daily Star* indicating a major rating agency, Moody's Investment Service, has downgraded the Arizona Highway Revenue Bonds because of a continual diversion of funding from the Highway User Revenue Fund (HURF) to balance the State budget.

Our issuance of HURF bonds with the County HURF is not exempt from downgrading simply because a major revenue source has been raided by the State Legislature. Our debt, however, has been limited to 15 years or less, and we have been cautious about incurring additional debt, given the economic downturn and the legislative diversion of funds from the HURF.

For this and other reasons, we will be very cautious in issuing any further HURF debt, which may mean continuing delays in the completion of bond authorized HURF projects.

CHH/dph

Attachment

c: John Bernal, Deputy County Administrator for Public Works
Priscilla Cornelio, Director, Transportation
Tom Burke, Director, Finance and Risk Management



Moody's downgrades its rating on state's highway revenue bonds

Howard Fischer Capitol Media Services | Posted: Friday, September 9, 2011 12:00 am

PHOENIX - A major rating agency has downgraded its rating of Arizona's highway revenue bonds because state lawmakers and the governor keep raiding the source of money to repay the debt.

The fallout could be increased borrowing costs, meaning the state will be able to afford fewer roads than before.

Moody's Investors Service said the Arizona Constitution requires proceeds from gasoline taxes and vehicle registration fees go into the Highway User Revenue Fund to be used for transportation-related purposes. Part of the HURF proceeds are, in turn, pledged to repay the debt when the state borrows money for major road construction projects.

Company analysts said the state has developed a habit of finding ways to legally divert some of those funds for purposes other than road construction and maintenance and paying off the debt for major projects, including running the Motor Vehicle Division and paying the salaries of Highway Patrol officers.

Complicating matters is overall gasoline tax revenues have been weak during the recession. The result, the analysts said, is the amount of money coming in to repay any borrowing is not as high as it would like - at least not to maintain the Aaa bond rating for nearly \$1.3 billion in highway revenue bonds. The result is a downgrade to Aa1 for the senior lien bonds, the ones with the highest priority for repayment.

Moody's also dropped its rating for the state's \$330 million in subordinated lien bonds one step, to Aa2.

Gubernatorial press aide Matthew Benson said the move "was not unexpected."

The state has used HURF revenues for DPS expenses for years. But Benson said the governor presumed there would be some kickback from the investment community when, just this past year, it also took \$80 million out of HURF for MVD, freeing up general tax revenues previously used to run the agency to instead pay for other government programs.

Benson said Brewer does not believe the move was a mistake.

"It was among many of the difficult decisions the state had to take," he said.

Benson also said Brewer believes the concerns raised by Moody's can be addressed by "restructuring" the HURF fund. He refused to explain exactly what that might entail.

The downgrade alarmed some in the business community who make a living building roads and other major projects.

"The action by Moody's should send a strong message to the Arizona Legislature that continual raids of transportation funding have serious consequences," Gary Haydon, president of a contracting firm that bears his name, said in a prepared statement. Haydon, part of a coalition of contractors and suppliers organized as We Build Arizona, pegged total diversions for the past 11 years at \$1.4 billion, a figure the coalition said "equates to well over 42,000 jobs in the construction industry that could have been created or maintained."

The Moody's report was not entirely negative. The rating agency said it anticipates no further downgrades as there should be "steady growth" in the tax revenues and vehicle registration fees that fuel HURF as the economy recovers.

Benson also said Standard and Poor's, the other major rating agency, has not disturbed its AAA rating of the state's highway bonds.