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Summary:

**Greater Arizona Development
Authority; General Obligation;
Miscellaneous Tax; State Revolving
Funds/Pools**

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Credit Profile		
US\$27.86 mil Infrastructure rev bnds ser 2008A due 08/01/2039		
<i>Long Term Rating</i>	AA-/Stable	New
Greater Arizona Dev Auth - Infrastructure		
<i>Long Term Rating</i>	AA-/Stable	Upgraded
Greater Arizona Dev Auth infrastructure (MBIA)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
Greater Arizona Dev Auth revolving fd (MBIA)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its rating and underlying rating (SPUR) to 'AA-' from 'A+' on the Greater Arizona Development Authority, Ariz.'s infrastructure revenue and revolving fund bonds. In addition, Standard & Poor's assigned its 'AA-' rating to the authority's \$27.86 million series 2008A infrastructure revenue bonds. The ratings reflect the gradual maturity and demonstrated credit strength of the underlying assets held in trust that secure the bonds -- a pool of 45 municipal loans.

The ratings also reflect:

- A municipal pooled security structure with an open lien;
- The state legislation that requires interception of state disbursed revenues to pay debt service for 34 of 45 pool participants if there is a deficiency;
- The pledge of ad valorem property or excise tax revenues by 42 individual borrowers; and
- A common pledged collateral reserve fund that is available to all borrowers.

With \$22 million in appropriations since 1997, the Arizona Legislature established the authority to issue bonds providing financial assistance for the construction or improvement of infrastructure -- and for the refinancing of obligations used for that purpose -- to political subdivisions, special districts, and Indian tribes.

A pool of municipal revenue- and GO-secured loans provides security for the bonds. While many of the borrowers maintained debt service reserve funds early in the early years of the program, the authority is emphasizing these reserves less in its current approach to managing the pool. More important is the authority's own credit review, a common pledged collateral reserve, and the presence of interceptable state disbursed revenues for a majority of borrowers in the pool.

The authority is issuing the series 2008A bonds to make loans to:

- City of Douglas: Borrowing \$3 million to finance the expansion of city administrative facilities;
- Lake Havasu City: Borrowing \$2.6 million to finance a right-of-way acquisition;
- Pinal County: Borrowing \$4.5 million to finance the expansion of an animal shelter and a county long-term care facility;
- Rio Rico Fire District: Borrowing \$3.8 million to finance the construction of a new fire station;
- City of Safford: Borrowing \$3.1 million to finance the construction of a new substation to address increased electric demand;
- City of Show Low: Borrowing \$3.4 million to finance the construction of a new city library;
- Town of Thatcher: Borrowing \$2.5 million to purchase a building adjacent to the town hall and for the acquisition of the Graham County electric co-op's service area;
- City of Williams: Borrowing \$3.3190 million to complete two road projects; and
- Picture Rocks Fire District: Borrowing \$2.1 million to finance the construction of a new fire station.

An important credit feature to the authority's bond program is that all borrowers in the pool that receive state disbursed revenues can have those revenues intercepted for debt service if there is a deficiency. Historically, all borrowers that receive interceptable revenues have strong maximum annual debt service coverage by these revenues. Interceptable state revenues consists of various sales and income taxes collected by the state and disbursed monthly to municipalities based on population. Since borrowers in the pool are characteristically small but growing, they tend to receive an increasing proportion of formula-based state disbursed revenues. No governmental unit is obligated to make up shortfalls in another unit's loan payments.

As noted, the financing structure includes a pledged collateral reserve that is currently funded at \$8.8 million. This reserve is considered sufficient to meet our required reserve amount for the current rating level, providing a common security for all borrowers. The pledged collateral reserve will increase as additional participants are added to the pool through further debt issuances, and would increase at a faster rate for new participants of a weaker credit quality. With the addition of Lake Havasu, Ariz., into the pool with the series 2005B issuance, the authority introduced concentration with one borrower, although one of strong credit quality. Although there are several other borrowers with outstanding loan balances that are approximately 8% of the total outstanding balance, the remainder of the pool is fairly diverse. Should concentration in Lake Havasu City significantly increase above the original 31.0% -- with this issue it is down to 13.76% (of 2008 debt service) -- it could put negative pressure on the authority's rating.

Outlook

The stable outlook reflects the expectation that the pool structure, including a shared pledged collateral reserve fund and the ability of pledged state disbursed revenues to be intercepted, are sufficient to provide adequate protections for bond security.

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