Rio Nuevo
TUCSON, ARIZONA

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For Immediate Release: "**Moody's assigns Aa3 rating to City of Tucson, Arizona's General Obligation Bonds, 2013**

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Global Credit Research - 29 May 2013

Outstanding G.O. Bonds downgraded to Aa3 from Aa2; outlook revised to stable from negative

New York, May 29, 2013 --

Moody's Rating

Issue: General Obligation Bonds Tax-Exempt Series 2012-A (2013); Rating: Aa3; Sale Amount: $20,000,000; Expected Sale Date: 06-15-2013; Rating Description: General Obligation

Issue: General Obligation Refunding Bonds Taxable /State of Arizona Tax-Exempt Series 2013-B; Rating: Aa3; Sale Amount: $26,670,000; Expected Sale Date: 06-15-2013; Rating Description: General Obligation

Opinion

Moody's Investors Service has assigned a Aa3 rating to the City of Tucson, Arizona's, General Obligation Bonds Tax-Exempt Series 2012-A (2013) and General Obligation Refunding Bonds Federally Taxable/State of Arizona Tax-Exempt Series 2013-B. At this time, Moody's downgrades to Aa3 the rating on the city's $185.3 million in outstanding parity General Obligation Bonds. Moody's also downgrades to A1 from Aa3 the city's Certificates of Participation outstanding in the amount of $252.8 million.

Moody's has also downgraded to A1 from Aa3 the Rio Nuevo Multipurpose Facilities District Certificates, Series 2009 ($12.56 million outstanding) and the Civano Phase 1, Neighborhood 1, District Special Assessment Improvement Bonds ($1.12 million outstanding) to A1 from Aa3.

Proceeds from the current issuance will be used to fund various street and road improvement projects and to refund certain maturities of previously issued general obligation bonds. The current offerings are secured by the City's unlimited property tax pledge.

The outlook on the city's long-term ratings has been revised to stable from negative.

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SUMMARY RATING RATIONALE

The downgrade to Aa3 reflects a still relatively weak financial position compared to Aa-rated cities nationally featuring chronically low general fund cash and reserve levels and above average levels of debt. The Aa3 rating also takes into account the city's large and diverse economy that is in the beginning stages of recovery. The revision of the outlook to stable from negative reflects our view the City will continue its efforts to improve cash and reserve levels albeit at a slow pace. The outlook also takes into account that the city will continue to be challenged to improve its overall financial position given a trend of growing pension and OPEB costs and increased mass transit subsidies.

STRENGTHS

- Long-term economic growth prospects aided by a highly educated workforce, affordable cost of living and low business costs
- State and local consumer-related revenues continue to improve, albeit slowly
- Stabilizing university presence

CHALLENGES

- Relatively low reserve levels combined with a high exposure to economically-sensitive revenues
- Trend of increased mass transit subsidies and costs associated with employee benefits

WHAT COULD MAKE THE RATING GO UP

- Sustained long-term economic growth and diversification
- Long-term improvement in wealth measures
- A formal commitment to higher reserve and cash levels given exposure to economically-sensitive revenues

WHAT COULD MAKE THE RATING GO DOWN

- Weakened financial performance below budgeted expectations
- Ongoing budget imbalances, with no plan for a return to structural balance
- Long-term sustained deterioration of tax base

OUTLOOK

The stable rating outlook primarily reflects Moody's expectation that the city's economic recovery will continue, and eventually match that of the state, which will support both an improved revenue trend and stabilize financial operations.

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The principal methodology used in this rating the general obligation bonds was General Obligation Bonds Issued by US Local Governments published in April 2013. The principal methodology used in this rating the certificate of participation was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.