FITCH RATES BERNALILLO COUNTY, NM GO BONDS 'AAA'; OUTLOOK STABLE

Fitch Ratings-Austin-22 February 2013: Fitch Ratings assigns an 'AAA' rating to the following Bernalillo County, NM (the county) bonds:

--$17.8 million general obligation (GO) bonds, series 2013.

The bonds are expected to sell competitively on Feb. 26, 2013.

In addition, Fitch affirms the following Bernalillo County ratings:

--$100.4 million in outstanding GO bonds at 'AAA';
--$145.4 million in outstanding gross receipts tax (GRT) revenue bonds at 'AA+'.

The Rating Outlook is Stable.

SECURITY:

The GO bonds are secured by an unlimited annual property tax levy on all taxable property within the county. The GRT bonds are secured by the county's 1st 1/8th GRT for general purposes and the county's 2nd 1/8th GRT for general purposes, excepting $1 million annually (at the rate of $83,333 per month) for indigent care.

KEY RATING DRIVERS:

STRONG FINANCIAL PROFILE: The county's financial management is sound, as evidenced by very large reserves, conservative biennial budgets, and attention to out-year financial projections.

SLUGGISH GRT REVENUES: The county's role as New Mexico's principal population center has resulted in a large GRT revenue base. Sparked by the home building bust in 2008, GRT revenues have declined moderately in recent years, although recent trends indicate stabilization of this revenue source.

SOLID GRT COVERAGE: Despite GRT declines, the debt service coverage of the county's GRT revenue bonds remains solid; furthermore, the county does not plan to further leverage this revenue stream.

FAVORABLE DEBT PROFILE: The county's debt profile remains positive, as evidenced by modest debt levels, a rapid GO bond principal payout rate and modest capital plans.

BROAD ECONOMY: The county's economic base is broad but has been slow to recover recessionary employment losses although the unemployment rate remains moderate. The county's recent development into a high-tech hub may aid its recovery while further enhancing economic diversity.

RATING SENSITIVITIES

LARGE DEFENSE INSTALLATIONS POSE VULNERABILITY: The sequestration of federal funds could cause significant job losses given the large presence of military and defense installations. Although Fitch does not expect near-term rating action in the event of sequestration, the resulting financial impact on the county's GRTs could lead to downward rating action on one or both of the county's securities over the next two years

CREDIT PROFILE:

As the state's largest county, population grew a notable 19% from 2000-2010 and currently exceeds 670,000; the increase was spurred in part by the area's recent development as a hub for high technology. The city of Albuquerque comprises about 80% of the county's population.

SLOW EMPLOYMENT RECOVERY

MSA employment losses have been slow to recover from recessionary declines. MSA employment grew by 0.7% in 2012 after posting moderate declines over the four previous years. However, the county's unemployment rate remains moderate, totaling 6.5% in Dec. 2012, on par with the state average and below the U.S. average (8.1%). Recent commercial projects include a new Lowe's customer support center projected to add 900 jobs over two phases.

Fitch notes that the sequestration of federal funding would have a significant impact on the area's large federal installations. The combined workforce of Kirtland Air Force Base, Sandia National Labs, and the U.S. Forest Service exceed 26,000, equal to 7% of the MSA's Dec. 2012 employment base. While Fitch does not expect sequestration to have a near-term rating impact on most U.S. local-governments, Fitch will closely monitor the associated financial impact on those with a major federal presence such as Bernalillo County.

SLUGGISH GRT RECOVERY

The GRT is imposed on businesses upon the sale of goods or services, subject to certain exemptions, making it broader than the typical sales tax. Record high homebuilding activity helped fuel GRT growth that averaged roughly 7% annually from fiscal 2003-2007. However, for fiscal years 2008 - 2010, collections fell by 3% - 4% annually due to the significant contraction in home building activity and the completion of numerous major construction projects. GRT receipts remained sluggish in fiscal years 2011-2012 and year-to-date receipts point to continued slow pace of recovery. Management expects this revenue stream to recover slowly, evidence of a conservative budgeting approach viewed favorably by Fitch.

STRONG DEBT SERVICE COVERAGE OF GRT BONDS

Debt service coverage of the county's GRT revenue bonds remains solid at over 3x maximum annual debt service (MADS) based on audited fiscal 2012 revenues. The GRT bonds' reserve requirements are standard, although its additional bonds test is considered strong--requiring pledged revenues to equal 2x MADS of existing and proposed GRT-secured debt. The county does not plan to further leverage this revenue source.

SUBSTANTIAL FINANCIAL CUSHION

The county's financial profile remains very strong, characterized by large reserves and ample liquidity. Effective fiscal 2012 the county supplemented its state-mandated three month reserve for subsequent year's expenditures with a two-month contingency reserve which Fitch views favorably.

Fiscal 2012's total financial cushion, comprised of its unrestricted fund balance and the three-month reserve, totaled a very high $202 million or 87% of spending. The fiscal 2013 budget, adopted as part of the fiscal 2013 - 2014 biennial budget, is based on conservative property tax and GRT growth assumptions. GRT revenues account for 40% of general fund revenues, exposing the county to economically volatile taxes, but this risk is largely offset by the county's healthy fund balances.

SIGNIFICANT PAY-GO WILL NOT AFFECT FLEXIBILITY
A portion of the county's large reserves will be used to fund $60 million (a high 20% of spending) in board-approved one-time expenditures and capital outlays in fiscal 2013. However, current projections indicate that only about one-half of this amount will be spent by fiscal year end. Although not expected, if the county spent the entire $60 million in pay-go funding, the county's total financial cushion would still equal $142 million or 49% of spending in fiscal 2013 which Fitch still considers strong.

MODEST FUTURE DEBT PLANS

The county maintains a formal capital improvement plan, the local portion of which has been historically financed with voter-approved GO bond authorizations every two years. County voters approved a $20 million authorization in November 2012 by wide approval margins. The GO bonds payout rate is very rapid at 75% in ten years, and the principal payout rate of GRT bonds remains average at 58% in ten years. Including GO bonds and GRT obligations, overall debt levels equal a low $1,870 per capita and a moderate 2.4% of full market value. Fitch notes that the county's debt portfolio is comprise solely of fixed rate bonds.

PENSION FUNDED POSITION BELOW AVERAGE

Full-time county employees participate in the Public Employees Retirement Association of New Mexico Association (PERA), a cost-sharing multiple employer defined benefit pension plan. The county has fully funded its required contributions however, due to investment losses from previous years PERA's funded position (for the municipal general division) has declined to a low Fitch-adjusted 64% as of June 30, 2012. Fitch notes that PERA is proposing contribution rate increases and a new tier of benefits for new hires which Fitch considers prudent.

Other post-employment benefits are provided through the New Mexico Retiree Healthcare Authority which is funded on a pay-as-you-go basis from employer and employee contributions. The carrying costs of GO and GRT bonds plus pension and OPEB obligations totaled 14.8% of spending in fiscal 2012 which Fitch considers moderate.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in the Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, Zillow.com, and National Association of Realtors.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria'(Aug. 14, 2012).