MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa rating to Bernalillo County's (NM) $17.8 million General Obligation Bonds, Series 2013; Outlook remains negative

Global Credit Research - 22 Feb 2013

Aaa rating affects $121.9 million in outstanding parity debt, inclusive of current sale

BERNALILLO (COUNTY OF) NM
Counties
NM

Moody's Rating

ISSUE		RATING
General Obligation Bonds Series 2013		Aaa
Sale Amount	$17,800,000	
Expected Sale Date	02/26/13	
Rating Description	General Obligation	

Moody's Outlook NEG

Opinion

NEW YORK, February 22, 2013 --Moody's Investors Service has assigned a Aaa rating to Bernalillo County's $17.8 million General Obligation Bonds, Series 2013. Moody's affirms the Aaa rating on the county's additional $104.1 million in outstanding parity debt. The outlook remains negative. Proceeds from the current sale will be used to fund various projects around the county, including storm & wastewater, roads, libraries, public safety, and recreational facilities.

SUMMARY RATING RATIONALE

The bonds are secured by a direct and continuing ad valorem tax levied against all taxable property within the county, without limitation as to rate or amount. Assignment of the Aaa rating reflects the county's large and diverse tax base, strong management and historically stable financial operations characterized by ample reserves, and favorable debt profile. The negative outlook reflects the county's indirect linkages to the weakened credit profile of the U.S. government.

STRENGTHS

Sizeable regional economy

Strong financial management practices demonstrated by conservative budgeting and healthy reserves

CHALLENGES

Relatively weak socioeconomic indicators compared to other Aaa ratings

Operating pressures associated with dependence on economically sensitive revenues

DETAILED CREDIT DISCUSSION

ECONOMIC AND POPULATION HUB OF NEW MEXICO

Located in north central New Mexico, Bernalillo County encompasses the entire City of Albuquerque (Aa1 general obligation rating with negative outlook) and is home to approximately one-third of the state's population. The county's population has grown approximately 19% since the 2000 U.S. Census to 662,564 residents recorded in the 2010 U.S. Census. The county's full value increased approximately 3.5% in fiscal 2011 to a sizable $44.9 billion, while fiscal 2012 full value experienced a 2.5% decline to $43.8 billion, derived from an assessed valuation of $14.4 billion. The fiscal 2013 full valuation declined by another 0.4% to $43.6 billion. County officials report the two consecutive years of declines in assessed value are attributable to ongoing residential reevaluations. The recent decline in full value has led to a moderate 2.1% average annual growth rate over the past five years. Management anticipates the tax base will remain stable in the near future.

Significant institutional presence, including the University of New Mexico and Kirtland Air Force Base, supports economic stability. Large private sector employers in the county include Sandia National Laboratories, Intel Corporation, and Hewlett Packard. The October 2012 unemployment rate of 6.2% was above the state (6.0%), but below the nation (7.5%) for the same reporting period. The county exhibits relatively weak socioeconomic wealth indicators in comparison to similarly rated credits. This is measured by both per capita income and median family income (2006-2010 American Community Survey, U.S. Census) that represent 95.6% and 95% of the U.S., respectively.

STRONG FISCAL MANAGEMENT YIELDS HEALTHY RESERVES

The county consistently posted surpluses annually from fiscal 2001 through fiscal 2010, increasing General Fund balance from $38.8 million (36.8% of revenues) at fiscal year-end 2001 to an ample $195 million (84.3% of revenues) at fiscal year-end 2010. Fiscal year 2011 General Fund operations resulted in a deficit of approximately $8.3 million, decreasing General Fund reserves to a still healthy $186.9M or 83.4% of General Fund revenues. The reduction is primarily attributable to a GASB required $9.4 million mark-to-market of investments. Fiscal year 2012 ended with a $14.8 million increase in total General Fund balance due to favorable variances in recurring expenditures as well as gross receipts tax revenues. Moody's notes that $5.4 million of the increase was attributable to the reclassification of smaller special revenue funds, which no longer met the definition of special revenue fund per GASB, being injected into the General Fund. The total General Fund balance of $207.1 million equates to an ample 83.6% of operating revenues. The state requires maintenance of 25% of budgeted expenditures in cash reserve. The fiscal 2012 General Fund balance includes a restricted portion equivalent to $71.1 million at fiscal year-end, which satisfies this requirement. Additionally, the county has $38.9 million assigned for unencumbered carryover, $56.9 million committed for specific purposes, and $36.6 million of unassigned fund balance. The unassigned portion satisfies the county's minimum cash flow contingency fund balance policy of 2/12ths of the prior year operating expenditures. Fiscal 2012 General Fund operating revenues were largely derived from property taxes (46.9%) and gross receipts taxes (37.5%).

The county adopted a recurring operating budget of $229.5 million, with approximately $60.6 million of appropriations for one time expenditures. Management does not anticipate to draw on the General Fund balance by the entire $60.6 million as annual contingencies are included in the budgeted appropriations. Management estimates to use approximately $35 million of General Fund reserves to fund on-time projects including technology upgrades, new vehicle fleets, and infrastructure improvements. A draw of this size would decrease the total General Fund balance to $172.1 million, or a still ample 74.9% of budgeted revenues. We believe that the county's conservative financial practices in prior years has afforded the ability to use excess reserves for one-time capital projects, while still maintaining a healthy reserve position. We believe the county officials will continue to manage finances conservatively and maintain a healthy fund balance over the long term.

MANAGEABLE DEBT PROFILE EXPECTED TO CONTINUE

Inclusive of the current sale, the county's debt burdens are modest at 0.6% direct and 3.1% overall, both expressed as a percentage of fiscal 2013 full value. The debt burdens are inclusive of $142.9 million in GRT debt (Moody's rated Aa2). $6.4 million of the current $17.8 million sale will exhaust the authorized debt from the 2010 bond election. The remaining $11.4 million is part of the county's $20.1 million 2012 election. The remaining $8.7 of the 2012 election will be issued in fiscal 2014. The county plans to run an election cycle every other year for about $18-20 million. Given the favorable rate of amortization (75.9% of principal retired in ten years), we believe the county's debt profile will remain manageable. The county has no exposure to variable rate debt or interest rate derivatives.

OUTLOOK

Moody's negative outlook on Bernalillo County's Aaa rating is due to its indirect linkages to the weakened credit profile of the U.S. government. The negative outlook relates to Moody's August 2, 2011 decision to confirm the Aaa government bond rating of the United States and assign a negative outlook, and to our most recent February 5, 2013 assessment of the county's exposure to indirect linkages to the federal government. Moody's has determined that issuers with indirect linkages, such as Bernalillo County, have some combination of economies that are highly dependent on federal employment and spending, a significant healthcare presence in their economies, have direct healthcare operations, and/or high levels of short-term and puttable debt. After calculating these quantitative metrics, Moody's determined that Bernalillo County had above-average exposure to federal employment and procurement. Please see the special comment from February 5, 2013 entitled "Update: Ratings of Aaa Municipal Credits Indirectly Linked to the US Government" for more information.

WHAT COULD MAKE THE RATING GO UP

*Not applicable

WHAT COULD MAKE THE RATING GO DOWN

*Deterioration of financial reserves

*Change in the US rating that results in pressure on local government Aaa ratings

KEY STATISTICS

2010 Census County Population: 662,564 (+19% since 2000)

FY 2013 Full Value: $43.6 billion

Full Value per Capita: $65,010

Per Capita Income (ACS 2006-2010): 113.8% of NM; 95.6% of U.S.

Median Family Income (ACS 2006-2010): 113.8% of NM; 95% of U.S.

FYE 2012 Total General Fund Balance: $207.1 million (83.6% of General Fund revenues)

Direct Debt Burden: 0.6%

Overall Debt Burden: 3.1%

Payout of General Obligation Principal (10 years): 73.9%

Post-sale Parity Debt Outstanding: $121.9 million

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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.

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