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## Summary:

# Bernalillo County, New Mexico; General Obligation

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## Table Of Contents

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| Credit Profile | | |
|---|---|---|
| US$17.8 mil GO bnds ser 2013 due 08/15/2028 | | |
| *Long Term Rating* | AAA/Stable | New |
| Bernalillo Cnty GO | | |
| *Long Term Rating* | AAA/Stable | Affirmed |

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to Bernalillo County, N.M.'s series 2013 general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AAA' rating, with a stable outlook, on the county's existing GO debt.

The rating reflects what we view as the county's:

- Central role in the state economy;
- Historically relatively stable economy with strong links to the government, defense-related research, health care, and high-tech sectors;
- Strong financial management and consistent maintenance of large general fund balances;
- Relatively low operational funding interdependencies with the federal government; and
- Low overall debt and rapid principal amortization.

Unlimited ad valorem property taxes levied on all taxable property in Bernalillo County secure the bonds. We understand officials intend to use bond proceeds to fund road, storm sewer, public safety, libraries, building and recreation facility projects. The series 2013 issuance is authorized in part by a November 2010 voter-approved bond measure as well as from a $20 million authorization approved by voters in November 2012. We understand the county intends to issue the remaining balance of the 2012 authorization in 2014.

Bernalillo County, with a population of about 671,000, represents about a third of the state population, and serves as New Mexico's commercial center. In November 2012, government employment in the Albuquerque metropolitan statistical area (MSA) accounted for 22% of non-agricultural jobs, with about 6% of county employment in federal or military jobs; leading employers in the MSA include Kirtland Air Force Base and Sandia National Laboratories. Other significant area employers include hospital and medical service providers as well as Intel Corp., University of New Mexico, Albuquerque Public Schools, and the City of Albuquerque. According to IHS Global Insight Inc., Albuquerque MSA employment continued to decline overall through the first three quarters of 2012 and remains somewhat weak in the government, construction, and professional and business services sectors; however, IHS Global Insight forecasts 1%-2% annual job growth in the next few years primarily due to expansions of several area medical centers and hospitals. On the other hand, with potential federal sequestration cuts looming, funding and employment at the military base and national laboratory could be at risk of reductions. According to estimates from the U.S. Bureau of Labor Statistics, unemployment was 6.1% in November 2012, which is just below the state level of 6.2% as well as the national rate of 7.8%. Median household and per capita effective buying incomes are, in our opinion, a good 95% and 98%, respectively, of national averages. The county's 2012 assessed value remained relatively flat compared with 2011, falling only 0.4% to $14.4 billion, or, in our view, a strong market value of $74,600 per capita.

Bernalillo County has historically maintained what we consider very strong general fund reserves above the state-mandated minimum of 25% of expenditures. In addition, the county commission recently approved a policy that requires another 16.7% minimum fund balance above the 25% minimum for a total of 41.7%, which we believe is very strong. In fiscal 2012, the audited general fund balance, excluding the nonspendable portion, was $167 million, or 75% of expenditures. Officials estimate appropriations for specific infrastructure and automation projects in fiscal 2013 is likely to reduce primarily committed fund balances by about $35 million, which we calculate would bring reserves to about 50% of expenditures. Management expects the county could appropriate additional committed fund balances in the future for designated purposes but intends to maintain unassigned and minimum reserves according to its policies and mandates.

Operating revenue primarily includes property and gross receipt taxes (GRT), which accounted for a combined 84% of all general fund revenue in fiscal 2012. Property taxes still comprise the largest revenue source for the county at about 47% of fiscal 2012 revenue. Property tax collection rates within the fiscal year have stabilized in fiscal 2012 at more than 95% of the levy. The fiscal 2013 budgeted GRT is 1% higher than audited fiscal 2012 GRT levels and officials estimate actual collections to date are on track with budget. Federal money the county receives is specific to housing programs or federal grants for specific projects, primarily transportation but the county does not receive federal money for general purposes. County officials project sequestration could reduce grant funding to housing programs, although management expects it would have a minimal budgetary impact.

Within the general fund in fiscal 2013 and fiscal 2014, the county budgeted for metropolitan detention center (MDC) costs of about $58 million per year, or about 25% of general fund expenditures, which included some additional correction officer positions. The county collects a one-eighth of 1% correctional GRT which generates about $20 million annually to support a portion of the MDC's operations and supports the balance of operations with other general county revenue. In addition to the MDC costs in the general fund, the county supports a portion of inmate medical and dental contract costs in its health care tax fund with a portion of the one-sixteenth of 1% health care GRT collections, which generated $10 million in fiscal 2012. We understand county officials intend to control future costs and population at the MDC by focusing on pretrial service programs and social programs to help reduce recidivism. Separately, in addition to two small revenue funds, the county's regional correction center fund was consolidated into the general fund in fiscal 2011 and fiscal 2012 as a result of Governmental Accounting Standards Board 54; the county reports the center is now closed after a contract with the U.S. Marshall Service expired in fiscal 2011.

Standard & Poor's considers Bernalillo County's financial management practices "strong" under its Financial Management Assessment methodology, indicating practices are strong, well embedded, and likely sustainable. Highlights of the county's financial policies include an additional required 2/12th minimum reserve above the state mandated 3/12th reserve in the general fund. In addition to preparing a five-year financial forecast, the county adopts a biennial budget that enhances forward-looking financial planning. Also, the board of county commissioners annually adopts a six-year rolling capital improvement plan and links projects with ongoing operational costs to the operating budget. Bernalillo County has a debt management policy that it plans to revise and update in the near-term. The county also has a formal investment management policy, which is in the process of being revised.

Overall net GO debt, including the new issuance and overlapping debt is low, in our opinion, at about $1,900 per capita, or 2.6% of market value. The annual debt service carrying charge was what we view as a moderate 10.3% of governmental expenditures, less capital outlay in fiscal 2012. We consider debt amortization rapid with 67% of principal retired over 10 years, which accommodates the county's practice of bringing a GO bond election to the voters every two years.

Bernalillo County contributes to the New Mexico Public Employees' Retirement Association plan, as required by state statute, and the New Mexico Retiree Health Care Fund defined health care plan. The county currently contributes 75% of the employee share of the pension contribution in addition to its full employer annual required contribution. The county's combined pension and other postemployment benefit contributions were $16 million, or 4.8% of governmental expenditures, in fiscal 2012. The legislature is in session and considering increasing contribution rates for the pension system, which the county estimates could increase its pension contributions by up to 3%.

## Outlook

The stable outlook reflects Standard & Poor's view of the recent stabilization of the Bernalillo County's general fund revenue and Standard & Poor's opinion that management will likely continue to adjust its budget, as necessary, to maintain structural budgetary balance and meet minimum reserve targets. We don't expect to change the rating in the next two years as we expect management will likely maintain what we consider a very strong financial position despite some planned use of committed balances for designated purposes. While federal employment remains an important component of the local economy, the regional economy is diverse and somewhat stabilized by health care, education, and local government. The rating could come under pressure if a substantial cutback in federal spending were to result in a significant regional economic slowdown that has an effect on the tax base.

## Related Criteria And Research

- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011
- USPF Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: USPF Criteria: Financial Management Assessment, June 27, 2006

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.