

# MOODY'S INVESTORS SERVICE

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April 22, 2014

Teresa Byrd  
BERNALILLO (COUNTY OF) NM  
One Civic Plaza, N.W., Suite 10111  
Albuquerque, NM 87102

Dear Teresa Byrd :

We wish to inform you that on April 17, 2014, Moody's Investors Service reviewed and assigned a rating of

- Aaa to BERNALILLO (COUNTY OF) NM, General Obligation Refunding Bonds, Series 2014A
- Aaa to BERNALILLO (COUNTY OF) NM, General Obligation Improvement Bonds, Series 2014

In assigning such rating, Moody's has relied upon the truth, accuracy and completeness of the information supplied by you or on your behalf to Moody's. Moody's expects that you will, on an ongoing basis, continue to provide Moody's with updated information necessary for the purposes of monitoring the rating, including current financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

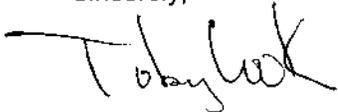
The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's Rating Desk.

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Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, John Nichols at 214-979-6851.

Sincerely,



Toby Cook  
VP-Senior Analyst/Manager

cc: Mr. Paul Cassidy  
RBC Capital Markets  
6301 Uptown Blvd., NE Suite 110  
Albuquerque, NM 87110

# MOODY'S

## INVESTORS SERVICE

### New Issue: Moody's assigns Aaa rating to Bernalillo County's, NM \$11.9M GO Bonds, Series 2014 & 2014A; Outlook is stable

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Global Credit Research - 17 Apr 2014

#### Aaa rating affects \$124.9 M in rated debt, inclusive of current offerings

BERNALILLO (COUNTY OF) NM  
Counties  
NM

#### Moody's Rating

ISSUE	RATING
General Obligation Improvement Bonds, Series 2014	Aaa
<b>Sale Amount</b>	\$8,700,000
<b>Expected Sale Date</b>	04/21/14
<b>Rating Description</b>	General Obligation
General Obligation Refunding Bonds, Series 2014A	Aaa
<b>Sale Amount</b>	\$3,155,000
<b>Expected Sale Date</b>	04/21/14
<b>Rating Description</b>	General Obligation

#### Moody's Outlook STA

#### Opinion

NEW YORK, April 17, 2014 --Moody's Investors Service has assigned a Aaa rating to Bernalillo County's \$8.7 million General Obligation Improvement Bonds, Series 2014 and \$3.15 million General Obligation Refunding Bonds, Series 2014A. Moody's affirms the Aaa rating on the county's outstanding parity debt. The outlook remains stable. Proceeds from the Series 2014 sale will be used to fund various projects around the county, including storm and wastewater, roads, and libraries. The Series 2014A bonds will be used to refund the county's Series 2004 bonds for an estimated net present value savings.

#### 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 tax base that serves as the economic engine of the state, the economic stability offered by institutional presences, ample reserve levels, and a favorable debt profile. The stable outlook reflects the slow but positive recovery of the local economy, anticipated maintenance of ample reserves over the medium term, as well as the improved investment policy and internal controls recently implemented.

#### STRENGTHS

- Large and diverse tax base that serves as the economic engine for the state of New Mexico
- Ample financial reserves
- Favorable debt profile

#### CHALLENGES

-Tepid economic recovery, moderate reliance on GRT revenues

-Recent losses on investment portfolio due to weaknesses with prior internal controls

#### DETAILED CREDIT DISCUSSION

##### SIZEABLE TAX BASE; REGIONALLY IMPORTANT ECONOMY

We believe the county's property tax base will continue to experience modest near-term growth given the county's regional importance to the economy. Located in north central New Mexico, Bernalillo County encompasses the entire City of Albuquerque (Moody's GO rated Aa1/Stable 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 tax base growth has slowed to a limited 0.7% average annual rate between fiscal years 2009 and 2014. Taxable values declined a modest 0.4% in fiscal 2013 to \$14.4 billion, derived from a full value of \$43.5 billion. Management attributes the decline to a softening of commercial values. Expansion resumed in fiscal 2014 with a 0.8% increase in taxable values to reach \$14.5 billion, derived from a full value of \$43.9 billion. Management anticipates the tax base will remain stable in the near future.

Major employers in the Albuquerque/Bernalillo County MSA include the University of New Mexico, Kirtland Air Force Base, and Sandia National Laboratories. The institutional presence provided by these entities has historically been a stabilizing factor for the local economy. We note that potential federal spending cuts could erode the county's modest economic gains, by slowing housing development and impacting gross receipts tax revenues. Healthcare and high-tech industries also have significant presence in the employment base. Favorably, the county's January unemployment rate of 6.9% was essentially aligned with the state (6.9%) and nation (7.0%) for the same time period. Resident wealth levels are modest with per capita income and median family income (from 2010 American Community Survey) approximating 95.8% and 96.4% of national levels, respectively.

##### AMPLE FINANCIAL RESERVES DESPITE INVESTMENT PORTFOLIO LOSSES

The county consistently posted annual surpluses 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 that were injected into the General Fund. The fiscal 2012 year-end total General Fund balance of \$207.1 million equated to an ample 83.6% of operating revenues. Fiscal 2013 ended with a notable \$26.1 million reduction in reserves after a \$14.2 million mark-to-market loss of investments and \$11.8 million of one-time capital related expenditures. Despite the loss and use of reserves, the total General Fund balance of \$180.9 million remained a strong 77.6% of General Fund revenues. We note that the state requires maintenance of 25% of budgeted expenditures in cash reserve. The fiscal 2013 General Fund balance includes a restricted portion equivalent to \$69.5 million at fiscal year-end, which satisfies this requirement. Additionally, the county has \$29.9 million assigned for unencumbered carryover, \$43.3 million committed for specific purposes, and \$35.8 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 2013 General Fund operating revenues were largely derived from property taxes (51.6%) and gross receipts taxes (41.3%).

The county adopted a recurring operating budget of \$237.3 million, with approximately \$15.7 million of appropriations for one time expenditures. Management anticipates a larger decline in reserves of \$31.6 million after a \$17.1 million loss related to the county's investment portfolio restructuring and \$14.5 million worth of one-time capital related purchases. The decline would decrease the county's total General Fund balance to \$161.9 million, or a still ample 68.2% of budgeted revenues. We note that the portfolio losses are an indication of weak internal control, but recent actions have been taken to significantly reduce the portfolio's interest rate risk. Prior to the adoption of a new investment policy on April 1st, 2014, the county was investing in securities with no stated maximum on maturities, no diversification parameters, and only focused on yield and credit risk. This led to an investment portfolio that was heavily weighted in long term federal treasury and agency notes. The portfolio's duration of 8.2 years and average maturity of 11.4 years opened the county up to significant interest rate risk. The adoption of the county's new investment policy now limits security purchases with a maturity of five years or less, sets diversification limits, and states that the portfolio has to maintain a highly liquid portion equal to 15% of the county's operating budget. On April 9th, 2014, the county, with the help of their investment advisor, liquidated the

portfolio's holdings in order to start the restricting process to adhere to the new investment policy. The liquidation resulted in a \$17.1 million realized loss portfolio loss, or a 6.5% decline in value. Over the next few weeks, security purchases will be made in order to hit the target duration of two years. These recent actions are expected to eliminate future mark-to-market reversions in the General Fund, improve transparency of treasury operations, and provide safety and liquidity to the sizeable investment portfolio. Moody's also notes that the county is currently undergoing a special audit requested by the state auditor due to weak internal controls. The special audit will examine prior investment portfolio transactions to ensure that laws, rules, and regulations were followed. Findings from the special audit are not expected to impact the county's finances, but will strengthen internal controls and transparency. Despite the unfavorable portfolio losses and weak internal controls, we believe the county will maintain sound financial operations with ample reserves in the near term given the adoption of the new investment policy as well as the existing formal reserve policies.

## MANAGEABLE DEBT PROFILE

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 \$137.2 million in GRT debt (Moody's rated Aa2). The current \$8.7 million new money issuance will exhaust the authorized debt from the county's 2012 bond election. The county plans to return to voter in the near term to authorize \$27.5 million in general obligation debt, which would be issued in fiscal 2015. The county plans to run an election cycle every other year for about \$26 million. Given the favorable rate of amortization (75.4% 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.

Moody's adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data, is \$882.5 million, or an elevated 3.05 times' operating revenues (General Fund and Debt Service Fund), compared to less than 1 times' on average in the sector. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace Bernalillo County's reported liability information, but to improve comparability with other rated entities. We determined Bernalillo County's share of liability for the state-run PERA in proportion to its contributions to the plan.

For more information on Moody's insights on employee pensions and the related credit impact on companies, governments, and other entities across the globe please visit Moody's on Pensions at [www.moodys.com/pensions](http://www.moodys.com/pensions)

## OUTLOOK

The outlook for Bernalillo County is stable, reflecting the slow but positive economic recovery, anticipated maintenance of ample reserves over the medium term, as well as the improved investment policy and internal controls recently implemented. Moody's still notes that the county's concentration in federal employment and procurement could be negatively impacted by federal spending reductions, which could erode economic stability and impact gross receipts tax collections. Future rating actions will assess the county's economic stability as well as management's ability to structurally balance operations.

## WHAT COULD CHANGE THE RATING UP

\*Not applicable

## WHAT COULD CHANGE THE RATING DOWN

\*Trend of imbalanced operations with deterioration of financial reserves

\*Weakening of the county's economic base or gross receipts tax collections

\*Weak internal controls persist after implementation of new investment policy

## KEY STATISTICS

Assessed Value (Full Value), Fiscal 2014: \$43.9 billion

Assessed Value (Full Value) Per Capita, Fiscal 2014: \$65,263

Median Family Income as % of US Median (2012 American Community Survey): 96.4%

Fund Balance as % of Revenues, Fiscal 2013: 73.56%

5-Year Dollar Change in Fund Balance as % of Revenues: 4.36%

Cash Balance as % of Revenues, Fiscal 2013: 71.19%

5-Year Dollar Change in Cash Balance as % of Revenues: -2.15%

Institutional Framework: "A"

5-Year Average Operating Revenues / Operating Expenditures: 0.99x

Net Direct Debt as % of Assessed Value: 0.60%

Net Direct Debt / Operating Revenues: 1.05x

3-Year Average ANPL as % of Assessed Value: 1.22%

3-Year Average ANPL / Operating Revenues: 1.99x

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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