FitchRatings

Public Finance
Tax-Supported
U.S.A

Bernalillo County, New Mexico

Ratings

Long Term Issuer Default Rating	AAA

New Issue

$8,375,000 General Obligation Bonds, Series 2020	AAA

Outstanding Debt

General Obligation Bonds	AAA
Gross Receipts Tax Revenue Bonds	AA+

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (January 2020)

Related Research

Fitch Rates Bernalillo County, NM $8MM GO Bonds 'AAA'; Outlook Stable (Jan. 2020)

New Issue Summary

Sale Date: Competitive sale on Feb. 11, 2020
Series: $8,375,000 General Obligation (GO) Bonds, Series 2020
Purpose: Finance various public improvements.
Security: Annual unlimited property tax levy.

The 'AAA' IDR and GO ratings are based on the county's ample revenue-raising flexibility, solid expenditure flexibility, low liability burden, and exceptionally strong financial resilience through economic downturns.

The 'AA+' GRT bond rating reflects ample resilience to revenue declines and limited future leveraging plans balanced against sluggish revenue growth prospects. The rating on the GRT revenue bonds is capped at the county's IDR.

Economic Resource Base: Bernalillo County is the largest county in New Mexico and is the home to about one-third (estimated at about 677,000) of the state's population. The county's population grew by a notable 19% from 2000-2010, spurred in part by the area's recent development as a technology hub. Recent population growth trends have dipped below the U.S. average. The city of Albuquerque comprises about 80% of the county's population.

Key Rating Drivers

Revenue Framework: 'aa': Fitch expects that the long-term pace of revenue growth will approximate the rate of inflation as population and economic growth resume. Property tax revenue-raising flexibility is ample.

Expenditure Framework: 'aa': Fitch expects the pace of expenditure growth to be above natural revenue growth. Expenditure flexibility is aided by prudent budgeting, annual pay-go capital outlays, and moderate carrying costs for debt service and retiree benefits.

Long-Term Liability Burden: 'aaa': The combined overall debt and net pension liability burden is low relative to personal income. Overlapping debt issuance, which comprises the majority of the liability, may increase the overall liability burden, but Fitch expects it to remain low.

Operating Performance: 'aaa': The combination of revenue and expenditure flexibility, supplemented by reserve funding, should enable the maintenance of a high level of financial flexibility throughout economic cycles.

Rating Sensitivities

Revenue Growth Trends: The 'AAA' IDR would come under pressure if revenue growth trends do not meet Fitch's expectations of keeping up with inflation.

Pledged Revenue Declines: Large and sustained GRT revenue declines, beyond the range of historical experience and Fitch's expectations, could pressure the GRT revenue bond rating, as could substantially higher-than-expected leverage.

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Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	1/28/20
AAA	Affirmed	Stable	4/21/14
AAA	Affirmed	Negative[a]	2/18/14
AAA	Revised	Stable	4/30/10
AA+	Assigned	Stable	10/07/04

[a]Rating Watch

Credit Profile

The broad-based economy is led by the government, healthcare/education, and trade/transportation/utilities sectors. Key federal installations include Kirtland Air Force Base and Sandia National Laboratories (SNL) at which troop strength and direct jobs account for about 5% of the MSA's employment base. SNL has helped attract a highly educated workforce to the area, but is vulnerable to federal budget restrictions and shifts in defense spending priorities. Fitch expects the magnitude of any potential cuts to the military installations to be tempered due to their unique role in maintaining the country's nuclear assets.

The area's high-tech hub includes firms engaged in microelectronics (Intel, Raytheon) and aerospace (Boeing and Honeywell Aerospace). Intel's workforce in nearby Rio Rancho (IDR 'AA') has declined to 1,900 from 3,300 since 2013, although a recent addition of 300 positions indicates renewed investment in the plant. The film industry in the area has grown to four major studios, one of which was recently purchased by Netflix.

The area's recovery from the last economic downturn has been tepid. Employment gains have been modest and the unemployment rate has exceeded the U.S. average. Median home values rose by 6.3% to $212,031 in December 2019 from a year prior according to Zillow.com - but remain below their 2007 peak, as do building permits. IHS Markit anticipates population growth will accelerate in the future along with payroll gains. A growing retiree population is expected to make health care a leading employment sector in the medium-to-long term.

Revenue Framework

GRTs and property taxes account for nearly equal proportions of total general fund revenues in fiscal 2019, comprising 48% and 42% of revenues, respectively. As of fiscal 2018, GRTs surpassed property taxes as the largest revenue source due to the adoption of additional GRT increments.

Adjusted for property tax and GRT policy changes, the 10-year CAGR of total general fund revenues through fiscal 2019 was below inflation at 1.2%, although numerous one-time revenue losses make a clear view of historical trends difficult. Fitch expects the county's long-term revenue growth to approximate the level of inflation based on an anticipated return of population and economic growth.

The county retains ample revenue flexibility in the form of 1.10 mills in remaining property tax margin, which it can impose without a voter referendum. The additional revenue from the unutilized property tax totals $18 million or 5.6% of fiscal 2019 revenues, assuming a collection rate of 94%.

In fiscal 2016, the state began a 15-year phase-out of its hold-harmless payments to municipalities for the exemption of food and medicine from the GRT. The hold-harmless reduction totaled $2.5 million (0.8% of fiscal 2019 general fund revenues) for the county in fiscal 2019, and is projected to grow to $19.9 million (6.2% of revenues) by fiscal 2030. To offset these reductions, the state authorized municipalities to impose additional GRTs up to 3/8th of 1%. The hold-harmless GRTs, in 1/8% increments, can be imposed through ordinance only and are not subject to referendum.

After imposing two 1/8% hold-harmless GRT increments in fiscal 2016 (one of which is collected in the behavioral health special revenue fund), the fiscal 2018 budget imposed the last remaining 1/8% hold-harmless increment, effective July 1, 2017. Concurrently, the county imposed the last remaining 1/16% GRT increment for public safety purposes. The aggregate revenue increase to the general fund in fiscal 2018 totaled approximately $25 million or 8% of revenues).

Expenditure Framework

Public safety comprised 55% of general fund expenditures in fiscal 2019. General government, public works, and culture and recreation are the other major areas of expenditures.

The pace of spending growth absent policy actions is likely to be above the natural pace of revenue growth. Recent county jail reforms that have reduced overcrowding and stabilized operational costs, if sustained over the long-term, may serve to better align expenditure and revenue growth.

Expenditure flexibility is derived from the county's moderate carrying costs for debt service, pension, and OPEB, which totaled approximately 14% in fiscal 2019. Additional flexibility is provided by the county's annual pay-go capital spending, averaging 2% of spending per year, which can be reduced, deferred, or eliminated. A relatively high 55% of the county's workforce is represented by seven labor unions. Management maintains a large degree of control over headcount, but wages and benefits are negotiated through collective bargaining agreements that are typically structured with two-year terms. The county and the labor unions are subject to binding arbitration in the event of an impasse.

Long-Term Liability Burden

The county's long-term liability burden, including overall debt and net pension liability, is low at approximately 6% of personal income. The large majority of the overall burden consists of overlapping debt.

Aggregate direct GO and GRT debt totals $250 million and the 10-year amortization rate is rapid at 80% due to the county's policy to structure GO bond principal payments level year-to-year. Future direct debt issuance plans are manageable, with the county planning to hold biennial GO bond elections for about $39 million. The county currently does not have plans to further leverage the GRT with additional bonds.

Full-time county employees participate in the Public Employees Retirement Association (PERA) of New Mexico, a cost-sharing multiple employer defined benefit pension plan. PERA reforms effective in 2013 increased contribution rates and established a new tier of benefits for new hires. Based on Fitch's 6% rate of return assumption, the county's assets-to-liabilities ratio is equal to approximately 60%. The county funds its actuarially-determined pension contribution, and the Fitch-adjusted net pension liability totals approximately $472 million or 1.6% of personal income.

Operating Performance

The county's high gap-closing capacity is derived from a combination of revenue and expenditure flexibility and ample reserve levels. Prudent budgeting has allowed the county to maintain a reserve safety margin well above the 25% of spending required by the state, which is far above the reserve safety margin needed to achieve a 'aaa' financial resilience assessment given expected modest revenue volatility.

Financial reserves remained ample relative to expected revenue volatility despite sizable drawdowns in fiscal 2013-2015 for one-time capital outlays and elevated public safety spending related to the county's overcrowded detention center. Enhanced revenues and stabilized detention center spending allowed the county to restore structural balance by fiscal 2016. The fiscal 2019 audit posted a large $33.7 million (11.7% of spending) net operating surplus due to greater than budgeted GRT receipts and lower than budgeted pay-go capital outlays. The resulting financial cushion comprised of the unrestricted fund balance and the state-required 25% restricted reserve totaled approximately $210 million or 73% of spending. Management projects a $56 million (15.4% of spending) use of fund balance in fiscal 2020 due primarily to the use of funds encumbered in fiscal 2019 for the completion of the new county administration building. As budgeted, the drawdown would reduce the available fund balance to a still high 64% although the county typically outperforms its projections. The county's five-year forecast projects balanced operations based on modest annual gains in GRT and property taxes.

Dedicated Tax Key Rating Drivers

In fiscal years 2016 and 2018, pledged revenues were boosted with additional 1/8% GRT increments, significantly enhancing the revenue base. Natural growth has been sluggish, but Fitch expects pledged revenues will expand in the long run at approximately the rate of inflation as population and economic growth resumes.

The fiscal 2016 and 2018 expansions of the basket of pledged revenues further enhanced already strong coverage of maximum annual debt service (MADS). The structure provides ample resilience to large declines in pledged revenues based on current MADS. Outstanding GRT bonds mature rapidly and the county's plans to further leverage the pledged revenues are limited.

Dedicated Tax Credit Profile

The bonds are payable from the county's first 1/8% GRT for general purposes, the county's second 1/8% GRT for general purposes, excepting $1 million annually for indigent care ($83,333 per month) and the county's first and third hold-harmless 1/8% GRT.

Pledged revenues exhibited compounded annual growth of a modest 1.4% for the 10-year period through fiscal 2019 due to uneven performance within the county's employment sectors. However, Fitch expects the long-term trajectory of pledged revenues to trend closer to the rate of inflation as population growth and economic expansion resume.

Legal provisions provide strong bondholder protections in the form of a 2x MADS additional bonds test (ABT) based on historical revenues. After debt service payments on the bonds, GRT revenues are used by the county for general operations.

To evaluate the sensitivity of the dedicated revenue stream to cyclical decline, Fitch considers both the revenue sensitivity results (using the same 1% decline in national GDP scenario that supports assessments in the IDR framework) and the largest decline in revenue over the period covered by the sensitivity analysis. Based on the county's 10-year revenue history, Fitch's analytical stress tool (FAST) generates a 3.2% scenario decline in revenue. The largest actual cumulative decline in historical revenue is a 9.8% decline in fiscal years 2009-2010.

Fiscal 2019 pledged revenues of $91.4 million cover MADS of $15.9 million by 5.8x. Limited leveraging plans and the county's reliance on excess GRTs for operations leads Fitch to expect coverage well above the ABT of 2x. Fitch estimates that the structure could tolerate an 83% drop in pledged revenues before MADS coverage reaches 1.0x, given limited leverage expectations. The 83% decline is equivalent to 26x the scenario results and 8.5x the largest actual revenue decline in the review period, a high level of resilience.

Exposure to Issuer Operations

Fitch does not view the pledged sales taxes as special revenues under section 902(2)(B) of the bankruptcy code, which defines 'special excise taxes imposed on particular activities or transactions' as special revenues. As a result, the rating on the GRT revenue bonds is capped at the county's IDR.

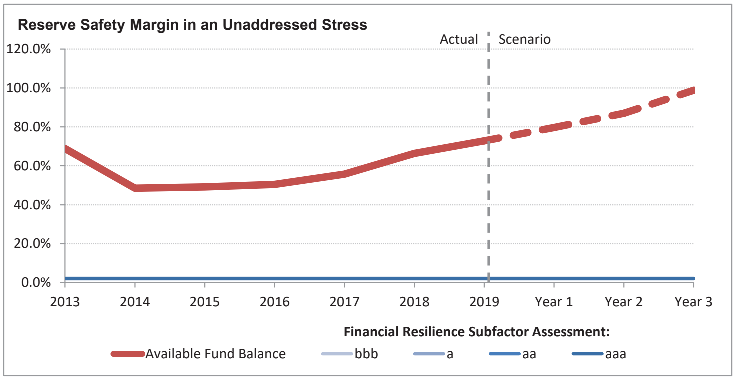
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of ‘3’ - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Bernalillo County (NM)

Scenario Analysis



Analyst Interpretation of Scenario Results:

Based on historical results, Fitch expects a moderate economic downturn would result in a modest decline in general fund revenues in the first year of a downturn, followed by a prompt rebound. Fitch would expect the county's financial position to remain solid throughout the economic cycle.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.1%)	2.6%	6.3%
Inherent Budget Flexibility		Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2013	2014	2015	2016	2017	2018	2019	Year 1	Year 2	Year 3
Total Revenues	232,490	234,552	244,283	258,483	261,928	301,886	319,881	316,292	324,506	345,002
% Change in Revenues	-	0.9%	4.1%	5.8%	1.3%	15.3%	6.0%	(1.1%)	2.6%	6.3%
Total Expenditures	248,856	258,700	242,537	241,003	239,737	254,661	275,437	280,946	286,565	292,296
% Change in Expenditures	-	4.0%	(6.2%)	(0.6%)	(0.5%)	6.2%	8.2%	2.0%	2.0%	2.0%
Transfers In and Other Sources	693	328	817	68	140	242	1,593	1,575	1,616	1,718
Transfers Out and Other Uses	10,403	17,960	13,108	12,650	10,864	11,108	12,387	12,634	12,887	13,145
Net Transfers	(9,710)	(17,632)	(12,291)	(12,581)	(10,723)	(10,866)	(10,794)	(11,059)	(11,271)	(11,427)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	(26,076)	(41,780)	(10,545)	4,899	11,467	36,359	33,650	24,287	26,670	41,279
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	(10.1%)	(15.1%)	(4.1%)	1.9%	4.6%	13.7%	11.7%	8.3%	8.9%	13.5%
Unrestricted/Unreserved Fund Balance (General Fund)	109,073	64,999	58,707	56,661	61,773	91,432	117,600	141,887	168,557	209,836
Other Available Funds (GF + Non-GF)	69,463	69,344	66,940	71,405	77,908	84,912	91,947	91,947	91,947	91,947
Combined Available Funds Balance (GF + Other Available Funds)	178,536	134,343	125,647	128,066	139,681	176,344	209,547	233,834	260,504	301,782
Combined Available Fund Bal. (% of Expend. and Transfers Out)	68.9%	48.6%	49.1%	50.5%	55.7%	66.4%	72.8%	79.6%	87.0%	98.8%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	18.0%	9.0%	5.6%	3.4%	2.2%
Reserve Safety Margin (aa)	13.5%	6.7%	4.5%	2.8%	2.0%
Reserve Safety Margin (a)	9.0%	4.5%	2.8%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.4%	2.2%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.