

FITCH RATES \$19MM BERNALILLO COUNTY, NM GO BONDS 'AAA'; OUTLOOK STABLE

Fitch Ratings-Austin-14 February 2017: Fitch Ratings has assigned a 'AAA' rating to the following Bernalillo County bonds:

--\$19.3 million general obligation (GO) bonds, series 2017.

Fitch also has affirmed the following ratings:

--The county's Issuer Default Rating (IDR) at 'AAA';

--\$108 million GO bonds at 'AAA';

--\$108 million gross receipts tax (GRT) revenue bonds at 'AA+'.

The Rating Outlook is Stable.

The series 2017 bonds are scheduled to sell competitively on Feb. 21. The bond proceeds will be used to finance various public improvements.

SECURITY

The GO bonds are payable from an annual unlimited property tax levy.

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

KEY RATING DRIVERS

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

The 'AA+' GRT bond rating reflects the positive pledged revenue growth prospects and ample resilience to revenue declines.

Economic Resource Base

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

Revenue Framework: 'aaa' factor assessment

The pace of revenue growth will likely modestly exceed US GDP due to ongoing albeit uneven economic expansion. Gross receipts tax revenue-raising flexibility is ample.

Expenditure Framework: 'aa' factor assessment

Fitch expects the pace of expenditure growth to generally track revenue gains. 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' factor assessment

The combined overall debt and unfunded pension liability burden is modest at about 6% of personal income. Overlapping debt comprises the majority of the liability. Overlapping debt issuances may increase the overall liability burden, but Fitch expects it to remain low.

Operating Performance: 'aaa' factor assessment

The combination of revenue and expenditure flexibility, supplemented by reserve funding, should enable the maintenance of a high level of financial flexibility during cyclical downturns.

RATING SENSITIVITIES

Shift in Fundamentals: The IDR rating is sensitive to material changes in the county's strong revenue growth prospects, expenditure flexibility, and solid financial position, which Fitch expects the county to maintain throughout economic cycles.

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.

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) in which troop strength and direct jobs account for a manageable 5% of the MSA's employment base. SNL has attracted a highly educated workforce to the area but it's vulnerable to budget restrictions and shifts in defense spending priorities. The magnitude of any potential cuts to the military installations may be tempered by 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 Eclipse Aerospace). Intel's workforce in nearby Rio Rancho (IDR of 'AA') has declined to 1,900 from 3,300 since 2013. Plans are underway for a \$600 million replacement of the University of New Mexico Hospital, located in the county, which is scheduled to start construction in 2017.

The area's recovery from the last economic downturn has been tepid. Employment gains have been stagnant, but the unemployment rate remains in line with the U.S. average. Median home values - \$184,200 in 2017 - continue to rise moderately but remain below their peak in 2007, as are building permits.

Revenue Framework

Property taxes and gross receipts taxes account for nearly equal proportions of total general fund revenues in fiscal 2016, comprising 48% and 44% of revenues, respectively. In fiscal 2016, the county imposed a net 1/16% GRT for general purposes, equal to about 3.4% of general fund revenues.

Total general fund revenues grew by a CAGR of 3.8% for the 10-year period ending fiscal 2015, a rate in excess of US GDP growth, including the impact of tax policy changes. Fitch expects the county's revenue growth to remain modestly above U.S. GDP due to continued but uneven economic expansion.

The county retains ample revenue flexibility in the form of two local-option municipal GRTs, which it can impose without a voter referendum. The aggregate additional revenue from the unutilized 1/8% and 1/16% GRTs totals \$31 million or 12% of fiscal 2016 revenues.

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 \$514,000 (0.2% of spending) for the county in fiscal 2016, growing to a projected \$10 million by fiscal 2031. 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.

In fiscal 2016, the county imposed a 1/8% hold-harmless GRT for general purposes and a 1/8% hold-harmless GRT for behavioral health services. Concurrently, the county repealed a 1/16% GRT for general purposes. The net revenue increase to the general fund in the fiscal 2016 totaled \$10 million (3.9% of general fund revenues), substantially greater than that year's hold-harmless reduction.

Expenditure Framework

Public safety comprised 57% of general fund expenditures in fiscal 2016. 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 generally in line with revenue growth, aided by the recent county jail reforms that have reduced overcrowding and stabilized operational costs.

Expenditure flexibility is derived from the county's moderate carrying costs for debt service, pension, and OPEB which totaled 13.9% in fiscal 2016. 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 high 60% 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 labor contracts. Management can ultimately impose its terms after following a structured framework in the event of an impasse. The terms of the labor contracts are typically one to two years.

Long-Term Liability Burden

The county's long-term liability burden, comprised of overall debt and net pension liability, is modest at approximately 6% of personal income. The large majority of the overall burden is comprised of overlapping debt. The 10-year amortization rate for the county's GO and GRT revenue bonds is rapid at 83% given the county's long-term goal to structure its debt with level principal payments.

The direct debt burden is \$234 million. Future direct debt issuance plans are manageable. The county's practice is to hold biennial GO bond elections for about \$36 million - \$40 million. The county also plans to issue up to \$23 million in GRT revenue bonds to reimburse the county for the planned purchase of a new office building; this will allow the consolidation of its 1,100 administrative employees from various locations.

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. The county funds its actuarially-determined pension contribution, and the unfunded pension liability is moderate at approximately \$289 million (adjusted to reflect a 7% rate of return assumption) or 1% of personal income.

Operating Performance

The county's strong financial resilience 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.

Financial reserves remained large 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 in fiscal 2016 as evidenced by a \$4.9 million (1.9% of spending) net operating surplus. The resulting financial cushion, comprised of the unrestricted fund balance and the state-required 25% restricted reserve, totaled a large \$128 million or 51% of spending. The 2017 budget is balanced and expected to further add to reserves due to greater than budgeted GRT revenues and continued cost controls.

GRT Bonds

Debt service on the GRT revenue bonds is paid from the county's first 1/8% GRT for general purposes and the county's second 1/8% GRT for general purposes, excepting \$1 million annually for indigent care. Effective fiscal 2016, the county enhanced the basket of pledged revenues with the addition of the first hold-harmless 1/8% GRT (\$16.5 million or a 37.5% increase).

Pledged revenues exhibited compounded annual growth of a modest 1.2% for the 10-year period through 2016 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 five-year CAGR of 2.4%, a rate below US GDP but above inflation, due to its position as a Sun Belt economy that is projected to experience accelerated population growth and economic expansion.

Legal provisions provide strong bondholder protections in the form of a 2x MADS 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 sensitivity tool (FAST) generates a 3.7% scenario decline in revenue. The largest actual cumulative decline in historical revenue is a 9.9% decline in fiscal years 2009-2010.

Fiscal 2016 pledged revenues of \$60.6 million cover MADS of \$15.1 million by a high 4x. Although the county plans to issue up to \$23 million of GRT bonds in 2017, MADS is not expected to climb materially higher as management's goal is to wrap any new debt around existing debt. Fitch estimates that the structure could tolerate a large 75% drop in AV before MADS coverage reaches 1.0x. The 75% decline is equivalent to a high 20x the scenario results and 7.6x the largest actual revenue decline in the review period.

Contact:

Primary Analyst

Jose Acosta

Senior Director

+1-512-215-3726

Fitch Ratings, Inc.

111 Congress Avenue

Austin, TX 78701

Secondary Analyst
Shane Sellstrom
Associate Director
+1-512-215-3727

Committee Chairperson
Laura Porter
Managing Director
+1-212-908-0575

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email:
elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
<https://www.fitchratings.com/site/re/879478>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001