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Ratings

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Summary:

Bernalillo County, New Mexico; Sales Tax

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Credit Profile		
US$31.74 mil gross receipts tax rev bnds ser 2017 A due 06/15/2037		
Long Term Rating	AAA/Stable	New
US$11.13 mil gross receipts tax rev bnds ser 2017B due 06/15/2042		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Bernalillo County, N.M.'s 2017 series A and B gross receipts tax (GRT) revenue bonds. At the same time, we affirmed our 'AAA' rating on the county's outstanding GRT debt. The outlook is stable.

The county's GRT bonds are eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign--Corporate and Government Ratings: Methodology And Assumptions," published Nov. 19, 2013 on RatingsDirect, U.S. local governments are considered to have moderate sensitivity to country risk. The county's locally derived revenues are the source of security for the bonds, and the institutional framework in the U.S. is predictable with significant U.S. local government autonomy. In a potential sovereign default scenario, U.S. local governments would maintain financial flexibility through the ability to continue collecting locally derived revenues and U.S. local governments have independent treasury management.

The series 2017 A and B bonds are special limited obligations, secured by an irrevocable first lien upon the first and second one-eighth of 1% county GRT, net of $1 million dedicated annually for indigent care, and the one-fourth of 1% county hold harmless GRT, which are imposed by Bernalillo County but are collected and remitted monthly by the state. Proceeds from the series A bonds will be used to fund the acquisition and renovation of the new county administrative facility. Proceeds from the series B bonds will be used to fund the county's energy efficiency and conservation efforts at the Metropolitan Detention Center.

The rating reflects our view of the county's:

- Strong, 4.91x maximum annual debt service (MADS) coverage;
- Strong, 2x additional bonds test (ABT) and dependence on pledged revenue for general operations, which reduces the likelihood of significant additional parity debt issuance;
- Strong retail sales per capita, at 125% of the national level, reflecting the county's role as the economic center for the region, with strong links to the government, defense-related research, health care, and high-technology sectors; and
- Low level of funding interdependencies with the federal government.

Recent changes in state legislation allows counties to implement as much as an additional three-eighths of GRT increment, known as "hold harmless GRT," to offset the loss of the in-lieu hold harmless state revenue. The hold harmless distributions by the state are in lieu of GRT revenue that the county would have received had the state not implemented certain food and medical deductions from gross receipts in 2004. The hold harmless three-eighths of GRT increment can be imposed only by a vote of the county commissioners and is not subject to voter referendum. There is outstanding litigation concerning the hold harmless GRT, which involves a county's ability to impose its hold harmless GRT within municipal boundaries but does not challenge a municipality's ability to impose the municipal hold harmless GRT. However, we note that a section in the legislation contains a debt impairment provision for hold harmless GRT revenue that has been pledged for debt service, which states that distributions in the amount for debt service payments will be maintained if the reductions in distributions impair the entity's ability to pay debt service.

Since fiscal 2010, pledged first and second one-eighth GRT revenue increased an average of 2.4% a year through audited fiscal 2016. The county enacted a 1/8 hold harmless GRT beginning revenues in July 2015, increasing pledged revenue by 44.2% to $60.6 million in fiscal 2016. Fiscal 2017 estimates show strong signs of growth as well, with collections rising roughly 22% from the previous year. The county enacted another 1/8 hold harmless GRT beginning in July 2017, bringing pledged revenue to $82.9 million in fiscal 2018, a 32% increase over the previous year. According to its budget, pledged revenues will provide 5.19x annual debt service coverage in fiscal 2018, or 4.9x MADS coverage, which we consider strong, and it is the county's policy to maintain at least 4.0x annual debt service coverage. In addition, we view the county's management as very strong, and the county has a formal fund balance policy of maintaining between 3% and 5% of expenditures in general fund reserves, a level it currently exceeds, in addition to its statutorily required 25%.

Legal provisions

Bond provisions require that pledged revenues for the 12 consecutive months preceding the date of issuance provide 2.0x coverage of maximum annual debt service on prior-lien and parity bonds. In addition, since the pledged GRT revenue represented about 23% of general fund revenue in fiscal 2016, we believe the county's dependence on these taxes for operations makes it unlikely it would issue additional debt to the fullest extent of its ABT.

Economy

Bernalillo County, with an estimated population of 678,968, is the cultural, commercial, and financial hub for the state, and as a result, we consider the local economy to be broad and diverse. Per capita retail sales are strong, in our view, at 125% of the national level. We consider incomes in the county to be good, with per capita effective buying income equal to 93% of the national average. The county's employment base, centered on Albuquerque, is relatively broad and has seen recent growth from newcomers to the local economy that include film and television production studios, including four major studios and back-office customer service and processing centers from top names within the S&P 500 Index. The economy, historically, was backstopped by a diverse mix of manufacturers (Intel, Honeywell Avionics, and General Mills), federally funded public employers (Kirtland Air Force Base and Sandia National Labs), and regional entities that include health care, local government, and local tourism. The depth and breadth of the local economy have allowed the county to sustain an unemployment rate averaging 5.6% in 2016, which is low when compared to the state average of 6.7%.

Overall, we are forecasting stable to positive growth for the broader New Mexico region. As we believe that the region's above-average population growth over the next two years will come in large part from expanding employment in the professional service, hospitality, and leisure sectors, we don't expect global uncertainty and volatile equity markets will have much impact on local governments. We also expect increases in home prices and consumer spending will contribute to improved revenue performance for many local governments in the Mountain region, particularly those that rely on property taxes and sales taxes. As a result, we expect the broader macroeconomic forces to support our view of the state shared gross receipt tax revenue growth. For additional information, please refer to our U.S. State And Local Government Credit Conditions Forecast, published July 27, 2016.

Outlook

The stable outlook reflects our view of the stable and diverse regional economy, the strong bond covenants, and our anticipation that pledged revenues will remain at least stable over the next two years and continue to provide what we consider strong coverage on the bonds. We do not expect to change the rating within the two-year outlook horizon.

Downside scenario

While unlikely, should additional debt issuances or declines in GRT significantly dilute coverage, we could lower the rating.

Related Research

- Special Tax Bonds: U.S. Recovery Underpins The Sector's Stability, Sept. 14, 2015
- U.S. State And Local Government Credit Conditions Forecast, July 24, 2017

Ratings Detail (As Of October 16, 2017)		
Bernalillo Cnty gross receipts tax rev bnds		
Long Term Rating	AAA/Stable	Affirmed
Bernalillo Cnty sales tax		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.