STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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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$14.995 mil GO rfdg bnds ser 2016A due 08/15/2027		
Long Term Rating	AAA/Stable	New
US$10.29 mil GO bnds ser 2016 due 08/15/2030		
Long Term Rating	AAA/Stable	New
Bernalillo Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Bernalillo County, New Mexico's series 2016 (election of 2014) general obligation (GO) bonds and series 2016A GO refunding bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating on the county's existing GO bonds. The outlook is stable.

The rating reflects our assessment of the unlimited ad valorem property taxes levied on all taxable property in Bernalillo County that secure the bonds. We understand officials intend to use proceeds from the series 2016 bonds to fund capital improvement projects. We understand the series 2016A refunding bonds will be used to refund the county's series 2007 and 2007A GO bonds.

The rating reflects our view of the county's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA) methodology;
- Weak budgetary performance, with operating deficits in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 43% of operating expenditures;
- Very strong liquidity, with total government available cash at 67.4% of total governmental fund expenditures and 7.5x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 9.0% of expenditures and net direct debt that is 74.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 80% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

The county's GO 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", U.S. local governments are considered to have moderate sensitivity to country risk. The district'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.

Strong economy

We consider the county's economy strong. Bernalillo County, with an estimated population of 679,388, is located in the Albuquerque MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 95.6% of the national level and per capita market value of $87,580. Overall, the county's market value grew by 8.6% during the past year to $59.5 billion in 2016. The county unemployment rate was 6.1% in 2014.

Bernalillo County represents about a third of the state's population and serves as New Mexico's commercial center. The county benefits from a large number of government-based jobs. In 2014, federal, state, and local government employment in the Albuquerque metropolitan statistical area (MSA) accounted for 22% of nonagricultural jobs. Professional and business services and education and health services represent 15% and 16% of total nonfarm employment, respectively. The MSA's leading employers are the University of New Mexico, Albuquerque Public Schools, and Sandia National Laboratories. Assessed value (AV) increased by 1% annually between 2012 and 2016, reflecting relatively stable county home prices. AV increased by 2% in 2016 to $15 billion. The property tax base is diverse, with the 10 leading taxpayers accounting for just 3% of total AV. Public Service of New Mexico, an electricity utility power company and the leading taxpayer, accounts for just 1% of AV. The county estimates for its overall market value to increase by about 2% annually in the short term.

Very strong management

We view the county's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

In addition to preparing a five-year financial forecast, the county adopts a biennial budget that enhances forward-looking financial planning. The budget ties in the current year budget to past trends and future projections and includes detailed analysis of key revenues and expenditures. It has a five-year financial plan which includes projected revenues, expenditures, and ending fund balances. The county has a six-year capital plan that identifies estimated costs but does not include funding sources. Management updates the plan annually and it is shared with the council. Other highlights of the county's financial policies include monthly minimum liquidity requirement of about $75 million to meet the county's cash-flow needs and a formal investment management policy. The county has a formal fund balance policy to maintain between 3% and 5% of expenditures in general fund reserves, a level it currently exceeds, in addition to its statutorily required 25%. The county's debt management policy discusses projects that may be funded with debt, debt service structures, credit enhancements, and variable rate debt as well as debt refunding guidelines.

Weak budgetary performance

Bernalillo County's budgetary performance is weak in our opinion. The county had operating deficits of negative 4.3% of expenditures in the general fund and of negative 2.5% across all governmental funds in fiscal 2015.

The county has spent down its fund balance, which reached 80% of expenditures in fiscal 2011, during the past three fiscal years to address various infrastructure, public safety, and automation projects. The drawdowns were more of a function of planned expenditures than structural imbalances. The county is projecting a nearly break-even operations in its general fund operations for fiscal 2016 due to modest growth in revenues. While the county made selective expenditure reductions, overall expenditures increased from the prior year.

Operating revenue primarily includes property and gross receipt taxes (GRT), which accounted for a combined 91% of all general fund revenue in fiscal 2015. Property taxes, which comprise the largest revenue source for the county at about 51% of fiscal 2015 revenue, have increased in each of the past three fiscal years through fiscal 2016. GRT revenues are projected to increase by 12% in fiscal 2016 from the prior year, the third year-to-year increase in the past four years. Expenditures decreased in fiscal 2015 due to a reduction in cost associated with the reduced inmate population at the Metropolitan Dentition Center (MDC) that occurred in prior years. The county implemented an additional two-eighths of GRT increment, known as "hold harmless GRT," to offset the loss of the in-lieu hold harmless state revenue and to address behavior health issues. In addition implementing a 1#?#8 "hold harmless" GRT increment pledged to the general fund, the county repealed a 1#?#16 GRT increment, resulting in a net increase of 1#?#16 increment or $8.3 million to the general fund. 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 vote of the county commissioners and is not subject to voter referendum. We understand that a section in the legislation contains a debt impairment provision for "hold harmless" GRT revenue that has been pledged for debt service.

Very strong budgetary flexibility

Bernalillo County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 43% of operating expenditures, or $109.6 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

While the county drew down reserves in fiscal 2015, its unassigned fund balance remained roughly the same as the prior year. In fiscal 2015, the audited general fund revenue stabilization fund balance was $13.5 million or 5.6% of general fund expenditures. The county has about $29 million in its assigned fund balance that is assigned for various purposes by the county, but could be used for general fund operations, if needed.

Very strong liquidity

In our opinion, Bernalillo County's liquidity is very strong, with total government available cash at 67.4% of total governmental fund expenditures and 7.5x governmental debt service in 2015. In our view, the county has strong access to external liquidity if necessary.

We expect liquidity to remain very strong with no signs of major cash drawdowns. In light of a recent liquidity risk in April 2014, the county adopted an investment policy that among other things, limited investments to maturities under five years, with most maturities less than three years to meet cash-flow needs. The county will hold about $75 million in cash to meet liquidity needs. Furthermore, the new policy will provide greater oversight of county investments.

Strong debt and contingent liability profile

In our view, Bernalillo County's debt and contingent liability profile is strong. Total governmental fund debt service is 9.0% of total governmental fund expenditures, and net direct debt is 74.4% of total governmental fund revenue. Overall net debt is low at 2.3% of market value, and approximately 80.0% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The county has a six-year bond program with bond issuances scheduled for every two years. This is the second issuance of a $27.5 million authorization approved by the voters in the November 2014 election. The county plans to request additional authorization in 2016.

Bernalillo County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.1% of total governmental fund expenditures in 2015. Of that amount, 4.4% represented required contributions to pension obligations, and 0.7% represented OPEB payments. The county made its full annual required pension contribution in 2015.

Bernalillo County contributes to the New Mexico Public Employees' Retirement Association (PERA) plan for employee pension benefits, as required by state statute. The county has a net pension liability of $164 million. In addition to pension benefits, Bernalillo County also contributes to the New Mexico Retiree Health Care Fund defined-benefit health care plan.

Very strong institutional framework

The institutional framework score for New Mexico counties is very strong.

Outlook

The stable outlook reflects our opinion that the county will maintain very strong liquidity and budgetary flexibility. The county's participation in a broad and diverse metropolitan area and what we consider strong financial management practices and policies enhance stability. We do not expect to lower the rating during the outlook's two-year horizon due to the aforementioned credit strengths.

Downside scenario

The ratings could be pressured during our two-year outlook horizon if regional economic growth, compared to the nation, continues to show only sluggish growth. In addition, we could lower the ratings if the county were to fail to adjust for increasing budget costs, as necessary, and if reserves were to decrease below a level we currently consider very strong.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Jan. 11, 2016
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of February 12, 2016)		
Bernalillo Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Bernalillo Cnty GO		
Long Term Rating	AAA/Stable	Affirmed