

# RatingsDirect®

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**Summary:**

## Bernalillo County, New Mexico; General Obligation

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## Summary:

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### Credit Profile

US\$8.375 mil GO bnds ser 2020 due 08/15/2029

*Long Term Rating* AAA/Stable New

Bernalillo Cnty GO

*Long Term Rating* AAA/Stable Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Bernalillo County, N.M.'s series 2020 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the county's existing GO bonds. The outlook is stable.

### Security and proceeds

The bonds are secured by a pledge of unlimited ad valorem property taxes levied on all taxable property in Bernalillo County. Bond proceeds will be used for various county facilities, equipment, and programs such as public safety, library, and parks.

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" (published Nov. 19, 2013), U.S. local governments are considered to have moderate sensitivity to country risk. Bernalillo 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.

### Credit overview

Bernalillo County is the primary economic hub for the state of New Mexico and includes about one-third of the state population. The county's financial operations are stable as reflected in very strong available reserves that exceed 40% of general fund expenditures. Management is sophisticated and has adopted strong policies that continue to be evaluated and strengthened. In fiscal 2018, management began to reserve a portion of the fund balance for future pension liabilities that it intends to increase over the next several years in case there are changes at the state level that could negatively affect local government fiscal operations.

The 'AAA' rating further 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;
- Very strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 72% of operating expenditures;
- Very strong liquidity, with total government available cash at 93.1% of total governmental fund expenditures and 10.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 9.1% of expenditures and net direct debt that is 56.5% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 81.0% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

### **Strong economy**

We consider the county's economy strong. Bernalillo County, with an estimated population of 679,062, 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 90.8% of the national level and per capita market value of \$81,278. Overall, the county's market value grew by 10.7% over in 2019 to \$55.2 billion in 2020. The county unemployment rate was 4.5% in 2018.

Bernalillo County's economic base is diverse and includes manufacturing (Intel Corp., Honeywell Aerospace, General Mills Inc.), technology (The Raytheon Co.), federal and military institutions (Sandia National Laboratories, Kirtland Air Force Base, the Air Force Research Laboratory), higher education, health care, and back office centers for major multi-national corporations. In particular, the film and television industry has been a major source of growth in recent years. This diverse base, as well as Albuquerque's central role in the statewide economy, helped stabilize employment during the Great Recession: The county unemployment rate peaked at 7.7% in 2010, and has decreased to 4.5% in 2018.

The county's main tax bases were relatively stable during the recession, further reflecting the local area's centrality to the state economy. Taxable gross receipts (the base for the county's gross receipts tax, or GRT) declined by 8% from 2008 to 2010 but have increased annually since. Bernalillo County's total assessed value (which is defined as one-third of market value less any exempted property) declined by 0.4% in fiscal 2013, and has since grown by an average of 2.4% annually through fiscal 2019.

### **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.

Key policies and practices include:

- A biennial budgetary process that ties the current-year budget to past trends and future projections, which are based on third-party forecasts of key economic variables, and provides a detailed analysis of key revenues and expenditures;
- Finance division management meets weekly to review and discuss the budget and new expenditure requests.

Quarterly budget-to-actuals are provided to the commission, with quarterly budgetary amendments, as needed;

- A five-year general fund forecast that is updated annually and reviewed with the commission bi-annually and with upper management multiple times per year;
- A six-year capital improvement plan that is updated every two years, links projects with ongoing costs to the operating budget, matches future GO bond funding to projects, but does not fully identify funding for all projects;
- A robust investment policy and monthly monitoring and reporting of investment holdings;
- A debt management policy that covers types of projects that may be funded with debt, debt service structures, credit enhancements, and variable-rate debt as well as debt refunding guidelines; and a well-developed set of reserve and liquidity policies, including compliance with the state-required 25% reserve, an additional 3%-5% of the following year's operating expenditures held as an unassigned balance at the end of each fiscal year, and a requirement to hold 15% of annual operating expenses in liquid assets with maturities of less than 30 days.

### **Very strong budgetary performance**

Bernalillo County's budgetary performance is very strong in our opinion. The county had operating surpluses of 11.1% of expenditures in the general fund and of 8.3% across all governmental funds in fiscal 2019.

The county has produced positive general fund and total governmental funds results since fiscal 2016. The surplus in fiscal 2019 was due to ongoing conservative budgeting and strong revenue growth. GRT revenues comprise about 50% of the county's general fund revenues and they increased 4% over the previous year.

The fiscal 2020 adopted budget was balanced, with general fund revenues and expenditures totaling \$317.7 million including transfers in and out. Current projections into the fiscal year reflect strong revenue growth producing \$323.3 million in general fund revenues. Projections for expenditures reflects a significant increase to approximately \$380 million due to plans for additional spending in public safety and for capital projects. These planned expenditures are intended to be funded through the use of reserves and we do not believe they signify a structural imbalance in the county's operations.

### **Very strong budgetary flexibility**

Bernalillo County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 72% of operating expenditures, or \$206.8 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.

The county's available fund balance increased to 72% of expenditures in fiscal 2019, from 66% in fiscal 2018. Bernalillo County typically budgets use of various general fund reserves for one-time uses and then conservative budgeting supports larger-than-projected balances at year-end.

For example, the available fund balance in fiscal 2019 was budgeted to decrease to 47% of general fund expenditures but positive variances to budget increased reserves. The county maintains an unassigned general fund balance, referred to as the revenue stabilization-operating reserve, equal to 3%-5% of upcoming general fund budgeted operating expenditures. The reserve was established in 2015 for emergency situations based on cash flow and to mitigate economic uncertainties. In fiscal 2019, this reserve totaled \$18.5 million

The county also maintains a restricted balance in the general fund equal to the state's requirement to maintain three

months of following year budgeted expenditures. This reserve, which totaled \$92 million in fiscal 2019, is available for contingency needs of the county and is included in our assessment of the county's available reserves.

Combined, the unassigned and restricted balances totaled \$110.5 million, equal to a very strong 40% of 2019 expenditures. In addition to these balances, the county assigns reserves for various informal operational purposes such as one-time capital needs or other infrastructure projects. In fiscal 2019, the assigned general fund reserve totaled \$96 million. Similar to historical budgets, the 2020 budget includes a spenddown of the assigned reserve for certain projects that would bring the balance down to \$52 million. Although Bernalillo County plans to spend down reserves, we believe the rate stabilization fund and statutorily determined restricted reserve protect the available fund balance at a very strong level that remains consistent with the county 'AAA' rating.

### **Very strong liquidity**

In our opinion, Bernalillo County's liquidity is very strong, with total government available cash at 93.1% of total governmental fund expenditures and 10.2x governmental debt service in 2019. In our view, the county has strong access to external liquidity if necessary.

The county continues to refine its investment policy with regular reviews. Overall, we believe that the investment policy is transparent, widely communicated, and a conservative approach to Bernalillo County's investments that provides stability to our view of the county's liquidity profile. The county does not have any direct purchase or private placement debt that could contribute to liquidity pressure.

### **Very strong debt and contingent liability profile**

In our view, Bernalillo County's debt and contingent liability profile is very strong. Total governmental fund debt service is 9.1% of total governmental fund expenditures, and net direct debt is 56.5% of total governmental fund revenue. Overall net debt is low at 2.6% of market value, and approximately 81.0% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The county is in the midst of a multiyear bond program and the current issue, expected to be \$8.375 million, is from a \$38.7 million bond authorization approved by voters in November 2018. After this issuance, Bernalillo County will have \$123.6 million in GO debt outstanding. The county is currently projecting it could ask voters for additional bond authorization of \$38.5 million every other year beginning in 2020 through 2026.

### **Pension and other postemployment benefits liabilities**

We do not view pension and other postemployment benefits (OPEB) liabilities as an immediate credit risk for the county. Despite a somewhat large net pension liability equal to \$168 million and less than minimum static funding, annual pension and OPEB costs remain manageable relative to the size of the county's total operating budget. We do not expect a material increase in pension and OPEB contributions that could threaten Bernalillo County's fiscal stability in the near term.

Bernalillo County's combined required pension and actual OPEB) contributions totaled 4.6% of total governmental fund expenditures in 2019. Of that amount, 3.9% was the county's annual required pension contribution in 2019. Also, county management is starting to designate reserves for future pension needs that began with \$3 million in fiscal 2018 and increased to \$4 million in fiscal 2019. As excess revenues are available, management intends to continue

contributions to this reserve.

The city participates in the following plans:

- Public Employees Retirement Association (PERA): a cost-sharing, multiple-employer, defined-benefit retirement plan. PERA's funded ratio was 73.7% as of June 30, 2018, which we view as somewhat low. In addition, we consider some of PERA's funding policies and actuarial assumptions to be risky. In particular, the plan effectively has no amortization schedule--instead, it calculates its amortization period annually based on statutory contribution rates and actuarial assumptions. As of the plan's 2018 actuarial valuation, the amortization period was 55 years, which we view as very long, and actual planwide contributions were only 90% of the actuarially determined contribution, which is set by the state.
- New Mexico Retiree Health Care Fund: a cost-sharing, multiple-employer plan, providing for the county's OPEB. The plan is funded on a pay-as-you-go basis, and the district's contributions of \$2.5 million, which accounted for 0.6% of total governmental funds expenditures in fiscal 2018. The county's reported net OPEB liability was \$130.5 million at fiscal 2018.

**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 MSA and what we consider strong financial management practices and policies enhance stability. As a result, we do not expect to lower the rating during two-year outlook horizon, to the aforementioned credit strengths.

**Downside scenario**

We could lower the rating if Bernalillo County's budgetary performance and flexibility were to decline to levels that no longer support the current rating.

**Related Research**

2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of January 31, 2020)		
Bernalillo Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bernalillo Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bernalillo Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bernalillo Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

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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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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