

RatingsDirect®

Summary:

Bernalillo County, New Mexico; General Obligation

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Summary:

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Credit Profile

US\$19.255 mil GO bonds ser 2017 due 08/15/2032

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 2017 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.

The bonds constitute valid obligations of the county, and our rating reflects the pledge of unlimited ad valorem property taxes levied on all taxable property in Bernalillo County. We understand that the bond proceeds will be used for library projects, public safety improvements, county facility investments, transportation projects, parks and recreation, utility infrastructure upgrades, and public housing within the county.

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.

The GO 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;
- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 50% of operating expenditures;
- Very strong liquidity, with total government available cash at 60.2% of total governmental fund expenditures and 6.3x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 9.5% of expenditures and net direct debt that is 68.8% of total governmental fund revenue, as well as low overall net debt at less than 3% of

market value and rapid amortization, with 82.4% of debt scheduled to be retired in 10 years; and

- Very strong institutional framework score.

Strong economy

Bernalillo County with an estimated population of 677,970, is located in the Albuquerque, N.M. MSA and covers 1,166 square miles representing one-third of the state's population. The county is the cultural, commercial, and financial hub for the state and, as a result, we consider the local economy to be broad and diverse. The projected per capita effective buying income is 94.1% of the national level and per capita market value is \$84,692. As a result, we consider the county's economy to be strong.

The county's employment base is relatively broad and has seen recent growth from newcomers to the local economy that include film and television production studios with 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 AFB 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 of about 5%, which is low when compared to the state level, although the region's rate is typically 50 basis points above the national unemployment level.

The county's assessed value (AV) trend, which is calculated by dividing the market value by one-third less any property exemptions, is relatively stable, with only two years of decline during the economic recession. While New Mexico's property taxes are typically some of the lowest in the nation, the underlying AV trend is a key component of our local GO criteria and serves as a lagging indicator of economic stability. Specifically, the county's fiscal 2017 AV of \$15.1 billion is 5.1%, or \$734.3 million above the fiscal 2011 trough of \$14.4 billion. The stability in the county's AV is due partly to the breadth of the regional economy that includes a very diverse array of taxpayers, as the top 10 taxpayers account for only 2.8% of total AV. Looking ahead, we are expecting at least stable AV due to the relative strength of the local economy and the current lack of major employer closures and reductions.

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 that 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 shares it with the commission. Other highlights of the county's financial policies include a 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 of maintaining 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.

Strong budgetary performance

As of the fiscal 2016 audit, we consider the county's budgetary performance to be strong. For the period, the county produced balanced operating results in the general fund of 0.1% of expenditures, and surplus results across all governmental funds of 12.0% in fiscal 2016. We note that the preceding figures are inclusive of our analytical adjustments.

Historically, the county produced general fund deficits between fiscal 2011 and fiscal 2015 as it utilized its extremely high adjusted available fund balance reserves of 83%. The multiyear period of concurrent general fund operating deficits and available fund balance drawdowns were more of a function of planned expenditures than structural imbalances, as the county was addressing various infrastructure, public safety, and automation projects that were one time in nature.

The county's general fund revenue mix relies upon a combination of property taxes, which account for about 48% of audited fiscal 2016 revenue, and gross receipt taxes (GRT), which account for 46%. When combined, both revenue lines have produced three consecutive years of annual growth due in part to the growing local economy and strong growth within the GRT revenue lines. Total governmental funds, for the same period and adjusted for bond-financed expenditures, produced their first surplus result in several years, which contributes to our view of strong budgetary performance. The historical total governmental fund deficits were largely due to the previously mentioned capital outlays, which were supported in part by general fund balances.

In February 2015, 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 fund its behavioral health initiative, which was partly designed to public safety expenditures (the largest expenditure line in the general fund). In addition implementing a 1/8th "hold harmless" GRT increment pledged to the general fund, the county repealed a 1/16th GRT increment, resulting in a net increase of 1/16th increment. 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.

Looking ahead, we are expecting the county to produce stable general fund operating results, as indicated by the county's five-year projection, our view of the local economy, and the county's stability within its public safety expenditure line. As a result, we are expecting the county to produce strong budgetary performance. While we don't expect it at this time, we could revise our view of the county's budgetary performance if its total governmental fund result were to revert to its historical (deficit) trend.

Very strong budgetary flexibility

Bernalillo County's budgetary flexibility is very strong, in our view, with an adjusted available fund balance in fiscal 2016 of 50% of operating expenditures, or \$126.8 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. We note that the county's significant reserve level is due largely to the 25% statutory requirement.

Very strong liquidity

In our opinion, Bernalillo County's liquidity remains very strong, with adjusted total government available cash at 60.2% of total governmental fund expenditures and 6.3x governmental debt service in 2016. In our view, the county has strong access to external liquidity if necessary due to its frequent issuance of debt to the capital market. We expect liquidity to remain very strong, with no signs of major cash drawdowns.

In response to a liquidity concern in 2014, the county adopted an investment policy that, among other things, limited investments to maturities under five years, with most maturities of less than three years to meet cash flow needs. Prior to this change in the county's investment policy, the county held a significant position in securities with an average weighted maturity of over 11 years. Currently, the county is modifying its investment strategy, within the constraints of its investment policy, toward highly liquid securities on the short end of the yield curve and away from that of negotiated savings accounts with local banks that included fixed maturities. Overall, it is our belief that the new investment policy introduced a transparent, widely communicated, and conservative approach to the county's investments that provides stability to our view of the county's liquidity profile.

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 9.5% of total governmental fund expenditures, and net direct debt is 68.8% of total governmental fund revenue. Overall net debt is low at 2.4% of market value, and approximately 82.4% 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 with planned GO bond issuances every year through 2026. Although the county plans to issue about \$233 million of additional GO bonds, we do not expect the planned issuance to impact our view of debt profile, given our expectation of the county's future net direct debt as a percentage of total governmental funds revenue and the county's total governmental funds debt service as a percentage of total governmental funds expenditures.

Bernalillo County contributes to the New Mexico Public Employees' Retirement Assn. plan for employee pension benefits, as required by state statute. In addition to pension benefits, Bernalillo County also contributes to the New Mexico Retiree Health Care Fund defined-benefit health care plan. Bernalillo County's combined required pension and actual other postemployment benefits (OPEBs) contributions totaled 5.3% of total governmental fund expenditures in 2016. Of that amount, 4.6% represented required contributions to pension obligations, and 0.7% represented OPEB payments. The county made its full annual required pension contribution in 2016. The county has a net pension liability of \$164 million per the recently released GASB accounting standards.

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. As a result, we do not expect to lower the rating during two-year outlook horizon, to the aforementioned credit strengths.

Downside scenario

The rating could be pressured during our two-year outlook horizon if the local economy were to enter into a period of retraction. In addition, we could lower the rating 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 Research

- U.S. State And Local Government Credit Conditions Forecast, July 27, 2016
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of February 14, 2017)		
Bernalillo Cnty GO bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bernalillo Cnty GO rfdg bnds		
<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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