

## CREDIT OPINION

13 February 2017

### New Issue

Rate this Research >>

#### Contacts

Heather Correia 214-979-6868  
 Analyst  
 heather.correia@moody.com

Sarah Jensen 214-979-6846  
 Analyst  
 sarah.jensen@moody.com

## County of Bernalillo, New Mexico

New Issue - Moody's Assigns Aaa to Bernalillo County, NM's \$19.3M in GO Bonds, Ser. 2017; Outlook is Stable

### Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to Bernalillo County, NM's \$19.3 million General Obligation Bonds, Series 2017. Moody's also has affirmed the Aaa rating on the county's outstanding parity debt. The outlook remains stable.

The Aaa rating reflects the county's large tax base that serves as the economic engine of the state, the economic stability offered by institutional presences, ample reserve levels, which are expected to improve over the near-term, and a favorable debt profile.

### Credit Strengths

- » Large and diverse tax base that serves as the economic engine for the state of New Mexico
- » Healthy financial reserves that are state mandated and policy driven
- » Low debt burden

### Credit Challenges

- » Tepid economic recovery with moderate reliance on gross receipts taxes (GRT) revenues
- » Above average pension burden

### Rating Outlook

The stable outlook reflects the ongoing recovery and overall stabilization of the county's economy. This trend is expected to remain slow, but positive, in the near future. The stable outlook also reflects the expectation that financial reserves will remain healthy over the near-term, supported by conservative budgeting and formal fund balance policies.

### Factors that Could Lead to an Upgrade

- » Not applicable

### Factors that Could Lead to a Downgrade

- » Trend of imbalanced operations with deterioration of financial reserves
- » Weakening of the county's economic base or gross receipts tax collections

## Key Indicators

Exhibit 1

<b>Bernalillo (County of) NM</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 43,401,684	\$ 43,226,496	\$ 43,556,335	\$ 44,549,691	\$ 45,402,635
Full Value Per Capita	\$ 65,569	\$ 64,798	\$ 64,871	\$ 65,946	\$ 67,208
Median Family Income (% of US Median)	94.0%	93.8%	93.1%	93.1%	93.1%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 278,266	\$ 258,317	\$ 263,932	\$ 275,977	\$ 309,676
Fund Balance as a % of Revenues	87.4%	81.2%	66.1%	61.0%	62.5%
Cash Balance as a % of Revenues	86.1%	77.5%	65.5%	59.7%	59.3%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 252,830	\$ 256,195	\$ 247,851	\$ 245,026	\$ 234,021
Net Direct Debt / Operating Revenues (x)	0.9x	1.0x	0.9x	0.9x	0.8x
Net Direct Debt / Full Value (%)	0.6%	0.6%	0.6%	0.6%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.9x	2.4x	2.4x	2.1x	2.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.2%	1.4%	1.4%	1.3%	1.4%

Source: County's CAFRs; Moody's Investors Service

## Detailed Rating Considerations

### Economy and Tax Base: Large Tax Base Housing One-Third of the State's Population

The county's economy and tax base will remain stable and sizeable over the mid-term given regional importance and institutional presence. Located in north central [New Mexico](#) (Aa1 negative), Bernalillo County encompasses the entire [City of Albuquerque](#) (Aa1 stable) and is home to approximately one-third of the state's population. The county's population has grown approximately 21.4% since 2000 to 675,551 residents in 2016. After experiencing modest assessed value declines in fiscal 2011 and 2013 correlated with the most recent economic recession, the county's tax base returned to slow, but positive, expansion from fiscal 2014 to 2017. The five year average growth rate of 1.5% annually further highlights the slow economic recovery. Fiscal 2017 assessed values increased by 3.1% over the prior year to reach \$15.6 billion, derived from a large \$46.8 billion full valuation. Management anticipates the tax base will remain stable in the near future. Major ongoing development includes the Central New Mexico Rail Park, which will add 5,000 jobs; General Mills is expanding, adding 30 jobs; and, Facebook is building a large data center in Los Lunas.

The December 2016 Moody's Economy.com Albuquerque report indicates that the economy is in recovery. Despite slowdown in manufacturing, driven by layoffs at the Intel plant, and retail, the public sector presence continues to provide a stabilizing influence. The report notes that shortage of high-skilled professional jobs, that are not related to federal contracts, will keep household income growth lagging that of the US.

Major employers in the Albuquerque/Bernalillo County MSA include the University of New Mexico, Kirtland Air Force Base (AFB), and Sandia National Laboratories. The institutional presence provided by these entities is an anchor for the local economy. Healthcare and high-tech industries also have significant presence in the employment base. The county's November 2016 unemployment rate of 5.6% was below the state (6.4%) but above the nation (4.4%) for the same time-period. Resident wealth levels are average with per capita income and median family income (2014 American Community Survey) approximating 94.3% and 93.1% of national levels, respectively.

### Financial Operations and Reserves: Healthy Reserve Position; Surplus Expected for Fiscal 2017

The county's financial position will likely remain stable over the near-term given conservative budgeting and adherence to formal fund balance policies. After reporting sizeable deficits in fiscal 2013, 2014 and 2015, driven by one-time capital expenditures and mark-to-

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

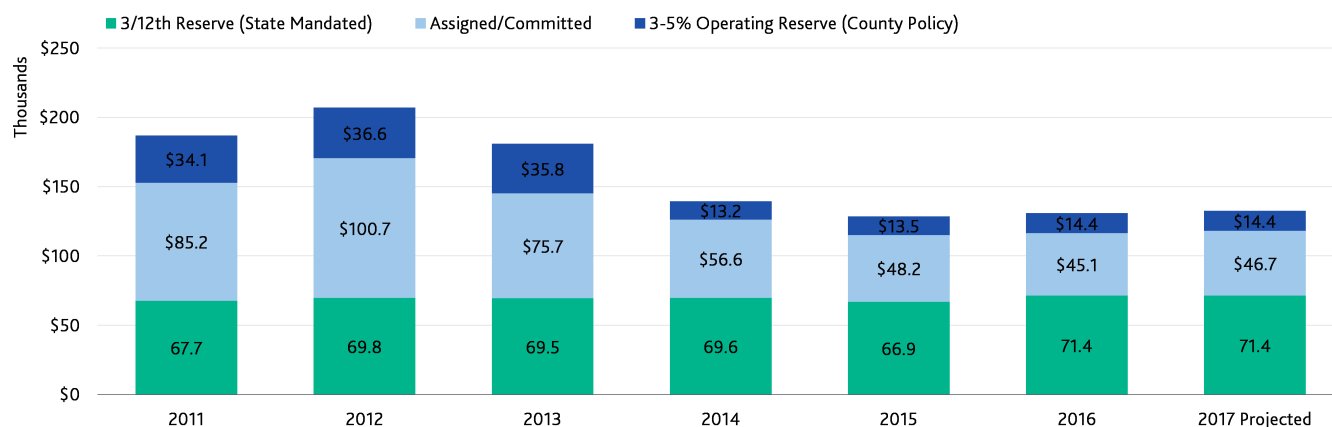
market portfolio losses, the county realized a \$4.9 million surplus in fiscal 2016. General Fund balance increased to \$130.9 million, or a healthy 50.6% of revenues. Management attributes the increase in reserves to conservative expenditure budgeting, which assumes a full staff, savings from IT efficiencies, and deferment of capital.

The state requires maintenance of 25% of budgeted expenditures in cash reserve, which in fiscal 2016, equated to \$71.4 million. Additionally, the county has \$45.1 million assigned and committed for specific purposes, such as infrastructure replacement. Finally, the county maintains 3% to 5% in unassigned balance, or \$14.4 million, in event of emergency. Given the county's reliance on economically sensitive revenues (GRT; accounted for 43.5% of fiscal 2016 revenues), maintenance of a healthy fund balance is a credit strength.

Fiscal 2017's budget reflects use of \$31.7 million in reserves, primarily for one-time capital, a typical budgeting practice. Based on performance through December 2016, the county is anticipating a modest surplus of \$1.6 million. If realized, General Fund balance would increase to \$132.4 million, or 50.6% of budgeted fiscal 2017 revenues.

The county prepares five year forecasts. Based on review, management anticipates balanced operations without use of reserves through fiscal 2022.

Exhibit 2



The county's policy on operating reserve changed from 16% to 3-5% in fiscal 2015

Source: Moody's Investors Service; County's CAFRs

## LIQUIDITY

The liquidity within the county's General Fund tracks close to the total General Fund balance level. At fiscal year-end 2016 the county had \$127.8 million in cash, which represents an ample 50.6% of revenues. Inclusive of the Debt Service and Gross Receipts Tax Funds, the total liquidity equaled \$183.7 million or 59.3% of total revenues.

Investment value losses realized in fiscal 2013 and fiscal 2014 were an indication of weak internal control, but actions have been taken to significantly reduce the portfolio's interest rate risk. Prior to the adoption of a new investment policy on April 1st, 2014, the county was investing in securities with no stated maximum on maturities, no diversification parameters, and only focused on yield and credit risk. The adoption of the county's new investment policy now limits security purchases with a maturity of five years or less, sets diversification limits, and states that the portfolio has to maintain a highly liquid portion equal to 15% of the county's operating budget.

## Debt and Pensions: Manageable Debt Burden; Somewhat Elevated Pension Burden

Given the lack of major debt plans, stable assessed values, and above average principal amortization, the county's debt burden should remain low and manageable over the long term. Inclusive of the current issuance, the county's debt burdens are modest at 0.5% direct and 2.9% overall, both expressed as a percentage of fiscal 2017 full value. The debt burdens are inclusive of \$108 million in sales tax (GRT) debt (Moody's rated Aa2). Series 2017 is the first issuance of the November 2016 authorization; the remaining \$17 million will be issued next year. The county plans return to voters every other year for about \$40 million of authorization.

**DEBT STRUCTURE**

Principal amortization is above average with 80.5% of outstanding debt (inclusive of current issuances) is repaid in ten years. All long-term general obligation debt matures in fiscal 2032. The county's debt policy only allows the issuance of bonds with 15-year maturities or less.

**DEBT-RELATED DERIVATIVES**

The county has no exposure to variable rate debt or interest rate derivatives.

**PENSIONS AND OPEB**

The county has an above-average employee pension burden, based on unfunded liabilities for its share of the Public Employees Retirement Association (PERA), a cost sharing plan administered by the state. Bernalillo County's annual contributions into the plan have been at the statutorily required amount, which is well below the actuarially required amounts and has driven the large unfunded liability. Moody's fiscal 2016 adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data, is \$713.4 million, or an above average 2.3 times operating revenues. The three-year average of the county's ANPL to operating revenues is 2.0 times, while the three-year average of ANPL to full value is manageable at 1.37%.

The county's ANPL has fluctuated over the last several years. In fiscal 2015 (the most recent year available), pension contributions of \$14.5 million were below Moody's "tread water" value of \$19.1 million, a credit negative. The "tread water" indicator measures the annual contributions required to prevent the reported net pension liability from increasing, under reported assumptions. The county's fixed costs, including debt service, pensions contributions and OPEB contributions, totaled a manageable 15.2% of operating revenues.

Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions and the related credit impact on companies, government, and other entities across the globe, please visit Moody's on Pensions at [www.moody.com/pensions](http://www.moody.com/pensions).

**Management and Governance**

New Mexico counties have an institutional framework score of "A," or moderate. Counties receive the majority of their revenues from property taxes and gross receipts taxes, which in combination are moderately predictable. Most New Mexico counties are at the maximum O&M levy, but have a moderate level of ability to raise revenues through property tax rates or additional gross receipts taxes. Expenditures are moderately predictable and could experience some volatility due to jail and/or hospital expenses. Expenditure reduction ability for counties is moderate given high fixed costs.

Bernalillo County operates under commission-manager form of government and provides for public safety, highways and streets, sanitation, cultural and recreational services, public improvements, planning and zoning, and general administrative services. Legislative and some executive power is vested in a five-member Board of County Commissioners, who are elected for four-year terms from single member districts. Administration is overseen by a County Manager, who has responsibility for 25 departments.

**Legal Security**

The bonds are secured by a direct and continuing ad valorem tax levied against all taxable property within the county, without limitation as to rate or amount.

**Use of Proceeds**

Proceeds from the Series 2017 bonds will be used for various capital projects, including: libraries, public safety, buildings, parks, transportation, storm drainage and public housing.

**Obligor Profile**

Bernalillo County, the economic and population hub of New Mexico, is located in the north central region of the state at the conjunction of Interstate Highways 25 and 40. The county has roughly 676,000 residents. Its boundaries encompass the entire City of Albuquerque and is home to the University of New Mexico, Kirtland Air Force Base and Sandia National Laboratories.

## Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## Ratings

Exhibit 3

### Bernalillo (County of) NM

Issue	Rating
General Obligation Bonds, Series 2017	Aaa
Rating Type	Underlying LT
Sale Amount	\$19,255,000
Expected Sale Date	02/21/2017
Rating Description	General Obligation

Source: Moody's Investors Service

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1058180