MOODY'S
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New Issue

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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

Bernalillo (County of) NM	2012	2013	2014	2015	2016
Economy/Tax Base					
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%
Finances					
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%
Debt/Pensions					
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-

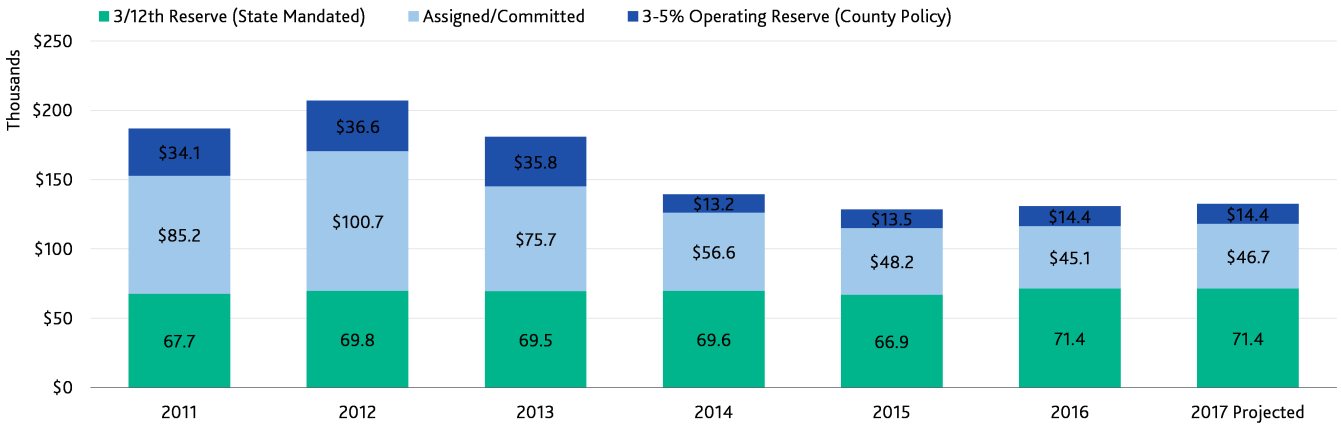
market portfolio losses, the county realized a $4.9 million surplus in fiscal 2016. General Fund balance increased to $130.9 million, or a healthy 50.6% of revenues. Management attributes the increase in reserves to conservative expenditure budgeting, which assumes a full staff, savings from IT efficiencies,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

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