

Fitch Rates Bernalillo County, NM GO Bds 'AAA'; Outlook Stable

Fitch Ratings-Austin-23 Sept, 2011: Fitch Ratings assigns the following rating to Bernalillo County, NM bonds:

--\$4.2 million general obligation (GO) bonds, series 2011 at 'AAA';

The bonds are expected to sell competitively on Sept. 27, 2011.

In addition, Fitch affirms the following Bernalillo County ratings:

--\$97.4 million in outstanding unlimited tax bonds at 'AAA';

--\$155.1 million in outstanding gross receipts tax (GRT) revenue bonds at 'AA+'.

The Rating Outlook is Stable.

RATING DRIVERS:

- **STRONG FINANCIAL PROFILE:** The county's financial management is sound, as evidenced by very large reserves, conservative biennial budgets, and attention to out-year financial projections.
- **SLUGGISH GRT REVENUES:** The county's role as New Mexico's principal population center has resulted in a large GRT revenue base. Due to a notable slowdown in housing construction, GRT revenues have declined moderately in recent years, although recent trends indicate stabilization of this revenue source.
- **SOLID GRT COVERAGE:** Despite GRT declines, the debt service coverage of the county's GRT revenue bonds remains solid; furthermore, the county does not plan to further leverage this revenue stream.
- **FAVORABLE DEBT PROFILE:** The county's debt profile remains positive, as evidenced by modest debt levels, a rapid GO bond principal payout rate and modest capital plans.
- **BROAD ECONOMY:** The county's economic base is broad but has undergone contraction due to notable recessionary job losses in construction and manufacturing; however, total job losses have decelerated in recent months, suggesting the economy is stabilizing. The county's recent development into a high-tech hub may aid its recovery.

SECURITY:

The GO bonds are secured by an unlimited annual property tax levy on all taxable property within the county. The GRT bonds are secured by the county's 1st 1/8th GRT for general purposes and the county's 2nd 1/8th GRT for general purposes, excepting \$1MM annually (at the rate of \$83,333 per month) for indigent care.

CREDIT PROFILE:

As the state's largest county, population grew a notable 19% from 2000-2010; the increase was spurred in part by the area's recent development as a hub for high technology. The city of Albuquerque comprises about 80% of the county's population. The remaining population in the unincorporated areas represents the second largest population center in the state. The pre-recession housing boom fueled strong property tax base growth through fiscal 2009 before turning sluggish through the current period.

County employment losses for the 12 months ending July 2011 totaled a modest 1,489 or 0.5%, led by continued construction sector losses. However, the county's unemployment rate for July 2011 declined to 7.4% from 9.1% last year due to labor force contractions. The county's unemployment rate is close to the state average but well below the national rate of 9.3% for this period.

Record high homebuilding activity helped fuel GRT growth that averaged roughly 7% annually from fiscal 2003-2007. However, for fiscal years 2008-2010, collections fell by 3% - 4% annually due to the significant contraction in home building activity and the completion of numerous major construction projects. Unaudited fiscal 2011 GRT receipts point to a modest increase. Management expects this revenue stream to recover slowly, evidence of a conservative budgeting approach viewed favorably by Fitch.

Debt service coverage of the county's GRT revenue bonds remains solid at over 2.5 times MADS based on audited fiscal 2010 revenues. The GRT bonds' reserve requirements are standard, although its additional bonds test is considered strong--requiring pledged revenues to equal 2 times (x) maximum annual debt service (MADS) of existing and proposed GRT-secured debt. The county does not plan to further leverage this revenue source.

The county's financial profile remains very strong, characterized by large reserves and ample liquidity. Effective fiscal 2012, the county is supplementing its state-mandated three month reserve for subsequent year's expenditures with a two-month contingency reserve which Fitch views favorably. Fiscal 2010's total financial cushion, comprised of its unreserved fund balance and the three-month reserve, totaled a very high \$182.8 million or 86% of spending. Unaudited fiscal 2011 results include the defeasance of \$43 million of GRT revenue bond with unused proceeds, but results are still expected to show substantial available reserves of \$130 million or more than 45% of spending. The fiscal 2012 budget, adopted as part of the fiscal 2011-2012 biennial budget, is based on conservative property tax and GRT growth assumptions. Due to the addition of GRTs imposed in recent years, GRT revenues are now nearly as large as property tax revenues. This increased reliance on economically sensitive taxes does expose the county to more vulnerability, but it is largely offset by the county's healthy fund balances.

The county maintains a formal capital improvement plan, the local portion of which has been historically financed with voter-approved general obligation bond authorizations every two years. County voters approved a \$25 million authorization in November 2010 by wide approval margins. The GO bonds payout rate is very rapid at 81% in ten years, and the principal payout rate of GRT bonds remains average at 58% in ten years. Including GO bonds and GRT obligations, current direct debt levels are modest at \$360 per capita and less than 1% of full market value. Overall debt levels are moderate at \$1,420 per capita and 2.4% of full market value. Full-time county employees participate in the Public Employees Retirement Association of New Mexico Association, a cost-sharing multiple employer pension plan. The county has fully funded its required contributions and the plan is adequately funded. Other post-employment benefits are provided through the New Mexico Retiree Healthcare Authority which is funded on a pay-as-you-go basis from employer and employee contributions.

Contact:

Primary Analyst
Jose Acosta
Senior Director
+1-512-215-3726
Fitch Inc.
111 Congress Suite 2010
Austin, Texas 78701

Matt Dustin
Analyst
+1-512-215-3727

Committee Chairperson
Steve Murray
Senior Director
+1-512-215-3729

Media Relations: Cindy Stoller, New York, Tel: +1 212-908-0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'

In addition to the sources of information identified in the *Tax-Supported Rating Criteria*, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, Zillow.com, and National Association of Realtors.

Related Research:

'[Tax-Supported Rating Criteria](#)', dated 15 Aug. 2011.

'[U.S. Local Government Tax-Supported Rating Criteria](#)', dated 15 Aug. 2011.