MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa RATING TO BERNALILLO COUNTY'S (NM) $4.2 MILLION GENERAL OBLIGATION BONDS, SERIES 2011; OUTLOOK REMAINS NEGATIVE

Global Credit Research - 23 Sep 2011

Aaa RATING AFFECTS $101.6 MILLION IN OUTSTANDING PARITY DEBT, INCLUSIVE OF CURRENT SALE

County
NM

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2011	Aaa

Sale Amount	$4,200,000
Expected Sale Date	09/26/11
Rating Description	General Obligation

Opinion

NEW YORK, Sep 23, 2011 -- Moody's Investors Service has assigned a Aaa rating to Bernalillo County's $4.2 million General Obligation Bonds, Series 2011. Concurrently, we have affirmed the Aaa rating on the county's $101.6 million in outstanding parity debt, inclusive of the current sale. The outlook is negative. Proceeds from the current sale will be used to fund various projects around the county, including library, parks and recreation, and facility improvements.

SUMMARY RATING RATIONALE

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. Assignment of the Aaa rating reflects the county's large and diverse tax base, strong management and historically stable financial operations characterized by ample reserves, and favorable debt profile.

Moody's negative outlook on Bernalillo County's Aaa rating is due to the county's indirect linkages to the weakened credit profile of the U.S. government. The negative outlook relates to Moody's August 2, 2011 decision to confirm the Aaa government bond rating of the United States and assign a negative outlook. We believe that Bernalillo County's rating could be affected by a downgrade of the U.S. government's rating. In the coming weeks we will assess Bernalillo County's degree of vulnerability to sovereign risk in terms of its reliance on capital markets, dependence on federal revenues, sensitivity to macroeconomic cycles, and available financial resources to offset risks related to the U.S. government, in order to determine whether to maintain the negative outlook. Please see the Press Release from August 4 entitled "Moody's Confirms Aaa Ratings of 5 U.S. States and 303 Other Public Finance Issuers Indirectly Linked to U.S. Government Bond Rating; Negative Outlooks Assigned" for more information on this rating action.

STRENGTHS

Sizeable regional economy

Strong financial management practices demonstrated by conservative budgeting and healthy reserves

CHALLENGES

Relatively weak socio demographic indicators compared to other Aaa ratings

Operating pressures associated with dependence on economically sensitive revenues

DETAILED CREDIT DISCUSSION

ECONOMIC AND POPULATION HUB OF NEW MEXICO

Located in north central New Mexico, Bernalillo County encompasses the entire City of Albuquerque (Aa1 general obligation rating with negative outlook) and is home to approximately one-third of the state's population. The county's population has grown approximately 19% since the 2000 U.S. Census to an estimated 662,564 residents. The county's full value decreased approximately 2.1% FY 2011 to a still sizable $42.47 billion. Preliminary FY 2012 full value shows an additional 0.2% decline to $42.38 billion, derived from an assessed valuation of $13.9 billion. County officials report declines in assessed value are attributable to decreased residential appraisal values. The recent declines in full value have led to a moderate 3.6% average annual growth rate over the past five years. Management anticipates the tax base will remain stable in the near future.

Significant institutional presence, including the University of New Mexico and Kirtland Air Force Base, supports economic stability. The July 2011 unemployment rate of 7.4% was above the state (7.2%), but below the nation (9.3%) for the same reporting period. Large private sector employers in the county include Sandia National Laboratories, Intel Corporation, and Hewlett Packard. The 2000 Census per capita income of $20,790 was a favorable 120.4% of the State but a more modest 96.3% of the US.

STRONG FISCAL MANAGEMENT YIELDS HEALTHY RESERVES

The county has consistently posted surpluses annually since 2001, boosting the General Fund balance from $38.8 million (36.8% of revenues) at FYE 2001 to an ample $194 million (83.9% of revenues) at FYE 2010. Management previously anticipated a flat to modest operating surplus for FY 2010, but due to increased property taxes and gross receipt taxes, revenues were able to yield an operating surplus of $18.4 million. General Fund operating revenues were largely derived from property taxes (47.9%) and gross receipts taxes (38.5%).The state requires maintenance of 25% of budgeted expenditures in cash reserve. The FY 2010 General Fund balance includes a reserved portion equivalent to 31.9% of operations ($65.2 million at FYE 2010). Additionally, the county designates portions of the General Fund balance for specific purposes including revenue stabilization, infrastructure replacement, and early defeasance of bonds. Management anticipates a cash basis General Fund operating surplus of approximately $3.6 million for FYE 2011. However, officials report GASB required mark-to-market of the county's investments will likely decrease reserves approximately $8 million, resulting in an estimated FYE 2011 General Fund balance of a still healthy $189 million (81.6% of budgeted FY 2011 revenues). We believe the county officials will continue to manage finances conservatively and maintain a healthy fund balance over the long term.

MANAGEABLE DEBT PROFILE EXPECTED TO CONTINUE

Inclusive of the current sale, the county's debt burdens are modest at 0.7% direct and 2.4% overall, both expressed as a percentage of preliminary fiscal 2012 full value. The debt burdens are inclusive of $155.1 million in GRT debt (Aa2) and a $20 million Tax and Revenue Anticipation Note (MIG 1), which the county plans to pay off at maturity. The county has $20.8 million general obligation debt authorization remaining and officials report plans to hold an additional bond election in 2012, which is consistent with the county's practice of holding bond elections every two years. Given the favorable rate of amortization (76.5% of principal retired in ten years), we believe the county's debt profile will remain manageable. The county has no exposure to variable rate debt or interest rate derivatives.

OUTLOOK

Moody's negative outlook on Bernalillo County's Aaa rating is due to the county's indirect linkages to the weakened credit profile of the U.S. government. The negative outlook relates to Moody's August 2, 2011 decision to confirm the Aaa government bond rating of the United States and assign a negative outlook. We believe that Bernalillo County's rating could be affected by a downgrade of the U.S. government's rating. In the coming weeks we will assess Bernalillo County's degree of vulnerability to sovereign risk in terms of its reliance on capital markets, dependence on federal revenues, sensitivity to macroeconomic cycles, and available financial resources to offset risks related to the U.S. government, in order to determine whether to maintain the negative outlook. Please see the Press Release from August 4 entitled "Moody's Confirms Aaa Ratings of 5 U.S. States and 303 Other Public Finance Issuers Indirectly Linked to U.S. Government Bond Rating; Negative Outlooks Assigned" for more information on this rating action.

WHAT COULD CHANGE THE RATING - UP

*Not applicable

WHAT COULD CHANGE THE RATING - DOWN

*Deterioration of financial reserves

*Change in the US rating that results in pressure on local government Aaa ratings

KEY STATISTICS

Estimated Population: 662,564

Preliminary FY 2012 Full Value: $42.38 billion

Full Value per Capita: $63,958

Per Capita Income (2000 U.S. Census): $20,790 (120.4% of state; 96.3% of U.S.)

Direct Debt Burden: 0.7%

Overall Debt Burden: 2.4%

Payout of Principal (10 years): 76.5%

FY 2010 Total General Fund Balance: $194.1 million (83.9% of General Fund revenues)

FY 2010 Unreserved General Fund Balance: $117.6 million (50.8% of General Fund revenues)

Post-sale Parity Debt Outstanding: $101.57 million

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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