MOODY'S
INVESTORS SERVICE

CREDIT OPINION
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New Issue

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Bernalillo (County of), New Mexico

New Issue: Moody's Assigns Initial Aa2 to Bernalillo Co, NM's GRT Bonds, Ser. 2017A/B; Outlook is Stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the County of Bernalillo, NM's $31.7 million in Gross Receipts Tax Revenue Bonds, Series 2017A and $11.4 million in Gross Receipts Tax Revenue Bonds, Series 2017B. The outlook is stable.

Assignment of the initial Aa2 rating is reflective of the county's large and stable economy; adequate legal provisions despite lack of debt service reserve fund; solid maximum annual debt service coverage; and, moderate historic revenue volatility, which is mitigated by the county's demonstrated willingness to implement and pledge additional revenue streams to the bonds. The rating also considers the broad-based nature of the sales tax pledge.

Credit Strengths

» Sizeable economy

» Strong projected maximum annual debt service coverage

» Implementation and pledging of additional revenue streams

Credit Challenges

» Tepid economic recovery post-Recession

» Lack of Debt Service Reserve Fund

» 15 year hold harmless phase-out, which will mute revenue growth

Rating Outlook

The outlook reflects our expectation that the county's GRT collections will remain stable over the mid-term, reflective of a solid economic base, anchored by military installations and institutions of higher education.

Factors that Could Lead to an Upgrade

» Significant increases in GRT collections, absent additional debt leveraging

» Further expansion of the local economy

Factors that Could Lead to a Downgrade

» Material declines in GRT collections; weakening of the county's economy

» Significant leveraging of the pledged revenue sources

Key Indicators

Exhibit 1

Bernalillo County, NM					
Credit Background					
Pledged Revenues	County's GRT				
Legal Structure					
Additional Bonds Test	2.0x MADS				
Open or Closed Lien	Open Lien				
Debt Service Reserve Fund Requirement	No DSRF				
MADS Coverage					
Pro forma MADS Coverage (x)	3.8x				
Projected Trend Analysis					
	2018	2019	2020	2021	2022
Estimated Debt Outstanding ($000)	204,463	188,740	172,047	156,278	140,474
Projected Revenues ($000)	82,925	82,925	82,925	82,925	82,925
Projected Annual Debt Service Coverage (x)	5.3x	5.0x	5.3x	5.2x	5.2x

Estimated debt (principal and interest) outstanding includes previously issued GRT bonds, which have the same revenue pledge, but different legal structure. Projected Annual Debt Service Coverage does not reflect expected utility savings per YESCO contract.
Source: County Disclosure; Moody's Investors Service

Detailed Rating Considerations

Tax Base and Nature of Pledge: Large Tax Base Housing One-Third of the State's Population; Broad Sales Tax Pledge

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 trend continues, with preliminary fiscal 2018 values of $15.9 billion, derived from a large full value of $47.8 billion, an increase of 2.1% year-over-year. 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 August 2017 Moody's Economy.com Albuquerque report indicates that the economy is in recovery, and indicates that job growth will resume in late 2017, which should help unemployment fall to a cyclical low of 5% in 2019. Furthermore, the metro area will continue to benefit from UNM and state and federal government facilities. The report does note that the city's high-tech industries are being outpaced by their counterparts in Colorado, Utah and California, however,

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 August 2017 unemployment rate of 6.1% was below the state (6.4%) but above the nation (4.5%) for the same time-period. Resident wealth levels are average with per capita income and median family income (2015 American Community Survey) approximating 92.5% and 91% of national levels, respectively.

The county's gross receipts tax (GRT) is considered a broad-based sale tax that is collected by the state and remitted to the county on a monthly basis. The GRT is imposed upon any person engaging in business in the county.

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.moodys.com for the most updated credit rating action information and rating history.

Debt Service Coverage and Revenue Metrics: Healthy Debt Service Coverage Anticipated

The county's GRT collections will likely continue to modestly increase due to ongoing economic development coupled with management's willingness to implement and pledge additional sales tax revenue streams. Historically, collections have exhibited some volatility, both during the recession and federal sequestration. In fiscal 2016, the county implemented its first 1/8th hold harmless GRT, and pledged the revenues to the repayment of bonds. As such, revenues increased to $60.6 million, or 44% year-over-year. Likewise, in fiscal 2018, the county implemented and pledged its second 1/8th hold harmless increment, which is expected to increase total collections to $82.9 million, or 31.8%. The county does not intend to enact further increments at this time. Despite these material, one-time increases in collections, over the long-term, revenue growth is expected to be muted due to the 15-year hold harmless phase out. Starting in fiscal 2016, the State is slowly reducing its subsidy to cities and counties for GRT associated with food and medical purchases. Specific to Bernalillo, the cumulative loss over the next 15 years is projected to be around $89.8 million.

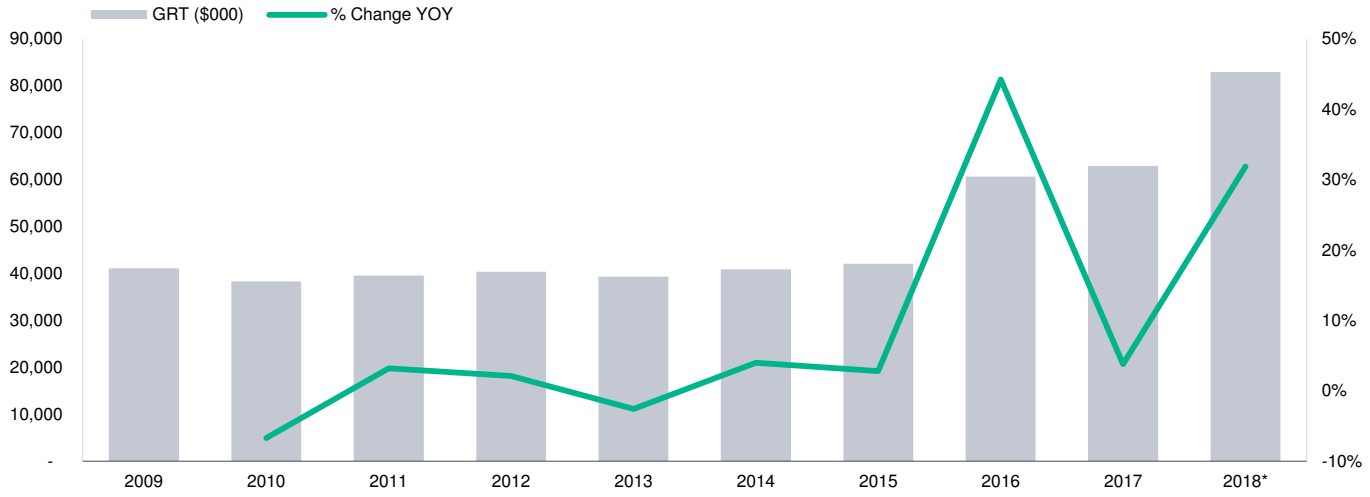
With the sale of the Series 2017 bonds, maximum annual debt service (MADS) will increase to $16.9 million and occur in fiscal 2019. Fiscal 2017 unaudited revenues of $62.9 million will provide MADS coverage of 3.77 times. Fiscal 2018 budgeted revenues increase to $82.9 million, improving MADS coverage to 4.97 times. Annual debt service coverage averages around 4.00 times until 2027 before increasing to 20 times barring further leveraging.

Debt service on the Series 2017B bonds is expected to be paid from utility savings. The county has entered into a contract with YESCO. This contract is being reviewed by the State, and will be voted on by the county commission in December. Based on YESCO's pro-forma projections, over the next 25 years, utility savings will be around $20.1 million. The debt, in turn, is structured to take advantage of these savings; debt service is effectively offset by utility savings. Assuming these savings are realized, MADS coverage, across all series, will increase to 3.90 times (based on fiscal 2017 revenues) and 5.14 times (based on the fiscal 2018 budgeted revenues).

Exhibit 2

GRT Collections Double as County Implements Additional Taxes

Historic Revenues were Flat, with Softening During the Recession



*Budgeted revenues

Source: County Disclosure

Debt and Legal Covenants: Adequate Legal Provisions Despite Lack of Debt Service Reserve

The county's GRT debt profile will likely remain manageable over the mid-term given no plans for additional debt and healthy annual debt service coverage, which mitigates the need for a reserve fund. The legal provisions of the current sale are adequate with a strong additional bonds test (ABT) at 2.00 times maximum annual debt service (MADS), countered by a lack of a debt service reserve. The county has an internal, commission-approved policy to maintain at least 4.00 times annual debt service coverage.

DEBT STRUCTURE

The county has $102.1 million ($100.7 million rated by Moody's) in outstanding GRT bonds, which are secured by the same pledge, but have a different legal structure (unlike the Series 2017 bonds, all outstanding debt has a debt service reserve fund, funded with bond proceeds at the lessor of the three-prong test). Post-sale, the debt structure, inclusive of outstanding bonds, is front-loaded, with around 78% of all debt service retired in ten years. Annual debt service declines precipitously in 2028, from $15.7 million to $3.9 million. MADS occurs in 2019 at $16.7 million.

DEBT-RELATED DERIVATIVES

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

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 special limited obligations, payable solely from, and secured by, an irrevocable and first lien (but not necessarily an exclusive first lien) upon the pledged revenues. Pledged revenues are defined as the 2/8th county GRT plus the 2/8th county hold-harmless GRT less $1 million for indigent care.

Use of Proceeds

Proceeds from the Series 2017A bonds will be used to renovate the county's new administrative facility. Proceeds from the Series 2017B bonds will be used to implement energy conservation and renewable energy measures for the county's Metropolitan Detention Center.

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 Public Finance Special Tax Methodology published in July 2017. 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
Gross Receipts Tax Revenue Bonds, Series 2017A	Aa2
Rating Type	Underlying LT
Sale Amount	$31,740,000
Expected Sale Date	10/24/2017
Rating Description	Special Tax: Non-Sales/ Non-Transportation
Gross Receipts Tax Revenue Bonds, Series 2017B	Aa2
Rating Type	Underlying LT
Sale Amount	$11,130,000
Expected Sale Date	10/24/2017
Rating Description	Special Tax: Non-Sales/ Non-Transportation

Source: Moody's Investors Service

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