

## CREDIT OPINION

11 June 2018

 Rate this Research

### Contacts

Heather Correia +1.214.979.6868  
 Analyst  
 heather.correia@moodys.com

Roger S Brown +1.214.979.6840  
 VP-Senior Analyst/Manager  
 roger.brown@moodys.com

Alexandra S. Parker +1.212.553.4889  
 MD-Public Finance  
 alexandra.parker@moodys.com

### CLIENT SERVICES

Americas 1-212-553-1653  
 Asia Pacific 852-3551-3077  
 Japan 81-3-5408-4100  
 EMEA 44-20-7772-5454

# Bernalillo (County of) NM

## Update to credit analysis

### Summary

Bernalillo County, NM (Aaa stable) has a strong and stable credit profile, supported by a large and regionally-important tax base, which is expected to continue expanding over the near-term; healthy financial position, with conservative budgeting resulting in a trend of sizeable surpluses; and, a modest direct debt profile. These attributes are weighed against the county's increasing unfunded pension liability, with annual contributions to PERA remaining below the treadwater payment. This risk is mitigated, in the near-term, by the county's ample reserve position.

### Credit strengths

- » Large and diverse tax base that serves as the economic engine for New Mexico
- » Healthy financial position
- » Low debt burden

### Credit challenges

- » Moderate reliance on economically-sensitive sales taxes (GRT)
- » Below average resident income indices relative to peers
- » Above average pension burden and widening treadwater gap

### Rating outlook

The stable outlook reflects the county's strong financial position with a recent trend of surpluses. The county's operating performance acts as a mitigant in light of an increasing pension burden and treadwater gap; however, future reviews will focus on Bernalillo's ability to manage its long-term liabilities.

### Factors that could lead to an upgrade

- » Not applicable

### Factors that could lead to a downgrade

- » A trend of deficits that reduces fund balances and cash reserves
- » Material tax base contractions or sustained declines in GRT collections

» Further increases to the pension and fixed cost burdens; operating surpluses that no longer eclipse the treadwater gap

## Key indicators

Exhibit 1

Bernalillo (County of) NM	2013	2014	2015	2016	2017
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$43,226,496	\$43,556,335	\$44,549,691	\$45,402,634	\$46,825,538
Population	667,092	671,429	673,943	674,777	676,685
Full Value Per Capita	\$64,798	\$64,871	\$66,103	\$67,285	\$69,198
Median Family Income (% of US Median)	93.9%	93.1%	91.0%	90.6%	90.6%
<b>Finances</b>					
Operating Revenue (\$000)	\$258,317	\$263,932	\$275,977	\$309,676	\$316,506
Fund Balance (\$000)	\$128,886	\$94,041	\$87,600	\$91,626	\$94,447
Cash Balance (\$000)	\$200,229	\$172,787	\$164,629	\$183,658	\$209,547
Fund Balance as a % of Revenues	49.9%	35.6%	31.7%	29.6%	29.8%
Cash Balance as a % of Revenues	77.5%	65.5%	59.7%	59.3%	66.2%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$256,195	\$247,851	\$245,026	\$234,021	\$224,835
3-Year Average of Moody's ANPL (\$000)	\$619,466	\$628,947	\$579,462	\$620,721	\$780,370
Net Direct Debt / Full Value (%)	0.6%	0.6%	0.6%	0.5%	0.5%
Net Direct Debt / Operating Revenues (x)	1.0x	0.9x	0.9x	0.8x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.4%	1.4%	1.3%	1.4%	1.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	2.4x	2.4x	2.1x	2.0x	2.5x

Source: County's CAFRs; Moody's; US Census (MFI)

## Profile

Bernalillo County, the economic and population hub of [New Mexico](#) (Aa1 negative (m)), 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](#) (GO Aa2 negative) and is home to the [University of New Mexico](#) (rev Aa2 negative), Kirtland Air Force Base and Sandia National Laboratories.

## Detailed credit considerations

### Economy and tax base: large, regionally-important base located in central New Mexico

The county's large tax base is expected to continue expanding due to ongoing residential and commercial development. Located in north central New Mexico, Bernalillo County encompasses the [City of Albuquerque](#) (Aa2 negative) and one-third of the state's population. The tax base is large, with fiscal 2018 assessed value of \$16.1 billion, derived from a full value of \$48.4 billion, and has appreciated modestly with a five year average annual growth of 2.3%. Management reports that the Department of Defense is investing \$175 million in constructing a new nuclear research facility, which will employ 1,200 people; Top Golf is opening a location in Albuquerque, which will add around 350 jobs; and Vitality Works (vitamin manufacturer) is expanding, creating 60 new jobs. Additionally, residential construction is steady, with single-family housing permits up 10% comparing Q1 2018 to Q1 2017.

Per the November 2017 Moody's Economy report, the Albuquerque MSA is in "recovery", and we expect that over the next couple of years, the city will have steady employment growth. Over the long-term, Albuquerque may be challenged to attract private sector industries, especially in tech, resulting in job growth that tracks in line with the US.

Major employers in the Bernalillo/Albuquerque MSA include the [University of New Mexico](#) (rev Aa2 negative), Kirtland Air Force Base, and Sandia National Laboratories. The institutional presence provided by these entities is an anchor for the local economy. Healthcare

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.

and high-tech industries also have significant presence in the employment base. The county's March 2018 unemployment rate of 4.5% was below the state (5.1%) but above the nation (4.1%) for the same period. Resident income levels are average yet below peers with median family income of approximating 90.2% of the US (2015 ACS).

### Financial operations and reserves: trend of surpluses increase fund balances

The county's financial position is expected to remain stable over the near-term given conservative budgeting. Fiscal 2017 (June year-end) ended with a sizeable surplus of \$11.5 million, increasing general fund balance to \$142.3 million, or a healthy 54.3% of revenues. Revenues primarily consist of property taxes (50%) and sales taxes (40%). The surplus was driven primarily by expenditures being far less than budget (\$240 million versus \$288 million); departments underspent and only \$7 million of the planned \$18 million in capital was invested.

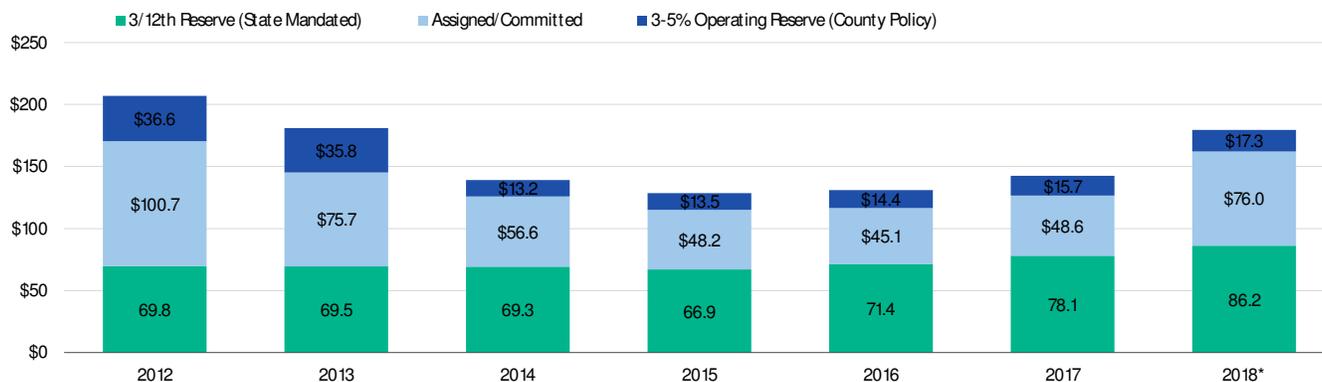
Fiscal 2018's budget was very conservative and assumed revenues of \$283.7 million against expenditures of \$304.2 million, including \$21 million for capital outlay. Based on updated projections, the county expects to report a \$48 million surplus due to higher revenues and lower expenses. Revenues are up due to the implementation of two new sales taxes: 1/8th hold harmless GRT (general purpose) and 1/16th county GRT (dedicated to public safety). Going forward, this will generate an additional \$30 million in annual revenues. Similar to fiscal 2017, fiscal 2018 expenditures are far below budget at a projected \$241 million; as such, general fund balance is expected to increase to \$179.5 million, or 62.1% of unaudited revenues. Additional sales tax dollars were not allocated to departments, but instead led to a higher surplus. In fiscal 2019, the county plans to spend a portion of these additional revenues on salary increases and capital.

The county prepares five year financial forecasts. Through fiscal 2022, the county has matched recurring revenues to recurring expenditures, and is not anticipating utilizing reserves to balance the budget. Revenue projections are conservative: for instance, property taxes are projected to increase by 1.6%, below the five year average of 2.3%.

As discussed further in the pension section, unfunded liabilities associated with the county's participation in PERA could eventually impact operations. Currently, the county is generating surpluses in excess of any funding shortfalls (contributions less treadwater). However, in event of reform, the county's contributions may materially increase, which could translate to use of reserves. Moody's will continue to monitor the county's financial position, focusing specifically on whether operating performance is sufficient to mitigate pension pressure.

Exhibit 2

### Strong budgetary performance has increased general fund balance since fiscal 2015



\*projected; note: the county's policy on operating reserve changed from 16% to 3-5% in fiscal 2015

Source: Moody's

### LIQUIDITY

General fund cash tracks closely to general fund balance. At fiscal 2017 year-end, the county had \$136.6 million in cash, or an ample 52.1% of revenues. Considering the operating funds, which include the general, debt service and gross receipts tax funds, the total liquidity climbed to \$209.5 million, or 66.2% of total revenues.

### Debt and pensions: low direct debt burden, but above average pension burden

Given the lack of major capital needs, stable assessed values, and average principal amortization, the county's debt burden will likely remain low and manageable over the long-term. At 0.6% of fiscal 2018 full value, the county's direct debt burden is in line with national medians. Included in the burden is \$140.8 million in sales tax (GRT) debt (Aa2). The county plans to approach voters in November 2018 to authorize another \$38.5 million in GO bonds, which will likely be issued in two installments in the subsequent years.

#### DEBT STRUCTURE

The county has \$125.6 million in fixed-rate, general obligation bonds. Principal amortization is average with 75% retired in ten years.

#### DEBT-RELATED DERIVATIVES

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

#### 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. Moody's fiscal 2017 adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data, is \$953.7 million, or a somewhat above average 3.0 times operating revenues.

The county's tread water gap, which amounted to 4.6% of fiscal 2017 operating fund revenues, has widened since fiscal 2015, and is elevated compared to peers. The "tread water" indicator measures the annual contributions required to prevent the reported net pension liability from increasing under the plan's assumptions. That is, it is the amount that the county would have to pay on an annual basis to ensure the liability does not increase. In fiscal 2017, pension contributions of \$14.8 million were below the treadwater payment of \$29.4 million, creating a gap of \$14.5 million, a credit weakness. Positively, the county is currently generating surpluses in excess of the gap. However, in event that the gap continues widening and/or surpluses are no longer sufficient to close the gap, the credit profile may be negatively impacted.

Fiscal 2017 fixed costs, including debt service, pension and OPEB contributions, are 17.1% of operating revenues, which is average. If the tread water payment is factored into the fixed cost calculation, fixed costs increase to 21.7% 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 county'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](http://www.moody.com).

### Management and governance: moderate Institutional Framework score

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.

New Mexico Counties have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources, such as property taxes and sales taxes, are subject to statutory caps, which cannot be overridden. However, the property tax cap of \$11.850 (per \$1,000 AV) and the available sales tax authority (varies by type) still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, New Mexico has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

© 2018 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.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

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. ("MJJK") 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 MJJK. 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. MJJK 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.

MJJK 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 MJJK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJJK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

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

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454