S&P Global Ratings assigned its 'AAA' long-term rating to Bernalillo County, N.M.'s series 2018 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the county's existing GO bonds. The outlook is stable.

The bonds constitute valid obligations of the county, and our rating reflects the pledge of unlimited ad valorem property taxes levied on all taxable property in Bernalillo County. We understand that the bond proceeds will be used for library projects, county facilities investments, transportation projects, storm drainage projects, and parks and recreation projects within the county.

The county's GO bonds are eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above the Sovereign--Corporate And Government Ratings: Methodology And Assumptions," U.S. local governments are considered to have moderate sensitivity to country risk. The county's locally derived revenues are the source of security for the bonds, and the institutional framework in the U.S. is predictable with significant U.S. local government autonomy. In a potential sovereign default scenario, U.S. local governments would maintain financial flexibility through the ability to continue collecting locally derived revenues and U.S. local governments have independent treasury management.

The GO rating reflects our view of the county's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 55% of operating expenditures;
- Very strong liquidity, with total government available cash at 82.0% of total governmental fund expenditures and 7.9x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 10.4% of expenditures and net direct debt that is 63.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 88.0% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Strong economy

We consider the county's economy strong. Bernalillo County, with an estimated population of 678,968, is located in the Albuquerque, N.M., MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 96.3% of the national level and per capita market value of $84,568. Overall, the county's market value grew by 2.6% over the past year to $57.4 billion in 2017.

The county, home to the city of Albuquerque, is the economic and cultural hub of the state, and we believe that it benefits from participation in the broad and diverse Albuquerque MSA. The county's population of about 680,000 accounts for nearly a third of state population, and has been mostly stable in recent years, having grown by only 4.7% cumulatively since 2010.

The county's economic base is diverse and includes manufacturing (Intel, Honeywell Aerospace, General Mills), technology (Raytheon), federal and military institutions (Sandia National Labs, Kirtland Air Force Base, the Air Force Research Laboratory), higher education, health care, and back-office centers for major multinational corporations. The film and television industry, in particular, has been a major source of growth in recent years. This diverse base, as well as the city's central role in the statewide economy, helped stabilize employment during the Great Recession: The county unemployment rate peaked at 7.7% in 2010, and has decreased to 5.5% in 2017 (below the statewide rate, but higher than the national rate). At the MSA level, nonfarm payrolls grew by 1.3% year-on-year in April 2018, and the University of New Mexico Bureau of Business and Economic Research projects overall job growth of 1.1% annually for the next five years.

The county's main tax bases were relatively stable during the recession, further reflecting local area's centrality to the state economy. Taxable gross receipts (the base for its gross receipts tax, or GRT) declined by 8.0% from 2008 to 2010, and have since been roughly flat overall, despite a significant increase in 2014 and 2015 followed by a reversion to trend. As of 2016 (latest full-year data), total taxable sales remain 4.4% below their 2008 peak, although the data for the first three quarters of 2017 show strong, 18.5% growth from the same period in 2016. The county's total assessed value (which is defined as one-third of market value less any exempted property) declined by 3.0% in fiscal 2011, and has since grown by 1.6% annually (through fiscal 2018), surpassing its fiscal 2010 peak in fiscal 2015.

Looking ahead, we are forecasting stable to positive near-term growth for the broader Mountain region, inclusive of New Mexico. We believe that the region's above-average population growth over the next two years will largely come from expanding employment in the professional service, hospitality, and leisure sectors. Given the region's focus on professional services, natural resources and mining, leisure, and hospitality, we expect that Mountain states are likely to experience minimal adverse economic effects from the recently announced tariffs on steel and aluminum and the broader tariffs on Chinese imports. As a result, we expect the broader macroeconomic forces to support our view of continued property tax and GRT growth for the county. For additional information, please refer to our U.S. State And Local Government Credit Conditions Forecast, published April 26, 2018, on RatingsDirect.

Very strong management

We view the county's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Key policies and practices include:

- A biennial budgetary process that ties the current-year budget to past trends and future projections, which are based on third-party forecasts of key economic variables, and provides a detailed analysis of key revenues and expenditures;
- Weekly expenditure reports and quarterly budget-to-actuals provided to the commission, with quarterly budgetary amendments as needed;
- A five-year general fund forecast that is updated annually and reviewed with the commission multiple times per year;
- A six-year capital improvement plan that is updated every two years, links projects with ongoing costs to the operating budget, and matches future GO bond funding to projects, but does not fully identify funding for all projects;
- A robust investment policy (further discussed below);
- A debt management policy that covers types of projects that may be funded with debt, debt service structures, credit enhancements, and variable-rate debt as well as debt refunding guidelines;
- A well-developed set of reserve and liquidity policies, including compliance with the state-required 25% reserve, an additional 3%-5% of the following year's operating expenditures held as an unassigned balance at the end of each fiscal year, and a requirement to hold 15% of annual operating expenses in liquid assets with maturities of less than 30 days.

Strong budgetary performance

Bernalillo County's budgetary performance is strong in our opinion. The county had operating surpluses of 3.3% of expenditures in the general fund and of 6.4% across all governmental funds in fiscal 2017. We have adjusted general fund expenditures to include recurring transfers out to other governmental funds that we view as expenditures.

The county has produced positive general fund and total governmental funds results since fiscal 2016, following a period of consecutive deficits from fiscal 2011 to fiscal 2015. The previous deficits were largely due to planned drawdowns of extremely high available fund balances for various infrastructure, public safety, and automation projects that were one time in nature.

The county's general fund revenue mix consists primarily of property taxes (49% of total general fund revenues in fiscal 2017) and GRT (43% of total revenues), and both of these major revenue sources have grown over the past three years. In fiscal 2018, the county increased its GRT rate by 3/16 of a percentage point to compensate for declining "hold harmless" payments from the state and to increase public safety funding. (Hold harmless payments originated in 2004, when the state exempted food and medical expenses from the state and local GRT levies, which made the tax less regressive but also reduced local GRT revenues. In order to limit the negative fiscal effects of this policy change on local governments, the state made annual hold harmless payments to cities and counties equal to their lost GRT revenue from the exempted food and medical expenses. In 2015, however, the state began phasing out these hold harmless payments over a 15-year period, but also gave local governments the option to increase their local GRT rate by up to 3/8 of a percentage point in order to recoup the lost revenue.)

The higher GRT rate, in combination with conservative budgeting practices that led the county to not budget for the increased revenues until later in the fiscal year, is leading the county to project an extremely large general fund surplus of 14.8% of revenues in fiscal 2018. We understand that the county will likely spend down a portion of this large surplus in subsequent years, so its effect on the available fund balance will be muted. The county's fiscal 2019 approved budget shows a general fund surplus of 4.0% of expenditures.

Very strong budgetary flexibility

Bernalillo County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 55% of operating expenditures, or $138.1 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The county's available fund balance increased to 55.1% of expenditures in fiscal 2017, from 50.0% in fiscal 2016. As discussed above, the county's large projected surplus for fiscal 2018 could bring its available fund balance to as high as 69.1% of expenditures this fiscal year, but we expect that this balance will decrease to near the fiscal 2017 level (but not materially lower) in subsequent years. We note that a significant portion of the county's large available balance is due to the 25% statutory reserve requirement.

Very strong liquidity

In our opinion, Bernalillo County's liquidity is very strong, with total government available cash at 82.0% of total governmental fund expenditures and 7.9x governmental debt service in 2017. In our view, the county has strong access to external liquidity if necessary.

In response to liquidity concerns in 2014, the county adopted an investment policy that, among other things, significantly shortened the weighted average maturing of its investment portfolio and increased the commission's oversight over investments. Prior to this change in the county's investment policy, the county held a significant position in securities with an average weighted maturity of over 11 years. The county continues to refine the investment policy with regular reviews. Overall, it is our belief that the new investment policy introduced a transparent, widely communicated, and conservative approach to the county's investments that provides stability to our view of the county's liquidity profile. We also understand that the county does not have any direct purchase or private placement debt that could contribute to liquidity pressure.

Strong debt and contingent liability profile

In our view, Bernalillo County's debt and contingent liability profile is strong. Total governmental funds debt service was 10.4% of total governmental funds expenditures in fiscal 2017, and net direct debt was 63.9% of total governmental fund revenue. Overall net debt is low at 2.8% of market value, and approximately 88.0% of the county's direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. The county is in the midst of a multiyear bond program with planned GO bond issuances every year through 2026. The series 2018 GO bonds will exhaust the county's current authorized GO bonding capacity, but we understand that it plans to seek voter authorization for about $38.5 million in additional capacity in 2018, and every two years thereafter through 2026, with annual issuances. We do not expect these planned issuances to change our view of the county's debt profile.

Bernalillo County's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 4.8% of total governmental fund expenditures in 2017. Of that amount, 4.2% represented required contributions to pension obligations, and 0.7% represented OPEB payments (figures do not add precisely due to rounding). The county made its full annual required pension contribution in 2017.

The county participates in the Public Employees Retirement Assn. (PERA), a cost-sharing, multiple-employer, defined-benefit retirement plan. PERA's funded ratio was 73.7% as of June 30, 2017, which we view as somewhat low. Additionally, we consider some of PERA's funding policies and actuarial assumptions to be risky. In particular, the plan effectively has no amortization schedule--instead, it calculates its amortization period annually based on statutory contribution rates and actuarial assumptions. As of the plan's 2017 actuarial valuation, the amortization period was 55 years, which we view as very long, and actual planwide contributions were only 90% of the actuarially determined contribution (which is based on an amortization of the unfunded liability over 30 years) in fiscal 2017. Additionally, the plan projects its mortality tables out only one year, which we view as a risky mortality assumption. However, the county's pension carrying charge of 4.2% of total governmental funds expenditures in fiscal 2017 is manageable, which we believe gives it some flexibility in accommodating potential higher costs in the future.

The county's OPEBs consist of health care benefits provided through the New Mexico Retiree Health Care Fund (a cost-sharing, multiple-employer plan). The plan is funded on a pay-as-you-go basis, and the county's contributions accounted for 0.7% of total governmental funds expenditures in fiscal 2017.

Very strong institutional framework

The institutional framework score for New Mexico counties is very strong.

Outlook

The stable outlook reflects our opinion that the county will maintain very strong liquidity and budgetary flexibility. The county's participation in a broad and diverse metropolitan area and what we consider strong financial management practices and policies enhance stability. Due to the aforementioned credit strengths, therefore, we do not expect to lower the rating during two-year outlook horizon.

Downside scenario

The rating could be pressured during our two-year outlook horizon if the local economy were to enter into a period of retraction and management did not adjust county expenditures to accommodate lower revenues, leading the county to reduce its available fund balance such that we come to believe its budgetary flexibility is materially weakened.

2017 Update Of Institutional Framework For U.S. Local Governments