

CREDIT OPINION

10 February 2016

New Issue

Rate this Research >>

Contacts

John Nichols 214-979-6851
 AVP - Analyst MIS
 john.nichols@moody's.com

James Hobbs 214-979-6844
 AVP-Analyst
 james.hobbs@moody's.com

Bernalillo County, NM

New Issue - Moody's Assigns Aaa to Bernalillo County's, NM \$25.3M GO Bonds, Series 2016 & 2016A; Outlook is Stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to Bernalillo County's, NM \$10.29 million General Obligation Bonds, Series 2016 and \$14.9 million General Obligation Refunding Bonds, Series 2016A. Moody's also has affirmed the Aaa rating on the county's outstanding parity debt. The outlook remains stable.

Credit Strengths

- » Large and diverse tax base that serves as the economic engine for the state of New Mexico
- » Healthy financial reserves that are state mandated and policy driven
- » Low debt burden

Credit Challenges

- » Tepid economic recovery, moderate reliance on GRT revenues
- » Recent losses on investment portfolio due to weaknesses with prior internal controls
- » Sizable draws on reserves in recent years has decreased a once very strong financial flexibility
- » Above average pension burden

Rating Outlook

The outlook for Bernalillo County is stable, reflecting the slow but positive economic recovery, anticipated maintenance of healthy reserves over the medium term, as well as the improved investment policy and internal controls recently implemented. The county's concentration in federal employment and procurement could be negatively impacted by federal spending reductions, which could erode economic stability and impact gross receipts tax collections. Future rating actions will assess the county's economic stability as well as management's ability to structurally balance operations.

Factors that Could Lead to an Upgrade

- » Not applicable

Factors that Could Lead to a Downgrade

- » Trend of imbalanced operations with deterioration of financial reserves
- » Weakening of the county's economic base or gross receipts tax collections
- » Weak internal controls persist after implementation of new investment policy

Key Indicators

Exhibit 1

Bernalillo (County of) NM	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 43,197,384	\$ 43,401,684	\$ 43,226,496	\$ 43,556,335	\$ 44,549,691
Full Value Per Capita	\$ 64,381	\$ 64,446	\$ 64,113	\$ 64,475	\$ 65,946
Median Family Income (% of US Median)	95.0%	94.0%	94.0%	94.0%	94.0%
Finances					
Operating Revenue (\$000)	\$ 293,223	\$ 278,266	\$ 258,317	\$ 263,932	\$ 275,977
Fund Balance as a % of Revenues	94.1%	94.3%	86.3%	71.1%	61.0%
Cash Balance as a % of Revenues	73.3%	86.1%	77.5%	65.5%	59.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 272,955	\$ 252,830	\$ 256,195	\$ 247,851	\$ 245,026
Net Direct Debt / Operating Revenues (x)	0.9x	0.9x	1.0x	0.9x	0.9x
Net Direct Debt / Full Value (%)	0.6%	0.6%	0.6%	0.6%	0.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.9x	2.4x	2.4x	N/A
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.2%	1.4%	1.4%	N/A

Source: Bernalillo County, NM; Moody's Investors Service

Recent Developments

Effective July 1st, 2015 (start of fiscal 2016), the county enacted a 2/8th of 1% Hold Harmless Gross Receipts Tax (HHGRT). The first 1/8th HHGRT will be used solely for behavioral health initiatives and the second 1/8th will be used for General Fund purposes. At the same time, the county repealed a 1/16th Operating GRT, which also was a General Fund revenue stream. The anticipated collections from these changes are expected to generate roughly \$8.3 million in additional General Fund Revenue.

Detailed Rating Considerations

Economy and Tax Base: Large Tax Base; Regionally Important Economy

We believe the county's economy and property tax base will continue to experience modest near-term growth given the county's regional importance to the economy. Located in north central New Mexico, 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 19% since the 2000 U.S. Census to 662,564 residents recorded in the 2010 U.S. Census. 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 growth from fiscal 2014 to 2016. The five year average growth rate of 1% annually further highlights the slow economic recovery. Fiscal 2016 assessed values increased by 1.9% over the prior year to reach \$15.1 billion, derived from a large \$45.4 billion full valuation. Management anticipates the tax base will remain stable in the near future. The December 2015 Moody's Economy.com Albuquerque report states that the economy will expand at a moderate pace and employment will surpass its prerecession peak later in 2016. The report also infers that weaker demographics and migration trends will prevent the area from returning to previous growth rates, but the stable government presence could potentially provide the foundation for a more dynamic private sector.

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

Major employers in the Albuquerque/Bernalillo County MSA include the University of New Mexico, Kirtland Air Force Base, and Sandia National Laboratories. The institutional presence provided by these entities is a stabilizing factor for the local economy. Potential federal spending cuts could erode the county's modest economic gains, by slowing housing development and impacting gross receipts tax revenues. Healthcare and high-tech industries also have significant presence in the employment base. The county's November 2015 unemployment rate of 5.7% was below the state (6.5%) and the nation (4.8%) for the same time period. Resident wealth levels are average with per capita income and median family income (2013 American Community Survey) approximating 95.2% and 93.9% of national levels, respectively.

Financial Operations and Reserves: Healthy Reserves Despite Investment Portfolio Losses and Multi-year Uses of Reserves

The county posted eleven annual surpluses from the twelve year period of fiscal 2001 through fiscal 2012, increasing General Fund balance from \$38.8 million (36.8% of revenues) at fiscal year-end 2001 to an ample \$207.1 million (83.6% of revenues) at fiscal year-end 2012. Conservative management practices and favorable budget variances led to the trend of surplus operations and reserve growth. Fiscal 2013 ended with a notable \$26.1 million reduction in reserves after a \$14.2 million mark-to-market loss and prior year reversal of investments and \$11.8 million of one-time capital related expenditures. Despite the loss and use of reserves, the total General Fund balance of \$180.9 million remained a strong 77.6% of General Fund revenues. The fiscal 2014 audit exhibited another sizeable \$41.8 million reduction in reserves after \$32.6 million of county projects and initiatives, \$4.9 million funding of the county's GRT debt service reserve fund, and \$4.3 million mark-to-market loss on investments. The use of reserves decreased the total General Fund balance to \$139.2 million, or a still ample 59.3% of revenues.

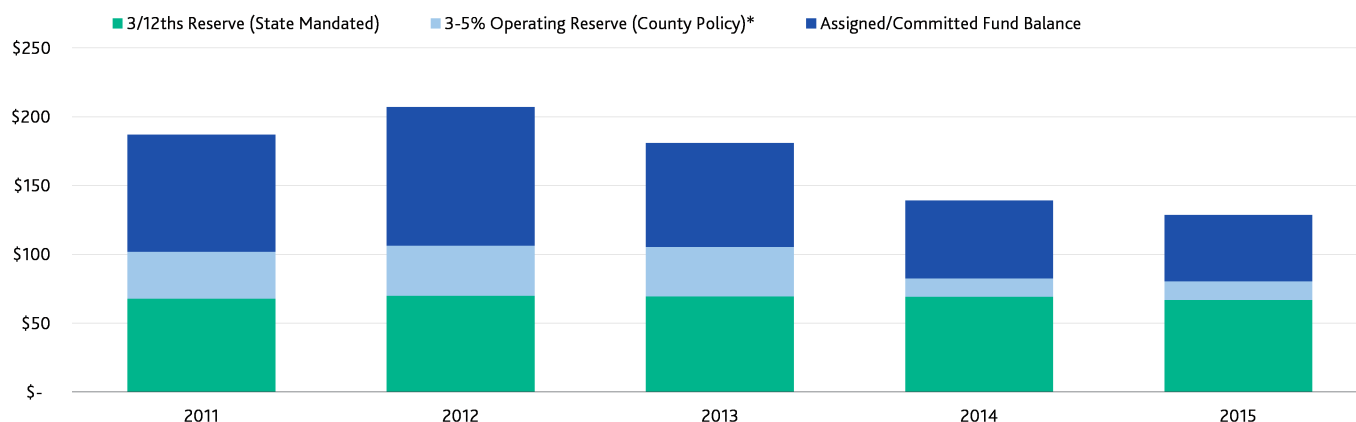
Management anticipated a sizable \$42.4 million draw on reserves in fiscal 2015 mainly for one-time expenses, but only realized a \$10.5 million use of reserves according to audited financial statements. County officials state that the large variance was driven by expenditure controls as well as decreased amounts of spending on capital after the prioritization of projects. The smaller than expected draw on reserves decreased the total General Fund balance to \$128.7 million, or a still ample 52.5% of revenues. Fiscal 2015 General Fund operating revenues were largely derived from property taxes (50.5%) and gross receipts taxes (41.1%). Inclusive of the county's Debt Service and Gross Receipts Tax Funds, total reserves equaled \$168.3 million (a strong 61% of revenues). Through fiscal 2015, the county's state-shared gross receipts tax has increased an average of 2.5% annually.

The state requires maintenance of 25% of budgeted expenditures in cash reserve. The fiscal 2015 General Fund balance includes a restricted portion equivalent to \$67.1 million at fiscal year-end, which satisfies this requirement. Additionally, the county has \$45 million assigned and committed for specific purposes, and \$13.5 million of unassigned fund balance. The unassigned portion of the reserve balance satisfies the recently amended fund balance policy of maintaining an additional 3-5% of budgeted expenditures (down from 16% of expenditures).

Exhibit 2

Reserves Expected to Remain Healthy Despite Planned Spending of Assigned/Committed Balances

\$ millions



*County's policy on operating reserve changed from 16% to 3-5% in fiscal 2015

Source: Bernalillo County, NM

Financial projections for fiscal 2016 includes roughly \$28.9 million in one-time capital spending carried over from the prior year. If all capital spending is fully realized, the total General Balance would decline to roughly \$96.8 million, or a still healthy 38% of budgeted revenues. Management reports that the carry-over funds are the committed and assigned portions of the General Fund balance and are expected to be expensed at some time, but not specifically in fiscal 2016. The majority of the county's one-time projects and initiatives are related to the county's detention center, with smaller portions used for public works, public safety, and information technology upgrades. Although the recent trend of reserve use and revision of the reserve policy is not credit positive, reserves are still healthy and aligned with the Aaa rating category. County management states that the uses of reserves are a part of a deliberate resizing of the county's reserve levels to be consistent with GASB recommendations. Inability to balance the fiscal 2017 budget without uses of reserves could place downward pressure on the rating.

LIQUIDITY

The liquidity within the county's General Fund tracks close to the total General Fund balance level. At fiscal year-end 2015 the county had \$128.5 million in cash, which represents an ample 52.4% of revenues. Inclusive of the Debt Service and Gross Receipts Tax Funds, the total liquidity equaled \$164.6 million or 59.7% of total revenues.

We note that the recent investment value losses were an indication of weak internal control, but recent actions have been taken to significantly reduce the portfolio's interest rate risk. Prior to the adoption of a new investment policy on April 1st, 2014, the county was investing in securities with no stated maximum on maturities, no diversification parameters, and only focused on yield and credit risk. This led to an investment portfolio that was heavily weighted in long term federal treasury and agency notes. The portfolio's duration of 8.2 years and average maturity of 11.4 years opened the county up to significant interest rate risk. The adoption of the county's new investment policy now limits security purchases with a maturity of five years or less, sets diversification limits, and states that the portfolio has to maintain a highly liquid portion equal to 15% of the county's operating budget. On April 9th, 2014, the county, with the help of their investment advisor, liquidated the portfolio's holdings in order to start the restricting process to adhere to the new investment policy. The liquidation resulted in a \$17.1 million realized loss portfolio loss, or a 6.5% decline in value. In the following weeks, security purchases were made in order to hit the target duration of two years. These recent actions are expected to eliminate future mark-to-market reversions in the General Fund, improve transparency of treasury operations, and provide safety and liquidity to the sizeable investment portfolio.

Debt and Pensions: Minimal Debt Burden But Above Average Pension Burden

Inclusive of the current issuances, the county's debt burdens are modest at 0.55% direct and 3.1% overall, both expressed as a percentage of fiscal 2016 full value. The debt burdens are inclusive of \$118 million in GRT debt (Moody's rated Aa2). The current \$10.29 million new money issuance is the second and last issuance out of the November 2014 election. The county plans return to voters every other year for about \$25 million of authorization. Given the lack of major debt plans, stable assessed values, and above average principal amortization, the county's debt burden should remain low and manageable over the long term.

DEBT STRUCTURE

Principal amortization is above average with 78.3% of outstanding debt (inclusive of current issuances) is repaid in ten years. All long-term general obligation debt matures in fiscal 2033. The county's debt policy only allows the issuance of bonds 15-year maturities or less.

DEBT-RELATED DERIVATIVES

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

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. Bernalillo County's annual contributions into the plan have been at the statutorily required amount, which is well below the actuarially required amounts and has driven the large unfunded liability. Moody's fiscal 2014 adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data, is \$474.7 million, or an above average 1.8 times operating revenues. The three year average of the county's ANPL to operating revenues is 2.38 times, while the three-year average of ANPL to full value is manageable at 1.44%.

Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city'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/pensions.

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 secured by a direct and continuing ad valorem tax levied against all taxable property within the county, without limitation as to rate or amount.

Use of Proceeds

Proceeds from the Series 2016 sale will be used to fund various projects around the county, including storm and wastewater, roads, parks, and libraries. The Series 2016A bonds will be used to refund the county's Series 2007 and 2007A bonds for an estimated net present value savings.

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 675,000 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 Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moody.com for a copy of methodology.

Ratings

Exhibit 3

BERNALILLO (COUNTY OF) NM

Issue	Rating
General Obligation Refunding Bonds, Series 2016A	Aaa
Rating Type	Underlying LT
Sale Amount	\$14,995,000
Expected Sale Date	02/16/2016
Rating Description	General Obligation
General Obligation Bonds, Series 2016	Aaa
Rating Type	Underlying LT
Sale Amount	\$10,290,000
Expected Sale Date	02/16/2016
Rating Description	General Obligation

Source: Moody's Investors Service

© 2016 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 CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("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.

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 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. ("MJKK") 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 MJKK. 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. MJKK 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.

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

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

REPORT NUMBER 1015727

Contacts

John Nichols
AVP - Analyst
john.nichols@moody.com

214-979-6851
MIS

James Hobbs
AVP-Analyst
james.hobbs@moody.com

214-979-6844

CLIENT SERVICES

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