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Ratings

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Summary:
Luna County, New Mexico; Sales Tax

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Summary:
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Credit Profile		
US$12.0 mil gross receipts tax ser 2016 due 12/01/2045		
Long Term Rating	A-/Stable	New

Rationale

S&P Global Ratings assigned its 'A-' underlying rating (SPUR) to Luna County, N.M.'s series 2016 gross receipts tax (GRT) revenue bonds. The outlook is stable.

The bonds are special obligations of the county and are payable solely from revenue from the three-eighths of 1-cent hold harmless gross receipts tax, which is imposed by Luna County but is collected and remitted monthly by the state. The county commissioners elected to implement the tax beginning Sept. 1, 2015. We understand the proceeds from the series 2016 bonds will be used for capital improvements to the Luna County Detention Center.

The rating reflects our view of the county's:

- Relatively stable pledged revenues based on historical figures of gross receipt tax collections;
- Good maximum annual debt service (MADS) coverage of 1.43x;
- Strong per capita retail sales at 115% of the national level; and
- Good additional bonds test (ABT) of 1.50x.

In our opinion, these strengths are partly offset by the county's shallow economy and below-average income indicators.

Recent changes in state legislation allows cities to implement as much as an additional three-eighths of GRT increment, known as "hold harmless GRT," to offset the loss of the in-lieu hold harmless state revenue. The hold harmless distributions by the state are in lieu of GRT revenue that the county would have received had the state not implemented certain food and medical deductions from gross receipts in 2004. The hold harmless three-eighths of GRT increment can be imposed only by a vote of the county commissioners and is not subject to voter referendum. There is outstanding litigation concerning the hold harmless GRT, which involves a county's ability to impose its hold harmless GRT within municipal boundaries but does not challenge a municipality's ability to impose the municipal hold harmless GRT. However, we note that a section in the legislation contains a debt impairment provision for hold harmless GRT revenue that has been pledged for debt service.

The county's pledged revenues have modestly fluctuated during the past four fiscal years but have remained relatively stable, and are projected to remain stable in the short term. Prior to 2011, pledged revenues were trending downward due to the overall decline in economic activity generally, which is reflective of the national economic downturn and specifically a decline in construction activity. In fiscal 2012, the county's pledged revenues spiked due to increased economic activity from the construction of an energy project and a temporary increase in border patrol agents living in

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the county. The top GRT remitters are in the retail, manufacturing, and healthcare and social services sectors.

Pledged revenues slightly increased in fiscal 2015 and projected by the county to show flat growth in fiscal 2016. Based on audited 2015 pledged revenues, we consider MADS coverage to be good at 1.43x. We expect MADS coverage to remain good, with a potential increase over the next several years as some capital projects in the county are undertaken.

The county can issue additional parity bonds provided pledged revenues from the previous fiscal year are at least 1.50x MADS for existing and proposed debt. Legal covenants include a debt service reserve fund funded at the least of MADS, 125% of average annual debt service, or 10% of principal.

The county issued series 2015 GRT bonds as special obligations of the county and payable solely from revenues from the hold-harmless gross receipt tax. The $1 million series 2015 GRT bonds were sold directly to Capital One. We understand acceleration is not permitted under the bond ordinance.

Economy

Luna County, with an estimated population of 24,917, is in southwestern N.M., about 200 miles east of Tucson, Ariz., and 60 miles west of Las Cruces, N.M. Deming is both the county seat and the largest city in the county. The county benefits from tourist traffic on Interstate 10 and is a seasonal destination for retirees due to its mild winters. The top employers in the county are in local and federal government, education, and agriculture, including food processing and wine production. Per capita effective buying incomes are adequate in our view, at about 64% of the national averages. Per capita retail sales are above average, at 115% of the national level.

Outlook

The stable outlook reflects our anticipation that pledged revenues will remain stable and provide at least good coverage on the bonds. We do not expect to change the rating within the two-year outlook horizon.

Upward scenario

If the economy were to expand, resulting in strong coverage levels commensurate with higher-rated peers, then we could raise the rating.

Downward scenario

If pledged revenues decline, resulting in marginally thin coverage levels, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special Tax Bonds, June 13, 2007
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Special Tax Bonds: U.S. Recovery Underpins The Sector's Stability, Sept. 14, 2015

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.