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RATINGS SERVICES

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Summary:
Santa Fe County, New Mexico; General Obligation

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Summary:

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Credit Profile		
US$19.0 mil GO imp bnds ser 2013 due 07/01/2028		
Long Term Rating	AA+/Stable	New
Santa Fe Cnty GO bnds ser 2008		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA+' long-term rating, and stable outlook, to Santa Fe County, N.M.'s series 2013 general obligation (GO) improvement bonds. At the same time, Standard & Poor's affirmed its 'AA+' long-term rating, with a stable outlook, on the county's parity GO debt.

The rating reflects what we view as Santa Fe County's:

- Relatively stable economic base that includes the city of Santa Fe, which is the state capital and county seat;
- Diverse tax base, albeit with some economic dependence on government and tourism;
- Very strong general fund position, including high cash reserve levels in recent years; and
- Low-to-moderate overall net debt burden as percent of market value.

The county's full faith and credit pledge and an unlimited ad valorem property tax on all taxable property within Santa Fe County secures the bonds. We understand that the county will use bond proceeds to fund various capital projects within the city, including road projects, water and wastewater improvements, and park projects.

Santa Fe County serves a population of 147,451 in north-central New Mexico, about 60 miles northeast of Albuquerque, N.M. The city of Santa Fe, the county seat, is also the state capital and one of the Southwest's premier tourist and resort destinations. The metropolitan statistical area (MSA) employment base is weighted toward the government sector, which represents 27% of 2012 nonfarm employment according to IHS Global Insight Inc., due to the city's role as the state capital. The federal, state, city, and county are among the leading 10 employers in Santa Fe County, along with a medical center, the public school district, and a casino. While the Los Alamos National Laboratory is the second-leading employer in the county after the state, federal and military employment only represents 2% of total nonfarm employment in the MSA. The transportation, trade and utilities, education and health services, and leisure and hospitality sectors are also leading component of Santa Fe MSA employment, representing 17%, 17%, and 15% of nonfarm employment in 2012, respectively. The county's seasonally unadjusted 6.0% unemployment rate in February 2013 is slightly lower than the state's 6.8% level according to the U.S. Bureau of Labor Statistics. With a high concentration of government-related jobs, we consider income levels good when compared with the national average. Santa Fe County's 2010 median household effective buying income (EBI) measures 105% of the nation, while per capita EBI is slightly stronger at 122%--likely due to the county's older demographic, with almost 14% of the county population over age 65 (112% of the U.S. average).

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The county's assessed value (AV) has remained relatively stable at $6.9 billion in 2012, with a corresponding market value of $21.1 billion, equating to an extremely strong $143,000 per capita. The tax base is very diverse, with the 10 leading property taxpayers, including primarily several utilities and real estate businesses, accounting for only 1.7% of AV.

Despite declines in gross receipts tax (GRT) revenue in the previous couple years, the county has maintained very strong available general fund balances. Including a $25 million restricted balance for the 3/12th mandated general fund reserve and $7.5 million in the committed fund balance for a commission-designated contingency reserve, Santa Fe County's available general fund balance was $56 million, or 175% of general fund expenditures and transfers, at the end of fiscal 2012. Before fiscal 2011, the county had historically transferred revenues for certain purposes collected in its general fund to other funds; however, in fiscal 2011, based on the implementation of Governmental Accounting Standards Board Statement 54, the audit created separate governmental funds to account for the county's corrections operations, law enforcement operations, and road maintenance operations, as well as related fund balances. The general fund has historically subsidized corrections operations and transferred $6 million in fiscal 2012 to the corrections operation fund. County officials report the annual general fund subsidy has declined from previous years and Santa Fe County also levies a corrections GRT, which generated $4.5 million in fiscal 2012 for corrections operations. Although general fund operating results have been positive in fiscal years 2011 and 2012, corrections operations ran operating deficits after transfers in the same period. In addition to corrections, the general fund transferred $9.3 million to the law enforcement operations fund in fiscal 2012, which accounts for the county sheriff operations.

Property taxes represent the majority of budgeted general fund revenues (77%) and GRT revenue for general operations represented 12.5% of budgeted revenue in fiscal 2013. County officials report GRT revenue has stabilized in fiscal 2013 and is trending better than budget. On a budgetary basis, Santa Fe County budgeted for $26 million in transfers primarily to the road, law enforcement, and corrections operations funds from the general fund contributing to the use of $16.6 million of combined fund balances; in fiscal 2012, the audited fund balances in these three nongeneral funds totaled $6.6 million. County officials estimate an actual $5 million draw on the total budgetary general fund balance at fiscal 2013 year-end due to both revenues and expenditures tracking 5%-6% better than budget. While Santa Fe County's general fund does not rely directly on federal revenue for operations, the county does receive certain revenue for housing and law enforcement programs, as well as grants, from the federal government that we understand could be reduced in the future due to sequestration and federal budget cuts.

Recent changes in state legislation will phase out the "hold harmless" distributions from the state to cities and counties starting in 2016. The distributions, which total $3.3 million for the county, or 11.6% of general fund expenditures, are in lieu of GRT revenues it would have received had the state not implemented certain food and medical deductions from gross receipts in 2004. The full impact of the change will be phased in over 15 years. The city projects that the first phase of these deductions at $227,000 in 2015, or only about 0.8% of general fund revenue. The legislature also provided cities and counties with the ability to increase GRT rates by up to an additional 3/8th of a cent without voter approval, although county officials don't expect to increase GRT rates. In 2012, California also passed legislation that exempted certain goods and service inputs in the construction and manufacturing process from GRT collections to be phased in over five years beginning in fiscal 2013. County officials have no estimates on the full impact on its operations of these changes to the tax base but indicate that construction-related GRT represents only 15% of total GRT collections.

Standard & Poor's considers Santa Fe County's management practices "standard" under its Financial Management Assessment (FMA) methodology. An FMA of standard indicates our view that the finance department maintains adequate policies in some, but not all, key areas. Highlights include a county reserve policy to maintain a $5 million contingency reserve in the general fund in addition to the state-mandated 3/12ths reserve as well as a month of reserves in all other funds. The county reports to the commission quarterly on the budget as well as on investment holdings and earnings. Santa Fe County bases assumptions that shape the budget on an analysis of historical trends in revenues and expenditures and develops a funding plan for capital needs in four-year cycles. However, the county has no formal debt policies beyond state mandates and financial forecasting is limited to a two-year time frame, including the budget year.

Including series 2013 GO bonds and overlapping debt, the county's overall net debt burden will remain moderate at $3,490 per capita, or a low 2.4% of market value. Debt service represented an elevated 15.9% of governmental expenditures, less capital outlay, in fiscal 2012. Including pro forma debt service, amortization is what we consider slightly below average with 52% of principal retired in 10 years and 90% retired in 20 years. This issuance represents the first issuance under a $35 million GO bond authorization in November 2012, and we understand that Santa Fe County could issue the remaining $16 million of GO debt authorized in 2015. The county generally returns to the voters to authorize GO bonds every four years and would likely seek another $35 million of GO authorization in 2016.

Santa Fe County contributes to the New Mexico Public Employees' Retirement Association plan and the New Mexico Retiree Health Care Fund defined health care plan. It currently contributes a portion of the employees' share of the pension contribution in addition to its full employer annual required contribution. The county's combined pension and other postemployment benefit contributions were $7.9 million, or 5.3% of governmental expenditures, in fiscal 2012.

Outlook

The stable outlook reflects our expectation that Santa Fe County's stable property tax base and stabilization of GRT, as well as the county's fund balance policies, will result in maintenance of very strong general fund balances despite operating cost pressures. Given the county's very strong financial position, we don't expect to change the rating in the next two years but could lower the rating in the long term if Santa Fe County were to rely on nonrecurring resources without a plan for structural budgetary balance.

Related Criteria And Research

- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: GO Debt, Oct. 12, 2006

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