Moody's Investors Service

New Issue: **MOODY'S ASSIGNS INITIAL Aa2 RATING TO SANTA FE COUNTY'S [NM] $13 MILLION CAPITAL OUTLAY GRT REVENUE BONDS, SERIES 2009**

Global Credit Research - 22 Sep 2009

Aa2 RATING AFFECTS ONLY THE CURRENT $13 MILLION SALE

County
NM

Moody's Rating

ISSUE	RATING
Capital Outlay Gross Receipts Tax Revenue Bonds, Series 2009	Aa2

Sale Amount	$13,000,000
Expected Sale Date	10/01/09
Rating Description	Capital Outlay Gross Receipts Tax Revenue

Opinion

NEW YORK, Sep 22, 2009 -- Moody's Investors Service has assigned an initial Aa2 rating to Santa Fe County's (NM) $13 million Capital Outlay Gross Receipts Tax Revenue Bonds, Series 2009. The Bonds are secured by an irrevocable and first lien, but not necessarily an exclusive first lien, on a portion (37.5%) of the 0.25% Capital Outlay Gross Receipts Tax revenues. Proceeds from the current offering will provide funds to purchase water rights in connection with water projects dedicated to unincorporated areas of the county. Assignment of the Aa2 rating reflects healthy projected debt service coverage, a sizeable and diverse tax base characterized by a favorable socioeconomic profile, and solid financial operations.

ADEQUATE LEGAL PROVISIONS

Legal covenants include an additional bonds test that requires the preceding year's pledged revenues to provide 1.5 times maximum annual debt service (MADS) coverage on all outstanding and proposed parity debt. The debt service reserve requirement is weak given that it is a springing reserve covenant requiring the creation of a reserve in the event pledged revenues fall below 1.25 times MADS on all outstanding parity bonds. The minimum reserve requirement is the least of 1) 10% of outstanding principal, 2) the maximum annual debt service requirement on all outstanding bonds, or 3) 1.25 times the average annual debt service requirement on all outstanding bonds. The reserve can be funded by a surety policy or cash funded through equal installments over a 24-month period. The bond ordinance allows surplus pledged revenues to flow to the General Fund to support operations.

LARGE AND DIVERSE TAX BASE

Santa Fe County encompasses 1,909 square miles in north central New Mexico. The City of Santa Fe (Aa3 general obligation rating) is home to the state capital and 10,000 state and federal government jobs, providing economic stability. In addition, Santa Fe has historically served as an upscale resort community and second-home destination for the population of the southwestern portion of the United States. As such, resident wealth levels are favorable as measured by a per capita income (from 2000 U.S. Census) that is 136.7% of the state and 109.3% of the U.S. medians. The July 2009 unemployment rate was 6.3%, well below the state (7.5%) and U.S. (9.7%) for the same reporting period.

The county's tax base has experienced a healthy 10.1% average annual increase over the past five years to reach a full value of $19.9 billion in fiscal 2009. Preliminary valuation estimates indicate the most recent year's growth has slowed to a modest 1.3%, yielding a full value of $20.1 billion for fiscal 2010. The county is not exposed to tax base concentration risk, given the top ten taxpayers comprise a modest 4.8% of the fiscal 2009 assessed valuation. Officials report a significant slowdown in high-end residential construction, as single-family housing permits declined 50% from 2007 to 2008 (calendar year). Additionally, second quarter 2009 existing home sales and median sale price were down 28% and 7.5%, respectively, as compared to 2008. The April 2009 Moody's Economy.com report indicates Santa Fe's abundant supply of well-educated human capital will create conditions necessary for a strong pace of economic growth and further suggests the area will outperform the U.S. economy over the long-term forecast horizon. Moody's anticipates a continued slowed pace of growth for the county's tax base over the near and medium terms.

AMPLE DEBT SERVICE COVERAGE

The current offering is secured by 37.5% of the county's Capital Outlay Gross Receipts Tax (GRT) revenues, which currently equals one-fourth of one percent (0.25%) of the total gross receipts reported in the county. The Capital Outlay GRT was approved by voters in 2002 and became effective January 1, 2003. Pledged revenues grew at a favorable 6.4% average annual rate between fiscal 2004 and fiscal 2008. Unaudited fiscal 2009 pledged revenues of $3.6 million indicate a 6.9% decline from the previous year, reflective of the economic downturn. Despite the decline, fiscal 2009 pledged revenues provide a healthy 3.46 times maximum annual debt service coverage (payable in 2012). The current sale is structured to have level debt service payments over 20 years, with 37% of principal retired in 10 years. County officials report plans to issue an additional $10 million of parity debt in 2010. Inclusive of the additional bonds and assuming level debt service structure and a 10% decline in pledged revenues, debt service coverage is expected to be approximately 2.15 times. Moody's believes that additional parity borrowing accompanied by a decline in pledged revenues could reduce debt service coverage to a level inconsistent with the high-quality Aa2 rating, thus resulting in negative rating pressure.

SOLID FINANCIAL OPERATIONS WITH STRONG RESERVES

The county maintains ample financial flexibility with a historically strong level of General Fund reserves. At FYE 2008 (June 30), the General Fund balance was $45.2 million, or a favorable 82.2% of General Fund revenues. Unaudited fiscal 2009 results reflect a $365,000 draw from reserves for one-time capital projects, yielding a General Fund balance of $44.8 million (80.8% of revenues). The current level of reserves far exceeds the state requirement that counties maintain three months of operating expenditures in reserve. In 2003, the county passed a resolution requiring the General Fund balance to exceed the state requirement by $2.5 million. The county has recently designated an additional $5 million for budget contingency purposes to be held in reserve.

General Fund revenues were primarily comprised of property taxes (61%) and gross receipts taxes (19%) in fiscal 2008. Due to the volatility of GRT revenues and the current recessionary economy, the county budgeted a 10% decline in GRT revenues for fiscal 2010. The General Fund continues to subsidize the correctional facility; in fiscal 2008 this transfer equaled approximately 18% of General Fund expenditures. Officials anticipate similar transfers to the jail facility in future years, as the county has recently (2006) taken over operations of the facility. Despite the considerable transfer to the jail facility, Moody's believes the county will continue to maintain ample financial flexibility given management's commitment to prudent fiscal practices.

KEY STATISTICS

2008 Population Estimate: 147,000

FY 2010 (preliminary) Full Value: $20.1 billion

Maximum Annual Debt Service Coverage (FY 2009 pledged revenues): 3.46 times

Payout of Principal (10 years): 37.4%

FY 2009 (unaudited) General Fund Balance: $44.8 million (80.8% of General Fund revenues)

Per Capita Income (2000 U.S. Census): $23,594 (136.7% of state; 109.3% of U.S.)

RATING METHODOLOGIES USED AND LAST RATING ACTION TAKEN

Santa Fe County's rating was assigned by evaluating factors believed to be relevant to the credit profile of the county such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals, v) the nature of the dedicated revenue stream pledged to the bonds, vi) the debt service coverage provided by such revenue stream, vii) the legal structure that documents the revenue stream and the source of payment, and viii) and the issuer's management and governance structure related to payment. These attributes were compared against other issuers both within and outside of Santa Fe County's core peer group and Santa Fe County's ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

The current report represents an initial rating on the county's Capital Outlay GRT bonds.

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