STANDARD & POOR'S

RATINGSDIRECT®

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Summary:

Santa Fe County, New Mexico; Sales Tax

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Summary:

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Credit Profile		
US$13. mil Capital Outlay Gross Receipts Tax rev bnds ser 2009 due 06/01/2029		
Long Term Rating	AA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating, and stable outlook, to Santa Fe County, N.M.'s $13 million series 2009 capital outlay gross receipts tax (GRT) revenue bonds.

The rating reflects what we view as the county's:

- Large economic base, including the state capital, the city of Santa Fe ('AA' general obligation [GO]);
- Broad base of pledged GRTs; and
- Strong debt service coverage.

We believe these strengths are offset by what we consider an adequate, but low, additional bonds test, which requires only 1.25x maximum annual debt service (MADS) coverage by pledged revenue and the restricted use of the pledged revenue for water or sewer-related capital purposes only. This

makes the leveraging of future pledged revenue likely, in our opinion, given the county's additional water-related capital needs.

A 37.5% share of Santa Fe County's one-fourth capital outlay GRT levied on all business transactions within the county secures the bonds. This share is dedicated to water and wastewater projects within the unincorporated county. We understand the county will use bond proceeds to finance the purchase of water rights associated with a river water diversion and treatment project, known as the Buckman Direct Diversion Project.

The series 2009 bonds are the only debt secured by the pledged revenue stream. MADS coverage by unaudited fiscal 2009 pledged revenue is what we consider a strong 3.46x, and 3.72x by fiscal 2008 audited pledged revenue. Pledged revenue fell by 7% in fiscal 2009 compared with the previous year due primarily to slower construction and retail trade activity. General fund gross GRT collections are also down 11% in the first two months of fiscal 2010 compared with the same period in the previous fiscal year. Santa Fe County first imposed the capital outlay GRT in fiscal 2003 for water and wastewater capital projects and, before fiscal 2009, pledged revenue had risen by an average of 6.5% per year through fiscal 2008.

Pledged revenue is distributed to Santa Fe County monthly by the New Mexico Taxation and Revenue Department and the county makes monthly deposits of one-sixth of the next interest payment and 1/12th of the next principal payment into the debt service fund. These funds are transferred to the paying agent at least two business days before the date debt service is due. The bond ordinance also includes a provision for a springing debt service reserve funded over a period of 24 months if pledged revenue in any fiscal year represents less than 1.25x MADS.

There is no other parity debt outstanding at this time; however, the additional bonds test permits additional debt if the pledged revenue in the previous fiscal year is sufficient to cover at least 1.25x MADS on all parity debt. Given the region's susceptibility to drought conditions, the county, along with the City of Santa Fe, is advancing a river water diversion and treatment project from the Rio Grande to meet drought conditions. County and city officials estimate the Buckman Direct Diversion Project will be completed in 2011 and will cost more than $200 million, which will be funded primarily by both the city and county. The county has plans to issue additional parity debt next year that could be secured by a larger portion of the one-quarter cent GRT stream, including the city's 37.5% allocation for water projects.

The county has maintained very strong unreserved fund balances in the general fund, in our opinion, ending with $41 million in fiscal 2008, or 108% of general fund expenditures, after transfers out to county jail operations and other funds. In fiscal 2009, Santa Fe County estimates it ended with generally break-even operations and a stable fund balance despite a 3% decline in GRT collections due primarily to higher than budgeted property taxes. County officials have conservatively budgeted for a 10% decline in GRT in and a 3% increase in property taxes in fiscal 2010.

Economy

Santa Fe County ('AA+' GO) is located in north-central New Mexico and serves a county population of approximately 145,000. The city of Santa Fe, the county seat, is also the state capital and one of the southwest's premier tourist and resort destinations. Per capita retail sales are above-average at 125% of the national average in 2008.

With a high concentration of government-related jobs, the unemployment rate for the Santa Fe metropolitan statistical area (MSA) is 6.1% as of June 2009 according to the Bureau of Labor Statistics, compared with a 9.5% rate for the nation. Of the 65,000 non-agricultural jobs in the MSA, the state of New Mexico provides 13%, or 8,300 positions, followed by St. Vincent Regional Medical Center and the Santa Fe School District. The tourism and services sector is also a leading component of the Santa Fe economy, in our view, with its historical downtown and proximity to the mountain resort Taos, 70 miles to the northeast. We view the median household estimated buying income (EBI) as good at 105% of the nation and per capita EBI as strong at 113% of the nation in 2008. Compared with the state average, median household EBI and per capita EBI are stronger at 118% of the New Mexico state average and 132% of the state average, respectively.

Outlook

The stable outlook reflects our expectation that the broad scope of pledged revenues should continue to provide revenue stability and good coverage despite the MSA's dependence on retail and tourism activity. The outlook also reflects Standard & Poor's expectation that, despite the county's additional water-related capital needs, an adequate additional bonds test should protect against excessive leveraging of future pledged revenue.

Related Research

USPF Criteria: "Special Tax Bonds," June 13, 2007

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