S&P Global Ratings

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Summary:

Santa Fe County, New Mexico; Sales Tax

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Table Of Contents

Rationale

Outlook

Related Research

Summary:

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Credit Profile		
US$29.0 mil capital outlay gross receipts tax rfdg rev bnds ser 2017 due 06/01/2030		
Long Term Rating	AA/Stable	New
Santa Fe Cnty SALESTAX		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Santa Fe County, N.M.'s series 2017 capital outlay gross receipts tax (GRT) revenue refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the county's series 2009, 2010A, and 2010B capital outlay GRT revenue bonds outstanding. The outlook is stable.

The series 2017 bonds are special obligations of the county and are payable solely from revenue from the one-fourth of one percent (0.25%) capital outlay GRT, which is imposed by Santa Fe County but is collected and remitted monthly by the state. Proceeds from the series 2017 bonds will be used to refund a portion of the county's series 2009, 2010A, and 2010B capital outlay GRT revenue bonds outstanding. The remaining maturities of the bonds to be refunded will be on parity with the series 2017 bonds pursuant to a 2017 ordinance, amending the security to 100% of the 0.25% capital outlay GRT (an increase from the prior increments of 37.5% of the 0.25%).

The rating reflects our view of the county's:

- Relatively stable economic base that includes Santa Fe, which is the state capital and county seat;
- Broad base of pledged GRTs with what we consider strong per capita retail sales relative to the national average; and
- Very strong, 3.1x maximum annual debt service (MADS) coverage based on fiscal 2017 results.

These strengths are somewhat offset by our opinion of the historical volatility of the county's pledged revenues.

Economy

We consider Santa Fe County's economy strong. The county has an estimated population of 149,518. Income levels are strong, in our view, with a per capita effective buying income of 117% of the national level and a median household EBI of 100%. The county's market value grew by 3.6% over the past year to $20.3 billion in 2016, equating to $136,036 per capita, which is extremely strong, in our view. The county unemployment rate was 5.4% in 2016. Per capita retail sales are strong, in our view, at 116% of the national level in fiscal 2016.

Santa Fe County is the third most populous county in New Mexico and encompasses approximately 1,900 square miles. The county's service area includes the state capital, Santa Fe, and as a result, we consider the county's tax base broad and diverse, as the county resembles a regional service center with a government focus. The county's major employer is the state (19,655 employees); however, the county also contains the Los Alamos National Laboratory

(9,543 employees) along with various health care and education providers typical of a state capital region.

Pledged revenues

The composition of the GRT by sector is relatively stable, as the top categorical contributions in 2016 stem primarily from retail trade (28.1%), accommodation and food services (13.6%), and construction (12.8%). Overall, we view the relative diversity of the revenue stream and lack of concentration within a single taxpayer to be a credit positive.

Following several years of decline due to the national economic recession, which slowed activity in the tourism, recreation, and construction sectors, the county's pledged revenues have grown consistently over the last four audited fiscal years, increasing by an annual average of 2.5% between 2012 and 2016. Estimated actuals for fiscal 2017 show an additional increase of about 1% to $10.1 million, providing what we consider very strong MADS coverage on the bonds of approximately 3.1x. The county's 2018 budget assumes a modest decline in pledged revenues of less than 1% as a result of the reductions in hold harmless contributions. However, management notes that it ultimately expects revenues to increase and offset the loss of the reductions as the local economy continues to grow. Within our two-year outlook horizon, we expect the underlying GRT trend to remain at least stable, despite the historical volatility and hold harmless distribution reductions, based upon our view of the dual depth and breadth of the GRT program and the strength of the underlying county economy.

Recent changes in state legislation will phase out the "hold harmless" distributions to cities and counties from the state starting in 2016. The distributions are in lieu of GRT revenues that the county would have received had the state not implemented certain food and medical deductions from gross receipts in 2004. The reductions will be phased in over 15 years. In fiscal 2016, the hold harmless distribution portion of the county's pledged GRT revenues represented about $2 million, or roughly 20% of total revenues that include the hold harmless. 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. Furthermore, we note that there was 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. We understand that a prior dispute between the county and the city of Española challenging the legislation that authorized the county GRT has since been settled with no impact to the county's hold harmless GRT.

Unlike many cities in New Mexico, the county generates the majority of its revenue from property taxes, which accounted for nearly 45% of governmental funds revenue in fiscal 2016. Pledged GRT revenues represent approximately 6.8% of total revenues for the same period.

Legal provisions

The additional bonds test (ABT) permits additional debt if the pledged revenue in the prior fiscal year is sufficient to cover at least 1.5x MADS on all parity debt. We understand that the county may issue additional GRT revenue bonds over the next three years, but has no additional debt plans for the capital outlay GRT lien at this time. 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 coverage.

Outlook

The stable outlook reflects our view that the broad scope of pledged revenues will remain at least stable over the next two years and continue to provide what we consider at least good coverage on the bonds, with the ABT protecting against excessive leveraging of future pledged revenue. We do not expect to change the rating within the two-year outlook horizon.

Upside scenario

If pledged revenues were to continue to grow, further strengthening MADS coverage to levels commensurate with those of higher-rated peers, we could raise the rating.

Downside scenario

We could lower the rating if the county's pledged revenues were to decline significantly, reducing coverage on the bonds to a level we no longer consider strong.

Related Research

Special Tax Bonds: U.S. Recovery Underpins The Sector's Stability, Sept. 14, 2015