MOODY'S INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa UNDERLYING RATING TO SANTA FE COUNTY'S (NM) $17.5 MILLION GENERAL OBLIGATION IMPROVEMENT AND REFUNDING BONDS, SERIES 2011

Global Credit Research - 08 Apr 2011

Aaa RATING AFFECTS $130.6 MILLION IN OUTSTANDING PARITY DEBT, INCLUSIVE OF CURRENT SALE

County
NM

Moody's Rating

ISSUE	RATING
General Obligation Improvement and Refunding Bonds, Series 2011	Aaa

Sale Amount	$17,500,000
Expected Sale Date	04/13/11
Rating Description	General Obligation Unlimited Tax

Opinion

NEW YORK, Apr 8, 2011 -- Moody's Investors Service has assigned a Aaa underlying rating to Santa Fe County's (NM) $17.5 million General Obligation Improvement and Refunding Bonds, Series 2011. Concurrently, Moody's has affirmed the Aaa rating on the county's $113.1 million in outstanding parity debt. Proceeds from the current sale will finance general improvements throughout the county.

RATING RATIONALE

The bonds are secured by ad valorem taxes levied against all taxable property within the county, without limitation as to rate or amount. The Aaa rating reflects the county's sizeable and diverse tax base, healthy financial reserves, and modest debt profile.

STRENGTHS

*Large tax base with significant institutional presence provided by state capital

*Favorable socioeconomic profile

*Ample financial reserves

CHALLENGES

*Recently declining gross receipts tax collections

*Jail operations reliant on support from General Fund

DETAILED CREDIT DISCUSSION

LARGE TAX BASE WITH FAVORABLE SOCIOECONOMIC PROFILE

Santa Fe County encompasses 1,909 square miles in north central New Mexico. The City of Santa Fe (Aa2 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, the county's median home value approximates 175.2% of the state and 158.4% of the national medians. Additionally, 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 December 2010 unemployment rate was 6.9%, well below the state (8.1%) and U.S. (9.1%) for the same reporting period.

The county's tax base has experienced a healthy 7.4% average annual increase over the past five years to reach a full value of $21 billion in fiscal 2011. The county is not exposed to tax base concentration risk, given the top ten taxpayers comprise a very modest 1.9% of total assessed valuation. Moody's Economy.com reports, "Cultural and geographic amenities will drive growth; Santa Fe's growing popularity as a retirement destination is a reflection of this trend. Santa Fe will outperform the national average over the long term horizon." Moody's believes the tax base will remain stable over the near term, and we expect modest growth to return over the intermediate to long term in line with global economic recovery.

SOLID FINANCIAL OPERATIONS WITH STRONG RESERVES

The county maintains ample financial flexibility with a historically strong level of General Fund reserves. The state requires counties to maintain a minimum level of reserves equivalent to three months of operating expenditures. The county's board adopted budget policy requires an additional one month of operating expenses be held in reserve on top of the state requirement. Although the General Fund balance has declined in each of the past two years ($2.5 million reduction in fiscal 2009 and a modest $36 thousand reduction in fiscal 2010), the draws from reserves were attributable to cash funding capital projects. The General Fund covered $8.8 million in capital outlay in fiscal 2009 and an additional $8.7 million in fiscal 2010. At FYE 2010 (June 30), the unreserved General Fund balance was $39.5 million, or a favorable 62.4% of General Fund revenues. The current level of reserves far exceeds the state requirement.

General Fund revenues are primarily comprised of property taxes (67%) and gross receipts taxes (12%). Due to the volatility of GRT revenues and the recessionary economy, the county budgeted a 5% decline in GRT revenues for fiscal 2011 (after assuming a 10% decline in fiscal 2010). Officials report year-to-date GRT collections are exceeding the budget by approximately 1.0%. The General Fund continues to subsidize the correctional facility; in fiscal 2010 this transfer equaled approximately 16.5% of General Fund expenditures. Officials anticipate significant transfers to the jail facility will continue 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.

FAVORABLE DEBT PROFILE

The county's debt burdens are 1.1% direct and 2.3% overall, both expressed as a percentage of fiscal 2011 full value and inclusive of Gross Receipts Tax-secured (GRT) debt. Moody's includes GRT debt in the county's debt burden because GRT revenues in excess of debt service obligations revert to the General Fund to cover recurring operating costs. When excluding GRT-secured debt, the county's debt burdens are reduced to 0.6% direct and 1.8% overall. Amortization is satisfactory with 62.8% of principal retired in ten years, but below the national median (71.8%). The current sale will deplete the county's general obligation debt authorization, but officials report plans to return to voters with a $45 million bond election in November 2012. Given the healthy rate of principal retirement and moderate plans for additional debt issuance, Moody's believes the county's debt profile will remain manageable over the medium term.

WHAT COULD CHANGE THE RATING-UP: n/a

WHAT COULD CHANGE THE RATING-DOWN:

*Trend of tax base contraction coupled with weakening socioeconomic indices

*Significant reduction of General Fund balance resulting in limited financial flexibility

KEY STATISTICS

2011 Estimated Population: 143,000

FY 2011 Full Value: $21 billion

Full Value per Capita: $146,558

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

Direct Debt Burden: 1.1%

Overall Debt Burden: 2.3%

Principal Payout (10 years): 62.8%

FY 2010 General Fund Balance: $44.2 million (69.8% of General Fund revenues)

FY 2010 Unreserved General Fund Balance: $39.5 million (62.4% of General Fund revenues)

Post-sale Parity Debt Outstanding: $130.6 million

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009.

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