MOODY'S
INVESTORS SERVICE

Rating Update: Moody's confirms Santa Fe County (NM)'s Aaa GO rating; outlook is stable

Global Credit Research - 16 Aug 2013

Confirmation affects $114.5 million in rated debt

SANTA FE (COUNTY OF) NM
Cities (including Towns, Villages and Townships)
NM

Opinion

NEW YORK, August 16, 2013 --Moody's Investors Service has confirmed Santa Fe County (NM)'s Aaa rating on the county's general obligation debt, affecting $114.5 million in rated debt. The county has an additional $19 million in general obligation debt not rated by Moody's for a total of $133.5 million in outstanding parity debt. The outlook on the county's debt profile has been revised to stable.

SUMMARY RATING RATIONALE

The bonds are secured by ad valorem taxes levied against all taxable property within the county, without limitation as to rate of amount. The rating confirmation reflects the determination of manageable pension costs of the county based on employer contributions that are paid out of self supporting non-major governmental funds and the county's very strong financial reserves. The Aaa rating continues to reflect the county's sizeable and diverse tax base, and a modest debt profile.

STRENGTHS:

*Ample financial reserves

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

*Favorable socio-economic profile

CHALLENGES:

*Above average ANPL

*Modest economic recovery evidenced by slow growth in tax base and GRT revenues

DETAILED CREDIT DISCUSSION

MANAGEABLE EXPOSURE TO UNFUNDED LIABILITIES RELATIVE TO SIZE OF OPERATIONS

The county has a manageable but still above average pension burden, based on unfunded liabilities associated with its share of statewide multi-employer cost-sharing plan. Santa Fe County makes annual contributions into the Public Employees Retirement Association of New Mexico (PERA), which is a multi-employer cost-sharing defined-benefit plan. The county's fiscal 2011 shared of PERA unfunded pension liabilities allocated by Moody's on a reported basis consist of an estimated $128 million, given the size of Santa Fe County's required contribution relative to plan-wide contributions. County management reports that numerous non-major governmental funds cover the proportionate share of employer contributions for employees that are accounted for within the separate funds. The combined operating revenues from the self supporting funds equals $100.5 million for fiscal year 2011. The size of Santa Fe County's employer contributions relative to plan-wide contributions results in a Moody's Adjusted Net Pension Liability of $252 million, or an above average yet still manageable 2.5 times operating revenues.

In April 2013, the New Mexico Governor signed a bill that seeks to address the funding status of the PERA plan, which increased employer contributions by 0.4% of payroll, increased member contributions by 1.5% of payroll, and decreased the cost-of-living-adjustment to 2.0% from 3.0%. Over the long term, an improved funding status of the state-wide plan will help alleviate the large liabilities associated to member entities.

LARGE TAX BASE WITH FAVORABLE SOCIO-ECONOMIC PROFILE

Santa Fe County encompasses 1,909 square miles in north central New Mexico (Moody's general obligation rated Aaa/STA). The City of Santa Fe (Aa3/STA) is home to the state capital and 17,000 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 is a high $296,000 or approximately 181.6% of the state and 158.1% of the nation. Resident wealth levels are above average, as measured by per capita income and median family income (from 2010 American Community Survey 5 year estimate) that approximate 117.8% and 101.7% of the national levels, respectively. The June 2013 unemployment rate of 5.9% below the state (7.6%) and nation (7.8%) is favorable and reflective of the stabilizing impact of the institutional presence of state and federal employment. The county's tax base has experienced stable 1% growth over the past five years to reach a full value of $21 billion in fiscal 2013. The county is not exposed to tax base concentration risk, given the top ten taxpayers comprise a very modest 2.0% of total assessed valuation. We believe the tax base will remain stable over the near term, and we expect modest growth to return over the medium 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. Over the past two audited fiscal years, the county has realized two significant General Fund surpluses of $14 million in fiscal 2011 and $13.4 million in fiscal 2012. For fiscal 2012, the surplus improved General Fund balance to $71.6 million or a strong 157.3% of revenues. We note the surplus was driven by property tax and gross receipt tax revenues exceeding budget estimates and salary savings from unfilled positions. For fiscal 2013, the county reports unaudited General Fund revenues exceeding expenditures by $3.7 million. General Fund revenues are primarily comprised of property tax 61.5% and gross receipts taxes 17.3%. We note that GRT revenues have experienced volatility during the national recession with three years of annual declines in 2009, 2010 and 2011. In fiscal 2012, GRT revenues returned to growth and modestly recovered with a 3.2% annual increase. For fiscal 2013, the county's GRT revenues grew a modest 0.3%, as reported by the New Mexico Taxation and Revenue Department, through June 2013. We believe the county will maintain ample financial reserves given the stable tax base and modest GRT recovery supported by favorable unemployment figures.

FAVORABLE DEBT PROFILE

The County's debt burden are 1.1% direct and 2.5% overall, both expressed as a percentage of fiscal 2013 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 1.0% overall. Amortization is satisfactory with 58.5% of principal retired in ten years, but below the national median 71.8%. Given current future debt plans and the rate of principal retirement, the county's debt profile will remain manageable over the medium term.

STABLE OUTLOOK

The assignment of the stable outlook reflects the sound financial management of the county resulting in very strong reserve levels and the recently passed reform that is expected to improve the overall funding status of the pension plan.

WHAT COULD CHANGE THE RATING UP: N/A

WHAT COULD CHANGE THE RATING DOWN:

* Trend of tax base contraction coupled with fundamental weakening of local economy

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

KEY STATISTICS:

2013 Estimated Population: 144,170

FY 2013 Full Value: $21 billion

Full Value per Capita: $144,957

2006-2010 ACS Per Capita Income: $32,180 (140.2% of state; 117.8% of U.S.)

2006-2010 ACS Median Family Income: $64,041 (121.8% of state; 101.7% of U.S.)

Direct Debt Burden: 1.1%

Overall Debt Burden: 2.5%

FY 2012 General Fund balance: $71.6 million (157.3% of General Fund revenues)

FY 2012 Unassigned General Fund balance: $23.6 million (51.8% of General Fund revenues)

Parity Debt Outstanding: $133.5 million

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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