S&P Global
Ratings

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Summary:
Santa Fe County, New Mexico; Sales Tax

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Summary:

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Credit Profile		
US$33.0 mil gross receipts tax rfdg bnds ser 2016 due 06/01/2035		
Long Term Rating	AA+/Stable	New
Santa Fe Cnty SALESTAX		
Long Term Rating	AA+/Stable	Affirmed
Santa Fe Cnty gross recpts tax rev bnds subord ser 1997A dtd 02/01/1997 due 02/01/99-2012 2018 2027		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Santa Fe Cnty sales tax		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Santa Fe County, N.M.'s series 2016 gross receipts tax revenue improvement & refunding bonds. At the same time, S&P Global Ratings affirmed its:

- 'AA+' long-term rating on the county's series 2008 senior lien gross receipt tax (GRT) bonds;
- 'AA' long-term rating on the county's series 1997A second-lien junior gross receipts tax revenue bonds; and
- 'A+' long-term rating on the county's subordinate series 1997 correctional system revenue bonds.

The outlook is stable.

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; and
- Very strong to strong debt service coverage for the liens.

These strengths are offset by historical volatility in the pledged revenues and an additional bonds test (ABT) that we view as adequate and that requires 1.25x maximum annual debt service (MADS) coverage by pledged revenue for the senior lien and 1.4x MADS for the junior and subordinate liens.

The bonds are secured by a gross pledge of a total five-16th portion (first one-eighth increment, the third one-eighth increment, and the one-16th increment) of the county's gross receipts tax. The series 2016 bonds and 2008 bonds are secured by a senior-lien pledge, the 1997A bonds are secured by a pledge subordinate to the senior bonds, and the 1997 bonds are secured by a junior subordinate-lien pledge. The series 2016 issuance will refund the majority of the county's outstanding 2008 obligations, as well as issue new money obligations to pay for the initial planning stages for reconstruction of the estimated $26 million county courthouse project.

Pledged revenues posted several years of declined in due to the national economic recession, which slowed activity in the tourism, recreation, and construction sectors. In fiscals 2010 and 2011, pledged revenues declined by 7.6% and 3%, respectively. In fiscal 2012, pledged revenues posted a signal of growth as revenues increased by 3% over the prior year, reaching $11.3 million. The county's most recent GRT figures are showing stable to strong growth as evidenced by a 5% increase in fiscal 2014 followed by a relatively flat year in fiscal 2015 to about $12 million. The composition of the GRT by sector is relatively stable as the fiscal 2015 top categorical contributions stem from retail trade (30.75%), construction (12.5%), and accommodation and food services (12.3%). We also note that the county's per capita retail sales, as a percent of the US, is a strong 133%. Overall, we view the relative diversity of the revenue stream and lack of concentration within a single taxpayer to be a credit positive.

Looking ahead, the county is posting relatively strong growth trends as the cumulative monthly GRT revenue trend is extremely strong with 10% to 15% cumulative monthly growth from the prior-year period. The county reported that revenue trends outside of the GRT, including property tax collections, are also posting strong growth. Within our two-year outlook horizon, we expect the underlying GRT trend to remain at least stable, despite the historical volatility. We base this view upon the dual depth and breadth of the GRT program and the strength of the underlying county economy.

As a result, pledged revenue remains very strong to strong as evidenced by:

- 4.61x MADS coverage for the senior-lien that includes the series 2016 issuance and remaining series 2008 maturities;
- 3.97x MADS coverage for the junior second-lien that includes the series 1997A bonds; and
- 2.28x MADS coverage for the subordinate-lien that includes the series 1997 bonds.

Due to an escalating debt service schedule for the series bonds, MADS for each lien occurs at the latter half of 2020 decade. Estimated annualized debt service coverage in fiscal 2016 is much higher for all liens at 6.7x, 5.4x, and 2.7x for the liens, respectively.

We consider the ABT to be adequate in that it requires that, before issuance of parity debt, pledged revenues for the prior 12 months to have provided 1.25x MADS coverage for the senior lien and 1.4x MADs for the subordinate lien. In addition, all liens maintain a debt service reserve (DSR). Specifically, the 2016 TARBs indenture will not fund a DSR and follow a springing reserve model as the county will be required to fund the DSR if pledged revenues fall to a level below 2x MADS coverage. We consider 2x MADs coverage to be an unlikely event. The remaining bonds maintain a cash DSR funded at MADs.

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 is a significant $4 million or about 25% of total revenues that include the hold harmless. The additional revenue would increase MADS coverage to an estimated 6.0x for the senior lien. At this time, we are not accounting for the additional hold harmless revenues as the city of Española challenged the legislation that authorized the county GRT and the dispute is not settled. Furthermore, the legislation also allows cities to implement up to an additional three-eighths of GRT increment to offset the loss of the in-lieu state revenue. To note, our coverage figures do not include the additional hold harmless revenues, though we could revise our coverage if the revenues become available.

The county can issue additional parity bonds provided pledged revenues from the previous fiscal year are at least 1.25x MADS for existing and proposed debt for the senior lien and 1.4x MADs for the junior and subordinate liens. Legal covenants include a debt service reserve fund. Looking ahead, we the county is anticipating additional bonded GRT debt as it looks to complete the estimated remaining $20 million county courthouse project.

County Financial Profile

Overall the county's finances, that include our view of its budgetary performance, is strong. The county adjusted general fund is observing a multiyear trend of steady revenue stability as adjusted year-to-year revenue receipt is tracking $78 million to $81 million (inclusive of inter-year volatility). Unlike many cities in New Mexico, the county generates the majority of its revenue from property taxes as the adjusted fiscal 2015 property revenue figure represented about 63% of total revenue for the period. Gross receipt taxes (GRT) represent approximately 20% of total revenues for the same period. The county's expenditure profile mirrors the revenue trend as its adjusted general fund performance remains positive. We do not anticipate significant changes to its expenditure profile within our two-year outlook horizon.

In addition, Santa Fe County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 83% of operating expenditures, or $63.3 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The county's available general fund balance is adjusted to include the fund balances that we consider to be available for debt service during a period of financial stress. Available reserves include a $12.9 million restricted balance for the three-12th mandated general fund reserve and $18 million in committed fund balances that we consider to be available. We note that the county's fund balances are supported by a formalized fund balance reserve policy and it has a track record of exceeding the policy, which we expect to continue through our two-year outlook horizon.

Economy

We consider Santa Fe County's economy strong. The county has an estimated population of 148,880. The county has a projected per capita effective buying income of 119% of the national level and per capita market value of $136,538. Overall, the county's market value grew by 2.5% over the past year to $20.3 billion in 2016. The county unemployment rate was 5.4% in 2015.

Santa Fe County is the third most-populous county in New Mexico. The county encompasses approximately 1,900 square miles and provides services for its growing population of about 144,000. The county's service area includes the state capital, Santa Fe, and as a result, we consider the county's taxing area as a broad and diverse tax base as the county resembles regional service center with a government focus. The county's major employer is the state (24,000 employees), however the county also contains the Los Alamos National Laboratory (10,000 employees) along with various healthcare and education providers typical of a state capital region.

Outlook

The stable outlook reflects our anticipation that pledged revenues will remain stable and continue to provide at least very strong to strong coverage on the bonds. As a result, we do not expect to change the rating within the two-year outlook horizon.

Upward scenario

If the economy were to expand, resulting in very strong coverage level commensurate with higher-rated peers, then we could raise the rating during our two-year outlook period.

Downward scenario

If pledged revenues decline, or if the county were to significantly bond down and dilute coverage, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special Tax Bonds, June 13, 2007
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 19, 2016
- Special Tax Bonds: U.S. Recovery Underpins The Sector's Stability, Sept. 14, 2015