S&P Global Ratings

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Summary:

Santa Fe County, New Mexico; General Obligation

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Credit Profile		
US$22.05 mil GO rfdg and imp bnds ser 2017 due 07/01/2033		
Long Term Rating	AA+/Stable	New
Santa Fe Cnty GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Santa Fe County, N.M. series 2017 GO improvement and refunding bonds. At the same time S&P Global Ratings affirmed its 'AA+' long-term and underlying rating to the county's existing GO bonds. The outlook remains stable.

Security and plan of finance

The county's full faith and credit and an unlimited property tax pledge secure the GO bonds. The bond proceeds will be dually used to refinance the county's existing series 2009 bonds as well as fund improvements within the county as a result of the $35 million GO bond authorization, which was approved in 2016. The series 2017 bonds represent the first issuance of the 2016 authorization.

The GO rating reflects our view of the following credit factors for the county:

- Strong economy, with market value per capita of $143,764 and projected per capita effective buying income (EBI) at 121% of the national level;
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2016 of 91% of operating expenditures;
- Very strong liquidity, with total government available cash at 132.7% of total governmental fund expenditures and 9.6x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 13.8% of expenditures and net direct debt that is 109.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 84.0% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Strong economy

We consider Santa Fe County's economy strong. The county has an estimated population of 149,518. The county has a projected per capita EBI of 121% of the national level and per capita market value of $143,764. Overall, the county's market value grew by 2.7% over the past year to $21.5 billion in 2018. The county's unemployment rate was 5.4% in 2016.

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.

The county's assessed value (AV) trend, which is calculated by dividing the market value by one-third less any property exemptions, is stable as the underlying AV is relatively unchanged in recent years. While New Mexico's property taxes are typically some of the lowest in the nation, the underlying AV trend is a key component of our local GO criteria and serves as a lagging indicator of economic stability. We note that the fiscal 2014 AV decline of 5.2% is due to a one-time assessor revaluation. The result is a 2% loss over the five year net-trend at the time. Looking ahead, we do not expect the county to post aggressive AV growth figures within our two-year outlook horizon, we also do not expect the county's AV to decline as we are expecting a stable result to continue through the outlook horizon.

Strong budgetary performance

Our view of the county's budgetary performance continues to rely upon internally adjusted data that includes combining funds into the general fund based upon national peer comparables. The funds that we merge into the general fund include fire and public safety funds and the corresponding net transfers. We note that those funds, historically, were reported within the general fund; however the county separated the funds to report grant and special revenue within a separate major and nonmajor government fund.

As a result of our adjustments, the county's adjusted budgetary performance remains at a level that we consider strong. In addition, our forward-looking view of the county's adjusted budgetary performance anticipates a strong level within our two-year outlook horizon. Based upon the new base year of fiscal 2016 (the most recent audit), the county had adjusted operating surpluses of 7.1% of expenditures in the general fund and of 8.1% across all governmental funds in fiscal 2016. Specifically, historical general fund operating results have been stable over the last few years, with a result of 5.3% in 2015 and a result of 6.2% in 2014.

Looking ahead to fiscal 2017 and 2018, we are expecting continued positive trends within the general fund as the county's gross receipt tax (GRT) revenue line is driving overall performance. Unlike many cities in New Mexico, the county generates the majority of its revenue from property taxes as the fiscal 2016 property revenue figure represented about 71% of total revenue for the period. We note that this ratio is similar to a neighboring peer Bernalillo County as it posted a 63% weighting to property taxes within the general fund. In addition, the potentially volatile GRT revenues represent only 20% of total revenues for the same period.

Very strong budgetary flexibility

Santa Fe County's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2016 of 91% of operating expenditures, or $70.8 million. We expect the available fund balance to remain above 75% 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. Based upon the fiscal 2016 audit, available reserves include a $12.3

million restricted balance for the 3/12ths mandated general fund reserve and $37.7 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.

As previously mentioned, we now expect the county to maintain available reserves at or above a level that we view as a "large balance" (equal to or above 75% of general fund operating expenditures). We base this view upon the county's estimated actuals for fiscal 2017, the recently released fiscal 2018 budget, and our opinion of the overall budgetary trend.

Very strong liquidity

In our opinion, Santa Fe County's liquidity is very strong, with total government available cash at 132.7% of total governmental fund expenditures and 9.6x governmental debt service in 2016. In our view, the county has strong access to external liquidity, if necessary. The county has been issuing bond transactions for the past 20 years and we expect the county to maintain strong access to the capital markets within our two-year outlook horizon. In addition, we do not expect its cash position to materially change during the outlook horizon with respect to its total governmental expenditures and debt service as it maintains a track record of good cash flow. Finally, the majority of the county's investments are in highly rated securities and demand deposits, which we do not consider aggressive.

Strong management

We view the county's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

- Revenue and expenditure assumptions that use multiple years of historical data for key assumptions that includes external data providers;
- Monthly financial reports provided to the governing body that include budget-to-actual comparisons;
- A long-term financial management plan that meets our FMA criteria for length of the time horizon, use within decision making, and at least annual updating;
- An annually updated capital plan that looks out five years and estimates costs;
- Disclosure of its investment holdings to the governing body on a monthly basis along with a formal investment management policy;
- Lack of a formal debt management policy that meets our FMA criteria; and
- Formal adopted reserve policy that goes beyond state requirements.

Strong debt and contingent liability profile

In our view, Santa Fe County's debt and contingent liability profile remains strong. Total governmental fund debt service is 13.8% of total governmental fund expenditures, and net direct debt is 109.5% of total governmental fund revenue as of the most recent audit. Overall net debt is low at 2.1% of market value, and approximately 84.0% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. The county does not have alternative financing on its balance sheet.

Santa Fe County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.0% of total governmental fund expenditures in 2016. Of that amount, 3.4% represented required contributions to pension obligations, and 0.6% represented OPEB payments. The county made 193% of its annual required pension contribution in 2016. The county participates in the Public Employees Retirement Association (PERA), a multiemployer defined-benefit pension plan. Of the divisions within the plan, the county participates in three, including: general division, police division, and the fire division. In addition, its combined net pension liability in fiscal 2015, per the new GASB reporting standards, is about $65 million or about 44% of total governmental funds expenditures for the same period. Finally, the funded ratio for the largest state plan is about 69% or a level that we view as weak.

The county offers other postemployment benefits (OPEBs) through the state-managed New Mexico Retiree Health Care Fund, a cost-sharing multiemployer defined-benefit plan. Based on the state framework, the county contributed 100% of its required contributions for audited fiscal 2015, representing $817,000 or 0.6% of total governmental funds expenditures for the same period. Benefits are established by state statute, which requires the county to fund current liabilities as they accrue.

Outlook

The stable outlook reflects our expectation that the county's available fund balances will remain at a level that we consider very strong and that it will post at least strong budgetary performance during our two-year outlook horizon. As a result, we do not expect to change the rating during the two-year outlook horizon.

Upward scenario

We could raise the rating within the two-year outlook horizon if the county's local economy were to improve to a level in line with 'AAA'-rated peers.

Downward scenario

We could lower the rating if the county were to reduce its fund balances to a level that we consider less than very strong or if the local economy were to deteriorate.

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 18, 2017
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.