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Summary:

Santa Fe County, New Mexico; General Obligation

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Summary:

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Credit Profile		
US$27.785 mil GO rfdg and imp rev bnds ser 2016 due 07/01/2036		
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.'s series 2016 general obligation (GO) improvement and refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA+' underlying rating (SPUR) on the county's existing GO debt. The outlook is stable.

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 2008 bonds as well as improvements within the county. With this issuance, the county will have about $8 million of remaining statutory limit for debt issuance.

The rating reflects our view of the county's:

- Strong economy, with market value per capita of $136,538 and projected per capita effective buying income at 119% 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 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 83% of operating expenditures;
- Very strong liquidity, with total government available cash at 125.3% of total governmental fund expenditures and 8.5x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 14.8% of expenditures and net direct debt that is 118.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 67.3% 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 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.

The county's assessed value (AV) trend, net of exemptions, is stable as the underlying AV is relatively unchanged despite the economic recession. 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. While 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. Finally, the county's income indicators continue to demonstrate a track record of improvement as the projected per capita effective buying income (EBI) grew to its current level of 117% from 100% in fiscal 2013.

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;
- 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 budgetary performance

Santa Fe County's budgetary performance is strong in our opinion. The county had operating surpluses of 5.3% of expenditures in the general fund and of 6.1% across all governmental funds in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term.

Our view of the county's budgetary performance relies upon 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. 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.

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.

The county's total governmental fund performance is also positive due in large part balanced to positive operations and a lack of significant fund supported capital outlay projects. Similar to the general fund, we do not anticipate any significant changes to the total governmental funds year-end result in our two-year outlook horizon outside.

Very strong budgetary flexibility

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.

Very strong liquidity

In our opinion, Santa Fe County's liquidity is very strong, with total government available cash at 125.3% of total governmental fund expenditures and 8.5x governmental debt service in 2015. 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 continue 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 debt and contingent liability profile

In our view, Santa Fe County's debt and contingent liability profile is strong. Total governmental fund debt service is 14.8% of total governmental fund expenditures, and net direct debt is 118.7% of total governmental fund revenue. Overall net debt is low at 2.9% of market value, and approximately 67.3% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

With this issuance, the county retains about $8 million of new within the existing authorization. The county does not have alternative financing on its balance sheet. We also note that the county is considering another authorization election within our outlook horizon.

Santa Fe County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.0% of total governmental fund expenditures in 2015. Of that amount, 3.3% represented required contributions to pension obligations, and 0.6% represented OPEB payments. The county made 195% of its annual required pension contribution in 2015.

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. When combined, the county contributed its required pension expense in audited fiscal 2015, representing about 4% of total governmental funds expenditures for the same period. In addition, its combined net pension liability in fiscal 2015, per the new GASB reporting standards, is $49.7 million. Finally, the funded ratio for the largest state plan is 73.3%.

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 $800,000 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.

Very strong institutional framework

The institutional framework score for New Mexico counties is very strong.

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 adequate 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 dramatically improve.

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.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 19, 2016
- 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
- 2015 Update Of Institutional Framework For U.S. Local Governments

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.