Moody's Investors Service

## New Issue: MOODY'S ASSIGNS Aa2 RATING TO SANTA FE COUNTY'S (NM) CAPITAL OUTLAY GRT BONDS, SERIES 2010A & SERIES 2010B

Global Credit Research - 08 Mar 2010

**Aa2 RATING AFFECTS $44.75 MILLION IN OUTSTANDING CAPITAL OUTLAY GRT DEBT, INCLUSIVE OF CURRENT SALES**

County
NM

**Moody's Rating**

| ISSUE | | RATING |
|---|---|---|
| Capital Outlay Gross Receipts Tax (Joint Water Project Allocation) Revenue Bonds, Series 2010A | | Aa2 |
| **Sale Amount** | $22,305,000 | |
| **Expected Sale Date** | 03/09/10 | |
| **Rating Description** | Sales and Use Tax | |
| Capital Outlay Gross Receipts Tax (County-Only Water Project Allocation) Revenue Bonds, Series 2010B | | Aa2 |
| **Sale Amount** | $10,355,000 | |
| **Expected Sale Date** | 03/09/10 | |
| **Rating Description** | Sales and Use Tax | |

**Opinion**

NEW YORK, Mar 8, 2010 -- Moody's Investors Service has assigned a Aa2 rating to the Santa Fe County's (NM) $22.3 million Capital Outlay GRT Revenue Bonds, Series 2010A and $10.4 million Capital Outlay GRT Revenue Bonds, Series 2010B. Concurrently, we affirmed the Aa2 rating on the county's $12.1 million in outstanding Capital Outlay GRT debt and $28.4 million in outstanding Senior Lien General GRT debt. The 2010A bonds are secured by an irrevocable and first lien on the "Joint Water Project Allocation" portion (37.5%) of the 0.25% Capital Outlay Gross Receipts Tax revenues; the current rating is an initial rating for this security pledge. The Series 2010B bonds are payable from an irrevocable and first lien on the "County-Only Water Project Allocation" portion (37.5%) of the 0.25% Capital Outlay Gross Receipts Tax revenues; this debt is parity to the Series 2009 Capital Outlay GRT obligations. Proceeds from the current offerings will finance construction of the Buckman Direct Diversion Project. Assignment of the Aa2 rating reflects adequate debt service coverage provided by a revenue stream that is restricted for specific purposes, satisfactory legal provisions, and no plans for future issuance of parity debt. The rating also incorporates the county's sizeable and diverse tax base, favorable socioeconomic profile, and solid financial operations.

ADEQUATE LEGAL PROVISIONS

Legal covenants include an additional bonds test that requires the preceding year's pledged revenues to provide 1.5 times maximum annual debt service (MADS) coverage on all outstanding and proposed parity debt. The debt service reserve requirement is weak given that it is a springing reserve covenant requiring the creation of a reserve in the event pledged revenues fall below 1.25 times MADS on all outstanding parity bonds. The minimum reserve requirement is the least of 1) 10% of outstanding principal, 2) the maximum annual debt service requirement on all outstanding bonds, or 3) 1.25 times the average annual debt service requirement on all outstanding bonds. The reserve can be funded by a surety policy or cash funded through equal installments over a 24-month period. The bond ordinance allows surplus pledged revenues to be used for any lawful purpose, which is restricted by the ordinance authorizing the Capital Outlay GRT levy.

RESTRICTED REVENUES PROVIDE SATISFACTORY DEBT SERVICE COVERAGE

The Capital Outlay GRT was approved by voters in 2002 and became effective January 1, 2003. The revenues generated by this levy are restricted for specific purposes, which is a key factor is the rating assignment. Pledged revenues grew at a favorable 6.4% average annual rate between fiscal 2004 and fiscal 2008. Fiscal 2009 pledged revenues of $3.6 million indicate a 6.9% decline from the previous year, reflective of the economic downturn. Given that pledged revenues for Series 2010A and Series 2010B are identical and the Series 2010A debt structure mirrors the combined debt structure of the Series 2010B bonds and outstanding parity debt, debt service coverage calculations are equivalent for each security. Fiscal 2009 pledged revenues provide 2.25 times maximum annual debt service (MADS) coverage. In a stressed scenario (assuming 10% decline in fiscal 2009 pledged revenues and no future growth), MADS coverage falls to a still-satisfactory 2.03 times. The county budgeted a 7.5% decline in pledged revenues for fiscal 2010; officials expect the budget will be met and report pledged revenues have been stabilizing in recent months. Further declines in pledged revenues could impact credit quality. The debt is structured for level debt service payments over 20 years, with 41% of principal retired in ten years. County officials report there are no plans to issue additional Capital Outlay GRT-secured debt.

LARGE AND DIVERSE TAX BASE

Santa Fe County encompasses 1,909 square miles in north central New Mexico. The City of Santa Fe (Aa3 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, 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 November 2009 unemployment rate was 6.7%, below the state (7.5%) and U.S. (9.4%) for the same reporting period.

The county's tax base has experienced a healthy 8.9% average annual increase over the past five years to reach a full value of $20.3 billion for fiscal 2010. The county is not exposed to tax base concentration risk, given the top ten taxpayers comprise a very modest 1.8% of total assessed valuation. Officials report a significant slowdown in high-end residential construction, as single-family housing permits declined 50% from 2007 to 2008 (calendar year). Although third quarter 2009 existing home sales increased 22% as compared to 2008, the median sale price declined by 7.1%. The December 2009 Moody's Economy.com report indicates Santa Fe's relatively diverse industrial profile and high degree of educational attainment will enable the metro are to outpace the national economy over the long term. Moody's anticipates a continued slowed pace of growth for the county's tax base over the near and medium terms.

SOLID FINANCIAL OPERATIONS WITH STRONG RESERVES

The county maintains ample financial flexibility with a historically strong level of General Fund reserves. At FYE 2008 (June 30), the unreserved General Fund balance was $41.5 million, or a favorable 75.5% of General Fund revenues. Fiscal 2009 results reflect a $2.5 million decline in total reserves, yielding an unreserved General Fund balance of $39.5 million (71.3% of revenues). Officials report the draw was due to one-time expenditures including water rights purchases and furniture and fixtures for new facilities; per adopted resolution, the General Fund will be reimbursed for the water purchases (approximately $4 million) during fiscal 2010. Officials report plans to utilize approximately $7 million of reserves to cash fund capital projects over the medium term. The current level of reserves far exceeds the state requirement that counties maintain three months of operating expenditures in reserve. In 2003, the county passed a resolution requiring the General Fund balance to exceed the state requirement by $2.5 million. The county has recently designated an additional $5 million for budget contingency purposes to be held in reserve.

General Fund revenues are primarily comprised of property taxes (68%) and gross receipts taxes (13%). Due to the volatility of GRT revenues and the current recessionary economy, the county budgeted a 10% decline in GRT revenues for fiscal 2010. Officials report GRT revenues are currently on track to meet the budget. The General Fund continues to subsidize the correctional facility; in fiscal 2008 this transfer equaled approximately 18% 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.

KEY STATISTICS

2010 Population Estimate: 158,624

FY 2010 Full Value: $20.3 billion

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

Maximum Annual Debt Service Coverage (FY 2009 pledged revenues): 2.25 times

Lowest Project Debt Service Coverage (assuming 10% decline in pledged revenues): 2.03 times

Payout of Principal (10 years): 41%

FY 2009 General Fund Balance: $42.7 million (77.1% of General Fund Revenues)

Post-sale Parity Debt Outstanding (Joint Water Project Allocation): $22.305 million

Post-sale parity Debt Outstanding (County-Only Water Project Allocation): $22.445 million

RATING METHODOLOGIES USED AND LAST RATING ACTION TAKEN

Santa Fe County's rating was assigned by evaluating factors believed to be relevant to the credit profile of the county such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals, v) the nature of the dedicated revenue stream pledged to the bonds, vi) the debt service coverage provided by such revenue stream, vii) the legal structure that documents the revenue stream and the source of payment, and viii) and the issuer's management and governance structure related to payment. These attributes were compared against other issuers both within and outside of Santa Fe County's core peer group and Santa Fe County's ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

The last rating action with respect to Santa Fe County was on September 22, 2009 when the initial Aa3 "County-Only Water Project Allocation" Capital Outlay GRT rating was assigned.

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