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Summary:

Santa Fe County, New Mexico; General Obligation

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Credit Profile		
US$12.985 mil GO imp bnds ser 2018 due 07/01/2035		
Long Term Rating	AAA/Stable	New
Santa Fe Cnty GO		
Long Term Rating	AAA/Stable	Upgraded

Rationale

S&P Global Ratings raised its long-term rating to 'AAA' from 'AA+' on Santa Fe County, N.M.'s outstanding general obligation (GO) bonds. At the same time, S&P Global Ratings assigned its 'AAA' long-term rating to the county's series 2018 GO improvement bonds with a par of $12.985 million. The outlook is stable.

The upgrade reflects our view of the county's maintenance of available fund balances above 75% of general fund expenditures (inclusive of our analytical adjustments, as described below) since fiscal 2015, and our expectation that the county will maintain fund balances at similar levels over the medium term. Our expectation is based on the county's economic stability given that it encompasses the state capital and has a significant federal presence, as well as the county's strong financial management practices, anchored by a multilayered and robust reserve policy. These strengths have led to strong budgetary performance, with consistently favorable budget-to-actual variances, which we expect will continue and remain resilient to all but a very severe economic downturn.

The county's GO bonds are eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. can in a stress scenario. Under our criteria "Ratings Above the Sovereign--Corporate And Government Ratings: Methodology And Assumptions," U.S. local governments are considered to have moderate sensitivity to country risk. The county's locally derived revenues are the source of security for the bonds, and the institutional framework in the U.S. is predictable with significant U.S. local government autonomy. In a potential sovereign default scenario, U.S. local governments would maintain financial flexibility through the ability to continue collecting locally derived revenues and U.S. local governments have independent treasury management.

The series 2018 bonds are general obligations of the county, payable from ad valorem taxes to be levied against all taxable property in the county without limitation as to rate or amount. We understand that the county is issuing the series 2018 bonds to finance improvements to its road system, water and wastewater systems, public safety facilities, and recreational facilities. The county has approximately $195.6 million in direct debt outstanding, excluding the series 2018 bonds.

The rating reflects our view of the county's:

- Strong economy, with market value per capita of $142,728 and projected per capita effective buying income 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 2017;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2017 of 97% of operating expenditures;
- Very strong liquidity, with total government available cash at 145.4% of total governmental fund expenditures and 9.7x governmental debt service, and access to external liquidity we consider exceptional;
- Strong debt and contingent liability profile, with debt service carrying charges at 14.9% of expenditures and net direct debt that is 143.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 81.1% 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 149,861. The county has a projected per capita effective buying income of 121% of the national level and per capita market value of $142,728. Overall, the county's market value grew by 1.6% over the past year to $21.4 billion in 2019. The county unemployment rate was 5.1% in 2017.

Santa Fe County is the third-most populous county in New Mexico. The county encompasses approximately 1,900 square miles, and its population has been stable in recent years, growing by 0.3% annually from 2010 to 2017. The county encompasses the state capital, Santa Fe, and as a result, we view its economy as somewhat concentrated in the government sector--although we do not consider such concentration to be risky, due to the sector's stability. Other major employment sectors in the county include health care, education, and cultural institutions. While Los Alamos National Laboratory is not located within the county, we understand that about a fifth of its employees live within the county, and that the county expects to benefit economically from a recently approved expansion of the laboratory.

The county's property tax base has been largely stable over the current economic cycle. Total assessed value (AV) declined in only one year following the Great Recession--by a minor 1.4% in collection year fiscal 2012--although it also declined by 5.2% in collection year fiscal 2015 due to a one-time assessor revaluation. Since then, AV has grown by a moderate 2.2% annually through collection year fiscal 2019, and we expect continued moderate growth in the near term. The county's taxable gross receipts have been somewhat more volatile, declining by a cumulative 16.5% from fiscal 2008 to fiscal 2011, and subsequently growing by 3.4% annually through fiscal 2018 (surpassing the fiscal 2008 peak only in fiscal 2018).

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 regularly monitor all of them.

Key policies and practices include:

- Conservative and well-developed budgetary assumptions that rely on multiple years of historical data, independent data providers, and budgeted contingency funds;
- Monthly financial reports provided to the county commission that include comparisons to the previous year's performance but not the current year's budget;
- Full general fund projections extending five years beyond the current budget year, updated annually;
- A rolling five-year capital improvement program that estimates annual costs for all projects but does not identify funding sources;
- A formal investment policy with quarterly reporting on holdings and performance to the commission;
- A lack of a formal debt management policy; and
- Compliance with the state's reserve requirement of 3/12 of annual general fund expenditures, as well as additional internal reserve requirements for contingencies, disaster recovery, uninsured losses, and infrastructure repair.

Strong budgetary performance

Santa Fe County's budgetary performance is strong in our opinion. The county had operating surpluses of 10.5% of expenditures in the general fund and of 6.8% across all governmental funds in fiscal 2017. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2017 results in the near term. In order to maintain comparability with county ratings nationally, we have consolidated the county's law enforcement and fire protection operations with the general fund for our analysis. (The consolidated funds consist of Law Enforcement Operations, Law Enforcement Protection, Fire Operations, Fire Protection, and Fire Impact Fees.) In order to focus on structural performance, we have also included recurring transfers into the general fund from the Environmental Gross Receipts Tax fund as revenues, and recurring transfers out of the general fund to the Road Maintenance fund, the Corrections Operations fund, and for debt service as expenditures. In fiscal 2017, property taxes accounted for 57.1% of our adjusted total general fund revenues, while gross receipts taxes accounted for 28.8%.

The county has a record of strong budgetary performance, with adjusted general fund surpluses of 6.3% and 9.4% in fiscals 2015 and 2016, respectively, with surpluses at the total governmental funds level as well. Based on unaudited general fund results for fiscal 2018 and the fiscal 2019 budget, we expect continued surpluses going forward, although perhaps at a lower level than in recent years. We note, however, that we have not been able to make all of the adjustments described above to the fiscal 2018 unaudited actuals and fiscal 2019 budget due to data limitations, which adds a small amount of uncertainty (upside and downside) to our forward-looking assessment; despite this uncertainty, we expect the county to maintain positive operations.

Very strong budgetary flexibility

Santa Fe County's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2017 of 97% of operating expenditures, or $76.2 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. We have included in our assessment of the county's available fund balance various fund balances that we believe would be available for debt service during a period of financial stress. In fiscal 2017 audit, these amounts include a $12.7 million restricted balance for the state-mandated 3/12ths general fund reserve and $29.2 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 that the county has a track record of exceeding its policy minimums, which we expect to continue through our two-year outlook horizon. We have based our expectation that the county will maintain an available fund balance above 75% of general fund expenditures on our analysis of fiscal 2017 audited results and our view of the county's fiscal 2018 unaudited actuals and fiscal 2019 budget.

Very strong liquidity

In our opinion, Santa Fe County's liquidity is very strong, with total government available cash at 145.4% of total governmental fund expenditures and 9.7x governmental debt service in 2017. In our view, the county has exceptional access to external liquidity, if necessary, having regularly issued multiple types of public debt over the past 20 years. 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 county's investments are in collateralized deposits, the money market, highly rated municipal securities, and U.S. Treasuries and Agencies, which we do not consider aggressive. We also understand that the county has no direct purchase or private placement debt outstanding, except for a de minimis loan from the Water Trust Board, a quasi-state agency that operates with legislative oversight.

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 14.9% of total governmental fund expenditures, and net direct debt is 143.9% of total governmental fund revenue. Overall net debt is low at 2.6% of market value, and approximately 81.1% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. The series 2018 bonds will exhaust the county's current GO bonding authorization. We understand that the county will seek voter authorization for additional bonding in November 2020, but we don't expect such future issuances to change our view of the county's debt profile, in large part due to the county's rapid debt amortization schedule.

The county participates in the Public Employees Retirement Assn. (PERA), a cost-sharing, multiple-employer, defined-benefit retirement plan. PERA's funded ratio was 73.7% as of June 30, 2017, which we view as somewhat low. Additionally, we consider some of PERA's funding policies and actuarial assumptions to be risky. In particular, the plan effectively has no amortization schedule--instead, it calculates its amortization period annually based on statutory contribution rates and actuarial assumptions. As of the plan's 2017 actuarial valuation, the amortization period was 55 years, which we view as very long, and actual planwide contributions were only 90% of the actuarially determined contribution (which is based on an amortization of the unfunded liability over 30 years) in fiscal 2017. Additionally, the plan projects its mortality tables out only one year, which we view as a risky mortality assumption. However, the county's pension carrying charge of 4.2% of total governmental funds expenditures in fiscal 2017 is manageable, which we believe gives it some flexibility in accommodating potential higher costs in the future. The county has maintained a practice of covering its employees' pension costs as well as its own employer costs in recent years, which has elevated its actual PERA contributions above its required contribution.

The county's other postemployment benefits consist of health care benefits provided through the New Mexico Retiree Health Care Fund (a cost-sharing, multiple-employer plan). The plan is funded on a pay-as-you-go basis, and the county's contributions accounted for 0.6% of total governmental funds expenditures in fiscal 2017.

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 economy will continue to demonstrate stability due to the influence of state and federal government operations, and that the county will maintain available fund balances above 75% of general fund expenditures (inclusive of our analytical adjustments) over the medium term. Accordingly, we do not expect to change the rating within the next two years.

Downside scenario

We could lower the rating if the county were to reduce its available fund balance to below 75% of general fund expenditures and we believe it is unlikely to return to that level in the near term, or if the county's pension costs were to escalate significantly and the county does not develop a plan to address its pension liability that we view as robust.

Related Research

2018 Update Of Institutional Framework For U.S. Local Governments