FitchRatings

FITCH RATES $102MM ALBUQUERQUE, NM GOS & GROSS RECEIPTS TAX BONDS 'AA+'; OUTLOOK STABLE

Fitch Ratings-Austin-15 January 2016: Fitch Ratings has assigned an 'AA+' rating to the following Albuquerque (the city), New Mexico bonds:

--$23.8 million gross receipts tax (GRT)/ lodgers' tax improvement revenue bonds taxable series 2016;
--$71.5 million general purpose bonds series 2016A;
--$6.5 million storm sewer bonds series 2016B;

The GRT/lodgers' tax bonds are scheduled to sell competitively on Jan. 20, 2016. The general purpose bonds and storm sewer bonds are scheduled to sell competitively on March 7, 2016. The GRT bonds and the general purpose bonds will finance various public improvements. The storm sewer bonds will finance storm sewer improvements.

In addition, Fitch has affirmed the following ratings:

--$129.5 million gross receipts tax revenue bonds at 'AA+';
--$89.0 million gross receipts/lodgers tax revenue bonds at 'AA+';
--$342.3 million general obligation (GO) bonds at 'AA+';

The Rating Outlook is Stable.

SECURITY

GRT/lodgers tax revenue bonds are payable from the 1.225% state shared GRT and the additional pledge of 50% of the city's 5% lodgers tax. The series 2016A general improvement bonds and the 2016B storm sewer bonds are payable from an unlimited property tax levy.

KEY RATING DRIVERS

BROAD ECONOMY: The city's economic base is broad. It has been slow to recover recessionary employment losses although the unemployment rate remains moderate.

FAVORABLE DEBT PROFILE: The city's debt profile remains positive, as evidenced by a very rapid GO payout rate, moderate debt levels, and manageable capital plans.

SOUND BUT PRESSURED FINANCIAL POSITION: City operations are heavily dependent on gross receipt taxes (GRT) which have experienced sluggish growth, pressuring the city's financial position. However, aggressive cost cutting measures have stabilized the city's financial operations. Taxing capacity provides an important element of financial flexibility.

AMPLE GRT COVERAGE: Debt service coverage of GRT bonds remains ample after this issuance. Leverage of GRTs has been used sparingly for high-priority projects.

RATING SENSITIVITIES

STABLE OUTLOOK: The Stable Outlook hinges on the city's ability to maintain an adequate financial cushion to offset its volatile revenue base while also containing expenditure growth.

CREDIT PROFILE

Albuquerque is the largest city in New Mexico, accounting for about one-quarter of the state's population. The city's population grew a notable 21.6% from 2000 - 2010 although recent growth trends have been very modest, resulting in an estimated population in excess of 557,000.

SLOW EMPLOYMENT RECOVERY

Recovery of the local employment base has lagged most of the U.S. in the wake of the last recession. During this period, the MSA's unemployment rate remained moderate and trended down annually although this was due partly to annual labor force contractions. The MSA's November 2015 unemployment rate increased modestly to 6.0% from 5.8% the year prior, below the state average (6.5%) but above the U.S. average (4.8%). Recent commercial projects include the new headquarters for Flagship Food Group that will add 300 jobs and an expansion of Comcast's bilingual customer service center projected to add 450 jobs. The film industry is surging in the MSA, providing $150 million in direct spending in 2015.

SLUGGISH GRT RECOVERY

GRTs, both state-shared and municipal, represented a high 64% of the city's general fund revenues in fiscal 2015. The recessionary impact on these major revenue streams was significant, leading to stagnation or notable declines from fiscal 2008 - 2010. It should be noted that a portion of municipal GRT revenue losses were the result of reductions in the local option GRT rate or lapses in GRT levy authority. In fiscal 2011, state-shared GRT (SSGRT) revenues returned to growth with a 3% gain. However, fiscal 2012 and fiscal 2013 SSGRT's fell below budget, growing by only 1.6% and 1.3%, respectively. Fiscal 2014 and 2015 (unaudited) GRT growth of 2.3% and 3.3% %, respectively, modestly exceeded their budgeted growth rates of 1.7% and 2.8%. Through the first four months of fiscal 2016, year-to-date SSGRT receipts are trending slightly above the city's budgeted growth of 3.1%.

STABLE HOUSING MARKET

As in other parts of the country, building permit totals soared before contracting considerably during the economic recession. However, because the area did not experience rapid home price appreciation, the local housing market remained fairly stable through the slowdown, posting only modest to moderate reappraisal losses in residential properties in fiscal years 2011 - 2013. Modest residential reappraisal gains and some new construction in all sectors have offset declining commercial reappraisal losses, leading to modest AV gains in fiscal years 2014 - 2015.

STABLE FINANCES DESPITE SLUGGISH REVENUE GROWTH

Officials have managed finances prudently in an environment of sluggish GRT growth. The city has posted a general fund operating surplus in four of the last six years through fiscal 2015. If adjusted for capital outlays, operating surpluses were recorded in every year of that period.

The fiscal 2015 audit indicates essentially balanced results, which compare favorably to management's forecast of an $8.4 million (1.7% of spending) net deficit (due to $21.6 million in planned non-recurring expenditures). The resulting unrestricted fund balance totaled $63.3 million or 12.9% of spending, inclusive of the city's one-month fund balance reserve.

The revised fiscal 2016 budget balances recurring revenues and expenditures, projects GRT growth of 3.1%, and includes a modest 1% pay hike for non-public safety personnel (excluding management) and a larger 5.9% catch-up pay hike for police officers. The budget also includes

$15.8 million in non-recurring appropriations, $4.7 million of which are for police reforms required by a settlement agreement with the U.S. Department of Justice. These one-time appropriations, netted against $4 million in non-recurring revenues, will require a reduction in total reserves of approximately $10.6 million (2.1% of spending). Management expects current year revenue and expenditure trends will narrow or close the budget gap and achieve balanced operations as in past years.

As demonstrated in recent years, the city has been responsive to periodic revenue gaps. Fitch considers management's continued attention to preserving its financial cushion under difficult circumstances a key credit consideration, particularly since the cushion is fairly low given the potential volatility of the largest revenue source.

The city's several untapped municipal GRTs do not require voter approval, but are subject to political consideration. The largest remaining GRT authority (0.5%) would provide an additional revenue potential of $68 million -- equal to a large 14% of fiscal 2015 general fund revenues and providing a significant source of financial flexibility in addition to fund balance. Voters did approve the reauthorization of a 0.25% municipal GRT in fiscal 2011.

MODERATE DEBT; RAPID AMORTIZATION

The city's debt profile is positively characterized by rapid GO and GRT bond amortization, moderate debt load, and a manageable capital plan. As a matter of policy, the city retires all of its GO bonds within 13 years and requires level principal payments. In October 2015, an average of 74% of voters approved GO bond propositions totaling $119 million as part of the city's 10-year capital improvement plan. The current offering is the first issuance from that authorization.

HIGH GRT DEBT SERVICE COVERAGE

The current GRT bond offering will fund a parking garage within the city's emerging entertainment district plus improvements to the city's convention center and civic plaza. Debt service coverage for GRT revenue bonds remains very high as expected, given that residual GRTs' are a major source of operational funding. Coverage of maximum annual debt service totals 8.7 times (x) based on fiscal 2015 revenues. The inclusion of lodgers' tax revenues in the pledge for certain parity GRT bonds (including the 2016 bonds) further increases coverage levels. After the current offering, the city does not plan to further leverage its GRT.

PENSION FUNDING POSITION STABILIZED

Full-time county employees participate in the Public Employee's Retirement Association (PERA) of New Mexico, a cost-sharing multiple-employer defined benefit retirement plan. The city fully funds its annual required contribution. PERA reforms effective in 2013 increased contribution rates and established a new tier of benefits for new hires which Fitch considers prudent.

Such reforms increased PERA's funded position to 74.9% as of June 30, 2015, up from 65% three years prior (pre-pension reform). Using Fitch's adjustment to reflect a 7% rate or return, the 2015 estimated funded position is lower but adequate at 69%. Other post-employment benefits (OPEB) are provided through the New Mexico Retiree Health Care Authority which is funded on a pay-as-you-go basis from employer and employee contributions. The carrying costs of GO and GRT bonds plus pension and OPEB obligations totaled a moderate 17.6% of total general government spending in fiscal 2014.

Contact:

Primary Analyst

Jose Acosta
Senior Director
+1-512-215-3726
Fitch Ratings, Inc.
111 Congress Avenue, Suite 2010
Austin, TX 78701

Secondary Analyst
Rebecca Moses
Director
+1-512-215-3739

Committee Chairperson
Karen Krop
Senior Director
+1-212-908-1661

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to less than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by the end of the first quarter of 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from CreditScope, IHS Global Insight, and Zillow Group.

Applicable Criteria
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

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