STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:
Albuquerque; Sales Tax

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Summary:

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Credit Profile		
US$29.53 mil GRT/lodgers		
Long Term Rating	AAA/Stable	New
US$1.98 mil GRT/lodgers		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Albuquerque, N.M.'s series 2014A gross receipts tax (GRT) refunding revenue bonds and 2014B GRT bonds. At the same time, we affirmed our 'AAA' rating on the city's outstanding GRT debt. The outlook is stable.

The ratings reflect what we view as the city's:

- Very strong 10.4x maximum annual debt service (MADS) coverage by pledged state-shared GRT revenue alone;
- Strong 125% retail sales per capita, reflecting the city's role as the economic center for the region, with what we consider strong links to the government, defense-related research, health care, and high-technology sectors;
- Stabilization in GRT collections since fiscal year 2010;
- Strong 2.25x additional bonds test (ABT) and dependence on pledged revenue for general operations, which reduces the likelihood of significant additional parity debt issuance.

State-shared GRT revenues of 1.225% secure the bonds. In addition to the state-shared GRT, a lien on 50% of the city's lodgers' tax, less administrative costs, secures the series 2004A, 2004B, 2009A, 2011A, and 2014 bonds. A pledge of net revenues of certain housing projects also secures the series 2008B bonds. A pledge of lease payments to the city from the lease of the baseball stadium and from surcharges on ticket sales, concessions, and other goods and services sold at the baseball stadium also secure the series 2011B bonds.

We based the rating on the credit characteristics of the state-shared GRT pledge, which we assess as stronger than those of the lodgers' tax, baseball stadium revenues, or net housing revenue pledge.

Series 2014 bonds will be issued to refund the city's 2004A bonds and the 2014B bonds will be issued to various construction costs related to the city's convention center.

GRTs are a broad-based sales tax collected by the state taxation and revenue department. Since 2010, the GRT revenue has increased an average of 2% a year through 2013. Fiscal 2014 is showing strong signs of growth as well, with year-to-date collections up about 1.7% over the previous year. The revenue stream is slightly volatile and declined by a cumulative 10% between fiscal years 2008 and 2010 due to the economic slowdown. Pledged state-shared GRT revenue alone provided a very strong 10.4x MADS coverage of all GRT debt, including new money additional debt and assuming revenue stays level with no growth.

In addition to the GRT revenue, in fiscal 2013, the city pledges 50% of lodgers' tax revenue, or $5 million in fiscal 2013, to support debt service on the series 2004A, 2004B, 2009A, 2011A, and 2014 bonds; however, lodgers' tax revenue alone does not fully cover debt service on those series. Lodgers' tax revenue has remained close to $10 million over the past four fiscal years.

Changes in state legislation in 2012 exempted certain goods and service inputs in the construction and manufacturing process from GRT collections. The full impact of the change will be phased in over five years beginning in fiscal 2013. Revenue trends for fiscal 2014 are showing strength, mitigating our concerns regarding any negative effects.

Bond provisions require pledged revenues from state-shared GRTs for the fiscal year or any 12 consecutive months of 18 months preceding the date of issuance provide 2.25x coverage of maximum future debt service on prior-lien and parity bonds. Although the bond ordinance allows for variable-rate debt issuance, city officials represent there is no variable-rate GRT debt outstanding. We understand that there are no debt service reserves for the GRT bonds, although the bond ordinance requires the city to segregate the pledged revenue it receives in a GRT income fund monthly for the next debt service payment before surplus is released for any other lawful purpose. While the ABT allows for 2.25x coverage, we don't expect the city would issue significant amounts of additional parity debt since it relies on state-shared GRT for general fund operations.

Outlook

The stable outlook reflects what we consider very strong 10.4x MADS coverage by GRT revenue alone and stabilization in pledged GRT revenues. We therefore don't expect to change the rating in the next two years. While unlikely, should additional debt issuance or declines in GRT significantly dilute coverage, we could lower the rating.

Economy

We consider Albuquerque's underlying economy strong despite somewhat weak projected per capita effective buying income at 96% of the national level and market value of $78,642 per capita. Albuquerque benefits from a broad and diverse economy. With a population estimate of 552,804, it is New Mexico's largest city and main economic center. In addition, it also benefits from a large amount of government-based jobs. In 2012, federal and local government employment in the Albuquerque metropolitan statistical area (MSA) accounted for 20% of nonagricultural jobs. Education and health services represent 16% of total nonfarm employment. The MSA's leading employers include Kirtland Air Force Base and Sandia National Laboratories. According to estimates from the U.S. Bureau of Labor Statistics, Bernalillo County unemployment was 7.1% for calendar 2012.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special Tax Bonds, June 13, 2007

Related Research

- Institutional Framework Overview: New Mexico Local Governments

Ratings Detail (As Of April 15, 2014)		
Albuquerque Mun Gross Receipts Tax		
Long Term Rating	AAA/Stable	Affirmed
Albuquerque GRT rfdg rev bnds		
Long Term Rating	AAA/Stable	Affirmed
Albuquerque GRT ser 2008B		
Long Term Rating	AAA/Stable	Affirmed
Albuquerque sales gross rcpts tax rfdg tax-ex & taxable bnds ser A&B dtd 10/6/2004 due 7/1/2005-2014 2024 2031 2033 2036-2037		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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