

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

Fitch Ratings-Austin-16 April 2014: Fitch Ratings assigns an 'AA+' to the following Albuquerque (the city), New Mexico bonds:

- \$54.8 million general purpose bonds, series 2014A;
- \$5.4 million storm sewer bonds, series 2014B;
- \$29.5 million gross receipts tax (GRT) / lodgers' tax refunding revenue bonds, series 2014A;
- \$1.98 million GRT / lodgers' tax improvement revenue bonds, series 2014B.

The general purpose bonds and storm sewer bonds are scheduled to sell competitively on April 21, 2014. The GRT bonds are scheduled to sell via negotiation during the week of May 5. The general purpose bonds will finance various public improvements, and the storm sewer bonds will finance storm sewer improvements. The GRT bonds will finance convention center improvements and refund outstanding debt for interest cost savings.

In addition, Fitch affirms the following ratings:

- \$327.9 million general obligation (GO) bonds at 'AA+';
- \$47.9 million gross receipts tax revenue bonds at 'AA+';
- \$74.1 million gross receipts/lodgers tax revenue bonds at 'AA+';

The Rating Outlook is Stable.

SECURITY

The series 2014A and 2014B GO bonds and outstanding GO bonds are secured by an unlimited property tax levy. GRT revenue bonds are secured by the 1.225% state shared GRT, and the GRT/lodgers tax revenue bonds are secured by the 1.225% state shared GRT and the additional pledge of 50% of the city's 5% lodgers tax.

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. The area's recent development as a high-tech hub may boost the pace of recovery.

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.

DEPENDENCE ON ECONOMICALLY VOLATILE REVENUES: Sluggish growth in gross receipt taxes (GRT), on which city operations are heavily dependent, has pressured the city's financial position. However, aggressive cost cutting measures have stabilized the city's financial prospects.

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

LARGE DEFENSE INSTALLATIONS POSE VULNERABILITY: The large presence of military and defense installations exposes the city's economic base to proposed military downsizing. Any resulting financial impact on the city's GRTs without offsetting actions could lead to downward rating pressure.

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 2000-2012 and currently exceeds 550,000. Fitch notes that the increase was spurred in part by the area's recent development as a hub for high technology.

STABLE HOUSING MARKET DESPITE BUST

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 has remained fairly stable through the slowdown, posting only modest to moderate reappraisal losses in residential properties in fiscal years 2011 - 2013. Larger reappraisal losses in non-residential properties, combined with some new construction in both sectors, led to essentially flat net taxable values over the last three fiscal years.

SLOW EMPLOYMENT RECOVERY

MSA employment has been slow to recover from recessionary declines. MSA employment remained flat in 2013 after posting a modest gain in 2012 and moderate declines during the recent recession. However, the county's 2013 annual unemployment rate remained moderate at 6.4%, below the state average (6.9%) and the U.S. average (7.4%). Recent commercial projects include a new Lowe's customer support center projected to add 900 jobs over two phases and the planned expansion of Eclipse Aviation with 100 jobs.

The president's proposed 2015 budget includes downsizing the country's military operations and might have a significant impact on the area's large federal installations. The combined workforce of Kirtland Air Force Base, Sandia National Labs, and the U.S. Forest Service exceeds 26,000, equal to 7% of the MSA's 2013 employment base. Fitch will continue to monitor the prospects for military downsizing and impacts on Albuquerque and other communities across the U.S.

SLUGGISH GRT RECOVERY

GRTs, both state-shared and municipal, represented a high 65% of the city's general fund revenues in fiscal 2013. 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. For the first half of fiscal 2014, year to date SSGRT receipts are trending above the city's budgeted growth of 1.7%.

CITY RESPONSIVE TO REVENUE DIPS

After significant revenue pressures caused large general fund losses in fiscal years 2008 - 2009, the city managed to stabilize its financial position through aggressive budget cuts. The current administration's first budget, in fiscal 2011, was notably austere as it imposed permanent wage reductions on city employees and suspended the third year of wage increases for police personnel.

After posting annual modest operating surpluses in fiscal years 2010 - 2012, the city recorded nearly balanced operations in fiscal 2013. Totalling less than \$900,000 (or 0.2% of spending), fiscal 2013's net operating deficit modestly reduced the unrestricted fund balance to a still solid \$58 million or 12.4% of spending, inclusive of the city's one-month fund balance reserve.

For fiscal 2014, the revised budget points to a modest \$1.9 million (0.4% of spending) general fund drawdown (due to planned non-recurring expenditures) although Fitch notes that the city's actual results often exceed projections. The proposed fiscal 2015 budget balances recurring revenues and expenditures, projects GRT growth of 2.7%, and includes modest 1% pay hikes for non-public safety personnel. The proposed budget also includes \$16.5 million in non-recurring appropriations, mostly funded with carry-forward funds, which will reduce total reserves but preserve the city's one-month reserve.

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 and lack of rate flexibility of the largest revenue source.

Although the city has several untapped municipal GRTs, they are subject to political consideration. However, voter support would not be required for imposing the city's largest source of remaining GRT authority (0.875%), providing additional revenue potential of \$107 million -- equal to a large 23% of fiscal 2013 general fund revenues. 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 a very rapid GO bond amortization rate, 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 November 2013, voters approved a \$116 million GO authorization as part of the city's 10-year capital improvement plan. After the current offering, the city plans to issue the remaining \$53 million of the authorization in 2015.

HIGH GRT DEBT SERVICE COVERAGE

The current new money GRT bond offering will fund various convention center improvements. Debt service coverage for GRT revenue bonds remains very high as expected, given GRTs' major role in funding operations. Coverage of maximum annual debt service totals over 10x based on fiscal 2013 revenues. The inclusion of lodgers' tax revenues in the pledge for certain parity GRT 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 72.9% as of June 30, 2013, up from 65% the year prior. Using Fitch's adjustment to reflect a 7% rate of return, the 2013 funded position is lower at 67%. 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 15% of total general government spending in fiscal 2013.

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In addition to the sources of information identified in the Tax-Supported Rating Criteria, this action was informed by information from CreditScope, University Financial Associates, S&P/Case Schiller Home Price Index, HIS Global Insight, Zillow.com, and National Association of Realtors.

Applicable Criteria and Related Research:

- 'Tax-Supported Rating Criteria' (Aug. 14, 2012);
- 'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

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