STANDARD & POOR'S RATINGS SERVICES
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Summary:

Albuquerque, New Mexico; Sales Tax

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Summary:

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Credit Profile		
US$32.65 mil gross receipts tax rfdg and imp rev bnds ser 2015A due 07/01/2037		
Long Term Rating	AAA/Stable	New
US$23.255 mil gross receipts tax imp rev bnds ser 2015B due 07/01/2037		
Long Term Rating	AAA/Stable	New
Albuquerque Mun Gross Receipts Tax		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Albuquerque, N.M.'s series 2015A gross receipts tax (GRT) refunding and improvement revenue bonds and 2015B GRT improvement revenue bonds. At the same time, we affirmed our 'AAA' rating on the city's outstanding GRT debt. The outlook is stable.

The ratings reflect our view of the city's:

- Very strong, 10.4x maximum annual debt service (MADS) coverage by pledged state-shared GRT revenue alone;
- Good, 108% retail sales per capita, reflecting the city's role as the economic center for the region, with strong links to the government, defense-related research, health care, and high-technology sectors;
- Stabilization in GRT collections since fiscal year 2010; and
- 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 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 2015A refunding bonds will be issued to refund a portion of the city's 2008B bonds and to fund various capital improvement projects related to transit, economic development, recreation, and communications. The series 2015B bonds will be used to fund various economic development projects and a sports complex.

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 2014. Fiscal 2015 is showing strong signs of growth as well, with year-to-date collections up about 2.6% over the previous year. The revenue stream is slightly volatile and

declined by a cumulative 10% between fiscal years 2008 and 2010 because of the economic slowdown. In fiscal 2014, pledged state-shared GRT revenue alone provided a very strong 11.6x MADS coverage of all GRT debt. Based on fiscal 2014 pledged revenues of $180.3 million, pro forma MADS coverage is 9.1x.

The city's pledged lodgers' tax revenue of $5.4 million (50% of lodgers' tax revenues) in fiscal 2014 covers annual debt service on the series 2004B, 2009A, 2011A, and 2014 bonds, but does not fully support MADS coverage alone. Lodgers' tax revenue has remained close to $10 million over the past four fiscal years, but increased to $10.7 million in fiscal 2014.

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 the past three fiscal years were stable, mitigating risks regarding implementation.

Recent changes in state legislation will phase out the "hold harmless" distributions to cities and counties from the state starting in 2016. The distributions are in lieu of GRT revenues that the city would have received had the state not implemented certain food and medical deductions from gross receipts in 2004. The reductions will be phased in across 15 years. The hold harmless distribution portion of the city's pledged GRT revenues have historically been about 10% of total revenues. The projected impact for fiscal 2016 is $1.2 million, which will not have a material effect on pledged revenues.

Bond provisions require that 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 that no variable-rate GRT debt is outstanding. We understand that there are no debt service reserves for the GRT bonds although the bond ordinance requires the city to segregate monthly the pledged revenue it receives in a GRT income fund 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 because it relies on state-shared GRT for general fund operations.

Economy

We consider Albuquerque's underlying economy to be adequate with adequate projected per capita effective buying income at 101% of the national level. Albuquerque benefits from a broad and diverse economy. With an estimated population of 563,000, it is New Mexico's largest city and main economic center. It also benefits from a large amount of government-based jobs. In 2014, federal, state and local government employment in the Albuquerque Metropolitan Statistical Area (MSA) accounted for 22% of nonagricultural jobs. Professional and business services, and education and health services represent 15% and 16% of total nonfarm employment, respectively. The MSA's leading employers are the University of New Mexico, Albuquerque Public Schools, and Sandia National Laboratories. According to estimates from the U.S. Bureau of Labor Statistics, Bernalillo County unemployment was 6.6% for calendar 2014.

Outlook

The stable outlook reflects very strong, 9.1x 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.

Related Criteria And Research

Related Criteria

USPF Criteria: Special Tax Bonds, June 13, 2007

Ratings Detail (As Of April 10, 2015)		
Albuquerque GRT rfdg rev bnds		
Long Term Rating	AAA/Stable	Affirmed
Albuquerque GRT ser 2008B		
Long Term Rating	AAA/Stable	Affirmed
Albuquerque GRT/lodgers		
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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