MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 rating to City of Albuquerque's, NM $54.9M GRT Revenue Bonds, Series 2015A&B; outlook stable

Global Credit Research - 14 Apr 2015

Aa2 rating affirmed on outstanding parity debt

ALBUQUERQUE (CITY OF) NM
Cities (including Towns, Villages and Townships)
NM

Moody's Rating

ISSUE		RATING
Gross Receipts Tax Improvement Revenue Bonds, Taxable Series 2015B		Aa2
Sale Amount	$10,110,000	
Expected Sale Date	05/04/15	
Rating Description	Special Tax: Sales	
Gross Receipts Tax Refunding and Improvement Revenue Bonds, Series 2015A		Aa2
Sale Amount	$44,785,000	
Expected Sale Date	05/04/15	
Rating Description	Special Tax: Sales	

Moody's Outlook STA

NEW YORK, April 14, 2015 --Moody's Investors Service has assigned a Aa2 rating to the City of Albuquerque's, NM $44.785 million Gross Receipts Tax Refunding and Improvement Revenue Bonds, Series 2015A and $10.11 million Gross Receipts Tax Improvement Revenue Bonds, Taxable Series 2015B. Concurrently, Moody's has affirmed the Aa2 rating on the city's outstanding parity debt. The outlook remains stable.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the city's sizeable economy serving as a regional economic hub, adequate legal provisions, ample maximum annual debt service coverage, and limited revenue volatility with few historic declines. The rating also considers the broad-based nature of the sales tax pledge.

OUTLOOK

The stable outlook reflects the city's slow but steady economic growth experienced in recent years, which is expected to continue through the near term. Moody's also notes that the city's concentration in federal employment and procurement could be negatively impacted by federal spending reductions, which could erode economic stability and impact gross receipts tax collections. Future rating actions will assess the city's economic stability and SSGRT collection trends.

WHAT COULD MAKE THE RATING GO UP

- Significant increases in SSGRT collections, absent additional debt leveraging

- Improvement in the city's economic recovery; expansion and diversification of the economy

WHAT COULD MAKE THE RATING GO DOWN

- Material contractions in SSGRT collections; weakening of the city's economy

- Significant leveraging of the pledged revenue sources

STRENGTHS

- Sizeable economic base serving as economic hub of New Mexico

- Strong maximum annual debt service coverage

CHALLENGES

- Tepid economic growth

- Lack of Debt Service Reserve

- Hold harmless distributions starting to phase out in fiscal 2016

RECENT DEVELOPMENTS

Recent Developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

TAX BASE AND NATURE OF PLEDGE: SIZEABLE BASE; REGIONALLY IMPORTANT ECONOMY

We believe the city's economic and property tax base will continue to experience modest near-term growth given the city's regional importance to the economy. The City of Albuquerque is located in the north central portion of the state and is home to approximately 25% of the state's total population. The city's tax base growth has slowed to a limited 0.3% average annual rate between fiscal years 2010 and 2015. Taxable values declined a modest 0.6% in fiscal 2013 to $11.87 billion, derived from a full value of $43.5 billion. Management attributes the decline to a softening of commercial values. Expansion resumed in fiscal 2014 and fiscal 2015 with a 2.2% increase in the most recent year that increased taxable values to $12.2 billion, derived from an estimated large full value of $44.8 billion. Officials anticipate modest taxable value growth to continue into fiscal 2016 and fiscal 2017 as the number building permits rises. The city's tax base exhibits limited concentration with the top ten taxpayers contributing 3.2% to total assessed valuation for fiscal 2015. The city's top tax payer PNM Electric, contributes 1.4% to total assessed valuation for the same time period.

The December 2014 Moody's Economy.com report for Albuquerque states that the area has held off from falling back into recession despite lingering effects from sequestration and the 2013 government shutdown, but will significantly lag the rest of the U.S. job and income growth. The report also states that weaker demographics and migration trends will prevent the area from returning to previous growth rates, but the stable government presence could potentially provide the foundation for a more dynamic private sector.

Major employers in the Albuquerque MSA include the University of New Mexico, Kirtland Air Force Base, and Sandia National Laboratories. The institutional presence provided by these entities has historically been a stabilizing factor for the local economy. We note that potential federal spending cuts could erode the city's modest economic gains, slowing housing development and impacting gross receipts tax revenues. Healthcare and high-tech industries also have significant presence in the employment base. Favorably, the city's January unemployment rate of 5.4% was below the state (6.2%) and nation (6.1%) for the same time period. Resident wealth levels are modest with per capita income and median family income (from 2012 American Community Survey) approximating 94% and 93.1% of national levels, respectively.

The 1.225% state-shared gross receipts tax (SSGRT) is considered a broad-based sale tax that is collected by the state and remitted to the city. The SSGRT is levied against all retail trade, professional, scientific and technical services, and accommodation and food service within the boundaries of the city.

DEBT SERVICE COVERAGE AND REVENUE METRICS: LIMITED REVENUE VOLATILITY AND AMPLE MADS COVERAGE

We believe the SSGRT pledged revenue stream will continue to experience modest growth in line with historical trends. The revenue stream experienced average annual increases of 1.5% over the past ten years. The most recent five year history was heavily influenced by declines of 5.5% and 6.0% in fiscal 2009 and fiscal 2010 respectively, results in a 0.4% average annual increase through fiscal 2013. The declines in revenue for fiscal 2009 and fiscal 2010 were attributable to a decrease in employment, as well as softening of retail trade. The

pledged revenue stream has experienced limited volatility, with noteworthy year-over-year increases attributable to rapid construction and employment gains in the mid 1990's.

Fiscal 2014 pledged revenues of $180.3 million provides a strong 9.13 times coverage of maximum annual debt service (MADS), or $19.8 million payable in fiscal 2020. Officials indicate fiscal 2015 SSGRT revenues are currently 2.8% above collections during the same period of the prior year, and expect an annual increase of 2.6% to $184.9 million. The increase in fiscal 2015 revenues would provide a modestly improved but still strong 9.36 times MADS coverage. Management reports plans to conservatively budget for fiscal 2016 SSGRT collection growth of approximately 2.3% over ending fiscal 2015 collections. Commencing in fiscal 2016, the hold harmless portion of the gross receipts tax is starting to be phased out over the next 15 years. SSGRT will decrease by approximately $1.2 million to $1.5 million annually over the next five years, accounting to a sizable $6.8 million cumulative reduction by 2020. Officials anticipate that the phase-out will mute favorable growth in the revenue stream moving forward, but do not anticipate year over year declines. Downward rating pressure is possible if the hold harmless revenue phase out drives annual reductions in total SSGRT collections.

Pledged revenues are derived primarily from retail trade, professional, scientific and technical services, and accommodation and food service. Several series of outstanding parity debt have additional pledged revenues including lodgers tax and hospitality tax receipts, but all debt has an equal lien on SSGRT revenues. We note that the lodger's tax (50%) additionally provides a nominal $5.4 million of available resources to pay debt service.

DEBT AND LEGALS: BELOW AVERAGE PRINCIPAL AMORTIZATION; ADEQUATE LEGAL PROVISIONS

We believe the city's SSGRT debt profile will remain manageable given no current plans for additional debt leverage and healthy annual MADS coverage. Officials indicated no current plans for additional issuance, but indicate a four year cycle of approximately $50 million in authorization is possible in the future. We believe the legal provisions of the current sale are adequate with a strong additional bonds test (ABT) at 2.25 times maximum annual debt service (MADS), countered by a lack of a debt service reserve.

Debt Structure

Inclusive of the current sales, amortization of $224.3 million of SSGRT secured principal is below average with 45.1% retired in ten years. All debt matures in fiscal 2038.

Debt-Related Derivatives

The city has no exposure to variable rate debt or interest rate swaps.

MANAGEMENT AND GOVERNANCE

New Mexico cities have an institutional framework score of "A" or moderate. Cities receive the majority of their revenues through gross receipt and property taxes and both remain moderately predictable. About 64% of New Mexico cities are at the O&M levy cap and therefore be considered to have a moderate level of ability to raise revenues. Expenditures are moderately stable and management teams have a higher level of ability to reduce expenditures related to salaries and public safety. Roughly 20% of all expenditures consist of debt service and pensions contributions.

The City is a home rule municipality, with its charter originally adopted in 1971, and has a Mayor-Council form of government with a salaried full-time Mayor elected every four years.

KEY STATISTICS

- Security: 1.225% of City's State Share Gross Receipts Tax Revenue

- MADS Coverage with fiscal 2014 pledged revenues: 9.13 times

- Additional Bonds Test: 2.25 times MADS

- Debt Service Reserve: none

- Parity debt outstanding: $224.3 million

- Principal Amortization: 45.1% in ten years

OBLIGOR PROFILE

Albuquerque is the largest city in the State of New Mexico (GO rated Aaa stable), accounting for roughly one-quarter of the State's population. Located at the center of the State in Bernalillo County (Aaa stable) at the intersection of two major interstate highways and served by both rail and air, Albuquerque is the major trade, commercial and financial center of the State.

LEGAL SECURITY

The bonds constitute special limited obligations of the city, secured by an irrevocable and first lien upon the revenues of the 1.225% state shared gross receipts tax.

USE OF PROCEEDS

Proceeds from Series 2015A will refund the city's Series 2008B bonds for an estimated net present value savings as well as various city-wide improvements. The Taxable Series 2015B bonds will be used to fund various projects related to the city's local economic development act.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

John Nichols
Lead Analyst
Public Finance Group
Moody's Investors Service

James Hobbs
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

250 Greenwich Street
New York, NY 10007
USA

MOODY'S
INVESTORS SERVICE