Fitch Ratings

FITCH RATES ALBUQUERQUE, NM'S $105MM GOS & GROSS RECEIPTS TAX BONDS 'AA+'; OUTLOOK STABLE

Fitch Ratings-Austin-23 April 2015: Fitch Ratings assigns an 'AA+' rating to the following Albuquerque (the city), New Mexico bonds:

--$37.9 million general purpose bonds, series 2015A;
--$4.7 million storm sewer bonds, series 2015B;
--$40.5 million gross receipts tax (GRT) improvement revenue bonds, series 2015A;
--$10.1 million GRT improvement revenue bonds, taxable series 2015B;
--$8.2 million GRT refunding revenue bonds (Beach, Bluewater and Manzano Vista Projects), series 2015C.

The general purpose bonds and storm sewer bonds are scheduled to sell competitively on May 4, 2015. The GRT bonds are scheduled to sell via negotiation during the week of May 4, 2015. The general purpose bonds will finance various public improvements, and the storm sewer bonds will finance storm sewer improvements. The GRT bonds will finance various public 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 2015A and 2015B GO bonds and outstanding GO bonds are payable from an unlimited property tax levy. GRT revenue bonds are payable from the 1.225% state shared GRT, and the 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.

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 has 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: Current credit quality hinges on the maintenance of an adequate financial cushion to offset its volatile revenue base and ability to contain 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 550,000.

SLOW EMPLOYMENT RECOVERY

Recovery of the MSA's 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 to annual labor force contractions. The MSA's January 2015 unemployment rate declined to 5.9% from 7.3% the year prior, below the state average (6.2%) and the U.S. average (6.1%). 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 $100 million in direct spending in 2014.

SLUGGISH GRT RECOVERY

GRTs, both state-shared and municipal, represented a high 65% of the city's general fund revenues in fiscal 2014. The recessionary impact on these major revenue streams was significant, leading to stagnation or notable declines from fiscal 2008 to 2010. 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 GRT growth of 2.3% modestly exceeded budgeted growth of 1.7%. For the first eight months of fiscal 2015, year to date SSGRT receipts are trending above the city's budgeted growth of 2.6%.

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 has 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.

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 and fire personnel.

After posting annual modest operating surpluses in fiscal years 2010 to 2012, the city recorded nearly balanced operations in fiscal 2013, resulting in a still solid unrestricted fund balance of $58 million or 12.4% of spending, inclusive of the city's one-month fund balance reserve.

The fiscal 2014 audit posted a $5.1 million (1% of spending) net surplus, a positive variance relative to management's projection of a modest drawdown. The resulting unrestricted fund balance totaled $63.4 million or 13.4% of spending. For fiscal 2015, the current forecast projects an $8.4 million (1.7% of spending) net deficit (due to $21.6 million in planned non-recurring expenditures) and an unrestricted fund balance of $55 million or 11% of spending.

The proposed fiscal 2016 budget balances recurring revenues and expenditures, projects GRT growth of 2.3%, and includes a modest 1% pay hike for non-public safety personnel (excluding management). The proposed budget also includes $11 million in non-recurring appropriations, $4 million of which are for police reforms required by a settlement agreement with the U.S. Department of Justice. These one-time appropriations will reduce total reserves by about $6.4 million (1.3% of spending) although management expects current year revenue and expenditure trends will close the budget gap and achieve balanced operations.

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 $67 million (equal to 14% of fiscal 2014 general fund revenues), 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 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, an average of 73% of voters approved a $116 million GO authorization as part of the city's 10-year capital improvement plan. The current offering will exhaust the 2013 authorization. Per the city's practice to seek GO bond authorization on a biennial basis, a $119 million referendum will be held this November.

HIGH GRT DEBT SERVICE COVERAGE

The current new money GRT bond offering will fund rapid transit, amateur sports, telecommunications, and library improvements plus economic development incentives. 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 9.1 times (x) based on fiscal 2014 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 75.8% as of June 30, 2013, up from 65% two years prior (pre-pension reform). Using Fitch's adjustment to reflect a 7% rate or return, the 2013 estimated funded position is lower but adequate at 70%. 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 15.5% of total general government spending in fiscal 2014.

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In addition to the sources of information identified in Fitch's 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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