FITCH RATES ALBUQUERQUE, NM'S GRT REV BONDS 'AA+'; AFFIRMS ULT BONDS & GRT BONDS AT 'AA+'

Fitch Ratings-Austin-05 August 2016: Fitch Ratings has assigned a 'AA+' rating to the following Albuquerque, NM gross receipts tax (GRT) bonds:

--$18 million GRT improvement revenue bonds, series 2016C.

Bond proceeds will fund various public improvements and pay issuance costs. The bonds are scheduled to price via negotiation during the week of Aug. 15.

Fitch has also affirmed the following Albuquerque ratings at 'AA+':

--Issuer Default Rating (IDR) ;
--$ 342.7 million general obligation bonds;
--$253.4 million GRT bonds.

The Outlook is Stable.

SECURITY
The GRT revenue bonds are payable from the 1.225% state shared GRT (SSGRT). Certain GRT revenue bonds have an additional pledge of 50% of the city's 5% lodgers' tax. The unlimited tax bonds are payable from an unlimited property tax levy.

KEY RATING DRIVERS

The city's 'AA+' IDR and bond ratings reflect ample revenue flexibility, demonstrated spending control, a modest long-term liability burden, and the maintenance of structural balance. Management's prudent budgeting of its resource base benefits the city's prospects for maintaining structural balance through economic cycles. The GRT bond rating is capped at the IDR.

Economic Resource Base
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 of 557,000 in fiscal 2015.

Revenue Framework: 'aaa' factor assessment
The pace of revenue growth will likely modestly exceed inflation due to modest population growth and uneven economic expansion. Gross receipts tax revenue-raising flexibility is ample.

Expenditure Framework: 'aa' factor assessment
Fitch expects the pace of expenditure growth to generally track revenue gains. Expenditure flexibility is aided by prudent budgeting and moderate carrying costs for debt service and retiree benefits.

Long-Term Liability Burden: 'aaa' factor assessment
The combined overall debt and unfunded pension liability burden is modest at less than 9% of personal income. Debt comprises the majority of the liability. Modest direct debt plans and overlapping debt issuances may increase the overall liability burden, but Fitch expects it to remain modest.

Operating Performance: 'aaa' factor assessment
Operational flexibility during economic downturns is derived from the city's ample gross receipts taxing margin and solid spending control, supplemented by state-required reserve levels.

RATING SENSITIVITIES
Shift in Fundamentals: The IDR and GO bond rating are sensitive to material change in the city's strong revenue-raising and expenditure flexibility and solid financial position, which Fitch expects the city to maintain throughout economic cycles.

Pledged Revenue Declines: Large and sustained GRT revenue declines, beyond the range of historical experience and Fitch's expectations, could pressure the GRT revenue bond rating.

CREDIT PROFILE

The broad-based economy is led by the government, healthcare/education, and trade/transportation/utilities sectors. Key federal installations include Kirtland Air Force Base and Sandia National Laboratories (SNL) in which troop strength and direct jobs account for a manageable 5% of the MSA's employment base. SNL has attracted a highly educated workforce to the area but it's vulnerable to budget restrictions and shifts in defense spending priorities.

The area's high-tech hub includes firms engaged in microelectronics (Intel, Raytheon) and aerospace (Boeing and Eclipse Aerospace). Intel's workforce in nearby Rio Rancho (ULT bonds rated 'AA') has declined to 1,900 from 3,300 since 2013. The film industry is surging in the MSA, providing $150 million in direct spending in 2015. Plans are underway for a $600 million replacement of the University of New Mexico Hospital which is scheduled to start construction in 2017.

The area's recovery from the last economic downturn has been tepid. Employment gains have been stagnant, but the unemployment rate remains in line with the U.S. average. Median home values continue to rise moderately but remain below their peak in 2007 as are building permits.

Revenue Framework
The city's operating revenues are heavily dependent on municipal and state-shared GRTs which comprise 64% of general fund revenues, followed by property taxes (16%). A trend of moderate GRT revenue growth is likely to continue as recent private investments and associated job gains are partially offset by the uneven performance of the city's employment sectors such as manufacturing.

Fitch expects the city's revenues to grow modestly above the level of inflation (CPI) but below the pace of U.S. GDP based on the city's historical trends.

The city retains ample revenue flexibility in the form of various local-option municipal GRTs which it can impose without a voter referendum. The largest unutilized GRT is the 0.375% hold-harmless GRT, which was authorized by the state in conjunction with the elimination of hold-harmless appropriations for state-shared GRT exemptions on food and medical expenses.

Recessionary pressures on the city's revenues were exacerbated by reductions in the local option GRT rate and lapses in GRT levy authority. The city reduced its GRT by 0.125% in fiscal 2008 and authority for a 0.25% GRT lapsed for five months in fiscal 2010.

Expenditure Framework
General fund expenditures are led by public safety which comprises 52% of spending.

The city's pace of spending is expected to remain in line with revenue gains but pressured by growing public safety spending and the service pressures of a population base with a moderately elevated poverty rate.

A high 81% of the city's workforce is represented by eight labor unions. Management maintains a large degree of control over headcount, but wages and benefits are negotiated through labor contracts. Management can ultimately impose its terms after following a structured framework in the event of an impasse. The terms of the labor contracts are typically one to two years and only one group's contract is currently expired and under negotiation. The city's fixed-cost burden is moderate, with carrying costs for debt, pension and other post-employment benefits equal to 20% of governmental spending.

Long-Term Liability Burden

The long-term liability burden (comprised of ULT bonds, GRT bonds, overlapping debt, and the net pension liability) is modest at less than 9% of personal income. Nearly three-quarters of the liability relates to direct and overlapping debt. Future direct debt issuance plans are manageable. The city's practice is to hold biennial GO bond elections for about $120 million which management expects to supplement with additional GRT debt issuances. Coupled with a rapid 10-year principal amortization rate (79% of ULT and GRT principal), the city's measured debt plans should keep its liability burden at a modest level.

Full-time city employees participate in the Public Employees Retirement Association (PERA) of New Mexico, a cost-sharing multiple employer defined benefit pension plan. PERA reforms effective in 2013 increased contribution rates and established a new tier of benefits for new hires, which Fitch considers prudent. The city funds its actuarially-determined pension contribution, and the unfunded pension liability is moderate at $541 million (adjusted to reflect a 7% rate of return assumption) or 2.5% of personal income.

Operating Performance

The city's strong financial resilience is derived from a combination of revenue and expenditure flexibility and solid reserve levels.

The fiscal 2015 audit posted balanced results and an unrestricted fund balance of $63.3 million or 12.9% of spending, exceeding the state-required reserve level of one-month (8.3%). Management projects audited fiscal 2016 results will post a modest $3.3 million (0.6% of spending) drawdown due to one-time spending and GRT revenue trends that came in modestly under budget (2.2% vs. budgeted 3%).

The fiscal 2017 budget balances recurring revenues and expenditures but includes an $11 million drawdown (2% of spending) due to one-time spending. However, management typically outperforms its projections and Fitch expects the city will make progress toward reducing the projected use of reserves. The budget assumes GRT revenue growth of 2.9%, which Fitch believes is reasonable.

Aggressive budget cuts in the wake of the last recession allowed the city's finances to post operating surpluses in four out of the last six fiscal years. If adjusted for capital outlays, operating surpluses were recorded in every year of that period.

Gross Receipts Tax Revenue Bonds

The GRT revenue bonds are payable from the 1.225% state-shared GRT (SSGRT) levied on all transaction within the city. Certain GRT revenue bonds are also payable from 50% of the city's 5% lodgers' tax. Fitch believes the revenue stream will continue a sluggish to moderate growth trend as recent private investments and modest population growth is offset by uneven performance within the city's employment sectors. SSGRTs have grown by a compound average annual growth rate of 2.3% since fiscal 2010.

Legal provisions provide strong bondholder protections in the form of a large 2.25x ABT based on historical revenues. After debt service payments on the bonds, GRT revenues are used by the city for general operations.

The GRT is broader than a typical sales tax as it is levied on goods and services, including legal services and certain medical services although various exemptions have been approved by the state. Businesses remit the 5.225% GRT to the state, which remits the 1.225% portion back to municipalities based on the point of sale.

To evaluate the sensitivity of the dedicated revenue stream to cyclical decline, Fitch considers both the revenue sensitivity results (using the same 1% decline in national GDP scenario that supports assessments in the IDR framework) and the largest decline in revenues over the period covered by the revenue sensitivity analysis. Based on the city's 15-year pledged revenue history, Fitch's analytical sensitivity tool (FAST) generates a 2.7% scenario decline in pledged revenues. The largest actual cumulative decline in historical revenues is an 11.2% decline in fiscal years 2008-2010.

Assuming issuance up to the 2.25x ABT, well below actual current coverage, the structure could tolerate a 55.5% drop in pledged revenues, almost 21x the scenario results and 5x the largest actual revenue decline in the review period. Fitch believes that these results are consistent with the 'AA+' rating.

Fiscal 2015 pledged revenues of $186 million are up for the fifth consecutive year and cover MADS (2021) by 8.1x. Based on MADS of $22.9 million, the sales tax revenue bonds could tolerate a 88% drop in revenues, 32x the scenario results and 8x the largest actual revenue decline in the review period.

Issuing Entity Exposure
Despite the very strong debt service coverage, the rating on the GRT revenue bonds is capped at the city's IDR. Fitch does not view the pledged sales taxes as special revenues under section 902(2)(B) of the bankruptcy code, which defines 'special excise taxes imposed on particular activities or transactions' as special revenues.

Contact:

Primary Analyst
Jose Acosta
Senior Director
+1-512-215-3726
Fitch Ratings, Inc.
111 Congress Avenue
Austin, TX 78701

Secondary Analyst
Leslie Cook
Associate Director
+1-512-215-3740

Committee Chairperson
Arlene Bohner
Senior Director

+1-212-908-0554

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879478