MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 rating to City of Albuquerque's, NM $42.7M GO Bonds Series 2015A&B; outlook is stable

Global Credit Research - 14 Apr 2015

Aa1 affirmed on outstanding parity debt

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

Moody's Rating

ISSUE		RATING
General Purpose Bonds, Series 2015A		Aa1
Sale Amount	$37,970,000	
Expected Sale Date	05/04/15	
Rating Description	General Obligation	
Storm Sewer Bonds, Series 2015B		Aa1
Sale Amount	$4,726,000	
Expected Sale Date	05/04/15	
Rating Description	General Obligation	

Moody's Outlook STA

NEW YORK, April 14, 2015 --Moody's Investors Service has assigned a Aa1 rating to the City of Albuquerque's, NM $37.97 million General Purpose Bonds, Series 2015A and $4.726 million Storm Sewer Bonds, Series 2015B. Concurrently, Moody's has affirmed the Aa1 rating on the city's outstanding rated parity debt. The outlook remains stable.

SUMMARY RATING RATIONALE

The Aa1 rating reflects the city's sizeable tax base that serves as an economic hub for the state as well as historically narrow and statutorily required financial reserves. The rating also incorporates the city's average socioeconomic profile and favorable debt profile with rapid principal amortization.

OUTLOOK

The outlook for the City of Albuquerque is stable, reflecting the city's stabilized financial operations, but a still narrow financial position in comparison to similarly rated entities. The outlook also reflects the city's slow but steady economic growth experienced in recent years. The financial and economic trends are expected to continue in the near future. Moody's still 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 ability to maintain structural balance.

WHAT COULD MAKE THE RATING GO UP

- Trend of operating surpluses bolstering financial reserves

- Significant economic expansion leading to economic metrics consistent with higher rating category

WHAT COULD MAKE THE RATING GO DOWN

- Trend of imbalanced operations with deterioration of financial reserves

- Weakening of the city's economic base or gross receipts tax collections

STRENGTHS

- Large and diverse tax base that serves as the economic engine for the state of New Mexico

- Favorable debt profile

CHALLENGES

- Tepid economic recovery; reliance on economically sensitive gross receipts tax revenues

- Stable but narrow financial position in comparison to similarly rated entities

- Hold harmless distributions starting to phase out in fiscal 2016

- Increased public safety expenditures after Department of Justice settlement

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

REVENUE GENERATING BASE: SIZEABLE TAX 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.

FINANCIAL OPERATIONS AND POSITION: RESERVE POSITION REMAINS STABLE BUT NARROW; BUDGETARY CHALLENGES IN NEAR TERM FUTURE

The city has taken measures since mid-year 2010 to restore structural balance to operations, including downsizing of government expenditures, as well as increasing the operational levy of property taxes. The city is administratively required to maintain a minimum General Fund balance equal to 1/12 (8.3%) of budgeted expenditures. City operations were unbalanced for three consecutive years, reducing General Fund balance from a high of $87.4 million at fiscal year-end 2006 to $43.1 million for fiscal 2009. Fiscal years 2008 and 2009 recorded the largest reductions in fund balance of $26 million and $15.6 million, respectively. City management undertook extensive cost reduction through elimination of vacant positions, pay reductions, and increased the operational property tax levy to structurally balance operations in fiscal 2010. The fiscal year ended with an operational surplus of approximately $2 million, increasing General Fund balance to $45.2 million or 9.9% of General Fund revenues. Structural balance was maintained for fiscal 2011, yielding an additional surplus of $6.7 million, increasing the General Fund reserve position to $53.2 million (11.7% of General Fund revenues). The fiscal 2011 General Fund balance included an additional increase of $1.3 million due to a GASB 54 required General Fund balance restatement. Fiscal 2012 General Fund operations performed better than anticipated, resulting in an increase of $11 million, building General Fund balance to $59.2 million (12.7% of revenues). Management attributes the surplus to an increase slight increase in revenues and higher than anticipated reversions from departmental budgets.

The city incurred a modest $884,863 deficit in fiscal 2013, decreasing total General Fund balance to $58.3 million, or a still satisfactory 12.5% of revenues. The nominal deficit, which was expected to be a much higher at $6.8 million, was attributable to increased expenses for benefits, additional positions, salary adjustments and transfers to other funds. Favorable variances in gross receipts tax collections and departmental budgets reduced the size of the deficit throughout the fiscal year. Despite anticipating a $1.8 million deficit in fiscal 2014, positive expenditure variances and increasing revenues generated a favorable $5.1 million surplus by fiscal year end. The surplus increased the total General Fund balance to $63.4 million, or 13.3% of revenues. Fiscal 2014 General Fund revenues were primarily comprised of State Share Gross Receipts Tax (39.3%), Municipal Gross Receipts Tax (25.3%), and property tax revenues (16.4%). We note that the city's heavily reliance on volatile gross receipts tax collections can create operational challenges with unfavorable variances.

Officials anticipate a $13 million reduction in reserves to a total General Fund balance of approximately $50.4 million for fiscal 2015 or 9.1% of projected revenues. The deficit would be attributable to increased departmental expenditures and a large portion of non-recurring appropriations ($21.6 million), but could be offset by favorable budgetary variances as seen in previous years. Similar to prior budgets, management projects an additional deficit for fiscal 2016, reducing General Fund reserves to near the city's minimum reserve policy, which Moody's considers weak for the rating category. The fiscal 2016 budget has presented more challenges to the city, as the hold harmless portion of the gross receipts tax is starting to be phased out over the next 15 years. GRT will decrease by approximately $2.2 million to $2.6 million annually over the next five years, accounting to a sizable $12.3 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. Another challenge the city faces are the increased police department expenditures related to a settlement with the United States Department of Justice. In order to comply with the settlement, the department will incur a $4.7 million increase in annual expenditures over the prior year. Officials report that the increased expenditures associated with the settlement will start to taper off in the next couple of years and become more manageable. Downward rating pressure is possible if the near-term challenges drive imbalanced operations and impact reserve levels. The 8.3% minimum reserve policy is weak for the rating category, and consistency of reserves at least equal to this policy is key to maintenance of the current rating.

Liquidity

The liquidity within the city's General Fund is slightly under the total General Fund balance level, but is near historical levels. At fiscal year-end 2014 the city had $52.8 million in cash, which represents 11.1% of revenues. The fiscal 2015 cash level is expected to decline in tandem with the anticipated draw on reserves in fiscal 2015.

DEBT AND OTHER LIABILITIES: MODEST DEBT BURDEN, RAPID PAYOUT YIELD FAVORABLE DEBT PROFILE

We expect the city's debt profile to remain manageable over the long term despite plans for continued annual borrowing. Inclusive of the current sale, the debt burden is modest at 0.9% direct and 2.7% overall (both expressed as a percentage of fiscal 2015 full value). We note that the city debt burden is capped per statute at 4% of assess valuation (fiscal 2015 - $489.1 million), in which 78.9% of the capacity is used. The current issuances are authorized under the $115.5 million voter approved bond package in October of 2013 and will exhaust the entire authorization. The city plans to return to voters every other year for additional general obligation debt authorization, which includes $119 million in fiscal 2015. Proceeds will be used for various city improvements in-line with a ten year capital improvement plan.

Debt Structure

The city's debt profile includes a rapid principal amortization of 92.6% retired within ten years. By policy the city issues bonds with a maximum maturity of 13 years.

Debt-Related Derivatives

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

Pensions and OPEB

The city has an above-average employee pension burden, based on unfunded liabilities for its share of the Public Employees Retirement Association (PERA), a cost sharing plan administered by the state. Moody's fiscal 2013 adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is $1.3 billion, or an elevated 2.50 times operating revenues. The three year average of the county's ANPL to operating revenues is 2.85 times, while the three-year average of ANPL to full value is high at 3.47%. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions and the related credit impact on companies, government, and other entities across the globe, please visit Moody's on Pensions at www.moodys.com/pensions.

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

- Assessed Value (Full Value), Fiscal 2015: $44.8 billion

- Assessed Value (Full Value) Per Capita, Fiscal 2015: $80,441

- Median Family Income as % of US Median (2012 American Community Survey): 93.10%

- Fund Balance as % of Revenues, Fiscal 2014: 13.40%

- 5-Year Dollar Change in Fund Balance as % of Revenues: 1.33%

- Cash Balance as % of Revenues, Fiscal 2014: 11.28%

- 5-Year Dollar Change in Cash Balance as % of Revenues: 1.72%

- Institutional Framework: "A"

- 5-Year Average Operating Revenues / Operating Expenditures: 1.00x

- Net Direct Debt as % of Assessed Value: 0.92%

- Net Direct Debt / Operating Revenues: 0.77x

- 3-Year Average ANPL as % of Assessed Value: 3.47%

- 3-Year Average ANPL / Operating Revenues: 2.85x

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 are secured by a direct and continuing property tax levied, without limitation as to rate of amount, on all taxable property within the city.

USE OF PROCEEDS

Proceeds from Series 2015A and 2015B of the current sale will finance general city improvements and storm water projects, respectively.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt 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.

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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

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA