MOODY'S INVESTORS SERVICE

CREDIT OPINION
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Albuquerque (City of) NM

Update following affirmation of the GRT rating; outlook negative

Summary

The City of Albuquerque, NM's Gross Receipt Tax's (GRT; Aa2) rating profile is supported by a large, regionally-important economy; stable revenue stream, which is expected to modestly increase over the mid-term, net of the hold harmless phase out; and, healthy maximum annual debt service coverage, which is a mitigant for the lack of debt service reserve fund. The city does not plan to further leverage the GRT revenue stream in the near-term.

Credit strengths

» Sizeable economic base serving as economic hub of New Mexico

» Strong maximum annual debt service coverage

Credit challenges

» Tepid economic growth

» Lack of Debt Service Reserve Fund

» Hold harmless distribution phase out that will mute growth over the mid-term

Rating outlook

The negative outlook is reflective of the city's reliance on economically-sensitive revenues and limited financial position. In event that the city leverages the SSGRT revenue stream, excess revenues, which flow into the General Fund, may decline, which could further pressure the city's already thin reserves.

Factors that could lead to an upgrade

» Significant increases in state shared GRT collections, absent additional debt leveraging

» Expansion and diversification of the local economy

Factors that could lead to a downgrade

» Material contractions in state shared GRT collections

» Significant leveraging of the pledged revenue sources

Key indicators

Exhibit 1

City of Albuquerque, NM					
Credit Background					
Pledged Revenues	1.225% SSGRT				
Legal Structure					
Additional Bonds Test	2.25x MADS				
Open or Closed Lien	Open Lien				
Debt Service Reserve Fund Requirement	No DSRF				
MADS Coverage					
2017 MADS Coverage (x)	8.4x				
Trend Analysis					
	2013	2014	2015	2016	2017
Debt Outstanding ($000)	165,615	165,085	207,220	226,650	235,530
Revenues ($000)	176,024	180,279	187,091	190,154	192,980
Annual Debt Service Coverage (x)	13.3x	12.0x	12.1x	9.8x	8.8x

Source: City's audits; Moody's Investors Service

Profile

Albuquerque is the largest city in the State of New Mexico (GO rated Aa1 negative), 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.

Detailed credit considerations

Tax base and nature of pledge: broad tax on regionally important economy

The city's economy and tax base will remain stable and sizeable over the mid-term given regional importance and institutional presence. Located in north central New Mexico (Aa1 negative), the City of Albuquerque is home to approximately 25% of the state's population. The tax base is sizeable at over $38 billion, and five year average annual growth is modest at 1.3%. Recent development includes expansion of the engineering firm, Raytheon, as well as construction of retail and grocery chains. The housing market remains steady, with new listings up 7.7% year-over-year (November). Per the November 2017 Moody's Economy report, the Albuquerque MSA is in “recovery”, and we expect that over the next couple of years, the city will have steady employment growth. Over the long-term, Albuquerque may be challenged to attract private sector industries, especially in tech, resulting in job growth that tracks in line with the US.

Major employers in the Albuquerque MSA include the University of New Mexico, Kirtland Air Force Base (AFB), and Sandia National Laboratories. The institutional presence provided by these entities is an anchor for the local economy. Healthcare and high-tech industries also have significant presence in the employment base. The city's October 2017 unemployment rate of 5.3% was below the state (5.9%) but above the nation (3.9%). Resident wealth levels are average with median family income of approximating 90.2% of the US (2015 ACS).

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 on a monthly basis. 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: MADS coverage will remain healthy despite hold-harmless phase out

Based on historic performance, we expected the pledged revenue stream to likely continue to modestly tick upwards. Since the Recession, SSGRT revenues have generally improved and has exhibited little volatility, a credit strength. Fiscal 2017 state-shared gross receipt taxes (SSGRT) showed slight improvement of 1.5% year-over-year, increasing to $193 million. Over the next four years, the city is assuming revenues will increase by 2.3% on average, which is roughly in line with historical precedent of 2.1%. As such, fiscal 2018 SSGRT is budgeted at $200.5 million and fiscal 2019 SSGRT is forecasted at $200.6 million.

Maximum annual debt service (MADS) of $22.9 million occurs in fiscal 2021, and based on fiscal 2017 revenues, MADS coverage is a strong 8.44 times. Going forward, using the city's assumptions, fiscal 2018 MADS will be 8.76x and fiscal 2019 MADS will be 8.77x.

Fiscal 2016 was the first year of the hold harmless phase out. SSGRT will decrease by approximately $2.2 million to $2.7 million annually over the next five years, accounting to a sizable $12.5 million cumulative reduction by 2020. The phase out amounts are expected to mute growth for the pledged revenues, but not have a material impact on debt service coverage given the declining debt service schedule. Stable or improved coverage is contingent on SSGRT revenue growth outpacing phase out amounts. If this assumption does not hold true, coverage may be negatively impacted, which would warrant further review.

Debt and legals: manageable debt burden; legals are adequate despite debt service reserve

The city's SSGRT debt profile will likely remain manageable given no current plans for additional debt leverage and healthy annual MADS coverage. Officials do not anticipate further issuances over the near-term. Legal provisions 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

The city has $267.2 million in outstanding fixed-rate GRT bonds. Principal payout is average with roughly 45% of principal retired in ten years. All debt matures by 2038.

DEBT-RELATED DERIVATIVES

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

Management and governance

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.

New Mexico Cities have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources, such as property taxes and sales taxes, are subject to statutory caps, which cannot be overriden. However, the property tax cap of $7.650 (per $1,000 AV) and the available sales tax authority (varies by type) still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, New Mexico has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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