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New Issue

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City of Albuquerque, NM

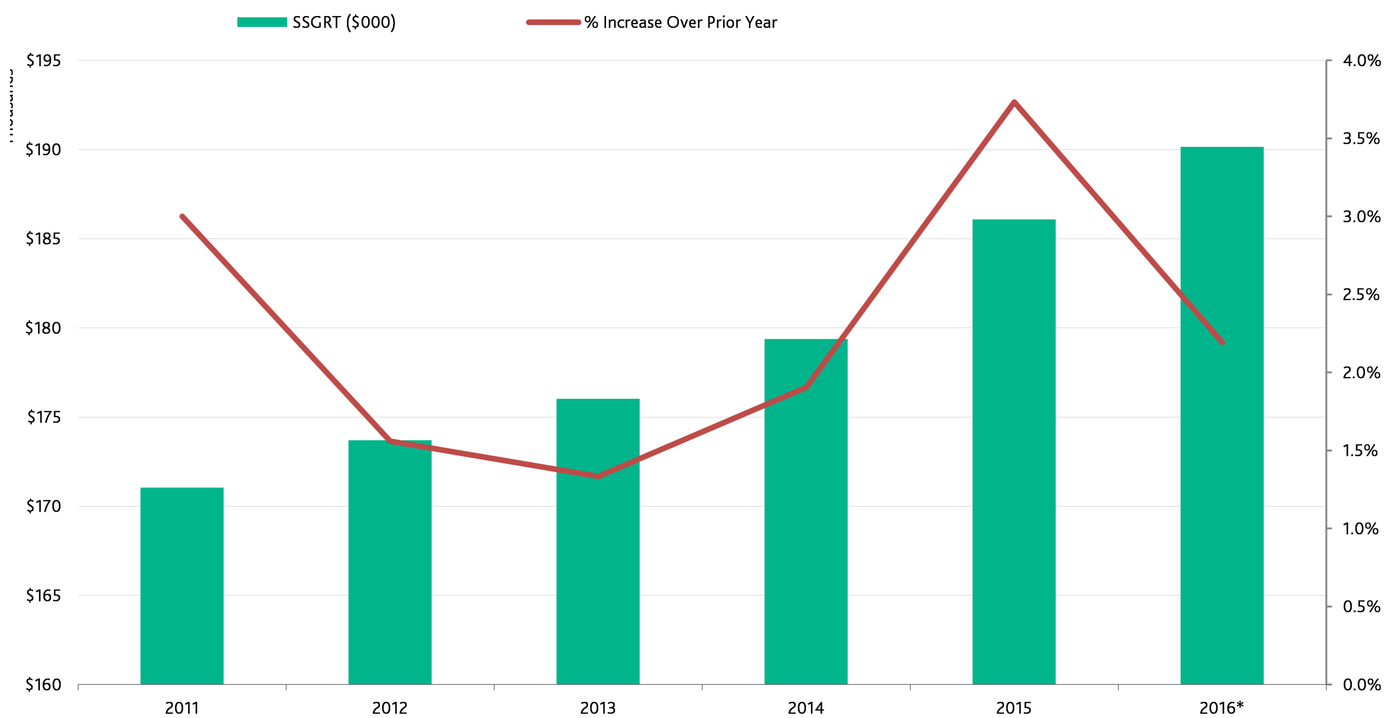
New Issue - Moody's Assigns Aa2 to Albuquerque, NM's $18M GRT Revenue Bonds, Ser. 2016C; Stable Outlook

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the City of Albuquerque, NM's $18 million Gross Receipts Tax Improvement Revenue Bonds, Series 2016C. Moody's maintains the Aa2 rating on the city's outstanding gross receipts tax parity debt. The outlook remains stable.

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.

Exhibit 1
State Shared GRT Revenues Trend Upward; Continue to Provide Healthy Coverage



*Unaudited
Source: City's Audits; Moody's Investors Service

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 starting in fiscal 2016

Rating 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. Pledged revenue growth over the long term will be impacted by the hold-harmless 15 year phase out (commencing in fiscal 2016), but it is expected to have little impact on overall coverage. 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 state shared GRT collection trends.

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; weakening of the city's economy

» Significant leveraging of the pledged revenue sources

Key Indicators; Projections Through Fiscal 2020

Exhibit 3

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					
2020 MADS Coverage (x)	9.6x				
Trend Analysis					
	2016	2017	2018	2019	2020
Debt Outstanding ($000)	253,415	244,985	232,430	219,730	206,390
Revenues ($000)	190,154	197,434	204,660	212,159	218,766
Annual Debt Service Coverage (x)	9.8x	9.0x	9.2x	9.4x	9.6x

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

Detailed Rating Considerations

Tax Base and Nature of Pledge: Sizable Base and Broad Sales Tax on Regionally Important Economy

Albuquerque is a regional hub, and houses one-quarter of the state's population; as such, the local economy will likely remain stable over the near-term. 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 increased since the last recession to a modest 0.8% average annual rate between fiscal years 2011 and 2016. This average includes modest declines in fiscal 2011 and 2013 assessed values (AV), which management attributes to a softening of commercial values. Expansion resumed in fiscal 2014, fiscal 2015 and fiscal 2016 with AV reported at $12.4 billion, derived from an estimated large full value of $37.3 billion. Officials anticipate modest AV increases in fiscal 2017 and fiscal 2018 as the number of 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 taxpayer PNM Electric, accounts for 1.4% of total AV.

The April 2016 Moody's Economy.com report for Albuquerque states that the area's economy is in recovery. The metro area faces potential short-term challenges from layoffs at Intel and declines of severance tax revenues, which will likely impact capital investment at government facilities, including University of New Mexico. The report going on to explain that job additions in the MSA should pick up the latter part of 2016, driven by expansion in the private sector. Employment is not expected to reach its prerecession peak until 2018.

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 April 2016 unemployment rate of 4.7% was below the state (5.8%) and in-line with the nation (4.8%) for the same timeframe. Resident wealth levels are modest with per capita income and median family income (from 2014 American Community Survey) approximating 94.1% and 92.1% 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 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: 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 2.1% over the past five years. Revenue volatility associated with the most recent economic recession drove declines of 5.5% and 6.0% in fiscal 2009 and fiscal 2010, respectively. Since the declines, collections have increased annually, with fiscal 2016 unaudited revenues reported at $190.2 million. Overall, the pledged revenue stream has experienced limited volatility, with consistent year-over-year increases attributable to rapid construction and employment gains in the mid 1990's.

Fiscal 2015 SSGRT collections of $186.1 million provide a strong 8.13 times coverage of maximum annual debt service (MADS), or $22.9 million payable in fiscal 2021. Fiscal 2016 collections outpaced prior year by 2.2%; however, revenues trended $2.4 million below budgeted expectations, reflective of a one-time prior period adjustment. Regardless, fiscal 2016's unaudited reveues of $190.2 million provide a healthy 8.31 times MADS coverage. Moving forward, for fiscal 2017, the city projects a 2.9% increase in SSGRT, climbing to $197.4 million.

Starting in fiscal 2016, the hold harmless portion of the GRT will be phased out over a 15 year period. 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. Of note, the city does have the ability to implement up to three-eights of hold harmless GRT without voter approval, providing the city additional financial flexibility if necessary. Management has no plans to enact the additional tax at this time. Barring additional taxes, Moody's notes that improving 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: 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 do not anticipate further issuances in 2016; however, the city may consider a GRT revenue bond in 2017. 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 $253.4 million of SSGRT-secured principal is average with 51% 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, which in combination are moderately predictable. Most cities are at the O&M property tax levy cap but have a moderate ability to raise revenues. Expenditures are moderately predictable and mainly consist of salaries and public safety. Cities have a moderate ability to reduce expenditures due to high fixed costs.

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.

Legal Security

The Series 2016C bonds are special limited obligations of the city and are payable from the pledged revenues, on parity with the lien of the State-Shared Gross Receipts Tax Obligations on pledged revenues. The Series 2016C Bonds are also secured by any amounts which may be on deposit in the funds and accounts established under the Bond Ordinance.

Use of Proceeds

Proceeds from the Series 2016C bonds will be used for regional sports complex ($8 million), and various capital improvements, including visitor centers, pools, and a community center.

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.

Methodology

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

Ratings

Exhibit 4

Albuquerque (City of) NM

Issue	Rating
Gross Receipts Tax Improvement Revenue Bonds Series 2016C	Aa2
Rating Type	Underlying LT
Sale Amount	$18,040,000
Expected Sale Date	08/15/2016
Rating Description	Special Tax: Sales

Source: Moody's Investors Service

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