S&P Global
Ratings

RatingsDirect®

Summary:
Albuquerque, New Mexico; Sales Tax

Primary Credit Analyst:
Cody J Nelson, San Francisco 415-371-5022; cody.nelson@spglobal.com

Secondary Contact:
Kaila Spalinger, Centennial 303.721.4685; kaila.spalinger@spglobal.com

Table Of Contents

Summary:

Albuquerque, New Mexico; Sales Tax

Credit Profile		
US$17.195 mil gross receipts tax rev bnds ser 2016C due 07/01/2034		
Long Term Rating	AAA/Stable	New
Albuquerque Mun Gross Receipts Tax		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Albuquerque, N.M.'s series 2016C gross receipts tax (GRT) improvement revenue bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's outstanding GRT debt. The outlook is stable.

The city's GRT bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above the Sovereign--Corporate and Government Ratings: Methodology and Assumptions," U.S. local governments are considered to have moderate sensitivity to country risk. The city's locally derived revenues are the source of security for the bonds, and the institutional framework in the U.S. is predictable with significant U.S. local government autonomy. In a potential sovereign default scenario, U.S. local governments would maintain financial flexibility through the ability to continue collecting locally derived revenues and U.S. local governments have independent treasury management.

The ratings reflect our view of the city's:

- Very strong, 8.35x maximum annual debt service (MADS) coverage by pledged state-shared GRT revenue alone;
- Strong retail sales per capita, at 131% of the national level, reflecting the city's role as the economic center for the region, with strong links to the government, defense-related research, health care, and high-technology sectors;
- Stable growth in GRT collections since fiscal year 2010;
- Strong, 2.25x additional bonds test (ABT) and dependence on pledged revenue for general operations, which reduces the likelihood of significant additional parity debt issuance; and
- Low level of funding interdependencies with the federal government.

State-shared GRT revenues of 1.225% secure the series 2016C bonds. In addition to the state-shared GRT, a lien on 50% of the city's lodger's tax, less administrative costs, secures the series 2004B, 2009A, 2011A, and 2014 bonds. A pledge of net revenues of certain housing projects also secures the series 2008B bonds that currently have the 2017 and 2018 maturities outstanding. A pledge of lease payments to the city from the lease of the baseball stadium and from surcharges on ticket sales, concessions, and other goods and services sold at the baseball stadium also secures the series 2011B bonds. We based the rating on the credit characteristics of the state-shared GRT pledge because of the strength of the pledge relative to the other pledges, in particular, the lodger's tax. The pledge of the lodger's tax is relatively small compared to the state-shared GRT. Coverage will be slightly higher on the bonds that are secured by both state-shared GRT and 50% of the city's lodger's tax . The series 2016C bonds will not maintain a debt service reserve (DSR). Finally, we note that several of the city's GRT transactions include privately placed debt.

The series 2016C bonds will be issued to fund various capital improvement projects related to economic development as a continuation of the series 2016 issuances.

GRTs are a broad-based sales tax collected by the state taxation and revenue department. Since fiscal 2010, the GRT revenue has increased an average of 2.4% a year through fiscal 2015 collections. Fiscal 2016 is showing strong signs of growth as well, with year-to-date collections rising about 4% from the previous year. The revenue stream is slightly volatile and declined by a cumulative 10% between fiscal years 2008 and 2010 because of the economic slowdown. We estimate fiscal 2016, pledged state-shared GRT revenue alone provided a very strong 9.67x MADS coverage of all GRT debt. Based on fiscal 2015 pledged revenues of $187.1 million, pro forma MADS coverage is 8.35x, a level we still consider very strong.

The city's pledged lodger's tax revenue of $5.7 million (50% of lodger's tax revenues) in fiscal 2015 covers annual debt service on the series 2004B, 2009A, 2011A, and 2014 bonds, but does not fully support MADS coverage alone. Lodger's tax revenue has modestly increased in each of the past four fiscal years, reaching $11.4 million fiscal 2015. Notably, the lodger's tax is expected to post another year of growth in fiscal 2016 as the pro forma projections suggest 5% growth for the entire year.

Recent changes in state legislation will phase out the "hold harmless" distributions to cities and counties from the state starting in 2016. The distributions are in lieu of GRT revenues that the city would have received had the state not implemented certain food and medical deductions from gross receipts in 2004. The reductions will be phased in across 15 years. The hold harmless distribution portion of the city's pledged GRT revenues have historically been about 10% of total revenues. The projected impact for fiscal 2016 is $1.2 million, which will not have a material effect on pledged revenues. We understand that a section in the legislation contains a debt impairment provision for "hold harmless" GRT revenue that has been pledged for debt service.

The 2013 legislature allowed the city to implement up to an additional three-eighths of GRT increment to offset the loss of the in-lieu state revenue, although we understand that no newly adopted GRT increment would be pledged to the GRT bonds without further action by the city council. Officials report that city does not plan to implement the additional increments in the immediate future. Despite the phased reductions in pledged revenue, Albuquerque has seen good recent growth in GRT revenues and anticipates additional growth, which could help mitigate any coverage declines.

Bond provisions require that pledged revenues from state-shared GRTs for the fiscal year, or any 12 consecutive months of 18 months preceding the date of issuance, provide 2.25x coverage of maximum future debt service on prior-lien and parity bonds. In addition, since the pledged GRT revenue represented about 38% of general fund revenue in fiscal 2015, we believe the city's dependence on these taxes for operations makes it unlikely it would issue additional debt to the fullest extent of its ABT.

Although the bond ordinance allows for variable-rate debt issuances, city officials represent that no variable-rate GRT debt is outstanding. We understand that there are no DSRs for the GRT bonds, although the bond ordinance requires the city to segregate monthly the pledged revenue it receives in a GRT income fund for the next debt service payment before the surplus is released for any other lawful purpose. In addition, pledged revenue for the bonds (state-shared GRT) does not carry nonappropriation risk from the state.

Economy

We consider Albuquerque's underlying economy to be broad and diverse. Per capita retail sales are strong, in our view, at 131% of the national level, reflecting the city's status as New Mexico's largest city and main economic center. With an estimated population of 563,000, it benefits from a large amount of government-based jobs. We consider incomes in Albuquerque to be good, with per capita effective buying income equal to 95% of the national average. In 2015, federal, state and local government employment in the Albuquerque metropolitan statistical area (MSA) accounted for 22% of nonagricultural jobs. Professional and business services, and education and health services represent 15% and 16% of total nonfarm employment, respectively. The MSA's leading employers are the University of New Mexico, Albuquerque Public Schools, and Sandia National Laboratories. According to estimates from the U.S. Bureau of Labor Statistics, Bernalillo County unemployment was 5.7% for calendar 2015.

Overall, we are forecasting stable to positive growth for the broader New Mexico region. As we believe that the region's above-average population growth over the next two years will come in large part from expanding employment in the professional service, hospitality, and leisure sectors, we don't expect global uncertainty and volatile equity markets will have much impact on local governments. We also expect increases in home prices and consumer spending will contribute to improved revenue performance for many local governments in the Mountain region, particularly those that rely on property taxes and sales taxes. As a result, we expect the broader macroeconomic forces to support our view of the state shared gross receipt tax revenue growth. For additional information, please refer to our U.S. State And Local Government Credit Conditions Forecast, published July 27, 2016, on RatingsDirect.

Outlook

The stable outlook reflects very strong MADS coverage by GRT revenue alone and stable growth in pledged GRT revenues. We, therefore, don't expect to change the rating during the next two years.

Downside scenario

While unlikely, should additional debt issuances or declines in GRT significantly dilute coverage, we could lower the rating.

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 27, 2016
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Special Tax Bonds: U.S. Recovery Underpins The Sector's Stability, Sept. 14, 2015

Ratings Detail (As Of August 8, 2016)		
Albuquerque GRT rfdg rev bnds		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of August 8, 2016) (cont.)		
Albuquerque GRT/lodgers		
Long Term Rating	AAA/Stable	Affirmed
Albuquerque SALESTAX		
Long Term Rating	AAA/Stable	Affirmed
Albuquerque sales gross rcpts tax rfdg tax-ex & taxable bnds ser A&B dtd 10/6/2004 due 7/1/2005-2014 2024 2031 2033 2036-2037		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.