MOODY'S INVESTORS SERVICE

CREDIT OPINION
14 January 2016

New Issue

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Albuquerque, New Mexico

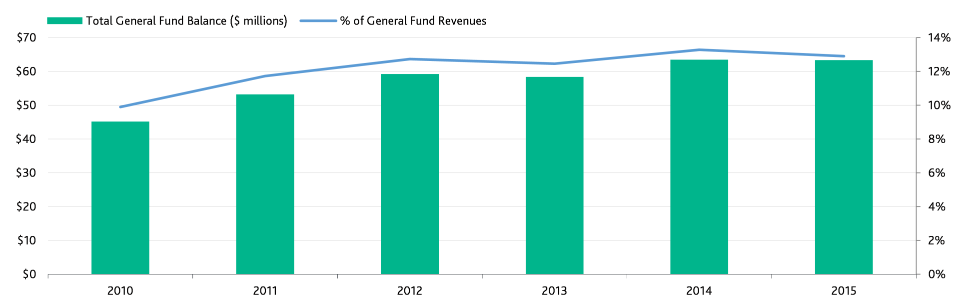
New Issue - Moody's Assigns Aa1 to Albuquerque's, NM $78M GO Bonds, Series 2016A&B; Outlook is Stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aa1 rating to the City of Albuquerque's, NM $71.5 million General Obligation General Purpose Bonds, Series 2016A and $6.5 million General Obligation Storm Sewer Bonds, Series 2016B. Concurrently, Moody's has affirmed the Aa1 rating on the city's outstanding rated parity debt. The outlook remains stable.

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. The rating further incorporates the city's elevated pension burden with large unfunded liabilities associated with the state administered plan.

Exhibit 1
Increasing Reserve Trend Since Fiscal 2010; Remains Narrow in Comparison to Revenues



Source: City of Albuquerque, NM

Credit Strengths

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

» Favorable debt profile with fast principal amortization

Credit 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

Rating 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.

Factors that Could Lead to an Upgrade

- Trend of operating surpluses bolstering financial reserves
- Significant economic expansion leading to economic metrics consistent with higher rating category

Factors that Could Lead to a Downgrade

- Trend of imbalanced operations with deterioration of financial reserves
- Weakening of the city's economic base or gross receipts tax collections
- Increase in city's pension burden

Key Indicators

Exhibit 2

Albuquerque (City of) NM	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 42,728,917	$ 43,657,007	$ 43,473,425	$ 43,807,478	$ 44,764,922
Full Value Per Capita	$ 77,444	$ 78,974	$ 78,120	$ 78,625	$ 80,344
Median Family Income (% of US Median)	94.0%	93.1%	93.1%	93.1%	93.1%
Finances					
Operating Revenue ($000)	$ 504,992	$ 526,417	$ 530,879	$ 535,395	$ 549,845
Fund Balance as a % of Revenues	14.6%	14.9%	13.5%	13.0%	13.9%
Cash Balance as a % of Revenues	23.3%	22.5%	23.2%	24.7%	23.0%
Debt/Pensions					
Net Direct Debt ($000)	$ 441,365	$ 353,229	$ 412,111	$ 414,339	$ 624,828
Net Direct Debt / Operating Revenues (x)	0.9x	0.7x	0.8x	0.8x	0.8x
Net Direct Debt / Full Value (%)	1.0%	0.8%	0.9%	0.9%	1.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	2.7x	2.8x	2.7x	N/A
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	3.2%	3.5%	3.4%	N/A

Source: City of Albuquerque, NM; Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Large 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 broader New Mexico 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 increased since the last recession to a modest 1.4% average annual rate between fiscal years 2011 and 2016. This average includes modest declines in fiscal 2011 and 2013 assessed values and management attributes the declines to a softening of commercial values. Expansion resumed in fiscal 2014 and fiscal 2016 with a 4.5% increase in the most recent year that increased taxable values to $12.8 billion, derived from an estimated large full value of $44.4 billion. Officials anticipate modest taxable value growth to continue into fiscal 2017 and fiscal 2018 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 taxpayer PNM Electric, contributes 1.4% to total assessed valuation for the same time period.

The August 2015 Moody's Economy.com report for Albuquerque states that the area's economy faces headwinds, but job growth will remain steady and employment will reach its prerecession peak by mid-2016. 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 October 2015 unemployment rate of 5.8% was below the state (6.6%) but above the nation (4.8%) for the same time period. Resident wealth levels are modest with per capita income and median family income (from 2013 American Community Survey) approximating 94% and 93.% of national levels, respectively.

Financial Operations and Reserves: Reserve Position Remains Stable But Narrow

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 reductions through elimination of vacant positions, pay reductions, and increased the operational property tax levy to structurally balance operations in fiscal 2010. Sizable surpluses driven by increasing revenues and tight expenditure controls from fiscal 2010 to 2012 built the General Fund balance back to $59.2 million (12.7% of revenues).

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.

After budgeting for a $13 million reduction in reserves, fiscal 2015 results indicate a nominal $135,257 deficit, which essentially leaves total General Fund balance intact at $63.3 million (13% of revenues). Again, favorable revenue and expenditure variances helped reduce the anticipated deficit. Management adopted a $10.6 million reduction in reserves for fiscal 2016, which is attributable to increased departmental expenditures and a large portion of non-recurring appropriations ($10.8 million), but could be offset by favorable budgetary variances as seen in previous years.

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 $12.2 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. The city does have revenue raising flexibility with the ability to impose a hold harmless gross receipts tax up to 3/8ths of a percent without voter approval. There are no current plans to impose the additional gross receipts tax, but it would essentially net out the effects of the 15 year phase out.

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 increased to $56.6 million, or 11.7% of revenues. If a deficit occurs in fiscal 2016, cash is expected to decline in tandem with the anticipated draw on reserves.

Debt and Pensions: Modest Debt Burden with Rapid Payout; High Pension Burden

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 general obligation debt burden is modest at 0.95% direct and 1.6% when including the city's GRT debt (both expressed as a percentage of fiscal 2016 full value). We note that the city debt burden is capped per statute at 4% of assessed valuation (fiscal 2016 - $511.3 million), in which 82.3% of the capacity is used. The current issuances are authorized under the $119 million voter approved bond package in October of 2015. The city plans to return to voters every other year for additional general obligation debt authorization, which includes $119 million in fiscal 2017. 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 90.7% 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. Albuquerque's annual contributions into the plan have been at the statutorily required amount, which is well below the actuarially required amounts and has driven the large unfunded liability. Moody's fiscal 2014 adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is $1.1 billion, or an elevated 2 times operating revenues. The three year average of the county's ANPL to operating revenues is 2.75 times, while the three-year average of ANPL to full value is high at 3.4%. 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, 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 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 2016A and 2016B of the current sale will finance general city improvements and storm water projects, respectively.

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 general obligation 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.

Ratings

Exhibit 3

ALBUQUERQUE (CITY OF) NM

Issue	Rating
Storm Sewer Bonds, Series 2016B	Aa1
Rating Type	Underlying LT
Sale Amount	$6,500,000
Expected Sale Date	03/07/2016
Rating Description	General Obligation
General Purpose Bonds, Series 2016A	Aa1
Rating Type	Underlying LT
Sale Amount	$71,523,000
Expected Sale Date	03/07/2016
Rating Description	General Obligation

Source: Moody's Investors Service

REPORT NUMBER 1012693

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