S&P Global
Ratings

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Summary:

Los Lunas Village, New Mexico; Sales Tax

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Summary:

Los Lunas Village, New Mexico; Sales Tax

Credit Profile		
US$4.5 mil gross receipts tax imp rev bnds ser 2016 dtd 06/15/2016 due 04/01/2041		
Long Term Rating	AA/Stable	New
Los Lunas Vill SALESTAX		
Long Term Rating	AA/Stable	Upgraded

Rationale

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'AA' from 'AA-' on Los Lunas Village, N.M.'s existing gross receipts tax (GRT) revenue bonds. At the same time, S&P Global Ratings assigned its 'AA' long-term rating to the village's series 2016 gross receipts tax (GRT) improvement revenue bonds. The outlook is stable.

The raised ratings reflect our view of the village's pledged revenue growth, which we anticipate will continue to provide very strong debt service coverage on the bonds.

The series 2016 bonds are on parity with the village's series 2014 GRT bonds. The bonds are secured by a first-lien pledge on the village's GRT revenues generated from a 1.25% local levy and 1.225% state-shared levy. We understand that proceeds from the series 2016 bonds will be used to acquire and improve land for governmental purposes.

The rating reflects our view of the village's:

- Status as a regional retail and service center, coupled with its proximity to Albuquerque;
- Very strong debt service coverage;
- Strong per capita retail sales at 120% of the national average; and
- Good additional bonds test (ABT).

In our opinion, these strengths are partly offset by the village's below average income indicators and high unemployment rates.

The major sectors contributing to revenue generation included retail, construction, accommodation and food services, healthcare, and cultural industries. Pledge revenues have steadily increased over the past three fiscal years and, most recently, grew by about 3% in fiscal 2015 to $9.5 million from $9.2 million in fiscal 2014. Assuming pledged revenue will remain stable, projected maximum annual debt service (MADS) coverage will be about 9.71x. After the series 2014 bonds mature in fiscal 2019, we expect debt service coverage to further strengthen to roughly 31.00x. Management indicated that there is new business growth within the village, which could increase pledged revenues in the near-term.

In total, consumers currently pay 6.5% in GRT; of this, 5% is paid to the state, which distributes monthly to the village approximately 1.225% of the gross receipts of businesses located within the village, pursuant to state statute. The remaining 1.5% is the 1.25% local levy that secures the bonds and an additional 0.25% local levy imposed by the village in February 2015 that will not be pledged to the bonds' debt service.

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 village would have received had the state not implemented certain food and medical deductions from gross receipts in 2004. In fiscal 2014, the hold harmless distribution portion of the village's pledged GRT revenue was about $1.8 million. The reductions will be phased in across 15 years. If pledged revenues at maturity in fiscal 2041 were to remain at 2015 levels, coverage would be about 25.00x when accounting for projected reductions in payments, which we still consider very strong. 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.

We consider the ABT to be good in that it requires that, before issuance of parity debt, pledged revenues for the prior 12 months to have provided 1.5x MADS coverage. If pledged revenues fall to a level that provides less than 2.0x MADS coverage, the village will fund a springing reserve over 12 months of at least 1.0x MADS. We consider it unlikely that the village would issue bonds to the fullest extent of the ABT because it relies on GRTs for operations, and pledged revenues made up about 68% of general fund revenues in fiscal 2015. At this time, the village has no plans to issue additional GRT revenue bonds.

The village's budgetary flexibility has remained very strong historically, in our view. Fiscal 2015 audited results show an operating surplus of about $1.1 million and an available general fund balance of roughly $7.2 million. Management expects the fiscal 2016 ending available general fund balance to be approximately $7.6 million.

Economy

Los Lunas Village, with an estimated population of 15,768, is located in central New Mexico, about 24 miles south of Albuquerque. The village serves as the retail center and county seat for Valencia County. The economy is concentrated in retail, government, and education. Los Lunas' income levels are adequate, with a per capita effective buying income at 86% of the national level and per capita retail sales are strong at 120% of the national level.

Outlook

The stable outlook reflects our view of the village's status as a regional retail hub and service center, as well as our expectation that pledged revenue will continue to provide debt service coverage at levels we consider very strong. We do not expect to change the rating within the two-year outlook horizon.

Upside scenario

We could raise the ratings should the local economy strengthen, resulting in income and unemployment levels improving to levels we consider commensurate with higher rated peers.

Downside scenario

Should the village experience a decline in pledged revenue, resulting in significantly lower coverage, we could lower the ratings.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special Tax Bonds, June 13, 2007
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

Special Tax Bonds: U.S. Recovery Underpins The Sector's Stability, Sept. 14, 2015

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.