

# RatingsDirect®

---

## Summary:

# Albuquerque, New Mexico; Sales Tax

### **Primary Credit Analyst:**

Kristin Button, Farmers Branch (1) 214-765-5862; kristin.button@spglobal.com

### **Secondary Contact:**

Calix Sholander, Centennial + 1 (303) 721 4255; calix.sholander@spglobal.com

## Table Of Contents

---

Rationale

Outlook

## Summary:

# Albuquerque, New Mexico; Sales Tax

### Credit Profile

US\$36.29 mil gross recpts tax lodgers tax rfdg & imp rev bnds ser 2019A due 07/01/2038		
<i>Long Term Rating</i>	AAA/Stable	New
US\$8.84 mil gross recpts tax rfdg rev bnds ser 2019B due 07/01/2022		
<i>Long Term Rating</i>	AAA/Stable	New
Albuquerque Mun Gross Receipts Tax		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the City of Albuquerque, N.M.'s gross receipts tax (GRT)/lodgers' tax refunding and improvement revenue bonds series 2019A and GRT refunding revenue bonds, series 2019B. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's existing GRT bonds. The outlook is stable.

The rating reflects our view of very strong debt service coverage (DSC) supported by a very strong economy and stable pledged revenues. We base the rating on the application of our Priority-Lien Tax Revenue Debt criteria, published Oct. 22, 2018, which factors in both the strength and stability of the pledged revenue as well as Albuquerque's general credit quality. Our view of the obligor's creditworthiness (OC) does not currently limit the priority-lien rating.

Proceeds from the series 2019A bonds will be used to refund 2009A bonds outstanding for savings and to make improvements to Albuquerque's convention center as well as other tourist-related facilities. Proceeds from the series 2019B bonds will refund 2009B bonds outstanding for savings.

## Security

Both series of bonds are secured by a 1.225% state-shared GRT (SSGRT). The SSGRT is broad because it is assessed on sales and services including legal services, utilities, and certain medical services. In addition to the SSGRT, a lien on 50% of the city's 5% lodger's tax, less administrative costs, secures the series 2019B bonds.

## Credit fundamentals

Key credit considerations include:

- A very strong economic base, which serves as the state's economic engine;
- Very strong DSC of approximately 8.61x maximum annual debt service (MADS), supported by a 2.25x additional bonds test (ABT); and
- Our view that nationwide hotel/hospitality taxes have historically demonstrated moderate volatility, with no history of additional volatility at the local level.

### **Economic fundamentals: Very strong**

We consider Albuquerque's economy very strong. The city, with an estimated population of 563,526, is located in Bernalillo County and we consider the Albuquerque metropolitan statistical area to be broad and diverse. The city has a projected per capita effective buying income of 96.2% of the national level and per capita market value of \$83,832. Overall, the city's market value grew by 18.7% over the past year to \$47.2 billion in 2019. The county unemployment rate was 5.5% in 2017.

The city's economic base is diverse and continues to attract new businesses that contribute to the GRT collection base. The recent announcement that Netflix Inc. purchased an existing film studio is expected to result in further expansion of Albuquerque's film industry. The tourism and leisure sector has experienced rapid growth in the past three years and is becoming a major component of the local economy.

Albuquerque's main tax bases were relatively stable during the most recent recession, further reflecting the city's importance to the state economy. Although taxable gross receipts (the base for GRT) declined by 9.1% from fiscal years 2008 to 2010, they have since increased annually. The city's total assessed value (which is defined as one-third of market value less any exempted property) declined by 3.4% from fiscal 2010 to fiscal 2013; however, it has also increased annually over the past six years.

### **Coverage and liquidity: Very strong**

The bonds have very strong DSC with SSGRT pledged revenues alone providing 8.34x coverage on the \$24.1 million MADS in fiscal 2018. SSGRT revenues totaled \$200.9 million in fiscal 2018 and they are expected to increase again in fiscal 2019 and 2020 continuing the trend of very strong coverage. The additional lodger's tax pledge on the series 2019B bonds totaled \$6.5 million in fiscal 2018 and increases MADS coverage to 8.61x.

Although there is not a debt service reserve fund, the ABT is very strong equal to 2.25x MADS on existing and proposed bonds based on any consecutive 12-month period from the 18-month period immediately preceding the issuance of additional bonds.

### **Revenue volatility: Low**

We assess the volatility of revenue to determine the likelihood of the availability of revenue during different economic cycles. We have two levels of volatility assessments: macro and micro.

Our macro volatility assessment begins with an assessment of the historical volatility of the economic activity being taxed, and includes an analysis of societal, demographic, political, and other factors that could affect these activities. Based on the variance of national economic activity that we believe most closely represents the taxing base over multiple economic cycles, we use historical volatility to inform our opinion on expectations of future volatility. To determine our view of the volatility of GRT, we used total sales data from the U.S. Census Bureau for the period 1993-2014.

On a micro level, there is no external influence that we feel worsens the macro assessment of low volatility. From fiscal years 2015 to 2018, SSGRT averaged 2.9% annual increases and unaudited figures for fiscal 2019 reflect a 1.0% increase over 2018. The lodger's tax has also exhibited relatively low volatility averaging annual growth although fiscal 2018 did experience a 0.4% decrease from the previous year. We believe the very strong local economy will continue

to support at least stable pledged revenues over the long term.

### Obligor linkage: Close

An SSGRT of 5.125% is levied and collected by the state's Revenue Division of the New Mexico Taxation and Revenue Department. From this tax, 1.225% of the taxes collected within the city's boundary is remitted monthly from the revenue division to the city. The 5% lodger's tax is levied and collected monthly directly by Albuquerque. Under our criteria, we believe that pledged revenue is exposed to the city's operating risk and that bond provisions are less restrictive with respect to revenue collection and distribution. We believe this increases the linkage between the priority-lien pledge and the OC, which indicates the degree of exposure of the pledged revenue stream to operating risks of the OC.

### Rating linkage to Albuquerque

We assess Albuquerque' general operations because we view overall creditworthiness as a key determinant of an obligor's ability to pay all of its obligations, including bonds secured by revenue from a special tax. The city is the primary economic driver for the state and is positioned to continue experiencing slow and steady job and population expansion while also benefiting from several large stabilizing institutions. In addition, Albuquerque's strong management practices support stable financial reserves and balanced operations by taking advantage of revenue opportunities to offset growing expenditure pressures. Although annual debt issuances are expected, the overall net debt is likely to remain moderate due to fast debt repayment and tax base growth.

The bonds are eligible to be rated above the sovereign because we believe the revenue stream can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Priority-Lien Tax Revenue Debt" (published Nov. 19, 2013), U.S. states are considered to have moderate sensitivity to country risk. State-derived revenues are the sole source of security on the bonds, and the institutional framework in the U.S. is predictable with significant state autonomy and flexibility.

## Outlook

The stable outlook reflects our opinion that Albuquerque's very strong economy will continue to support stable revenues and very strong DSC. For these reasons, we do not expect to change the rating within our two-year outlook horizon.

### Downside scenario

We could consider a lower rating if significant decreases in pledged revenues or additional new debt issuances result in DSC that is well below the 2.25x ABT. We could also lower the rating if our view of the OC changes for the negative.

Ratings Detail (As Of October 4, 2019)		
Albuquerque GRT rfdg rev bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Albuquerque GRT/lodgers		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Albuquerque SALESTAX		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

**Ratings Detail (As Of October 4, 2019) (cont.)**

**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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.