

CREDIT OPINION

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New Issue

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City of Las Cruces, NM

New Issue: Moody's Assigns Aa3 to Las Cruces, NM's \$11M in SSGRT Bonds, Ser. 2017

Summary Rating Rationale

Moody's Investors Service has assigned a Aa3 rating to City of Las Cruces, NM's \$11 million State Shared Gross Receipts Tax Improvement Revenue Bonds, Series 2017. Moody's maintains the Aa3 rating on outstanding parity bonds.

The Aa3 senior lien rating reflects the city's economic strength and broad pledged revenue stream, adequate legal structure, solid debt service coverage, and limited historic volatility of the 1.225% State Shared Gross Receipt Tax (SSGRT) collections. The rating also considers the expectation that the hold harmless phase out will impact future growth in pledged revenues, which may affect debt service coverage levels.

Credit Strengths

- » Large tax base with institutional presence
- » Healthy maximum annual debt service (MADS) coverage

Credit Challenges

- » 15-year Hold harmless phase out expected to mute SSGRT growth
- » Springing Debt Service Reserve on Senior Lien

Rating Outlook

Moody's generally does not assign outlooks to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

- » Significant increases in gross receipts tax collections, absent additional debt leveraging
- » Substantial economic growth within the city

Factors that Could Lead to a Downgrade

- » Material declines in SSGRT collections compounded with hold harmless phase outs
- » Weakened MADS coverage
- » Significant leveraging of the pledged revenue sources
- » Contraction of the city's economic base

Key Indicators; Projections through Fiscal 2021

Exhibit 1

Las Cruces, NM

Credit Background					
Pledged Revenues	1.225% SSGRT				
Legal Structure					
Additional Bonds Test	2.0x MADS				
Open or Closed Lien	Open Lien				
Debt Service Reserve Fund Requirement	DSRF funded at level less than 3-prong test or a springing DSRF				
MADS Coverage					
2021 MADS Coverage (x)	5.4x				
Trend Analysis					
	2017	2018	2019	2020	2021
Debt Outstanding (\$000)	81,039	75,589	69,331	62,910	56,279
Revenues (\$000)	35,278	35,278	35,278	35,278	35,278
Annual Debt Service Coverage (x)	4.6x	4.4x	4.4x	4.4x	5.4x

Note: Annual Debt Service Coverage is for senior lien obligations only

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

Detailed Rating Consideration

Tax Base and Nature of Pledge: City Located in Southern New Mexico with Institutional Presence

The city's economy will continue improving, driven by appreciation of residential values, improved trade relations with Mexico and growth in the healthcare industry. Ongoing economic recovery should allow for stable gross receipts tax collections, which is a broad-based sales tax on all goods and services (excluding food and medical expenses). Las Cruces is located in southern New Mexico, about 45 miles north of the El Paso, TX, and is the second largest city in the state. The local economy is anchored by [New Mexico State University](#) (NMSU, Aa3 negative) and White Sands Missile Range, which employs approximately 6,500 and 4,500 people, respectively. The city benefits from tourism and trade with Mexico, as well as ongoing commercial development, including grocers, restaurants and manufacturing.

The December 2016 Moody's Economy.com report indicates the metro is in a moderating recession. Positively, job growth is expected to resume, and the unemployment rate (6.0% as of February 2017) should fall; the rate compares favorably to the state (6.9%) yet is above the nation (4.9%) for the same period. Critical to the metro area is population growth and increased enrollment at NMSU, which would lead to renewed expansion. Continued expansion within the healthcare sector is expected to drive long-term growth within the city's economy.

After rapid growth in fiscal 2005 through 2009, tax base expansion has slowed. Full value increased an average of 2.0% annually over the last five years to \$6.7 billion in fiscal 2017. Population grew a modest 3.9% between 2010 and 2015 to 101,408 after increasing 31.4% between 2000 and 2010. The slowdown can be attributed largely to reduced federal spending. The city's large student population, including 16,000 students at the New Mexico State University - Las Cruces campus and 8,000 students at Dona Ana Community College, contribute to wealth indices that are below average. Median family income is 78.1% the U.S. median per the 2015 American Community Survey.

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Debt Service Coverage and Revenue Metrics: Healthy Debt Service Coverage; SSGRT Revenues Show Improvement

Moody's expects state shared gross receipt tax revenue to remain stable, providing healthy debt service coverage levels over the mid-term. Since fiscal 2006, the city has reported two years of decline: a 5.5% drop in fiscal 2009 due to the recession and a 1.7% drop in fiscal 2014 due to the federal government shutdown. Overall, SSGRT revenues are fairly stable, with minimal historic volatility.

Fiscal 2016 collections of \$35.3 million provide a healthy 4.38 times coverage of senior lien maximum annual debt service (MADS) of \$8.1 million. Since fiscal 2012, SSGRT revenues have consistently provided healthy MADS coverage of over four times. Considering both senior and junior lien MADS of \$8.9 million, fiscal 2016 collections provide a comfortable 3.98 times.

For fiscal 2017, pledged revenues through March 2017 are \$26.9 million, a 3.9% increase year-over-year. At the current rate, annualized collections would be \$35.8 million, providing senior lien MADS coverage of 4.45 times and total MADS coverage of 4.05 times. In fiscal 2018, the city assumed revenue growth of 1.3% compared to the fiscal 2017 budget, net of the hold harmless phase out. Based on this forecast, SSGRT revenues are \$35.4 million, providing senior lien MADS coverage of 4.39 times and total MADS coverage of 3.99 times.

Beginning fiscal 2016, hold harmless portions of the gross receipts taxes collected by the city started to phase out over a 15 year period. The estimated phase out amounts in the near-term are modest, but increase to a significant \$4.0 million by fiscal 2030. 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 overall declining debt service schedule for senior and junior liens combined. Moody's notes that improving coverage is contingent on SSGRT revenue growth outpacing phase out amounts; otherwise, coverage may be negatively impacted which would warrant further review.

Debt and Legal Covenants: Plans to Issue in the Near-term; Adequate Legal Provisions

Post-sale, the city will have approximately \$81 million in outstanding obligations legally secured by SSGRT revenues. Of that, around \$34.1 million is paid for with alternative revenue streams, such as lodgers tax or assessments. The city issues parity bonds on a three-year cycle, thus, the next issuance will likely be in fiscal 2019 or fiscal 2020. The debt service payout across all series is structured to allow additional issuances of debt without negatively impacting coverage.

The Series 2017 bonds legal provisions are the same as previously issued senior lien debt, and are considered average with an additional bonds test of 2.0 times MADS and a springing debt service reserve funded at the lessor of the standard three-prong. The reserve is triggered in event coverage of outstanding debt drops below 2.0 times MADS.

DEBT STRUCTURE

Principal amortization is average with 64.6% retired in ten years. Payout is descending in nature, with all debt retired by 2037. Senior lien MADS, including the Series 2017 bonds, is \$8.1 million, and occurs in fiscal 2018. MADS across all series is \$8.9 million, and also occurs in fiscal 2018.

DEBT-RELATED DERIVATIVES

All of the debt is fixed rate and the dedicated tax revenues have no exposure to variable rate debt or interest rate swaps.

Management and Governance

The city operates under a home rule charter with a Council-Manager form of government. The six council members and the Mayor are elected for staggered four-year terms. A new city manager was hired within the last year, and he and his team are committed to maintaining healthy General Fund balance in excess of the state's required 1/12th reserve.

New Mexico Cities have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources, such as property taxes and sales taxes, are subject to statutory caps, which cannot be overridden. However, the property tax cap of \$7.650 (per \$1,000 AV) and the available sales tax authority (varies by type) still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, New Mexico has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Legal Security

The bonds are special limited obligations. The bonds are payable solely from and secured by an irrevocable and first lien (but not necessarily an exclusive first lien) upon the revenues of the 1.225% state shared gross receipts tax (SSGRT).

Use of Proceeds

The proceeds of the Series 2017 bonds will be used to (1) construct, purchase, furnish, equip, rehabilitate, make additions to or make improvements to public facilities; (2) construct, reconstruct, resurface, maintain, repair or otherwise improve streets or roadways; and (3) pay expenses and costs of issuance related to the issuance of the Series 2017 bonds.

Obligor Profile

Las Cruces is the second-largest city in [New Mexico](#) (Aa1 negative), and is located approximately 45 miles northwest of El Paso, Texas.

Methodology

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

Ratings

Exhibit 2

LAS CRUCES (CITY OF) NM

Issue	Rating
State Shared Gross Receipts Tax Improvement Revenue Bonds, Series 2017	Aa3
Rating Type	Underlying LT
Sale Amount	\$11,000,000
Expected Sale Date	05/10/2017
Rating Description	Special Tax: Sales

Source: Moody's Investors Service

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