S&P Global
Ratings

RatingsDirect®

Summary:

Roswell, New Mexico; Sales Tax

Primary Credit Analyst:
Alyssa B Farrell, Centennial (1) 303-721-4184; alyssa.farrell@spglobal.com

Secondary Contact:
Cody J Nelson, San Francisco 415-371-5022; cody.nelson@spglobal.com

Table Of Contents

Rationale

Outlook

Related Research

Summary:

Roswell, New Mexico; Sales Tax

Credit Profile		
US$23.0 mil gross receipts tax imp rev bnds ser 2017 due 08/01/2037		
Long Term Rating	AA/Stable	New
Roswell SALESTAX		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Roswell, N.M.'s series 2017 gross receipts tax (GRT) revenue bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the city's GRT revenue bonds outstanding. The outlook is stable.

A first-lien on revenue from the 1.225% state-shared GRT secures the bonds. New Mexico does not have a sales tax. Instead, the GRT is imposed on persons engaged in business in the state. Generally, sales and leases of goods and other property, as well as sales and performances of services, are taxable. The state-shared GRT is collected by the state taxation and revenue department and remitted to the city monthly. The series 2017 bonds are on parity with the city's existing series 2008 and privately placed series 2015 GRT revenue bonds. Proceeds from the series 2017 bonds will be used to acquire, construct, repair, and improve a city recreation center.

The rating reflects our opinion of the city's:

- Maintenance of very strong maximum annual debt service (MADS) coverage of 7.1x based on fiscal 2016 audited pledged revenues;
- Positive historical trends in state-shared GRT collections, which are expected to continue over the near term; and
- Very strong per capita retail sales of 154% of the national level.

Partly offsetting the above strengths, in our view, are the city's:

- Pledged revenue component based on the inherently volatile oil and gas production sector, causing a recent decline in audited pledged revenues;
- Potential for further dilution of coverage under the 2.0x MADS additional bonds test (ABT); and
- Below-average income indicators.

Roswell's local economy is centered in agriculture, oil and gas production, industrial manufacturing, and retail. The major sectors contributing to revenue generation include the retail trade, services, accommodation and food services, and construction industries. Following five years of consecutive growth, in which pledged revenues grew by a cumulative 14%, the city's pledged revenues declined by nearly 6% in fiscal 2016 to about $13.3 million. Management attributed the recent decline to a drop in collections in the mining and oil and gas extraction portions of the GRT revenue, further stating that the oil and gas price fluctuations have had an impact on the local economy and pledged

1893192 | 302567438

revenues. Estimates for fiscal 2017 show a roughly 7% increase in pledged revenues to almost $14.3 million, and we understand that the city anticipates continued growth in coming years.

Prior to the current issuance, the city's pledged revenues provided, in our view, very strong coverage on the existing bonds of 18.7x. While the current issuance resulted in a decline in coverage, we calculate MADS coverage will remain very strong, at 7.1x based on fiscal 2016 actual pledged revenues (the most recent audit), and 7.6x using fiscal 2017 estimates. We note that the combined MADS year is 2018, after which we estimate that MADS coverage will increase to 8.1x using fiscal 2017 estimates.

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 revenue that the county would have received had the state not implemented certain food and medical deductions from gross receipts in 2004. The reductions will be phased in over 15 years. In fiscal 2015, the hold harmless distribution portion of the county's pledged GRT revenue represented about 10% of total revenue and the distributions are expected to decline by about $234,000 annually. A section in the legislation contains a debt impairment provision for hold harmless distributions that have been pledged for debt service. It states that distributions in the amount for debt service payments will be maintained if the reductions in distributions impair the entity's ability to pay debt service. We understand that the details of how this provision will be administrated have yet to be determined. Furthermore, the legislation allows cities to implement up to an additional three-eighths of GRT increment to offset the loss of the in-lieu state revenue; however, the city has chosen not to implement this additional GRT increment at this time, and any newly adopted GRT increment would not be pledged to the GRT bonds without further action by the board of county commissioners.

In December 2015, the city issued $3.57 million of GRT bonds, directly purchased by the Bank of Albuquerque, which were not rated by S&P Global Ratings. We understand that bond proceeds were used to finance various public works projects. The debt is secured by a first lien on revenue from the 1.225% state-shared GRT, and is on parity with the series 2017 bonds. Upon reviewing the documents, we have not identified any contingent liquidity risk associated with the issuance.

Legal provisions

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 2.0x 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 24 months at the least of 10% of bond proceeds, MADS, or 125% of average annual debt service. Given the city's dependence on GRT revenue for operations, we consider it unlikely that the city will issue the maximum amount of bonds allowable under the bond indenture. In fiscal 2016, pledged revenues accounted for roughly 30.5% of total general fund revenue. The city has no plans to issue additional GRT revenue bonds at this time.

Economy

The city of Roswell, incorporated in 1903, is 200 miles southeast of Albuquerque in Chaves County. The city is the county seat and the county's largest incorporated community. Leading employers include Roswell Independent School District; Leprino Foods, the nation's largest producer of mozzarella cheese; Eastern New Mexico Medical Center; and the city government. Incomes within the city are adequate, in our view, with median household effective buying income (EBI) of 89% of the national level and per capita EBI of 82%. We recognize that income levels may be somewhat repressed due in part to the large retiree population. Per capita retail sales are very strong, in our opinion, at 154% of the national level, reflective of the city's large retail component.

Outlook

The stable outlook reflects our view of the city's local economy, which, although stable, remains somewhat limited. The outlook further reflects our expectation that pledged revenues will continue to provide very strong coverage on the bonds, based on current projections. We do not expect to change the rating within the two-year outlook horizon.

Upside scenario

Should the local economy show sustained growth, improving income indicators and broadening the tax base, we could raise the rating.

Downside scenario

We could lower the rating if MADS coverage were to weaken to levels no longer commensurate with similarly rated peers as a result of a decline in pledged revenues or adding further debt to the lien.

Related Research

- 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

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.

Copyright © 2017 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.

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 acknowledgement 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 nonpublic 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 (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.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.

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