

Rating Action: Moody's assigns Aa3 to City of Rio Rancho, NM's ser. 2020 GOs

24 Apr 2020

New York, April 24, 2020 -- Moody's Investors Service has assigned a Aa3 to City of Rio Rancho, NM's \$14.6 million in General Obligation Improvement Bonds, Series 2020. We have maintained the Aa3 on \$21.955 million in outstanding parity obligation.

RATINGS RATIONALE

The Aa3 reflects the city's stable reserve position, which is expected to remain around current levels due to conservative budgeting and real-time adjustments to expenditures in light of the pandemic, including curbing department expenditures and furloughing 15% of staff starting May 1. The rating also considers the city's moderately-sized tax base in north central New Mexico, manageable direct debt burden, and elevated pension burden, although the city's unfunded liability should benefit from legislative changes made to PERA in 2020.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for Rio Rancho. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Rio Rancho changes, we will update the rating and/or outlook at that time.

RATING OUTLOOK

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

LEGAL SECURITY

The GO 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 of the Bonds will be used to provide funds for designing, constructing, repairing, preserving, rehabilitating, enhancing and otherwise improving roads within the City, designing, constructing, repairing, preserving, rehabilitating, enhancing and otherwise improving public safety facilities and repairing, replacing, or otherwise improving public safety vehicles, apparatus, and equipment.

PROFILE

The City was incorporated in 1981, operates under a Council-Manager form of government with the Mayor elected at large, and is located in central New Mexico (GO Aa2 stable), adjacent to Albuquerque (GO Aa3 negative), New Mexico's largest city. The City has a land area of approximately 105 square miles. Rio Rancho is the third largest city in New Mexico, with a current population of 101,000.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Trend of operating surpluses that materially increase reserves
- Material decline in the city's pension burden
- Significant economic expansion and diversification

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Trend of imbalanced operations resulting in deterioration of financial reserves
- Further increases in the city's pension burden, tread water gap or fixed cost burden
- Tax base contraction or economic stagnation

METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in September 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1191097. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

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