

Rating Action: Moody's upgrades City of Rio Rancho, NM's GOULT to Aa2

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New York, April 22, 2022 -- Moody's Investors Service has upgraded the City of Rio Rancho, New Mexico's general obligation unlimited tax (GOULT) rating to Aa2 from Aa3. Concurrently, Moody's has assigned a Aa2 rating to the city's \$15.3 million General Obligation Improvement Bonds, Series 2022. Post sale, the city will have \$31.1 million in GOULT debt outstanding.

RATINGS RATIONALE

The GOULT upgrade to Aa2 from Aa3 reflects the city's strong financial performance coupled with improved financial policies including the adoption of a minimum reserve policy and creation of a permanent fund. These policies help mitigate the city's reliance on economically sensitive gross receipt taxes. The rating also incorporates Rio Rancho's large and growing economy that will benefit from Intel Corporation's (A1 stable) major expansion in the area. The city's debt burden is manageable and supported by rapid principal amortization. Pension liabilities are elevated, but expected to benefit from recent legislative reform to the Public Employees Retirement Association (PERA) that mandated increased contributions by employees and participating governments.

RATING OUTLOOK

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

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Significant diversification of revenue stream
- Material moderation of the city's pension liabilities
- Continued operational surplus leading to bolstered operating reserves

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Trend of operational imbalance leading to erosion of operating reserves
- Significant additional leverage, either via debt issuance or increase in pension liabilities
- Material or sustained trend of economic contraction

LEGAL SECURITY

The city's GOULT bonds are payable from ad valorem property taxes to be levied, without limitation as to rate or amount, against all taxable property within the city. The bonds are secured by the city's full faith and credit pledge.

USE OF PROCEEDS

Process of the Series 2022 bonds will provide financing for various capital projects of the city, including roads and underlying utility infrastructure, public safety vehicle replacement, library materials and equipment, and park improvements.

PROFILE

Rio Rancho is located in central New Mexico (Aa2 stable) adjacent to Albuquerque (Aa3 positive), the state's largest city. The city is the third largest city in New Mexico with a population of 104,046 per the 2020 US Census.

METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260094. 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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