S&P Global Ratings

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Summary:

Albuquerque, New Mexico; Sales Tax

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Table Of Contents

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Credit Profile		
US$49.205 mil transp infrastructure gross receipts tax imp rev bnds ser 2020 due 07/01/2035		
Long Term Rating	AAA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the City of Albuquerque, N.M.'s $43.1 million series 2020 transportation infrastructure gross receipts tax (GRT) improvement bonds. The outlook is stable.

Proceeds from the debt will be used to make transportation improvements throughout the city.

The bonds are secured by a 0.25% increment of a municipal GRT collected. The current issuance is the only debt secured by this pledge.

Credit overview

The rating reflects our view of very strong debt service coverage (DSC), supported by a very strong economy. We base the rating on the application of our priority-lien tax revenue debt criteria, published Oct. 22, 2018, which factors in 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. Although revenue collections were negatively affected in March through June because of COVID-19 pandemic stay-at-home orders, the projected decrease for fiscal 2021 is 5% and we do not expect coverage to fall below levels we consider very strong, and therefore expect the rating to stay stable. Although our outlook is generally for two years, we see significant downside risks as a result of the pandemic and developing recession over the next six-to-12 months.

For our latest U.S. economic forecast, see "The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020 on RatingsDirect. See also "Economic Research: U.S. Real-Time Economic Data Continues To Paint A Mixed Picture," published Aug. 14, 2020.

Key credit considerations include:

- A very strong economic base, which serves as the state's economic engine;
- Very strong DSC of approximately 10.34x maximum annual debt service (MADS) post-issuance using fiscal 2019 revenues, supported by a 2.25x additional bonds test (ABT); and
- Low revenue volatility on the broad-based GRT, though there could be pressure from the current coronavirus pandemic.

We rate the bonds above the sovereign because we believe it can maintain better credit characteristics than the U.S. in a stress scenario, based on the locally derived pledged revenue for bondholders and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. The rating above the sovereign is based on our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013.

Environmental, social, and governance factors

The rating incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. Absent the implications of COVID-19, we consider the district's social risks somewhat stronger than the sector due to steady population growth and employment opportunities. We analyzed its environmental and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that none of these present unusual risk in our analysis.

Stable Outlook

Downside scenario

We could consider a lower rating if significant decreases in pledged revenues or additional new debt issuances result in DSC near the 2.25x ABT. We could also lower the rating if our view of the OC weakens substantially.

Credit Opinion

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 city's economic base is diverse and in recent years had been attracting new businesses that were starting to contribute to the GRT collection base. Netflix Inc. purchased an existing film studio that is expected to further expand Albuquerque's film industry, although this will take time to gain momentum, especially given recent economic conditions. The tourism and leisure sector was experiencing rapid growth and was a major component of the local economy until the pandemic. There is no doubt that tourism will be slow to return .

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 2008-2010, they increased annually through fiscal 2019. 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. Management has made expenditure cuts to the operating budget and is prepared to make additional adjustments as needed, depending on revenue collections for the remainder of the 2020 fiscal year. Although Albuquerque will be negatively affected by the pandemic and recession, we believe the broad and diverse tax base, as well as its role as the state's primary economic engine, will continue to support our assessment that it is a very strong economy.

Coverage and liquidity: Very strong

The bonds have very strong DSC, with fiscal 2019 pledged revenues alone providing 8.89x coverage on the $4.5 million MADS, post-issuance, in fiscal 2021. Pledged revenues totaled $40 million in fiscal 2019.

Fiscal 2020 ended with a 3% increase in pledged revenues from the previous year because strong collections in the beginning of the year were enough to offset the declines that occurred in March through June. Officials are conservatively projecting a 5% decrease for fiscal 2021 given recessionary pressures and the declines experienced during pandemic stay-at-home orders. Even if this decrease materializes, coverage would remain very strong given level debt service and nearly 9x coverage of MADS.

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.

On a macro level, we consider sales tax/GRT revenues to have a low historical volatility assessment, given that the demand for goods and services taxed is expected to remain relatively stable throughout various economic cycles. Nationwide, these taxes have historically remained relatively stable, with notable periods of fluctuation, including during the recession in 2009. Future shifts, if any, in purchasing habits could negatively affect economic activity.

On a micro level, with stable collections coupled with a broad base, we see no internal or external influences that we believe improve or worsen the macro assessment of volatility as low. While fluctuations could occur relative to economic cycles, we believe historical trends inform our view of pledged tax collections that we believe will remain stable in the near term. While the pandemic response is expected to result in sizable deterioration of pledged revenue, we expect that the recovery will likely begin in late 2020.

Obligor linkage: Close

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's 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 as a result of fast debt repayment and tax base growth.

For more about the city of Albuquerque's creditworthiness, please see our report published Feb. 21, 2020.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020