

RatingsDirect®

Summary:

Albuquerque, New Mexico; General Obligation

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Credit Profile

US\$37.97 mil GO bnds ser 2015A due 07/01/2027

Long Term Rating AAA/Stable New

US\$4.726 mil storm swr bnds ser 2015B due 07/01/2028

Long Term Rating AAA/Stable New

Albuquerque GO

Long Term Rating AAA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Albuquerque, N.M.'s series 2015A and 2015B general obligation (GO) bonds. At the same time, we affirmed our 'AAA' long-term rating and underlying rating (SPUR) on the city's existing GO bonds. The outlook is stable.

The ratings reflect our opinion of Albuquerque's:

- Adequate economy, which is part of a broad and diverse economy centered on, and anchored by, strong links to government employment, which has allowed it to manage operations successfully through previous economic cycles;
- Very strong management condition with "strong" financial management policies under our Financial Management Assessment (FMA) methodology, guiding finances;
- Strong budgetary flexibility when accounting for reserves held in the committed fund, which is committed for minimum reserve purposes;
- Strong budgetary performance;
- Very strong liquidity for operations and debt service; and
- Strong debt and contingent liability position, supported in part by rapid amortization.

The city's full-faith-and-credit pledge and an unlimited property tax pledge secure the GO bonds.

Adequate economy

We consider Albuquerque's underlying economy adequate, with projected per capita effective buying income at 102% of the national level and per capita market value of \$79,377. Albuquerque benefits from a broad and diverse economy. With an estimated population of 563,000, Albuquerque is New Mexico's largest city and main economic center. In addition, the city also benefits from a large number of government-based jobs. In 2014, federal, state, and local government employment in the Albuquerque metropolitan statistical area (MSA) accounted for 22% of nonagricultural jobs. Professional and business services and education and health services represent 15% and 16% of total nonfarm employment, respectively. The MSA's leading employers are the University of New Mexico, Albuquerque Public Schools, and Sandia National Laboratories. According to U.S. Bureau of Labor Statistics estimates, Bernalillo County's unemployment was 6.6% for calendar 2014.

Fiscal 2014 assessed value (AV) remained relatively flat at \$12 billion, but fiscal 2015 AV increased by 2%. The property tax base is diverse, with the 10 leading taxpayers accounting for just 3% of total AV. Public Service of New Mexico, an electricity utility power company and the leading taxpayer, accounts for just 1.2% of AV. Market value increased by about 4% between 2014 and 2015.

Very strong management conditions

We view Albuquerque's management conditions as very strong, with "strong" financial management practices under our FMA methodology, indicating practices are strong, well embedded, and likely sustainable. Policies include management's:

- Strong revenue forecasting practices,
- Quarterly reviews of revenue and expenditures with the city council,
- Long-term capital plan, and
- Formal debt policy.

In addition, Albuquerque's policy is to maintain one month's appropriations as a minimum reserve.

Strong budgetary flexibility

In our opinion, budgetary flexibility remains strong, with available reserves at 13.4% of general fund expenditures, including regular transfers out, based on audited 2014, or roughly \$63 million. This number includes committed reserves. Committed reserves are the city's minimum reserve requirement. While the city projects to use reserves to balance operations in fiscal 2015, we do not foresee significant declines based on management's careful monitoring of the budget. We recognize Albuquerque has taxing flexibility in line with other New Mexico cities with a mayor-council form of government.

Strong budgetary performance

In our opinion, budgetary performance is strong, with audited fiscal 2014 numbers indicating basically balanced general fund and total governmental funds operations, when accounting for the use of bond proceeds in the capital fund. For fiscal 2014, Albuquerque's general fund posted a \$5 million operating surplus after transfers and excluding expenditures that we view as one-time. We consider the annual transfer out to the transit, capital, and other nonmajor funds as ongoing expenditures. We expect general and total governmental funds operations to remain close to balance, based in part on historical performance and budgeted numbers and also on the government's use of bond proceeds to fund capital projects.

Very strong liquidity

We consider Albuquerque's liquidity very strong, with a total governmental funds debt service ratio of more than 120% of total government available cash and more than 15% of total governmental funds expenditures. We believe the city has exceptional access to external liquidity, because it has issued multiple GO bonds and gross receipts tax bonds. We expect liquidity to remain very strong, with no signs of major cash drawdowns.

Strong debt and contingent liability profile

In our opinion, Albuquerque's debt and contingent liability profile is strong, with a net direct debt ratio of roughly 87% of total governmental revenue and a total governmental funds debt service ratio of 13% of total governmental funds expenditures. Albuquerque benefits from rapid debt amortization, in our opinion, with officials planning to retire more

than 65% of debt within 10 years. We believe this slightly offsets the higher carrying charge.

Albuquerque contributes to the New Mexico Public Employees' Retirement Association (PERA) plan for employee pension benefits, as required by state statute. The state's PERA has a \$6.18 billion actuarial unfunded pension liability; it was just 65% funded as of June 30, 2012, after an annual underfunding of the annual required contribution (ARC) and low investment returns.

In addition to pension benefits, Albuquerque provides other postemployment benefit (OPEB) life insurance to its retirees. It also contributes to the New Mexico Retiree Health Care Fund defined-benefit health care plan. Albuquerque contributed a total of \$58 million to pension benefits in fiscal 2014, which included the employer-required contribution and the city's contribution toward the employee contribution costs. The OPEB ARC was \$3.6 million, of which the city contributed \$1.2 million in fiscal 2014. The combined OPEB annual contribution and pension contribution represented about 9.8% of governmental expenditures in fiscal 2014.

Very strong institutional framework

We consider the institutional framework score for New Mexico cities very strong.

Outlook

The stable outlook reflects our opinion that Albuquerque's very strong financial management policies and continued proactive and timely budget adjustments to restore structural balance will likely support stable reserves at or above Albuquerque's reserve policy within the next two years. While federal employment remains a component of the local economy, the regional economy is diverse and somewhat stabilized by health care and local governments.

The ratings could experience pressure if there was a significant regional economic slowdown that reduced revenue growth. In addition, we could lower the ratings if the city were to fail to adjust for increasing budget costs, as necessary, and if reserves were to decrease below a level we currently consider strong, in line with its policy.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: New Mexico Local Governments

Ratings Detail (As Of April 10, 2015)		
Albuquerque storm swr bnds ser 2014B due 07/01/2027		
Long Term Rating	AAA/Stable	Affirmed
Albuquerque GO bnds		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of April 10, 2015) (cont.)

Albuquerque GO

Unenhanced Rating

AAA(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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