

Research Update:

Albuquerque, NM Series 2025A And 2025B General Obligation Bonds Rated 'AAA'; Outlook Is Stable

May 1, 2025

Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the City of Albuquerque, N.M.'s proposed \$59.8 million series 2025A general obligation (GO) general purpose bonds and \$5.3 million series 2025B GO storm sewer bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's GO bonds outstanding.
- The outlook is stable.
- The rating is based on the application of our "Methodology For Rating U.S. Governments," published Sept. 9, 2024.

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Rationale

Security

The bonds are secured by the city's full faith and credit pledge and are payable from unlimited ad valorem property taxes levied on all taxable property in the city. The bond proceeds will fund various capital projects.

Credit highlights

Albuquerque is New Mexico's largest city and primary employment and economic center. Although wealth and income levels are below those of similarly rated peers, the city's importance to the state economy, diverse economic base, and economic growth support the 'AAA' rating, along with the city's robust financial management policies and practices that support stable finances, and manageable fixed costs. The city continues to see economic expansion across many sectors, including a growing film-industry presence and recent solar-technology investments. Although our most recent economic outlook forecasts slower GDP growth (see "U.S. Economic Outlook Update: Higher Tariffs And Policy Uncertainty To Weaken Growth," published May 1, 2025), we expect the city's assessed value (AV) will continue to grow

because of ongoing residential and commercial development, as well as the lagging nature of AV.

Conversely, the city's primary revenue source, gross receipts tax (GRT) revenue, accounting for almost 70% of budgeted general fund revenue, is more likely to be negatively affected by a slowdown in economic growth. However, the city's GRT revenue continues to trend above budgeted figures in fiscal 2025, and has generally been resilient, only declining year-over-year three times in the past 20 years (fiscal years 2008-2010). The city also has history of making budgetary adjustments to changing economic environments. Given this history, we expect the city will make budgetary adjustments as necessary to stay operationally balanced over the two-year outlook period, should economic headwinds negatively affect GRT revenue.

After this issuance the city will have approximately \$830 million in direct debt outstanding and will have exhausted its GO bond authorization. Albuquerque typically holds a bond election every two years and annual issuance is fueled by priority capital needs and affordability. Given this practice, additional debt is expected but rapid amortization of existing debt and ongoing tax base growth should keep the debt burden stable.

Credit fundamentals supporting the 'AAA' rating include:

- The city's large contribution to the state's economy, with ongoing economic development and a diverse economic base offsetting income metrics that are below those of similarly rated peers.
- Consistently balanced operations, with the city recently using nonrecurring expenditures to reduce its available general fund balance to be closer to its policy level, after rapid growth in GRT revenue in combination with federal stimulus funds and conservative budgeting during the pandemic led to available reserves increasing to historical highs. For fiscal 2025 and beyond, we expect the city will make budgetary adjustments as needed, including adjusting the amount nonrecurring expenditures, to stay operationally balanced and keep available reserves near its policy level.
- Available reserves that have historically been maintained around 12% of revenue, slightly above its fund balance policy minimum of one twelfth (8.33%) of general fund expenditures. The city has a small amount of privately placed debt outstanding, primarily through the New Mexico Finance Authority, that we do not view as a contingent liquidity risk.
- Robust budgeting practices informed by long-term forecasting and capital planning, as well as economic forecasts that, in combination with regular budget monitoring, have supported consistently better-than-budgeted operating results. The city also maintains a comprehensive five-year capital improvement plan and financial forecast, both of which are regularly updated. The city has adopted robust investment, debt management, and reserve policies. Management has implemented policies and practices to help mitigate the city's exposure to cyber-security threats.
- Manageable fixed costs, with additional debt plans offset by the city's rapid amortization.
- The below-average funding status of the state administered Public Employees Retirement Association (PERA) plan the city participates in, which was 71% funded as of the June 30, 2023, measurement date. While we do not expect pension costs will be an immediate budgetary pressure for the city, we believe PERA's discount rate of 7.25% could lead to significant contribution volatility. Funding progress during the most recent year fell short of both static and minimum funding progress, indicating that net pension liabilities will continue to grow.

- For more information on our institutional framework assessment for New Mexico municipalities, see "Institutional Framework Assessment: New Mexico Local Governments," published Sept. 11, 2024.

Environmental, social, and governance

Compared with other locations nationally, data from S&P Global Sustainable1 shows Bernalillo County, where Albuquerque is located, faces elevated exposure to drought, extreme heat, and water stress. However, we view these physical risks as neutral to our analysis. This reflects the city’s implementation of a comprehensive climate action plan, first developed in 2009, that it continues to update regularly, as well as, because of the proactive management and planning of the Albuquerque-Bernalillo County Water Utility Authority (for more information, see, “Albuquerque Bernalillo County Water Utility Authority, New Mexico,” published Jan. 31, 2025).

The city's social and governance factors are neutral considerations in our credit rating analysis.

Rating above the sovereign

The city's GO bonds are eligible to be rated above the sovereign, because we believe Albuquerque can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, U.S. local governments are considered to have moderate sensitivity to country risk. The city's locally derived revenue is the source of security for the bonds, and the institutional framework in the U.S. is predictable, with significant U.S. local government autonomy. In a potential sovereign default scenario, U.S. local governments would maintain financial flexibility through the ability to continue collecting locally derived revenue and U.S. local governments have independent treasury management.

Outlook

The stable outlook reflects our view of the city’s strong management team and key role in the state’s economy, as well as our expectation that the city will adjust its budget as necessary to maintain available reserves in compliance with its fund balance policy.

Downside scenario

We could lower the rating if persistent operating deficits cause available reserves to fall below the city’s policy level, whether due to a softening of key revenue streams from a continued economic contraction or material growth in expenditures that outpaces revenue. We could also lower the rating if the city’s debt profile and pension liabilities become weaker in comparison with that of ‘AAA’ rated peers.

Albuquerque, New Mexico--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	1.85
Economy	1.0
Financial performance	2
Reserves and liquidity	2
Management	1.00

Albuquerque, New Mexico--credit summary

Debt and liabilities	3.25
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Albuquerque, New Mexico--key credit metrics

	Mos t rece nt	202 4	202 3	202 2
Economy				
Real GCP per capita % of U.S.	93	--	93	93
County PCPI % of U.S.	85	--	85	85
Market value (\$000s)	52,4 63,0 42	58,1 53,2 08	55,0 62,8 47	52,8 71,9 58
Market value per capita (\$)	91,7 90	102, 965	97,4 93	92,5 05
Top 10 taxpayers % of taxable value	4.1	3.9	2.5	--
County unemployment rate (%)	3.9	3.8	3.4	3.6
Local median household EBI % of U.S.	87	--	87	85
Local per capita EBI % of U.S.	93	--	93	89
Local population	564, 787	--	564, 787	571, 557
Financial performance				
Operating fund revenues (\$000s)	--	787, 581	765, 880	725, 410
Operating fund expenditures (\$000s)	--	781, 336	698 ,744	603 ,385
Net transfers and other adjustments (\$000s)	--	- 77,9 82	- 118, 555	- 99, 963
Operating result (\$000s)	--	- 71,7 37	- 51,4 19	22,0 62
Operating result % of revenues	--	-9.1	-6.7	3.0
Operating result three-year average %	--	-4.3	1.9	6.7
Reserves and liquidity				
Available reserves % of operating revenues	--	12.1	21.9	30.2
Available reserves (\$000s)	--	95,6 61	167, 439	218, 817

Albuquerque, New Mexico--key credit metrics

	Mos t rece nt	202 4	202 3	202 2
Economy				
Debt and liabilities				
Debt service cost % of revenues	--	10.1	11.1	14.1
Net direct debt per capita (\$)	1,452	1,456	1,418	1,344
Net direct debt (\$000s)	829,931	822,126	800,967	768,302
Direct debt 10-year amortization (%)	73	71	--	--
Pension and OPEB cost % of revenues	--	5.0	5.0	5.0
NPLs per capita (\$)	--	1,788	1,474	1,390
Combined NPLs (\$000s)	--	1,009,941	832,240	794,547

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List

New Issue Ratings

US\$5.31 mil GO storm swr bnds ser 2025B due 07/01/2041	
Long Term Rating	AAA/Stable
US\$59.84 mil GO gen purp bnds ser 2025A due 07/01/2040	
Long Term Rating	AAA/Stable

Ratings Affirmed

Local Government

Albuquerque, NM Unlimited Tax General Obligation	AAA/Stable
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The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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