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Ratings

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Summary:

Albuquerque, New Mexico; General Obligation

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Credit Profile		
US$14.308 mil GO gen purp bnds ser 2019A due 07/01/2026		
Long Term Rating	AAA/Stable	New
US$12.342 mil GO storm swr bnds ser 2019B dtd 04/17/2019 due 07/01/2032		
Long Term Rating	AAA/Stable	New
Albuquerque GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the City of Albuquerque, N.M.'s series 2019 A and B general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's existing GO bonds. The outlook is stable.

The bonds are secured by a pledge of unlimited ad valorem property taxes levied on all taxable property in Albuquerque. The series A bonds will be used to finance certain city projects related to public safety, public transportation, and other public facilities, and the series B bonds will be used to finance storm and sewer improvements.

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 revenues are 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 revenues and U.S. local governments have independent treasury management.

The city of Albuquerque 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, the city'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 expected to remain moderate due to fast debt repayment and tax base growth.

The GO rating reflects our view of Albuquerque's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment

(FMA) methodology;

- Adequate budgetary performance, with balanced operating results in the general fund but an operating deficit at the total governmental fund level in fiscal 2018;
- Strong budgetary flexibility, with an available fund balance in fiscal 2018 of 10.7% of operating expenditures;
- Very strong liquidity, with total government available cash at 63.1% of total governmental fund expenditures and 4.9x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 12.9% of expenditures and net direct debt that is 93.7% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation, but rapid amortization, with 76.5% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Strong economy

We conider Albuquerque's economy strong. The city, with an estimated population of 563,526, is located in Bernalillo County and we consider the Albuquerque MSA 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 county unemployment rate was 5.5% in 2017.

The city's economic base is diverse and continues to attract new businesses. The recent announcement that Netflix Inc. purchased an existing film studio is expected to result in further expansion of Albuquerque 's film industry. This is further supported by new legislation that increased the amount governments can provide for filming incentives. The local economy benefits from manufacturing (Intel Corp., Honeywell Aerospace, General Mills Inc.), technology (Raytheon), federal and military institutions (Sandia National Laboratories, Kirtland Air Force Base, the Air Force Research Laboratory), higher education, health care, and back-office centers for major multi-national corporations. The tourism and leisure sector, in particular, has experienced rapid growth in the past three years and is becoming a major component of the local economy. This diverse base, as well as Albuquerque's central role in the statewide economy, helped stabilize employment during the Great Recession.

Albuquerque's main tax bases were relatively stable during the recession, further reflecting the city's importance to the state economy. Although taxable gross receipts (the base for its gross receipts tax, or GRT) declined by 9.1% from fiscal years 2008 to 2010, they have since increased annually. 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.

Very strong management

We view the city's mnagement as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights of the FMA include the city's:

- Use of internal trend analysis and external information to make revenue and expenditure assumptions, and assessment of current trends that might affect future results;
- At least quarterly budget-to-actual reporting to the council;

- Five-year general fund projections that are updated annually;
- 10-year capital improvement plan that is updated every two years;
- Investment management policy with quarterly investment reporting to the council;
- Debt management policy that discusses projects that may be funded with debt, maturities, debt structures, credit enhancements and derivatives, and refunding guidelines; and
- Formal fund balance policy requiring a minimum 1#?#12 general fund balance for cash flow purposes, to which the city has historically adhered.

Adequate budgetary performance

Albuquerque's budgetary performance is adequate in our opinion. The city had balanced operating results in the general fund of negative 0.5% of expenditures, but a deficit result across all governmental funds of 5.4% in fiscal 2018. General fund operating results of the city have been stable over the last three years, with a result of negative 0.5% in 2017 and a result of negative 0.7% in 2016.

GRT revenues comprise approximately 66% of general fund revenues and they are currently in the ninth year of year-over-year growth. In 2018, Albuquerque increased the local GRT rate by three-eighths of 1%, which is expected to produce approximately $50 million in additional revenue for the eight months to be collected in fiscal 2019. The enabling legislation for this new revenue mandates the city to spend at least 60% on public safety enhancements. The additional tax rate will also be used to offset budgetary pressure Albuquerque has been facing due to the state's phase-out of "hold harmless" payments to cities. After exempting food and medical expenses from GRT collections in 2004, New Mexico increased funding to local governments to offset the loss in revenues. However, in 2015, the state started a 15-year phase-out of the hold harmless payments and passed legislation to allow local governments to increase their local GRT by three-eighths of 1% to mitigate the negative fiscal impact.

The city's current administration is focused on enhancing public safety, which is adding to the operating budget, and 78% of the new GRT increment is going toward this effort. We also expect pension costs to be a rising expenditure pressure on the city's operating budget. In fiscal 2019, revenues are budgeted to be 9.7% higher and expenditures are 8.8% higher than the 2018 budget. Fiscal 2019 year-to-date performance indicates that revenues and expenditures are tracking close to budget.

Looking forward, the city will benefit from additional revenues beginning in fiscal 2021 due to changes at the state regarding online sales tax collections and compensatory tax. Early estimates are that these changes could add another $12 million to the city's operating revenues. We believe current and historical fiscal results indicate Albuquerque is in stable financial condition and that it is positioned to maintain balanced operations despite growing expenditures.

Strong budgetary flexibility

Albuquerque's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2018 of 10.7% of operating expenditures, or $56.4 million.

State statute requires the city to maintain 1/12th of operating expenditures in reserve, which will be approximately $48 million in fiscal 2019 based on budgeted figures. The total reserve in fiscal 2019 also includes $1.9 million for an expanded police academy and $487,000 for targeted salary adjustments. Given the city's historical practice of maintaining available balances above both Albuquerque's policy minimum and the threshold for levels we consider strong, we expect that the city will continue this practice and remain consistent with historical trends.

Very strong liquidity

In our opinion, Albuquerque's liquidity is very strong, with total government available cash at 63.1% of total governmental fund expenditures and 4.9x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

We believe the city has strong access to external liquidity given its issuances of GO bonds in the past 20 years. We believe that Albuquerque's available cash is unlikely to fall below our very strong threshold in the coming years.

The city's investments are held in high-grade securities as regulated by Albuquerque's investment policy, and we do not consider the city's investment exposure aggressive. In addition, we note that the city issued $25.1 million in private placement debt in July 2017; we have reviewed the documentation for this debt and found that the events of default and payment provisions are standard, so we do not believe that it represents a significant liquidity risk.

Weak debt and contingent liability profile

In our view, Albuquerque's debt and contingent liability profile is weak. Total governmental fund debt service is 12.9% of total governmental fund expenditures, and net direct debt is 93.7% of total governmental fund revenue. Approximately 76.5% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

State statute limits the amount of general purpose GO debt a city can have outstanding to 4% of assessed valuation. After the series 2019A bond issuance, Albuquerque will have approximately $403 million in general purpose debt outstanding under its $547 million limit. After issuance of the 2019B bonds, the city will also have $42 million in storm sewer bonds, which are backed by unlimited ad valorem tax but not considered under the state limit.

Albuquerque typically goes to voters every two years to request additional bond authorization and the last bond election was in 2017. Given this practice, additional debt is expected but rapid amortization of existing debt and ongoing tax base growth should keep the debt burden moderate.

In our opinion, a credit weakness is Albuquerque's large pension and OPEB obligation. Albuquerque's combined required pension and actual OPEB contributions totaled 5.8% of total governmental fund expenditures in 2018. Of that amount, about 4.7% represented required contributions to pension obligations, and about 1.1% represented OPEB payments. The city made its full annual required pension contribution of $35 million and, in addition, contributed another $29 million on behalf of employees in fiscal 2018. Albuquerque's net pension liability as of June 30, 2017, was $718 million.

The city participates in the Public Employees Retirement Association (PERA), a cost-sharing, multiple-employer, defined-benefit retirement plan. PERA's funded ratio was 73.7% as of June 30, 2017, which we view as somewhat low. In addition, we consider some of PERA's funding policies and actuarial assumptions to be risky. In particular, the plan effectively has no amortization schedule--instead, it calculates its amortization period annually based on statutory contribution rates and actuarial assumptions. As of the plan's 2017 actuarial valuation, the amortization period was 55 years, which we view as very long. In addition, the plan projects its mortality tables out only one year, which we view as a risky mortality assumption. Nevertheless, we believe that Albuquerque's current practice of paying for a portion of its employees' pension contributions is a source of potential pension flexibility because it could discontinue these payments if needed.

The city's OPEBs consist of a life insurance benefit plan, to which it makes annual contributions intended to amortize the unfunded liability over 30 years (the plan's funded ratio was 30.5% as of fiscal 2017), and a retiree health care plan that it funds on a pay-as-you-go basis.

Very strong institutional framework

The institutional framework score for cities in New Mexico is very strong.

Outlook

The stable outlook reflects our expectation that Albuquerque's economy will continue to improve gradually, bolstered by its central role in the statewide economy. In addition, we believe that its recent increase to the GRT rate will help offset recent budgetary pressures and allow the city to maintain structural balance. We do not expect to change the rating within the next two years.

Downside scenario

We could lower the rating if the city were to increase ongoing expenditures to the extent that the GRT increase is insufficient to maintain available fund balances at a level we consider strong over the medium term.

Related Research

2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of March 27, 2019)		
Albuquerque GO		
Long Term Rating	AAA/Stable	Affirmed
Albuquerque GO		
Long Term Rating	AAA/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.