

# RatingsDirect®

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## Summary:

# Albuquerque, New Mexico; General Obligation

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## Summary:

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### Credit Profile

US\$19.3 mil GO gen purp bnds ser 2023A due 07/01/2036

<i>Long Term Rating</i>	AAA/Stable	New
Albuquerque GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Albuquerque GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the City of Albuquerque, N.M.'s proposed \$19.3 million series 2023A general obligation (GO) general purpose 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.

### 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. Bond proceeds will fund various capital projects.

### Credit overview

Albuquerque is the primary economic hub for the State of New Mexico and includes about one-third of the state's population. 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 trends support the 'AAA' rating. The local economy benefits from manufacturing (Intel Corp., Honeywell Aerospace, General Mills Inc.), technology, 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 multinational corporations. The city is also home to a burgeoning film industry, with Netflix and NBCUniversal both making large investments in the city. While we expect the U.S. economy will fall into recession within the next year (see, "Economic Outlook U.S. Q1 2023: Tipping Toward Recession," published Nov. 28, 2022, on RatingsDirect), we expect the city's assessed value (AV) will continue to grow over the outlook period given the city's ongoing development and the lagging nature of AV. Conversely, gross receipts tax collections, which accounted for about 70% of fiscal year 2022 general fund revenue, are more likely to be negatively affected and present a budgetary challenge, given the city's reliance on that revenue stream.

However, we believe the city is well positioned to weather any near-term budgetary stress, having increased its available fund balance with sizable surpluses in each of the past three audited fiscal years. Although the city budgeted for a large general fund drawdown in fiscal 2023 primarily due to nonrecurring expenses, city officials expect actual

results will show a modest general fund balance decline because of conservative budgeting practices and gross receipts tax collections trending 6.6% ahead of fiscal 2022 collections (compared with a 4% budgeted increase). While we anticipate the city's operating performance could moderate from the strong surplus results of recent years, particularly if recessionary pressures negatively affect gross receipt tax collections, we expect the city will continue to maintain very strong available reserves and liquidity through the outlook period.

After this issuance, the city will have exhausted the \$140 million voters authorized in fiscal 2021. Albuquerque typically holds a bond election every two years and annual issuance is driven by priority capital needs and affordability. Given this practice, additional debt is expected but we do not expect a significant change in the city's debt profile given the rapid amortization of existing debt and ongoing tax base growth. The city has about \$36 million in private-placement debt issued in five different series; we reviewed the documentation for each series and the events of default and payment provisions are standard, so we do not believe they represent significant liquidity risk. Although we view the city's combined pension and other postemployment benefits (OPEB) liabilities to be large and a credit weakness, current contributions comprise a manageable portion of the budget and we do not expect contributions will pressure the city's budget in the immediate future.

The rating also reflects our view of the city's:

- Large contribution to the state's economy, with ongoing economic development and a diverse economic base;
- Very strong financial management policies and practices, highlighted by regular budget and investment monitoring, investment and debt management policies, long-term financial and capital planning, and a formal fund balance policy requiring a minimum 1/12 of the general fund balance for cash flow purposes. The institutional framework score is very strong;
- Consistently positive budgetary performance that supports very strong available reserves and liquidity; and
- Adequate debt and contingent liability profile, with rapid amortization but a large pension and OPEB obligation.

### **Environmental, social, and governance**

Although rising pension pressures could negatively affect Albuquerque's financial operations, we believe the city's sophisticated management has the practices and policies in place to mitigate a material change in budgetary performance. We analyzed Albuquerque's environmental, social, and governance (ESG) risks relative to the city's credit factors and view them as neutral considerations in our credit rating analysis.

## **Outlook**

The stable outlook reflects our view of the city's very strong management team and key role in the state's economy, as well as our expectation that the city will continue to exhibit strong budgetary performance and maintain very strong available reserves. We, therefore, do not expect to change the rating over the two-year outlook period.

### **Downside scenario**

We could lower the rating if the city increases ongoing expenditures to the extent that recurring revenues are insufficient to maintain available fund balances at a level that we consider strong over the medium term. In addition,

growing pension liabilities without offsetting funding progress at the state and local level could lead to downward pressure on the rating.

## Credit Opinion

### 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.

Albuquerque, N.M.--Key Credit Metrics				
	Most recent	Historical information		
		2022	2021	2020
<b>Strong economy</b>				
Projected per capita EBI % of U.S.	86.4			
Market value per capita (\$)	95,694			
Population		565,124	564,621	
County unemployment rate(%)		6.2		
Market value (\$000)	54,078,792	52,871,958	50,992,838	
Ten largest taxpayers % of taxable value	3.2			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		3.1	10.4	9.3
Total governmental fund result % of expenditures		3.8	5.5	8.7
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		31.8	35.4	25.3
Total available reserves (\$000)		225,290	202,419	139,608
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		90.0	84.4	88.6
Total government cash % of governmental fund debt service		615.9	525.7	665.9
<b>Very strong management</b>				
Financial Management Assessment	Strong			
<b>Adequate debt and long-term liabilities</b>				
Debt service % of governmental fund expenditures		14.6	16.1	13.3
Net direct debt % of governmental fund revenue	72.1			
Overall net debt % of market value	2.6			
Direct debt 10-year amortization (%)	72.9			
Required pension contribution % of governmental fund expenditures		4.3		

**Albuquerque, N.M.--Key Credit Metrics (cont.)**

	Most recent	Historical information		
		2022	2021	2020
OPEB actual contribution % of governmental fund expenditures		0.7		

**Very strong institutional framework**

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

**Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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