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Ratings

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Summary:

Albuquerque, New Mexico; General Obligation

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Credit Profile		
US$26.367 mil general purpose bnds ser 2017 due 07/01/2019		
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 Albuquerque, N.M.'s series 2017 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the city's existing GO bonds. The outlook is stable.

The bonds constitute valid obligations of the city, and our rating reflects the pledge of unlimited ad valorem property taxes levied on all taxable property in Albuquerque. We understand that the bond proceeds will be used to finance capital improvements within the city that include infrastructure upgrades and recreation facilities.

The city's GO bonds are eligible to be rated above the sovereign because we believe the county 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", 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 GO rating reflects our assessment of the following factors for the city:

- Adequate 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;
- Strong budgetary performance, with a slight operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 12.1% of operating expenditures;
- Very strong liquidity, with total government available cash at 76.9% of total governmental fund expenditures and 5.2x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 14.9% of expenditures and net direct debt that is 97.8% of total governmental fund revenue, as well as rapid amortization, with 71.7% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Adequate economy

Albuquerque with an estimated population of 557,000, is located in Bernalillo County, N.M. and covers 189 square miles representing close to one-third of the state's population. The overlaying county, and therefore the city of Albuquerque, is the cultural, commercial, and financial hub for the state and, as a result, we consider the local economy to be broad and diverse. The projected per capita effective buying income is 95.4% of the national level and per capita market value is about $79,684. As a result, we consider the county's economy to be adequate although the positive underlying trends within the city may soon change our view to strong.

Similar to the county, the city's employment base is relatively broad and has seen recent growth from newcomers to the local economy that include film and television production studios and back-office customer service and processing centers from top names within the S&P 500 Index. The regional economy, historically, was backstopped by a diverse mix of manufacturers (Intel, Honeywell Avionics, and General Mills), federally funded public employers (Kirtland Air Force Base and Sandia National Labs), and regional entities that include health care, local government, and local tourism. The depth and breadth of the local economy have allowed the both the city and county to sustain an unemployment rate of about 5%, which is low when compared to the state level, although the region's rate is typically 50 basis points above the national unemployment level.

The city's assessed value (AV) trend, which is calculated by dividing the market value by one-third less any property exemptions, is relatively stable, with only two years of decline during the economic recession. While New Mexico's property taxes are typically some of the lowest in the nation, the underlying AV trend is a key component of our local GO criteria and serves as a lagging indicator of economic stability. Specifically, the city's fiscal 2017 AV of $12.8 billion is 7.5%, or $895 million above the fiscal 2011 trough of $11.9 billion. The stability in the city's AV is due partly to the breadth of the regional economy that includes a very diverse array of taxpayers, as the top 10 taxpayers account for only 3.4% of total AV. Looking ahead, we are expecting at least stable AV due to the relative strength of the local economy and the current lack of major employer closures and reductions.

Finally, we note that the city's exposure to the federal government is stabilized by the strong local defense presence. President Donald Trump's draft budget includes a significant expansion of defense-related spending, which we believe will benefit Albuquerque's local economy. In addition, the defense-related economy isn't dominated by one large employer but rather by an ecosystem of sub-contractors and mid-size manufacturers; a characteristic that adds to economic stability.

Very strong management

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

Highlights to the FMA include the city's:

- Utilization of internal trend analysis and external information to make revenue and expenditure assumptions and takes into account current trends that may impact future results;
- At least quarterly budget-to-actual reporting to the council;
- Five-year revenue and expenditure general fund projections that are updated annually;
- Ten-year, rolling capital improvement plan (CIP) that is updated annually;

- Investment management policy with quarterly investment reporting to the board;
- Formal fund balance policy requiring a minimum 1/12 general fund balance for cash-flow purposes and to which the city has historically adhered; and
- Debt management policy that discusses projects that may be funded with debt, maturities, and debt service structures; credit enhancements and derivatives; as well as debt refunding guidelines.

Strong budgetary performance

As of the fiscal 2016 audit, we consider the city's budgetary performance to be strong. For the period, the city produced a slightly negative operating result in the general fund of -0.7% of expenditures, but surplus results across all governmental funds of 15.2% in fiscal 2016. We note that the preceding figures are inclusive of our analytical adjustments that account for recurring fund transfers and bond-financed expenditures.

Historically, the city is producing stable general fund results with some inter-year volatility to the general fund. The city's general fund revenue mix relies upon a combination of property taxes, which account for about 16% of audited fiscal 2016 revenue, and gross receipt taxes (GRT), which account for 25% of audited fiscal 2016 revenue. When combined, both revenue lines are producing stable inter-year results, which is due in part to the growing local economy and stable growth within the GRT revenue line. Total governmental funds, for the same period and adjusted for bond-financed expenditures, produced a very strong surplus result in fiscal 2016, which contributes to our view of strong budgetary performance. The historical total governmental fund results are largely stable and we expect that the city will continue to produce at least stable total governmental fund results through our two-year outlook horizon.

We note that a recent legislative proposal to the state-wide framework that governs GRT revenues includes elements that may be credit positive and has the potential to enhance our view of Albuquerque's budgetary performance. At the time of this writing, the draft language is only in proposal form and has not been approved by the legislature. As a result, we will continue to monitor the state legislative environment.

Strong budgetary flexibility

Albuquerque's adjusted budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 12.1% of operating expenditures, or about $61.0 million. We are expecting that the city will maintain its budgetary flexibility at a level that we view as strong (or between 8% and 15% of general fund operating expenditures). Supporting our opinion is the city's favorable general fund revenue environment, lack of significant planned one-time expenditures, and recent track record of expenditure control within the general fund. The city's reserve policy provides a foundation for its available reserves as the reserve policy requires a minimum 1/12 general fund balance, to which it was historically adhered. We note that the city is moving toward a 1/10 reserve policy due to its funding plans.

Very strong liquidity

In our opinion, Albuquerque's liquidity is very strong, with total government available cash at 76.9% of total governmental fund expenditures and 5.2x governmental debt service in 2016. We believe the city has strong access to external liquidity, given its issuances of GO bonds in the past 20 years. We expect the current liquidity levels will not likely fall below the threshold levels in the coming years. The city's investments are held in high-grade securities as regulated by the city's investment policy, and we do not consider its investment exposure aggressive.

Very strong management conditions

We revised our view of the city's management to very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable. The revision is based upon our view of the city's recent adoption of a debt management policy that regulates debt issuance, general maturities, and disclosures. Albuquerque's management conditions are strong, in our opinion, with "good" financial practices under our FMA methodology, indicating financial practices exist in most areas, but governance officials might not formalize or monitor all of them on a regular basis. Strengths include the strong oversight of budget-to-actual results during the year with monthly budget-to-actual reporting and a robust array of revenue and expenditure assumptions that consider historical data as well as independent sources outside of the city. The city maintains a financial forecast that looks out at least five years, is updated annually, and is integrated into decision making. The city also maintains a well-defined capital plan that looks out at least five years and identifies both revenues and expenditures. The city's investment management policy is well defined and governs its investment portfolio and investment disclosures to council. Finally, the city's reserve policy requires maintenance of a $5 million operating reserve plus 20% of the amount of budgeted general fund revenue in excess of $10 million.

Adequate debt and contingent liability profile

In our view, Albuquerque's debt and contingent liability profile is adequate. Total governmental fund debt service is 14.9% of total governmental fund expenditures, and net direct debt is 97.8% of total governmental fund revenue. Approximately 70% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor. Finally, the city does not have direct purchase obligations on its balance sheet.

Albuquerque's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.7% of total governmental fund expenditures in 2016. Of that amount, 5.2% represented required contributions to pension obligations, and 0.6% represented OPEB payments. We do not expect this level to significantly increase within our two-year outlook horizon.

Outlook

The stable outlook reflects our opinion that Albuquerque's very strong financial management policies and continued proactive and timely budget adjustments to maintain structural balance will likely support stable reserves at or above Albuquerque's reserve policy within the next two years. The stable outlook is also inclusive of a stable local economy.

Downside scenario

The ratings could be pressured if economic growth compared to the nation continues to show sluggish 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 Research

- U.S. State And Local Government Credit Conditions Forecast, July 27, 2016
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of February 28, 2017)		
Albuquerque GO		
Long Term Rating	AAA/Stable	Affirmed
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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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.