

**Summary:**

**Albuquerque Metropolitan Arroyo  
Flood Control Authority, New Mexico;  
General Obligation**

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## Summary:

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### Credit Profile

US\$12.5 mil GO bonds ser 2019 due 08/01/2028

*Long Term Rating*

AAA/Stable

New

Albuquerque Metro Arroyo Fld Cntl Auth GO

*Long Term Rating*

AAA/Stable

Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the Albuquerque Metropolitan Arroyo Flood Control Authority (AMAFCA), N.M.'s series 2019 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the authority's GO debt outstanding. The outlook is stable.

Revenue from unlimited ad valorem taxes secures the bonds. Bond proceeds will be used to finance the extension, improvement, and maintenance of the authority's flood control system.

As a result of the broad and diverse Albuquerque metropolitan statistical area (MSA) economy, the authority's tax base has exhibited exceptional stability. The stable tax base has contributed to the authority's predictable financial performance, with a very strong reserve position and a low overall net debt burden as a percentage of market value. While the authority's debt service carrying charges are elevated as a percentage of expenditures, we believe this indicates the authority's special and limited purpose and do not view this as a negative credit factor. Although the authority plans to issue additional debt, the rapid amortization should allow the authority to layer on issuances without weakening its debt profile.

The authority's GO bonds are eligible to be rated above the sovereign because we believe the authority 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 on RatingsDirect. U.S. local governments are considered moderately sensitive to country risk. The authority'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 their ability to continue collecting locally derived revenue, and U.S. local governments have independent treasury management.

The GO rating reflects our view of the authority's:

- Extremely strong available fund balances, bolstered by a multilayered reserve policy that effectively requires minimum reserves of about 100% of operating expenditures;

- Broad and diverse tax base with access to the Albuquerque MSA;
- Diverse employment base that includes the government, defense-related research, health care, and high-tech sectors;
- Low-to-moderate overall net debt burden with very rapid amortization; and
- Strong and consistent financial management policies and practices.

Party offsetting the above strengths, in our opinion, is the adequate but below-average effective buying income (EBI).

### **Economy**

AMAFCA provides flood control services to an area that includes all of the City of Albuquerque and about 95% of Bernalillo County's assessed valuation (AV). We consider the Albuquerque MSA broad and diverse, and Bernalillo County's population has grown by approximately 2.4% cumulatively since 2010, to about 679,000. Albuquerque is the cultural, commercial, and financial hub for the state, and as a result we consider the local economy strong. The authority's median household EBI is 93% of the national level, and its per capita EBI is 95% of the national level--both of which we consider good. We view the authority's market value per capita as strong at about \$70,421.

The local employment base is relatively broad, including manufacturing (Intel, Honeywell Aerospace), federal and military institutions (Sandia National Labs, Kirtland Air Force Base, the Air Force Research Laboratory), higher education, health care, and back-office centers for major multinational corporations. The tourism and leisure sector, in particular, has seen rapid growth in the past three years and is becoming a major component of the local economy. Furthermore, the recent announcement that Netflix Inc. has purchased an existing film studio is expected to result in further expansion of Albuquerque's film industry and further diversity in the tax and employment base. The county unemployment rate peaked at 7.7% in 2010, and decreased to 4.4% for 2018 (below the statewide rate, but higher than the national rate).

Following declines experienced during the Great Recession, the authority's market value has grown, increasing at an average annual rate of 2.7% since fiscal 2013, to \$47.8 billion. While the growth in AV (which is defined as one-third of market value less any exempted property) has been modest, it has been consistent and stable. Despite the slow growth, the underlying AV stability 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 2.3% of fiscal 2019 total AV. We believe that the authority's taxing base will remain stable while continuing to exhibit modest growth given the relative strength of the local economy.

Overall, we are forecasting stable-to-positive growth for the broader Mountain region, inclusive of New Mexico. We believe that the region's net migration from other states will continue to spur employment growth, largely in the professional service, natural resources and mining, and leisure and hospitality sectors. With many of the new residents in the region possessing coastal-level buying power, we believe that median home prices will continue to grow. As a result, we expect the broader macroeconomic forces to support our view of continued property tax growth for the authority. For additional information, please refer to our U.S. state and local government credit conditions forecast, "Summer Should Be Smooth Sailing For U.S. State And Local Governments, But There Could Be Waves Ahead," published April 30, 2019.

## Finances

The authority's extremely strong available fund balances, along with our expectation that it will maintain compliance with its reserve policy of around 100% of operating expenditures, is essential to our view of the authority's credit quality. We consider the authority's financial profile extremely strong, despite a record of small general fund deficits in fiscal years 2014 to 2017. We understand that the authority was deliberately drawing down its available fund balances to keep its mill levy stable. However, these drawdowns were small relative to the authority's available fund balance, and fiscal 2018 results reversed the trend with a \$69,000 general fund surplus, approximating 1.9% of general fund expenditures. The authority's already sizable reserve position increased to \$8.7 million, or 241% of fiscal 2018 expenditures. Officials attributed the surplus in 2018 to a number of factors, including better-than-budgeted tax collections combined with drought conditions that resulted in fewer expenditures. For fiscal 2019, the authority's adopted budget reflects an anticipated deficit of \$786,000 after transfers. However, officials note that the budget was prepared using conservative assumptions and that year-to-date tax collections are outdoing expectations. Furthermore, as the Albuquerque area emerges from a drought, officials report that heavy rain events have been minimal, resulting in fewer costs for silt removal and dredging requirements. Given current performance, the authority believes that year-end results for fiscal 2019 will likely be near break-even. Thus, we do not believe that the authority's exceptionally strong financial position will be compromised.

The authority's multifaceted fund balance policy reflects a layered reserve requirement that mirrors the board's historical practice of maintaining nominally high fund balance reserves. The policy is built on a 25% general fund minimum requirement that can mitigate potential service disruptions in a period of stress. Next, the policy articulates a series of contingency reserves that include a board contingency reserve of \$500,000, an infrastructure reserve that requires at least 1.5% of total infrastructure cost, an executive engineer contingency reserve of \$400,000 for emergency outlays, and an insurance reserve of \$200,000 for unplanned expenditures. In addition to the reserve policy, the board adopted the New Mexico three-12ths reserve requirement that is required for all New Mexico counties but is optional for the authority. Taken altogether, the strong reserve policy adds stability to the 'AAA' long-term GO rating, as it provides a minimum fund balance requirement that is well in excess of one year's operating costs.

As of the most recent, fiscal 2018 audit, more than 96% of the authority's general fund revenue derives from local property taxes. The authority's general fund revenue is closely linked to its operating mill levy: 0.172 mills for residential properties and 0.477 mills for nonresidential properties. Management states that the priority regulating the mill levy rate is stability and consistency for local property taxpayers, although it does have the ability to raise its levy to a maximum of 0.5 mills, subject to the state yield control formula, which is managed by the state finance department.

## Debt

We consider the authority's overall net debt low-to-moderate at 3% of market value and \$2,118 per capita. Amortization remains very rapid, with 100% of the authority's direct debt scheduled to be retired within 10 years. We note that the authority's track record of annual GO debt issuance, coupled with shortened maturities, leaves us to expect continued rapid amortization. Debt service carrying charges are typically very high, measuring about 78.5% of total noncapital governmental fund expenditures in fiscal 2018, but we note that high carrying charges are typical of

single-purpose, capital-intensive districts, and we do not view this carrying charge as a significant credit weakness. As mentioned earlier, we understand the authority intends to issue additional GO debt within the next two years and will likely seek voter authorization for additional bonding authority in 2020. We understand that the authority has no bank loans or private placements outstanding.

### **Pensions and other postemployment benefits**

The authority contributes to the Public Employee Retirement Assn. (PERA) pension plan as required by statute and to the New Mexico Retiree Health Care Fund's defined health care plan. Given the limited scope of operations and small number of employees, the authority's combined pension and other postemployment benefit (OPEB) contributions are, what we consider, low, representing just 0.7% of total government fund expenditures in fiscal 2018. The authority recognized a net pension liability of \$2.3 million in fiscal 2018, while its OPEB liability measured \$1.6 million. Although we consider PERA's funded ratio low at 71.1% in fiscal 2018, and some of its actuarial assumptions to be imprudent (particularly its statutory contribution rates, which lead to an extremely long amortization period), we do not expect pension issues to materially affect the authority's credit quality, given its very low pension carrying charge.

## **Outlook**

The stable outlook reflects our view of the authority's strong and stable local tax base and our expectation that the authority will maintain a very strong financial position given the board's multifaceted reserve policy. While we expect debt issuance to continue on an annual basis, we don't believe that additional debt will weaken the authority's overall credit profile. Given the above, we do not expect to change the rating during our two-year outlook horizon.

### **Downside scenario**

We could lower the rating should the authority experience sustained operational imbalance, causing it to draw on reserves, reducing them to a level below its policy minimum or to levels we no longer consider commensurate with those of similarly rated peers.

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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