

# RatingsDirect®

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## Summary:

# Albuquerque, New Mexico; Solid Waste/Resource Recovery

### Primary Credit Analyst:

Theodore A Chapman, Farmers Branch (1) 214-871-1401; theodore.chapman@spglobal.com

### Secondary Contact:

Edward R McGlade, New York (1) 212-438-2061; edward.mcglade@spglobal.com

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## Summary:

# Albuquerque, New Mexico; Solid Waste/Resource Recovery

### Credit Profile

US\$44.26 mil refuse removal & disp imp rev bnds ser 2020 due 07/01/2046

*Long Term Rating*

AA/Stable

New

## Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to the city of Albuquerque, N.M.'s \$44.26 million series 2020 refuse removal and disposal improvement revenue bonds. The outlook is stable.

The series 2020 bonds will become the only debt outstanding of the system, although management intends to follow up with a proposed issuance of additional bonds sometime in 2021. Additional debt may be issued so long as maximum annual debt service coverage (DSC) is at least 1.50x. A debt service reserve fund calculated in the amount of the lesser of maximum annual debt service, 125% of average annual debt service, or 10% of par provides additional liquidity; we understand that the city intends to satisfy the reserve fund requirement with a surety policy. The rate covenant is 1.50x annual DSC.

The bonds are secured by a first-lien pledge on the net revenues of the city's refuse disposal system. Bond proceeds will be used to make improvements at key system locations such as a maintenance facility and administration building, as well as to begin work on a new transfer station.

## Credit overview

The rating reflects, in our opinion, the combination of very strong enterprise and financial risk profiles of the city's refuse disposal system. This includes, in our view, the system's:

- Service area that includes the state's primary economic center;
- Robust planning efforts that ensure that operational and financial requirements are well aligned, meaning that the landfill has ample capacity and decades of additional useful life;
- Low user charges that are included on the regional water and sewer provider's monthly bill;
- Modest additional capital needs and limited additional planned use of debt; and
- Strong financial management practices and policies, which, in our view, make it likely that the financial capacity is sustainable.

The stable outlook reflects our anticipation that even layering on a second debt issuance sometime within our two-year outlook horizon will not diminish the refuse disposal system's financial capacity to the point that metrics would become inconsistent with the 'AA' rating.

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

We view the city's environmental stewardship as the key environmental, social, and governance (ESG) strength, with public policies far above the minimum for a municipal solid waste system. This includes curbside recycling service, supported by ongoing public education and an increasing participation rate, even though it currently only accounts for 2% of operating revenues. In addition, the city has had a landfill gas to energy project in place since 2013 that delivers an average of about 5,300 million Btu of gas to the county detention center, reducing annual greenhouse gas emissions from the landfill by 2,500 metric tons per year. In our view, this also indicates that environmental goals, as well as sensitivity to affordability, are embedded across all levels of the city up to and including the city council.

## **Stable Outlook**

### **Downside scenario**

Should there be sustained deterioration in the credit fundamentals, primarily measured by total financial capacity, we could revise the outlook to negative or lower the rating. If, as S&P Global Economics projects, the recovery does not begin until late in the third quarter of 2020, we believe that credit conditions for all governments and their related utilities will face headwinds even into 2021. We believe this increases the possibility that unfavorable variances to budget could extend beyond fiscal 2020. For more information, see "COVID-19's Potential Effects In U.S. Public Finance Vary By Sector" (published March 5, 2020, on RatingsDirect), "All U.S. Public Finance Sector Outlooks Are Now Negative" (published April 1, 2020), and "An Already Historic U.S. Downturn Now Looks Even Worse" (published April 16, 2020).

### **Upside scenario**

S&P Global Economics projects it may be 2022 before credit conditions fully return to pre-pandemic levels. Therefore, even with the otherwise strong fundamentals, we do not anticipate raising the rating during our two-year outlook horizon.

## **Credit Opinion**

### **Enterprise risk**

The refuse disposal system provides solid waste service to the city's approximately 560,000 residents across a 189-square-mile service territory. The system is vertically integrated, as the city owns and operates its own trucks, landfill, and transfer stations to serve a metropolitan statistical area (MSA) that has a broad and diverse economy and is the largest economy in the state. Employment opportunities in the MSA are led by the federal and local government, the flagship campus of the University of New Mexico, a robust health care sector, and Sandia National Laboratories. The film and entertainment industry also continues to grow, with multibillion-dollar commitments announced by both Netflix and NBC Universal over the next 10 years, although these are clearly on hold until the pandemic conditions ease. In addition, financial services and technology are growth sectors, including larger new additions by Fidelity Investments and Facebook. While the most recently available unemployment data does not yet reflect the COVID-19 spike, we are assuming that it will be at least 10% for April 2020. Bernalillo County's median household effective buying income is about on par with the nation's. The city has no concentration concerns from its principal customers

relative to its total operating revenues, which are typically just over \$70 million per year.

The city's landfill has nine cells in various states of capacity over 180 acres, with ample acreage available to develop and begin using additional cells over an estimated useful life of another 58 years. In addition, the city operates three convenience centers and offers curbside recycling for hauling to a private facility. Billing and collection services are provided by the Albuquerque-Bernalillo County Water Utility Authority and are included on the authority's water and sewer bill. To enforce collections, the city could ask the authority to interrupt water service and, if necessary, the city could put a lien on the property. Currently, the authority has a moratorium on shut-offs and disconnections in place through at least June 2020. The city, however, has not had to interrupt trash collection or otherwise limit any of its services, nor has it seen a material downturn in collections. The monthly charge for service is \$15, which we consider very affordable.

Based on our operational management assessment (OMA), we view the authority to be a '2' on a scale of 1-6, with '1' being the strongest. In our opinion, this indicates the strongest alignment of operations and organizational goals. The strong OMA includes a landfill with ample future capacity, no permit or compliance issues, and the city's attentiveness towards rates to ensure financial alignment with the future operational needs.

### **Financial risk**

The city's system's financial profile is, in our view, an identified strength. Although the system does not have any debt or other long-term liabilities, for the purposes of assessing financial capacity we incorporated both the series 2020 bonds and the proposed series 2021 bonds. It is our view that all-in DSC is likely to be extremely strong at 1.6x-2.0x, even should there be a near-term unfavorable variance to budget due to the pandemic. All-in coverage is S&P Global Ratings' adjusted DSC metric that includes all recurring obligations of utility operating revenues, regardless of lien or accounting treatment. The only additional use of operating revenues beside expenses and debt service is a transfer to the city's general fund from surplus net revenues, based on administrative cost reimbursements and formulaic calculations. We understand that the city does not intend to increase transfers or use the enterprise fund's available reserves should the recession cause the general fund--which itself has very strong reserves--to weaken.

Liquidity is another identified strength. The city has been accruing a designated reserve for post-closure asset retirement obligations, currently about \$5.1 million, although it intends to deploy \$2.3 million of that in 2021 toward the eventual decommissioning of cells that have reached capacity. As of fiscal year-end 2019, the city had more than \$30 million in unrestricted cash, equivalent to about six months of operating expenses, with no plans for additional drawdowns.

Based on our financial management assessment (FMA), we deem the city to be a '1' on a scale of 1-6, with '1' being the strongest. An FMA of strong indicates that practices are strong, well embedded, and likely sustainable. The management team maintains most of the best practices deemed critical to supporting credit quality and these are well embedded in its daily operations and practices. Formal policies support many of these activities, adding to the likelihood that these practices will be continued into the future and transcend changes in the operating environment or personnel. This includes regularly updating the long-term financial forecast and capital improvement plan, constant budget monitoring, and a robust set of internal policies that, in our view, make it likely that the financial performance will be sustainable over time even after the 2021 bonds have been issued and the city has moved beyond the

capitalized interest period to when the bonds begin to amortize.

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