

CREDIT OPINION

18 June 2020



Contacts

Heather Correia +1.214.979.6868
 Analyst
 heather.correia@moody's.com

Robert Weber +1.212.553.7280
 VP-Senior Analyst
 robert.weber@moody's.com

Alexandra S. Parker +1.212.553.4889
 MD-Public Finance
 alexandra.parker@moody's.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Albuquerque Metro. Arroyo Flood Ctrl. Auth., NM

Update to credit analysis

Summary

Albuquerque Metro Arroyo Flood Control Authority (Aaa stable) has a strong credit profile. The authority's financial position is healthy after surpluses in fiscal 2018 and fiscal 2019, and another anticipated for fiscal 2020. AMAFCA's tax base is large and sizable, inclusive of the City of Albuquerque, which serves as a regional economic hub. The direct debt burden is low and consists only of general obligation unlimited tax bonds. Typical of a single-purpose authority, which, in this case, is to bond for flood control projects, the authority has a very elevated fixed cost burden. The authority's pension liabilities are manageable, with just a modest "tread water" gap relative to revenue and reserves.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for AMAFCA. The authority is not reliant on gross receipt taxes for its operations; over 95% of its revenue are derived from property taxes, which are historically stable. Further, AMAFCA has healthy reserves that provide Financial flexibility. The situation surrounding Coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of AMAFCA changes, we will update the rating and/or outlook at that time.

Credit strengths

- » Healthy financial position
- » Large tax base
- » Modest direct debt burden

Credit challenges

- » Elevated fixed cost burden
- » Tread water gap

Rating outlook

The stable outlook is reflective of the authority's healthy financial position, which is expected to remain around current levels given conservative budgetary practices, which include maintenance of several reserve funds. Additionally, fixed costs are expected to remain elevated, but level, as the authority rapidly pays off debt outstanding.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Deterioration of financial reserves
- » Significant tax base contractions
- » Material increases to the authority's debt or pension burdens

Key indicators

Exhibit 1

AMAFCA, NM	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value (\$000)	\$42,668,707	\$43,417,250	\$44,815,162	\$46,360,451	\$47,842,381
Population	673,943	674,777	674,855	677,692	677,692
Full Value Per Capita	\$63,312	\$64,343	\$66,407	\$68,409	\$70,596
Median Family Income (% of US Median)	91.0%	90.6%	90.4%	89.7%	89.7%
Finances					
Operating Revenue (\$000)	\$13,274	\$13,741	\$13,803	\$14,228	\$14,877
Fund Balance (\$000)	\$15,995	\$19,201	\$20,037	\$17,823	\$18,010
Cash Balance (\$000)	\$20,743	\$21,693	\$22,319	\$20,087	\$20,206
Fund Balance as a % of Revenues	120.5%	139.7%	145.2%	125.3%	121.1%
Cash Balance as a % of Revenues	156.3%	157.9%	161.7%	141.2%	135.8%
Debt/Pensions					
Net Direct Debt (\$000)	\$47,225	\$51,050	\$54,250	\$54,625	\$57,095
3-Year Average of Moody's ANPL (\$000)	\$7,424	\$6,162	\$6,466	\$7,850	\$8,742
Net Direct Debt / Full Value (%)	0.1%	0.1%	0.1%	0.1%	0.1%
Net Direct Debt / Operating Revenues (x)	3.6x	3.7x	3.9x	3.8x	3.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.6x	0.4x	0.5x	0.6x	0.6x

Source: AMAFCA's audits; Moody's; US Census (MFI)

Profile

The authority was created to acquire, equip, maintain and operate a flood control system for the benefit of its service area and the inhabitants thereof. The authority's service area encompasses 353 square miles, including a majority of Bernalillo County (Aaa stable), which includes Albuquerque (Aa3 negative), the state's largest city.

Detailed credit considerations

Economy and tax base: tax base is large; authority serves City of Albuquerque and Bernalillo County

The coronavirus is driving an unprecedented economic slowdown. We forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to the tourism, healthcare, retail, oil and gas and international trade sectors could suffer particularly severe impacts.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Despite the pandemic, the authority's tax base is likely to remain stable and large. During the Great Recession, AMAFCA's base did not materially contract and through June, officials report that residential and commercial development remains ongoing. Headquartered in north central New Mexico (GO Aa2 stable), AMAFCA serves the City of Albuquerque and Bernalillo County, which is home to approximately 25% of the state's population. The tax base is sizable at \$47.8 billion, derived from an assessed value of \$15.9 billion. Management reports that new companies are investing in the region, with several related to entertainment: Netflix, Amazon Studios, CBS Television Studios, SONY Pictures Television and NBC Universal. Both Sandia National Labs and Intel are expanding, adding over 2,000 jobs between the two. Amazon is also building a large fulfillment center that is expected to create 1,000 jobs. The center is scheduled to open in 2021.

Major employers in the Bernalillo/Albuquerque MSA include the University of New Mexico (A1 stable), Kirtland Air Force Base and Sandia National Laboratories. The institutional presence provided by these entities is an anchor for the local economy. Healthcare and high-tech industries also have significant presence in the employment base. The county's March 2020 unemployment rate of 5.2% was below the state (5.9%) but above the nation (5.4%) for the same period. The unemployment rate is likely much higher because of the pandemic. Resident income levels are below average with median family income of 89.7% of the nation (2018 American Community Survey).

Financial operations and reserves: finances expected to remain healthy

Despite the ongoing pandemic, and the resulting state closures and lockdowns, the authority's financial position is likely to remain stable. AMAFCA receives all of its revenue from property taxes. Fiscal 2020 collections were in line with prior year's, and the state has not indicated they will allow a delay or deferment of future property tax payments. In event that does happen, the authority has the liquidity to weather short-term delays in receipt of revenue.

After two modest surpluses, general fund balance was \$8.8 million at fiscal 2019 year-end or 215.5% of revenue. The authority plans to maintain its operating levy at 0.17 mills; however, if needed, rates can be increased to 0.5 million with board approval. Operating funds, including both the general fund and Debt Service Fund, were also healthy, with fund balance of \$20.3 million or 136.3% of operating revenue.

The fiscal 2020 budget assumed a little over \$700,000 deficit. The authority prepares deficit budgets, conservatively forecasting revenue and aggressively forecasting expenditures. The gap is usually closed when property taxes are greater than expected and project costs are less than expected. Based on performance through May, management anticipates closing the year with a modest deficit, around \$100,000. If realized, general fund balance could decline to around \$8.7 million or still over 200% of fiscal 2019 revenue.

The fiscal 2021 budget projects revenue of \$4.1 million and expenditures of \$4.9 million, including a \$240,000 transfer to a reserve fund. We expect AMAFCA will narrow the gap during the course of the year.

LIQUIDITY

Cash reserves track in line with fund balance. At fiscal 2019 year-end, general fund cash was \$8.95 million or 219.4% of revenue. Operating cash is \$20.2 million, or 135.8% of operating revenue.

Debt and pensions: modest direct debt and pension burdens; elevated fixed cost burden

Despite planning borrowings, AMAFCA's direct debt burden is likely to remain low over the mid-term given rapid principal amortization. At 0.1% of fiscal 2020 full value, the authority's debt burden is very modest. The series 2020 bonds will exhaust all remaining authorization. AMAFCA's six-year capital improvement plan (CIP) identifies an additional \$95 million in infrastructure needs. As such, the authority will approach voters for a \$25 million bond in November 2020.

DEBT STRUCTURE

Inclusive of the series 2020 bonds, the authority will have \$59.5 million in outstanding fixed-rated obligations. The debt service schedule is descending, with maximum annual debt service of \$11.2 million (calendar 2020). Principal amortization is rapid with 100% retired in 10 years.

DEBT-RELATED DERIVATIVES

The authority is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The authority has a below average employee pension burden. AMAFCA participates in PERA, a statewide, cost-sharing defined benefit plan and reports its share of the plan's unfunded liability on its balance sheet. In 2020, the legislature made changes to PERA, which reduced benefit payouts and increased employer and employee contribution rates (employer contribution increases do not go into effect for four years). The reform is likely to reduce the plan's UAAL by nearly \$1 billion, which would translate to a reduced UAAL for all participants. For more information, please refer to our sector comment "Pension changes will lower liabilities for New Mexico and its municipalities, a credit positive." Moody's recognizes that current market conditions, a result of uncertainty surrounding the coronavirus, will negatively impact PERA's asset returns, a could result in maintenance of the current UAAL.

Moody's fiscal 2019 adjusted net pension liability (ANPL) for the authority, under our methodology for adjusting reported pension data, is \$8.7 million or a below average 0.58 times operating revenue. The low pension burden is somewhat challenged by a negative tread water gap. The "tread water" indicator measures the annual contributions required to prevent the reported net pension liability from increasing under plan assumptions.

Fixed costs, including debt service, pension and OPEB contributions, average around 70% of operating revenue, which is high. The authority's directive is to bond for major capital infrastructure. Given this focus, it is not unreasonable that a majority of revenue are used to meet annual debt service.

ESG considerations

Environmental

New Mexico is not at heightened risk for earthquakes, fires or hurricanes. There is moderate exposure to drought, but that is not currently in effect. While this is not a material consideration in the credit profile, the authority's purpose is to manage severe weather events, which they actively bond for. In addition, the authority maintains a six-year CIP.

Social

The authority's resident income indicators are below average with median family income of 89.7% of the US (2018 ACS). Based on March 2020 data, the county's unemployment rate was above average at 5.2%; however, it is expected that the April unemployment rate is at double-digit levels because of the ongoing pandemic. During April, the state rate increased to 11.3% from 6.3% in March.

Governance

The authority is managed by a five-member board, who serve without compensation for six-year terms. The authority has strong financial policies in place, including maintenance of multiple reserve funds: operating (3/12th of operating budget); infrastructure emergency reserve (1.5% of total assets, new fund as of April 2016); board contingency; engineer contingency; and, insurance contingency. AMAFCA maintains a six-year CIP, and project timelines can be adjusted to meet available funding.

New Mexico special districts have an Institutional Framework score of Aa, which is high. The sector's major revenue source, property taxes, is highly stable and predictable. Special authority s have a moderate ability to raise revenue: property taxes are capped at \$5.00 (per \$1,000 AV), but if the operating levy is below this level, it can be increased with board approval. Operating expenditures for special authority s tend to be highly stable and predictable with fluctuations under 5% annually. Of note, special districts' ability to reduce expenditures is weak. Fixed costs are typically very high, over 70%, with the majority representing annual debt service. While elevated fixed costs are not unusual for single-purpose districts, created specifically to bond for major capital projects, it does limit their ability to easily manage a budgetary shock.

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454