

RatingsDirect®

Summary:

Albuquerque, New Mexico; General Obligation

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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Credit Profile

US\$71.523 mil gen purp bnds ser 2016A due 07/01/2028

<i>Long Term Rating</i>	AAA/Stable	New
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US\$6.5 mil storm swr bnds ser 2016B due 07/01/2030

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

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Albuquerque, N.M.'s series 2016A and 2016B general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the city's existing GO bonds. The outlook is stable.

The ratings reflect our opinion of Albuquerque's:

- 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 break-even operating results in the general fund but an operating surplus at the total governmental fund level in fiscal 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 of 12.9% of operating expenditures;
- Very strong liquidity, with total government available cash at 47.1% of total governmental fund expenditures and 3.8x governmental debt service, and access to external liquidity we consider exceptional;
- Adequate debt and contingent liability position, with debt service carrying charges at 12.5% of expenditures and net direct debt that is 105.2% of total governmental fund revenue, as well as rapid amortization, with 75.3% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

The city's GO bonds are eligible to be rated above the sovereign because we believe the city 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 district'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 city's full-faith-and-credit pledge and an unlimited property tax pledge secure the GO bonds.

Adequate economy

We consider Albuquerque's economy adequate. The city, with an estimated population of 556,495, is located in Bernalillo County in the Albuquerque MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 95.3% of the national level and per capita market value of \$79,713. Overall, the city's market value grew by 1.9% over the past year to \$44.4 billion in 2016. The county unemployment rate was 6.1% in 2014.

Albuquerque is New Mexico's largest city and main economic center. In addition, the city also benefits from a large number of government-based jobs. In 2014, federal, state, and local government employment in the Albuquerque metropolitan statistical area (MSA) accounted for 22% of nonagricultural jobs. Professional and business services and education and health services represent 15% and 16% of total nonfarm employment, respectively. The MSA's leading employers are the University of New Mexico, Albuquerque Public Schools, and Sandia National Laboratories.

The property tax base is diverse, with the 10 leading taxpayers accounting for just 3% of total assessed value (AV). Public Service of New Mexico, an electricity utility power company and the leading taxpayer, accounts for just 1% of AV. The city estimates for its market value to increase by about 2% annually in the short term.

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;
- 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; and
- Formal fund balance policy requiring a minimum 1/12 general fund balance for cash flow purposes and to which the city has historically adhered.

The city has a 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

Albuquerque's budgetary performance is strong in our opinion. The city had break-even operating results in the general fund, but a surplus result across all governmental funds of 2.0% in fiscal 2015. General fund operating results of the city have been stable over the last three years, with a result of 1.1% in 2014 and a result of negative 0.2% in 2013.

The operating results have been adjusted from audited information to account for recurring transfers and excluding expenditures that we view as one-time. We consider the annual transfer out from the general fund to the transit, capital, and other nonmajor funds as ongoing expenditures. The city is currently projecting to use reserves to balance operations in fiscal 2016, however, the city expects to end the year with better-than-budgeted results. We expect general and total governmental funds operations to remain close to balanced, based in part on the city's historical

performance of ending the year better than budgeted.

The city's primary revenue sources, gross receipt taxes and property taxes, have increased at a modest pace in each of the past four fiscal years, and we projected they will continue to increase in fiscal 2016. Through prudent management practices, the city has mostly maintained revenues in line with expenditures the past several years.

Strong budgetary flexibility

Albuquerque's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 of 12.9% of operating expenditures, or \$63.3 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 13.4% of expenditures in 2014 and 12.4% in 2013.

This general fund reserve figures include committed reserves that make up the city's minimum reserve requirement. While the city projects to use unrestricted reserves to balance operations in fiscal 2016, we do not foresee significant declines based on management's careful monitoring of the budget. We recognize Albuquerque has taxing flexibility in line with other New Mexico cities with a mayor-council form of government.

Very strong liquidity

In our opinion, Albuquerque's liquidity is very strong, with total government available cash at 47.1% of total governmental fund expenditures and 3.8x governmental debt service in 2015. In our view, the city has exceptional access to external liquidity, if necessary.

We believe the city has exceptional access to external liquidity, because it has issued multiple GO bonds and gross receipts tax bonds during the past 20 years. We expect liquidity to remain very strong, with no signs of major cash drawdowns.

Adequate debt and contingent liability profile

In our view, Albuquerque's debt and contingent liability profile is adequate. Total governmental fund debt service is 12.5% of total governmental fund expenditures, and net direct debt is 105.2% of total governmental fund revenue. Approximately 75.3% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

We believe the rapid amortization slightly offsets the higher carrying charge. We note that we changed the city's score to "adequate" from "strong" because its overall net debt per capital increased to slightly more than 3% in fiscal 2015. The city plans to issue the second series from its 2015 authorization in 2017.

Albuquerque's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 6.2% of total governmental fund expenditures in 2015. Of that amount, 5.1% represented required contributions to pension obligations, and 1.1% represented OPEB payments. The city made 100% of its annual required pension contribution in 2015.

Very strong institutional framework

The institutional framework score for New Mexico municipalities with a mayor-council form of government and revenues greater than \$500,000 is very strong.

In our view, most local governments in the state operate within a framework that requires transparency and

comparability of financial information. Specifically, we view financial reporting requirements for municipalities with more than \$500,000 of annual revenue as very "strong" given state statutes that require annual audits to comply with the state auditor rules requiring the use of generally accepted accounting principles.

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.

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 Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of February 1, 2016)

Albuquerque GO bonds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Albuquerque GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Albuquerque GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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