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CREDIT OPINION
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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 district's financial position is healthy, with a modest surplus reported in fiscal 2018, and another anticipated for fiscal 2019. AMAFCA's tax base is large and sizeable, inclusive of the City of Albuquerque, which serves as a regional economic hub. The direct debt burden is low and consists of general obligation unlimited tax bonds. Typical of a single-purpose district, which, in this case, is to bond for flood control projects, the authority has a very elevated fixed cost burden. The district's pension liabilities are manageable, with just a modest "tread water" gap relative to revenues and reserves.

Credit strengths

» Healthy financial position

» Large and stable tax base

» Modest direct debt burden

Credit challenges

» Elevated fixed cost burden

» Modest tread water gap

Rating outlook

The stable outlook is reflective of the district's healthy financial position, which is expected to remain comparable to Aaa-peers due to ongoing, modest tax base expansion, and conservative budgeting. Additionally, fixed costs are expected to remain elevated, but level, as the district 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 and sustained tax base contractions

» Material increases to the district's pension burden; a trend of operating deficits net of the treadwater payment and/or a treadwater gap that is no longer in-line with Aaa-peers

Key indicators

Exhibit 1

Albuquerque Metro. Arroyo Flood Ctrl.Auth.,NM	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$41,758,719	$42,668,707	$43,417,250	$44,815,162	$46,360,451
Population	671,429	673,943	674,777	674,855	678,701
Full Value Per Capita	$62,194	$63,312	$64,343	$66,407	$68,308
Median Family Income (% of US Median)	93.1%	91.0%	90.6%	90.4%	90.4%
Finances					
Operating Revenue ($000)	$13,033	$13,274	$13,741	$13,803	$14,228
Fund Balance ($000)	$15,052	$15,995	$19,201	$20,037	$17,823
Cash Balance ($000)	$20,395	$20,743	$21,693	$22,319	$20,087
Fund Balance as a % of Revenues	115.5%	120.5%	139.7%	145.2%	125.3%
Cash Balance as a % of Revenues	156.5%	156.3%	157.9%	161.7%	141.2%
Debt/Pensions					
Net Direct Debt ($000)	$43,125	$47,225	$51,050	$54,250	$54,625
3-Year Average of Moody's ANPL ($000)	$10,658	$7,424	$6,162	$6,466	$7,850
Net Direct Debt / Full Value (%)	0.1%	0.1%	0.1%	0.1%	0.1%
Net Direct Debt / Operating Revenues (x)	3.3x	3.6x	3.7x	3.9x	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)	0.8x	0.6x	0.4x	0.5x	0.6x

Source: Moody's; AMAFCA CAFR'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 (Aa2 negative), the state's largest city.

Detailed credit considerations

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

The district's economy and tax base will remain stable and sizeable over the mid-term given regional importance and institutional presence. 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 sizeable at $47.8 billion, derived from an assessed value of $15.9 billion. Residential development is reportedly stable. Regarding commercial investment, Netflix is building its first production studio in Albuquerque. The company has committed to spending at least $1 billion over ten years, as well as create at least 1,000 jobs per year. Ben E. Keith has announced the expansion of its existing food service operations with $80 million in private investment.

Per the November 2018 Moody's Economy report, the Albuquerque MSA is “mid-expansion”, and we expect that over the next couple of years, the city will have steady employment growth. Over the long-term, the city “still faces the challenge of diversifying its economy beyond the core of Sandia, Los Alamos, Kirtland Air Force Base, University of New Mexico, and state government. Though it will track the U.S. in job growth, Albuquerque will trail in household income growth through the forecast horizon.”

Major employers in the Albuquerque MSA include the University of New Mexico, Kirtland Air Force Base (AFB), 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 2019 unemployment rate of 4.1% was below the state (4.6%) but above the nation (3.9%). Resident wealth levels are average with median family income of approximating 90.4% of the US (2017 ACS).

Financial operations and reserves: finances remain healthy

The district's financial position will likely remain strong given conservative budgeting practices and a history of strong maintenance of reserves. Fiscal 2018 ended with a modest surplus of $69,000, increasing General Fund balance to $8.7 million, or an ample 224.2% of revenues. Property taxes comprise roughly 95% of the budget. The district plans to maintain its operating level 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, are also healthy, with fund balance of $17.8 million, or 141.5% of operating revenues. The authority used around $2.3 million in excess debt service fund balance to pay down outstanding GO bonds.

The fiscal 2019 budget reflected a $555,400 deficit. The authority typically prepares a deficit budget, conservatively forecasting revenues 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 April, management anticipates closing the year with a modest surplus, with expenditures being around $3.8 million rather than budgeted $4.3 million.

The fiscal 2020 budget, as of April, reflects a 3% increase in revenues and flat expenditures at around $4.3 million, including transfers. The negative variance will likely narrow when property taxes come in higher than projected.

LIQUIDITY

Cash reserves track in line with fund balance. At fiscal 2018 year-end, General Fund cash was $8.8 million, or 228.8% of revenues. Operating cash is $20.1 million, or 141.2% of operating revenues.

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

Despite future planning borrowings, AMAFCA's direct debt burden is expected to remain low over the mid-term given rapid principal amortization. At 0.1% of fiscal 2019 full value, the district's debt burden is very modest. Voters approved $25 million in November 2016, and the authority plans to issue $12.5 million in 2020. The district's six-year capital improvement plan (CIP) identifies $100 million in infrastructure needs. As such, AMAFCA will approach voters for a $25 million bond in 2020.

DEBT STRUCTURE

The district has $57.1 million in outstanding fixed-rated obligations. The debt service schedule is descending, with maximum annual debt service of $12.4 million (calendar 2019). Principal amortization is rapid with 100% retired in ten years.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

Due to the small number of full-time employees, the authority's pension burden is expected to remain manageable over the midterm. AMAFCA participates in Public Employees Retirement Association (PERA), a state-wide, cost-sharing plan. The authority's annual contributions into the plan have been at the statutorily required amount, which is slightly below the actuarially required amounts, a situation which has driven modest increases to the unfunded liability. Moody's fiscal 2017 adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is $8.5 million, or a low 0.60 times operating revenues. This is currently comparable to Aaa-rated peers.

The district's treadwater gap is widening, but still remains manageable at less than 1% of operating revenues. The “tread water” indicator measures the annual contributions required to prevent the reported net pension liability from increasing under Plan assumptions. Fixed costs, however, remain very high. Fiscal 2018 fixed costs, including debt service, pension and OPEB contributions, were 95.7% of operating revenues. Excluding the $2.3 million AMAFCA opted to use to retire additional debt service, fixed costs fall to 79.7% of operating revenues, which is more in line with historic levels. Moody's notes the authority's directive is to fund the construction of flood control projects in its service area. As such, it is not unreasonable that annual debt service represents a majority of expenditures.

Management and governance: sophisticated management team

The district is managed by a five member board, who serve without compensation for six-year terms.

The district 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” or strong. Special districts mainly rely on highly predictable property tax revenues and have ample taxing margins to raise revenues. Expenditures consist of everyday maintenance on infrastructure and annual projects, which can be deferred, if necessary.

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