

# State of Aguascalientes

## Full Rating Report

### Ratings

Long-Term Local Currency IDR BBB+

#### National

Long-Term Rating AA+(mex)

IDR – Issuer Default Rating.

### Rating Outlook

Long-Term Local Currency IDR Stable

National Long-Term Rating Stable

### Financial Data

#### State of Aguascalientes

(MXN Mil.)	12/31/15	12/31/14
Operating Revenue	18,434.4	15,846.8
Debt	2,148.7	2,250.8
Operating Balance/ Operating Revenue (%)	9.24	6.32
Debt Service/ Current Revenue (%)	1.82	1.83
Debt/Current Balance (Years)	1.4	2.6
Operating Balance/ Interest Paid (x)	7.30	4.50
Capex/Total Expenditure (%)	14.95	23.21
Surplus (Deficit) Before Debt Variation/ Total Revenue		
(Excl. New Debt) (%)	3.36	(2.98)
Current Balance/ Capex (%)	51	18.64

### Related Research

[Institutional Framework for Mexican Subnationals \(December 2011\)](#)

### Analysts

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### Key Rating Drivers

**Financial Strengthening:** The state of Aguascalientes has strengthened local revenues and controlled operational expenditure (current expenditure plus non-earmarked transfers), which explains the high level of operating margins and favorable liquidity indicators. In the past four years, operating margins have been above MXN1 billion.

**Manageable Projected Debt:** On March 31, 2016 the direct debt of Aguascalientes had a balance of MXN2.122 billion (USD117 million), of which MXN2.078 billion were signed with commercial banks maturing in 2031. The remaining direct debt consists of two loans that mature in November 2016. The debt has favorable terms and conditions, which translate into manageable leverage and sustainability indicators. The state has no plans for additional debt.

**Economic Dynamism:** Aguascalientes has a growing economy. In the last three years its growth has been higher than the national. Its activity is based on a strong manufacturing sector, particularly its fast-growing automobile industry. The state benefits from its strategic geographical position and an efficient transport network. Moreover, Aguascalientes registers stronger socioeconomic indicators than the national average.

**Pension Liabilities Fully Covered:** Aguascalientes stands in a very favorable position compared with other Mexican states. According to the last actuarial valuation, the state's pension liabilities are fully covered for the next 112 years. The Security and Social Services Institute for Public Servants of Aguascalientes (ISSSSPEA) is responsible for the state's pension liabilities, provides an annual update of the actuarial valuation and strengthens corporate governance.

**Strong Liquidity Position:** Liquidity was strong in 2010–2015, with levels higher than the median of Mexican states. At year-end 2015, Aguascalientes registered a balance equal to 10.7% of total revenues, and account payables had a controlled evolution, with no use of short-term credit lines.

**Reliance on Federal Revenues:** Aguascalientes remains vulnerable to negative macroeconomic shocks, despite the positive performance of local revenues, due to the large proportion of federal transfers in its budget, which is common to all Mexican states.

### Rating Sensitivities

**Upgrade Factors:** An upgrade of the sovereign rating, accompanied by Aguascalientes' solid operating performance, could trigger a positive rating action over its international rating.

**Downgrade Factors:** The main factors that, individually or collectively, could lead to a negative rating action include a significant debt increase (short term and/or long term) and a substantial deterioration in Aguascalientes' operating margins and cash levels.

### Issuer Rating History

Date	Long-Term Local Currency	National Long-Term
May 28, 2014	BBB+	AA+(mex)
May 28, 2013	BBB	—
Feb. 27, 2013	BBB-	—
Feb. 15, 2013	—	AA(mex)
April 1, 2011	—	AA-(mex)
March 20, 2007	—	AA(mex)
March 23, 2006	—	AA(mex)ROP
Nov. 25, 2002	—	AA(mex)
June 7, 2001	—	AA-(mex)

ROP – Rating Outlook Positive  
Source: Fitch.

### Principal Rating Factors

#### Summary: Strengths and Weaknesses<sup>a</sup>

	Institutional Framework	Debt and Liquidity	Fiscal Performance	Management and Administration	Economy
Status	Neutral	Strength	Strength	Strength	Neutral
Trend	Stable	Positive	Stable	Stable	Positive

<sup>a</sup>Relative to its rating category.  
Source: Fitch.

#### Overall Strengths

- Solid operating performance, as a result of strengthening fiscal policies and continued monitoring of spending.
- Low leverage and high sustainability.
- Strong socioeconomic profile.
- Pension liabilities fully covered.

#### Overall Weaknesses

- Reliance on federal revenues.

#### Institutional Framework

- Positive evolution in fiscal equalization system.
- Regulations have favored the development of subnational debt markets. However, there is a need to modernize regulation on issues such as debt limits, use of short-term debt and others.
- Favorable macroeconomic environment.
- Limited financial autonomy.
- Limited degree of transparency and access to information.

#### Debt, Liquidity and Contingent Liabilities

According to Mexican subnational governments' legislation, all debt is placed in local currency. On March 31, 2016 the direct debt of Aguascalientes was MXN2.122 billion, of which MXN2.090 billion of debt with commercial banks matures in 2031. The remaining direct debt consists of two loans that mature in November 2016 and have a fixed-interest rate.

In 2012 Aguascalientes contracted two zero-coupon bond bank loans with Banco Nacional de Obras y Servicios Públicos, S.N.C. (Banobras), for a set amount of MXN1.055 billion, with a term of 20 years. Aguascalientes only covers interest payments at a fixed rate. For this reason, Fitch Ratings does not consider the balance of these loans in the level of leverage. Meanwhile, interest payments compute in the indicator of debt service. The loan resources were used mostly in public infrastructure associated with a new investment in the automotive industry that positively impacted the region.

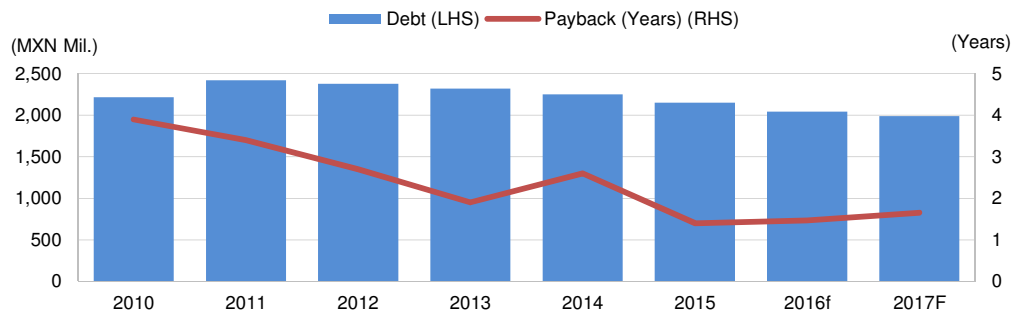
The first loan was for MXN255.5 million but only MXN233.9 million has been used so far. The capital repayment will be made on the date of maturity, with the redemption of zero-coupon bonds contributed by the federal government. The second of these credits was for MXN800 million, with MXN645.9 million used so far. The primary source of repayment of

principal at maturity will be the proceeds of the redemption of zero-coupon bonds acquired by the state through Banobras.

At year-end 2015 the leverage ratio was at a level equivalent to 12% of current revenue, while debt service represented less than 20% of operating balance. Fitch considers this debt structure low for the entity's financial capacity.

If no additional debt is contracted by the state, direct debt and other liabilities classified as debt by Fitch will gradually decrease. According to the financial strength of the entity and favorable conditions of debt, Fitch estimates that debt service would result in a level less than 25% of operating balance in the next two years, which is manageable and consistent with the current rating. Moreover, the state's debt burden ratios remain manageable and liquidity levels absorbed more than 100% direct risk in 2015.

**Debt and Payback**



F – Forecast.  
Source: Aguascalientes, Fitch calculations.

The entity does not have short-term loans or guaranteed financing. Aguascalientes' robust liquidity position over the last five years resulted in the state's accumulated cash increasing to MXN2,221 billion at year-end 2015, compared with MXN277 million in 2010. The majority of cash consists of federal revenues that will be directed to investment. The state is allowed to deposit excess cash in commercial banks, so it is held by state treasury accounts.

Regarding pension liabilities, Aguascalientes stands in a very favorable position compared with other Mexican states. The ISSSSPEA is responsible for the state's pension liabilities. The total contributions of the institute add up to 37.5% of the wages, with 28.5% to the state and the rest to employees. As of December 2015 the number of affiliated members of the institute reached 18,888 active workers and 3,787 retired workers, considering that the state is not directly responsible for teachers, staff and its retirees.

The institute offers administrative strength, which is reflected in actions such as the annual update of the actuarial valuation. According to the last actuarial valuation at December 2015 the state's pension liabilities are fully covered for the next 112 years. Aguascalientes seeks to strengthen the ISSSSPEA through various actions established by decrees published in 2014 and 2015 as the strengthening of corporate governance and changed the regulatory framework to strengthen the sustainability of the fund. By decree the institute created Committees of Investment and Risk with independent consultants, also modified its investment policies.

However, drinking water supply, sewerage and treatment of wastewater services in the state of Aguascalientes, as well as the maintenance of such distribution networks, are the responsibility of the decentralized operating water bodies in each municipality. Nevertheless, the state makes investments, mainly focused on wastewater treatment and drinking water works through the

**Related Criteria**

[International](#) [Local](#) and [Regional](#)  
[Governments Rating Criteria — Outside](#)  
[the United States \(April 2016\)](#)

Water Institute of Aguascalientes (INAGUA). The entity maintains very good coverage of drinking water (98.9%), sewerage (98.4%) and sanitation (100%), as a result of the state's favorable position with respect to other entities and possible contingencies that may be presented in such sectors.

**Fiscal Performance**

Aguascalientes' total revenues have shown a positive trend, boosted by administrative actions to obtain more federal revenues and strengthen local revenues. In 2015 total revenues increased to MXN20.661 billion.

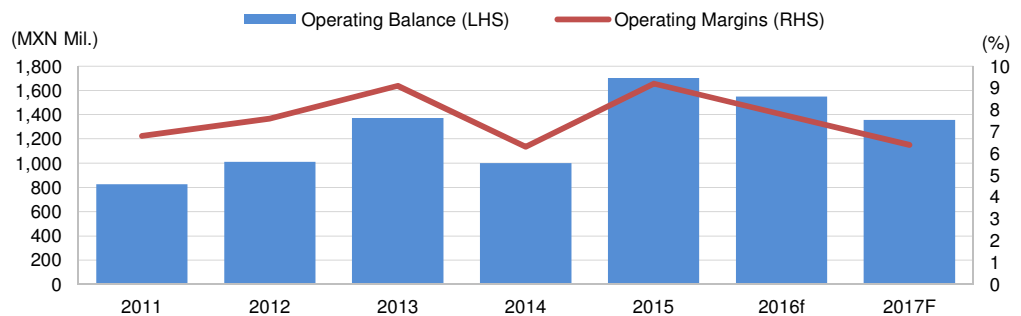
To achieve more financial flexibility, the administration has undertaken various actions to strengthen local revenues, resulting in good dynamism in 2011–2015 that is expected to continue for the next administration. In 2015 the local revenue/total revenue ratio was 7.1%, compared with 6.5% in 2011, due to a high dependence to federal resources.

Local revenue collection has been reinforced due to an increase in the payroll tax rate, the implementation of programs designed to recover overdue local taxes and duties, and economy growth. New vehicle registration fees, as well as federal and municipal collaboration agreements, also contributed to local revenue collection.

The current administration has had an outstanding performance in terms of local revenue collection, relative control of operating expenditure and definition of mechanisms against possible contingencies, which explains the higher generation of operating balance and favorable liquidity levels.

In the last four years, Aguascalientes' operating margins have been above MXN1 billion, resulting in higher investment levels. According to the budget for 2016 and financial statements to March 2016, Fitch forecasts that FCF from operations will stay around historical levels.

**Budgetary Performance**



F – Forecast.  
Source: Aguascalientes, Fitch calculations.

As part of the financial strategy of the current state administration, the level of capex has increased significantly. For the past three years, total investment of Aguascalientes averaged a level equivalent to MXN3.647 billion. Aguascalientes estimates a total investment of MXN4.440 billion in 2016, with 70% funded through federal resources. The investment plan includes projects related to communications, transportation, hospitals, educational, cultural and tourism infrastructure.

With the new national infrastructure plan, the entity will receive around MXN14.000 billion for investment in infrastructure, energy, health and tourism.

## Management and Administration

The current administration, the Institutional Revolutionary Party, took office in December 2010, and its term will end in November 2016. The National Action Party ruled the state for the last administrative period. Elections will be held in June 2016 to define the next state administration. Fitch does not expect significant changes in financial and debt policies.

The state's development plan for 2010–2016 includes general strategies to continue the beneficial practices implemented by the previous administrations. So far, there have been changes in the structure of ministries, trusts and decentralized bodies in the current administration. However, the implementation of innovative practices and programs that promote efficiency and quality of public service continue.

Special emphasis has been placed on efficient government strategy, implementing policies and actions for the growth of revenue collection, as well as measures of austerity and efficiency in spending. Furthermore, among other priorities of the administration, is the improvement of capex trends, ensuring the sustainability of any project that could require debt funding.

The Law of Budget, Public Expenditure and Fiscal Responsibility was amended to create the Stabilization Fund of the state of Aguascalientes. The fund will operate through an irrevocable public trust and aims to create a financial reserve that can be used to compensate decreases in federal revenue sharing, or the surplus may go to repay debt or projects not included in the expense budget.

The administration has a professional approach and the Ministry of Finance staff has experience in the sector. Although the change in administration resulted in movements of senior officials, midlevel operational staff remain, providing operation and continuity to management and administrative tasks. The state's accounting information systems generate timely and detailed financial information, which contributes to very reliable, multiyear planning and budgeting.

The state of Aguascalientes was the first subnational entity in Mexico with a long-term local currency rating by Fitch.

### Mexico and State of Aguascalientes



Source: Fitch.

## Economy

The state of Aguascalientes is located in the central region of Mexico and comprises 11 municipalities. Its population was 1.3 million (1.1% of the nation) in fourth-quarter 2015. Its main urban concentration (80% of the state population) is in the metropolitan area, which is composed of the municipalities of Aguascalientes (state capital), Jesus Maria and San Francisco de los Romo.

According to the National Population Council, Aguascalientes has a low poverty level in terms of public infrastructure, education levels and basic services coverage, ranking fifth regarding lower poverty index among Mexican federal entities.

In the last four years the state has presented an economic growth higher to national, which reflects the growth in employment indicators. The economic activity of the state is characterized by its diversity and the manufacturing sector, most notably auto manufacturing and textile industries.

State economic growth in 2006–2014 stands to be higher or very similar to the national indicator. This dynamism has been robust during 2010–2014, highlighting the 11.3% growth in



2014. According to the quarterly indicator of state economic activity, growth in economic activity in 2015 will be positive, with an increase of 4.3%, above the national indicator of 2.5%.

The state economic dynamism is reflected in an improvement in employment indicators, registering a high rate of formal employment and high growth in the number of permanent insured in the Mexican Institute of Social Security. Between 2010 and February 2016, Aguascalientes has reduced its unemployment rate to 3.3%, with levels close to the national indicator.

The main activities of the state are concentrated in the secondary and tertiary sectors. Within the secondary sector, manufacturing stands out for the sectors of machinery and transport equipment. In the tertiary activity, trade and real estate services are highlighted.

In the current administration, the manufacturing output index has increased 3.6x above the national average. Success in the manufacturing sector is explained by the development of clusters in its key industries, the availability of skilled labor, and low crime rates, among other factors. It also benefits from a strategic geographical position and an efficient communication network. Currently the state has 19 industrial parks: 12 state, two municipal and five private. Its high level of industrialization has benefited the state's socioeconomic status.

Foreign Direct Investment from 2011–2015 averaged USD401.2 million annually, with USD507.2 million in 2015. A portfolio of 138 projects representing 46,000 new jobs was generated in 2010–2016. The expectation for the next five years is positive, as many of the benefits generated by the projects will be reflected in the short and medium term. The strategy seeks to improve all economic sectors and regions; one of the projects is to promote the primary sector with an industrial AgroPark.

The main recipient of such investment has been the auto manufacturing industry; most of the investment is from Japan. In 2014 Nissan announced a joint venture with Daimler to manufacture Infiniti and Mercedes Benz vehicles, which is expected to start in 2017. This is in addition to the investment of the Japanese company in a new plant that was opened in late 2013 and will allow an annual production of 850,000 vehicles. Overall investment amounted to USD2.385 billion and is expected to strengthen the state economy, as the investment will generate an estimated 11,600 direct jobs.

Aguascalientes has a very low crime rate, which contributes to the favorable investment environment. According to Secretaria de Gobernacion (Interior Ministry), the murder rate per 100,000 people was 3.0 in 2015, the second-lowest in Mexico, and the rate of vehicle theft with violence was 3.7, compared with the national rate of 37.3.

According to the report *Doing Business in Mexico 2014*, published by the World Bank and the International Finance Corporation, the city of Aguascalientes ranked second among 32 Mexican cities for its ease of doing business.

Appendix A

Aguascalientes, State of

(MXN Mil.)	2011	2012	2013	2014	2015
Taxes	556.6	655.3	837.0	857.4	924.0
Transfers Received	11,258.2	12,170.1	13,878.7	14,605.1	17,025.1
Fees, Fines and other Operating revenue	378.2	437.8	341.6	384.3	485.3
Operating Revenue	12,193.0	13,263.2	15,057.3	15,846.8	18,434.4
Operating Expenditure	(11,366.2)	(12,252.8)	(13,686.2)	(14,844.7)	(16,731.6)
Operating Balance	826.8	1,010.4	1,371.1	1,002.1	1,702.8
Financial Revenue	25.0	49.1	46.3	73.6	62.0
Interest Paid	(140.3)	(168.6)	(214.2)	(222.9)	(234.3)
Current Balance	711.5	890.9	1,203.2	852.8	1,530.5
Capital Revenue	2,557.2	2,471.8	2,718.8	3,152.2	2,164.3
Capex	(2,703.8)	(3,786.4)	(3,366.3)	(4,574.2)	(3,000.7)
Capital Balance	(146.6)	(1,314.6)	(647.5)	(1,422.0)	(836.4)
Surplus (Deficit) before Debt Variation	564.9	(423.7)	555.7	(569.2)	694.1
New Borrowing	342.0	491.1	208.7	0.0	180.0
Debt Repayment	(138.2)	(48.8)	(58.1)	(68.9)	(102.4)
Net Debt Movement	203.8	442.3	150.6	(68.9)	77.6
Overall Results	768.7	18.6	706.3	(638.1)	771.7
<b>Debt</b>					
Short-Term	—	—	—	—	—
Long-Term	2,422.6	2,377.6	2,319.7	2,250.8	2,148.7
Direct Debt	2,422.6	2,377.6	2,319.7	2,250.8	2,148.7
+ Other Fitch Classified Debt - Pre-Financing	—	491.0	—	—	—
Direct Risk	2,422.6	2,868.6	2,319.7	2,250.8	2,148.7
– Cash, Liquid Deposits, Sinking Fund	1,255.7	1,338.5	2,049.1	1,499.5	2,220.9
Net Direct Risk	1,166.9	1,530.1	270.6	751.3	(72.2)
Guarantees and other Contingent Liabilities	0.0	0.0	0.0	0.0	0.0
Net Indirect Debt (Public Sector Entities exc. Gteed Amount)	—	—	—	—	—
Net Overall Risk	1,166.9	1,530.1	270.6	751.3	(72.2)
<b>Memo for Direct Debt</b>					
% in Foreign Currency	0.0	0.0	0.0	0.0	0.0
% Issued Debt	0.0	0.0	0.0	0.0	0.0
% Fixed Interest Rate Debt	0.5	9.4	6.6	4.7	2.7

Source: State of Aguascalientes, Fitch calculations.

Appendix B

Aguascalientes, State of

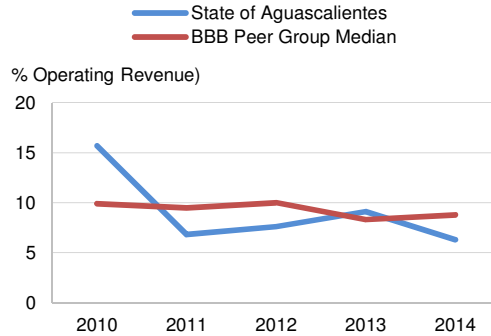
	2011	2012	2013	2014	2015
<b>Fiscal Performance Ratios (%)</b>					
Operating Balance/Operating Revenue	6.78	7.62	9.11	6.32	9.24
Current Balance/Current Revenue <sup>a</sup>	5.82	6.69	7.97	5.36	8.27
Surplus (Deficit) before Debt Variation/Total Revenue <sup>b</sup>	3.82	(2.68)	3.12	(2.98)	3.36
Overall Results/Total Revenue	5.20	0.12	3.96	(3.35)	3.74
Operating Revenue Growth (Annual % Change)	N.A.	8.78	13.53	5.24	16.33
Operating Expenditure Growth (Annual % Change)	N.A.	7.80	11.70	8.46	12.71
Current Balance Growth (Annual % Change)	N.A.	25.21	35.05	(29.12)	79.47
<b>Debt Ratios</b>					
Direct Debt Growth (Annual % Change)	N.A.	(1.86)	(2.44)	(2.97)	(4.54)
Interest Paid/Operating Revenue (%)	1.15	1.27	1.42	1.41	1.27
Operating Balance/Interest Paid (x)	5.9	6	6.4	4.5	7.3
Direct Debt Servicing/Current Revenue (%)	2.28	1.63	1.8	1.83	1.82
Direct Debt Servicing/Operating Balance (%)	33.68	21.52	19.86	29.12	19.77
Direct Debt/Current Revenue (%)	19.83	17.86	15.36	14.14	11.62
Direct Risk/Current Revenue (%)	19.83	21.55	15.36	14.14	11.62
Direct Debt/Current Balance (Years)	3.4	2.7	1.9	2.6	1.4
Net Overall Risk/Current Revenue (%)	9.55	11.49	1.79	4.72	(0.39)
Direct Risk/Current Balance (Years)	3.4	3.2	1.9	2.6	1.4
Direct Debt/GDP (%)	—	—	1.57	1.35	1.24
Direct Debt Per Capita (Local Currency)	2,002	1,924	1,842	1,764	1,636
<b>Revenue Ratios (%)</b>					
Operating Revenue/Budget Operating Revenue	N.A.	N.A.	N.A.	N.A.	N.A.
Tax Revenue/Operating Revenue	4.56	4.94	5.56	5.41	5.01
Modifiable Tax Revenue/Total Tax Revenue	100	100	100	100	100
Current Transfers Received/Operating Revenue	92.33	91.76	92.17	92.16	92.36
Operating Revenue/Total Revenue <sup>b</sup>	82.52	84.03	84.49	83.09	89.22
Total Revenue <sup>b</sup> Per Capita (Local Currency)	12,211	12,770	14,156	14,947	15,736
<b>Expenditure Ratios (%)</b>					
Operating Expenditure/Budget Operating Expenditure	N.A.	N.A.	N.A.	N.A.	N.A.
Staff Expenditure/Operating Expenditure	8.64	9.2	8.55	8.1	7.64
Current Transfer Made/Operating Expenditure	87.5	87.44	88.3	88.68	89.26
Capex/Budget Capital Expenditure	N.A.	N.A.	N.A.	N.A.	N.A.
Capex/Total Expenditure	18.84	23.29	19.43	23.21	14.95
Capex/Local GDP	—	—	2.28	2.75	1.73
Total Expenditure Per Capita (Local Currency)	11,858	13,153	13,761	15,447	15,285
<b>Capex Financing (%)</b>					
Current Balance/Capex	26.31	23.53	35.74	18.64	51
Capital Revenue/Capex	94.58	65.28	80.77	68.91	72.13
Net Debt Movement/Capex	7.54	11.68	4.47	(1.51)	2.59

<sup>a</sup>Includes financial revenue. <sup>b</sup>Excluding new borrowing. N.A. – Not available.  
Source: State of Aguascalientes, Fitch calculations.



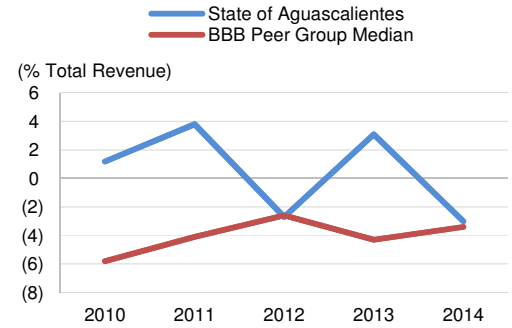
Appendix C

Operating Balance



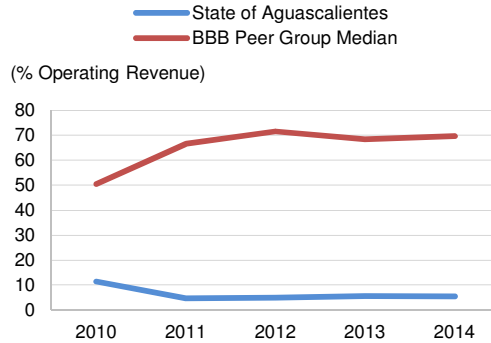
Source: Issuers, Fitch calculations.

Surplus (Deficit)



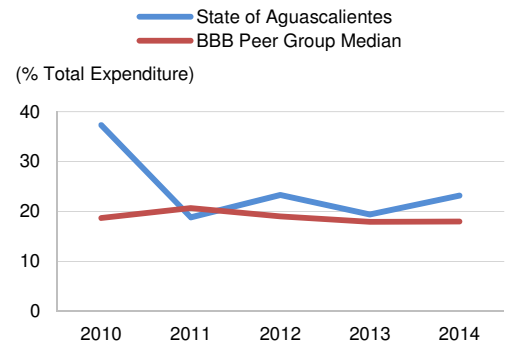
Source: Issuers, Fitch calculations.

Taxes



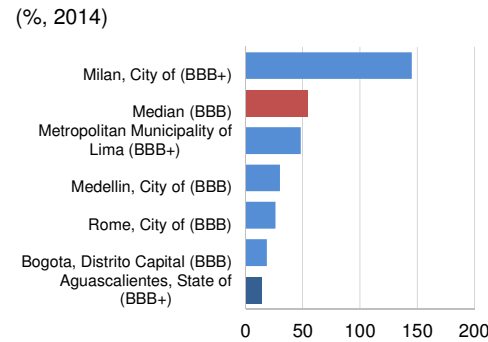
Source: Issuers, Fitch calculations.

Capex



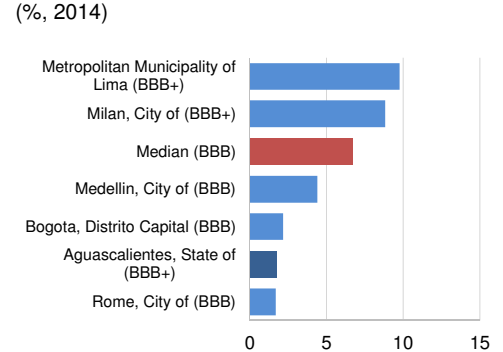
Source: Issuers, Fitch calculations.

Debt to Current Revenue



Source: Issuers, Fitch calculations.

Debt Servicing to Current Revenue



Source: Issuers, Fitch calculations.

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