

# State of Aguascalientes

## Full Rating Report

### Ratings

Long-Term Local-Currency IDR BBB+

#### National

Long-Term Rating AA+(mex)

IDR – Issuer Default Rating.

### Rating Outlooks

Long-Term Local-Currency IDR Stable

National Long-Term Rating Stable

### Financial Data

#### State of Aguascalientes

(MXN Mil.)	12/31/13	12/31/12
Operating Revenue	5,714.0	5,379.2
Debt	2,319.7	2,377.6
Operating Balance/ Operating Revenue (%)	21.77	22.05
Debt Service/ Current Revenue (%)	4.73	4.00
Debt/Current Balance (Years)	2.2	2.2
Operating Balance/ Interest Paid (x)	5.80	7.00
Capital Expenditure/ Total Expenditure (%)	41.51	46.19
Surplus (Deficit) Before Debt Variation/ Total Revenue (Excl. New Debt) (%)	5.05	(3.14)
Current Balance/ Capital Expenditure (%)	31.96	28.16

### Related Research

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

### Analysts

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### Key Rating Drivers

**Upgrade of Aguascalientes' International Rating:** The upgrade of Aguascalientes' international rating reflects its solid operating performance, the result of strengthening fiscal policies and continued monitoring of spending. The rating also considers the moderate leverage and low sustainability linked to the state's conservative debt policy. The state of Aguascalientes is the only subnational entity in Mexico to receive an international rating by Fitch.

**Strong Fiscal Management:** The current administration has had an outstanding performance in terms of local revenue collection and relative control of operating expenditure, which explains higher operating margins and favorable liquidity levels. Operating margins have been above 20% in the last three years.

**Manageable Projected Debt:** On April 30, 2014, the direct debt of Aguascalientes presented a balance of MXN2,302 million (USD179 million), of which MXN2,147 million was signed with commercial banks maturing in 2031. The remaining direct debt consists of two loans that mature in November 2016. Fitch Ratings expects a gradual decrease of debt to 11% of current revenue by 2015 because the state has no plan to take on additional debt, direct debt and other liabilities classified as debt by the agency. The entity does not have short-term loans or guaranteed financing.

**Strong Socioeconomic Profile:** Aguascalientes has a dynamic economy 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. In order to further enhance the position of the state as a manufacturing hub, the local administration committed MXN1,700 million (USD132 million) to improve public infrastructure.

**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 113 years.

**Strong Liquidity Position:** In the analyzed period, the level of liquidity presented a strong performance; at the close of 2013, it registered a balance equal to 11.5% of total revenues. Also, account payables have a controlled evolution.

**Reliance on Federal Revenues:** Due to the large proportion of federal transfers in its budget, common to all Mexican states, Aguascalientes is vulnerable to negative macroeconomic shocks.

### Rating Sensitivities

**Upgrade Factors:** A new action over Mexico's sovereign rating could have a similar effect on Aguascalientes' international rating. An upgrade could occur if Aguascalientes increases its operating margin above 25%, accompanied by direct indebtedness stabilization below 10% of current revenue.

**Downgrade Factors:** A negative rating action could result if the operating margin falls far below Fitch's expectation and/or a significant rise in Aguascalientes' direct indebtedness occurs.

### 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 Ratings.

### Principal Rating Factors

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

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

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

#### Overall Strengths

- Solid operating performance, resulting from strengthening fiscal policies and continued monitoring of spending.
- Moderate leverage and low 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 April 30, 2014, the direct debt of Aguascalientes was MXN2,302 million, of which MXN2,147 million of debt with commercial banks matures in 2031. The remaining direct debt consists of two loans that mature in November 2016. The entity does not have short-term loans or guaranteed financing. Fitch considers this debt structure moderate for the entity's financial capacity.

In order to further enhance the position of the state as a manufacturing hub, the local administration committed MXN1,700 million to improve public infrastructure. The state financed 40% of its investment program with two zero-coupon bond bank loans (20-year maturity) while the rest was paid out of budget savings.

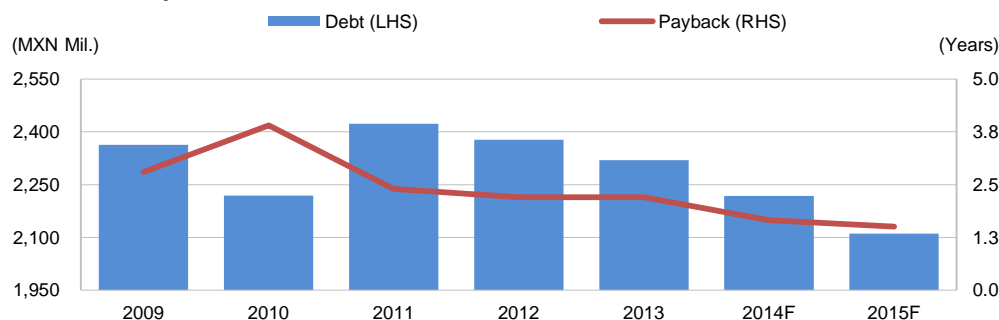
If no additional debt is contracted by the state, direct debt and other liabilities classified as debt by Fitch will gradually decrease. Moreover, the state's debt burden ratios remain manageable and liquidity levels absorbed an 88.3% direct risk in 2013.

#### Related Criteria

[International Governments Rating Criteria — Outside the United States \(April 2014\)](#)

[Tax-Supported Rating Criteria \(August 2012\)](#)

**Debt and Payback**



F – Forecast.  
Source: Aguascalientes and Fitch calculations.

Aguascalientes’ robust liquidity position over the last three years resulted in the state’s accumulated cash increasing to MXN2,049 million at the end of 2013 (2010: MXN277 million). 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. According to the last actuarial valuation performed with information to December 2013, the state’s pension liabilities are fully covered for the next 113 years. The Security and Social Services Institute for Public Servants of Aguascalientes (ISSSSPEA) is responsible for the state’s pension liabilities. The total contributions of the institute add up to 37% of the wages, corresponding 28.5% to the state and the rest to employees. As of December 2013, the number of affiliated members of the institute reached 18,496 active workers and 3,163 retired workers, considering that the state is not directly responsible for teachers, staff and its retirees.

On the other hand, drinking water supply, sewerage and treatment of wastewater services in the state of Aguascalientes, as well as the maintenance of such distribution networks are under 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 Water Institute of Aguascalientes (INAGUA). It is important to mention that the entity maintains very good coverage of drinking water (98.2%), sewerage (98.1%) and sanitation (100%), showing the state’s favorable position with respect to other entities in terms of possible contingencies that may be presented in such sector.

**Fiscal Performance**

Aguascalientes’ operating revenues have shown a positive trend boosted by the sound level of local revenue collection and the favorable performance of federal revenues. Between 2009 and 2013, operating revenues registered a CAGR of 6.3% and increased to MXN5,714 million in

**Operating Revenues**

(MXN Mil.)	2009	2010	2011	2012	2013	2014B
Taxes	476.5	496.5	556.6	655.3	837.0	663.4
Transfers Received	3,746.4	3,598.1	4,046.6	4,286.1	4,535.4	4,714.7
Fees, Fines and Other Operating Revenue	258.3	243.3	378.2	437.8	341.6	398.8
Operating Revenue	4,481.2	4,337.9	4,981.4	5,379.2	5,714.0	5,776.9

B – Budget.  
Source: State of Aguascalientes.

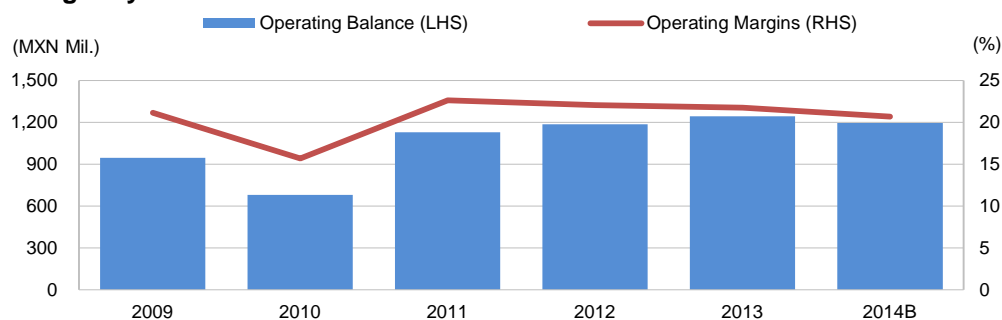
2013. Local revenue collection has been reinforced due to an increase in the payroll tax rate, up from 1.5% to 2% since 2013, and the implementation of programs designed to recover overdue local taxes and duties. New vehicle registration fees as well as federal and municipal collaboration agreements also contributed to local revenue collection.

As a result of these programs, local revenue collection has increased 12.6% on average in the last five years. While the local revenue over total revenue ratio increased to 7.2% in 2013 (2010: 5.9%), this ratio shows a high dependence to federal resources.

Despite a decline of the state's operating balance in 2010, Aguascalientes' management has delivered a prompt recovery showing its capacity to withstand economic downturn. Since the beginning of the current administration, Aguascalientes has had an outstanding performance in terms of local revenue collection and relative control on operating expenditure, which explains higher operating margins and favorable liquidity levels.

In 2013, the state's operating margin was 22%. The 2014 budget and the financial statements as of April, indicate an operating margin above 20%. Fitch expects the financial strengthening of the state to be maintained in the coming years.

**Budgetary Performance**



B – Budget.  
Source: Aguascalientes and Fitch calculations.

For the past three years, total investment of Aguascalientes averaged a level equivalent to MXN3,286 million. In January 2012, Nissan Mexicana announced a USD2,000 million investment program. To continue strengthening the auto manufacturing industry, the state pledged to improve public infrastructure through an investment for MXN1,700 million, which is expected to generate jobs, increase productivity and provide higher tax revenues.

With the new national infrastructure plan, the entity will receive around MXN14,550 million for investment in infrastructure, energy, health and tourism.

**Management and Administration**

The current administration took office in December 2010 and is occupied by the Institutional Revolutionary Party (PRI). Given that during the last two administrative periods the National Action Party (PAN) ruled the state, political alternation between both parties (PAN and PRI) was orderly.

The state's development plan for 2010–2016 includes general strategies to continue the beneficial practices implemented by the previous administrations. In the first years of government, special emphasis was placed on the 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

**México and State of Aguascalientes**



improvement of capital expenditure trends, ensuring the sustentability of any project that could require debt funding.

The administration has a professional approach, and the staff of the Ministry of Finance 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.

## Economy

The state of Aguascalientes is located in the central region of Mexico and is comprised of 11 municipalities. Its population was 1.3 million (1.1% nation) in the fourth quarter of 2013. Its main urban concentration (80% state population) is in the metropolitan area, which is composed of the municipalities of Aguascalientes (state capital) and Jesus Maria.

According to Conapo (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 recent 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.

Among its key drivers, the auto manufacturing industry is one of the most important activities in the region. Nissan Motor Company recently announced a joint venture with Daimler AG for USD1,360 million; this is in addition to a new plant for USD2,000 million that was unveiled last year. This is expected to positively affect the state's economy because the investment will generate employment.

The state has had important growth in manufacturing, due among other factors to the successful development of clusters in its key industries and the availability of skilled labor and low crime rates. It also benefits from a strategic geographic position and an efficient communications network. Its high level of industrialization has benefited the state's socioeconomic status.

According to the Mexican Human Development Index, Aguascalientes presents a "high" level. Achievements in education are the most outstanding. The state ranks fifth in the country in the number of teachers and research staff. The entity presents very low crime rate. Per Secretaria de Gobernacion (Interior Ministry), in 2013 the murder rate per 100,000 people was 3.1 (second lowest level in Mexico) and the rate of vehicle theft with violence was 4.5 (48 national rate).

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 — State of Aguascalientes

(MXN Mil.)	2009	2010	2011	2012	2013
Taxes	476.5	496.5	556.6	655.3	837.0
Transfers Received	3,746.4	3,598.1	4,046.6	4,286.1	4,535.4
Fees, Fines and Other Operating Revenue	258.3	243.3	378.2	437.8	341.6
<b>Operating Revenue</b>	<b>4,481.2</b>	<b>4,337.9</b>	<b>4,981.4</b>	<b>5,379.2</b>	<b>5,714.0</b>
Operating Expenditure	(3,534.2)	(3,656.8)	(3,853.0)	(4,193.3)	(4,470.3)
<b>Operating Balance</b>	<b>947.0</b>	<b>681.1</b>	<b>1,128.4</b>	<b>1,185.9</b>	<b>1,243.7</b>
Financial Revenue	28.4	21.7	25.0	49.1	46.3
Interest Paid	(145.2)	(129.6)	(140.3)	(168.6)	(214.2)
<b>Current Balance</b>	<b>830.2</b>	<b>573.2</b>	<b>1,013.1</b>	<b>1,066.4</b>	<b>1,075.8</b>
Capital Revenue	1,936.2	1,833.7	2,557.2	2,471.8	2,718.8
Capital Expenditure	(3,441.5)	(2,335.3)	(2,703.8)	(3,786.4)	(3,366.3)
<b>Capital Balance</b>	<b>(1,505.3)</b>	<b>(501.6)</b>	<b>(146.6)</b>	<b>(1,314.6)</b>	<b>(647.5)</b>
<b>Surplus (Deficit) Before Debt Variation</b>	<b>(675.1)</b>	<b>71.6</b>	<b>866.5</b>	<b>(248.2)</b>	<b>428.3</b>
New Borrowing	390.0	0.0	342.0	491.1	208.7
Debt Repayment	(92.0)	(144.3)	(138.2)	(48.8)	(58.1)
<b>Net Debt Movement</b>	<b>298.0</b>	<b>(144.3)</b>	<b>203.8</b>	<b>442.3</b>	<b>150.6</b>
<b>Overall Results</b>	<b>(377.1)</b>	<b>(72.7)</b>	<b>1,070.3</b>	<b>194.1</b>	<b>578.9</b>
<b>Debt</b>					
Short-Term	—	—	—	—	—
Long-Term	2,363.0	2,218.7	2,422.6	2,377.6	2,319.7
<b>Direct Debt</b>	<b>2,363.0</b>	<b>2,218.7</b>	<b>2,422.6</b>	<b>2,377.6</b>	<b>2,319.7</b>
+ Other Fitch-Classified Debt — Prefinancing	33.1	—	—	491.0	—
<b>Direct Risk</b>	<b>2,396.1</b>	<b>2,218.7</b>	<b>2,422.6</b>	<b>2,868.6</b>	<b>2,319.7</b>
– Cash, Liquid Deposits, Sinking Fund	775.0	277.1	1,255.7	1,338.5	2,049.1
<b>Net Direct Risk</b>	<b>1,621.1</b>	<b>1,941.6</b>	<b>1,166.9</b>	<b>1,530.1</b>	<b>270.6</b>
Guarantees and Other Contingent Liabilities	38.0	33.1	0.0	0.0	0.0
Net Indirect Debt (Public Sector Entities excludes Guaranteed Amount)	—	—	—	—	—
<b>Net Overall Risk</b>	<b>1,659.1</b>	<b>1,974.7</b>	<b>1,166.9</b>	<b>1,530.1</b>	<b>270.6</b>
<b>Memo for Direct Debt:</b>					
% in Foreign Currency	—	—	—	—	—
% Issued Debt	—	—	—	—	—
% Fixed Interest Rate Debt	—	—	—	—	—

Source: State of Aguascalientes and Fitch calculations.



Appendix B — State of Aguascalientes

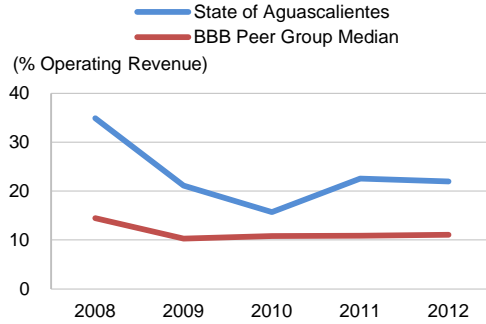
(%)	2009	2010	2011	2012	2013
<b>Fiscal Performance Ratios</b>					
Operating Balance/Operating Revenue	21.1	15.7	22.7	22.1	21.8
Current Balance/Current Revenue <sup>a</sup>	18.4	13.2	20.2	19.7	18.7
Surplus (Deficit) Before Debt Variation/Total Revenue <sup>b</sup>	(10.5)	1.2	11.5	(3.1)	5.1
Overall Results/Total Revenue	(5.9)	(1.2)	14.2	2.5	6.8
Operating Revenue Growth (Annual % Change)	0.2	(3.2)	14.8	8.0	6.2
Operating Expenditure Growth (Annual % Change)	21.3	3.5	5.4	8.8	6.6
Current Balance Growth (Annual % Change)	(42.2)	(31.0)	76.7	5.3	0.9
<b>Debt Ratios</b>					
Direct Debt Growth (Annual % Change)	14.4	(6.1)	9.2	(1.9)	(2.4)
Interest Paid/Operating Revenue	3.2	3.0	2.8	3.1	3.8
Operating Balance/Interest Paid (x)	6.5	5.3	8.0	7.0	5.8
Direct Debt Servicing/Current Revenue	5.3	6.3	5.6	4.0	4.7
Direct Debt Servicing/Operating Balance	25.1	40.2	24.7	18.3	21.9
Direct Debt/Current Revenue	52.4	50.9	48.4	43.8	40.3
Direct Risk/Current Revenue	53.1	50.9	48.4	52.9	40.3
Direct Debt/Current Balance (Years)	2.8	3.9	2.4	2.2	2.2
Net Overall Risk/Current Revenue	36.8	45.3	23.3	28.2	4.7
Direct Risk/Current Balance (Years)	2.9	3.9	2.4	2.7	2.2
Direct Debt/GDP	—	—	—	—	1.4
Direct Debt Per Capita (Local Currency)	2,037.0	1,872.0	2,002.0	1,924.0	1,842.0
<b>Revenue Ratios</b>					
Operating Revenue/Budget Operating Revenue	N.A.	N.A.	N.A.	N.A.	N.A.
Tax Revenue/Operating Revenue	10.6	11.5	11.2	12.2	14.7
Modifiable Tax Revenue/Total Tax Revenue	100.0	100.0	100.0	100.0	100.0
Current Transfers Received/Operating Revenue	83.6	83.0	81.2	79.7	79.4
Operating Revenue/Total Revenue <sup>b</sup>	69.5	70.0	65.9	68.1	67.4
Total Revenue <sup>b</sup> per Capita (Local Currency)	5,557.0	5,226.0	6,251.0	6,392.0	6,735.0
<b>Expenditure Ratios</b>					
Operating Expenditure/Budget Operating Expenditure	N.A.	N.A.	N.A.	N.A.	N.A.
Staff Expenditure/Operating Expenditure	24.9	27.9	25.5	26.9	26.2
Current Transfer Made/Operating Expenditure	60.2	61.4	63.1	63.3	64.2
Capital Expenditure/Budget Capital Expenditure	N.A.	N.A.	N.A.	N.A.	N.A.
Capital Expenditure/Total Expenditure	47.7	37.3	39.6	46.2	41.5
Capital Expenditure/Local GDP	—	—	—	—	2.1
Total Expenditure per Capita (Local Currency)	6,218.0	5,288.0	5,649.0	6,632.0	6,441.0
<b>Capital Expenditure Financing</b>					
Current Balance/Capital Expenditure	24.1	24.6	37.5	28.2	32.0
Capital Revenue/Capital Expenditure	56.3	78.5	94.6	65.3	80.8
Net Debt Movement/Capital Expenditure	8.7	(6.2)	7.5	11.7	4.5

<sup>a</sup>Includes financial revenue. <sup>b</sup>Excluding new borrowing. N.A. – Not available.

Source: State of Aguascalientes and Fitch calculations.

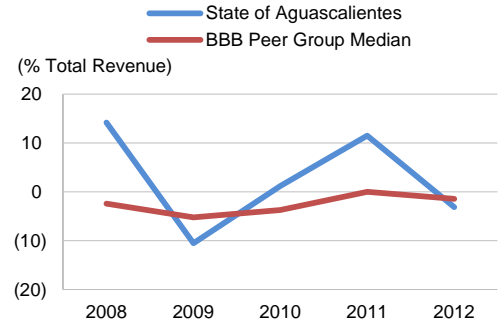
Appendix C

Operating Balance



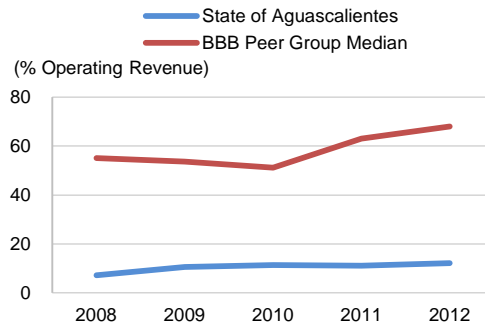
Source: Issuers, Fitch calculations.

Surplus (Deficit)



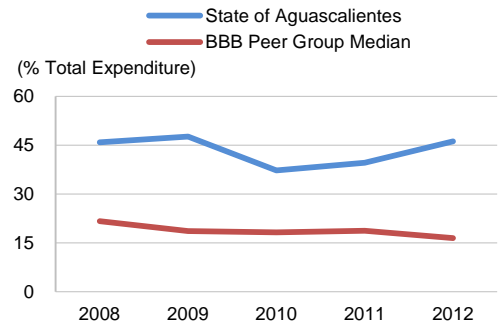
Source: Issuers, Fitch calculations.

Taxes



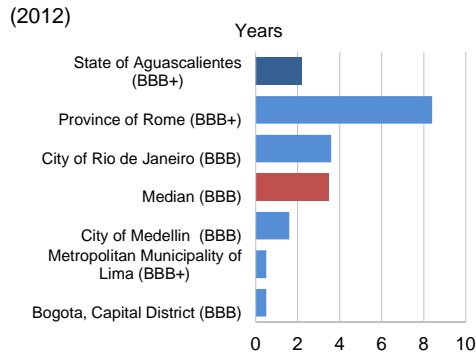
Source: Issuers, Fitch calculations.

Capital Expenditure



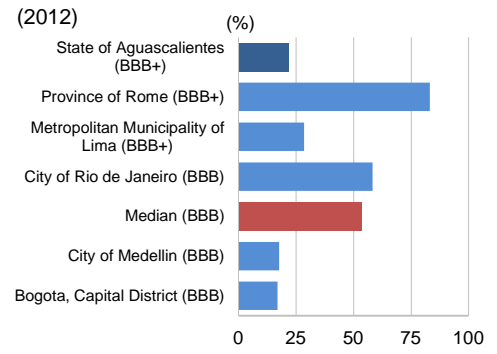
Source: Issuers, Fitch calculations.

Debt to Current Balance Years



Source: Issuers, Fitch calculations.

Debt Servicing to Operating Balance



Source: Issuers, Fitch calculations.



### Account Policies and Adjustments

For analysis, Fitch makes adjustments to the information and financial indicators, which explains any differences between the information published by Fitch and the entity's annual report. Federal transfers, agreements and other concepts that are not directed to investment are not counted in state revenues and expenditures.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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