

CREDIT OPINION

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New Issue

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West Las Vegas Municipal School District 1, NM

New Issue: Moody's assigns A3 underlying/Aa1 enhanced to West Las Vegas MSD 1's, NM \$1.7M GO Bonds, Series 2016

Summary Rating Rationale

Moody's Investors Service has assigned an A3 underlying rating to West Las Vegas Municipal School District 1, NM's \$1.7 million General Obligation School Building Bonds, Series 2016. At the same time, Moody's has affirmed the A3 rating on the district's outstanding parity debt. Concurrently, Moody's has also assigned a Aa1 enhanced rating to the Series 2016 GO bonds based on the New Mexico School District Enhancement Program (NMSDEP) - Post March 30, 2007.

The A3 rating reflects the district's modestly-sized tax base, manageable debt burden with rapid principal amortization and weak socioeconomic profile. The rating further incorporates the district's weak reserve position, which is expected to remain narrow over the near term future.

The Aa1 enhanced rating assigned to the Series 2016 General Obligation Bonds is based on our assessment of the NMSDEP - Post March 30, 2007 and a review of the district's proposed financing. For additional information on the program, please see Moody's report dated May 4, 2008.

Credit Strengths

- » Modestly-sized, stable tax base
- » Manageable debt burden with rapid principal amortization

Credit Challenges

- » Narrow reserve position in comparison to medians for rating category
- » Weak socioeconomic profile
- » Elevated pension burden

Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

- » Trend of operating surplus, increasing reserves and fund balance
- » Significant tax base expansion and diversification coupled with improved socioeconomics

Factors that Could Lead to a Downgrade

- » Economic contractions measured by assessed valuation or student enrollment declines
- » Depletion of reserves
- » Significant increase in debt burden without corresponding taxable value growth

Key Indicators

Exhibit 1

West Las Vegas Municipal School Dist. 1, NM	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 466,349	\$ 492,404	\$ 546,473	\$ 525,985	\$ 527,021
Full Value Per Capita	\$ 42,318	\$ 49,034	\$ 56,204	\$ 54,097	\$ 54,204
Median Family Income (% of US Median)	63.8%	57.3%	56.0%	56.0%	56.0%
Finances					
Operating Revenue (\$000)	\$ 15,446	\$ 15,245	\$ 15,798	\$ 15,843	\$ 16,642
Fund Balance as a % of Revenues	11.4%	11.8%	10.7%	11.7%	17.8%
Cash Balance as a % of Revenues	11.5%	11.9%	12.6%	12.7%	13.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 8,870	\$ 8,885	\$ 8,675	\$ 8,200	\$ 7,830
Net Direct Debt / Operating Revenues (x)	0.6x	0.6x	0.5x	0.5x	0.5x
Net Direct Debt / Full Value (%)	1.9%	1.8%	1.6%	1.6%	1.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	3.1x	3.3x	3.5x	3.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	9.7%	9.6%	10.6%	9.9%

Operating Revenue, Fund Balance, and Cash Balance are General & Debt Service Funds combined

Source: West Las Vegas MSD 1, NM; Moody's Investors Service

Detailed Rating Considerations - Enhanced

Moody's has assigned a Aa1 enhanced rating to the Series 2016 General Obligation School Building Bonds, equivalent to the NMSDEP-Post March 30, 2007 programmatic rating. Ratings on individual intercept financings are based on the programmatic rating as well as the evaluation of additional rating factors. These factors include the sufficiency of interceptable revenues as determined by specific coverage tests, the timing of the state's fiscal year as it relates to scheduled debt service payment dates, and the transaction structure.

Based on the district's state equalization guarantee (SEG) funds for fiscal year 2015, interceptable state-aid provides a satisfactory 4.1 times coverage of maximum periodic debt service. Further, state revenues provide an adequate 3.8 times maximum periodic debt service coverage when SEG funds are stressed by deducting the state's final monthly state aid payment within a fiscal year. State-aid funding levels for New Mexico school districts have been stable in recent years, but have been cut mid-year to address fiscal stress at the state level within the last decade. However, this weakness is somewhat mitigated by a continued level of ample debt service coverage as previously discussed. The program requires the appointment of a third-party fiscal agent, who is required to notify the state if an intercept of SEG is required. The Bank of Albuquerque is the fiscal agent for the current sale.

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.

Detailed Rating Considerations - Underlying

Economy and Tax Base: Modestly-Sized Base Expected to Remain Stable

Moody's expects the district's tax base to remain stable over the medium-term. Located 70 miles northeast of the [City of Santa Fe](#) (Aa3 stable), the district serves the City of Las Vegas and surrounding community. The tax base is modestly-sized, with a fiscal 2016 full value of \$558 million, derived from an assessed value of \$186 million. Five year average annual growth is 3.9%, reflective of a stable economic base. The district expects assessed values to expand modestly in the near-term, driven by positive reappraisals of existing property and recent commercial development, including new restaurants, art galleries and light retail. Top ten taxpayers comprise a modest 11.5% of the fiscal 2016 assessed value, and are diverse in industry.

The district's socioeconomic profile is below average. Median family income, as reported by the 2013 US Census, is 56% of US, which is in-line with similarly-rated credits. The unemployment level of San Miguel County of 6.4% is slightly higher than the state (5.8%) and the nation (4.7%) during the same time period. Top ten taxpayers comprise a modest 11.5% of fiscal 2016 AV, and are diverse in industry.

After over a decade of annual enrollment declines, fiscal 2016 enrollment increased by 2.6% to reach 1,476. Despite the increase, the five year average annual decline was roughly 2% and is attributable to slow economic recovery, with families moving elsewhere for jobs, and charter school competition. The district is focused on recruiting and retaining new students by offering innovative programs and initiatives. Officials expect enrollment to remain at 1,500 students over the medium-term.

Financial Operations and Reserves: Reserve Levels Expected to Remain Narrow

The district will continue to operate with narrow reserves in comparison to national peers for the foreseeable future given management's target to maintain 5% of the budget. Financial reserves became extremely narrow after a two consecutive operating deficits in fiscal 2013 and 2014, which led to a total General Fund balance of \$225,000, or 1.6% of revenues. Positive fiscal 2015 operations generated a sizable \$968,000 surplus, which afforded the district with a more satisfactory reserve cushion of \$1.2 million or 8% of revenues. Management attributes the surplus to savings realized from combining classrooms, eliminating unnecessary programs and reduction in force through attrition. The district relies heavily on state aid, which accounted for over 95% of all General Fund revenues in fiscal 2015. Instructional and support costs account for the bulk of expenditures, representing roughly 75% in total. Inclusive of the district's Debt Service Fund, total reserve equaled roughly \$3 million, or an adequate 18% of total operating revenues.

Fiscal 2016's budget included \$1.1 million in reserves, as a typical budgeting practice of New Mexico school districts, but officials report this declined to roughly \$400,000 based on preliminary results for the year ended June 30. If realized, the total General Fund balance will decline to roughly \$800,000 or a narrowed 5.7% of anticipated revenues, which is near management's fund balance target of roughly \$750,000 or approximately 5% of revenues. Management anticipates balanced operations in fiscal 2017 and maintenance of current reserves after additional expenditure controls and savings through attrition. Moody's notes that this desired reserve level is limited compared to A3 peers and future credit reviews will focus on the district's ability to maintain, and ideally, surpass, fund balance targets. Given the limited nature of the district's reserves, any variation from unaudited results or further draws on reserves could place downward pressure on the rating.

LIQUIDITY

The district's General Fund cash position remained a very narrow 2.8% of revenues at fiscal year-end 2015. The significant difference between the General Fund liquidity and total balance was due to accounts receivables in the form of federal grants, which were entirely collected in the beginning of fiscal 2016. Inclusive of the Debt Service Fund, total liquidity equaled \$2.2 million, or 13.2% of total revenues. Liquidity levels are expected to decline given the anticipated deficit in fiscal 2016 and remain narrow given management's target reserve level.

Debt and Pensions: Manageable Debt Burden but Elevated Pension Burden

The district's debt burden will remain manageable, despite planned issuances in the near-term. The current debt burden is 1.5% of fiscal 2016 full value, which is in-line with state and national medians. The current issuance will exhaust all outstanding general obligation debt authorization. In 2017, the district plans to approach voters in hopes of authorizing \$9.5 million in general obligation bonds. Based on management's five-year capital improvement plan, the district requires \$35.1 million to address needs. However, in the past, the

district has received matching funds from the state for qualified projects. Of note, the district's two mill levy (SB9) for capital outlay expires in 2019. The district plans to seek reauthorization at that time.

DEBT STRUCTURE

Total debt outstanding, inclusive of the new issuance, is \$8.1 million in fixed-rate general obligation bonds. Ten year principal payout is rapid at 90%. All debt matures in fiscal 2029.

DEBT-RELATED DERIVATIVES

The district has no derivatives, swaps or variable-rate debt.

PENSIONS AND OPEB

The district has an above-average employee pension burden, based on unfunded liabilities for its share of the Educational Retirement Board (ERB), a cost sharing plan administered by the state. Moody's fiscal 2015 adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is \$51.6 million, or an elevated 3.1 times operating revenues. The three year average of the district's ANPL to operating revenues is 3.15 times, while the three-year average of ANPL to equalized value is very high at 9.9%. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities.

The New Mexico pension plan funding structure experienced several changes with the signing of SB 115, including the reduction of a cost-of-living adjustment (COLA) and increases in employee contributions. The legislation will maintain the funding changes until the plan has reached 100% funding, which is estimated to be achieved in 2043. We believe the funding changes adopted in SB 115 will limit budgetary pressure on the district related to future pension costs.

For more information on Moody's insights on employee pensions and the related credit impact on companies, government, and other entities across the globe, please visit Moody's on Pensions at www.moodys.com/pensions.

Management and Governance

The district is governed by a five-member board of trustees. The board performs policy-making and supervisory functions and delegates administrative responsibilities to the superintendent of schools, who is the chief administrative officer of the district.

New Mexico school districts have an institutional framework score of "A," or moderate. Districts have a low ability to raise revenues because state aid provides over 95% of funding, and property taxes are subject to a small 0.5 mill cap. State aid is moderately predictable given a recent trend of increased funding and a history of funding cuts over the past decade. Expenditures, which are primarily comprised of personnel and facility costs, are moderately predictable given flat student enrollment levels. Districts have a moderate ability to reduce expenditures given above average fixed costs.

Legal Security

The bonds are secured by ad valorem taxes that are levied against all taxable property within the district without limitation as to the rate or amount.

Use of Proceeds

Proceeds of the Series 2016 bonds will be used for facility renovation and safety and security needs.

Obligor Profile

Serving the City of Las Vegas and surround area within San Miguel County, the district manages 11 schools and provides K-12 education services to approximately 1,500 students.

Methodology

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

West Las Vegas Municipal School Dist. 1, NM

Issue	Rating
General Obligation School Building Bonds, Series 2016	A3
Rating Type	Underlying LT
Sale Amount	\$1,700,000
Expected Sale Date	07/21/2016
Rating Description	General Obligation
General Obligation School Building Bonds, Series 2016	Aa1
Rating Type	Enhanced LT
Sale Amount	\$1,700,000
Expected Sale Date	07/21/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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