

## CREDIT OPINION

7 September 2016

### New Issue

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## Ruidoso Municipal School District 3 (Lincoln County), NM

New Issue - Moody's Assigns A1 to Ruidoso MSD, NM's \$9.5M in GOULT, Ser. 2016

### Summary Rating Rationale

Moody's Investors Service has assigned an A1 underlying rating to Ruidoso Municipal School District 3 (Lincoln County), NM's \$9.5 million General Obligation School Building Bonds, Series 2016. Moody's maintains an A1 rating on \$25.2 million in outstanding parity debt. 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 A1 rating is based on the district's strong financial performance despite steady enrollment declines over the last ten years; moderately-sized tax base, which is slowly diversifying, but remains dependent on tourism; manageable debt burden with rapid principal payout; and, elevated pension position.

The Aa1 enhanced rating on the Series 2016 General Obligation School Building 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

- » Consistent assessed value expansion
- » Improved General Fund balance and cash reserves

### Credit Challenges

- » Trend of enrollment declines

### Rating Outlook

Moody's generally does not assign outlooks to local government credits with this amount of debt outstanding.

### Factors that Could Lead to an Upgrade

- » Trend of surplus operations
- » Enrollment stabilization
- » Significant expansion of the tax base; diversification of the local economy

## Factors that Could Lead to a Downgrade

- » Deficit spending reducing fund balance
- » Further enrollment declines without corresponding expenditure management
- » Significant tax base loss

## Key Indicators

Exhibit 1

<b>Ruidoso Municipal S.D. 3 (Lincoln County), NM</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 1,765,258	\$ 1,785,262	\$ 1,865,088	\$ 1,930,289	\$ 1,964,103
Full Value Per Capita	\$ 131,530	\$ 129,423	\$ 134,868	\$ 139,583	\$ 142,028
Median Family Income (% of US Median)	85.5%	83.1%	77.0%	77.0%	77.0%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 19,361	\$ 19,751	\$ 19,642	\$ 19,538	\$ 20,526
Fund Balance as a % of Revenues	26.4%	23.8%	25.6%	28.5%	35.9%
Cash Balance as a % of Revenues	26.8%	26.1%	26.4%	28.1%	33.3%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 26,390	\$ 33,100	\$ 36,000	\$ 33,890	\$ 31,065
Net Direct Debt / Operating Revenues (x)	1.4x	1.7x	1.8x	1.7x	1.5x
Net Direct Debt / Full Value (%)	1.5%	1.9%	1.9%	1.8%	1.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	2.5x	2.7x	2.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	2.7%	2.7%	2.5%

Source: District's audits; Moody's Investors Service

## Detailed Rating Considerations - Enhanced

Moody's has assigned an enhanced rating of Aa1 to the Series 2016 General Obligation School Building Bonds, equivalent to the NMSDEP-Post March 30, 2007 programmatic rating. Ratings on individual intercept financings depend on the programmatic rating as well as our evaluation of the sufficiency of interceptable revenues, the timing of the state's fiscal year relative 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 an ample minimum of 3.68 times coverage of maximum periodic debt service. Further, state revenues provide an adequate minimum 3.37 times maximum periodic debt service coverage when coverage is 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 subject to midyear cuts to address fiscal stress at the state level within the last decade. This weakness, however, is mitigated by ample debt service coverage even if aid is curtailed over the course of the year. Principal payments are scheduled for August, early in the State's fiscal year, providing for a narrow interval to mitigate the risk of late budgets. 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.

## Detailed Rating Considerations - Underlying

### Economy and Tax Base: Stable Tax Base Located in Southern New Mexico

Ruidoso MSD's tax base will likely remain stable over the mid-term given modest commercial development and appreciation of residential values. Located in Southern New Mexico in the Lincoln National Forest, the district is 75 miles west of Roswell (Aa2). The

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](http://www.moody's.com) for the most updated credit rating action information and rating history.

tax base is moderately-sized with fiscal 2016 assessed value (AV) of \$665 million, derived from a full value (FV) of \$2.0 billion. Fiscal 2017 preliminary values indicate further expansion to \$675.8 million, derived from a FV of \$2.3 billion. The district's tax base did not contract during the Great Recession or thereafter, a credit positive, which is reflected in five year average annual growth of 2.5%. The district's tax base is not concentrated in minerals or major taxpayers. Median family income is below average at 77% of US (2013 American Community Survey).

The local economy is based on tourism. During peak winter and summer seasons, the Village's population swells to 25,000 from the usual 8,000. Visitors are offered a wide range of activities, including skiing, zip-lining, golfing and gambling at both casinos and racetracks. Outside of the tourism industry, development is ongoing with recent additions including an Albertsons Market and a 16-bed nursing facility. The County is considering investing upwards of \$25 million in the hospital, which serves Ruidoso and surrounding communities.

The district's enrollment has declined since fiscal 2006; however, this trend has not impacted the district's finances, a credit positive. Fiscal 2016 enrollment was 1,962, a decline of 80 students compared to 2,042 in fiscal 2015. Management attributes the consistent declines to families moving outside the district in pursuit of employment opportunities in Eddy and Chaves Counties. In an effort to retain and attract students, the district has engaged in a marketing campaign stressing Ruidoso MSD's programming and athletic options. The fiscal 2017 budget assumed flat enrollment; as of August 24, 2016, enrollment was up slightly to 1,971.

#### **Financial Operations and Reserves: Improving Financial Position; Surplus Expected for Fiscal 2016**

The district's financial position will likely remain stable over the near-term given conservative budgeting and management's focus on improving reserve levels. Fiscal 2015 ended with a \$1.7 million surplus, increasing General Fund balance to \$3.7 million, or 22.5% of revenues. Officials closely monitor student to teacher ratios, and realized savings from holding positions vacant and attrition. State aid makes up the bulk of the district's revenues at 94.5% in fiscal 2015.

Fiscal 2016 unaudited results indicate another surplus of \$282,000. Management attributes the surplus to conservative budgeting practices. The fiscal 2017 adopted budget reflects use of \$4.0 million in cash reserves; however, officials expect to avoid drawing down fund balance. Of note, the State Legislature is holding a special session in September to discuss state funding. The governor has indicated that she has no intention of making mid-year cuts to public schools. While Ruidoso MSD's fund balance has improved over the past five years, it remains somewhat nominal in amount compared to peers, and susceptible to fluctuations in state aid. Future reviews will focus on management's ability to maintain a trend of surplus operations, resulting in an increased fund balance position.

#### **LIQUIDITY**

At fiscal 2015 year-end, the district reported \$3.2 million in General Fund cash, or a much-improved 18.9% of revenues.

#### **Debt and Pensions: Manageable Debt Burden with Plans to Issue in the Near-term; Elevated Pension Liability**

Despite planned issuances, the district's debt burden will likely remain manageable over the mid-term given rapid principal amortization. At 1.7% of fiscal 2016 FV, the district's debt burden is in line with similarly rated credits. All debt other than the current issue amortizes over the next ten years. Management anticipates further borrowing in 2017 and 2018, which would exhaust remaining authorization from the 2016 election. Officials will seek renewal of their two mill (SB9) levy in February 2019.

#### **DEBT STRUCTURE**

Post-sale, the district will have \$34.7 million in fixed-rate, general obligation bonds outstanding. The final maturity of the series 2016 bonds is in 2031.

#### **DEBT-RELATED DERIVATIVES**

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

#### **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 \$47.9 million, or an elevated 2.33 times operating revenues. The three-year average of the district's ANPL to operating revenues is 2.37 times, while the three-year average of ANPL to equalized value is above average at 2.48%. 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.moody's.com/pensions](http://www.moody's.com/pensions).

### Management and Governance

The district's policy making and supervisory functions are the responsibility of and are vested in a five-member Board of Education. The Board delegates administrative responsibilities to the Superintendent of Schools. District management has demonstrated the ability to operate the district with narrow reserve levels over the last several years and has made prompt expenditure adjustments in response to state aid reductions.

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 predicable 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 the district's full faith and credit and are general obligations of the district payable from ad valorem taxes to be levied against all taxable property within the district without limitation as to rate or amount.

### Use of Proceeds

Proceeds of the Series 2016 bonds will be used to relocate the Nob Hill Early Childhood Center.

### Obligor Profile

Ruidoso Municipal School District No. 3 serves the community of Ruidoso and the surrounding areas. The district is entirely located in Lincoln County and serves approximately 2,000 students.

### Methodology

The principal methodology used in the underlying 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.moody's.com](http://www.moody's.com) for a copy of these methodologies.

## Ratings

Exhibit 2

### Ruidoso Municipal S.D. 3 (Lincoln County), NM

Issue	Rating
General Obligation School Building Bonds - Series 2016 (GOULT)	A1
Rating Type	Underlying LT
Sale Amount	\$9,500,000
Expected Sale Date	09/13/2016
Rating Description	General Obligation
General Obligation School Building Bonds - Series 2016 (GOULT)	Aa1
Rating Type	Enhanced LT
Sale Amount	\$9,500,000
Expected Sale Date	09/13/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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