

CREDIT OPINION

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New Issue

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Contacts

Heather Correia 214-979-6868
Associate Analyst
 heather.correia@moodys.com

William Oh 415-274-1739
AVP-Analyst
 william.oh@moodys.com

Ruidoso Municipal School District 3 (Lincoln County), NM

New Issue - Moody's Assigns A1 to Ruidoso MSD, NM's \$5.8M in GOULT, Ser. 2017A

Summary Rating Rationale

Moody's Investors Service has assigned an A1 underlying rating to Ruidoso Municipal School District 3 (Lincoln County), NM's \$5.8 million General Obligation School Building Bonds, Series 2017A. Moody's maintains an A1 rating on \$34.7 million in outstanding parity debt. Moody's has also assigned a Aa2 enhanced rating to the Series 2017A 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 Aa2 enhanced rating on the Series 2017A 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

- » Historic trend of enrollment declines
- » Local economy dependent on tourism

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; ability to manage current and potential future state cuts without material use of reserves

- » 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 contractions

Key Indicators

Exhibit 1

Ruidoso Municipal S.D. 3 (Lincoln County), NM	2011	2012	2013	2014	2015
Economy/Tax Base					
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%
Finances					
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%
Debt/Pensions					
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%

Fiscal 2016 and fiscal 2017 full values are \$1.997B and \$2.033B, respectively

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

Detailed Rating Considerations - Enhanced

Moody's has assigned an enhanced rating of Aa2 to the General Obligation School Building Bonds, Series 2017A 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 2016 (unaudited), interceptable state-aid provides an ample minimum of 3.51 times coverage of maximum periodic debt service. Further, state revenues provide an adequate minimum 3.22 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, as observed most recently in fiscal 2017. 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 an average 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.

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: 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 tax base is moderately-sized with fiscal 2017 assessed value (AV) of \$676.9 million, derived from a full value (FV) of \$2.0 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 investing upwards of \$25 million in the hospital, which serves Ruidoso and surrounding communities.

Fiscal 2016 enrollment was 1,962, a decline of 80 students compared to 2042 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 the 80th day county, enrollment was up slightly to 1,996. The district's enrollment has declined since fiscal 2006; however, this trend has not impacted the district's finances, a credit positive.

Financial Operations and Reserves: Improving Financial Position

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 2016 unaudited results indicate a surplus of \$928,000, increasing General Fund balance to \$4.7 million, or 28.8% of unaudited revenues. Management attributes the increase in reserves to conservative budgeting.

The fiscal 2017 budget was balanced with use of reserves; however, in reality, the district expected to benefit from conservative assumptions, and realize a positive year. The Legislature, in a Special Session, elected to cut state aid by 1.5% and reduce categorical funding by \$17.5 million. Specific to Ruidoso, this translates to a total reduction of approximately \$350,000. Assuming this amount is fully absorbed with reserves, General Fund balance would decline to approximately \$4.3 million, or a still-adequate 26.7% of fiscal 2016 unaudited revenues. Officials are hopeful these mid-year cuts will not negatively impact reserves, and are instead focused on aggressive expenditure management, including: deferred capital maintenance and hiring freezes. Future reviews will focus on management's ability to weather ongoing uncertainty surrounding state funding.

LIQUIDITY

At fiscal 2015 year-end, the district reported \$3.2 million in General Fund cash, or 18.9% of revenues. Operating cash, including the General Fund and Debt Service Fund, is \$6.8 million, or 33.3% of revenues. Unaudited fiscal 2016 results indicate General Fund cash increased to \$5.0 million, or 30.6% of unaudited revenues.

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

The debt burden will likely remain manageable over the mid-term given rapid principal amortization and ongoing tax base expansion. At 2.0% of fiscal 2017 FV, the district's debt burden is in line with similarly rated credits; however, the district is essentially at the state's constitutionally-allowed limit. Further tax base growth, coupled with rapid principal amortization, is expected to provide additional bonding capacity moving forward. Post-sale, the district will have \$2.7 million remaining of the February 2016 authorization. Officials plan to issue in late 2017.

DEBT STRUCTURE

Post-sale, the district will have \$40.5 million in fixed-rate, general obligation bonds outstanding. Ten year principal amortization is 77.2%. All debt is retired by 2032.

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 \$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 full value is high at 2.48%.

The district's ANPL has fluctuated over the last several years. In fiscal 2015, pension contributions of \$1.3 million were below Moody's "tread water" value of \$1.7 million, a credit negative. This calculation is not yet available for fiscal 2016. The "tread water" indicator measures the annual contributions required to prevent the reported net pension liability from increasing, under reported assumptions. The district's fixed costs, including debt service, pensions contributions and OPEB contributions, totaled an elevated 25.4% of operating revenues, further limiting the district's financial flexibility.

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.

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. 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.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 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 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 2017A bonds will be used for expenses associated with the relocation of 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 rating was US Local Government General Obligation Debt published in December 2016. 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 Rating Methodologies page on www.moody.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 2017A	A1
Rating Type	Underlying LT
Sale Amount	\$5,800,000
Expected Sale Date	01/09/2017
Rating Description	General Obligation
General Obligation School Building Bonds, Series 2017A	Aa2
Rating Type	Enhanced LT
Sale Amount	\$5,800,000
Expected Sale Date	01/09/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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