MOODY'S
INVESTORS SERVICE

New Issue: Moody's upgrades to A1 Gadsden ISD No. 16, NM's GO Bonds

Global Credit Research - 08 Sep 2015

Assigns A1 underlying and Aa1 enhanced to Series 2015 GO Bonds

GADSDEN INDEPENDENT SCHOOL DISTRICT 16, NM
Public K-12 School Districts
NM

Moody's Rating

ISSUE	UNDERLYING RATING	RATING
General Obligation School Building Bonds, Series 2015	A1	Aa1

Sale Amount	$9,500,000
Expected Sale Date	09/14/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, September 08, 2015 --Moody's Investors Service has assigned an underlying rating of A1 to Gadsden Independent School District No. 16, NM's upcoming sale of $9.5 million General Obligation School Building Bonds, Series 2015. Concurrently, Moody's has upgraded to A1 from A2 the rating on $28.7 million outstanding parity debt. Included in the district's debt profile is $9.7 million not rated by Moody's. We have also assigned an Aa1 enhanced rating to the current sale based on the New Mexico School District Enhancement Program Post-March 30, 2007.

SUMMARY RATING RATIONALE - UNDERLYING

The upgrade to A1 is based on a trend of surplus operations, resulting in a healthy financial position. The district's economy is diverse, benefiting recently from commercial and industrial development along the US-Mexico border. The rating further incorporates the district's manageable debt burden, weak socioeconomic profile and elevated pension position.

SUMMARY RATING RATIONALE - ENHANCED

Assignment of the Aa1 enhanced rating to the Series 2015 General Obligation School Building Bonds is based on our assessment of the Post March 30, 2007 New Mexico School District Enhancement (NMSDE) Program and a review of the district's proposed financing.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

- Maintenance of positive operations, increasing reserves and fund balance

- Continued expansion of the tax base with corresponding increase in wealth levels

- Enrollment growth

WHAT COULD MAKE THE RATING GO DOWN

- Significant loss of reserves

- Tax base contraction

- Further declines in enrollment without corresponding expenditure management

- Significant increase in debt burden

STRENGTHS

- Strong management team committed to increasing reserve position

- Local economy benefiting from commercial and industrial development along border

- Manageable debt burden with rapid principal payout

CHALLENGES

- Weak socioeconomic profile

- Modest declines in enrollment

- Elevated pension burden

DETAILED RATING RATIONALE - ENHANCED RATING

The NMSDE Post-March 30, 2007 program demonstrates generally average to strong state commitment and program history as defined by the first factor of the intercept methodology published July 2013. The funds available for intercept are the current fiscal year's undistributed state aid (state equalization guarantee distribution, or SEG) to a school district. State oversight of the program is strong as school district budgets must be reviewed and approved by the New Mexico Public Education Department (PED). Upon issuance of general obligation bonds, a school district must file a copy of the bond resolution, offering documents, and paying agent agreements as well as contact information with the New Mexico Department of Finance and Administration (DFA). The state's oversight is further reflected in the NMSDE Post-March 30, 2007 authorizing legislation requirement that, if a debt service payment is made on behalf of a school district, the DFA will initiate an audit of the school district and assist in implementing measures to ensure that future payments will be made on a timely basis. Per authorizing statute, the state covenants that it will not repeal, revoke or rescind the provisions of the intercept statute or modify or amend it so as to limit or impair the rights and remedies granted by the statute, though modifications to the amount and timing of state aid payments would be permitted. The expectation of continued state support is strong as the intercept program benefits school capital financings, an essential public purpose. Though the program has never been utilized, the state has demonstrated strong commitment to school capital financings and the intercept program's mechanics should result in full and timely payment of debt service, if the program were to be invoked.

For additional information on the program, please see Moody's report on the New Mexico School District Enhancement Program Post-March 30, 2007 dated May 4, 2008.

FINANCING LEVEL ENHANCED RATING RATIONALE

While Moody's has assigned a programmatic rating of Aa1 with a stable outlook to the NMSDE Post-March 30, 2007 program, rating actions on specific credits that benefit from the intercept program depend on the evaluation of each according to the additional rating factors for individual intercept financings, including 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 transaction structure, which will consider the role of the independent fiduciary and reserve fund.

Based on SEG for state fiscal year 2014, interceptable revenues from the state for Gadsden Independent School District No. 16 (NM) provide an adequate minimum of 8.72 times coverage of maximum periodic debt service. Further, state revenues provide a satisfactory minimum 8.00 times maximum annual debt service coverage when coverage is calculated without the benefit of the state's final monthly state aid payment within a fiscal year. This calculation serves as a stress test to evaluate the sufficiency of interceptable aid even if the state were to delay the final state aid payment within a fiscal year. The stability of state aid is rated as weak given recent mid-year cuts in state aid to address fiscal stress at the state level. However, this weakness is somewhat mitigated by a

continued level of ample debt service coverage as previously discussed. The fact that SEG can be accelerated to make debt service payments, if necessary, is considered a strong credit factor. The fact that principal payments are scheduled to be paid in August, early in the State's fiscal year, is considered to be average.

In terms of the transaction structure, the program requires the appointment of a third-party fiscal agent, which is the Bank of Albuquerque for the current sale. The fiscal agent is required to notify the state if an intercept of SEG is required. While there is no debt service reserve fund, such a fund is not typically utilized to support intercept financings supporting school districts.

Based on factors discussed above, Moody's has assigned an enhanced rating to the Series 2015 General Obligation Bonds that is equivalent to the programmatic rating of Aa1.

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE - UNDERLYING RATING

ECONOMY AND TAX BASE: EXPANSION EXPECTED TO CONTINUE ALONG THE BORDER

Moody's expects the district's tax base to remain stable despite moderate concentration in top ten taxpayers. The district is located 15 miles northwest of El Paso and 40 miles south of Las Cruces (Aa2), encompassing over 1,300 square miles in the southern Rio Grande River Valley. The local economy is supported by agriculture and tourism, and benefits from proximity to Fort Bliss and White Sands Missile Range. Recent commercial and industrial development along the US-Mexico border is pronounced, and is expected to generate approximately 4,000 jobs over the medium-term. Union Pacific Railroad's "inland port" is in operation, and the intermodal component, a large refueling station, will provide about 600 permanent jobs. Three new industrial parks-Santa Teresa, Bi-National and Sundland Park-house a diverse collection of companies, which produce tiles, wire harnesses and foam and plastic products. The district's assessed value will remain largely unaffected by the industrial development; however, the parks provide stability to the local economy, and the additional jobs generated have potential to bring new families to the area, a direct benefit for the district.

The district's tax base is stable, with five year average annual growth of 4%. Fiscal 2015 assessed value (AV) is reported at $2.8 billion, an increase of 4% compared to fiscal 2014. Officials attribute recent expansion to ongoing residential development, particularly in the Chaparral area. Additionally, officials report high-end homes (average sales price of $190,000) are being built in Santa Teresa to accommodate retirees from El Paso. Given historical trends and new construction, Moody's expects the tax base to expand modestly in the near-term.

Recent commercial and residential development is somewhat tempered by the district's weak socioeconomic profile. Median family income, as reported by the 2010 American Community Survey, is 44.8% of US, which is below medians for similarly-rated credits. Unemployment levels are elevated at 8.2% compared to the state's 7.2% and nation's 5.5% as of June 2015. Top ten taxpayers comprise a moderate 20.9% of fiscal 2015 AV, which is above average. However, Moody's notes that the taxpayers are stable and diverse in industry.

Enrollment is expected to stabilize in fiscal 2016 after several periods of modest decline. Since fiscal 2012, the enrollment has experienced 2.6% loss in total, with fiscal 2015 head count reported at 13,581. Enrollment declines are attributed to law enforcement's focus on illegal immigrants, which caused families to leave the district, and withdraw their children from school. Fiscal 2016 enrollment is projected to be 13,583. Charter school competition is nominal, with only one within district boundaries, educating 55 students.

FINANCIAL OPERATIONS AND RESERVES: FINANCES REMAIN STABLE

We expect the district's financial position to remain stable given conservative budgeting practices, and a marked willingness to increase reserves and fund balance. Fiscal 2014 ended with a surplus of $3.6 million, increasing total General Fund balance to $23.2 million, or 22.4% of revenues. The district relies heavily on state aid, which comprised 98.7% of all General Fund revenues in fiscal 2014. Instructional costs, which saw a slight increase in fiscal 2014, account for 81.5% of fiscal 2014 expenditures.

For fiscal 2015, the district expects to report another surplus of $3 million, increasing General Fund balance to $26.2 million, or 24.5% of budgeted revenues. Fiscal 2016 is balanced, and includes a 1% salary increase.

Liquidity

The district has rebuilt its cash position from $733,000, or 0.7% of revenues, in fiscal 2009 to $23.4 million, or 22.4% of revenues, in fiscal 2014, a credit positive. The trend continues into fiscal 2015, with preliminary numbers reported at $25.2 million. Moody's notes there is no additional liquidity outside the General Fund available for general purpose.

DEBT AND PENSIONS: MANAGEABLE DEBT BURDEN WITH PLANS TO ISSUE IN NEAR-TERM

We expect the district's debt burden to remain manageable, despite planned issuances in the near-term. The current debt burden is 1.7% of fiscal 2015 full value, which is above state and national medians. After this issuance, the district will have $19 million in authorized, unissued debt, with plans to issue $9.5 million in 2016 and another $9.5 million in 2017. The district anticipates approaching voters in February 2018 with hopes of authorizing a $37 million bond package. Of note, the district's two mill levy (SB9) expires in 2018. The district plans to seek renewal for another six-years. Historically, voters are very supportive of the district's ballot initiatives, with 92% in favor of the most recent bond (2014), and 80% in favor of the two mill levy (2012).

Debt Structure

Total debt outstanding, inclusive of the new issuance, is $47.9 million. The district's debt consists of $45.9 million fixed-rate general obligation bonds and $2 million education technology notes, which retire in one-year. The education technology notes will be financed through the state treasury, and proceeds will be used for technology equipment, software and hardware. Principal payout is rapid with 100% retired in ten years. All debt is retired by 2025.

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 2013 adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is $367,000, or an elevated 3.20 times operating revenues. The three-year average of the district's ANPL to operating revenues is 3.02 times, while the three-year average of ANPL to full value is high at 12.63%. 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

New Mexico school districts have an institutional framework score of "A" or moderate. School districts have a very low ability to raise revenues given that 95% or more of total revenues are received from the state and also operate under a small 0.5 mill operating cap. Revenues are derived from a Aaa-rated state, which have experienced cuts in the last decade and therefore are moderately stable. Expenditures are essentially instructional salaries, which can moderately be adjusted and are highly predicable given student enrollment levels. Roughly 20% of all expenditures consist of debt service and pensions contributions.

The district is committed to maintaining an emergency Reserve Operational Budget set-aside, with a minimum required balance of 5%, maximum allowed balance of 10% of operating expenditures. As of now, the fund has a balance of $5.8M, which is reflected in total General Fund balance.

KEY STATISTICS

- Full value, 2015: $2.8 billion

- Full value per capita, 2015: $44,123

- Median family income: 44.8% of U.S.

- Available fund balance, FY 2014: 28.73% of operating revenues

- 5-year change in fund balance: 24.47% of operating revenues

- Net cash, FY 2014: 29.07% of operating revenues

- 5-year change in net cash: 22.03% of operating revenues

- Institutional framework: A

- 5-year average of operating revenues / expenditures: 1.02x

- Net direct debt burden % of full value: 1.73%

- Net direct debt burden / operating revenues: 0.41x

- 3-year average Moody's adjusted net pension liability % of full value: 12.63%

- 3-year average Moody's adjusted net pension liability / operating revenues: 3.02x

OBLIGOR PROFILE

Serving Dona Ana and Otero counties, the district operates 23 schools and educates 13,500 students.

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 Series 2015 bonds will be used for renovation and maintenance of existing facilities, as well as roofing projects and security upgrades.

RATING 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 Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

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