New Issue: Moody's assigns A3 underlying/Aa1 enhanced to West Las Vegas MSD 1, NM's $1.5M GO Bonds, Series 2015

Global Credit Research - 04 Nov 2015

Affirms $3.4M in outstanding GOULT debt

WEST LAS VEGAS MUNICIPAL SCHOOL DISTRICT 1, NM
Public K-12 School Districts
NM

Moody's Rating

ISSUE	UNDERLYING RATING	RATING
General Obligation School Building Bonds Series 2015	A3	Aa1

Sale Amount	$1,500,000
Expected Sale Date	11/11/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, November 04, 2015 --Moody's Investors Service has assigned an underlying rating of A3 to West Las Vegas Municipal School District 1, NM's upcoming sale of $1.5 million General Obligation School Building Bonds, Series 2015. Concurrently, Moody's has affirmed the A3 rating on $3.4 million outstanding parity debt. The district has an additional $3.1M in outstanding debt not rated by Moody's.

Moody's has also assigned an Aa1 enhanced rating to the Series 2015 General Obligation School Building Bonds based on the New Mexico School District Enhancement Program (NMSDEP) - Post March 30, 2007.

SUMMARY RATING RATIONALE

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 very narrow reserve position, which is expected to improve in the near-term.

The Aa1 enhanced rating on the Series 2015 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.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

Trend of operating surplus, increasing reserves and fund balance

Significant tax base expansion and diversification coupled with improved socioeconomics

WHAT COULD MAKE THE RATING GO DOWN

Tax base contraction

Use of fund balance or cash reserves

Significant increase in debt burden

Unfavorable variation in Fiscal 2015 or fiscal 2016 results

STRENGTHS

Modestly-sized, stable tax base

Manageable debt burden with rapid principal amortization

CHALLENGES

Narrow reserve position in comparison to medians for rating category

Weak socioeconomic profile

Elevated pension burden

DETAILED RATING RATIONALE - ENHANCED RATING

Moody's has assigned an enhanced rating of Aa1 to the Series 2015 General Obligation School Building Bonds, equivalent to the NMSEP-Post March 30, 2007 programmatic rating. Ratings on individual intercept financings depend on 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 an ample minimum of 7.94 times coverage of maximum periodic debt service. Further, state revenues provide an adequate minimum 7.28 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 experienced mid-year cuts 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. Principal payments are scheduled for August, early in the State's fiscal year, and is considered an average interval that mitigates 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.

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE - UNDERLYING RATING

ECONOMY AND TAX BASE: TAX BASE RECOVERING FROM RECESSION

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 modest, with fiscal 2016 full value reported at $563 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 AV to expand modestly in the near-term, driven by positive reappraisals as residents remodel their homes and recent commercial development, including new restaurants, art galleries and light retail.

The district's socioeconomic profile is below average. Median family income, as reported by the 2010 US Census, is 56% of US, which is in-line with similarly-rated credits. Unemployment levels are elevated at 8.3% compared to the state's 7.1% and nation's 5.6% as of July 2015. Top ten taxpayers comprise a modest 11.5% of fiscal 2016 AV, and are diverse in industry.

Enrollment appears have stabilized after a period of declines. Since fiscal 2012, the district has lost 122 students, or 3.2% per year on average. Enrollment declines are attributed to slow economic recovery, with families moving elsewhere for jobs, and charter school competition. Fiscal 2016 enrollment is 1,476, and increase of 38 students compared to prior year. Aside from stabilization in the local economy, 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: RESERVES REMAIN NARROW; EXPECTED IMPROVEMENT IN FISCAL 2015

After a two modest deficits of $228,000 in fiscal 2013 and $66,000 in fiscal 2014, the district's General Fund position was extremely limited at $225,000, or 1.6% of revenues. The district relies heavily on state aid, which comprised 98.3% of all General Fund revenues in fiscal 2014. Instructional and support costs account for the bulk of expenditures, representing 70% in total.

For fiscal 2015, based on unaudited results, the district expects a surplus of $968,000, increasing General Fund balance to $1.2 million, or a still-limited, but much improved, 8% of unaudited revenues. Management attributes the surplus to savings realized from combining classrooms, eliminating unnecessary programs and reduction in force through attrition.

Fiscal 2016's balanced budget projects use of $1.1 million in reserves. This is a typical budgeting practice of New Mexico school districts; in reality, West Las Vegas anticipates ending the year with at least $550,000 in General Fund balance, or 4.1% of budgeted revenues. Management's fund balance target is to hold $750,000 in fund balance or approximately 5% of revenues; Moody's notes that this is very limited compared to A3 peers. Future credit reviews will focus on the district's ability to build to, and ideally, surpass, fund balance targets. Given the limited nature of the district's reserves, any variation in unaudited results or draws on reserves could place downward pressure on the rating.

Liquidity

The district's cash position remains narrow, with fiscal 2014 General Fund cash reported at $384,000, or 2.7% of revenues. This is a decline from the prior year's $612,000, or 4.3% of revenues. Fiscal 2014 operating cash, including both General Fund and Debt Service Fund, is $2 million, or 12.7% of revenues.

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 1.4% of fiscal 2016 full value, which is in-line with state and national medians. The district will issue the remaining authorized unissued debt of $1.7 million in 2016. In 2017, the district plans to approach voters in hopes of authorizing $9.5 million in GO 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) expires in 2019. The district plans to seek reauthorization at that time.

Debt Structure

Total debt outstanding, inclusive of the new issuance and post-refunding, is $8.0 million in fixed-rate general obligation bonds. Ten year principal payout is rapid at 98%. Average annual debt service is $686,000, with all debt matured by fiscal 2027.

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 2014 adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is $49.1 million, or an elevated 3.10 times operating revenues. The three-year average of the district's ANPL to operating revenues is 3.45 times, while the three-year average of ANPL to full value is high at 9.71%. 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 does not have a formal fund balance policy, although allocates 3% of their annual budget to an Emergency Reserve. Management is focused on rebuilding General Fund balance to $750,000, or 5.3% of fiscal 2014 revenues.

KEY STATISTICS

-Full value, 2016: $563 million

-Full value per capita, 2016: $57,954

-Median family income: 56.0% of U.S.

-Available fund balance, FY 2014: 11.67% of operating revenues

-5-year change in fund balance: 3.73% of operating revenues

-Net cash, FY 2014: 12.69% of operating revenues

-5-year change in net cash: 5.39% of operating revenues

-Institutional framework: A

-5-year average of operating revenues / expenditures: 1.01x

-Net direct debt burden % of full value: 1.42%

-Net direct debt burden / operating revenues: 0.51x

-3-year average Moody's adjusted net pension liability % of full value: 9.71%

-3-year average Moody's adjusted net pension liability / operating revenues: 3.45x

OBLIGOR PROFILE

Serving the City of Las Vegas, the district manages 11 schools and serves approximately 1,500 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 the Series 2015 bonds will be used for facility renovation and safety and security needs.

PRINCIPAL 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.

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