New Issue: Moody's downgrades to A2 from A1 Belen Consolidated School District 2's, NM, GO debt; negative outlook remains

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A2 assigned to $6.3 million in GOULT Refunding Bonds, Series 2015

BELEN CONSOLIDATED SCHOOL DISTRICT 2 (VALENCIA & SOCORRO COUNTIES), NM
Public K-12 School Districts
NM

Moody's Rating

ISSUE	UNDERLYING RATING	RATING
General Obligation Refunding Bonds, Series 2015	A2	Aa1

Sale Amount	$6,285,000
Expected Sale Date	11/11/15
Rating Description	General Obligation

Moody's Outlook NEG

NEW YORK, November 06, 2015 --Moody's Investors Service has assigned an underlying rating of A2 to Belen Consolidated School District 2 (Valencia & Socorro Counties), NM's upcoming sale of $6.3 million General Obligation Refunding Bonds, Series 2015. Concurrently, Moody's has downgraded to A2 from A1 the rating on $25.1 million outstanding parity debt. The outlook is negative.

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

SUMMARY RATING RATIONALE

The rating downgrade to A2 from A1 is based on the district's weakened financial position due sizeable deficits in fiscal 2013 and fiscal 2014, with another, slightly smaller, deficit anticipated for fiscal 2015. Additionally, the district has experienced a trend of enrollment loss since fiscal 2012. The A2 further incorporates the district's stable, moderately-sized tax base, below average socioeconomic profile, manageable debt burden with rapid principal amortization and elevated pension burden.

The Aa1 enhanced rating on the Series 2015 General Obligation Refunding 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

The negative outlook reflects the district's trend of ongoing imbalanced operations, reducing fund balance to a very narrow position. Management has been unable to curb expenditures in the reality of declining enrollment, relying on reserves to balance the budget. Moody's anticipates the district's reserve position to remain limited in the near-term, barring significant enrollment growth or aggressive expenditure management. Future reviews will incorporate management's ability to balance financial operations in the near term. Further draws on reserves would likely place downward pressure on the rating, as it would impact the district's already narrow financial reserve position.

WHAT COULD MAKE THE RATING GO UP

Further tax base expansion and diversification

Trends of surpluses, rebuilding fund balance and cash reserves

Enrollment stabilization and/or increases

WHAT COULD MAKE THE RATING GO DOWN

Tax base contraction

Inability to curb expenditure growth; further use of reserves

Further enrollment declines

STRENGTHS

Stable tax base

Manageable debt burden with rapid principal payout

CHALLENGES

Very narrow fund balance levels due to consecutive General Fund operating deficits

Declining enrollment

Weak socioeconomic profile

DETAILED RATING RATIONALE - ENHANCED RATING

Moody's has assigned an enhanced rating of Aa1 to the Series 2015 General Obligation Refunding 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 6.15 times coverage of maximum periodic debt service. Further, state revenues provide an adequate minimum 5.64 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; ENROLLMENT CONTINUES DECLINING

Moody's expects the district's tax base to remain stable over the medium-term. Located 35 miles south of the City of Albuquerque (Aa1 stable), the district serves the City of Belen and surrounding community. The tax base is moderately-sized, with fiscal 2016 full value reported at $1.8 billion, derived from an assessed value (AV) of $578 million. Five year average annual growth is 1.7% reflective of a stable economic base. The district expects AV to expand modestly by 1% to 2% in the near-term, driven by positive reappraisals as residents remodel their homes and recent commercial development, including three new businesses. Additionally, Public Service Company of New Mexico is constructing a natural gas power plant located south of Belen; officials are hopeful the plant will bring jobs to the community.

The district's socioeconomic profile is below average. Median family income, as reported by the 2010 US Census, is 67.9% of US, which is in-line with similarly-rated credits. Unemployment levels are elevated at 8.0% compared to the state's 7.1% and nation's 5.6% as of July 2015. Top ten taxpayers comprise a modest 18.3% of fiscal 2016 AV, with the majority being natural gas pipeline companies.

Enrollment has declined for five consecutive periods; officials believe that fiscal 2016 is the low, and future enrollment will stabilize at around 4,100 students. Since fiscal 2012, the district has lost 414 students, or 9.1% of total enrollment. Declines are attributed to slow economic recovery, with families moving elsewhere for jobs. The district does not have any charter schools within its boundaries. Fiscal 2016 enrollment is 4,112, a modest decline of 27 students compared to prior year. Sustained declines in enrollment has impacted the district's finances, with management resistant to reduce staff or cut programs despite falling enrollment. Future credit reviews will focus on the district's ability to manage fluctuations in student levels without resorting to use of fund balance.

FINANCIAL OPERATIONS AND RESERVES: RESERVES REMAIN NARROW; DEFICIT EXPECTED IN FISCAL 2015

After two sizeable operating deficits of $1.3 million in fiscal 2013 and $1.5 million in fiscal 2014, the district's General Fund position has declined to a narrow $1.6 million, or 5.0% of revenues. The spend downs are attributed to declining enrollment coupled with poor expenditure management. Despite a weak General Fund position, the overall operating trend is positive, driven by strong performance in the Debt Service Fund, with Operating Fund Balance of $9.9 million, or a healthy 27.6% of revenues. However, Debt Service Funds are restricted for future debt service requirements, and are unavailable to assist the General Fund during periods of stress.

Fiscal 2015 unaudited results report another deficit of $808,000, further reducing General Fund balance to $773,000, or a very narrow 2.1% of unaudited revenues, which is below that of similarly rated school districts.. Fund balance was spent on reoccurring expenditures, such as utility costs, as well as one-time expenditures, including IT software and HVAC units.

Management anticipates balancing fiscal 2016 budget without use of reserves. Rather than rely on General Fund balance for capital, the district will utilize its SB9 (2 mill) levy. Additionally, officials are monitoring the student to teacher ratio, hiring teachers on a short-term basis, providing the district flexibility to cut staff if necessary.

Despite potential balanced operations in fiscal 2016, a return to healthy liquidity within the General Fund is not anticipated. Without significant enrollment growth or expenditure management, Moody's does not expect the district's General Fund balance position to increase materially in the near-term. Future credit reviews will focus on the district's ability to report surpluses, thereby rebuilding fund balance to healthier levels. Given the limited nature of the district's reserves, any downward variation in unaudited results or draws on reserves could place further negative pressure on the rating.

Liquidity

The district's cash position is limited, with General Fund cash reported at $2.0 million, or 6.3% of revenues. This is a decline from the prior year's $2.2 million, or 7.0% of revenues. Fiscal 2014 operating cash, including both General Fund and Debt Service Fund, is $10.3 million, or 28.8% of revenues. Similar to fund balance, the Debt Service cash reserves are restricted, and unbillable to the district during financial challenge.

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 1.8% of fiscal 2016 full value, which is above average compared to state and national medians. The district currently does not have any authorized unissued debt. In 2016, the district plans to approach voters in hopes of authorizing $16 million in GO bonds. Current facilities are in need of renovation and repair, which the district will address with debt issuances over the medium-term. 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 2017. The district plans to seek reauthorization at that time.

Debt Structure

Post-refunding, total debt outstanding, is $31.4 million in fixed-rate general obligation bonds. Ten year principal payout is rapid at 87.6%. Average annual debt service is $3.1 million, 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 $107.5 million, or an elevated 2.99 times operating revenues. The three-year average of the district's ANPL to operating revenues is 3.22 times, while the three-year average of ANPL to full value is high at 6.61%. 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, but is focused on rebuilding General Fund balance to at least $2.5 million, or 7.9% of fiscal 2014 revenues. Of note, in July 2015, a new superintendent started at Belen, and is committed to meeting financial goals.

KEY STATISTICS

-Full value, 2016: $1.8 billion

-Full value per capita, 2016: $58,088

-Median family income: 67.9% of U.S.

-Available fund balance, FY 2014: 27.64% of operating revenues

-5-year change in fund balance: 10.26% of operating revenues

-Net cash, FY 2014: 28.75% of operating revenues

-5-year change in net cash: 11.91% of operating revenues

-Institutional framework: A

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

-Net direct debt burden % of full value: 1.79%

-Net direct debt burden / operating revenues: 0.87x

-3-year average Moody's adjusted net pension liability % of full value: 6.61%

-3-year average Moody's adjusted net pension liability / operating revenues: 3.22x

OBLIGOR PROFILE

The district encompasses 1,081 square miles in Valencia and Socorro counties, managing 11 schools that educate 4,100 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 to refund Series 2007 (maturities 2018 through 2022) without extension of maturity for net present value savings of $355,000.

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.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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