MOODY'S
INVESTORS SERVICE

CREDIT OPINION
29 August 2017

New Issue

Rate this Research

Contacts

Heather Guss 617-535-7693
Analyst
heather.guss@moodys.com

John Nichols 214-979-6851
AVP-Analyst
john.nichols@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Los Lunas School District 1, NM

New Issue - Moody's Assigns A1 UND/Aa2 ENH to Los Lunas SD 1's, NM GO Bonds

Summary Rating Rationale

Moody's Investors Service has assigned an A1 underlying rating to Los Lunas School District No. 1's, NM $7.5 million General Obligation School Bonds, Series 2017. Concurrently, Moody's has affirmed the A1 rating on the district's outstanding parity debt. Moody's has also assigned a Aa2 enhanced rating to the Series 2017 GO bonds based on the New Mexico School District Enhancement Program (NMSDEP) - Post March 30, 2007.

The A1 underlying rating reflects the district's moderately-sized and stable tax base with below average income levels, well-managed financial position with sound reserves, manageable debt burden, and elevated pension liability.

The Aa2 enhanced rating 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

» Moderately-sized tax base that continues to grow

» Improved reserves and liquidity

» Rapid principal amortization

Credit Challenges

» Below average income levels

» Anticipated draw on reserves for current fiscal year

Rating Outlook

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

Factors that Could Lead to an Upgrade

» Significantly Improved improved reserve position providing additional financial flexibility

» Trend of tax base and enrollment expansion

Factors that Could Lead to a Downgrade

» Trend of structural imbalance resulting in material reduction of financial reserves

» Substantial contraction of taxable values

Key Indicators

Exhibit 1

Los Lunas School District 1, NM	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 2,221,838	$ 2,261,913	$ 2,304,027	$ 2,377,237	$ 2,442,296
Full Value Per Capita	$ 45,486	$ 45,905	$ 46,759	$ 48,650	$ 49,982
Median Family Income (% of US Median)	86.4%	85.9%	85.9%	78.8%	78.8%
Finances					
Operating Revenue ($000)	$ 61,892	$ 61,428	$ 66,237	$ 72,599	$ 69,138
Fund Balance as a % of Revenues	11.8%	15.5%	19.1%	20.9%	27.4%
Cash Balance as a % of Revenues	13.0%	11.9%	17.2%	21.4%	29.3%
Debt/Pensions					
Net Direct Debt ($000)	$ 44,245	$ 45,700	$ 46,120	$ 47,315	$ 48,220
Net Direct Debt / Operating Revenues (x)	0.7x	0.7x	0.7x	0.7x	0.7x
Net Direct Debt / Full Value (%)	2.0%	2.0%	2.0%	2.0%	2.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	2.8x	3.1x	3.1x	2.7x	2.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	7.8%	8.4%	8.9%	8.2%	8.3%

As of June 30 fiscal year-end
Source: Moody's Investors Service; district's audited financial statements

Detailed Rating Considerations - Enhanced

Moody's has assigned an enhanced rating of Aa2 to the Series 2017 General Obligation School 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 2016, interceptable state-aid provides an ample minimum of 9.1 times coverage of maximum periodic debt service. Further, state revenues provide an adequate minimum 8.3 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 are subject to mid-year cuts, as observed most recently in fiscal 2017. This weakness, however, is mitigated by ample debt service coverage even in event aid is curtailed over the course of the year. Principal payments are scheduled for July 15, 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. BOKF, NA (Aa3) is the fiscal agent for the current sale.

Detailed Rating Considerations - Underlying

Economy and Tax Base: Tax base growth continues at modest pace

The district will continue to experience modest tax base growth as a result of new residential development as well as ongoing reappraisals. Located in the northern portion of Valencia County (A2) along Interstate Highway 25, the district is approximately 20 miles south of the City of Albuquerque (Aa1 stable) and serves the Village of Los Lunas, the Village of Bosque Farms, and unincorporated portions of the county.

Assessed value (AV) growth has historically been centered around residential development (accounts for roughly 75% of taxable values), which will continue over the near term given a modest amount of new homes being built (40 – 50). AV growth over the past five years has averaged 2.6% annually, a level we expect to continue over the near term. Fiscal 2017 AV increased 2.5% to $833.8 million, which was derived from a modestly-sized full valuation (FV) of $2.5 billion. Preliminary fiscal 2018 FV reflects a 2.9% increase to $2.6 billion. The tax base is not concentrated and the top 10 taxpayers account for just 6.4% of fiscal 2017 AV. The top taxpayers are stable and consist of a railroad, retail centers, as well as multiple utility companies.

Residential income levels are below the national median. Median family income, according to the 2015 American Community Survey estimates, is 78.8% of the US. County unemployment is elevated at 7.4% (June 2017) compared to the state (6.7%) and US (4.5%).

Enrollment has remained essentially flat over the last five years at around 8,300 (8,314 in fiscal 2017). Enrollment is up slightly in fiscal 2018 (by approximately 65 students), and management anticipates enrollment levels to remain stable for the foreseeable future, with some growth over the medium term as new residential developments come online. We expect management will continue to prudently monitor enrollment levels in order to maintain appropriate staffing levels and prevent financial strain.

Financial Operations and Reserves: Despite 2017 decline, reserves remain sound

The financial position improved in recent years, but a draw on reserves will occur in fiscal 2017 given mid-year state aid cuts. However, we expect the strong management team to continue to budget conservatively and prudently manage expenditures, ensuring maintenance of adequate reserve levels, despite continued funding pressures from the state.

Audited fiscal 2016 results reflect a $3.6 million General Fund surplus, which increased available fund balance to $12.3 million or 19.7% of revenues. This reflects a significant improvement over 2011 when reserves were very narrow at 0.9%. When including the Debt Service Fund, available operating fund balance increased to $20 million or 27.4% of combined revenues.

Fiscal 2017 General Fund balance is projected to decline by approximately $2.8 million, which is mostly due to two unexpected mid-year cuts in state aid, a consequence of the state's budgetary challenges. The district's state aid was cut $1.3 million in October 2016, and then the district was subject to an $800,000 cash balance sweep in January. The district elected to use cash on hand to offset the cuts and as a result, General Fund balance will decline to approximately $9.5 million, or roughly 15% of revenues, which still exceeds management's goal of at least 4-7%.

The fiscal 2018 budget was balanced with the use of $3.5 million of reserves, a typical practice of New Mexico school districts. The budget assumed state aid would decline by $930,000.

LIQUIDITY

Similar to fund balance, liquidity continues to improve and General Fund cash at fiscal 2016 year-end was $13.9 million or 22.3% of revenues. Fiscal 2011 General Fund cash was just $1.2 million (2.1%). When including the Debt Service Fund, 2016 total operating cash was $20.2 million or 29.3% of combined revenues.

Debt and Pensions: Manageable debt burden and very high pension liability

The debt burden will remain manageable given the rapid principal amortization and state statute debt limitations, which limits school district debt burdens to 2% of full valuation. The direct debt burden is 1.9% of fiscal 2017 AV, which is slightly above the median. When including debt from overlapping local governments, the district's overall debt burden is 2.2%. The current issue is the second series from a $25 million bond authorization that was approved by voters in February 2016 for upgrades and improvements at current facilities. Post-sale, the district will have $15.9 million of authorized unissued GO bonds, which will be issued in two equal tranches over the next two fiscal years. Annual capital projects are funded through the district's HB-33 and SB-9 levies (5 mills combined), which generate roughly $3.9 million annually.

DEBT STRUCTURE

Post-sale, the district will have $46.5 million in general obligation bonds outstanding. All debt is fixed rate and principal amortization is fast with 93.9% repaid within ten years. All bonds are retired by 2030. Debt service accounted for 9.7% of fiscal 2016 operating expenditures.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

The district has an elevated employee pension burden, based on unfunded liabilities for its share of the Educational Retirement Board (ERB), a cost sharing plan administered by the state. The district's three-year average adjusted net pension liability (ANPL), under our methodology for adjusting reported pension data, is $203 million, or an above average 2.9 times operating revenues and a very high 8.3% of full value. 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.

In fiscal 2016, the $5.6 million pension contribution was below Moody's "tread water" value of $8.1 million, a credit negative. The "tread water" indicator measures the annual contributions required to prevent the reported net pension liability from increasing, under reported assumptions.

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.

Total fixed costs for fiscal 2016, including debt service, required pension contributions and retiree healthcare payments, represented $12.7 million, or 19.5% of operating expenditures.

Management and Governance

The district is governed by a five member board, with members serving four-year terms. The board employs a superintendent of schools and delegates administrative and supervisory functions to the superintendent.

New Mexico School Districts have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue source, state aid or SEG, is subject to a cap, which cannot be overridden (in that, the State determines annual appropriations based primarily on student enrollment). Reliance on state funding limits revenue-raising ability; school districts do not collect property taxes for operation. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, New Mexico has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

Legal Security

The bonds are general obligations of the district paid from ad valorem taxes that are levied against all taxable property within the district without limitation as to rate or amount.

Use of Proceeds

Bond proceeds will be used for various upgrades and improvements to current facilities.

Obligor Profile

The district encompasses 770 square miles in Valencia County in the middle of the Rio Grande Valley of central New Mexico (Aa1 negative). The district provides K-12 education to approximately 8,300 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.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

Los Lunas School District 1, NM

Issue	Rating
General Obligation School Bonds, Series 2017	A1
Rating Type	Underlying LT
Sale Amount	$7,500,000
Expected Sale Date	09/12/2017
Rating Description	General Obligation
General Obligation School Bonds, Series 2017	Aa2
Rating Type	Enhanced LT
Sale Amount	$7,500,000
Expected Sale Date	09/12/2017
Rating Description	General Obligation

Source: Moody's Investors Service

REPORT NUMBER 1088813

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE