

**Rating Action: Moody's removes negative outlook from Las Cruces School District 2, NM; rating on GOs affirmed at Aa3**

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10 Sep 2018

New York, September 10, 2018 -- Moody's Investors Service has removed the negative outlook from Las Cruces School District 2 (Dona Ana County), New Mexico. Concurrently, we have affirmed the Aa3 underlying rating on the district's outstanding GO debt and assigned Aa3 underlying and Aa3 enhanced ratings to the district's \$12.3 million General Obligation School Bonds, Series 2018.

**RATINGS RATIONALE**

The Aa3 underlying rating is based on improvement in the district's financial position over the last several years, a sizeable surplus reported in fiscal 2018, and a modest spend down budgeted for fiscal 2019. The district's tax base remains large for the rating category, and is anchored by institutions of higher education and military installations. While the direct debt burden is manageable, the pension burden is elevated.

The Aa3 enhanced rating is based on our assessment of the New Mexico School District Intercept Program and a review of the district's proposed financing. Under the Program, the district must hire a paying agent, who will notify the Department of Finance and Administration (DFA) if they have not received the debt service payment one day before it is due. DFA can then intercept the current year's undistributed state aid. In the case of Las Cruces Schools, periodic maximum annual debt service (MADS) occurs in August, which is early in the school year, meaning there is a sizeable amount of revenues to intercept. Comparing fiscal 2017 state aid, which was \$180.4 million, to periodic MADS of \$16.6 million (inclusive of the current issuance), coverage is an ample 9.93 times. In order to qualify for the programmatic rating of Aa3, per our methodology, coverage must be at least sum sufficient. Funding levels for New Mexico school districts were stable in recent years, but have been subject to mid-year cuts, as experienced most recently in fiscal 2017. This weakness, however, is mitigated by the district's healthy debt service coverage. For additional information, please refer to the Moody's report published December 14, 2017.

**RATING OUTLOOK**

Removal of the negative outlook is based on a trend of balanced operations after a period of large deficits. We expect the district to continue to maintain stable, if limited, reserves due to conservative budgeting practices.

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, adding to fund balance and reserves
- Significant tax base expansion
- Material reductions to the pension and fixed cost burdens

**FACTORS THAT COULD LEAD TO A DOWNGRADE**

- Fiscal 2018 audited results that are not in line with reported performance;
- Operating deficits resulting in depletion of financial reserves
- Sustained tax base contractions
- Continued growth in unfunded pension liability

**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 from the Series 2018 bonds will be used for renovations of existing facilities and construction of a new annex.

#### PROFILE

The district is located in Dona Ana County in southern New Mexico, approximately 46 miles north of El Paso, Texas. The district provides primary and secondary education to approximately 24,000 students.

#### METHODOLOGY

The principal methodology used in the underlying ratings 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 published in December 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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