

CREDIT OPINION

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 Rate this Research

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Los Alamos Public School District, NM

Update to credit analysis

Summary

The credit profile of [Los Alamos Public School District \(PSD\), NM](#) (Aa2) is stable, supported by the district's moderately-sized tax base, anchored by Los Alamos National Laboratory (LANL), solid income indices, and manageable debt levels. The rating also reflects the district's weak general fund reserves, which are mitigated by healthy available liquidity in the lease facilities fund. The district leases several properties to the Lab, and receives rental income that is available for any purpose, and cannot be swept by the state. The rating further considers an elevated pension burden based on Los Alamos' proportionate share of EERS, a statewide, cost-sharing defined benefit plan.

Credit strengths

- » Stable tax base anchored by Los Alamos National Labs (a Department of Energy lab)
- » Receipt of lease rental revenues, providing revenue diversity and flexibility
- » Strong wealth indices

Credit challenges

- » Economic concentration impacted by federal funding and policy
- » Elevated pension burden and wide tread water gap

Rating outlook

The stable outlook reflects our expectation that the district will continue to maintain healthy operating reserves, driven, in large part, by ongoing receipt of rental revenues from LANL, which serve to diversify revenues and bolster the district's narrow general fund.

Factors that could lead to an upgrade

- » Significant increases to the district's reserves
- » Tax base expansion and additional diversification
- » Material reductions to the pension and fixed cost burdens

Factors that could lead to a downgrade

- » Trend of deficits that materially reduce reserves
- » Sustained tax base contraction

» Increases to the pension and fixed cost burdens that are not in line with peers

Key indicators

Exhibit 1

Los Alamos PSD, NM	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$2,080,429	\$2,003,898	\$2,048,309	\$2,078,454	\$2,144,347
Population	17,974	17,939	17,895	18,031	19,101
Full Value Per Capita	\$115,747	\$111,706	\$114,463	\$115,271	\$112,264
Median Family Income (% of US Median)	189.6%	187.3%	187.9%	188.5%	188.5%
Finances					
Operating Revenue (\$000)	\$42,486	\$45,090	\$42,259	\$42,439	\$44,641
Fund Balance (\$000)	\$15,209	\$14,076	\$15,304	\$16,106	\$17,143
Cash Balance (\$000)	\$16,564	\$16,188	\$16,038	\$17,166	\$18,185
Fund Balance as a % of Revenues	35.8%	31.2%	36.2%	38.0%	38.4%
Cash Balance as a % of Revenues	39.0%	35.9%	38.0%	40.4%	40.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$41,550	\$36,400	\$39,550	\$34,740	\$36,210
3-Year Average of Moody's ANPL (\$000)	\$120,103	\$118,792	\$122,584	\$137,696	\$149,980
Net Direct Debt / Full Value (%)	2.0%	1.8%	1.9%	1.7%	1.7%
Net Direct Debt / Operating Revenues (x)	1.0x	0.8x	0.9x	0.8x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	5.8%	5.9%	6.0%	6.6%	7.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	2.8x	2.6x	2.9x	3.2x	3.4x

Source: District's audits; Moody's; US Census (MFI)

Profile

Los Alamos Public School District serves the community of Los Alamos, and the surrounding areas in Los Alamos County. The district serves approximately 3,700 students.

Detailed credit considerations

Economy and tax base: moderately-sized tax base anchored by National Labs

Los Alamos Public Schools is located in [Los Alamos County](#) (issuer rating Aa3), 100 miles north of [Albuquerque](#) (Aa2 negative), and 40 miles north west of the city of Santa Fe. The local economy is dependent upon the activities of Los Alamos National Labs (LANL), a federal property that is not reflected in the district's assessed value (AV). Fiscal 2019 AV is \$754 million, derived from a full value of \$2.3 billion.

LANL is a defining aspect of the region's economy. The lab designs nuclear weapons, and is one of the largest science and technology institutions in the nation. LANL employs approximately 10,000 workers and contractors, and is in the process of hiring over 3,000 new employees in the next three years. This influx of employees has spurred several new housing developments. Additionally, enrollment, which is around 3,700 (fiscal 2019) is expected to increase, although the district continues to budget assuming flat student count.

Given LANL's concentration of highly skilled and educated workforce, income indicators are very high, with median family income equal to 188.5% of the US (2017 ACS).

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Financial operations and reserves: general fund benefits from lease revenues

The district's financial position will remain healthy over next several years given sizeable additional liquidity held in the lease facilities fund, which is legally available for any purpose.

Fiscal 2018 ended with a \$749,000 surplus, increasing general fund balance to \$1.5 million, or a limited 3.8% of revenues. Around 70% of revenues are derived from the state, and the other 20% are from the Department of Energy for programming (the majority of students are children of Lab employees). Los Alamos is unique in that it has ample liquidity held outside of its general fund, and thus is not as reliant on the state for operational dollars as its sector peers. The district leases several properties to LANL and its contractors, which generate around \$4 million per year in rental income, and a small portion of which is transferred into the general fund to support operations. The lease facilities fund is available for any purpose, and is included as part of the district's operating funds, along with the general fund and debt service fund. At fiscal 2018 year-end, available operating fund totaled \$17.1 million, or 38.4% of revenues, with \$10 million held in the lease facilities fund.

Based on discussion with management, officials are anticipating an ending fiscal 2019 general fund balance of around \$1.2 million. Positively, the lease facilities fund is projected to have an ending fund balance of between \$11 million and \$12 million, an increase from prior year.

Fiscal 2020 budget reflects general fund revenues of \$40.3 million against expenditures of \$41.6 million, which assumes full staffing levels. Management does not anticipate using cash reserves to balance the budget.

LIQUIDITY

General fund cash tracks above fund balance. Fiscal 2018 ending cash was \$2.3 million, or 5.9% of revenues. Once the district paid summer payroll, cash would have fallen in line with fund balance. Operating fund cash is \$18.2 million, or an ample 40.7% of operating revenues. Around \$10 million of that balance is held in the lease facilities fund.

Debt and pensions: manageable direct debt burden, but elevated pension burden

Despite plans to issue in the mid-term, the district's debt burden will likely remain manageable given steady tax base expansion coupled with rapid principal amortization. At 1.7% of fiscal 2019 full value, the district's debt burden is slightly above state and national medians. Positively, principal payout is rapid, with 98.2% retired in ten years. Management plans to seek authorization for GO bonds in November 2019. Debt service is front-loaded, allowing for the layering in of additional bonds without adjustments to tax rates.

DEBT STRUCTURE

The district has \$37.8 million in outstanding, fixed-rate obligations.

DEBT-RELATED DERIVATIVES

The district is not party to any derivative agreements.

PENSIONS AND OPEB

The district has a high employee pension burden, based on unfunded liabilities for its share of the Educational Employees Retirement System (EERS), a cost sharing plan administered by the state and managed by the Educational Retirement Board (ERB). Los Alamos PSD's annual contributions into the plan have been at the statutorily required amount, which is well below the actuarially required amount, a situation which has driven the large unfunded liability. Moody's fiscal 2018 adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is \$156.3 million, or an elevated 3.50x operating revenues.

In addition to high ANPL to revenue ratio, the district's tread water gap has widened over the last several years to 4.1% of operating revenues in fiscal 2018. The "tread water" indicator measures the annual contributions required to prevent the reported net pension liability from increasing. That is, it is the amount that the district would have to pay on an annual basis to ensure the unfunded liability does not increase. In fiscal 2018, pension contributions of \$3.4 million were below the tread water indicator of \$5.2 million, a credit negative. Currently, the district is able to pay the statutorily-required contribution without impairing operations.

Starting in fiscal 2020, legislative changes to ERB will go into effect, including an increase to employer contributions. Positively, the state has appropriated additional funds, thus, districts will be insulated from the cost hike.

Along with an unfunded pension liability, based on Moody's adjustments, the district has an unfunded OPEB liability of \$13.6 million in fiscal 2017, which represents around 32% of fiscal 2017 operating expenditures.

Fixed costs, including debt service, pension and OPEB contributions, are in line with peers at around 22% of operating expenditures. Subbing tread water for pension contributions, and fixed costs increase to 26%.

Management and governance: institutional framework score of Baa

The district is governed by a five-member board of trustees who serve four-year terms. The board performs policy-making and supervisory functions and delegates administrative responsibilities to the superintendent of schools, who is the chief administrative officer of the district.

New Mexico School Districts have an Institutional Framework score of Baa, which is low. 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 School Districts enter into annual teaching contracts, which can limit the ability to cut expenditures over the near-term. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

Rating methodology and scorecard factors

The [US Local Government General Obligation Rating Methodology](#) includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Los Alamos PSD, NM

Rating Factors	Measure	Score
Economy/Tax Base (30%)^[1]		
Tax Base Size: Full Value (in 000s)	\$2,262,968	Aa
Full Value Per Capita	\$118,090	Aa
Median Family Income (% of US Median)	188.5%	Aaa
Notching Factors: ^[2]		
Institutional Presence		Up
Regional Economic Center		
Economic Concentration		
Outsized Unemployment or Poverty Levels		
Other Analyst Adjustment to Economy/Taxbase Factor:		
Standardized Adjustments ^[3] : N/A		
Finances (30%)		
Fund Balance as a % of Revenues	38.4%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	1.6%	A
Cash Balance as a % of Revenues	40.7%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	5.0%	A
Notching Factors: ^[2]		
Outsized Enterprise or Contingent Liability Risk		
Unusually volatile revenue structure		
Other Analyst Adjustment to Finances Factor:		
Management (20%)		
Institutional Framework	Baa	Baa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Notching Factors: ^[2]		
State Oversight or Support		
Unusually Strong or Weak Budgetary Management and Planning		
Other Analyst Adjustment to Management Factor (specify):		
Standardized Adjustments ^[3] : N/A		
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.7%	Aa
Net Direct Debt / Operating Revenues (x)	0.8x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	6.6%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	3.4x	A
Notching Factors: ^[2]		
Unusually Strong or Weak Security Features		
Unusual Risk Posed by Debt Structure		
History of Missed Debt Service Payments		
Other Analyst Adjustment to Debt and Pensions Factor (specify):		
Standardized Adjustments ^[3] : N/A		
Other		
Credit Event/Trend Not Yet Reflected in Existing Data Sets:		
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa2

(1) Economy measures are based on data from the most recent year available. (2) Notching Factors are specifically defined in the US Local Government GO Debt methodology dated December 16, 2016. (3) Standardized adjustments are outlined in the GO methodology scorecard inputs updated for the [2019 publication](#).

Source: US Census; Moody's

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