

RatingsDirect®

Summary:

Bernalillo & Sandoval Counties Municipal School District No. 12 (Albuquerque), New Mexico; General Obligation

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Credit Profile

US\$110.0 mil GO sch bldg bnds ser 2018 due 08/01/2037

Long Term Rating

AA/Stable

New

Albuquerque Mun Sch Dist #12 GO

Long Term Rating

AA/Stable

Outlook Revised

Rationale

S&P Global Ratings revised the outlook to stable from negative and affirmed its 'AA' long-term rating and underlying rating (SPUR) on Bernalillo and Sandoval Counties Municipal School District No. 12 (Albuquerque), N.M.'s outstanding general obligation (GO) bonds. At the same time, S&P Global Ratings assigned its 'AA' long-term rating, with a stable outlook, to the district's series 2018 GO bonds.

The stable outlook reflects our view that the district has successfully managed its finances through a period of uncertainty in the state funding environment, and will likely maintain an available fund balance that we consider at least good. Therefore, we are unlikely to change the ratings within the next two years.

The GO bonds are general obligations of the district and paid from ad valorem taxes levied against all taxable property in the district without limitation as to rate or amount. We understand that the series 2018 bonds will finance facilities and capital improvements throughout the district, and provide matching funds for capital outlay projects.

The ratings reflect our view of the district's:

- Stable and diverse local economy in the Albuquerque metropolitan area;
- Good level of available fund balance as of fiscal 2017;
- Good financial management policies and practices; and
- Low overall net debt as a share of market value, with a faster-than-average amortization schedule.

Partly offsetting the foregoing strengths, in our opinion, are the district's:

- Declining available fund balance in fiscals 2017 and 2018 (the latter projected) on lower state funding and declining enrollment, and
- Large unfunded pension liability, with a high likelihood of rising pension costs over the medium to long term.

Economy and tax base

Bernalillo and Sandoval Counties Municipal School District No. 12 (Albuquerque) serves an estimated population of about 683,000. The district's median household effective buying income (EBI) was 92% of the national average and its per capita EBI was 96% of the national average in 2016, both of which we consider good. We view the district's market value per capita as very strong at nearly \$88,000 in fiscal 2018. The district's total market value declined by only 1.3% during the Great Recession (fiscal 2009 to fiscal 2014), and has since grown by 2.9% annually to \$60.1 billion in fiscal 2018. The district's assessed value (AV) declined by 3.0% from fiscal 2010 to fiscal 2013, and has since grown by 2.9% annually to \$16.4 billion in fiscal 2018. The district's 10 largest taxpayers make up an estimated 2.6% of AV, which we consider very diverse.

The 1,230-square-mile district is at the state's economic center and includes almost all the tax base of Bernalillo County, as well as a small portion of Sandoval County. It is New Mexico's largest school district, with 140 school sites and a total enrollment of about 84,500--about a quarter of the state total. Major employment sectors within the district include government, health care, and education services. Bernalillo County's unemployment rate averaged 5.6% in 2017, below the statewide average of 6.2% but above the national average of 4.4%.

Overall, we are forecasting stable to positive growth for the broader New Mexico region, inclusive of Albuquerque. We believe that the region's above-average population growth over the next two years will come in large part from expanding employment in the professional service, hospitality, and leisure sectors, and that increases in home prices will contribute to improved revenue performance for many local governments in the Mountain region. As a result, we expect the broader macroeconomic forces to support our view of continued economic growth for the district's economic profile. For additional information, please refer to our U.S. State And Local Government Credit Conditions Forecast, published Nov. 1, 2017, on RatingsDirect.

Financial profile

Enrollment is a primary driver of the state's school district equalization formula, which accounts for about 98% of this district's general fund revenues. This district's enrollment has decreased steadily since fiscal 2012 as young families left the area in search of employment during the economic downturn, but have been relatively slow to return. However, the district projects that enrollment will stabilize starting in fiscal 2019 due to continuing residential development, as well as its expanded dual-language, science, and technology programs.

The district achieved positive general fund results from fiscal 2011 to fiscal 2016, with state revenues increasing despite declining enrollment due to a generally favorable state funding environment. As the state's budgetary outlook weakened in fiscal 2017, the district's revenue allocation decreased due to a one-time cash sweep by the state (Senate Bill 114) and the district's accumulated enrollment declines, which led to a general fund deficit of 1.3% that year despite midyear expenditure cuts by the district. While the state funding environment remains somewhat less favorable than before fiscal 2017, it has stabilized. The district's state funding increased moderately in fiscal 2018, although management expects that the district will still run a small general fund deficit this year due to an investment in educational materials. We understand that the district's funding allocation from the state has increased again for fiscal 2019, although the majority of the increase is dedicated to salary increases.

The district's available fund balance decreased to 7.6% of operating expenditures in fiscal 2017--a level we consider

good—from a strong 8.5% in fiscal 2016. Looking forward, we believe that the district's available fund balance will remain good in our view, supported by stabilizing enrollment and state funding, as well as the district's ability to make midyear budget adjustments.

Management

We consider the district's management policies and practices to be good under our Financial Management Assessment methodology, indicating that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Key policies and practices include the district's:

- Robust framework for developing budgetary assumptions, under which the district works closely with state authorities and incorporates information from the University of New Mexico Bureau of Economic Research, local developers, and its internal demographic forecasting unit;
- Quarterly presentation of budget-to-actuals to the board, with budget adjustments made as needed;
- Lack of a formal long-term financial forecast or plan;
- Sequential five-year capital master plans that identify funding sources, with the current plan running from 2017 to 2022;
- Formal investment management policy, which we consider to be prudent, and quarterly review of investment reports by the board;
- Formal debt management policy that covers most key areas but does not go beyond state requirements in the areas of debt affordability; and
- Formal minimum reserve policy of 5.0% for cash flow needs and economic uncertainties.

Debt burden

We view the district's overall net debt as moderate on a per capita basis (about \$2,200) and low as a share of market value (2.5%) as of fiscal 2018 (including series 2018). With 69% of the district's direct debt scheduled to be retired within 10 years, amortization is significantly faster than average. Debt service carrying charges were 8.2% of total governmental fund expenditures in fiscal 2017, which we consider moderate.

In 2013, the district entered into a lease purchase agreement with the New Mexico Finance Authority, with outstanding payments of approximately \$3.3 million (less than 1% of general fund expenditures). The lease agreement contains no acceleration provisions, and we do not view the privately placed debt as a material risk to the district's reserve or cash position. The district has not issued any direct purchase or private placement debt since 2013. We understand that the district will have roughly \$15 million in approved but unissued GO bonding authority after the series 2018 bonds are issued, and that it intends to seek voter approval for more GO bonding authority in 2019 to finance the remainder of its 2017-2022 capital master plan.

Pension and other postemployment benefit (OPEB) liabilities

We consider the district's pension liability to be a source of long-term risk. The district participates in the New Mexico Educational Retirement Board (ERB) pension plan, which is a cost-sharing, multiple-employer, defined-benefit pension system. In April 2017, the ERB made a number of adjustments to its actuarial assumptions and methods, including

lowering its discount rate to 7.25% (from 7.75%) and its payroll growth rate to 3.00% (from 3.50%). While we believe that these changes will likely support the plan's sustainability over the long term, they also decreased the plan's reported funded ratio to 53.0% in fiscal 2017 (from 61.6% in fiscal 2016) under Governmental Accounting Standards Board's current reporting guidelines. Additionally, under the new assumptions, the plan's actuarial assets and future contributions will only be able to finance benefits payments through 2053. Finally, while the district has historically made its full statutorily required pension contribution, plan-wide actual contributions were only 82.8% of the actuarially determined contribution (which is based on an amortization of the plan's unfunded liability by 2042) in fiscal 2017. Accordingly, we believe that the district's pension costs are likely to rise significantly in the coming years, although its fiscal 2017 pension carrying charge of 6.6% of total governmental funds expenditures is still moderate.

The district's OPEBs consist of health care benefits provided through the New Mexico Retiree Health Care Fund (a cost-sharing, multiple-employer plan) and a closed life insurance plan for employees who retired prior to July 1, 2000. Both plans are funded on a pay-as-you-go basis, and the district's contributions accounted for 1.0% of total governmental funds expenditures in fiscal 2017.

Outlook

The stable outlook reflects our belief that the state funding environment and the district's enrollment will remain roughly stable, and that the district will therefore maintain available reserves at a level we consider at least good. However, we also expect the district's underfunded pension plan to remain a source of long-term risk and limit potential upside movement in the ratings. Accordingly, we do not expect to change the ratings within the next two years.

Downside scenario

We could lower the ratings if rising pension costs, further enrollment declines, or a return to cost-cutting within the state education budget were to pressure the district's fiscal performance and reduce its available fund balance to a level we no longer consider good.

Upside scenario

We could raise the ratings if the district were to develop a robust plan to reduce its unfunded pension liability while maintaining good available fund balances.

Ratings Detail (As Of April 25, 2018)

Albuquerque Mun Sch Dist #12 GO sch bldg bnds (Albuquerque Pub Schs)		
Long Term Rating	AA/Stable	Outlook Revised
Bernalillo & Sandoval Cntys Mun Sch Dist #12 (Albuquerque) GO		
Long Term Rating	AA/Stable	Outlook Revised
Bernalillo & Sandoval Cntys Mun Sch Dist #12 (Albuquerque) GO		
Long Term Rating	AA/Stable	Outlook Revised
Albuquerque Mun Sch Dist #12 GO		
Unenhanced Rating	AA(SPUR)/Stable	Outlook Revised
Many issues are enhanced by bond insurance.		

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