

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's downgrades to A1 Alamogordo MSD 1, NM's GOULT rating

Global Credit Research - 11 Apr 2018

New York, April 11, 2018 -- Moody's Investors Service has downgraded to A1 from Aa3 Alamogordo Municipal School District 1 (Otero County) (MSD), NM's general obligation bond rating. Concurrently, we have assigned an A1 underlying and Aa2 enhanced rating to \$5 million General Obligation School Building Bonds, Series 2018.

RATINGS RATIONALE

The downgrade to A1 is based on the district's narrowing financial position, a result of structural imbalance and recent state aid cuts. Fiscal 2017 ended with a sizeable deficit, which was not expected per our report in March 2017. Furthermore, the district's pension burden is very elevated, and statutorily-required contributions remain well below tread water. Growth in pension contributions may constrain the district's already limited financial position; however, given the district's reliance on state funding, it is not unreasonable that legislative appropriations would increase in line with costs. The rating also incorporates a moderately-sized and stable tax base, which is anchored by Holloman Air Force Base (AFB). Officials report that with the AFB's new mission, over 600 military personnel will be relocated to Alamogordo over the near-term, which should positively impact enrollment. Furthermore, major industrial development will bring another 2,000 jobs to the local community. The district's direct debt burden remains manageable, and benefits from rapid principal amortization.

The Aa2 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 Alamogordo MSD, 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 \$39.5 million, to periodic MADS of \$5.1 million (inclusive of the current issuance), coverage is a very healthy 7.04 times. In order to qualify for the programmatic rating of Aa2, 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 Alamogordo MSD's ample debt service coverage. For additional information, please refer to the Moody's report published December 14, 2017.

RATING OUTLOOK

Moody's generally does not assign outlooks to local government credits with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Substantial tax base expansion and diversification
- Trend of operating surpluses, increasing cash reserves and fund balance
- Reductions to the pension and fixed cost burdens

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Any reductions to cash or fund balance
- Significant tax base contraction
- Further increases to the pension and fixed cost burdens

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 to complete construction of an elementary school.

PROFILE

Alamogordo MSD, NM is located in the southeastern portion of Otero County, approximately 90 miles north of El Paso, TX. Serving the city of Alamogordo and surrounding area, district population is around 41,000. The MSD operates 11 elementary schools, 3 middle schools, and 2 high schools, and current enrollment is around 6,000.

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 for a copy of these methodologies.

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