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West Las Vegas Municipal School Dist. 1, NM

Update to credit analysis

Summary

West Las Vegas School District 1, NM's (A3) credit profile is generally stable. Over the past several years, financial performance is somewhat inconsistent, but most recently, in fiscal 2017 and fiscal 2018, the district managed to report surpluses despite enrollment loss and mid-year cuts to state aid. Fiscal 2019 is expected to close with another addition to fund balance. Headcount continues to decline, which has potential to pressure operations; however, management is investing in new technology with the hopes of attracting new students and retaining current students. The tax base is modestly-sized, but stable, and continues to expand due to positive reappraisals. The direct debt burden is manageable, and will remain as such given rapid principal payout. We note that resident income indices are weak, and poverty levels are high. As a participant in ERB, a statewide, cost-sharing plan, the district's pension burden is elevated, and annual contributions remain unfavorably below the tread water level.

Credit strengths

» Stable tax base

Credit challenges

» Historic trend of enrollment declines

» Very weak wealth indices

» Elevated pension and fixed cost burdens

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

» Significant increases to the district's fund balance and reserves

» Tax base expansion, economic diversification and improvement of wealth indices

» Material reductions to the pension and fixed cost burdens

Factors that could lead to a downgrade

» Deterioration of fund balance and reserves

» Material tax base contraction

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

Key indicators

Exhibit 1

West Las Vegas Municipal School Dist. 1, NM	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$521,246	$527,021	$558,410	$562,519	$569,452
Population	9,723	9,626	9,533	9,774	9,774
Full Value Per Capita	$53,610	$54,750	$58,577	$57,553	$58,262
Median Family Income (% of US Median)	56.0%	45.9%	45.9%	40.8%	40.8%
Finances					
Operating Revenue ($000)	$15,843	$16,642	$15,817	$15,571	$15,714
Fund Balance ($000)	$1,849	$2,956	$1,529	$2,742	$3,969
Cash Balance ($000)	$2,010	$2,197	$1,988	$1,680	$3,512
Fund Balance as a % of Revenues	11.7%	17.8%	9.7%	17.6%	25.3%
Cash Balance as a % of Revenues	12.7%	13.2%	12.6%	10.8%	22.3%
Debt/Pensions					
Net Direct Debt ($000)	$8,200	$7,830	$7,260	$7,310	$8,435
3-Year Average of Moody's ANPL ($000)	$55,600	$51,499	$50,586	$54,658	$58,132
Net Direct Debt / Full Value (%)	1.6%	1.5%	1.3%	1.3%	1.5%
Net Direct Debt / Operating Revenues (x)	0.5x	0.5x	0.5x	0.5x	0.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	10.7%	9.8%	9.1%	9.7%	10.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	3.5x	3.1x	3.2x	3.5x	3.7x

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

Profile

Located approximately 120 miles northwest of Albuquerque (GO Aa2 negative), West Las Vegas School District serves the City of Las Vegas (ILT A2) and surrounding areas within San Miguel County. The district manages 11 schools and provides K-12 education services to approximately 1,400 students.

Detailed credit considerations

Economy and tax base: rural economy northwest of Albuquerque

The tax base will remain stable over the medium-term driven by positive reappraisals of existing property. Located 70 miles east of the City of Santa Fe, the district serves the City of Las Vegas and unincorporated potions of San Miguel County. Assessed value (AV) has been very stable with just one decline in the past ten years (3.7% decline in fiscal 2014). Fiscal 2019 AV is $196.9 million, derived from a full value of $591 million. The top five taxpayers account for a moderate 10.3% of fiscal 2019 AV and are reportedly stable.

Historic enrollment trends are negative, but fiscal 2019 shows some signs of stabilization. Fiscal 2019 headcount is 1,431, a modest increase from prior year's 1,415. The district is focused on recruiting and retaining new students by offering updated technology, including new chromebooks, and faster internet services. Officials expect enrollment to remain at 1,400 students over the medium-term.

The district's income levels are below average, according to the 2017 American Community Survey estimate. Median family income is 40.8% of US, and the poverty rate is high at 40.5%. San Miguel County's unemployment rate is 5.3% (May 2019), which is higher than both the state (4.6%) and nation (3.9%).

Financial operations and reserves: financial position shows improvement

Despite enrollment declines, which negatively impact state aid, the district has managed to report surpluses, and this trend is expected to continue into fiscal 2019. Fiscal 2018 ended with a $776,000 surplus, increasing General Fund balance to an improved $2 million, or 14.7% of revenues. Management was able to carve $586,000 from the expenditure budget, the main driver in the addition to reserves. Operating fund balance, including the General Fund and Debt Service Fund, is $4 million, or 25.3% of operating revenues.

Fiscal 2019 is expected to end with at least $2 million in fund balance. Similar to prior year, staffing levels were maintained, and departments underspent.

The fiscal 2020 budget is flat, and does not assume use of reserves for any purpose. State aid increased by close to 20% year over year, thus, assuming the district manages expenditures, fiscal 2020 should end in another addition to fund balance.

LIQUIDITY

General Fund cash tracks fairly closely to fund balance. Fiscal 2018 ending cash was $1.6 million, or 11.6% of revenues. General Fund balance is higher as it incorporates a $455,000 receivable associated with state and federal grants. In practice, many New Mexico districts float grant funds with operating dollars, being reimbursed in July at the start of the next fiscal year.

Operating fund cash is $3.5 million, or 22.3% of operating revenues. Included in fund balance is annual debt service, which is due in August.

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 1.6% of fiscal 2019 full value, the district's debt burden is slightly above state and national medians. Positively, principal payout is rapid, with 96.4% retired in ten years. Management plans to seek authorization for GO bonds in 2021. Debt service is front-loaded, allowing for the layering in of additional bonds without adjustments to tax rates.

DEBT STRUCTURE

The district has $9.4 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). West Las Vegas' 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 $59.5 million, or an elevated 3.78x operating revenues.

In addition to high ANPL to revenue ratio, the district's tread water gap has widened over the last several years to 4.5% 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 $1.3 million were below the tread water indicator of $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.

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

West Las Vegas MSD, NM		
Rating Factors	**Measure**	**Score**
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$591,216	A
Full Value Per Capita	$60,489	A
Median Family Income (% of US Median)	40.8%	Ba
Notching Factors:[2]		
Institutional Presence		
Regional Economic Center		
Economic Concentration		
Outsized Unemployment or Poverty Levels		Down
Other Analyst Adjustment to Economy/Taxbase Factor:		Down
Standardized Adjustments [3]: N/A		
Finances (30%)		
Fund Balance as a % of Revenues	25.3%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	14.5%	Aa
Cash Balance as a % of Revenues	22.3%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	9.7%	A
Notching Factors:[2]		
Outsized Enterprise or Contingent Liabliity 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	Aa
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 (%)	1.6%	Aa
Net Direct Debt / Operating Revenues (x)	0.6x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	9.8%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	3.7x	Baa
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):		Down
Standardized Adjustments [3]: N/A		
Other		
Credit Event/Trend Not Yet Reflected in Existing Data Sets:		
	Scorecard-Indicated Outcome	A3
	Assigned Rating	A3

(1) Economy measures are based on data from the most recent year available.
(2) Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology dated December 16, 2016.
(3) Standardized adjustments are outlined in the GO Methodology Scorecard Inputs Updated for the 2018 publication.
Source: US Bureau of Economic Analysis, State CAFRs, Moody's

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