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Ratings

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Summary:

Sandoval County Public School District No. 94 Rio Rancho, New Mexico; General Obligation

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Table Of Contents

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Credit Profile		
US$15.0 mil GO sch bnds ser 2019 due 08/01/2031		
Long Term Rating	A+/Stable	New
Sandoval Cnty Pub Sch Dist #94 Rio Rancho GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Sandoval County Public School District No. 94 (Rio Rancho), N.M.'s series 2019 general obligation (GO) school bonds with a par of $15 million and affirmed its 'A+' long-term rating on debt outstanding. The outlook is stable.

The GO bonds are secured by ad valorem property taxes levied against all taxable property within the district without limitation as to rate or amount. The bonds are the final issuance of a $60 million bond authorization approved by voters in 2016. Bond proceeds will finance the construction of a new elementary school and replacement of an existing preschool.

Rio Rancho School District is exhibiting stronger economic and financial indicators following some weakening during the recession. The tax base decreased, primarily in commercial values, from fiscal 2009 to 2013. However, growth is occurring once again albeit at a slower pace than before 2009. The tax base grew 3% in fiscal years 2017 and 2018 and most recently increased 5% in fiscal 2019. The district is anticipating enrollment growth next year given active residential development within the district. As expected, the district's general fund balance increased to 10.9% of general fund expenditures in fiscal 2018 due to stabilization in state funding. In the previous two years, New Mexico limited the district's fund balance to 3% of expenditures. Although state funding is stable for now, we are aware that it could reverse back to limit the district's available reserves. The district's debt profile is favorable; however, the pension plan is poorly funded at 54% and we view it as a long-term financial challenge for all districts in the state.

The rating further reflects our view of the district's:

- Good-to-strong economic indicators reflected in 90% per capita effective buying income (EBI) and 113% median household EBI;
- Strong general fund balance equal to 10.9% of general fund expenditures expected to settle into a level we consider good (5%-8%);
- Standard financial management practices and policies; and
- Low 2.5% overall net debt burden and fast amortization with 96% of debt retired in 10 years.

Economy and tax base

The district encompasses most of the city of Rio Rancho in Sandoval County and is integrated with the Albuquerque metropolitan statistical area (MSA), which is the primary economic engine for the state. The district serves an estimated 17,072 students and includes an estimated population of 99,371. In our opinion, median household EBI is strong at 113% of the national level, but per capita EBI is good at 90%. The district's total $7.2 billion assessed valuation (AV) in 2019 is strong, in our view, at $72,397 per capita. Almost 7% of AV comes from the 10 largest taxpayers, representing a very diverse tax base in our opinion.

A large Intel semiconductor manufacturing facility is the largest private employer within the district, and other significant sectors include back-office centers for large corporations, higher education, and health care. The broader Albuquerque MSA is diverse and includes manufacturing (Honeywell Aerospace, General Mills Inc.), technology (The Raytheon Co.), and federal and military institutions (The Sandia National Laboratories, Kirtland Air Force Base, the Air Force Research Laboratory). The film and television industry, in particular, has been a major source of growth in recent years. We believe current development under way is a strong reflection of local economic expansion that will support at least stable population and enrollment growth.

Financial profile

The district's available fund balance of $13.5 million is strong in our view, at 10.9% of general fund expenditures at fiscal year-end (June 30) 2018. The district reported a surplus operating result of 7.9% of expenditures in 2018. The surplus was anticipated due to a significant improvement in the state funding environment and savings from staff vacancies. In fiscal 2017, the state cut funding to school districts because it was pressured to balance financial operations when oil and gas revenues decreased. As a result, the district's general fund balance was an adequate, in our view, 3% of general fund expenditures.

For fiscal 2019, the district filled several vacancies but an increase in state revenues is projected to contribute to a $6 million surplus at the year-end. This would bring the total available fund balance to $19 million. For fiscal 2020, officials could use approximately $10 million of reserves for capital needs, which would bring the fund balance to $9 million, or 6.2% of general fund expenditures, which we consider good.

Enrollment is the primary driver of the state's school district equalization formula, which accounts for about 96% of the district's general fund revenues. This district's enrollment has increased by 4.4% cumulatively since fiscal 2015. Looking forward, management expects district enrollment to continue increasing steadily, particularly following the completion of the new residential developments in the next year or two.

Financial policies and practices

We consider the district's financial management practices to be standard under our Financial Management Assessment methodology, indicating our view that the finance department maintains adequate policies in some, but not all, key areas.

Key policies and practices include:

- Budgetary assumptions that are based on long-term enrollment projections provided by an external consultant performed sporadically, with internal trend analysis and consultations on developments with the city and county performed annually; budgetary expenditures are developed through a zero-based budgeting approach;

- Quarterly budget-to-actual reports provided to the state education department and bimonthly budget updates provided to the board finance committee, although these updates do not always include budget-to-actuals;
- A lack of long-term financial projections due to the district's reliance on state equalization revenues for its operations;
- A history of sequential five-year capital improvement plans that includes detailed discussion of funding strategies, but are not updated annually;
- A basic investment management policy, and compliance with state rules that we consider prudent;
- A lack of a debt management policy; and
- A formal minimum reserve policy of $1 million plus 2% of operating expenditures, which the district has historically met.

Debt, pension, and other postemployment liabilities

As a percentage of market value, we consider overall net debt to be low, at 2.5%, and moderate on a per capita basis at $2,017. With 96% of the district's direct debt scheduled to be retired within 10 years, amortization is rapid. Debt service carrying charges were 11.3% of total governmental fund expenditures excluding capital outlay in fiscal 2018, which we consider moderate.

In November, the district plans to ask voters for additional bond authorization of approximately $60 million. Following historical practice, if approved, the debt will be issued over four years in four equal installments. We do not believe this additional debt will negatively affect the district's debt burden due to expected tax base growth and rapid amortization of existing debt.

On the other hand, 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 pension plan, which is a cost-sharing, multiple-employer, defined-benefit pension system. The plan is poorly funded at 54% and discussions are under way at the state level to consider increased contributions. Although nothing has been formally adopted, it is reasonable to assume that all districts in New Mexico will be challenged with rising pension costs. The district's proportionate share of the net pension liability was $218 million as of June 30, 2018, and the district paid its full required contribution of $11.7 million toward its pension obligations in fiscal 2018, or 6.4% of total governmental expenditures.

The district's other postemployment liabilities consist of health care benefits provided through the New Mexico Retiree Health Care Fund (a cost-sharing, multiple-employer plan). The plan is funded on a pay-as-you-go basis, and the district's contributions of $1.7 million accounted for 0.9% of total governmental funds expenditures in fiscal 2018.

Outlook

The stable outlook reflects an improved state funding environment and growing enrollment that we believe will enable the district to maintain an available fund balance that we consider good over the medium term. Accordingly, we do not expect to change the rating within the next two years.

Upside scenario

We could raise the rating if the district were to develop a multiyear track record of positive general fund performance and available fund balances that we consider strong.

Downside scenario

We could lower the rating if the district were to return to a pattern of general fund deficits that reduce its available fund balance to levels no longer commensurate with peers.