

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns Aa3 UND/Aa3 ENH to Clovis MSD, NM's GOULT bonds, Ser. 2018

12 Sep 2018

New York, September 12, 2018 -- Moody's Investors Service has assigned a Aa3 underlying and Aa3 enhanced rating to Clovis Municipal School District 1 (Curry County), NM's (Clovis MSD) \$7 million General Obligation School Bonds, Series 2018. Moody's maintains the Aa3 underlying rating on outstanding parity obligations.

RATINGS RATIONALE

The Aa3 underlying rating reflects the district's stable financial position, with a surplus anticipated in fiscal 2018 after a draw in fiscal 2017, associated with the state's mid-year cuts. The tax base size is in line with Aa peers, and is anchored by Cannon Air Force Base (AFB). The district has a manageable direct debt burden with rapid principal amortization; however, the pension burden is elevated, and annual contributions to ERB remain below Moody's calculated tread water payment.

The Aa3 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 Clovis 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 \$58.7 million, to periodic MADS of \$5.1 million (inclusive of the current issuance), coverage is an ample 10.56 times. In order to qualify for the programmatic rating of Aa3, 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 the district's healthy 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

- Trend of surplus operations, adding to fund balance and reserves
- Significant tax base expansion
- Material reductions to the pension and fixed cost burdens

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Fiscal 2018 audited results that are not in line with reported performance
- Deterioration of reserves and fund balances
- Sustained tax base contractions
- Increases to the pension and fixed cost burdens that are not comparable to peers

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 for various capital projects, including completion of an elementary school, and improvements of existing facilities.

PROFILE

The district is located in Clovis, 100 miles northwest of Lubbock, 106 miles southwest of Amarillo, and 220 miles east of Albuquerque, and serves approximately 8,000 students.

METHODOLOGY

The principal methodology used in the underlying rating 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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