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Clovis Municipal S.D. 1 (Curry County), NM

Update to credit analysis

Summary

Clovis Municipal School District (MSD; Aa3), NM's credit profile is stable overall. The district's financial position remains healthy, especially relative to state peers. The tax base is moderately-sized, and is anchored by Cannon Air Force Base, which employs around 10,000. The direct debt burden is manageable, and principal amortization is rapid. We note the credit profile is challenged by an elevated pension burden, and annual contributions remain unfavorably below tread water.

Credit strengths

» Stable tax base anchored by Cannon Air Force Base (AFB)

» Manageable direct debt burden

Credit challenges

» Elevated pension burden and weak annual pension contributions

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

» Increased reserve position

» Significant tax base growth and diversification

» Material reductions to the pension and fixed cost burdens

Factors that could lead to a downgrade

» Deterioration of reserves

» Sustained tax base contractions

» Continued growth in the unfunded pension liability

Key indicators

Exhibit 1

Clovis MSD, NM	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$2,109,391	$2,162,595	$2,283,528	$2,378,920	$2,423,787
Population	46,853	47,233	47,290	46,919	46,919
Full Value Per Capita	$45,021	$45,786	$48,288	$50,703	$51,659
Median Family Income (% of US Median)	79.4%	75.3%	71.8%	68.9%	68.9%
Finances					
Operating Revenue ($000)	$62,418	$63,853	$65,648	$63,554	$65,737
Fund Balance ($000)	$8,173	$12,712	$14,421	$9,634	$14,538
Cash Balance ($000)	$12,734	$13,724	$14,417	$13,076	$13,938
Fund Balance as a % of Revenues	13.1%	19.9%	22.0%	15.2%	22.1%
Cash Balance as a % of Revenues	20.4%	21.5%	22.0%	20.6%	21.2%
Debt/Pensions					
Net Direct Debt ($000)	$39,470	$41,385	$38,795	$41,170	$43,400
3-Year Average of Moody's ANPL ($000)	$206,577	$200,529	$206,749	$230,798	$252,076
Net Direct Debt / Full Value (%)	1.9%	1.9%	1.7%	1.7%	1.8%
Net Direct Debt / Operating Revenues (x)	0.6x	0.6x	0.6x	0.6x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	9.8%	9.3%	9.1%	9.7%	10.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	3.3x	3.1x	3.1x	3.6x	3.8x

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

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.

Detailed credit considerations

Economy and tax base: moderately sized base anchored by Cannon AFB

The district's tax base will likely continue expanding over the mid-term driven by positive reappraisals of existing properties. The district serves Clovis (Aa3), and the city serves as the county seat. The local economy benefits from the presence of Cannon Air Force Base (AFB), which employs around 9,800 military and civilian personnel. The district's assessed value (AV) has grown steadily since 2004, resulting in a fiscal 2019 assessed value (AV) of $840.3 million, derived from a full value (FV) of $2.5 billion. Preliminary values for fiscal 2020 indicate further expansion to $864.3 million, derived from a moderately-sized full value of $2.6 billion.

Officials report that a new Starbucks and hotel were built in the last year, and existing housing developments were expanded.

Top ten taxpayers represent a modest 13% of full value. Resident wealth levels are below average, with median family income of 68.9% of the US (2017 ACS). It is possible that income indices are artificially low due to the large percentage of military personnel in the profile.

Enrollment has declined modestly over the past several years. Fiscal 2019's student count was 7,871, down 2.37% from prior year. Officials attribute enrollment fluctuations to the Cannon Airforce Base: young families relocate to Clovis for a short amount of time, enrolling their students in elementary school, only to leave a few years later. The district is focused on retaining students, and has added new STEM programming, and is partnering with local colleges to provide dual credit courses. Due to their efforts, management states that year-to-date enrollment is a little over 8,000.

Financial operations and reserves: stable financial position, with surplus expected in fiscal 2019

The district's financial position will remain stable, benefitting from conservative budgeting and management's desire to maintain reserves. Fiscal 2018 ended with a general fund surplus of $510,000, increasing general fund reserves to $10.96 million, or 17.8% of revenues. Operating fund balance, including general fund and debt service funds, is $15.3 million, or 23.3% of operating revenues. The district pays annual debt service in August, thus, at fiscal year end (June 30) fund balance is at its peak.

For fiscal 2019, the district expects to increase reserves to around $11.68 million based on unaudited results. Similar to prior years, the district realized savings from vacancies and departments holding down expenses.

The fiscal 2020 budget reflects around a $7 million increase in state aid, reflective of legislative changes to the funding formula. The majority of additional revenues will fund mandated salary adjustments. The budget is balanced with use of $10.2 million in cash, a common practice in New Mexico. In practice, with the exception of fiscal 2017, the district has not dipped into cash to balance its budget.

LIQUIDITY

General fund cash has increased over the past several years. At fiscal 2018 year-end, cash was $9.7 million, or 15.7% of revenues. The difference between fund balance and cash is $1.9 million due from other funds. The district floats grant funds while waiting for reimbursement from the state or federal government, usually in July. Operating fund cash is $13.9 million, or 21.2% of operating revenues. As noted above, cash is at its highest point at fiscal year-end, with it declining in August after the debt service payment.

Debt and pensions: manageable direct debt burden, but elevated pension burden

Despite plans to issue additional debt in the near-term, the district’s debt burden will remain manageable because it is capped by statute at 2% of full value. At 1.8% of fiscal 2019 full value, the district's debt burden is slightly above state and national medians. Principal payout is above average, with 80% retired in ten years. The district plans to issue $3 million in new money in 2019 and $5 million in 2020. Debt is structured so as to allow the layering in of additional bonds without adjustment to tax rates.

DEBT STRUCTURE

Inclusive of the current issuance, the district will have $46.3 million in fixed-rated obligations. All debt matures in 2035.

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). Clovis MSD's 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 $265.7 million, or an elevated 4.04x operating revenues.

In addition to high ANPL to revenue ratio, the district's tread water gap has widened over the last several years to 4.6% 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 $5.8 million were below the tread water indicator of $8.8 million, a credit negative.

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.

Moody's calculated unfunded OPEB liability was $74.1 million in fiscal 2017, or an above average 35.3% of operating revenues. Fixed costs, including pension and OPEB contributions and debt service are average at 15% of operating revenues. Inclusive of tread water, they jump to a still average 19%.

Management and governance: institutional framework score of Baa

The district is governed by a five-member board. Members serve without compensation for four-year terms. The Superintendent is selected by and serves at the discretion of the board.

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 Debt 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

Clovis MSD, NM

Rating Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$2,523,363	Aa
Full Value Per Capita	$53,781	A
Median Family Income (% of US Median)	68.9%	Baa
Notching Factors:[2]		
Institutional Presence		Up
Finances (30%)		
Fund Balance as a % of Revenues	22.1%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	4.1%	A
Cash Balance as a % of Revenues	21.2%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	6.6%	A
Management (20%)		
Institutional Framework	Baa	Baa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.8%	A
Net Direct Debt / Operating Revenues (x)	0.7x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	10.0%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	3.8x	Baa
Notching Factors:[2]		
Other Analyst Adjustment to Debt and Pensions Factor (specify): negative tread water gap, reflective of contributions remaining below the tread water payment		Down
	Scorecard-Indicated Outcome	A1
	Assigned Rating	Aa3

(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 2019 publication.
Source: US Census Bureau, Moody's Investors Service

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