

## CREDIT OPINION

17 April 2017

New Issue

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### Contacts

Heather Correia 214-979-6868  
Analyst  
heather.correia@moody.com

Robert Weber 212-553-7280  
VP-Senior Analyst  
robert.weber@moody.com

## Mora (County of), New Mexico

New Issue: Moody's Assigns Initial Baa1 to Mora County, NM's \$1.2M in GRT Revenue Bonds, Ser. 2017

### Summary Rating Rationale

Moody's Investors Service has assigned an initial Baa1 to Mora County, NM's Gross Receipts Tax (GRT) Revenue Bonds, Series 2017.

The Baa1 rating reflects the county's rural economy, based on agriculture and tourism; adequate legal provisions; average debt service coverage that is expected to remain between 1.25 times and 1.30 times; and, volatile pledged revenue stream, that will likely experience swings, but generally increase, over the long-term.

### Credit Strengths

- » Adequate legal provisions

### Credit Challenges

- » Marked volatility in the pledged revenue stream
- » Modest, rural economy reliant on agriculture and tourism

### Rating Outlook

The stable outlook reflects our expectation that the local economy and population will remain materially unchanged over the mid-term, possibly benefitting from modest agricultural investment and mineral exploration. Additionally, the outlook incorporates the generally increasing nature of the pledged revenue stream.

### Factors that Could Lead to an Upgrade

- » Stabilization of the pledged revenue stream
- » Improvement in maximum annual debt service coverage
- » Significant economic expansion and diversification

### Factors that Could Lead to a Downgrade

- » Declines in pledged revenues, resulting in weakened coverage
- » Additional leveraging of the revenue stream
- » Deterioration of the general credit profile of the county

## Key Indicators

Exhibit 1

| Mora County, NM                       |                          |       |       |       |       |
|---------------------------------------|--------------------------|-------|-------|-------|-------|
| Credit Background                     |                          |       |       |       |       |
| Pledged Revenues                      | County GRT, HH GRT*      |       |       |       |       |
| Legal Structure                       |                          |       |       |       |       |
| Additional Bonds Test                 | 1.25x MADS               |       |       |       |       |
| Open or Closed Lien                   | Open Lien                |       |       |       |       |
| Debt Service Reserve Fund Requirement | if standard 3-prong test |       |       |       |       |
| MADS Coverage                         |                          |       |       |       |       |
| 2021 MADS Coverage (x)                | 1.4x                     |       |       |       |       |
| Trend Analysis                        |                          |       |       |       |       |
|                                       | 2017                     | 2018  | 2019  | 2020  | 2021  |
| Debt Outstanding (\$000)              | 2,350                    | 2,280 | 2,220 | 2,155 | 2,090 |
| Revenues (\$000)                      | 194                      | 193   | 193   | 193   | 193   |
| Annual Debt Service Coverage (x)      | 1.3x                     | 1.3x  | 1.4x  | 1.3x  | 1.4x  |

\*The debt is secured by the first 1/8th of 1% county GRT, third 1/8th of 1% of county GRT, and 3/8ths of 1% of the county's hold harmless GRT

Source: Official Statement; Moody's Investors Service

## Detailed Rating Considerations

### Tax Base and Nature of Pledge: Rural County Located in Northeast New Mexico

Located in northeastern New Mexico, the county encompasses 1,900 square miles and boasts a population of around 5,000 residents. The local economy is reliant on agriculture, predominantly cattle, and tourism, benefitting from proximity to [Taos \(A1\)](#). The tax base is modestly-sized, with fiscal 2017 assessed value (AV) of \$141.1 million, derived from a full value of \$423.7 million. Five year average annual growth is healthy at 4.9%. Officials report that there are no major industries in the county; commercial investment includes small retail operations, restaurants, healthcare clinics, tire shops and grocery stores. Going forward, officials hope to leverage their mineral resources; if oil prices increase, companies may be inclined to invest and drill in the area. In this event, likely both GRT collections and AV would increase. Wealth indices are weak, with median family income of 48.1% of the US, per the 2015 American Community Survey. Unemployment is elevated, too, at 9.4% compared to the nation's 4.9% during February 2017.

The GRT pledge is broad in nature, given that it is a tax levied on all business within the county, with the exception of food and medical. The Series 2017 bonds and parity obligations are secured by the first 1/8th of 1% county GRT, third 1/8th of 1% of county GRT, and 3/8ths of 1% of the county's hold harmless GRT. The county implemented their hold harmless GRT in January 2016, thus, fiscal 2017 is the first full year of collections. The state began phasing out the hold harmless distribution in fiscal 2016, which has potential to mute sales tax growth over the long-term. However, the County does not expect to be adversely impacted given that hold harmless distributions are fairly modest. In fiscal 2016, the phase-out equated to a loss of \$2,800, or 1.3% of revenues.

### Debt Service Coverage and Revenue Metrics: Volatile Revenue Stream Expected to Provide around 1.3 times Coverage

Despite revenue volatility, debt service coverage is expected to remain between 1.25 times and 1.30 times over the mid-term. Based on pro forma collections through the end of the fiscal year (June 30), officials estimate total pledged revenues of \$194,000, which would provide maximum annual debt service (MADS; \$145,497 in fiscal 2018) coverage of 1.33 times.

The pledged revenues have fluctuated over the past ten years, with double-digit declines in fiscal 2010 and fiscal 2014, and double-digit increases in fiscal 2015 and fiscal 2016. Positively, five year average annual growth is 10.1%. Although revenues have exhibited significant swings since fiscal 2008, overall, collections have trended upward, increasing from \$130,000 to \$194,000. Officials attribute

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volatility to the nature of the county's rural economy, which is materially impacted by the loss of a business, or construction along the interstate.

Going forward, it is likely that the revenue stream will continue to exhibit volatility. In event that mineral exploration and/or extraction occurs within the county, it is likely that GRT revenues will increase. Likewise, if the State makes improvements to I-25, which bisects the country from southwest to northeast, GRT collections will jump for the duration of the project. Future review will focus on maintenance of adequate debt service coverage; further review may be warranted if coverage falls below 1.25x.

### **Debt and Legal Covenants: Manageable Debt Burden; Adequate Legal Provisions**

The debt burden is expected to remain manageable over the mid-term given limited debt plans. The county's debt burden is 1.3% of fiscal 2017 full value, which is above state and national medians of 0.6% and 0.5%, respectively. Post-sale, the county will have \$2.3 million in outstanding GRT parity obligations, consisting of Series 2017 and a privately-placed bank note for \$1.1 million. The county will likely issue debt in the next few years to construct offices for the magistrate court in the Mora County Complex. Officials have not decided how they intend to fund future projects, be it with GO bonds or loans/notes. The county does not plan to issue additional GRT bonds on parity with the Series 2017 bonds and notes.

Regarding legal provisions, sufficient bondholder security is provided by an additional bond test that requires the pledged revenues provide at least 1.25 times MADS in the subsequent year on 1. the outstanding bonds, 2. the outstanding parity obligations and, 3. the proposed parity obligations. Given projected MADS coverage of 1.33 times, the pledged revenue stream is already fairly leveraged.

A debt service reserve shall be established equal to the three-prong test (10% of the principal amount of the bonds, MADS, or 1.25 times average annual debt service). The reserve will be created at the time of pricing, and will be funded with bond proceeds. Moody's notes the pledge is open loop, with funds flowing first to service the debt; second, to top up the debt service reserve fund; and, eventually, made available for any other lawful purpose.

### **DEBT STRUCTURE**

All debt outstanding is fixed rate, and amortizes over 26 years. Debt service is fairly level at around \$145,000, with MADS of \$145,497 occurring in fiscal 2018. Principal payout is slow with 29.4% retired in ten years.

### **DEBT-RELATED DERIVATIVES**

The county does not have any variable-rate debt, nor is party to any derivative agreements or swap contracts.

### **Management and Governance**

The county is governed by a board of county commissioners, which consists of three individuals elected for four-year terms. The county is divided into three districts, each represented by an elected commissioner. The county has approximately 42 full-time employees.

### **Legal Security**

The bonds are special limited obligations, payable solely from, and secured by, an irrevocable and first lien (but not necessarily an exclusive first lien) upon the pledged revenues, which are defined as the first 1/8th of 1% county GRT, third 1/8th of 1% of county GRT, and 3/8ths of 1% of the county's hold harmless GRT.

### **Use of Proceeds**

Proceeds of the Series 2017 bonds will be used to continue constructing the Mora County Complex, specifically, the county administration offices.

### **Obligor Profile**

Mora County (pop. 4,551, estimated 2017) is located in north central New Mexico and occupies a land area of 1,934 square miles. The village of Mora is the County seat. Also located in the County are a variety of agricultural villages and ranching communities, spread over terrain that includes river valleys and mountain ranges. The County offers year-round tourism possibilities, national parks and forests and historic landmarks as the principal attractions.

Mora County's economic activity centers around its natural resources. Logging, farming and ranching predominate. Hunting, fishing and tourism is a growing business and Mora County is home to several outfitters offering hunting and fishing trips into the mountains.

Mora County is also home to the Mora National Fish Hatchery and Technology Center whose mission is preservation of endangered fish species, and the Mora Research Center, a New Mexico State University Research center for forest genetics and conservation.

## Methodology

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in January 2014. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## Ratings

Exhibit 2

### Mora (County of) NM

| Issue   | Rating             |
|---|--------------------|
| Gross Receipts Tax Revenue Bonds, Series 2017 | Baa1               |
| Rating Type                                   | Underlying LT      |
| Sale Amount                                   | \$1,240,000        |
| Expected Sale Date                            | 04/25/2017         |
| Rating Description                            | Special Tax: Sales |

Source: Moody's Investors Service

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REPORT NUMBER 1068759

## Contacts

Heather Correia  
*Analyst*  
heather.correia@moodys.com

214-979-6868

Robert Weber  
*VP-Senior Analyst*  
robert.weber@moodys.com

212-553-7280

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