MOODY'S
INVESTORS SERVICE

CREDIT OPINION
11 September 2017

New Issue

Rate this Research

Contacts

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

Christopher Coviello 212-553-0575
VP-Senior Analyst
christopher.coviello@moodys.com

Alexandra S. Parker 212-553-4889
MD-Public Finance
alexandra.parker@moodys.com

Los Alamos Public School District, NM

New Issue - Moody's Assigns Aa2 UND/Aa2 ENH to Los Alamos PSD, NM's GOULT Debt; Outlook is Stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 underlying rating to Los Alamos Public School District, NM's $6.5 million General Obligation School Building Bonds, Series 2017. Moody's maintains a Aa2 rating on $29.7 million in outstanding parity debt. The outlook is stable. Moody's has also assigned a Aa2 enhanced rating to the Series 2017 GO bonds based on the New Mexico School District Enhancement Program (NMSDEP) - Post March 30, 2007.

The Aa2 reflects the district's modestly-size tax base that benefits from the institutional presence of Los Alamos National Laboratory, solid income indices, and manageable debt levels. The rating also reflects the district's weak General Fund reserve, which is mitigated due to healthy available liquidity outside of operating funds. The rating further considers an elevated pension burden associated with the state-wide pension plan.

The Aa2 enhanced rating on the Series 2017 General Obligation Bonds is based on our assessment of the NMSDEP - Post March 30, 2007 and a review of the district's proposed financing. For additional information on the program, please see Moody's report dated May 4, 2008.

Credit Strengths

» Modestly-sized and expanding tax base with strong institutional presence

» Healthy liquidity levels maintained outside of general operating funds

» Strong wealth indices

Credit Challenges

» General Fund reserves expected to diminish after state-aid cuts and reserve sweeps

» Economic concentration dependent on federal funding and policy

» High pension burden

Rating Outlook

The stable outlook reflects our expectations that the district's service area will remain stable and that management will maintain an adequate financial reserve position when including liquidity outside of operating funds.

Factors that Could Lead to an Upgrade

» Substantial improvement in General Fund reserves and liquidity

» Trend of significant and sustainable tax base growth

» Significant reduction in pension burden

Factors that Could Lead to a Downgrade

» Deterioration of the district's financial position including reserves maintained outside of general operating funds

» Trend of substantial tax base declines

» Growth in pension burden due to continued shortfall in funding levels

Key Indicators

Exhibit 1

Los Alamos Public School District, NM	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 2,109,162	$ 2,101,222	$ 2,080,429	$ 2,003,898	$ 2,048,309
Full Value Per Capita	$ 117,124	$ 116,871	$ 115,714	$ 111,706	$ 113,795
Median Family Income (% of US Median)	192.8%	193.1%	193.1%	187.3%	187.3%
Finances					
Operating Revenue ($000)	$ 42,279	$ 40,812	$ 42,486	$ 45,090	$ 42,259
Fund Balance as a % of Revenues	27.3%	40.3%	35.8%	31.2%	36.2%
Cash Balance as a % of Revenues	36.4%	39.1%	39.0%	35.9%	38.0%
Debt/Pensions					
Net Direct Debt ($000)	$ 40,415	$ 41,890	$ 41,550	$ 36,400	$ 39,550
Net Direct Debt / Operating Revenues (x)	1.0x	1.0x	1.0x	0.8x	0.9x
Net Direct Debt / Full Value (%)	1.9%	2.0%	2.0%	1.8%	1.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	2.2x	2.6x	2.8x	2.6x	2.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	4.4%	5.1%	5.8%	5.9%	6.0%

Operating Funds include the General Fund and Debt Service Fund
Source: District's Audits; Moody's Investors Service

Recent Developments

State funding to New Mexico school districts was reduced twice during fiscal 2017. In October 2016, the State cut state aid by 1.5%. Then in February 2017, the State swept $46.1 million in district cash balances state-wide, or an effective 2% reduction in state aid. In May 2017, the Governor signed the fiscal 2018 budget that restores state funding of public eduction to the level originally budgeted for 2017.

Detailed Rating Consideration - Enhanced

Moody's has assigned an enhanced rating of Aa2 to the Series 2017 General Obligation School Building Bonds, equivalent to the NMSDEP Post-March 30, 2007 programmatic rating. Ratings on individual intercept financings depend on the programmatic rating as well as our evaluation of the sufficiency of interceptable revenues, the timing of the state's fiscal year relative to scheduled debt service payment dates and the transaction structure.

Based on the district's state equalization guarantee (SEG) funds for fiscal year 2016, interceptable state-aid provides an ample minimum of 4.05 times coverage of maximum periodic debt service. Further, state revenues provide an adequate minimum 3.71 times maximum periodic debt service coverage when coverage is stressed by deducting the state's final monthly state aid payment within a fiscal year. State-aid funding levels for New Mexico school districts have been stable in recent years, but have been subject to midyear cuts, as observed most recently in fiscal 2017. This weakness, however, is mitigated by ample debt service coverage even if aid is curtailed over the course of the year. Principal payments are scheduled for August, early in the State's fiscal year providing for an average interval to mitigate the risk of late budgets. The program requires the appointment of a third-party fiscal agent, who is required to notify the state if an intercept of SEG is required. The Bank of Albuquerque is the fiscal agent for the current sale.

Detailed Rating Consideration - Underlying

Economy and Tax Base: Modestly-Sized Tax Base Anchored by National Laboratory

Los Alamos Public Schools is located in Los Alamos County (sales tax rated A1), which is dependent upon the activities of Los Alamos National Labs (LANL), which is tax-exempt and not reflected in the district's assessed valuations. The district is located 100 miles north of Albuquerque (Aa1 stable), and 40 miles north west of the city of Santa Fe (Aa3 stable). The tax base has declined slightly over the past five years, with an average annual decline of 0.3%; however fiscal 2017 and fiscal 2018 have shown signs of stabilization, with tax base expansion of 2.2% and 1.5%, respectively. Preliminary fiscal 2018 values are $692 million, derived from a full value of $2.1 billion.

LANL is one of the largest science and technology institutions in the nation where nuclear weapons are designed and developed. LANL employees comprise the majority of the district's employment base, as well as drawing employment from nearby counties. LANL employs approximately 14,000 workers and contractors. Of interest, officials report that by 2021, LANL plans to hire around 2,000 new employees to replace those that are retiring. As a consequence, residential development is increasing, with a 500 single-home community already under construction.

Given LANL's concentration of PhDs, income indicators are very high for the community, with the median family income equal to 187.3% of the US median, and 224.6% of the state median. County unemployment rates are low at 4.5% compared to the nation's 4.6% as of July 2017.

Enrollment within the district has remained fairly stable over the last decade with modest growth in recent years. The district accepts students from other school districts and maintains a wait list for prospective students to enter the district. Enrollment totaled 3,634 students for fiscal 2017, which was a 2.0% increase over the prior year. The district anticipates enrollment to continue to see similar growth in the near future due to strong academic success and changing demographics at LANL.

Financial Operations and Reserves: Narrow General Fund Balance Mitigated by Additional Liquidity

Despite plans to utilize a portion of General Fund reserves in the near-term, the district's financial position will remain healthy given sizeable additional liquidity held in the Lease Facilities Fund (LFF), which is legally available for any purpose.

In 2004, Congress approved legislation guaranteeing annual payments to the district of $8 million from the Department of Energy (DOE). The funding is to assist the district in providing quality programming attractive to LANL employees, and ultimately diversifies the district's revenue sources. In fiscal 2016, state appropriations equaled 74% of general operating revenues, while federal assistance equaled 23%. The district further benefits from the additional available liquidity in the Leased Facilities Fund. Los Alamos has entered into several long-term leases with LANL and its contractors. These leased assets provided revenue of approximately $3 million to 3.5 million per year. The funds are unrestricted and the district has utilized the funds to provide additional school programing to its students and other one-time capital investments. Historically, the district has transferred monies to the General Fund from the LFF to cover programming and one-time costs; however, starting in fiscal 2018, the district will either allocate expenditures directly to the LFF, or transfer in only what is necessary.

After a planned $1.5 million General Fund operating deficit and $1 million transfer to the Leased Facilities Fund, the district's fiscal 2016 General Fund balance declined to $2.1 million, or a very narrow 5.9% of total revenues. When including the district's Debt Service Fund and liquidity maintained in the LFF, total reserves equaled $15.7 million, or a healthy 37.2% of combined revenues.

In fiscal 2017, the district's revenues declined by $1.2 million, a reflection of both the mid-year cut and cash balance sweep. Management reports that General Fund cash balance declined to $1.2 million, or 3.2% of fiscal 2016 revenues. The LFF balance was $10.6 million.

The fiscal 2018 budget is balanced without use of reserves. Additionally, the district has $10.6 million in the Lease Facilities Fund, and there are no plans to utilize reserves for any one-time needs. Over the long-term, management does plan to maintain a 3% General Fund balance in order to avoid consideration for any future cash balance sweeps. However, this narrow reserve is mitigated by the LFF.

LIQUIDITY

Available liquidity maintained in the district's General Fund at the end of fiscal 2016 was $2 million, or a narrow 5.4% of revenues. When including the General Fund, Debt Service Fund, and Leased Facilities Fund, the district's available cash at fiscal year-end 2016 was $16 million, or a solid 38% of revenues. Despite the anticipated decline in the district's General Fund for fiscal 2017, total liquidity, including the Lease Facilities Fund, is expected to remain healthy over the near-term.

Debt and Pensions: Manageable Debt Profile and Elevated Pension Burden

The district's debt burden is expected to remain manageable given a stable tax base, rapid principal amortization and state debt caps. Inclusive of the new sale, the district will have $36.2 million in outstanding general obligation debt, which equates to a manageable direct debt burden of 1.7% of the fiscal 2018 preliminary values. Voters authorized a $13 million bond package in January 2017, and will issue the remaining $6.5 million in September 2019. Given rapid principal amortization, the direct debt burden will remain below the state's cap of 2% of full valuation.

DEBT STRUCTURE

Payout of the outstanding debt is rapid with 97.3% of principal retired in ten years. All outstanding debt matures by fiscal 2029.

DEBT-RELATED DERIVATIVES

All of the district's debt is fixed rate and the district has not entered into any derivative agreements.

PENSIONS AND OPEB

The district has an above-average employee pension burden, based on unfunded liabilities for its share of the Educational Retirement Board (ERB), a cost sharing plan administered by the state. Moody's fiscal 2016 adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is $129.2 million, or an elevated 3.1 times operating revenues. The three year average of the district's ANPL to operating revenues is 2.90 times, while the three-year average of ANPL to full value is high at 5.98%.

The district's ANPL has fluctuated over the last several years. In fiscal 2016, pension contributions of $3.4 million were below Moody's "tread water" value of $4.9 million, a credit negative. The "tread water" indicator measures the annual contributions required to prevent the reported net pension liability from increasing, under reported assumptions. The district's fixed costs, including debt service, pensions contributions and OPEB contributions, totaled a somewhat elevated 23.7% of operating revenues, further limiting the district's financial flexibility.

The New Mexico pension plan funding structure experienced several changes with the signing of SB 115, including the reduction of a cost-of-living adjustment (COLA) and increases in employee contributions. The legislation will maintain the funding changes until the plan has reached 100% funding, which is estimated to be achieved in 2043. We believe the funding changes adopted in SB 115 will limit budgetary pressure on the district related to future pension costs.

Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions and the related credit impact on companies, government, and other entities across the globe, please visit Moody's on Pensions at www.moodys.com/pensions.

Management and Governance

Policy making and supervisory functions are the responsibility of and are vested in a five-member Board of Education. The Board delegates administrative responsibilities to the Superintendent of Schools. District management has demonstrated the ability to operate the district with narrow reserve levels over the last several years and has made prompt expenditure adjustments in response

to state aid reductions. The district benefits from additional liquidity offered by the DOE and leased revenues, though current use of Leased Facilities revenues will rapidly deplete any available liquidity.

New Mexico School Districts have an Institutional Framework score of A, which is moderate compared to the nation. 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 overriden (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 has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

Legal Security

The bonds 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 2017 bonds will be used for erecting, remodeling, making additions to and furnishing school buildings, purchasing and improving school grounds, and purchasing computer software and hardware for student use in public school classrooms.

Obligor Profile

Los Alamos Public Schools serves the community of Los Alamos, and the surrounding areas in Los Alamos County. The district serves approximately 3,700 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: Pre and Post Default published in July 2013. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

Los Alamos Public School District, NM

Issue	Rating
General Obligation School Building Bonds, Series 2017	Aa2
Rating Type	Underlying LT
Sale Amount	$6,500,000
Expected Sale Date	09/12/2017
Rating Description	General Obligation
General Obligation School Building Bonds, Series 2017	Aa2
Rating Type	Enhanced LT
Sale Amount	$6,500,000
Expected Sale Date	09/12/2017
Rating Description	General Obligation

Source: Moody's Investors Service

REPORT NUMBER 1090279

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE