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Ratings

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Summary:

Bernalillo & Sandoval Counties Municipal School District No.12 (Albuquerque), New Mexico; General Obligation

Primary Credit Analyst:
Cody J Nelson, San Francisco 415-371-5022; cody.nelson@spglobal.com

Secondary Contact:
Alyssa B Farrell, Centennial (1) 303-721-4184; alyssa.farrell@spglobal.com

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Credit Profile		
US$49.1 mil GO rfdg bnds ser 2017A dtd 08/18/2017 due 08/01/2022		
Long Term Rating	AA/Negative	New
Albuquerque Mun Sch Dist #12 GO		
Long Term Rating	AA/Negative	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Bernalillo and Sandoval Counties Municipal School District No. 12 (Albuquerque), N.M.'s series 2017A general obligation (GO) refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term and underlying (SPUR) on the district's existing GO debt. The outlook is negative.

The negative outlook reflects our view of a one-in-three chance that the rating could be downgraded within our two-year outlook horizon due to current-year state equalization payment reductions due to SB114 and resulting reduced budgetary flexibility, combined with uncertainty surrounding future state budgets, which could lead to further reduced budgetary flexibility and weakened budgetary performance.

The GO bonds are general obligations of the district and paid from ad valorem taxes levied against all taxable property in the district without limitation as to rate or amount. The series 2017A GO refunding bonds will advance refund for the district's existing series 2009A GO bonds (maturities after 2020).

The GO ratings reflect our view of the district's:

- Stable and diverse local economy in the Albuquerque metropolitan area;
- Continued financial strengthening, with audited available reserves at 7.5% of expenditures in fiscal 2015;
- Good financial management policies and practices; and
- Low overall net debt burden.

In our opinion, partly offsetting the foregoing strengths are the district's:

- Declining enrollment trend, which drives operating revenues, and
- Recent declines in state funding with expectations of continued state pressure within our two-year outlook horizon.

Economy

Bernalillo and Sandoval Counties Municipal School District No. 12 (Albuquerque) serves an estimated population of 682,940. The median household effective buying income (EBI) in the district is 93% of the national average, and the per capita EBI in the district is 96% of the national average, both of which we consider good. At $85,281 per capita, the 2017 actual valuation totaling $58.2 billion is, in our opinion, very strong. Assessed valuation (AV) grew by a total of 5.0% since 2015 to $15.8 billion in 2017. The 10 largest taxpayers make up an estimated 2.7% of AV, which we consider very diverse.

The 1,230-square-mile district is at the state's economic center and includes almost all the tax base of Bernalillo County, Albuquerque, and a small portion of Sandoval County. It is New Mexico's largest school district and has a total of 142 school sites (89 elementary schools, 27 middle schools, 13 high schools, two K-8 schools, and 11 schools of choice). Major areas of employment include government, health care, and education services. Bernalillo County's unemployment rate averaged 5.9% in 2015, below the statewide average of 6.6% but above the national average of 5.3%. We expect AV in the district will continue to increase with modest residential growth in the district.

Overall, we are forecasting stable to positive growth for the broader New Mexico region, inclusive of Albuquerque. As we believe that the region's above-average population growth over the next two years will come in large part from expanding employment in the professional service, hospitality, and leisure sectors, we don't expect global uncertainty and volatile equity markets will have much impact on local governments. We also expect increases in home prices and consumer spending will contribute to improved revenue performance for many local governments in the Mountain region, particularly those that rely on property taxes and sales taxes. As a result, we expect the broader macroeconomic forces to support our view of continued economic growth for the district's economic profile. For additional information, please refer to our U.S. State And Local Government Credit Conditions Forecast, published July 11, 2017 on RatingsDirect.

Finances

Enrollment is a primary driver in the state's equalization formula. Student enrollment for 2017 totaled 85,905. Enrollment decreased overall from 2013 to 2017 as young families left the district in search of employment during the economic downturn. Management expects enrollment will pick back up in 2020 and remain above 80,000 students, with increasing birth rates and residential development. The district continues to work toward growing its enrollment by expanding its dual language, STEM (science, technology, engineering, and mathematics), and AVID (Advancement Via Individual Determination) programs. We also believe that the district's enrollment trend will stabilize as regional economic trends point to improved demographics and increased demand for the school district.

As noted earlier, on Jan. 31, New Mexico Gov. Susana Martinez signed off on SB114 (school district cash balances). The bill was part of a broader legislative agenda to address the state's large mid-year budget deficit led by revenue declines from federal mineral leasing and the state's gross receipts tax (GRT). Specifically, SB114 authorized the state to withhold $46 million of state equalization guarantee distributions to school districts with fund balance reserves in excess of 3% for fiscal 2017. The New Mexico secretary of education disburses state equalization funds to school districts on a monthly basis and, as a result, SB114 reductions were evenly allocated through the close of the 2017 fiscal year.

S&P Global Ratings continues to view the passage of SB114 and withholding of state equalization payments to local school districts as a negative pressure upon our New Mexico school district portfolio, due to reduced budgetary flexibility and the resulting increase in uncertainty for budgetary planning. As a result of SB114, the reduction of state equalization revenue to the district was approximately $25 million, which led to an operating deficit of $10.6 million based upon the district's fiscal 2017 estimated actuals. In addition, the district is budgeting for a $6.0 million deficit in fiscal 2018 as a result of the state environment. Our pro forma estimate of the district's reserve position places it between 6% and 7.3% of general fund operating expenditures through fiscal 2018, or a level that is still above the district's 5% fund balance reserve policy. We note that the district's prudent financial mid-year budget adjustments continue to support our current long-term rating of 'AA' as the district is demonstrating a strong commitment of compliance with its 5% fund balance reserve policy. Ultimately the state's revenue environment and support for school district funding will remain the key headwind for the district's financial profile through our two-year outlook horizon. For additional information regarding the state of New Mexico's budget position, please refer to our article published July 12, 2017, on RatingsDirect.

Historically, the district's available fund balance levels have been at a level that we consider strong to good at 8.5% of general fund operating expenditures in fiscal 2016 and 7.5% in fiscal 2015. The district's general fund operating trend was also positive as the district has posted operating surpluses in each of the past five audited years that include the most recent fiscal 2016 audit with reserves of 8.5% of expenditures, which we consider strong.

Management

We consider the district's management practices good under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Key policies and practices include the district's:

- Budget assumptions based on external sources and historical trends;
- Quarterly presentation of budget-to-actual reports to the board;
- Five-year capital improvement plan that identifies projects and funding sources;
- Formal investment management policy and quarterly review of investment reports;
- Debt management policy that follows state guidelines; and
- Formal minimum reserve policy of 5.0% for cash-flow needs and economic uncertainties.

Debt

Overall net debt is low, in our opinion, at 2.3% of market value and $1,932 per capita. With 75% of the district's direct debt scheduled to be retired within 10 years, amortization is rapid. Debt service carrying charges were 8.7% of total governmental fund expenditures in fiscal 2016, which we consider moderate.

In 2013, the district entered into a lease purchase agreement with the New Mexico Finance Authority, with outstanding payments of approximately $3.3 million (less than 1% of general fund expenditures). The lease agreement contains no acceleration provisions and we do not view the privately placed debt as a material risk to the district's reserve or cash position. The district plans to issue approximately $125 million in additional GO debt in 2018.

Pension and other postemployment benefit (OPEB) liabilities

The district paid its full required contribution toward its pension obligations in fiscal 2016, or 6.4% of total governmental expenditures. The district also contributed 0.9% of total governmental expenditures, toward its OPEB obligations in fiscal 2016. Combined pension and OPEB carrying charges totaled 7.4% of total governmental fund expenditures in 2016.

The district participates in the New Mexico Educational Employees' Retirement Plan, a cost sharing, multiple employer plan administered by the Educational Retirement Board. The plan is 66.5% funded, using its fiduciary net position as a percentage of the total pension liability.

Outlook

The negative outlook reflects our view of a one-in-three chance of a rating downgrade within our two-year outlook horizon due to current year state equalization payments reductions from SB114 and resulting in reduced budgetary flexibility, combined with uncertainty surrounding the fiscal 2018 budget, which could lead to further reduced budgetary flexibility and weakened budgetary performance. We could revise the outlook to stable should the district make budget reductions necessary to mitigate its current trend of reduced budgetary flexibility and general fund operating deficits. A return to stable scenario would also be contingent upon an improved state fund environment.

Related Research

U.S. State And Local Government Credit Conditions Forecast, July 24, 2017

Ratings Detail (As Of August 23, 2017)		
Albuquerque Mun Sch Dist #12 GO sch bldg bnds (Albuquerque Pub Schs)		
Long Term Rating	AA/Negative	Affirmed
Bernalillo & Sandoval Cntys Mun Sch Dist #12 (Albuquerque) GO		
Long Term Rating	AA/Negative	Affirmed
Bernalillo & Sandoval Cntys Mun Sch Dist #12 (Albuquerque) GO		
Long Term Rating	AA/Negative	Affirmed
Albuquerque Mun Sch Dist #12 GO		
Unenhanced Rating	AA(SPUR)/Negative	Affirmed
Many issues are enhanced by bond insurance.		

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.