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CREDIT OPINION
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Contacts

Heather Correia +1.214.979.6868
Analyst
heather.correia@moodys.com

Valentina Gomez +1.212.553.4861
AVP-Analyst
valentina.gomez@moodys.com

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Ruidoso Municipal S.D. 3 (Lincoln County), NM

Update following upgrade of GOs to Aa3

Summary
Ruidoso Municipal School District (MSD) No. 3's NM's credit profile is stable overall. After a trend of surpluses, the district's financial position is healthy, especially relative to state peers. The tax base is moderately-sized at a little over $2 billion. While the local economy is based on tourism, resulting in a high full value per capita, enrollment is fairly stable. The direct debt burden is manageable, but the credit profile is challenged by an elevated pension burden, and annual contributions remain unfavorably below tread water.

Credit strengths

» Trend of surpluses increasing reserves to levels above state medians

» Stable tax base that continues to modestly expand on an annual basis

Credit challenges

» Local economy is based on tourism; below average wealth indices

» Elevated pension and fixed cost burdens

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

» Material tax base growth and additional economic diversification

» Material reduction to the pension and fixed cost burdens

Factors that could lead to a downgrade

» Deterioration of reserves

» Material tax base contractions

» Increases to the pension and fixed cost burdens that are not in line with peers

Key indicators

Exhibit 1

Ruidoso Schools, NM	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value ($000)	$1,964,103	$2,029,381	$2,032,773	$2,046,073	$2,141,209
Population	13,762	13,313	12,861	13,200	13,200
Full Value Per Capita	$142,719	$152,436	$158,057	$155,006	$162,213
Median Family Income (% of US Median)	75.7%	72.9%	85.9%	85.9%	85.9%
Finances					
Operating Revenue ($000)	$20,526	$20,245	$18,859	$20,068	$21,016
Fund Balance ($000)	$7,378	$8,549	$8,626	$9,399	$10,574
Cash Balance ($000)	$6,841	$8,830	$8,374	$8,789	$9,763
Fund Balance as a % of Revenues	35.9%	42.2%	45.7%	46.8%	50.3%
Cash Balance as a % of Revenues	33.3%	43.6%	44.4%	43.8%	46.5%
Debt/Pensions					
Net Direct Debt ($000)	$31,065	$28,255	$40,200	$37,115	$36,915
3-Year Average of Moody's ANPL ($000)	$48,641	$48,968	$54,664	$59,177	$62,729
Net Direct Debt / Full Value (%)	1.6%	1.4%	2.0%	1.8%	1.7%
Net Direct Debt / Operating Revenues (x)	1.5x	1.4x	2.1x	1.8x	1.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.5%	2.4%	2.7%	2.9%	2.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	2.4x	2.4x	2.9x	2.9x	3.0x

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

Profile

Located in southeastern New Mexico, the district encompasses around 140 square miles, and serves the Village of Ruidoso and surrounding area. Fiscal 2020 enrollment is approximately 2,000.

Detailed credit considerations

Economy and tax base: moderately-sized tax base in southeastern New Mexico

Ruidoso MSD's tax base will likely remain stable over the mid-term given modest commercial development and appreciation of residential values. Located in Southern New Mexico in the Lincoln National Forest, the district is 75 miles west of Roswell (Aa2). The tax base is moderately-sized with fiscal 2020 assessed value (AV) of $742.8 million, derived from a full value (FV) of $2.2 billion. Of note, full value per capita is high at $169,000, although median family income is below average at 85.9% of the US (2017 ACS). Officials report that Ruidoso is a tourist destination, and that a portion of the residential base are vacation homes.

The local economy is based on tourism. During peak winter and summer seasons, the Village's population swells to 25,000 from the usual 8,000. Visitors are offered a wide range of activities, including skiing, zip-lining, golfing and gambling at both casinos and racetracks. Seasonal labor does drive increased unemployment levels, that hover around 4.6% compared to the nation's 3.3% (November 2019). Positively, officials report that the local hospital has concluded its renovation, and will be hiring additional staff, offering full-time employment opportunities.

In addition to high unemployment, another byproduct of a tourist-based economy is fluctuations in enrollment. Positively, in fiscal 2020, enrollment is up by around 10 students at 2,031. For budgeting purposes, the district does assume flat enrollment.

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Financial operations and reserves: strong trends

The district has strong financial trends, a credit strength. Over the past several years, the district has successfully reported surpluses, increasing reserves to levels comparable to Aa medians. At fiscal 2019 year-end, the district reported a $792,000 surplus, growing general fund balance to $6.1 million, or 36.7% of revenues. Given that the vast majority of revenues are state aid, to realize surpluses, management has closely monitored expenditures, matching staffing levels to enrollment. Operating funds, including the general fund and debt service fund, is $10.6 million, or 50.3% of operating revenues. The district pays annual debt service in August, thus, at fiscal year end (June 30) fund balance is at its peak.

The fiscal 2020 budget projected a modest surplus with revenues of $18 million against expenditures of $17.8 million. Officials anticipate closing the year with another modest surplus.

The district has not prepared its fiscal 2021 budget. While management does not expect to continue adding to fund balance (as it is well above internal and state recommended levels), they do not anticipate drawing on reserves either.

LIQUIDITY

Similar to fund balance, general fund cash has increased over the past several years. At fiscal 2019 year-end, cash was $5.4 million, or 32.2% of revenues. The difference between fund balance and cash is $1.5 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 $9.6 million, or 46.5% 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 1.6% of fiscal 2020 full value, the district's debt burden is slightly above state and national medians. Principal payout is above average, with 84% retired in ten years. The district plans to issue $4 million in new money in 2022. 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 has $36.4 million in fixed-rated obligations. All debt matures in 2034.

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). Ruidoso'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 $61.4 million, or an elevated 3.06x operating revenues.

In addition to high ANPL to revenue ratio, the district's tread water gap has widened over the last several years to 3.2% 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 $1.4 million were below the tread water indicator of $4 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 $9.6 million in fiscal 2018, or an above average 48% of operating revenues. Fixed costs, including pension and OPEB contributions and debt service are an above average 27% of operating revenue. Inclusive of tread water, they jump to 30%.

Management and governance: institutional framework score of Baa

The district's 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. The district has an informal fund balance policy to maintain at least 20% of operating expenditures in reserve, well above the state's recommended 3% to 5%.

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

Ruidoso Schools, NM

Rating Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$2,230,633	Aa
Full Value Per Capita	$168,987	Aaa
Median Family Income (% of US Median)	85.9%	A
Finances (30%)		
Fund Balance as a % of Revenues	50.3%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	23.8%	Aa
Cash Balance as a % of Revenues	46.5%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	20.3%	Aa
Management (20%)		
Institutional Framework	Baa	Baa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.1x	Aaa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.6%	Aa
Net Direct Debt / Operating Revenues (x)	1.7x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.8%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	3.0x	A
Notching Factors:[2]		
Other Analyst Adjustment to Debt and Pensions Factor (specify):		Down
	Scorecard-Indicated Outcome	Aa3
	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.
(3) Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Source: US Census; Moody's

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