

CREDIT OPINION

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Roswell I.S.D. (Chaves County), NM

Update to credit analysis

Summary

Roswell Independent School District's (Aa2) credit profile benefits from a stable and moderately-sized tax base that includes the [City of Roswell](#) (Aa2 negative), the largest city in southeastern New Mexico. The district has benefited from recent increases to state aid and the financial position remains stable with sound reserves. The direct debt burden is manageable and principal amortization is rapid. The credit profile is challenged by an elevated pension burden based on its share of New Mexico ERB's unfunded liabilities, and annual contributions remain unfavorably below the tread water level.

Credit strengths

- » Manageable debt burden with rapid principal amortization
- » Serves Roswell, a regionally important city in southeastern New Mexico

Credit challenges

- » Elevated pension burden and weak annual pension contributions

Rating outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Trend of surplus operations, adding to fund balance and reserves
- » Significant tax base expansion
- » Material reductions to pension and fixed cost burdens

Factors that could lead to a downgrade

- » Trend of deficit operations that reduces reserves
- » Sustained tax base contractions
- » Increases to the pension and fixed cost burdens that are not comparable to peers

Key indicators

Exhibit 1

Roswell I.S.D. (Chaves County), NM	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value (\$000)	\$2,923,504	\$3,051,295	\$3,119,981	\$3,124,165	\$3,248,176
Population	58,335	58,228	58,469	58,417	50,000
Full Value Per Capita	\$50,116	\$52,403	\$53,361	\$53,480	\$64,964
Median Family Income (% of US Median)	75.2%	75.1%	72.0%	71.4%	71.4%
Finances					
Operating Revenue (\$000)	\$82,285	\$82,287	\$78,049	\$82,946	\$84,046
Fund Balance (\$000)	\$12,147	\$14,565	\$18,009	\$20,769	\$20,522
Cash Balance (\$000)	\$16,893	\$19,456	\$11,582	\$18,618	\$18,760
Fund Balance as a % of Revenues	14.8%	17.7%	23.1%	25.0%	24.4%
Cash Balance as a % of Revenues	20.5%	23.6%	14.8%	22.4%	22.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$49,680	\$45,255	\$40,950	\$39,740	\$39,135
3-Year Average of Moody's ANPL (\$000)	\$233,310	\$241,782	\$269,227	\$299,156	\$317,118
Net Direct Debt / Full Value (%)	1.7%	1.5%	1.3%	1.3%	1.2%
Net Direct Debt / Operating Revenues (x)	0.6x	0.5x	0.5x	0.5x	0.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	8.0%	7.9%	8.6%	9.6%	9.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	2.8x	2.9x	3.4x	3.6x	3.8x

Source: Roswell ISD's audited financial statements; American Community Survey; Moody's Investors Service

Profile

Roswell ISD is in the City of Roswell, 200 miles southeast of the [City of Albuquerque](#) (Aa2 negative). The economy of the local area is based primarily on agriculture, oil and gas production, industrial manufacturing and wholesale and retail distribution. The region is accessible by both rail and commercial airline. The district is the largest employer in the county and educates over 10,000 students.

Detailed credit considerations

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

The district's tax base will remain stable over the mid-term, benefitting from appreciating property values and some residential development in and around Roswell. Tax base growth has been modest over the past five years, averaging 2.6% annually. Fiscal 2020 assessed value (AV) increased 2.2% to \$1.1 billion, derived from a full value (FV) of \$3.3 billion.

The district is near the Permian Basin, but the local economy is diverse and is centered around agriculture (dairy) and manufacturing, rather than oil and gas production. Leprino Foods, the largest manufacturer of mozzarella cheese in the world, has a plant in Roswell. Additionally, Roswell Industrial Air Center, formerly Walker Air Force Base, refurbishes aircrafts. The tax base is further diversified by New Mexico Military Institute, Eastern New Mexico University - Roswell branch, and Eastern New Mexico Medical Center.

Overall enrollment has been stable for the past five years, with modest fluctuations year to year. Current enrollment is 10,372 and officials anticipate stable enrollment over the near term.

Financial operations and reserves: stable financial position will continue

The financial position will remain stable given conservative budgeting practices and a management team focused on retaining cash. Fiscal 2019 audited results reflect balanced general fund operations, with an available fund balance of \$14.1 million or 18.1% of revenue.

The fiscal 2020 budget is balanced with cash reserves, a practice required by the Public Education Department. Seven months into the year, revenue is trending positively due to an increase in per pupil funding, and expenses are on track.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Sidney Gutierrez Charter School is a component unit of the district. The charter school's fiscal 2019 audited results (as shown in the school district's audit) reflect a \$52,000 surplus in the general fund, which increased fund balance to 59.3% of revenue. The charter school had \$447,000 of operating cash on hand at 2018 year-end, equal to 63.5% of revenue.

LIQUIDITY

Cash will remain stable. Fiscal 2019 ended with \$12.5 million in General Fund cash or 16% of revenue. Operating fund cash totaled \$18.8 million or 22.3% of total revenue.

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

Despite plans to issue again in the near-term, the district's debt burden will remain manageable given rapid principal amortization. Post-sale of the Series 2020 bonds, the direct debt burden will be 1.2% of fiscal 2020 full value, which is in line with state and national medians. Management plans to approach voters in 2023 for a bond package of approximately \$22 million.

DEBT STRUCTURE

All debt is fixed rate and principal amortization is fast with 93% retired in 10 years.

DEBT-RELATED DERIVATIVES

The district is not party to any interest rate swaps or other 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). Roswell'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 2019 adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is \$308.4 million, or an elevated 3.7x operating revenue.

In addition to a high ANPL (relative to revenues), the district's tread water gap has widened over the last several years. 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 2019, pension contributions of \$7.5 million were below the tread water indicator of \$10.8 million, a credit negative.

Moody's calculated unfunded OPEB liability was \$48.5 million in fiscal 2019, or an above average 58% of operating revenue. Fiscal 2019 fixed costs, including pension, OPEB contributions and debt service, were 17.4% of operating revenue. Inclusive of tread water, they jump to 21.3%.

ESG considerations

Environmental risks do not present a material immediate challenge to the district. Its location in southeastern New Mexico puts it at low risk for heat stress.

The district's low resident income indicators and elevated poverty represent a social challenge to the district. Median family income is 71.4% of the US (2018 American Community Survey) and poverty is 21%. The City of Roswell's unemployment rate is 4.9% as of December 2019, which is higher than the state (4.5%) and nation (3.4%). Positively, the local population of the district has been stable since the 2010 Census.

Governance of the district is strong, evidenced by management's ability to maintain healthy reserves for the past several years despite a cash balance sweep by the state in fiscal 2017. The district is governed by a five-member board and members serve 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 Rating 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

Rating Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$3,318,639	Aa
Full Value Per Capita	\$66,373	Aa
Median Family Income (% of US Median)	71.4%	Baa
Notching Factors: ^[2]		
Regional Economic Center		Up
Finances (30%)		
Fund Balance as a % of Revenues	24.4%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	14.7%	Aa
Cash Balance as a % of Revenues	22.3%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	6.4%	A
Management (20%)		
Institutional Framework	Baa	Baa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.2%	Aa
Net Direct Debt / Operating Revenues (x)	0.5x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	9.6%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	3.8x	Baa
Scorecard-Indicated Outcome		Aa3
Assigned Rating		Aa2

[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 September 27, 2019

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs Updated for 2018 publication

Source: US Bureau of Economic Analysis, State CAFRs, Moody's Investors Service

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