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West Las Vegas Municipal School Dist. 1, NM

Update to credit analysis

Summary

West Las Vegas School District 1, NM's (A3) credit profile is generally stable. Over the past several years financial performance has been inconsistent, but reserves remain adequate. Fiscal 2019 ended with a general fund deficit, but a surplus is projected for fiscal 2020 year-end. The tax base is small but has been growing modestly due to positive reappraisals, and enrollment has been relatively stable for the past few years. Rapid payout will keep the debt burden manageable despite future debt plans. The credit profile is challenged by low income levels and elevated poverty, as well as 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.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis could impact the district's state aid in future years. Like all New Mexico schools, the district depends on the state for most of its operational funding. The State of New Mexico (Aa2 stable) is currently facing a budgetary gap, which has potential to impact fiscal 2021 state aid allocations. The state is making all districts whole through fiscal 2020 (ending June 30). The situation surrounding the coronavirus is rapidly evolving and the longer-term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the district changes, we will update our opinion at that time.

Credit strengths

- Manageable debt burden with rapid principal amortization
- Stable tax base

Credit challenges

- Very weak resident income levels and elevated poverty
- Elevated pension and fixed cost burdens

Rating outlook

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

Factors that could lead to an upgrade

» Significant increases to fund balance and liquidity

» Tax base expansion, economic diversification and improvement of income indices

» Material reductions to the pension and fixed cost burdens

Factors that could lead to a downgrade

» Failure to materially increase fund balance and liquidity (as projected for fiscal 2020)

» Material tax base contraction

» Increases to the pension and fixed cost burdens that are not comparable to peers

Key indicators

Exhibit 1

West Las Vegas Municipal School Dist. 1, NM	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value ($000)	$527,021	$558,410	$562,519	$569,452	$591,216
Population	9,626	9,533	9,774	10,179	10,179
Full Value Per Capita	$54,750	$58,577	$57,553	$55,944	$58,082
Median Family Income (% of US Median)	45.9%	43.9%	40.8%	42.3%	42.3%
Finances					
Operating Revenue ($000)	$16,642	$15,817	$15,571	$15,714	$15,554
Fund Balance ($000)	$2,956	$1,529	$2,742	$3,969	$3,830
Cash Balance ($000)	$2,197	$1,988	$1,680	$3,512	$2,847
Fund Balance as a % of Revenues	17.8%	9.7%	17.6%	25.3%	24.6%
Cash Balance as a % of Revenues	13.2%	12.6%	10.8%	22.3%	18.3%
Debt/Pensions					
Net Direct Debt ($000)	$7,830	$7,260	$7,310	$8,435	$9,390
3-Year Average of Moody's ANPL ($000)	$51,499	$50,586	$54,658	$58,132	$60,868
Net Direct Debt / Full Value (%)	1.5%	1.3%	1.3%	1.5%	1.6%
Net Direct Debt / Operating Revenues (x)	0.5x	0.5x	0.5x	0.5x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	9.8%	9.1%	9.7%	10.2%	10.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	3.1x	3.2x	3.5x	3.7x	3.9x

Finances include general and debt service funds
Source: the district's audited financial statements; American Community Survey; Moody's Investors Service

Profile

Located approximately 120 miles northwest of the City of Albuquerque (Aa3 negative), West Las Vegas Municipal School District serves the City of Las Vegas (A2) and surrounding areas within San Miguel County. The district manages 11 schools and provides K-12 education services to approximately 1,400 students.

Detailed credit considerations

Economy and tax base: rural economy northwest of Albuquerque

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to the tourism, healthcare, retail, oil and gas and international trade sectors could suffer particularly severe impacts.

Tax base growth has been modest over the past five years, averaging 3.3% annually, driven by positive reappraisals. Fiscal 2020 assessed value (AV) increased 4.7% to $206 million, derived from a full value (FV) of $618.8 million. The top five taxpayers account for a moderate 10.1% of fiscal 2020 AV and are reportedly stable.

Enrollment has been stable for the past few years following moderate declines in fiscal 2016 and 2017. Fiscal 2020 enrollment was stable at 1,432 students. Officials expect enrollment to remain around 1,450 students over the next few years.

Financial operations and reserves: financial position should improve in fiscal 2020 to levels more in line with peers

Financial performance has been inconsistent over the past six years, but the district maintains adequate reserves. Fiscal 2019 audited results reflect a $367 thousand general fund deficit, which underperformed the district's expectations during our June 2019 review when a surplus was expected. Management attributes the difference to a bus purchase late in the fiscal year. Available fund balance declined to $1.6 million or 12.1% of revenue, which is below the state and national A3 medians.

Management projects that fiscal 2020 will end with a surplus that increases the general fund balance to around $2.5 million because of salary savings and additional expenditure reductions due to the suspension of on campus classes since March. The district's ability to materially increase fund balance and perform in line with projections will be a key factor in future reviews.

Rio Gallinas Charter School is a component unit of the district. The charter school's fiscal 2019 audited results reflect a $74 thousand surplus in the general fund, which increased fund balance to 38.6% of revenue. The charter school had $211 thousand of general fund cash on hand at 2019 year-end, equal to 27.6% of revenue.

LIQUIDITY

Fiscal 2019 ended with $700 thousand in General Fund cash, equal to a low 5.2% of revenue. At fiscal year-end, the district had $1 million in receivables for short-term loans to other funds until grant revenue was received. The receivables were paid in the subsequent fiscal year. Operating fund cash (which includes the debt service fund) totaled $2.8 million or 18.3% of total revenue.

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

Despite plans to issue debt in the near-term, the debt burden will remain manageable given rapid principal amortization. Post-sale of the Series 2020 bonds, the direct debt burden increases to 2% of fiscal 2020 full value, which is above the state median but below the national median. Management plans to approach voters in February 2021 for a bond package of approximately $7.5 million. Debt service is front-loaded, allowing additional bonds to be layered in without increasing the tax rate.

DEBT STRUCTURE

All debt is fixed rate and principal amortization is fast with 95% 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). The district'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 $59.3 million, or an elevated 3.8x 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 $1.4 million were below the tread water indicator of $2 million, a credit negative.

Moody's calculated unfunded OPEB liability was $9.3 million in fiscal 2019, or an above average 60% of operating revenue. Fiscal 2019 fixed costs, including pension, OPEB contributions and debt service, were 21.5% of operating revenue. Inclusive of tread water, they jump to 25.7%.

ESG considerations

ENVIRONMENTAL

Environmental risks do not present a material immediate challenge to the district.

SOCIAL

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The district's very weak resident income indicators and elevated poverty represent a social challenge to the district. Median family income is 42.3% of the US (2018 American Community Survey) and poverty is 38%. San Miguel County's unemployment rate increased to 10.2% in April, which is slightly lower than the state (11.3%) and nation (14.7%).

GOVERNANCE

The district is governed by a five-member board of trustees who serve four-year terms. The board performs policy-making and supervisory functions and delegates administrative responsibilities to the superintendent of schools, who is the chief administrative officer of the district.

New Mexico School Districts have an Institutional Framework score of Baa, which is low. 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

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$618,768	A
Full Value Per Capita	$60,789	A
Median Family Income (% of US Median)	42.3%	Ba
Notching Factors:[2]		
Outsized Unemployment or Poverty Levels		Down
Finances (30%)		
Fund Balance as a % of Revenues	24.6%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	12.7%	Aa
Cash Balance as a % of Revenues	18.3%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	5.4%	A
Management (20%)		
Institutional Framework	Baa	Baa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.0%	A
Net Direct Debt / Operating Revenues (x)	0.8x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	9.8%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	3.9x	Baa
Notching Factors:[2]		
Other Analyst Adjustment to Debt and Pensions Factor (specify): widening treadwater gap based on the district's participation in ERB		Down
	Scorecard-Indicated Outcome	A3
	Assigned Rating	A3

[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 Bureau, Moody's Investors Service

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