

## CREDIT OPINION

17 December 2021

 Rate this Research

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# Bernalillo Municipal SD 1 (Sandoval County), NM

Update to credit analysis

## Summary

[Bernalillo Municipal School District \(MSD\) 1](#), NM's credit profile is solid, and benefits from a strong financial position, stable local economy and manageable fixed costs. The rating is constrained by declining enrollment trends, although management reports that some students lost during the pandemic have since returned to the district, and an above average long-term liabilities ratio, a result of participation in the state's poorly-funded pension plan.

## Credit strengths

- » Strong financial position
- » Manageable fixed costs

## Credit challenges

- » Elevated long-term liabilities ration driven by annual underfunding of the pension liability
- » Negative enrollment trends

## Rating outlook

Moody's does not usually assign outlooks to local governments with this amount of debt.

## Factors that could lead to an upgrade

- » Moderation of long-term liabilities and fixed costs
- » Trend of enrollment gains
- » Material increases to reserves

## Factors that could lead to a downgrade

- » Sustained enrollment losses
- » Material drawdown of reserves
- » Substantial increase in long-term liabilities and fixed costs

## Key indicators

Exhibit 1

### Bernalillo Mun. S.D. 1 (Sandoval County), NM

	2017	2018	2019	2020	A Medians
<b>Economy</b>					
Resident income	98.2%	91.1%	89.9%	N/A	97.0%
Full value (\$000)	\$1,893,139	\$1,914,719	\$1,926,701	\$1,976,686	\$1,077,779
Population	25,480	24,697	24,962	N/A	13,232
Full value per capita	\$74,299	\$77,528	\$77,185	N/A	\$82,579
Enrollment	3,188	2,936	2,831	2,838	1,870
Enrollment trend	N/A	N/A	-3.4%	-3.8%	-0.5%
<b>Financial performance</b>					
Operating revenue (\$000)	\$31,423	\$33,045	\$33,223	\$38,832	\$26,801
Available fund balance (\$000)	\$9,020	\$10,045	\$10,333	\$14,192	\$5,966
Net cash (\$000)	\$8,544	\$8,837	\$7,802	\$13,018	\$6,545
Available fund balance ratio	28.7%	30.4%	31.1%	36.5%	21.9%
Net cash ratio	27.2%	26.7%	23.5%	33.5%	26.0%
<b>Leverage</b>					
Debt (\$000)	\$36,177	\$34,747	\$34,485	\$35,078	\$20,717
ANPL (\$000)	\$133,938	\$127,806	\$118,447	\$132,032	\$40,570
OPEB (\$000)	N/A	\$20,363	\$18,696	\$16,633	\$3,790
Long-term liabilities ratio	N/A	553.5%	516.6%	473.2%	295.9%
Implied debt service (\$000)	\$2,747	\$2,687	\$2,560	\$2,514	\$1,451
Pension tread water (\$000)	\$4,367	\$4,239	\$4,086	\$4,129	\$1,311
OPEB contributions (\$000)	N/A	\$371	\$396	\$439	\$167
Fixed-costs ratio	N/A	22.1%	21.2%	18.2%	13.1%

For definitions of the metrics in the table above please refer to the [US K-12 Public School Districts Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [K12 Median Report](#).

Sources: US Census Bureau, Bernalillo Mun. S.D. 1 (Sandoval County), NM's financial statements and Moody's Investors Service

## Profile

Bernalillo Municipal SD 1 (Sandoval County) is located in central New Mexico, approximately 15 miles north of central [Albuquerque](#) (Aa3 positive). In 2020, the district's enrollment was 2,838.

## Detailed credit considerations

### Economy

The tax base will likely modestly appreciate and see population growth over the next several years due to ongoing residential and commercial development. Located between Albuquerque and Santa Fe, the area serves as a bedroom community for those commuting into both cities. State highway 550 runs through Bernalillo and most commercial development within the district is happening along this corridor. Officials report ongoing residential construction within the district with several communities under development. Median household income and full value per capita are slightly below average at 89.9% of the US median and \$77,000, respectively.

Prior to the pandemic, enrollment was declining in the area as the population aged. During the pandemic, many parents within the district opted to either homeschool their children, or send them to charter schools rather than navigate remote learning. As a consequence, enrollment declined to 2,719 in fiscal 2021 from 2,838 in fiscal 2020. Management reports that now that classes are back "in-person", enrollment has rebounded slightly and is expected to stabilize around 2,800.

### Financial operations

We expect the district to maintain reserves around current levels due to conservative budgeting and historical precedent. The general fund realized a surplus of \$3.9 million in fiscal 2020 which increased available fund balance to \$7.4 million representing a strong 22.7% of revenue. The district achieved the surplus through the receipt of higher than anticipated revenue, including federal stimulus funds,

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and cost savings from when schools were closed for virtual learning due to the coronavirus pandemic. Fund balance across operating funds (general fund and debt service fund), totaled \$14.2 million representing 36.5% of operating revenues. The district pays annual debt service shortly after year-end, therefore the balances reported at fiscal year-end (June 30) are at their peak.

Unaudited fiscal 2021 year-end results show another significant surplus as a result of additional coronavirus related stimulus funds. The district used these funds for instructional support and facility upgrades. The fiscal 2022 budget is balanced with \$8 million in cash reserves. This is a typical budgeting practice in the state, and in reality, management does not anticipate additional spend downs of fund balance or liquidity.

### **Liquidity**

Net cash will remain adequate to support the district's operations without relying on interfund borrowing or external liquidity sources. At fiscal 2020 year-end (June 30), the district reported \$6.3 million in general fund cash. Operating fund cash ended the year at \$13.0 million, equal to a strong 33.5% of operating revenues.

### **Leverage**

The district's leverage is high. In fiscal 2020, leverage totaled 469% of operating revenues, well above the median for similarly rated credits. While Bernalillo MSD's direct debt burden and adjusted net OPEB liability are manageable, its Moody's adjusted net pension liability (ANPL) is elevated, which is driving the heavy leverage. Excluding the ANPL, leverage is around 129% of operating revenues. Outstanding debt service is descending, allowing for the additional layering of debt without material increase to the burden. In contrast to the leverage metric, fixed costs, including annual debt service, pension contributions and OPEB, are manageable at 18% of operating revenue.

### **Legal security**

The bonds are general obligations backed by the district's full faith and credit and are payable from ad valorem taxes to be levied against all taxable property within the district, without limitation as to rate or amount. The bonds are further secured by the state's commitment to pay debt service, if necessary, pursuant to the New Mexico School District Intercept Program.

### **Debt structure**

Including the new sale, the district will have \$33 million in general obligation unlimited tax (GOULT) bonds. Principal payout is rapid with 95% of outstanding debt to be retired over the next 10 years.

### **Debt-related derivatives**

The district is not a party to any debt-related derivative agreements.

### **Pensions and OPEB**

The district's pension liabilities, which are the most significant component of its overall leverage, will remain high for the foreseeable future. The district's fiscal 2020 Moody's ANPL of \$132 million is much higher than reported pension liabilities of \$52 million because the market interest rates we use to value pension liabilities are far lower than reported discount rates (3.51% compared to the plan's 7.25%). With historically low interest rates during 2020 and 2021, Bernalillo MSP's ANPL will increase over the near term. All New Mexico school districts participate in a statewide, cost-sharing plan (EERS). Contribution amounts are set by statute, and require legislative approval to change or modify.

## **ESG considerations**

### **Environmental**

The local government sector generally has low exposure to environmental risks however Sandoval county has somewhat high exposure to climate challenges. The area has high exposure to worsening drought conditions, according to data from Moody's affiliate Four Twenty Seven, and medium risk for rising exposure to heat stress and wildfire risk.

### **Social**

Moody's views the ongoing coronavirus pandemic as a risk under its ESG framework. Rio Rancho reported that enrollment declined as parents opted to send their children to charter schools and/or homeschool during the pandemic. On February 8, 2021, the Public Education Department announced that districts can resume hybrid learning (a combination of remote and in person). As a result, management reports that enrollment rebounded to nearly 2,900 (fiscal 2022)

## Governance

New Mexico school districts have an Institutional Framework score <sup>1</sup> of Ba. The state controls the bulk of districts' operating funds through state aid. It is allocated by a funding formula with enrollment as the most important factor. The state has demonstrated a willingness to make substantial reductions to K-12 funding when confronted with its own budget challenges. Outside of periods of economic distress, state aid has increased only very modestly. By statute, districts cannot levy property taxes for operations, constraining their local revenue control.

## Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district'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 school district credits.

Exhibit 2

### Bernalillo Mun. S.D. 1 (Sandoval County), NM

	Measure	Weight	Score
<b>Economy</b>			
Resident Income (MHI Adjusted for RPP / US MHI)	89.9%	10.0%	A
Full value per capita (full valuation of the tax base / population)	81,368	10.0%	A
Enrollment trend (three-year CAGR in enrollment)	-2.5%	10.0%	Baa
<b>Financial performance</b>			
Available fund balance ratio (available fund balance / operating revenue)	36.5%	20.0%	Aaa
Net cash ratio (net cash / operating revenue)	33.5%	10.0%	Aaa
<b>Institutional framework</b>			
Institutional Framework	Ba	10.0%	Ba
<b>Leverage</b>			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	468.9%	20.0%	Baa
Fixed-costs ratio (adjusted fixed costs / operating revenue)	18.2%	10.0%	Aa
<b>Notching factors</b>			
No notchings applied			
Scorecard-Indicated Outcome			A2
<b>Assigned Rating</b>			<b>A1</b>

Sources: US Census Bureau, Bernalillo Mun. S.D. 1 (Sandoval County), NM's financial statements and Moody's Investors Service

## Appendix

Exhibit 3

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
Resident income	Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US	MHI: American Community Survey (US Census Bureau) RPP: US Bureau of Economic Analysis
Full value (\$000)	Estimated market value of taxable property accessible to the district	State repositories, district's audited financial reports, offering documents or continuing disclosure
Population	Population of school district	American Community Survey (US Census Bureau)
Full value per capita	Full value / population of school district	
Enrollment	Student enrollment of school district	State data publications
Enrollment trend	3-year Compound Annual Growth Rate (CAGR) of Enrollment	State data publications; Moody's Investors Service
<b>Financial performance</b>		
Operating revenue (\$000)	Total annual operating revenue in what we consider to be the district's operating funds	Audited financial statements
Available fund balance (\$000)	Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds	Audited financial statements
Net cash (\$000)	Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ratio	Available fund balance / Operating Revenue	Audited financial statements
Net cash ratio	Net Cash / Operating Revenue	Audited financial statements
<b>Leverage</b>		
Debt (\$000)	District's direct gross debt outstanding	Audited financial statements; official statements
ANPL (\$000)	District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
OPEB (\$000)	District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Investors Service
Implied debt service (\$000)	Annual cost to amortize district's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water (\$000)	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contributions (\$000s)	District's actual contribution in a given period, typically the fiscal year	Audited financial statements; official statements
Fixed-costs ratio	Implied debt service, pension tread water and OPEB contributions as % of operating revenue	Audited financial statements, official statements, pension system financial statements

\*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Investors Service

## Endnotes

- The institutional framework score categorically assesses whether a district has the legal ability to raise the bulk of its operating revenue at the local level or if the state determines the bulk of its operating revenue. Beyond the local versus state categorization, the strength of the institutional framework score is a measure of the district's flexibility in raising additional locally determined operating revenue. See [US K-12 Public School Districts Methodology](#) for more details.

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