

CREDIT OPINION

19 May 2016

New Issue

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Rio Rancho Public School District No. 94, NM

New Issue - Moody's Assigns Aa3 to Rio Rancho PSD No. 94, NM's \$25.3M GO Rfdg Bonds, Ser. 2016

Summary Rating Rationale

Moody's Investors Service has assigned a Aa3 underlying rating to Rio Rancho Public School District No. 94 (Sandoval), NM's \$25.3 million General Obligation Refunding Bonds, Series 2016. Moody's maintains a Aa3 rating on \$97 million in outstanding parity debt. Moody's has also assigned a Aa1 enhanced rating to the General Obligation Refunding Bonds, Series 2016 based on the New Mexico School District Enhancement Program (NMSDEP) - Post March 30, 2007.

The Aa3 rating reflects the district's large tax base, which benefits from proximity to Albuquerque; narrow, albeit stable, financial position; and manageable debt burden with rapid principal payout. The rating further incorporates the district's average socioeconomic profile and elevated pension burden.

The Aa1 enhanced rating on the Series 2016 General Obligation Refunding Bonds is based on our assessment of the NMSDEP - Post March 30, 2007 and a review of the district's proposed financing. For additional information on the program, please see Moody's report dated May 4, 2008.

Credit Strengths

- » Sizeable and stable tax base
- » Manageable debt burden with rapid payout

Credit Challenges

- » Narrow reserve position in comparison to Aa3 peers
- » Elevated pension liability

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

- » Maintenance of positive operations, increasing reserves and fund balance

- » Continued expansion of the tax base with corresponding increase in wealth levels

Factors that Could Lead to a Downgrade

- » Imbalance of operations that weaken financial flexibility
- » Tax base contraction
- » Significant increases in debt or pension burdens

Key Indicators

Exhibit 1

Rio Rancho Pub S.D. 94 (Sandoval) NM	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 7,021,640	\$ 6,518,886	\$ 6,328,503	\$ 6,322,760	\$ 6,260,575
Full Value Per Capita	\$ 101,763	\$ 73,651	\$ 69,971	\$ 69,907	\$ 69,220
Median Family Income (% of US Median)	N/A	106.6%	104.8%	104.8%	104.8%
Finances					
Operating Revenue (\$000)	\$ 128,270	\$ 129,355	\$ 137,705	\$ 134,717	\$ 141,313
Fund Balance as a % of Revenues	22.2%	20.5%	13.8%	14.9%	17.2%
Cash Balance as a % of Revenues	29.6%	29.2%	26.3%	25.3%	24.8%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 135,085	\$ 129,580	\$ 124,070	\$ 123,800	\$ 124,205
Net Direct Debt / Operating Revenues (x)	1.1x	1.0x	0.9x	0.9x	0.9x
Net Direct Debt / Full Value (%)	1.9%	2.0%	2.0%	2.0%	2.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	2.6x	2.8x	3.1x	2.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	5.1%	6.0%	6.7%	6.5%

Source: District audits; Moody's Investors Service

Detailed Rating Considerations - Enhanced

Moody's has assigned an enhanced rating of Aa1 to the Series 2016 General Obligation Refunding Bonds, equivalent to the NMSEP- Post March 30, 2007 programmatic rating. Ratings on individual intercept financings depend on the programmatic rating as well as our evaluation of the sufficiency of interceptable revenues, the timing of the state's fiscal year relative to scheduled debt service payment dates and the transaction structure.

Based on the district's state equalization guarantee (SEG) funds for fiscal year 2015, interceptable state-aid provides an ample minimum of 7.21 times coverage of maximum periodic debt service. Further, state revenues provide an adequate minimum 6.61 times maximum periodic debt service coverage when coverage is stressed by deducting the state's final monthly state aid payment within a fiscal year. State-aid funding levels for New Mexico school districts have been stable in recent years, but have been subject to midyear cuts to address fiscal stress at the state level within the last decade. This weakness, however, is mitigated by ample debt service coverage even if aid is curtailed over the course of the year. Principal payments are scheduled for August, early in the State's fiscal year providing for an average interval to mitigate the risk of late budgets. The program requires the appointment of a third-party fiscal agent, who is required to notify the state if an intercept of SEG is required. The Bank of Albuquerque is the fiscal agent for the current sale.

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.

Detailed Rating Considerations - Underlying

Economy and Tax Base: Tax Base Shows Signs of Recovery after Recession

The district's tax base is expected to expand modestly over the mid-term as development in the healthcare and retail sectors continue. Rio Rancho PSD is 17 miles north of Albuquerque, and benefits not only from proximity to the state's economic hub, but institutional presence provided by UNM, Sandia National Labs and Kirtland Airforce Base. The district's fiscal 2016 assessed value (AV) is \$2.1 billion, derived from a large full value (FV) of \$6.3 billion. Of note, fiscal 2016 represents the first year of expansion since fiscal 2011. Positively, preliminary values from Sandoval County Assessor indicates that fiscal 2017 AV increased by 1.5%. Over the mid-term, the district expects the tax base to rebound, driven by commercial development, specifically expansion of Presbyterian Rust Medical, which has encouraged both retail and residential development in nearby proximity. Several companies, such as Alliance Data Systems, Bank of America and Convergys Corporation, are adding hundreds of jobs during 2016. Officials report that Intel has not announced layoffs in the Rio Rancho office. However, since 2013, the workforce has declined from 3,300 to 1,900. Officials are hopeful that further reductions will be offset by additional jobs created elsewhere in the economy.

The district's local economy is supported by average wealth indices, with median family income of 104.8% per the 2013 American Community Survey. The tax base is not concentrated in minerals or taxpayers. February 2016 unemployment levels of 6.3% are in line with the state's 6.3%, and remain slightly elevated compared to the nation's 5.2%.

Enrollment is stable overall. Since fiscal 2012, enrollment has increased by 0.2% on average, with a fiscal 2016 student count of 16,883. Fiscal 2017 enrollment is expected to be flat. Officials explain that current facilities are at or over capacity. While the district has used bond proceeds to purchase land to build new schools, the current financial position will not support operational start-up costs. Officials have proposed setting aside approximately \$1.2 million over a three year period to address future costs. Future credit reviews will focus on the district's ability to address enrollment needs without compromising the already limited financial position.

Financial Operations and Reserves: Reserves Increase in Fiscal 2015 but Still Remain Narrow

The district's finances are expected to remain stable over the near-term given conservative financial management. After two deficits in fiscal 2013 and fiscal 2014 that depleted fund balance, the district reported a \$1.4 million surplus in fiscal 2015, increasing General Fund balance to \$6.7 million, or a narrow, but improved, 5.4% of revenues. Typical of New Mexico school districts, the district receives a majority (95.3%) of its revenues from the state.

The fiscal 2016 budget reflects a \$5.5 million use of cash reserves; however, based on performance, the district is expecting to end the year with minimal change in General Fund balance. For fiscal 2017, the district has budgeted use of \$5.1 million in cash balance. The district conservatively budgets assuming a full staff, realizing savings through attrition, vacancies and resignations. As such, it is unlikely the district will utilize the full \$5.1 million.

Management's fund balance target is to maintain 7% to 8% in reserves; Moody's notes that this is very limited compared to Aa3 peers. Future credit reviews will focus on the district's ability to build to, and ideally, surpass, fund balance targets. Given the limited nature of the district's reserves, draws could place downward pressure on the rating.

LIQUIDITY

The district's cash position is stable. Fiscal 2015 year-end General Fund cash was \$16.3 million, or an adequate 13.2% of revenues.

Debt and Pensions: Manageable Debt Burden; Elevated Pension Burden

The district's debt profile will likely remain manageable over the mid-term, despite future borrowing, given rapid principal amortization. At 1.9% of fiscal 2016 FV, the district's debt burden is in line with state and national medians. Principal amortization is above average with 97.6% retired in ten years. Officials plan to approach voters in August 2016 with hopes of authorizing a \$60 million bond package. If approved, the district will issue debt annually through 2020. Of note, the district's two mill levy (SB9) expires in 2018. The district plans to seek reauthorization at that time.

DEBT STRUCTURE

All the district's debt is fixed rate, and is fully amortized by fiscal 2027.

DEBT-RELATED DERIVATIVES

The district has no derivatives, swaps or variable-rate debt.

PENSIONS AND OPEB

The district has an above-average employee pension burden, based on unfunded liabilities for its share of the Educational Retirement Board (ERB), a cost sharing plan administered by the state. Moody's fiscal 2015 adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is \$406.7 million, or an elevated 2.88 times operating revenues. The three-year average of the district's ANPL to operating revenues is 2.88 times, while the three-year average of ANPL to full value is high at 6.50%. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities.

The New Mexico pension plan funding structure experienced several changes with the signing of SB 115, including the reduction of a cost-of-living adjustment (COLA) and increases in employee contributions. The legislation will maintain the funding changes until the plan has reached 100% funding, which is estimated to be achieved in 2043. We believe the funding changes adopted in SB 115 will limit budgetary pressure on the district related to future pension costs.

For more information on Moody's insights on employee pensions and the related credit impact on companies, government, and other entities across the globe, please visit Moody's on Pensions at www.moody.com/pensions.

Management and Governance

New Mexico school districts have an institutional framework score of "A," or moderate. Districts have a low ability to raise revenues because state aid provides over 95% of funding, and property taxes are subject to a small 0.5 mill cap. State aid is moderately predictable given a recent trend of increased funding and a history of funding cuts over the past decade. Expenditures, which are primarily comprised of personnel and facility costs, are moderately predictable given flat student enrollment levels. Districts have a moderate ability to reduce expenditures given above average fixed costs.

The district is committed to maintaining an emergency Reserve Operational Budget set-aside of \$1 million and an additional Restricted Expenditure set-aside of \$2.3 million. These balances are reflected in total General Fund balance.

Legal Security

The bonds are secured by ad valorem taxes that are levied against all taxable property within the district without limitation as to the rate or amount.

Use of Proceeds

Proceeds from the Series 2016 bonds will be used to refund Series 2008 (maturities 2016 through 2022) and Series 2009A (maturities 2016 through 2023) for net present value savings of approximately \$1.5 million.

Obligor Profile

Serving the City of Rio Rancho and the surrounding community, the district manages 19 schools and serves approximately 17,000 students.

Methodology

The principal methodology used in this underlying rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in this enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Ratings Methodologies page on www.moody.com for a copy of these methodologies.

Ratings

Exhibit 2

Rio Rancho Pub S.D. 94 (Sandoval) NM

Issue	Rating
General Obligation Refunding Bonds, Series 2016	Aa3
Rating Type	Underlying LT
Sale Amount	\$25,260,000
Expected Sale Date	05/24/2016

Rating Description	General Obligation
General Obligation Refunding Bonds, Series 2016	Aa1
Rating Type	Enhanced LT
Sale Amount	\$25,260,000
Expected Sale Date	05/24/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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REPORT NUMBER 1027574