MOODY'S INVESTORS SERVICE

CREDIT OPINION
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New Issue

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Taos Municipal School District 1, NM

New Issue - Moody's assigns A1 Underlying/Aa1 Enhanced to Taos MSD 1, NM's $6.9M GO Refunding Bonds, Ser. 2016

Summary Rating Rationale

Moody's Investors Service has assigned an A1 underlying rating to Taos Municipal School District No. 1, NM's $6.9 million General Obligation Refunding Bonds, Series 2016. Moody's maintains an A1 rating on $11.5 million in outstanding parity debt. The district has an additional $16.9 million outstanding not rated by Moody's. Moody's has also assigned a Aa1 enhanced rating to the Series 2016 GO Refunding bonds based on the New Mexico School District Enhancement Program (NMSDEP) - Post March 30, 2007.

The A1 rating reflects the district's large tax base, with the local economy reliant on tourism; improving financial position; and a manageable debt burden with average principal payout. The rating further incorporates the district's stable enrollment, below 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

» Large, stable tax base

» Manageable debt burden

» Improved financial position; surplus expected for fiscal 2016

Credit Challenges

» Competition from charter schools

» Below average socioeconomic profile

» Elevated pension burden

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

- Sustained General Fund surpluses increasing fund balance and cash reserves
- Further tax base expansion and diversification

Factors that Could Lead to a Downgrade

- Deterioration of financial position
- Significant tax base contractions
- Enrollment losses without corresponding expenditure management

Key Indicators

Exhibit 1

Taos Municipal School District 1, NM	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 3,129,730	$ 3,160,624	$ 3,171,755	$ 3,237,166	$ 3,323,532
Full Value Per Capita	$ 124,850	$ 124,985	$ 122,268	$ 124,790	$ 128,119
Median Family Income (% of US Median)	N/A	69.5%	70.3%	70.3%	70.3%
Finances					
Operating Revenue ($000)	$ 23,582	$ 23,231	$ 22,634	$ 25,191	$ 25,763
Fund Balance as a % of Revenues	13.0%	17.0%	23.6%	3.3%	23.1%
Cash Balance as a % of Revenues	18.8%	23.6%	24.2%	11.8%	20.0%
Debt/Pensions					
Net Direct Debt ($000)	$ 42,045	$ 40,650	$ 39,200	$ 39,397	$ 36,897
Net Direct Debt / Operating Revenues (x)	1.8x	1.7x	1.7x	1.6x	1.4x
Net Direct Debt / Full Value (%)	1.3%	1.3%	1.2%	1.2%	1.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	2.9x	3.3x	3.2x	3.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	2.1%	2.3%	2.5%	2.4%

Source: District's 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 programmatic rating as well as the evaluation of additional rating factors. These factors include the sufficiency of interceptable revenues as determined by specific coverage tests, the timing of the state's fiscal year as it relates 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 5.93 times coverage of maximum periodic debt service. Further, state revenues provide an adequate minimum 5.44 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 experienced mid-year cuts to address fiscal stress at the state level within the last decade. However, this weakness is somewhat mitigated by a continued level of ample debt service coverage as previously discussed. Principal payments are scheduled for September, early in the State's fiscal year, and is considered an average interval that mitigates 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.

Detailed Rating Considerations - Underlying

Economy and Tax Base: Moderately-Sized Base Located Near NM-CO Border

The district's tax base will likely remain stable over the mid-term given commercial investment. Taos Municipal School District is located in the northern portion of the state, approximately 70 miles north of the City of Santa Fe (Aa3 stable). The local economy is driven by tourism, including art, rafting, and skiing. The largest employer, Taos Ski Valley, is currently expanding, with addition of a luxury hotel and new chairlifts and ski runs. Taxable values have grown at a five-year average annual rate of 1.3% yielding a fiscal 2016 assessed value (AV) of $1.1 billion, derived from a full value (FV) of $3.4 billion. Moving forward, officials anticipate modest expansion to continue.

Enrollment is fairly stable. Despite declines in fiscal 2011 and fiscal 2015, enrollment grew by 0.6% in fiscal 2016 to 2,878. Historic fluctuations are attributed to competition posed by three state-authorized charter schools. As such, in order to maintain, if not increase, enrollment, the district's management team is focused on improving academics, offering programs that appeal to students, including relevant vocational and technical training. Although management is assuming flat enrollment for fiscal 2017, they are hopeful their marketing efforts will result in additional students.

The district's socioeconomic profile is below average, with median family income of 70.3% of the US, per the 2013 American Community Survey. The county's unemployment rate of 8.3% (as of February 2016) may be inflated due to the seasonal nature of the tourist industry. Taxpayer concentration is negligible.

Financial Operations and Reserves: Improving Financial Position; Surplus Expected for Fiscal 2016

Given a new management team that has demonstrated willingness to reduce expenditures, Moody's expects the district's financial position to continue improving over the near-term. After reporting deficits in fiscal 2013 and fiscal 2014, the district realized a sizeable surplus of $1.7 million in fiscal 2015, increasing General Fund balance to $2.5 million, or 11.6% of revenues. When the new superintendent and finance director joined in 2015, they conducted a staff assessment and determined that there were 27 unnecessary positions. After rightsizing FTEs through attrition and retirement, total expenditures were reduced to $20 million from $21.5 million. As is typical of New Mexico school districts, 96.2% of revenues are state derived.

Fiscal 2016 is expected to conclude with an operating surplus. Through conservative budgeting, including close management of department budgets, the district expects to end the year with approximately $500,000 to $700,000 more in cash balance.

For fiscal 2017, the district is conservatively anticipating a balanced budget with use of reserves, a typical practice for New Mexico school districts. However, in reality, management anticipates ending the year with a flat General Fund balance position. Positively, Moody's notes that officials are focused on increasing reserves, with a target fund balance of $3 million. Future reviews will focus on the district's ability to continue maintaining structural balance.

LIQUIDITY

The district's cash position improved in fiscal 2015 to $1.6 million, or 7.4% of revenues. Operating net cash, including both the General Fund and Debt Service Fund, is $5.2 million, or 20% of operating revenues.

Debt and Pensions: Manageable Debt Burden; Elevated Pension Burden

The district's debt burden will likely remain manageable over the mid-term given limited future debt plans. At 1.0% of fiscal 2016 full value, the district's debt burden is below average compared to state and national medians of 1.5% and 1.6%, respectively. Principal amortization is average with 74.1% retired in ten years. Officials report that they do not have immediate debt plans, but may consider issuing again in four or five years. The district does have a SB-9 levy, which generates approximately $2.2 million per year, and expires in 2018. Management plans to approach voters for a renewal in early 2019.

DEBT STRUCTURE

Debt outstanding consists of both general obligation bonds and education technology notes. All obligations are fixed rate and retire by 2030.

DEBT-RELATED DERIVATIVES

The district is not party to any interest rate swaps or other derivative agreements.

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 $84.2 million, or an elevated 3.27 times operating revenues. The three-year average of the district's ANPL to operating revenues is 3.12 times, while the three-year average of ANPL to equalized value is average at 2.40%. 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.moodys.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 predicable given flat student enrollment levels. Districts have a moderate ability to reduce expenditures given above average fixed costs.

Legal Security

The Bonds are general obligations of the district, payable from general (ad valorem) property taxes which are required to be levied against all taxable property in the District without limitation as to rate or amount.

Use of Proceeds

Proceeds from the current issuance will be used to refund Series 2008 bonds (maturities 2019 through 2028) for net present value savings of approximately $698,000 or 10%.

Obligor Profile

The district is located in Taos, 70 miles northwest of Santa Fe, near the Colorado border. Fiscal 2016 enrollment was 2,878, and the district includes six elementary schools, one middle school and one high school.

Methodology

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the 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.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

Taos Municipal School District 1, NM

Issue	Rating
General Obligation Refunding Bonds, Series 2016	A1
Rating Type	Underlying LT
Sale Amount	$6,925,000
Expected Sale Date	06/28/2016
Rating Description	General Obligation
General Obligation Refunding Bonds, Series 2016	Aa1
Rating Type	Enhanced LT
Sale Amount	$6,925,000
Expected Sale Date	06/28/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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