

CREDIT OPINION

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New Issue

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Contacts

Heather Correia 214-979-6868
Associate Analyst
heather.correia@moody.com

Thomas Jacobs 212-553-0131
Senior Vice President
thomas.jacobs@moody.com

Bernalillo Municipal School District 1 (Sandoval County), NM

New Issue - Moody's Assigns A1 to Bernalillo MSD 1, NM's \$8.1M GO & GO Rfdg Bonds, Ser. 2016A & B

Summary Rating Rationale

Moody's Investors Service has assigned an A1 underlying rating to Bernalillo Municipal School District 1 (Sandoval County), NM's \$4.3 million General Obligation School Bonds, Series 2016A and \$3.8 million General Obligation Refunding Bonds, Series 2016B. Moody's maintains the A1 rating on \$28.1 million outstanding parity bonds. Moody's has also assigned a Aa1 enhanced rating to the Series 2016A & 2016B GO bonds based on the New Mexico School District Enhancement Program (NMSDEP) - Post March 30, 2007.

The A1 rating reflects the district's moderately sized tax base; satisfactory financial reserves on which the district expects to draw in the coming fiscal year; and, average socio-economic indicators. The rating also incorporates the district's manageable debt burden and rapid principal amortization.

The Aa1 enhanced rating assigned to the Series 2016A & 2016B General Obligation 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

- » Proximity to Albuquerque
- » Rapid principal amortization

Credit Challenges

- » Recent fluctuations in assessed values due to revaluation of property in unincorporated portion of the county
- » Planned annual reductions in fund balance through fiscal 2018

Rating Outlook

Moody's does not generally assign outlooks to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

- » Tax base expansion and diversification
- » Enrollment stabilization
- » Trend of surplus operations resulting in improved financial reserves

Factors that Could Lead to a Downgrade

- » Spend down of reserves in excess of current plans
- » Sustained tax base contraction
- » Consistent enrollment declines without corresponding expenditure management

Key Indicators

Exhibit 1

Bernalillo Mun. S.D. 1 (Sandoval County), NM	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 1,863,611	\$ 1,825,893	\$ 1,847,757	\$ 1,824,238	\$ 1,872,303
Full Value Per Capita	\$ 76,559	\$ 71,937	\$ 71,953	\$ 71,037	\$ 72,909
Median Family Income (% of US Median)	88.0%	91.4%	90.7%	90.7%	90.7%
Finances					
Operating Revenue (\$000)	\$ 33,080	\$ 39,379	\$ 34,716	\$ 33,296	\$ 33,134
Fund Balance as a % of Revenues	20.3%	23.3%	28.6%	33.2%	34.2%
Cash Balance as a % of Revenues	25.2%	21.9%	21.6%	30.5%	31.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 36,320	\$ 35,535	\$ 35,950	\$ 35,920	\$ 35,850
Net Direct Debt / Operating Revenues (x)	1.1x	0.9x	1.0x	1.1x	1.1x
Net Direct Debt / Full Value (%)	1.9%	1.9%	1.9%	2.0%	1.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	2.3x	2.8x	3.1x	3.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	4.9%	5.3%	5.7%	5.2%

Source: District's audits; Moody's Investors Service

Detailed Rating Considerations - Enhanced

Moody's has assigned a Aa1 enhanced rating to the Series 2016A General Obligation School Bonds and Series 2016B General Obligation Refunding Bonds, equivalent to the NMSDEP-Post March 30, 2007 programmatic rating. Ratings on individual intercept financings are based on the 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 a satisfactory 3.37 times coverage of maximum periodic debt service. Further, state revenues provide an adequate 3.09 times maximum periodic debt service coverage when SEG funds are 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 cut mid-year 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 August, early in the State's fiscal year mitigating the risk of late

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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: Local Economy Stable, Benefitting from Proximity to Albuquerque

Despite fluctuations in assessed value, the district's tax base will likely remain stable over the mid-term, benefitting from proximity to the state's largest city. Bernalillo Municipal School District 1 is positioned 15 miles north of Albuquerque, NM (Aa1 stable outlook) and borders Rio Rancho (Aa2), one of the fastest growing cities in the state. Fiscal 2016 assessed value (AV) declined approximately 0.7% to \$619.3 million (derived from a full value (FV) of \$1.9 billion), resulting in five year average annual growth of 0.1%. Tax base contractions in recent years are attributed to negative reappraisals of non-residential properties. Positively, fiscal 2017 preliminary values indicate a modest expansion to \$624.3 million (full value of \$2.1 billion).

Moving forward, officials anticipate strengthening of the local economy given ongoing development in Albuquerque MSA, including construction of a second Aloha RV dealership, a new 9,000 square foot Lovelace Medical clinic and various expansions of local businesses and retailers. Residential development remains modest, although management reports new homes being built in unincorporated areas of the district, which may contribute to enrollment growth.

Enrollment is fairly stable. Fiscal 2016 enrollment is 2,958, down from a high of 3,124 in fiscal 2013. Officials are unsure of the cause of the recent decline; however, as a consequence, they are very focused on retaining students, and are offering new programs for pre-K and bilingual students. For fiscal 2017, the district is assuming flat enrollment for budgeting purposes. Future reviews will focus on the district's ability to manage fluctuating enrollment without compromising financial performance.

The district's socioeconomic profile is slightly below average for the A1-rating category, with median family income of 90.7% of the US, per the 2013 American Community Survey. Poverty levels are somewhat elevated at 21.7%. Similarly, unemployment rates are 6% as of March 2016, which is above the nation's 5.1%. Positively, the district's tax base is not concentrated in mineral values or large taxpayers.

Financial Operations and Reserves: Planned Draws Through Fiscal 2018

Despite management's plan to reduce reserves over the next several fiscal years, the financial position will likely remain stable given proven ability to operate effectively within limited margins. The district reported a modest deficit in fiscal 2015 of \$165,000, reducing General Fund balance to \$4.9 million, or 18% of revenues. A majority of revenues (79.4%) are state aid, with a smaller portion (12.8%) coming from federal sources, primarily for the education of Native American students.

Based on performance to-date, the district anticipates another deficit in fiscal 2016, reducing General Fund balance to approximately \$3.9 million, or 14.3% of fiscal 2015 revenues. The draw is attributed primarily to salary increases, with a smaller portion spent on new technologies to improve payroll processes and federal reporting.

The fiscal 2017 budget reflects another reduction in General Fund balance. The district expects, over time, to reduce reserves to 8.5% in order to avoid the State recapturing excess fund balance in the event of budgetary cuts. While consistent draws on reserves will certainly limit financial flexibility, Moody's notes that the district has historically maintained between 8% and 9% in reserves. Future reviews will focus on the district's ability to operate effectively at the 8.5% reserve level. Draws in excess of this threshold will place downward pressure on the rating.

LIQUIDITY

The district's cash position is stable. At fiscal 2015 year-end, the district had \$3.9 million in General Fund cash, or 14.5% of revenues. Operating cash, including both General Fund and Debt Service Fund, is \$10.4 million, or a healthy 31.2% of operating revenues.

Debt and Pensions

The district's debt burden will likely remain manageable over the mid-term given rapid principal amortization coupled with steady, modest debt issuances. At 1.9% of fiscal 2016 FV, the district's debt burden is slightly above average compared to the A1 state and national medians of 1.5% and 1.6%, respectively. Post-sale, the district will have exhausted all authorization from the 2013 bond election. Management anticipates approaching voters again in February 2017 to authorize \$18.5 million. Additionally, the district levies a 2 mill capital tax, which generates \$1.2 million per year. The levy expires in 2018; officials anticipate seeking reauthorization in 2019.

DEBT STRUCTURE

All of the district's outstanding debt is fixed-rate, and matures between now and fiscal 2029. Principal amortization is above average with 95.2% retired in ten years.

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 \$97.7 million, or an elevated 2.95 times operating revenues. The three-year average of the district's ANPL to operating revenues is 2.95 times, while the three-year average of ANPL to equalized value is above average at 5.22%. 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.

Of note, the district plans to reduce General Fund balance to a somewhat limited 8.5%.

Legal Security

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

Use of Proceeds

Proceeds from the Series 2016A bonds will be used for construction and renovation of Santa Domingo elementary school. The Series 2016B bonds will be used to refunding Series 2009 bonds for net present value savings of \$184,000.

Obligor Profile

The district encompasses 648 square miles in Sandoval County north of Albuquerque and serves approximately 3,000 students.

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.moody.com for a copy of these methodologies.

Ratings

Exhibit 2

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

Issue	Rating
General Obligation Refunding School Bonds, Series 2016B	A1
Rating Type	Underlying LT
Sale Amount	\$3,815,000
Expected Sale Date	07/14/2016
Rating Description	General Obligation
General Obligation Refunding School Bonds, Series 2016B	Aa1
Rating Type	Enhanced LT
Sale Amount	\$3,815,000
Expected Sale Date	07/14/2016
Rating Description	General Obligation
General Obligation School Bonds, Series 2016A	A1
Rating Type	Underlying LT
Sale Amount	\$4,300,000
Expected Sale Date	07/14/2016
Rating Description	General Obligation
General Obligation School Bonds, Series 2016A	Aa1
Rating Type	Enhanced LT
Sale Amount	\$4,300,000
Expected Sale Date	07/14/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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