MOODY'S INVESTORS SERVICE

CREDIT OPINION
20 December 2016

New Issue

Rate this Research

Contacts

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

Christian Ward 415-274-1721
Analyst
christian.ward@moodys.com

Bloomfield S.D. 6 (San Juan County), NM

New Issue - Moody's Assigns A1 to Bloomfield School, NM's $10.2M in Refunding GOULT, Ser. 2017

Summary Rating Rationale

Moody's Investors Service has assigned a A1 underlying rating to Bloomfield School District No. 6 (San Juan County), NM's $10.2 million General Obligation Refunding Bonds, Series 2017. Concurrently, Moody's affirms the A1 rating on the district's $33.5 million in outstanding parity bonds. In addition to the underlying rating, we have assigned a Aa2 enhanced rating to the General Obligation Refunding Bonds, Series 2017 based on the New Mexico School District Enhancement Program-Post March 30, 2007.

Assignment of the A1 is reflective of the district's stable financial position, which will likely remain healthy over the near-term despite mid-year funding cuts; manageable debt burden, that is currently at the constitutionally-allowed cap; and volatile tax base that is concentrated in minerals and taxpayers. The A1 further incorporates stable enrollment and below-average wealth indices.

The Aa2 enhanced rating assigned to the General Obligation Refunding Bonds, Series 2017 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

- Stable, improving financial position
- Student membership that seems large unaffected by volatility in the local economy

Credit Challenges

- Debt burden at the constitutionally-allowed cap
- Volatile tax base concentrated in oil and gas

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 increases in General Fund balance and cash reserves
- Tax base stabilization and diversification

Factors that Could Lead to a Downgrade

» Deterioration of fund balance and cash reserves

» Significant tax base contraction resulting in an inability to issue new bonds for capital

» Material declines in enrollment without corresponding expenditure adjustments

Key Indicators

Exhibit 1

Bloomfield S.D. 6 (San Juan County), NM	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$ 2,744,883	$ 2,263,547	$ 2,353,559	$ 2,671,685	$ 2,185,550
Full Value Per Capita	$ 160,192	$ 132,101	$ 137,354	$ 155,920	$ 127,549
Median Family Income (% of US Median)	81.9%	81.9%	81.9%	81.9%	81.9%
Finances					
Operating Revenue ($000)	$ 27,498	$ 30,049	$ 29,285	$ 29,946	$ -
Fund Balance as a % of Revenues	27.8%	31.3%	9.9%	36.2%	N/A
Cash Balance as a % of Revenues	24.3%	26.0%	33.5%	35.5%	N/A
Debt/Pensions					
Net Direct Debt ($000)	$ 60,275	$ 57,160	$ 53,710	$ 49,520	$ 44,150
Net Direct Debt / Operating Revenues (x)	2.2x	1.9x	1.8x	1.7x	N/A
Net Direct Debt / Full Value (%)	2.2%	2.5%	2.3%	1.9%	2.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	2.7x	2.7x	N/A
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.8%	3.6%	3.4%	3.1%	N/A

Source: District's Audits; Offering Documents; Moody's Investors Service

Detailed Rating Considerations - Enhanced

Moody's has assigned an enhanced rating of Aa2 to the General Obligation Refunding Bonds, Series 2017 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 2016, interceptable state-aid provides an ample minimum of 4.93 times coverage of maximum periodic debt service. Further, state revenues provide an adequate minimum 4.52 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, as observed most recently in fiscal 2017. 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 September, 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.

Detailed Rating Considerations - Underlying

Economy and Tax Base: Moderately-Sized Tax Base Concentrated in Oil & Gas

Located in the San Juan Basin, the district's tax base has experienced historic volatility, with marked declines every five year or so, corresponding to fluctuations in the oil and gas market. Moving forward, officials are conservatively assuming further tax base contractions; positively, operations are fairly insulated from economic turmoil. Bloomfield School District serves the city of Bloomfield

(A1) and surrounding San Juan County (A1), encompassing 1,508 square miles in total. Since fiscal 2010, the district saw double-digit declines in fiscal 2011, fiscal 2014 and fiscal 2017, attributed to volatility in the energy market. With the decline in oil and natural gas prices in 2016, fiscal 2017, assessed value (AV) fell to $727.8 million (derived from a full value (FV) of $2.2 billion) from $889.7 million (derived from a FV of $2.7 billion). Approximately 33% of the base is oil and gas values, down from 48% in the prior year. Additionally, the district is concentrated in taxpayers, with the top ten representing 23% of fiscal 2017 values. Positively, the district's operations appear to be unaffected by the local economy: enrollment has been stable, translating to flat or modestly increasing state aid disbursements. Fiscal 2017 enrollment was 2,957, a slight decline from prior year's 3,020. Management reports that no more than 100 students are associated with the oil and gas industry.

Residential and commercial development is modest. Wagner Equipment, a seller of Caterpillar equipment, recently opened a 100,000 square foot facility in downtown Bloomfield. Additionally, the district benefits from positive reappraisals of existing properties. Wealth indices are slightly below average, with median family income of 81.9% of the US (per the 2013 American Community Survey); poverty rates of 23%; and September unemployment levels of 8.7% compared to the nation's 4.8%.

Financial Operations and Reserves: Healthy Operations Overall

Despite near-term uncertainty regarding state funding, the district's financial position will likely remain stable given conservative budgeting coupled with a healthy fund balance compared to New Mexico peers. The district reported operating surpluses in both fiscal 2015 and fiscal 2016, increasing General Fund balance to $4.2 million, or 17.6% of revenues. This is a marked improvement to fiscal 2011's $1.6 million in fund balance, or 7.3% of revenues. Officials attribute positive performance to the monitoring of student-teacher ratios, eliminating positions, as necessary. Additionally, management has focused on applying for federal grants to supplement state aid (SEG) revenues. Bloomfield's finances are largely insulated from volatility in the tax base given that approximately 95% of the operating revenues are state derived. Declines in enrollment associated with energy-sector job loss has potential to negatively impact SEG, holding all else equal; however, material declines in student membership has not been realized.

The fiscal 2017 budget was balanced with use of reserves; however, in reality, the district expected to benefit from conservative assumptions, and realize a positive year. The Legislature, in a Special Session, elected to cut state aid by 1.5% and reduce categorical funding by $17.5 million. Specific to Bloomfield, this translates to a total reduction of approximately $509,000. Assuming this amount is fully absorbed with fund balance, General Fund balance would decline to approximately $3.7 million, or a still-adequate 15.4% of fiscal 2016 revenues. Officials are hopeful these mid-year cuts will not negatively impact reserves, and are instead focused on aggressive expenditure management, including: cuts to professional development; hiring freezes; and combining positions when and where available.

Future reviews will focus on management's ability to weather mid-year cuts and/or flat SEG funding; sustained use of reserves to balance the budget will likely result in a rating change.

LIQUIDITY

The district's cash position is satisfactory. Fiscal 2016 General Fund cash was $3.7 million, or 15.8% of revenues. Operating cash, including both the General Fund and Debt Service Fund, was $10.6 million, or 35.5% of revenues. Moody's notes that principal is paid in August, September and October, thus, a majority of the Debt Service cash balance would be spent down early fiscal 2017.

Debt and Pensions: Manageable Debt Burden at the Cap

Over the mid-term, the district's debt burden will likely remain above average compared to national medians due to the expectation of further tax base contractions; however, this risk is mitigated by rapid principal amortization coupled with restrictions on new issuances. Post-sale, the district's debt burden is 2% of fiscal 2017 full value, which is the maximum allowed under the State Constitution, effectively prohibiting Bloomfield from issuing new money. Positively, management reports that the district does not have pressing capital needs. Officials expect the tax base to stabilize as oil and gas prices stabilize, likely in three to four years; at that time, the district will approach voters for a bond election. In the event that the tax base continues contracting, limiting the district's ability to issue bonds for facility maintenance and renovations, this may warrant further review.

DEBT STRUCTURE

Inclusive of the current issuance, the district will have $43.7 million in outstanding general obligation bonds. Principal amortization is rapid with 98.4% retired in ten years. All debt matures by 2030.

In light of current and expected tax base declines, management wanted to restructure their debt payout to ensure a level debt service levy. As such, they are issuing Series 2017 refunding bonds for a net present value loss, as well as extending the maturity by six years. The new debt service schedule is descending in nature. Furthermore, the debt is structured assuming conservative AV projections: fiscal 2017 AV of $602.9 million, when in reality it was $727.8 million, and a fiscal 2018 AV of $600.3 million. Management is focused on not burdening taxpayers; however, in event of serious, deep AV declines, the district does have the ability to increase the levy to whatever is necessary to service the debt.

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 2016 adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is $85.6 million, or an elevated 2.86 times operating revenues. The three-year average of the district's ANPL to operating revenues is 2.73 times, while the three-year average of ANPL to full value is high at 3.1%.

The district's ANPL has fluctuated over the last several years. In fiscal 2015, pension contributions of $2.2 million were below Moody's "tread water" value of $2.9 million, a credit negative. This calculation is not yet available for fiscal 2016. The "tread water" indicator measures the annual contributions required to prevent the reported net pension liability from increasing, under reported assumptions. The district's fixed costs, including debt service, pensions contributions and OPEB contributions, totaled an elevated 28.4% of operating revenues, further limiting the district's financial flexibility.

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.

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. 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.

Of note, the district is in process of determining an ideal fund balance policy. As of now, they have a target to maintain at least 14% of operating expenditures in reserve, which they exceeded in fiscal 2016.

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 2017 bonds will be used to refund Series 2009 for a net present value savings of negative $190,000. Additionally, the district will extend the final maturity from 2024 to 2030. Management has opted to refund for a loss in order to avoid increasing the debt service levy in light of assessed value contractions.

Obligor Profile

The district serves the city of Bloomfield, as well as surrounding San Juan County, in northwestern New Mexico. District boundaries encompass 1,508 square miles. Fiscal 2017 enrollment was 2,957.

Methodology

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in December 2016. 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 Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

Bloomfield S.D. 6 (San Juan County), NM

Issue	Rating
General Obligation Refunding Bonds, Series 2017	A1
Rating Type	Underlying LT
Sale Amount	$10,220,000
Expected Sale Date	01/09/2017
Rating Description	General Obligation
General Obligation Refunding Bonds, Series 2017	Aa2
Rating Type	Enhanced LT
Sale Amount	$10,220,000
Expected Sale Date	01/09/2017
Rating Description	General Obligation

Source: Moody's Investors Service

REPORT NUMBER 1053673

Contacts

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

Christian Ward 415-274-1721
Analyst
christian.ward@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE