

CREDIT OPINION

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New Issue

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Grants-Cibola County School District 1, NM

New Issue - Moody's Assigns A2 to Grants-Cibola SD, NM's \$2M in GOULT, Ser. 2017

Summary Rating Rationale

Moody's Investors Service has assigned a A2 underlying rating to Grants-Cibola County School District No. 1's (NM) \$2 million General Obligation School Bonds, Series 2017. Moody's maintains the A2 rating on the district's \$16.3 million in outstanding parity bonds. In addition to the underlying rating, we have assigned a Aa2 enhanced rating to the General Obligation School Bonds, Series 2017 based on the New Mexico School District Enhancement Program-Post March 30, 2007.

The A2 rating reflects the district's improved financial position, with another surplus expected in fiscal 2016; modest tax base with taxpayer concentration; manageable debt burden with rapid principal amortization; and, very elevated pension burden.

The Aa2 enhanced rating assigned to the General Obligation School 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

- » Fairly stable tax base
- » Manageable debt profile with rapid principal amortization

Credit Challenges

- » Taxpayer concentration
- » Below average wealth indices
- » 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

- » Significant tax base expansion and diversification
- » Continued surplus operations, increasing General Fund balance and cash reserves

Factors that Could Lead to a Downgrade

- » Consistent tax base contractions
- » Deterioration of fund balance and reserves

Key Indicators

Exhibit 1

Grants-Cibola County School District 1, NM	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 903,545	\$ 904,799	\$ 921,840	\$ 905,843	\$ 940,970
Full Value Per Capita	\$ 33,356	\$ 33,210	\$ 33,871	\$ 33,283	\$ 34,574
Median Family Income (% of US Median)	65.4%	62.0%	64.8%	64.8%	64.8%
Finances					
Operating Revenue (\$000)	\$ 32,666	\$ 29,798	\$ 31,590	\$ 32,134	\$ 35,194
Fund Balance as a % of Revenues	30.4%	33.0%	17.4%	17.9%	22.8%
Cash Balance as a % of Revenues	18.8%	19.3%	18.8%	14.6%	18.0%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 15,560	\$ 16,665	\$ 16,835	\$ 17,935	\$ 15,660
Net Direct Debt / Operating Revenues (x)	0.5x	0.6x	0.5x	0.6x	0.4x
Net Direct Debt / Full Value (%)	1.7%	1.8%	1.8%	2.0%	1.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	2.9x	3.1x	3.4x	2.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	9.6%	10.8%	11.9%	11.0%

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

Detailed Rating Considerations - Enhanced

Moody's has assigned an enhanced rating of Aa2 to the General Obligation School 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 (unaudited), interceptable state-aid provides an ample minimum of 7.31 times coverage of maximum periodic debt service. Further, state revenues provide an adequate minimum 6.32 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 October, 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: Modest Tax Base; Wealth Indices are Weak

The district's tax base will likely remain stable over the mid-term given positive reappraisals. Grants-Cibola school district serves Cibola County (A2) and covers a large 4,539 square mile area in western New Mexico (Aa1 negative(m)). Interstate 40 passes through the district and the local economy is centered around tourism, agriculture, and gaming. The tax base has been stable with growth averaging 1.2% over the last five years to reach a fiscal 2017 assessed value of \$316.6 million (derived from a full value of \$950.6 million). Of note, the tax base contracted modestly in fiscal 2016; a taxpayer successfully protested its valuation, which resulted in an adjustment.

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.

Major employers in the area include a corrections center, healthcare facility, and Walmart. Moody's notes that two of the ten employers are coal mining companies, and employ approximately 400 people. Management notes that with the decline in demand for coal, upwards of 30% of the workforce was terminated. Fortunately, officials report fluctuations in the employment base has not impacted enrollment. Fiscal 2016 student levels increased to 3,841 compared to prior year's 3,746. Fiscal 2017 numbers are trending upwards, with 40th day counts around 3,800 (compared to fiscal 2016's 3,600).

Taxpayer concentration is moderate, with the top ten taxpayers accounting for 18.7% of assessed value. BNSF Railway Company (Aa2 Stable) is the top taxpayer comprising 8.1% of taxable value. Despite a sizeable land area and several large taxpayers, full value per capita is a very low \$34,929. Resident income levels remain well below national medians with median family income equal to 64.8% of the US median according to the 2013 American Community Survey. Furthermore, district poverty rates are 28%. Cibola County's 8.4% unemployment rates for September 2016 is above both the state (6.7%) and national (4.8%) rates for the same period.

Financial Operations and Reserves: After Period of Deficits, Finances Show Improvement

Due to strong performance in fiscal 2015 and fiscal 2016, the district will likely be able to weather uncertainty regarding state funding over the near-term. Fiscal 2015 ended with a \$1.4 million surplus, increasing General Fund balance to \$5.7 million, or an improved 18.1% of revenues. Typical of New Mexico school districts, Grants-Cibola relies heavily on state aid for operations, which represented 85% of fiscal 2015 revenues. Operating fund balance, including the General Fund and Debt Service Fund, was \$8.6 million or 24.5% of operating revenues.

Fiscal 2016 unaudited actuals indicate another surplus of \$1.1 million, further increasing General Fund balance to \$6.8 million, or 21.7% of unaudited revenues. Officials attribute positive operations to conservative budgeting that assumes flat enrollment, when in reality the district saw an uptick.

The fiscal 2017 budget was balanced with use of cash reserves, a typical practice of New Mexico school districts. In practice, officials expected to end the year with another surplus. Specific to Grants-Cibola, the State's mid-year funding cuts total approximately \$300,000, which the district will likely absorb with reserves. However, they are still anticipating a surplus driven by an increase in student membership coupled with aggressive expenditure management.

LIQUIDITY

The district's cash position is fairly stable. Fiscal 2015 concluded with \$3.6 million in General Fund cash, or 11.3% of revenues. Operating cash, including the General Fund and Debt Service Fund, is \$6.4 million, or 18.1% of operating revenues. Going forward, fiscal 2016 unaudited General Fund cash indicates an increase to \$5.1 million, or 16.4% of unaudited revenues.

Debt and Pensions: Stable Debt Burden; Elevated Pension Liability

The district's debt burden will likely remain manageable over the mid-term given minimal capital needs and rapid principal amortization. At 2% of fiscal 2017 full value, the district's debt burden is in line with peers. Historically, the district has maintained a burden between 1.7% and 2.0% full value. The Series 2017 bonds will exhaust remaining authorization from the 2013 election. Management plans to approach voters again in 2019 for a \$9 million bond package.

DEBT STRUCTURE

All the district's debt is fixed rate, and is fully amortized by fiscal 2028. Principal amortization is rapid with 98.5% retired in ten years.

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 \$103 million, or an elevated 2.93 times operating revenues. The three-year average of the district's ANPL to operating revenues is 2.94 times, while the three-year average of ANPL to full value is high at 11.0%.

The district's ANPL has fluctuated over the last several years. In fiscal 2015, pension contributions of \$2.9 million were below Moody's "tread water" value of \$3.7 million, a credit negative. 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 a somewhat elevated 17.1% 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.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 90% 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.

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 for the second phase of middle school construction.

Obligor Profile

The district is headquartered in Grants, New Mexico, is located in west central New Mexico on U.S. Interstate 40, and encompasses the major portion of Cibola County. The eastern boundary is 23 miles west of the Albuquerque city limits, and approximately 112 miles from the Arizona border. The area of the District is 4,573 square miles. The economy is diversified with the principal sources of income being derived from tourism, livestock, agriculture, and lumber. The current estimated population served by the District is 27,329.

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 Rating Methodologies page on www.moody.com for a copy of these methodologies.

Ratings

Exhibit 2

Grants-Cibola County School District 1, NM

Issue	Rating
General Obligation School Bonds Series 2017	A2
Rating Type	Underlying LT
Sale Amount	\$2,000,000
Expected Sale Date	12/09/2016
Rating Description	General Obligation
General Obligation School Bonds Series 2017	Aa2
Rating Type	Enhanced LT
Sale Amount	\$2,000,000
Expected Sale Date	12/09/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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