

CREDIT OPINION

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Contacts

Francisco Gonzalez +1.214.979.6863
Associate Lead Analyst
francisco.gonzalez@moodys.com

Grayson Nichols +1.214.979.6851
VP-Senior Analyst
grayson.nichols@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

Curry (County of) NM

Update following assignment of Aa3 issuer rating

Summary

Curry County, NM (Aa3 Issuer Rating) benefits from a stable credit profile, as evidenced by a modestly-sized tax base, which continues to experience stable taxable value growth and benefits from the institutional presence of Cannon Air Force Base; alongside a steady financial profile with adequate reserves that mitigates reliance on sales taxes. The credit profile includes a below average resident income indices and a manageable debt profile with no outstanding general obligation debt.

On May 17, 2018, Moody's assigned a Aa3 issuer rating. The issuer rating is equivalent to a rating that we would assign to a typical General Obligation Unlimited Tax (GOULT) debt issue and is used as a reference rating for the county's special tax rating.

Credit strengths

- » Moderately-sized tax base anchored by Cannon Air Force Base
- » Manageable direct debt and fixed cost burdens

Credit challenges

- » Heavy reliance on volatile revenue stream
- » Below average wealth indices

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

- » Expansion and diversification of the County's economy
- » Improved wealth and income profile

Factors that could lead to a downgrade

- » Tax base contraction or economic stagnation; weak growth or declines in GRT (sales tax) collections
- » Trend of structurally imbalanced operations leading to a decline in reserves

Key indicators

Exhibit 1

Curry (County of) NM	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$2,232,345	\$2,329,832	\$2,576,074	\$2,690,682	\$2,724,497
Population	49,302	50,173	50,497	50,280	50,544
Full Value Per Capita	\$45,279	\$46,436	\$51,014	\$53,514	\$53,903
Median Family Income (% of US Median)	78.7%	79.3%	75.2%	75.2%	71.5%
Finances					
Operating Revenue (\$000)	\$14,748	\$15,912	\$16,504	\$17,930	\$18,918
Fund Balance (\$000)	\$8,913	\$9,388	\$10,742	\$12,082	\$11,246
Cash Balance (\$000)	\$10,149	\$10,491	\$11,281	\$13,188	\$12,199
Fund Balance as a % of Revenues	60.4%	59.0%	65.1%	67.4%	59.4%
Cash Balance as a % of Revenues	68.8%	65.9%	68.4%	73.6%	64.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$3,491	\$1,747	\$14,469	\$14,424	\$14,379
3-Year Average of Moody's ANPL (\$000)	\$23,863	\$23,616	\$22,014	\$23,874	\$30,564
Net Direct Debt / Operating Revenues (x)	0.2x	0.1x	0.9x	0.8x	0.8x
Net Direct Debt / Full Value (%)	0.2%	0.1%	0.6%	0.5%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.6x	1.5x	1.3x	1.3x	1.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.1%	1.0%	0.9%	0.9%	1.1%

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

Profile

Curry County is located in eastern [New Mexico](#) (Aa1 negative), about 220 miles east of [Albuquerque](#) (Aa2 negative), and 105 miles southwest of [Amarillo](#), Texas (Aa1 stable). [The City of Clovis](#) (Aa3) is the county seat and contains the majority (approximately 78%) of the county's 50,544 total population.

Detailed credit considerations

Economy and tax base: stable economy anchored by Cannon Air Force Base

The county's tax base will likely remain stable over the near-term given positive reappraisals, modest ongoing development and the anchoring presence of Cannon Air Force Base (AFB). Located on the Texas-New Mexico border, 100 miles northwest of [Lubbock](#) (Aa2 stable). The county's tax base is moderately-sized at \$2.7 billion, and five year average annual growth is steady at 4.6%. The local economy benefits from presence of Cannon AFB, which employs around 9,900 military and civilian personnel. In addition, the county has a strong agriculture presence, with the largest number of dairy farms and cattle ranches in the state.

Income indices are below average, with median family income of 71.5% (2015 ACS). Positively, unemployment rates are favorable and historically below the state at 3.8% compared to the state's 5.1% as March 2018.

Financial operations and reserves: strong financial performance; adequate reserves

The county's financial position will likely remain healthy over the mid-term given conservative budgeting practices and satisfactory reserve levels. Over the past six years, the county has reported four surpluses, increasing the General Fund balance to \$12.1 million, or an ample 51% of revenues. Although the county relies substantially on sales taxes (GRT), which account for roughly 47% of General

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Fund revenues, the county's reserve position provides a cushion in the event of volatility. Favorably, sales tax collections have grown on average annually over the past five years at 7.1%.

The district's primary expenditures are public safety (54%), general government (23%), Health, and Welfare (10.8%). The fiscal 2018 budget assumed revenues of \$17.4 million against expenditures of \$19.2 million, including a \$1.7 million transfer to the Road and Event center fund. Despite the scheduled \$1.7 million deficit in fiscal 2018, the county's available operating fund balance (general fund and debt service) will remain healthy at \$9.9 million or a strong 56% of revenues.

LIQUIDITY

General Fund cash is strong. At fiscal 2017 year-end, cash reserves were \$12.2 million, or 64.5% of revenues.

Debt and pensions: manageable debt burden and moderate pension burden

Curry County's debt profile is expected to remain manageable. The county's net direct debt burden is low at 0.5% of fiscal 2017 valuation and includes \$13.7 million in sales tax bonds and \$629,000 in state loans.

DEBT STRUCTURE

The county does not have any general obligation debt outstanding.

DEBT-RELATED DERIVATIVES

The county has no exposure to variable rate debt or interest rate swaps

PENSIONS AND OPEB

The county has an average employee pension burden, based on unfunded liabilities for its share of the Public Employees Retirement Association (PERA), a cost sharing plan administered by the state. Moody's fiscal 2017 adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data, is \$37.5 million, or a manageable 1.98 times operating revenues.

The county's tread water gap has widened modestly since fiscal 2015, from 0.56% in fiscal 2015 to 2.39% in fiscal 2017, but remains in line with peers. The "tread water" indicator measures the annual contributions required to prevent the reported net pension liability from increasing under the plan's assumptions. That is, it is the amount that the county would have to pay on an annual basis to ensure the liability does not increase. In fiscal 2017, pension contributions of \$618,000 were below the treadwater payment of \$1.07 million, a credit weakness. Currently, the county is able to pay the statutorily-required contribution without impairing operations. Going forward, in order for PERA to meet its obligations, it is not unreasonable to assume that contributions will have to increase in the future, which could eventually place pressure on the county's operations.

The county's fixed costs, including debt service, pension and OPEB contributions, are approximately 6.9% of operating revenues, which is low. However, if the tread water payment is factored into the fixed cost calculation, it increases to a still manageable 9.3% of operating revenues.

Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county'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

Management and governance: institutional framework score of A

New Mexico counties have an institutional framework score of "A," or moderate. Counties receive the majority of their revenues from property taxes and gross receipts taxes, which in combination are moderately predictable. Most New Mexico counties are at the maximum O&M levy, but have a moderate level of ability to raise revenues through property tax rates or additional gross receipts taxes. Expenditures are moderately predictable and could experience some volatility due to jail and/or hospital expenses. Expenditure reduction ability for counties is moderate given high fixed costs.

The County operates under a Board of County Commissions-manager form of government and provides the following services as authorized by public law: public safety (sheriff, fire, emergency medical, etc.), roads, health and social services, recreation, sanitation, planning and zoning, property assessment, tax collection and general administrative services.

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Contacts

Francisco Gonzalez +1.214.979.6863
Associate Lead Analyst
francisco.gonzalez@moodys.com

Grayson Nichols +1.214.979.6851
VP-Senior Analyst
grayson.nichols@moodys.com

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