MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns Aa3 UND/Aa2 ENH to Hobbs Muni. SD 16 (Lea County), NM's Ser. 2026 GO's

01 Jul 2026

New York, July 01, 2026 -- Moody's Ratings (Moody's) has assigned a Aa3 underlying and Aa2 enhanced ratings to Hobbs Municipal School District 16 (Lea County), NM's proposed $18.9 million General Obligation School Bonds, Series 2026. We maintain the district's Aa3 issuer and general obligation unlimited tax (GOULT) ratings. The district will have about $63 million in debt outstanding following this sale.

RATINGS RATIONALE

The Aa3 issuer rating reflects the district's healthy financial position, supported by strong management, which is expected to remain solid over the next two fiscal years. The district anticipates a fiscal 2026 (June 30 year-end) general fund surplus, net a one-time transfer of roughly $7.5 million to the food service fund, where state aid has not fully covered expenses. Management has budgeted for balanced operations in the general fund for fiscal 2027, but performance will likely exceed initial projections given a track record of positive budget variances.

Financial performance remained healthy in fiscal 2025, driven by an operating surplus of nearly $9 million and sizable revenue growth from increased state aid. The available fund balance ratio was nearly 36% of revenue, slightly above peers. Oil and gas activity (highly concentrated at 48% of assessed value) within the district supports above-median property wealth levels, though exposes the district to risk because of the volatile nature of the sector. Positively, the district's assessed value increased by a notable 21% to $3.2 billion following four years of growth.

Student enrollment is anticipated to grow driven by ongoing residential development. The rating also incorporates the district's moderate long-term liabilities ratio of 241% driven primarily by the district's participation the statewide cost-sharing pension plan. While still preliminary, the district has plans to approach voters for additional bond authorization in fiscal 2028.

The Aa3 GOULT rating is the same as the issuer rating, reflecting the unlimited property tax pledge dedicated to debt service.

The Aa2 enhanced rating is based on the New Mexico School District Intercept Program's programmatic rating. In order to qualify for the programmatic rating, per our methodology, annual debt service coverage must be at least sum sufficient. In Hobbs MSD 16's case, coverage is ample at 11.5 times based on fiscal 2025 state aid.

RATING OUTLOOK

We do not assign outlooks to local governments with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Increased operating reserves approaching 50% of revenue

- Material economic diversification and strengthened resident income

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Increase of the long-term liabilities ratio to over 400%

- Erosion of available fund balance and/or liquidity ratios below 25%

- Sustained trend of declining enrollment not met with budgetary adjustments

PROFILE

Hobbs Municipal School District 16 is located in southeastern New Mexico and serves the city of Hobbs and surrounding areas. The district provides pre-K through twelfth grade education to about 10,100 students.

METHODOLOGY

The principal methodology used in the underlying rating was US K-12 Public School Districts published in June 2026 and available at https://ratings.moodys.com/rmc-documents/466688. The principal methodology used in the enhanced rating was US State Aid Intercept Programs and Financings published in February 2024 and available at https://ratings.moodys.com/rmc-documents/415020. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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