MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Assigns Aa2 SUB to NMFA, NM's PPRF Revenue Bonds

31 Jan 2019

New York, January 31, 2019 -- Moody's Investors Service has assigned a Aa2 rating to the New Mexico Finance Authority's (NMFA) upcoming sale of $39.3 million Subordinate Lien Public Project Revolving Fund (PPRF) Revenue Bonds, Series 2019A. We maintain Aa1 senior and Aa2 subordinate ratings on outstanding parity obligations. The outlook is stable.

RATINGS RATIONALE

The Aa1 senior rating reflects the average credit quality of the Authority's large and diverse pool of borrowers and satisfactory default tolerance inclusive of the Governmental Gross Receipts Tax (GGRT), received in addition to loan agreement revenues. The rating further considers NMFA's strong governance structure and legal provisions, which include debt service reserve funds held by a trustee.

The Aa2 subordinate rating reflects the weaker credit quality of the pool participants, relative to the senior, and very strong default tolerance. While GGRT revenues flow through to the subordinate bonds, these obligations are secured by their own legally separate agreement revenues.

RATING OUTLOOK

The stable outlook reflects our expectations that GGRT collections will remain level, if not increase modestly over the mid-term, as the state's economy continues recovering from 2016's downturn in oil and gas prices. Stability of the GGRT revenues is necessary to maintain high default tolerance on both the senior and subordinate lien bonds.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Trend of significant growth in GGRT revenues bolstering cash flow and coverage

- Significant improvement in the credit worthiness of the loan pools

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Erosion of creditworthiness in the loan pools

- Sustained declines in GGRT collections

LEGAL SECURITY

The bonds are secured by and payable solely from the special revenues and funds of the authority pledged under the Indenture, including: moneys from the repayment by governmental borrowers of loans made (differentiated between senior and subordinate), certain Governmental Gross Receipts Tax revenues, and additional revenues received by the authority that are designated as funds pledged by the Indenture.

USE OF PROCEEDS

Proceeds from the Series 2019A bonds will be used to reimburse 20 loans ranging from $284 thousand to $11 million, including Farmington Municipal School District for $11 million and Belen Consolidated School District for $6 million.

PROFILE

The NMFA is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The Finance Authority was created in 1992 pursuant to the Act to coordinate the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. The authority is comprised of 11 members who also constitute the Finance Authority's board of directors and currently employs 39 people.

METHODOLOGY

The principal methodology used in this rating was Public Sector Pool Financings published in July 2012. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this 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. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Heather Correia
Lead Analyst
Regional PFG Dallas
Moody's Investors Service, Inc.
Plaza Of The Americas
600 North Pearl St. Suite 2165
Dallas 75201
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Alexandra Parker
MANAGING DIRECTOR
Regional PFG Dallas
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

MOODY'S
INVESTORS SERVICE

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
31 January 2019

Rate this Research

Contacts

Heather Correia +1.214.979.6868
Analyst
heather.correia@moodys.com

William Oh +1.415.274.1739
AVP-Analyst
william.oh@moodys.com

Alexandra S. Parker +1.212.553.4889
MD-Public Finance
alexandra.parker@moodys.com

CLIENT SERVICES

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

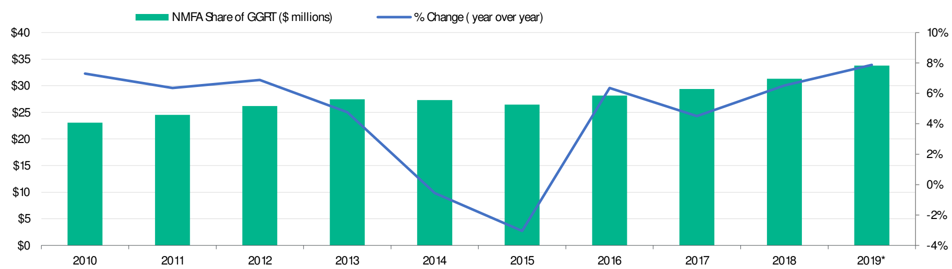
New Mexico Finance Authority

Update to credit analysis

Summary

The New Mexico Finance Authority (NMFA) (Aa1 senior, Aa2 subordinate) has a stable credit profile that benefits from a strong management team overseeing the portfolio and satisfactory legal provisions securing the debt. Annual debt service coverage is adequate, and is expected to improve over the long-term as Governmental Gross Receipt Tax (GGRT) revenues trend upwards. Likewise, cash reserves are healthy, with a majority held by trustee. While the portfolio is large, it is concentrated and exposed to borrowers with relatively low creditworthiness.

Exhibit 1
GGRT revenues are generally upward trending
Collections supplement agreement revenues, and are a key credit strength



Source: NMFA, NM; Moody's

Credit strengths

» Strong program and borrower oversight provided by management team

» Portion of pledged revenues is intercepted by the state and directed to the trustee

» Ample liquidity provided by structural enhancements

Credit challenges

» Loan revenues provide narrow coverage levels on both senior and subordinate liens

» Program exposed to borrowers with relatively low credit worthiness

Rating outlook

The stable outlook reflects our expectations that GGRT collections will increase modestly over the mid-term, as the state's economy improves. The continued stability in GGRT revenues will provide adequate coverage and high default tolerance on both the senior and subordinate lien bonds, and helps temper the low credit quality of individual borrowers.

Factors that could lead to an upgrade

- Trend of significant growth in GGRT revenues bolstering cash flow and coverage
- Significant improvement in the credit worthiness of the loan pools

Factors that could lead to a downgrade

- Erosion of creditworthiness in the loan pools
- Sustained declines in GGRT collections

Key indicators

Exhibit 2

NMFA PPRF Senior Lien			NMFA PPRF Subordinate Lien		
Size and Diversity			Size and Diversity		
Size of Portfolio		202	Size of Portfolio		117
% of Borrowers with less than 1% of the pool		86.6%	% of Borrowers with less than 1% of the pool		80.3%
% of loans to the top 5 borrowers		27.0%	% of loans to the top 5 borrowers		38.8%
Amount Outstanding			Amount Outstanding		
Total Bonds Outstanding	$990M		Total Bonds Outstanding (inc. 2019A)	$358.4M	
Total Loans Outstanding	$1.1B		Total Loans Outstanding	$445.2M	
Top Five Participants	Percent of Pool		Top Five Participants	Percent of Pool	
Rio Rancho (City of) NM [Aa3]		7.5%	State of NM General Services Dept. [New Mexico - Aa2/STA]		17.3%
State of NM General Services Dept. [New Mexico - Aa2/STA]		6.1%	Santa Fe (City of) NM [NR]		8.7%
Santa Fe (City of) NM [NR]		5.6%	Jicarilla Apache Nation [NR]		5.8%
New Mexico Spaceport Authority [NR]		4.7%	Board of Regents of Eastern New Mexico University [NR]		5.8%
Jicarilla Apache Nation [NR]		3.0%	Gallup-McKinley County School District No. 1 [A1]		5.7%

Source: NMFA, NM; Moody's

Profile

The NMFA is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The Finance Authority was created in 1992 to coordinate the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. The authority is comprised of 11 members who also constitute the Finance Authority's board of directors and currently employs 39 people.

Detailed credit considerations

Loan portfolio: large portfolio of diverse borrowers

NMFA's portfolio is large, but concentrated, with the majority of borrowers of average credit quality. By March 1, 2019, the PPRF is projected to have 850 outstanding loans totaling approximately $1.6 billion. The senior lien pool currently consists of 202 unique borrowers with an accumulated principal loan value of approximately $1.1 billion. The subordinate lien pool currently consists of 117 unique borrowers with an accumulated principal loan value of $445.2 million.

Borrowers in the senior lien pool, based on our internal assessment, have an average credit quality of A. In contrast, borrowers in the subordinate lien pool are weaker, with credit quality of Baa. Across the pool, borrowers vary, and range from cities and counties to pueblos and Indian tribes. Likewise, pledges are diverse, and include ad valorem, sales tax, utility revenues and various fees. The weakness of some of these borrowers and pledges is reflected in the respective pool ratings of Aa1 senior and Aa2 subordinate.

Approximately 27% of the total outstanding senior lien loan pool and 38.8% of the total outstanding subordinate lien pool is concentrated in the top five borrowers' loans. The largest borrower in the senior pool is the City of Rio Rancho (Aa3), representing 7.5%. The largest borrower in the subordinate pool is the General Service Department of the State of New Mexico (NR), accounting for 15.1%. Over the past year, the authority has diversified the subordinate lien loan pool, reducing concentration from 43.3% (April 2018), and the overall creditworthiness of the individual borrowers has improved; however, it remains at Baa based on our internal assessment. Moody's notes that the vast majority of borrowers across both pools each represent less than 1% of outstanding loans.

Underlying credit quality and default tolerance: credit worthiness across senior and subordinate lien pools is average to low; GGRT provides high default tolerance

Given the authority's projected cashflows, inclusive of loan agreements and GGRT, default tolerance is expected to remain high over the mid-term. Additionally, the creditworthiness of the senior and subordinate borrower pools is expected to remain stable, with the largest pool participants fairly static.

The senior lien bonds are secured by borrower repayments (loan revenues), referred to as agreement revenues. Of note, the subordinate lien bonds are also secured by loan revenues, which are legally separate from the senior. The senior and subordinate distinction reflects the lien on the GGRT and excess loan revenues. NMFA receives 75% of statewide GGRT collections (footnote: GGRT is imposed at a rate of 5% on public services by political subdivisions of the State of New Mexico (excluding school districts and health care providers). The majority of GGRT revenues are generated from water, sewer, and refuse collection and disposal services.); this is a key credit strength—without GGRT, senior and subordinate lien default tolerance would be in the single digits rather than double digits. In fiscal 2018, GGRT totaled $31.3 million, up 6.5% year-over-year. For the first seven months of fiscal 2019, GGRT is $24.5 million, or an annualized $33.8 million. Of note, fiscal 2019 collections include a one-time payment of $4.8 million from the state to correct historic GGRT that was misclassified. Historically, GGRT is a stable revenue source, exhibiting minimal volatility; this trend is expected to continue over the mid-term as the State's economy continues to improve.

Inclusive of projected agreement revenues and the PPRF's share of the state's GGRT collections for fiscal 2018, fiscal 2019 senior lien debt service coverage is projected at 1.32 times and is projected to remain in excess of that coverage level through final maturity in 2046. Fiscal 2019 default tolerance for the senior lien is high at 30.5% when including GGRT revenues, and is a much narrower 5.6% without it.

Projected fiscal 2019 subordinate lien coverage, inclusive of its own agreement revenues and projected flow through revenues (excess senior agreement revenues plus remaining GGRT) is a solid 1.96 times. Excluding flow through revenues, subordinate lien coverage declines to 1.07 times. Default tolerance on the subordinate lien is very high at 90.1% given the large amount of flow-through revenues from the senior lien and a weaker 6.2% when excluding them.

LIQUIDITY

The state appropriated a portion of excess PPRF revenues as recently as fiscal 2018; however, given the financial health of New Mexico, a sweep is not expected for fiscal 2019. Regardless, the authority's liquidity remains healthy, with a large amount of cash held by trustee and protected by indenture.

The authority has two primary reserve funds held by trustee for the repayment of senior and subordinate bonds: the common debt service reserve (CDSR) and supplemental credit reserve fund (SCRF). The CDSR is pledged to the senior lien bonds, and based on the expected loan portfolio at March 1, will have $31 million in reserve. The SCRF is funded at the level of the CDSR, and serves as a subordinate lien bond debt service reserve fund, subordinate lien loan reserve fund and a short-term borrowing liquidity reserve fund, and is also expected to have $31 million in reserve at March 1. The authority also has a $100 million line of credit with Wells Fargo to provide for additional liquidity.

The governmental unit debt service reserves provide additional stability. Loan agreements in excess of $250,000 with borrowers pledging enterprise system revenues that have credit quality below the "A" category are required to fund an individual debt service reserve account to be held either with the authority's trustee or the individual borrower's trustee, in the case of large publicly rated borrowers. The amount of the government unit debt service reserve is equal to the lesser of 10% of par, MADS, or 125% of average annual debt service. Borrowers may fund the required debt service reserves with bond proceeds, surety, or a cumulative cash contribution over a three-year period. The current senior and subordinate governmental unit combined debt service reserves are $35.6 million and $27.6 million, respectively. These reserves are for use of specific borrowers only and are not accessible by any other borrowers in the pool.

Legal framework, covenants and debt structure: provisions provide strong bondholder security

Legal provisions provide strong bondholder security. The PPRF additional bonds test requires that a) the authority deliver a Cash Flow Statement to the Trustee which takes into account the additional indebtedness, b) all prior payments required to be made into the Bond Fund have been paid in full, c) additional bond proceeds are for refunding or additional loans, grants or to purchase securities (including reserve requirements), and d) no events of default have occurred. Borrowers are required to fund debt service on loans at least five days in advance of when it is due. The trustee covers insufficiencies in any borrower's account within the Debt Service Fund as of five days prior to the due date by transferring available funds in the related Agreement Reserve Account. Borrowers intending to prepay a loan are required to notify the Trustee forty-five days in advance of the prepayment date.

DEBT STRUCTURE

The authority has $990 million in outstanding senior lien and $358.4 million in outstanding subordinate lien bonds. The debt service schedule on both pledges is downward trending in order to layer in future bonds without adversely impacting coverage. Senior and subordinate lien principal amortization is around 70% for both pledges.

DEBT-RELATED DERIVATIVES

The authority is not party to any variable rate debt or interest rate derivatives.

Management and governance: strong oversight provided by sophisticated management team

The authority's program management and oversight of the PPRF is a strong credit factor incorporated into the rating.

The NMFA's lending criteria are strong and the authority does not approve all loan applications. Authority oversight of the program includes the use of credit committees to review loan applications and recommendations are made to approve or deny individual issuers. Additionally, the authority tracks loans and reviews borrowers quarterly, internal loan officers are in frequent contact with borrowers, and the State monitors the monthly fiscal health of communities so any challenges can be addressed in a timely manner.

The board is composed of 11 members who serve as the governing body of the NMFA. Five of the 11 members are appointed by the governor; as of January 1, the governor (elected November 2018) did appoint four new members. Three board positions are still vacant, and it is unclear at this time when they will be filled.

REPORT NUMBER 1159845

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