

## CREDIT OPINION

6 February 2017

### New Issue

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## New Mexico Finance Authority, NM

New Issue: Moody's Assigns Aa1 and Aa2 to NMFA's, NM Senior & Sub. Lien PPRF Rev. Bonds, Ser. 2017A&B

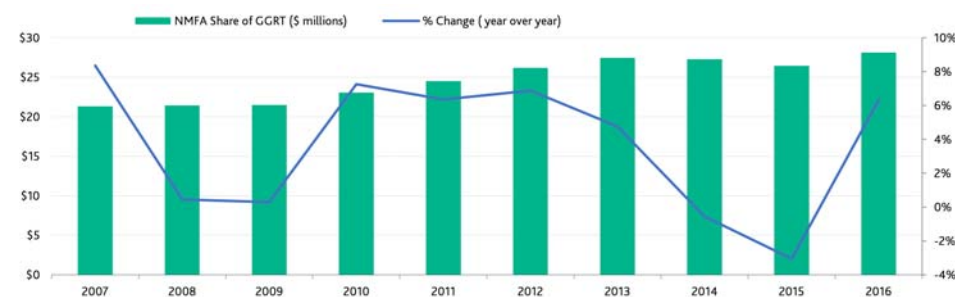
### Summary Rating Rationale

Moody's Investors Service has assigned a Aa1 rating to the New Mexico Finance Authority's (NMFA) upcoming sales of \$57.4 million Senior Lien Public Project Revolving Fund (PPRF) Revenue Bonds, Series 2017A and a Aa2 to the \$68.8 million Subordinate Lien Public Project Revolving Fund Revenue Bonds, Series 2017B. Moody's also affirms the Aa1 senior and Aa2 subordinate lien PPRF ratings on \$948.4 million and \$199.9 million of previously issued debt, respectively.

The Aa1 senior and Aa2 subordinate PPRF revenue ratings reflect the NMFA's strong governance structure and program management, strong debt structure and legal provisions, and strong portfolio credit quality. Additional rating considerations include the Authority's sizable pool of borrowers with some loan concentration, a diverse pledge from pooled participants, additional liquidity provided by borrower debt service reserve and Authority liquidity, and availability of a portion of the state's Government Gross Receipts Tax (GGRT) on public services provided by local governments throughout the state to supplement portfolio revenues. The Aa2 subordinate rating reflects the nature of the pledge, as well as a weaker portfolio credit quality in comparison to the senior pool.

Exhibit 1

#### Stable GGRT Revenues Provide Ample Cushion For Potential Debt Service Deficiencies



Source: New Mexico Finance Authority, NM

### Credit Strengths

- » Strong program and borrower oversight provided by management team
- » Portion of pledged revenues that is intercepted by the state and directed to the trustee
- » Ample liquidity provided by structural enhancements

## Credit Challenges

- » Loan revenues only provide narrow coverage levels
- » Program exposed to borrowers with relatively low credit worthiness
- » Third consecutive year of required contributions to the state from a portion of flow-through funds

## Rating Outlook

The stable outlook reflects stability of program management, loan portfolio credit quality and supplemental coverage provided by the Governmental Gross Receipts Tax.

## Factors that Could Lead to an Upgrade

- » Significant growth in Governmental Gross Receipts Tax revenues bolstering cash flow, coverage, and reserves
- » Decreased concentration in top loan borrowers

## Factors that Could Lead to a Downgrade

- » Erosion of creditworthiness in the loan pool
- » Weakened Governance and Management
- » Diminished size and breadth of borrower pool
- » Stressed pledged revenues requiring use of liquidity weakening financial strength

## Key Indicators

Exhibit 2

NMFA PPRF Senior Lien		NMFA PPRF Subordinate Lien	
Size and Diversity		Size and Diversity	
Size of Portfolio	198	Size of Portfolio	91
% of Borrowers with less than 1% of the pool	87.9%	% of Borrowers with less than 1% of the pool	78.0%
% of loans to the top 5 borrowers	30.4%	% of loans to the top 5 borrowers	49.9%
Amount Outstanding		Amount Outstanding	
Total Bonds Outstanding (Post 2017A sale)	\$1,005.8 M	Total Bonds Outstanding (Post 2017B sale)	\$268.7 M
Total Loans Outstanding	\$1,140.1 M	Total Loans Outstanding	\$280.8 M
Top Five Participants	Percent of Pool	Top Five Participants	Percent of Pool
Rio Rancho (City of) NM [Aa2/NOO]	8.5%	Santa Fe (City of) NM [Aa3/STA]	11.8%
State of NM General Services Dept. [New Mexico - Aa1/NEG]	6.7%	Bernalillo Co. Metro Court [ Bernalillo County - Aaa/STA]	9.9%
Santa Fe (City of) NM [Aa3/STA]	6.5%	Jicarilla Apache Nation [NR]	6.7%
New Mexico Spaceport Authority [NR]	5.2%	Santa Ana Pueblo [NR]	9.6%
Albuquerque Bernalillo Co. WUA [Aa2/STA]	3.5%	Eastern New Mexico University [NR]	8.9%

Source: New Mexico Finance Authority, NM; Moody's Investors Service

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## Recent Developments

In a recent New Mexico legislative special session, the NMFA was ordered to contribute \$15.5 million of the PPRF's fiscal year 2017 flow-through funds (an estimated \$37 million) towards the State of New Mexico's General Fund. This will mark the third year in a row in which the legislature has required the NMFA to contribute flow-through funds back to the state for budget balancing purposes (fiscal 2015 - \$10.5 million; fiscal 2016 - \$10 million). These contributions have not and are not expected to effect the authority's debt service coverage or cash flow, as the contributions are made after all debt service requirements are satisfied. All revenues pledged to the bonds, including the GGRT, are held by a trustee and subsequently released to the NMFA after the debt service payments on the senior and subordinate bonds are paid, as required under the bond indenture. Excess flow-through funding is typically used by the NMFA to provide interim financing for loans or to retire bonded debt early. The contributions to the state have not hindered the authority's operations or ability to meet its mission. At this time, there is no indication that the state will continue to seek NMFA flow-through contribution, but the possibility remains. Contributions that subsequently affect the authority's operations or policy driven liquidity levels could result in downward pressure on the ratings.

The NMFA's board currently has two members member vacancies due to retirements. Potential replacements are awaiting gubernatorial nomination.

## Detailed Rating Considerations

### Loan Portfolio: Top Ten Borrowers Concentrate Pool; State Intercept is a Strength

The PPRF of the New Mexico Finance Authority was created in 1992 to assist a wide range of municipal credits in accessing the capital market. The PPRF's goal is to provide financial assistance and flexible loan structures to underlying borrowers. The first loans were made in 1995 and since then, the PPRF has made over 1,350 loans totaling \$2.9 billion. The PPRF is projected to have 733 outstanding loans totaling approximately \$1.4 billion by March 2017. The senior lien pool currently consists of 198 unique borrowers with an accumulated principal loan value of approximately \$1.14 billion. The subordinate lien pool currently consists of 91 unique borrowers with an accumulated principal loan value of \$280.8 million.

Approximately 30% of the total outstanding senior lien loan pool and 50% of the total outstanding subordinate lien pool is concentrated in the top five borrowers' loans. The largest two borrowers in the senior pool are the [City of Rio Rancho](#) (Aa2) and the [State of New Mexico's](#) (Aa1 negative) General Services Department at 8.5% and 6.7% of the pool, respectively. The largest borrower in the subordinate pool is the [City of Santa Fe](#) (Aa3 stable), which represents 11.8% of the subordinate borrower pool. Despite the current concentration within the top pool borrowers, the senior and subordinate pools benefit from a wide breadth of pledges and participants, the majority of which individually represent less than 1% of the outstanding loan pool. A significant portion of the PPRF loans have a direct intercept of pledged revenues, which supports the strong credit quality of the overall pool. Directly interceptable revenues represent 59.1% of the PPRF's senior lien portfolio, and 29.4% of the subordinate lien portfolio. The Authority has a memorandum of understanding (MOU) with the [New Mexico School District Enhancement Program Post March 30, 2007](#) (Aa2 negative) to intercept funds of individual school districts prior to default.

### Underlying Credit Quality and Default Tolerance: GGRT Creates Strong Coverage & Default Tolerance

A key consideration in the ratings is the credit strength, through cross-collateralization, provided by the Governmental Gross Receipts Tax (GGRT) which was first enacted in 1991. 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 revenues are generated from water, sewer, and refuse collection and disposal services. The Authority receives 75% of the GGRT revenues generated state-wide. In fiscal 2016, the Authority's share of the GGRT was \$28.2 million, a 6.4% increase from fiscal 2015 collections. Before the growth in 2016, modest declines in fiscal 2014 (-0.6%) and 2015 (-3%) were reflective of the slow and tepid economic recovery within the state coupled with conservation efforts by water users. The authority's share of GGRT receipts has grown at an average of 2.9% annually over the last five years. Given growth in year-to-date collections, GGRT revenues are estimated to increase to roughly \$29 million in fiscal 2017. GGRT receipts, while pledged to the bonds, also provide an annual source of liquidity to the PPRF. The GGRT funds, after flowing through the PPRF senior and subordinate lien indentures each year, can be loaned out to municipalities and subsequently reimbursed to the PPRF through issuance of PPRF reimbursement bonds. The Authority funds government unit loans below \$10 million with PPRF funds on hand and simultaneously funds loans in excess of \$10 million with bonds sales.

Inclusive of projected governmental unit pledged revenues and the PPRF's share of the state's GGRT collections for fiscal 2016, senior lien debt service coverage is projected at 1.35 times for fiscal 2017. Coverage for the senior lien debt service is projected to remain in excess of 1.3 times through final maturity in 2046. Senior lien debt service coverage using only loan repayments results in narrower coverage of 1.07 times for fiscal 2017. Fiscal 2017 default tolerance for the senior lien is extremely high at 33% when including GGRT revenues, but is still a satisfactory 7% without it. Projected subordinate lien coverage, inclusive of projected flow through from the senior obligations and fiscal 2016 GGRT collections is a solid 2 times for fiscal 2017. Excluding flow through revenues, subordinate lien coverage is projected at 1.04 times. Default tolerance on the subordinate lien is very high at 94% given the large amount of flow-through revenues from the senior lien, and a much weaker 4% when excluding them.

Exhibit 3

### Solid Senior and Subordinate Coverage Projected For Next 10 Years

Fiscal Year	FY 2016 GGRT Revenues	SEN Lien Borrower Payments	Total SEN Lien Revenues	SEN Lien Debt Service	Estimated SEN Lien Coverage	Flow Thru Funds to SUB Lien	SUB Lien Borrower Payments	Total SUB Lien Revenues	SUB Lien Debt Service	Estimated SUB Lien Coverage
2017	\$ 28.1	\$ 107.9	\$ 136.0	\$ 100.6	1.35	\$ 35.4	\$ 39.3	\$ 74.7	\$ 37.7	1.98
2018	\$ 28.1	\$ 114.9	\$ 143.0	\$ 108.6	1.32	\$ 34.4	\$ 30.9	\$ 65.3	\$ 28.6	2.28
2019	\$ 28.1	\$ 113.4	\$ 141.5	\$ 109.2	1.30	\$ 32.3	\$ 33.0	\$ 65.3	\$ 30.2	2.16
2020	\$ 28.1	\$ 112.9	\$ 141.0	\$ 106.7	1.32	\$ 34.3	\$ 29.3	\$ 63.6	\$ 28.9	2.20
2021	\$ 28.1	\$ 108.4	\$ 136.5	\$ 105.4	1.30	\$ 31.1	\$ 30.8	\$ 61.9	\$ 30.2	2.05
2022	\$ 28.1	\$ 98.9	\$ 127.0	\$ 96.8	1.31	\$ 30.2	\$ 26.5	\$ 56.7	\$ 24.5	2.32
2023	\$ 28.1	\$ 93.1	\$ 121.2	\$ 88.8	1.37	\$ 32.4	\$ 23.3	\$ 55.7	\$ 23.9	2.33
2024	\$ 28.1	\$ 83.8	\$ 111.9	\$ 79.9	1.40	\$ 32.0	\$ 21.2	\$ 53.2	\$ 20.9	2.55
2025	\$ 28.1	\$ 81.1	\$ 109.2	\$ 76.5	1.43	\$ 32.7	\$ 19.2	\$ 51.9	\$ 17.5	2.97
2026	\$ 28.1	\$ 72.2	\$ 100.3	\$ 69.6	1.44	\$ 30.7	\$ 15.2	\$ 45.9	\$ 12.4	3.71

\$ millions; Fiscal 2016 GGRT revenues held at a constant level

Source: New Mexico Finance Authority, NM

### LIQUIDITY

In 2007, the authority began a contingent liquidity reserve as an enhancement to the overall pool. In 2011, the board legally designated \$23.2 million of that money for a senior lien common debt service reserve that is currently \$30.5 million. At the current level, the common debt service reserve is over-funded by approximately \$3.5 million based on the policy driven formula. In addition to the common debt service reserve, the governmental unit debt service reserves provide additional liquidity. 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 \$41 million and \$19.9 million, respectively.

Additionally, the authority has an additional \$30.5 million in the contingent liquidity account for any lawful purpose which can include making loans in the period between bond issues, as was the case between the March 2012 sale and May 2013. The contingent liquidity account is now capped at the amount of the common debt service reserve after a debt management policy change in November 2015. The Authority also has a \$100 million line of credit through Wells Fargo to provide additional liquidity if needed. The line of credit went unused for roughly six years, but was utilized over the last couple years to address the authority's short term funding needs. Any outstanding balances are paid-off through the subsequent PPRF debt issuances.

### Legal Framework, Covenants and Debt Structure

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 5 days in advance of when it is due. The trustee covers insufficiencies in any borrower's account within the Debt Service Fund as of 5 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

Inclusive of the current sale, outstanding senior lien debt amounts to \$1 billion and the subordinate lien has roughly \$268.7 million outstanding. Both the senior and subordinate lien debt service schedules have a descending trend with all debt maturing by fiscal 2046 and 2035, respectively.

#### DEBT-RELATED DERIVATIVES

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

### Management and Governance

The Authority's program management and oversight of the PPRF is a strong credit factor incorporated into the rating. Since 1995, no loans have defaulted, no debt service reserve has been tapped, and there has never been a late payment. The Authority has provided workouts for two borrowers, renegotiating the terms of a loan and/or extending the loan's final maturity.

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. Moody's considers the Authority's multi-layered oversight to be a credit positive which is reflected in the Aa1 and Aa2 ratings. PPRF loans are usually on parity with a borrower's outstanding obligations, however, for stronger credits, the PPRF has accepted subordinate liens. The Authority maintains a PPRF operating fund that disburses loans (of less than \$10 million) to individual governmental unit borrowers on an as-needed-basis and subsequently reimburses the PPRF with bond proceeds.

The board is composed of 11 members who serve as the governing body of the NMFA. Six of the members are ex-officio members designated in the Act and five members are appointed by the Governor with the advice and consent of the State Senate. One of the appointed members must be the chief financial officer of a State higher educational institution. The remaining four appointed members must be residents of the State. The six ex-officio members with voting privileges include four cabinet-level secretaries, each of whom are appointed by the Governor (the Secretary of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, and the Secretary of Environment), and two are chief executive directors of State-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties).

### 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, 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

The Series 2017A bonds will be used to reimburse 14 loans previously made from PPRF resources totaling \$21.8 million. Proceeds will also be used to make simultaneous loans of \$23.2 million to Lincoln County Medical Center and \$11.2 million loan to [San Juan County](#) (sales tax rated A1).

The Series 2017B bonds will be used to refund callable maturities of the NMFA's Series 2006C, 2007A, and 2007C bonds. The current structure will shorten the original maturities resulting in greater debt service savings.

### Obligor 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 U.S. Municipal Pool Program Debt published in March 2013. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## Ratings

Exhibit 4

### New Mexico Finance Authority

Issue	Rating
Subordinate Lien Public Project Revolving Fund Revenue Refunding Bonds, Series 2017B	Aa2
Rating Type	Underlying LT
Sale Amount	\$68,800,000
Expected Sale Date	02/23/2017
Rating Description	Revenue: Other
Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2017A	Aa1
Rating Type	Underlying LT
Sale Amount	\$57,435,000
Expected Sale Date	02/23/2017
Rating Description	Revenue: Other

Source: Moody's Investors Service

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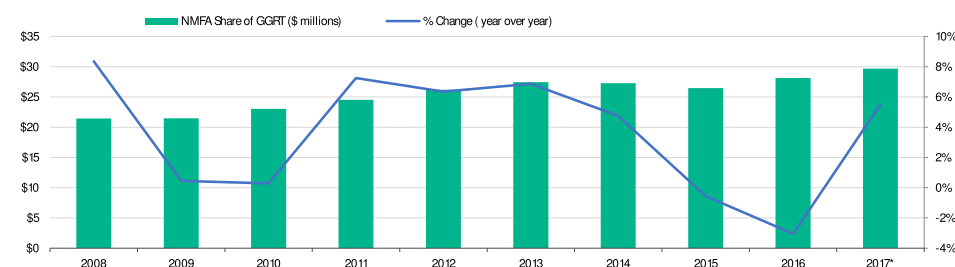
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% of Borrowers with less than 1% of the pool	86.4%	% of Borrowers with less than 1% of the pool	78.0%
% of loans to the top 5 borrowers	30.0%	% of loans to the top 5 borrowers	49.9%
Amount Outstanding		Amount Outstanding	
Total Bonds Outstanding (Post 2017C sale)	\$954.7 M	Total Bonds Outstanding	\$203.4 M
Total Loans Outstanding	\$1,072.2 M	Total Loans Outstanding	\$269.0 M
Top Five Participants		Top Five Participants	
Percent of Pool		Percent of Pool	
Flo Rancho (City of) NM [Aa2/NOO]	8.0%	Santa Fe (City of) NM [Aa3/STA]	13.8%
State of NM General Services Dept. [New Mexico - Aa1/NEG]	6.9%	Jcarilla Apache Nation [NR]	9.5%
Santa Fe (City of) NM [Aa3/STA]	6.6%	Bernalillo Co. Metro Court [Bernalillo County - Aaa/STA]	9.4%
New Mexico Spaceport Authority [NR]	5.2%	Santa Ana Pueblo [NR]	9.3%
Albuquerque Bernalillo Co. WUA [Aa2/STA]	3.3%	Eastern New Mexico University [NR]	9.0%

Source: NMFA; Moody's Investors Service

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## Recent Developments

In a recent New Mexico legislative special session, the NMFA was ordered to contribute \$15.5 million of the PPRF's fiscal year 2017 flow-through funds (an estimated \$37 million) towards the State of New Mexico's General Fund. This will mark the third year in a row in which the legislature has required the NMFA to contribute flow-through funds back to the state for budget balancing purposes (fiscal 2015 - \$10.5 million; fiscal 2016 - \$10 million). These contributions have not and are not expected to impact the authority's debt service coverage or cashflow as the contributions are made after all debt service requirements are satisfied. All revenues pledged to the bonds, including the GGRT, are held by a trustee and subsequently released to the NMFA after the debt service payments on the senior and subordinate bonds are paid, as required under the bond indenture. Excess flow-through funding is typically used by the NMFA to provide interim financing for loans or to retire bonded debt early. The contributions to the state have not hindered the authority's operations or ability to meet its mission. At this time, there is no indication that the state will continue to seek NMFA flow-through contribution, but the possibility remains. Contributions that subsequently affect the authority's operations or policy driven liquidity levels could result in downward pressure on the ratings.

The NMFA's board currently has two members member vacancies due to retirements. Potential replacements are awaiting gubernatorial nomination.

## Detailed Rating Considerations

### Loan Portfolio: Top Ten Borrowers Concentrate Pool; State Intercept is a Strength

The PPRF of the New Mexico Finance Authority was created in 1992 to assist a wide range of municipal credits in accessing the capital market. The PPRF's goal is to provide financial assistance and flexible loan structures to underlying borrowers. The first loans were made in 1995 and since then, the PPRF has made over 1,350 loans totaling \$2.9 billion. The PPRF is projected to have 713 outstanding loans totaling approximately \$1.3 billion by July 2017. The senior lien pool currently consists of 199 unique borrowers with an accumulated principal loan value of approximately \$1.07 billion. The subordinate lien pool currently consists of 82 unique borrowers with an accumulated principal loan value of \$269.0 million.

Approximately 30% of the total outstanding senior lien loan pool and 51% of the total outstanding subordinate lien pool is concentrated in the top five borrowers' loans. The largest two borrowers in the senior pool are the [City of Rio Rancho](#) (Aa2) and the [State of New Mexico's](#) (Aa1 negative) General Services Department at 8.0% and 6.9% of the pool, respectively. The largest borrower in the subordinate pool is the [City of Santa Fe](#) (Aa3 stable), which represents 13.8% of the subordinate borrower pool. Despite the current concentration within the top pool borrowers, the senior and subordinate pools benefit from a wide breadth of pledges and participants, the majority of which individually represent less than 1% of the outstanding loan pool. A significant portion of the PPRF loans have a direct intercept of pledged revenues, which supports the strong credit quality of the overall pool. Directly interceptable revenues represent 59.4% of the PPRF's senior lien portfolio, and 31.4% of the subordinate lien portfolio. The authority has a memorandum of understanding with the [New Mexico School District Enhancement Program Post March 30, 2007](#) (Aa2 negative) to intercept funds of individual school districts prior to default.

### Underlying Credit Quality and Default Tolerance: GGRT Creates Strong Coverage & Default Tolerance

A key consideration in the ratings is the credit strength, through cross-collateralization, provided by the Governmental Gross Receipts Tax (GGRT) which was first enacted in 1991. 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 revenues are generated from water, sewer, and refuse collection and disposal services. The authority receives 75% of the GGRT revenues generated state-wide. In fiscal 2016, the authority's share of the GGRT was \$28.2 million, a 6.4% increase from fiscal 2015 collections. Before the growth in 2016, modest declines in fiscal 2014 (-0.6%) and 2015 (-3%) were reflective of the slow and tepid economic recovery within the state coupled with conservation efforts by water users. The authority's share of GGRT receipts has grown at an average of 2.9% annually over the last five years. Given growth in year-to-date collections, GGRT revenues are estimated to increase to roughly \$29.7 million in fiscal 2017. GGRT receipts, while pledged to the bonds, also provide an annual source of liquidity to the PPRF. The GGRT funds, after flowing through the PPRF senior and subordinate lien indentures each year, can be loaned out to municipalities and subsequently reimbursed to the PPRF through issuance of PPRF reimbursement bonds. The authority funds government unit loans below \$10 million with PPRF funds on-hand and simultaneously funds loans in excess of \$10 million with bonds sales.

Inclusive of projected governmental unit pledged revenues and the PPRF's share of the state's GGRT collections for fiscal 2016, senior lien debt service coverage is projected at 1.35 times for fiscal 2017. Coverage for the senior lien debt service is projected to remain in excess of 1.30 times through final maturity in 2046. Senior lien debt service coverage using only loan repayments results in narrower coverage of 1.07 times for fiscal 2017. Fiscal 2017 default tolerance for the senior lien is extremely high at 33% when including GGRT revenues, but is still a satisfactory 6.6% without it. Projected subordinate lien coverage, inclusive of projected flow through from the senior obligations and fiscal 2016 GGRT collections is a solid 1.98 times for fiscal 2017. Excluding flow through revenues, subordinate lien coverage is projected at 1.04 times. Default tolerance on the subordinate lien is very high at 94% given the large amount of flow-through revenues from the senior lien, and a much weaker 4% when excluding them.

Exhibit 3

**Solid Senior and Subordinate Lien Coverage Projected for the Next 10 Years**

Fiscal Year	FY 2016 GGRT Revenues	SEN Lien Borrower Payments	Total SEN Lien Revenues	SEN Lien Debt Service	Estimated SEN Lien Coverage	Flow Thru Funds to SUB Lien	SUB Lien Borrower Payments	Total SUB Lien Revenues	SUB Lien Debt Service	Estimated SUB Lien Coverage
2017	\$ 28.1	\$ 107.9	\$ 136.0	\$ 100.8	1.35	\$ 35.2	\$ 39.3	\$ 74.5	\$ 37.7	1.98
2018	\$ 28.1	\$ 117.3	\$ 145.4	\$ 110.6	1.32	\$ 34.9	\$ 31.3	\$ 66.1	\$ 28.4	2.33
2019	\$ 28.1	\$ 115.3	\$ 143.4	\$ 110.5	1.30	\$ 32.9	\$ 33.5	\$ 66.4	\$ 30.0	2.21
2020	\$ 28.1	\$ 114.9	\$ 143.0	\$ 108.1	1.32	\$ 35.0	\$ 29.8	\$ 64.7	\$ 28.8	2.25
2021	\$ 28.1	\$ 109.6	\$ 137.8	\$ 106.1	1.30	\$ 31.7	\$ 31.3	\$ 63.0	\$ 30.1	2.10
2022	\$ 28.1	\$ 100.1	\$ 128.2	\$ 97.4	1.32	\$ 30.8	\$ 27.0	\$ 57.8	\$ 24.3	2.38
2023	\$ 28.1	\$ 94.4	\$ 122.5	\$ 89.4	1.37	\$ 33.1	\$ 23.8	\$ 56.9	\$ 23.7	2.40
2024	\$ 28.1	\$ 84.9	\$ 113.1	\$ 80.6	1.40	\$ 32.5	\$ 21.7	\$ 54.2	\$ 20.7	2.61
2025	\$ 28.1	\$ 82.4	\$ 110.5	\$ 77.2	1.43	\$ 33.3	\$ 19.8	\$ 53.1	\$ 17.5	3.04
2026	\$ 28.1	\$ 73.5	\$ 101.7	\$ 70.2	1.45	\$ 31.4	\$ 15.7	\$ 47.2	\$ 12.4	3.82

\$ millions; Fiscal 2016 GGRT revenues held at a constant level

Source: NMFA; Moody's Investors Service

**LIQUIDITY**

In 2007, the authority began a contingent liquidity reserve as an enhancement to the overall pool. In 2011, the board legally designated \$23.2 million of that money for a senior lien common debt service reserve that is currently \$30.5 million. At the current level, the common debt service reserve is over-funded by approximately \$2.9 million based on the policy driven formula. In addition to the common debt service reserve, the governmental unit debt service reserves provide additional liquidity. 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 \$37.4 million and \$20.9 million, respectively.

Additionally, the authority has an additional \$30.5 million in the contingent liquidity account for any lawful purpose which can include making loans in the period between bond issues, as was the case between the March 2012 sale and May 2013. The contingent liquidity account is now capped at the amount of the common debt service reserve after a debt management policy change in November 2015. The Authority also has a \$100 million line of credit through Wells Fargo to provide additional liquidity if needed. The line of credit went unused for roughly six years, but was utilized over the last couple years to address the authority's short term funding needs. Any outstanding balances are paid-off through the subsequent PPRF debt issuances.

**Legal Framework, Covenants and Debt Structure**

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

Inclusive of the current sale, outstanding senior lien debt amounts to \$954.7 billion and the subordinate lien has roughly \$203.4 million outstanding. Both the senior and subordinate lien debt service schedules have a descending trend with all debt maturing by fiscal 2046 and 2035, respectively.

#### DEBT-RELATED DERIVATIVES

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

### Management and Governance

The authority's program management and oversight of the PPRF is a strong credit factor incorporated into the rating. Since 1995, no loans have defaulted, no debt service reserve has been tapped, and there has never been a late payment. The authority has provided workouts for two borrowers, renegotiating the terms of a loan and/or extending the loan's final maturity.

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. Moody's considers the authority's multi-layered oversight to be a credit positive which is reflected in the Aa1 and Aa2 ratings. PPRF loans are usually on parity with a borrower's outstanding obligations, however, for stronger credits, the PPRF has accepted subordinate liens. The authority maintains a PPRF operating fund that disburses loans (of less than \$10 million) to individual governmental unit borrowers on an as-needed-basis and subsequently reimburses the PPRF with bond proceeds.

The board is composed of 11 members who serve as the governing body of the NMFA. Six of the members are ex-officio members designated in the Act and five members are appointed by the Governor with the advice and consent of the State Senate. One of the appointed members must be the chief financial officer of a State higher educational institution. The remaining four appointed members must be residents of the State. The six ex-officio members with voting privileges include four cabinet-level secretaries, each of whom are appointed by the Governor (the Secretary of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, and the Secretary of Environment), and two are chief executive directors of State-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties).

### 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, 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

The Series 2017C bonds will be used to reimburse four loans previously made from PPRF resources totaling \$12.5 million. Proceeds will also be used to refund outstanding maturities of Series 2007E bonds for net present value savings of \$5.1 million or 16.5%. The current structure will shorten the original maturities resulting in greater debt service savings.

### Obligor 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 U.S. Municipal Pool Program Debt published in March 2013. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## Ratings

Exhibit 4

### New Mexico Finance Authority

Issue	Rating
Senior Lien Public Project Revolving Fund Revenue and Refunding Bonds, Series 2017C	Aa1
Rating Type	Underlying LT
Sale Amount	\$37,395,000
Expected Sale Date	05/05/2017
Rating Description	Revenue: Pool

Source: Moody's Investors Service

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## CREDIT OPINION

27 July 2017

### New Issue

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## New Mexico Finance Authority, NM

New Issue: Moody's Assigns Aa2 to NMFA, NM's Sub Lien PPRF Rev. Bonds, Ser. 2017D

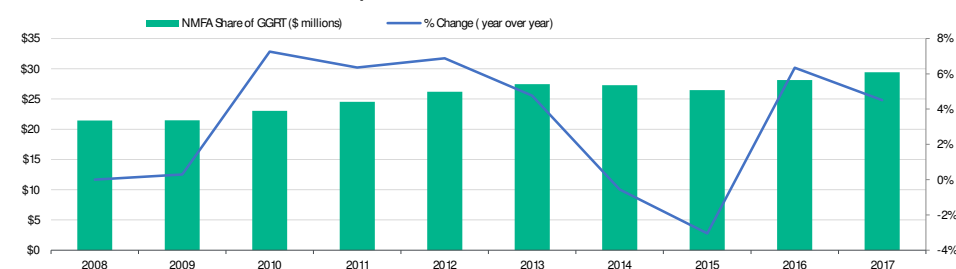
### Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the New Mexico Finance Authority's (NMFA) upcoming sales of \$42.8 million Subordinate Lien Public Project Revolving Fund (PPRF) Revenue and Refunding Bonds, Series 2017D. Concurrently, Moody's has affirmed the Aa1 senior and Aa2 subordinate ratings on \$995 million and \$185.2 million in outstanding PPRF obligations, respectively. The outlook is stable.

The Aa1 senior PPRF revenue ratings reflect the NMFA's strong governance structure and program management, strong debt structure and legal provisions, and strong portfolio credit quality. Additional rating considerations include the Authority's sizable pool of borrowers with some loan concentration, a diverse pledge from pooled participants, additional liquidity provided by borrower debt service reserve and Authority liquidity, and availability of a portion of the state's Government Gross Receipts Tax (GGRT) on public services provided by local governments throughout the state to supplement portfolio revenues. The Aa2 subordinate rating reflects the nature of the pledge, as well as a weaker portfolio credit quality in comparison to the senior pool.

Exhibit 1

### Stable GGRT Revenues Provide Ample Cushion for Potential Debt Service Deficiencies



Source: Moody's Investors Service

### 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 only provide narrow coverage levels
- » Program exposed to borrowers with relatively low credit worthiness
- » Third consecutive year of required contributions to the state from a portion of flow-through funds

## Rating Outlook

The stable outlook reflects stability of program management, loan portfolio credit quality and supplemental coverage provided by the Governmental Gross Receipts Tax.

## Factors that Could Lead to an Upgrade

- » Significant growth in Governmental Gross Receipts Tax revenues bolstering cash flow, coverage, and reserves
- » Decreased concentration in top loan borrowers

## Factors that Could Lead to a Downgrade

- » Erosion of creditworthiness in the loan pool
- » Weakened governance and management
- » Diminished size and breadth of borrower pool
- » Stressed pledged revenues requiring use of liquidity, weakening financial strength

## Key Indicators

Exhibit 2

NMFA PPRF Senior Lien		NMFA PPRF Subordinate Lien	
Size and Diversity		Size and Diversity	
Size of Portfolio	199	Size of Portfolio	92
% of Borrowers with less than 1% of the pool	86.4%	% of Borrowers with less than 1% of the pool	77.4%
% of loans to the top 5 borrowers	29.3%	% of loans to the top 5 borrowers	44.7%
Amount Outstanding		Amount Outstanding	
Total Bonds Outstanding	\$955 M	Total Bonds Outstanding (Post Ser. 2017D)	\$228 M
Total Loans Outstanding	\$1,076.9 M	Total Loans Outstanding	\$305.7 M
Top Five Participants		Top Five Participants	
Percent of Pool		Percent of Pool	
Flo Rancho (City of) NM [Aa2/NOO]	7.4%	Santa Fe (City of) NM [Aa3/STA]	12.0%
State of NM General Services Dept. [New Mexico - Aa1/NEG]	6.8%	Jcarilla Apache Nation [NR]	8.3%
Santa Fe (City of) NM [Aa3/STA]	6.6%	Bernalillo Co. Metro Court [Bernalillo County - Aaa/STA]	8.3%
New Mexico Spaceport Authority [NR]	5.2%	Santa Ana Pueblo [NR]	8.1%
Albuquerque Bernalillo Co. WUA [Aa2/STA]	3.3%	Eastern New Mexico University [NR]	7.9%

Source: Moody's Investors Service

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## Recent Developments

On July 5th, 2017, the Contingent Liquidity Account (CLA) was defunded and became the Supplemental Credit Reserve Fund (SCRF), a trustee-held restricted fund pledged to the PPRF subordinate lien. The SCRF funding level is equal to the Common Debt Service Reserve, which is currently funded at \$30.5 million. In addition to protecting NMFA's reserves from State sweeps, the SCRF was created to allow the authority to consider loans to "subject-to-appropriation" credits, which were in moratorium status with the PPRF. Per the updated indenture, the authority may enter into annual appropriation agreements, however, aggregate principal on all outstanding agreements cannot exceed twice the amount of the SCRF, or \$61.2 million, given current funding levels. The authority has yet to determine maximum amount limits on appropriation loans.

In New Mexico's 2017 legislative special session, the NMFA was ordered to contribute \$15.5 million of the PPRF's fiscal year 2017 flow-through funds (\$36.9 million) towards the State of New Mexico's General Fund. This marks the third year in a row in which the legislature has required the NMFA to contribute flow-through funds back to the state for budget balancing purposes (fiscal 2015 - \$10.5 million; fiscal 2016 - \$10 million). In fiscal 2018, contributions to the State are anticipated to be at \$8 million.

These contributions have not and are not expected to impact the authority's debt service coverage or cashflow as the contributions are made after all debt service requirements are satisfied. All revenues pledged to the bonds, including the GGRT, are held by a trustee and subsequently released to the NMFA after the debt service payments on the senior and subordinate bonds are paid, as required under the bond indenture. Excess flow-through funding is typically used by the NMFA to provide interim financing for loans or to retire bonded debt early. The contributions to the state have not hindered the authority's operations or ability to meet its mission. Contributions that subsequently affect the authority's operations or policy driven liquidity levels could result in downward pressure on the ratings.

The NMFA's board currently has two members member vacancies due to retirements. Potential replacements are awaiting gubernatorial nomination.

## Detailed Rating Considerations

### Loan Portfolio: Top Ten Borrowers Concentrate Pool; State Intercept is a Strength

The PPRF of the New Mexico Finance Authority was created in 1992 to assist a wide range of municipal credits in accessing the capital market. The PPRF's goal is to provide financial assistance and flexible loan structures to underlying borrowers. The first loans were made in 1995 and since then, the PPRF has made over 1,350 loans totaling \$2.9 billion. The PPRF is projected to have 739 outstanding loans totaling approximately \$1.4 billion by August 2017. The senior lien pool currently consists of 199 unique borrowers with an accumulated principal loan value of approximately \$1.08 billion. The subordinate lien pool currently consists of 92 unique borrowers with an accumulated principal loan value of \$305.7 million.

Approximately 30% of the total outstanding senior lien loan pool and 44.7% of the total outstanding subordinate lien pool is concentrated in the top five borrowers' loans. The largest two borrowers in the senior pool are the [City of Rio Rancho](#) (Aa2) and the [State of New Mexico's](#) (Aa1 negative) General Services Department at 7.4% and 6.8% of the pool, respectively. The largest borrower in the subordinate pool is the [City of Santa Fe](#) (Aa3 stable), which represents 12% of the subordinate borrower pool. Despite the current concentration within the top pool borrowers, the senior and subordinate pools benefit from a wide breadth of pledges and participants, the majority of which individually represent less than 1% of the outstanding loan pool. A significant portion of the PPRF loans have a direct intercept of pledged revenues, which supports the strong credit quality of the overall pool. Directly interceptable revenues represent 58.9% of the PPRF's senior lien portfolio, and 28% of the subordinate lien portfolio. The authority has a memorandum of understanding with the [New Mexico School District Enhancement Program Post March 30, 2007](#) (Aa2 negative) to intercept funds of individual school districts prior to default.

### Underlying Credit Quality and Default Tolerance: GGRT Creates Strong Coverage & Default Tolerance

A key consideration in the ratings is the credit strength, through cross-collateralization, provided by the Governmental Gross Receipts Tax (GGRT) which was first enacted in 1991. 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 revenues are generated from water, sewer, and refuse collection and disposal services. The authority receives 75% of the GGRT revenues generated state-wide. In fiscal 2017, the authority's

share of the GGRT was \$29.4 million, a 4.5% increase from fiscal 2016 collections. With the exception of modest declines in fiscal 2014 and fiscal 2015, GGRT revenue trends are strong, with average annual increases of 4.4% since 1996.

GGRT receipts, while pledged to the bonds, also provide an annual source of liquidity to the PPRF. The GGRT funds, after flowing through the PPRF senior and subordinate lien indentures each year, can be loaned out to municipalities and subsequently reimbursed to the PPRF through issuance of PPRF reimbursement bonds. The authority funds government unit loans below \$10 million with PPRF funds on-hand and simultaneously funds loans in excess of \$10 million with bonds sales.

Inclusive of projected governmental unit pledged revenues and the PPRF's share of the state's GGRT collections for fiscal 2017, senior lien debt service coverage is projected at 1.33 times for fiscal 2018. Coverage for the senior lien debt service is projected to remain in excess of 1.30 times through final maturity in 2046. Senior lien debt service coverage using only loan repayments results in narrower coverage of 1.06 times for fiscal 2018. Fiscal 2018 default tolerance for the senior lien is high at 30.7% when including GGRT revenues, but is still a satisfactory 5.6% without it. Projected subordinate lien coverage, inclusive of projected flow through from the senior obligations and fiscal 2017 GGRT collections is a solid 2.39 times for fiscal 2018. Excluding flow through revenues, subordinate lien coverage is projected at 1.17 times. Default tolerance on the subordinate lien is very high at 118.4% given the large amount of flow-through revenues from the senior lien, and a weaker 14.9% when excluding them.

Exhibit 3

Fiscal Year	FY 2017 GGRT Revenues	SEN Lien Borrower Payments	Total SEN Lien Revenues	SEN Lien Debt Service	Estimated SEN Lien Coverage	Flow Thru Funds to SUB Lien	SUB Lien Borrower Payments	Total SUB Lien Revenues	SUB Lien Debt Service	Estimated SUB Lien Coverage
2017	\$ 29.4	\$ 108.0	\$ 137.4	\$ 100.8	1.36	\$ 36.6	\$ 39.2	\$ 75.8	\$ 37.7	2.01
2018	\$ 29.4	\$ 117.3	\$ 146.7	\$ 110.7	1.33	\$ 36.0	\$ 34.8	\$ 70.8	\$ 29.6	2.39
2019	\$ 29.4	\$ 115.3	\$ 144.7	\$ 110.6	1.31	\$ 34.1	\$ 38.6	\$ 72.7	\$ 34.3	2.12
2020	\$ 29.4	\$ 114.9	\$ 144.3	\$ 108.1	1.33	\$ 36.2	\$ 34.8	\$ 71.0	\$ 32.1	2.21
2021	\$ 29.4	\$ 109.6	\$ 139.1	\$ 106.1	1.31	\$ 33.0	\$ 35.7	\$ 68.8	\$ 32.6	2.11
2022	\$ 29.4	\$ 100.1	\$ 129.5	\$ 97.4	1.33	\$ 32.1	\$ 31.8	\$ 63.9	\$ 27.9	2.29
2023	\$ 29.4	\$ 94.4	\$ 123.8	\$ 89.4	1.38	\$ 34.4	\$ 27.7	\$ 62.0	\$ 26.6	2.34
2024	\$ 29.4	\$ 84.9	\$ 114.3	\$ 80.5	1.42	\$ 33.8	\$ 24.9	\$ 58.7	\$ 22.5	2.61
2025	\$ 29.4	\$ 82.4	\$ 111.8	\$ 77.2	1.45	\$ 34.6	\$ 23.0	\$ 57.6	\$ 19.5	2.96
2026	\$ 29.4	\$ 73.5	\$ 102.9	\$ 70.2	1.47	\$ 32.8	\$ 18.9	\$ 51.7	\$ 14.3	3.61

\$ millions; fiscal 2017 GGRT are held at a constant level

Source: Moody's Investors Service

## LIQUIDITY

In 2007, the authority began a contingent liquidity reserve as an enhancement to the overall pool. In 2011, the board legally designated \$23.2 million of that money for a senior lien common debt service reserve (CDSR) that is currently \$30.5 million. At the current level, the common debt service reserve is over-funded by approximately \$1.4 million based on the policy driven formula. In addition to the common debt service reserve, the governmental unit debt service reserves provide additional liquidity. 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 \$38.6 million and \$20.9 million, respectively.

As explained above, the authority has an additional \$30.5 million in what was the contingent liquidity account (CLA), now supplemental credit reserve fund, or SCRF. The SCRF is funded at the level of the CDSR, and will serve as a subordinate lien bond debt service reserve fund, subordinate lien loan reserve fund and a short-term borrowing liquidity reserve fund.

The Authority also has a \$100 million line of credit through Wells Fargo to provide additional liquidity if needed. The line of credit went unused for roughly six years, but was utilized over the last couple years to address the authority's short term funding needs. Any outstanding balances are paid-off through the subsequent PPRF debt issuances.

### Legal Framework, Covenants and Debt Structure

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

Inclusive of the current sale, outstanding senior lien debt amounts to \$955 million and the subordinate lien has roughly \$228 million outstanding. Both the senior and subordinate lien debt service schedules have a descending trend with all debt maturing by fiscal 2046 and 2035, respectively.

### DEBT-RELATED DERIVATIVES

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

### Management and Governance

The authority's program management and oversight of the PPRF is a strong credit factor incorporated into the rating. Since 1995, no loans have defaulted and the debt service reserve has not been tapped. The authority has provided workouts for two borrowers, renegotiating the terms of a loan and/or extending the loan's final maturity.

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. Moody's considers the authority's multi-layered oversight to be a credit positive which is reflected in the Aa1 and Aa2 ratings. PPRF loans are usually on parity with a borrower's outstanding obligations, however, for stronger credits, the PPRF has accepted subordinate liens. The authority maintains a PPRF operating fund that disburses loans (of less than \$10 million) to individual governmental unit borrowers on an as-needed-basis and subsequently reimburses the PPRF with bond proceeds.

The board is composed of 11 members who serve as the governing body of the NMFA. Six of the members are ex-officio members designated in the Act and five members are appointed by the Governor with the advice and consent of the State Senate. One of the appointed members must be the chief financial officer of a State higher educational institution. The remaining four appointed members must be residents of the State. The six ex-officio members with voting privileges include four cabinet-level secretaries, each of whom are appointed by the Governor (the Secretary of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, and the Secretary of Environment), and two are chief executive directors of State-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties).

### 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, 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

The Series 2017D bonds will be used to reimburse 16 loans previously made from PPRF resources totaling \$32 million. Proceeds will also be used to refund callable maturities of Series 2007B bonds for net present value savings, as well as shorten the maturity of the existing 2007B bonds from 2030 to 2034.

## Obligor 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 U.S. Municipal Pool Program Debt published in March 2013. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## Ratings

Exhibit 4

### New Mexico Finance Authority

Issue	Rating
Subordinate Lien Public Project Revolving Fund Revenue And Refunding Bonds, Series 2017D	Aa2
Rating Type	Underlying LT
Sale Amount	\$42,800,000
Expected Sale Date	08/10/2017
Rating Description	Revenue: Pool

Source: Moody's Investors Service

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## CREDIT OPINION

18 October 2017

### New Issue

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## New Mexico Finance Authority, NM

New Issue: Moody's Assigns Aa1 and Aa2 to New Mexico Finance Auth., NM's Sen. & Sub. Lien PPRF Rev. Bonds, Ser. 2017E&F

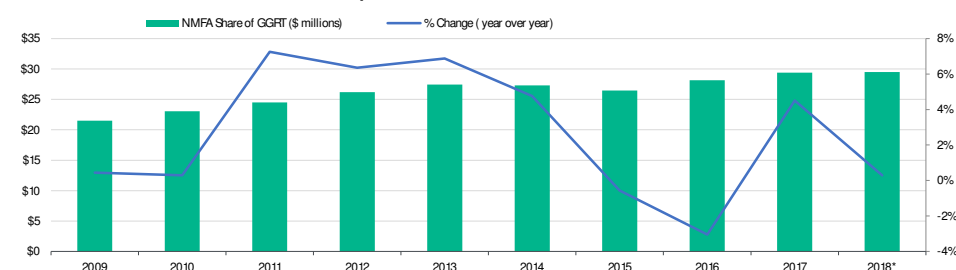
### Summary Rating Rationale

Moody's Investors Service has assigned a Aa1 rating to the New Mexico Finance Authority's (NMFA) upcoming sales of \$43.67 million Senior Lien Public Project Revolving Fund (PPRF) Revenue Bonds, Series 2017E and a Aa2 to the \$18.95 million Subordinate Lien Public Project Revolving Fund Revenue Bonds, Taxable Series 2017F. Moody's also maintains the Aa1 senior and Aa2 subordinate lien PPRF ratings on \$955 million and \$226.6 million of previously issued debt, respectively. The outlook is stable.

The Aa1 senior PPRF revenue ratings reflect the NMFA's strong governance structure and program management, strong debt structure and legal provisions, and average portfolio credit quality. Additional rating considerations include the Authority's sizable pool of borrowers with some loan concentration, a diverse pledge from pooled participants, additional liquidity provided by borrower debt service reserve and Authority liquidity, and availability of a portion of the state's Government Gross Receipts Tax (GGRT) on public services provided by local governments throughout the state to supplement portfolio revenues. The Aa2 subordinate rating reflects the nature of the pledge, as well as a weaker portfolio credit quality in comparison to the senior pool.

Exhibit 1

#### Stable GGRT Revenues Provide Ample Cushion for Potential Debt Service Deficiencies



\*projected

Source: Moody's Investors Service

### 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 only provide narrow coverage levels
- » Program exposed to borrowers with relatively low credit worthiness
- » Third consecutive year of required contributions to the state from a portion of flow-through funds

## Rating Outlook

The stable outlook reflects stability of program management, loan portfolio credit quality and supplemental coverage provided by the Governmental Gross Receipts Tax.

## Factors that Could Lead to an Upgrade

- » Significant growth in Governmental Gross Receipts Tax revenues bolstering cash flow, coverage, and reserves
- » Decreased concentration in top loan borrowers

## Factors that Could Lead to a Downgrade

- » Erosion of creditworthiness in the loan pool
- » Weakened governance and management
- » Diminished size and breadth of borrower pool
- » Stressed pledged revenues requiring use of liquidity, weakening financial strength

## 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	98
% of Borrowers with less than 1% of the pool	87.1%	% of Borrowers with less than 1% of the pool	77.6%
% of loans to the top 5 borrowers	28.3%	% of loans to the top 5 borrowers	44.8%
Amount Outstanding		Amount Outstanding	
Total Bonds Outstanding (inc. 2017E&F)	\$998.7M	Total Bonds Outstanding	\$245.6M
Total Loans Outstanding	\$1,138.2M	Total Loans Outstanding	\$305.1M
Top Five Participants		Top Five Participants	
Percent of Pool		Percent of Pool	
Flo Rancho (City of) NM [Aa2/NOO]	7.6%	Santa Fe (City of) NM [Aa3/STA]	12.0%
State of NM General Services Dept. [New Mexico - Aa1/NEG]	6.5%	Jcarilla Apache Nation [NR]	8.3%
Santa Fe (City of) NM [Aa3/STA]	6.0%	Bernalillo Co. Metro Court [ Bernalillo County - Aaa/STA]	8.3%
New Mexico Spaceport Authority [NR]	4.9%	Santa Ana Pueblo [NR]	8.2%
Albuquerque Bernalillo Co. WUA [Aa2/STA]	3.2%	Eastern New Mexico University [NR]	7.9%

Source: Moody's Investors Service

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## Recent Developments

On July 5th, 2017, the Contingent Liquidity Account (CLA) was defunded and became the Supplemental Credit Reserve Fund (SCRF), a trustee-held restricted fund pledged to the PPRF subordinate lien. The SCRF funding level is equal to the Common Debt Service Reserve, which is currently funded at \$30.6 million. In addition to protecting NMFA's reserves from State sweeps, the SCRF was created to allow the authority to consider loans to "subject-to-appropriation" credits, which were in moratorium status with the PPRF. Per the updated indenture, the authority may enter into annual appropriation agreements, however, aggregate principal on all outstanding agreements cannot exceed twice the amount of the SCRF, or \$61.4 million, given current funding levels.

In New Mexico's 2017 legislative special session, the NMFA was ordered to contribute \$15.5 million of the PPRF's fiscal year 2017 flow-through funds (\$36.9 million) towards the State of New Mexico's General Fund. This marks the third year in a row in which the legislature has required the NMFA to contribute flow-through funds back to the state for budget balancing purposes (fiscal 2015 - \$10.5 million; fiscal 2016 - \$10 million). During fiscal 2018, contributions to the State are expected to be \$8 million.

These contributions have not and are not expected to impact the authority's debt service coverage or cashflow as the contributions are made after all debt service requirements are satisfied. All revenues pledged to the bonds, including the GGRT, are held by a trustee and subsequently released to the NMFA after the debt service payments on the senior and subordinate bonds are paid, as required under the bond indenture. Excess flow-through funding is typically used by the NMFA to provide interim financing for loans or to retire bonded debt early. The contributions to the state have not hindered the authority's operations or ability to meet its mission. Contributions that subsequently affect the authority's operations or policy driven liquidity levels could result in downward pressure on the ratings.

The NMFA's board currently has two members member vacancies due to retirements. Potential replacements are awaiting gubernatorial nomination.

## Detailed Rating Considerations

### Loan Portfolio: Top Ten Borrowers Concentrate Pool; State Intercept is a Strength

The PPRF of the New Mexico Finance Authority was created in 1992 to assist a wide range of municipal credits in accessing the capital market. The PPRF's goal is to provide financial assistance and flexible loan structures to underlying borrowers. The first loans were made in 1995 and since then, the PPRF has made over 1,350 loans totaling \$2.9 billion. The PPRF is projected to have 787 outstanding loans totaling approximately \$1.4 billion by November 2017. 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 98 unique borrowers with an accumulated principal loan value of \$305.1 million.

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and fiscal 2015, GGRT revenue trends are strong, with average annual increases of 4.4% since 1996. Based on fiscal 2018 collections to date, the authority reports revenues are up 3.5% year-over-year.

GGRT receipts, while pledged to the bonds, also provide an annual source of liquidity to the PPRF. The GGRT funds, after flowing through the PPRF senior and subordinate lien indentures each year, can be loaned out to municipalities and subsequently reimbursed to the PPRF through issuance of PPRF reimbursement bonds. The authority funds government unit loans below \$10 million with PPRF funds on-hand and simultaneously funds loans in excess of \$10 million with bonds sales.

Inclusive of projected governmental unit pledged revenues and the PPRF's share of the state's GGRT collections for fiscal 2017, senior lien debt service coverage is projected at 1.31 times for 2018. Coverage for the senior lien debt service is projected to remain in excess of 1.30 times through final maturity in 2046. Senior lien debt service coverage using only loan repayments results in narrower coverage of 1.05 times for fiscal 2018. Fiscal 2018 default tolerance for the senior lien is high at 29.5% when including GGRT revenues, but is still a satisfactory 4.5% without it. Projected subordinate lien coverage, inclusive of projected flow through from the senior obligations and fiscal 2017 GGRT collections is a solid 2.17 times for fiscal 2018. Excluding flow through revenues, subordinate lien coverage is projected at 1.04 times. Default tolerance on the subordinate lien is very high at 112.1% given the large amount of flow-through revenues from the senior lien, and a weaker 4.0% when excluding them.

Exhibit 3

Fiscal Year	FY 2017 GGRT Revenues	SEN Lien Borrower Payments	Total SEN Lien Revenues	SEN Lien Debt Service	Estimated SEN Lien Coverage	Flow Thru Funds to SUB Lien	SUB Lien Borrower Payments	Total SUB Lien Revenues	SUB Lien Debt Service	Estimated SUB Lien Coverage
2017	\$ 29.4	\$ 108.0	\$ 137.4	\$ 100.8	1.36	\$ 36.5	\$ 39.2	\$ 75.8	\$ 37.7	2.01
2018	\$ 29.4	\$ 117.7	\$ 147.1	\$ 112.3	1.31	\$ 34.8	\$ 32.2	\$ 66.9	\$ 30.9	2.17
2019	\$ 29.4	\$ 121.9	\$ 151.3	\$ 116.8	1.30	\$ 34.6	\$ 40.0	\$ 74.6	\$ 37.9	1.97
2020	\$ 29.4	\$ 120.1	\$ 149.5	\$ 113.2	1.32	\$ 36.4	\$ 34.3	\$ 70.6	\$ 33.7	2.09
2021	\$ 29.4	\$ 114.5	\$ 143.9	\$ 111.0	1.30	\$ 33.0	\$ 35.6	\$ 68.6	\$ 33.9	2.02
2022	\$ 29.4	\$ 104.8	\$ 134.2	\$ 102.0	1.32	\$ 32.2	\$ 31.9	\$ 64.1	\$ 29.3	2.18
2023	\$ 29.4	\$ 98.1	\$ 127.5	\$ 93.0	1.37	\$ 34.4	\$ 27.9	\$ 62.3	\$ 28.0	2.23
2024	\$ 29.4	\$ 88.7	\$ 118.1	\$ 83.9	1.41	\$ 34.1	\$ 24.8	\$ 58.9	\$ 24.0	2.46
2025	\$ 29.4	\$ 86.1	\$ 115.5	\$ 80.5	1.43	\$ 34.9	\$ 22.9	\$ 57.9	\$ 20.7	2.79
2026	\$ 29.4	\$ 77.0	\$ 106.4	\$ 73.5	1.45	\$ 32.9	\$ 18.8	\$ 51.6	\$ 15.6	3.31
2027	\$ 29.4	\$ 72.9	\$ 102.3	\$ 68.3	1.50	\$ 34.0	\$ 20.8	\$ 54.8	\$ 14.9	3.69

\$ millions; fiscal 2017 GGRT collections are held constant

Source: Moody's Investors Service

## LIQUIDITY

In 2007, the authority began a contingent liquidity reserve as an enhancement to the overall pool. In 2011, the board legally designated \$23.2 million of that money for a senior lien common debt service reserve (CDSR). At the current level of \$30.6 million, the common debt service reserve is over-funded by approximately \$0.5 million based on the policy driven formula. In addition to the common debt service reserve, the governmental unit debt service reserves provide additional liquidity. 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 \$39.8 million and \$20.9 million, respectively.

As explained above, the authority has an additional \$30.6 million in what was the contingent liquidity account (CLA), now supplemental credit reserve fund, or SCRF. The SCRF is funded at the level of the CDSR, and will serve as a subordinate lien bond debt service reserve fund, subordinate lien loan reserve fund and a short-term borrowing liquidity reserve fund.

The Authority also has a \$100 million line of credit through Wells Fargo to provide additional liquidity, if needed. The line of credit went unused for roughly six years, but was utilized over the last couple years to address the authority's short term funding needs. In the coming weeks, the Authority plans to borrow \$30 million. Any outstanding balances are paid-off through the subsequent PPRF debt issuances.

### Legal Framework, Covenants and Debt Structure

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

Inclusive of the current sale, outstanding senior lien debt amounts to \$998.7 million and the subordinate lien has roughly \$245.6 million outstanding. Both the senior and subordinate lien debt service schedules have a descending trend with all debt maturing by fiscal 2046 and 2036, respectively.

### DEBT-RELATED DERIVATIVES

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

### Management and Governance

The authority's program management and oversight of the PPRF is a strong credit factor incorporated into the rating. Since 1995, no loans have payment defaulted and the debt service reserve has not been tapped. The authority has, in limited instances, renegotiated the terms of a loan and/or extended the loan's final maturity for borrowers with changed circumstances.

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. Moody's considers the authority's multi-layered oversight to be a credit positive which is reflected in the Aa1 and Aa2 ratings. PPRF loans are usually on parity with a borrower's outstanding obligations, however, for stronger credits, the PPRF has accepted subordinate liens. The authority maintains a PPRF operating fund that disburses loans (of less than \$10 million) to individual governmental unit borrowers on an as-needed-basis and subsequently reimburses the PPRF with bond proceeds.

The board is composed of 11 members who serve as the governing body of the NMFA. Six of the members are ex-officio members designated in the Act and five members are appointed by the Governor with the advice and consent of the State Senate. One of the appointed members must be the chief financial officer of a State higher educational institution. The remaining four appointed members must be residents of the State. The six ex-officio members with voting privileges include four cabinet-level secretaries, each of whom are appointed by the Governor (the Secretary of Finance and Administration, the Secretary of Economic Development, the Secretary of Energy, Minerals and Natural Resources, and the Secretary of Environment), and two are chief executive directors of State-wide associations (the Executive Director of the New Mexico Municipal League and the Executive Director of the New Mexico Association of Counties).

### 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, 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

The Series 2017E bonds will be used to reimburse 30 loans ranging from \$250,000 to \$9.5 million. The Series 2017F bonds will reimburse 11 taxable loans ranging in size from \$135,000 to \$4.7 million.

## Obligor 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 U.S. Municipal Pool Program Debt published in March 2013. Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

## Ratings

Exhibit 4

### New Mexico Finance Authority

Issue	Rating
Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2017E	Aa1
Rating Type	Underlying LT
Sale Amount	\$43,665,000
Expected Sale Date	11/08/2017
Rating Description	Revenue: Pool
Subordinate Lien Public Project Revolving Fund Revenue Bonds, Taxable Series 2017F	Aa2
Rating Type	Underlying LT
Sale Amount	\$18,950,000
Expected Sale Date	11/07/2017
Rating Description	Revenue: Pool

Source: Moody's Investors Service

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