

**Rating Action: Moody's Assigns Aa1 to NMFA, NM's Senior Lien PPRF Revenue Bonds, Ser. 2018**

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Global Credit Research - 29 Jan 2018

New York, January 29, 2018 -- Moody's Investors Service has assigned a Aa1 rating to the New Mexico Finance Authority's (NMFA) upcoming sales of \$125.7 million Senior Lien Public Project Revolving Fund (PPRF) Revenue and Refunding Bonds, Series 2018A. Moody's maintains the Aa1 senior and Aa2 subordinate lien PPRF ratings on \$1.014 million and \$245.9 million of previously issued debt, respectively. The outlook is stable.

**RATINGS RATIONALE**

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.

**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
- Improvement in the overall credit quality of the pool

**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

**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**

Proceeds from the Series 2018A bonds will be used to reimburse nine loans, and refund the callable maturities of the Series 2008A bonds, for net present value savings of approximately \$17.3 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 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.

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## CREDIT OPINION

30 January 2018

Rate this Research



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# New Mexico Finance Authority

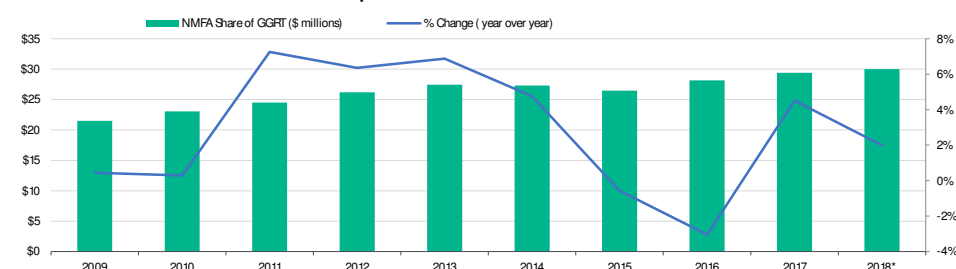
## Update to credit analysis

### 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 GGRT revenues trend upwards. Likewise, cash reserves are healthy, with a majority held by trustee. While the portfolio is large, it is concentrated, as well as exposed to borrowers with relatively low creditworthiness.

Exhibit 1

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



\*projected  
Source: NMFA, NM

### 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	97
% of Borrowers with less than 1% of the pool	87.4%	% of Borrowers with less than 1% of the pool	77.3%
% of loans to the top 5 borrowers	27.8%	% of loans to the top 5 borrowers	44.0%
Amount Outstanding		Amount Outstanding	
Total Bonds Outstanding (inc. 2018A)	\$1.014B	Total Bonds Outstanding	\$245.9M
Total Loans Outstanding	\$1,139M	Total Loans Outstanding	\$310.3M
Top Five Participants	Percent of Pool	Top Five Participants	Percent of Pool
Flo Rancho (City of) NM [Aa2/NOO]	7.6%	Santa Fe (City of) NM [Aa3/STA]	11.8%
State of NM General Services Dept. [New Mexico - Aa1/NEG]	6.3%	Jcarilla Apache Nation [NR]	8.2%
Santa Fe (City of) NM [Aa3/STA]	5.8%	Bernalillo Co. Metro Court [ Bernalillo County - Aaa/STA]	8.2%
New Mexico Spaceport Authority [NR]	4.9%	Santa Ana Pueblo [NR]	8.0%
Albuquerque Bernalillo Co. WUA [Aa2/STA]	3.1%	Eastern New Mexico University [NR]	7.8%

Source: Authority's audits/disclosure; Moody's Investors Service

## 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 employs 37 people, and the board of directors consists of 11 members, but currently, only nine are serving.

## Recent developments

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'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

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- \$10 million). During fiscal 2018, contributions of \$10 million are being considered by the State. These sweeps do not impact the authority's ability to service the debt.

## Detailed credit considerations

### Loan portfolio: top ten borrowers concentrate pool; state intercept is a strength

NMFA's portfolio is large, but concentrated, with the majority of borrowers of average credit quality.

The PPRF is projected to have 805 outstanding loans totaling approximately \$1.4 billion by March 2018. The senior lien pool currently consists of 199 unique borrowers with an accumulated principal loan value of approximately \$1.1 billion. The subordinate lien pool currently consists of 97 unique borrowers with an accumulated principal loan value of \$310.3 million.

Approximately 27.8% of the total outstanding senior lien loan pool and 44% 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 7.6% and 6.3% 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. Since our last review in October, the authority implemented new software, effectively re-classifying some loan revenues from intercepted to contingent intercept. As such, based on the March 31 projections, it appears that directly interceptable revenues declined to 25.8% from 57.9% for the senior and 16.1% from 29.2% for the subordinate. However, management explains that based on their calculations, which incorporate all classifications, projected interceptable revenues are 66.1% and 38.8% for senior and subordinate liens, respectively.

### Underlying credit quality and default tolerance: GGRT creates strong coverage & default tolerance

Debt service coverage is expected to remain adequate over the mid-term given stable loan agreement revenues and upward trending GGRT collections.

A key consideration in the Aa1 and Aa2 ratings is the additional credit strength provided by the Governmental Gross Receipts Tax (GGRT). 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. Based on fiscal 2018 collections to date, the authority reports revenues are up 6.9% year-over-year. Historically, GGRT is a stable revenue source, exhibiting minimal volatility; this trend is expected to continue over the mid-term.

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 1.29 times for 2018. Coverage for the senior lien debt service is projected to remain in excess of 1.29 times through final maturity in 2046. Senior lien debt service coverage using only loan repayments results in narrower coverage of 1.03 times for fiscal 2018. Fiscal 2018 default tolerance for the senior lien is high at 28.3% when including GGRT revenues, but is still a satisfactory 3.1% without it. Projected subordinate lien coverage, inclusive of projected flow through from the senior obligations and fiscal 2017 GGRT collections is a solid 2.11 times for fiscal 2018. Excluding flow through revenues, subordinate lien coverage declines to 1.04 times. Default tolerance on the subordinate lien is very high at 106.9% 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
2018	\$ 29.4	\$ 116.9	\$ 146.3	\$ 113.2	1.29	\$ 33.1	\$ 32.2	\$ 65.3	\$ 30.9	2.11
2019	\$ 29.4	\$ 121.6	\$ 151.0	\$ 116.7	1.29	\$ 34.3	\$ 40.0	\$ 74.4	\$ 37.9	1.96
2020	\$ 29.4	\$ 119.5	\$ 148.9	\$ 113.0	1.32	\$ 35.9	\$ 34.3	\$ 70.2	\$ 33.7	2.08
2021	\$ 29.4	\$ 114.0	\$ 143.4	\$ 110.8	1.29	\$ 32.6	\$ 35.6	\$ 68.2	\$ 33.9	2.01
2022	\$ 29.4	\$ 104.3	\$ 133.7	\$ 102.3	1.31	\$ 31.4	\$ 31.9	\$ 63.3	\$ 29.3	2.16
2023	\$ 29.4	\$ 97.5	\$ 126.9	\$ 93.7	1.35	\$ 33.2	\$ 27.9	\$ 61.1	\$ 28.0	2.18
2024	\$ 29.4	\$ 88.1	\$ 117.5	\$ 84.6	1.39	\$ 32.9	\$ 24.8	\$ 57.7	\$ 24.0	2.41
2025	\$ 29.4	\$ 86.7	\$ 116.1	\$ 80.2	1.45	\$ 35.9	\$ 22.9	\$ 58.8	\$ 20.7	2.84
2026	\$ 29.4	\$ 77.5	\$ 106.9	\$ 73.1	1.46	\$ 33.8	\$ 18.8	\$ 52.6	\$ 15.6	3.38
2027	\$ 29.4	\$ 73.5	\$ 102.9	\$ 67.9	1.52	\$ 35.0	\$ 20.8	\$ 55.9	\$ 14.9	3.76
2028	\$ 29.4	\$ 70.1	\$ 99.5	\$ 64.5	1.54	\$ 35.1	\$ 20.8	\$ 55.9	\$ 8.8	6.39

\$ millions; fiscal 2017 GGRT collections are held constant

Source: Moody's Investors Service

## LIQUIDITY

Despite recent state sweeps, the authority's reserve position remains healthy, with a large amount of cash held by trustee, and protected by indenture.

As of December 15th, 2017, the common debt service reserve (CDSR) was \$30.7 million. At the current level, the CDSR is over-funded by approximately \$0.6 million (based on the March 31st projected loan portfolio and fiscal 2019 loan revenues).

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 million and \$21.3 million, respectively.

The authority has an additional \$30.7 million in its supplemental credit reserve fund (SCRF). 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. The authority also has a \$100 million line of credit through Wells Fargo to provide additional liquidity, if needed. NMFA drew down \$26.7 million late 2017, but reimbursed itself with bond proceeds.

## Legal framework, covenants and debt structure

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 \$1.014 million in outstanding senior lien and \$245.9 million in outstanding subordinate lien bonds. The debt service schedule on both pledges is downward trending; senior lien principal amortization is around 64% in ten years and sub lien principal amortization is around 84% in ten years.

**DEBT-RELATED DERIVATIVES**

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

**Management and governance: sophisticated management team**

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).

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**Rating Action: Moody's Assigns Aa1 sen/Aa2 sub to NMFA, NM's PPRF Revenue Bonds**

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26 Apr 2018

New York, April 26, 2018 -- Moody's Investors Service has assigned a Aa1 rating to the New Mexico Finance Authority's (NMFA) upcoming sale of \$22.5 million Senior Lien Public Project Revolving Fund (PPRF) Revenue and Refunding Bonds, Series 2018B. Concurrently, we have assigned a Aa2 ratings on \$28.1 million in Subordinate Lien PPRF Revenue and Refunding Bonds, Tax-Exempt Series 2018C-1 and \$6.2 million in Subordinate Lien PPRF Revenue and Refunding Bonds, Taxable Series 2018C-2. We have also affirmed the Aa1 and Aa2 on \$936.6 million and \$270.8 million in outstanding parity obligations, respectively. The outlook is stable.

**Ratings Rationale**

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.

**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 rebounds. The continued stability in GGRT revenues will provide adequate coverage and 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

Materially decreased concentration in top loan borrowers

Significant improvement in the credit worthiness of the loan pools

**Factors that Could Lead to a Downgrade**

Erosion of creditworthiness in the loan pools

Diminished size and breadth of borrower pools

Declines in GGRT collections

Weakened governance and management

**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 GGRT revenues, and additional revenues received by the authority that are designated as funds pledged by the Indenture.

**Use of Proceeds**

Proceeds from the Series 2018B bonds will be used to reimburse seven loans and refund Series 2008B bonds for net present value savings of \$2.3 million, or 12.6%. Proceeds from the Series 2018C-1 & C-2 bonds will be used for project funding, reimburse 14 loans and refund Series 2013C-1 bonds for net present value savings of

\$27,000, or 2.7%.

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

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## CREDIT OPINION

27 April 2018

Rate this Research



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## New Mexico Finance Authority

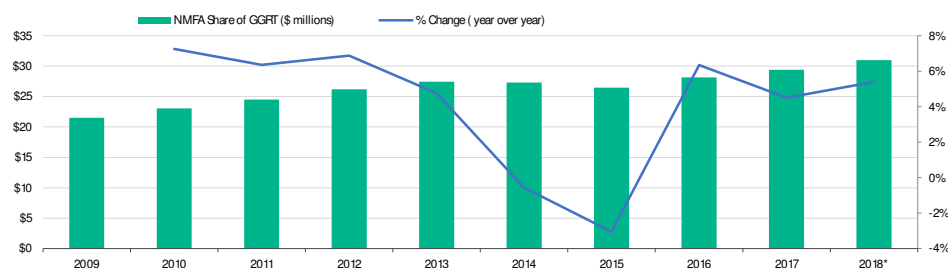
### Update to credit analysis

#### 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 as well as exposed to borrowers with relatively low creditworthiness.

Exhibit 1

**GGRT revenues exhibit slight volatility, but are stable overall. Collections supplement agreement revenues, and are a key credit strength**



\*unaudited; source: NMFA; 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 and who rely on State revenues to operate (e.g. school districts)
- » History of state sweeping a portion of flow-through funds

## 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 rebounds. The continued stability in GGRT revenues will provide adequate coverage and 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
- » Materially decreased concentration in top loan borrowers
- » Significant improvement in the credit worthiness of the loan pools

## Factors that could lead to a downgrade

- » Erosion of creditworthiness in the loan pools
- » Diminished size and breadth of borrower pools
- » Declines in GGRT collections
- » Weakened governance and management

## Key indicators

Exhibit 2

NMFA PPRF Senior Lien		NMFA PPRF Subordinate Lien	
Size and Diversity		Size and Diversity	
Size of Portfolio	200	Size of Portfolio	103
% of Borrowers with less than 1% of the pool	87.0%	% of Borrowers with less than 1% of the pool	77.7%
% of loans to the top 5 borrowers	28.5%	% of loans to the top 5 borrowers	39.1%
Amount Outstanding		Amount Outstanding	
Total Bonds Outstanding (inc. 2018B)	\$936.6M	Total Bonds Outstanding (inc. 2018C12)	\$270.8M
Total Loans Outstanding	\$1.1B	Total Loans Outstanding	\$328.1M
Top Five Participants		Top Five Participants	
Percent of Pool		Percent of Pool	
Flo Rancho (City of) NM [Aa2/NOO]	7.8%	Santa Fe (City of) NM [Aa3/STA]	10.7%
State of NM General Services Dept. [New Mexico - Aa1/NEG]	6.8%	Jcarilla Apache Nation [NR]	7.2%
Santa Fe (City of) NM [Aa3/STA]	5.8%	Eastern New Mexico University [NR]	7.1%
New Mexico Spaceport Authority [NR]	4.9%	Gallup-McKinley County School District No. 1 [A1]	7.1%
Jcarilla Apache Nation [NR]	3.1%	Santa Ana Pueblo [NR]	6.9%

Source: NMFA, NM; Moody's

## Profile

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## Detailed credit considerations

### Loan portfolio: top ten borrowers concentrate pool; state intercept is a strength

NMFA's portfolio is large, but concentrated, with the majority of borrowers of average credit quality. By June 30, 2018, the PPRF is projected to have 784 outstanding loans totaling approximately \$1.4 billion. The senior lien pool currently consists of 200 unique borrowers with an accumulated principal loan value of approximately \$1.1 billion. The subordinate lien pool currently consists of 103 unique borrowers with an accumulated principal loan value of \$328.1 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 Nations. 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.

Approximately 28.5% of the total outstanding senior lien loan pool and 39.1% 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 7.8% and 6.8%, respectively. The largest borrower in the subordinate pool is the City of Santa Fe (Aa3 stable) at 10.7%. Moody's notes that the vast majority of borrowers across both pools each represent less than 1% of outstanding loans.

A significant portion of the Public Project Revolving Fund (PPRF) loans have a direct intercept of pledged revenues, which supports the strong credit quality of the overall pool, and somewhat mitigates default risks associated with weaker borrowers. Since our last review in October, the authority implemented new software, effectively re-classifying some loan revenues from intercepted to contingent intercept. As such, based on management's calculations, which incorporate all classifications, projected interceptable revenues are 65.5% and 50.6% for senior and subordinate liens, respectively. The increase in the subordinate lien interceptable revenues is due to a jump in school district loans.

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

Given the authority's projected cashflows, inclusive of loan agreements and GGRT, default tolerance is expected to remain strong 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 is reflective of the lien on the GGRT and excess loan revenues. 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. 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. Based on fiscal 2018 collections to date, GGRT revenues are up 6.2% year-over-year. 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 2017, fiscal 2018 senior lien debt service coverage is projected at 1.29 times and is projected to remain in excess of 1.29 times through final maturity in 2046. Fiscal 2018 projected senior lien debt service coverage using only loan repayments results in narrower coverage of 1.03 times. Fiscal 2018 default tolerance for the senior lien is high at 28% when including GGRT revenues, and is a much narrower 2.8% without it.

Projected fiscal 2018 subordinate lien coverage, inclusive of its own agreement revenues and projected flow through revenues (excess senior agreement revenues plus remaining GGRT) is a solid 2.10 times. Excluding flow through revenues, subordinate lien coverage declines to 1.04 times. Default tolerance on the subordinate lien is very high at 105.8% given the large amount of flow-through revenues from the senior lien and a weaker 4.0% when excluding them.

## LIQUIDITY

Although the state has recently appropriated a portion of excess PPRF revenues, 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 June 30, will have \$30.8 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 \$30.8 million in reserve at June 30. The authority also has a \$100 million line of credit with Wells Fargo to provide for additional liquidity; NMFA drew down \$26.7 million late 2017, but the facility was reimbursed with bond proceeds.

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 \$39.4 million and \$21.6 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 \$936.6 million in outstanding senior lien and \$270.8 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 69% and 80%, respectively, over ten years.

## 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. 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).

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**Rating Action: Moody's Assigns Aa1 SEN/Aa2 SUB to NMFA, NM's PPRF Revenue Bonds**

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08 Oct 2018

New York, October 08, 2018 -- Moody's Investors Service has assigned a Aa1 rating to the New Mexico Finance Authority's (NMFA) upcoming sale of \$54.4 million Senior Lien Public Project Revolving Fund (PPRF) Revenue Bonds, Series 2018D. Concurrently, we have assigned a Aa2 ratings on \$72.6 million in Subordinate Lien PPRF Revenue Bonds, Series 2018E. We have maintained the 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**

- Decreased concentration in top loan borrowers
- Improvement in the credit worthiness of the loan pools

**FACTORS THAT COULD LEAD TO A DOWNGRADE**

- Erosion of creditworthiness in the loan pools
- Declines in GGRT collections as that would negatively impact default tolerance
- Weakened governance and management

**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 2018D bonds will reimburse 26 loans ranging from \$164,000 to \$9.6 million. Proceeds from the Series 2018E subordinate lien bonds will provide a \$57 million loan to New Mexico General Services Department, as well as reimburse 7 loans ranging from \$127,000 to \$9.5 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 these ratings was U.S. Municipal Pool Program Debt published in March 2013. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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