

CREDIT OPINION

27 October 2022



Contacts

Nathan Phelps +1.214.979.6853
Analyst
nathan.phelps@moodys.com

Thomas Jacobs +1.212.553.0131
Senior Vice President/Manager
thomas.jacobs@moodys.com

CLIENT SERVICES

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

New Mexico Finance Authority

Update to credit analysis

Summary

The [New Mexico Finance Authority](#) (NMFA (Aa1 stable)) has a stable credit profile that benefits from very strong governance of the pool which is actively and professionally managed. The Authority's management has strengthened with the recent implementation of a new department to oversee loan credit quality and analysis.

The Authority's senior lien revenue bonds benefit from the high default tolerance and adequate and steadily improving debt service coverage provided by the sum of legally separate and pledged loan agreement revenues and governmental gross receipt taxes (GGRT). The profile is supported by the pool structure in which bond maturity occurs roughly six years prior to the last loan payoff. These attributes are weighed against the average credit quality of borrowers in the senior lien pool and modest concentration among the five largest borrowers.

The Authority's subordinate lien revenue bonds benefit from the inherent credit quality of the subordinate lien pool, with additional strength derived from the automatic availability of excess senior lien cash flow post senior lien debt service repayment. Like the senior lien pool, the subordinate pool benefits from the high default tolerance and adequate and steadily improving debt service coverage provided by the sum of legally separate and pledged loan agreement revenues and governmental gross receipt taxes (GGRT). The legally separate and pledged loan agreement revenue of the subordinate lien pool participants is wholly sufficient to meet debt service on the subordinate lien bonds and many of the borrowers in the subordinate lien are also borrowers in the senior lien. These attributes are weighed against the average credit quality of borrowers in the senior lien pool and modest concentration among the five largest borrowers.

Credit strengths

- » Strong program and borrower oversight provided by management team
- » Around 70% of loan agreement revenues are subject to intercept, meaning NMFA has first claim on funds
- » Governmental gross receipts tax (GGRT) provide high default tolerance

Credit challenges

- » Both pools include borrowers with below average or speculative credit profiles
- » Both pools have modest concentration in the five largest borrowers

Rating outlook

The stable outlook reflects our expectation that GGRT revenue will remain resilient through periods of economic volatility. GGRT revenue has historically been very stable, including during the coronavirus pandemic and, in combination with loan agreement revenue, will continue to provide high default tolerance and adequate debt service coverage on both the senior and subordinate lien obligations.

Factors that could lead to an upgrade

- » Significant improvement in the weighted average credit quality of the pool participants
- » Continued growth in GGRT revenue that results in materially stronger debt service coverage

Factors that could lead to a downgrade

- » Material and sustained declines in GGRT collections
- » Deterioration of the default tolerance of the program or erosion of weighted average credit quality of the pool participants

Key indicators

Exhibit 1

NMFA - PPRF Senior Lien Revenue Bonds

Size and Diversity

Size of Portfolio	284
% of Borrowers with less than 1% of the pool	41.4%
% of loans to the top 5 borrowers	20.6%

Amount Outstanding

Total Bonds Outstanding	\$983.2M
Total Loans Outstanding	\$1.3B

Top 5 Participants	Percent of Pool
New Mexico General Services Department	5.2%
Rio Rancho (City of), NM	4.2%
Gallup-McKinley County School District 1, NM	3.9%
Las Cruces (City of), NM	3.7%
Farmington (City of), NM	3.6%

Note: Size of portfolio reflects unique borrower pledge combinations

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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Exhibit 2

NMFA - PPRF Subordinate Lien Revenue Bonds	
Size and Diversity	
Size of Portfolio	199
% of Borrowers with less than 1% of the pool	31.3%
% of loans to the top 5 borrowers	26.4%
Amount Outstanding	
Total Bonds Outstanding	\$370.8M
Total Loans Outstanding	\$471.0M
Top 5 Participants	Percent of Pool
New Mexico General Services Department	9.2%
Santa Fe (City of), NM	5.7%
Eastern New Mexico University Board of Regents	4.3%
New Mexico General Services Department	3.9%
Jicarilla Apache Nation	3.3%

Note: Size of portfolio reflects unique borrower pledge combinations

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

Profile

The New Mexico Finance Authority is a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality of the State. The Finance Authority was created in 1992 to coordinate the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. NMFA is governed by an 11 member board and served by 59 employees. The Finance Authority currently has outstanding loans to 1,050 borrowers totaling \$1.7 billion.

Detailed credit considerations

Loan portfolio: average credit quality in large portfolio of diverse borrowers

The authority's portfolio is large and is likely to remain stable. We do not expect material changes in the composition of either pool. There is modest concentration in each pool with the five largest borrowers accounting for 22.3% and 26% of loans outstanding in the senior and subordinate liens, respectively. However, the vast majority of participants represent less than 1% of outstanding loans. Post issuance, the portfolio is expected to consist of 1,050 loans, 715 in the senior pool, valued at \$1.3 billion, and 335 in the subordinate pool, valued at \$471 million.

The senior lien pool has 201 unique borrowers with 284 unique borrower/pledge combinations. The five largest borrowers include the State of New Mexico General Services Department (state gross receipts tax pledge), [City of Rio Rancho](#) (Aa2), [Gallup-McKinley County School District 1](#) (A2), and the cities of Farmington and [Las Cruces](#) (Aa2). Positively, 90% of participants represent less than 1% of the total loans outstanding. Pledged revenues consist of general obligation, gross receipt taxes and enterprise revenues. Around 68% of revenue is interceptable (either through Department of Revenue and Taxation or Department of Finance and Administration for school districts), meaning the authority receives funds before the borrower, which mitigates risk of debt service shortfall.

The subordinate lien pool has 154 unique borrowers with 199 unique borrower/pledge combinations. The five largest borrowers include the State of New Mexico General Services Department (appropriation revenue pledge), the City of Santa Fe, Eastern New Mexico University Board of Regents, State of New Mexico General Services Department (state gross receipts tax pledge), and Jicarilla Apache Nation. Positively, 84% of participants represent less than 1% of the total loans outstanding. Pledged revenues consist of general obligation, gross receipt taxes, enterprise revenues, and local special taxes (e.g. cigarette taxes, lodgers' taxes). Around 48% of revenue is interceptable.

Underlying credit quality and default tolerance: weighted credit quality in each pool is average; GGRT and loan agreement revenues provide high default tolerance

Given the authority's projected cash flows, inclusive of loan agreement revenues and GGRT, default tolerance on both liens is expected to remain high over the near-term. The credit worthiness of the senior lien pool is fairly stable (weighted average is A2), with the top borrowers representing large governments. The subordinate lien pool (weighted average of A3) has historically included borrowers with

more speculative elements. However, in the past several years, the authority has diversified borrower composition, which improved the credit worthiness of the pool.

The senior lien bonds are secured by borrower repayments, known as loan agreement revenues, and governmental gross receipt taxes (GGRT). NMFA receives 75% of statewide GGRT collections. The majority of GGRT revenues are generated from water, sewer, and refuse collection and disposal services. Since 1996, GGRT has declined only four times, and in each instance, the loss was less than 5%. GGRT is fairly resilient to economic volatility as it is a tax on essential services. We note that this revenue stream is a key credit strength—without GGRT, senior lien default tolerance would decline to around 16% from its current 45%. The subordinate lien would decline to 18.2% from 115%

In fiscal 2022, GGRT totaled \$37 million, which was a 13.2% increase from prior year's \$33 million. Based on projected cash flows, senior lien annual debt service (ADS) coverage is 1.4 times in fiscal 2023 and increases throughout the life of the bonds. MADS occurs in fiscal 2024 and decreases throughout the life of the bonds and, though we expect future issuance to consume the slack, coverage is anticipated to continue to strengthen.

The subordinate lien bonds benefit from wholly separate and distinct loan agreement revenues used to repay the bonds. The subordinate distinction in this case only applies to the subordinate lien claim on excess cash flow of the senior lien bonds. The claim is automatic and flows to the subordinate lien debt service fund after the senior lien bonds are paid. Based on projected cash flows, including the flow-through excess cash flow of the senior lien bonds, subordinate lien annual debt service (ADS) coverage is 1.98 times in fiscal 2023 and increases throughout the life of the bonds. MADS occurs in fiscal 2023 and decreases throughout the life of the bonds and, though we expect future issuance to consume the slack, coverage is anticipated to continue to strengthen. Based on our internal assessment of individual participant credit quality, the weighted average of the senior lien pool is A2. Similarly, the weighted average of the subordinate lien pool is A3.

Liquidity

The state has a history of sweeping excess cash reserves (anywhere from \$8 million to \$15 million) from the authority in times of financial stress. This risk is mitigated in that the state can only access available monies after all debt, senior and subordinate, is serviced and all reserves are topped up (as necessary). The authority's receipt of GGRT is protected by statute. The state cannot divert revenues and/or impair the payment of debt. No funds were swept in fiscal 2022. The authority has two primary reserve funds that are cross collateralized and held by trustee for the repayment of senior and subordinate bonds: the common debt service reserve (CDSR, pledged to the senior lien bonds) and supplemental credit reserve fund (SCRF, pledged to the subordinate lien bonds). Both reserves are funded at roughly the same level and hold roughly \$33 million. The SCRF also serves as a subordinate lien loan reserve fund and short-term borrowing liquidity reserve fund.

NMFA requires certain borrowers to maintain an individual debt service reserve funded at the lesser of the three prong and held by trustee. These funds are only available for the individual borrower and are not cross collateralized. As such, we do not include these balances in our default tolerance calculations, but we do recognize that they provide additional stability to NMFA's operations. As of November 2022, the senior lien pool had \$32.4 million of reserves and the junior lien pool had reserves of \$31.3 million.

The authority also has a \$100 million line of credit with Wells Fargo to provide for additional liquidity

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 with 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. The Authority does not allow advance refundings.

Legal security

The bonds are payable solely from the special revenue 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 revenue, and additional revenue received by the authority that are designated as funds pledged by the indenture. GGRT revenue is collected based on statewide utility usage.

Debt structure

The authority has \$983.2 million in outstanding senior lien (inclusive of the current \$66.8 million new money issuance) and \$370.8 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 around 76% over the next 10 years.

Debt-related derivatives

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

Pensions and OPEB

Not applicable.

ESG considerations**Environmental**

The NMFA is not directly exposed to environmental risks. Individual borrowers may be exposed, but this should not impair the authority's ability to service its debt: in addition to the two reserves created by indenture, the authority requires borrowers with lower credit quality (as determined internally by NMFA) to create individual debt service reserves held by trustee, and the authority can intercept over two-thirds of loan revenues, if needed.

Social

The NMFA is not directly exposed to social risks. Individuals borrowers may be exposed, but this should not impair the authority's ability to service its debt: in addition to the two reserves created by indenture, the authority requires borrowers with lower credit quality (as determined internally by NMFA) to create individual debt service reserves held by trustee, and the authority can intercept over two-thirds of loan revenues, if needed.

Governance

The authority's program management and oversight of the PPRF is a strong credit factor incorporated into the credit profile. NMFA is authorized by various state statutes to operate 22 programs; 12 are active. The State used the Authority as the disbursement arm for various economic emergency stimulus and coronavirus response programs. NMFA also runs New Mexico's Local Government Planning Fund, Drinking Water State Revolving Loan Fund, and Water Project Fund along with several private business lending program authorized and funded by the state and issues bonds for the New Mexico Department of Transportation.

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 challenges can be addressed in a timely manner. The board is composed of 11 members who serve as the governing body of the NMFA. Nine of the 11 members are appointed by the governor.

© 2022 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved. CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1346971

CLIENT SERVICES

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