MOODY'S
INVESTORS SERVICE

CREDIT OPINION
29 March 2024

Contacts

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

Gera M. McGuire +1.214.979.6850
Associate Managing Director
gera.mcguire@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 (senior lien revenue bonds rated Aa1 stable; subordinate lien revenue bonds rated Aa1 stable) demonstrates strong pool program characteristics including the average (A2) credit quality of pool participants; the large size and diversity of the pool; and the program's strong governance structure, including sound legal provisions, cross collateralized debt service reserve funds, and robust program management and oversight. The senior lien revenue bonds benefit from satisfactory debt service coverage and high default tolerance provided by pledged loan repayments and government gross receipt tax (GGRT) revenues. The subordinate lien revenue bonds also benefit from the strong debt service coverage and high default tolerance provided by pledged loan repayments and availability of excess flow through revenue after repayment of senior lien debt service.

Credit strengths

» Program structure provides satisfactory 1.4 times coverage of senior lien and 2.2 times subordinate lien debt service and strong default tolerance — roughly 40% of the pledged revenue (loan repayments and GGRT revenues) could default for the life of the bonds and senior lien debt service could still be paid

» 57% of senior lien and 38% of subordinate lien loan revenues are subject to intercept

» Large size and diversity of the pools combined with very strong program management and oversight practices

Credit challenges

» Maintenance of credit quality as the program expands to new borrowers

» Structural features supporting the strong credit quality may weaken as demand for the pool program grows

Rating outlook

The stable outlook reflects the strong structural elements of the pool program as well as the average credit quality of the loan pools, which are continuously monitored by strong program management and oversight practices. The outlook also reflects the generally improving trend of GGRT revenues, which, in combination with loan repayments, is expected to continue to provide high default tolerance and satisfactory coverage of senior and subordinate lien debt service.

Factors that could lead to an upgrade

» Significant improvement in the weighted average credit quality of the pool participants to the Aa range for the senior and subordinate lien

» Increased pledged revenues, providing stronger debt service coverage and higher default tolerance that is consistently above 45% for the senior lien bonds

Factors that could lead to a downgrade

» Weakened credit quality of the pool participants for the senior and subordinate lien bonds

» Lower default tolerance from increasing leverage or material and sustained declines in pledged revenues for the senior and subordinate lien bonds

Key indicators

Exhibit 1

NMFA - PPRF Senior Lien Revenue Bonds	
Size and Diversity	
Size of Portfolio	205
% of Borrowers with less than 1% of the pool	35.7%
% of loans to the top 5 borrowers	23.2%
Amount Outstanding	
Total Bonds Outstanding	$1.1B
Total Loans Outstanding	$1.4B
Top 5 Participants	Percent of Pool
Albuquerque Bernalillo County Water Authority	8.1%
Rio Rancho (City of), NM Water & Sewer Enterprise	2.8%
Jicarilla Apache Nation	2.4%
New Mexico General Services Department	2.1%
New Mexico State University	2.0%

NMFA - PPRF Subordinate Lien Revenue Bonds	
Size and Diversity	
Size of Portfolio	152
% of Borrowers with less than 1% of the pool	34.6%
% of loans to the top 5 borrowers	23.6%
Amount Outstanding	
Total Bonds Outstanding	$382M
Total Loans Outstanding	$494M
Top 5 Participants	Percent of
New Mexico General Services Department	8.4%
Santa Fe (City of), NM	4.9%
Eastern New Mexico University Board of Regents	3.9%
New Mexico General Services Department	3.7%
Jicarilla Apache Nation	2.7%

Size of portfolio reflects unique borrower pledge combinations
Source: New Mexico Finance Authority, Moody's Rating

Profile

The New Mexico Finance Authority is a public body politic and corporate, separate and apart from the State of New Mexico (Aa2 stable), and constituting a governmental instrumentality of the State. The authority was created in 1992 to coordinate the planning and financing of state and local public projects, to provide for long-term planning and assessment of state and local capital needs and to improve cooperation among the executive and legislative branches of state government and local governments in financing public projects. The authority is governed by an 11-member board of directors, nine of whom are appointed by the governor. A separate 32-member committee provides oversight of the authority.

Detailed credit considerations

Loan portfolio: Large pool size and diversity

The large size and diversity of the pool and authority oversight will continue to provide credit strength and stable cash flows for the program. As of March 2024, the senior lien pool consists of over 200 separate local government borrowers with 720 loans outstanding. More than 35% of participants have less than 1% of the total loans outstanding. The loans outstanding of these participants represent about 65% of the total pool amount. The five largest borrowers account for a little over 17% of outstanding loans. Program cash flow is structured so that loan repayments and governmental gross receipts tax (GGRT) revenue provide a minimum 1.4 times debt service coverage on the senior lien bonds. Loan repayment and excess flow through revenue after payment of the senior lien debt provides roughly 2.3 times coverage of the subordinate lien bonds.

Underlying credit quality and default tolerance: Average credit quality of pool participants and strong senior lien default tolerance

The pools exhibits average credit quality, with weighted average credit quality of A2 for the senior lien pool and A3 for the subordinate lien pool as the authority has typically included borrowers with more speculative characteristics in the subordinate lien pool. Roughly 57% and 38% of revenues pledged to repay the senior lien and subordinate lien pools, respectively, can be intercepted. The largest single borrower in the senior lien pool is the Albuquerque Bernalillo County Water Utility Authority, NM (Aa2 stable), which accounts for 8.1% of loans outstanding as of March 2024. The largest single borrower in the subordinate lien pool is the New Mexico General Service Department, which is an agency of the state and represents 8.4% of loans outstanding as of March 2024. A strong default tolerance for the senior and subordinate lien bonds is a key credit strength of the program. The program loan pool could still pay senior lien debt service even if around 40% of the senior lien loan repayments and GGRT revenues) were in default through bond maturity and if all of the subordinate lien loan repayments were in default.

The high default tolerances are driven by the GGRT revenues, which the authority receives 75% of statewide GGRT revenue collections. The majority of GGRT revenues are generated from water, sewer, and refuse collection and disposal services, but is also levied on admissions to recreational, athletic, or entertainment services or events in facilities open to the general public. Since 1996, GGRT revenues have declined only six times, with the largest decline being a 9% decrease in fiscal 2020 as entertainment events were canceled or postponed because of the pandemic; the average decline is around 3.5%. The addition of GGRT revenues is an important credit strength—without GGRT revenues, senior lien default tolerance would decline to around 15% and 21% for the senior lien and subordinate lien pools, respectively.

The state does have 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. The authority's receipt of GGRT revenue is protected by statute. The state cannot divert revenues or impair the payment of debt.

Liquidity

The authority has two primary debt service 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 will be funded at roughly the same level upon by June 2024 and will hold around $37 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 test 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. The authority also has access to a $100 million line of credit with Wells Fargo Bank N.A. (Aa1/P-1) to provide for additional liquidity and short-term borrowing.

Legal framework, covenants and debt structure: Sound legal structure

Legal provisions provide sound 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 refunding of its loans.

Legal security

The senior lien revenue bonds are payable solely from the special revenue and funds of the authority pledged under the indenture, including loan repayments from senior lien borrowers, certain governmental gross receipts tax (GGRT) revenue, and additional revenue received designated as funds pledged under the indenture. The GGRT is a statutorily imposed 5% tax levied on county and municipal operated services. The PPRF receives 75% of statewide GGRT. The subordinate lien revenue bonds are payable from the special revenue and funds of the authority pledged under the indenture, including loan repayments from subordinate lien borrowers and excess flow through revenue after payment of senior lien debt service, and additional revenue received and designated as funds pledged under the indenture.

Debt structure

All of the debt issued is fixed rate and amortizes over the long term. Annual debt service on the senior and subordinate lien bonds is descending, providing capacity to issue additional debt while maintaining stable debt service coverage.

Debt-related derivatives

NMFA is not a party to any debt-related derivative agreements.

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 debt service reserve funds created by indentures, the authority requires borrowers with lower credit quality (below A2) to create individual debt service reserves held by the trustee and may allow borrowers up to two years to meet the debt service reserve requirement. Additionally, the authority can intercept roughly 57% of senior lien loan revenues and 38% of subordinate lien 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 (below A2) to create individual debt service reserves held by the trustee and may allow borrowers up to two years to meet the debt service reserve requirement. Additionally, the authority can intercept roughly 57% of senior lien loan revenues and 38% of subordinate lien 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 25 programs, of which 13 are funded. In the 2024, the state legislature amended the NMFA governing statute to allow charter schools and nonprofit housing developers eligible for PPRF loans.

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 and 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.

REPORT NUMBER 1403678

CLIENT SERVICES

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

MOODY'S INVESTORS SERVICE