



Rating Action: Moody's assigns Aa1 to New Mexico Finance Authority's Senior Lien PPRF Revenue Bonds, Series 2022C; outlook stable

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New York, October 26, 2022 – Moody's Investors Service has assigned a Aa1 rating to New Mexico Finance Authority's \$68 million Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2022C. Moody's maintains the Aa1 on the authority's outstanding parity debt. Post issuance, the authority will have \$983.2 million in senior lien and \$370.8 million in subordinate lien revenue bonds outstanding. The outlook is stable.

RATINGS RATIONALE

The Aa1 senior lien rating reflects 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) coupled with the solid average credit quality of the borrower pool. The rating also considers the very strong governance of the pool which is actively and professionally managed. Management has strengthened with the creation of a department to oversee loan credit quality and analysis. The rating incorporates the debt repayment structure of the pool in which bond maturity typically occurs prior to the last loan payoff. The senior lien pool is large and diverse with modest concentration with the five largest borrowers making up 22% of the pool.

The senior lien pledge has satisfactory legal provisions, including individual series as well as cross-collateralized debt service reserve funds. The authority has the ability to intercept pledged state revenue sufficient to cover roughly 70% of the portfolio.

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 OF THE RATING

- 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 OF THE RATING

- 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

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.

USE OF PROCEEDS

Proceeds from the sale of the Series 2022C senior lien bonds will be used to finance or refinance 20 projects ranging in size from \$200,000 to \$28.6 million.

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.

METHODOLOGY

The principal methodology used in this rating was Public Sector Pool Programs and Financings Methodology published in April 2020 and available at <https://ratings.moodys.com/api/rmc-documents/66017>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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