MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa1 to New Mexico Finance Authority's Senior Lien Bonds, Ser. 2020B

27 May 2020

New York, May 27, 2020 -- Moody's Investors Service has assigned a Aa1 to New Mexico Finance Authority's (the authority or "NMFA") $94.9 million in Senior Lien Public Project Revolving Fund (PPRF) Revenue Bonds, Series 2020B. Concurrently, we have affirmed the Aa1 senior and Aa2 subordinate lien ratings. The action affects $868 million and $322.3 million, respectively. The outlook is stable on New Mexico Finance Authority's outstanding PPRF debt.

RATINGS RATIONALE

The Aa1 senior lien rating is based on the high default tolerance provided by the sum of loan agreement revenues and governmental gross receipt taxes (GGRT) coupled with average credit quality of the borrower pool. Annual debt service coverage is adequate, gradually increasing over the life of the outstanding bonds. While the senior lien pool is large and diverse, it does exhibit some concentration in the largest borrowers.

The Aa2 subordinate lien rating reflects the improved borrower pool's credit quality in combination with high default tolerance and satisfactory debt service coverage. By ordinance, subordinate lien loan revenues are legally separate from senior lien revenues. It also benefits from excess revenues remaining after senior lien debt is serviced, including both GGRT and senior lien loan revenues. It has a junior claim to these funds, which is reflected in the rating distinction. Similar to the senior lien, the subordinate pool is large and diverse, but there is concentration in top five borrowers, which represent over 35% of the total outstanding debt.

Both pledges have satisfactory legal provisions, including cross-collateralized debt service reserve funds and individual debt service reserve funds. The authority has the ability to intercept pledged revenues of over 70% of the portfolio. Management remains strong and sophisticated.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. Although the authority benefits from GGRT, based on historical collections, it is fairly resilient during times of economic volatility. Furthermore, it is a tax on utility usage, which will not be as materially impacted as other sectors. We do not see any material immediate credit risks for the authority. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the authority changes, we will update the rating and/or outlook at that time.

RATING OUTLOOK

The stable outlook reflects our expectation that Governmental Gross Receipt Taxes (GGRT), a statewide tax on utility usage, will remain resilient through periods of economic volatility. GGRT is a tax on utility usage, and is historically very stable. GGRT, in combination with loan agreement revenues, provides 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 RATINGS

- Significant improvement in the credit worthiness of the loan pools

- Material diversification of the top five borrowers

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Material and sustained declines in GGRT collections

- Erosion of creditworthiness in the senior and subordinate loan pools

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 2020B bonds will reimburse 24 loans.

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 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 employs 44 people, and is governed by an 11 member board.

METHODOLOGY

The principal methodology used in these ratings was Public Sector Pool Programs and Financings Methodology published in April 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1171420 . Alternatively, please see the Rating Methodologies page on www.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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Heather Correia
Lead Analyst
Regional PFG Dallas
Moody's Investors Service, Inc.
Plaza Of The Americas
600 North Pearl St. Suite 2165
Dallas 75201
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Roger Brown
Additional Contact
Regional PFG Dallas
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
27 May 2020

Rate this Research

Contacts

Heather Correia +1.214.979.6868
Analyst
heather.correia@moodys.com

Roger S Brown +1.214.979.6840
VP-Senior Analyst/Manager
roger.brown@moodys.com

New Mexico Finance Authority

Update to credit analysis

Summary

The New Mexico Finance Authority (NMFA) has a stable credit profile that benefits from a strong management team overseeing the portfolio, high default tolerance, and satisfactory legal provisions securing the debt. This is weighted against average pool credit quality and top 5 borrower concentration.

The senior lien pledge benefits from high default tolerance, driven in large part by governmental gross receipt taxes (GGRT) combined with loan agreement revenues. GGRT is historically very stable, and not expected to be materially impacted by near-term economic volatility. The weighted average credit quality of the borrower pool is average, although there is concentration within the top five largest borrowers. Annual debt service coverage is around 1.4 times, slowly improving over the life of the bonds.

The subordinate lien pledge also benefits from high default tolerance based on its own legally-seperate loan agreement revenues and flow-through revenues, which are excess GGRT and senior lien loan agreement revenues. The weighted average credit quality of the borrower pool is average, although there is concentration within the top five largest borrowers. Annual debt service coverage is around 2.1 times, slowly improving over the life of the bonds.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not expected to materially impact NMFA's credit profile. Although the authority benefits from GGRT, based on historical collections, it is fairly resilient during times of economic volatility. Furthermore, it is a tax on utility usage, which will likely not be as materially impacted as other sectors. We do not see any material immediate credit risks for the authority. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the authority changes, we will update the rating and/or outlook at that time.

Credit strengths

» Strong program and borrower oversight provided by management team

» Over 70% of loan agreement revenues are subject to intercept by the State, meaning NMFA has first claim on funds

» Governmental gross receipts tax (GGRT) provide high default tolerance on both the senior and subordinate pledges

» Improved credit quality of the subordinate lien borrower pool

Credit challenges

» Loan agreement revenues alone provide narrow coverage on senior and subordinate lien obligations; default tolerance significantly reduced without benefit of GGRT or flow-through

» Both pools include borrowers with below average or speculative credit profiles

» Both pools have concentration in the five largest borrowers

Rating outlook

The stable outlook reflects our expectation that Governmental Gross Receipt Taxes (GGRT), a statewide tax on utility usage, will remain resilient through periods of economic volatility. GGRT is a tax on utility usage, and is historically very stable. GGRT, in combination with loan agreement revenues, provides 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 credit worthiness of the loan pools

» Material diversification of the top five borrowers in both pools

Factors that could lead to a downgrade

» Material and sustained declines in GGRT collections

» Erosion of creditworthiness in the senior or subordinate lien loan pools

Key indicators

Exhibit 1

NMFA PPRF Senior Lien		NMFA PPRF Subordinate Lien	
Size and Diversity		Size and Diversity	
Size of Portfolio	197	Size of Portfolio	129
% of Borrowers with less than 1% of the pool	86.0%	% of Borrowers with less than 1% of the pool	81.0%
% of loans to the top 5 borrowers	29.3%	% of loans to the top 5 borrowers	37.9%
Amount Outstanding		Amount Outstanding	
Total Bonds Outstanding	$962.9M	Total Bonds Outstanding	$322.3M
Total Loans Outstanding	$1.2B	Total Loans Outstanding	$422.3M

Source: NMFA's audits; Moody's

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 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 44 people.

Detailed credit considerations

Loan portfolio: large portfolio of diverse borrowers

The authority's portfolio is large and will remain stable. Although there is concentration of the top five largest borrowers in both pools, the vast majority of participants represent less than 1% of outstanding loans. By June 30, 2020, the portfolio is expected to consist of 924 loans, 645 in the senior pool, valued at $1.2 billion, and 279 in the subordinate pool, valued at $422.3 million.

The senior lien pool includes 197 borrowers, with the top five largest representing 29.3% of the portfolio. These include Rio Rancho, Las Cruces, Santa Fe and State of New Mexico (General Services Department and the Spaceport Authority). Positively, 86% of participants represent less than 1% of the total loans outstanding. Pledged revenues consist of general obligation, gross receipt taxes and enterprise revenues. Around 78% of revenues are interceptable (either through Department of Revenue and Taxation or Department of Finance and Administration for school districts) as the authority receives funds before the borrower, which mitigates risk of debt service shortfall.

The subordinate lien pool includes 129 borrowers, and the top five represent 37.9% of the pool. These include Santa Fe, State of New Mexico, Eastern New Mexico University, Santa Ana Pueblo and Jicarilla Apache Nation. Similar to the senior lien, 81% of participants represent less than 1% of total loans outstanding. Pledged revenues consist of general obligation, enterprise revenues, and local special taxes (e.g. cigarette taxes, lodgers' taxes). Around 72% of revenues are interceptable.

Underlying credit quality and default tolerance: credit worthiness across both senior & sub lien pools are average; GGRT provides 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, with the top borrowers representing large governments. The subordinate lien pool has historically included borrowers with more speculative elements. Now though, the pool is more diverse, which has improved the weighted average credit quality.

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[1]The majority of GGRT revenues are generated from water, sewer, and refuse collection and disposal services. Since 1996, GGRT has declined only three 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 15% from 45%.

In fiscal 2019, GGRT totaled $37.1 million, up 18.5% year-over-year. However, this includes a one-time payment of $4.8 million from the state to correct historic GGRT that was misclassified. GGRT through March 2020 totals $31.6 million. Similar to gross receipt taxes, GGRT is collected by the state and remitted on a two-month lag. If GGRT were impacted by the pandemic, that would be captured in April's collections, which would not be paid out until June.

Based on projected cash flows, senior lien annual debt service (ADS) coverage is 1.4 times in fiscal 2021. ADS is less than 2 times through 2035 before increasing.

Subordinate lien bonds are also secured by loan agreement revenues, which are legally separate from the senior lien's loan agreement revenues. The senior and subordinate distinction reflects the lien on the GGRT and excess senior lien loan agreement revenues. That is, subordinate lien debt is secured by its own loan agreement revenues and flow-through, which is the sum of remaining GGRT and senior lien agreement revenues, net of senior lien debt service. Based on these cash flows, subordinate lien default tolerance is very high, at around 130%. Without flow-through, it declines to approximately 20%. This is a very conservative scenario as it would imply that the senior lien bonds were in default. In reality, flow-through represents anywhere from $40 million to $60 million in additional annual revenues.

Based on projected cash flows, subordinate lien ADS coverage is 2.11 times in fiscal 2021. ADS is less than 3 times through 2026 before increasing.

Based on our internal assessment of individual participant credit quality, the weighted average of the senior lien pool is A. Similarly, the weighted average of the subordinate lien pool is A; this is an improvement: in the past, the subordinate lien pool credit quality was assessed at Baa.

LIQUIDITY

The state has a history of sweeping excess cash reserves (anywhere from $8 to $15 million) from the authority in times of financial stress. This risk is mitigated in that the state can only access monies available after all debt is serviced and all reserves are topped up (as necessary). The authority's receipt of GGRT is protected by statute. The state cannot in any way divert revenues and/or impair the payment of debt.

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, 2020, will have $32.95 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 $32.95 million in reserve at June 30. 2020.

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 a specific 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 June 30, 2020, the individual reserves are expected to total $38.1 million for the senior lien and $27.7 million for the subordinate lien.

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 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 $962.9 million in outstanding senior lien and $322.3 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 70% over the next 10 years.

DEBT-RELATED DERIVATIVES

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

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 that are deemed risky 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 that are deemed risky 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.

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. The board is composed of 11 members who serve as the governing body of the NMFA. Five of the 11 members are appointed by the governor.

Endnotes

1 GGRT is imposed at a rate of 5% on public services by political subdivisions.

REPORT NUMBER 1230938

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