S&P Global Ratings

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Summary:

New Mexico Finance Authority; State Revolving Funds/Pools; Water/Sewer

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Summary:

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Credit Profile		
US$68.8 mil sr ln pub proj revolving fd ser 2022C due 06/01/2042		
Long Term Rating	AAA/Stable	New
New Mexico Fin Auth SRFPOOL (National)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the New Mexico Finance Authority's (NMFA) $68.8 million series 2022C senior-lien public project revolving fund (PPRF) revenue bonds.
- S&P Global Ratings affirmed its 'AAA' long-term rating on NMFA's previously issued senior- and subordinate-lien bonds.
- The outlook is stable.

Security

Bond proceeds will reimburse funds for 21 projects made under the PPRF program. Payment of debt service is secured through the trust estate, which includes payments under borrower loan agreements, and the authority's 75% portion of statewide governmental gross receipts tax (GGRT) collections. The subordinate-lien bonds have a subordinate pledge of the trust estate revenues, plus specific borrower loan payments related to the subordinate-lien bonds.

Credit overview

We assess NMFA's enterprise risk profile as very strong, resulting from the state's statutory authority of the program.

Meanwhile, we assess the financial risk score as extremely strong, due to annual coverage generated from loan repayments and GGRT, and separate reserves pledged to each lien, supported by strong financial management policies and practices.

We also recognize that the portfolio has demonstrated a long history with no defaults or delinquencies, coupled with the ability of revenues and reserves to withstand large reductions in pledged revenues. In addition, due to cash flows demonstrating sufficiency via the same stress tests performed on the senior lien, we do not differentiate the rating on the subordinate lien.

Because we view securitizations backed by pools of public-sector assets as highly sensitive to country risk, we cap the rating on the securitization at two notches above the sovereign. However, no specific sovereign default stress is applied, given the U.S. sovereign rating is 'AA+'.

Finally, the leverage test meets our AAA threshold, leading to the final rating.

Outlook

The stable outlook reflects our expectation that the program will continue demonstrating strong repayment performance, and that as additional bonds are issued, management will maintain over-collateralization through revenues and reserves in a manner consistent with the rating level.

Downside scenario

Although unlikely, should there be a sizable reduction in over-collateralization provided by GGRT, or if management begins to experience material delinquent or defaulted loan repayments, we would likely lower the rating.

Credit Opinion

Enterprise risk

The very strong enterprise risk score is the result of a low industry risk score, and a very strong market position, reflecting the enabling legislation creating the authority and the current management structure, along with ongoing support provided by the state through the disbursements of its GGRT. Having been established by the state legislature in 1992, the authority coordinates the planning and financing of state and local public projects; we believe this longevity is further evidence of a sound program. The authority is composed of 11 members, who serve as the governing body, with an executive committee providing operational oversight and direction.

Financial risk

The extremely strong financial risk profile results from the program's ability to absorb a very high level of defaults, which we analyze by including senior and subordinate revenues and debt together. This is the result of ongoing GGRT revenue and the availability of about $33.2 million in the common debt service reserve fund, as well as $33.2 million in the supplemental credit reserve fund. Loan revenues plus GGRT revenues are projected to provide annual senior-lien debt service coverage of at least 1.3x throughout the life of the debt. The excess loan revenues and GGRT revenues are then available to cover subordinate-lien debt service, leading to the overall program's ability to absorb a very high level of defaults. Despite the subordinate bonds having a junior position to the excess senior-lien revenues and GGRT revenues, because the loss coverage score reaches the same level as the senior bonds, we do not differentiate ratings between the two debt classes.

We generally consider program management policies adequate to strong. There are formal loan application guidelines, with an evaluation of credit risks undertaken. Borrowers are required to submit annual financial statements, although not every financial report may be reviewed annually. To guard against any timing risks, loan payments arrive monthly. In addition, approved investment guidelines match the state's investment policies.

Program characteristics

About $1.32 billion of senior- and subordinate-lien bonds are outstanding. The loan portfolio consists of loans to about 244 borrowers with aggregate loan balances outstanding of $1.72 billion. As a further enhancement, about 70% of the loan payments are subject to an intercept of state funds. About 70% of the loans outstanding by dollar amount is on the senior lien. The top five borrowers by loan amount outstanding collectively represent almost 24%, or $406 million;

the top borrower (the state's General Services Department) has $127 million outstanding.

In addition to loan repayments, a steady stream of GGRT revenues support the bonds. Authority management routinely projects annual receipts will remain stable. GGRTs have declined only three times in the past 20 years. Collections for 2023 are projected at about $37 million. We note that over the course of the authority's GGRT-receipt history since 1997, there have been only four decreases, with the largest year-over-year decline at 3%; we therefore believe that a flat projection relative to the most recent year provides adequate cushion for significant declines without weakening creditworthiness. Under a no-default scenario, these revenues are passed through the PPRF program for other authority programs.

Ratings Detail (As Of October 26, 2022)		
New Mexico Fin Auth SRFPOOL		
Long Term Rating	AAA/Stable	Affirmed
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Long Term Rating	AAA/Stable	Affirmed
New Mexico Fin Auth SRFPOOL		
Long Term Rating	AAA/Stable	Affirmed
New Mexico Fin Auth SRFPOOL		
Long Term Rating	AAA/Stable	Affirmed
New Mexico Fin Auth SRFPOOL (AMBAC)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New Mexico Fin Auth WS		
Long Term Rating	AAA/Stable	Affirmed

Many issues are enhanced by bond insurance.