

## CREDIT OPINION

1 February 2021

 Rate this Research

### Contacts

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

Alexandra S. Parker +1.212.553.4889  
MD-Public Finance  
alexandra.parker@moody.com

Valentina Gomez +1.212.553.4861  
AVP-Analyst  
valentina.gomez@moody.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) 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. These strengths are weighted against average pool credit quality and moderate top five 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 separate 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 1.8 times, slowly improving over the life of the bonds.

### Credit strengths

- » Strong program and borrower oversight provided by management team
- » Around 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

### Credit challenges

- » Loan agreement revenues alone provide narrow coverage; default tolerance significantly reduced without benefit of GGRT
- » Both pools include borrowers with below average or speculative credit profiles
- » Both pools have some 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

### Factors that could lead to a downgrade

- » Material and sustained declines in GGRT collections
- » Erosion of creditworthiness in the senior or subordinate lien loan pool

### Key indicators

Exhibit 1

NMFA PPRF Senior Lien	
Size and Diversity	
Size of Portfolio	200
% of Borrowers with less than 1% of the pool	87.5%
% of loans to the top 5 borrowers	28.1%
Amount Outstanding	
Total Bonds Outstanding, including current issuance	\$962.8M
Total Loans Outstanding	\$1.2B
Top Five Participants	
	Percent of Pool
Rio Rancho (City of) NM [GO Aa3]	8.5%
State of NM General Services Dept. [State GO Aa2]	6.1%
Las Cruces (City of) NM [GO Aa2]	6.0%
Santa Fe (City of) NM [NR]	4.1%
Farmington (City of) NM [NR]	3.4%

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

### Detailed credit considerations

#### Loan portfolio: large portfolio of diverse borrowers

The authority's portfolio is large and will remain stable. We do not expect material changes in the composition of either pool. Although there is concentration of the top five largest borrowers in the senior and subordinate lien pools, the vast majority of participants represent less than 1% of outstanding loans. By February 28, 2021, the portfolio is expected to consist of 975 loans, 648 in the senior pool, valued at \$1.2 billion, and 327 in the subordinate pool, valued at \$518.5 million.

The senior lien pool has 200 unique borrowers, with the top five largest representing 28.1% of the portfolio. These include Rio Rancho, State of New Mexico, Las Cruces, Santa Fe and Farmington. Positively, 87.5% of participants represent less than 1% of the total loans

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

outstanding. Pledged revenues consist of general obligation, gross receipt taxes and enterprise revenues. Around 39% of revenues are 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 144 unique borrowers, and the top five represent 31.3% of the pool. These include State of New Mexico (GO Aa2), Santa Fe (NR), Eastern New Mexico Board of Regents (NR), Jicarilla Apache Nation (NR) and Santa Ana Pueblo (NR). Similar to the senior lien, 81.3% 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 48% of revenues are interceptable.

### Underlying credit quality and default tolerance: credit worthiness in senior and subordinate pools are average; GGRT provides high default tolerance

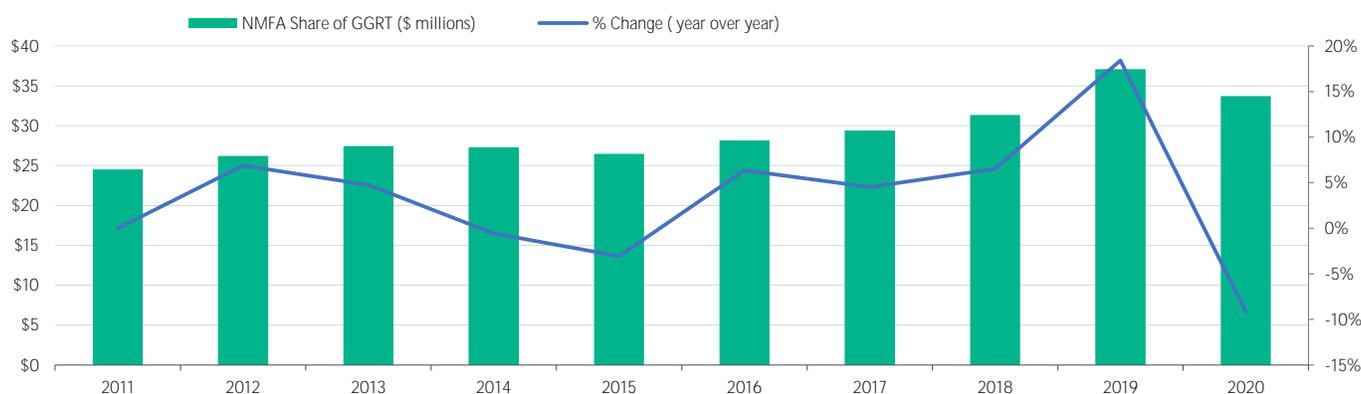
Given the authority's projected cash flows, inclusive of loan agreement revenues and GGRT, default tolerance on both liens is expected to remain high over the near-term. The credit worthiness of the senior lien pool is fairly stable, with the top borrowers representing large governments. The subordinate lien pool has historically included borrowers with more speculative elements. However, in the past two 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 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 14% from its current 41%.

In fiscal 2020, GGRT totaled \$33.7 million, which is a 9.2% decline from prior year's \$37.1 million. However, fiscal 2019's balance included a one-time payment of \$4.8 million to correct a misclassification of receipts. Net of the \$4.8 million, the year-over-year change is 4.3%. Based on collections, GGRT remains largely unaffected by the ongoing pandemic, which further speaks to its stability and resiliency. Based on unaudited receipts for the first six months of fiscal 2021, GGRT is trending 3.4% below prior year's. The authority does not anticipate GGRT to decline below \$32 million based on internal forecasts.

Exhibit 2

### GGRT is fairly stable, and provides significant default tolerance



GGRT collections in fiscal 2019 included a one-time payment. Net of the payment, receipts were \$32.3 million compared to fiscal 2020's \$33.7 million.

Source: Authority's audits; Moody's

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 94%. Without flow-through, it declines to approximately 11%. This is a very conservative scenario as it would imply that the senior lien bonds were in default. In reality, flow-through represents \$40 million on average in additional annual revenues.

Based on projected cash flows, subordinate lien ADS coverage is 1.8 times in fiscal 2021. ADS is less than 3 times through 2029 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. Despite the ongoing pandemic, the state and legislature have not indicated they will sweep funds in fiscal 2021 or onwards.

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 February 28, 2021, will have \$32.9 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.

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 February 28, 2021, the individual reserves are expected to total \$31.9 million for the senior lien and \$32.8 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.

### **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.

### **Debt structure**

The authority has \$962.8 million in outstanding senior lien (including \$39.5 million in new money) and \$419.1 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.

© 2021 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 PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS 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](http://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 JPY125,000 to approximately JPY550,000,000.

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

## CLIENT SERVICES

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