

Rating Action: Moody's assigns Aa2 to NMFA's sub lien bonds, series 2021B

27 May 2021

New York, May 27, 2021 -- Moody's Investors Service has assigned a Aa2 to New Mexico Finance Authority's (NMFA) \$31.52 million in Subordinate Lien Public Project Revolving Fund (PPRF) Revenue Bonds, Series 2021B. Moody's maintains Aa1 and Aa2 rating's on NMFA's \$830 million and \$381.4 million of outstanding senior lien and subordinate lien debt, respectively. The outlook is stable.

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, but there is concentration in top five borrowers, which represent over 30% 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.

RATING OUTLOOK

The stable outlook reflects our expectation that GGRT revenue will remain resilient through periods of economic volatility. GGRT revenues are historically very stable, including during the coronavirus pandemic, and, in combination with loan agreement revenues, 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 loan pools
- Material diversification of the pool participants
- Improvement in GGRT collections

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

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

LEGAL SECURITY

The bonds are secured by and 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 Series 2021B bonds will reimburse 17 projects ranging in size from \$158,000 to \$8.8

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

METHODOLOGY

The principal methodology used in this rating 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.

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