MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades New Mexico Finance Authority's Subordinate Lien PPRF Revenue Bonds to Aa1 from Aa2; outlook stable

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New York, March 01, 2022 -- Moody's Investors Service has upgraded New Mexico Finance Authority's Subordinate Lien PPRF Revenue Bonds to Aa1 from Aa2. Concurrently, Moody's has affirmed the Aa1 rating on the authority's PPRF Senior Lien Revenue Bonds and assigned a Aa1 rating to the $65.6 million Senior Lien Public Project Revolving Fund Revenue Bonds, Series 2022A. Post issuance, the Authority will have $939.1 million in senior lien and $412.7 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 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 recent implementation of a new department to oversee loan credit quality and analysis. The rating incorporates the debt repayment structure of the pool in which bond maturity occurs roughly six years prior to the last loan payoff. The senior lien pool is large and diverse with modest concentration as the five largest borrowers comprise 22% of the pool.

The upgrade of the subordinate lien rating to Aa1 from Aa2 reflects the inherent credit quality of the subordinate lien pool, with additional strength derived from the automatic availability of excess senior lien cashflow post senior lien debt service repayment. Like the senior lien pool, the subordinate pool benefits from 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 average credit quality of the borrower pool. The legally separate and pledged loan agreement revenue of the subordinate lien pool participants is wholly sufficient to meet debt service on the subordinate lien bonds and many of the borrowers in the subordinate lien are also borrowers in the senior lien. The subordinate lien pool is large and diverse with modest concentration as the five largest borrowers comprise 24% of the pool.

Both pledges have satisfactory legal provisions, including individual as well as cross-collateralized debt service reserve funds. The authority has the ability to intercept pledged revenue sufficient to cover more than 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 RATINGS

- 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 RATINGS

- 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 2022A senior lien bonds will be used to finance or refinance 30 projects ranging in size from $181,000 to $12.9 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.

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 http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

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.

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Kenneth Surgenor
Lead Analyst
REGIONAL_SOUTHWEST
Moody's Investors Service, Inc.
Plaza Of The Americas
600 North Pearl St. Suite 2165
Dallas 75201
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Douglas Goldmacher
Additional Contact
REGIONAL_NE
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

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