

**Rating Action: Moody's assigns Aa2 to New Mexico Finance Authority's subordinate lien bonds, ser 2020C-1 & ser 2020C-2**

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New York, August 26, 2020 -- Moody's Investors Service has assigned a Aa2 to New Mexico Finance Authority's \$59.3 million in Subordinate Lien Public Project Revolving Fund (PPRF) Revenue Bonds, Tax-Exempt Series 2020C-1 and \$40.3 million in Subordinate Lien Public Project Revolving Fund Revenue and Refunding Bonds, Taxable Series 2020C-2. We maintain the Aa2 rating on outstanding parity bonds. The outlook is stable.

**RATINGS RATIONALE**

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 30% of the total outstanding debt.

The subordinate lien pledge has satisfactory legal provisions, including a cross-collateralized debt service reserve fund and individual debt service reserve funds. The authority has the ability to intercept (either through Department of Revenue and Taxation, or through other guarantees) pledged revenues of over 70% of annual loan agreement revenues. 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 review of 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. Based on unaudited fiscal 2020 collections, revenues are down by a modest 2.9% year-over-year. Despite the softening, coverage and default tolerance did not materially decline. As such, 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 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, including the Series 2020C Bonds, are special limited obligations of the Finance Authority secured by and payable solely from the Trust Estate, which includes the special revenues and funds of the Finance Authority pledged under the Indenture, including: (i) moneys from the repayment by governmental borrowers of

Loans made or Securities issued to finance a project under the Indenture ("Agreements"); (ii) moneys from the repayment by governmental borrowers to the Finance Authority of Loans made or Securities purchased from moneys in the Public Project Revolving Fund and pledged as "Additional Pledged Loans" under the Indenture; (iii) certain Governmental Gross Receipts Tax revenues and moneys from the repayment to the Finance Authority of certain Loans, to the extent available on June 1 of each year after all obligations of the Finance Authority under the Senior Indenture have been satisfied (together with the moneys described in (ii) in this paragraph, the "Subordinate Lien PPRF Revenues"); (iv) any additional revenues received by the Finance Authority and designated as part of the special revenues and funds pledged under the Indenture pursuant to a Supplemental Indenture or Pledge Notification; and (v) certain funds and accounts created and maintained pursuant to the Indenture.

#### USE OF PROCEEDS

Proceeds from the series 2020C-1 bonds will reimburse 33 loans. Proceeds from the series 2020C-2 bonds will refund, with no extension of maturity, series 2010A-2 and series 2020B-2 for net present value savings.

#### 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.moody.com/researchdocumentcontentpage.aspx?docid=PBM\\_1171420](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1171420) . Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.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.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004)

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