S&P Global Ratings

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Summary:

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

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Credit Profile		
US$59.305 mil sub lien pub proj revolving fd rev bnds ser 2020C-1 due 06/15/2050		
Long Term Rating	AAA/Stable	New
US$40.32 mil sub lien pub proj revolving fd rev and rfdg bnds ser 2020C-2 due 06/15/2040		
Long Term Rating	AAA/Stable	New
New Mexico Fin Auth SRFPOOL (National)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to the New Mexico Finance Authority's (NMFA) series 2020C-1&2 subordinate-lien public project revolving fund (PPRF) revenue and refunding bonds. S&P Global Ratings also affirmed its 'AAA' rating on the authority's previously issued senior- and subordinate-lien bonds. Bond proceeds will reimburse funds for 33 projects made under the PPRF program.

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

Following mobility restrictions and closure of large segments of the economy as a result of COVID-19 and the swift onset of recession, all of S&P Global Ratings' sector outlooks in U.S. public finance are now negative. For long-term municipal pools, the majority of the underlying cash flows that are either pledged for repayment of bonds or guaranteed by the programs originate from U.S. public finance asset classes. While state-sponsored programs benefit from additional overcollateralization and diversity, we believe that ratings on these programs could be negatively affected if either the exceptionally low rate of loan delinquencies at or near 0% that we have typically observed balloons to significant levels for an extended period, or if the state of New Mexico experiences significant reductions in its governmental gross receipts tax (GGRT) revenues. However, the amount of excess cash flows well beyond what is needed to pay debt service on pooled financing bonds acts as a cushion to any downside pressure at this time.

Credit overview

The rating reflects our view of the combination of a very strong enterprise risk profile score, an extremely strong financial risk profile score, and additional positive factors resulting from the following:

- A very strong enterprise risk score, supported by the state's statutory authority for the program;
- An extremely strong financial risk score, due primarily to annual coverage generated from loan repayments and GGRT, and separate reserves pledged to each lien, supported by strong financial management policies and

practices; and

- The application of an upward adjustment from what would otherwise be a lower rating to account for exceptionally low default and delinquency rates, coupled with the ability of cash flows, including pledged reserves, to withstand large reductions in pledged revenues in order to achieve the 'AAA' rating.

The stable outlook reflects our expectation for continued stable borrower credit quality and timely borrower loan repayment, coupled with steady GGRT revenues. Neither the enterprise risk nor the financial risk profile scores are likely to change, given our opinion of the stability of revenues; therefore, we do not anticipate a negative rating action in the short or medium term.

Stable Outlook

Downside scenario

Should there be a sizable reduction in overcollateralization provided by GGRT, or if management begins to experience either delinquent or defaulted loan repayments, then we would likely lower the ratings.

Credit Opinion

The very strong enterprise risk score is the result of a low industry risk score, which is characteristic of all public finance long-term municipal pool programs, and a very strong market position, reflecting the enabling legislation that created the authority and the current management structure, along with ongoing support provided by the state through the disbursements of its GGRT. In 1992, the New Mexico legislature established the authority, which coordinates the planning and financing of state and local public projects. The authority is composed of 11 members, who serve as the governing body. An executive committee provides oversight and direction relating to the authority's operations.

The extremely strong financial risk profile results from the program's ability to absorb a very high level of defaults. This is the result of ongoing GGRT revenue and the availability of about $33 million in the common debt service reserve fund, as well as $33 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. The excess coverage is then available to cover subordinate-lien debt service, although annual subordinate-lien loan revenue alone is projected to provide just over 1.0x coverage of subordinate-lien debt service in the early years.

About $322 million of subordinate-lien bonds and $963 million of senior-lien bonds are outstanding. The entire senior- and subordinate-lien loan portfolio consists of 957 loans to about 235 borrowers with aggregate loan balances outstanding of $1.66 billion. The leading borrowers, in terms of loan amount outstanding, include the state's General Services Department ($137 million, 8%), Rio Rancho ($102 million, 6%), Santa Fe ($82 million, 5%), Las Cruces ($73 million, 4%), and Jicarilla Apache Nation ($53 million, 3%). There have been no defaults in the program's history. As a further enhancement, about 70% of the loan payments are subject to an intercept of state funds.

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 2020 reflect a 4.4% normalized growth rate (controlling for a one-time adjustment that occurred in 2019) to about $33.7 million, although an additional one-time adjustment of $4.8 million was also received. Under a no-default scenario, these revenues are passed through the PPRF program for other authority programs. Management is using a $30 million target for the 2021 fiscal year, which we believe provides adequate cushion for significant declines without negatively affecting the rating.

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. Additionally, approved investment guidelines match the state's investment policies.

Bond provisions

Trust estate revenues secure the senior-lien bonds, and include the authority's 75% portion of statewide GGRT collections and total payments under borrower loan agreements. The subordinate-lien bonds have a subordinate pledge of the trust estate revenues, plus specific borrower loan payments related to the subordinate-lien bonds.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of August 21, 2020)		
New Mexico Fin Auth sr lien pub proj revolving fund rev bnds		
Long Term Rating	AAA/Stable	Affirmed
New Mexico Fin Auth SRFPOOL sr lien		
Long Term Rating	AAA/Stable	Affirmed
New Mexico Fin Auth SRFPOOL subord lien		
Long Term Rating	AAA/Stable	Affirmed
New Mexico Fin Auth SRFPOOL subord lien		
Long Term Rating	AAA/Stable	Affirmed
New Mexico Fin Auth SRFPOOL subord lien		
Long Term Rating	AAA/Stable	Affirmed
New Mexico Fin Auth SRFPOOL (AMBAC)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.