

RatingsDirect®

Summary:

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

Primary Credit Analyst:

Scott D Garrigan, New York (1) 312-233-7014; scott.garrigan@spglobal.com

Secondary Contact:

Chloe S Weil, San Francisco (1) 415-371-5026; chloe.weil@spglobal.com

Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

Summary:

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

Credit Profile

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

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.