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Ratings

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

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**Summary:**

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| Credit Profile | | |
|---|---|---|
| US$65.57 mil senior lien pub proj revolving fd rev bnds ser 2022A due 06/01/2041 | | |
| *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 2022A senior-lien public project revolving fund (PPRF) revenue and refunding bonds, to be issued at about $65.6 million. S&P Global Ratings also affirmed its 'AAA' rating on the authority's previously issued senior- and subordinate-lien bonds. The outlook is stable.

Bond proceeds will reimburse funds for 30 projects made under the PPRF program.

### Credit overview

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

- The very strong enterprise risk profile, supported by the state's statutory authority for the program;
- The extremely strong financial risk profile, due primarily to annual coverage generated from loan repayments and governmental gross receipts taxes (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.

Due to cash flows demonstrating sufficiency via the same stress tests performed on the senior lien, the subordinate lien does not require a rating differential for subordination.

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 that the U.S. sovereign rating is 'AA+'.

The stable outlook reflects our expectation for continued stable borrower credit quality and timely borrower loan repayment, coupled with steady GGRT revenues.

## 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, we would likely lower the rating.

## Credit Opinion

### Enterprise risk

The very strong enterprise risk profile 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. Having been established by the state legislature in 1992, the authority coordinates the planning and financing of state and local public projects; we believe this longevity is further evidence of a sound program. The authority is composed of 11 members, who serve as the governing body, with an executive committee providing operational oversight and direction.

### Financial risk

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.

Following this issuance, about $1.35 billion of senior- and subordinate-lien bonds will be outstanding. The loan portfolio consists of about 1,030 loans to about 260 borrowers with aggregate loan balances outstanding of $1.73 billion. The top five borrowers by loan amount outstanding are: the state's General Services Department ($132 million, 8%), Rio Rancho ($95 million, 6%), Santa Fe ($71 million, 5%), Las Cruces ($68 million, 4%), and Farmington ($52 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 $33.8 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 $33 million target for the 2022 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. In addition, 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.

| Ratings Detail (As Of March 1, 2022) | | |
|---|---|---|
| New Mexico Fin Auth sr lien pub rev fund | | |
| *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 |
| New Mexico Fin Auth WS | | |
| *Long Term Rating* | AAA/Stable | Affirmed |

Many issues are enhanced by bond insurance.