New Mexico Finance Authority
State Transportation Commission

Issuer: New Mexico Finance Authority		
Affirmed	**Ratings**	**Outlook**
State Transportation Revenue Bonds (State Transportation Commission – Senior Lien)	AAA	Stable
State Transportation Revenue Bonds (State Transportation Commission – Subordinate Lien)	AAA	Stable

Methodology

- U.S. Special Tax Revenue Bond Rating Methodology
- ESG Global Rating Methodology

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Rating Summary: The rating on the State Transportation Refunding Revenue Bonds (State Transportation Commission – Senior Lien) reflects the breadth and stability of Pledged Revenues, which support ample coverage of debt service. The exceptionally strong legal protections of the Indenture, together with constitutional non-impairment provisions in place while obligations remain outstanding, further inform the rating.

The $168.205 million outstanding Senior Lien Bonds are issued by the New Mexico Finance Authority at the direction of the State Transportation Commission to fund GARVEE Projects eligible for Federal Funding. The Senior Lien Bonds are payable from i) State Revenues, which include a) the State's collection of an array of transportation-related excise taxes and fees received by the State Department of Transportation (DOT) and legally required to be paid into the State Road Fund; and b) taxes and fees legally required to be paid into the Highway Infrastructure Fund; and iii) Federal Revenues, which include federal funds received by DOT under several programs broadly referred to as the Federal Aid Highway Program (FAHP) that are paid into the State Road Fund. Collectively these amounts, together with interest thereon, constitute the Pledged Revenues.

The Senior Lien Bonds are issued by the New Mexico Finance Authority on behalf of the New Mexico Department of Transportation (the Department). They are payable from and secured by a lien on Pledged Revenues that is senior to the lien on $705.105 million outstanding Subordinate Lien Bonds, and a $50 million revolving taxable line of credit on parity with the Subordinate Lien Bonds. KBRA assigns the same rating to the both the Senior Lien Bonds and the Subordinate Lien Bonds. No further issuance of Senior Lien or Subordinate Lien Bonds is currently authorized, except for refunding purposes. All outstanding debt is scheduled to mature by 2032. There is no debt service reserve fund.

The application of the Pledged Revenues for payment of debt service is not dependent upon annual appropriation. Furthermore, the State Constitution prohibits a reduction in the rate or allocation of Pledged Revenues or their diversion to other purposes until the Senior Lien Bonds and Subordinate Lien Bonds are paid in full.

State Revenues, which comprised approximately 52% of FY 2022 Pledged Revenues, consist specifically of the portions of the gasoline tax, special fuel tax (primarily diesel), weight/distance tax, motor vehicle registration fees, vehicle transaction taxes/ fees, driver license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, and motor vehicle excise taxes required to be paid into the State Road Fund, plus leased vehicle gross receipts tax and tire recycling fees paid into the Highway Infrastructure Fund.

Federal Revenues make up approximately 47.5% of FY 2022 Pledged Revenues. Unlike most other federal programs, the contract authority of the Federal Highway Administration – which is distributed to state departments of transportation through a formula program - is not at risk during the annual appropriations process. Instead, federal funding to states under the FAHP generally encompasses a multi-year authorization by the U.S. Congress. The Infrastructure Investment and Jobs Act (the IIJA) signed into law on November 15, 2021 reauthorized the FAHP through September 30, 2026, re-establishing the Federal Highway Administration's contract authority for a multi-year period and enabling the continuation of FAHP funding to state departments of transportation.

The compound annual growth rate (CAGR) of Pledged Revenues was a robust 5.39% from FY 2018 through FY 2022, exceeding the rate of inflation. Though certain excise tax components of State Revenues experienced pandemic related volatility in FY 2020, overall Pledged Revenues remained stable. Since FY 2019, State Road Fund collections have included a portion of the State's motor vehicle excise tax. In FY 2022, the distribution of this portion of the motor vehicle excise tax to the State Road Fund totaled $56.49 million, up from $7.49 million in FY 2021, reflecting the first year of an increase in the distribution to the State Road Fund. Going forward, motor vehicle excise taxes are estimated to contribute approximately $60 million annually to the State Road Fund.

New Mexico produced roughly 11.8% of the nation's crude oil in 2021, making it the second-largest oil producing state after Texas. Other drivers of the State economy include military installations, tourism, agriculture, mining, and more recently, semi-conductor manufacturing. New Mexico's annual unemployment rate has exceeded the national rate since 2014, mostly due to weakness in the energy sector. However, with the strong recovery in crude oil prices since the third quarter of 2020, New Mexico's unemployment levels are presently equal to regional and national averages. Over the longer term, reduced demand for fossil fuels, combined with technological improvements including hydraulic fracturing and horizontal drilling that permit increased production with fewer workers, are expected to negatively impact job growth in the sector.

FY 2022 Pledged Revenues of $1.025 billion provided solid 5.29x coverage of maximum annual debt service on Senior Lien and Subordinate Lien Bonds. KBRA applied a stress case analysis that assumes an overall reduction in Pledged Revenues of approximately 12%, which is far more severe than historical experience. Resultant MADS coverage on Senior and Subordinate debt remains strong at 4.64x under this assumed stress case.

The Stable Outlook reflects the favorable coverage of all outstanding Senior and Subordinate Lien Bonds from Pledged Revenues. The lack of additional bond authorization lends further stability to the outlook.

Key Credit Considerations

The rating was affirmed because of the following key credit considerations:

Credit Positives

- Based on FY 2022 Pledged Revenues, projected Senior Lien MADS coverage does not fall below 15.9x (in FY 2027), and projected aggregate Senior and Subordinate Lien MADS coverage does not fall below 5.29x (in FY 2024).
- Debt amortization is rapid, with all bonds fully amortized by 2032.
- The Indenture's 3.5x Senior Lien and 3.0x Subordinate Lien Additional Bonds Test provide strong protection against overleveraging. Furthermore, no additional Senior Lien or Subordinate Lien debt issuance is authorized under the Act, other than refunding issuance.

Credit Challenges

- The State's economic dependence upon the energy sector may present longer-term vulnerabilities.
- State wealth levels are below the national average.
- The bonds are subject to the periodic risk of non-reauthorization of FAHP funding. This risk is mitigated, in KBRA's view, by the strength and stability of the state revenues component of Pledged Revenues.

Rating Sensitivities

▪ N/A	+
▪ Pronounced decline in the collection of Pledged Revenues and resultant coverage levels.	-

Rating Highlights		
Total Pledged Revenues, FY 2022	**$**	**1,025,370,000**
MADS, Senior Lien		64,449,000
Senior Lien MADS coverage (x)		15.91
MADS, Subordinate Lien		174,953,300
Subordinate Lien MADS Coverage (x)		5.86
MADS, Senior and Subordinate Lien		193,997,800
Senior and Subordinate Lien MADS Coverage (x)		5.29
State Road Fund Revenues, FY 2022	**$**	**459,833,000**
Senior Lien MADS Coverage from State Road Fund Revenues Only (x)		7.13
Subordinate Lien MADS Coverage from State Road Fund Revenues Only (x)		2.63
Senior and Subordinate Lien MADS Coverage from State Road Fund Revenues Only (x)		2.37
State population growth (10-Yr CAGR, 2011-2021)		0.16%
State per capita income as % of U.S., 2021		78.4%
State Unemployment Rate, January 2023		3.9%
U.S. Unemployment Rate, January 2023		3.9%

Rating Determinants (RD)	Senior	Subordinate
1. Legal Framework	AAA	AAA
2. Nature of Special Tax Revenues	AAA	AAA
3. Economic Base and Demographics	A+	A+
4. Revenue Analysis	AAA	AAA
5. Coverage and Bond Structure	AAA	AAA

A detailed discussion of Rating Determinants 1-5 and ESG Management can be found in prior KBRA reports, the most recent of which is dated March 24, 2022.

RD 2: Nature of Special Tax Revenues

Pledged Revenues consist of State and Federal Revenues. State Revenues (Figure 1) include portions of the statewide transportation-related taxes and fees collected by the State and required by State law to be paid into the State Road Fund, plus interest on those amounts, as well as gross receipts taxes on leased vehicles and tire recycling fees that are required by State law to be paid into the Highway Infrastructure Fund, plus interest on those amounts.

State Revenues

Figure 1

State Revenues - State Road Fund		
Revenue Source	**Description**	**CAGR (Compound Annual Growth Rate) 2012-2022**
Gasoline Excise Tax	The Gasoline Tax Act imposes a tax of 17 cents per gallon on gasoline received in the State. Approximately ¾ of the tax is deposited into the State Road Fund	0.90%
Special Fuel Excise Tax	The Special Fuels Supplier Tax Act imposes the tax on special fuels which was increased to 21 cents per gallon from 18 cents per gallon, effective June 30, 2004. The State Road Fund receives 19 cents of the 21 cent tax	4.01%
Weight Distance Tax	The Weight Distance Tax Act imposes a tax on motor vehicles weighing 26,001 pounds or more. Effective July 1, 2004, the tax increased by approximately 38%	3.76%
Motor Vehicle Registration Fees	The share of motor vehicle fees distributed to the State Road Fund increased from 66.54% to 74.65% effective March 1, 2004	1.13%
Motor Vehicle Excise Tax	Distribution of motor vehicle excise taxes to the State Road Fund was approved in 2018, effective FY 2019. The distribution to the State Road Fund was subsequently increased, effective FY 2022. Motor Vehicle Excise Tax distributions grew from zero in 2018 to $56.5 million in FY 2022.	N/A

State Revenues - Highway Infrastructure Fund		
Revenue Source	**Description**	**CAGR (Compound Annual Growth Rate) 2012-2022**
Lease Vehicle Gross Receipts Tax	An excise tax of 5% of the gross receipts from vehicle leasing. 75% of collections are deposited into the Highway Infrastructure Fund and the remaining 25% to the Local Government Road Fund	2.18%
Tire Recycling Fees	The Highway Infrastructure Fund's portion of the fee is 50 cents per year for motorcycles, one dollar per year for passenger vehicles and trucks under 26,000 pounds, and 25 cents per wheel in contact with the ground for buses	0.54%

Source: New Mexico Department of Transportation

Federal Revenues

Federal Revenues are proceeds received by the Department pursuant to Title 23 of the U.S. Code that are paid into the State Road Fund or as may be authorized by federal or state law to be pledged for payment of debt service on the State Transportation Revenue Bonds. The Federal-Aid Highway Program, (FAHP), most recently reauthorized through September 30, 2026, under the Infrastructure Investment and Jobs Act (the IIJA or Bipartisan Infrastructure Law), includes nine funding programs through which highway funds are apportioned to states. FAHP funds authorized to be apportioned to the states under the IIJA total $52.4 billion in federal fiscal year 2022.

Administered by the Federal Highway Administration of the U.S. Department of Transportation (the FHWA), the FAHP is financed from transportation user-related revenues deposited in the Federal Highway Trust Fund. The largest source of FAHP revenues is derived from federal excise taxes on motor fuels. This revenue source is subject to fluctuations in vehicle miles traveled.

Federal Aid Highway Program Funding Process

Contract Authority

The FAHP funding process includes a multi-year authorization by the U.S. Congress. Unlike most federal programs that operate using appropriated budget authority, with funds authorized but unavailable until passage of an appropriations act, FAHP programs operate with "contract authority", which makes authorized amounts available for obligation without further legislative action. Contract authority allows states to know how much federal funding they will receive when the authorization act is enacted. While an annual Congressional appropriations act is required to obligate funds for eligible, approved FAHP projects, Federal Highway Trust Fund revenues continue to be distributed to state DOTs through formula programs even if Congress fails to pass an annual appropriation bill.

Obligation Limitation

FAHP revenues are used by congressional appropriation committees to balance the annual level of highway spending with other federal budget priorities. While Congress may cap the amount of authorized funding that may be obligated during a specified period, such obligation limitation would not affect the apportionment or allocation of FAHP funds, only the rate at which they can be used. Contract authority is not at risk during the annual appropriations process. KBRA considers the existence of FHWA contract authority, the dedicated revenues deposited in Federal Highway Trust Fund, and the general availability of sufficient unobligated balances at the State level, as adequate mitigants against the risk of a lapse in the enactment of reauthorization legislation by Congress.

Memorandum of Understanding

A memorandum of understanding (MOU) between the Department and the New Mexico Division of the FHWA governs the oversight of debt service relating to the finance plan for GARVEE projects funded by the State Transportation Revenue Bonds. The MOU requires the Department to annually certify that federal-aid eligible highway program funded debt service payments billed to FHWA for reimbursement do not exceed $131 million.

RD 3: Economic Base and Demographics

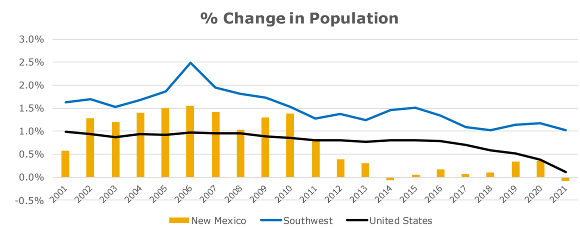
The State of New Mexico is located in the Southwest region of the U.S. With a population of 2.12 million it is the 37th largest state by population and the 5th largest by land area. The State is the 2nd largest producer of crude oil (behind Texas) and 7th largest producer of natural gas in the US. Major petroleum and natural gas deposits are located in the Permian Basin in southeast New Mexico and in the San Juan Basin in the northwest. Other major industries include semi-conductor manufacturing, tourism, agriculture-agribusiness, government, and mining. New Mexico also has a large U.S. military presence. It is home to three air force bases, a military testing range, and an army proving ground and maneuver range.

Demographics

State population growth has trailed the domestic average over the last decade and has slowed since 2010. Population growth increased at a 0.16% 10-Year CAGR compared to the Southwest region and nation overall at 1.24% and 0.63%, respectively.

New Mexico's wealth and income levels have historically trended below regional and national averages. New Mexico's 2021 personal income per capita of $50,311 represents 78.4% of the U.S. average. The poverty level of 18.4% trends higher than both the region and nation at 15.3% and 12.8%, respectively.

Figure 2



	2001	2011	2021	% Δ 2011 to 2021	10-Year CAGR (2021)
New Mexico	1,831,690	2,082,110	2,115,877	1.6%	0.16%
Southwest	31,891,889	37,945,350	42,906,773	13.1%	1.24%
United States	284,968,955	311,841,632	331,893,745	6.4%	0.63%

Source: U.S. Bureau of Economic Analysis

Employment

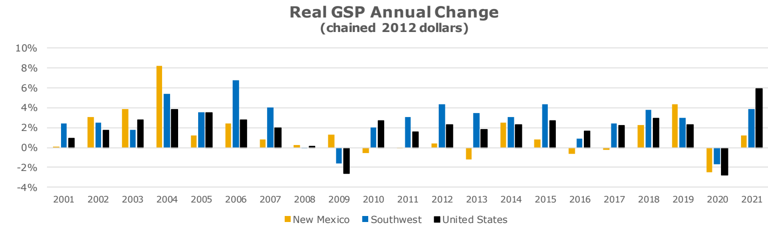
Like other states, New Mexico has experienced a rebound in employment following the COVID-19 pandemic. Employment declined by 5.5% YoY in 2020 but has since fully recovered to 100% of 2019 pre-pandemic levels. Since 2014, the State's unemployment rate has consistently trended higher than both the region and nation. The onset of the pandemic in March 2020 caused the unemployment rate to surge from 5% in 2019 to 7.9% in 2020. The strong recovery in crude oil prices that began in late 2020 has contributed to a favorable recovery in the State's unemployment rate, which had fallen by January 2023 to just 3.9%, matching that of the Southwest region and the nation.

The government sector (including military installations) is the largest component of the State's employment base (at 24.9%) and provides a pool of relatively stable jobs. The oil and gas extraction and mining industries employed approximately 2% of state workers, a relatively high concentration of the workforce compared to other states.

Economic Output Performance

New Mexico's real (inflation adjusted) GSP experienced a pronounced decline and weaker recovery following the Great Recession than the region and U.S. overall, contracting in five of the last twelve years. In KBRA's view, the decline in GSP is influenced by oil and natural gas prices. The energy sector has accounted for, on average, 12.2% of GSP since 2007. Over the long term, a reduction in demand for fossil fuels, combined with technological improvements including hydraulic fracturing and horizontal drilling that permit increased production with fewer workers, could have a negative impact on GSP and job growth.

Figure 3



($ in Millions)	2001	2011	2021	% Δ 2011 to 2021	10-Year CAGR (2021)
New Mexico	71,731	87,593	93,625	6.9%	0.7%
Southwest	1,433,412	1,873,580	2,452,810	30.9%	2.7%
United States	13,263,417	15,891,534	19,609,812	23.4%	2.1%

Source: U.S. Bureau of Economic Analysis

RD 4: Revenue Analysis

Figure 4 shows historical and estimated collections for individual Pledged Revenue components. Pledged revenues, which are roughly evenly divided between state and federal components have exhibited general stability throughout economic cycles. State revenues, which include primarily amounts deposited to State Road Fund, provide a degree of protection against the potential for non-reauthorization of future federal funding, in KBRA's view.

The strong 5.93% compound annual rate of growth (CAGR) in Pledged Revenues from FY 2018 through FY2022 exceeded the rate of inflation prior to the pandemic. Pledged revenues remained stable throughout the pandemic, as a slight decline in Gasoline Tax collections related to disruptions in vehicle trips during the crisis was offset by an increase in the consumption of diesel fuel. New Mexico serves as an important route for long haul truck transportation, which was relatively less impacted by the pandemic.

Chapter 3, New Mexico Laws of 2018 (2nd Special Session) provided for the distribution, effective July 1, 2018, of a portion of the State's Motor Vehicle Excise Tax to the State Road Fund. In FY 2021, such distribution yielded approximately $7.49 million. Subsequently, Chapter 270, New Mexico Laws of 2019 (1st Special Session) increased the Motor Vehicle Excise Tax Distribution to the State Road Fund, effective July 1, 2021 (FY 2022), resulting in a $56.5 million distribution in FY 2022. The Department of Transportation estimates further growth in Motor Vehicle Excise Tax revenues over the 2023-2026 forecast period.

Figure 4

New Mexico Department of Transportation
Actual and Estimated Pledged Revenues ($ 000)

	2018	Δ YOY (%)	2019	Δ YOY (%)	2020	Δ YOY (%)	2021	Δ YOY (%)	2022	Δ YOY (%)	2023 Estimate	Δ YOY (%)	2024 Estimate	Δ YOY (%)	2025 Estimate	Δ YOY (%)	2026 Estimate (3)
State Road Fund																	
Gasoline Tax[1]	$116,147	1.0%	$117,365	-4.8%	$111,778	4.0%	$116,278	-1.3%	$114,815	1.3%	$116,300	-1.1%	$115,000	-0.1%	$114,900	-0.4%	$114,400
Special Fuel Tax[1]	108,141	4.8%	113,383	4.3%	118,279	3.2%	122,092	12.1%	136,854	-0.4%	136,300	-0.1%	136,100	2.6%	139,600	2.3%	142,800
Weight/Distance[1]	86,278	9.0%	94,016	-1.9%	92,251	8.1%	99,685	5.6%	105,312	1.1%	106,500	1.2%	107,800	2.9%	110,900	2.9%	114,100
Trip Tax	6,124	10.4%	6,758	-7.9%	6,227	29.2%	8,044	17.9%	9,480	-17.6%	7,810	7.8%	8,420	-1.2%	8,320	-1.1%	8,230
Vehicle Registration[1]	80,204	2.8%	82,453	-3.8%	79,312	7.0%	84,863	-0.3%	84,632	0.4%	85,000	1.1%	85,900	-0.1%	85,850	0.7%	86,450
Vehicle Transaction[1]	1,153	-0.4%	1,148	-12.6%	1,003	12.0%	1,123	-2.0%	1,101	-0.1%	1,100	0.9%	1,110	0.9%	1,120	0.9%	1,130
Driver's License[1]	4,191	-1.8%	4,117	-2.2%	4,028	14.9%	4,629	-1.3%	4,571	0.2%	4,580	0.9%	4,620	0.8%	4,655	-1.2%	4,600
Oversize/License[1]	6,412	12.7%	7,225	-0.7%	7,173	-2.0%	7,028	3.1%	7,249	0.7%	7,300	2.7%	7,500	1.5%	7,610	0.9%	7,680
Public Regulatory Commission Fees	3,359	75.4%	5,891	-50.2%	2,933	25.7%	3,686	-8.7%	3,364	-1.9%	3,300	0.0%	3,300	0.0%	3,300	0.0%	3,300
MVD Miscellaneous Fees	6,322	1.3%	6,407	-14.0%	5,510	-17.0%	4,571	18.7%	5,424	13.8%	6,170	0.5%	6,200	1.6%	6,300	0.0%	6,300
Motor Vehicle Excise Tax[1]	0	-	6,562	-9.6%	5,934	26.2%	7,489	654.3%	56,492	5.1%	59,350	1.2%	60,080	1.9%	61,210	3.7%	63,480
Road Fund Interest	1,037	307.1%	4,222	49.6%	6,316	-94.5%	345	51.3%	522	570.5%	3,500	-42.9%	2,000	-50.0%	1,000	0.0%	1,000
Total State Road Fund	**419,368**	7.2%	**449,547**	-2.0%	**440,744**	4.3%	**459,833**	15.2%	**529,816**	1.4%	**537,210**	0.2%	**538,030**	1.3%	**544,765**	1.6%	**553,470**
Highway Infrastructure Fund																	
Lease Vehicle Gross Receipts	6,220	8.7%	6,760	-20.9%	5,345	-22.9%	4,120	72.7%	7,114	5.6%	7,510	0.5%	7,550	2.3%	7,720	1.9%	7,870
Tire Recycling Fees	1,878	1.7%	1,910	-3.2%	1,849	7.9%	1,995	-3.2%	1,932	-0.6%	1,920	0.5%	1,930	0.3%	1,935	0.3%	1,940
Interest	13	469.2%	74	27.0%	94	-95.7%	4	75.0%	7	757.1%	60	-41.7%	35	-71.4%	10	0.0%	10
Total Highway Infrastructure Fund	**8,111**	7.8%	**8,744**	-16.7%	**7,288**	-16.0%	**6,119**	47.9%	**9,053**	4.8%	**9,490**	0.3%	**9,515**	1.6%	**9,665**	1.6%	**9,820**
Federal Funds																	
	386,843	2.5%	**396,589**	2.0%	**404,543**	-0.6%	**402,013**	21.0%	**486,501**	2.0%	**496,232**	2.0%	**506,157**	2.0%	**516,279**	0.0%	**516,279**
Total Pledged Revenues	**814,322**	5.0%	**854,880**	-0.3%	**852,575**	1.8%	**867,965**	18.1%	**1,025,370**	1.7%	**1,042,932**	1.0%	**1,053,702**	1.6%	**1,070,709**	0.8%	**1,079,569**

[1] Gasoline Tax, Special Fuel Excise Tax, Weight Distance Tax, Oversize permit fees, Vehicle Registration and Motor Vehicle Excise Tax estimates are projected using statistical models with national and state economic and demographic input variables. Vehicle Transaction and Driver Licenses Fees estimates are projected using time series models and trend analysis. Other taxes and fees are generally forecasted using trend analysis. Estimated federal funds in future years approximate multi-year average under the FAST Act and are assumed at a level amount.

Source: New Mexico Department of Transportation

RD 5: Coverage and Bond Structure

Outstanding Senior Lien and Subordinate Lien Bonds total $873.31 million. The conservatively structured Senior Lien Bonds fully mature by FY 2027, and the Subordinate Lien Bonds fully mature by 2032. A $50 million three-year line of credit for potential liabilities associated with NMDOT's acquisition of the Railrunner commuter rail line is on parity with the Subordinate Lien Bonds. The line of credit can only be drawn upon for extraordinary, non-operational purposes.

Projected MADS coverage of Senior Lien debt service from FY 2022 Pledged Revenues is 19.12x in FY 2023 and remains exceptionally high through the Bonds' final maturity in 2027. Projected MADS coverage of Subordinate Lien debt from FY 2022 Pledged Revenues does not fall below 5.86x (in FY 2024) and projected MADS coverage of combined Senior and Subordinate debt does not fall below 5.29x (in FY 2024).

Figure 5

Projected Debt Service Coverage from FY 2022 Pledged Revenues ($000)							
Fiscal Year	FY 2022 Revenues	Senior Lien Debt Service	Subordinate Lien Debt Service	Senior and Subordinate Debt Service	Senior Lien Coverage	Subordinate Lien Coverage	Senior and Subordinate Coverage
2023	1,025,370	53,634	120,890	174,524	19.12	8.48	5.88
2024	1,025,370	19,045	174,953	193,998	53.84	5.86	5.29
2025	1,025,370	33,081	77,945	111,025	31.00	13.16	9.24
2026	1,025,370	25,613	85,406	111,019	40.03	12.01	9.24
2027	1,025,370	64,449	57,854	122,303	15.91	17.72	8.38
2028	1,025,370	-	111,584	111,584		9.19	9.19
2029	1,025,370	-	111,587	111,587		9.19	9.19
2030	1,025,370	-	111,586	111,586		9.19	9.19
2031	1,025,370	-	9,103	9,103		112.64	112.64
2032	1,025,370	-	7,161	7,161		143.19	143.19
Total		$ 195,820	$ 868,069	$ 1,063,889			

Source: New Mexico Department of Transportation

Stress Case

To determine the impact on MADS coverage of a decline in Pledged Revenues, KBRA's stress case reduces FY 2022 Pledged Revenues of $1.025 billion by approximately 12%, as follows:

- Actual FY 2022 State Road Fund receipts are assumed to be reduced by 5%, which is more than twice the 2.0% pandemic-related decline experienced in FY 2020.
- Actual FY 2022 Highway Infrastructure Fund revenues, which suffered more severe pandemic impacts than State Road Fund receipts in both FY 2020 and FY 2021 are assumed to be reduced by an additional 10%.
- Actual FY 2022 Federal Funds are assumed to be reduced by 20% or twice the level of the most severe YoY decline, experienced in FY 2014.

Under these stress case assumptions, Aggregate MADS coverage of Senior and Subordinate Lien Bonds from Pledged Revenues remains robust at 4.64x. KBRA further stressed the analysis by assuming the same reduction in State revenues discussed above, combined with a lack of receipt of any federal revenues. Aggregate MADS coverage of Senior and Subordinate Bonds under these assumptions remains above 2.60x.

Figure 6

Stress Test Coverage of Senior and Subordinate Lien MADS ($ in 000)			
	Actual FY 2022	Stress Case	Stress Adjustments
Pledged Revenues			
State Road Fund	$ 529,816	$ 503,325	FY 2022 less 5%
Highway Infrastructure Fund	9,053	8,148	FY 2022 less 10%
Federal Revenues	486,501	389,201	FY 2022 less 20%
Total Pledged Revenues	1,025,370	900,674	
Projected Senior and Sub MADS, 2024	$ 193,998	$ 193,998	
Pledged Revenues MADS coverage (X)	5.29	4.64	
State Revenues Only MADS coverage (X)	2.78	2.64	

Bankruptcy Risk Assessment

KBRA has consulted outside counsel on bankruptcy and legal matters and the following represents our understanding of the material bankruptcy and legal issues relevant to the Authority.

To be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code (Chapter 9), a local governmental entity must, among other things, qualify under the definition of "municipality" in the Bankruptcy Code, and must also be specifically authorized to file a bankruptcy petition by the State in which it is located. The Authority is a public body politic and corporate that is organized and existing under state law, and thus is a "municipality" as defined under the Bankruptcy Code. As to authorization, New Mexico does not provide the required specific authorization for its government entities to file a Chapter 9 petition. That said, state law could be amended generally, or specific to the Authority, to permit a filing under Chapter 9 by the Authority.

If the Authority were to file a petition commencing a Chapter 9 proceeding, Chapter 9 provides for post-petition recognition of (i) a security interest represented by a pledge of specific special tax revenues or municipal enterprise revenues (each "special revenues") and also (ii) a statutory lien on revenues pledged for government obligations. By contrast, the pledge of general taxes, fees or other general revenues for obligations of a government body is not recognized as a security interest or lien that survives the filing of a petition under Chapter 9.

The Pledged Revenues pledged to pay the Bonds are defined by the Indenture to mean, collectively, State Revenues and Federal Revenues. (1) "State Revenues" are defined as (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, driver's license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight/distance taxes, motor vehicle registration fees, and motor vehicle excise taxes (to the extent authorized to be paid into the State Road Fund), in each case that are required by law to be paid into the State Road Fund, and interest on amounts in the State Road Fund; (ii) proceeds of the collection of leased vehicle gross receipts taxes and tire recycling fees in each case that are required by law to be paid into the Highway Infrastructure Fund and interest on amounts in the Highway Infrastructure Fund; and (iii) such additional moneys as may in the future be authorized to be (and are) pledged by the Finance Authority as security for Obligations (as defined in the Indenture) pursuant to a Supplemental Indenture. (2) "Federal Revenues" are defined to mean proceeds from federal aid revenues received by or on behalf of, or available to the Department pursuant to federal law, not otherwise obligated by federal or state law, that are paid into the State Road Fund or as may be authorized or permitted by federal or state law to be pledged to be (and are) pledged by the Authority as security for Obligations pursuant to a Supplemental Indenture.

The Authority does not contend that the pledge of the Pledged Revenues constitutes a special revenues lien or a statutory lien.

KBRA has consulted outside counsel, and is informed that because (a) the funds pledged to pay the Bonds are not from a separate, dedicated source of revenues that meets the definition of "special revenues" under Chapter 9, and (b) there is no statutory lien imposed on the tax revenues pledged to pay the Bonds, therefore holders of the Bonds would likely be treated as unsecured creditors of the Authority in a Chapter 9 proceeding of the Authority.

KBRA is informed that, under New Mexico state law, bondholders receive certain protections provided for transportation bonds.

State law provides that no income earned on the State Road Fund may be transferred to another fund. Further, distributions from the State Road Fund may be used only for maintenance, construction and improvement of state transportation projects and to meet federal allotments under federal law, but the State Treasurer must set aside sufficient money from the State Road Fund each year to pay the principal of and interest due each year on state transportation revenue bonds issued based on future collection of revenues attributable to the State Road Fund.

In addition, KBRA is informed, the New Mexico Constitution and state statutes provide additional protection. The New Mexico Constitution prohibits the enactment of any law that would decrease the amount of the annual revenues pledged for the payment of state highway indebtedness or which would divert any of such revenues to any other purpose so long as any such indebtedness remains unpaid. Also, New Mexico statutory law provides that any law authorizing the imposition or distribution of taxes or fees paid into the State Road Fund or the Highway Infrastructure Fund, or that affects those taxes and fees, shall not be amended or repealed or otherwise directly or indirectly modified so as to impair any outstanding bonds secured by a pledge of revenues from those taxes and fees paid into the State Road Fund or the Highway Infrastructure Fund, unless the bonds have been discharged in full or provisions have been made for a full discharge. In addition, while any bonds issued by the Authority (under the state law authorizing the Bonds) remain outstanding, the powers or duties of the State Transportation Commission or the Authority shall not be diminished or impaired in any manner that will affect adversely the interests and rights of the holders of such bonds.

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found here. Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer- specific ESG issues but our analysis is often anchored around three core topics: climate change with particular focus on greenhouse gas emissions, stakeholder preferences, and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can affect financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can affect the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers regardless of size and industry.

A discussion of ESG Management relating to the New Mexico DOT is included in KBRA's report dated March 24, 2022.