

New Mexico Finance Authority State Transportation Refunding Revenue Bonds (State Transportation Commission – Senior Lien), Series 2024A

Issuer: New Mexico Finance Authority		
Assigned	Ratings	Outlook
State Transportation Refunding Revenue Bonds (State Transportation Commission – Senior Lien), Series 2024A	AAA	Stable
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

Rating Summary: The rating reflects the breadth and stability of Pledged Revenues, which amply support coverage of maximum annual debt service. The exceptionally strong legal protections of the Master Indenture, together with constitutional non-impairment provisions in place while obligations remain outstanding, further inform the rating. KBRA assigns the same rating to both the Senior Lien Bonds and the Subordinate Lien Bonds.

The State Transportation Refunding Revenue Bonds (State Transportation Commission – Senior Lien), Series 2024A (“the Series 2024A Refunding Bonds”) and parity Senior Lien State Transportation Revenue Bonds are issued by the New Mexico Finance Authority (“the Authority”, or “the NMFA”) at the direction of the State Transportation Commission to fund projects eligible for funding under the Federal Highway Administration’s (“FHWA’s”) Grant Anticipation Revenue Vehicle Program pursuant to Title 23 of the U.S. Code (“GARVEE Projects”).

Senior Lien Bonds, including the Series 2024A Refunding Bonds, are payable from and secured by a pledge of i) State Revenues, including 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”), paid into the State Road Fund. The FAHP is financed from the transportation user-related revenues deposited in the Federal Highway Trust Fund. The primary revenue source in the Federal Highway Trust Fund is derived from the federal excise taxes on motor fuels. Other taxes include excise taxes on tires, trucks and trailers, and truck use taxes. State Revenues and Federal Revenues, together with interest earnings thereon, are received by the New Mexico Department of Transportation (“the Department”) and constitute the Pledged Revenues.

Methodology

- [U.S. Special Tax Revenue Bond Rating Methodology](#)
- [ESG Global Rating Methodology](#)

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The approximately \$165.6 million Senior Lien Bonds expected to be outstanding after the issuance of the Series 2024A Refunding Bonds and debt service payments on June 15, 2024 are payable from and secured by a lien on Pledged Revenues that is senior to a) the lien on \$413.6 million Subordinate Lien Bonds expected to be outstanding following the Series 2024A refunding and June 15, 2024 debt service, and b) a \$50 million revolving taxable line of credit that is on parity with the Subordinate Lien Bonds. Pursuant to the plan of refunding, upon the issuance of the Series 2024A Refunding Bonds, all Senior and Subordinate Lien Bonds will mature by 2031.

Stringent additional bond provisions under the Master Indenture provide that no additional Senior Lien Bonds can be issued unless State Revenues for 12 consecutive of the last 18 months equal at least 3.0x MADS on outstanding and proposed Senior Lien Bonds, and that Pledged Revenues (State Revenues and Federal Revenues) for 12 consecutive of the last 18 months equal at least 3.5x MADS on outstanding and proposed Senior Lien bonds.

Regarding Subordinate Lien Bonds and Additional Highway Bonds¹, the additional bonds provisions of the Master Indenture require historical Pledged Revenues equal to at least 3.0x coverage of combined MADS on outstanding Senior Lien Bonds, Subordinate Lien Bonds, and Additional Highway Bonds, and the proposed Subordinate Lien Bonds or

¹ Additional Highway Bonds are Subordinate Lien obligations issued by the Commission in an outstanding amount not to exceed \$50 million, payable from Federal Revenues and State Revenues (other than amounts paid into the Highway Infrastructure Fund).



Additional Highway Bonds. No further Senior Lien or Subordinate Lien Bonds (other than refunding bonds) are authorized to be issued under the Act.

The application of 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 all outstanding Senior Lien and Subordinate Lien Bonds have been paid in full.

State Revenues, which comprise approximately 52% of estimated FY 2024 Pledged Revenues of \$1.06 billion, 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 48% of estimated FY 2024 Pledged Revenues. Unlike most other federal programs, the contract authority of the FHWA– 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 (“IIJA”) signed into law on November 15, 2021, reauthorized the FAHP through September 30, 2026, re-establishing the FHWA’s contract authority for a multi-year period and enabling the continuation of FAHP funding to state departments of transportation.

Pledged Revenues grew at a robust 5.2% compound annual growth rate (CAGR) FY 2019 through FY 2023, exceeding the rate of inflation. Since FY 2019, State Road Fund collections have included a portion of the state’s motor vehicle excise tax. In FY 2023, the distribution of this portion of the motor vehicle excise tax to the State Road Fund totaled \$60.4 million, up from \$56.5 million in FY 2022 and \$7.5 million in FY 2021. Going forward, motor vehicle excise taxes are estimated to contribute approximately \$63 million annually to the State Road Fund.

FY 2023 Pledged Revenues of \$1.05 billion provided solid 5.4x pro-forma coverage of combined Senior and Subordinate Lien MADS. KBRA’s stress case analysis demonstrates that if FY 2023 Pledged Revenues were to decline by an assumed 5% for the State Revenues deposited to the State Road Fund revenues, 10% for the State Revenues deposited to the Highway Infrastructure Fund, and 20% for Federal Revenues (a hypothetical decline scenario more severe than historical experience), Pledged Revenue coverage of combined MADS would still be ample at 4.8x. Further stressing the analysis to assume no receipt of Federal Revenues, pro-forma MADS coverage from State Revenues only would remain strong at 2.7x.

The Stable Outlook reflects our expectation of continued exceptional coverage of combined debt service from Pledged Revenues through the remaining 7-year tenor of the outstanding bonds. The absence of additional bond authorization lends further stability to the outlook.

Key Credit Considerations

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

Credit Positives

- Robust pro-forma coverage of maximum annual debt service from a diverse and stable array of Pledged Revenues.
- All Senior Lien and Subordinate Lien bonds are to be fully amortized by 2031.
- The Indenture’s strict Additional Bonds Test protects against overleveraging. Furthermore, other than refunding issuance, no additional Senior Lien or Subordinate Lien debt issuance is authorized under the Act.

Credit Challenges

- The bonds are subject to the periodic risk of non-reauthorization of FAHP funding. This risk is mitigated, however, by the stability and diversity of the State Revenues component of Pledged Revenues, and by the federal transportation contract authority distributed to state departments of transportation through formula programs.
- The state’s economic dependence upon the energy sector may present resource base vulnerabilities over the long term.
- State wealth and income metrics are below the national average.

Rating Sensitivities

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



Rating Highlights

Total Pledged Revenues, FY 2023	\$	1,047,896,000
Pro-Forma MADS, Senior Lien (Post Series 2024A Refunding Transaction)		75,103,000
Pro-Forma Senior Lien MADS (2027) Coverage(x)		14.0
Pro-Forma MADS, Subordinate Lien		174,953,300
Pro-Forma Subordinate Lien MADS (2024) Coverage (x)		5.9
Pro-Forma Combined MADS, Senior and Subordinate Lien		193,997,800
Pro-Forma Combined MADS (2024) Coverage (x)		5.40
State Road Fund Revenues, FY 2023	\$	541,855,000
Pro-Forma Senior Lien MADS Coverage from State Road Fund Revenues Only (x)		7.21
Pro-Forma Subordinate Lien MADS Coverage from State Road Fund Revenues Only (x)		3.10
Pro-Forma Combined MADS Coverage from State Road Fund Revenues Only (x)		2.79
State population growth (10-Yr CAGR, 2013-2023)		0.08%
State per capita income as % of U.S., 2023		79.4%
State Unemployment Rate, March 2024		3.2%
U.S. Unemployment Rate, March 2024		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

RD 1: Legal Framework

The Series 2024A Refunding Bonds are being issued by the New Mexico Finance Authority (“the Authority”) under the provisions of NMSA 1978 Sec. 67-3-59.1 to -59.4 and 6-21-1 to-31 ”), as amended (“the Act”), and are payable from and secured by a Senior Lien pledge of State Revenues and Federal Revenues under the terms of the Trust Indenture between the Authority and the Trustee, BOKF, NA. Proceeds of the Series 2024A Refunding Bonds will be used to refund certain outstanding maturities of the Authority’s Senior and Subordinate Lien bonds. No additional new money issuance is authorized under the Act.

The New Mexico Finance Authority

Established in 1992 pursuant to the Act, the Authority is a governmental instrumentality separate from the State, with responsibility for coordinating the planning and financing of State and local public projects. Its powers include the ability to issue indebtedness to finance specific programs and projects under the Act. The Authority includes an 11-member board and employs a staff of 68, including a Chief Executive.

The State Transportation Commission

The State Transportation Commission (“the Commission”), a constitutionally created instrumentality of the State, is led by six gubernatorially appointed members representing each of the state’s six transportation districts. The Commission oversees all matters of policy relating to the State Department of Transportation and to the expenditure of amounts in the State Road Fund and Highway Infrastructure Fund.

Pursuant to the Act and the Master Indenture, the Commission has directed the Authority to issue various series of Senior Lien Bonds and Subordinate Lien Bonds, and to enter into a \$50 million rolling taxable revolving line of credit on parity with the Subordinate Lien Bonds. The Commission is precluded from issuing additional obligations payable from and secured by a lien on Pledged Revenues without future statutory authorization and has resolved that any additional obligations for which statutory authorization may be received will be subject to the same additional bonds test provisions as the Senior Lien Bonds. The Commission may also direct the Authority to issue Junior Subordinate Lien Obligations under the Master Indenture. There are currently no Junior Subordinate Lien Obligations outstanding.

The New Mexico Department of Transportation

The State Department of Transportation (“the Department”), a multimodal transportation agency (surface, mass transit, air), is a Cabinet level department within the State’s executive branch. Its responsibilities include maintaining U.S., Interstate and state highways within New Mexico, statewide coordination of transportation planning, annual capital improvement planning, and administrative jurisdiction over certain traffic safety programs. The Department’s general revenues include State-generated income from user and fuel taxes and interest income to the State Road Fund (55% of total), and program revenues from federal grants and reimbursements (45% of total). The Department’s budget is subject to review by the Commission, the State’s Department of Finance and Administration and the Legislative Finance Committee, and subject to final approval by the State Legislature and the Governor.

A Memorandum of Understanding between the Department and the FHWA (“the MOU”) establishes guidelines for the payment of debt service on Senior Lien Bonds (including the Series 2024A Refunding Bonds), Subordinate Lien Bonds, and any Junior Subordinate Lien Obligations issued by the Authority to fund GARVEE projects.

Pledged Revenues

The Series 2024A Refunding Bonds and \$61.91 million outstanding parity Senior Lien Bonds are payable from and secured by a lien on Pledged Revenues received from the Department and certain funds and accounts under the Indenture. Such lien is senior to the lien on i) \$555.615 million Subordinate Lien Bonds expected to be outstanding following the issuance of the Series 2024A Refunding Bonds and the planned refunding of the outstanding Series 2014A and 2014B-2 Bonds due on and after June 15, 2025; and ii) a \$50 million revolving taxable line of credit on parity with the Subordinate Lien Bonds.

The Master Indenture defines Pledged Revenues to mean State Revenues and Federal Revenues. State Revenues are received by the Department and consist of several transportation related taxes and fees including motor vehicle fuel taxes, special fuel taxes (primarily diesel fuel), motor vehicle registration fees and weight and distance taxes. The State has allocated a portion of these taxes (which generally consists of all receipts or a substantial proportion of the receipts



of each tax or fee) to be deposited in the State Road Fund. The proceeds of the collection of leased vehicle gross receipts taxes and tire recycling fees that are required to be paid into the Highway Infrastructure Fund, and interest on amounts therein, are also considered State Revenues.

Federal Revenues are those revenues received by the Department pursuant to the Federal Aid Highway Program (FAHP) for eligible highway projects that are also deposited in the State Road Fund. All funds deposited in the State Road Fund are pledged to repayment of the Bonds. The Department, a cabinet level department within the executive branch is responsible for the administration of all Federal highway projects within the State.

Non-Impairment Provisions

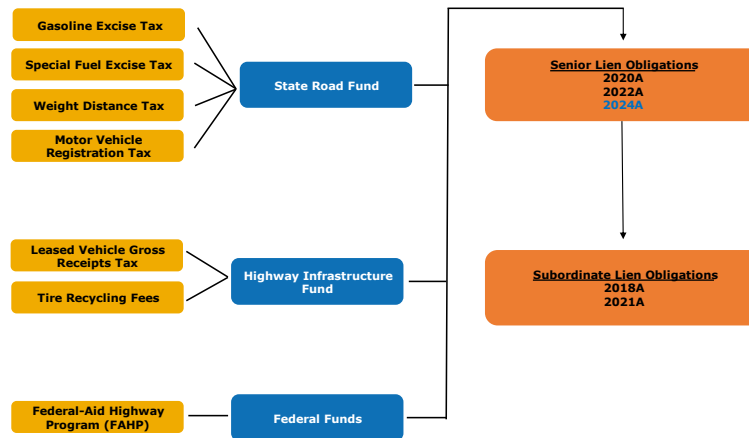
State law precludes the repeal or amendment of the special taxes levied to support debt service on Senior and Subordinate bonds in a manner that would impair the payment of debt service. Furthermore, the New Mexico State Constitution prohibits the enactment of any law that would decrease the special taxes paid into the State Road Fund or divert them to another purpose as long as Senior Lien or Subordinate Lien bonds are outstanding.

Flow of Funds

Substantially all of the taxes and fees attributable to the State Road Fund are collected and administered by the State's Tax and Revenue Department and transferred by the State Treasurer from various suspense funds to the State Road Fund and the Highway Infrastructure Fund on a monthly basis.

The Department and the Federal Highway Administration (FHWA) have entered into a Memorandum of Understanding that sets forth the procedures for managing the debt service related to eligible Federal projects. Under the MOU, reimbursement from the FHWA is received semi-annually.

Figure 1



¹ Represents the top four revenue sources. ² Federal Funds applicable to only those Series of Bonds eligible for federal reimbursements. Source: New Mexico Department of Transportation

The Pledged Funds received by the Authority are deposited in the Revenue Fund maintained by the Trustee under the Master Indenture. On the 1st day of each month the Trustee shall withdraw from the Revenue Fund and deposit to the following funds and accounts in the following order of priority:

1. To the Rebate Fund, any amounts required;
2. To the Senior Lien Interest Account, 1/6th of the next interest payment;
3. To the Senior Lien Principal Account, 1/12th of the next principal payment;
4. To the Senior Lien Debt Service Reserve Account, if applicable, to replenish any deficiency;
5. To the Subordinate Lien Interest Account, 1/6th of the next interest payment;
6. To the Subordinate Lien Principal Account, 1/12th of the next principal payment;
7. To the Subordinate Lien Debt Service Reserve Account, if applicable, to replenish any deficiency

Additional Bonds Test

The Master Indenture provides that no additional Senior Lien Bonds can be issued unless State Revenues for 12 consecutive of the last 18 months equal at least 3.0x MADS on outstanding and proposed Senior Lien Bonds, and that



Pledged Revenues (State Revenues and Federal Revenues) for 12 consecutive of the last 18 months equal at least 3.5x MADS on outstanding and proposed Senior Lien bonds.

With regard to Subordinate Lien Bonds and Additional Highway Bonds², the additional bonds provisions of the Master Indenture require historical Pledged Revenues equal to at least 3.0x coverage of combined MADS on outstanding Senior Lien Bonds, Subordinate Lien Bonds, and Additional Highway Bonds, and the proposed Subordinate Lien Bonds or Additional Highway Bonds.

No further Senior Lien or Subordinate Lien Bonds (other than refunding bonds) are authorized to be issued under the Act.

Debt Service Reserve Fund

The Master Indenture describes the terms of the Senior Lien Debt Service Reserve Account and Junior Lien Debt Service Reserve Account, should they be funded. Neither of these reserve accounts have been funded to date.

RD 2: Nature of Special Tax Revenues

Pledged Revenues consist of State and Federal Revenues. State Revenues (Figure 2) 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 2

State Revenues - State Road Fund		
Revenue Source	Description	CAGR (Compound Annual Growth Rate) 2013-2023
Gasoline Excise Tax	The Gasoline Tax Act imposes a tax of 17 cents per gallon on gasoline received in the State. Approximately ¼ of the tax is deposited into the State Road Fund	0.36%
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	3.73%
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%	3.70%
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	1.67%
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) 2013-2023
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	3.84%
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	0.86%

Source: New Mexico Department of Transportation

Federal Revenues

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 to reimburse them for federal-aid highway projects. The FAHP is financed from dedicated 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. Other taxes constituting sources of revenue in the Federal Highway Trust Fund include excise taxes on tires, trucks and trailers, and truck use taxes.

Federal Revenues are received by the Department pursuant to Title 23 of the U.S. Code and paid into the State Road Fund to be pledged for payment of debt service on the State Transportation Revenue Bonds. The payment of debt service on the Senior Lien Bonds (including the Series 2024A Bonds) and Subordinate Lien Bonds is contingent on FAHP funding received by the State, and on the State's ability to obligate such amounts.

² Additional Highway Bonds are Subordinate Lien obligations issued by the Commission in an outstanding amount not to exceed \$50 million, payable from Federal Revenues and State Revenues (other than amounts paid into the Highway Infrastructure Fund).



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, enabling 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.

For most categories of the FAHP, the FHWA annually apportions authorized funding for the various state highway programs according to statutory formula. Such apportionments are generally available to states to use for three years plus the year in which they are apportioned.

“Obligation” is the federal government’s promise to reimburse a state for the federal share of an approved project’s eligible costs, including debt service. Once Federal aid funding has been obligated, states may award contracts with the assurance that they will be reimbursed from FAHP funds as payments become due.

The FHWA distributes Obligation Authority to states based on their respective share of apportioned revenues. As a state submits requests to FHWA to obligate funds representing the federal share of specific projects (on a reimbursement basis), the state’s balance of Obligation Authority is reduced. Unlike apportionments, states must use their Obligation Authority before the end of the FFY. States may receive additional Obligation Authority from other states through an annual reallocation process.

Congress may impose an obligation limitation on the amount of authorized funding that states may obligate in an individual year, controlling the rate at which funds can be used. A state’s unobligated balance at the end of the FFY is carried forward into subsequent FFYs and is available contingent upon the availability of Obligation Authority issued in such year. Congress has acted multiple times since 2005 to reduce unobligated balances of previously authorized fund through rescissions spread proportionally across all states.

Federal Revenues may be spent (and then reimbursed) in any year. Over time, reimbursements are roughly equal to the obligation limitation. The size of the Department’s construction program allows it to obligate all amounts available in each year, and if necessary, to accelerate projects to increase reimbursements in a particular year and thus assure sufficiency of Federal Revenues for payment of debt service. New Mexico’s aggregate obligation limitation for FY 2024 is approximately \$418.8 million.

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

New Mexico is located in the Southwest region of the U.S. With a population of 2.11 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 the 6th 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. Although not among the state’s largest employers, the mining sector, which includes the oil and gas and coal industries, contributes significantly to state GSP, and workers in that industry earn among the highest average weekly wages in the state.

Unlike other states in the Southwest region, New Mexico’s population has remained stable at approximately 2.1 million over the last decade. The 2013-2023 population growth rate (0.08% 10-year CAGR 2023) trailed both domestic and regional averages. The state suffered population declines in 2021 and 2022 and recorded only a nominal rebound in immigration in 2023. Wealth and income levels have historically trended below regional and national averages. While New Mexico’s 2023 personal income per capita of \$54,428 represents a somewhat low 79.4% of the U.S. average, the state’s cost of living is also low. The state’s 17.6% poverty level exceeds that of the region (15.0%) and nation (12.6%).

Employment

Following a pandemic-related 5.5% YoY decline in 2020, statewide employment levels (not seasonally adjusted) fully recovered to pre-pandemic levels by 2022. Notwithstanding this recovery, New Mexico’s 10-year CAGR (2023) of employment growth, at 0.7%, lags that of the region (1.8%) and the nation (1.1%).

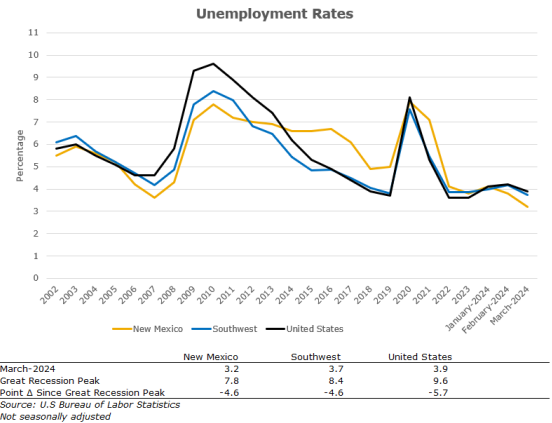
The government sector (including military installations) comprises roughly ¼ of the State’s employment base and provides a pool of relatively stable jobs. The oil and gas extraction and mining industries employed approximately 2% of state workers, a relatively high concentration of the workforce compared to other states.

The state’s annual unemployment rate trended consistently higher than regional and national levels from 2014 through January 2022, mostly due to weakness in the energy sector. However, due to the strong recovery in crude oil prices since the third quarter of 2020 New Mexico’s unemployment rate has declined to a favorable 3.2% as of March 2024, besting that of the region (3.7%) and the nation (3.9%).

Economic Output Performance

New Mexico’s real (inflation adjusted) GSP experienced a pronounced decline and weak recovery following the Great Recession, with contraction occurring in five of the twelve years from 2010-2022. In KBRA’s view, slow growth in real GSP is related to the price of oil and natural gas, as 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 negatively impact GSP and job growth in the oil sector.

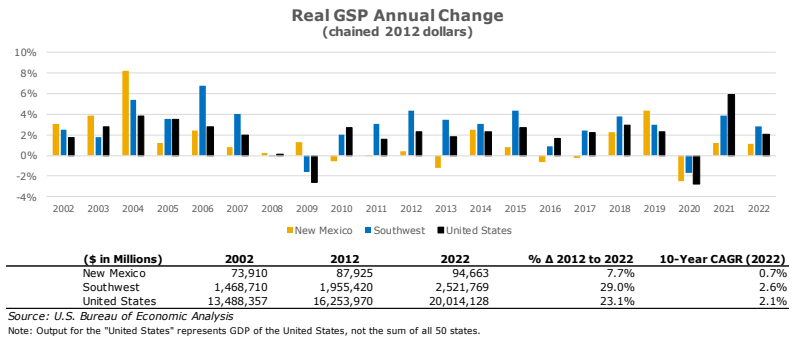
Figure 4



RD 4: Revenue Analysis

Figure 6 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, including primarily amounts deposited to the State Road Fund, provide a degree of protection against the potential for non-reauthorization of future federal funding, in KBRA’s view.

Figure 5



The strong 5.22% compound annual rate of growth (CAGR) in Pledged Revenues from FY 2019 through FY 2023 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 in comparison to automobile traffic 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 distribution of \$56.5 million in FY 2022, \$60.4 million in FY 2023, and an estimated \$60.9 million in FY 2024. The Department of Transportation estimates further growth in Motor Vehicle Excise Tax revenues over the 2025-2027 forecast period.

Figure 6

New Mexico Department of Transportation																	
Actual and Estimated Pledged Revenues (\$ 000)																	
	2019	Δ YOY (%)	2020	Δ YOY (%)	2021	Δ YOY (%)	2022	Δ YOY (%)	2023	Δ YOY (%)	2024 Estimate	Δ YOY (%)	2025 Estimate	Δ YOY (%)	2026 Estimate	Δ YOY (%)	2027 Estimate
State Road Fund																	
Gasoline Tax ¹	\$117,365	-4.8%	\$111,778	4.0%	\$116,278	-1.3%	\$114,815	0.9%	\$115,864	-0.4%	\$115,400	-0.6%	\$114,700	-0.1%	\$114,600	-0.3%	\$114,200
Special Fuel Tax ¹	113,383	4.3%	118,279	3.2%	122,092	12.1%	136,854	-2.5%	133,477	0.1%	133,600	1.0%	134,900	1.4%	136,800	0.2%	137,100
Weight/Distance ¹	94,016	-1.9%	92,251	8.1%	99,685	5.6%	105,312	0.3%	105,661	1.5%	107,200	1.4%	108,700	2.5%	111,400	2.7%	114,400
Trip Tax	6,758	-7.9%	6,227	29.2%	8,044	17.9%	9,480	-13.3%	8,215	-0.7%	8,160	3.4%	8,440	6.3%	8,970	6.2%	9,530
Vehicle Registration ¹	82,453	-3.8%	79,312	7.0%	84,863	-0.3%	84,632	3.4%	87,485	-1.7%	86,000	1.3%	87,100	0.0%	87,100	0.2%	87,300
Vehicle Transaction ¹	1,148	-12.6%	1,003	12.0%	1,123	-2.0%	1,101	-1.8%	1,081	1.8%	1,100	0.9%	1,110	0.9%	1,120	0.9%	1,130
Driver's License ¹	4,117	-2.2%	4,028	14.9%	4,629	-1.3%	4,571	-4.0%	4,388	-2.0%	4,300	-0.7%	4,270	-0.5%	4,250	-0.7%	4,220
Oversize/License ¹	7,225	-0.7%	7,173	-2.0%	7,028	3.1%	7,249	2.4%	7,422	1.9%	7,560	-4.4%	7,230	-2.9%	7,020	0.6%	7,060
Public Regulatory Commission Fees	5,891	-50.2%	2,933	25.7%	3,686	-8.7%	3,364	-1.0%	3,329	-0.9%	3,300	0.0%	3,300	0.0%	3,300	0.0%	3,300
MVD Miscellaneous Fees	6,407	-14.0%	5,510	-17.0%	4,571	18.7%	5,424	10.9%	6,016	-14.6%	5,140	0.0%	5,140	0.0%	5,140	0.0%	5,140
Motor Vehicle Excise Tax ¹	6,562	-9.6%	5,934	26.2%	7,489	654.3%	56,492	6.8%	60,355	0.9%	60,910	0.6%	61,250	2.9%	63,000	3.4%	65,130
Road Fund Interest	4,222	49.6%	6,316	-94.5%	345	51.3%	522	1540.2%	8,562	-20.8%	6,780	-9.0%	6,170	-31.6%	4,220	-22.5%	3,270
Total State Road Fund	449,547	-2.0%	440,744	4.3%	459,833	15.2%	529,816	2.3%	541,855	-0.4%	539,450	0.5%	542,310	0.9%	546,920	0.9%	551,780
Highway Infrastructure Fund																	
Lease Vehicle Gross Receipts	6,760	-20.9%	5,345	-22.9%	4,120	72.7%	7,114	6.8%	7,599	3.0%	7,830	7.9%	8,450	3.9%	8,780	3.3%	9,070
Tire Recycling Fees	1,910	-3.2%	1,849	7.9%	1,995	-3.2%	1,932	1.9%	1,969	1.1%	1,990	0.5%	2,000	0.5%	2,010	0.0%	2,010
Interest	74	27.0%	94	-95.7%	4	75.0%	7	3342.9%	241	-25.3%	180	-5.6%	170	-29.4%	120	-25.0%	90
Total Highway Infrastructure Fund	8,744	-16.7%	7,288	-16.0%	6,119	47.9%	9,053	8.4%	9,809	1.9%	10,000	6.2%	10,620	2.7%	10,910	2.4%	11,170
Federal Funds																	
	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	2.0%	526,605	2.0%	537,137
Total Pledged Revenues	854,880	-0.3%	852,575	1.8%	867,965	18.1%	1,025,370	2.2%	1,047,896	0.7%	1,055,607	1.3%	1,069,209	1.4%	1,084,435	1.4%	1,100,087

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 IIA and are assumed at a level amount.

Source: New Mexico Department of Transportation

RD 5: Coverage and Bond Structure

Approximately \$165.6 million Senior Lien Bonds and \$413.6 million Subordinate Lien Bonds are expected to be outstanding after the issuance of the Series 2024A Refunding Bonds and debt service payments on June 15, 2024. The Department's 100% fixed rate portfolio has a very short average life. A \$50 million, three-year taxable revolving line of credit for potential liabilities associated with the Department'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.

Proceeds of the Series 2024A Refunding Bonds will be used to refund certain 2014B-1 Senior Lien and 2014A and 2014B-2 Subordinate Lien bonds for debt service savings. The refunding transaction will shorten the final maturity of the outstanding debt to June 15, 2031. Taking into effect the refunding of the refunded bonds and the issuance of the Series 2024A Refunding Bonds, projected combined Senior Lien and Subordinate Lien MADS is \$194 million (FY 2024), with FY 2023 Pledged Revenues estimated to provide 5.4x coverage. With the amortization of debt, combined coverage improves to the 9x range from 2025 through the remaining term of the outstanding bonds.

Figure 7

Projected Debt Service Coverage from FY 2023 Pledged Revenues (After Issuance of Series 2024A Bonds) (\$000)							
Fiscal Year	FY 2023 Pledged Revenues	Senior Lien Debt Service	Subordinate Lien Debt Service	Senior and Subordinate Debt Service	Senior Lien Coverage	Subordinate Lien Coverage	Senior and Subordinate Coverage
2024	1,047,896	19,045	174,954	193,998	55.0	6.0	5.4
2025	1,047,896	43,542	67,138	110,679	24.1	15.6	9.5
2026	1,047,896	36,150	74,495	110,645	29.0	14.1	9.5
2027	1,047,896	75,103	46,833	121,936	14.0	22.4	8.6
2028	1,047,896	8,414	102,799	111,213	124.5	10.2	9.4
2029	1,047,896	8,524	102,693	111,217	122.9	10.2	9.4
2030	1,047,896	8,627	102,590	111,217	121.5	10.2	9.4
2031	1,047,896	8,731	-	8,731	120.0	-	120.0
Total		\$ 208,135	\$ 671,500	\$ 879,635			

Source: New Mexico Department of Transportation

Stress Case

To gauge the impact on coverage of a decline in Pledged Revenues, KBRA's stress case reduces FY 2023 Pledged Revenues of \$1.048 billion by approximately 12%, as follows:

- Actual FY 2023 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 2023 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 2023 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 hypothetical stress case assumptions, combined coverage of Senior Lien and Subordinate Lien MADS from Pledged Revenues remains robust at 4.75x. 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. Combined MADS coverage under these assumptions remains favorable, at 2.70x.

Figure 8

Stress Test Coverage of Senior and Subordinate Lien MADS (\$ in 000)			
	Actual FY 2023	Stress Case	Stress Adjustments
Pledged Revenues			
State Road Fund	\$ 541,855	\$ 514,762	FY 2023 less 5%
Highway Infrastructure Fund	9,809	8,828	FY 2023 less 10%
Federal Revenues	496,232	396,986	FY 2023 less 20%
Total Pledged Revenues	1,047,896	920,576	
Projected Senior and Sub MADS, 2024	\$ 193,998	\$ 193,998	
Pledged Revenues MADS coverage (X)	5.40	4.75	
State Revenues Only MADS coverage (X)	2.84	2.70	

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 and the Bonds.

Bankruptcy Eligibility

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 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. However, state law could be amended generally, or specific to the Authority, to permit a filing under Chapter 9 by the Authority.

Treatment of Security Interests Under Chapter 9

If the Authority were to be permitted to file 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, holders of the Bonds should be treated as unsecured creditors of the Authority in a Chapter 9 proceeding of the Authority.

Bondholder Protections Under State Law

KBRA is informed that bondholders receive certain protections provided for transportation bonds, under New Mexico state law. 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, Section 67-3-59.3(G) NMSA 1978 provides that “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 influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact 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.

Environmental Factors

Eligibility for federal funding of state transportation programs requires specific projects to be identified in a Statewide Transportation Improvement Program (STIP). The STIP is developed by the Department with input from the State’s Metropolitan and Regional Planning Organizations, and is reviewed and approved biennially by the U.S. Environmental Protection Agency, the Federal Highway Administration and Federal Transit Administration

The Department has created an Environmental Bureau (the Bureau) to incorporate environmental stewardship, community value, cultural resource management, and public involvement into State transportation project development. The Natural Resources Section of the Bureau oversees regulatory compliance, including with the National Environmental Policy Act, Clean Water Act, and Endangered Species Act. Staff also works along the right-of-way to identify mitigate negative environmental impacts and facilitate emergency response to natural disasters. Additionally, in response to the State’s 2019 New Mexico Wildlife Corridors Act, the Department and the State Department of Game and Fish have jointly developed a Wildlife Corridors Action Plan to identify, prioritize and maintain those areas of the State highway system that are important to wildlife movement, and/or where wildlife crossing poses risks to the traveling public. The Bureau’s Roadside Environment Design Section consults on revegetation, erosion control, stormwater management, aesthetics, vegetation management and public involvement for all NMDOT transportation projects.

Social Factors

The Cultural Resources Section of the Bureau includes historic preservationists who, together with the State’s six transportation districts, federal and state agencies, tribal and local governments and other stakeholders, work to balance transportation needs with preservation of the State’s cultural heritage along the highway system.

Governance Factors

The Department, together with external cybersecurity vendors, maintains up to date protocols to mitigate cyber risk for its information technology systems and has provided cybersecurity training to Department employees. A Chief Security Officer that works directly for the CIO of the State manages the implementation of the Department’s cybersecurity initiatives. In February of 2021, the Secretary of the Department signed an Administrative Directive as part of a state-wide program outlining security operation management practices for information system resources and establishing Department-wide focus on security responsibilities for dedicated network connections.

The Authority previously engaged a third-party service provider to perform a cybersecurity assessment. Continued monitoring, remediation of known issues, and alert and resolution procedures have been implemented, and cyber-insurance has been procured.



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