

**New Issue: MOODY'S ASSIGNS Aa1 RATING TO NEW MEXICO'S FINANCE AUTHORITY SENIOR LIEN STATE TRANSPORTATION REFUNDING BONDS SERIES 2010B**

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Global Credit Research - 20 Sep 2010

**OUTLOOK IS STABLE**

New Mexico (State of)  
State  
NM

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
State Transportation Refunding Revenue Bonds (Senior Lien) Series 2010B	Aa1
<b>Sale Amount</b>	\$422,000,000
<b>Expected Sale Date</b>	09/21/10
<b>Rating Description</b>	Revenue Bonds

**Opinion**

NEW YORK, Sep 20, 2010 -- Moody's Investors Service has assigned a Aa1 rating to the \$422 million New Mexico Finance Authority Series 2010B State Transportation Refunding Revenue Bonds (Senior Lien). The bonds are scheduled to price on or about September 21, 2010. The Series 2010B bonds are being issued to refund existing senior lien debt and existing closed lien bonds debt issued under a separate bond indenture.

**RATINGS RATIONALE**

The rating reflects the bonds' senior lien position on pledged revenues after payment of debt service on the approximately \$5 million of prior State Transportation Commission debt (closed lien obligations) issued under a separate indenture, remaining after the current refunding, healthy debt service coverage provided by a large, diverse and relatively stable pledged revenue stream including both state and federal revenues sources, an additional bonds test of the senior lien bonds of 3.5 times based on total pledged revenues and 3 times based on pledged state revenues, the essential purpose served by the State Road Fund (SRF), and a statutory non-impairment pledge by the state, which limits the risk of significant diversion of pledged revenue away from the SRF. The outlook for the bonds are stable.

**Credit Strengths:**

- Senior lien on pledged revenues; junior only to a modest amount of prior debt issued under a separate bond program
- Healthy debt service coverage from total pledged revenues
- Large, diverse pool of pledged revenue sources
- Additional bonds test of 3.5 times based on total pledged revenues and 3 times based on pledged state revenues
- Statutory non-impairment of pledged revenues by the state.

**Credit Challenges:**

- Pledged federal revenues are subject to both economic volatility and reauthorization risk
- Weakening in pledged revenues due to economic slowdown
- Negative impact of Native American tax exemptions on State Road Fund revenues

**PLEGGED STATE REVENUES INCLUDE FUEL TAXES AND MOTOR VEHICLE RELATED FEES.**

State source pledged revenues consist of gasoline taxes, special fuel taxes, vehicle transaction taxes or fees, drivers 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 required by state law to be deposited in the SRF and leased vehicle gross receipts taxes and tire recycling fees as required by law to be paid into the Highway Infrastructure Fund (HIF). Ninety five percent of the SRF revenues are derived from four sources: gasoline taxes, special fuel taxes, weight distance taxes, and vehicle registration fees. While the state's population growth and, until recently, above average economic growth contributed to increased fuel consumption and vehicle registrations, (between fiscal 2005 through fiscal 2009, average annual SRF revenue growth was about 3.74%) the current economic climate has moderated the growth in two of the largest revenue sources for the SRF, special fuel tax and vehicle registration fees. In fiscal 2009 special fuel taxes declined by \$16 million, or 16%. Revenues are projected to decline by \$3.8 million or 4% in fiscal 2010. Vehicle registration fees declined by \$1 million, or 1% in fiscal 2009 and are expected to have less than 1% growth in fiscal 2010, while the single largest revenue source, gasoline taxes grew by less than 1% in both fiscal 2009 and fiscal 2010.

Pledged state source SRF revenues in fiscal 2010 are projected to total \$346 million, a 4.4% decline from fiscal 2009 revenues. Declining revenue is again primarily attributable to the national economic slowdown. The state is conservatively projecting fiscal 2011 SRF revenues to grow by a moderate 2% to \$353 million.

Pledged revenues are deposited monthly to the Revenue Fund held by the trustee, who then makes deposits to the interest and principal accounts associated with the senior lien bonds, the subordinate lien bonds, and required transfers to other accounts. Excess revenues are available for transportation program expenses. Monthly debt service deposits are in amounts sufficient to pay 1/12 of the annual principal due and 1/6 of the interest due on the next interest payment date for the bonds.

#### FEDERAL AID REVENUES ALSO PLEDGED TO BONDS

In addition to state transportation related taxes and fees, pledged revenues include federal aid revenues received by the state into the SRF. These consist principally of Title 23 federal highway-aid reimbursements, but also include funding under any other federal laws. The latest multi-year authorization of the federal highway aid program, known as the Safe, Accountable, Flexible and Efficient Transportation Equity Act (SAFETEA-LU), through interim extensions beyond its September 30, 2009 expiration date, authorizes highway aid to be made available to New Mexico in the estimated amount of \$260 million in federal fiscal year 2010. New Mexico has typically been a "donee" state under the federal program, meaning that it has received federal aid that generally exceeds its annual contribution of federal gas tax collections in the state. This could make it modestly more vulnerable than other donor states to future changes in federal funding.

The current SAFETEA-LU program, expired on September 30, 2009, however the program has been extended on a temporary basis until congress reaches agreement on the next multi-year federal highway aid program. Funding reauthorizations and levels will ultimately be determined by Congress. A severe reduction in funding or elimination of the federal highway aid program is considered unlikely by Moody's. Program funding to states was uninterrupted despite the considerable lag in reauthorization following the expiration of the prior federal transportation funding program.

#### PLEDGED REVENUES PROVIDE GOOD COVERAGE OF DEBT SERVICE

Fiscal 2011 pledged revenues provide about 7 times coverage of maximum annual debt service associated with the outstanding Commission Highway Revenue Bonds (outstanding closed lien obligations) and Senior Lien Transportation Revenue Bonds, with coverage by pledged state revenues alone at about 4.4 times. Pledged revenues provide about 4.3 times coverage of total maximum annual debt service on Highway Revenue Bonds, Senior and Subordinate Transportation Revenue Bonds. Coverage based on state revenues alone is over 2 times. These coverage calculations assume pledged federal revenues continue to be flat at the state's 2010 FHWA Obligation Authority of \$260 million.

#### NATIVE AMERICAN GASOLINE TAX EXEMPTIONS REDUCE STATE ROAD FUND REVENUES

Exemptions to the state's gasoline excise taxes are granted to registered Native American distributors, with a limit set by legislation at 30 million gallons per distributor, per year. The New Mexico Taxation and Revenue Department has certified only two distributors as eligible for this exemption. Exemptions are also granted to retailers on reservations that are subject to Native American government gas taxes. For fiscal year 2010, these exemptions resulted in a loss to the Road Fund of about \$6.7 million.

The state has entered into a "gasoline tax sharing agreements" with the two registered Native American wholesale distributors, under which the wholesalers agree not to engage in gasoline wholesale activity for ten years in exchange for a distribution of revenue equal to forty percent of the gasoline tax imposed on 30 million gallons per year. The state hopes that negotiating these agreements will reduce volatility in gas tax collections.

#### ESSENTIALITY OF TRANSPORTATION FUNDS LIMITS RISK OF SIGNIFICANT STATUTORY DIVERSION

The State Road Fund is the principal source of funding for the State Highway and Transportation Department, supporting highway operations and pay-go capital needs in addition to debt service. Federal aid constitutes about 40% of total fund revenues, with the balance provided by the user fees and taxes, which comprise pledged revenues. The SRF thus serves a highly essential purpose for the state, and in Moody's view this limits the risk of any significant future statutory diversion of pledged revenues away from the fund.

In addition, the state has made a statutory pledge not to amend, repeal, or directly or indirectly modify any law authorizing the imposition or distribution of taxes or fees paid into the State Road Fund or the Highway Infrastructure Fund so as to impair the interests and rights of bondholders. Nonetheless, it is not uncommon in times of fiscal stress for states to take action to alleviate general fund pressures by transferring expenses to, or increasing leverage in a relatively well funded transportation fund.

#### STATE TRANSPORTATION BOND PROGRAM RESTRUCTURED IN 2004

The state's transportation bonding program was restructured in 2004. This restructuring was achieved through the refunding of portions of the state's prior transportation debt issued by the State Transportation Commission (formerly known as the State Highway Commission) and all of the state transportation debt previously issued the New Mexico Finance Authority. The restructuring was part of the GRIP (Governor Richardson's Investment Partnership) program, a new transportation/ economic development initiative that included increased funding for transportation projects from increases to transportation related taxes and fees.

The prior transportation bond program structure included senior lien, senior subordinate lien, and subordinate lien bonds (State Highway Debentures, Tax Revenue Highway Bonds) backed by state transportation revenues. The New Mexico Finance Authority also issued grant anticipation notes backed only by federal aid revenues (Federal Highway Grant Anticipation Revenue Bonds). The new program refunded all of the Authority's federal aid revenue debt and portions of the Commission's state revenue transportation debt, with no further Commission transportation debt permitted except for a maximum of \$50 million in bonds on parity with the Authority's subordinate lien Transportation Revenue Bonds.

A total of \$1.585 billion in Transportation Revenue Bonds (excluding refunding bonds) were authorized under the GRIP program, with cumulative annual issuance limited to \$350 million. Neither the Authority nor the Commission may issue debt with a lien on pledged revenues senior to the lien of the senior lien Transportation Revenue Bonds. As mentioned above, the Commission is permitted to issue a maximum of \$50 million in bonds on parity with the subordinate lien Transportation Revenue Bonds.

The senior and subordinate lien Transportation Revenue Bonds have a lien on state source pledged revenues that is subordinate to the outstanding Commission Tax Revenue Highway Bonds and Highway Infrastructure Fund (HIF) Revenue Bonds. The Highway Infrastructure Fund Revenue Bonds' lien on SRF state revenues is on parity with Senior Subordinate Lien Tax Revenue Highway Bonds, and the bonds are also backed by HIF revenues consisting of about \$7 million in leased vehicle gross receipts taxes and tire recycling fees.

#### INTERNAL POLICY GOVERNS USE OF SWAP AGREEMENTS

The Authority and the New Mexico Transportation Commission have developed debt management policies covering debt issuance and the administration of the transportation bond program. These policies include a limit on variable rate debt exposure of 20% of debt outstanding. The authority has roughly 3% of net variable rate exposure.

The policy also limits swap exposure to 30% and requires counterparty ratings of Aa3 and above. Current figures indicate swap exposure below the policy cap, at 25%. There is further limitation of exposure per counterparty to \$175 million. The use of swaps is also reviewed by the State Board of Finance and requires their approval. In addition, policy guidelines require ongoing monitoring of market conditions affecting swap provisions.

The Authority has entered into swap agreements for five series of bond. The counterparties involved were the Royal Bank of Canada (Aaa), Goldman Sachs Mitsui Marine Derivatives (Aa1), Deutsche Bank AG (Aa3), JPMorgan Chase Bank (Aa1) and UBS AG (Aa3).

In December 2008, the Authority was required to post \$16 million of collateral to satisfy the requirement pursuant to the swap agreements associated with JP Morgan, RBC and UBS. The collateral posting was triggered by the mark-to-market values exceeding the thresholds stated in the respective credit support annexes. The Authority maintains a \$20 million line of credit to satisfy any additional collateral posting requirements.

Authority payments under all swap agreements are considered subordinate lien obligations secured by a lien on pledged revenues on parity with the Subordinate Lien Bonds. Any termination payments owed by the Authority, however, would have a lien on pledged revenues subordinate to the lien of the Subordinate Lien Bonds.

### **Outlook**

The credit outlook for the Authority's Transportation Revenue Bonds is stable. The outlook reflects the size and long term trends of growth and relative stability of the pledged state revenue stream, which is expected to provide continued good coverage of debt service notwithstanding planned additional issuance.

What could change the rating - UP

-Structural changes that strengthen the bonding program, such as stronger additional bonds tests

What could change the rating - DOWN

-Significant declines in pledged revenues as a result of economic shifts or state or federal legislative changes that cause a major reduction in coverage levels

The rating on the current issue was assigned by evaluating factors we believe are relevant to the credit profile of the issuer, such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals, v) the debt service coverage provided by such revenue stream, vi) the legal structure that documents the revenue stream and the source of payment, and viii) the issuer's management and governance structure related to the payment. These attributes were compared against other issuers both within and outside of the New Mexico Finance Authority's Transportation Revenue Bond core peer group. The New Mexico Finance Authority's Transportation Revenue Bond ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

### **REGULATORY DISCLOSURES**

Information sources used to prepare the credit rating are the following: parties involved in the ratings and public information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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**New Issue: MOODY'S ASSIGNS Aa1 RATING TO NEW MEXICO'S FINANCE AUTHORITY SENIOR LIEN STATE TRANSPORTATION REFUNDING REVENUE BONDS SERIES 2010A-1 AND Aa2 RATING TO SERIES 2010A-2 SUBORDINATE LIEN BONDS; OUTLOOK IS STABLE**

Global Credit Research - 20 Aug 2010

**Aa1 RATING AFFIRMED ON \$952 MILLION OUTSTANDING PARITY SENIOR LIEN TRANSPORTATION REVENUE BONDS; Aa2 RATING AFFIRMED ON \$629 MILLION OUTSTANDING SUBORDINATE LIEN TRANSPORTATION REVENUE BONDS; Aa1 RATING AFFIRMED ON \$26 MILLION OUTSTANDING CLOSED LIEN TRAN**

New Mexico (State of)  
State  
NM

**Moody's Rating**

ISSUE	RATING
State Transportation Revenue and Refunding Revenue Bonds (Senior Lien) Series 2010A-1	Aa1
<b>Sale Amount</b>	\$110,000,000
<b>Expected Sale Date</b>	08/24/10
<b>Rating Description</b>	Revenue
State Transportation Revenue and Refunding Revenue Bonds (subordinate Lien) Series 2010A-2	Aa2
<b>Sale Amount</b>	\$90,000,000
<b>Expected Sale Date</b>	08/24/10
<b>Rating Description</b>	Revenue

**Opinion**

NEW YORK, Aug 20, 2010 -- Moody's Investors Service has assigned a Aa1 rating to the \$110 million New Mexico Finance Authority Series 2010A-1 State Transportation Refunding and Revenue Bonds (Senior Lien) and a Aa2 rating to the \$90 million Series 2010A-2 Subordinate Lien Refunding and Revenue Bonds. The ratings reflect the bonds' lien position on pledged revenues after payment of debt service on the approximately \$26 million of prior State Transportation Commission debt (closed lien obligations) issued under a separate indenture, healthy debt service coverage provided by a large, diverse and relatively stable pledged revenue stream including both state and federal revenues sources, an additional bonds test for the senior lien bonds of 3.5 times based on total pledged revenues and 3 times based on pledged state revenues, an additional bonds test for the subordinate lien bonds of 3 times based on total pledged revenues, the essential purpose served by the State Road Fund (SRF), and a statutory non-impairment pledge by the state, which limits the risk of significant diversion of pledged revenue away from the SRF. Bond proceeds will be used to refund and terminate a \$120 million outstanding line of credit provided by Bank of America and fund roughly \$80 million of new transportation projects. The outlook for the bonds are stable.

**Credit Strengths:**

- Senior and subordinate lien on pledged revenues; The senior lien bonds are junior only to a modest amount of prior debt issued under a separate bond program
- Healthy debt service coverage from total pledged revenues
- Large, diverse pool of pledged revenue sources
- Additional bonds test for senior lien of 3.5 times based on total pledged revenues and 3 times based on pledged state revenues; additional bonds test for subordinate lien of 3 times based on total revenues.
- Statutory non-impairment of pledged revenues by the state.

**Credit Challenges:**

- Pledged federal revenues are subject to both economic volatility and reauthorization risk
- Weakening in pledged revenues due to economic slowdown
- Negative impact of Native American tax exemptions on State Road Fund revenues

**PLEGGED STATE REVENUES INCLUDE FUEL TAXES AND MOTOR VEHICLE RELATED FEES.**

State source pledged revenues consist of gasoline taxes, special fuel taxes, vehicle transaction taxes or fees, drivers 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 required by state law to be deposited in the SRF and leased vehicle gross receipts taxes and tire recycling fees as required by law to be paid into the Highway Infrastructure Fund (HIF). Ninety five percent of the SRF revenues are derived from four sources: gasoline taxes, special fuel taxes, weight distance taxes, and vehicle registration fees. While the state's population growth and, until recently, above average economic growth contributed to increased fuel consumption and vehicle registrations, (between fiscal 2005 through

fiscal 2009, average annual SRF revenue growth was about 3.74%) the current economic climate has moderated the growth in two of the largest revenue sources for the SRF, special fuel tax and vehicle registration fees. In fiscal 2009 special fuel taxes declined by \$16 million, or 16%. Revenues are projected to decline by \$3.8 million or 4% in fiscal 2010. Vehicle registration fees declined by \$1 million, or 1% in fiscal 2009 and are expected to have less than 1% growth in fiscal 2010, while the single largest revenue source, gasoline taxes grew by less than 1% in both fiscal 2009 and fiscal 2010.

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#### NATIVE AMERICAN GASOLINE TAX EXEMPTIONS REDUCE STATE ROAD FUND REVENUES

Exemptions to the state's gasoline excise taxes are granted to registered Native American distributors, with a limit set by legislation at 30 million gallons per distributor, per year. The New Mexico Taxation and Revenue Department has certified only two distributors as eligible for this exemption. Exemptions are also granted to retailers on reservations that are subject to Native American government gas taxes. For fiscal year 2010, these exemptions resulted in a loss to the Road Fund of about \$7.7 million.

The state has entered into a "gasoline tax sharing agreements" with the two registered Native American wholesale distributors, under which the wholesalers agree not to engage in gasoline wholesale activity for ten years in exchange for a distribution of revenue equal to forty percent of the gasoline tax imposed on 30 million gallons per year. The state hopes that negotiating these agreements will reduce volatility in gas tax collections.

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Richardson's Investment Partnership) program, a new transportation/ economic development initiative that included increased funding for transportation projects from increases to transportation related taxes and fees.

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The senior and subordinate lien Transportation Revenue Bonds have a lien on state source pledged revenues that is subordinate to the outstanding Commission Tax Revenue Highway Bonds and Highway Infrastructure Fund (HIF) Revenue Bonds. The Highway Infrastructure Fund Revenue Bonds' lien on SRF state revenues is on parity with Senior Subordinate Lien Tax Revenue Highway Bonds, and the bonds are also backed by HIF revenues consisting of about \$7 million in leased vehicle gross receipts taxes and tire recycling fees.

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#### Outlook

The credit outlook for the Authority's Transportation Revenue Bonds is stable. The outlook reflects the size and long term trends of growth and relative stability of the pledged state revenue stream, which is expected to provide continued good coverage of debt service notwithstanding planned additional issuance.

What could change the rating - UP

-Structural changes that strengthen the bonding program, such as stronger additional bonds tests

What could change the rating - DOWN

-Significant declines in pledged revenues as a result of economic shifts or state or federal legislative changes that cause a major reduction in coverage levels

#### LAST RATING ACTION

The last rating action with respect to the New Mexico Finance Authority's State Transportation Revenue Bonds was on October 9th 2009 when the municipal scale rating of Aa2 was assigned to the Series 2009A Senior Lien Bonds. The rating was subsequently recalibrated to Aa1 on April 16.

#### PRINCIPAL METHODOLOGY

The rating on the current issue was assigned by evaluating factors we believe are relevant to the credit profile of the issuer, such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals, v) the debt service coverage provided by such revenue stream, vi) the legal structure that documents the revenue stream and the source of payment, and viii) the issuer's management and governance structure related to the payment. These attributes were compared against other issuers both within and outside of the New Mexico Finance Authority's Transportation Revenue Bond core peer group. The New Mexico Finance Authority's Transportation Revenue Bond ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

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**Rating Action: Moody's assigns Aa1 rating to New Mexico's State Transportation Refunding Revenue Bonds (Senior Lien) Series 2012**

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Global Credit Research - 14 Nov 2012

**Approximately \$1.6 billion parity senior and subordinate lien bonds outstanding following current offering; outlook is stable**

New York, November 14, 2012 --

Moody's Rating

Issue: State Transportation Refunding Revenue Bonds (Senior Lien) Series 2012; Rating: Aa1; Sale Amount: \$215,510,000; Expected Sale Date: 12-3-2012; Rating Description: Special Tax: Transportation-Related

Opinion

Moody's Investors Service has assigned a Aa1 rating to the State of New Mexico's State Transportation Refunding Revenue Bonds (Senior Lien) Series 2012, to be issued through the New Mexico Finance Authority in an estimated amount of \$215.5 million. Proceeds of the bonds will refund outstanding debt, including senior lien bonds and prior lien (closed lien) bonds, for debt service savings. Following this refunding, the state will have approximately \$970 million parity senior lien transportation revenue bonds, including the current offering, and \$640 million subordinate lien transportation revenue bonds outstanding. The state will no longer have any prior lien (closed lien) bonds outstanding. The subordinate lien bonds are rated Aa2 , and the outlook on both liens is stable.

**SUMMARY RATING RATIONALE**

Following the refunding of the remaining prior lien bonds, the senior lien bonds are secured by a first lien on both state road and highway revenues, consisting primarily of gasoline and diesel fuel taxes, and federal highway aid received by the state. The Aa1 rating on the senior lien bonds reflects ample coverage of debt service by pledged revenues and a strong additional bonds test, balanced against stagnant state revenue, reauthorization risk for federal revenues, and significant variable rate and swap exposure at the subordinate level. In July, the NMFA announced that it was withdrawing its previously released audit for fiscal 2011. We do not believe that the lack of a 2011 audit or related questions about NMFA's internal controls and financial management affect the credit quality of the transportation revenue bonds.

**STRENGTHS**

- \* Ample coverage of peak debt service by total pledged revenues and by state revenues alone
- \* Relatively rapid payout of the transportation revenue bonds, combined with no additional new money borrowing plans
- \* Strong additional bonds test

**CHALLENGES**

- \* Stagnant state highway revenues resulting from the economic downturn and improving fuel efficiency
- \* Reauthorization and budget risk for the federal revenues
- \* Significant variable rate and swap exposure, all at the subordinate level

**OUTLOOK**

The outlook for New Mexico's transportation revenue bonds stable, reflecting ample levels of coverage, and the absence of additional new money borrowing plans.

**WHAT COULD MAKE THE RATING GO UP**

\* Structural changes that result in a significant and permanent improvement in coverage

#### WHAT COULD MAKE THE RATING GO DOWN

\* Significant decline in pledged revenues as a result of economic weakness, or state or federal legislative changes

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in March 2012. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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**New Issue: Moody's assigns Aa2 to New Mexico subordinate Transportation Revenue Bonds, Ser. 2014A; outlook stable**

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Global Credit Research - 04 Feb 2014

**Approximately \$1.5 billion senior and subordinate bonds outstanding after current sale**

NEW MEXICO FINANCE AUTHORITY  
State Governments (including Puerto Rico and US Territories)  
NM

**Moody's Rating**

<b>ISSUE</b>		<b>RATING</b>
State Transportation Revenue Bonds (State Transportation Commission--Subordinate Lien) Series 2014A		Aa2
<b>Sale Amount</b>	\$75,205,000	
<b>Expected Sale Date</b>	02/26/14	
<b>Rating Description</b>	Special Tax: Transportation-Related	

**Moody's Outlook** STA

**Opinion**

NEW YORK, February 04, 2014 --Moody's Investors Service has assigned a Aa2 rating to the State of New Mexico's State Transportation Revenue Bonds (State Transportation Commission - Subordinate Lien) Series 2014A, to be issued through the New Mexico Finance Authority in an estimated amount of \$75.2 million. Proceeds of the bonds will be used to fund transportation projects. Following this issuance, the state will have approximately \$893 million of senior lien transportation revenue bonds and \$623 million of subordinate lien transportation revenue bonds, including the 2014A bonds, outstanding. The senior lien bonds are rated Aa1 and the outstanding subordinate lien bonds are rated Aa2. The outlook on both liens is stable.

**SUMMARY RATING RATIONALE**

The senior and subordinate lien bonds are secured by first and second liens, respectively, on both state road and highway revenues, consisting primarily of gasoline and diesel fuel taxes, and federal highway aid received by the state. The Aa1 and Aa2 ratings reflect ample coverage of debt service by pledged revenues and strong additional bonds tests, balanced against stagnant state revenues, reauthorization risk for federal revenues, and significant variable rate and swap exposure at the subordinate level.

**STRENGTHS**

- \* Ample coverage of peak debt service by total pledged revenues and by state revenues alone
- \* Relatively rapid payout of the transportation revenue bonds, lack of additional borrowing plans
- \* Strong additional bonds tests

**CHALLENGES**

- \* Stagnant state highway revenues resulting from the economic downturn and improving fuel efficiency
- \* Reauthorization and budget risk for the federal revenues
- \* Significant variable rate and swap exposure, all at the subordinate level

## DETAILED CREDIT DISCUSSION

### SENIOR AND SUBORDINATE LIEN BONDS SECURED BY FIRST AND SECOND LIENS ON BOTH STATE ROAD AND HIGHWAY REVENUES AND FEDERAL HIGHWAY AID; COVERAGE FOR BOTH LIENS IS AMPLE

The senior and subordinate lien bonds are secured by first and second liens, respectively, on both: (1) state road and highway revenues and (2) federal highway aid received by the state. Approximately 54% of the state road and highway revenues consist of gasoline and special fuel (diesel) taxes. The balance of the state revenues consist of weight/distance fees assessed on trucks, registration fees, license fees and other transportation-related fees. State revenues totaled \$381 million in 2013. Due to the effects of the economic downturn and improving fuel economy, state revenues have been stagnant in recent years. The compound average annual change in state revenues from 2008 to 2013 was negative 0.4%.

Federal highway aid consists of all aid received by the state from the federal government for highway construction, improvement and maintenance projects. Federal aid equaled \$328 million in 2013. Although federal highway aid has generally trended upward, it is highly variable from year to year and subject to reauthorization and budget risk at the federal level.

Total 2013 state and federal revenues provide 6.05 times coverage of peak debt service on the senior bonds and 4.02 times coverage of peak debt service on the senior and subordinate bonds combined, including projected debt service on the 2014A bonds. State revenues for 2013 plus average federal revenues from 2009 to 2013 provide 5.97 times and 3.97 times coverage, respectively. State revenues alone for 2013 provide 3.25 times coverage of peak debt service on the senior bonds and 2.16 times peak debt service on the senior and subordinate bonds combined, including projected debt service on the 2014A bonds.

### ADDITIONAL BONDS TEST IS STRONG

The issuance of additional senior lien bonds is governed by a two-pronged test: (1) total pledged revenues (state and federal) must provide 3.5 times coverage of peak debt service on the senior lien bonds, and (2) state revenues alone must provide 3.0 times coverage. Additional subordinate lien bonds may be issued if total revenues provide 3.0 times coverage of peak debt service on the senior and subordinate lien bonds combined. The state currently has no plans to issue additional debt. Outstanding principal is retired relatively rapidly, with final maturity for all series except the 2014A bonds in 2027. Final maturity for the 2014A bonds is in 2032.

### VARIABLE RATE DEBT AND SWAP EXPOSURE IS SIGNIFICANT

The state has \$420 million variable rate transportation revenue bonds, all subordinate lien. This represents a significant 27.7% of total debt and 67.5% of subordinate lien debt. Interest rate risk is hedged with \$420 million in interest rate swaps. The swaps hedge interest rate risk but add counterparty risk and make it difficult for the state to reduce its variable rate exposure. The termination value for the swaps as of January 14, 2014, was \$89.1 million.

DOT and NMFA have taken steps to reduce the risks associated with the variable rate debt. In 2011, DOT and NMFA acted to decrease exposure to a put by converting \$284.8 million of variable rate demand bonds to floating rate notes. In addition, DOT has a \$50 million line of credit with Bank of America to meet any collateral posting requirements on the swaps.

### OUTLOOK

The outlook for New Mexico's transportation revenue bonds is stable, reflecting ample levels of coverage, and the absence of additional borrowing plans.

### WHAT COULD MAKE THE RATING GO UP

\* Structural changes that result in a significant and permanent improvement in coverage

### WHAT COULD MAKE THE RATING GO DOWN

\* Significant decline in pledged revenues as a result of economic weakness, or state or federal legislative changes

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in March 2012. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.



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**New Issue: Moody's assigns Aa1/Aa2 to \$85M New Mexico senior/subordinate transportation bonds; outlook stable**

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Global Credit Research - 20 Nov 2014

**\$1.4B senior and subordinated bonds outstanding**

NEW MEXICO (STATE OF)  
State Governments (including Puerto Rico and US Territories)  
NM

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
State Transportation Refunding Revenue Bonds (Senior Lien) Series 2014B-1	Aa1
<b>Sale Amount</b>	\$66,320,000
<b>Expected Sale Date</b>	12/09/14
<b>Rating Description</b>	Special Tax: Transportation-Related
State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2014B-2	Aa2
<b>Sale Amount</b>	\$18,320,000
<b>Expected Sale Date</b>	12/09/14
<b>Rating Description</b>	Special Tax: Transportation-Related

**Moody's Outlook**

**Opinion**

NEW YORK, November 20, 2014 --Moody's Investors Service has assigned a Aa1 rating to the State of New Mexico's State Transportation Refunding Revenue Bonds (Senior Lien) Series 2014B-1 and a Aa2 rating to its State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2014B-2. The bonds will be issued through the New Mexico Finance Authority in estimated amounts of \$66.3 million and \$18.3 million, respectively. Proceeds will refund outstanding senior and subordinate debt for debt service savings. Following this issuance, the state will have \$849 million of senior lien transportation revenue bonds outstanding, all rated Aa1, and \$586 million of subordinate lien transportation revenue bonds outstanding, all rated Aa2. The outlook on both liens is stable.

**SUMMARY RATING RATIONALE**

The senior and subordinate lien bonds are secured by first and second liens, respectively, on both state highway revenues, consisting primarily of fuel taxes and various transportation-related fees, and federal highway aid received by the state. The Aa1 and Aa2 ratings reflect ample coverage of debt service by pledged revenues and strong additional bonds tests, balanced against stagnant state revenues, reauthorization risk for federal revenues, and significant variable rate and swap exposure at the subordinate level.

**STRENGTHS**

- \* Ample coverage of peak debt service by total pledged revenues and by state revenues alone
- \* Relatively rapid payout of the transportation revenue bonds, lack of additional borrowing plans
- \* Strong additional bonds tests

**CHALLENGES**

- \* Stagnant state highway revenues resulting from the economic trends and improving fuel efficiency
- \* Reauthorization and budget risk for the federal revenues
- \* Significant variable rate and swap exposure, all at the subordinate level

#### DETAILED CREDIT DISCUSSION

#### SENIOR AND SUBORDINATE LIEN BONDS SECURED BY FIRST AND SECOND LIENS ON BOTH STATE HIGHWAY REVENUES AND FEDERAL HIGHWAY AID; COVERAGE FOR BOTH LIENS IS AMPLE

The senior and subordinate lien bonds are secured by first and second liens, respectively, on both: (1) state road and highway revenues and (2) federal highway aid received by the state. In 2014, approximately 53% of the state road and highway revenues consisted of gasoline and special fuel (diesel) taxes. The balance of the state revenues consisted of weight/distance fees assessed on trucks, registration fees, license fees and other transportation-related fees. State revenues totaled \$381 million in both 2013 and 2014. Due to economic trends and improving fuel efficiency, state revenues have been stagnant in recent years. The compound average annual growth in state revenues from 2009 to 2014 was 0.6%.

Federal highway aid consists of all aid received by the state from the federal government for highway construction, improvement and maintenance projects. Federal aid equaled \$405 million in 2013 and \$373 million in 2014. Although federal highway aid has generally increased, it is highly variable from year to year and subject to reauthorization and budget risk at the federal level.

Total 2014 state and federal revenues provide 6.45 times coverage of peak debt service on the senior bonds and 4.29 times coverage of peak debt service on the senior and subordinate bonds combined, following the current refunding. State revenues for 2014 plus average federal revenues from 2010 to 2014 provide 6.23 and 4.14 times coverage, respectively. State revenues alone for 2014 provide 3.26 times coverage of peak debt service on the senior bonds and 2.17 times peak debt service on the senior and subordinate bonds combined.

#### ADDITIONAL BONDS TEST IS STRONG

The issuance of additional senior lien bonds is governed by a two-pronged test. Total pledged revenues (state and federal) must provide 3.5 times coverage of peak debt service on the senior lien bonds, and state revenues alone must provide 3.0 times coverage. Additional subordinate lien bonds may be issued if total revenues provide 3.0 times coverage of peak debt service on the senior and subordinate lien bonds combined. The state currently has no plans to issue additional debt. Outstanding principal is retired relatively rapidly, with final maturity for all series except the subordinate lien 2014A bonds in 2027. Final maturity for the 2014A bonds is in 2032.

#### VARIABLE RATE DEBT AND SWAP EXPOSURE IS SIGNIFICANT

The state has \$420 million variable rate transportation revenue bonds, all subordinate lien. This represents a significant 29% of total debt and 71% of subordinate lien debt after the issuance of the 2014B-1 and B-2 bonds. These percentages will increase over time because the variable rate debt has longer maturities than the fixed rate debt. Interest rate risk is hedged with \$420 million in interest rate swaps. The swaps hedge interest rate risk but add counterparty risk and make it difficult for the state to reduce its variable rate exposure. The termination value for the swaps as of November 10, 2014, was \$106.6 million.

The state Department of Transportation and NMFA have taken steps to reduce the risks associated with the variable rate debt. In 2011, DOT and NMFA acted to decrease exposure to a put by converting \$284.8 million of variable rate demand bonds to floating rate notes. In addition, DOT has a \$50 million line of credit with Bank of America, N.A. to meet any collateral posting requirements on the swaps. The outstanding balance on the line of credit is \$10.2 million.

#### OUTLOOK

The outlook for New Mexico's transportation revenue bonds is stable, reflecting ample levels of coverage, and the absence of additional borrowing plans.

#### WHAT COULD MAKE THE RATING GO UP

- \* Structural changes that result in a significant and permanent improvement in coverage

## WHAT COULD MAKE THE RATING GO DOWN

\* Significant decline in pledged revenues as a result of economic weakness, or state or federal legislative changes

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in January 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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