

Rating Action: Moody's assigns Aa1 to New Mexico's senior lien transportation refunding revenue bonds, 2022A; outlook stable

23 Mar 2022

New York, March 23, 2022 – Moody's Investors Service has assigned a Aa1 rating to the State of New Mexico's State Transportation Refunding Revenue Bonds (State Transportation Commission - Senior Lien), Series 2022A, to be issued through the New Mexico Finance Authority in an estimated amount of \$46.8 million. Following this refunding, the state will have approximately \$274.5 million senior lien transportation revenue bonds outstanding and approximately \$719.6 million subordinate lien transportation revenue bonds outstanding rated Aa2. The outlook is stable.

RATINGS RATIONALE

The Aa1 and Aa2 ratings on the senior and subordinate lien transportation revenue bonds reflect a relatively broad pledge of state and federal revenues that have been resilient during the coronavirus pandemic. The ratings are supported by our expectation that ample coverage of debt service by total pledged revenues, and by state revenues alone, will continue, given the absence of additional borrowing plans. Additional credit strengths include constitutional protection of pledged transportation revenues and strong legal separation between the pledged transportation revenues and the state's general fund. These strengths are balanced against periodic reauthorization risk for federal revenues.

RATING OUTLOOK

The stable outlook is based on the expectation that pledged revenues will continue to grow moderately and provide sound debt service coverage on the transportation revenue bonds.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

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

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Significant decline in coverage as a result of prolonged economic weakness, federal legislative changes, or the issuance, not currently anticipated, of a large amount of additional debt.

LEGAL SECURITY

The senior and subordinate lien bonds are secured by first and second liens, respectively, on both: state road and highway revenues and federal highway aid received by the state. In fiscal 2021, approximately 51% of the state road and highway revenues consisted of gasoline and special fuel (diesel) taxes, and the balance consisted of weight/distance fees assessed on trucks, registration fees, license fees and other transportation-related fees. Federal highway aid consists of all aid received by the state from the federal government for highway construction, improvement, and maintenance projects.

USE OF PROCEEDS

Proceeds of the Series 2022A refunding revenue bonds will refund a portion of the State Transportation Refunding Revenue Bonds (State Transportation Commission-Senior Lien), Series 2012 outstanding for debt service savings.

PROFILE

New Mexico has a population of 2.1 million. Its real gross domestic product, \$95.6 billion as of Q3 2021, is the 38th-largest. The state's wealth levels are below average, with per capita personal income equal to 85% of the US level when adjusted for regional cost of living. The state is the second-largest producer of crude oil and seventh-largest producer of natural gas in the US.

The New Mexico Finance Authority is a governmental instrumentality created by the state legislature to coordinate the planning and financing of state and local public projects.

The New Mexico Department of Transportation (NMDOT) is a cabinet level department within the executive branch of the government of the state, responsible for maintaining U.S., Interstate and state highways within the state and administering state and federal transportation funds. NMDOT is a multimodal transportation agency with emphasis on all modes of transportation.

METHODOLOGY

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in January 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1260087. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Xing Chen Zhu

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