

CREDIT OPINION

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New Mexico (State of)

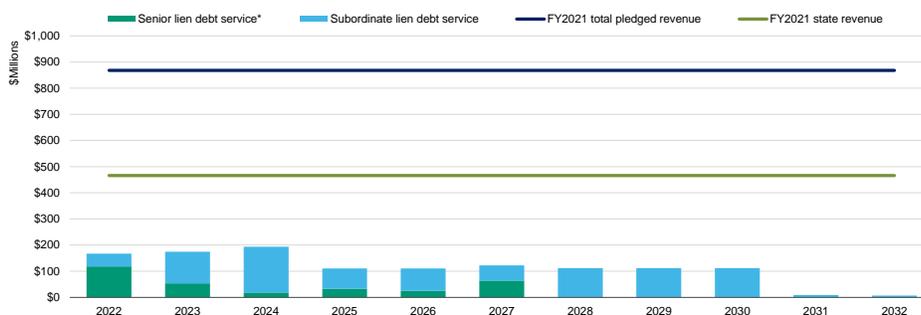
Update to credit analysis – state transportation revenue bonds

Summary

[New Mexico's](#) transportation revenue bonds (Aa1 stable senior lien, Aa2 stable subordinate line), issued through the New Mexico Finance Authority, benefits from a broad pledge of state and federal transportation revenues that have been resilient through economic cycles and the ongoing pandemic. Pledged revenues will continue to provide ample debt service coverage on both liens of the transportation revenue bonds, given the absence of additional borrowing plans. Additional credit strengths include constitutional protection of pledged 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.

Exhibit 1

Total pledged revenues and state revenues alone provide ample coverage on the state's outstanding transportation revenue bonds that are rapidly amortizing



*Post the issuance of the senior lien refunding revenue bonds, Series 2022A
 Source: NM Department of Transportation; Moody's Investors Service

Credit strengths

- » Sound debt service coverage by total pledged revenues and by state revenues alone
- » Rapid payout of outstanding bonds and the absence of additional borrowing plans
- » Strong constitutional protection of pledged transportation revenues
- » Demonstrated resilience of revenues throughout economic cycles and the coronavirus pandemic

Credit challenges

- » Historically slow growth of state transportation revenues
- » 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

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

Factors that could lead to a downgrade

- » Significant decline in pledged revenues and/or coverage as a result of prolonged economic weakness, federal legislative changes, or the issuance of additional debt

Key indicators

Exhibit 2

New Mexico Transportation Revenue Bonds		FY 2017		FY 2018		FY 2019		FY 2020		FY 2021
Pledged Revenue (\$000s)	\$	786,091	\$	814,322	\$	854,880	\$	852,575	\$	867,965
Percent Change in Pledged Revenues		0.3%		3.6%		5.0%		-0.3%		1.8%
Senior Lien Debt Service Coverage (x)		7.00 x		7.13 x		7.48 x		7.42 x		7.63 x
Total Annual Debt Service Coverage (x)		4.98 x		5.27 x		5.54 x		5.49 x		5.71 x
Total Bonds Outstanding (\$000s)		1,188,295		1,091,460		988,170		811,060		763,600
Debt as % of Pledged Revenue		151.2%		134.0%		115.6%		95.1%		88.0%
Additional Bonds Test (x) (Sr/Sub)		3.5x / 3.0x								

Source: NM Department of Transportation; Moody's Investors Service

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 US, Interstate and state highways within the state and administering state and federal transportation funds.

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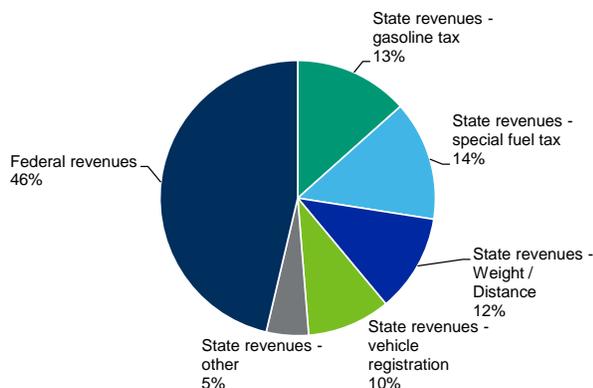
Detailed credit considerations

Tax base and nature of the pledge

The senior- and subordinate-lien transportation revenue bonds are secured by first and second liens, respectively, on a relatively diverse mix of revenues received by the New Mexico Department of Transportation (see Exhibit 3). Pledged revenues include: state road and highway revenues ("state revenues") and federal highway aid received by the state ("federal revenues").

Exhibit 3

Pledged revenues includes state and federal revenues Fiscal 2021

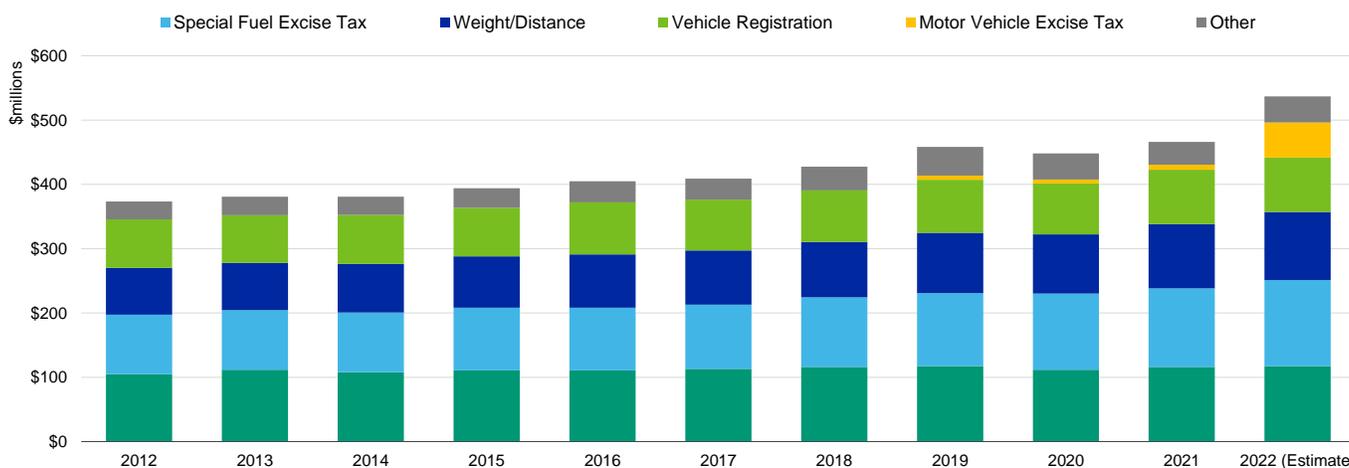


Source: NM Department of Transportation; Moody's Investors Service

Gasoline and special fuel taxes contributed 25% and 26% of state revenues in fiscal 2021, respectively, and the balance of state revenues consisted of weight/distance fees assessed on trucks, registration fees, license fees and other transportation-related fees. Due to economic trends and improving fuel efficiency, overall state revenues have shown only modest growth over the last decade, with a compound annual growth rate of 2.1% between 2011 and 2021. Positively, state revenues demonstrated resilience during the coronavirus pandemic and only contracted by 2.2% in fiscal 2020 before recovering 4.0% in fiscal 2021. Fiscal 2022 state revenues will increase by an estimated 15.2%, primarily driven by an increase in the allocation of motor vehicle excise tax to the State Road Fund effective July 2021, authorized in 2019.

Exhibit 4

State revenues will increase in fiscal 2022, benefitting from an increase in the allocation of motor vehicle excise tax to the State Road Fund



Source: NM Department of Transportation; Moody's Investors Service

Federal highway aid, at \$402.0 million in fiscal 2021, consists of all aid received by the state from the federal government for highway construction, improvement and maintenance projects. Federal highway aid has also shown only modest growth over time: the compound

annual growth rate for federal revenues from 2011 to 2021 was 2.6%. This revenue source has been somewhat variable from year to year and is subject to periodic reauthorization risk. Under the Infrastructure Investment and Jobs Act, federal revenues pledged to the transportation revenue bonds are estimated to grow by 21% in fiscal 2022 and increase by 2% annually thereafter through fiscal 2026.

Debt service coverage and revenue metrics

Debt service coverage on both liens of the transportation revenue bonds will remain ample, supported by likely moderate revenue growth and the rapid payout of outstanding debt.

Fiscal 2021 total pledged revenues provide 7.3 times coverage of peak debt service on the senior bonds and 4.5 times coverage of peak debt service on the senior and subordinate bonds combined, following the planned Series 2022A refunding. Fiscal 2021 state revenues alone provide 3.9 times coverage of peak debt service on the senior bonds and 2.4 times peak debt service on the senior and subordinate bonds combined.

Liquidity

Pledged state and federal revenues provide strong debt service coverage and are legally separate from the state's general fund. A constitutional provision prevents the legislature from reducing or diverting pledged revenues as long as the bonds are outstanding.

Debt and legal covenants

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.

Debt structure

Following the issuance of the Series 2022A senior lien refunding bonds, the state will have approximately \$274.5 million senior lien transportation revenue bonds and approximately \$719.6 million subordinate lien transportation revenue bonds outstanding. Payout is rapid, with 58% of principal scheduled to be repaid in five years and all bonds repaid by 2032.

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 remaining authorization to issue additional transportation revenue bonds.

Debt-related derivatives

The state no longer has any variable rate or swap exposure associated with its transportation revenue bonds.

Pensions and OPEB

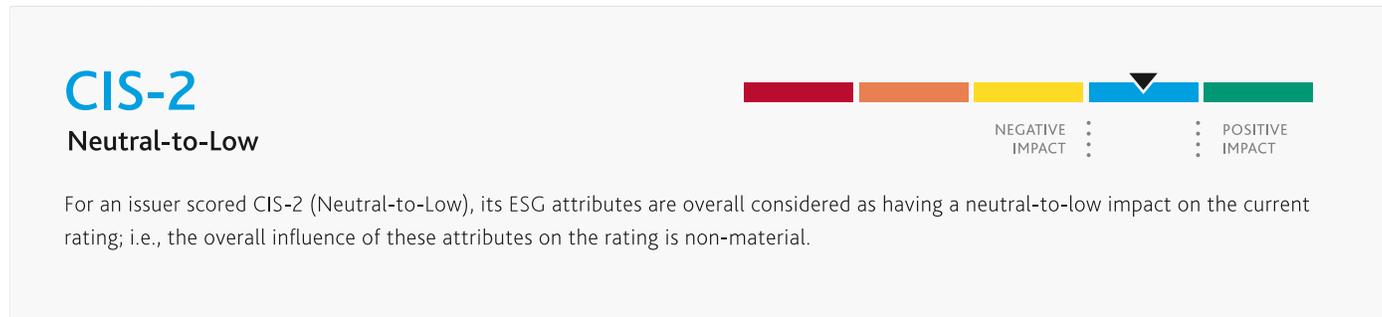
Pensions and OPEB are not a major factor in Moody's special tax methodology.

ESG considerations

NEW MEXICO (STATE OF)'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 5

ESG Credit Impact Score



Source: Moody's Investors Service

New Mexico's ESG Credit Impact Score is neutral-to-low (**CIS-2**) reflecting its neutral-to-low exposure to environmental risks, moderately negative social risks and neutral governance profile.

Exhibit 6

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

New Mexico's E issuer profile score is currently neutral-to-low (**E-2**). However, over the long-term, the state has above average exposure to water and heat stress. Given its reliance on the oil and gas industry, the state is also vulnerable to increasing global initiatives to curb carbon emissions.

Social

New Mexico's S issuer profile score is moderately negative (**S-3**). New Mexico's income levels and rate of economic growth are below average, particularly compared to other western states.

Governance

New Mexico's G issuer profile is neutral-to-low (**G-2**). The state has many governance best practices, including a consensus revenue forecasting process, multi-year revenue projections, and timely budget adoption. The state budgets on a GAAP basis, which generally results in stronger reserves and cash balances than cash-basis budgeting. In addition, the state has established a Rainy Day Fund to capture growth in oil- and gas-related general fund revenues.

The governing body of NMDOT is a six person State Highway Commission. Commissioners are appointed by the Governor, with the advice and consent of the Senate, and each serves for staggered six-year. The commission is responsible for all matters of policy for NMDOT and all policy matters pertaining to the expenditure of the State Road Fund and Highway Infrastructure Fund in the construction, improvement and maintenance of State highways and bridges

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

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