CREDIT OPINION
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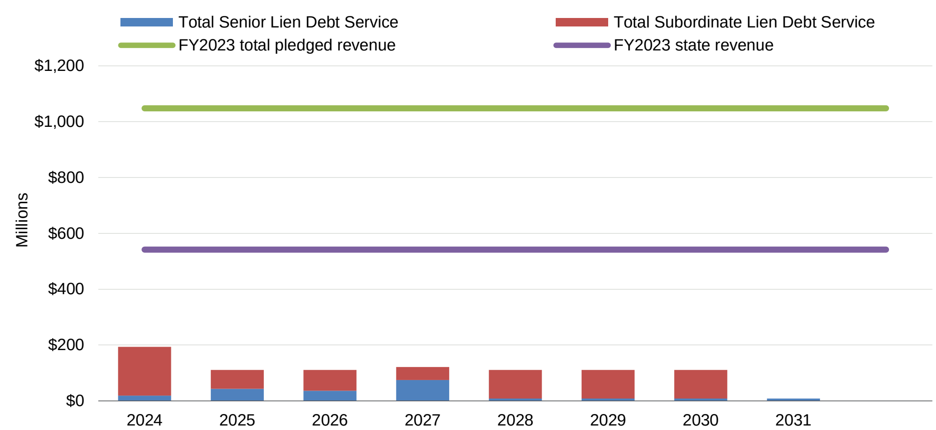
New Mexico (State of)

Update to credit analysis – state transportation revenue bonds

Summary

New Mexico's transportation revenue bonds (Aa1 stable senior lien, Aa2 stable subordinate lien), issued through the New Mexico Finance Authority, benefits from a broad pledge of state and federal transportation revenues that have been historically resilient through economic cycles. 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



Source: New Mexico Department of Transportation; Moody's Ratings

Credit strengths

- Strong 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

Credit challenges

- Some historic declines of pledged 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 strong 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 2019	FY 2020	FY 2021	FY 2022	FY 2023
Pledged Revenue ($000s)	$ 854,880	$ 852,575	$ 867,965	$ 1,025,370	$ 1,047,896
Percent Change in Pledged Revenues	5.0%	-0.3%	1.8%	18.1%	2.2%
Senior Lien Debt Service Coverage (x)	7.48 x	7.42 x	7.63 x	8.63x	19.54x
Total Annual Debt Service Coverage (x)	5.54 x	5.49 x	5.71x	6.13x	6.00x
Total Bonds Outstanding ($000s)	988,170	811,060	763,600	873,310	742,760
Debt as % of Pledged Revenue	115.6%	95.1%	88.0%	85.2%	70.9%
Additional Bonds Test (x) (Sr/Sub)	3.5x / 3.0x	3.5x / 3.0x	3.5x / 3.0x	3.5x / 3.0x	3.5x / 3.0x

Source: NM Department of Transportation; Moody's Ratings

Profile

New Mexico has a population of 2.1 million. Its real GDP was $105.5 billion as of 2023. The state's wealth levels are below average, with per capita personal income equal to 87% of the US level after adjusting for the regional cost of living. The state is the second largest producer of crude oil and a top-10 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.

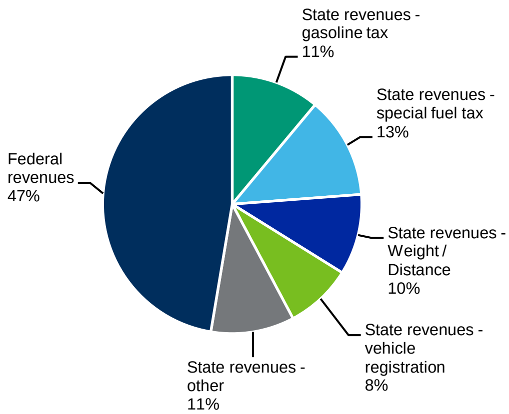
The New Mexico Department of Transportation (NMDOT) is a cabinet level department within the executive branch of the government of the state, responsible for maintaining US, Interstate and state highways within the state and administrating state and federal transportation funds.

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").

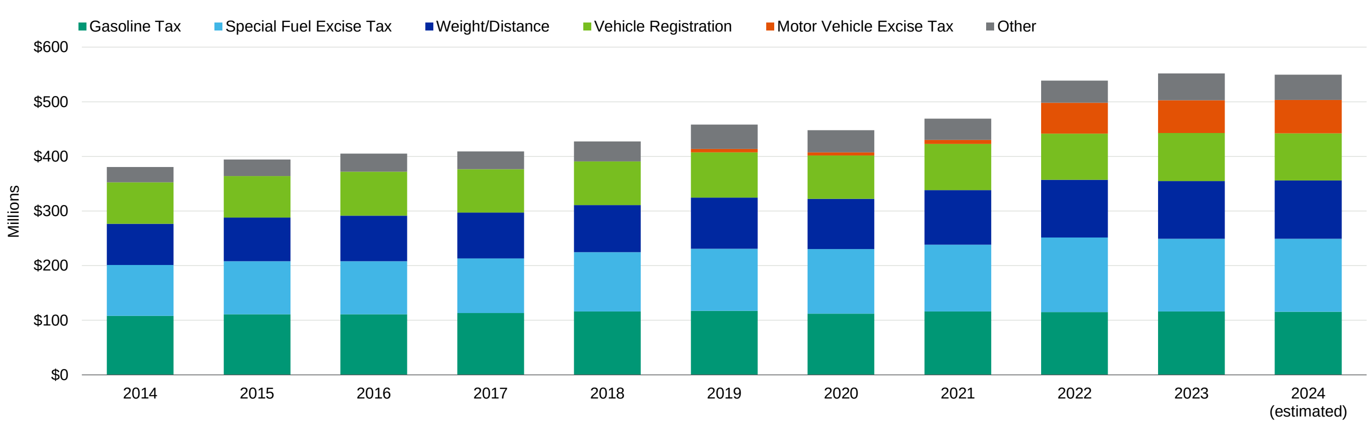
Exhibit 3
Pledged revenues include state and federal revenues
Fiscal 2023



Source: NM Department of Transportation; Moody's Ratings

Gasoline and special fuel taxes contributed 21% and 24% of state revenues in fiscal 2023, respectively, and the remaining 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 3.8% between 2013 and 2023. The DOT has taken steps to enhance pledged state revenues by increasing the allocation of the motor vehicle excise tax which is now the fifth largest state revenue source (see exhibit 4) at $60.3 million or 11% of state revenues. While the adoption of alternative fuel vehicles are growing rapidly, they still constitute a very small 2.5% of total vehicles in 2023, up from 1.8% in 2019. Additionally, the DOT is discussing alternative fee structures which would mitigate lost revenue from lower gas consumption and keep state revenues stable.

Exhibit 4
State revenues increased in fiscal 2022 and the years following due to an increase in the allocation of motor vehicle excise tax to the State Road Fund



Source: NM Department of Transportation; Moody's Ratings

Federal highway aid, at $496.2 million in fiscal 2023, consists of all aid received by the state from the federal government for highway construction, improvement and maintenance projects. Federal highway aid has shown more modest growth over time: the compound annual growth rate for federal revenues from 2013 to 2023 was 1.9%. This revenue source is subject to periodic reauthorization risk. Under the Infrastructure Investment and Jobs Act, federal revenues pledged to the transportation revenue bonds grew by an initial 21% in fiscal 2022 and then 2% in 2023. It is estimated to continue to increase at 2% annually 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 moderate revenue growth, rapid payout of outstanding debt, and no plans at this time to issue additional debt.

Fiscal 2023 total pledged revenues provide 19.5 times coverage of peak debt service on the senior bonds and 5.4 times coverage of peak debt service on the senior and subordinate bonds combined. Fiscal 2023 state revenues alone provide 8.6 times coverage of peak debt service on the senior bonds and 2.8 times peak debt service on the senior and subordinate bonds combined.

These numbers will remain stable and strong in the near term with total pledged revenues providing 13.95 times coverage of peak debt service on senior bonds in 2027 and 5.4 times coverage of peak debt service on combined senior and subordinate bonds in 2024. Fiscal 2023 state revenues alone provide a still solid 7.2 times coverage of peak senior lien debt service in 2027 and 2.8 times coverage of combined senior and subordinate lien debt service in 2024.

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

As of fiscal 2023, the state had approximately $742.8 million in outstanding bond debt, composed of $123.3 million in senior lien debt and $619.5 million in subordinate lien debt. Payout is rapid, with all bonds repaid by 2032. After the planned refinancing transaction, the state will have roughly $579.2 million of outstanding debt, with $165.6 million of senior lien debt and $413.6 million of subordinate lien debt. The debt will mature in 2031.

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.

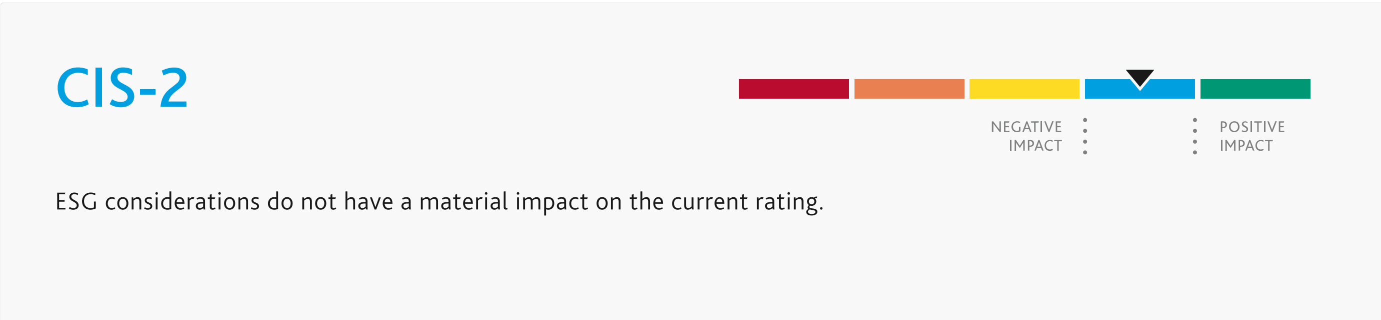
Pensions and OPEB

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 CIS-2

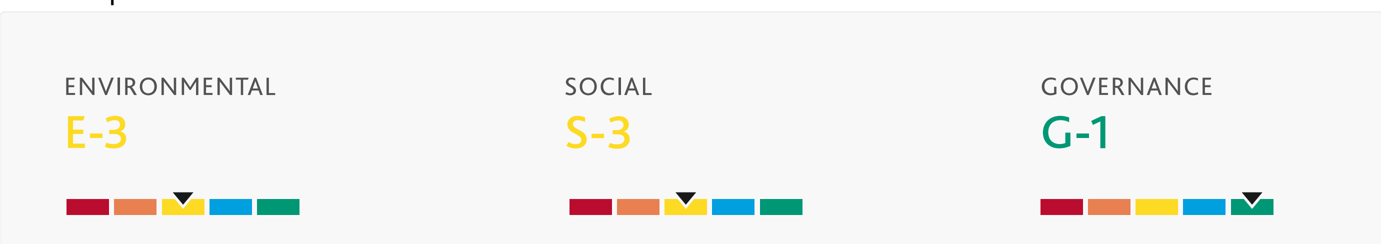
Exhibit 5
ESG credit impact score



Source: Moody's Ratings

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

Exhibit 6
ESG issuer profile scores



Source: Moody's Ratings

Environmental

New Mexico's E issuer profile score is **E-3**. Given its dependence on the oil and gas industry, the state is vulnerable to the transition to clean energy sources and away from carbon-intensive sources over the long run. The state also has elevated exposure to water stress and high exposure to wildfire risks, both of which jeopardize the health and safety of the public and hinder long-term economic growth. According to Moody's ESG Solutions, New Mexico ranks first among all 50-states in terms of its vulnerability to water shortage, with roughly 65% of its population and GDP exposed to "red flag" water stress (the most severe level), and the remainder exposed to "high" water stress. The state relies primarily on groundwater for its water source, but most areas are pumping water faster than can be replenished. Prolonged drought and rising temperature are also increasing the severity and frequency of wildfires. Positively, the New Mexico Office of the State Engineer has central authority over the supervision, measurement, appropriation and distribution of all surface and groundwater in New Mexico; the state has a comprehensive state water plan, updated periodically, that lays down policies for conservation and strategies for infrastructure repair and improvements. Mitigation strategies for drought also include demand management through reducing losses, reducing use and employing economic incentives.

Social

New Mexico's S issuer profile score is **S-3**. The state's education attainment and labor force participation are below median, contributing to relatively slower real economic growth and weak income levels. New Mexico's population growth has also lagged the nation consistently over the last decade, in part driven by net domestic out-migration, although this trend has moderated in recent years. The state has a higher old-age dependency ratio than the US, as it has both a larger share of population over the age of 65 and a lower share of population at prime working age. Notably, the state's working age population declined by around 2.3% cumulatively between 2012 and 2022, while its population over the age of 65 increased by 37.0% during this period. This can lead to a stagnant to shrinking work force and higher expenses related to Medicaid long term costs. Lastly, the state's violent crime rate is among the highest of all 50 states and it has a greater proportion of population without access to health insurance than average.

Governance

New Mexico's G issuer profile score is **G-1**. The state has many governance best practices including a consensus revenue forecasting process, multi-year revenue projections, and timely budget adoption. The state has a balanced budget requirement, and it budgets on a GAAP-basis, which generally results in stronger reserves and cash balances than cash basis budgeting. The state has prioritized stabilizing revenues, balancing budgets with recurring revenues, and rebuilding reserves in recent years, demonstrating fiscal prudence. Besides using permanent funds to smooth fluctuations in oil and gas related taxes and royalty contributions, New Mexico has introduced a number of tax revenue stabilization mechanisms to reduce the general fund from volatility in the energy industry: starting in fiscal 2019, revenues generated from the oil and gas emergency school tax in excess of the five-year average are required to be deposited into the Tax Stabilization Reserve. Legislation passed during the 2020 session further established an Early Childhood Trust Fund ("ECTF") and provided that excess oil and gas emergency school tax shall be distributed to the ECTF if state general fund reserves are equal to or greater than 25% of general fund recurring appropriations. Then, most recently, Senate Bill 26, approved in the 2023 legislative session further caps the amount of oil and gas revenue that goes into the general fund at fiscal 2024 levels, beginning in fiscal 2025, with revenues in excess of that amount to be deposited into the Severance Tax Permanent Fund. The state's debt management policies are conservative and recent steps taken to address its unfunded pension liabilities, including reducing return target, COLA adjustments and mandating increased employer and employee contributions, also evidence proactive fiscal management.

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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