STANDARD
&POOR'S

Global Credit Portal
RatingsDirect®

July 9, 2010

Summary:
New Mexico Financial Authority New Mexico State Transportation Commission; Letter of Credit

Primary Credit Analyst:
Beatriz Peguero, New York (1) 212-438-2164; beatriz_peguero@standardandpoors.com

Secondary Credit Analyst:
Edward Ubiera, New York (1) 212 438 2034; edward_ubiera@standardandpoors.com

Table Of Contents

Summary:

New Mexico Financial Authority New Mexico State Transportation Commission; Letter of Credit

Credit Profile

New Mexico Fin Auth , New Mexico		
New Mexico State Transp Comm, New Mexico		
New Mexico Fin Auth (New Mexico State Transp Comm) adj rate st transp rfdg rev bnds (Sub Lien) ser A-2		
Long Term Rating	A+/A-1	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) adj rate st transp rfdg rev bnds (Sub Lien) ser 2008B-2		
Long Term Rating	A+/A-1	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'A+/A-1' rating on New Mexico Financial Authority's (New Mexico State Transportation Commission) adjustable rate state transportation refunding revenue bonds (subordinate lien) variable-rate demand revenue bonds series 2008A-2 and 2008B-2, following the review of documents for a substitute letter of credit provided by Bank of America N.A. (A+/A-1) on July 2, 2010. The long-term and short-term components of the rating are now based on Bank of America N.A.

Related Criteria And Research

Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

August 2, 2010

Summary:

New Mexico Finance Authority's Series 2008C And 2008D Bonds Rating Raised To 'AAA/A-1+'; Joint Criteria

Primary Credit Analyst:
Louis F Louis, New York (1) 212-438-2054; louis_louis@standardandpoors.com

Secondary Credit Analyst:
Beatriz Peguero, New York (1) 212-438-2164; beatriz_peguero@standardandpoors.com

Table Of Contents

Summary:

New Mexico Finance Authority's Series 2008C And 2008D Bonds Rating Raised To 'AAA/A-1+'; Joint Criteria

Credit Profile

New Mexico Fin Auth , New Mexico

New Mexico State Transp Comm, New Mexico

New Mexico Fin Auth (New Mexico St Transp Comm) adj rate st transp rfdg rev bnds sub lien taxable ser 2008D		
Long Term Rating	AAA/A-1+	Upgraded
Unenhanced Rating	AA(SPUR)/Stable	Rating Assigned
New Mexico Fin Auth (New Mexico St Transp Comm) adj rate st transp rfdg rev bnds (subord lien) ser 2008C		
Long Term Rating	AAA/A-1+	Upgraded
Unenhanced Rating	AA(SPUR)/Stable	Rating Assigned

Rationale

Standard & Poor's Ratings Services raised its rating on New Mexico Finance Authority's (New Mexico State Transportation Commission) adjustable rate state transportation refunding revenue bonds (subordinated lien) series 2008C and 2008D to 'AAA/A-1+' from 'AA/A-1+' and 'AA-/A-1+, respectively, based on Standard & Poor's joint criteria (assuming medium correlation). The prior ratings were initially based just on the bank's letters of credit (LOCs). However, Standard & Poor's joint criteria provide a higher rating for the bonds when two unaffiliated entities are obligated to pay debt service. In this transaction, Wells Fargo Bank N.A. and the Royal Bank of Canada, issued LOCs for series 2008C and 2008D, respectively. The second obligor for debt service is the New Mexico State Transportation Commission. The bonds are subject to mandatory tender and redemption. While in the daily and weekly interest rate modes, bondholders have the right to tender their bonds for payment of principal and interest. Joint criteria was applied only to the long-term 'AAA' component of the rating. The short-term 'A-1+' component of the rating is based on the respective letter of credit banks.

Related Criteria And Research

Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

October 13, 2009

Summary:

New Mexico Finance Authority New Mexico State Transportation Commission; Gas Tax

Primary Credit Analyst:
Timothy Barrett, New York (1) 212-438-6327; timothy_barrett@standardandpoors.com

Secondary Credit Analyst:
Ian Carroll, San Francisco (1) 415-371-5060; ian_carroll@standardandpoors.com

Table Of Contents

Summary:

New Mexico Finance Authority New Mexico State Transportation Commission; Gas Tax

Credit Profile		
US$145.767 mil rfdg rev bnds (Sr-Lien) (New Mexico State Transp Comm) ser 2009 due 06/15/2017		
Long Term Rating	AA+/Stable	New
New Mexico State Transp Comm sr sub lien tax rev hwy bnds ser 1998A (Closed lien)		
Long Term Rating	AAA/Stable	Affirmed
New Mexico State Transp Comm sub lien tax rev hwy bnds ser 2002B dtd 01/01/2002 due 06/15/2002-2011 (Closed Lien)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New Mexico Fin Auth , New Mexico		
New Mexico State Transp Comm, New Mexico		
New Mexico Fin Auth (New Mexico State Transp Comm) gas tax (subord lien)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating, and stable outlook, to New Mexico Finance Authority's (NMFA) senior-lien state transportation refunding revenue bonds, series 2009A, issued for New Mexico State Transportation Commission, formerly known as New Mexico State Highway Commission.

At the same time, Standard & Poor's affirmed its 'AA+' long-term rating on the authority's parity series 2004A and 2006A senior-lien state transportation revenue bonds, issued for the commission.

In addition, Standard & Poor's affirmed its 'AAA' long-term rating and SPUR on the commission's outstanding closed senior subordinate-lien tax revenue highway bonds, a portion of which the 2009A senior-lien refunding bonds will repay. The closed-lien bonds are senior to all series 2004, 2006, and 2008 debt as well as the 2009 refunding bonds, and only state revenues secure them.

Standard & Poor's also affirmed its 'AA' underlying rating (SPUR) on NMFA's existing subordinate-lien bonds, including series 2004B, 2004C, 2006B, 2006C1-3, 2006D1-3, 2008C, and 2008D.

The 'A-1+' short-term rating on the 2008C and 2008D bonds reflects a liquidity facility provided by JPMorgan Chase Bank N.A. (AA-/Negative/A-1+).

The ratings reflect our assessment of the authority's:

- Long and stable trend in pledged state revenues, including nearly all vehicular-related fees and fuel taxes;
- Very strong historical and projected coverage; and
- Legal provisions that include additional bonds tests of 3x on closed-lien bonds and senior-lien maximum annual

debt service (MADS) from pledged state revenues and 3.5x from all state and federal pledged revenues (the additional bonds test also requires 3x combined closed-lien, senior-lien, and subordinate-lien MADS coverage from all state and federal pledged revenues).

State revenue sources that are susceptible to fuel consumption trends mitigate the strengths.

Pledged revenues for all series 2004, 2006, 2008, and 2009A bonds consist of taxes and fees that are required to be paid into the state road fund, taxes and fees that must be deposited into the highway infrastructure fund, and federal funds not otherwise obligated that are paid into the state road fund. State road fund revenues comprise gasoline, special fuel, and weight and distance taxes, as well as motor vehicle registration fees. Highway infrastructure fund revenues include leased vehicle gross receipts taxes. Federal funds indicate revenues received or available to the state department of transportation under federal law. The authority's 2008A and 2008B bonds are also backed by letters of credit with UBS and State Street.

The bonds are special, limited obligations of the authority and are payable from pledged revenues and certain funds and accounts under the indentures. Officials will use series 2009A bond proceeds to refund a portion of the authority's outstanding closed-lien bonds. Liens on pledged revenues by the series 2004A, 2006A, and 2009A senior-lien bonds as well as the series 2004B, 2004C, 2006B, 2006C, 2006D, and 2008A-D subordinate-lien bonds are junior to the lien on the commission's closed-lien obligations. Debt service reserve funds provide additional security on the series 2004 subordinate-lien bonds. Commission officials have agreed not to issue any bonds or obligations secured by a lien on pledged revenues that are superior to the series 2004A, 2006A, and 2009A bonds.

Fiscal 2008 pledged revenues (audited estimates pending release) of $641 million -- consisting of $380 million in state revenues and $254 million in federal revenues -- provide total combined MADS coverage of 4x on the authority's senior-lien bonds, closed-lien obligations, and subordinate-lien bonds. Despite a $16 million decline in special fuel taxes, unaudited 2009 results show a slight increase in total pledged revenue to $655 million due to the collection of $37.9 million in deferred federal revenue receipts from fiscals 2007 and 2008. Unaudited fiscal 2009 total pledged revenues provide total combined MADS coverage of roughly 4.1x. Total fiscal 2009 pledged revenues, including federal revenues, provide 5.5x MADS coverage on senior-lien and closed-lien obligations only. Fiscal 2009 state revenues provide 3x MADS coverage on senior-lien and closed-lien obligations.

State revenues alone secure all closed-lien debt outstanding. Fiscal 2008 pledged state revenues cover MADS on all currently outstanding closed-lien bonds by 5.1x; unaudited fiscal 2009 pledged state revenues cover closed-lien MADS by 4.9x. All closed-lien bonds that are not being refunded by this issuance are scheduled to mature by 2017.

Unaudited pledged state revenues declined by 4.6% between fiscals 2008 and 2009, to $362 million from $380 million, primarily because of a decline in special fuel tax revenues. Beginning in fiscal 2005, increases in various taxes and fees implemented by the state legislature generated $53 million, or a 17% increase in state road fund revenues from fiscal 2004. Currently, according to management there are no planned increases in taxes or fees that flow into the state road fund or highway infrastructure fund. In unaudited fiscal 2009, gasoline taxes accounted for 30% of state road fund pledged revenues while special-fuel taxes accounted for 24%, weight distance taxes for 21%, and vehicle registrations for 20%. State officials conservatively project total state revenues to decline by 3.9% for fiscal 2010 to $348 million given a more difficult economic climate. However, following fiscal 2010, and the expectation that economic conditions will improve, management projects state road fund revenues to increase by an average of roughly 2% annually in years from 2011 to 2013.

Currently, management has no plans to issue additional senior lien debt. However, the NMFA has entered into two separate lines of credit with a combined current balance of $58.6 million. Management expects to retire this debt within the next year through the issuance of an additional series of subordinate-lien bonds.

Outlook

The stable outlook reflects our expectation that stability in state revenues will sustain strong debt service coverage. Reduced debt service coverage levels caused by a softening of pledged revenues from exempt sales, decreased gas demand, or other factors would be a credit concern.

Related Research

USPF Criteria: "Special Tax Bonds," June 13, 2007

Ratings Detail (As Of October 13, 2009)		
New Mexico Fin Auth , New Mexico		
New Mexico State Transp Comm, New Mexico		
New Mexico Fin Auth (New Mexico State Transp Comm) sr lien		
Long Term Rating	AA+/Stable	Affirmed
New Mexico Fin Auth (New Mexico St Transp Comm) adj rate st transp rfdg rev bnds (subord lien) ser 2008C		
Long Term Rating	AA/A-1+/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) gas tax		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) st transp rev & rfdg bnds		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Complete ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Ratings in the left navigation bar, select Find a Rating.

STANDARD
&POOR'S

Global Credit Portal
RatingsDirect®

August 18, 2010

New Mexico Finance Authority New Mexico State Transportation Commission; Gas Tax; Joint Criteria

Primary Credit Analyst:
Sussan Corson, New York (1) 212-438-2014; sussan_corson@standardandpoors.com

Secondary Credit Analyst:
David G Hitchcock, New York (1) 212-438-2022; david_hitchcock@standardandpoors.com

Table Of Contents

New Mexico Finance Authority
New Mexico State Transportation Commission; Gas Tax; Joint Criteria

Credit Profile		
US$100.635 mil st transp rev & rfdg rev bnds (sr lien) (New Mexico State Transp Comm) ser 2010A-1 due 12/15/2025		
Long Term Rating	AA+/Stable	New
US$82.04 mil st transp rev & rfdg rev bnds (subord lien) (New Mexico State Transp Comm) ser 2010A-2 due 12/15/2022		
Long Term Rating	AA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating, and stable outlook, to New Mexico Finance Authority's (NMFA or the authority) senior-lien state transportation refunding revenue bonds, series 2010A-1, issued for New Mexico State Transportation Commission, formerly known as New Mexico State Highway Commission. Standard & Poor's also assigned its 'AA' underlying rating (SPUR) to NMFA's series 2010A-2 subordinate-lien bonds.

At the same time, Standard & Poor's affirmed its 'AA+' long-term rating on the authority's parity series 2004A, 2006A, and 2009A senior-lien state transportation revenue bonds, issued for the commission, and affirmed its 'AA' SPUR on NMFA's existing subordinate-lien bonds, including series 2004B and 2006B. The outlook is stable.

The 'AAA' long-term rating on the adjustable-rate subordinate-lien 2008C and 2008D bonds is jointly derived from the SPUR on the bonds (AA) and the long-term rating on Wells Fargo Bank N.A. (AA/Negative/A-1+), and Royal Bank of Canada (AA-/Positive/A-1+), the respective letters of credit (LOC) providers. We base the 'A-1+' short-term rating on each of the series on the short-term ratings on respective LOC providers Wells Fargo Bank and Royal Bank of Canada. (See report on NMFA's series 2008C and 2008D bonds published Aug. 2, 2010, on RatingsDirect on the Global Credit Portal.)

In addition, Standard & Poor's affirmed its 'AAA' long-term rating and SPUR, with a stable outlook, on the commission's closed senior subordinate-lien tax revenue highway bonds outstanding. The closed-lien bonds are senior to all series 2004, 2006, 2008, and 2009 debt, as well as to the 2010 refunding bonds, and only state revenues secure them.

The ratings reflect our assessment of the bonds':

- Long and stable trend in pledged state revenues, including nearly all vehicular-related fees and fuel taxes;
- Very strong historical and projected coverage; and
- Provisions, which include additional bonds tests of 3.0x on closed-lien bonds and senior-lien maximum annual debt service (MADS) from pledged state revenues and 3.5x from all state and federal pledged revenues (the additional bonds test also requires 3.0x combined closed-lien, senior-lien, and subordinate-lien MADS coverage from all state and federal pledged revenues).

State revenue sources that are susceptible to fuel consumption trends somewhat mitigate these strengths in our opinion.

Pledged revenues for all series 2004, 2006, 2008, and 2009A bonds consist of taxes and fees that are required to be paid into the state road fund, taxes and fees that must be deposited into the highway infrastructure fund, and federal funds not otherwise obligated that are paid into the state road fund. State road fund revenues comprise gasoline, special fuel, and weight and distance taxes, as well as motor vehicle registration fees. Highway infrastructure fund revenues include leased vehicle gross receipts taxes. Federal funds indicate revenues received or available to the state department of transportation under federal law.

The bonds are special, limited obligations of the authority and are payable from pledged revenues and certain funds and accounts under the indentures. We understand that officials will use series 2010 bond proceeds to retire $120 million drawn against a line of credit with Bank of America, N.A. (A+/Negative/A-1) and to fund transportation projects. Liens on pledged revenues by the series 2004A, 2006A, 2009A, and 2010A-1 senior-lien bonds as well as the series 2004B, 2006B, 2008A-D, and 2010A-2 subordinate-lien bonds are junior to the lien on the commission's closed-lien obligations. Debt service reserve funds provide additional security on the series 2004B subordinate-lien bonds, which mature in 2014. Commission officials have agreed not to issue any bonds or obligations secured by a lien on pledged revenues that are superior to the series 2004A, 2006A, 2009A, and 2010A-1 bonds.

Fiscal 2009 pledged revenues of $672 million--consisting of $370 million in state revenues and $302 million in federal revenues, including collection of deferred federal revenue receipts from previous years--provide total combined MADS coverage of 3.7x on the authority's senior-lien bonds, closed-lien obligations, and subordinate-lien bonds. Based on New Mexico Department of Transportation (NMDOT) estimates, fiscal 2010 revenues declined 8.7% compared with fiscal 2009 due primarily to a 14% decline in estimated federal revenues, which reflects a return to average annual historical trends after higher federal receipts in fiscal 2009. Unaudited fiscal 2010 total pledged revenues provide total combined MADS coverage of about 3.4x. Total unaudited fiscal 2010 pledged revenues, including federal revenues, provide 5.2x MADS coverage on senior-lien and closed-lien obligations only. Unaudited fiscal 2010 state revenues alone provide 3.1x MADS coverage on senior-lien and closed-lien obligations. Congress adopted legislation that extended funding for the federal aid highway program through Dec. 31, 2010, after the most recent multiyear authorization, The Safe, Accountable, Flexible, Efficient Transportation Equity Act (SAFETEA-LU), expired on Sept. 30, 2009. Although future actions of Congress cannot be predicted, NMDOT officials expect stable funding for the program on a continuing resolution basis for the foreseeable future based on historical precedence for continued program funding despite past lapses of multiyear authorizations.

State revenues alone secure all closed-lien debt outstanding. Unaudited fiscal 2010 pledged state road revenues cover MADS on all currently closed-lien bonds outstanding by 31x. All closed-lien bonds are scheduled to mature by 2017.

Approximately $470 million of subordinate debt, or about 30% of the authority's $1.6 billion of senior and subordinate debt outstanding was issued as variable-rate debt, although the majority of this debt is associated with swap agreements intended to hedge the variable rate risk; only 3% of total debt is unhedged with a swap agreement but is currently offset by interest earnings on bond proceeds held in an escrow account.

Fiscal 2009 pledged state revenues declined by 4.7% between fiscals 2008 and 2009, to $362 million from $380 million, primarily because of a decline in special fuel tax revenues. Beginning in fiscal 2005, increases in various taxes and fees implemented by the state legislature generated $53 million, or a 17% increase in state road fund revenues from fiscal 2004. According to NMDOT management, there are no planned increases in taxes or fees that flow into the state road fund or highway infrastructure fund. In fiscal 2009, gasoline taxes accounted for 30% of state road fund pledged revenues while special-fuel taxes accounted for 24%, weight distance taxes for 21%, and vehicle registrations for 20%. NMDOT officials estimate a 4.4% decline in fiscal 2010 due to declining special fuel and weight distance tax collections and project state revenues will recover slowly beginning in fiscal 2011 with a 2% increase compared with fiscal 2010 to $353 million.

Outlook

The stable outlook on the bonds reflects Standard & Poor's expectation that the relative stability of state revenues will continue to provide strong debt service coverage. Declines in debt service coverage due to significant softening of pledged revenues from exempt sales, decreased gas demand, or other factors would be a credit concern.

Bond Covenants

No additional senior bonds can be issued unless state revenues in any 12 consecutive months of the preceding 18 months total 3.0x MADS and all pledged revenues total 3.5x MADS on all closed-lien obligations and proposed senior-lien bonds outstanding. The additional bonds test for subordinate-lien bonds requires 3x MADS coverage of closed-lien obligations, senior-lien bonds, and subordinate-lien bonds outstanding from all pledged revenues.

Pledged Revenues: Paid Into The State Road And Highway Infrastructure Funds

Pledged revenues consist of taxes and fees that are required to be paid into the state road fund and deposited into the highway infrastructure fund and federal money, not otherwise obligated, that are paid into the state road fund. State road fund revenues include gasoline, special-fuel, and weight and distance taxes and motor vehicle registration fees. Highway infrastructure fund revenues include leased vehicle gross receipt taxes. Federal funds include revenues received or available to the state department of transportation under Title 23 of the U.S. Code or other federal law.

The state imposes gasoline excise taxes, the largest contributor to pledged state revenues, at a fixed 17 cents per gallon, down from 20 cents in 1995. Native American wholesalers can sell gasoline on Indian reservations free of the tax. Currently, gas sales outside of the reservations (up to 60 million gallons per year from two registered Native American wholesale distributors) are exempt from taxation. The state entered into gas tax-sharing agreements with both distributors in 2004 and 2006 for a period of 10 years that help to reduce volatility in New Mexico's gas tax revenue after exemptions. NMDOT officials believe these tax-sharing agreements have mitigated the effect of any off-reservation sales on the road fund. NMDOT officials estimate that tax-exempt gas sold by Native American distributors will remain constant at fiscal 2009 levels of 61 million gallons.

Debt Derivative Profile: '2'--Low-To-Moderate Risk

Standard & Poor's assigned to NMFA a debt derivative profile (DDP) overall score of '2' on a scale of '1' to '4', with '1' representing the lowest risk and '4' the highest risk. The overall DDP score of '2' reflects our view that the authority's junior-lien transportation-related swap portfolio is a low-to-moderate credit risk due to:

- The highly rated swap counterparties that must post collateral at certain rating levels;
- The swap portfolio's above-average economic viability during stressful economic cycles; and
- Good management practices with formally adopted debt and swap management policies.

A high degree of collateral posting risk offsets these strengths in our opinion; the NMFA has managed historical collateral postings with NMDOT resources and a line of credit with Bank of America.

The authority has entered into seven swaps, including two knockout swaps, with five counterparties.

NMFA has three floating-to-fixed-rate swaps related to the series 2008A and 2008C bonds and two floating-to-fixed-rate forward-starting swaps with two knockout swaps related to the series 2008B bonds. The series 2008A and 2008C swaps consist of $100 million with Royal Bank of Canada, $50 million with Goldman Sachs Mitsui Marine Derivative Products (AAA/Negative/--), and another $50 million with Deutsche Bank AG (A+/Stable/A-1). Under each of the swaps, the authority will pay a fixed 3.934% and receive 68% of LIBOR.

The forward-starting swaps associated with series 2008B consist of $110 million with UBS AG (A+/Stable/A-1) and JPMorgan Chase Bank (AA-/Negative/A-1+). Under the forward-starting swaps, NMFA will pay a fixed rate and receive 0.34% and the SIFMA rate, respectively. The authority has also entered into two knockout swaps, in as much as there is a 7% knockout option on the forward-starting swaps.

Under NMFA's JPMorgan, Royal Bank of Canada, and UBS swaps, it is posting $8.25 million as of Aug. 17, 2010. Authority officials estimate the total combined mark-to-market value of all the swaps at negative $106 million as of Aug. 13, 2010. The NMDOT could draw upon a $20 million line of credit with Bank of America and its own cash resources to help manage potential liquidity needs associated with future collateral posting requirements. NMDOT had $35 million in unrestricted cash equivalents as of June 30, 2009.

There is an additional credit event if the ratings on the banks decline to 'BB+', which is seen as remote given the highly rated counterparties. NMFA has the same additional credit event. The counterparties all post collateral in accordance with the provisions in the executed credit support annexes.

Total variable-rate exposure is about 30% of total debt outstanding; however, net variable-rate exposure is low in our view, with only $50.4 million of series 2008D unhedged variable-rate debt, or about 3% of total debt at present. Furthermore, variable-rate exposure is offset somewhat by interest generated from the entire $50.4 million of bond proceeds being held in an escrow account. Authority officials manage the debt and swap programs with adopted swap and debt management policies, and they receive monthly mark-to-market reports from their swap advisors on the entire portfolio.

Variable-Rate Debt And Letters Of Credit

The variable-rate debt is backed by LOCs with Bank of America, Royal Bank of Canada, State Street Bank and Trust Co.(AA-/Negative/A-1+), and Wells Fargo Bank. The current LOCs expire in July 2011 except for the LOC with Royal Bank of Canada, which expires in July 2012. None of the debt has been tendered as bank bonds; however, provisions in the LOC reimbursement agreements require NMFA to repay principal on an accelerated schedule should the bank purchase bonds with the proceeds of a tender drawing. In such an event, authority officials indicate they would pursue options to restructure the bonds or replace LOCs. The LOC reimbursement agreements with Wells Fargo Bank and Royal Bank of Canada allow for 90-to-180 days after any such tender by the bank before the authority is required to make its first repayment installment; however, the LOCs with State Street Bank and Bank of America require the first repayment installment on the first business day of January, April, July, or October in a year, which, depending on the date of tender, exposes the authority to between a $34 million and $50 million principal payment due in short notice. NMFA officials indicate they are in the process of securing a $50 million line of credit with Bank of America intended to help manage potential future liquidity needs.

Related Criteria And Research

- USPF Criteria: Special Tax Bonds, June 13, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009

Ratings Detail (As Of August 18, 2010)		
New Mexico State Transp Comm sr sub lien tax rev hwy bnds ser 1998A (Closed lien)		
Long Term Rating	AAA/Stable	Affirmed
New Mexico State Transp Comm sub lien tax rev hwy bnds ser 2002B dtd 01/01/2002 due 06/15/2002-2011 (Closed Lien)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New Mexico Fin Auth , New Mexico		
New Mexico State Transp Comm, New Mexico		
New Mexico Fin Auth (New Mexico State Transp Comm) sr lien		
Long Term Rating	AA+/Stable	Affirmed
New Mexico Fin Auth (New Mexico St Transp Comm) adj rate st transp rfdg rev bnds sub lien taxable ser 2008D		
Long Term Rating	AAA/A-1+	Upgraded
Unenhanced Rating	AA(SPUR)/Stable	Rating Assigned
New Mexico Fin Auth (New Mexico St Transp Comm) adj rate st transp rfdg rev bnds (subord lien) ser 2008C		
Long Term Rating	AAA/A-1+	Upgraded
Unenhanced Rating	AA(SPUR)/Stable	Rating Assigned
New Mexico Fin Auth (New Mexico State Transp Comm) gas tax		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) gas tax (subord lien)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) st transp rev & rfdg bnds		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

STANDARD
&POOR'S

Global Credit Portal
RatingsDirect®

September 16, 2010

Summary:
New Mexico Finance Authority New Mexico State Transportation Commission; Gas Tax

Primary Credit Analyst:
Sussan Corson, New York (1) 212-438-2014; sussan_corson@standardandpoors.com

Secondary Credit Analyst:
David G Hitchcock, New York (1) 212-438-2022; david_hitchcock@standardandpoors.com

Table Of Contents

Summary:

New Mexico Finance Authority
New Mexico State Transportation Commission; Gas Tax

Credit Profile		
US$422.835 mil rfdg rev bnds (sr lien) (New Mexico State Transp Comm) ser 2010B due 06/15/2021		
Long Term Rating	AA+/Stable	New
New Mexico State Transp Comm (Closed lien) sr sub lien tax rev hwy bnds ser 1998A		
Long Term Rating	AAA/Stable	Affirmed
New Mexico State Transp Comm sub lien tax rev hwy bnds ser 2002B dtd 01/01/2002 due 06/15/2002-2011 (Closed Lien)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New Mexico Fin Auth , New Mexico		
New Mexico State Transp Comm, New Mexico		
New Mexico Fin Auth (New Mexico State Transp Comm) sr lien		
Long Term Rating	AA+/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) gas tax		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating, and stable outlook, to New Mexico Finance Authority's (NMFA or the authority) senior-lien state transportation refunding revenue bonds, series 2010B, issued for the New Mexico State Transportation Commission, formerly known as New Mexico State Highway Commission.

At the same time, Standard & Poor's affirmed its 'AA+' long-term rating, with a stable outlook, on the authority's parity series 2004A, 2006A, 2009A, and 2010A-1 senior-lien state transportation revenue bonds, issued for the commission. In addition, Standard & Poor's affirmed its 'AAA' long-term rating and underlying rating (SPUR), with a stable outlook, on the commission's closed senior subordinate-lien tax revenue highway bonds outstanding. The closed-lien bonds are senior to all series 2004, 2006, 2008, and 2009 debt, as well as to the 2010 refunding bonds, and only state revenues secure them.

The ratings reflect our assessment of the bonds':

- Long and stable trend in pledged state revenues, including nearly all vehicular-related fees and fuel taxes;
- Very strong historical and projected coverage; and
- Provisions, which include additional bonds tests (ABTs) of 3.0x on closed-lien bonds and senior-lien maximum annual debt service (MADS) from pledged state revenues, and 3.5x from all state and federal pledged revenues (the ABT also requires 3.0x combined closed-lien, senior-lien, and subordinate-lien MADS coverage from all state

and federal pledged revenues).

State revenue sources that are susceptible to fuel consumption trends somewhat mitigate these strengths in our opinion.

Pledged revenues for all series 2004, 2006, 2008, and 2009A bonds consist of taxes and fees that are required to be paid into the state road fund, taxes and fees that must be deposited into the highway infrastructure fund, and federal funds not otherwise obligated that are paid into the state road fund. State road fund revenues comprise gasoline, special fuel, and weight and distance taxes, as well as motor vehicle registration fees. Highway infrastructure fund revenues include leased vehicle gross receipts taxes. Federal funds indicate revenues received or available to the state department of transportation under federal law.

The bonds are special, limited obligations of the authority and are payable from pledged revenues and certain funds and accounts under the indentures. We understand that officials will use series 2010B bond proceeds to retire all or a portion of the authority's closed-lien series 2002A, 2002C, and 2002D bonds as well as the authority's senior-lien 2004A and 2006A bonds. Liens on pledged revenues by the series 2004A, 2006A, 2009A, and 2010A-1 senior-lien bonds are junior to the lien on the commission's closed-lien obligations. Commission officials have agreed not to issue any bonds or obligations secured by a lien on pledged revenues that are superior to the series 2004A, 2006A, 2009A, 2010A-1, and 2010B bonds.

Fiscal 2009 pledged revenues of $672 million--consisting of $370 million in state revenues and $302 million in federal revenues, including collection of deferred federal revenue receipts from previous years--provide senior and closed-lien pro forma MADS coverage of 5.7x. Based on New Mexico Department of Transportation (NMDOT) estimates, fiscal 2010 revenues declined 8.7% compared with fiscal 2009 primarily due to a 14% decline in estimated federal revenues, which reflects a return to average annual historical trends after higher federal receipts in fiscal 2009. Total unaudited fiscal 2010 pledged revenues, including federal revenues, provide 5.2x pro forma MADS coverage on senior-lien and closed-lien obligations only. Unaudited fiscal 2010 state revenues alone provide 3.0x MADS coverage on senior-lien and closed-lien obligations. Congress adopted legislation that extended funding for the federal aid highway program through Dec. 31, 2010, after the most recent multiyear authorization, The Safe, Accountable, Flexible, Efficient Transportation Equity Act (SAFETEA-LU), expired on Sept. 30, 2009. Although future actions of Congress cannot be predicted, NMDOT officials expect stable funding for the program on a continuing resolution basis for the foreseeable future based on historical precedence for continued program funding despite past lapses of multiyear authorizations.

State revenues alone secure all closed-lien debt outstanding. Unaudited fiscal 2010 pledged state road revenues cover pro forma MADS on all currently closed-lien bonds outstanding by 59x. After the refunding, all closed-lien bonds are scheduled to mature by 2013.

Pledged State Revenue Trends

Fiscal 2009 pledged state revenues declined by 4.7% between fiscals 2008 and 2009, to $362 million from $380 million, primarily because of a decline in special fuel tax revenues. Beginning in fiscal 2005, increases in various taxes and fees implemented by the state legislature generated $53 million, or a 17% increase in state road fund revenues from fiscal 2004. According to NMDOT management, there are no planned increases in taxes or fees that flow into the state road fund or highway infrastructure fund. In fiscal 2009, gasoline taxes accounted for 30% of state road fund pledged revenues while special-fuel taxes accounted for 24%, weight distance taxes for 21%, and vehicle registrations for 20%. NMDOT officials estimate a 4.4% decline in state revenues in fiscal 2010 due to declining special fuel and weight distance tax collections and project state revenues will recover slowly beginning in fiscal 2011 with a 2.0% increase compared with fiscal 2010 to $353 million.

(For further information on the bonds as well as the authority's subordinate-lien bonds, see full analysis published Aug. 18, 2010, on RatingsDirect on the Global Credit Portal.)

Outlook

The stable outlook on the bonds reflects Standard & Poor's expectation that the relative stability of state revenues will continue to provide strong debt service coverage. Declines in debt service coverage due to significant softening of pledged revenues from exempt sales, decreased gas demand, or other factors would be a credit concern.

Related Criteria And Research

USPF Criteria: Special Tax Bonds, June 13, 2007

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

New Mexico Finance Authority New Mexico State Transportation Commission; Gas Tax

Primary Credit Analyst:
Sussan S Corson, New York (1) 212-438-2014; sussan.corson@standardandpoors.com

Secondary Contact:
David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@standardandpoors.com

Table Of Contents

New Mexico Finance Authority
New Mexico State Transportation Commission; Gas Tax

Credit Profile		
US$75.205 mil rev bnds (subord ln) (New Mexico State Transp Comm) ser 2014A due 06/15/2032		
Long Term Rating	AA/Stable	New
New Mexico Fin Auth , New Mexico		
New Mexico State Transp Comm, New Mexico		
New Mexico Fin Auth (New Mexico State Transp Comm) sr lien		
Long Term Rating	AAA/Stable	Affirmed
New Mexico Fin Auth (New Mexico St Transp Comm) Gas Tax		
Long Term Rating	AA/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) gas tax		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) gas tax (subord lien)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) st transp rev & rfdg bnds		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating, and stable outlook, to the New Mexico Finance Authority's (NMFA) subordinate-lien state transportation revenue bonds, issued for the New Mexico State Transportation Commission (formerly New Mexico State Highway Commission). Standard & Poor's also affirmed its 'AA' underlying rating on NMFA's parity subordinate-lien bonds outstanding.

At the same time, Standard & Poor's affirmed its 'AAA' rating, with a stable outlook, on NMFA's senior-lien state transportation revenue bonds outstanding issued for the commission.

The ratings reflect what we view as:

- A long and stable trend in pledged state revenues, including nearly all statewide vehicular-related fees and fuel taxes;
- Very strong historical and projected debt service coverage, particularly for the senior bonds, which offsets the lack of debt service reserve funds;
- A very strong additional bonds test of 3.0x on senior-lien maximum annual debt service (MADS) from pledged state revenues and 3.5x from all state and federal pledged revenues, and a subordinate-lien additional bonds test that requires 3.0x combined senior-lien and subordinate-lien MADS coverage from all state and federal pledged

revenues; and

- A relatively short 13-year amortization for the majority of debt service and limited future bonding plans.

In our opinion, these strengths are slightly mitigated for the subordinate-lien bonds by the inclusion of pledged federal funds in their additional bonds test, and the presence of variable-rate debt and associated agreements that create some contingent liquidity risk.

Pledged revenues include both state-derived, transportation-related tax revenue, and a portion of federal transportation funds received by New Mexico. We understand the New Mexico Department of Transportation (NMDOT) will use series 2014 bond proceeds to finance the construction of certain road projects in the state.

Pledged state tax revenue consists of various taxes and fees required to be paid into the state road fund, and taxes and fees that must be deposited into the highway infrastructure fund (HIF). Pledged federal funds are revenue available to NMDOT under federal law and not otherwise obligated that are paid into the state road fund. State road fund revenues primarily comprise gasoline, special fuel, and weight and distance taxes, as well as motor vehicle registration fees. State HIF revenues include leased vehicle gross receipts taxes and tire recycling fees. While all revenues are legally pledged to the series 2014 bonds, we understand NMDOT intends to use HIF revenues to support the series 2014 debt service in practice.

The senior bonds have a first lien on pledged revenue prior to the subordinate-lien bonds. Most series of senior- and subordinate-lien bonds have no debt service reserve fund, although debt service reserve funds provide additional security on the series 2004B subordinate-lien bonds until they mature in 2014. Indenture provisions require the regular monthly deposit from pledged revenue to principal and interest accounts for the senior- and subordinate-lien bonds. The monthly receipt of state road fund revenue and strong annual coverage on all bonds somewhat mitigates the lack of debt service reserve funds.

Overall, total pledged revenue has remained relatively stable in the previous few years, increasing 2.8% cumulatively between fiscal years 2011 and 2013 to $708.3 million -- consisting of $380.8 million in state revenues and $327.5 million in federal revenues. Total audited fiscal 2013 pledged revenue covers total future senior MADS by 6.1x and combined senior and subordinate pro forma MADS by 4.0x. Combined debt service levels assume interest payments on variable-rate debt are tied to the associated swap rates; however, at a maximum 12% rate on the variable-rate debt, we calculate combined MADS coverage falls to a still-strong 3.7x by all revenue and 2.1x by state revenue alone. NMDOT projects a 1.8% drop in total pledged revenue to $695.9 million in fiscal 2014, due to a projected 4.5% decline in federal revenue and a 0.6% increase in state revenue. Even with projected declines, senior MADS coverage by total projected pledged revenue would still be strong at 5.9x and combined senior and subordinate pro forma MADS coverage would be 3.95x.

Total state tax revenue has stabilized between fiscal years 2011 and 2013 after falling a cumulative 8.9% between fiscal years 2007 and 2010. The state imposes gasoline excise taxes, the largest contributor to pledged state revenues, at a fixed 17 cents per gallon, which is the lowest rate among western states except for Oklahoma. Overall, gas tax receipts deposited in the state road fund have fluctuated annually based on economic conditions and gas prices but remained relatively flat overall in 2013 compared with fiscal 2007 levels. The legislature proposed a gas tax rate increase in last year's session that did not pass and which is unlikely to be implemented in the near term, in our opinion. Assuming no future changes to tax exemptions or gas tax rates, we believe the NMDOT's projections of a year-over-year 3% decline in fiscal 2014 and flat levels in subsequent years are fairly conservative. While state law permits the tax exemption of up to 60 million gallons of gas sales outside of Native American reservations per year from two registered Native American wholesale distributors, NMDOT has entered into gas tax-sharing agreements with both distributors for a period of 10 years that officials believe have mitigated the effect of any off-reservation sales on the state road fund and have helped to reduce volatility in New Mexico's gas tax revenue after exemptions. The 10-year agreement with the Pueblo of Nambe was recently extended in January 2014 and NMDOT expects to extend the second agreement with the Pueblo of Santo Domingo this year with no material changes to the terms. The agreements allow either party to terminate with 12 months' notice. Native American wholesalers can also sell gasoline on reservations free of the tax, but NMDOT officials estimate that a relatively stable $10 million of gas tax revenue that otherwise would have gone to the state road fund is lost each year due to tax-exempt gas sold by Native American distributors and expects no significant changes in the future.

Total pledged federal funds have shown some year-to-year volatility, related to federal reimbursement of specific projects, although overall annual federal revenue was up in fiscal 2013 compared with fiscal 2007 levels. Officials project a 4.5% decline in federal revenue in fiscal 2014 with levels remaining flat in subsequent years. There was a very minimal impact of about $320,000 in federal revenue available to New Mexico in fiscal 2013 due to federal sequestration. Congress adopted the Moving Ahead for Progress in the 21st Century Act that extended funding for the federal aid highway program through 2014, after the most recent multiyear authorization, The Safe, Accountable, Flexible, Efficient Transportation Equity Act expired on Sept. 30, 2009. Although future actions of Congress cannot be predicted, NMDOT and commission officials expect stable funding for the program on a continuing resolution basis for the foreseeable future based on historical precedence for continued program funding despite past lapses of multiyear authorizations. We believe that, even if future federal funding declines significantly, MADS coverage based on fiscal 2013 state revenues alone would remain strong at 3.3x for senior-lien bonds and 2.2x for combined senior and subordinate bonds. However, should New Mexico experience significant declines in federal funding, we believe state revenues could also see some declines due to the state economy's significant military and federal research components. (See New Mexico's general obligation full analysis published March 6, 2013, on RatingsDirect.)

After the sale of the series 2014 bonds, we calculate NMDOT has the ability to issue an additional $160 million of debt under current legislative authority; however, NMDOT officials report there are no current plans to issue parity new money debt. The senior-lien additional bonds test requires that state revenues in any 12 consecutive months of the preceding 18 months total 3.0x MADS, and all pledged revenues total 3.5x MADS on all closed-lien obligations and proposed senior-lien bonds outstanding. The additional bonds test for subordinate-lien bonds requires 3x MADS coverage of senior-lien and subordinate-lien bonds outstanding from all pledged revenues.

Outlook

The stable outlook reflects our expectation that the relative stability of state revenues and limited future debt needs will continue to provide strong MADS coverage, although federal revenues could fluctuate. Due to the strong current MADS coverage by state-only tax revenues, we do not believe that potential declines in federal funds would necessarily lead to a downgrade; however, concurrent significant softening of pledged state revenues from exempt sales, decreased gas demand, or other factors could pressure the ratings. Given an additional bonds test that allows the subordinate lien to leverage the federal revenue, as well as the presence of variable-rate debt and associated agreements that create some contingent liquidity risk, we don't expect to raise the rating on the subordinate-lien bonds in the next two years.

Variable-Rate Debt And Contingent Agreements

Approximately $420 million of subordinate debt, or about 29% of NMDOT's $1.4 billion of senior and subordinate debt outstanding, was issued as variable-rate debt. About $135 million of this debt was issued as variable-rate demand bonds while almost $285 million was issued as floating-rate indexed notes placed directly with Bank of America. While the bank has the option to tender the bonds after five years with written notice, there are no terms allowing for unscheduled principal acceleration and we assess the authority's market risk profile as low, which in our opinion offsets contingent liquidity risk related to the direct purchase obligation. In 2013, the authority used $50 million in an escrow fund to pay off the series 2008D taxable adjustable-rate bonds and subsequently established a $50 million taxable revolving line of credit with Wells Fargo Bank N.A. to satisfy certain conditions of an agreement with BNSF Railway Co.; we understand the authority does not expect to draw upon the line.

Letters of credit (LOC) from State Street Bank and Trust Co. that currently expire on June 30, 2015, provide liquidity support for the $135 million of variable-rate demand bonds. None of the debt has been tendered as bank bonds; however, provisions in the LOC reimbursement agreements require the authority to repay principal on an accelerated schedule should the bank purchase bonds with the proceeds of a tender drawing. In such an event, authority officials indicate they would pursue options to restructure the bonds or replace LOCs. However, the LOCs with State Street require the first repayment installment on the first business day of January, April, July, or October in a year, which, depending on the date of tender, could expose the bonds to an approximately $34 million principal payment due on short notice. In these circumstances, NMDOT officials report they would likely use operating cash balances to cover such a principal payment until they were able to restructure the debt. Given our analysis of adequate average monthly cash flow of $169.5 million for NMDOT in the past year, we believe NMDOT would likely have sufficient liquidity to cover such an obligation, although there is no dedicated reserve set aside for this contingency.

To hedge the variable-rate risk, the NMFA has entered into floating-to-fixed rate swaps with five counterparties, including two swaps with JPMorgan Chase Bank N.A. (notional amount of $220 million); two swaps with UBS AG ($220 million); one swap with Royal Bank of Canada ($100 million); and one swap each with Goldman Sachs Mitsui Marine Derivative Products L.P. and Deutsche Bank AG ($50 million each). There is a swap credit event if the bank ratings are lowered to 'BB+', which is seen as remote given the highly rated counterparties. The authority has the same additional credit event. The swap agreements include collateral posting requirements in accordance with the provisions in the executed credit support annexes. In addition, the swaps have knockout provisions where the counterparties could cancel the swap agreements if the SIFMA municipal swap index averages above 7% for 180 days. Authority officials report they manage the debt and swap programs with adopted swap and debt management policies, and they receive daily mark-to-market reports from their swap advisors on the entire portfolio.

As of Jan. 14, 2014, the combined swap termination value of all of its swaps was a negative $89.1 million, for which the authority was not required to post collateral; however, the NMFA has regularly posted collateral as required by the swap agreements in the past several years as mark-to-market on the swaps has fluctuated. The authority, on behalf of the commission, has maintained a $50 million line of credit with Bank of America, currently expiring on Feb. 15, 2015, to help manage liquidity needs associated with future collateral posting requirements. While potential swap termination payments would be subordinate to bond payments, collateral posting requirements are on parity with subordinate-lien debt service.

Related Criteria And Research

Related Criteria

- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- USPF Criteria: Special Tax Bonds, June 13, 2007

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

New Mexico Finance Authority New Mexico State Transportation Commission; Gas Tax

Primary Credit Analyst:
Sussan S Corson, New York (1) 212-438-2014; sussan.corson@standardandpoors.com

Secondary Contact:
David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@standardandpoors.com

Table Of Contents

New Mexico Finance Authority
New Mexico State Transportation Commission; Gas Tax

Credit Profile		
US$66.32 mil sr lien state transp rev rfdg bnds (New Mexico State Transp Comm) ser 2014B-1 due 06/15/2027		
Long Term Rating	AAA/Stable	New
US$18.32 mil subordinate lien state transp rev rfdg bnds (New Mexico State Transp Comm) ser 2014B-2 due 06/15/2027		
Long Term Rating	AA/Stable	New
New Mexico Fin Auth , New Mexico		
New Mexico State Transp Comm, New Mexico		
New Mexico Fin Auth (New Mexico State Transp Comm) sr lien		
Long Term Rating	AAA/Stable	Affirmed
New Mexico Fin Auth (New Mexico St Transp Comm) Gas Tax		
Long Term Rating	AA/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) gas tax		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) st transp rev & rfdg bnds		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to the New Mexico Finance Authority's (NMFA) series 2014B-1 senior-lien refunding revenue bonds issued for the New Mexico State Transportation Commission (formerly New Mexico State Highway Commission). Standard & Poor's also assigned its 'AA' rating, and stable outlook, to the NMFA's series 2014B-2 subordinate-lien state transportation refunding revenue bonds, issued for the commission. In addition, Standard & Poor's affirmed its 'AA' rating with a stable outlook on the NMFA's parity subordinate-lien bonds outstanding.

Finally, Standard & Poor's affirmed its 'AAA' rating on the NMFA's senior-lien state transportation revenue bonds outstanding and its 'AA' rating on the NMFA's subordinate-lien bonds outstanding. The outlook on both is stable.

The ratings reflect what we view as:

- A relatively stable trend in pledged state revenues, including nearly all statewide vehicular-related fees and fuel taxes, which provide strong debt service coverage excluding pledged federal revenue;
- Very strong historical and projected debt service coverage by state revenue alone, particularly for the senior bonds, which offsets the lack of debt service reserve funds;
- A very strong additional bonds test of 3.0x on senior-lien maximum annual debt service (MADS) from pledged state

revenues and 3.5x from all state and federal pledged revenues, and a subordinate-lien additional bonds test that requires 3.0x combined senior-lien and subordinate-lien MADS coverage from all state and federal pledged revenues; and

- A relatively short 13-year amortization for the senior bonds and limited future bonding plans.

In our opinion, these strengths are slightly mitigated for the subordinate-lien bonds by the inclusion of pledged federal funds in their additional bonds test, and the presence of variable-rate debt and associated agreements that create some contingent liquidity risk.

Pledged revenues include both state-derived, transportation-related tax revenue (51% in fiscal 2014), and a portion of federal transportation funds (49%) received by New Mexico. We understand the New Mexico Department of Transportation (NMDOT) will use series 2014B bond proceeds to refund senior and subordinate revenue bonds outstanding.

Pledged state tax revenue consists of various taxes and fees required to be paid into the state road fund, and taxes and fees that must be deposited into the highway infrastructure fund (HIF). Pledged federal funds are revenue available to the NMDOT under federal law and not otherwise obligated that are paid into the state road fund. State road fund revenues primarily comprise gasoline, special fuel, and weight and distance taxes, as well as motor vehicle registration fees. State HIF revenues include leased vehicle gross receipts taxes and tire recycling fees.

The senior bonds have a first lien on pledged revenue prior to the subordinate-lien bonds. Senior- and subordinate-lien bonds have no debt service reserve funds. Indenture provisions require the regular monthly deposit from pledged revenue to principal and interest accounts for the senior- and subordinate-lien bonds. The monthly receipt of state road fund revenue and strong annual coverage on all bonds somewhat mitigates the lack of debt service reserve funds.

Overall, pledged state revenue has remained relatively stable in the previous few years, increasing 1% cumulatively between fiscal years 2011 and 2013 to $373.7 million. Federal revenue fluctuates from year to year, including a 25% year-over-year increase in fiscal 2013 to $405.5 million although fiscal 2014 estimates reflect an 8% decline. Transportation officials attribute the increase to their active management of previously obligated federal reimbursements after closing out of certain projects. Preliminary fiscal 2014 pledged revenue covers total pro forma senior MADS by 6.4x and combined senior and subordinate pro forma MADS by 4.3x. State revenue alone covers senior MADS by a strong 3.3x and combined MADS by 2.2x. Combined debt service levels assume interest payments on variable-rate debt are tied to the associated swap rates; however, assuming a maximum 12% rate on the variable-rate debt, we calculate combined MADS coverage falls to a still-strong 3.0x by all revenue and a still good 1.5x by state revenue alone. NMDOT projections, as of July 2014, reflect an 8% decline in total state and federal pledged revenue in fiscal 2015 followed by 1% annual revenue growth in the subsequent three years. However, officials believe continued declining oil and gas prices are likely to correlate to increased gas and special fuel consumption, which could boost these projections. Even with projected declines in fiscal 2015, senior MADS coverage by total projected pledged revenue would still be strong at 6.00x and combined senior and subordinate pro forma MADS coverage would be 3.96x.

The NMDOT has authority to issue approximately $165 million of additional debt under current legislative authority; however, NMDOT officials report there are no current plans to issue parity new money debt. The senior-lien additional

bonds test requires that state revenues in any 12 consecutive months of the preceding 18 months total 3.0x MADS, and all pledged revenues total 3.5x MADS on all closed-lien obligations and proposed senior-lien bonds outstanding. The additional bonds test for subordinate-lien bonds requires 3.0x MADS coverage of senior-lien and subordinate-lien bonds outstanding from all pledged revenues. Given the relatively even mix between federal and state pledged revenue, we believe the subordinate-lien additional bonds test allows for significant leverage against relatively volatile federal revenue.

Outlook

The stable outlook reflects our expectation that the relative stability of state revenues and limited future debt needs will continue to provide strong MADS coverage, although federal revenues could fluctuate. Due to the strong current MADS coverage by state-only tax revenues, we do not believe that potential declines in federal funds would necessarily lead to a downgrade; however, concurrent significant softening of pledged state revenues from exempt sales, decreased gas demand, or other factors could pressure the ratings. Given an additional bonds test that allows the subordinate lien to leverage the federal revenue, as well as the presence of variable-rate debt and associated agreements that create some contingent liquidity risk, we don't expect to raise the rating on the subordinate-lien bonds in the next two years.

Pledged Revenue

The state imposes gasoline excise taxes, the largest contributor to pledged state revenues, at a fixed 17 cents per gallon, which is the lowest rate among western states except for Oklahoma and Wyoming. Overall, gas tax receipts deposited in the state road fund have fluctuated annually based on economic conditions and gas prices but remained relatively flat overall in fiscal 2014 at $108 million compared with fiscal 2009 levels. State law permits the tax exemption of up to 60 million gallons of gas sales outside of Native American reservations per year from two registered Native American wholesale distributors. The NMDOT has entered into gas tax-sharing agreements with both distributors, recently extended for a period of 10 years, that officials believe have mitigated the effect of any off-reservation sales on the state road fund and have helped to reduce volatility in New Mexico's gas tax revenue after exemptions. We understand the agreements allow either party to terminate with 12 months' notice. Certain distributors can also sell retail gasoline on reservations free of the tax, but NMDOT officials estimate that a relatively stable $10 million of gas tax revenue that otherwise would have gone to the state road fund is lost each year due to tax-exempt gas sold by Native American distributors and expects no significant changes in the future.

Total pledged federal funds have shown some year-to-year volatility, related to federal reimbursement of specific projects, including a 25% increase in fiscal 2013 due to the closing out of certain projects to receive previously obligated but unused federal reimbursement funds. Officials project an 8% decline in federal revenue in fiscal 2014, compared with higher levels in fiscal 2013, and a 16% decline in fiscal 2015 with levels remaining flat in subsequent years. Congress passed the Highway Transportation Funding Act of 2014, which temporarily reauthorized federal highway trust funding through May 2015. The Highway Transportation Funding Act extends funding for the federal highway program after the Sept. 30, 2014, expiration of the Moving Ahead for Progress in the 21st Century Act and

The Safe, Accountable, Flexible, Efficient Transportation Equity Act, which expired on Sept. 30, 2009. Although future actions of Congress cannot be predicted, the NMDOT and commission officials expect stable funding for the program on a continuing resolution basis for the foreseeable future based on historical precedence for continued program funding despite past lapses of multiyear authorizations. Aside from the federal highway funding, should general federal funding significantly decline, we believe state revenues could also see some declines due to the state economy's significant military and federal research components.

Variable-Rate Debt And Contingent Agreements

Approximately $420 million of subordinate debt, or about 29% of the NMDOT's $1.4 billion of senior and subordinate debt outstanding, was issued as variable-rate debt. About $135 million of this debt was issued as variable-rate demand bonds while almost $285 million was issued as floating-rate indexed notes placed directly with Bank of America. Although the bank has the option to tender the indexed bonds after five years with written notice, there are no terms allowing for unscheduled principal acceleration and we assess the authority's market risk profile as low, which in our opinion offsets contingent liquidity risk related to the direct purchase obligation. In 2013, the authority used $50 million in an escrow fund to pay off the series 2008D taxable adjustable-rate bonds and subsequently established a $50 million rolling taxable revolving line of credit with Wells Fargo Bank N.A. to satisfy certain conditions of an agreement with BNSF Railway Co.; we understand the authority does not expect to draw upon the line. The authority also has $50 million in a taxable line of credit with Bank of America N.A. to cover collateral posting requirements under its swap agreements (see below). The balance outstanding on the Bank of America line has fluctuated since it was established as the authority has frequently drawn and paid down the line; the balance totaled $10 million as of Nov. 10, 2014. Payment obligations for both lines are secured by a pledge of revenue on parity with the subordinate lien bonds.

Letters of credit (LOC) from State Street Bank and Trust Co. that currently expire on June 30, 2015, provide liquidity support for the $135 million of variable-rate demand bonds. None of the debt has been tendered as bank bonds; however, provisions in the LOC reimbursement agreements require the authority to repay principal on an accelerated schedule should the bank purchase bonds with the proceeds of a tender drawing. In such an event, authority officials indicate they would pursue options to restructure the bonds or replace LOCs. However, the LOCs with State Street require the first repayment installment on the first business day of January, April, July, or October in a year, which, depending on the date of tender, could expose the bonds to an approximately $36 million principal payment due on short notice. In these circumstances, NMDOT officials report they would likely use operating cash balances and slow down project expenditures to cover such a principal payment until they were able to restructure the debt, although they report they could also request funds from the state treasury. Given our analysis of adequate average monthly operating cash balances of $157 million across NMDOT funds in the past year, we believe the NMDOT would likely have sufficient liquidity to cover such an obligation, although there is no dedicated reserve set aside for this contingency.

To hedge the variable-rate risk, the NMFA has entered into floating-to-fixed rate swaps with five counterparties, including two swaps with JPMorgan Chase Bank N.A. (notional amount of $220 million); two swaps with UBS AG ($220 million); one swap with Royal Bank of Canada ($100 million); and one swap each with Goldman Sachs Mitsui

Marine Derivative Products L.P. and Deutsche Bank AG ($50 million each). There is a swap credit event if the bank ratings are lowered to 'BB+', which is seen as remote given the highly rated counterparties. The authority has the same additional credit event. The swap agreements include collateral posting requirements in accordance with the provisions in the executed credit support annexes. In addition, the swaps have knockout provisions where the counterparties could cancel the swap agreements if the SIFMA municipal swap index averages above 7% for 180 days. Authority officials report that they manage the debt and swap programs with adopted swap and debt management policies, and they receive daily mark-to-market reports from their swap advisors on the entire portfolio.

As of Nov. 10, 2014, the combined swap termination value of all of its swaps was a negative $106.6 million; the NMFA has regularly posted collateral as required by the swap agreements in the past several years as mark-to-market on the swaps has fluctuated. The authority, on behalf of the commission, has maintained a $50 million line of credit with Bank of America, currently expiring on Feb. 15, 2015, to help manage liquidity needs associated with future collateral posting requirements. We understand officials intend to extend the line for another year. Although potential swap termination payments would be subordinate to bond payments, collateral posting requirements under the swaps and repayments of draws on the line of credit are on parity with subordinate-lien debt service.

Related Criteria And Research

Related Criteria

- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- USPF Criteria: Special Tax Bonds, June 13, 2007

Related Research

U.S. State And Local Government Credit Conditions Forecast, Oct. 15, 2014

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

New Mexico Finance Authority New Mexico State Transportation Commission; Gas Tax

Primary Credit Analyst:
Sussan S Corson, New York (1) 212-438-2014; sussan.corson@standardandpoors.com

Secondary Contact:
David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@standardandpoors.com

Table Of Contents

New Mexico Finance Authority New Mexico State Transportation Commission; Gas Tax

Credit Profile		
US$66.32 mil sr lien state transp rev rfdg bnds (New Mexico State Transp Comm) ser 2014B-1 due 06/15/2027		
Long Term Rating	AAA/Stable	New
US$18.32 mil subordinate lien state transp rev rfdg bnds (New Mexico State Transp Comm) ser 2014B-2 due 06/15/2027		
Long Term Rating	AA/Stable	New
New Mexico Fin Auth , New Mexico		
New Mexico State Transp Comm, New Mexico		
New Mexico Fin Auth (New Mexico State Transp Comm) sr lien		
Long Term Rating	AAA/Stable	Affirmed
New Mexico Fin Auth (New Mexico St Transp Comm) Gas Tax		
Long Term Rating	AA/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) gas tax		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) st transp rev & rfdg bnds		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to the New Mexico Finance Authority's (NMFA) series 2014B-1 senior-lien refunding revenue bonds issued for the New Mexico State Transportation Commission (formerly New Mexico State Highway Commission). Standard & Poor's also assigned its 'AA' rating, and stable outlook, to the NMFA's series 2014B-2 subordinate-lien state transportation refunding revenue bonds, issued for the commission. In addition, Standard & Poor's affirmed its 'AA' rating with a stable outlook on the NMFA's parity subordinate-lien bonds outstanding.

Finally, Standard & Poor's affirmed its 'AAA' rating on the NMFA's senior-lien state transportation revenue bonds outstanding and its 'AA' rating on the NMFA's subordinate-lien bonds outstanding. The outlook on both is stable.

The ratings reflect what we view as:

- A relatively stable trend in pledged state revenues, including nearly all statewide vehicular-related fees and fuel taxes, which provide strong debt service coverage excluding pledged federal revenue;
- Very strong historical and projected debt service coverage by state revenue alone, particularly for the senior bonds, which offsets the lack of debt service reserve funds;
- A very strong additional bonds test of 3.0x on senior-lien maximum annual debt service (MADS) from pledged state

revenues and 3.5x from all state and federal pledged revenues, and a subordinate-lien additional bonds test that requires 3.0x combined senior-lien and subordinate-lien MADS coverage from all state and federal pledged revenues; and
- A relatively short 13-year amortization for the senior bonds and limited future bonding plans.

In our opinion, these strengths are slightly mitigated for the subordinate-lien bonds by the inclusion of pledged federal funds in their additional bonds test, and the presence of variable-rate debt and associated agreements that create some contingent liquidity risk.

Pledged revenues include both state-derived, transportation-related tax revenue (51% in fiscal 2014), and a portion of federal transportation funds (49%) received by New Mexico. We understand the New Mexico Department of Transportation (NMDOT) will use series 2014B bond proceeds to refund senior and subordinate revenue bonds outstanding.

Pledged state tax revenue consists of various taxes and fees required to be paid into the state road fund, and taxes and fees that must be deposited into the highway infrastructure fund (HIF). Pledged federal funds are revenue available to the NMDOT under federal law and not otherwise obligated that are paid into the state road fund. State road fund revenues primarily comprise gasoline, special fuel, and weight and distance taxes, as well as motor vehicle registration fees. State HIF revenues include leased vehicle gross receipts taxes and tire recycling fees.

The senior bonds have a first lien on pledged revenue prior to the subordinate-lien bonds. Senior- and subordinate-lien bonds have no debt service reserve funds. Indenture provisions require the regular monthly deposit from pledged revenue to principal and interest accounts for the senior- and subordinate-lien bonds. The monthly receipt of state road fund revenue and strong annual coverage on all bonds somewhat mitigates the lack of debt service reserve funds.

Overall, pledged state revenue has remained relatively stable in the previous few years, increasing 1% cumulatively between fiscal years 2011 and 2013 to $373.7 million. Federal revenue fluctuates from year to year, including a 25% year-over-year increase in fiscal 2013 to $405.5 million although fiscal 2014 estimates reflect an 8% decline. Transportation officials attribute the increase to their active management of previously obligated federal reimbursements after closing out of certain projects. Preliminary fiscal 2014 pledged revenue covers total pro forma senior MADS by 6.4x and combined senior and subordinate pro forma MADS by 4.3x. State revenue alone covers senior MADS by a strong 3.3x and combined MADS by 2.2x. Combined debt service levels assume interest payments on variable-rate debt are tied to the associated swap rates; however, assuming a maximum 12% rate on the variable-rate debt, we calculate combined MADS coverage falls to a still-strong 3.0x by all revenue and a still good 1.5x by state revenue alone. NMDOT projections, as of July 2014, reflect an 8% decline in total state and federal pledged revenue in fiscal 2015 followed by 1% annual revenue growth in the subsequent three years. However, officials believe continued declining oil and gas prices are likely to correlate to increased gas and special fuel consumption, which could boost these projections. Even with projected declines in fiscal 2015, senior MADS coverage by total projected pledged revenue would still be strong at 6.00x and combined senior and subordinate pro forma MADS coverage would be 3.96x.

The NMDOT has authority to issue approximately $165 million of additional debt under current legislative authority; however, NMDOT officials report there are no current plans to issue parity new money debt. The senior-lien additional

bonds test requires that state revenues in any 12 consecutive months of the preceding 18 months total 3.0x MADS, and all pledged revenues total 3.5x MADS on all closed-lien obligations and proposed senior-lien bonds outstanding. The additional bonds test for subordinate-lien bonds requires 3.0x MADS coverage of senior-lien and subordinate-lien bonds outstanding from all pledged revenues. Given the relatively even mix between federal and state pledged revenue, we believe the subordinate-lien additional bonds test allows for significant leverage against relatively volatile federal revenue.

Outlook

The stable outlook reflects our expectation that the relative stability of state revenues and limited future debt needs will continue to provide strong MADS coverage, although federal revenues could fluctuate. Due to the strong current MADS coverage by state-only tax revenues, we do not believe that potential declines in federal funds would necessarily lead to a downgrade; however, concurrent significant softening of pledged state revenues from exempt sales, decreased gas demand, or other factors could pressure the ratings. Given an additional bonds test that allows the subordinate lien to leverage the federal revenue, as well as the presence of variable-rate debt and associated agreements that create some contingent liquidity risk, we don't expect to raise the rating on the subordinate-lien bonds in the next two years.

Pledged Revenue

The state imposes gasoline excise taxes, the largest contributor to pledged state revenues, at a fixed 17 cents per gallon, which is the lowest rate among western states except for Oklahoma and Wyoming. Overall, gas tax receipts deposited in the state road fund have fluctuated annually based on economic conditions and gas prices but remained relatively flat overall in fiscal 2014 at $108 million compared with fiscal 2009 levels. State law permits the tax exemption of up to 60 million gallons of gas sales outside of Native American reservations per year from two registered Native American wholesale distributors. The NMDOT has entered into gas tax-sharing agreements with both distributors, recently extended for a period of 10 years, that officials believe have mitigated the effect of any off-reservation sales on the state road fund and have helped to reduce volatility in New Mexico's gas tax revenue after exemptions. We understand the agreements allow either party to terminate with 12 months' notice. Certain distributors can also sell retail gasoline on reservations free of the tax, but NMDOT officials estimate that a relatively stable $10 million of gas tax revenue that otherwise would have gone to the state road fund is lost each year due to tax-exempt gas sold by Native American distributors and expects no significant changes in the future.

Total pledged federal funds have shown some year-to-year volatility, related to federal reimbursement of specific projects, including a 25% increase in fiscal 2013 due to the closing out of certain projects to receive previously obligated but unused federal reimbursement funds. Officials project an 8% decline in federal revenue in fiscal 2014, compared with higher levels in fiscal 2013, and a 16% decline in fiscal 2015 with levels remaining flat in subsequent years. Congress passed the Highway Transportation Funding Act of 2014, which temporarily reauthorized federal highway trust funding through May 2015. The Highway Transportation Funding Act extends funding for the federal highway program after the Sept. 30, 2014, expiration of the Moving Ahead for Progress in the 21st Century Act and

The Safe, Accountable, Flexible, Efficient Transportation Equity Act, which expired on Sept. 30, 2009. Although future actions of Congress cannot be predicted, the NMDOT and commission officials expect stable funding for the program on a continuing resolution basis for the foreseeable future based on historical precedence for continued program funding despite past lapses of multiyear authorizations. Aside from the federal highway funding, should general federal funding significantly decline, we believe state revenues could also see some declines due to the state economy's significant military and federal research components.

Variable-Rate Debt And Contingent Agreements

Approximately $420 million of subordinate debt, or about 29% of the NMDOT's $1.4 billion of senior and subordinate debt outstanding, was issued as variable-rate debt. About $135 million of this debt was issued as variable-rate demand bonds while almost $285 million was issued as floating-rate indexed notes placed directly with Bank of America. Although the bank has the option to tender the indexed bonds after five years with written notice, there are no terms allowing for unscheduled principal acceleration and we assess the authority's market risk profile as low, which in our opinion offsets contingent liquidity risk related to the direct purchase obligation. In 2013, the authority used $50 million in an escrow fund to pay off the series 2008D taxable adjustable-rate bonds and subsequently established a $50 million rolling taxable revolving line of credit with Wells Fargo Bank N.A. to satisfy certain conditions of an agreement with BNSF Railway Co.; we understand the authority does not expect to draw upon the line. The authority also has $50 million in a taxable line of credit with Bank of America N.A. to cover collateral posting requirements under its swap agreements (see below). The balance outstanding on the Bank of America line has fluctuated since it was established as the authority has frequently drawn and paid down the line; the balance totaled $10 million as of Nov. 10, 2014. Payment obligations for both lines are secured by a pledge of revenue on parity with the subordinate lien bonds.

Letters of credit (LOC) from State Street Bank and Trust Co. that currently expire on June 30, 2015, provide liquidity support for the $135 million of variable-rate demand bonds. None of the debt has been tendered as bank bonds; however, provisions in the LOC reimbursement agreements require the authority to repay principal on an accelerated schedule should the bank purchase bonds with the proceeds of a tender drawing. In such an event, authority officials indicate they would pursue options to restructure the bonds or replace LOCs. However, the LOCs with State Street require the first repayment installment on the first business day of January, April, July, or October in a year, which, depending on the date of tender, could expose the bonds to an approximately $36 million principal payment due on short notice. In these circumstances, NMDOT officials report they would likely use operating cash balances and slow down project expenditures to cover such a principal payment until they were able to restructure the debt, although they report they could also request funds from the state treasury. Given our analysis of adequate average monthly operating cash balances of $157 million across NMDOT funds in the past year, we believe the NMDOT would likely have sufficient liquidity to cover such an obligation, although there is no dedicated reserve set aside for this contingency.

To hedge the variable-rate risk, the NMFA has entered into floating-to-fixed rate swaps with five counterparties, including two swaps with JPMorgan Chase Bank N.A. (notional amount of $220 million); two swaps with UBS AG ($220 million); one swap with Royal Bank of Canada ($100 million); and one swap each with Goldman Sachs Mitsui

Marine Derivative Products L.P. and Deutsche Bank AG ($50 million each). There is a swap credit event if the bank ratings are lowered to 'BB+', which is seen as remote given the highly rated counterparties. The authority has the same additional credit event. The swap agreements include collateral posting requirements in accordance with the provisions in the executed credit support annexes. In addition, the swaps have knockout provisions where the counterparties could cancel the swap agreements if the SIFMA municipal swap index averages above 7% for 180 days. Authority officials report that they manage the debt and swap programs with adopted swap and debt management policies, and they receive daily mark-to-market reports from their swap advisors on the entire portfolio.

As of Nov. 10, 2014, the combined swap termination value of all of its swaps was a negative $106.6 million; the NMFA has regularly posted collateral as required by the swap agreements in the past several years as mark-to-market on the swaps has fluctuated. The authority, on behalf of the commission, has maintained a $50 million line of credit with Bank of America, currently expiring on Feb. 15, 2015, to help manage liquidity needs associated with future collateral posting requirements. We understand officials intend to extend the line for another year. Although potential swap termination payments would be subordinate to bond payments, collateral posting requirements under the swaps and repayments of draws on the line of credit are on parity with subordinate-lien debt service.

Related Criteria And Research

Related Criteria

- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- USPF Criteria: Special Tax Bonds, June 13, 2007

Related Research

U.S. State And Local Government Credit Conditions Forecast, Oct. 15, 2014

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

New Mexico Finance Authority New Mexico State Transportation Commission; Gas Tax

Primary Credit Analyst:
Sussan S Corson, New York (1) 212-438-2014; sussan.corson@standardandpoors.com

Secondary Contact:
David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@standardandpoors.com

Table Of Contents

New Mexico Finance Authority
New Mexico State Transportation Commission; Gas Tax

Credit Profile		
US$66.32 mil sr lien state transp rev rfdg bnds (New Mexico State Transp Comm) ser 2014B-1 due 06/15/2027		
Long Term Rating	AAA/Stable	New
US$18.32 mil subordinate lien state transp rev rfdg bnds (New Mexico State Transp Comm) ser 2014B-2 due 06/15/2027		
Long Term Rating	AA/Stable	New
New Mexico Fin Auth , New Mexico		
New Mexico State Transp Comm, New Mexico		
New Mexico Fin Auth (New Mexico State Transp Comm) sr lien		
Long Term Rating	AAA/Stable	Affirmed
New Mexico Fin Auth (New Mexico St Transp Comm) Gas Tax		
Long Term Rating	AA/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) gas tax		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) st transp rev & rfdg bnds		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to the New Mexico Finance Authority's (NMFA) series 2014B-1 senior-lien refunding revenue bonds issued for the New Mexico State Transportation Commission (formerly New Mexico State Highway Commission). Standard & Poor's also assigned its 'AA' rating, and stable outlook, to the NMFA's series 2014B-2 subordinate-lien state transportation refunding revenue bonds, issued for the commission. In addition, Standard & Poor's affirmed its 'AA' rating with a stable outlook on the NMFA's parity subordinate-lien bonds outstanding.

Finally, Standard & Poor's affirmed its 'AAA' rating on the NMFA's senior-lien state transportation revenue bonds outstanding and its 'AA' rating on the NMFA's subordinate-lien bonds outstanding. The outlook on both is stable.

The ratings reflect what we view as:

- A relatively stable trend in pledged state revenues, including nearly all statewide vehicular-related fees and fuel taxes, which provide strong debt service coverage excluding pledged federal revenue;
- Very strong historical and projected debt service coverage by state revenue alone, particularly for the senior bonds, which offsets the lack of debt service reserve funds;
- A very strong additional bonds test of 3.0x on senior-lien maximum annual debt service (MADS) from pledged state

revenues and 3.5x from all state and federal pledged revenues, and a subordinate-lien additional bonds test that requires 3.0x combined senior-lien and subordinate-lien MADS coverage from all state and federal pledged revenues; and
- A relatively short 13-year amortization for the senior bonds and limited future bonding plans.

In our opinion, these strengths are slightly mitigated for the subordinate-lien bonds by the inclusion of pledged federal funds in their additional bonds test, and the presence of variable-rate debt and associated agreements that create some contingent liquidity risk.

Pledged revenues include both state-derived, transportation-related tax revenue (51% in fiscal 2014), and a portion of federal transportation funds (49%) received by New Mexico. We understand the New Mexico Department of Transportation (NMDOT) will use series 2014B bond proceeds to refund senior and subordinate revenue bonds outstanding.

Pledged state tax revenue consists of various taxes and fees required to be paid into the state road fund, and taxes and fees that must be deposited into the highway infrastructure fund (HIF). Pledged federal funds are revenue available to the NMDOT under federal law and not otherwise obligated that are paid into the state road fund. State road fund revenues primarily comprise gasoline, special fuel, and weight and distance taxes, as well as motor vehicle registration fees. State HIF revenues include leased vehicle gross receipts taxes and tire recycling fees.

The senior bonds have a first lien on pledged revenue prior to the subordinate-lien bonds. Senior- and subordinate-lien bonds have no debt service reserve funds. Indenture provisions require the regular monthly deposit from pledged revenue to principal and interest accounts for the senior- and subordinate-lien bonds. The monthly receipt of state road fund revenue and strong annual coverage on all bonds somewhat mitigates the lack of debt service reserve funds.

Overall, pledged state revenue has remained relatively stable in the previous few years, increasing 1% cumulatively between fiscal years 2011 and 2013 to $373.7 million. Federal revenue fluctuates from year to year, including a 25% year-over-year increase in fiscal 2013 to $405.5 million although fiscal 2014 estimates reflect an 8% decline. Transportation officials attribute the increase to their active management of previously obligated federal reimbursements after closing out of certain projects. Preliminary fiscal 2014 pledged revenue covers total pro forma senior MADS by 6.4x and combined senior and subordinate pro forma MADS by 4.3x. State revenue alone covers senior MADS by a strong 3.3x and combined MADS by 2.2x. Combined debt service levels assume interest payments on variable-rate debt are tied to the associated swap rates; however, assuming a maximum 12% rate on the variable-rate debt, we calculate combined MADS coverage falls to a still-strong 3.0x by all revenue and a still good 1.5x by state revenue alone. NMDOT projections, as of July 2014, reflect an 8% decline in total state and federal pledged revenue in fiscal 2015 followed by 1% annual revenue growth in the subsequent three years. However, officials believe continued declining oil and gas prices are likely to correlate to increased gas and special fuel consumption, which could boost these projections. Even with projected declines in fiscal 2015, senior MADS coverage by total projected pledged revenue would still be strong at 6.00x and combined senior and subordinate pro forma MADS coverage would be 3.96x.

The NMDOT has authority to issue approximately $165 million of additional debt under current legislative authority; however, NMDOT officials report there are no current plans to issue parity new money debt. The senior-lien additional

bonds test requires that state revenues in any 12 consecutive months of the preceding 18 months total 3.0x MADS, and all pledged revenues total 3.5x MADS on all closed-lien obligations and proposed senior-lien bonds outstanding. The additional bonds test for subordinate-lien bonds requires 3.0x MADS coverage of senior-lien and subordinate-lien bonds outstanding from all pledged revenues. Given the relatively even mix between federal and state pledged revenue, we believe the subordinate-lien additional bonds test allows for significant leverage against relatively volatile federal revenue.

Outlook

The stable outlook reflects our expectation that the relative stability of state revenues and limited future debt needs will continue to provide strong MADS coverage, although federal revenues could fluctuate. Due to the strong current MADS coverage by state-only tax revenues, we do not believe that potential declines in federal funds would necessarily lead to a downgrade; however, concurrent significant softening of pledged state revenues from exempt sales, decreased gas demand, or other factors could pressure the ratings. Given an additional bonds test that allows the subordinate lien to leverage the federal revenue, as well as the presence of variable-rate debt and associated agreements that create some contingent liquidity risk, we don't expect to raise the rating on the subordinate-lien bonds in the next two years.

Pledged Revenue

The state imposes gasoline excise taxes, the largest contributor to pledged state revenues, at a fixed 17 cents per gallon, which is the lowest rate among western states except for Oklahoma and Wyoming. Overall, gas tax receipts deposited in the state road fund have fluctuated annually based on economic conditions and gas prices but remained relatively flat overall in fiscal 2014 at $108 million compared with fiscal 2009 levels. State law permits the tax exemption of up to 60 million gallons of gas sales outside of Native American reservations per year from two registered Native American wholesale distributors. The NMDOT has entered into gas tax-sharing agreements with both distributors, recently extended for a period of 10 years, that officials believe have mitigated the effect of any off-reservation sales on the state road fund and have helped to reduce volatility in New Mexico's gas tax revenue after exemptions. We understand the agreements allow either party to terminate with 12 months' notice. Certain distributors can also sell retail gasoline on reservations free of the tax, but NMDOT officials estimate that a relatively stable $10 million of gas tax revenue that otherwise would have gone to the state road fund is lost each year due to tax-exempt gas sold by Native American distributors and expects no significant changes in the future.

Total pledged federal funds have shown some year-to-year volatility, related to federal reimbursement of specific projects, including a 25% increase in fiscal 2013 due to the closing out of certain projects to receive previously obligated but unused federal reimbursement funds. Officials project an 8% decline in federal revenue in fiscal 2014, compared with higher levels in fiscal 2013, and a 16% decline in fiscal 2015 with levels remaining flat in subsequent years. Congress passed the Highway Transportation Funding Act of 2014, which temporarily reauthorized federal highway trust funding through May 2015. The Highway Transportation Funding Act extends funding for the federal highway program after the Sept. 30, 2014, expiration of the Moving Ahead for Progress in the 21st Century Act and

The Safe, Accountable, Flexible, Efficient Transportation Equity Act, which expired on Sept. 30, 2009. Although future actions of Congress cannot be predicted, the NMDOT and commission officials expect stable funding for the program on a continuing resolution basis for the foreseeable future based on historical precedence for continued program funding despite past lapses of multiyear authorizations. Aside from the federal highway funding, should general federal funding significantly decline, we believe state revenues could also see some declines due to the state economy's significant military and federal research components.

Variable-Rate Debt And Contingent Agreements

Approximately $420 million of subordinate debt, or about 29% of the NMDOT's $1.4 billion of senior and subordinate debt outstanding, was issued as variable-rate debt. About $135 million of this debt was issued as variable-rate demand bonds while almost $285 million was issued as floating-rate indexed notes placed directly with Bank of America. Although the bank has the option to tender the indexed bonds after five years with written notice, there are no terms allowing for unscheduled principal acceleration and we assess the authority's market risk profile as low, which in our opinion offsets contingent liquidity risk related to the direct purchase obligation. In 2013, the authority used $50 million in an escrow fund to pay off the series 2008D taxable adjustable-rate bonds and subsequently established a $50 million rolling taxable revolving line of credit with Wells Fargo Bank N.A. to satisfy certain conditions of an agreement with BNSF Railway Co.; we understand the authority does not expect to draw upon the line. The authority also has $50 million in a taxable line of credit with Bank of America N.A. to cover collateral posting requirements under its swap agreements (see below). The balance outstanding on the Bank of America line has fluctuated since it was established as the authority has frequently drawn and paid down the line; the balance totaled $10 million as of Nov. 10, 2014. Payment obligations for both lines are secured by a pledge of revenue on parity with the subordinate lien bonds.

Letters of credit (LOC) from State Street Bank and Trust Co. that currently expire on June 30, 2015, provide liquidity support for the $135 million of variable-rate demand bonds. None of the debt has been tendered as bank bonds; however, provisions in the LOC reimbursement agreements require the authority to repay principal on an accelerated schedule should the bank purchase bonds with the proceeds of a tender drawing. In such an event, authority officials indicate they would pursue options to restructure the bonds or replace LOCs. However, the LOCs with State Street require the first repayment installment on the first business day of January, April, July, or October in a year, which, depending on the date of tender, could expose the bonds to an approximately $36 million principal payment due on short notice. In these circumstances, NMDOT officials report they would likely use operating cash balances and slow down project expenditures to cover such a principal payment until they were able to restructure the debt, although they report they could also request funds from the state treasury. Given our analysis of adequate average monthly operating cash balances of $157 million across NMDOT funds in the past year, we believe the NMDOT would likely have sufficient liquidity to cover such an obligation, although there is no dedicated reserve set aside for this contingency.

To hedge the variable-rate risk, the NMFA has entered into floating-to-fixed rate swaps with five counterparties, including two swaps with JPMorgan Chase Bank N.A. (notional amount of $220 million); two swaps with UBS AG ($220 million); one swap with Royal Bank of Canada ($100 million); and one swap each with Goldman Sachs Mitsui

Marine Derivative Products L.P. and Deutsche Bank AG ($50 million each). There is a swap credit event if the bank ratings are lowered to 'BB+', which is seen as remote given the highly rated counterparties. The authority has the same additional credit event. The swap agreements include collateral posting requirements in accordance with the provisions in the executed credit support annexes. In addition, the swaps have knockout provisions where the counterparties could cancel the swap agreements if the SIFMA municipal swap index averages above 7% for 180 days. Authority officials report that they manage the debt and swap programs with adopted swap and debt management policies, and they receive daily mark-to-market reports from their swap advisors on the entire portfolio.

As of Nov. 10, 2014, the combined swap termination value of all of its swaps was a negative $106.6 million; the NMFA has regularly posted collateral as required by the swap agreements in the past several years as mark-to-market on the swaps has fluctuated. The authority, on behalf of the commission, has maintained a $50 million line of credit with Bank of America, currently expiring on Feb. 15, 2015, to help manage liquidity needs associated with future collateral posting requirements. We understand officials intend to extend the line for another year. Although potential swap termination payments would be subordinate to bond payments, collateral posting requirements under the swaps and repayments of draws on the line of credit are on parity with subordinate-lien debt service.

Related Criteria And Research

Related Criteria

- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- USPF Criteria: Special Tax Bonds, June 13, 2007

Related Research

U.S. State And Local Government Credit Conditions Forecast, Oct. 15, 2014

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

New Mexico Finance Authority New Mexico State Transportation Commission; Gas Tax

Primary Credit Analyst:
Sussan S Corson, New York (1) 212-438-2014; sussan.corson@standardandpoors.com

Secondary Contact:
David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@standardandpoors.com

Table Of Contents

New Mexico Finance Authority
New Mexico State Transportation Commission; Gas Tax

Credit Profile		
US$66.32 mil sr lien state transp rev rfdg bnds (New Mexico State Transp Comm) ser 2014B-1 due 06/15/2027		
Long Term Rating	AAA/Stable	New
US$18.32 mil subordinate lien state transp rev rfdg bnds (New Mexico State Transp Comm) ser 2014B-2 due 06/15/2027		
Long Term Rating	AA/Stable	New
New Mexico Fin Auth , New Mexico		
New Mexico State Transp Comm, New Mexico		
New Mexico Fin Auth (New Mexico State Transp Comm) sr lien		
Long Term Rating	AAA/Stable	Affirmed
New Mexico Fin Auth (New Mexico St Transp Comm) Gas Tax		
Long Term Rating	AA/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) gas tax		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) st transp rev & rfdg bnds		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to the New Mexico Finance Authority's (NMFA) series 2014B-1 senior-lien refunding revenue bonds issued for the New Mexico State Transportation Commission (formerly New Mexico State Highway Commission). Standard & Poor's also assigned its 'AA' rating, and stable outlook, to the NMFA's series 2014B-2 subordinate-lien state transportation refunding revenue bonds, issued for the commission. In addition, Standard & Poor's affirmed its 'AA' rating with a stable outlook on the NMFA's parity subordinate-lien bonds outstanding.

Finally, Standard & Poor's affirmed its 'AAA' rating on the NMFA's senior-lien state transportation revenue bonds outstanding and its 'AA' rating on the NMFA's subordinate-lien bonds outstanding. The outlook on both is stable.

The ratings reflect what we view as:

- A relatively stable trend in pledged state revenues, including nearly all statewide vehicular-related fees and fuel taxes, which provide strong debt service coverage excluding pledged federal revenue;
- Very strong historical and projected debt service coverage by state revenue alone, particularly for the senior bonds, which offsets the lack of debt service reserve funds;
- A very strong additional bonds test of 3.0x on senior-lien maximum annual debt service (MADS) from pledged state

revenues and 3.5x from all state and federal pledged revenues, and a subordinate-lien additional bonds test that requires 3.0x combined senior-lien and subordinate-lien MADS coverage from all state and federal pledged revenues; and
- A relatively short 13-year amortization for the senior bonds and limited future bonding plans.

In our opinion, these strengths are slightly mitigated for the subordinate-lien bonds by the inclusion of pledged federal funds in their additional bonds test, and the presence of variable-rate debt and associated agreements that create some contingent liquidity risk.

Pledged revenues include both state-derived, transportation-related tax revenue (51% in fiscal 2014), and a portion of federal transportation funds (49%) received by New Mexico. We understand the New Mexico Department of Transportation (NMDOT) will use series 2014B bond proceeds to refund senior and subordinate revenue bonds outstanding.

Pledged state tax revenue consists of various taxes and fees required to be paid into the state road fund, and taxes and fees that must be deposited into the highway infrastructure fund (HIF). Pledged federal funds are revenue available to the NMDOT under federal law and not otherwise obligated that are paid into the state road fund. State road fund revenues primarily comprise gasoline, special fuel, and weight and distance taxes, as well as motor vehicle registration fees. State HIF revenues include leased vehicle gross receipts taxes and tire recycling fees.

The senior bonds have a first lien on pledged revenue prior to the subordinate-lien bonds. Senior- and subordinate-lien bonds have no debt service reserve funds. Indenture provisions require the regular monthly deposit from pledged revenue to principal and interest accounts for the senior- and subordinate-lien bonds. The monthly receipt of state road fund revenue and strong annual coverage on all bonds somewhat mitigates the lack of debt service reserve funds.

Overall, pledged state revenue has remained relatively stable in the previous few years, increasing 1% cumulatively between fiscal years 2011 and 2013 to $373.7 million. Federal revenue fluctuates from year to year, including a 25% year-over-year increase in fiscal 2013 to $405.5 million although fiscal 2014 estimates reflect an 8% decline. Transportation officials attribute the increase to their active management of previously obligated federal reimbursements after closing out of certain projects. Preliminary fiscal 2014 pledged revenue covers total pro forma senior MADS by 6.4x and combined senior and subordinate pro forma MADS by 4.3x. State revenue alone covers senior MADS by a strong 3.3x and combined MADS by 2.2x. Combined debt service levels assume interest payments on variable-rate debt are tied to the associated swap rates; however, assuming a maximum 12% rate on the variable-rate debt, we calculate combined MADS coverage falls to a still-strong 3.0x by all revenue and a still good 1.5x by state revenue alone. NMDOT projections, as of July 2014, reflect an 8% decline in total state and federal pledged revenue in fiscal 2015 followed by 1% annual revenue growth in the subsequent three years. However, officials believe continued declining oil and gas prices are likely to correlate to increased gas and special fuel consumption, which could boost these projections. Even with projected declines in fiscal 2015, senior MADS coverage by total projected pledged revenue would still be strong at 6.00x and combined senior and subordinate pro forma MADS coverage would be 3.96x.

The NMDOT has authority to issue approximately $165 million of additional debt under current legislative authority; however, NMDOT officials report there are no current plans to issue parity new money debt. The senior-lien additional

bonds test requires that state revenues in any 12 consecutive months of the preceding 18 months total 3.0x MADS, and all pledged revenues total 3.5x MADS on all closed-lien obligations and proposed senior-lien bonds outstanding. The additional bonds test for subordinate-lien bonds requires 3.0x MADS coverage of senior-lien and subordinate-lien bonds outstanding from all pledged revenues. Given the relatively even mix between federal and state pledged revenue, we believe the subordinate-lien additional bonds test allows for significant leverage against relatively volatile federal revenue.

Outlook

The stable outlook reflects our expectation that the relative stability of state revenues and limited future debt needs will continue to provide strong MADS coverage, although federal revenues could fluctuate. Due to the strong current MADS coverage by state-only tax revenues, we do not believe that potential declines in federal funds would necessarily lead to a downgrade; however, concurrent significant softening of pledged state revenues from exempt sales, decreased gas demand, or other factors could pressure the ratings. Given an additional bonds test that allows the subordinate lien to leverage the federal revenue, as well as the presence of variable-rate debt and associated agreements that create some contingent liquidity risk, we don't expect to raise the rating on the subordinate-lien bonds in the next two years.

Pledged Revenue

The state imposes gasoline excise taxes, the largest contributor to pledged state revenues, at a fixed 17 cents per gallon, which is the lowest rate among western states except for Oklahoma and Wyoming. Overall, gas tax receipts deposited in the state road fund have fluctuated annually based on economic conditions and gas prices but remained relatively flat overall in fiscal 2014 at $108 million compared with fiscal 2009 levels. State law permits the tax exemption of up to 60 million gallons of gas sales outside of Native American reservations per year from two registered Native American wholesale distributors. The NMDOT has entered into gas tax-sharing agreements with both distributors, recently extended for a period of 10 years, that officials believe have mitigated the effect of any off-reservation sales on the state road fund and have helped to reduce volatility in New Mexico's gas tax revenue after exemptions. We understand the agreements allow either party to terminate with 12 months' notice. Certain distributors can also sell retail gasoline on reservations free of the tax, but NMDOT officials estimate that a relatively stable $10 million of gas tax revenue that otherwise would have gone to the state road fund is lost each year due to tax-exempt gas sold by Native American distributors and expects no significant changes in the future.

Total pledged federal funds have shown some year-to-year volatility, related to federal reimbursement of specific projects, including a 25% increase in fiscal 2013 due to the closing out of certain projects to receive previously obligated but unused federal reimbursement funds. Officials project an 8% decline in federal revenue in fiscal 2014, compared with higher levels in fiscal 2013, and a 16% decline in fiscal 2015 with levels remaining flat in subsequent years. Congress passed the Highway Transportation Funding Act of 2014, which temporarily reauthorized federal highway trust funding through May 2015. The Highway Transportation Funding Act extends funding for the federal highway program after the Sept. 30, 2014, expiration of the Moving Ahead for Progress in the 21st Century Act and

The Safe, Accountable, Flexible, Efficient Transportation Equity Act, which expired on Sept. 30, 2009. Although future actions of Congress cannot be predicted, the NMDOT and commission officials expect stable funding for the program on a continuing resolution basis for the foreseeable future based on historical precedence for continued program funding despite past lapses of multiyear authorizations. Aside from the federal highway funding, should general federal funding significantly decline, we believe state revenues could also see some declines due to the state economy's significant military and federal research components.

Variable-Rate Debt And Contingent Agreements

Approximately $420 million of subordinate debt, or about 29% of the NMDOT's $1.4 billion of senior and subordinate debt outstanding, was issued as variable-rate debt. About $135 million of this debt was issued as variable-rate demand bonds while almost $285 million was issued as floating-rate indexed notes placed directly with Bank of America. Although the bank has the option to tender the indexed bonds after five years with written notice, there are no terms allowing for unscheduled principal acceleration and we assess the authority's market risk profile as low, which in our opinion offsets contingent liquidity risk related to the direct purchase obligation. In 2013, the authority used $50 million in an escrow fund to pay off the series 2008D taxable adjustable-rate bonds and subsequently established a $50 million rolling taxable revolving line of credit with Wells Fargo Bank N.A. to satisfy certain conditions of an agreement with BNSF Railway Co.; we understand the authority does not expect to draw upon the line. The authority also has $50 million in a taxable line of credit with Bank of America N.A. to cover collateral posting requirements under its swap agreements (see below). The balance outstanding on the Bank of America line has fluctuated since it was established as the authority has frequently drawn and paid down the line; the balance totaled $10 million as of Nov. 10, 2014. Payment obligations for both lines are secured by a pledge of revenue on parity with the subordinate lien bonds.

Letters of credit (LOC) from State Street Bank and Trust Co. that currently expire on June 30, 2015, provide liquidity support for the $135 million of variable-rate demand bonds. None of the debt has been tendered as bank bonds; however, provisions in the LOC reimbursement agreements require the authority to repay principal on an accelerated schedule should the bank purchase bonds with the proceeds of a tender drawing. In such an event, authority officials indicate they would pursue options to restructure the bonds or replace LOCs. However, the LOCs with State Street require the first repayment installment on the first business day of January, April, July, or October in a year, which, depending on the date of tender, could expose the bonds to an approximately $36 million principal payment due on short notice. In these circumstances, NMDOT officials report they would likely use operating cash balances and slow down project expenditures to cover such a principal payment until they were able to restructure the debt, although they report they could also request funds from the state treasury. Given our analysis of adequate average monthly operating cash balances of $157 million across NMDOT funds in the past year, we believe the NMDOT would likely have sufficient liquidity to cover such an obligation, although there is no dedicated reserve set aside for this contingency.

To hedge the variable-rate risk, the NMFA has entered into floating-to-fixed rate swaps with five counterparties, including two swaps with JPMorgan Chase Bank N.A. (notional amount of $220 million); two swaps with UBS AG ($220 million); one swap with Royal Bank of Canada ($100 million); and one swap each with Goldman Sachs Mitsui

Marine Derivative Products L.P. and Deutsche Bank AG ($50 million each). There is a swap credit event if the bank ratings are lowered to 'BB+', which is seen as remote given the highly rated counterparties. The authority has the same additional credit event. The swap agreements include collateral posting requirements in accordance with the provisions in the executed credit support annexes. In addition, the swaps have knockout provisions where the counterparties could cancel the swap agreements if the SIFMA municipal swap index averages above 7% for 180 days. Authority officials report that they manage the debt and swap programs with adopted swap and debt management policies, and they receive daily mark-to-market reports from their swap advisors on the entire portfolio.

As of Nov. 10, 2014, the combined swap termination value of all of its swaps was a negative $106.6 million; the NMFA has regularly posted collateral as required by the swap agreements in the past several years as mark-to-market on the swaps has fluctuated. The authority, on behalf of the commission, has maintained a $50 million line of credit with Bank of America, currently expiring on Feb. 15, 2015, to help manage liquidity needs associated with future collateral posting requirements. We understand officials intend to extend the line for another year. Although potential swap termination payments would be subordinate to bond payments, collateral posting requirements under the swaps and repayments of draws on the line of credit are on parity with subordinate-lien debt service.

Related Criteria And Research

Related Criteria

- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- USPF Criteria: Special Tax Bonds, June 13, 2007

Related Research

U.S. State And Local Government Credit Conditions Forecast, Oct. 15, 2014

STANDARD
&POOR'S

One Market
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
tel 415 371-5000
reference no.: 40221145

June 22, 2010

New Mexico Finance Authority
207 Shelby Street
Santa Fe, NM 87501
Attention: Mr. Michael Zavelle, Director of Investor Relations

Re: ***$80,000,000 New Mexico Finance Authority, Adjustable Rate Transportation Revenue Refunding Bonds (New Mexico State Transportation Commission) Series A-2***

Dear Mr.Zavelle:

Standard & Poor's has reviewed the rating on the above-referenced obligations. After such review, we have affirmed the "A+/A-1" rating and not meaningful outlook. A copy of the rationale supporting the rating and outlook is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

If you have any questions, or if we can be of help in any other way, please feel free to call or contact us at nypublicfinance@standardandpoors.com. For more information on Standard & Poor's, please visit our website at www.standardandpoors.com. We appreciate the opportunity to work with you and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services
a Standard & Poor's Financial Services LLC business

Standard + Poor's, ~

jg
enclosure
cc: Ms. Marquita Russel, Chief of Programs
New Mexico Finance Authority

STANDARD
&POOR'S

One Market
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
tel 415 371-5000
reference no.: 40221147

June 22, 2010

New Mexico Finance Authority
207 Shelby Street
Santa Fe, NM 87501
Attention: Mr. Michael Zavelle, Director of Investor Relations

Re: ***$120,000,000 New Mexico Finance Authority, Adjustable Rate Transportation Revenue Refunding Bonds (New Mexico State Transportation Commission) Series B-2***

Dear Mr. Zavelle:

Standard & Poor's has reviewed the rating on the above-referenced obligations. After such review, we have affirmed the "A+/A-1" rating and not meaningful outlook. A copy of the rationale supporting the rating and outlook is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

If you have any questions, or if we can be of help in any other way, please feel free to call or contact us at nypublicfinance@standardandpoors.com. For more information on Standard & Poor's, please visit our website at www.standardandpoors.com. We appreciate the opportunity to work with you and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services
a Standard & Poor's Financial Services LLC business

Standard + Poor's/

jg
enclosure
cc: Ms. Marquita Russel, Chief of Programs
New Mexico Finance Authority

&POOR'S

"We are sending this draft to you to give you an opportunity to bring to our attention any factual errors or inadvertent inclusion of confidential information in the report. If you have any questions or comments on our analysis that are not factual in nature, we ask that you discuss these matters with us. We will use our sole discretion in making editorial changes to the document, which represents our independent opinion. The information in the release is confidential and must not be disclosed or released to anyone prior to its official release by Standard & Poor's."

Standard & Poor's affirms its 'A+/A-1' rating on the New Mexico Mortgage Finance Authority, NM's adjustable rate state transportation refunding revenue bonds (subordinate lien) variable rate demand revenue bonds, series 2008A-2 & 2008B-2 series based on on two irrevocable direct pay LOCs provided by UBS AG ('A+/A-1') following the review of documents for a substitute LOC to be provided by Bank of America, NA 'A+/A-1' on July 2, 2010. On the effective date of substitution the rating on the bonds will reflect the then current rating of Bank of America, NA 'A+/A-1'.

STANDARD
&POOR'S

Global Credit Portal
RatingsDirect®

March 1, 2011

Summary:
New Mexico Finance Authority New Mexico State Transportation Commission; Letter of Credit

Primary Credit Analyst:
Beatriz Peguero, New York (1) 212-438-2164; beatriz_peguero@standardandpoors.com

Secondary Contact:
Karen Fitzgerald, San Francisco (1) 415-371-5023; karen_fitzgerald@standardandpoors.com

Table Of Contents

Summary:

New Mexico Finance Authority New Mexico State Transportation Commission; Letter of Credit

Credit Profile		
New Mexico Fin Auth , New Mexico		
New Mexico State Transp Comm, New Mexico		
New Mexico Fin Auth (New Mexico State Transp Comm) adj rate st transp rfdg rev bnds (Sub Lien) ser A-2		
Long Term Rating	A+/A-1	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) adj rate st transp rfdg rev bnds (Sub Lien) ser 2008B-2		
Long Term Rating	A+/A-1	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'A+/A-1' rating on New Mexico Finance Authority's (New Mexico State Transportation Commission) adjustable rate state transportation refunding revenue bonds (sub-lien) series A-2 and 2008B-2 due to the bank facility being extended to July 2, 2011. The long-term and short-term components of the rating are based on Bank of America N.A.

Related Criteria And Research

Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, July 6, 2009

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

STANDARD & POOR'S RATINGS SERVICES

RatingsDirect®

Summary:

New Mexico Finance Authority New Mexico State Transportation Commission; Gas Tax; Joint Criteria

Primary Credit Analyst:
David G Hitchcock, New York (1) 212-438-2022; david_hitchcock@standardandpoors.com

Secondary Contact:
Gabriel J Petek, CFA, San Francisco (1) 415-371-5042; gabriel_petek@standardandpoors.com

Table Of Contents

Summary:

New Mexico Finance Authority New Mexico State Transportation Commission; Gas Tax; Joint Criteria

Credit Profile		
US$215.51 mil gas tax bnds (New Mexico State Transp Comm) ser 2012 due 06/15/2026		
Long Term Rating	AAA/Stable	New
New Mexico State Transp Comm sr sub lien tax rev hwy bnds ser 1998A (Closed lien)		
Long Term Rating	AAA/Stable	Affirmed
New Mexico Fin Auth , New Mexico		
New Mexico State Transp Comm, New Mexico		
New Mexico Fin Auth (New Mexico State Transp Comm) sr lien		
Long Term Rating	AAA/Stable	Upgraded
New Mexico Fin Auth (New Mexico St Transp Comm) adj rate st transp rfdg rev bnds sub lien taxable ser 2008D		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New Mexico Fin Auth (New Mexico St Transp Comm) Gas Tax		
Long Term Rating	AA/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) gas tax		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded
New Mexico Fin Auth (New Mexico State Transp Comm) gas tax (subord lien)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) st transp rev & rfdg bnds		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its long-term rating to 'AAA' from 'AA+' on New Mexico Finance Authority's (NMFA) $988.3 million parity senior-lien state transportation revenue bonds outstanding, issued for the New Mexico State Transportation Commission (formerly New Mexico State Highway Commission).

The upgrade reflects Standard & Poor's assessment of NMFA's very strong debt service coverage (DSC) and limited future debt plans.

At the same time, Standard & Poor's assigned its 'AAA' rating, and stable outlook, to NMFA's state transportation refunding revenue bonds (senior lien), series 2012, issued for the commission.

Standard & Poor's also affirmed its 'AA' underlying rating (SPUR) on NMFA's $640.0 million subordinate-lien bonds outstanding, which have an additional bonds test that includes federal funds, unlike the senior bonds, as well as the presence of variable-rate debt.

The 'AAA' long-term rating on the adjustable-rate subordinate-lien 2008D bonds is jointly derived from the bonds' underlying rating ('AA' SPUR) and Royal Bank of Canada (RBC; AA-/Negative/A-1+), respectively. We base the 'A-1+' short-term rating solely on the letter of credit bank RBC.

In addition, Standard & Poor's affirmed its 'AAA' long-term rating and SPUR on the commission's $7.5 million closed senior subordinate-lien tax revenue highway bonds outstanding, although we expect these bonds to be refunded with the proceeds of the series 2012 bonds, at which time we expect to withdraw the rating. The closed-lien bonds are senior to all other state transportation revenue bonds outstanding, and are secured only by state transportation revenues.

The ratings reflect what we view as:

- Long and stable trend in pledged state revenues, including nearly all vehicular-related fees and fuel taxes;
- Very strong historical and projected coverage;
- A very strong additional bonds test of 3x on senior-lien maximum annual debt service (MADS) from pledged state revenues and 3.5x from all state and federal pledged revenues, and a subordinate-lien additional bonds test that requires 3x combined senior-lien and subordinate-lien MADS coverage from all state and federal pledged revenues; and
- Limited future bonding plans.

These strengths are slightly mitigated for the junior-lien bonds by the inclusion of pledged federal funds in their additional bonds test, and the presence of variable-rate debt.

Strong DSC offsets the lack of debt service reserves for most series of bonds.

We expect the series 2012 bond proceeds to be used to refund all or portions of various senior-lien bonds outstanding, including all of the previously closed-lien bonds.

Pledged revenues include both state-derived transportation related tax revenue, and a portion of federal transportation funds received by New Mexico.

Pledged state tax revenue consists of taxes and fees required to be paid into the state road fund, and taxes and fees that must be deposited into the highway infrastructure fund. Pledged federal funds are those not otherwise obligated that are paid into the state road fund. State road fund revenues comprise gasoline, special fuel, and weight and distance taxes, as well as motor vehicle registration fees. Highway infrastructure fund revenues include leased vehicle gross receipts taxes. Federal funds indicate revenues received or available to the state department of transportation under federal law.

Senior-subordinate bonds are junior to the commission's closed-lien prior obligations, but will become first-lien bonds after the prior closed-lien bonds are refunded with the proceeds of the series 2012 bonds. The subordinate-lien bonds will then have a second lien to the existing senior-subordinate lien bonds. Debt service reserve funds provide additional security on the series 2004B subordinate-lien bonds, which mature in 2014.

We view the New Mexico economic base as large and diverse, with a state population of about 2.08 million, although the economy has significant military, federal research, and mining components.

New Mexico received audited pledged revenue of $689.6 million in the fiscal year ended June 30, 2011--consisting of $379.0 million in state revenues and $310.7 million in federal revenues--providing total future MADS coverage of 5.89x on the authority's senior-lien bonds, and 3.86x coverage on combined senior and subordinate MADS. MADS coverage by pledged state-derived tax revenue only was 3.24x for senior-lien bonds and 2.12x for combined senior and subordinate bonds. Fiscal 2012 unaudited actual pledged revenues for 2012 were $778.8 million, a substantial jump based on a 30.5% increase in federal funds and a 1.5% decrease in pledged state tax revenue. Unaudited MADS coverage for senior bonds was 6.65x based on total pledged revenues, and 3.19x based on state revenues only. Unaudited fiscal 2012 combined MADS coverage for subordinate bonds is 4.36x based on total revenues, and 2.09x for state revenues only.

State-only tax revenue fell 8.9% between fiscal years 2007 and 2010, while federal funds have shown significant year-to-year volatility, jumping $95 million in fiscal 2012 alone, due to close-out federal reimbursement for several projects. Based on New Mexico Department of Transportation (NMDOT) projections, fiscal 2013 will see a 10.2% drop in total revenue, due to a decline in federal revenue of 22.9%, and a 3.6% increase in state revenue. We calculate combined senior- and subordinate-lien MADS coverage by state-derived projected revenue at 2.16x.

The state ascribes the volatility of federal funds to reimbursement for specific projects. New Mexico estimates that the potential effect of pending federal sequestration would only cut state transportation funds $12 million-$15 million, although it could have an economic impact on approximately 22,000 jobs throughout the state.

Although current authorization allows the sale of about $235 million of additional debt, the state has indicated that it does not have plans to issue parity new money debt. The senior-lien additional bonds test requires that state revenues in any 12 consecutive months of the preceding 18 months total 3.0x MADS, and all pledged revenues total 3.5x MADS on all closed-lien obligations and proposed senior-lien bonds outstanding. The additional bonds test for subordinate-lien bonds requires 3x MADS coverage of closed-lien obligations, senior-lien bonds, and subordinate-lien bonds outstanding from all pledged revenues.

Approximately $470 million of subordinate debt, or about 26% of the authority's $1.6 billion of senior and subordinate debt outstanding was issued as variable-rate debt, although the majority of this debt is associated with swap agreements intended to hedge the variable-rate risk; only about $50 million, or 3% of total debt, is unhedged, but New Mexico believes the unhedged variable-rate risk is offset by interest earnings on bond proceeds held in an escrow account.

The authority has entered into floating-to-fixed rate swaps with five counterparties.

NMDOT has swaps with a notional amount of $220 million with JPMorgan Chase Bank; two swaps with UBS AG (A/Stable/A-1) with a notional amount of $220 million; a $100 million notional swap with RBC; and two swaps each with a notional amount of $50 million with Goldman Sachs Mitsui Marine Derivative Products LP (AAA/Negative/--), and Deutsche Bank AG (A+/Negative/A-1).

As of Oct. 18, 2012, the combined swap termination value of all of its swaps was $137.1 million, and under the agreements NMDOT was required to post collateral of $34.6 million. NMDOT represents that any swap termination fees or collateral posting requirements are subordinate to the bonds. NMDOT has arranged a $50 million line of credit with Bank of America, in addition to the availability of about $8 million of other available funds from its own cash resources, to help manage potential liquidity needs associated with future collateral posting requirements.

There is a swap credit event if the bank ratings decline to 'BB+', which is seen as remote given the highly rated counterparties. The authority has the same additional credit event. The counterparties all post collateral in accordance with the provisions in the executed credit support annexes.

Letters of credit from State Street Corp. (A+/Negative/A-1) and RBC support $185.6 million of the variable-rate bonds.

Outlook

The stable outlook reflects our expectation that the relative stability of state revenues, and limited future debt needs, will continue to provide strong DSC, although federal revenues could fluctuate. Declines in DSC due to significant softening of pledged state revenues from exempt sales, decreased gas demand, or other factors would be a credit concern. Due to the strong current DSC by state-only tax revenues, we do not believe that declines in federal funds would necessarily lead to a downgrade.

Related Criteria And Research

- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011
- Criteria: Joint Support Criteria Update, April 22, 2009
- USPF Criteria: Special Tax Bonds, June 13, 2007

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.