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

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Credit Profile		
US$234.6 mil state transp rev bnds (New Mexico St Transp Comm) (St Transp Comm-subord Lien) ser 2021A due 06/15/2030		
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) Gas Tax		
Long Term Rating	AA+/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) Gas Tax		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' rating to the New Mexico Finance Authority's pro forma $234.6 million state transportation refunding revenue bonds (state transportation commission subordinate lien), series 2021A, issued for the New Mexico State Transportation Commission. At the same time, we affirmed our 'AA+' rating on the senior-lien transportation revenue bonds as well as our 'AA' rating on the outstanding subordinate-lien revenue bonds. The outlook on both the senior-lien and subordinate lien-revenue bonds is stable.

We rate the bonds under our priority-lien tax revenue debt criteria, published Oct. 22, 2018, which factor in both the strength and stability of the pledged revenues, as well as the general credit quality of the municipality where taxes are distributed and/or collected (the obligor's creditworthiness or OC). The priority-lien rating for the transportation infrastructure revenue bonds is tied to the OC for the state of New Mexico.

The senior-lien transportation revenue bonds are secured by a first-lien pledge of various taxes and fees required to be paid into the state road fund, certain federal transportation revenue, and taxes and fees that must be deposited into the highway infrastructure fund (HIF). Pledged federal funds are revenue available to the New Mexico Department of Transportation (NMDOT) under federal law and not otherwise obligated, which are paid into the state road fund. State road fund revenues primarily include 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. Subordinate-lien bonds have a pledge on the same revenues, after payment of senior bond debt service. Neither lien has a debt service reserve.

The 2021A bonds are being issued to fund roadway improvements throughout the state, and post-issuance the NMDOT will have approximately $998 million in total par outstanding with 58% of the total principal to be repaid in the next five years. NMDOT has no current plans or authorization to issue additional new-money bonds in the future.

Credit overview

The rating reflects our view that despite a modest decline in pledged revenues due to the effects of the COVID-19 pandemic, we expect coverage to remain very strong on both liens in the near term due to historically stable to growing pledged revenue trends, a relatively stable state economy and population base upon which the pledged revenues are derived, and no additional debt plans within our outlook period.

As New Mexico's fiscal 2021 draws to a close, the state's credit metrics have proven resilient in the face of dual shocks experienced over the last year: an oil price rout and a public health crisis. Total pledged revenues ended fiscal year 2020 marginally down 0.3% (June 30, 2020) and were initially projected to decline 4% in fiscal year 2021; however, the current pledged 2021 revenue projection points to a decline of just 0.3%, which is supported by revenues that are 1.1% higher in first nine months of 2021 than those seen during the first nine months of fiscal 2019. Pledged revenues growth is projected to be positive in fiscal 2022 with 5.8% growth. The state's pledged revenue forecast aligns with its broader consensus general fund revenue outlook of continued economic recovery through the end of fiscal 2021 that continues into fiscal 2022, when we expect the state to return to structural balance and to maintain strong fund balances.

Key considerations in our assessment of the credit quality of the pledged revenues include:

- A very strong statewide economic base of 2.1 million people generating the pledged revenues;
- Low volatility of pledged state-generated revenues, including a history of New Mexico increasing motor fuel tax rates and fees, although we view pledged federal revenue as somewhat more volatile;
- Anticipated continued strong debt service coverage (DSC), despite recent economic pressures, based on lack of current state debt issuance plans and a strong senior-lien additional bonds test (ABT) of 3.0x maximum annual debt service (MADS) by pledged state taxes alone, and 3.5x by combined state taxes and pledged federal revenue; the subordinate-lien ABT is also good, requiring 3.0x combined senior and subordinate MADS coverage by combined state and federal revenue, although it is weakened somewhat by the inclusion of federal revenues, which make up about half of pledged revenue; and
- Strong current MADS coverage of 7.12x on senior-lien debt service (2022) and 4.38x on combined senior- and subordinate-lien debt service (2024), by pledged fiscal 2020 revenues of $852.575 million.

The stable outlook on the senior-lien and subordinate-lien bonds reflects our stable outlook on the state general obligation (GO) rating, as well as our view of the senior and subordinate lien's DSC ratios and ABTs. Although unexpected, given the linkage between these bonds and the state, a negative rating action that lowers the state rating could also lead to a negative rating action on these bonds.

Environmental, social, and governance (ESG) factors

We believe the state's demographic profile exposes the pledged revenues to social risk over time. New Mexico has below-average population growth and an age dependency ratio that is substantially above the national average. In S&P Global Ratings' opinion, older-aged states reliant on older and higher-income households are more likely to experience revenue declines due, in part, to changes in economic activity levels supporting the pledged revenue base. On the whole, S&P Global Ratings considers managing demographic trends a long-term factor affecting the credit quality of state governments and an important part of its holistic analysis of state credit quality.

We consider the pledged revenues' environmental and governance factors to be generally in line with those affecting the state.

Stable Outlook

Downside scenario

We could lower the ratings if there were a substantial decline in pledged revenue--due to economic- or demand-driven pressures, or otherwise--that materially reduces DSC to levels we view as inconsistent with current rating. Although not expected, given the linkage between the bonds and the state, a negative rating action on the New Mexico rating could also lead to a negative rating action on the senior-lien bonds.

Given an ABT that allows the subordinate lien to leverage what we believe are more volatile federal revenues, we do not expect to raise the rating on the subordinate-lien debt within our outlook horizon.

We would not lower the rating on the subordinate-lien bonds as a result of our establishment of a one-notch limitation above the state's general creditworthiness for the transportation revenue bonds unless we lowered our state GO rating below 'AA-'.

Upside scenario

Although not expected, we could raise the ratings if DSC increased materially due to substantial growth in pledged revenue, coupled with a positive rating action on New Mexico's general creditworthiness.

Credit Opinion

Revenue volatility: Moderately low

Overall, combined state road fund (SRF) and HIF pledged revenue has experienced some ups and downs over the past 10 years, but has increased 23.8% cumulatively during this period. From 2011 to 2020, state-derived pledged revenue growth has ranged from a peak of 7.2% (2019) to a trough of negative 2.0% in 2020, with a compound annual growth rate of 1.75%. We view the portion of pledged revenue derived from state taxes as more stable than pledged federal revenue.

The lowest point of fiscal year 2020 was in April, when SRF collections, which make up the majority of state-derived revenue, were down 31.5% relative to same month a year prior. SRF collections subsequently grew in May but were again down 24.7% compared to a year prior but rebounded in June, growing 7.4% over June of fiscal year 2019. Through the first nine months of fiscal 2021, SRF collections were up 1.1% compared to the first nine months of 2019 and down only 0.6% compared to the first nine months of fiscal 2020, a period that did not experience the impact of the dual COVID-19 and oil price shocks. This points to resilience of the state road fund revenue streams through the oil price shock and the peak of the pandemic.

Combined state pledged revenue totaled slightly over $448 million in fiscal year 2020. After a forecast decline of state-derived pledged revenue of 0.4% in fiscal year 2021, revenues revert to growth of 11.1% and 2.1% in fiscal years 2022 and 2023, respectively. The outsized bump in growth is 2022 is largely due to the SRF receiving a greater share of motor vehicle excise taxes beginning July 1, 2021. Absent the change, state-derived revenue growth in 2022 would be a more modest 1.9%, followed by 1.9% growth in 2023, assuming flat motor vehicle excise tax revenue of $6.76 million in 2022 and 2023, in line with the current forecast for that pledged revenue stream in fiscal 2021.

Total pledged federal funds have shown some year-to-year volatility related to federal reimbursement of specific projects, including a 4.6% one-year decrease in fiscal 2011, followed by a 24% cumulative increase during fiscal years 2011-2015, and a 2.1% cumulative decrease during fiscal years 2015-2017, and subsequently growing a cumulative 7.3% during 2017-2020. For planning purposes, NMDOT has assumed federal revenues will remain flat at 2020 levels, although this is subject to changes in federal funding. To date, a new surface transportation bill has not been approved by Congress, with the one-year extension to the existing legislation (Fixing America's Surface Transportation Act) expiring at the end of September 2021. Although we cannot predict future actions of Congress, for the foreseeable future, the NMDOT and commission officials expect stable funding for the program on a continuing resolution basis based on historical precedence for such continued program funding despite past lapses of multiyear authorizations. Aside from the federal highway funding, should general federal funding shrink significantly, we believe state revenues could also see some declines at the same time due to the state economy's significant military and federal research components.

Our macro volatility assessment begins with an assessment of the historical volatility of the economic activity being taxed, and includes an analysis of societal, demographic, political, and other factors that could affect these activities. Based on the variance of national economic activity that we believe most closely represents the taxing base over multiple economic cycles, it is used to inform our opinion on expectations of future volatility.

Coverage and liquidity: Senior bonds very strong; subordinate bonds strong

The state has historically maintained very strong DSC levels on both the senior- and subordinate-lien debt. Based on fiscal year 2020 figures, total state and federal pledged revenue coverage of senior-lien MADS was what we view as a very strong 7.12x, and pro forma combined senior- and subordinate-lien MADS coverage was a still very strong 4.38x. Estimated total pledged revenues for 2021 would provide 7.10x and 4.37x, senior and combined MADS coverage, respectively.

SB 121 of the State Legislature's 2021 Regular Session authorized the issuance of state transportation project bonds on or after July 1, 2021, in a principal amount not to exceed the $234.6 million remaining unused authorization. After issuance of the series 2021A bonds there will be no current remaining unused authorization; however, no existing legislation precludes the Legislature, with concurrence from the governor, from enacting additional authorization at any time in the future. The act also authorizes the commission to direct the finance authority to issue an unlimited amount of refunding bonds that are payable from pledged revenues.

The senior-lien ABT 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 ABT 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 ABT allows for significant leverage against the potentially more volatile federal revenue.

The state imposes gasoline excise taxes, which are the largest contributor to pledged state revenues, at a fixed 17 cents per gallon, a rate that has not been increased for some time and is the lowest for any Western state. 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, extended in 2014 for a 10-year period, that officials believe have mitigated the effect of any off-reservation sales on the state road fund and have helped 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 taxable gasoline distribution has represented a relatively stable 92%-93% of total gasoline distribution since 2010.

Economic fundamentals: Very strong

We view the large statewide economic base of nearly 2.1 million people that generates pledged state-derived tax revenues as strong, despite a somewhat above-average reliance on federal employment, due to federal laboratories and military bases, and on oil and gas production. Increased federal defense spending and a rebound in oil and gas production in the Permian Basin in recent years have helped boost the state economy after a previous period of weakness.

Since the Great Recession, the state has experienced slower population growth than the nation, after having faster growth in the previous decade. The state population grew only 0.32% in 2020 and 0.28% in 2019, and had slight declines in both 2014 and 2015, resulting in a 2020 state population of 2.106 million. From 2010 to 2020, the state population increased overall 2.0%, compared with 9.6% for the U.S. New Mexico's age dependency ratio (which measures nonworking-age population to working-age population) which was 68.4% in 2019, a large 5.3 percentage points above that of the U.S., reflecting a growing retiree population attracted to the state's moderate climate and low cost of living.

The state's relatively large federal employment sector due to the presence of federal laboratories and military bases provides a backdrop of economic stability. The state ranks first in the nation in terms of federal spending per dollar of tax paid, indicating the importance of federal dollars. Federal employment is concentrated in New Mexico's three Air Force bases, as well as the White Sands Missile Range, and the Los Alamos and Sandia national laboratories. Other industries include high-technology manufacturing attracted by state tax breaks and proximity to federal labs, tourism, and call-center businesses, which are drawn in part by New Mexico's low business costs. Governmental sector employment was higher than the national average at 22.6% of state employment in 2020 compared with 15.8% nationally; governmental employment does not include additional military employment at the state's military bases.

IHS Markit forecasts the state's gross state product will expand 6.0% in 2021 and 6.3% in 2022 after declining 3.1% in 2020, as compared to the U.S. forecast, which projects 7.4% and 4.8% GDP growth in 2021 and 2022 after a decline of 3.5% in 2020.. Long term, we believe the state, like the nation as a whole, will have to contend with certain structural factors such as evolving productivity developments, lower labor force participation, and shifting trade dynamics.

Linkage to state general creditworthiness

Given that the state collects the pledged revenues, we view the rating on the transportation revenue bonds as linked to New Mexico's creditworthiness. Although the state constitution restricts transportation-related revenues to transportation-related purposes, these can be purposes other than specifically repayment of debt. In our establishment of a one-notch upward limitation on the transportation revenue bond rating compared to the state GO rating, we factored into our analysis our view that the state provides critical public services. While we consider that statutory and bond covenant restrictions on the use of highway transportation revenues provide a degree of uplift, in our opinion, the state's collection and distribution of pledged revenues expose the revenues to operating risk. For this reason, under our priority-lien criteria, we consider the linkage between the priority-lien pledge and the state of New Mexico close.

For more information on our state of New Mexico GO rating, please refer to our most recent GO rationale, published April 30, 2021.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of June 23, 2021)		
New Mexico Fin Auth, New Mexico		
New Mexico State Transp Comm, New Mexico		
New Mexico Fin Auth (New Mexico State Transp Comm) Gas Tax		
Long Term Rating	AA/Stable	Affirmed
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