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Ratings

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Summary:

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

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Credit Profile		
US$46.78 mil St transp rfdg rev bnds (Sr ln) (New Mexico State Transp Comm) ser 2022A due 06/15/2026		
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) GASTAX		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the New Mexico Finance Authority's $46.78 million state transportation refunding revenue bonds (state transportation commission senior lien), series 2022A, issued for the New Mexico State Transportation Commission. At the same time, we affirmed our 'AA+' long-term rating on the senior-lien transportation revenue bonds as well as our 'AA' rating on the subordinate-lien revenue bonds outstanding. The outlook on both the senior- and subordinate lien-revenue bonds is stable.

We rate the bonds under our "Priority-Lien Tax Revenue Debt" criteria, published Oct. 22, 2018, on RatingsDirect, 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 [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 (SRF), 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 SRF. SRF 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.

Proceeds will be used to refund outstanding senior-lien debt for debt service savings. At this time, the authority has no current plans or authorization to issue additional new-money bonds.

Credit overview

The rating reflects our view that pledged revenues have remained stable following the onset of the pandemic. We expect coverage to remain very strong on both liens in the near term due to historically stable and growing pledged revenue trends, a stable state economy and population base on which the pledged revenues are derived, and no additional debt plans within our outlook period.

Pledged revenue growth is projected to increase substantially by 17.6% in fiscal 2022 compared to fiscal 2021. The state's pledged revenue forecast aligns with its broader consensus general fund revenue outlook of continued economic recovery through the end of fiscal 2022 that continues into fiscal 2023. However, any changes to federal policy that significantly affects revenues could introduce credit pressures to the rating.

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 7.31x on senior-lien debt service (2022) and 4.48x on combined senior- and subordinate-lien debt service (2024), by pledged fiscal 2020 revenues of $852.575 million.

Environmental, social, and governance

New Mexico has below-average population growth and an age dependency ratio that is substantially above the national average leading to a exposure to social capital risks. In our 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. Overall, S&P Global Ratings considers managing demographic trends a long-term factor affecting the economic fundamentals analysis of the priority lien. We consider environmental and governance factors to be generally neutral in our credit rating analysis when considering pledged revenue securing the debt service.

Stable Outlook

Downside scenario

We could lower the ratings if there were a substantial decline in pledged revenue--due to economic- or demand-based pressures, or otherwise--that materially reduced DSC to levels we view as inconsistent with the current rating.

Although unlikely, given the linkage between the bonds and the state, a negative rating action on the New Mexico GO rating could also lead to a negative rating action on the senior-lien bonds. We would not lower the rating on the subordinate-lien bonds because 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 unlikely, we could raise the ratings if DSC increased materially due to substantial growth in pledged revenue, and for the senior bonds, coupled with a positive rating action on New Mexico's general creditworthiness. 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.

Credit Opinion

Revenue volatility: Moderately low

Overall, combined SRF and HIF pledged revenue has experienced some ups and downs over the past 10 years, but has increased nearly 23.824% cumulatively during this period. From 2012 to 2021, 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 1.46%. We view the portion of pledged revenue derived from state taxes as more stable than pledged federal revenue.

For the first six months of fiscal 2022, SRF collections increased by 21% to $268.13 million compared to the first six months of fiscal 2021 ($221.56 million). Relative to the same period in fiscal year 2019, SRF collections in the current year are up nearly 21%, which points to the broad resiliency of the SRF, in our view.

Combined state pledged revenue totaled slightly over $459 million in fiscal year 2021. The SRF is estimated to grow $14.3% in the current fiscal year due largely to the SRF receiving a greater share of motor vehicle excise taxes that began on July 1, 2021. By fiscal year 2023, growth is estimated to be 0.5%.

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 2017-2021. Although Congress extended the Federal Aid Highway Program through federal fiscal year 2026, we cannot predict future actions of Congress. However, for the foreseeable future, we expect stable funding for the program based on historical precedence for 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 2021 figures, total state and federal pledged revenue coverage of senior-lien MADS was what we view as a very strong 7.31x, and pro forma combined senior- and subordinate-lien MADS coverage was a still very strong 4.48x. Estimated total pledged revenues for 2022 would provide 7.63x and 5.71x, senior and combined MADS coverage, respectively.

There is no remaining authorization for new money. 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- 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 SRF 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 sector softness.

Since the Great Recession, the state has experienced slower population growth than the nation, after having faster growth in the previous decade. The state's population declined slightly by 0.06% in 2021 from 2020 and saw slight decreases in both 2014 and 2015. From 2010 to 2021, it increased overall by 2.3%, compared with 6.6% for the U.S. The state is projected to grow 0.6% from now until 2025.

New Mexico'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, 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.

According to IHS Markit, there was a 2.5% rebound in calendar year 2021 real gross state product (GSP), followed by a forecasted 4.2% growth in 2022, compared to expansion for the nation of 5.6% in 2021 and 3.3% in 2022. While New Mexico is forecast to grow more than the national level in 2023, in the outyears, we anticipate the state will likely revert to lagging the nation but will nevertheless benefit from overall growth. Long term, we believe the state--like the nation as a whole--will have to contend with certain structural factors: 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.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of March 24, 2022)		
New Mexico Fin Auth, New Mexico		
New Mexico State Transp Comm, New Mexico		
New Mexico Fin Auth (New Mexico State Transp Comm) sr lien GASTAX		
Long Term Rating	AA+/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) subord lien Gas Tax		
Long Term Rating	AA/Stable	Affirmed
New Mexico Fin Auth (New Mexico State Transp Comm) GASTAX		
Long Term Rating	AA/Stable	Affirmed