STATE OF NEW MEXICO

DEPARTMENT OF FINANCE AND ADMINISTRATION

BOARD OF FINANCE

GOVERNOR MICHELLE LUJAN GRISHAM
PRESIDENT

LT. GOVERNOR HOWIE MORALES
BOARD MEMBER

OLIVIA PADILLA-JACKSON
CABINET SECRETARY

ASHLEY LEACH
DIRECTOR

DEBT AFFORDABILITY STUDY

December 17, 2019

BATAAN MEMORIAL BUILDING, SUITE 181, SANTA FE, NM 87501
(505) 827-4980 FAX (505) 827-3985

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Introduction and Scope

The New Mexico Department of Finance and Administration, in conjunction with the State Board of Finance and its Municipal Advisors, prepares this Debt Affordability Study on an annual basis as a management tool for assessing the affordability of projected debt issuance by the State and monitoring the State's debt capacity. The prudent management of capital for investment in critical State infrastructure is essential for the long-term health of the New Mexico economy, and in turn for increasing real incomes and the quality of life for New Mexicans. Properly managed, debt is a critical tool for investing in our schools, addressing essential water needs, improving roads, and building our economy.

The core State bonding programs that are the focus of this study include general obligation bonds, severance tax bonds and supplemental severance tax bonds issued by the State Board of Finance, and transportation revenue bonds issued by the Department of Transportation through the New Mexico Finance Authority. The study also addresses lease appropriation bonds issued through the Board of Finance and payable from General Fund appropriations. These bonding programs, along with general funds appropriated by the State Legislature, are the primary sources of capital investment funding for the State. The study incorporates the bonds issued by the New Mexico Finance Authority on behalf of the Department of Transportation as statewide debt, but does not address debt issuance by State higher educational institutions, the Mortgage Finance Authority, or the regional housing authorities. Finally, the study references the Public Project Revolving Fund of the New Mexico Finance Authority, but does not address the range of NMFA financing activities or other bonds issued by political subdivisions of the State.

The core State long-term bonding programs have projected capacity of $4.3 billion (see table on page 18) of new money, long-term general obligation and senior severance tax bonds over the next 10 years for State capital projects based upon the policies described herein, as well as a further $2.4 billion of short term “sponge” funding notes for statewide capital projects and public school purposes. In aggregate, this level of funding represents a 23 percent increase in projected capital capacity over the amounts projected one year ago in the annual Debt Affordability Study. The regular issuance of long-term debt in a manner that projects available capacity over a ten-year horizon, in conjunction with the continued use of short-term notes to direct annually available balances in the Severance Tax Bonding Fund to investment in State economic infrastructure and other critical state facilities, has been central to the State long-term capital investment planning for many years.

The projected available debt capacity for the core State bonding programs as described herein is not funded from, and therefore does not place stress on, the State General Fund, and this projected capital capacity is affordable within currently projected levels of the revenue streams that are dedicated to debt repayment. As the increase in projected debt capacity noted above suggests, the traditional volatility of natural resource pricing is now working in the State’s favor, after a number of lean years. Due in large measure to the conservative debt management practices of the State, the key debt ratios have not suffered on account of the downturn in State revenues over the past several years, even as new long-term debt was issued. Now, revenue prospects over the near and medium turn are decidedly positive.

The key debt ratios used in this study to assess the state debt burden are debt per capita and debt as a percentage of personal income, which provide a basis for comparing levels of debt use across states and against peers. These ratios, along with the level of financial reserves and trends in State revenues and other financial resources, directly impact the State bond ratings, and the State bond ratings, in turn, directly impact the State's cost of capital. Understanding the position of the State relative to its peers allows stakeholders across the state to monitor its financial and debt positions, and provides a framework for benchmarking with respect to debt issuance levels, debt capacity, and levels of new investment.

The State bond ratings are now in the middle tier of the *"double-A"* level, the second highest investment grade rating category, with stable outlooks. These bond ratings continue to benefit from strong debt management attributes, which include rapid debt retirement, moderate debt levels and debt ratios relative to population and personal income that have shown a downward trend over time. These credit strengths have been balanced against the State's historical dependence on federal employment, low levels of personal income relative to national averages and state peers, and the inherent revenue volatility derived from volatility in oil and natural gas pricing and production levels.

Public employee pension funds continue to be under significant scrutiny by both the public and bond investors, as well as the bond rating agencies, and the underfunding of State employee pension funds is now one of the most significant factors negatively impacting the State's bond ratings. Moody's Investors Services, in particular, incorporates pension fund liabilities into its credit analysis, and does so based upon lower assumed long-term pension fund earnings. Both Public Employees Retirement Association (PERA) and Educational Retirement Board (ERB) funding commitments are a significant source of financial pressure on the State General Fund, and Moody's, in particular, is increasingly viewing ERB as a funding obligation of the General Fund in a manner that has not been fully recognized previously. The ERB issue, and Moody's overall pension methodology are discussed herein, and we provide a comparison of the State debt and liability position to all of the states, utilizing Moody's adjustments to state net pension liabilities.

Shortly after her election, Governor Michelle Lujan Grisham created a PERA Solvency Task Force, which she charged with addressing the PERA pension funding situation. The Task Force has made a series of recommendations, focused on increasing employer and employee pension contributions and modifying the basis of calculating annual cost of living adjustments. These proposed changes, which have been endorsed by the PERA Board, are projected to fully fund the PERA system over a twenty-five year period. The proposed changes will be submitted to the Legislature for its consideration during the upcoming legislative session. The Task Force did not address ERB funding.

Core State Bonding Programs

The core State bonding programs that are the focus of this study include general obligation bonds, severance tax bonds and supplemental severance tax bonds issued by the State Board of Finance, transportation revenue bonds issued by the Department of Transportation through the New Mexico Finance Authority, and lease appropriation bonds. The State general obligation bonds are secured by the full faith and credit pledge of the State, and are repaid from a dedicated *ad valorem* statewide mill levy. The severance tax and supplemental severance tax bonds are secured by and repaid from revenues deposited into the Severance Tax Bonding Fund, which primarily include taxes on mineral extraction in the state. The transportation revenue bond program is secured by a pledge of revenues received into the State Road Fund, which are principally derived from gasoline and diesel fuel taxes, motor vehicle registration and road user fees, plus an additional pledge of certain federal revenues received annually by the Department of Transportation. None of these outstanding core state bonds are payable from General Fund resources.

The following table sets forth the sources of capital funding for the State over the past five years, including the core State bonding programs and the severance tax note program. During this timeframe there has been no pay-as-you-go funding appropriated from the General Fund for capital projects.

Principal Sources of Capital Funding by Fiscal Year
(Millions of dollars)

	2015	2016	2017	2018	2019	Total
General Obligation Bonding Program						
General Obligation Bonds	$167.0	-	-	$174.3	-	$341.3
Subtotal	167.0	-	-	174.3	0.0	341.3
Severance Tax Bonding Program						
Severance Tax Bonds	0.0	$293.1	$51.0	$222.5	$0.0	566.6
Severance Tax Funding Notes	128.2	8.6	38.5	28.9	79.2	283.4
Supplemental Severance Tax Bonds	0.0	81.0	0.0	0.0	0.0	81.0
Supplemental Severance Tax Funding Notes	214.5	127.3	120.4	139.2	183.6	785.0
Subtotal	342.7	510.0	209.9	390.6	262.7	1,715.9
Other Sources						
Transportation Bonds	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Total	**$509.7**	**$510.0**	**$209.9**	**$564.9**	**$262.7**	**$2,057.2**

Note: Dollar amounts from SBOF bonding programs reflect net proceeds available for capital expenditure.

As of the end of fiscal year 2019, the State had outstanding $490.9 million general obligation bonds, $814.4 million Senior and Supplemental Severance Tax Bonds, and $988.2 million transportation bonds supported by State Road Fund revenues. The State lease appropriation bonds that were previously reviewed as part of this study were refunded in their entirety in November 2018 by bonds issued by the New Mexico Finance Authority. The following table sets forth the State tax-supported debt outstanding as of June 30, 2019.

State Bonds Outstanding as of June 30, 2019
(millions)

General Obligation Bonds	$490.91
Severance Tax Bonds	$737.69
Supplemental Severance Tax Bc	$76.69
Transportation Bonds	$988.17
	$2,293.45

Review of the State Credit

Ratings on State Bonds

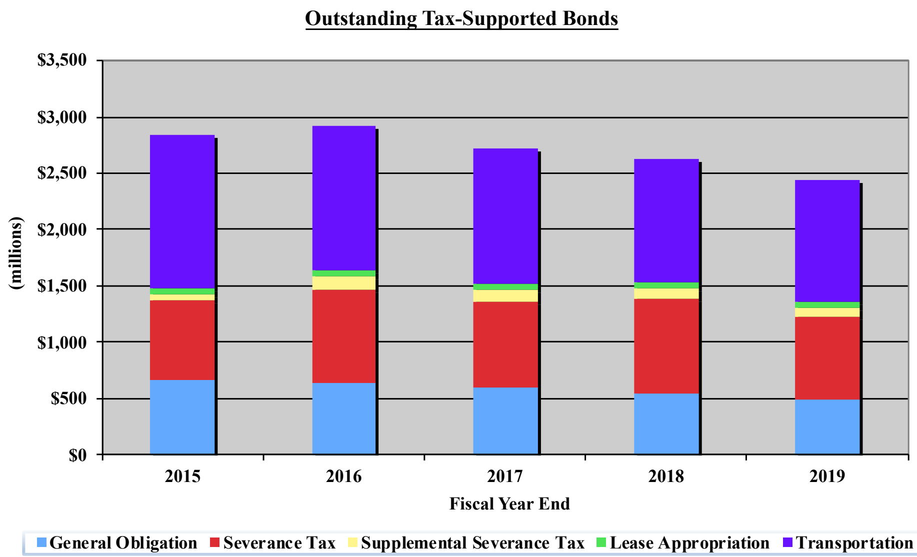
The ratings on the State's bonds represent the assessment by each rating agency of the credit quality of each bond issue, and the State's ability and willingness to repay its debt on a timely basis. The State's general obligation bonds are rated *AA* and *Aa2* by Standard & Poor's Ratings Services ("S&P") and Moody's Investors Service ("Moody's"), respectively. Each of these ratings were downgraded one notch over the past two years, in the face of the downturn in State revenues and the ensuing deterioration in reserves in the General Fund, as well as growing concerns over unfunded pension liabilities. Until recently, both rating agencies maintained a negative outlook on those ratings, however with the rebound in revenues and the restoration of General Fund reserves, both rating agencies now have upgraded the State rating outlook to stable.

The key credit factors that rating analysts have historically looked to as credit strengths in evaluating New Mexico's general obligation bond ratings include (i) the historical commitment to maintaining strong General Fund reserves balances and cash liquidity, (ii) the performance and stability of General Fund revenues, and (iii) rapid debt retirement and moderate debt levels. These credit strengths have been balanced against historically low levels of personal income, the inherent volatility of oil and natural gas-related revenues, a relative lack of economic diversity, and dependence on federal employment. Continuing challenges facing the State bond ratings include (i) the underfunding of public employee pension funds and post-retirement benefits, (ii) the timeliness of CAFR publication compared to industry norms, and (iii) healthcare and education funding pressures in the General Fund. The table below sets forth the ratings on outstanding bonds for State bonding programs.

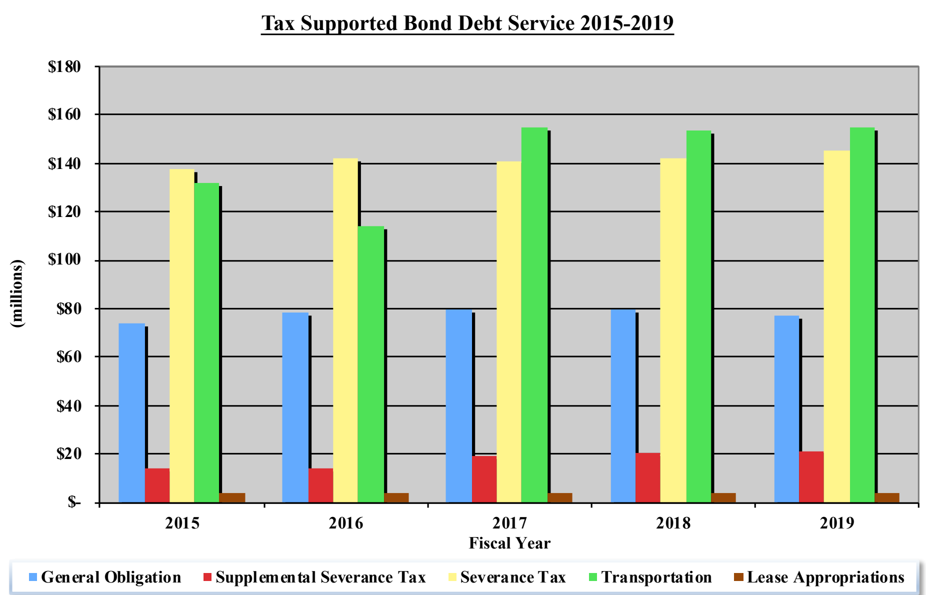
State Board of Finance	**Moody's**	**Standard & Poors**
General Obligation Bonds	Aa2	AA
Severance Tax Bonds	Aa2	AA-
Supplemental Severance Tax Bonds	Aa3	A+
State Transportation Revenue Bonds		
Senior Lien	Aa1	AA+
Subordinate Lien	Aa2	AA
New Mexico Finance Authority		
Senior Lien Public Project Revolving Fund	Aa1	AAA
Subordinate Lien Public Project Revolving F	Aa2	AAA

Trends in State Debt Issuance

Trends in debt issuance are an integral factor in evaluating the State's debt levels. The State has made and continues to make substantial investment in basic capital infrastructure, particularly in the areas of transportation, educational facilities and water supply. As illustrated in the following graph, total outstanding tax-supported state debt has declined 17.4 percent over the past five years, from $2.8 billion in 2015 to $2.3 billion in 2019.



The State's aggregate annual debt service payments on its core bonding programs have in aggregate remained stable over the past five years. Over the past five years, aggregate bond debt service rose 11 percent, from $361.7 million in 2015 to $402.8 million in 2019.



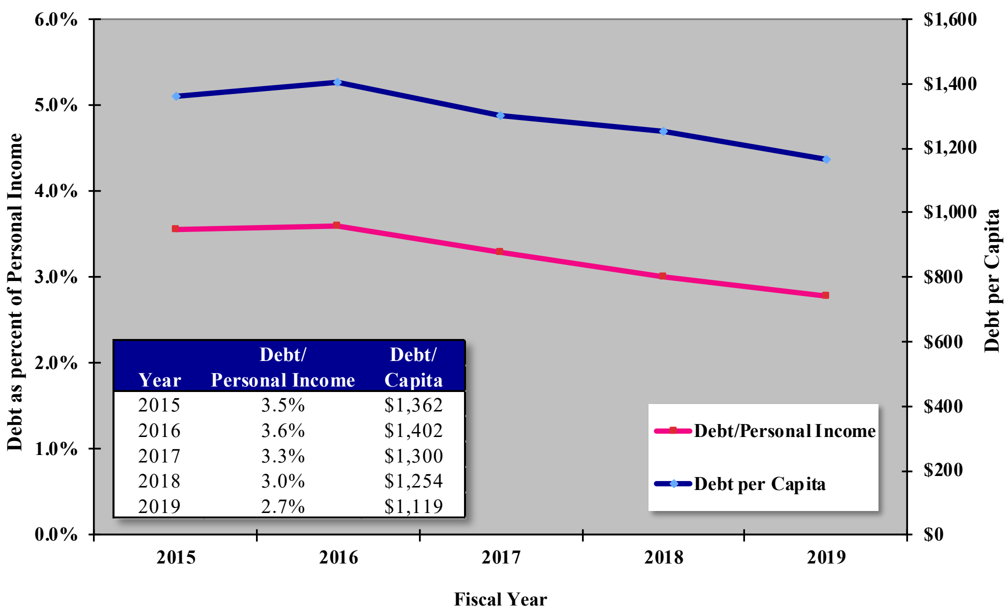
State Debt Ratios

In addition to examining an issuer's total debt position, rating analysts review the issuer's debt ratios and their change over time. Two key debt ratios developed and utilized by the bond rating agencies with respect to the evaluation of the credit quality of the State of New Mexico are Net Tax-Supported Debt to Personal Income and Net Tax-Supported Debt per Capita.

Two other metrics impacting the credit quality of general obligation bonds are the amount of outstanding debt as a percentage of the assessed value of the property that will be taxed to pay for those bonds, and the rate of repayment of the bonds. As of June 30, 2019, State general obligation bonds totaled 0.76 percent of statewide assessed value of property, or approximately three-quarters of the maximum of 1 percent of statewide assessed value permitted by the State Constitution. Another important credit factor is that the public referendum to authorize the issuance of general obligation bonds also provides for the imposition of a mill levy that is solely dedicated to the repayment of those bonds.

With respect to the pace of repayment of outstanding bonds, repayment of 25 percent of the par amount of the bonds in five years and 50 percent of the par amount of the bonds in 10 years is considered the norm for general obligation issuers nationally. Therefore, the State's issuance of bonds with a final maturity of 10 years is substantially more conservative than the norm. The following graph presents the State's tax-supported debt ratios over the past five years, and demonstrates the downward trend in debt per capita and as a percent of personal income.

Key Debt Ratios



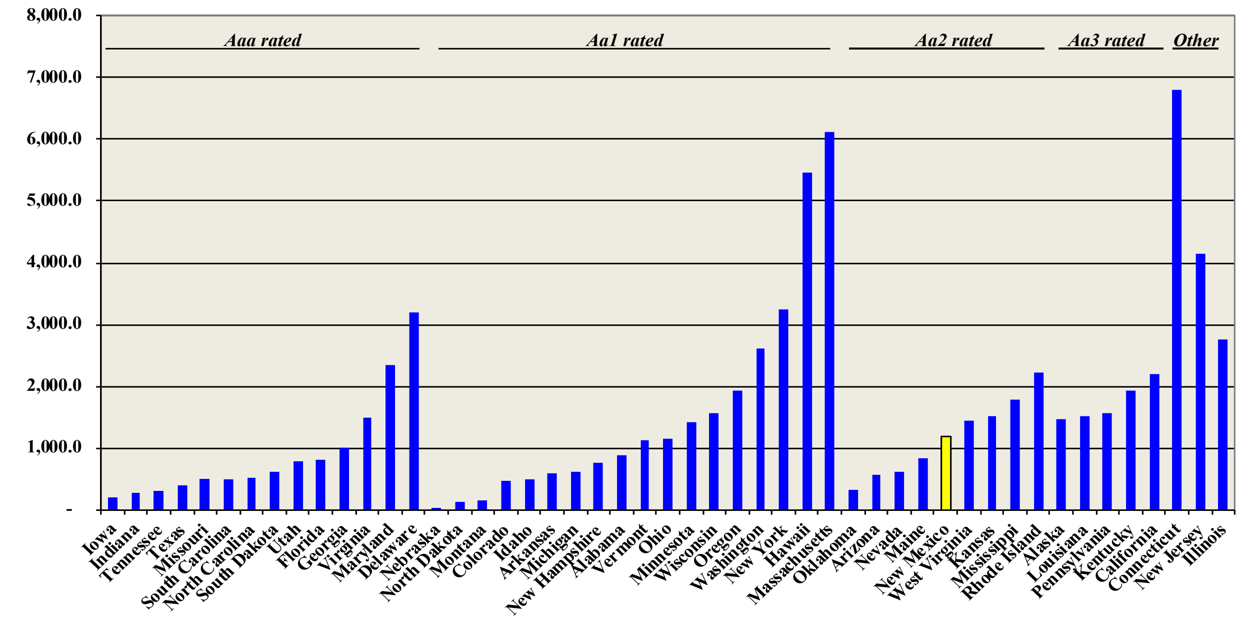
Year	Debt/ Personal Income	Debt/ Capita
2015	3.5%	$1,362
2016	3.6%	$1,402
2017	3.3%	$1,300
2018	3.0%	$1,254
2019	2.7%	$1,119

Because the rate of debt repayment is a contributing factor to credit ratings, it is notable that both State general obligation bonds and bonds issued under the Severance Tax Bonding Program are fully retired within 10 years. The five-year retirement rates of the State general obligation, severance tax and supplemental severance tax bonds as of the date of this report are 72.1 percent, 76.0 percent and 84.8 percent, respectively. With respect to the transportation bonds, the five-year retirement rate is 64.3 percent, while 95.2 percent mature within 10 years. Historically, the State debt management practices have provided for the rapid repayment of bonds, which is generally a positive credit consideration.

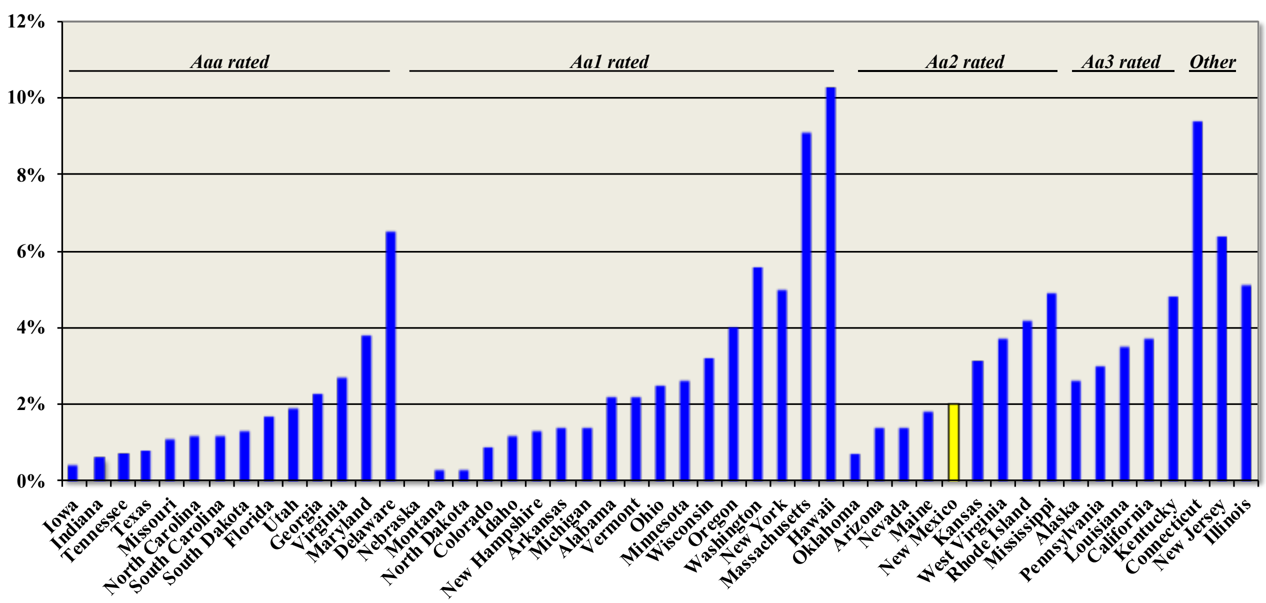
Comparison of Debt Ratios to Selected Peer Group and National Medians

A comparison of key New Mexico debt ratios to those of the rest of the states is useful to place the State's debt position in a national context. Both Moody's and S&P publish ratio data on state governments on a regular basis. For the purposes of benchmarking the State's key debt ratios, we have provided a comparison with all of the states, sorted by rating category, utilizing data published by Moody's in June 2019. The first graph below presents a comparison of net tax supported debt per capita among the states, sorted by rating category, with New Mexico highlighted in yellow. The second graph presents a comparison of net tax supported debt to personal income among the states, again sorted by rating category.

Peer Comparison: Net Tax Supported Debt per Capita



Peer State Comparison: Net Tax Supported Debt as Percent of 2017 Personal Income

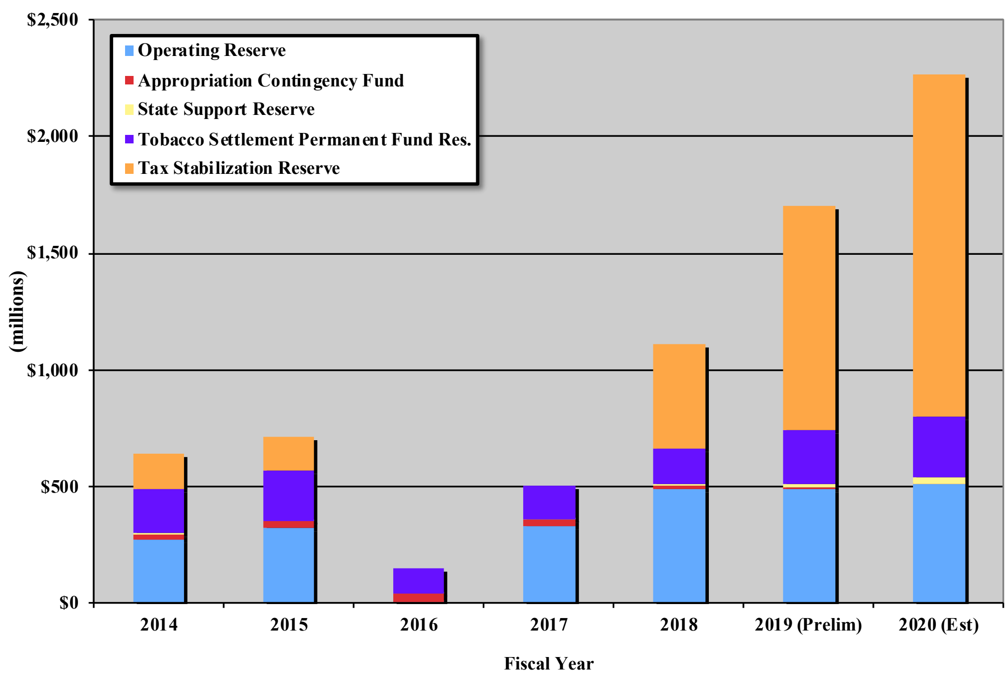


General Fund Reserves

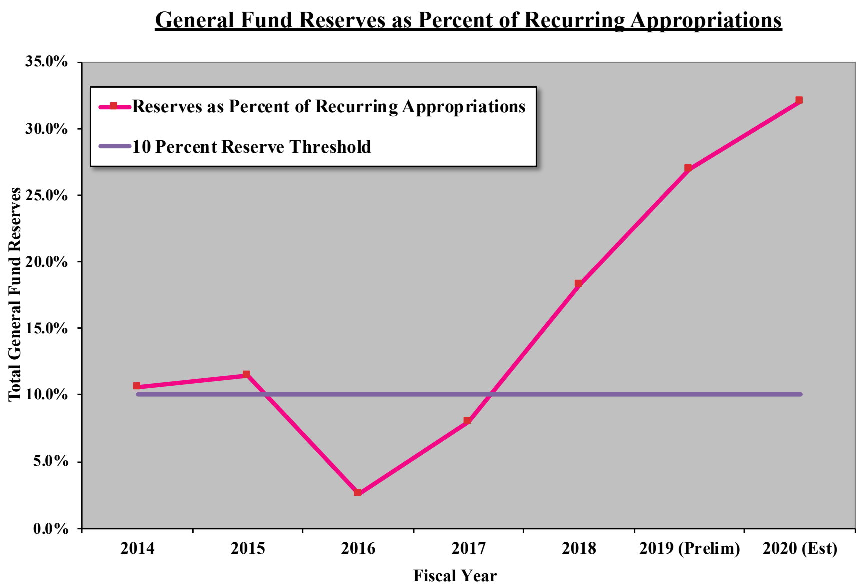
Strong reserve balances in the General Fund have historically underpinned New Mexico's general obligation bond ratings and have offset negative credit attributes, including low personal income levels, the relative lack of economic diversity, and vulnerability to federal budget risk. The following graph presents the components of the General Fund reserve balances over the past decade, including estimated results for 2020. This graph illustrates the impact of the decline in reserves in 2016 and the progress since then in rebuilding reserve levels.

General Fund balances in New Mexico comprise the General Operating Reserve Fund, Appropriation Contingency Reserve, the State Support Reserve, the Tobacco Settlement Permanent Fund Reserve and the Tax Stabilization Reserve, which has been officially designated as a Rainy Day Fund. Each of these funds is legally available for appropriation by the Legislature, though utilization of the Tax Stabilization Reserve/Rainy Day Fund requires a super-majority vote. As the graph below illustrates, year-end results for fiscal year 2016 showed a 79.3 percent decline in reserve balances from the prior year level, to $147.7 million. In contrast, the recovery of reserves has been dramatic. Preliminary results for year-end 2019 reserve levels indicate that balances have been restored to approximately $1.7 billion, the highest level ever.

General Fund Reserves FY 2014-2020 (Est)



The graph on the following page presents the General Fund reserves as a percentage of recurring appropriations. This graph includes a line designating the 5 percent reserve floor established as a credit criteria by S&P a number of years ago, and a second line designating the 10 percent established over the years as a State reserve target. Over the past 10 years, the reserve ratio generally remained at or above the 10 percent threshold, until falling below the 5 percent threshold in fiscal year 2016 with the significant decline in energy prices. Since then, with the significant growth in natural resource production in the state and recovery of oil prices, reserve levels have recovered. In fiscal year 2017, reserve balances were restored to 8.0 percent, back above the 5 percent threshold, and in fiscal year 2019, preliminary results indicate total General Fund reserve balances of 26.9 percent of recurring appropriations. The establishment of a trigger mechanism to capture a portion of the growth in natural resource revenues in the Rainy Day Fund is expected to further strengthen State reserves. As of June 30, 2019, the Rainy Day Fund had a balance of $162 million, which is estimated to grow to $XXX million at the end of the current fiscal year.

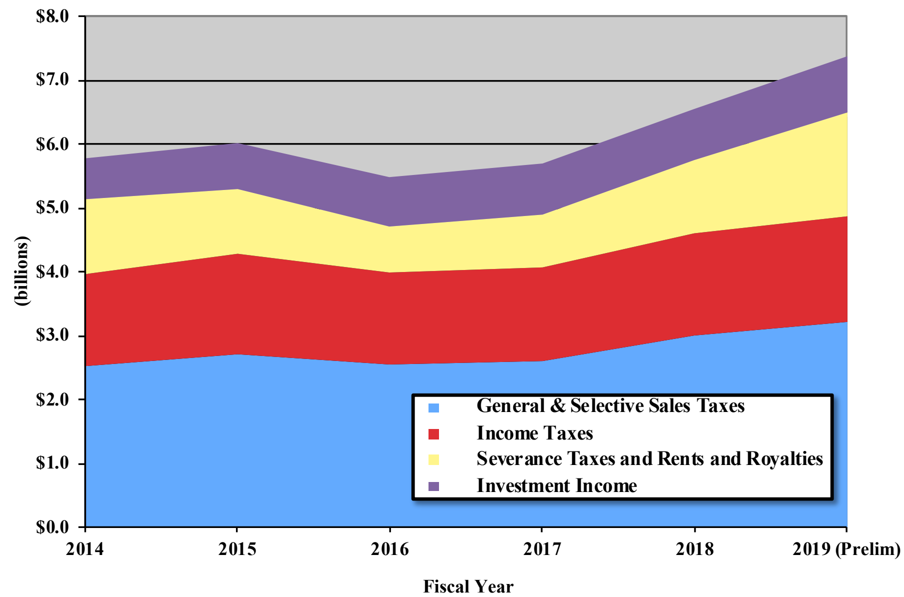


Revenue Volatility

The cyclicality of General Fund revenues has contributed to fluctuations in reserve levels, as illustrated in the two previous graphs. Trends in primary General Fund revenues, which comprise sales taxes, income taxes, revenues derived from mineral extraction activities, and investment earnings – including contributions from State permanent funds – are evaluated by the rating agencies as they consider fundamental issues of fiscal stability and trends. These revenue trends are illustrated in the graph below.

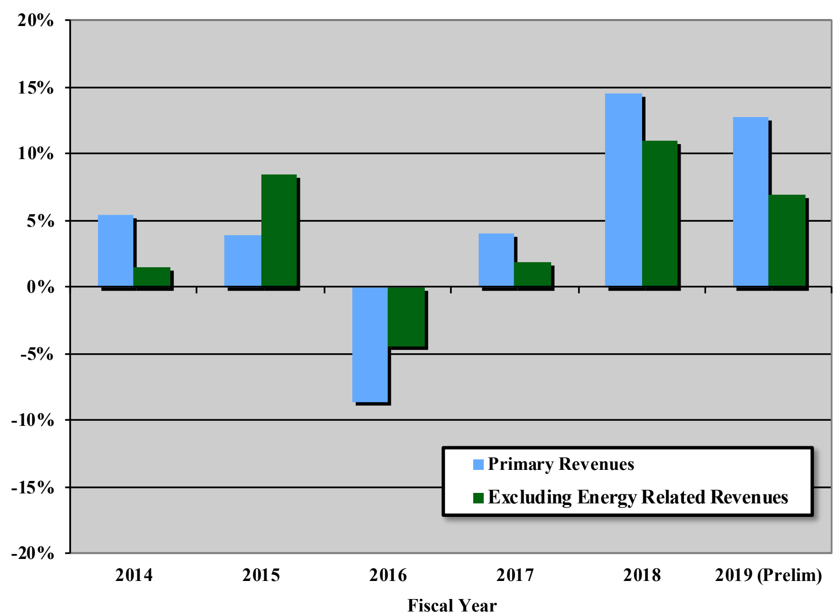
The normal fluctuation in the General Fund revenues reflecting economic cycles mirror those of peer states with a mix of income and gross receipts taxes. The State's revenue mix reflects these revenues, along with taxes and royalties derived from mineral extraction industries. The extraction industry revenues give the State the posture of being a seller of oil and natural gas, and therefore reflect both volatility in price and production levels over time. Both Moody's and S&P focused historically on the volatility in General Fund revenues created by the State's mineral taxes and revenues, though for many years natural resource revenues were seen as a counter-cyclical hedge against volatility in other revenues sensitive to broader economic activity—as rating analysts suggested that higher oil price had historically been correlated with broader economic downturns. As this graph illustrates, while there had been volatility within individual revenue categories in recent years, the aggregate revenue trends remained positive until the downturn in energy prices in 2016, followed by a recovery in revenues the subsequent two years.

Primary General Fund Revenues 2014-2019



The year-over-year changes in the primary General Fund revenues are presented below, further illustrating the volatility of revenues over the past several years.

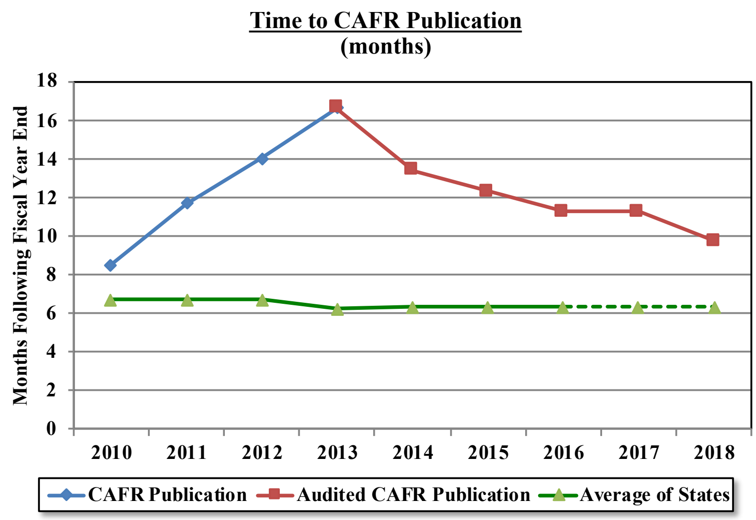
Annual Fluctuation in Primary Revenues



Financial Reporting

Delays in the issuance of the State CAFR have historically been a continuing negative credit factor for the State. On average, state governments issue their audited comprehensive annual financial reports within six to seven months of the end of the fiscal year, with many states publishing their audited CAFR in less than six months. Fiscal year 2013 was the first year that the State of New Mexico CAFR was audited. While the shift to an audited CAFR in 2013 caused an increase in the time to the release, the practices that have now been established have produced annual reports on an improving timeline. However, the delayed production of the State CAFR is fundamentally constrained by state law, as the state agencies whose audits are aggregated into the State CAFR are not obligated to complete their own audits until December 1st of each year. While the Department of Finance and Administration (DFA) sought to change the law that has constrained improvements in the timing of financial reporting during the most recent legislative session, that legislation did not pass. DFA is now proposing new legislation, and working with a task force to build the support for its adoption.

The graph below presents the number of months following fiscal year end in which the CAFR was published, with a line comparing the State's performance with the average timing in CAFR production by states across the country.



State Pension Funds and Other Post-Employment Benefit Liabilities

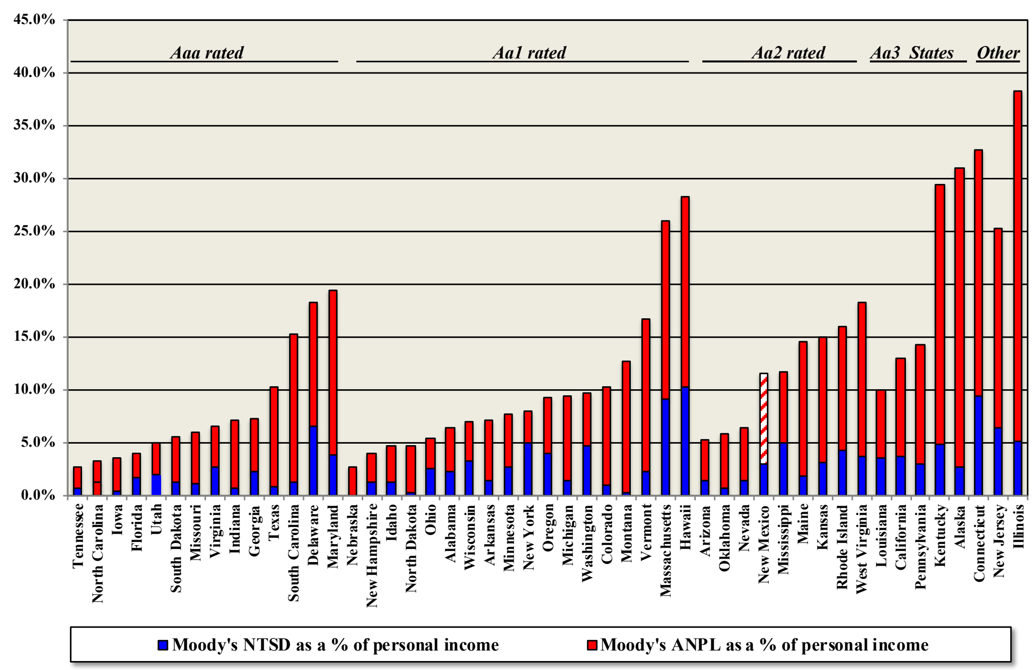
Unfunded pension liabilities, along with projected liabilities for other post-employment benefits, have become a significant focus of attention for both bond rating analysts and the general public, as unfunded pension liabilities now exceed publicly issued debt as the largest share of the long-term liabilities of most states. The bond rating agencies have recently intensified their analytic focus on the legal and economic circumstances of state pension funds, and the long-term consequences of underfunded public pension obligations.

Moody's has taken the most aggressive stance with respect to its evaluation of pension obligations, and has implemented new practices that recognize unfunded pension obligations as long-term obligations comparable to long-term debt. Specifically, Moody's approach comprises three specific analytic steps: (i) allocating cost-sharing plan liabilities to the balance sheets of the underlying obligors, (ii) adjusting an issuer's total actuarial liability to reflect a portfolio yield over time that is somewhat lower than an issuer's actuarial yield assumption – reflecting a discount rate approximating the return on high-grade corporate bonds rather than a mix of bonds and equities – and, (iii) looking at market values of assets without regard to asset-smoothing.

When Moody's applies its analytic approach to New Mexico Public Employees Retirement Association, it has the effect of significantly increasing the estimated unfunded liabilities of the PERA system. In its most recent analysis, Moody's recalibrated pension funds within the state using a 3.51% discount rate, in contrast to the 7.25% discount rate used by PERA actuaries. The impact is to more than double PERA's unfunded net pension liability. Moody's intention is ultimately to recognize issuer pension liabilities on par with debt obligations in its credit review process. While the Moody's adjustment is only for its own analytic purposes, the data illustrates the impact of increasing the level of unfunded liabilities by changing the discount rate that is utilized in calculation those liabilities.

The graph below, based upon data provided by Moody's in its September 2019 report on state pension liabilities, illustrates the impacts of the proposed changes on how pension liabilities are view. The graph presents each state's Net Tax Supported Debt as a Percentage of State Personal Income in blue, and then includes each state's Adjusted Net Pension Liabilities as a Percentage of State Personal Income added on in red. As this graph illustrates, for nearly every state, the magnitude of unfunded state pension obligations dwarf state debt obligations.

Peer State Comparison:
Adjusted Debt and Pension Liabilities as Percent of Personal Income
Moody's Data September 2019



The calculation of aggregate State unfunded pension liabilities, as reflected in the graphic above, do not reflect the significant unfunded liabilities of the Educational Retirement Board. Historically, the characterization of local school district ERB liabilities has been an issue of dispute. While ERB contends that the liabilities belong to the individual school district, substantially all of local school district operating funds – including funds necessary for the payment of ERB pension obligations – are provided by annual state appropriations. Accordingly, Moody's is now considering reframing those liabilities as State obligations in its pension adjustment. The impact of this would be significant. As Moody's estimated in its September 2019 report on State pension system liabilities, New Mexico's aggregate unfunded pension liabilities increases to 26.0% of state GDP if ERB pension obligations are included, compared to 7.4% of state GDP under the current assumptions that do not recognize teacher pension liabilities as State obligations.

In response to the PERA pension funding situation, Governor Lujan Grisham created a PERA Solvency Task Force comprised of a cross-section of stakeholders. The Task Force has made a series of recommendations to address the funding shortfall, with the goal of fully funding the PERA system over a twenty-five year period. Those recommendations include (i) increasing aggregate annual contributions by 4 percent, to be paid equally by the employer and employee, (ii) suspending the compounding COLA for three years, and replacing it during that period with a simple, non-compounding 2 percent COLA, and (iii) introducing a profit-sharing mechanism to annual COLAs after the initial three-year COLA suspension period. The Task Force recommendations were accepted by the Governor and endorsed by PERA Board, and will be submitted to the Legislature for consideration during the upcoming legislative session. The Task Force did not address the ERB.

Projected State Debt Issuance

The table below represents the projected sources and uses of funds from the core State bonding programs as of the date of this report, reflecting the capacity available from each of the core funding sources. This table includes the issuance of long-term general obligation, severance tax, supplemental severance tax and transportation bonds, as well as the current year funding provided from the cash available in the Severance Tax Bonding Fund through the issuance of severance tax and supplemental severance tax notes. Projected debt issuance is based on statutory and constitutional capacity constraints and incorporates estimates of property values and future oil and gas revenues.

Core Bonding Programs:
Sources and Uses of Funds (millions)

Sources of Funds (millions)	FY20	FY21	FY22	FY23	FY24	Five-Year
General Obligation Bonds	-	$199.2	-	$199.2	-	$398.4
Severance Tax Bonds	$329.0	329.0	$329.0	329.0	$329.0	1,644.9
Severance Tax Notes	113.1	119.0	105.0	90.2	81.1	508.4
Additional Severance Tax Notes	-	-	-	-	-	-
Total Seniors	***442.1***	***448.0***	***434.0***	***419.2***	***410.1***	***2,153.3***
Supplemental Severance Tax Bonds	-	-	-	-	-	-
Supplemental Severance Tax Notes	206.9	199.0	211.0	222.8	236.9	1,076.7
Total Supplemental STBs	***206.9***	***199.0***	***211.0***	***222.8***	***236.9***	***1,076.7***
Total Sources of Funds	$649.0	$846.2	$645.0	$841.3	$647.0	$3,628.5

Uses of Funds (millions)	FY20	FY21	FY22	FY23	FY24	Five-Year
Projects approved by referendum	-	$199.2	-	$199.2	-	$398.4
New Statewide Capital Projects	$362.5	367.3	$355.8	343.8	$336.3	1,765.7
Reassigned STB Projects	-	-	-	-	-	-
Authorized but Unissued STB Bonds	-	-	-	-	-	-
Water Projects	39.8	40.3	39.1	37.7	36.9	193.8
Colonias Project Capital	19.9	20.2	19.5	18.9	18.5	96.9
Tribal Projects Capital	19.9	20.2	19.5	18.9	18.5	96.9
Education Capital	181.9	174.0	186.0	222.8	236.9	1,001.7
PED Instructional Materials/Transportation	25.0	25.0	25.0	-	-	75.0
Total Uses of Funds	$649.0	$846.2	$645.0	$841.3	$647.0	$3,628.5

State Board of Finance Bonding Programs

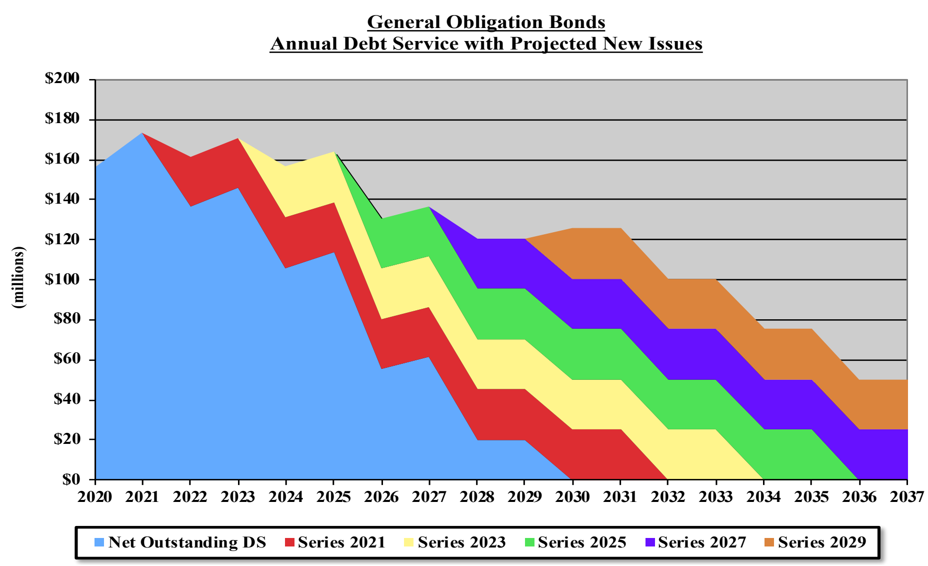
As presented in the table below, the State Board of Finance currently projects $7.4 billion of new money financing for statewide capital projects over the next 10 years. This amount comprises $996.0 million of projected general obligation bonding capacity, subject to legislative authorization and voter approval, $4.0 billion of senior severance tax bonds and notes subject to legislative authorization and appropriation, and $2.4 billion of supplemental severance tax notes for education projects designated for funding by the Public School Capital Outlay Council. Projections of severance tax bonding capacity reflect long-term natural resource price and production projections developed by DFA economists and the consensus revenue estimating group, and are revised on a regular basis as new consensus revenue estimates are produced.

State Board of Finance Projected Bonding Capacity by Fiscal Year (millions of dollars)						
		Severance Tax Bonding Program		Supplemental STB Program		
	GO Bonds	Bonds	Notes	Bonds	Notes	Total
2020	-	$329.0	$113.1	--	$206.9	$649.0
2021	$199.2	329.0	119.0	--	199.0	846.2
2022	-	329.0	105.0	--	211.0	645.0
2023	199.2	329.0	90.2	--	222.8	841.3
2024	-	329.0	81.1	--	236.9	647.0
2025	199.2	329.0	84.1	--	254.8	867.1
2026	-	329.0	64.4	--	254.8	648.2
2027	199.2	329.0	45.2	--	264.0	837.4
2028	-	329.0	23.0	--	264.0	615.9
2029	199.2	329.0	0.0	--	264.0	792.2
Total	**$996.0**	**$3,289.9**	**$725.1**	**$0.0**	**$2,378.2**	**$7,389.2**

General Obligation Bond Issuance

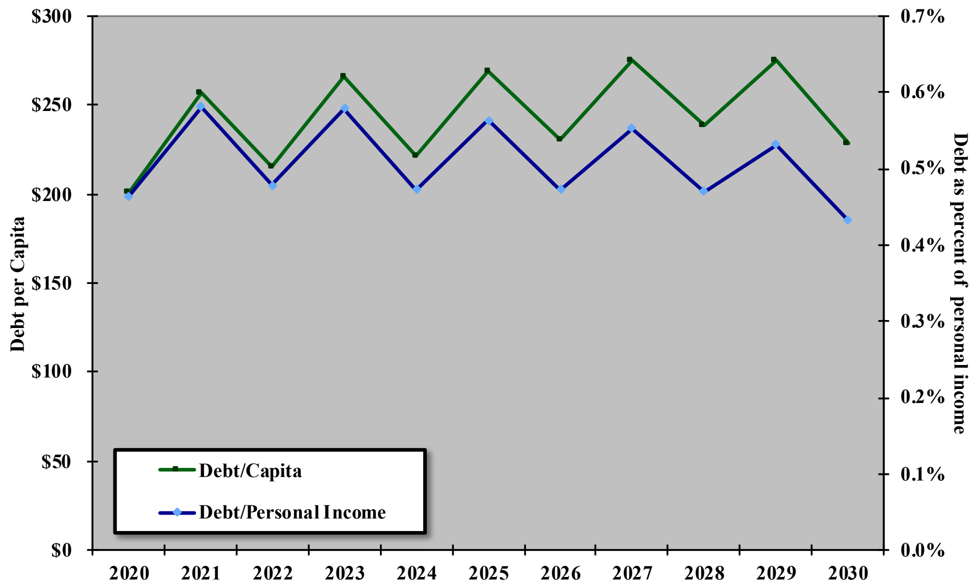
State general obligation bonds are authorized by the Legislature and placed on the ballot for voter approval on a biennial basis. As a general matter, state general obligation bonds are subject to a debt limit equal to 1 percent of statewide net taxable property value. The debt limit as of the most recent property valuation was $648.0 million, and $490.9 million in general obligation bonds were outstanding as of the date of this report. General obligation bonds are secured by the full faith and credit of the State and are repaid from a dedicated property tax millage assessment established pursuant to the voter approval of the bonds.

The projected general obligation bond issuance, reflected in the Sources and Uses of Funds table above, reflects the administration policy to limit general obligation bond authorizations to amounts that can be issued while keeping the statewide property tax mill rate flat. The graph below illustrates the debt service profile of outstanding general obligation debt and projected new bond issuance. The debt service profile on currently outstanding general obligation bonds is net of the funds contributed to the debt service account from the economic defeasance of Series 2015 Bonds maturing from 2021-2025.



General obligation bonds are sold with a maximum maturity of 10 years. As illustrated in the following graph, the projected biennial issuance of general obligation bonds sustains a stable level of debt per capita and debt service as a percentage of personal income in the State. For the purposes of this projection of future debt ratios, population growth in the State is projected to remain flat, and annual personal income growth in the State is projected to be 2 percent.

Projected Per Capita G.O. Debt and Debt Per Capita as Percent of Income



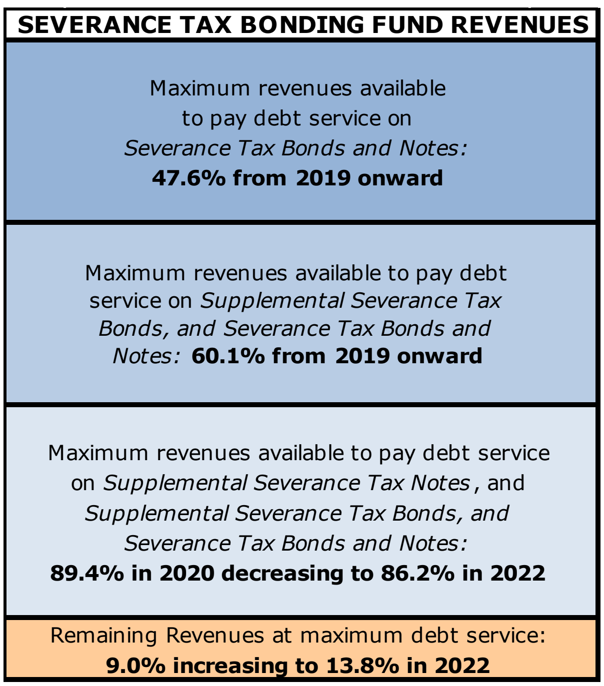
Severance Tax Bond and Supplemental Severance Tax Bond Issuance

Severance tax bonds are authorized by the Legislature for statewide and local capital projects, with set-asides established by statute of 9 percent of capacity for water projects and 4.5 percent each for tribal and colonias projects. The Legislature has authorized the State Board of Finance to issue supplemental severance tax bonds for public school projects in amounts certified to the Board from time to time by the Public School Capital Outlay Council.

Severance tax bonds and supplemental severance tax bonds are secured by and repaid from pledged revenues received in the Severance Tax Bonding Fund. Under the statutory test governing the issuance of severance tax bonds and supplemental severance tax bonds prior to fiscal year 2016, severance tax bonds and notes could only be issued to the extent that severance tax bond debt service did not exceed 50 percent of revenues received into the Severance Tax Bonding Fund during the most recently completed fiscal year, and long-term supplemental severance tax bonds could only be issued to the extent that the combined debt service on outstanding severance tax bonds and long-term supplemental severance tax bonds did not exceed 62.5 percent of revenues received into the Severance Tax Bonding Fund during the most recently completed fiscal year. Severance tax notes issued to make cash available for capital projects prior to the semi-annual transfer to the Severance Tax Permanent Fund were subject to the same limitations as severance tax bonds, while supplemental severance tax notes could be issued to the extent that the severance and supplemental severance tax bond and note debt service did not exceed 95 percent of revenues as defined by the statutory test.

Changes to the New Mexico Severance Tax Bonding Act

In accordance with statutory changes approved during the 2015 Legislative Session and signed into law by the Governor, changes to the Severance Tax Bonding Act were put in place designed to reduce bonding capacity for severance tax bonds and notes, increase coverage ratios on long-term severance tax bonds, increase the amount of severance tax revenue that flows to the Severance Tax Permanent Fund, and eventually increase general fund distributions from the Severance Tax Permanent Fund. The statutory tests defined in the prior paragraph were changed as set forth in the graphic below. The statutory issuance test for senior severance tax bonds will ultimately be reduced from 50.0 to 47.6 percent of Severance Tax Bonding Fund revenues. Overall combined debt service capacity for both the senior and supplemental severance tax bonds programs will be reduced from 95.0 to 86.2 percent of Severance Tax Bonding Fund revenue, resulting in an effective reduction of the revenue share to the supplemental severance tax bond program for the benefit of public schools from 45.0 to 38.6 percent. These rate reductions will be phased in over several years.



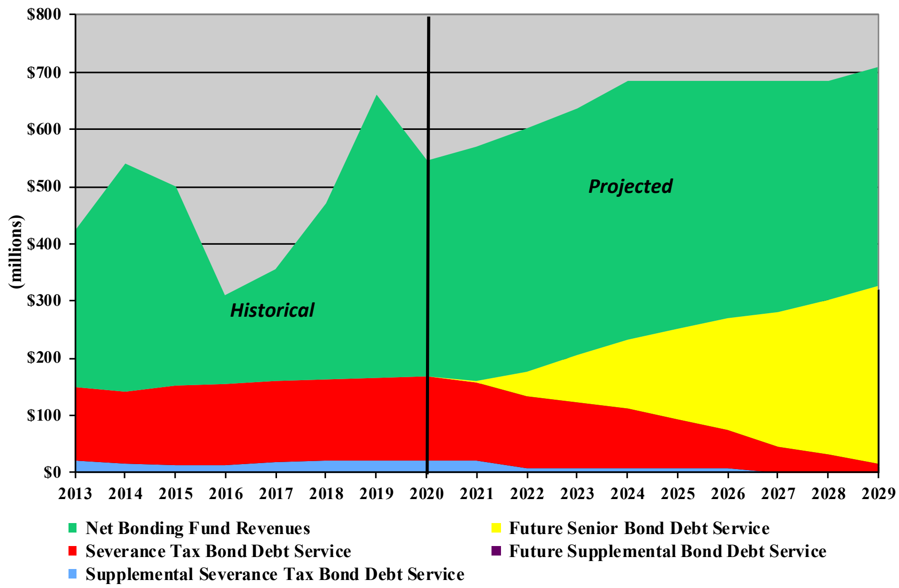
A further amendment was signed into law that will ensure more stable inflows to the Severance Tax Permanent Fund. Whereas previously the statutory issuance test that limited bonding capacity was calculated on the basis of previous fiscal year revenues, this further change provides that statutory capacity to issue bonds be calcuated on the basis of the lesser of previous fiscal year revenues or estimated current fiscal year revenues. This will have the effect of ensuring that, in years when revenues decline versus the previous fiscal year, revenue for bond issuance will also decline, leaving more money to flow to the Severance Tax Permanent Fund. Similarly, in years when revenues increase, the amount available to the bonding programs will be tied to the prior year's revenue, leaving more money to go to the Severance Tax Permanent Fund.

The statutory issuance tests and State Board of Finance policies constraining the issuance of long-term debt are key attributes of the strong credit quality of the Severance Tax Bonding Program. Central to the analysis of both Moody's and Standard & Poor's is the debt service coverage ratio of current Severance Tax Bonding Fund revenues, excluding interest earnings, relative to maximum annual debt service on outstanding bonds. Both agencies maintain current rating levels based upon the expectation that coverage levels will be maintained well in excess of the minimum 2.10 times coverage reflected in the revised statutory issuance test. The increases in debt service coverage that will be created by the new, more restrictive statutory issuance tests, will enhance debt service coverage and support the strong bond ratings on the severance tax bond program

Annual long-term capacity for severance tax bond issuance is determined by the State Board of Finance, based upon outstanding debt service and projections of future Severance Tax Bonding Fund revenues. As a general matter, annual long-term bonding capacity is calculated as 10 percent of the long-term debt capacity under the statutory test, and based upon level-debt service bond amortization over a 10-year life. Annual capacity for severance tax and supplemental severance tax notes are similarly calculated based upon long-term revenue forecasts, projections of long-term bond issuance, and the resulting cash flow available on an annual basis to be set aside for capital purposes through note issuance.

The following graph illustrates the historical and projected revenue and debt service profile of the Severance Tax Bonding Program reflecting the projected annual issuance of $329.0 million of new long-term severance tax bond. It also illustrates the State practice of projecting Severance Tax Bonding Fund revenues based upon flat to declining oil and natural gas prices and production levels over the long term, which has tended to suppress the volume of long-term bond debt service and increase the use of cash funding for capital projects.

Severance Tax Bonding Fund
Historical and Projected Revenues and Debt Service



Key Revenue Estimate Inputs										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Gas Price	$2.00	$2.00	$2.15	$2.15	$2.25	$2.25	$2.25	$2.25	$2.25	$2.25
Oil Price	$50.00	$50.50	$51.00	$51.00	$51.00	$51.00	$51.00	$51.00	$51.00	$51.00
Gas Volume	1,500	1,550	1,600	1,650	1,650	1,650	1,650	1,650	1,650	1,650
Oil Volume	285.0	295.0	305.0	325.0	350.0	350.0	350.0	350.0	350.0	350.0

The table below presents the historical and projected debt service coverage for long-term severance tax and supplemental severance tax bonds. The first two columns present the severance tax bond debt service coverage for the outstanding bonds, while the second two columns present historical coverage and projected coverage taking into account future issues. Rating analysts and investors look at the second two columns as a projection of actual coverage in future years, taking into account future bond issuance and revenue projections.

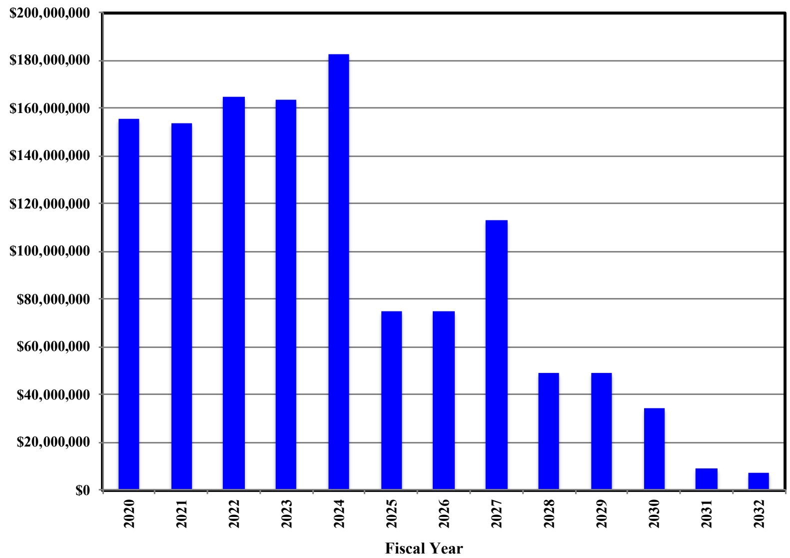
Severance Tax Bonding Program Historical and Projected Debt Service Coverage					
	Coverage with No Future Issues		Coverage with Projected Future Issues		
Fiscal Year	Senior Severance Tax Bonds	Supplemental Bonds	Senior	Supplemental	
2012	3.95	3.19			
2013	3.31	2.83			
2014	4.28	3.81			
2015	3.64	3.30			
2016	2.18	1.98			
2017	2.52	2.22			
2018	3.32	2.90			
2019	4.54	3.96			**Actual**
2020	3.72	3.24	3.72	3.24	**Projected**
2021	4.19	3.64	4.04	3.53	
2022	4.87	4.53	3.61	3.42	
2023	5.56	5.15	3.26	3.11	
2024	6.64	6.10	3.08	2.96	
2025	8.14	7.34	2.83	2.73	
2026	10.42	9.14	2.62	2.53	
2027	14.64		2.44		
2028	22.12		2.26		
2029	44.76		2.17		

Transportation Bond Program Projected Revenues and Bond Issuance

The New Mexico State Department of Transportation has managed the largest capital investment program in the State over the past decade. The Statewide transportation capital investment program is funded from State and federal revenues in addition to bond proceeds. Bonds issued by the State Department of Transportation through the New Mexico Finance Authority are secured by and repaid from revenues received into the State Road Fund, which are principally derived from gasoline taxes, registration fees and road user fees, as well as certain federal revenues received annually by the State Department of Transportation. As of July 1, 2019, the transportation debt outstanding was $988.2 million.

The graph below presents the net annual debt service due on currently outstanding transportation bonds. The strong ratings and stable outlook reflect the rating agencies' assessment of long and stable trends in pledged state revenues and strong historical and projected coverage.

Transportation Bond Debt Service



The table below presents total transportation bond debt outstanding, annual debt service on outstanding transportation bonds, and the projected level of debt service coverage from the pledged revenues.

Transportation Program

Projected Revenues, Debt Service, and Coverage

	Total Debt Service	Principal Outstanding	Pledged Revenues	Debt Service Coverage
2020	$155,225,850	$881,060,000	$776,735,000	5.00
2021	$153,584,600	$770,320,000	$779,187,000	5.07
2022	$164,691,725	$643,000,000	$782,587,000	4.75
2023	$163,362,700	$510,885,000	$770,000,000	4.71
2024	$182,837,200	$353,140,000	$770,000,000	4.21
2025	$75,063,925	$295,115,000	$770,000,000	10.26
2026	$74,748,550	$234,900,000	$770,000,000	10.30
2027	$113,130,000	$133,515,000	$770,000,000	6.81
2028	$48,780,750	$91,410,000	$770,000,000	15.78
2029	$48,890,500	$47,090,000	$770,000,000	15.75
2030	$34,279,500	$15,165,000	$770,000,000	22.46
2031	$9,103,250	$6,820,000	$770,000,000	84.59
2032	$7,161,000	$0	$770,000,000	107.53

Lease Appropriation Bond Financing

Lease appropriation financing has become one of the central tools for the financing of public facilities in the United States. However, until the approval of a constitutional amendment in 2006, New Mexico was one of very few states lacking the legal authority to utilize lease appropriation financing.

In September 2008, the State completed its first issuance of lease appropriation bonds in the amount of $60,000,000 for the New Mexico Department of Health Fort Bayard Medical Center in Grant County. In anticipation of that financing, the Department of Finance and Administration established policies and procedures that govern the issuance of lease appropriation bonds and limit their use to development and construction of essential state facilities. This policy document is attached hereto as Appendix B. The 2008 lease appropriation bonds were refinanced in November 2018 with lease appropriation refunding bonds issued through the New Mexico Finance Authority.

Public Project Revolving Fund

The Public Project Revolving Fund ("PPRF") is the central public sector financing program operated by the New Mexico Finance Authority. The PPRF provides market rate loans and loans to disadvantaged communities at a subsidized rate. Debt service on PPRF bonds is funded by repayments on its loan portfolio. The program is funded by various sources of local revenue including net system revenues, property taxes and gross receipts taxes among others, and is further secured by the NMFA's share of the Governmental Gross Receipts Tax.

Because the PPRF obligations are issued to fund loans for local projects and are primarily repaid from local revenues pledged to repay those loans, they have not been treated as State obligations for the purposes of this Debt Affordability Study. As of July 1, 2019 the NMFA had $1.27 billion of PPRF bonds outstanding.

Affordability of Projected State Debt Issuance

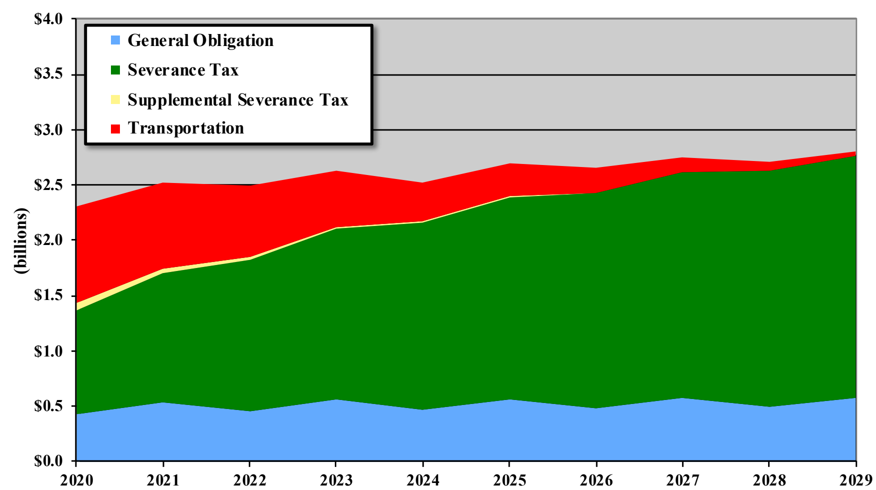
The core State bonding programs project bonding capacity for the issuance of $4.3 billion of new money long-term general obligation and severance tax bonds over the next 10 years, as presented above. Each of the core bonding programs is funded by dedicated revenue streams. The dedicated sources of repayment for the general obligation, severance tax and transportation bonding programs are the general obligation bond property tax millage, the Severance Tax Bonding Fund revenues and the State Road Fund revenues, respectively.

None of these core bonding programs utilize revenues that flow into or would otherwise flow into the General Fund of the State. However, we do note that State Road Fund revenues that secure the transportation bonding program are dedicated to transportation operations as well as bond debt service.

Each of the core state bonding programs provide strong legal protections and the revenue-backed bonds demonstrate strong historical and projected debt service coverage. All long-term debt obligations, however, are repaid from the underlying State economy and rely upon economic stability and expansion to assure that the repayment of debt does not become an increasing burden on the taxpayers of the State.

The following graph presents the projected levels of outstanding tax-supported debt, categorized by debt type, over the next 10 years. This includes the issuance of $4.3 billion in new long-term bonds, as described in the course of this study.

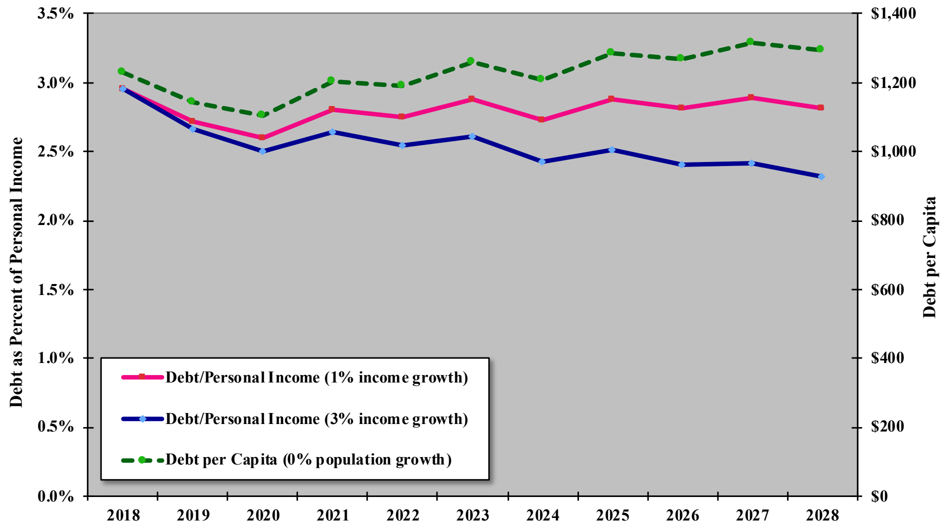
Projected Outstanding Tax-supported Long-term Bonds
(Including Projected New Issance)



The following graph projects the impact of the planned issuance of $4.3 billion of new general obligation and severance tax debt on the key debt ratios of the State over the next 10 years. These projected ratios do not include any further issuance of transportation bonds, which would increase projected debt ratios from the levels shown here. As illustrated, the debt ratios are projected to remain stable over time based upon current debt issuance policies and retirement of outstanding debt. State debt ratios peaked in 2009, when debt per capita reached a high of

$1,798 and debt as a percentage of personal income was 5.4 percent. Both measures have declined and stabilized at lower levels over the years since. The projection of Net Tax Supported Debt Per Capita is based upon flat population growth. Two projections are provided for Net Tax Supported Debt as a Percent of Personal Income, the first reflecting a 3.0 percent growth rate reflective of historical State growth, and the second using a lower, 1.0 percent growth rate.

Historical and Projected Debt Ratios



The inclusion of long-term pension liabilities in the assessment of the aggregate long-term obligations of the State will place increasing scrutiny on the funding of those liabilities. It is notable that, as is the case with many of its peer states, the unfunded pension obligations of the State far exceed the amount of outstanding debt or future contemplated debt that may be issued to fund investment in state infrastructure. While the change in the calculation of key debt ratios, as Moody's has suggested, may materially change how the State credit is perceived, it will not change the underlying strength of the State debt structure. The core State debt funding programs are self-supporting from pledged revenue streams and those debt obligations neither compete with pension obligations for limited General Fund resources, nor compete with pension obligations for other public resources. The Constitution of the State of New Mexico sets forth a structural framework that provides for the integrity of the public debt, and that framework is extraordinarily strong, and not affected by other financial challenges the State may face.

As is illustrated in this Debt Affordability Study, the projected debt issuance plans for the core State bonding programs are affordable as measured by projected stability of its key debt ratios over time, and with respect to the revenue streams that are dedicated to debt repayment, which do not place stress on the State General Fund. The threats to the State's credit ratings will come from the extent to which the severance tax bonding program is leveraged, and from the continuing challenges with respect to pension funding and financial reporting.

Capital Project Planning and Prioritization

State and Local Government

New Mexico Department of Finance and Administration works with State agencies and local entities each year to develop an Infrastructure Capital Improvement Plan. This five-year plan identifies and prioritizes capital needs. Under the direction of the General Services Department and the Department of Finance and Administration, State agencies prepare a five-year facilities master plan incorporating preventive and deferred maintenance planning, program justification and a criteria-based weighting system to determine priority. The goal is to increase the efficiency in the use of capital outlay funds in meeting critical capital outlay needs statewide and reflects the importance of attention to the allocation of scarce resources across myriad statewide capital projects. Executive Order 2013-006 required that local entities demonstrate compliance with State Audit Act and also budget reporting requirements in order to be awarded capital outlay funds from Severance Tax Bond proceeds. Implementation of this requirement has resulted in a dramatic decrease in the number of local entities found to be out of compliance with the State Audit Act by the Office of the State Auditor.

Transportation

The New Mexico Department of Transportation develops the Statewide Transportation Improvement Program (STIP) annually to allocate capital resources to transportation purposes. The STIP is a six-year multi-modal transportation preservation and capital improvement program that lists prioritized projects for a three-year funding period and provides information for planning and programming purposes for the subsequent three years. The STIP is a product of the transportation programs planning process involving local and regional governments, Metropolitan Planning Organizations, Regional Planning Organizations, other state and transportation agencies, and the public.

Public Schools

The Public School Capital Outlay Council is responsible for implementing a standards-based process for prioritizing and funding public school capital needs throughout the state. All school facilities are ranked in terms of relative need and resources are directed to schools with the greatest needs. Funding for projects is provided annually through the supplemental severance tax bonding program.

Higher Education

The New Mexico Higher Education Department is responsible for the review and prioritization of higher education capital projects for all public four-year, two-year, and constitutionally-created special schools. Based upon this review and prioritization, the recommended higher education capital plan is submitted to the Governor and Legislature for funding through the general obligation bond and severance tax bond programs.

Debt Management Policies

State debt management policies and practices are established in statute and policy documents. The primary policies governing the issuance of bonds by the State Board of Finance are set forth below.

Policy Area	*G.O. Bonds*	*Severance Tax Bonds*	*Transportation Bonds*
Bond Life	10-year maximum term.	10-year maximum term.	Bond life may not exceed project design life.
Bond Amortization	Substantially level debt service.	Substantially level debt service.	Substantially level debt service.
Debt Service Coverage	The state constitution establishes a debt limit of 1% of statewide assessed value, essentially providing asset coverage of at least 100 to 1.	Senior and supplemental bonds subject to the terms of the statutory issuance test and the market test, which suggest a minimum coverage level of 2.10x, though actual coverage realized has historically been higher.	Long-term coverage projected at a minimum of 4.00x to 5.00x.
Variable Rate Bond Limits	Not utilized.	Unhedged exposure will not exceed 20% of par outstanding.	Unhedged exposure will not exceed 20% of par outstanding.
Variable Rate Bond Considerations	Not utilized.	Balance interest savings and cashflow risks. Short bond life lessens potential savings.	Balance interest savings, cashflow risk and balance sheet management considerations.
Debt Staging	Traditionally issued as ten-year fixed rate bonds.	Traditionally issued as five to ten-year fixed rate bonds. Construction financing permitted but has not been utilized.	Construction financing may utilize short-term, variable rate or bond anticipation financing.
Interest Rate Swaps	Not utilized.	Not utilized to date due to short bond life.	Limited to 30% of par outstanding.
Refundings	Debt evaluated on an ongoing basis to identify bond refunding, and cash and economic defeasance opportunities.	Debt evaluated on an ongoing basis to identify bond refunding, and cash and economic defeasance opportunities.	Debt evaluated on an ongoing basis to identify bond refunding, and cash and economic defeasance opportunities.

Policy Area	***G.O. Bonds***	***Severance Tax Bonds***	***Transportation Bonds***
Cash Financing	General Fund cash contribution to capital program sought annually, with funding based on magnitude of non-recurring and surplus revenues.	Funding notes utilized to direct available cash in Severance Tax Bonding Fund to capital projects each December 31st and June 30th.	Transportation capital primarily funded with bond proceeds, with cash contributions from the Road Fund, the General Fund and federal revenues.
Disclosure	Separate Disclosure Counsel retained to oversee disclosure practices. Annual financial disclosure statement published.	Separate Disclosure Counsel retained to oversee disclosure practices. Annual financial disclosure statement published.	Separate Disclosure Counsel retained to oversee disclosure practices. Annual financial disclosure statement published.

Use of Interest Rate Exchange Agreements

Interest rate exchange agreements may be used by the State Board of Finance and the Department of Transportation as a debt management tool to reduce interest expense, manage financial risk or to create a risk profile not otherwise achievable through traditional debt or investment instruments. The risk factors to evaluate when considering interest rate exchange agreements include (i) interest rate risk, (ii) termination risk, (iii) counterparty risk, (iv) basis risk, (v) rating considerations, (vi) liquidity risk, and (vii) tax risk. To date, among the core State financing programs, only the Department of Transportation has utilized interest rate exchange agreements to reduce and manage its cost of capital. The benefits of interest rate exchange agreements, particularly with respect to the creation of synthetic fixed rate debt, have not been attractive for issuers whose bonds mature in ten years or less. Accordingly, they have not been attractive for use in conjunction with the State's general obligation or severance tax bonding programs.

Other information on debt management and related policies is provided in the State Board of Finance Debt Policy, included as Appendix A of this study.

Conclusions

The State of New Mexico's core debt programs administered by the State Board of Finance are affordable. These programs reflect solid debt management policies and practices, reliable repayment structures, and minimal reliance upon or competition for General Fund dollars.

Over the past several years, the State has weathered significant volatility in global natural resource pricing and in-state production levels, which resulted in the near-elimination of General Fund reserves. True to its history, however, the State worked diligently to restore operating balance and restore strong balances in the General Fund. Now, based upon current projections, the tide has turned and the revenue future is bright. As described herein, each of the core State bonding programs are funded by dedicated revenue streams, including the dedicated general obligation bond millage, the Severance Tax Bonding Fund revenues and the State Road Fund revenues, for the general obligation, severance tax and transportation bonding programs, respectively, and none of these core bonding programs utilize revenues that flow into or would otherwise flow into the General Fund. Each of the programs continue to provide strong legal protections and the revenue-backed bonds demonstrate strong historical and projected debt service coverage.

As discussed in detail in this study, the projected capacity to issue $4.3 billion of new long-term general obligation and severance tax bonds over the next 10 years will allow for continued stability in the key debt ratios of the State. As presented herein, the debt ratios are projected to remain stable after taking into account future planned debt issuance.

Global energy markets and political controversy at the national level surrounding fracking will no doubt continue to contribute to volatility in domestic oil and gas pricing in the medium and long term. Revenue volatility in recent years overwhelmed even the strong historical state reserve policies, and highlights the importance of the State's continuing commitment to sustaining strong reserve levels, the importance of the State's historically conservative management practices with respect to the severance tax bonding program, and the importance of funding the newly-created Rainy Day Fund.

The State's determination since that time to continue to strengthen its reserve balances well above the 10 percent levels is a critical State financial management policy objective, with the objective to maintain reserves above the 20% level. The State's historically strong General Fund reserves underpin its historically strong credit ratings, and these reserves will now be augmented by the establishment of the Rainy Day Fund to capture and retain a portion of the growth in natural resource derived revenues. The State fully expects that actions taken by the Legislature and the Executive over the course of the upcoming legislative session will be closely watched by rating analysts and investors alike to gauge the continuing commitment of the State to sustaining strong reserve levels.

While New Mexico's bond rating outlook is stable at this time, over the medium term, the State bond ratings will continue to be under pressure for reasons noted in this study, notably the underfunding of public employee pension funds, as well as continuing healthcare cost pressures and the timeliness of financial reporting. Other management practices that bond rating analysts continue to focus on that would be viewed as positive credit improvements include (i) improving and professionalizing the process of capital project prioritization, (ii) granting the Governor executive power to take intra-year budget actions without convening the Legislature, (iii) establishing target levels for state reserves in statute, and (iv) addressing the statutory construct of CAFR production to enable the State to achieve financial reporting benchmarks that have become the norm for its state peers.