STATE OF NEW MEXICO
DEPARTMENT OF FINANCE AND ADMINISTRATION
BOARD OF FINANCE

GOVERNOR MICHELLE LUJAN GRISHAM
PRESIDENT

DEBORAH ROMERO
CABINET SECRETARY

LT. GOVERNOR HOWIE MORALES
BOARD MEMBER

ASHLEY LEACH
DIRECTOR

DEBT AFFORDABILITY STUDY

May 17, 2022

Table of Contents

Introduction and Scope

The New Mexico Department of Finance and Administration, in conjunction with the State Board of Finance and its financial 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. 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 (NMFA) 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 $6.9 billion 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 $7.7 billion of short term “sponge” funding notes for statewide capital projects and public schools capital outlay purposes. These amounts represent 46% and 114% increases in funding capacity, respectively, while in aggregate, this level of funding represents a 75% increase in projected capital capacity over the amounts projected in the most recent annual Debt Affordability Study. This level of capacity reflects the long-standing State policy that allocates available long-term debt 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. Notably, the use of cash resources for capital outlay over the projected ten year timeframe has increased to 52.7% from 43.8% in the most recent annual Debt Affordability Study

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. The increases in capital capacity referenced above reflect both the significant increase in global oil prices in the wake of Russia’s invasion of Ukraine, as well as increases in in-state production that have augmented severance tax revenues over the past several years.

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.

Due in large measure to the conservative debt management practices of the State, the key debt ratios have historically allowed for regular issuances of new bonds without any adverse impact on debt metrics. As discussed in this report, the increases in new debt indicated by the State's long-standing debt capacity policies could change that. Two factors will be worth watching. First, to the extent that the assessed value of real property continues to increase at a higher rate than population, general obligation debt per capita will begin to trend upward. Perhaps more notable, however, will be the impact on State debt ratios of the projected issuance of severance tax bonds. The increase in severance tax bonding capacity enabled by projected revenue growth, discussed above, is projected to result in increases in traditional debt metrics, even as debt service coverage ratios remain strong.

The State general obligation 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.

Action by the Governor and state legislature to address the PERA funding situation has ameliorated an historic credit issue facing the state, as have the steps taken to recognize the essential State role in addressing ERB funding. Moody's Investors Services, which incorporates pension fund liabilities into its credit analysis based upon lower assumed long-term pension fund earnings, has drawn particular attention to the funding of teacher pension funds nationally, where ambiguities in state laws across the country have left open questions with respect to the locus of responsibility for funding shortfalls in those pension systems. In its September 2021 research report on state pension systems, Moody's called out the more than doubling of the New Mexico Adjusted Net Pension Liability once the unrecognized teacher liabilities of the ERB system are taken into account. The ERB pension 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.

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, and transportation revenue bonds issued by the Department of Transportation through the New Mexico Finance Authority. 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 natural resource 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, the severance tax note program, and pay-as-you-go funding appropriated from the General Fund for capital projects.

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

	2017	2018	2019	2020	2021	Total
General Obligation Bonding Program						
General Obligation Bonds	-	$174.3	-	$157.9	$199.5	$531.7
Subtotal	-	174.3	-	157.9	199.5	531.7
Severance Tax Bonding Program						
Severance Tax Bonds	$51.0	222.5	-	-	391.7	665.2
Severance Tax Funding Notes	38.5	28.9	$74.8	307.2	163.3	612.7
Supplemental Severance Tax Bonds	-	-	-	-	-	-
Supplemental Severance Tax Funding	120.4	139.2	181.5	254.5	232.9	928.5
Subtotal	209.9	390.6	256.3	561.7	787.9	2,206.4
Other Sources						
General Fund	-	-	650.8	-	-	650.8
Transportation Bonds	-	-	-	-	303.9	303.9
Subtotal	-	-	650.8	-	303.9	954.7
Total	**$209.9**	**$564.9**	**$907.1**	**$719.6**	**$1,291.3**	**$3,692.8**

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

As March 1, 2022, the State had outstanding $414.4 million general obligation bonds, $849.7 million Senior and Supplemental Severance Tax Bonds, and $998.2 million transportation bonds supported by State Road Fund revenues. The following table sets forth the State tax-supported debt outstanding as of March 1, 2022.

State Bonds Outstanding as of March 1, 2022
(millions)

General Obligation Bonds	$414.40
Severance Tax Bonds	$816.59
Supplemental Severance Tax Bonds	$33.08
Transportation Bonds	$998.20
	$2,262.27

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 *Aa2* and *AA* by Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services ("S&P"), respectively. In May 2020, in the wake of the onset of the Coronavirus pandemic, S&P applied a Negative Outlook to the entire municipal sector, including the State of New Mexico General Obligation Bonds. As the impact of the pandemic subsided over the ensuing year, those bonds were restored to a Stable Outlook.

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 commitment to maintaining strong General Fund reserve balances and cash liquidity, (ii) the performance and stability of General Fund revenues, (iii) rapid debt retirement and moderate debt levels, and, more recently (iv) the impact of fracking on oil and gas production levels. These credit strengths have been balanced against credit negatives that have historically included (i) low levels of personal income, (ii) the inherent volatility of oil and natural gas-related revenues, (iii) a relative lack of economic diversity and dependence on federal employment, (iv) continuing education and healthcare funding pressures, (v) pension underfunding, with a particular focus on ERB, and (vi) the timeliness of financial reporting compared to industry norms.

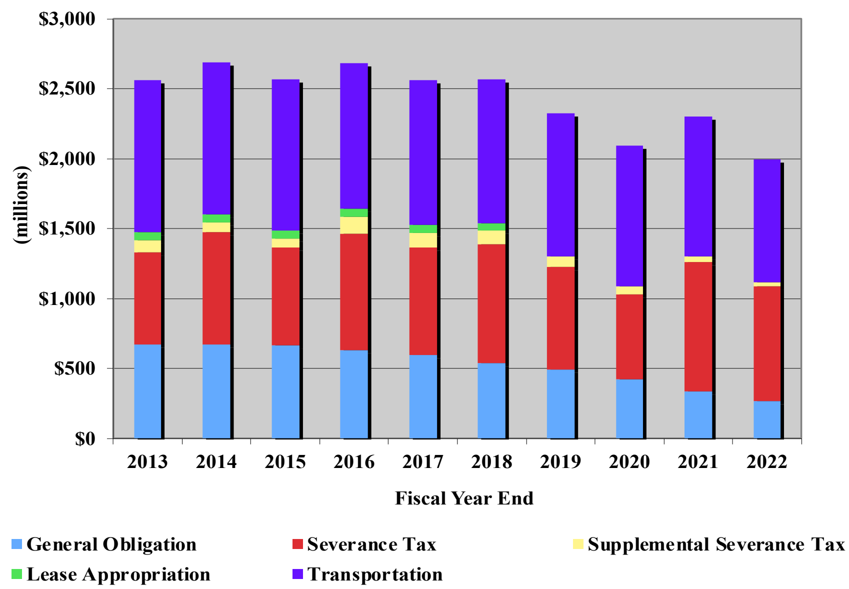
Over the past two years, the bond rating community has begun to incorporate environmental, social, and governance (ESG) risks into their analysis of municipal credit. Unlike the corporate sector, where the assessment of environmental and social factors, in particular, were not a significant credit consideration, ESG factors have long been elemental to municipal credit analysis. Accordingly, as of yet the introduction of the language of ESG and the consideration of ESG factors has not materially impacted New Mexico bond ratings. However, those who read the State bond rating reports can expect to see that language and those factors become a regular part of those reports in the years to come. The table below sets forth the ratings on outstanding bonds for State bonding programs.

Outstanding State Bond Ratings			
State Board of Finance	**Moody's**	**S&P**	**Kroll**
General Obligation Bonds	Aa2	AA	
Severance Tax Bonds	Aa2	AA-	
Supplemental Severance Tax Bonds	Aa3	A+	
State Transportation Revenue Bonds			
Senior Lien	Aa1	AA+	AAA
Subordinate Lien	Aa2	AA	AAA
New Mexico Finance Authority			
Senior Lien Public Project Revolving Fund	Aa1	AAA	
Subordinate Lien Public Project Revolving Fund	Aa1	AAA	

Trends in State Debt Issuance

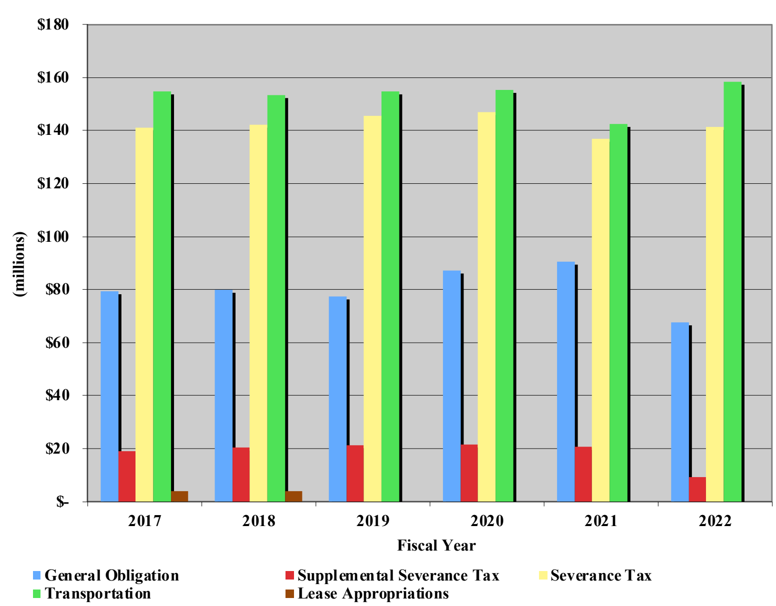
Trends in debt issuance are an integral factor in evaluating the State's debt levels. The State has made and continues to make substantial investment in basic capital infrastructure, particularly in the areas of transportation, educational facilities, and water supply. As illustrated in the following graph, total outstanding tax-supported state debt has declined 22.1% over the past five years, from $2.6 billion in 2017 to $2.0 billion in 2022.

Outstanding Tax-Supported Bonds



The State's annual debt service payments on its core bonding programs have in aggregate remained stable over the past five years. Over that time period, aggregate long-term bond debt service rose 17%, from $394.1 million in 2017 to $376.6 million in 2022.

Tax Supported Bond Debt Service



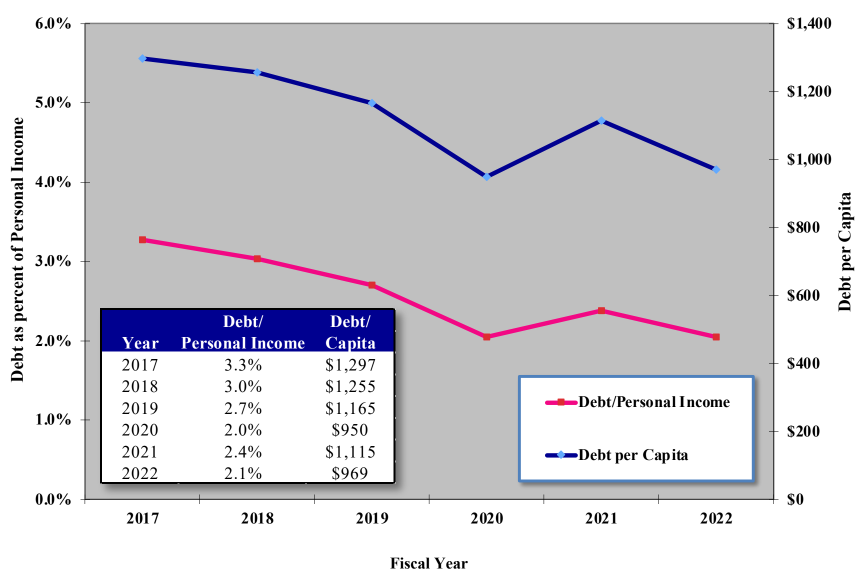
State Debt Ratios

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 March 1, 2022, State general obligation bonds totaled 0.56% of statewide assessed value of property, or just over one-half of the maximum of 1% 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% of the par amount of the bonds in five years and 50% 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

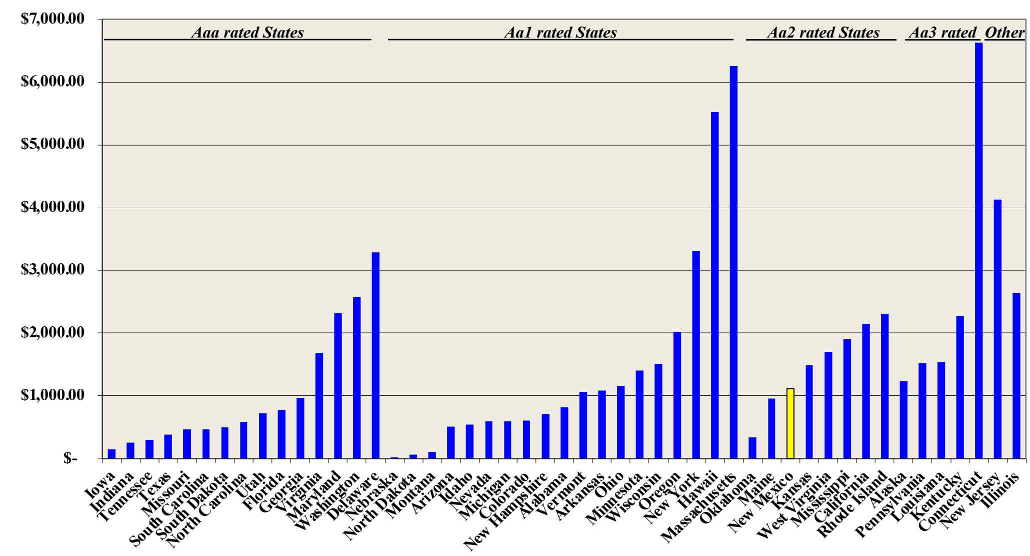


Because the rate of debt repayment is a contributing factor to credit ratings, it is notable that both State general obligation bonds and bonds issued under the Severance Tax Bonding Program are fully retired within 10 years. The five-year retirement rates of the State general obligation, severance tax and supplemental severance tax bonds as of the date of this report are 82.6%, 67.1%, and 100%, respectively. With respect to the transportation bonds, the five-year retirement rate is 58.1%, while 100% of those bonds 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.

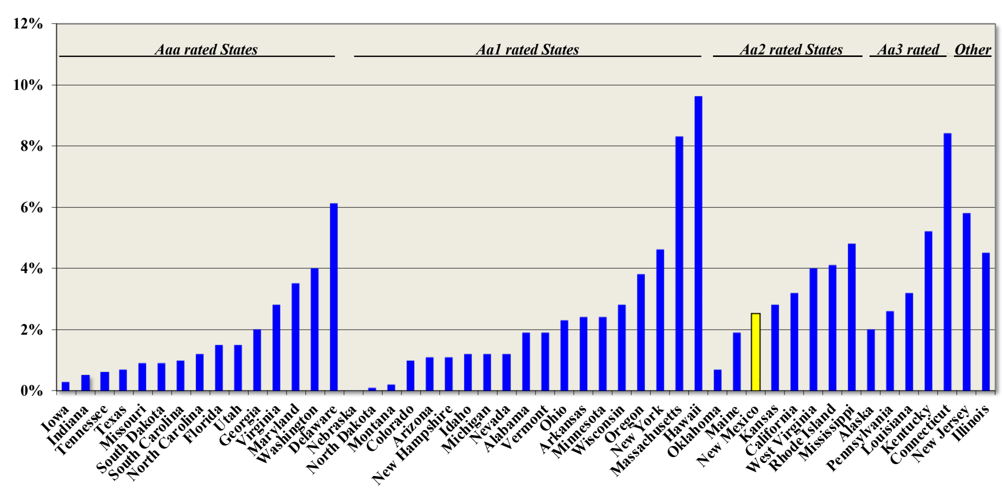
Comparison of Debt Ratios to Selected Peer Group and National Medians

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 peer context. For the purposes of benchmarking the State's level of indebtedness, we have provided a comparison with all of the states, sorted by rating category, utilizing data published by Moody's in June 2021. The first graph below presents a comparison of net tax supported debt per capita. The second graph presents a comparison of net tax supported debt to personal income. In both cases, New Mexico is highlighted in yellow. Along both metrics, New Mexico is near the median of the states, being 23rd in debt per capita and 29th in debt as a percent of personal income, though in both cases its ranking has declined slightly.

Peer Comparison: Net Tax Supported Debt per Capita



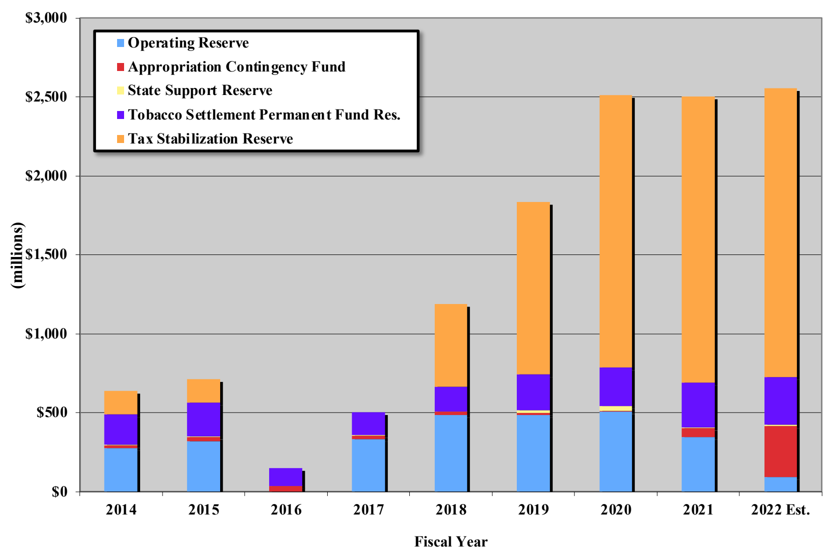
Peer Comparison: Net Tax Supported Debt as Percent of Personal Income



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 revenue volatility. General Fund balances in New Mexico comprise the General Operating Reserve Fund, the 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 requires a super-majority vote. As the graph below illustrates, year-end results for fiscal year 2016 showed a 79.3% decline in reserve balances from the prior year level, to $147.7 million. In contrast, the recovery of reserves has been dramatic. Results for fiscal year-end 2021 reserve levels indicate that balances have been maintained at over $2.5 billion, the historically high level first realized the previous year.

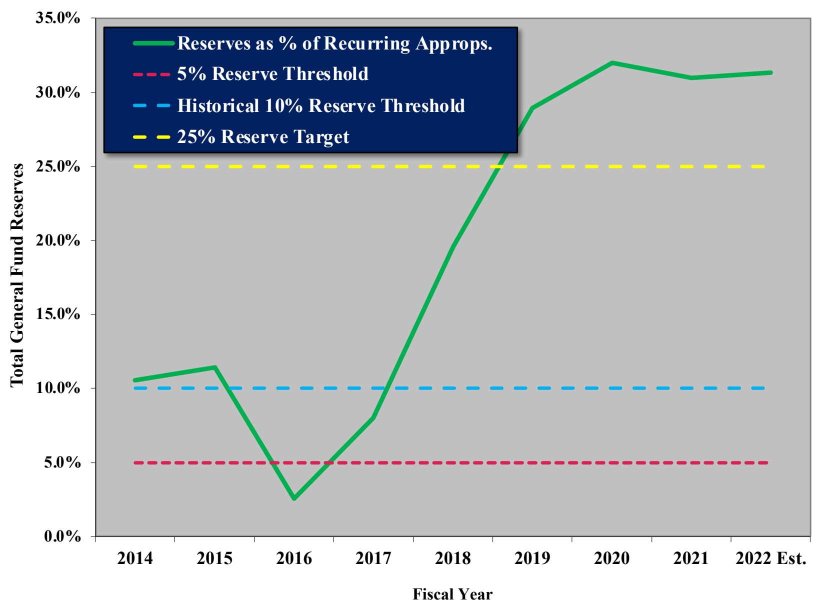
General Fund Reserves



In 2017, the State established a Rainy Day Fund within the Tax Stabilization Reserve to reduce the impact of volatility in oil and gas revenue on General Fund balances. The Rainy Day Fund legislation requires that annual revenues generated from the Oil and Gas School Tax in excess of the 5-year average for that revenue source be deposited into the Tax Stabilization Reserve Fund. Appropriation of such funds from the Tax Stabilization Reserve require a super majority vote of the Legislature and a declaration from the governor that the appropriation is necessary for public peace, health or safety. The establishment of this trigger mechanism to set aside a portion of natural resource revenues is expected to further strengthen and stabilize State reserves. As of June 30, 2021, the Tax Stabilization Reserve had an ending balance of $1.8 billion.

The following graph presents the General Fund reserves as a percentage of recurring appropriations. The blue dashed line designates the 10% State reserve target established over the years. The yellow dashed line represents the 25% target for General Fund reserves established by the Lujan Grisham administration to address concerns over the historical volatility of revenues and reserve levels. Over the past 10 years, the reserve ratio generally remained at or above the 10% threshold, until falling below the 5% threshold in fiscal year 2016 with the significant decline in energy prices. Since then, with the recovery of oil prices and the significant growth in natural resource production in the state, reserve levels have recovered to well beyond the previous 10% policy target. In fiscal year 2017, reserve balances were restored to 8.0%, and in fiscal year 2021, total General Fund reserve balances of $2.5 billion represented 31.0% of recurring appropriations.

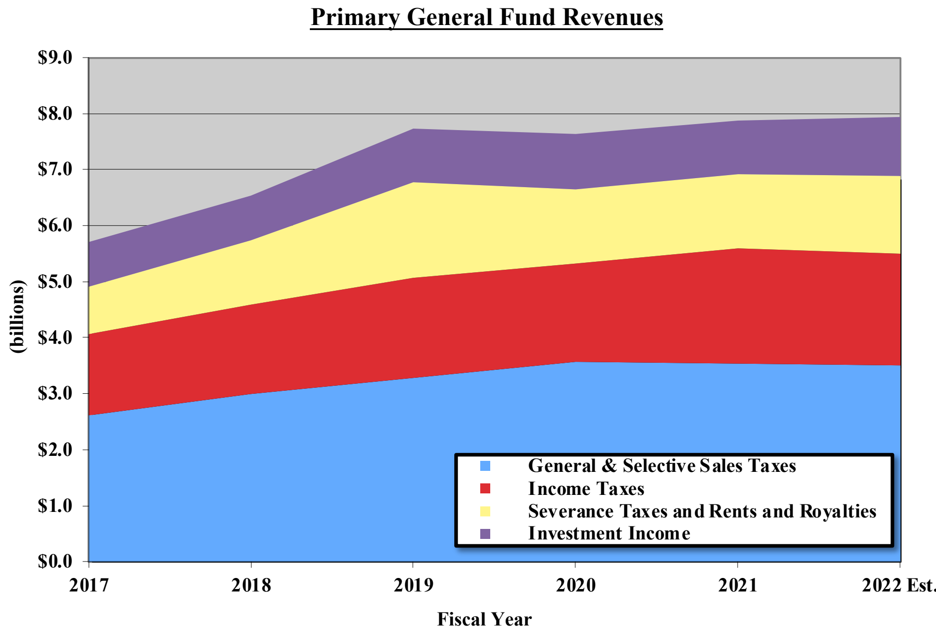
General Fund Reserves as Percent of Recurring Appropriations



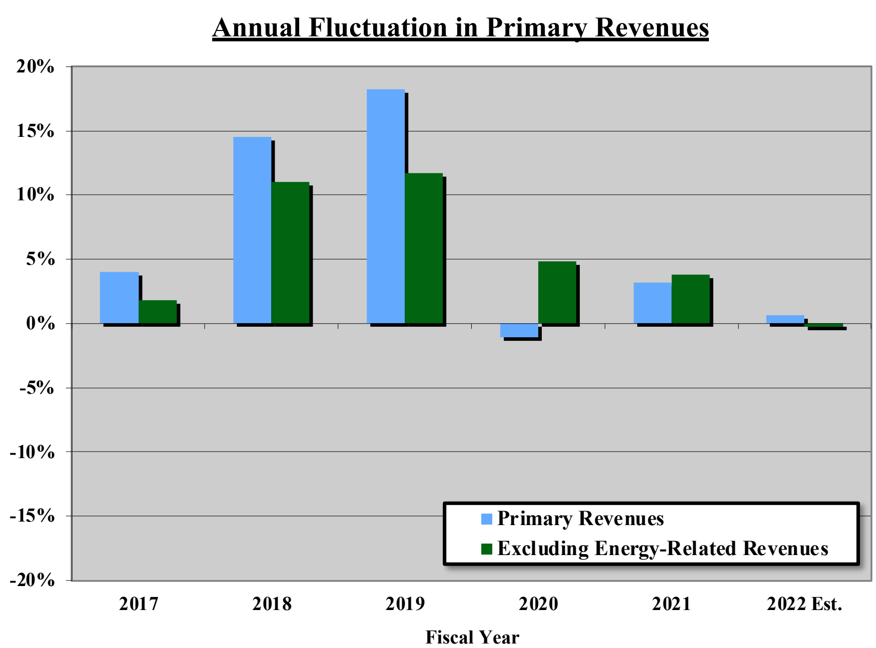
Revenue Volatility

The cyclicality of General Fund revenues has contributed to fluctuations in reserve levels, as highlighted in the discussion about State General Fund Reserves. 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 next graph.

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 have focused on the historical volatility in General Fund revenues created by the State's mineral taxes and revenues as a negative credit attribute, 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 the graph below 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. The dramatic volatility of global oil prices is evident in the dip in aggregate revenues in 2020.



The year-over-year changes in the primary General Fund revenues are presented below. In this case, in contrast to prior periods of volatility in natural resource pricing, the upswing in energy-related revenues reflects, at least in part, the impact of fracking technology on production levels in the state.



Financial Reporting

Delays in the issuance of the Annual Comprehensive Financial Report (ACFR, previously referred to as the CAFR) have historically been a 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 ACFR in less than six months. Fiscal year 2013 was the first year the State of New Mexico ACFR was audited. The shift to an audited ACFR for fiscal year 2013 resulted in the release of the audit almost a year and a half after the end of the fiscal year, compared to a norm among peer states of six months. Since then, the timing of the release of the ACFR has steadily improved, though the timing of publication of its consolidated annual financial reports remains well behind peer states.

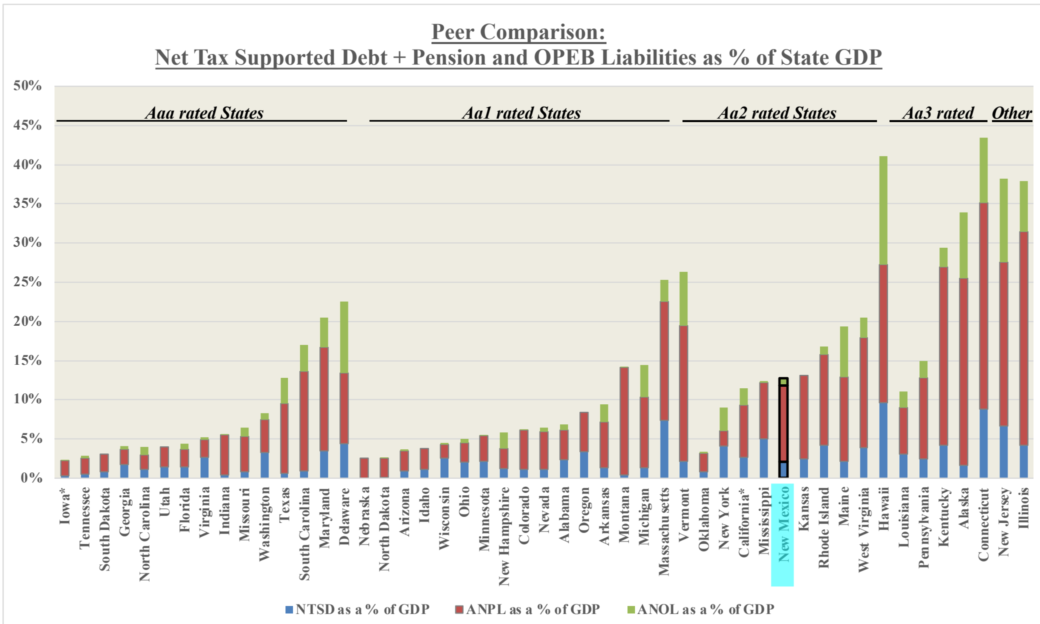
New Mexico state law impacts the timing of the annual production of the ACFR. All state agency and political subdivision whose financial information is rolled up into the ACFR are required to be fully audited. In addition, the audits of those state agencies that are aggregated into the ACFR are not due until as late as December 1st of each year. This process ultimately requires that agency financial information is audited twice, making it impossible to have the ACFR produced within six months after year end. The Department of Finance and Administration (DFA) continues to work with the State Auditor to find ways, including statutory changes to the process, to improve the timing of ACFR production.

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. In recent years, bond rating agencies have intensified their analytic focus on the legal and economic circumstances of state pension funds, and begun to treat unfunded pension liabilities as long-term liabilities on a par with other forms of outstanding indebtedness.

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.

The graph below, based upon data provided by Moody’s in its September 2021 report on state pension and OPEB (other post-employment benefits) liabilities, illustrates the impact of how this revised analytic approach to issuer financial obligations places debt obligations in a larger context. The graph presents each state’s Net Tax Supported Debt (NTSD) as a percentage of State GDP in blue, and then includes each state’s Adjusted Net Pension Liability (ANPL) and Annual Net OPEB Liabilities (ANOL) as a percentage of State GDP added on in red and green, respectively. As this graph illustrates, for nearly every state, the magnitude of unfunded state pension and OPEB obligations dwarf state debt obligations. New Mexico's aggregate debt, pension and OPEB liabilities as calculated by Moody's is 30th among the states.



In 2019, Governor Lujan Grisham created a PERA Solvency Task Force to address the PERA situation. The Task Force made a series of recommendations to address the funding shortfall, with the goal of fully funding the PERA system over a 25-year period. Those recommendations became the basis of reform legislation that was passed into law during the 2020 legislative session and signed into law by the Governor.

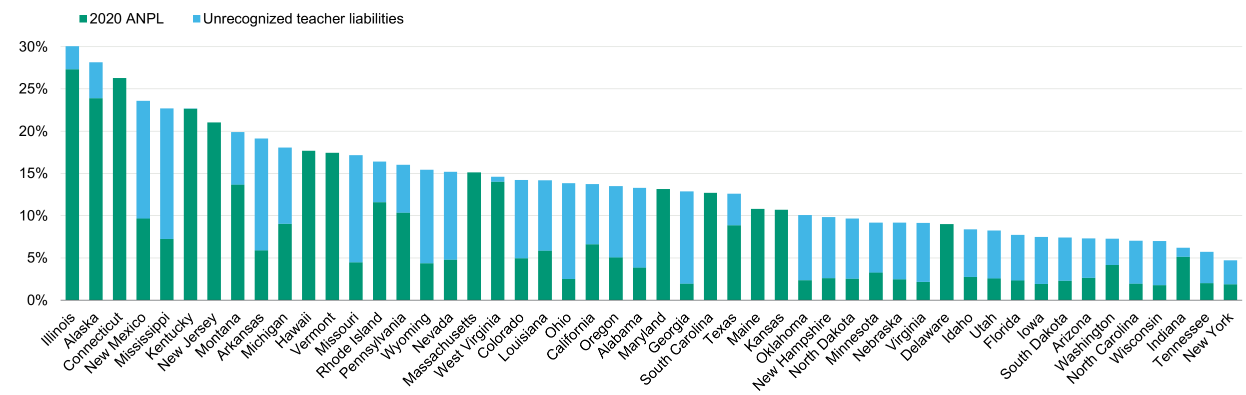
The calculation of aggregate State unfunded pension and OPEB liabilities, as reflected in the graphic above, does not reflect the significant unfunded liabilities of the Educational Retirement Board. Historically, the characterization of local school district ERB liabilities has been an issue of dispute. While ERB has historically contended that the liabilities belong to the individual school district – as do teacher pension funds in other states – the fact that substantially all of local school district operating funds – including funds necessary for the payment of ERB pension obligations – are provided by annual state appropriations effectively leaves the resolution of the ERB funding deficit with the State. During the 2021 and 2022 Regular Sessions of the Legislature, the State increased the employer contribution rate by 1% each year, bringing the employer contribution rate from 14.15% for the fiscal year beginning July 1, 2020 to 18.15% for the fiscal year beginning July 1, 2024. ERB's actuaries estimate that increasing the employer contribution rate to 18.15% would reduce the projected unfunded actuarial accrued liability (UAAL) as of June 30, 2049 to $3.8 billion and the projected funded ratio would be 90.3% at that time.[1]

---

[1] See Fiscal Impact Report of 2022 Regular Session Senate Bill 36 at https://www.nmlegis.gov/Legislation/Legislation?Chamber=S&LegType=B&LegNo=36&year=22

Moody's is now looking specifically at the treatment of teacher pension funds across the country, and the impact of reframing those liabilities as State obligations in its pension adjustment. In its September 2021 report, Moody's presented the graphic, shown below, that illustrates the significant impact on state pension burdens in many states. The impact of this reframing of state pension liabilities is particularly relevant in New Mexico, as most school district operating funds, including funds used to fund teacher pension contributions, are appropriated at the state level. In its report, Moody's highlighted the situation with respect to ERB in New Mexico: *"New Mexico's (Aa2 stable) fiscal 2019 ANPL increases to a significant 24.6% of state GDP from 7.6% when including currently unrecognized teacher liabilities."* The impact of this pension obligation recalibration is to place New Mexico fourth among all of the states with respect to its adjusted net pension liability as a percent of state GDP.

Teacher liabilities significantly increase pension burdens for some states
Fiscal 2020 ANPL including currently unrecognized teacher liabilities as a % of state GDP



ANPL stands for adjusted net pension liability.
Sources: State and pension plan financial statements, US Bureau of Economic Analysis and Moody's Investors Service

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)	FY23	FY24	FY25	FY25	FY26	Five-Year
General Obligation Bonds	-	$262.5	-	$262.5		$525.0
Severance Tax Bonds*	$562.3	562.3	$562.3	562.3	$562.3	2,811.6
Severance Tax Notes	494.4	417.6	367.8	317.9	270.3	1,868.0
Additional Severance Tax Notes	-	-	-	-	-	-
Total Senior STBs	***1,056.7***	***979.9***	***930.1***	***880.2***	***832.6***	4,679.6
Supplemental Severance Tax Bonds	-	-	-	-	-	-
Supplemental Severance Tax Notes	534.7	520.7	520.3	520.3	530.7	2,626.7
Total Supplemental STBs	***534.7***	***520.7***	***520.3***	***520.3***	***530.7***	***2,626.7***
Total Sources of Funds	$1,591.4	$1,763.1	$1,450.4	$1,663.0	$1,363.3	$7,831.3

Uses of Funds (millions)	FY23	FY24	FY25	FY25	FY26	Five-Year
Projects approved by referendum	-	$262.5	-	$262.5	-	$525.0
New Statewide Capital Projects	$885.9	829.7	$789.3	742.0	$704.8	3,951.8
Authorized but Unissued STB Bonds	-	-	-	-	-	-
Water Projects	99.7	91.8	86.9	82.6	82.6	443.7
Colonias Project Capital	49.9	45.9	43.5	41.3	41.3	221.8
Tribal Projects Capital	49.9	45.9	43.5	41.3	41.3	221.8
K-12 Public School Capital Outlay	506.1	487.3	487.3	493.3	493.3	2,467.1
PED Instructional Materials/Transportation	-	-	-	-	-	-
Total Uses of Funds	$1,591.4	$1,763.1	$1,450.4	$1,663.0	$1,363.3	$7,831.3

*Amounts reflect bond funding, not total appropriations.

State Board of Finance Bonding Programs

As presented in the table below, the State Board of Finance currently projects $14.7 billion of new money financing for statewide capital projects over the next 10 years. This amount represents a 75% increase in available capital funding since the last debt affordability study was presented, and was driven by increased projections of severance tax bonding receipts. Those projections are developed by DFA economists and the Consensus Revenue Estimating Group, which includes economists from both the Legislative and Executive branches of New Mexico government.[2] Projections of severance tax bonding capacity are revised on a regular basis to reflect State consensus revenue estimates.

[2] Information utilized in the development of price and production projections includes forecasts by the U.S. Energy Information Administration, IHS Global Insight and Moody's Analytics forecasting services, and NYMEX futures contracts data.

State Board of Finance Projected Bonding Capacity by Fiscal Year (millions of dollars)						
		Severance Tax Bond Program		Supplemental STB Program		
	GO Bonds	Bonds	Notes	Bonds	Notes	Total
2023	-	562.3	494.4	--	534.7	1,591.4
2024	262.5	562.3	417.6	--	520.7	1,763.1
2025	-	562.3	367.8	--	520.3	1,450.4
2026	262.5	562.3	317.9	--	520.3	1,663.0
2027	-	562.3	270.3	--	530.7	1,363.3
2028	262.5	562.3	217.8	--	530.7	1,573.4
2029	-	562.3	164.7	--	530.7	1,257.8
2030	262.5	562.3	123.7	--	539.9	1,488.4
2031	-	562.3	55.6	--	539.9	1,157.8
2032	262.5	562.3	0.2	--	539.9	1,364.8
Total	**$1,312.5**	**$5,623.2**	**$2,429.9**	**$0.0**	**$5,307.7**	**$14,673.4**

*Amounts reflect bond funding, not total appropriations.

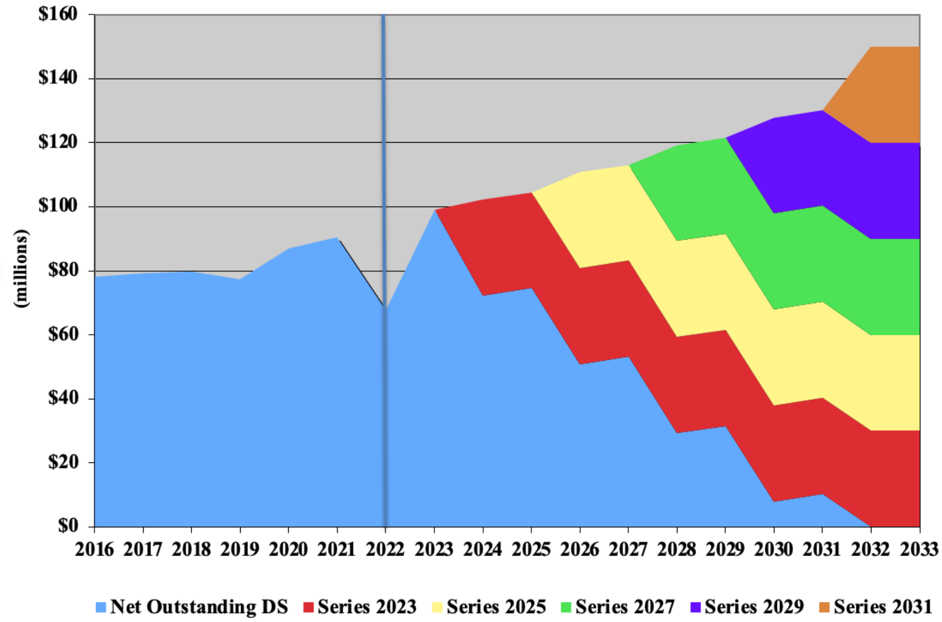
The $14.7 billion projected capacity includes $1.3 billion of projected general obligation bonding capacity, subject to legislative authorization and voter approval. That amount reflects a 23% increase in annual bonding capacity since the last Debt Affordability Study, and reflects a flat mill levy and continued real growth and statewide assessed valuations. The combined $8.1 billion of senior severance tax bonds and notes capacity reflects a 74% increase in ten-year capacity, and the $5.3 billion of supplemental severance tax notes, proceeds of which are dedicated to education projects approved by the Public School Capital Outlay Council, reflects a 99% increase in long-term capacity.

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% of statewide net taxable property value. The debt limit as of the most recent property valuation was $747.2 million, and $414.4 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.

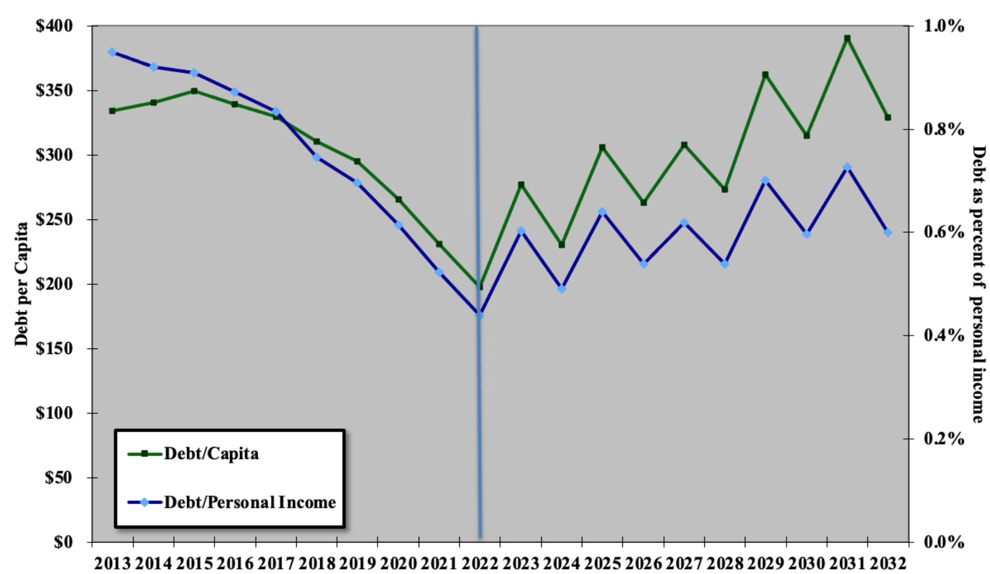
The projected general obligation bond issuance, reflected in the Sources and Uses of Funds table above, reflects the administration policy to limit general obligation bond authorizations to amounts that can be issued while keeping the statewide debt service mill rate flat. The graph below illustrates the historic debt service profile on State general obligation bonds, as well as projected debt service on outstanding and projected new bond bonds. 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. As illustrated here, out-year bond issues, particularly those projected to be issued in 2029 and 2031, result in annual debt service increasing above recent levels. Importantly, this annual debt service reflects a constant projected debt service mill levy, with the increased annual debt service reflecting continuing projected growth in statewide property assessed valuation.

General Obligation Bonds:
Annual Debt Service with Projected New Issues



The primary credit metrics of general obligation bond indebtedness are the amount of outstanding bonds per capita and as a percent of statewide personal income. New Mexico general obligation bonds are sold with a maximum maturity of 10 years. Historically, State general obligation bond issuance has resulted in fairly stable indebtedness measured against both metrics. As state population has remained flat, however, and statewide assessed value is projected to grow at a faster rate than personal income, State indebtedness is now projected to trend upward based on these metrics as new debt is issued over the next decade, back toward levels of a decade ago. The graphic below illustrates this growth trend, and also presents recent declines, to put the increases in context.

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% of capacity for water projects and 4.5% 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. Historically, under the statutory test governing the issuance of severance tax bonds and supplemental severance tax bonds, severance tax bonds and notes could only be issued to the extent that severance tax bond debt service did not exceed 50% 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% 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% of revenues as defined by the statutory test.

SEVERANCE TAX BONDING FUND REVENUES
Maximum revenues available to pay debt service on *Severance Tax Bonds and Notes:* **47.6% from 2019 onward**
Maximum revenues available to pay debt service on *Supplemental Severance Tax Bonds, and Severance Tax Bonds and Notes:* **60.1% from 2019 onward**
Maximum revenues available to pay debt service on *Supplemental Severance Tax Notes*, and *Supplemental Severance Tax Bonds, and Severance Tax Bonds and Notes:* **86.2% from 2022 onward**
Remaining Revenues at maximum debt service: **13.8% from 2022 onward**

In 2015, the State revised the statutory issuance tests governing the Severance Tax Bonding Program in order to increase revenues to the Severance Tax Permanent Fund. As illustrated in the graphic here, the statutory issuance test for senior severance tax bonds and supplemental severance tax bonds has been reduced from from 50% and 62.5% to 47.6% and 60.1%, respectively, while the statutory test for the issuance of supplemental severance tax notes has been reduced from 95% to 86.2%.

A further amendment was signed into law designed to 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 has had 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.

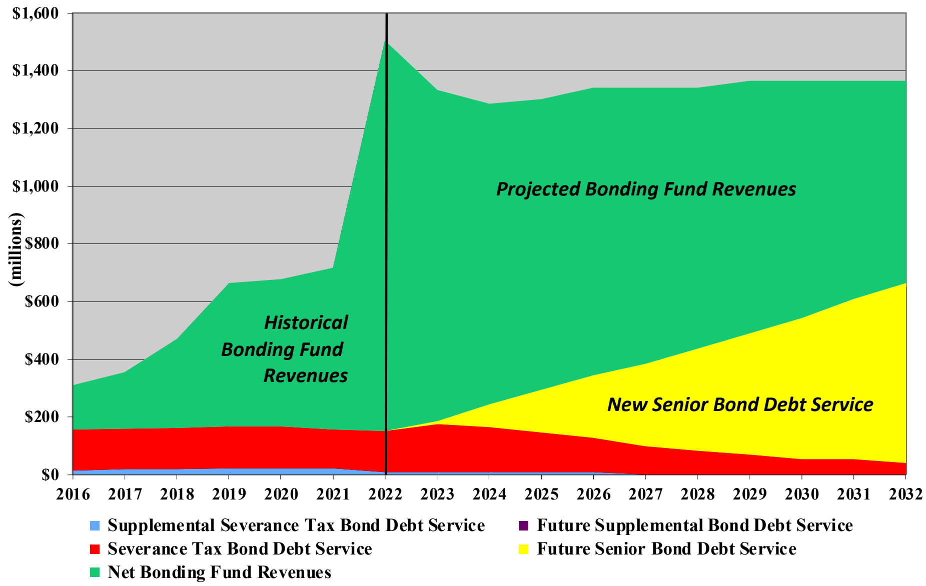
The statutory issuance tests and State Board of Finance policies constraining the issuance of long-term debt are key attributes of the strong credit quality of the Severance Tax Bonding Program. Central to the analysis of both Moody's and Standard & Poor's is the debt service coverage ratio of current 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 Bonding 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% 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 most recent price and production projections for natural gas production in the state are presented below. The prices reflect both the dramatic increase in global oil prices, as well as the price impact on production, as production that might not otherwise be profitable comes online.

Natural Gas and Oil Prices and Volumes										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Gas Price	$5.00	$3.80	$3.40	$3.30	$3.35	$3.35	$3.35	$3.35	$3.35	$3.35
Oil Price	$71.50	$64.50	$60.50	$59.50	$59.50	$59.50	$59.50	$59.50	$59.50	$59.50
Gas Volume	2,420	2,490	2,565	2,580	2,580	2,580	2,580	2,580	2,580	2,580
Oil Volume	517.4	546.0	577.2	589.2	589.2	589.2	589.2	589.2	589.2	589.2

The graph below illustrates the historical and projected revenue and debt service profile of the Severance Tax Bonding Program reflecting the most recent projected annual issuance capacity of $562.3 million of new long-term severance tax bonds. This annual projected issue size over a ten-year horizon represents a 53% increase from the $368.5 million projected amount at the time of the last debt affordability study. It is important to note that the projected capacity is revised on a regular basis over the course of each year as price and production estimates are revised, and should be considered in that light. Nonetheless, the projected increase in annual bond issuance is significant.

Severance Tax Bonding Fund
Historical and Projected Revenues and Debt Service



The table below presents the historical and projected debt service coverage for long-term severance tax and supplemental severance tax bonds based on the price and production estimates presented above. 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 ten-years of bond issuance at the $562.3 million level. Rating analysts and investors evaluate the debt service coverage of a new bond issue at the time of issuance, and also consider the second two columns as a projection of projected coverage in future years, taking into account future bond issuance and revenue projections.

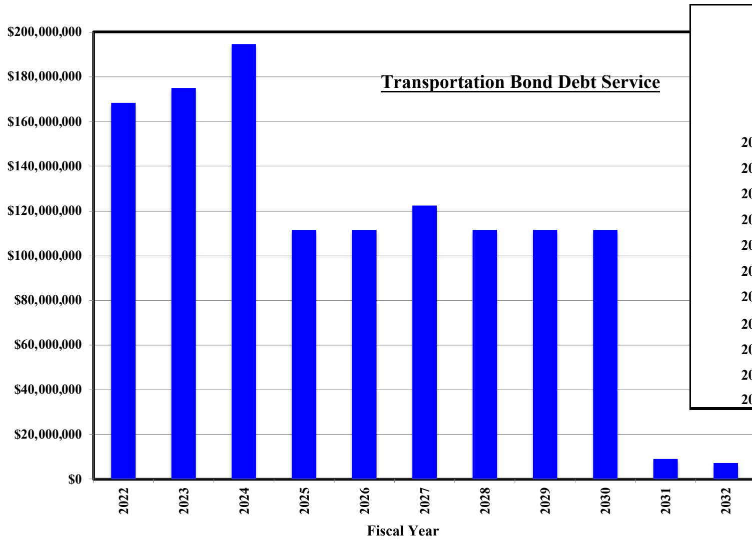
Severance Tax Bonding Program
Historical and Projected Debt Service Coverage

	Coverage with No Future Issues		Coverage with Projected Future Issues		
Fiscal Year	Senior Severance Tax Bonds	Supplemental Bonds	Senior	Supplemental	
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	4.72	3.98			
2020	4.77	4.17			
2021	5.42	4.71			
2022	11.17	10.50			Actual
2023	8.69	8.23	8.00	7.27	Projected
2024	8.94	8.45	5.82	5.18	
2025	10.18	9.54	4.81	4.30	
2026	11.79	10.95	4.11	3.75	
2027	14.04		3.58		
2028	16.68		3.15		
2029	20.35		2.86		
2030	26.43		2.58		
2031	26.43		2.29		
2032	34.71		2.10		

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 January 1, 2022, the transportation debt outstanding was $877.0 million.

These tables present annual debt service and the projected level of debt service coverage on outstanding transportation bonds.



Transportation Program
Projected Revenues, Debt Service, and Coverage

	Total Debt Service	Principal Outstanding	Pledged Revenues	Debt Service Coverage
2022	$168,381,983	$877,030,000	$903,663,000	5.37
2023	$175,090,150	$745,310,000	$915,003,000	5.23
2024	$194,565,650	$587,570,000	$926,343,000	4.76
2025	$111,588,650	$504,920,000	$926,343,000	8.30
2026	$111,583,800	$418,360,000	$926,343,000	8.30
2027	$122,303,000	$316,975,000	$926,343,000	7.57
2028	$111,583,750	$221,240,000	$926,343,000	8.30
2029	$111,587,000	$120,715,000	$926,343,000	8.30
2030	$111,585,750	$15,165,000	$926,343,000	8.30
2031	$9,103,250	$6,820,000	$926,343,000	101.76
2032	$7,161,000	$0	$0	0.00

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 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 August 31, 2021, the NMFA had $1.29 billion of PPRF bonds outstanding.

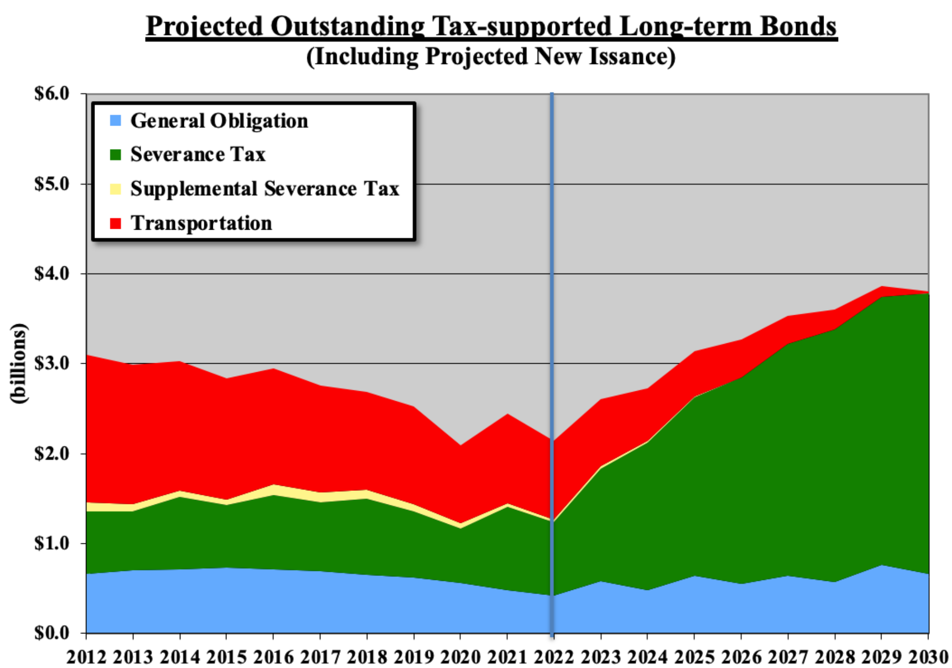
Affordability of Projected State Debt Issuance

The core State bonding programs project bonding capacity for the issuance of $6.9 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.

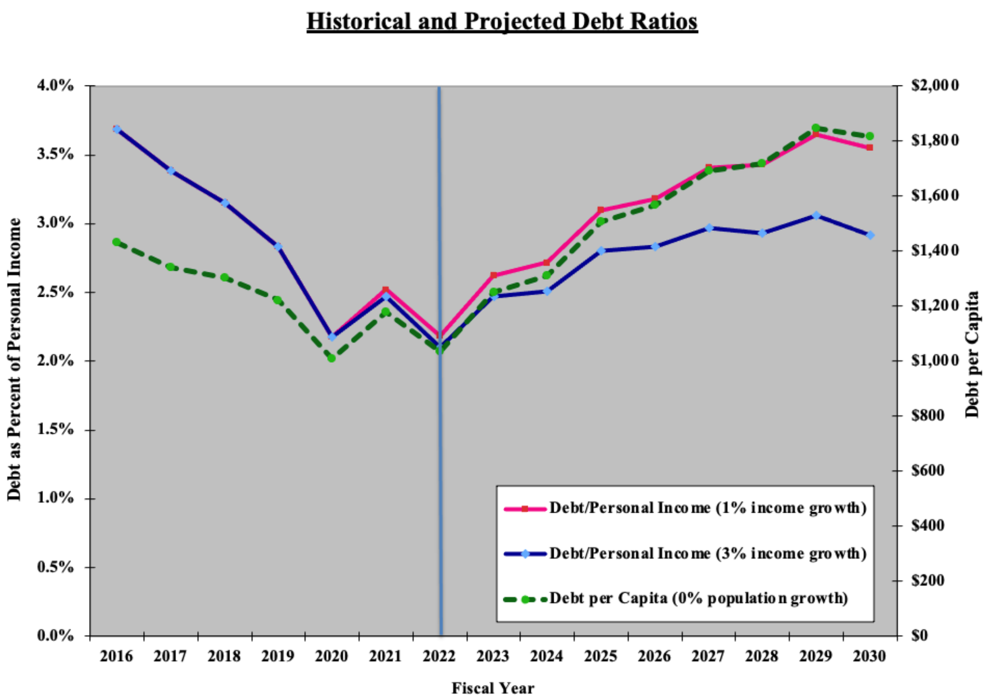
None of these core bonding programs utilize revenues that flow into or would otherwise flow into the General Fund of the State, and each of the core state bonding programs provide strong legal protections and the revenue-backed bonds demonstrate strong historical and projected debt service coverage.

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 a burden on taxpayers or the economy in a manner that undermines future growth. In that regard, it is important to emphasize that the increase in long-term bonding capacity from $4.7 billion at the time of the last debt affordability study to the current $6.9 billion level is substantial, and warrants attention to the effective allocation and utilization of capital.

The following graph presents the projected growth in outstanding tax-supported debt, categorized by debt type, over the next 10 years. This includes the issuance of $6.9 billion in new long-term bonds, as described in the course of this study. As this illustrates, the preponderance of the growth in outstanding debt is in severance tax bonds, which are projected to replace the state transportation bonds as the largest share of outstanding state debt.



The following graph projects the impact of the planned issuance of $6.9 billion of long-term general obligation and severance tax debt on the key debt ratios of the State over the next 10 years. As discussed above, the debt ratios are projected to increase over time, based in large part on the volume of severance tax bond issuance. Nonetheless, it should be noted that even projected debt ratios at the end of the projection period are not out of line with historical experience, as 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%, before declining steadily over the past decade. 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% growth rate reflective of historical State growth, and the second using a lower, 1.0% growth rate.



The inclusion of ERB liabilities in the assessment of the aggregate long-term obligations of the State by Moody's and others is resulting in 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. If there is a threat to market support for those bonding programs, it will likely be the natural skepticism that some may express at the dramatic increase in projected revenues. While those increases may be supported by technical and economic analytics, they will inevitably strain credibility.

As is discussed in this Debt Affordability Study, the projected debt issuance plans for the core State bonding programs do not impinge on state general funds, and are affordable with respect to the revenue streams that are dedicated to debt repayment, which do not place stress on the State General Fund. Two aspects of debt issuance are worth noting, as discussed in this report. First, to the extent that the assessed value of real property continues to increase at a higher rate than population, State general obligation debt per capita will begin to trend upward. Second, the significant growth in severance tax bonding capacity enabled by projected growth in Severance Tax Bonding Fund revenues is projected to result in increases in traditional debt metrics of the State, even as debt service coverage ratios remain strong.

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 objective has been to increase the efficiency in the use of capital outlay funds to meet 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 the 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 Bonding 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 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.

Conclusions

The State of New Mexico's core debt programs administered by the State Board of Finance are affordable with respect to the revenue streams pledged to repayment. 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, particularly in the wake of increases in natural resource pricing and production, 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.

The State's determination to strengthen reserve balances to well above the 10% level is an important financial management policy objective, reflected in the Lujan Grisham administration establishing a significantly higher target for General Fund reserves. The State's historically strong General Fund reserve balances have underpinned its 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 next several years will be closely watched by rating analysts and investors alike to gauge the continuing commitment of the State to sustaining strong reserve levels.

As discussed in detail in this study, the projected capacity to issue $6.9 billion of new long-term general obligation and severance tax bonds over the next 10 years now projects to reverse the downward trend in key debt ratios of the State over the past decade. The projected upward trend in debt ratios results from both the projected increase in the issuance of severance tax bonds enabled by strong growth in Severance Tax Bonding Fund revenues, as well as flat population growth and low projected growth in personal income. The credibility of Severance Tax Bonding Fund revenue projections will be closely scrutinized by credit analysts and investors alike, but that concern will be offset by the State's ongoing policy of reviewing revenue projections and debt capacity on a regular basis throughout the year. Importantly, even as long-term bonding capacity has increased, the State projects an increase in the share of cash resources dedicated to capital purposes from 43.8% to 52.6% over the projected ten year horizon.

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 education and healthcare cost pressures. Other management practices that bond rating analysts have focused on over the years that would be viewed as positive credit improvements include (i) granting the Governor executive power to take intra-year budget actions without convening the Legislature, (ii) establishing target levels for state reserves in statute, and (iii) addressing the constraints that impede the timeliness of financial reporting, as discussed in the body of this report, in order to enable the State to achieve benchmarks that have become the norm for its state peers.