

**New Issue: Moody's assigns Aaa rating to State of New Mexico's Capital Projects General Obligation Bonds, Series 2013**

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Global Credit Research - 07 Mar 2013

**Outlook is negative; approximately \$375 million general obligation bonds outstanding following current issue**

NEW MEXICO (STATE OF)  
State Governments (including Puerto Rico and US Territories)  
NM

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
Capital Projects General Obligation Bonds, Series 2013	Aaa
<b>Sale Amount</b>	\$140,165,000
<b>Expected Sale Date</b>	03/15/13
<b>Rating Description</b>	General Obligation

**Moody's Outlook** NEG(m)

**Opinion**

NEW YORK, March 07, 2013 --Moody's Investors Service has assigned a Aaa rating to the State of New Mexico's Capital Projects General Obligation Bonds, Series 2013, to be issued in the estimated amount of \$140 million. Proceeds of the bonds will finance various projects included in the state's capital program. Following the issuance of the 2013 bonds, the state will have a total of \$375 million of general obligation bonds outstanding. At this time, we have also affirmed the Aaa rating on the state's outstanding general obligation bonds and the Aa1 rating on its Lease Appropriation Bonds (Fort Bayard Project) Series 2008, issued through Grant County. The outlook on all of these ratings is negative.

**SUMMARY RATING RATIONALE**

While New Mexico's economic diversity is relatively low and per-capita income is below average, General Fund financial performance has been strong. Due to timely spending cuts and conservative budgeting for volatile energy-related revenues, General Fund balances remained positive through the economic downturn and have now returned to pre-recession levels. Pension liabilities, while notable, are below average for US states. The state's GO bonds represent only a small portion of its net tax-supported debt and benefit from positive security provisions. The negative outlook reflects the state's vulnerability to federal budget cuts.

**STRENGTHS**

- \* General Fund financial performance has been strong.
- \* Conservative revenue forecasting offsets the volatility of energy-related employment.
- \* Pension liabilities are below average for US states.
- \* General obligation bonds benefit from rapid payout and positive security features.

**CHALLENGES**

- \* Economic diversity is relatively low, with concentration in energy and government employment; per-capita income is below average.

\* Financial reporting lacks characteristics typical of Aaa-rated states.

## DETAILED CREDIT DISCUSSION

### ECONOMIC DIVERSITY IS RELATIVELY LOW; SIGNIFICANT FEDERAL EMPLOYMENT IS A RISK

The state's economy is concentrated in volatile oil and gas extraction, and government. Economic activity and the state revenues vary considerably based on the price of oil and gas, the level of production, and the amount of new drilling. The government presence is primarily attributable to the presence of two national laboratories and several major military facilities. Per-capita income is 82% of the US level.

For the most part, oil and gas activity was fairly strong during the economic downturn and federal employment remained a stabilizing factor, moderating the effect of the recession on New Mexico compared to other states. The peak-to-trough decline in housing prices was smaller in New Mexico than in the US as whole. The state's unemployment rate remained consistently below the US rate and below the median for comparably rated states throughout the recession. Although state General Fund revenues declined in fiscal years 2009 and 2010, the percent decline was less than in most other states.

Recent employment data suggest that the state's economy may have stalled, but these figures may be subject to upward revision. The state's unemployment rate continued to improve in 2012, declining to 6.7%, well below the US rate of 8.1%. The impact of federal budget cuts on government employment in the state remains a major risk.

### GENERAL FUND PERFORMANCE HAS BEEN STRONG

As a result of the state's better-than-average economic performance during the downturn, its generally conservative approach to forecasting energy-related revenues, and the enactment of timely spending cuts, the state's financial performance has been strong. The General Fund balance was drawn down in fiscal year 2009 but remained at \$390 million, or 5.7% of revenues. The state has been rebuilding reserves since that year and, based on the statements for the statutory General Fund, the fund balance equaled \$713 million, or 12.2% of revenue, at the end of 2012, exceeding pre-recession levels. Although the state is forecasting a 1.6% decline in recurring General Fund revenues for 2013 and relatively modest growth thereafter, it projects that reserves will remain comparable to 2012 levels. Liquidity levels are strong; the state has not issued TRANs since fiscal year 2011.

### DEBT LEVELS ARE ABOVE MEDIANS, BUT PENSION LIABILITIES ARE BELOW AVERAGE COMPARED TO OTHER STATES

Based on Moody's 2012 debt medians report, New Mexico's debt levels are above average. Net tax-supported debt as a percent of personal income was 4.2%, compared to a median for all states of 2.8%. Net tax-supported debt per capita was \$1,406, compared to a median of \$1,117. General obligation bonds represent only a small portion, 13.3%, of the state's \$2.8 billion net tax-supported debt, the majority of which consists of transportation revenue bonds and severance tax bonds.

The state's general obligation bonds are issued with a maximum maturity of 10 years. As a result, payout is extremely rapid. After the issuance of the Series 2013 bonds, 61% of principal will be repaid in four years. The general obligation bonds also benefit from positive security features. The bonds are paid from a statewide property tax levy without limit as to rate. The treasurer is required to keep tax proceeds separate from all other funds. The state's practice is to levy the tax in advance so that debt service is pre-funded.

The state's pensions are primarily provided through the multi-employer Public Employees Retirement Association (PERA). PERA's funding levels have declined in recent years due to investment losses and changes in its earnings assumption. As of June 30, 2012, PERA's reported funding level was 65.3%, and its reported UAAL was approximately \$6.2 billion. About 50.1% of this liability is attributable to the state, with the balance attributable to other plan participants, primarily local governments. The state also reports an other post-employment benefits (OPEB) UAAL of approximately \$3.6 billion. While notable, relative to the size of the state's budget, these liabilities are below average compared to other states.

### FINANCIAL REPORTING LACKS CHARACTERISTICS TYPICAL OF Aaa-RATED STATES

The financial statements in New Mexico's Comprehensive Annual Financial Report (CAFR) are not audited by an independent auditing firm. The statements are only "reviewed," which indicates a substantially lower standard of verification. In addition, the CAFRs have not always been released on a timely basis. The fiscal year 2011 CAFR was not released until June 2012, 12 months after the end of the fiscal year. The 2012 CAFR has not yet been

released.

The state does provide timely, audited financial statements for its major agencies and for its statutory General Fund. The statutory General Fund, also known as the "Component Appropriation Accounts" or the "Component Appropriation Funds," is not exactly equivalent to the GAAP-basis General Fund shown in the CAFR. In particular, it excludes certain departmental revenue accounts which are included in the GAAP General Fund. Historically, the two representations of the General Fund track very closely.

These agency statements provide sufficient verified information to evaluate the state's financial performance, but the absence of audited comprehensive statements remains a weakness. State officials report that they are taking action to improve the timeliness of the CAFRs. Beginning with fiscal year 2014, they also plan to have them audited. The state's progress in improving its comprehensive financial reporting will be an important credit consideration going forward.

## OUTLOOK

The rating outlook for the state's general obligation bonds is negative due to the economic risks associated with federal budget cuts.

## WHAT COULD MAKE THE RATING GO DOWN

- \* A significant and sustained reduction in reserves
- \* Deterioration in unemployment rates or other economic indicators as a result of reductions in federal employment
- \* Weakening of financial reporting practices

The principal methodologies used in this rating were Moody's State Rating Methodology published in November 2004 and Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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