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New Mexico's Series 2015A Bonds Rated 'AA', 2015B Bonds Rated 'AA-' With A Stable Outlook

Issue:	New Mexico's Series 2015A Bonds				
Issuer:	New Mexico	State:	NM	Country:	USA
Date:	7/15/2015	Rating	AA	Rating Action:	Assign
Outlook:	Stable	Outlook Action:	Assign		

New Mexico's Series 2015A Bonds Rated 'AA', 2015B Bonds Rated 'AA-' With A Stable Outlook

NEW YORK (Standard & Poor's) July 15, 2015--Standard & Poor's Ratings Services has assigned its 'AA' long-term rating and stable outlook to New Mexico's series 2015A severance tax bonds. Standard & Poor's also assigned its 'AA-' rating and stable outlook to the state's series 2015B subordinate supplemental severance tax bonds.

At the same time, Standard & Poor's affirmed its 'AA' long-term and underlying ratings on the state's senior severance tax bonds outstanding, and its 'AA-' rating on New Mexico's subordinate supplemental severance tax bonds outstanding. The outlook on these bonds is stable.

The ratings reflect what we view as New Mexico's:

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Strong 3.5x pro forma senior-lien maximum annual debt service (MADS) coverage by fiscal 2015 severance tax revenues, and 3.1x coverage of combined senior and junior-lien MADS;

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Good additional bonds test (ABT) requiring at least 2.0x debt service coverage (DSC) to issue additional senior-lien bonds, and 1.6x DSC to issue additional subordinate long-term supplemental bonds; based on recently enacted legislation, the coverage tests will increase gradually in the next four years to 2.10x and 1.66x MADS, respectively, by fiscal 2019, and will use the lesser of the current or previous year receipts; and

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Declining debt service schedule and rapid debt amortization, with all principal to be retired by 2025.

Mitigating these credit strengths are what we consider:

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The inherent instability associated with natural gas and oil prices and production levels, which account for the bulk of pledged revenues, as demonstrated by a large one-year 32% decline in severance tax receipts in fiscal 2010 and 21% and 28% year-over-year increases in 2012 and 2014, respectively; and

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State geographic limitations in serving natural gas markets that might be distant from New Mexico.

We understand that the proceeds of the series 2015A bonds will be used to fund various state capital improvements and that the series 2015B bonds proceeds

will finance public school capital projects.

"The stable outlook reflects our expectation that, despite possible future bonding, DSC will remain strong during our two-year outlook horizon because of a good ABT and a declining debt service schedule," said Standard & Poor's credit analyst Sussan Corson.

We also expect natural gas and oil reserves will continue to be replenished to maintain sufficient production over the bonds' life and that severance tax collections will continue to provide good MADS coverage during the bonds' relatively short 10-year life, despite the likely ongoing cyclicalities in severance tax revenues. Should MADS coverage begin to approach the ABTs, a downward adjustment of the rating or outlook is possible. The volatility of the pledged revenue stream and the potential for additional bonding constrains upward movement of the rating.

RELATED CRITERIA AND RESEARCH

Related Criteria

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Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

?

USPF Criteria: Special Tax Bonds, June 13, 2007

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at

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Media Contact:

April Kabahar, New York (1) 212-438-7530 FREE
april.kabahar@standardandpoors.com

Analyst Contacts:

Sussan S Corson, New York (1) 212-438-2014 FREE
David G Hitchcock, New York (1) 212-438-2022 FREE

Key Contacts:

Americas Media Relations: (1) 212-438-6667 FREE
media_relations@standardandpoors.com

Americas Customer Service: (1) 212-438-7280 FREE
research_request@standardandpoors.com

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