

**Rating Action: Moody's assigns Aa2 to New Mexico's Severance Tax Bonds, Ser. 2020A; outlook stable**

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New York, October 20, 2020 -- Moody's Investors Service has assigned a Aa2 rating to the State of New Mexico's (senior lien) Severance Tax Bonds, Series 2020A, to be issued in the estimated amount of \$96 million. Following this issuance, the state will have \$608 million of senior lien severance tax bonds ("Severance Tax Bonds") outstanding, all rated Aa2, and \$40 million of subordinate lien severance tax bonds ("Supplemental Severance Tax Bonds") outstanding, all rated Aa3. The outlook on these ratings is stable.

**RATINGS RATIONALE**

The Aa2 and Aa3 ratings on the senior and subordinate lien severance tax bonds incorporate the inherent volatility of the pledged revenue stream, which consists primarily of taxes on the production of natural gas and oil in the state. The state is currently projecting a 31.6% decline in pledged revenues in fiscal 2021 as a result of low oil prices. The volatility of pledged revenues is mitigated by ample coverage levels; a conservative debt structure that features rapid payout of outstanding bonds; requirements to maintain 12 months' debt service on deposit in the Bonding Fund, the fund in which pledged severance tax receipts are held; and additional bonds tests which use the lesser of prior year actual and current year projected revenues as the base for the debt service coverage calculations.

**RATING OUTLOOK**

The stable outlook reflects the expectation that coverage of maximum annual debt service will remain ample despite the projected decline in pledge revenues in fiscal 2021, and that the state will maintain its conservative practices for leveraging this volatile revenue stream.

**FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING**

- Structural changes that strengthen the program, such as an increase in the coverage requirements of the additional bonds tests.

**FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING**

- Deterioration in coverage as a result of further, unanticipated declines in severance tax revenues.
- Debt policy changes that weaken the program, such as lengthening maturities.

**LEGAL SECURITY**

The Severance Tax Bonds and the subordinate Supplemental Severance Tax Bonds are secured by a first and second lien, respectively, on severance taxes on deposit in and interest earnings of the Bonding Fund.

**USE OF PROCEEDS**

Proceeds of the Series 2020A bonds will fund capital improvements included in the state's capital program.

**PROFILE**

New Mexico is the 36th-largest state by population, at 2.1 million. Its state gross domestic product, \$104.0 billion, is the 37th-largest. The state's wealth levels are below average, with per capita personal income equal to 77.6% of the US level and a poverty rate among the highest for US states.

**METHODOLOGY**

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in July 2017 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM\\_1077147](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1077147). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a

copy of this methodology.

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