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

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

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Projects General Obligation Bonds, Series 2013</td>
<td>Aaa</td>
</tr>
</tbody>
</table>

Sale Amount: $140,165,000
Expected Sale Date: 03/15/13
Rating Description: 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 for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider’s credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Kenneth Kurtz
Lead Analyst
Public Finance Group
Moody's Investors Service

Edward Hampton
Additional Contact
Public Finance Group
Moody's Investors Service
consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if
MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such
information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the
information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or
recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its
own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS
OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY
PARTicular PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY
MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers
of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred
stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services
rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and
procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations
that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have
also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at
www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder
Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License
of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics
Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to
"wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this
document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a
representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly
disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act
2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity
securities of the issuer or any form of security that is available to retail clients. It would be dangerous for retail clients to
make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other
professional adviser.