STATE OF NEW MEXICO

DEPARTMENT OF FINANCE AND ADMINISTRATION

BOARD OF FINANCE

DEBT AFFORDABILITY STUDY

June 11, 2024

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 $8.1 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 $11.0 billion of short term “sponge” funding notes for statewide capital projects and public school capital outlay. These amounts are more than double the aggregate funding capacity just five years ago, when the capacity amounts were $4.7 billion and $3.6 billion, reflectively, and are a function more than any other single factor of the dramatic increase in oil and natural gas production in the state.

Current long-term bonding capacity described in this study reflects recommendations made in last year’s debt affordability study, subsequently incorporated into House Bill 253 of the 2024 Legislature, that requires that projected annual issuance of long-term Severance Tax Bonds by calculated in a manner that “shall be projected to result in stable levels of state tax supported debt relative to the median state debt ratios published by the national municipal bond rating agencies.” As discussed herein, that amount has been determined to be $385 million per year over a ten-year horizon. Such issuance amounts result in reduced levels of long-term debt, are projected to result in stable debt ratios over time, and modestly increase the funding capacity available through the short-term “sponge” bond program as long-term bond debt service is reduced.

The adoption of this moderated capacity approach demonstrates the State's continuing, prudent approach to debt management. The State has continued a decades-old policy of limiting the issuance of General Obligation Bonds to an amount that can be serviced without increasing the associated mill levy, and for the past few years has chosen to forgo the issuance of new money long-term Severance Tax Bonds at all, relying instead on the substantial annual cashflow available in the Severance Tax Bonding Fund to fund investment in State infrastructure and critical state facilities.

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.

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, and moderate debt levels. As noted previously, actions taken by the Governor and state legislature to address public employee pension funding issues have been important in supporting the State's bond ratings, as well as in securing the retirement futures of State employees. These credit strengths continue to be 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 volatility of revenues derived from oil and natural gas production in the state.

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)

	2019	2020	2021	2022	2023	Total
General Obligation Bonding Program						
General Obligation Bonds	-	$157.9	$199.5	-	$258.8	$616.2
Subtotal	-	157.9	199.5	-	258.8	616.2
Severance Tax Bonding Program						
Severance Tax Bonds	-	-	509.1	$292.0	$0.0	801.1
Severance Tax Funding Notes	$74.8	307.2	163.3	200.5	340.3	1,086.1
Supplemental Severance Tax Bonds	-	-	-	-	-	-
Supplemental Severance Tax Funding No	181.5	254.5	232.9	268.2	681.9	1,619.0
Subtotal	256.3	561.7	905.3	760.7	1022.2	3,506.2
Other Sources						
General Fund	650.8	-	-	-	1,071.7	1,722.5
Transportation Bonds	-	-	-	-	234.6	-
Subtotal	650.8	-	-	-	1,306.3	1,957.1
Total	**$907.1**	**$719.6**	**$1,104.8**	**$760.7**	**$2,587.3**	**$6,079.5**

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

As of July 1, 2024, the State will have $447.2 million of general obligation bonds outstanding, $924.8 million Senior and Supplemental Severance Tax Bonds, and $585.9 million transportation bonds supported by State Road Fund revenues. The following table sets forth the State tax-supported debt outstanding as of July 1, 2024.

State Bonds Outstanding as of July 1, 2024
(millions)

General Obligation Bonds	$447.17
Severance Tax Bonds	$915.86
Supplemental Severance Tax Bonds	$8.90
Transportation Bonds	$585.90
	$1,957.83

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, each with a Stable Outlook.

In its most recent credit opinion, Moody's made note of the State's strong fiscal governance, proactive pension management and the rebuilding of reserves with growth revenues from oil and natural gas production. They noted offsetting credit negatives including low levels of personal income, as well as dependency on the volatile oil and gas industry. They suggested that lagging demographic and societal trends, including below-average educational attainment, labor force participation and population growth will constrain the State's economic growth over the long term. In its opinion, Standard & Poor's further noted that while the State's direct long-term liabilities and fixed costs are moderate, and progress has been made on pension funding, underfunding remains at the high end relative to peer states.

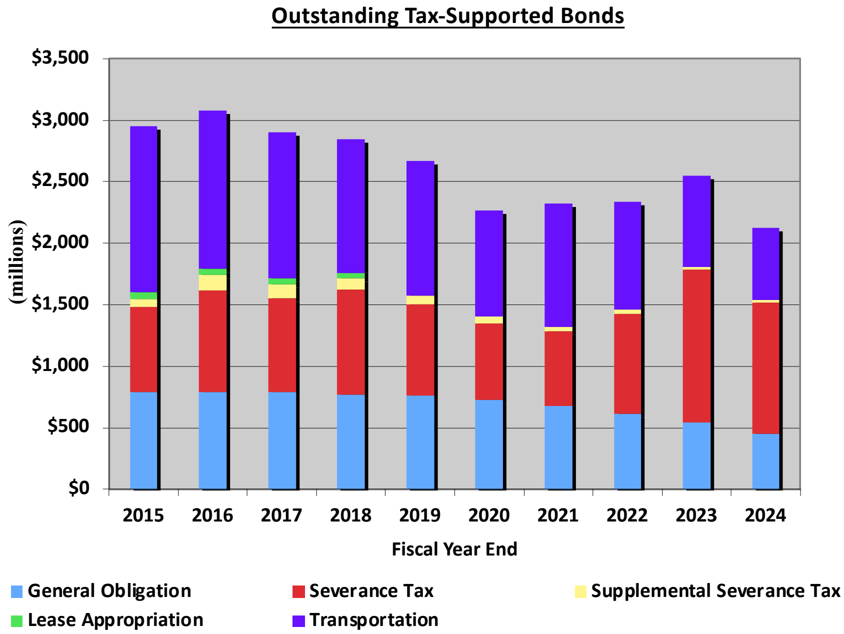
It is notable that both agencies acknowledged State measures to address underfunding at the Public Employees Retirement Association and the Education Retirement Board as credit positives. Moody's also discussed educational attainment and other demographic trends as a long-term constraint on statewide economic outcomes. State investments in early childhood education target exactly this issue, and are expected to help ameliorate poverty levels and improve economic outcomes over time. These are long-term investments that will necessarily take some time to translate into improved economic and demographic outcomes, though the rating agencies have begun to take notice of these efforts.

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 decreased over the past decade, due most notably to the amortization of state transportation bonds.



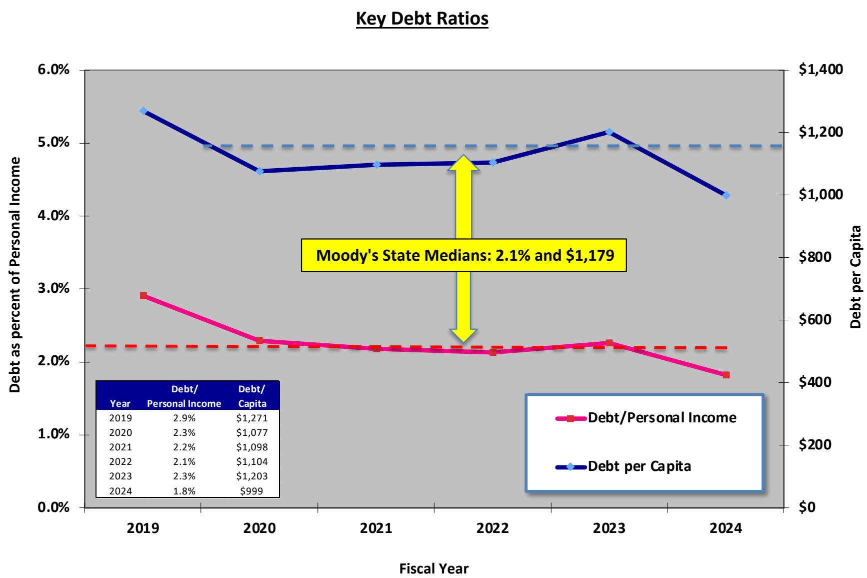
State Debt Ratios

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 July 1, 2024, the State's outstanding $447.2 million General Obligation Bonds represented 0.49% of statewide assessed value of property, or less than 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 for its general obligation and severance tax bonds is substantially more conservative than the norm. Accordingly, 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 73.4%, 68.9%, and 100%, respectively, all substantially higher than the norm. With respect to the transportation bonds, almost two-thirds of those bonds are retired in five years, and all mature within 10 years.

The following graph presents the State's tax-supported debt ratios over the past five years, and suggests that debt per capita and as a percent of personal income have been relatively stable and not out of line with the Moody's State Debt Medians.



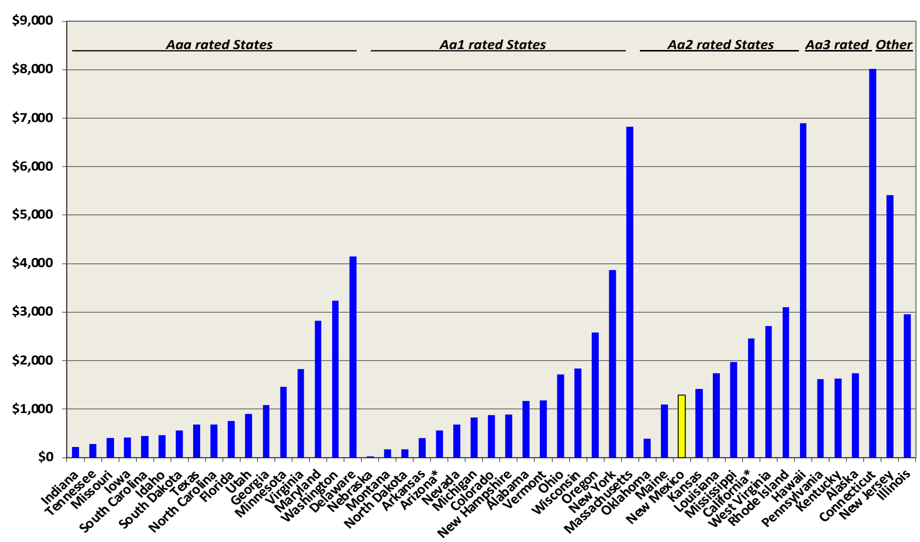
The importance of these debt ratios was a point of emphasis in last year's debt affordability study, and the legislature responded proactively by agreeing to a modification of annual debt capacity calculations with an eye towards the stability of State debt ratios. Specifically, House Bill 253 requires that Severance Tax Bond debt capacity be calculated in a manner that "shall be projected to result in stable levels of state tax supported debt relative to the median state debt ratios published by the national municipal bond rating agencies."

Based on the most recent consensus revenue forecasts, that amount has tentatively been determined to be $385 million per year over a ten-year horizon, but is expected to be finalized this coming January. There are two funds established under HB 253. The first is the capital development and reserve fund, to be held in the state treasury and invested by the state investment officer. It will serve as a reserve fund that can be appropriated in future years, particularly if revenues decline. The second is the capital development program fund. This fund will be used to fund planning and design and lower dollar value capital projects across the state.

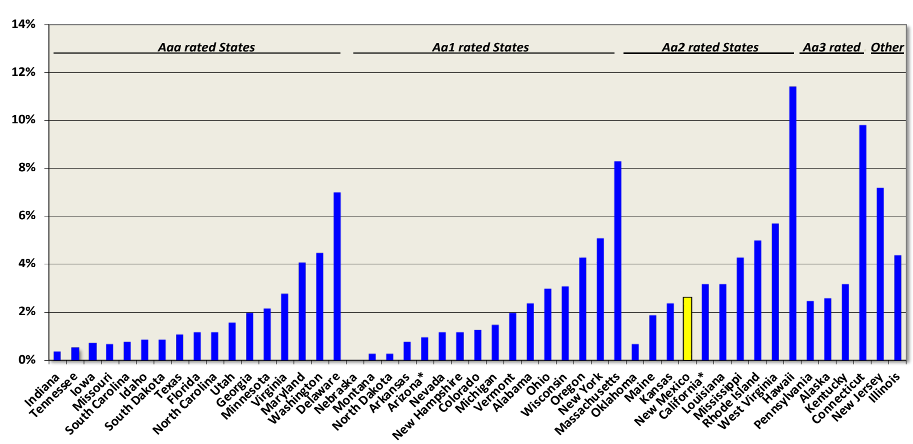
Peer Group Debt Ratios and National Medians

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 the most recently published data from Moody's.[1] 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 a bit below (worse than) the median of the states, being 27th in debt per capita and 30th in debt as a percent of personal income, and in both cases its ranking has declined slightly over the past couple of years.

Peer Comparison: Net Tax Supported Debt per Capita



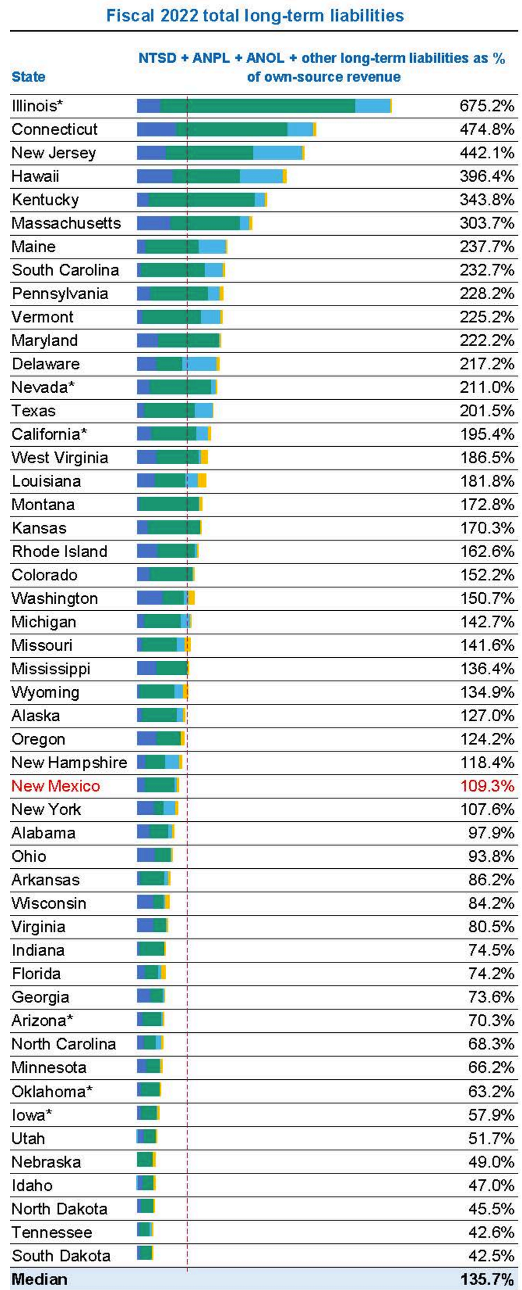
Peer Comparison: Net Tax Supported Debt as Percent of Personal Income



[1] Published September 2022.

Integrated Assessment of Long-term 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 increasingly incorporated their assessment of state unfunded pension funding obligations into their overall assessment of issuer long-term liabilities, on a par with other forms of outstanding indebtedness.



Early on, Moody's took a particularly aggressive stance with respect to its evaluation of pension obligations, as it (i) allocated cost-sharing plan liabilities to the balance sheets of the underlying obligors; (ii) adjusted an issuer's total actuarial liability to reflect a portfolio yield over time that is in most cases lower than an issuer's actuarial yield assumption; and, (iii) looking at market values of assets without regard to asset-smoothing.

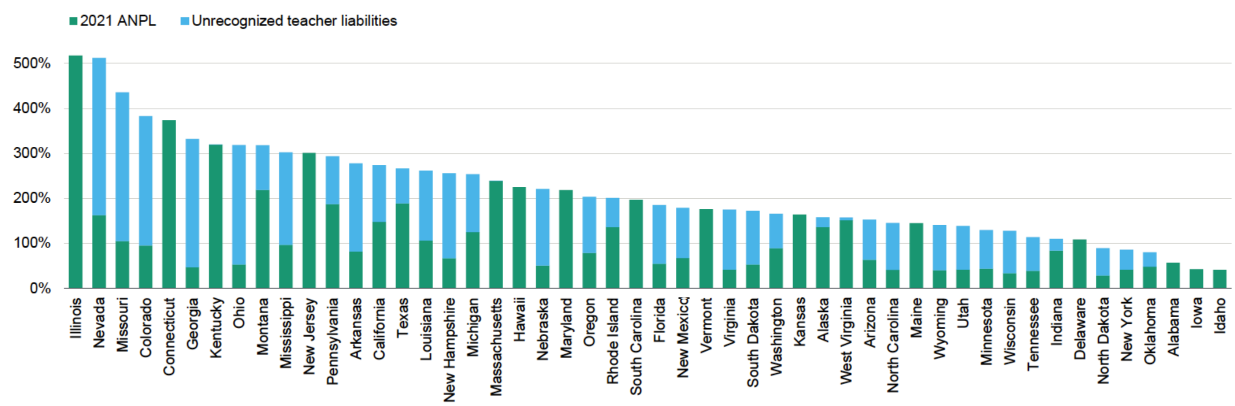
Now, Moody's has gone the next step, and is looking at pension and OPEB (other post-employment benefits) obligations on equal footing with publicly issued debt. The graph presented here is taken from Moody's September 2023 report on state overall long-term liabilities, including pension and OPEB obligations. It 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), Adjusted Net Pension Liabilities (ANPL), and Adjusted Net OPEB Liabilities (ANOL), each as a percentage of a state's "own-source" revenues.[2] As this graph illustrates, New Mexico's total liabilities of 109.3% of own-source revenues place it 30th among states, and well below the state median of 135.7%, noted by the red dashed line.

[2] Own-source revenue is defined by Moody's in its US States and Territories Methodology as the total revenue, typically reported in the governmental funds section of the audited financial statements, minus revenue received from the federal government. Federal funding may include revenue under different categories, such as earmarked grants, annual disbursements and one-time payments.

Over the past several years, the State has taken significant steps to address its historic issues with respect to unfunded pension liabilities. In 2019, Governor Lujan Grisham created a PERA Solvency Task Force to address the PERA situation. The Task Force made a series of recommendations, subsequently enacted by the Legislature, designed to fully fund the PERA system over a 25-year period.

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. As Moody's has noted, the ambiguities surrounding teacher pensions is common across many states, where the characterization of local school district liabilities has been an issue of dispute. The graphic below from Moody's September 2022 report on debt, pension and OPEB liabilities, illustrates the issue of state recognition of local school district pension liabilities.

Pension burdens increase significantly for some states when adding all teacher liabilities
Fiscal 2021 adjusted net pension liability (ANPL) including currently unrecognized teacher liabilities as a % of state own-source revenue



Sources: State and pension plan financial statements and Moody's Investors Service

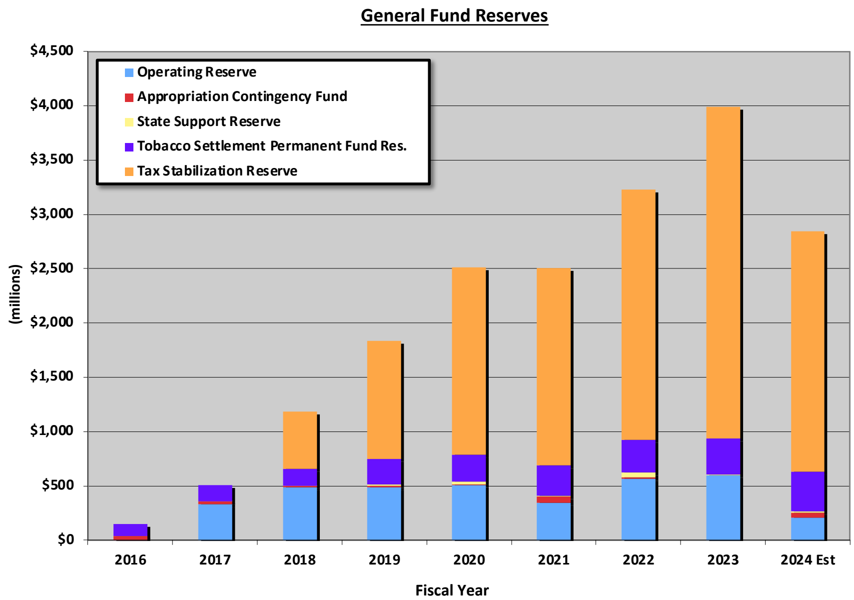
During the 2021 and 2022 Regular Sessions of the Legislature, the State began to tackle the issue of unfunded ERB teacher pension liabilities, which historically had been viewed as belonging to the individual school districts. The Legislature ultimately passed legislation increasing the employer contribution 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 estimated at the time the legislation was put into place 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 bring the projected funded ratio to 90.3%.[3]

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

[3] 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

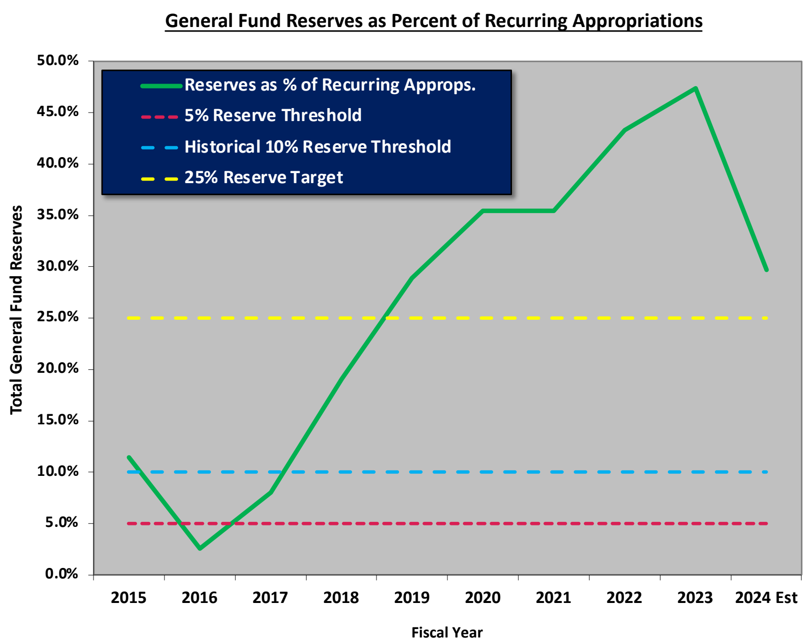
income levels, the relative lack of economic diversity, and revenue volatility. General Fund balances in New Mexico comprise the General Operating Reserve Fund, the Appropriation Contingency Reserve, the State Support Reserve, the Tobacco Settlement Permanent Fund Reserve, and the Tax Stabilization Reserve. 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, reserves have grown substantially over the past several years, and stabilized well over $2.5 billion.



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, 2023, the Tax Stabilization Reserve had an ending balance of $3.1 billion.

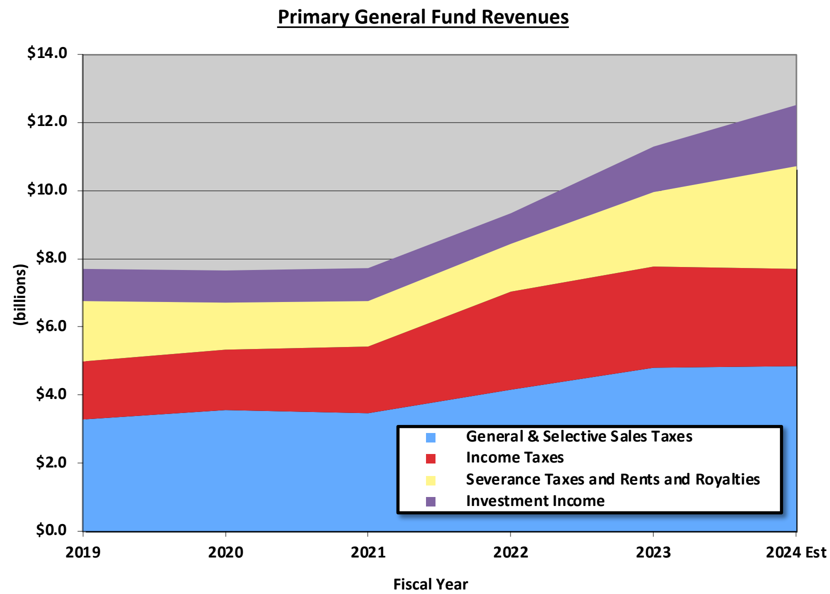
In addition to buttressing General Fund reserves, the State has taken other steps to mitigate revenue volatility in the future. During the 2023 regular session, the legislature passed Senate Bill 26, which capped Oil and Gas Emergency School Tax and Federal Mineral Leasing revenues to the General Fund at Fiscal Year 2024 levels. Beginning in Fiscal Year 2025, "windfall" revenues in excess of 2024 levels will be transferred to and invested in the Severance Tax Permanent Fund. While this action may reduce those revenues to the General Fund, the increased flow to the Severance Tax Permanent Fund will increase Permanent Fund distributions back to the General Fund in the future.

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 2023, total General Fund reserve balances reached $3.8 billion, representing 47.3% of recurring appropriations. For fiscal year 2024, reserves are expected to decline to $2.8 billion, or 29.7% of recurring appropriations, still well above the policy target of 25%

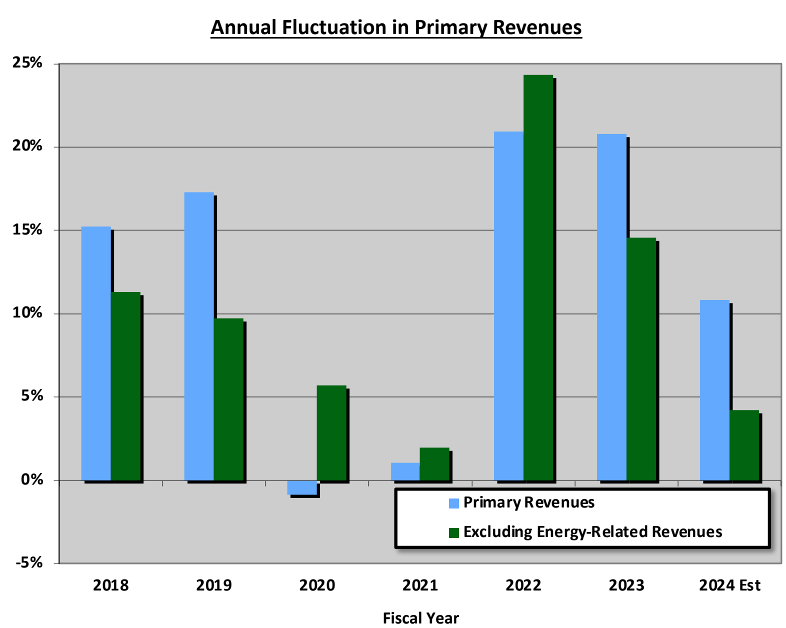


Revenue Volatility

The primary General Fund revenues comprise sales taxes, income taxes, revenues derived from mineral extraction activities, and investment earnings. Revenue volatility has been a credit factor for the rating agencies as they consider fiscal stability and trends. These revenue trends are illustrated in the graph below.



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, aggregate revenue trends have remained flat to positive since 2018.



Financial Reporting

Delays in the issuance of the Annual Comprehensive Financial Report 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 subdivisions 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.

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, with adjustments to projected total bond issuance to maintain stable property tax rates to support general obligation bonds, and stable debt ratios.

Core Bonding Programs:
Sources and Uses of Funds (millions)

Sources of Funds (millions)	FY25	FY26	FY27	FY28	FY29	Five-Year
General Obligation Bonds	$289.6	-	$289.6	-	$289.6	$868.8
Severance Tax Bonds*	385.0	$385.0	385.0	385.0	$385.0	1,925.0
Severance Tax Notes	736.8	718.7	689.7	659.7	605.1	3,410.0
Additional Severance Tax Notes	-	-	-	-	-	-
Total Senior STBs	***1,121.8***	***1,103.7***	***1,074.7***	***1,044.7***	***990.1***	5,335.0
Supplemental Severance Tax Bonds	-	-	-	-	-	-
Supplemental Severance Tax Notes	756.7	733.1	740.5	740.5	721.2	3,692.0
Total Supplemental STBs	***756.7***	***733.1***	***740.5***	***740.5***	***721.2***	***3,692.0***
Total Sources of Funds	***$2,168.1***	***$1,836.8***	***$2,104.9***	***$1,785.2***	***$2,000.9***	***$9,895.8***

Uses of Funds (millions)	FY25	FY26	FY27	FY28	FY29	Five-Year
Projects approved by referendum	$289.6	-	$289.6	-	$289.6	$868.8
New Statewide Capital Projects	891.9	$877.5	854.4	830.5	$787.1	4,241.3
Authorized but Unissued STB Bonds	-	-	-	-	-	-
Water Projects	101.0	99.3	96.7	94.0	89.1	480.1
Colonias Project Capital	50.5	49.7	48.4	47.0	44.6	240.1
Tribal Projects Capital	50.5	49.7	48.4	47.0	44.6	240.1
Housing Trust Fund	28.0	27.6	26.9	26.1	24.8	133.4
K-12 Public School Capital Outlay	756.7	733.1	740.5	740.5	721.2	3,692.0
Total Uses of Funds	***$2,168.1***	***$1,836.8***	***$2,104.9***	***$1,785.2***	***$2,000.9***	***$9,895.8***

*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 $17.5 billion of new money financing for statewide capital projects over the next 10 years. Capital funding capacity continues to be substantial, with bonding capacity well above what had been the norm over recent decades, though as noted above, projected debt issuance is intentionally constrained to maintain stable property tax rates to support general obligation bonds, and stable debt ratios. The substantial growth in capital funding capacity over recent years has been 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.[4] Projections of

[4] 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.

severance tax bonding capacity are revised on a regular basis to reflect State consensus revenue estimates.

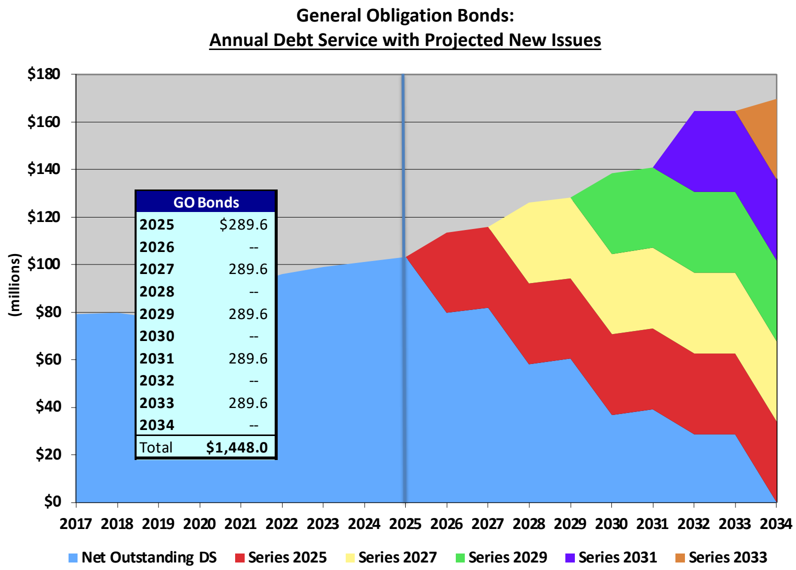
State Board of Finance Projected Bonding Capacity by Fiscal Year (millions of dollars)						
		Severance Tax Bond Program		Supplemental STB Program		
	GO Bonds	Bonds	Notes	Bonds	Notes	Total
2025	$289.6	$385.0	$736.8	--	$756.7	$2,168.1
2026	--	385.0	718.7	--	733.1	1,836.8
2027	289.6	385.0	689.7	--	740.5	2,104.9
2028	--	385.0	659.7	--	740.5	1,785.2
2029	289.6	385.0	605.1	--	721.2	2,000.9
2030	--	385.0	528.8	--	683.7	1,597.5
2031	289.6	385.0	439.1	--	648.1	1,761.8
2032	--	385.0	364.2	--	614.2	1,363.4
2033	289.6	385.0	319.2	--	582.1	1,575.8
2034	--	385.0	343.9	--	582.1	1,310.9
Total	$1,448.0	$3,850.0	$5,405.2	$0.0	$6,802.1	$17,505.3

The $17.5 billion projected capacity includes $1.4 billion of projected general obligation bonding capacity, subject to legislative authorization and voter approval. That amount is roughly equivalent to the projected bonding capacity presented in the last Debt Affordability Study, and reflects a continued policy of maintaining a flat debt service mill levy. The combined $9.3 billion of senior severance tax bonds and notes capacity includes $385.0 million in annual long-term bond issuance, an amount that sustains stable state debt ratios over time. The projected $6.8 billion of supplemental severance tax notes, proceeds of which are dedicated to education projects approved by the Public School Capital Outlay Council, reflects a modest decrease in projected capacity, reflective of adjustments to long-term oil and natural gas price and production estimates.

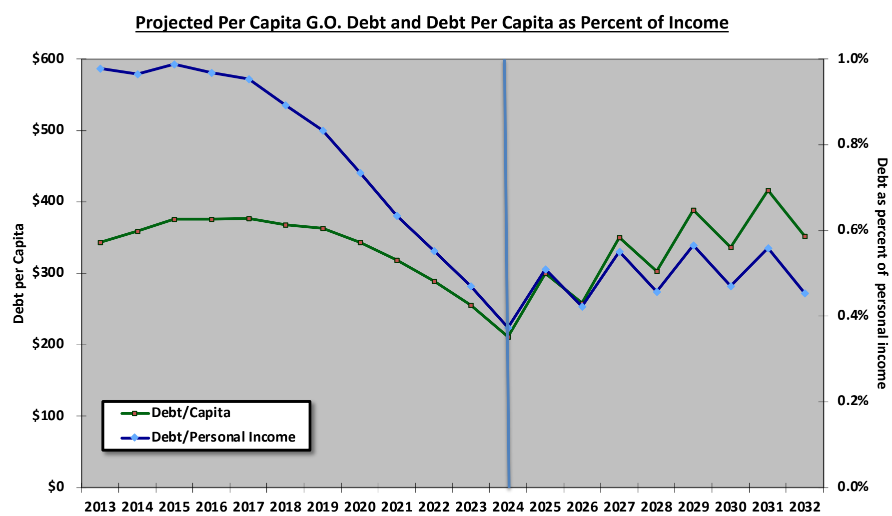
General Obligation Bond Issuance

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 $1.1 billion, and $447.2 million in general obligation bonds are 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 result in a modest upward trend in annual general obligation bond debt service. Importantly, however, 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.



The primary credit metrics of general obligation bond indebtedness are the amount of outstanding debt 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, particularly when compared with historical levels. The graphic below illustrates the history and projected trends in both metrics.



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, 4.5% each for tribal and colonias projects, and 2.5% for Housing Trust Fund 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.

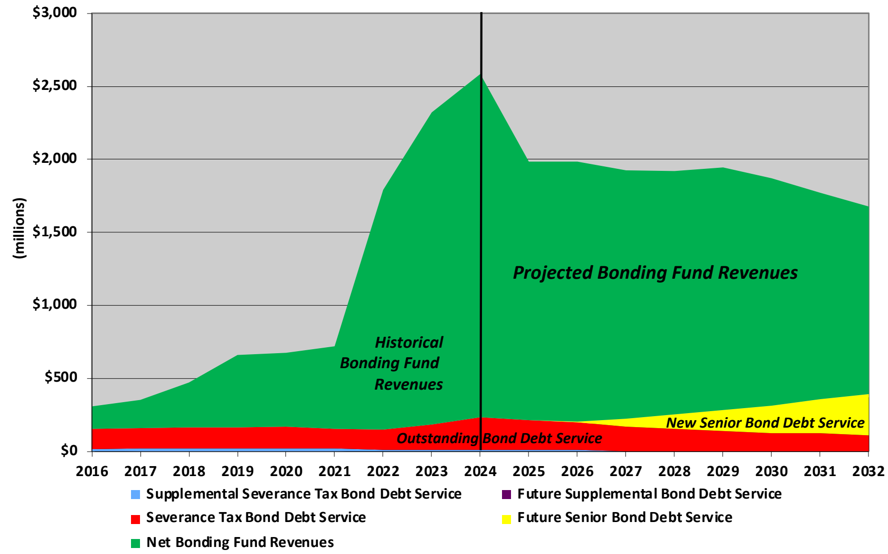
Annual long-term capacity for severance tax bond issuance is determined by the State Board of Finance, based upon outstanding debt service and projections of future Severance Tax Bonding Fund revenues. Historically, annual long-term bonding capacity has been calculated as 10% of the long-term debt capacity under the statutory test, and based upon level-debt service bond amortization over a 10-year life. Going forward, House Bill 253 requires that capacity projections be calculated as well to produce stable State debt ratios over time. Annual capacity for severance tax and supplemental severance tax notes are calculated based on the residual cashflow available after the funding of long-term bond debt service, as well as further constraints provided in legislation to assure minimum levels of surplus funding available to flow into the Severance Tax Permanent Fund.

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 Price and Volume Projections										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Natural Gas Price and Volume Projections										
Gas Price	$3.45	$3.80	$4.10	$3.95	$4.00	$4.00	$4.00	$4.00	$4.00	$4.00
Gas Volume	3,275	3,320	3,340	3,345	3,350	3,183	3,023	2,872	2,729	2,592
Gas Deductions	31.5%	30.4%	29.4%	29.9%	29.8%	29.8%	29.8%	29.8%	29.8%	29.8%
Gas Tax Rate	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Oil Price and Volume Projections										
Oil Price	$79.50	$75.00	$69.50	$69.00	$69.00	$69.00	$69.00	$69.00	$69.00	$69.00
Oil Volume	685.0	710.0	725.0	735.0	745.0	707.8	672.4	638.7	606.8	576.5
Oil Deductions	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%
Oil Tax Rate	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%

The graph on the top of the following page illustrates the historical and projected revenue and debt service profile of the Severance Tax Bonding Program reflecting the issuance of $385 million annually over a ten-year horizon, beginning in 2025. As required pursuant to House Bill 253, this annual projected level of long-term debt issuance is projected to result in stable State debt ratios over time.

Severance Tax Bonding Fund
Historical and Projected Revenues and Debt Service



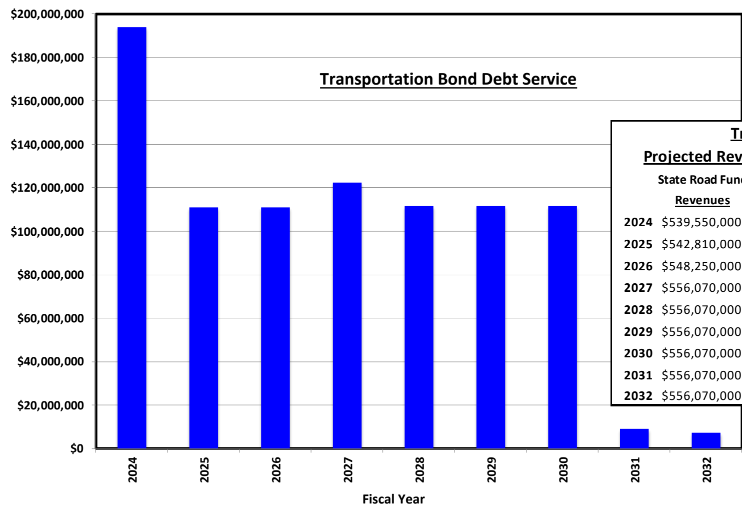
The table below presents the historical and projected debt service coverage for long-term severance tax and supplemental severance tax bonds based on the new money bond issuance, and natural resource price and production estimates presented above.

Severance Tax Bonding Program Historical and Projected Debt Service Coverage							
	Coverage with No Future Issues		Coverage with Max Projected Future Issues		Coverage with Alt. Projected Future Issues		
Fiscal Year	Senior Severance Tax Bonds	Supplemental Bonds	Senior	Supplemental	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	12.83	12.05					
2023	14.93	12.05					
2024	9.27	8.91					Actual
2025	10.12	9.69	10.12	9.69	10.12	9.69	Projected
2026	10.78	10.29	10.09	9.65	10.37	9.91	
2027	11.96		7.75		9.10		
2028	13.37		6.32		8.14		
2029	14.09		5.02		6.90		
2030	15.11		4.10		5.93		
2031	14.36		3.32		4.92		
2032	15.20		2.81		4.28		
2033	22.72		2.51		4.01		

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 July 1, 2024, the transportation debt outstanding will be $585.9 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

	State Road Fund Revenues	FHWA Revenues	Total Debt Service	Debt Service Coverage
2024	$539,550,000	$506,157,000	$193,998,000	5.39
2025	$542,810,000	$516,279,000	$111,025,000	9.54
2026	$548,250,000	$516,279,000	$111,018,500	9.59
2027	$556,070,000	$516,279,000	$122,303,000	8.77
2028	$556,070,000	$516,279,000	$111,583,750	9.61
2029	$556,070,000	$516,279,000	$111,587,000	9.61
2030	$556,070,000	$516,279,000	$111,585,750	9.61
2031	$556,070,000	$516,279,000	$9,103,250	117.80
2032	$556,070,000	$516,279,000	$7,161,000	149.75

Public Project Revolving Fund

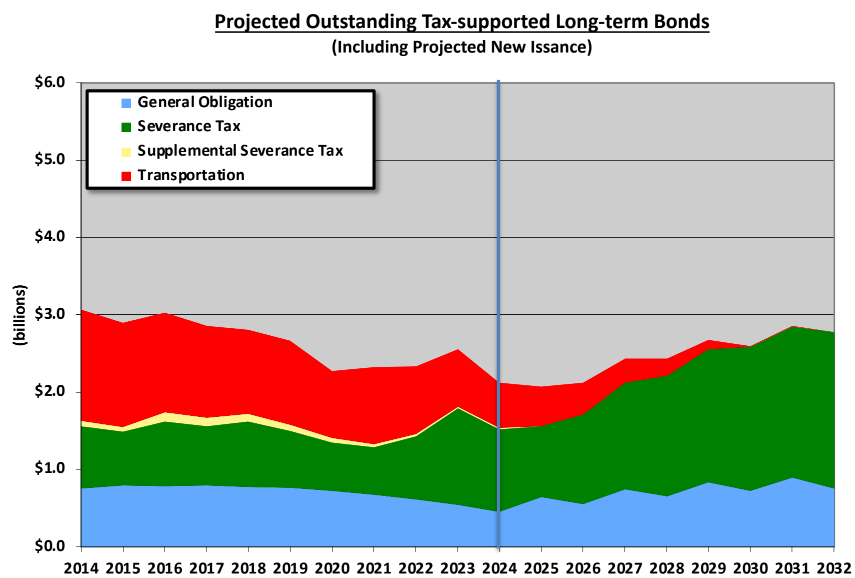
The Public Project Revolving Fund (“PPRF”) is the central public sector financing program operated by the New Mexico Finance Authority. The PPRF provides market rate loans to disadvantaged communities at a subsidized rate. Debt service on PPRF bonds is funded by repayments on its loan portfolio. The 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.

Affordability of Projected State Debt Issuance

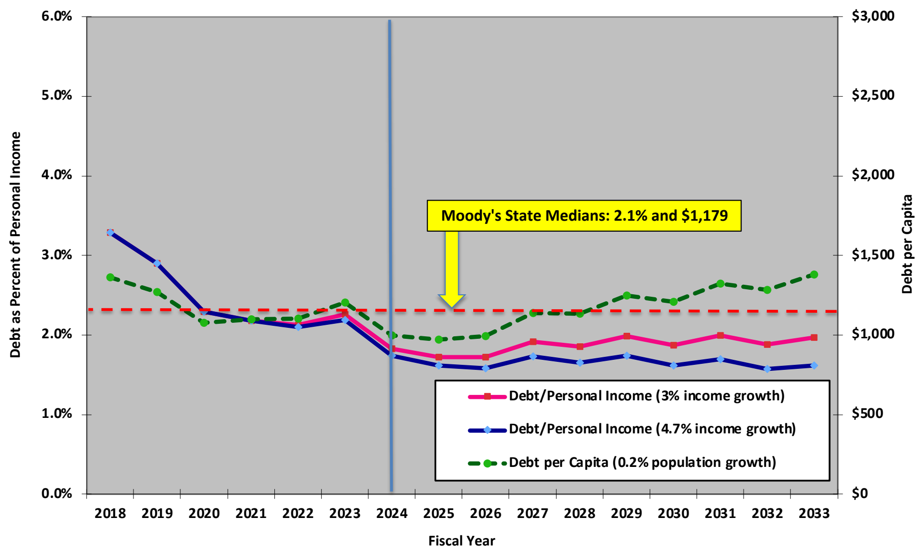
The core State bonding programs project bonding capacity for the issuance of $5.3 billion of new money long-term general obligation and severance tax bonds over the next 10 years, as discussed above. Each of the core bonding programs is funded by dedicated revenue streams. The dedicated sources of repayment 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.

The graph below presents the projected growth in outstanding tax-supported debt, categorized by debt type, over the next 10 years. This includes the issuance of $5.3 billion in new long-term bonds, within the constraints described over 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, as the transportation bonds continue to be paid down. The level of general obligation indebtedness continues to remain constant over time.



The following graph projects the impact of the planned issuance of $5.3 billion of long-term general obligation and severance tax debt on the key debt ratios of the State over the next 10 years. Based upon the annual issuance of $385 million Severance Tax Bonds, as discussed in this study, the state debt ratios are projected to remain stable over time. The projection of Net Tax Supported Debt Per Capita is based upon the 0.2% population growth over the past ten years. Two projections are provided for Net Tax Supported Debt as a percent of Personal Income, the first reflecting a 4.7% growth rate reflective of the rate of income growth in the State over the past decade, and a second using a lower, 3.0% growth rate.

Historical and Projected Debt Ratios



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. Each of the core State debt funding programs described above are self-supporting from pledged revenue streams, and none of them utilize revenues that would otherwise flow into the General Fund of the State. Each of these bonding programs provide strong legal protections, and continue to demonstrate strong historical and projected debt service coverage. As such, the projected debt issuance plans for the core State bonding programs are affordable with respect to the revenue streams that are dedicated to debt repayment, and do not place stress on the State General Fund.

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	Debt evaluated on an ongoing basis to identify bond refunding, and cash and	Debt evaluated on an ongoing basis to identify bond refunding, and cash and economic

	defeasance opportunities.	economic defeasance opportunities.	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 remain 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 resources.

Over the years, the State has weathered significant volatility in global natural resource pricing and in-state production levels, which placed significant stress on General Fund reserves. Each time this has happened, the State worked diligently to restore balance in its operating budget and restore strong balances in the General Fund. Over the past several years, the State has sought to maintain reserves at historically high levels, and has been successful in that effort.

Most recently, during a period of strong revenue growth from natural resources derived revenues, the State has acted proactively to increase the share of revenues set aside to mitigate against revenue volatility in the future, and reduce long-term debt issuance to amounts well below levels otherwise available in accordance with debt management policies and legal constraints. Senate Bill 26 and House Bill 253, described herein, are examples of these actions.

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. Recent actions by the State Legislature to moderate issuance of long-term Severance Tax Bonds is a constructive step toward maintaining future debt issuance at reasonable levels over time.

The State's determination to maintain strong reserve balances has for years been an important financial management policy objective. The establishment of the Rainy Day Fund within the Tax Support Reserve to capture and retain a portion of the growth in natural resource derived revenues, as well as concerted efforts to address historic pension funding issues, further underpin New Mexico credit ratings. The State can expect actions taken by the Legislature and the Executive over the course of the next several years to be closely watched by rating analysts and investors alike to gauge the continuing commitment of the State to sustaining its strong reserve levels.

New Mexico's bond rating outlook is ranked stable by the two bond rating agencies that rate the State bonds. The actions noted above to address the funding status of public employee pension funds, maintain strong reserve levels, and moderate debt levels over time, are strong factors that should improve the State rating outlook. Other management practices that bond rating analysts have focused on over the years that would be viewed as positive credit improvements if implemented include (i) granting the Governor executive power to take intrayear 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.