



STATE OF NEW MEXICO
DEPARTMENT OF FINANCE AND ADMINISTRATION
BOARD OF FINANCE

GOVERNOR MICHELLE LUJAN GRISHAM
PRESIDENT

LT. GOVERNOR HOWIE MORALES
BOARD MEMBER

WAYNE PROPST
CABINET SECRETARY

ASHLEY LEACH
DIRECTOR

DEBT AFFORDABILITY STUDY

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Table of Contents

Introduction and Scope	1
Core State Bonding Programs	2
Review of the State Credit.....	4
Ratings on State Bonds	4
General Fund Reserves	5
Revenue Volatility.....	7
Trends in State Debt Issuance	7
State Debt Ratios	8
Integrated Assessment of Long-term Liabilities	9
Financial Reporting.....	11
Projected State Debt Issuance.....	13
State Board of Finance Bonding Programs	13
General Obligation Bond Issuance.....	14
Severance Tax and Supplemental Severance Tax Bond Issuance	16
Transportation Bond Program Projected Revenues and Bond Issuance	19
Public Project Revolving Fund	20
Affordability of Projected State Debt Issuance	21
Capital Project Planning and Prioritization.....	23
State and Local Government	23
Transportation	23
Public Schools	23
Higher Education	23
Debt Management Policies	24
Use of Interest Rate Exchange Agreements	25
Conclusions.....	26

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, monitoring the State's debt capacity, and raising other issues for consideration by State policymakers. 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 fund resources 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 or on behalf of political subdivisions of the State.

The bonding programs managed by the State Board of Finance have projected capacity of \$4.8 billion of new money, long-term general obligation and senior severance tax bonds through 2034 for State capital projects based upon the policies described herein, as well as a further \$14.2 billion of short term “sponge” notes for funding statewide capital projects and public school capital outlay. These amounts mark significant growth in capital capacity for the state over the past decade, which has been a product of the dramatic increase in oil and natural gas production in the state.

Long-term bonding capacity described in this study reflects the requirement set forth in House Bill 253 of the 2024 Legislature that capacity be projected in a manner that “result(s) in stable levels of state tax supported debt relative to the median state debt ratios published by the national municipal bond rating agencies.” As presented herein, that amount has been determined to be \$377 million per year through 2034.

The adoption of this debt capacity constraint 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 several years chose 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, trends in State revenues and other financial resources, and the aggregate level of State liabilities, – including unfunded pension fund and other post-employment benefits – directly impact the State bond ratings. 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 the State’s standing with respect to financial condition, and aggregate debt and other liabilities, and provides a framework for benchmarking with respect to debt issuance, 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 the potential for improvement as it continues its solid performance with respect to maintaining strong reserves and addressing pension liabilities. These bond ratings continue to benefit from strong debt management attributes, which include rapid debt retirement, and moderate debt levels. As noted in previous debt capacity studies, actions taken by the Governor and state legislators 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 notes issued by the State Board of Finance, and transportation revenue bonds issued by the Department of Transportation through the New Mexico Finance Authority. 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 comprise 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)						
	2020	2021	2022	2023	2024	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	317.2	-	1,118.3
Severance Tax Funding Notes	307.2	163.3	200.5	340.3	\$772.3	1,783.6
Supplemental Severance Tax Bonds	-	-	-	-	-	-
Supplemental Severance Tax Funding Notes	254.5	232.9	268.2	681.9	733.4	2,170.9
Subtotal	561.7	905.3	760.7	1,339.4	1,505.7	5,072.8
Other Sources						
General Fund	-	-	-	-	-	-
Transportation Bonds	-	-	234.6	-	-	-
Subtotal	-	-	234.6	-	-	234.6
Total	\$719.6	\$1,104.8	\$995.3	\$1,598.2	\$1,505.7	\$5,923.6

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

As of July 1, 2025, the State will have \$561.8 million of general obligation bonds outstanding, \$1.0 billion of senior severance tax bonds, and \$580.1 million of transportation bonds supported by State Road Fund revenues. On July 1, the final amortization of supplemental severance tax bonds, issued in 2015, will be paid off. The following table sets forth the State tax-supported debt outstanding as of July 1, 2025, including the estimated par amounts with respect to general obligation and severance tax bonds that will close this month.

State Bonds Outstanding as of July 1, 2025	
(millions)	
General Obligation Bonds*	\$561.82
Severance Tax Bonds*	\$1,048.85
Supplemental Severance Tax Bonds	\$0.00
Transportation Bonds	\$580.07
	\$2,190.73

*Includes estimated amounts closing prior to July 1.

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* by Moody's Investors Service ("Moody's") with a positive outlook, and *AA* by Standard & Poor's Ratings Services ("S&P") with a stable outlook.

In its most recent credit report, Moody's summarized the progress that the State has made over the past several years. The State, Moody's credit opinion from last month began, *"has strong fiscal governance practices which have led to very large reserve balances. In particular, the decision to cap the amount of oil and gas revenues in the General Fund and transfer the excess to its growing permanent funds help the state withstand economic volatility. In the near term, the General Fund is insulated from energy price fluctuations. In the long term, the state's overall revenue mix is projected to become increasingly diverse and prepares the state for the potential transition away from carbon-based energy."*

In its credit report, Standard & Poor's emphasized the State's strong reserves, which offset its exposure to the inherent volatility of energy-related tax revenue; moderate debt burden with rapid principal amortization; and progress that has been made in addressing the State's significant pension liabilities. S&P noted that while income levels lag the national average and population growth that has lagged that of the nation over the past decade, the economy has continued to benefit from a large, stabilizing federal workforce, although its report noted uncertainty created by the Trump administration efforts to reduce the size of the federal workforce.

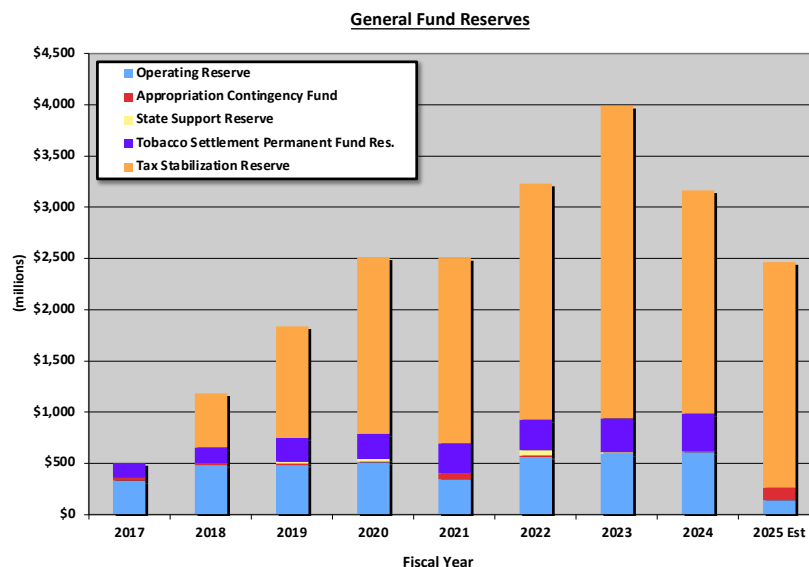
It is notable that both agencies acknowledged State measures to address underfunding at the Public Employees Retirement Association and the Education Retirement Board as credit positives. Moody's also discussed educational attainment and other demographic trends as a long-term constraint on statewide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

The table below sets forth the ratings on outstanding bonds for State bonding programs.

Outstanding State Bond Ratings			
	Moody's	S&P	Kroll
State Board of Finance			
General Obligation Bonds	Aa2	AA	
Severance Tax Bonds	Aa3	AA-	
Supplemental Severance Tax Bonds	A1	A+	
State Transportation Revenue Bonds			
Senior Lien	Aa2	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	

General Fund Reserves

Strong reserve balances in the General Fund have historically underpinned New Mexico's general obligation bond ratings and offset negative credit attributes, including low personal 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, and the Tax Stabilization Reserve.¹ 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 around \$2.5 billion.



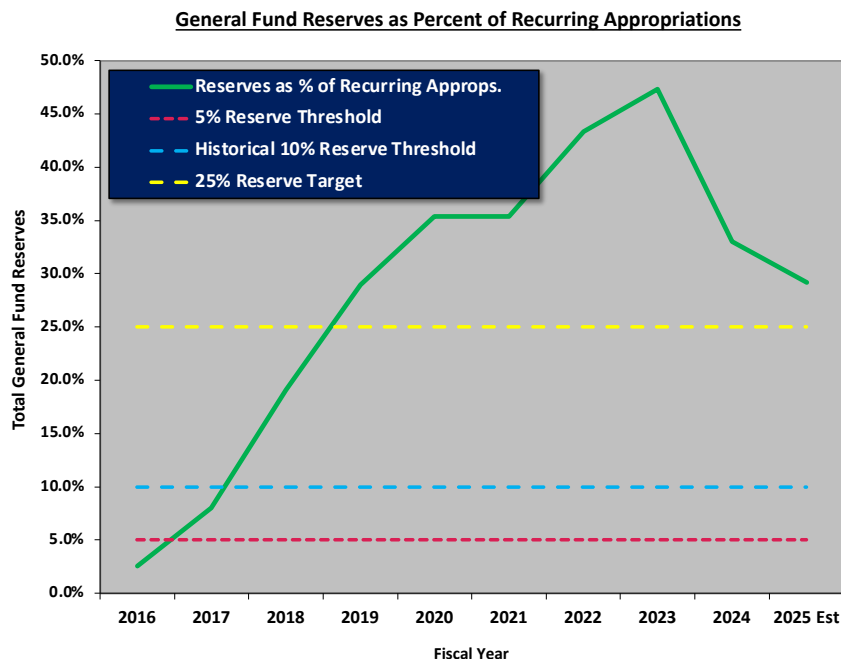
In 2017, the State established a Rainy Day Fund within the Tax Stabilization Reserve to reduce the impact of volatility in oil and gas revenue on General Fund balances. The Rainy Day Fund legislation requires that annual revenues generated from the Oil and Gas School Tax in excess of the 5-year rolling average for that revenue source be deposited into the Tax Stabilization Reserve Fund. Appropriation of such funds, as noted above, requires a super majority vote of the Legislature, as well as a declaration from the governor that the appropriation

¹ Note that effective 2025, the Tobacco Settlement Permanent Fund Reserve is removed from reserves.

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, 2025, the Tax Stabilization Reserve is expected to have an ending balance of \$2.2 billion.

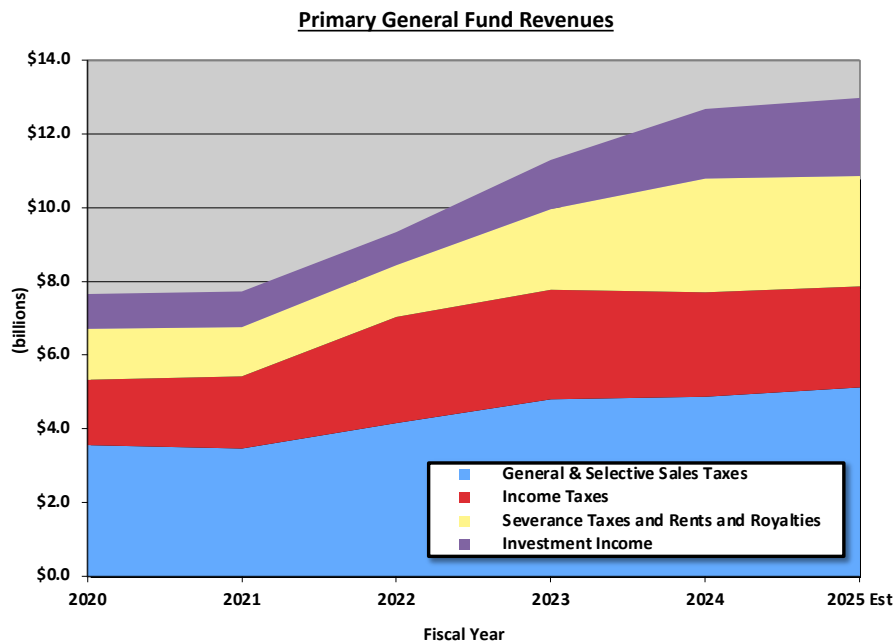
In addition to buttressing General Fund reserves, the State has taken other steps to mitigate revenue volatility. During the 2023 regular session, the legislature passed Senate Bill 26, which capped Oil and Gas Emergency School Tax and Federal Mineral Leasing revenues to the General Fund at Fiscal Year 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 in the near term, the increased flow to the Severance Tax Permanent Fund will increase Permanent Fund distributions back to the General Fund out into 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 \$4.0 billion, representing 47.3% of recurring appropriations. For fiscal year 2025, reserves are expected to decline to \$3.0 billion, or 29.2% of recurring appropriations, still well above the policy target of 25%.



Revenue Volatility

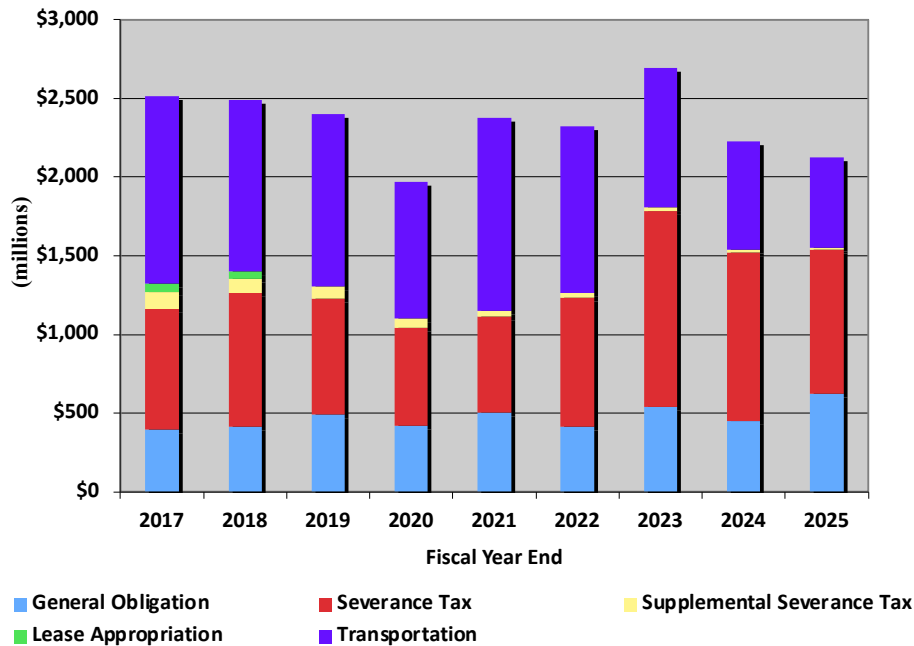
The primary General Fund revenues comprise sales taxes, income taxes, revenues derived from mineral extraction activities, and investment earnings. While revenue volatility has been a negative credit factor for the rating agencies over the years as they consider fiscal stability and trends, revenue volatility has been less of a factor in recent years, as illustrated in the graph below. The rating agencies have taken note of how the creation of new, dedicated trust funds within the General Fund reserves, funded from cyclically strong revenues has had the dual benefit of building financial resiliency over the long term, as well as mitigating the impact of revenue volatility on the General Fund.



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.

Outstanding Tax-Supported Bonds



State Debt Ratios

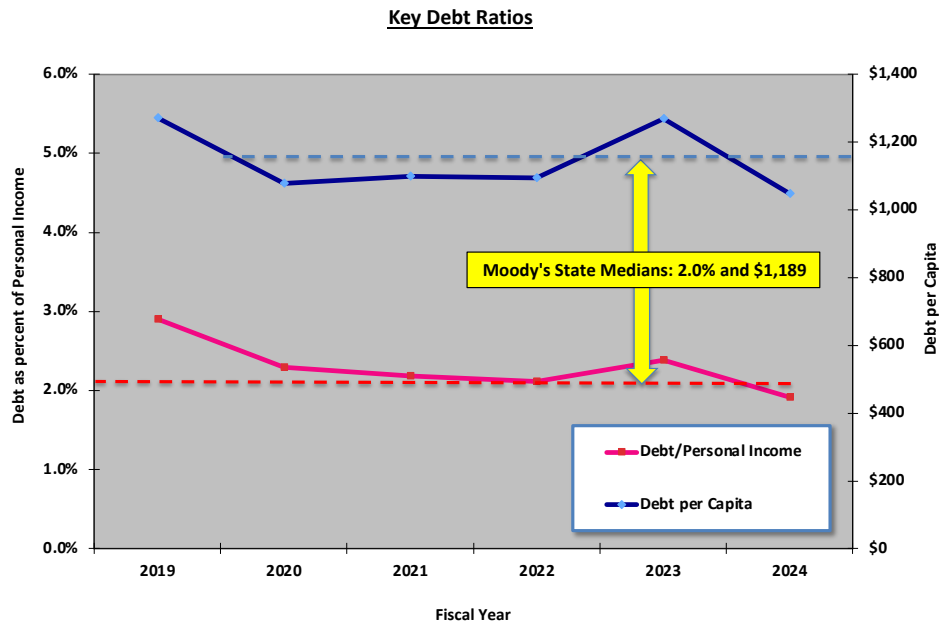
In addition to examining an issuer’s total debt position, rating analysts review the issuer’s debt ratios and their change over time. Two key debt ratios developed and utilized by the bond rating agencies with respect to the evaluation of the credit quality of the State of New Mexico are Net Tax-Supported 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, 2025, the State’s outstanding \$561.8 million General Obligation Bonds, noted above, represented 0.52% 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 provides for the imposition of a mill levy that is solely dedicated to the repayment of those bonds. Accordingly, no budgeted State resources are required to repay those obligations.

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 has long been 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 75.0%, 68.9%, and 100%, respectively, all substantially higher than the norm. For its part, the state transportation bonds issued through the New Mexico Finance Authority will be fully paid off in 2031.

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 Moody’s medians.



The legislature recognized the importance of these debt ratios, and agreed to a modification of annual debt capacity calculations intended to stabilize State debt ratios over time. 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.”*

Going into the 2025 legislative session, that amount was determined to be \$385 million per year through 2034. Given the history of project readiness at the time of bond issuance, this amount is shown in the tables in this report as \$377.3 million, or 98% of the authorized \$385 million. In addition to establishing a constraint on bonding capacity, HB 253 established two funds that will impact capital capacity in the future. The first is the capital development and reserve fund, to be held in the state treasury and invested by the state investment officer. This fund 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.

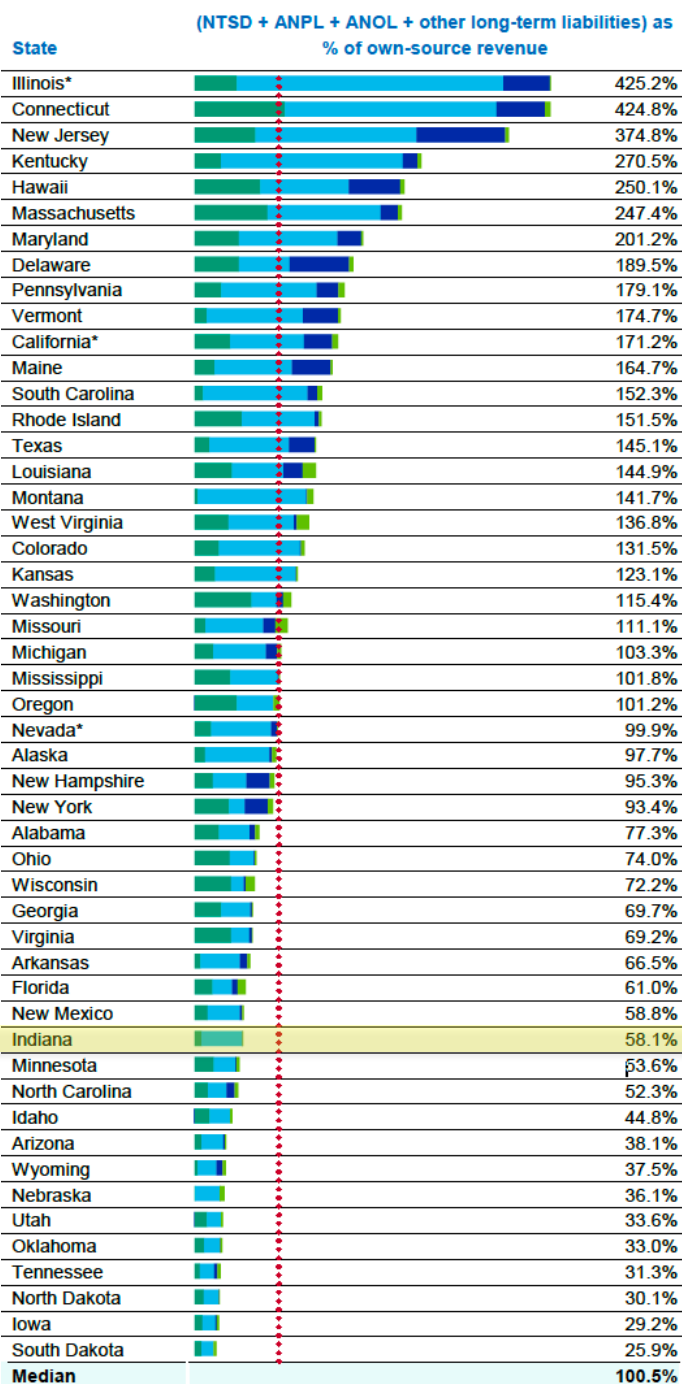
Integrated Assessment of Long-term Liabilities

Over the past several years, the rating agencies have begun to aggregate issuer liabilities in assessing overall debt burdens, including unfunded pension obligations and other post-

employment benefits along with debt obligations. This was an important step in assessing issuer financial condition, as unfunded pension liabilities had grown to exceed publicly issued debt as the largest share of the long-term liabilities of most states.

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) looked at market values of assets without regard to asset-smoothing.

Now, Moody’s has gone the next step, viewing pension and OPEB (other post-employment benefits) obligations on equal footing with publicly issued debt. The graph presented here, taken from Moody’s state medians report published on October 7, 2024, 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 58.8% of own-source revenues placed it well below the state median of 100.5%, denoted by the red dashed line.



*Fiscal 2023 debt, ANPL and revenue figures are estimated by Moody’s because the state’s fiscal 2023 financial statements were not available as of the publication of this report. Other long-term liabilities and OPEB data are based on fiscal 2022 state audited reporting.

Sources: State and pension plan audited financial statements and unaudited draft statements (for Arizona and Nevada), and Moody’s Ratings

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.

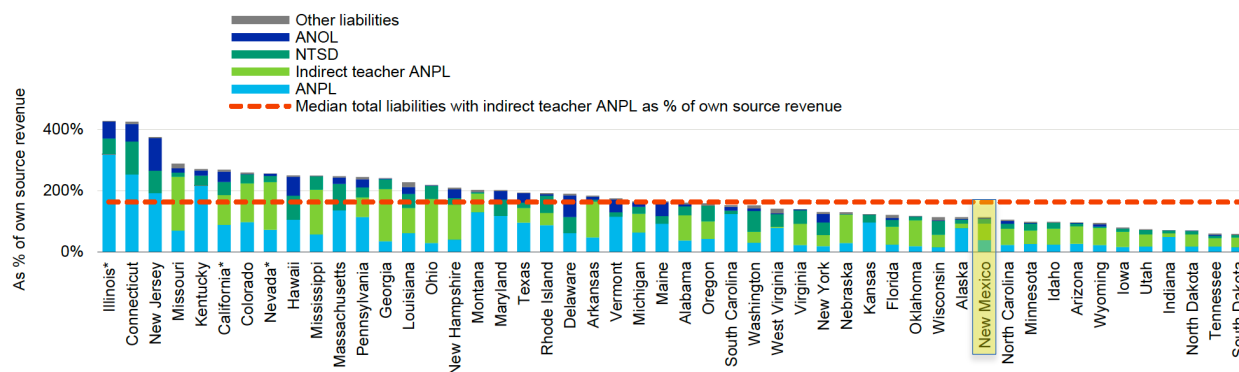
Over the past several years, the State has taken significant steps to address its historic issues with respect to unfunded pension liabilities. In 2019, Governor Lujan Grisham created a PERA Solvency Task Force to address the PERA situation. The Task Force made a series of recommendations, subsequently enacted by the Legislature, designed to fully fund the PERA system over a 25-year period. These efforts have borne fruit. As the Moody’s analyst noted after the State’s most recent rating call, New Mexico’s total liabilities went from 21st to 14th, an improvement of seven spots, among the states since Moody’s last nation-wide assessment.

The calculation of aggregate State unfunded pension and OPEB liabilities does not reflect the significant unfunded liabilities of the Educational Retirement Board. As in many other states, those obligations were historically viewed as belonging to the individual school districts. Accordingly, legislation passed during the 2021 and 2022 Regular Sessions of the Legislature were significant, as the State embraced its obligation to tackle the issue of unfunded ERB teacher pension liabilities. 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 the same Moody’s state medians report, illustrates the issue of state recognition of local school district pension liabilities.

Exhibit 8

Total liabilities increase significantly for some states when adding all teacher liabilities

Fiscal 2023 total liabilities including currently unrecognized teacher liabilities as a % of state own-source revenue



*California, Illinois and Nevada’s fiscal 2023 ANPL, own-source revenue and indirect teacher ANPL figures are estimated by Moody’s because these states did not have fiscal 2023 audited financial statements available as of the publication of this report. Other long-term liabilities and OPEB data are based on fiscal 2022 state audited reporting
Sources: State and pension plan financial statements, unaudited financial statements (for Arizona and Nevada), and Moody’s Ratings

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 continues to impact 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) has continued 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 overseen by the State Board of Finance 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 and severance tax, and the fund capacity projected to be available 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 in accordance with House Bill 253.

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	-	\$361.0	-	\$361.0	\$1,011.6
Severance Tax Bonds*	280.0	377.3	377.3	377.3	377.3	1,789.2
Severance Tax Notes	718.5	729.4	768.8	814.3	820.1	3,851.1
Additional Severance Tax Notes	-	-	-	-	-	-
Total Senior STBs	998.5	1,106.7	1,146.1	1,191.6	1,197.4	5,640.3
Supplemental Severance Tax Bonds	-	-	-	-	-	-
Supplemental Severance Tax Notes	741.8	741.8	804.6	865.9	895.6	4,049.8
Total Supplemental STBs	741.8	741.8	804.6	865.9	895.6	4,049.8
Total Sources of Funds	\$2,029.9	\$1,848.5	\$2,311.7	\$2,057.5	\$2,454.0	\$10,701.7
Uses of Funds (millions)	FY25	FY26	FY27	FY28	FY29	Five-Year
Projects approved by referendum	\$289.6	-	\$361.0	-	\$361.0	\$1,011.6
New Statewide Capital Projects	283.8	\$739.8	771.0	807.2	\$811.9	3,413.6
Authorized but Unissued STB Bonds	350.0	-	-	-	-	350.0
Water Projects	160.1	161.1	164.7	168.7	169.3	823.9
Colonias Project Capital	80.1	80.6	82.3	84.4	84.6	412.0
Tribal Projects Capital	80.1	80.6	82.3	84.4	84.6	412.0
Housing Trust Fund	44.5	44.8	45.7	46.9	47.0	228.9
K-12 Public School Capital Outlay	741.8	741.8	804.6	865.9	895.6	4,049.8
Total Uses of Funds	\$2,029.9	\$1,848.5	\$2,311.7	\$2,057.5	\$2,454.0	\$10,701.7

*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 \$19.0 billion of new money financing for statewide capital projects through 2034. The \$19.0 billion of projected capacity includes \$1.4 billion of projected general obligation bonding capacity, subject to legislative authorization and voter approval. That amount reflects a continued policy of maintaining a flat debt service mill levy. The \$10.0 billion of aggregate senior severance tax bond and notes capacity includes \$377.3 million in annual long-term bond issuance, an amount that is projected to produce stable state debt ratios over time. The projected \$7.6 billion of supplemental severance tax notes, proceeds of which are dedicated to education projects approved by the Public School Capital Outlay Council, continues to reflect strong oil and natural gas price and production in the state.

State Board of Finance						
Projected Bonding Capacity by Fiscal Year						
(millions of dollars)						
	Severance Tax Bond Program			Supplemental STB Program		Total
	GO Bonds	Bonds	Notes	Bonds	Notes	
2026	--	\$377.3	\$729.4	--	\$741.8	\$1,848.5
2027	\$361.0	377.3	768.8	--	804.6	2,311.7
2028	--	377.3	814.3	--	865.9	2,057.5
2029	361.0	377.3	820.1	--	895.6	2,454.0
2030	--	377.3	781.3	--	888.4	2,047.0
2031	361.0	377.3	721.4	--	877.0	2,336.7
2032	--	377.3	667.9	--	860.5	1,905.7
2033	361.0	377.3	631.5	--	835.4	2,205.2
2034	--	377.3	656.2	--	835.4	1,868.9
Total	\$1,444.0	\$3,395.7	\$6,590.9	\$0.0	\$7,604.5	\$19,035.1

*Amounts reflect bond funding, not total appropriations.

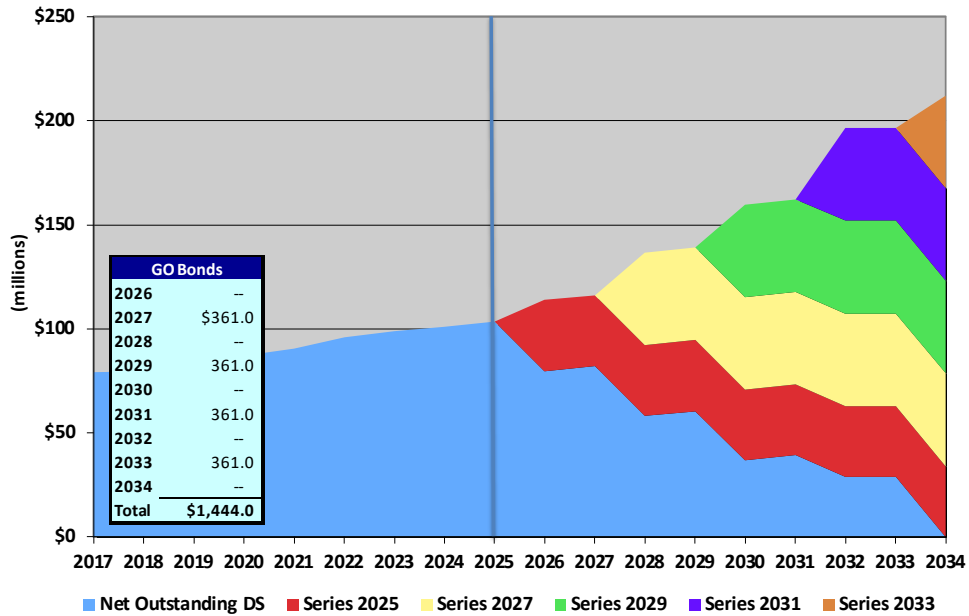
Capital funding capacity continues to be substantial, notwithstanding the constraints imposed by House Bill 253, with bonding capacity well above what had been the norm over recent decades. The substantial growth in capital funding capacity over recent years has been driven by increased natural resource extraction in the state, which has impacted both the general obligation and severance tax bonding programs. Over the past ten years, oil and gas production in the state has produced a 531% increase in the net taxable values that underpin the issuance of general obligation bonds, growing from \$5.0 billion to \$31.5 billion, while residential net taxable values grew by 46%. During the same period of time, deposits into the Severance Tax Bonding Fund grew by 529%, increasing from \$309.2 million in 2016 to an estimated \$2.1 billion in 2025.

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 values. They 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 bond referendum approving the issuance of the bonds. The debt limit as of the most recent property valuation was \$1.1 billion, and \$561.8 million in general obligation bonds are expected to be outstanding as of this July 1st.

The projected general obligation bond issuance, reflected in the Sources and Uses of Funds table above, reflects a long-standing 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 presents the historic debt service profile on State general obligation bonds, as well as debt service on outstanding and projected new money bonds.

**General Obligation Bonds:
Annual Debt Service with Projected New Issues**

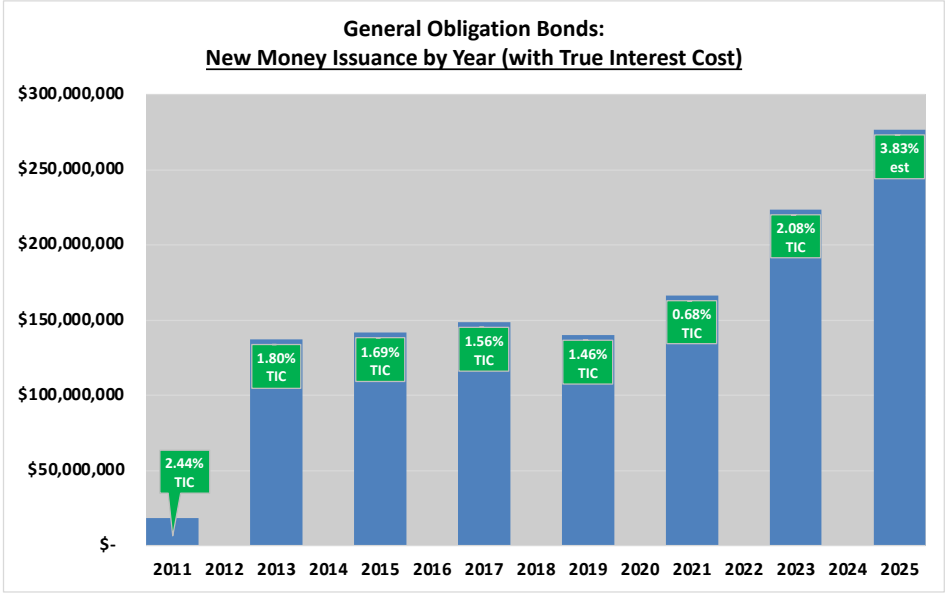


The primary credit metrics of general obligation bond indebtedness are the amount of outstanding debt per capita and as a percent of statewide personal income. New Mexico general obligation bonds are sold with a maximum maturity of 10 years. Historically, State general obligation bond issuance has resulted 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.

Projected Per Capita G.O. Debt and Debt Per Capita as Percent of Income



Two factors are at play that explain the rising debt service and ratio trends illustrated in the two graphs above. First, the significant growth in oil and gas net taxable values, noted above, has resulted in increasing general obligation bond debt capacity, notwithstanding relatively small increases in residential net taxable values. Second, after a decade of near zero interest rates, rising interest rates in the post-Covid world have led to increased debt service costs per million dollars of debt issued. These two factors, the increased amount of general obligation bond issuance and the increased interest cost on those bonds, are illustrated in the graph below.



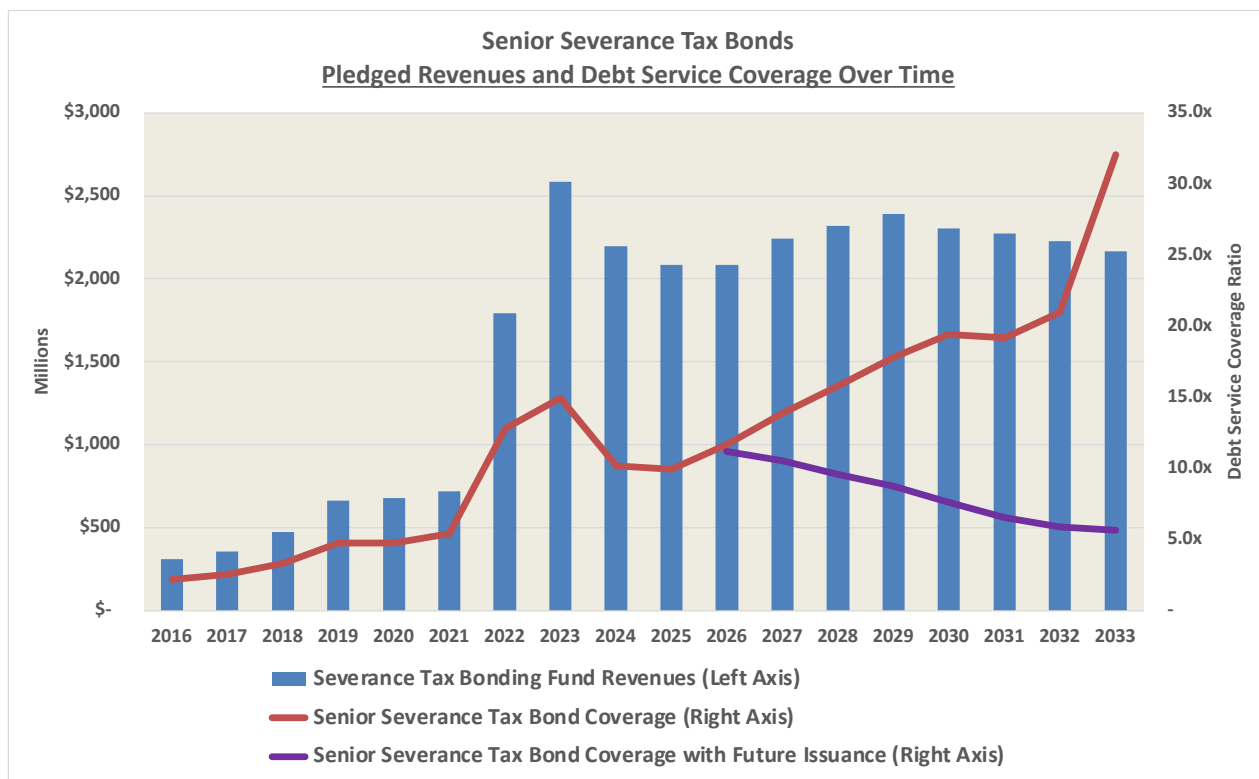
Severance Tax Bond and Supplemental Severance Tax Bond Issuance

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. Issuance of severance tax bonds and notes are subject to statutory issuance tests that the Severance Tax Bonding Program and ultimately impact the share of revenues that flow to the Severance Tax Permanent Fund on a semi-annual basis. The statutory issuance test allows for the issuance of senior severance tax bonds and notes, so long as maximum annual debt service on those bonds and notes is no greater than 47.6% of the lesser of the projected current fiscal year or actual previous fiscal year deposits into the Severance Tax Bonding Fund. The statutory issuance test allows for the issuance of supplemental severance tax bonds, so long as maximum annual debt service on those bonds, along with any outstanding senior bonds and notes, is no greater than 60.1% of the lesser of the projected current fiscal year or actual previous fiscal year deposits into the Severance Tax

Bonding Fund. Finally, the statutory issuance test allows for the issuance of supplemental severance tax notes, so long as maximum annual debt service on those notes, along with any outstanding senior bonds and notes and supplemental severance tax bonds, is no greater than 86.2% of the lesser of the projected current fiscal year or actual previous fiscal year deposits into the Severance Tax Bonding Fund.

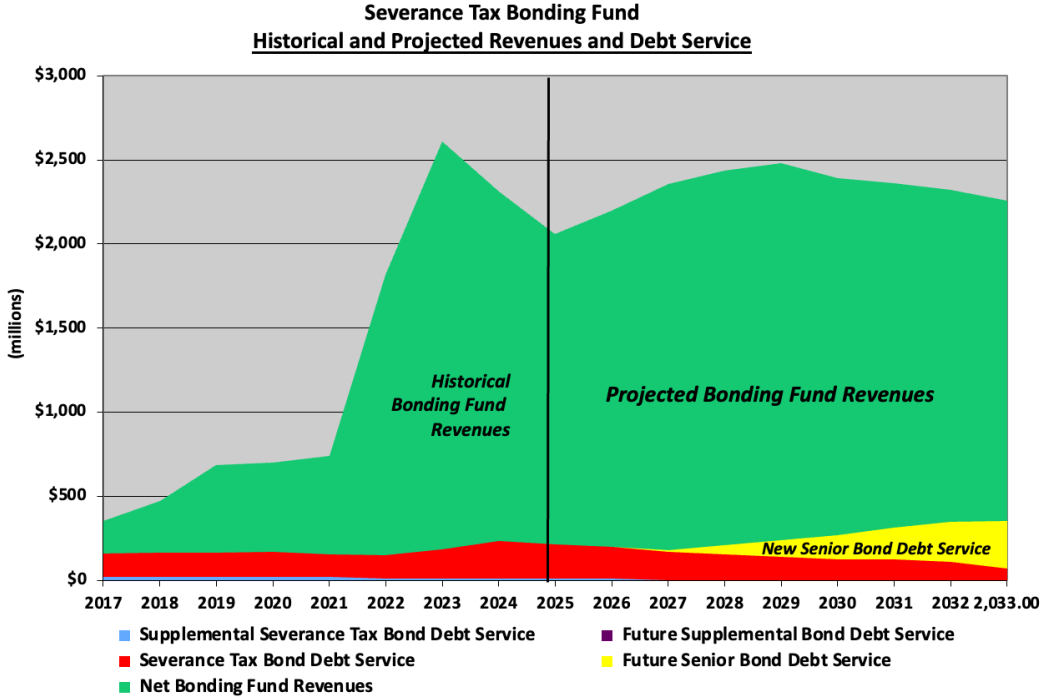
The statutory issuance tests and other state policies constraining the issuance of long-term debt are key attributes of the strong credit quality of the Severance Tax Bonding Program. Central to the analysis of both Moody’s and Standard & Poor’s is the debt service coverage ratio of current Severance Tax Bonding Fund revenues, excluding interest earnings, relative to maximum annual debt service on outstanding bonds. Both agencies maintain current rating levels on the State’s senior severance tax bonds based upon the expectation that coverage levels will be maintained well in excess of the minimum 2.10 times coverage reflected in the statutory issuance test. The graphic below presents the dramatic growth in actual debt service coverage on the State’s senior severance tax bonds.



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										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Natural Gas Price and Volume Projections										
Gas Price	\$3.29	\$4.26	\$4.50	\$4.45	\$4.46	\$4.46	\$4.46	\$4.46	\$4.46	\$4.46
Gas Volume	3,680	3,775	3,855	3,955	4,085	3,926	3,863	3,772	3,643	3,518
Gas Deductions	32.8%	29.2%	28.4%	28.6%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%
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	\$70.50	\$68.00	\$70.00	\$70.50	\$71.50	\$71.50	\$71.50	\$71.50	\$71.50	\$71.50
Oil Volume	745.0	780.0	810.0	835.0	835.0	806.3	796.9	783.3	762.2	739.1
Oil Deductions	12.3%	12.3%	12.3%	12.3%	12.3%	12.3%	12.3%	12.3%	12.3%	12.3%
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 below illustrates the historical and projected revenue and debt service profile of the Severance Tax Bonding Program reflecting the issuance of \$385 million annually through 2034, 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.



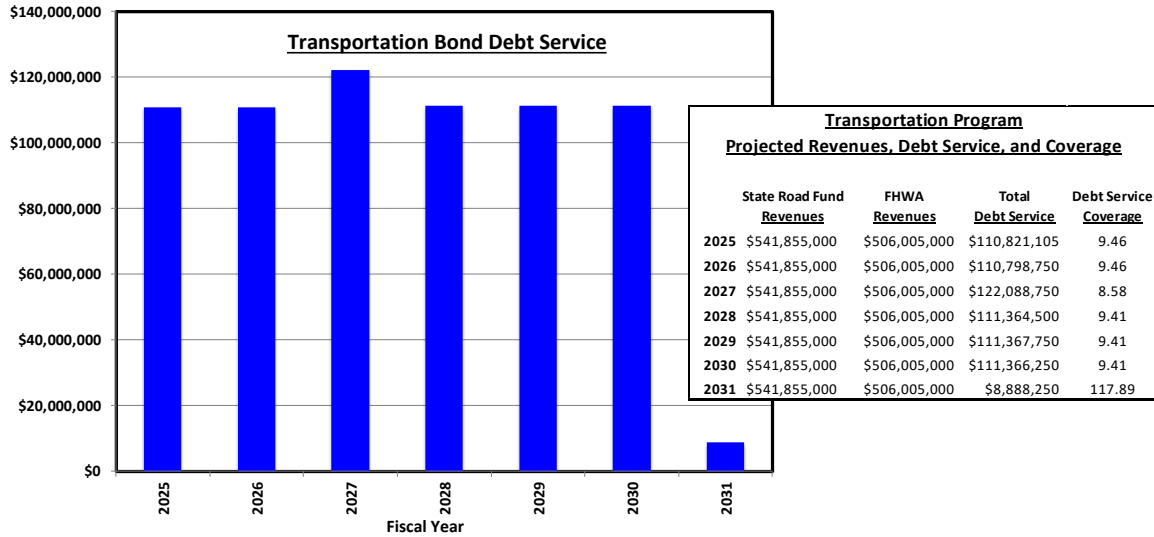
The table below presents the historical and projected debt service coverage for long-term severance tax and supplemental severance tax bonds based on the new money bond issuance, and natural resource price and production estimates presented above.

Severance Tax Bonding Program				
Historical and Projected Debt Service Coverage				
Fiscal Year	Coverage with No Future Issues		Coverage with	
	Senior Severance	Supplemental	Projected Future Issues	
	Tax Bonds	Bonds	Senior	Supplemental
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	14.19		
2024	10.21	9.81		
2025	9.93	9.51		
2026	11.64	11.10	11.19	10.70
2027	13.87		10.56	
2028	15.79		9.61	
2029	17.82		8.72	
2030	19.41		7.62	
2031	19.17		6.57	
2032	20.97		5.90	
2033	32.04		5.66	

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, 2025, the transportation debt outstanding will be \$580.1 million.

These tables present annual debt service and the projected level of debt service coverage on outstanding transportation bonds.



Public Project Revolving Fund

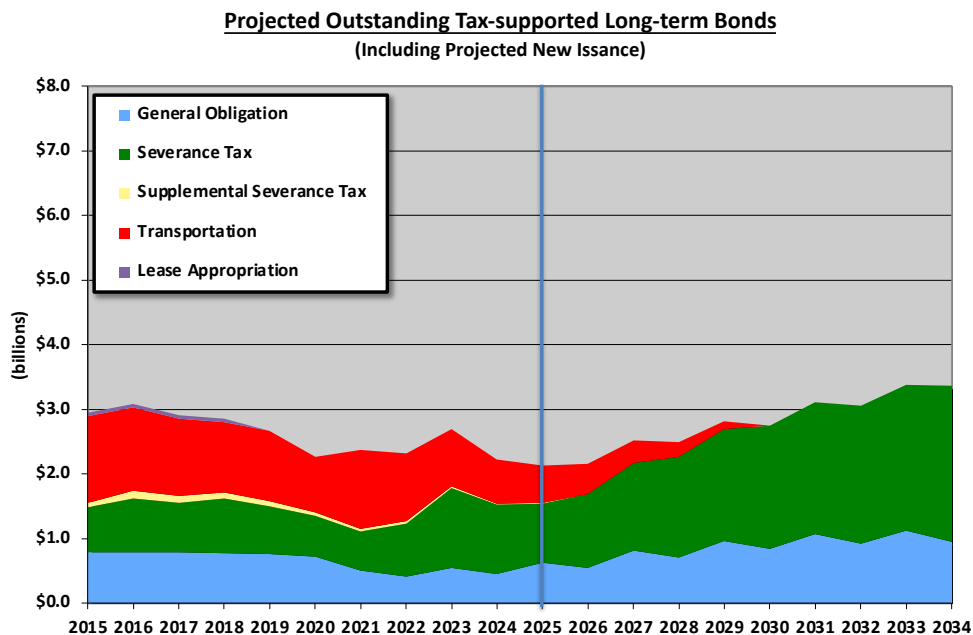
The Public Project Fund (“PPRF”) is the central public sector financing program operated by the New Mexico Finance Authority. The PPRF provides market rate loans to disadvantaged communities at a subsidized rate. Debt service on PPRF bonds is funded by repayments on its loan portfolio. The program is 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 \$4.8 billion of new money long-term general obligation and severance tax bonds through 2034, 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.

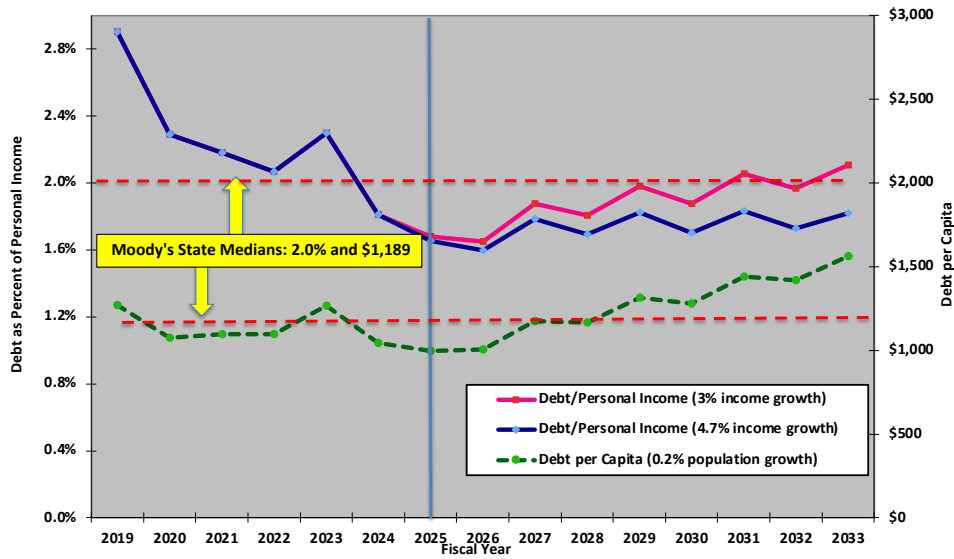
The graph below presents the projected growth in outstanding tax-supported debt, categorized by debt type, through 2034. This includes the issuance of \$4.8 billion in new long-term bonds, within the constraints described over the course of this study. As this illustrates, the preponderance of the growth 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 \$4.8 billion of long-term general obligation and severance tax debt on the key debt ratios of the State through 2034. Based upon the annual issuance of \$377.3 million Severance Tax Bonds (98% of the \$385 million authorized amount, as discussed earlier), as set forth 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.

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.

<u>Policy Area</u>	<u>G.O. Bonds</u>	<u>Severance Tax Bonds</u>	<u>Transportation Bonds</u>
<i>Bond Life</i>	10-year maximum term.	10-year maximum term.	Bond life may not exceed project design life.
<i>Bond Amortization</i>	Substantially level debt service.	Substantially level debt service.	Substantially level debt service.
<i>Debt Service Coverage</i>	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 policy to limit amount of issuance to constrain growth in debt ratios over time.	Long-term coverage projected at a minimum of 4.00x to 5.00x.
<i>Variable Rate Bond Limits</i>	Not utilized.	Unhedged exposure will not exceed 20% of par outstanding.	Unhedged exposure will not exceed 20% of par outstanding.
<i>Variable Rate Bond Considerations</i>	Not utilized.	Balance interest savings and cashflow risks. Short bond life lessens potential savings.	Balance interest savings, cashflow risk and balance sheet management considerations.
<i>Debt Staging</i>	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.
<i>Interest Rate Swaps</i>	Not utilized.	Not utilized to date due to short bond life.	Limited to 30% of par outstanding.
<i>Refundings</i>	Debt evaluated on an ongoing basis to identify bond refunding and defeasance opportunities.	Debt evaluated on an ongoing basis to identify bond refunding, and cash and economic defeasance opportunities.	Debt evaluated on an ongoing basis to identify bond refunding, and cash and economic defeasance opportunities.

<u>Policy Area</u>	<u>G.O. Bonds</u>	<u>Severance Tax Bonds</u>	<u>Transportation Bonds</u>
<u>Cash Financing</u>	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 31 st and June 30 th .	Transportation capital primarily funded with bond proceeds, with cash contributions from the Road Fund, the General Fund and federal revenues.
<u>Disclosure</u>	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, and other dedicated trust funds, 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 positive by Moody's and stable by Standard & Poor's. 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 all meaningful actions that should improve the State credit strength over time. 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 intra-

year 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.

