



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

May 2026

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.....	12
State Board of Finance Bonding Programs	12
General Obligation Bond Issuance.....	13
Severance Tax Bond Issuance	15
Transportation Bond Program Projected Revenues and Bond Issuance	18
Public Project Revolving Fund	18
Affordability of Projected State Debt Issuance	20
Capital Project Planning and Prioritization.....	22
State and Local Government	22
Transportation	22
Public Schools	22
Higher Education	22
Debt Management Policies	23
Use of Interest Rate Exchange Agreements	24
Conclusions.....	25

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 touches on 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 \$5.8 billion of new money, long-term general obligation and senior severance tax bonds through 2035 for State capital projects based upon the policies described herein, as well as a further \$17.2 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 \$385 million per year through 2035.

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 increased level of funds available from current year cashflow has not abated.

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 substantial efforts the State has made in addressing historical pension fund issues, building reserves, and improving its overall debt management practices have borne fruit. Since the publication of last year’s Debt Affordability Study, Moody’s upgraded its rating on the State’s general obligation bonds from Aa2 to Aa1, and severance tax bonds from Aa3 to Aa2. The Aa1 general obligation bond rating puts the State bonds in the upper tier of the “double-A” level and the second highest investment grade rating category.

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)						
	2021	2022	2023	2024	2025	Total
General Obligation Bonding Program						
General Obligation Bonds	\$199.5	\$0.0	\$258.9	\$0.0	\$224.4	\$682.8
Subtotal	199.5	-	258.9	-	224.4	682.8
Severance Tax Bonding Program						
Severance Tax Bonds	509.1	292.0	317.2	-	252.5	1,370.8
Severance Tax Funding Notes	163.3	200.5	340.3	772.3	774.4	2,250.8
Supplemental Severance Tax Bonds	-	-	-	-	-	-
Supplemental Severance Tax Funding Notes	232.9	268.2	681.9	733.4	540.7	2,457.1
Subtotal	905.3	760.7	1,339.4	1,505.7	1,567.6	6,078.7
Other Sources						
General Fund	-	-	-	-	-	-
Transportation Bonds	-	234.6	-	-	-	234.6
Subtotal	-	234.6	-	-	-	234.6
Total	\$1,104.8	\$995.3	\$1,598.3	\$1,505.7	\$1,792.0	\$6,996.1

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

As of April 1, 2026, the State had \$416.6 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. The following table sets forth the State tax-supported debt outstanding as of April 1, 2026. Note that the previously outstanding supplemental severance tax bonds have reached their final maturity date and are no longer outstanding.

State Bonds Outstanding as of April 1, 2026	
(millions)	
General Obligation Bonds	\$416.59
Severance Tax Bonds	\$1,004.04
Supplemental Severance Tax Bonds	\$0.00
Transportation Bonds	\$580.07
	\$2,000.69

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 *Aa1* by Moody's Investors Service ("Moody's") with a stable outlook, and *AA* by Standard & Poor's Ratings Services ("S&P") with a stable outlook.

In January 2026, Moody's upgraded the State's general obligation bond rating from *Aa2* to *Aa1*. This rating upgrade reflected the sustained progress the State has made over the past several years across a number of key credit areas. The State, Moody's credit opinion noted, *"has strong fiscal governance practices which have led to sizable operating reserves and substantial permanent fund balances. A practice of capping the amount of oil and gas revenues allocated to the General Fund and transferring the excess to its growing permanent funds limits its exposure to revenue volatility. As permanent fund balances have grown rapidly in recent years, their investment earnings have diversified the General Fund's revenue mix which helps somewhat insulate the budget from energy price fluctuations. In the long term, it prepares the state for the potential transition away from carbon-based energy... recent steps taken to address its unfunded pension liabilities, including reducing return target, COLA adjustments and mandating increased employer and employee contributions, also evidence proactive fiscal management."*

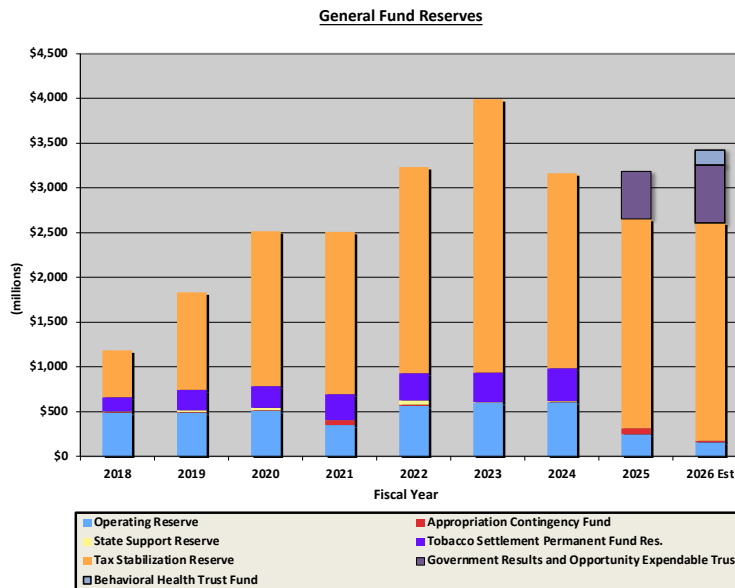
In its most recent credit report, Standard & Poor's similarly emphasized the State's strong reserves, which offset its exposure to the inherent volatility of energy-related tax revenue; moderate debt burden with rapid principal amortization; and progress that has been made in addressing the State's significant pension liabilities. S&P noted that while income levels lag the national average and population growth 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.

Both agencies acknowledged State measures to address underfunding at the Public Employees Retirement Association as well as 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. Moody's took particular note of the creation of the new Early Childhood Education and Care Fund as a new permanent fund within the state. These resources promise to be substantial and create a permanent source of funding for early childhood education and healthcare. These are long-term investments that will necessarily take some time to translate into improved economic and demographic outcomes, but Moody's in particular has applauded the forward thinking nature of 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	Aa1	AA	
Severance Tax Bonds	Aa2	AA-	
State Transportation Revenue Bonds			
Senior Lien	Aa1	AA+	AAA
Subordinate Lien	Aa1	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, the Tax Stabilization Reserve, and two newly established reserves, the Governmental Results and Opportunity Expendable Trust and the Behavioral Health Trust Fund.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 well over \$3.0 billion, and around 30% of recurring General Fund appropriations.



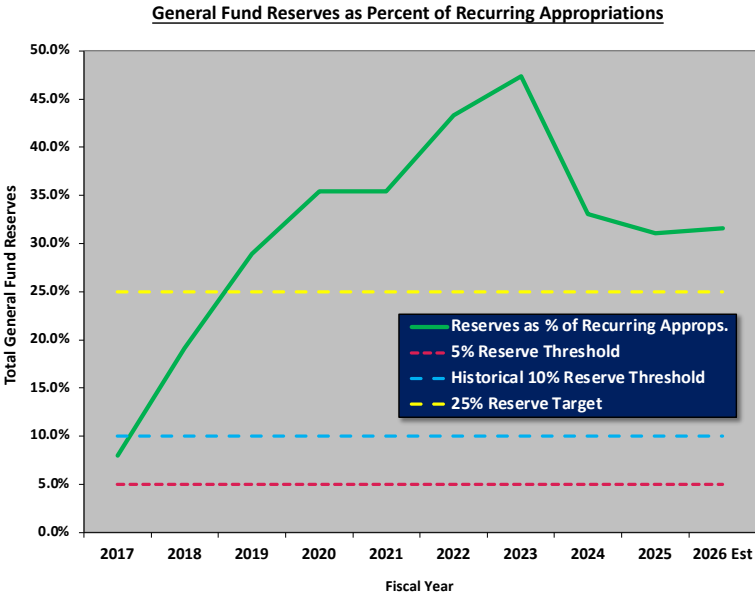
In 2017, the State established a Rainy Day Fund within the Tax Stabilization Reserve to reduce the impact of volatility in oil and gas revenue on General Fund balances. The Rainy Day

¹ Note that effective 2025, the Tobacco Settlement Permanent Fund Reserve is no longer treated as a general fund reserve.

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 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, 2026, the Tax Stabilization Reserve is expected to have an ending balance of approximately \$2.4 billion, or 70.4% of the total projected General Fund balance.

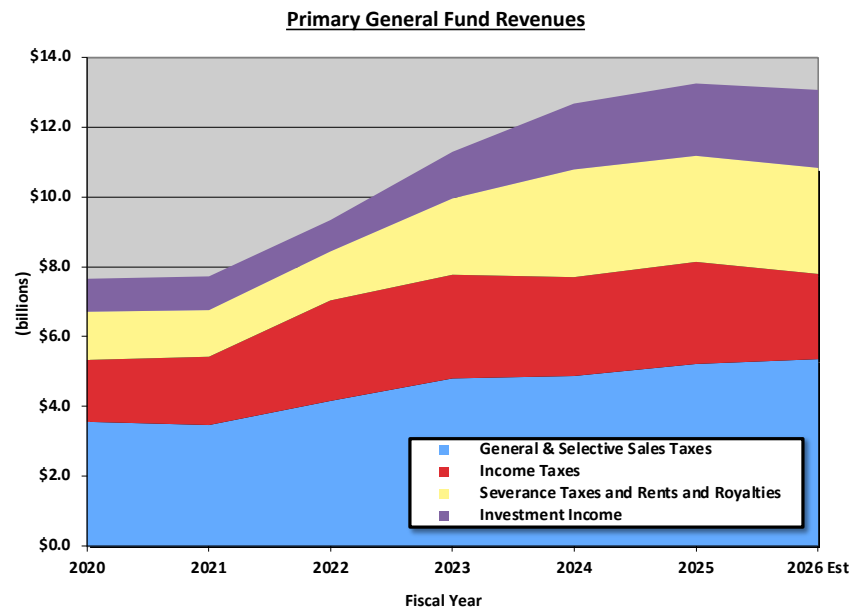
In addition to buttressing General Fund reserves and adding the two new reserves to target issues of child health and welfare, the State has taken other steps to mitigate revenue volatility. During the 2023 regular session, the legislature passed Senate Bill 26, which capped Oil and Gas Emergency School 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 have been transferred to and invested in the Severance Tax Permanent Fund. This mechanism has had the intended impact of reducing near-term energy revenues available for current year expenditures as it channeled a portion of annual receipts to buttress permanent fund balances. This will, in turn, increase investment income distributions back to the General Fund, and ultimately mitigate long-term risk exposure to energy price and production volatility.

The graph below 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. As illustrated here, since 2019, the reserve ratio has remained substantially above the 25% threshold, and General Fund reserves for fiscal year 2026 are expected to be approximately \$3.4 billion, or around 31.8% of recurring appropriations.



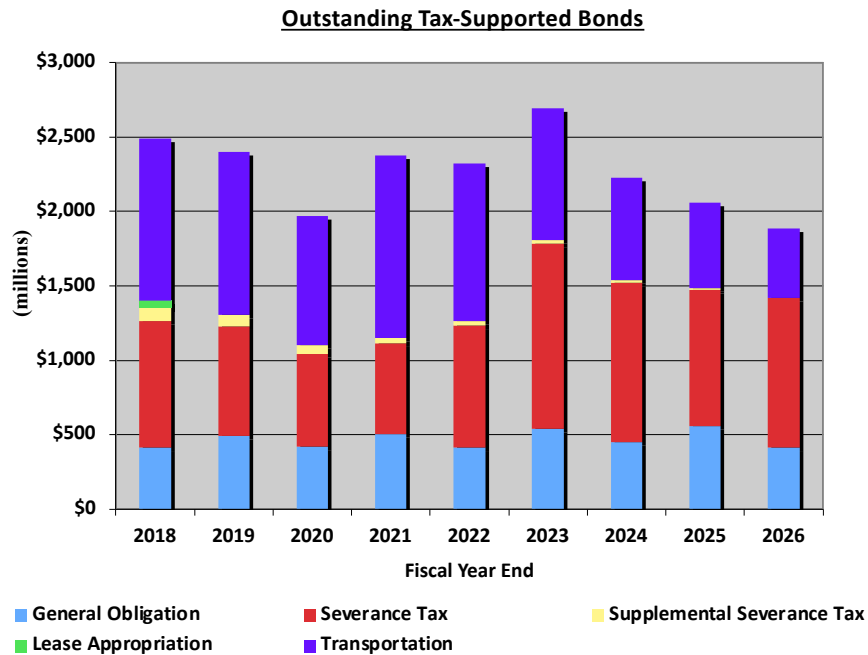
Revenue Volatility

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. Two historic types of bonds the State has issued, supplemental severance tax bonds and lease appropriation bonds, are no longer outstanding.



State Debt Ratios

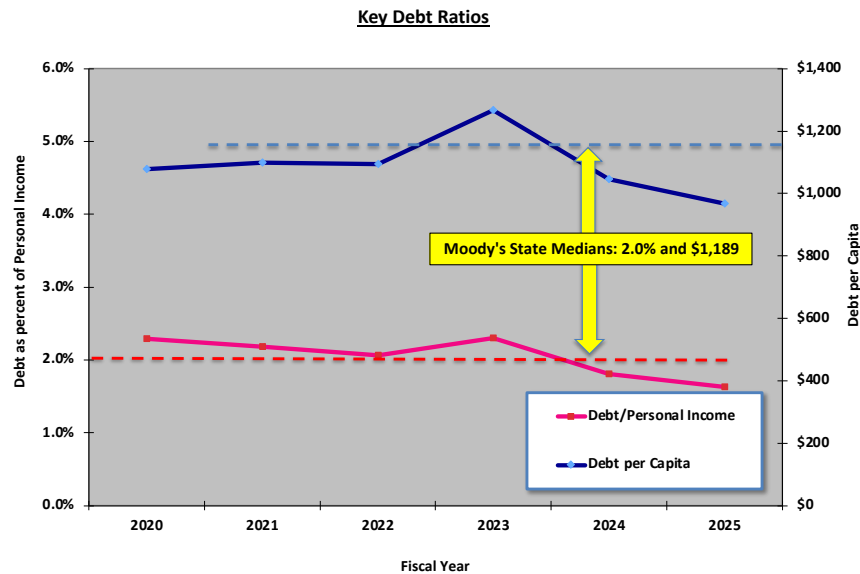
In addition to examining an issuer’s total debt position, rating analysts review the issuer’s debt ratios and their change over time. Two key debt ratios developed and utilized by the bond rating agencies with respect to the evaluation of the credit quality of the State of New Mexico are Net Tax-Supported 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 April 1, 2026, the State’s outstanding \$416.6 million General Obligation Bonds, noted above, represented approximately 0.37% of statewide assessed value of property, or well below 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 and severance tax bonds as of the date of this report are 70.0% and 69.5%, respectively, all substantially higher than the norm. For its part, the state

transportation bonds issued through the New Mexico Finance Authority are scheduled to be fully paid off in 2032.

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 2026 legislative session, that amount was determined to be \$385 million per year through 2034. 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.

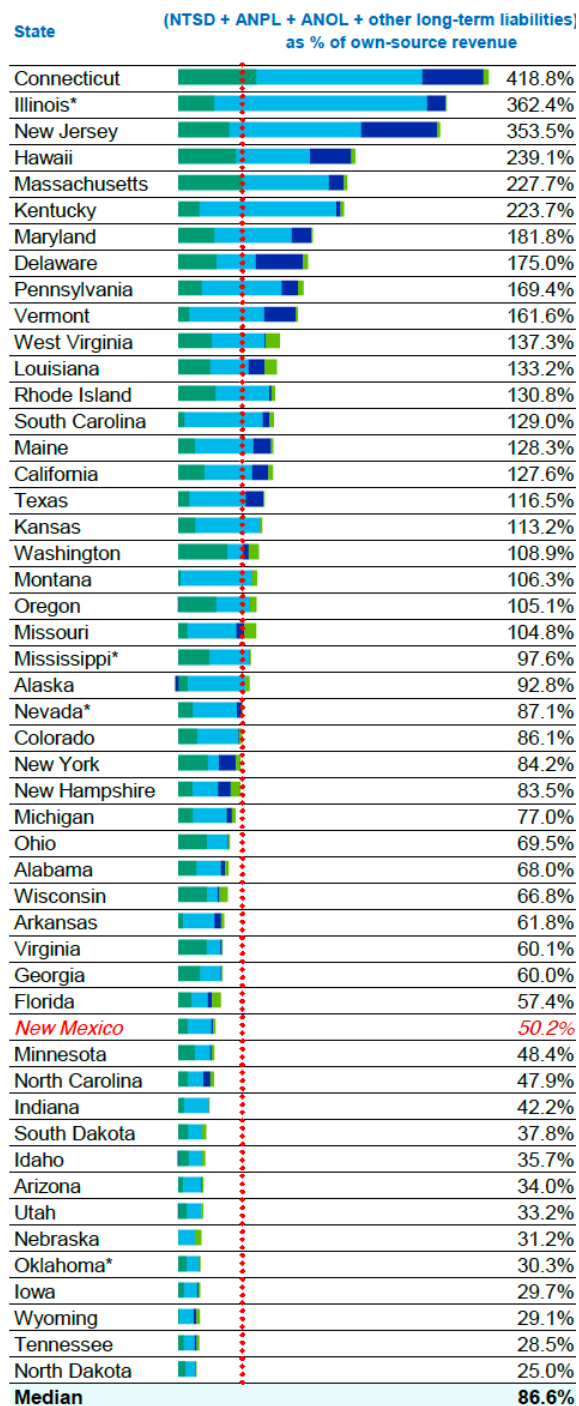
Integrated Assessment of Long-term Liabilities

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 liabilities report published on September 19, 2025, 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 aggregate liabilities of 50.2% of own-source revenues placed it well below the state median of 86.6%, denoted by the red dashed line, and showed a marked improvement from New Mexico’s aggregate liabilities of 58.8% of own-source revenues a year earlier.

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. Moody’s calculation of New Mexico’s

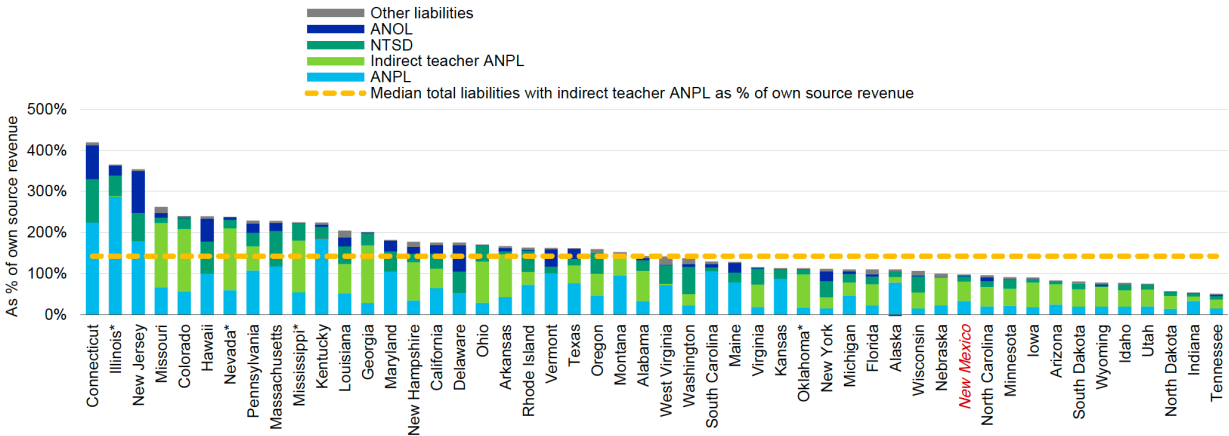


See Exhibit 3 for definitions of key terms. NR stands for no rating.
 *Fiscal 2024 ANPL and revenue are estimated by Moody’s because their fiscal 2024 financial statements were not available as of the publication of this report. Other long-term liabilities, debt, and OPEB data are based on fiscal 2023.
 Sources: State and pension plan audited financial statements and unaudited draft (for Arizona); 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.

aggregate unfunded pension and OPEB liabilities, however, 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 Moody’s September 2025 liabilities report illustrates where New Mexico stands relative to its peers with respect to ERB funding.

Exhibit 9
Total liabilities increase significantly for some states when adding all teacher liabilities
 Fiscal 2024 total liabilities including currently unrecognized teacher liabilities as a percentage of state own-source revenue



*Illinois, Nevada, Mississippi and Oklahoma’s fiscal 2024 ANPL and own-source revenue figures are estimated by Moody’s because these states did not have fiscal 2024 audited financial statements available as of the publication of this report. Other long-term liabilities, OPEB data, and prior year indirect teacher ANPL figures are based on fiscal 2023 state audited reporting.
 Sources: State and pension plan financial statements, unaudited financial statements (for Arizona), 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. The release of the Fiscal Year 2025 audit in March 2026, however, marked a significant step forward in this critical area.

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)	FY26	FY27	FY28	FY29	FY30	Five-Year
General Obligation Bonds	\$0.0	\$392.5	\$0.0	\$392.5	\$0.0	\$785.0
Severance Tax Bonds*	385.0	385.0	385.0	385.0	385.0	1,925.0
Severance Tax Notes	743.2	730.6	772.3	818.2	806.4	3,870.7
Additional Severance Tax Notes	-	-	-	-	-	-
Total Senior STBs	1,128.2	1,115.6	1,157.3	1,203.2	1,191.4	5,795.7
Supplemental Severance Tax Bonds	-	-	-	-	-	-
Supplemental Severance Tax Notes	751.7	760.8	819.8	882.7	898.3	4,113.3
Total Supplemental STBs	751.7	760.8	819.8	882.7	898.3	4,113.3
Total Sources of Funds	\$1,879.9	\$2,269.0	\$1,977.0	\$2,478.4	\$2,089.7	\$10,694.0
Uses of Funds (millions)	FY26	FY27	FY28	FY29	FY30	Five-Year
Projects approved by referendum	\$0.0	\$392.5	\$0.0	\$392.5	\$0.0	\$785.0
New Statewide Capital Projects	\$704.9	694.8	728.0	\$764.5	\$755.0	3,647.2
Authorized but Unissued STB Bonds	-	-	-	-	-	-
Water Projects	185.9	184.7	188.5	192.6	191.6	943.3
Colonias Project Capital	92.9	92.4	94.2	96.3	95.8	471.6
Tribal Projects Capital	92.9	92.4	94.2	96.3	95.8	471.6
Housing Trust Fund	51.6	51.3	52.4	53.5	53.2	262.0
K-12 Public School Capital Outlay	751.7	760.8	819.8	882.7	898.3	4,113.3
Total Uses of Funds	\$1,879.9	\$2,269.0	\$1,977.0	\$2,478.4	\$2,089.7	\$10,694.0

*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 \$23.0 billion of new money capacity for statewide capital projects through 2035. This projected capacity includes \$2.0 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 \$11.9 billion of aggregate senior severance tax bond and notes capacity includes \$385.0 million in annual long-term bond issuance, as discussed earlier in this report. The projected \$9.1 billion of supplemental severance tax notes, proceeds of which are dedicated to education projects, reflect strong levels of oil and natural gas pricing and production in the state, but have not yet taken into account any long-term potential impacts on energy markets of the war in Iran.

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	--	\$385.0	\$743.2	--	\$751.7	\$1,879.9
2027	\$392.5	385.0	730.6	--	760.8	2,269.0
2028	--	385.0	772.3	--	819.8	1,977.0
2029	392.5	385.0	818.2	--	882.7	2,478.4
2030	--	385.0	806.4	--	898.3	2,089.7
2031	392.5	385.0	786.4	--	920.0	2,483.9
2032	--	385.0	781.7	--	943.8	2,110.6
2033	392.5	385.0	839.3	--	995.7	2,612.5
2034	--	385.0	889.4	--	1,017.0	2,291.4
2035	392.5	385.0	928.6	--	1,086.6	2,792.7
Total	\$1,962.5	\$3,850.0	\$8,096.2	\$0.0	\$9,076.5	\$22,985.1

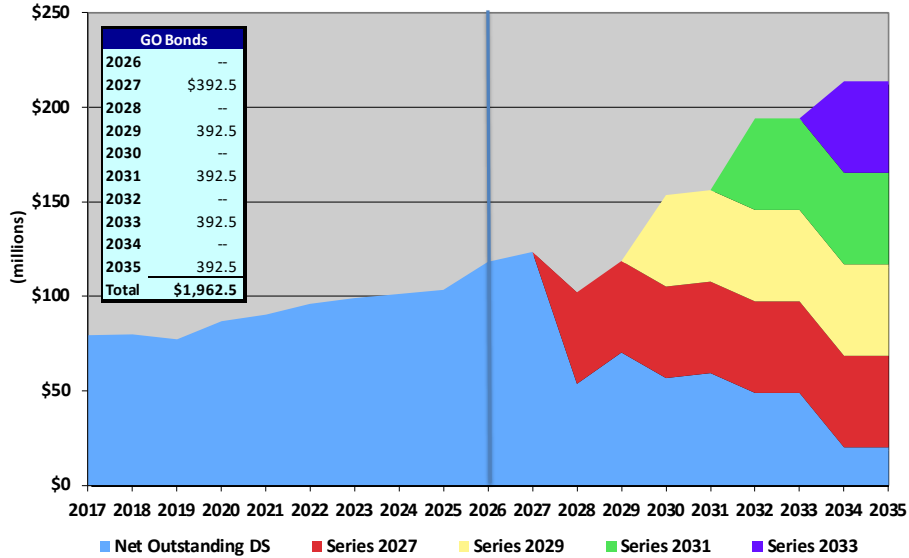
Capital funding capacity continues to be substantial, notwithstanding the constraints imposed by House Bill 253, with bonding capacity well above what had been the norm over recent decades. The substantial growth in capital funding capacity over recent years has been driven by increased natural resource 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 533% increase in the net taxable values that underpin the issuance of general obligation bonds, growing from \$5.0 billion to \$32.5 billion, while residential net taxable values grew by 50.2%. During the same period of time, deposits into the Severance Tax Bonding Fund grew substantially, increasing from \$309.2 million in 2016 to \$2.1 billion in fiscal year 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 \$416.6 million in general obligation bonds are currently outstanding.

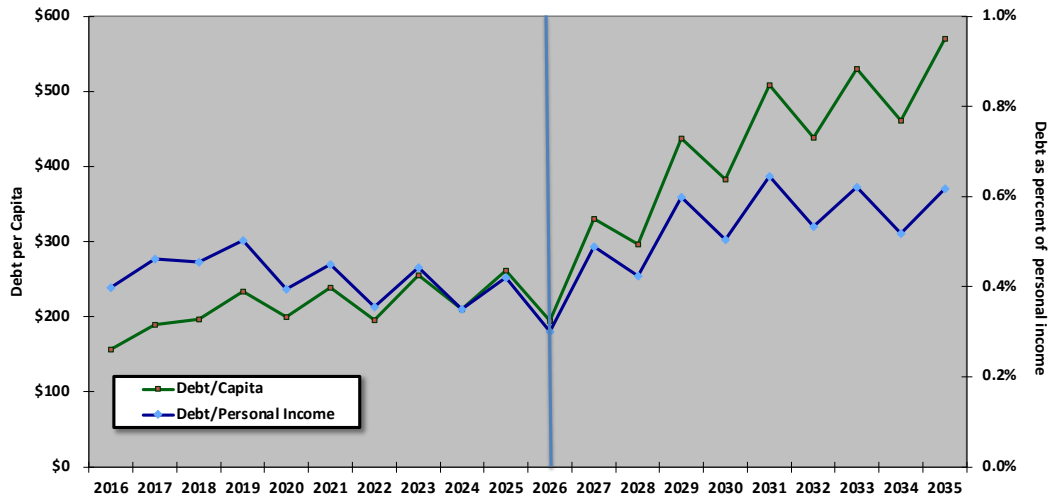
The projected general obligation bond issuance, reflected in the Sources and Uses of Funds table above, reflects a long-standing policy to limit general obligation bond authorizations to amounts that can be issued while keeping the statewide debt service mill rate flat. The graph below presents the historic 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**



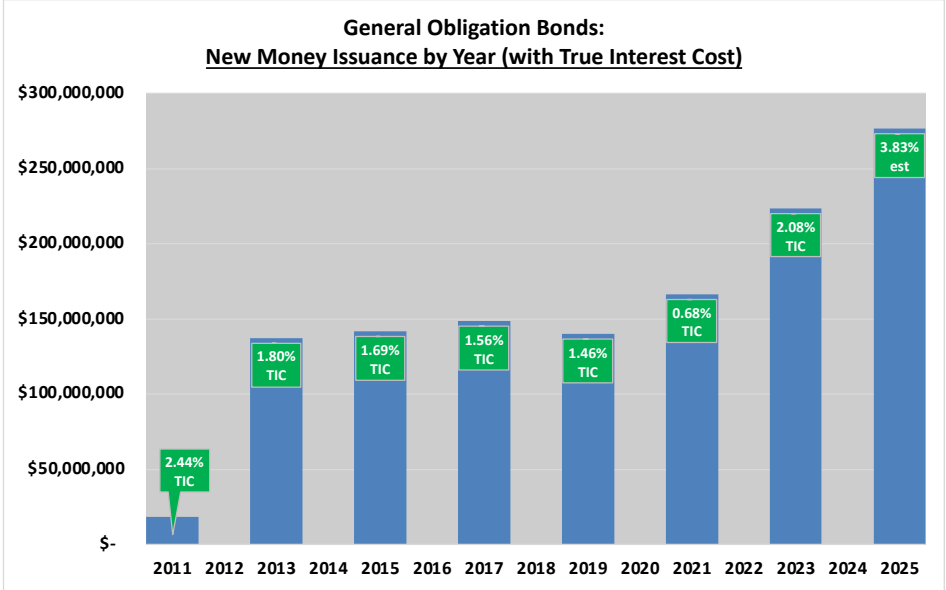
The primary credit metrics of general obligation bond indebtedness are the amount of outstanding debt per capita and as a percent of statewide personal income. New Mexico general obligation bonds are sold with a maximum maturity of 10 years. Historically, State general obligation bond issuance has resulted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



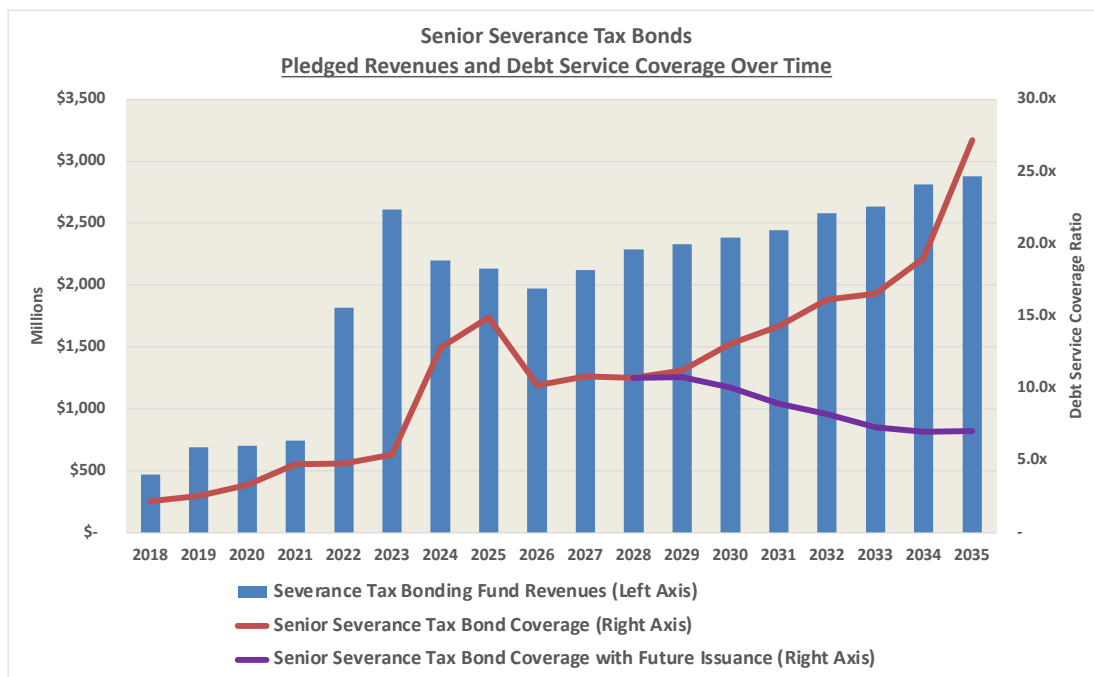
Severance Tax Bond Issuance

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 governing the Severance Tax Bonding Program, which 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.

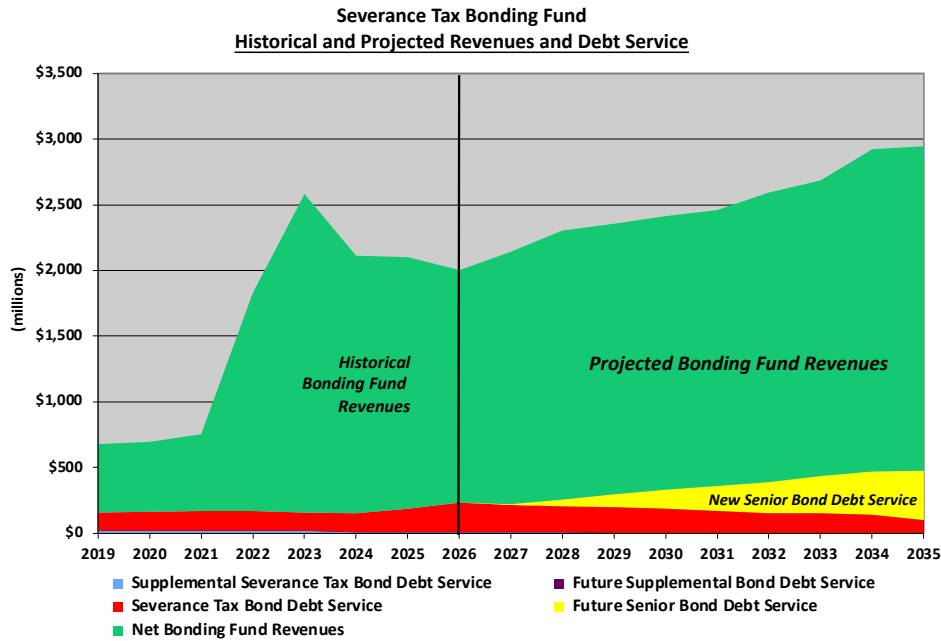
The statutory issuance tests and other state policies constraining the issuance of long-term debt are key attributes of the strong credit quality of the Severance Tax Bonding Program. Central to the analysis of both Moody’s and Standard & Poor’s is the debt service coverage ratio of current Severance 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. As noted above, while the prices and production levels have grown dramatically in recent years, these projected price and production levels do not yet reflect the potential enduring impacts from the war in Iran.

Natural Gas and Oil Price and Volume Projections										
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Natural Gas Price and Volume Projections										
Gas Price	\$3.74	\$4.58	\$4.62	\$4.34	\$4.09	\$4.23	\$4.71	\$4.85	\$4.97	\$5.06
Gas Volume	4,490	4,640	4,885	5,080	5,225	5,243	5,308	5,342	5,510	5,628
Gas Deductions	31.4%	28.6%	28.5%	29.4%	30.3%	29.8%	28.2%	27.7%	27.3%	27.0%
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	\$58.00	\$57.50	\$61.00	\$62.00	\$64.50	\$66.01	\$67.35	\$68.49	\$69.87	\$71.26
Oil Volume	820.0	840.0	855.0	860.0	865.0	862.2	865.7	862.7	865.1	860.5
Oil Deductions	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%
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 2035, beginning in 2026. 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.



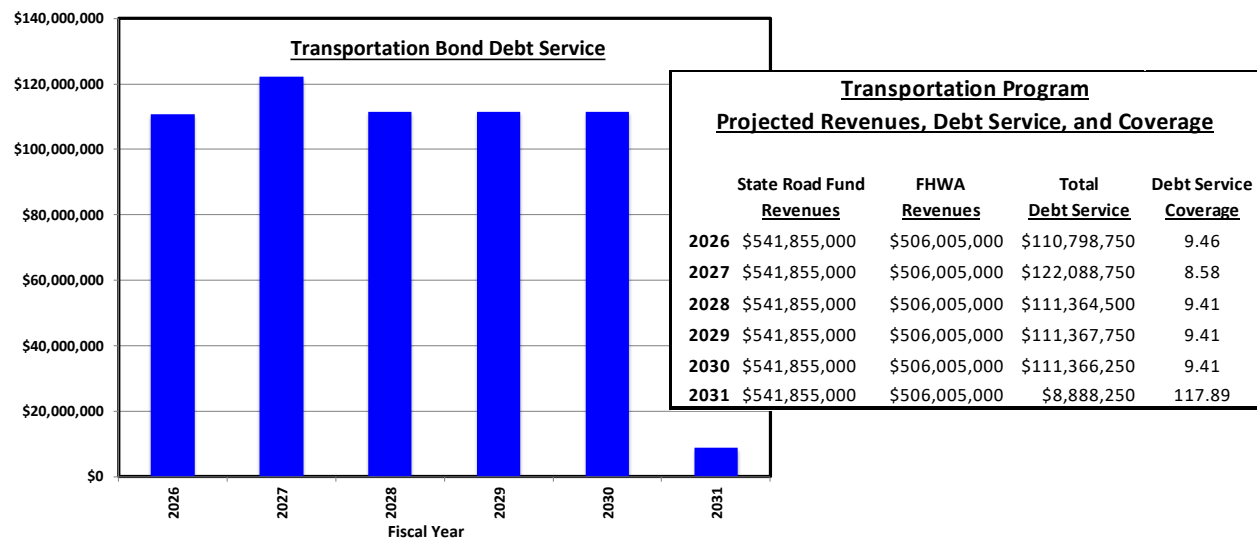
The table below presents the historical and projected debt service coverage for long-term severance tax and supplemental severance tax bonds based on the new money bond issuance, and natural resource price and production estimates presented above.

Severance Tax Bonding Program				
Historical and Projected Debt Service Coverage				
Fiscal Year	Coverage with No Future Issues		Senior Coverage with Projected Future Issues	
	Senior Severance Tax Bonds	Supplemental Bonds	Senior Only	
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	10.84	10.38		
2026	10.70	10.70		Actual
2027	11.20		10.79	Projected
2028	13.05		10.07	
2029	14.31		8.95	
2030	16.16		8.22	
2031	16.56		7.29	
2032	19.00		6.99	
2033	27.19		7.02	
2034	94.24		7.72	
2035	96.35		7.00	

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 April 1, 2026, the transportation debt outstanding was \$580.1 million.

Senate Bill 2, passed during the 2026 legislative session, provided \$1.5 billion in bonding authorization to the State Transportation Commission to fund critical road and bridge projects. The legislation included a \$290 million cap on the par amount of issuance in any year, and included a 35% hike in the weight-distance tax and a 25% increase in registration fees. The State Board of Finance expects that a request for approval for the issuance of an estimated \$220 million from this bonding authorization will be on its May 2026 meeting agenda. The tables below present annual debt service and the projected level of debt service coverage on outstanding transportation bonds, but do not include this anticipated new issuance.



Public Project Revolving Fund

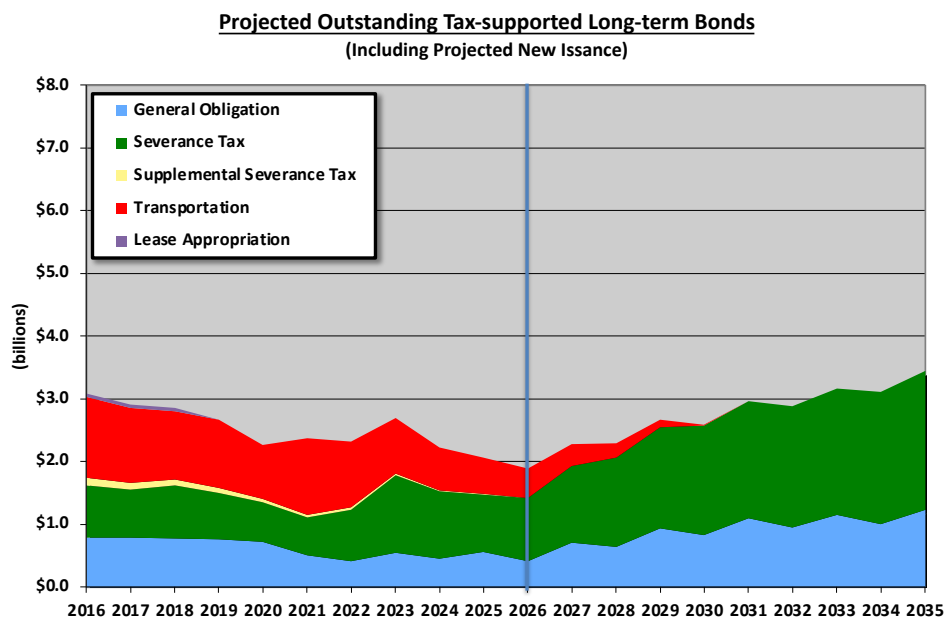
The Public Project Fund (“PPRF”) is the central public sector financing program operated by the New Mexico Finance Authority. The PPRF provides below-market-rate loans to disadvantaged communities. Debt service on PPRF bonds is funded by repayments on its loan portfolio. The program is funded by various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

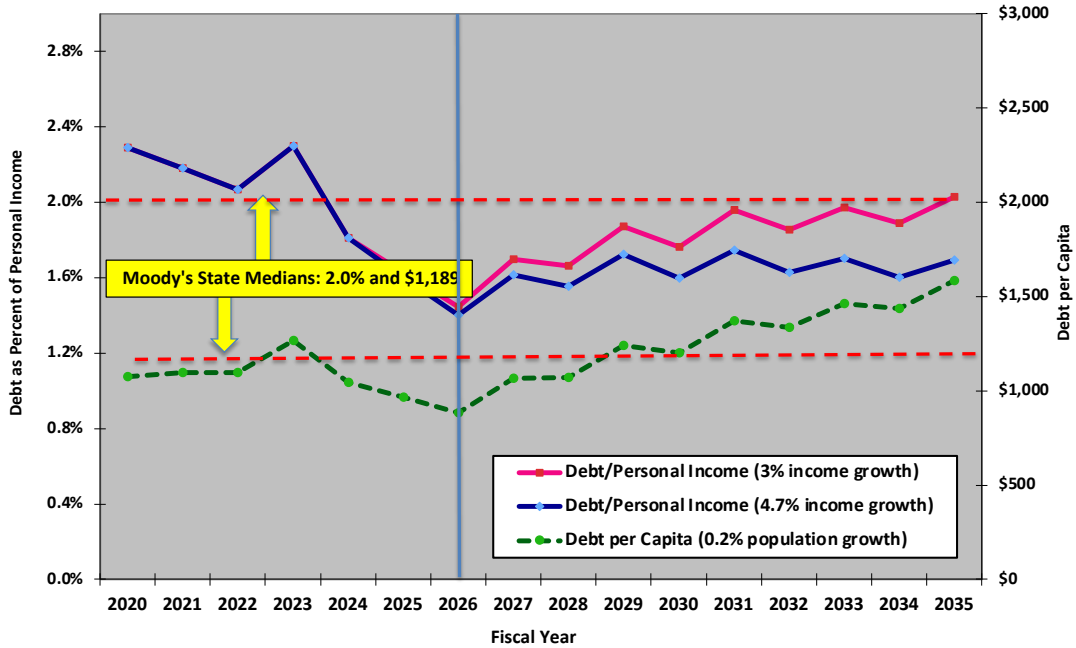
The core State bonding programs project bonding capacity for the issuance of \$5.8 billion of new money long-term general obligation and severance tax bonds through 2035, as discussed above. Each of the core bonding programs is funded by dedicated revenue streams. The dedicated sources of repayment for 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 2035. This includes the issuance of \$5.8 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 \$5.8 billion of long-term general obligation and severance tax debt on the key debt ratios of the State through 2035. Based upon the annual issuance of not more than \$385 million Severance Tax Bonds, 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 half-decade that has been characterized by strong trends in natural resource-derived revenues, the State has taken several steps to mitigate against revenue volatility in the future. As noted in this report, in accordance with Senate Bill 26 and House Bill 253, described herein, the State has capped the annual issuance of long-term severance tax bonds to amounts well below levels otherwise available in accordance with debt management policies and legal constraints, and set aside a portion of annual severance tax revenues for long term capital planning and investment purposes. In addition, even as the State has successfully maintained General Fund reserves at historically high levels, it has also created two new reserves to insulate critical policy funding needs from potential future revenue volatility.

As described herein, each of the core State bonding programs is 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 continues 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, directly contributed to the Moody's bond rating upgrades in January 2026. 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 and creditworthiness at the Aa1 general obligation bond level.

New Mexico's bond rating outlook is stable by both Moody's and Standard & Poor's. Moody's upgraded the State's general obligation bond rating from Aa2 to Aa1 in January 2026, reflecting the cumulative impact of the State's sustained fiscal discipline, growth of permanent

fund balances, diversification of the General Fund revenue mix, and proactive management of pension liabilities. The actions noted in this report to address the funding status of public employee pension funds, maintain strong reserve levels, moderate debt levels over time, and improve both the quality and timing of the State's annual comprehensive financial report, are all meaningful actions that have strengthened the State's credit profile. 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) continuing to produce annual financial reports on a timely basis, in order to enable the State to meet and sustain benchmarks that have become the norm for its state peers.

