MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns Aa2 to New Mexico's Severance Tax Bonds Series 2026A; outlook stable

21 May 2026

New York, May 21, 2026 -- Moody's Ratings (Moody's) has assigned a Aa2 rating to the State of New Mexico's proposed $357.8 milion Severance Tax Bonds Series 2026A. We maintain the Aa1 issuer rating for the State of New Mexico and Aa2 ratings on the state's outstanding severance tax bonds. The outlook is stable.

RATINGS RATIONALE

The Aa2 rating on the senior lien severance tax revenue bonds reflect a pledge of state oil and gas extraction revenues, very strong MADs coverage of roughly 11 times and high revenue volatility. The bonds' very high debt service coverage provides a buffer against the inherent volatility of the oil and gas severance tax revenue stream that secures them.

The bonds are special limited obligations payable solely from the Severance Tax Bonding Fund, which receives net receipts from taxes levied on natural resource products - predominantly crude oil and natural gas - severed and saved from the soil of the state. The severance tax is based on oil and gas prices and therefore fluctuate as market prices rise and fall. Oil and gas severance taxes accounted for nearly all bonding fund tax receipts in fiscal 2025.

Very high coverage is partially offsetting the very high volatility of energy taxes. Projected senior lien debt service coverage is approximately 10.7x in fiscal 2026. After the Series 2026A bonds are issued, coverage is projected to be 10.7x in fiscal 2027. Historical coverage has been similarly robust, exceeding 10.0x since fiscal 2022.

The state covenants to use best efforts to maintain coverage of at least 200%, and the statutory additional bonds test limits senior lien issuance to 47.6% of annual bonding fund deposits - providing meaningful structural protection against overleveraging the revenue stream. Oil and gas prices are subject to rapid and material swings driven by geopolitical developments and shifts in global demand. This revenue volatility, which can move coverage materially in either direction over a short period, is the principal reason the rating is positioned one notch below the state's issuer rating notwithstanding the high coverage levels.

The Aa1 issuer rating reflects the state's very strong fiscal management and sizable operating reserves balanced by its heavy economic concentration in oil and gas and federal government employment. The state's ample permanent fund balances and the investment earnings derived from them help diversify their key revenue sources. The significant budgetary flexibility afforded by sizable nonrecurring appropriations allows the state to quickly reduce expenditures to offset any weaker investment returns. The rating also considers resident income and wealth that lag the nation and other Aa1 states. The rating further incorporates the state's low leverage and fixed costs, that includes exposure to large but improving K-12 teacher pension liabilities.

RATING OUTLOOK

The stable outlook reflects our view that the state's financial position will remain strong and that operations will be supported by balanced budgets and elevated reserves. We also project stable to declining long-term liabilities. Finally, the state's prudent financial management that insures ongoing funding for policy priorities will allow it to navigate certain economic and environmental challenges.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- (For the severance tax bonds) upgrade of the state's issuer rating

- Growth of operating fund reserves in excess of 25% of own source revenues

- Improved socioeconomic metrics closer to the US median

- Further diversification of the state's economy

- Reduced reliance on federal support for social programs

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- (For the severance tax bonds) downgrade of the state's issuer rating

- (For the severance tax bonds) sustained decline in MADS coverage falling below 4.0x

- Multi-year trend of structural imbalance lowering operating reserves well below 5% of own-source revenues

- Material deterioration on key industries leading to growth in unemployment above 5%

- Growth in leverage (combined debt and retirement liabilities) to in excess of 200% of state own-source revenue

PROFILE

New Mexico has a population of 2.1 million. Its nominal GDP was $151 billion as of Q2 2025. The state's wealth levels are below average, with per capita personal income equal to 87.9% of the US level after adjusting for the regional cost of living. The state is the second largest producer of crude oil and a top-10 producer of natural gas in the US.

METHODOLOGY

The principal methodology used in this rating was US States and Territories published in December 2025 and available at https://ratings.moodys.com/rmc-documents/455987. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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