Research Update:

New Mexico Series 2026A Severance Tax Bonds Rated 'AA-'; Outlook Stable

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Overview

- S&P Global Ratings assigned its ‘AA-‘ long-term rating to **New Mexico**’s $357.8 million series 2026A senior-lien severance tax bonds.
- In addition, S&P Global Ratings affirmed its ‘AA-‘ rating on the state’s outstanding senior-lien severance tax bonds.
- The outlook is stable.

Rationale

Security

A lien on money deposited in the severance tax bonding fund (STBF), including net tax receipts generated from natural gas, oil, and other severed natural resources in New Mexico, secures the senior-lien severance tax bonds.

The 2026 bond proceeds will fund capital improvements. After this issuance, the state will have $1.4 billion of principal in senior-lien severance tax bonds outstanding. New Mexico may also issue supplemental severance tax bonds, which are secured by a subordinate lien on pledged revenues after payment of senior debt service, but currently it has no supplemental severance tax bonds outstanding and no plans to issue additional debt on this lien.

We rate these bonds based on our priority-lien tax revenue debt criteria, Oct. 22, 2018, which take into account both the strength and stability of the pledged revenue as well as the general credit quality of the obligor where taxes are distributed and/or collected--in this case, the state of New Mexico (AA/Stable general obligation [GO] rating).

Credit highlights

Our rating on the severance tax bonds reflects solid maximum annual debt service (MADS) coverage by pledged severance tax revenues and a robust additional bonds test (ABT), despite the historical volatility of the pledged revenues through energy-related downturns. New Mexico’s severance tax revenue increased notably following the pandemic, fueled by high oil prices and strong production, and has since moderated due to stabilizing oil prices. Total pledged severance tax revenue (excluding other income) fell 14% in fiscal 2024 to $2.15 billion and another nearly 4% in fiscal 2025 to $2.06 billion.

According to the state's December Consensus Revenue Estimating Group (CREG) forecast, total pledged revenue in the STBF will fall by 7.1% in 2026, followed by 7.3% growth annually in both 2027 and 2028. Although STBF revenues were trending below projections earlier this fiscal year, geopolitical disruptions have since driven up global oil prices. Consequently, New Mexico expects its revenue distributions could exceed forecast in June and ultimately come in very close to forecast for the year overall. We expect pledged revenues in 2026 will provide very strong debt service coverage (DSC), well above the effective ABT of 2.10x for the senior lien.

The December 2025 CREG forecast projected that New Mexico oil prices would average $58.00/barrel (bbl) in fiscal 2026 and $57.50/bbl in fiscal 2027. However, the state now expects 2026 prices will stay elevated due to geopolitical disruptions and tighter global balances, and then moderate in 2027 as supply normalizes. Preliminary estimates from the Department of Finance and Administration as of May 2026 show prices per barrel now average a $15/bbl increase for fiscal 2026 and $20/bbl increase in fiscal 2027, totaling $73.00/bbl and $77.50/bbl, respectively. Similarly, S&P Global Ratings revised its crude oil price assumptions for West Texas Intermediate (WTI) and Brent upward by $15/bbl for the remainder of 2026 and by $5/bbl for 2027. For more information, see "S&P Global Ratings Raises WTI And Brent Price Assumptions Due To Ongoing Effective Closure Of The Strait Of Hormuz," on April 29, 2026.

The rating reflects our view of New Mexico's:

- Very strong 9.1x pro forma MADS coverage incorporating the series 2026A bonds, using fiscal 2026 total forecast receipts;
- ABT that supports stable credit quality. State statute effectively requires a senior-lien coverage ABT of 2.10x MADS, using the lesser of the current or previous year's pledged receipts; and
- High volatility associated with mineral prices and production levels, as evidenced by swings in severance tax collections through cycles.

For more information about the state, see our GO research update on New Mexico, May 26, 2026.

Environmental, social, and governance

Environmental factors are a negative consideration in our credit rating analysis of the severance tax bonds. Pledged revenue is vulnerable to large swings in performance due to the shifting policy and regulatory environment in the oil and gas industry. Partially mitigating this risk are the bonds' short 10-year maturity and mostly declining debt service schedule. We view social and governance factors as neutral in our analysis of the severance tax bonds.

Outlook

The stable outlook reflects our view that projected total pledged receipts will support very strong MADS coverage over the outlook horizon, also bolstered by the state's effective ABT, which we expect will protect coverage from significant dilution even with expected additional issuances.

Downside scenario

We could take a negative rating action if pledged revenues diminish, leading to MADS coverage significantly weakening and approaching the ABTs.

Upside scenario

If our long-term view of the pledged revenue's volatility improves and if additional bonding supports MADS coverage remaining extraordinarily strong on a sustained basis, we could raise the rating.

Credit Opinion

Revenue volatility: High

New Mexico levies severance taxes on a variety of minerals. Major severance tax generators in the STBF are oil (78% of estimated fiscal 2026 severance taxes), natural gas (22%), and coal and other minerals (0.2%), all of which are expected to generate $2 billion in fiscal 2026. Total STBF receipts include investment earnings and other income, which were more than $165 million in the last two fiscal years, a material increase from nearly $16 million in fiscal 2022 as a result of the rate environment. The state forecasts that these other revenues, collectively, will total $92 million in fiscal 2026, followed by $84 million annually through 2030.

Severance taxes have exhibited marked volatility over time, making up 92% of total STBF receipts in fiscal 2025. Pledged severance tax receipts have been steadily falling since 2023, specifically leading to an 11% drop in total STBF receipts in fiscal 2024 and another 3% decrease in fiscal 2025. Excluding other income, the reductions were 14% and 4% in fiscal years 2024 and 2025, respectively. This followed 44% growth in total pledged receipts in fiscal 2023 and 146% growth in fiscal 2022. However, pledged revenues can also prove volatile on the downside, as demonstrated when they fell 38% in fiscal 2016. We believe the most recent declines stem from moderating oil prices in recent years and oversupply. In our view, oil production will remain susceptible to evolving domestic and global economic policies, as most recently demonstrated by the recent geopolitical conflict.

Coverage and liquidity: Very strong

We expect overall coverage and liquidity will remain very strong over the outlook period. Incorporating the series 2026A bonds, we calculate that MADS coverage is very strong at 9.0x based on audited fiscal 2025 severance taxes, excluding interest earnings or other financing revenues.

The ABTs for the severance tax bonds restrict the state's ability to issue parity long-term debt. These tests and a "best efforts" pledge to preserve annual deposits in the bonding fund equal to 2.00x senior DSC and 1.6x supplemental DSC are positive credit factors, in S&P Global Ratings' opinion. State statute also limits debt issuance to an effective coverage test of 2.10x MADS and 1.66x MADS for combined senior and subordinate bonds, using the lesser of the current or previous year's pledged receipts. Bond counsel has previously stated that these statutory ABTs cannot be reduced without an impairment of the bond covenant. The state expects additional severance tax bond issuance in future years for capital purposes. Senior-lien amortization is front-loaded, with all debt being retired by 2036 following this issuance.

New Mexico can also issue temporary short-term supplemental severance tax-secured notes with a lower coverage test. It typically issues these notes with a one-day maturity to the state treasurer near the end of the fiscal year to make money available for capital projects that would otherwise flow to the permanent fund, although, based on statute, notes can be issued for longer periods as long as they mature within the fiscal year. New Mexico can spend severance tax revenue for capital projects through the issuance of these notes if pledged deposits cover total combined annual debt service of senior, subordinate supplemental, and short-term bonds by at least 1.16x.

Statutory law requires the state finance board, by Dec. 31, of each year for fiscal years 2019 through 2028, to transfer $115.7 million from the bonding fund to the Severance Tax Permanent Fund; in fiscal 2029, the required transfer decreases to $92 million. The amount of the transfer is considered before determining the state's future annual bonding capacity.

Pledged severance tax revenues are collected monthly. On Dec. 31 and June 30 of each fiscal year, excess money from the bonding fund is transferred into the Severance Tax Permanent Fund. There is no debt service reserve, but to release excess funds on the day before semiannual debt service is due, there must be a balance in the bond fund equal to the next two semiannual debt service payments.

Economic fundamentals: Strong

In our view, New Mexico's large economy is strong, with a population of slightly more than 2.1 million, despite an above-average reliance on federal employment due to federal laboratories and military bases, and on oil and gas production. Greater federal defense spending and a rebound in oil and gas production through fracking activity in the Permian Basin have boosted the state economy in recent years after a period of weakness, although state population growth has remained below the national average.

The relatively large federal employment sector provides some economic stability. These jobs are concentrated in the state's three Air Force bases, as well as the White Sands Missile Range and the Los Alamos and Sandia national laboratories. Other industries are high-tech manufacturing attracted by state tax breaks and the proximity to federal labs; tourism; and call centers, which are partially enticed by New Mexico's low business costs. Government employment was higher than the national average at 21% of state employment in 2025 compared with 15% nationally. Although this sector has historically provided the state with a stabilizing employment presence, some uncertainty has emerged, given the ongoing efforts by the U.S. administration to reduce the size of the federal workforce.

Linkage to state general creditworthiness: Close

Given that the state collects the pledged revenues, we view the rating on the severance tax bonds as linked to New Mexico's creditworthiness as reflected in the GO rating. For this reason, under our priority-lien criteria, we consider the linkage between the priority-lien pledge and New Mexico close.

New Mexico--key credit metrics

	Metric
Economic data	
Economy	Strong
EBI level per capita % of U.S.	83
Statewide revenue base	Yes
Population (obligor)	2,117,948
Population (MSA)	N/A
Financial data	
Revenue volatility	High

New Mexico--key credit metrics

	Metric
Coverage and liquidity	Very Strong
Baseline coverage assessment	ABT
MADS coverage (x)	8.99
MADS year	2028
Annual debt service coverage (x)	9.95
2-year pledged revenue change (%)	-17.55
Bond provisions	
ABT (x)	2.10
ABT type	MADS
ABT period	Historical
DSRF type	None
Obligor relationship	
Obligor linkage	Close
PL rating limit (number of notches above OC)	1

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. MSA--Metropolitan statistical area. MADS-Maximum annual debt service. ABT--Additional bonds test. DSRF--Debt service reserve fund. PL--Priority lien. OC--Obligor creditworthiness. N/A--Not applicable. 3-pronged test--MADS, 10% of principal, or 125% of average annual debt service.

Ratings List	
New Issue Ratings	
US$357,840,000 State of New Mexico, Severance Tax Bonds, Series 2026A, dated: Date of Delivery, due: July 1, 2036	
Long Term Rating	AA-/Stable
Ratings Affirmed	
States	
New Mexico, NM Severance Tax Bonding Fund Mineral Resources Tax Revenues	AA-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.