CREDIT OPINION
23 September 2024

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New Mexico (State of)

Update to credit analysis following positive outlook revision

Summary

The State of New Mexico's (Aa2 positive) already strong credit metrics are likely to improve as the state continues to maintain healthy operating reserves and forecasts further growth in its sizable permanent fund balances. On September 20, we revised the outlook on the state to positive reflecting our view that this improved financial position will outweigh some risks inherent in its economy, which is concentrated in oil and gas and government employment.

Exhibit 1
New Mexico's outstanding debt

Type of debt		Principal Outstanding ($m)	Moody's Rating	Moody's Outlook
General obligation bonds	$	521	Aa2	positive
Transportation tax bonds (senior lien)	$	166	Aa2	positive
Transportation tax bonds (subordinate lien)	$	413	Aa2	positive
Severance tax bonds (senior lien)	$	916	Aa3	positive
Severance tax bonds (subordinate lien)	$	9	A1	positive

Principal outstanding as of September 20, 2024
Source: State of New Mexico and Moody's Ratings

New Mexico's economy will continue to lag the nation in a number of areas, including labor force participation, real personal income and poverty rates. While extraordinary performance in the oil and gas industry drove growth in real GDP beyond the nation's, the oil and gas industry growth has already begun to stabilize due to softening energy prices and higher input costs.

The state's leverage and fixed costs are moderate and in line with 50-state medians when including indirect K-12 pension obligations. The state has made progress in its pension funding by increasing employer contributions to its teacher pension plan, though some risks remain across both the state and teacher plans due to recent wage increases.

We expect gas tax revenues to provide very healthy coverage of annual debt service for the state's transportation revenue bonds. State and federal gas tax revenues provide total maximum annual debt service (MADS) coverage of approximately 8.6 times. These revenues have exhibited limited volatility and increased steadily in recent years.

Additionally, severance taxes, a portion of which are pledged to the state's severance tax revenue bonds, will remain stable and provide robust total MADS coverage of nearly 13 times. While coverage is extremely high, this revenue source has historically exhibited significant volatility.

This report was republished on 23 September 2024 with a corrected date in the Summary section.

On September 20, we downgraded the state's senior lien transportation revenue bonds to Aa2 from Aa1 and confirmed the subordinate lien transportation revenue bonds at Aa2. Concurrently, we downgraded the state's senior lien severance tax bonds to Aa3 from Aa2 and the subordinate lien severance tax bonds to A1 from Aa3.

Credit strengths

» Proactive and conservative fiscal, debt and pension management

» Strengthened general fund reserves

» Significant liquidity and revenue diversification provided by permanent funds

» Rapid payout of all net tax-supported debt

Credit challenges

» Comparatively low industrial diversity, given concentrations in energy and government employment

» Below average socioeconomic profile and population trends

» Indirect responsibility for sizable K-12 pension liabilities

» Above-average exposure to environmental risks, including carbon transition, water stress and heat stress

Rating outlook

The positive outlook is driven by our view that the state's financial position will remain strong and operations will be supported by balanced budgets and elevated reserves. While certain economic challenges will persist, these fiscal strengths, along with further stabilization of long-term liabilities following increased pension contributions, could support an improved credit rating.

Factors that could lead to an upgrade

» Continued adherence to strong fiscal practices that maintain strong operating reserves, robust permanent funds and healthy pension funding

Factors that could lead to a downgrade

» Multi-year trend of structural imbalance lowering General Fund reserves well below 30% of recurring General Fund revenues

» Material weakness in the oil and gas industry leading to growth in unemployment above 5% or significant negative volatility in oil and gas severance tax revenues

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

Key indicators

Exhibit 2

	2021	2022	2023	State Medians (2023)
Economy				
Nominal GDP ($billions)	111.7	125.5	130.2	313.0
Real GDP, annual growth	2.1%	1.8%	4.1%	2.2%
RPP-adjusted per capita income as % of US	88%	87.6%	87.3%	97.7%
Nonfarm employment, annual growth	2%	4.4%	2.7%	2.1%
Financial performance				
Available balance as % of own-source revenue	13.2%	19.2%	16.8%	44.4%
Net unrestricted cash as % of own-source revenue	234.8%	306.9%	251.8%	72.4%
Leverage				
Total long-term liabilities as % of own-source revenue	91%	109.3%	58.8%	99.4%
Adjusted fixed costs as % of own-source revenue	3.4%	3.5%	2.7%	5.2%

Source: State of New Mexico; Moody's Ratings

Profile

New Mexico has a population of 2.1 million. Its nominal GDP was $130.2 billion as of 2023. The state's wealth levels are below average, with per capita personal income equal to 87.3% 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.

Detailed credit considerations

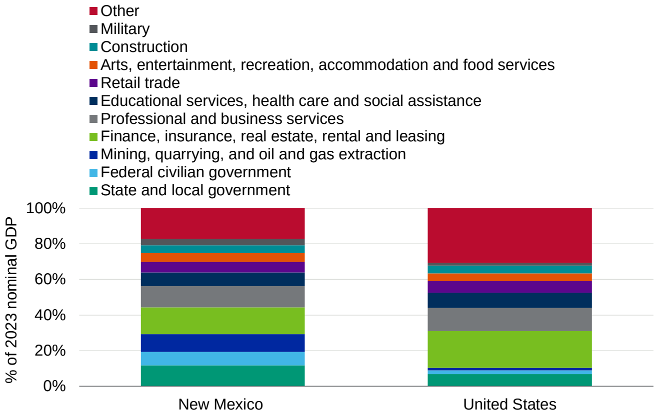
Economy

New Mexico's economic growth will likely moderate in 2024 as energy prices stabilize at lower levels. Over the long-term, New Mexico's growth prospects are likely to lag behind the nation's, given its slower population growth, below-average labor force participation rate, lower educational attainment and other social challenges. Furthermore, New Mexico is exposed to carbon transition risks over the long term, given its reliance on the oil and gas extraction industry (see ESG section). Similar to several western states, New Mexico also has elevated exposure to water stress, which, if not effectively managed on an ongoing basis, may also disrupt parts of its economy and hinder long-term population growth (see ESG section).

New Mexico's economy has above-average concentrations in government and oil and gas extraction (Exhibit 3). The sizable federal government sector is primarily attributable to the presence of two national laboratories and several major military facilities. While generally a stabilizing factor in the state's economy, federal government-related employment has been vulnerable to federal budget cuts in the past.

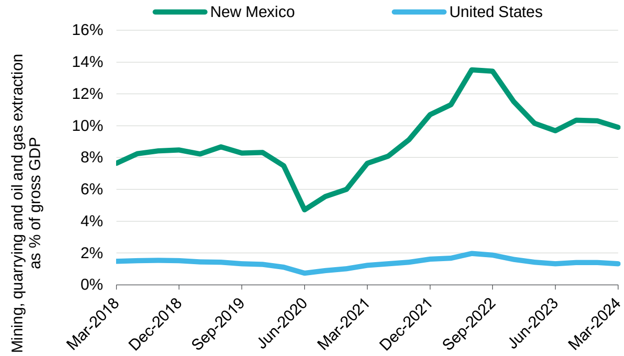
The share of New Mexico's gross GDP from natural resource extraction also greatly exceeds that of the US, and fluctuates with the booms and busts of the industry (Exhibit 4). Reopened economies post-Covid 19 and global geopolitical tension drove high energy prices and greatly benefitted the state's energy sector in recent years. However, as oil demand dissipates and major economies cool, we expect 2024-2025 growth in global oil demand will resume to a more moderated pace in line with the expansion rate before the pandemic. Natural gas demand growth will outpace oil demand, based on emerging market activity and lower liquefied natural gas (LNG) prices, but strong supplies will limit gas prices.

Exhibit 3
The state's economy has above average concentrations in government and oil and gas extraction
2023 nominal GDP distribution (top 8 industries for New Mexico)



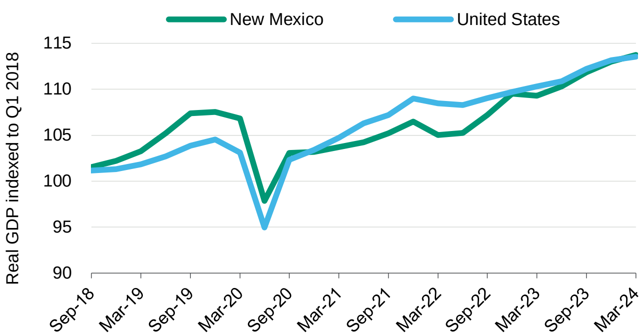
Source: US Bureau of Economic Analysis

Exhibit 4
....and New Mexico's share of gross GDP from the mining industry fluctuates with the boom and bust of the industry



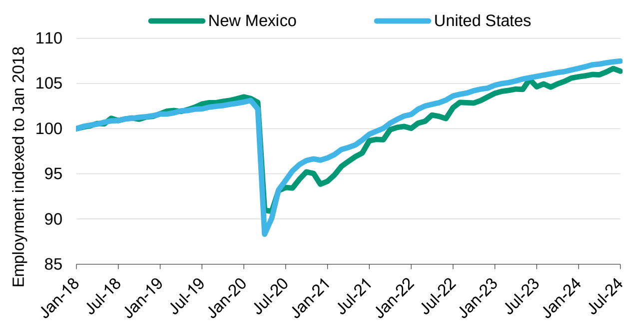
Source: US Bureau of Economic Analysis

Exhibit 5
New Mexico's real GDP growth has been catching up with that of the US...



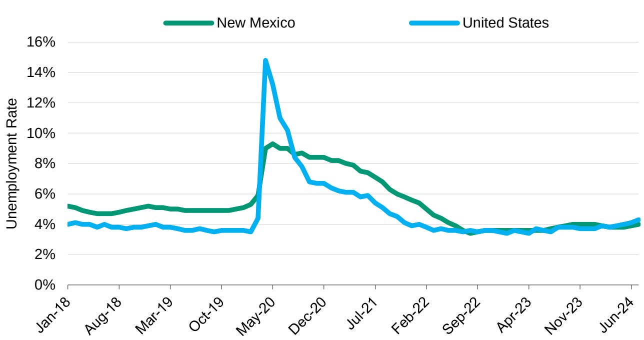
Source: U.S. Bureau of Economic Analysis; Moody's Ratings

Exhibit 6
....but employment growth is slowing



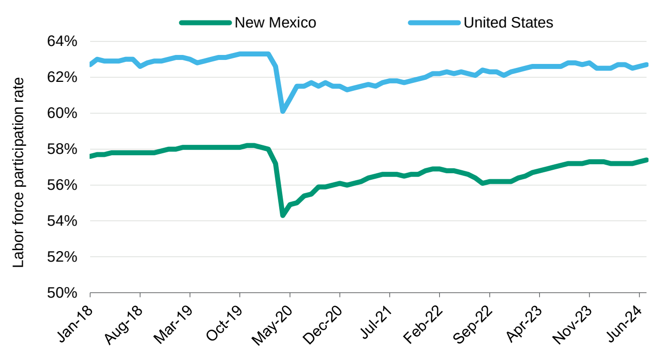
Source: U.S. Bureau of Labor Statistics; Moody's Ratings

Exhibit 7
New Mexico's unemployment rate is currently in line with the US, although historically above the US



Source: U.S. Bureau of Labor Statistics; Moody's Ratings

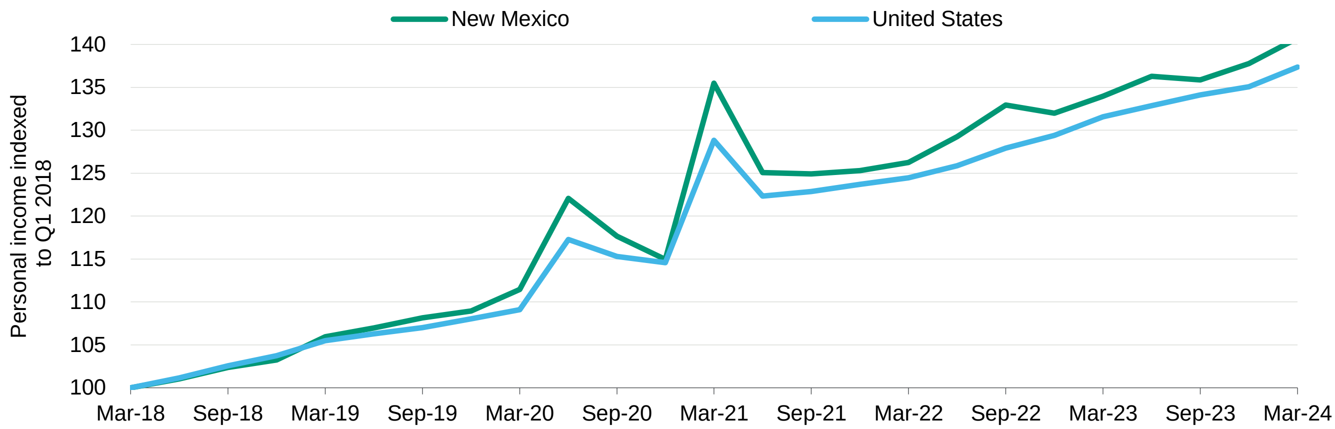
Exhibit 8
The state's labor force participation rate is lower than that of the nation's



Source: U.S. Bureau of Labor Statistics; Moody's Ratings

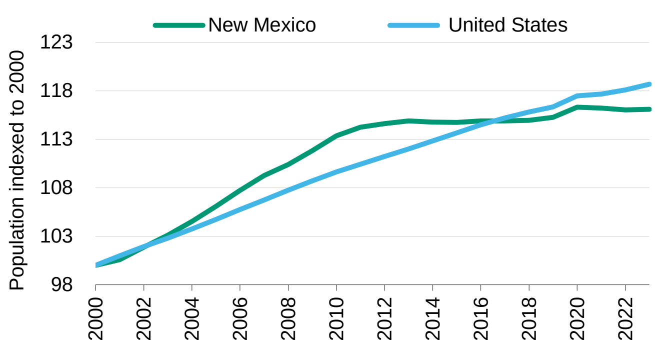
New Mexico's per capita personal income is the fourth lowest of all 50 states, at around 87.3% of the US level after adjusting for regional cost of living. Positively, the state's total personal income growth has slightly outpaced US growth in recent quarters (Exhibit 9). The state's population growth has been relatively stagnant over the last decade (Exhibit 10), although out-migration trend has reversed in recent years (Exhibits 11).

Exhibit 9
New Mexico's total personal income growth slightly outpaced the nation's in recent quarters



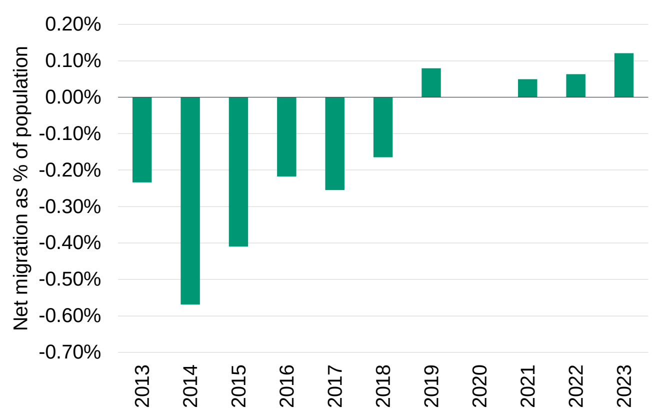
Real personal income is adjusted by Moody's using the headline consumer price index
Source: U.S. Bureau of Economic Analysis; Moody's Ratings

Exhibit 10
New Mexico's population growth somewhat stagnated over the last decade



Source: US Census Bureau; Moody's Ratings

Exhibit 11
...net out-migration has somewhat reversed in recent years

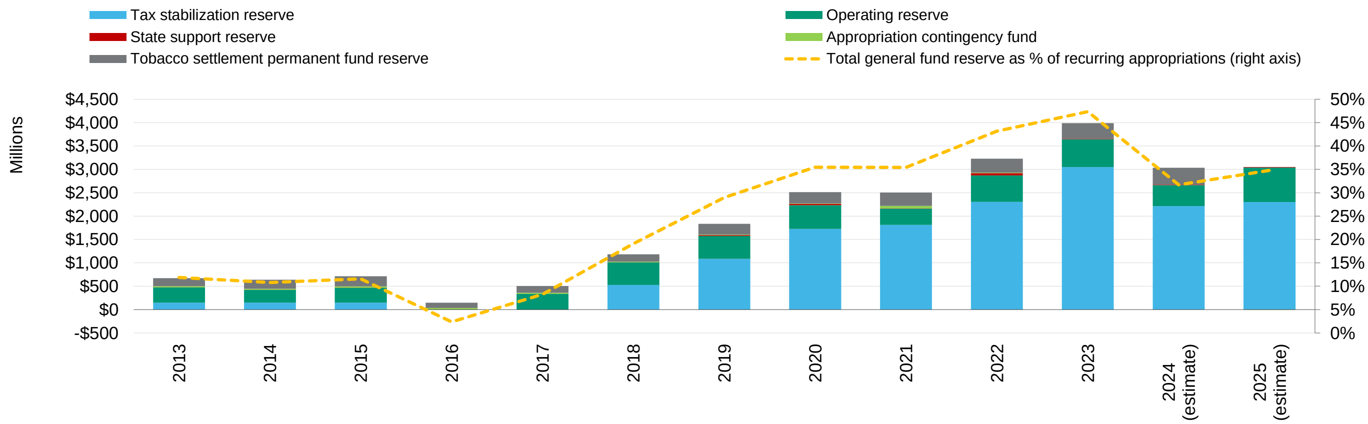


Migration data is not available during census year of 2020
Source: US Census Bureau; Moody's Ratings

Finances

New Mexico's finances will remain strong, supported by prudent fiscal management. In recent years, the state has prioritized stabilizing revenues and balancing budgets with recurring revenue. While its economy and finances remain reliant on the energy sector, the state has built up healthy operating reserves in its General Fund (Exhibit 12), providing a sound buffer against rising costs and likely less favorable economic conditions ahead.

Exhibit 12
New Mexico's reserve profile strengthened in recent years and will remain sound
General fund (fiscal year ending June 30)



Fiscal 2024, and 2025 estimated figures reflect the state's August 2024 revenue forecast.
Source: State of New Mexico; Moody's Ratings

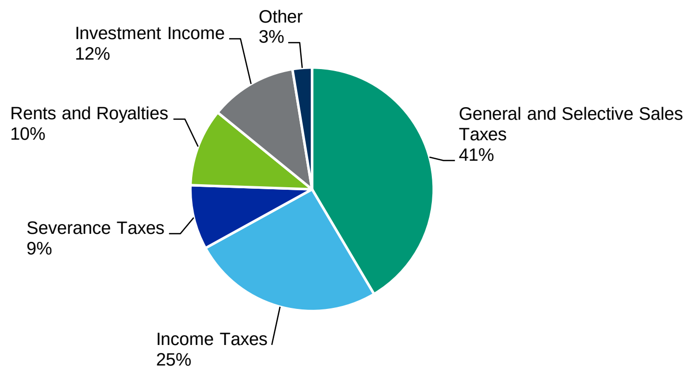
New Mexico's general fund recurring revenue saw record growth in recent years – 19.8% in fiscal 2023 and another 12.5% in fiscal 2024 year-over-year (estimate) – benefitting from strengths in the oil and gas industry, federal stimulus funds, and high inflation. New Mexico's general fund recurring revenue is primarily derived from general excise tax, income tax and revenues from mineral extraction (Exhibit 13). Around 33% of fiscal 2023 general fund recurring revenue were derived by the energy industry directly, and this ratio is projected to rise to 36% in fiscal 2024 [1] – this includes severance taxes, rents and royalties from production on public land and general receipts taxes generated by the oil and gas industry. Notably, general fund dependence on the oil and gas industry would have been even greater, reaching 50%, absent of revenue stabilization measures first in 2019 (see ESG section).

These revenue stabilization measures cap the General Fund dependence on energy revenues at $2.8 billion (fiscal 2024 levels) and divert excess revenues to the Early Childhood Trust and Severance Tax permanent funds. This is beneficial in two ways: first, it caps the growth on the General Fund's dependence on energy-related revenues; and second, it adds to already sizable permanent funds which will help generate greater levels of investment earnings and interest income, which will become a larger and relatively stable revenue source over time. Investment income from two major state permanent funds, made up around 10% of fiscal 2023 general fund recurring revenue and are forecast to grow close to 15% over the next two years.

Exhibit 13

General receipts tax, income tax, oil and gas related revenues and investment income contribute to the bulk of the state's general fund recurring revenue

Fiscal 2023 general fund recurring composition

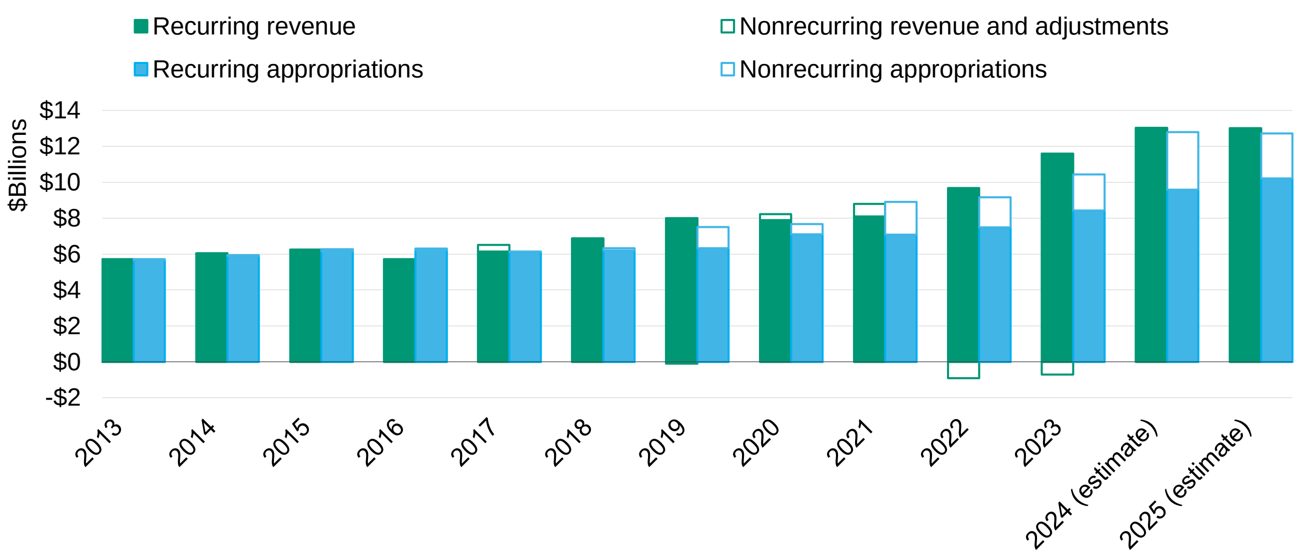


Source: State of New Mexico annual disclosure

The state's Consensus Revenue Estimating Group currently projects fiscal 2025 general fund recurring revenue to remain essentially flat compared to 2024 and grow slightly in fiscal 2026. This is partly driven by income tax cuts and softening economic activity. With strong revenue growth, the state's recent budgets have increased recurring appropriations by double digit percentages. Recent year budgets also included one-time tax reliefs and sizable one-time spendings (Exhibit 14), such as for capital outlay projects and transfers to the state's permanent fund. We view the one-time nature of these spendings to be prudent, because they preserve budgetary flexibility.

Exhibit 14

New Mexico's robust general fund recurring revenue growth are accompanied by sizable recurring appropriation increases as well as one-time spending



Budget basis; fiscal 2024, and 2025 estimated numbers reflect the state's August 2024 revenue forecast
Source: State of New Mexico; Moody's Ratings

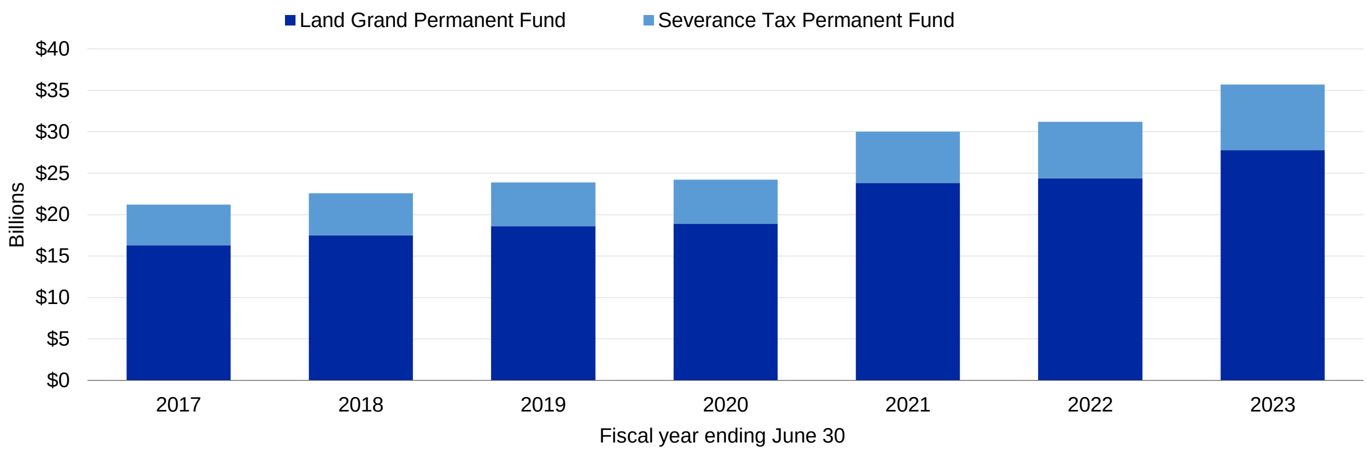
Liquidity

New Mexico's liquidity is exceptional and far exceeds its GAAP-basis available operating fund balance. For the purpose of our analysis, available operating fund balance includes the tax stabilization fund, unassigned, assigned and committed governmental fund and internal services fund, and at the end of fiscal 2023 was $3.8 billion (16.8% of own source revenue).

Bolstered by its robust permanent funds, the state's operating cash and investments equaled 251.8% of own-source revenue at the end of fiscal 2023. The corpus of its permanent funds cannot be appropriated. The state could potentially borrow from its permanent funds, by issuing bonds purchased by the permanent funds, to bridge liquidity challenges.

Exhibit 15

New Mexico's two major permanent funds have grown in recent years, benefitting from the strength of the oil and gas industry



6.25% of the 5-year average market value of the Land Grand Permanent Fund are distributed annually to fund public education purposes. 4.7% of the 5-year average market value of the Severance Tax Permanent Funds are distributed annually and appropriated by Legislature in the same manner as other general revenue.
Source: State of New Mexico annual disclosure; Moody's Ratings

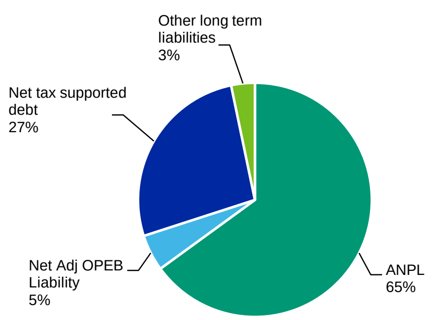
Leverage and fixed costs

New Mexico's leverage (net tax supported debt, pension, OPEB and other long-term liabilities) will continue to be manageable, supported by the state's proactive approach to addressing pension liabilities, which represent the largest share of the state's long-term liabilities (see Exhibit 16).

As of fiscal 2023, the state's total direct long-term liabilities represented about 59% of own-source revenue, below the 50-state median (99% of own-source revenue). Its fixed costs (implied debt service, pension tread water contribution, OPEB contribution and implied other long-term liabilities carrying costs) represented a moderate 2.7% of own source revenue in fiscal 2023, also below the 50-state median.

Exhibit 16

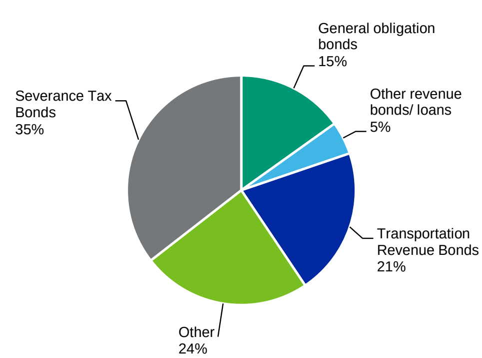
ANPL represents the largest component of the state's long-term liability
Fiscal 2023 long-term liabilities breakdown



ANPL stands for Moody's adjusted net pension liability
Source: State of New Mexico ACFR; Moody's Ratings

Exhibit 17

New Mexico's net tax supported debt consists mainly of severance tax bonds, transportation revenue bonds, and GO bonds
Fiscal 2023 net tax supported debt composition



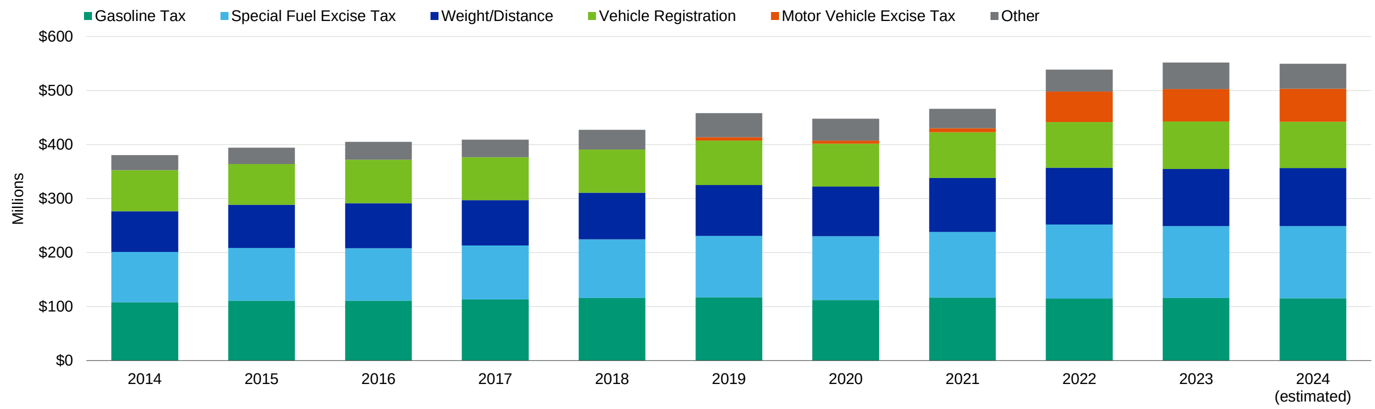
Note: Moody's calculation of net tax supported debt includes unamortized bond premiums/discounts and accreted interest under the latest 2022 US States and Territories Methodology
Source: State of New Mexico; Moody's Ratings

Transportation Revenue Bonds

Transportation revenue bonds account for roughly 20% of the state's net tax supported debt. These bonds benefit from a pledge of both state and federal highway gas taxes. This revenue stream has shown remarkable stability, grown steadily in most years over the last decade with only a slight dip in 2020. Beginning in fiscal 2022, the Department of Transportation enhanced the revenue stream by increasing the Motor Vehicle Excise Tax (exhibit 18).

Exhibit 18

State revenues increased in fiscal 2022 and the years following due to an increase in the allocation of motor vehicle excise tax to the State Road Fund

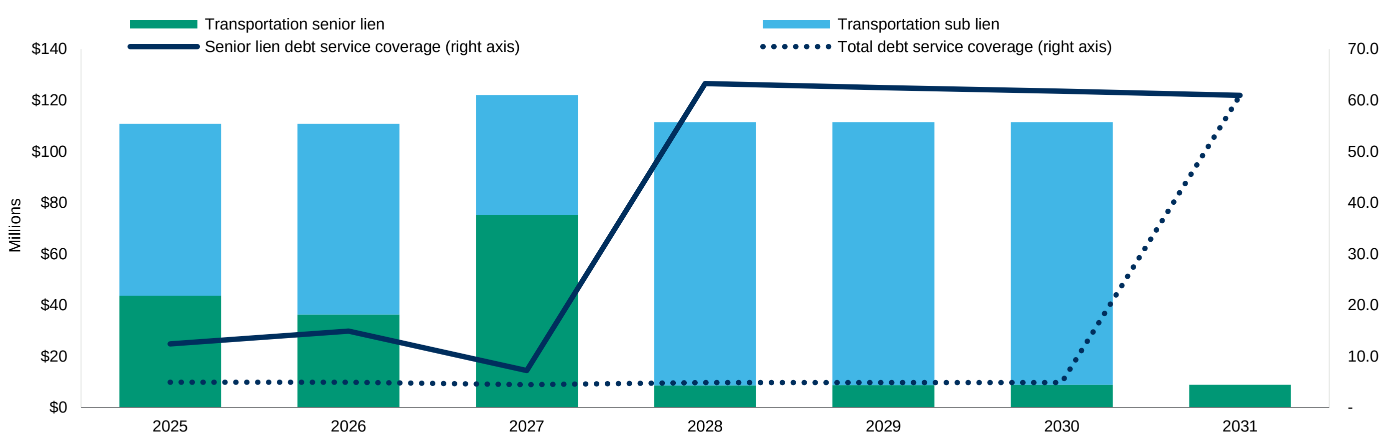


Source: NM Department of Transportation; Moody's Ratings

Combined state and federal revenues will continue to provide robust coverage through 2031 when the outstanding bonds mature. MADS coverage is projected to be 8.6 times in 2027 (see exhibit 19) and increase slightly as the debt service schedule declines in the succeeding years.

Exhibit 19

Total debt service coverage will remain strong and steady through 2030



Source: New Mexico Department of Transportation Continuing Disclosures

The senior and subordinate lien bonds are secured by first and second liens, respectively, on both state road and highway revenues and federal highway aid received by the state. The lack of distinction between the senior and subordinate liens reflects the small portion of total debt consisting of senior lien bonds. This share will further decline given the rapid amortization of the senior lien.

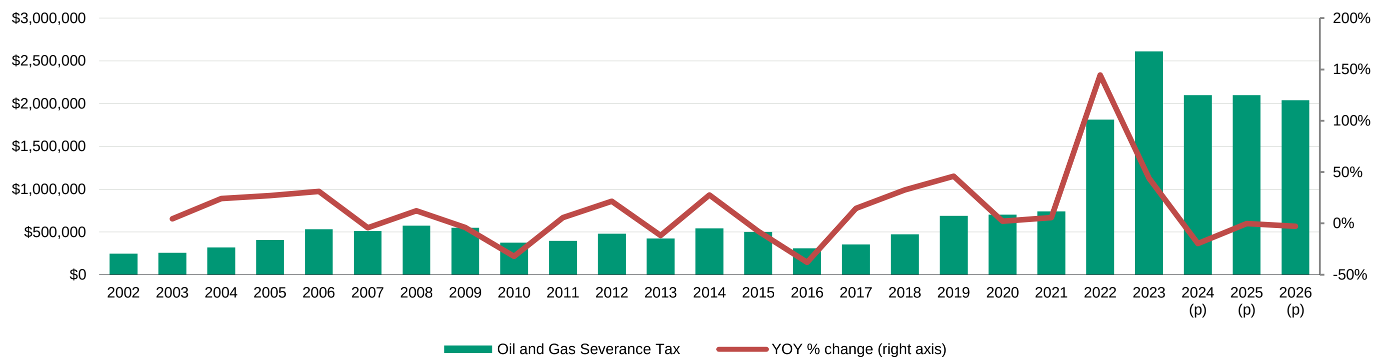
The issuance of additional senior lien bonds is governed by a two-pronged test. Total pledged revenues (state and federal) must provide 3.5 times coverage of peak debt service on the senior lien bonds, and state revenues alone must provide 3.0 times coverage. Additional subordinate lien bonds may be issued if total revenues provide 3.0 times coverage of peak debt service on the senior and subordinate lien bonds combined. The state currently has no remaining authorization to issue additional transportation revenue bonds.

Severance Tax Revenue Bonds

Severance tax revenue bonds account for roughly 35% of the state's net tax supported debt. These bonds are backed by a pledge of a portion of the state's severance tax revenues which grew by an extraordinary 145% in fiscal 2022 and an additional 44% in fiscal 2023 (exhibit 21). Severance tax bond fund receipts peaked at $2.6 billion in fiscal 2023 but are forecast to decline slightly and stabilize over the next three years.

Exhibit 20

Severance taxes forecast to stabilize below recent peak after meteoric rise

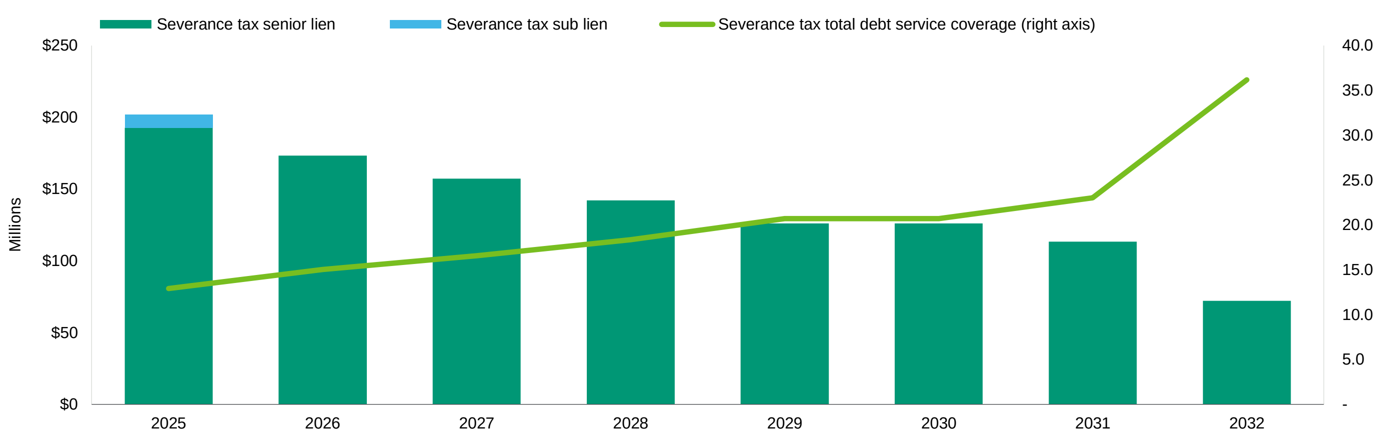


Source: State of New Mexico continuing disclosures

Fiscal 2023 annual debt service coverage was a sizable 14.2 times. Since the bonds are rapidly amortizing, debt service coverage will grow steadily even as revenues decline slightly.

Exhibit 21

Total debt service coverage will continue to grow as debt is rapidly repaid



Source: State of New Mexico continuing disclosures

While severance tax revenues and coverage are at record highs, this revenue source is vulnerable to fluctuations. However, the coverage levels are so robust, that given the lack of future borrowing plans and the short duration, we expect coverage levels to remain very strong despite any future volatility.

Debt structure

New Mexico's bonds are primarily comprised of severance tax bonds, transportation revenue bonds and general obligation (GO) bonds (Exhibit 16).

The state's general obligation bonds and severance tax bonds are issued with a maximum maturity of 10 years. As a result, payouts are extremely rapid.

The state's transportation revenue bonds also have rapid payout, with final maturity in 2032.

Legal security

New Mexico's general obligation bonds are secured by the full faith and credit of the state and specifically secured by, and paid from, a statewide property tax levy without limit as to rate. The treasurer is required to keep the property tax proceeds separate from all other funds.

The senior and subordinate lien transportation revenue bonds are secured by first and second liens, respectively, on both: state road and highway revenues and federal highway aid received by the state. In fiscal 2023, state revenues made up 52% of pledged revenues. State revenues consisted primarily of special fuel, gas and weight/distance taxes. Federal highway aid consists of all aid received by the state from the federal government for highway construction, improvement and maintenance projects.

The senior lien and subordinate lien severance tax bonds are secured by a first and second lien, respectively, on severance taxes on deposit in and interest earnings of the Bonding Fund. There is no debt service reserve for the bonds. However, state statutes require that on June 30 and December 31 all monies in the Bonding Fund in excess of the next 12 months scheduled debt service be transferred to the state's Severance Tax Permanent Fund. The 12 months' debt service requirement in effect provides an ample reserve for the bonds.

The school district intercept program includes pledge of up to 12 consecutive months of state aid from its General Fund should the school be unable to meet debt service requirements. The program's mechanics include a provision for third party notification of pending deficiency. If the paying agent has not received payment of principal or interest on school district general obligation bonds on the business day immediately prior to the date on which the payment is due, the paying agent shall so notify the State Department of Finance and Administration and the district. If the district indicates it will not make the payment, the department shall forward the amount to make the payment due on the bonds to the paying agent.

Debt-related derivatives

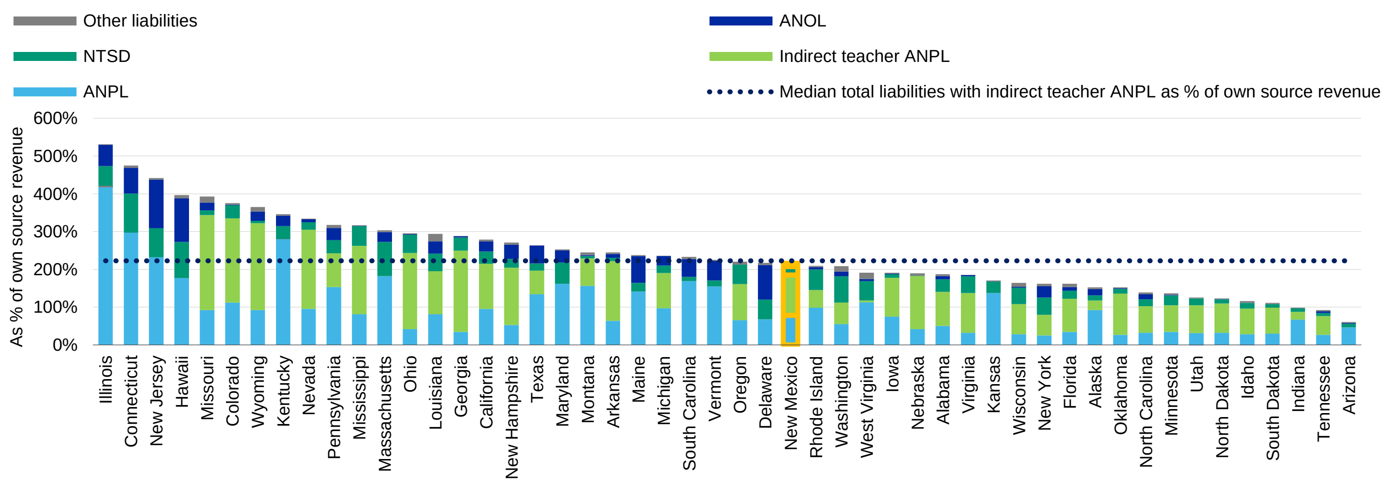
The state has no variable rate debt and no debt-related derivatives.

Pensions and OPEB

Based on the state's fiscal 2023 reporting, Moody's has calculated that the state's direct adjusted net pension liability (ANPL) to be $8.7 billion, representing 38.2% of own-source governmental revenues or 6.7% of nominal GDP. Moody's adjustments are not intended to replace the state's reported liability information, but to improve comparability with other rated entities.

Exhibit 22

New Mexico is also indirectly responsible for funding k-12 districts' pension liabilities



Fiscal 2022 States leverage comparison (some state's fiscal 2023 financial statements were not available as of the publication of this report)
Source: State and pension plan financial statements; Moody's Ratings

The state's fiscal 2023 governmental pension contribution of $250.5 million was $81.1 million (0.4% of own source revenue) lower than Moody's calculated tread water level in fiscal 2023, or the level of contribution that would prevent reported unfunded liabilities from growing under reported assumptions. Contributing at below the tread water level signals that the state's reported pension burden will continue to grow if investment targets are achieved. Positively, the state's pension tread water shortfall narrowed in recent years and we expect this trend to continue in the coming years.

New Mexico has taken proactive steps to manage its pension burden. For example, in 2020, the state's Educational Retirement Board (ERB) lowered its return target to 7.0% from 7.25%, which we view to be positive because it reduces the likelihood that the system's returns will consistently underperform and thus produce new, unexpected costs. Senate Bill 72, passed in 2020, reduced Public Employees Retirement Association (PERA) cost-of-living adjustments and mandated increased employer and employee contributions. The state legislature also passed Senate Bill 36 in 2022 to more aggressively increase employer contribution to the ERB beginning July 1, 2022, which we view positively, and we have already seen fiscal 2023 contributions exceed our tread water calculation for the first time. Under SB 36, we estimate that the state and other participating governments will contribute an additional $300 million over the next five years and an extra $3.3 billion through 2040.

The state's other post-employment benefits (OPEB) liability is moderate. As of fiscal 2023 reporting, Moody's has calculated the state's adjusted net OPEB liability (ANOL) to be $673 million, representing 3% of own-source revenue.

ESG considerations

New Mexico (State of)'s ESG credit impact score is CIS-2

Exhibit 23
ESG credit impact score

CIS-2

ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

New Mexico's ESG Credit Impact Score is **CIS-2**, reflecting its moderately negative exposure to environmental risks, moderately negative social risks and positive governance profile.

Exhibit 24
ESG issuer profile scores

ENVIRONMENTAL
E-3

SOCIAL
S-3

GOVERNANCE
G-1

Source: Moody's Ratings

Environmental

New Mexico's E issuer profile score is **E-3**. Given its dependence on the oil and gas industry, the state is vulnerable to the transition to clean energy sources and away from carbon-intensive sources over the long run. The state also has elevated exposure to water stress and high exposure to wildfire risks, both of which jeopardize the health and safety of the public and hinder long-term economic growth. According to Moody's, New Mexico ranks first among all 50-states in terms of its exposure to water shortage, with roughly 65% of its population and GDP exposed to "red flag" water stress (the most severe level), and the remainder exposed to "high" water stress. The state relies primarily on groundwater for its water source, but most areas are pumping water faster than can be replenished. Prolonged drought and rising temperature are also increasing the severity and frequency of wildfires. Positively, the New Mexico Office of the State Engineer has central authority over the supervision, measurement, appropriation and distribution of all surface and groundwater in New Mexico; the state has a comprehensive state water plan, updated periodically, that lays down policies for conservation and strategies for infrastructure repair and improvements. Mitigation strategies for drought also include demand management through reducing losses, reducing use and employing economic incentives.

Social

New Mexico's S issuer profile score is **S-3**. The state's education attainment and labor force participation are below median, contributing to relatively slower real economic growth and weak income levels. New Mexico's population growth has also lagged the nation consistently over the last decade, in part driven by net domestic out-migration, although this trend has moderated in recent years. The state has a higher old-age dependency ratio than the US, as it has both a larger share of population over the age of 65 and a lower share of population at prime working age. Notably, the state's working age population declined by around 2.3% cumulatively between 2012 and 2022, while its population over the age of 65 increased by 37.0% during this period. This can lead to a stagnant to shrinking work force and higher expenses related to Medicaid long term costs. Lastly, the state's violent crime rate is among the highest of all 50 states and it has a greater proportion of population without access to health insurance than average.

Governance

New Mexico's G issuer profile score is **G-1**. The state has many governance best practices including a consensus revenue forecasting process, multi-year revenue projections, and timely budget adoption. The state has a balanced budget requirement, and it budgets on a GAAP-basis, which generally results in stronger reserves and cash balances than cash basis budgeting. The state has prioritized stabilizing revenues, balancing budgets with recurring revenues, and rebuilding reserves in recent years, demonstrating fiscal prudence. Besides using permanent funds to smooth fluctuations in oil and gas related taxes and royalty contributions, New Mexico has introduced a number of tax revenue stabilization mechanisms to reduce the general fund from volatility in the energy industry: starting in fiscal 2019, revenues generated from the oil and gas emergency school tax in excess of the five-year average are required to be deposited into the Tax Stabilization Reserve. Legislation passed during the 2020 session further established an Early Childhood Trust Fund ("ECTF") and provided that excess oil and gas emergency school tax shall be distributed to the ECTF if state general fund reserves are equal to or greater than 25% of general fund recurring appropriations. Then, most recently, Senate Bill 26, approved in the 2023 legislative session further caps the amount of oil and gas revenue that goes into the general fund at fiscal 2024 levels, beginning in fiscal 2025, with revenues in excess of that amount to be deposited into the Severance Tax Permanent Fund. The state's debt management policies are conservative and 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.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Appendix

General fund reserves include the following accounts:

Operating reserve: excess revenue left in the general fund at the end of the year goes into the operating reserve. Amount in this account exceeding 8% of prior year's recurring appropriations are transferred to the tax stabilization reserve.

Tax stabilization reserve: appropriations from this reserve requires a super majority and a declaration from the governor that the appropriation is necessary for public peace, health or safety. Laws 2020, Chapter 34 (House Bill 341) transfers from the tax stabilization reserve to the operating reserve if operating reserve balances are below one percent of appropriations, up to an amount necessary for the operating reserve to be at least one percent of total appropriations for the current year.

Appropriation contingency fund: the Legislature authorizes revenue going in and out of the appropriation contingency fund. A limited amount of the revenue in the fund can also be spent when the governor declares an emergency. The fund is mostly used to set aside money for use if certain circumstances come into play, such as the startup of a new program moving faster than funded.

State support fund: On the first day of each fiscal year, any balance in the public school district general obligation bonds loan fund over $1 million is transferred into to this fund and can only be used to augment certain appropriations to the public schools.

Tobacco settlement fund: created to hold half of the settlement payments from cigarette companies. The Legislature may authorize spending from this fund for a budget shortfall only after balances in other reserves have been exhausted. The Tobacco Settlement Permanent Fund will no longer be counted in reserves starting in FY25.

Rating methodology and scorecard factors

New Mexico's assigned issuer rating is lower than the scorecard indicated outcome due to (1) its sizable economic and revenue exposure to the volatile energy industry, and (2) the state's above-average indirect teachers' pension liabilities.

Exhibit 25
State of New Mexico

	Measure	Weight	Score
Economy			
Resident Income (PCI Adjusted for RPP / US PCI)	87.3%	15%	Aa
Economic Growth (5-year CAGR real GDP - 5-year CAGR US real GDP)	-0.2%	15%	Aa
Financial performance			
Financial performance	Aa	20%	Aa
Governance/Institutional Framework			
Governance/Institutional Framework	Aaa	20%	Aaa
Leverage			
Long-term liabilities ratio (adjusted long-term liabilities / own-source revenue)	58.8%	20%	Aaa
Fixed-costs ratio (adjusted fixed costs / own-source revenue)	2.7%	10%	Aaa
Notching factors			
Very limited and concentrated economy			N/A
Scorecard-Indicated Outcome			Aa1
Assigned rating			Aa2

Source: State of New Mexico; US Census Bureau; Moody's Ratings

Endnotes

1 Source: New Mexico Legislative Finance Committee August 2024 General Fund Consensus Revenue Estimate

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Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454