



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

State Bond Rating — History, Current Status and Outlook

Presentation to
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Bond Ratings

- New Mexico's state rating agencies: Moody's, Standard & Poor's (S&P)
- What do bond ratings indicate?
 - Relative creditworthiness
 - Fiscal strengths and weaknesses
- Bond ratings are forward-looking but use historical data and actions



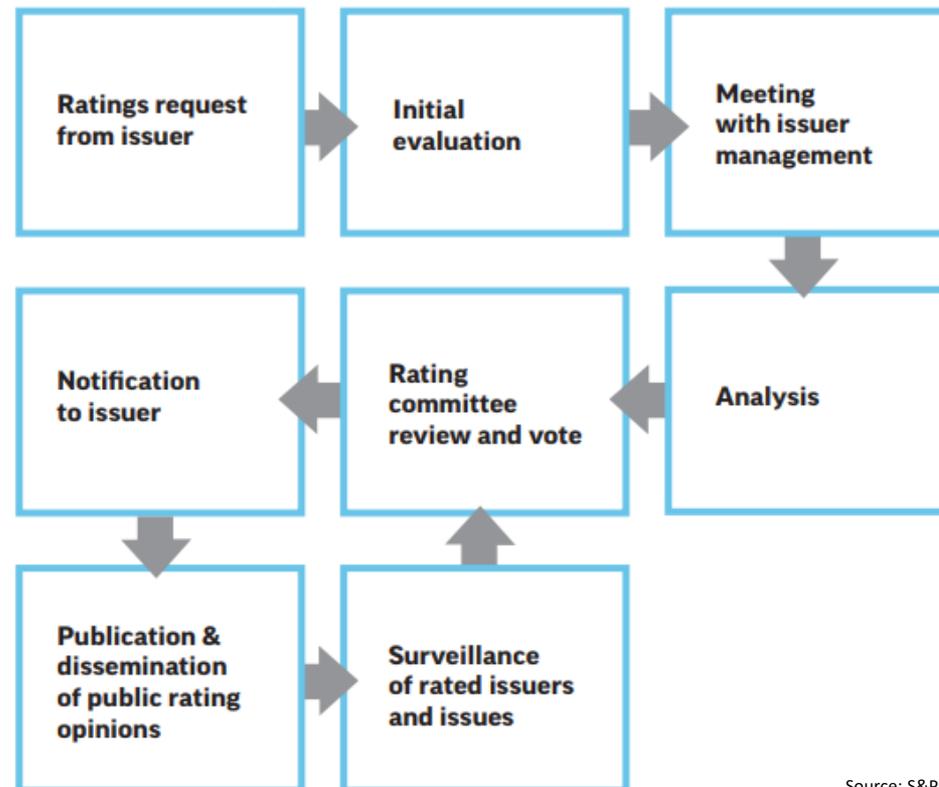
Why Do Bond Ratings Matter?

- Investors use bond ratings to judge relative risk of default
 - As with other investments, increased risk requires increased return on investment
- Bond issuers are able to build capital projects more cheaply with higher bond ratings
 - As ratings fall, projects become more expensive



State Bond Rating Methodologies: Standard & Poor's

- S&P relies on analyst research and judgment rather than a set, numerical framework



Source: S&P



State Bond Rating Methodologies: Moody's

- Factors for Moody's rating scorecard

Broad Rating Factors	Factor Weighting	Rating Sub-Factors	Sub-Factor Weighting
Economy	20%	Income	10%
		Industrial Diversity	5%
		Employment Volatility	5%
Governance	30%	Financial Best Practices	15%
		Financial Flexibility/Constitutional Constraints	15%
Finances	30%	Revenues	10%
		Balances and Reserves	10%
		Liquidity	10%
Debt	20%	Bonded Debt	10%
		Adjusted Net Pension Liabilities	10%
Total	100%	Total	100%

Source: Moody's



Bond Rating Methodologies: Moody's

- Additional factors that can shift a rating up or down

I. Additional Economic Factors

Expected Economic Growth

Poverty Rate

II. Additional Governance Factors

Conservative Governance

Political Polarization

Congressional Representation

Lack of Appropriation for Debt Service

Weakness in Fiscal Best Practices

III. Additional Financial Factors

Structural Imbalance

Cash Flow Borrowing

Lack of Market Access

IV. Additional Debt Factors

Pension Liabilities/Funding Efforts

Debt Ratios or Debt Structure

Borrowing on Behalf of Local Governments

V. Additional Other Factors

VI. Other Factors Specific to a State or Credit that May Affect Rating

VII. Operating Environment



State Bond Rating Levels: Standard & Poor's

Long-Term Issue Credit Ratings*

Category	Definition
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AAA	The highest rating assigned by S&P. The obligor's capacity to meet its financial commitments on the obligation is extremely strong.
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AA	Differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitments on the obligation is very strong.
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A	Somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitments on the obligation is still strong.
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BBB	Exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation.
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BB, B, CCC, CC, and C	Obligations rated BB, B, CCC, CC, and C are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and C the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse conditions.
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D	The obligation is in default or in breach of an imputed promise.
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*The ratings for AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Source: S&P



State Bond Rating Levels: Moody's

Investment Grade	Aaa
	Aa1
	Aa2
	Aa3
	A1
	A2
	A3
	Baa1
	Baa2
	Baa3
Non-Investment Grade	Ba1
	Ba2
	Ba3
	B1
	B2
	B3
	Caa1
	Caa2
	Caa3
	Ca
C	

Aaa Obligations rated Aaa are judged to be of the highest quality, with minimal risk.

Aa Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A Obligations rated A are considered upper-medium-grade and are subject to low credit risk.

Baa Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess speculative characteristics.

Ba Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.

B Obligations rated B are considered speculative and are subject to high credit risk.

Caa Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.

Ca Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery in principal and interest.

C Obligations rated C are the lowest-rated class of bonds and are typically in default, with little prospect for recovery of principal and interest.



Current New Mexico General Obligation & Severance Tax Bond Ratings

- General obligation bonds (GOBs)
 - S&P: AA/Negative
 - Moody's: Aa1/Negative

- Severance Tax Bonds (STBs)
 - S&P: AA-/Stable
 - Moody's: Aa2/Stable



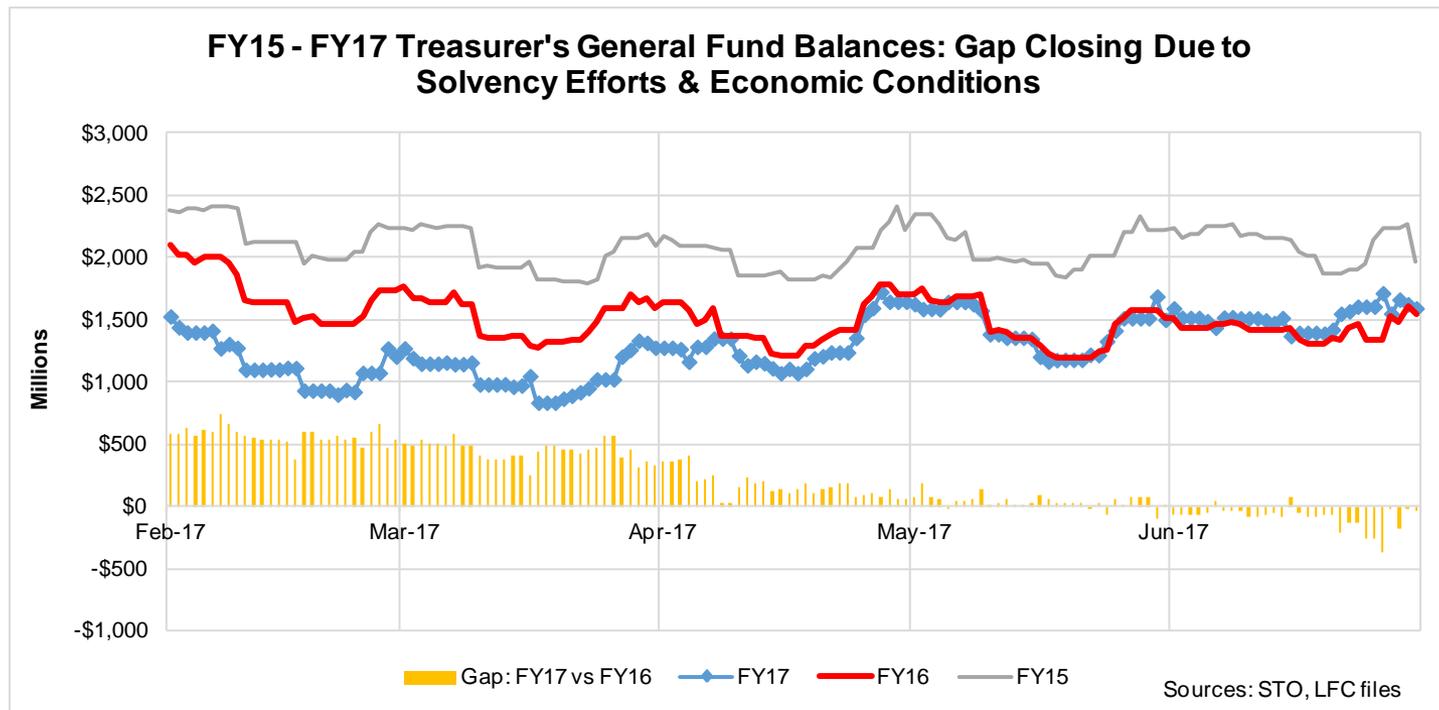
Recent Moody's Rating Review

- Moody's recently announced it is not downgrading the state's GOB rating
 - The negative outlook was kept in place
 - Positives mentioned by Moody's: the state set aside more money in cash reserves, created a true rainy day fund, and has a history of timely action to keep budget balanced
 - Negatives mentioned: state economy lagging the nation's, below-average wealth levels, and weak financial reporting practices
- Moody's kept the state's STB rating but changed the outlook from negative to stable



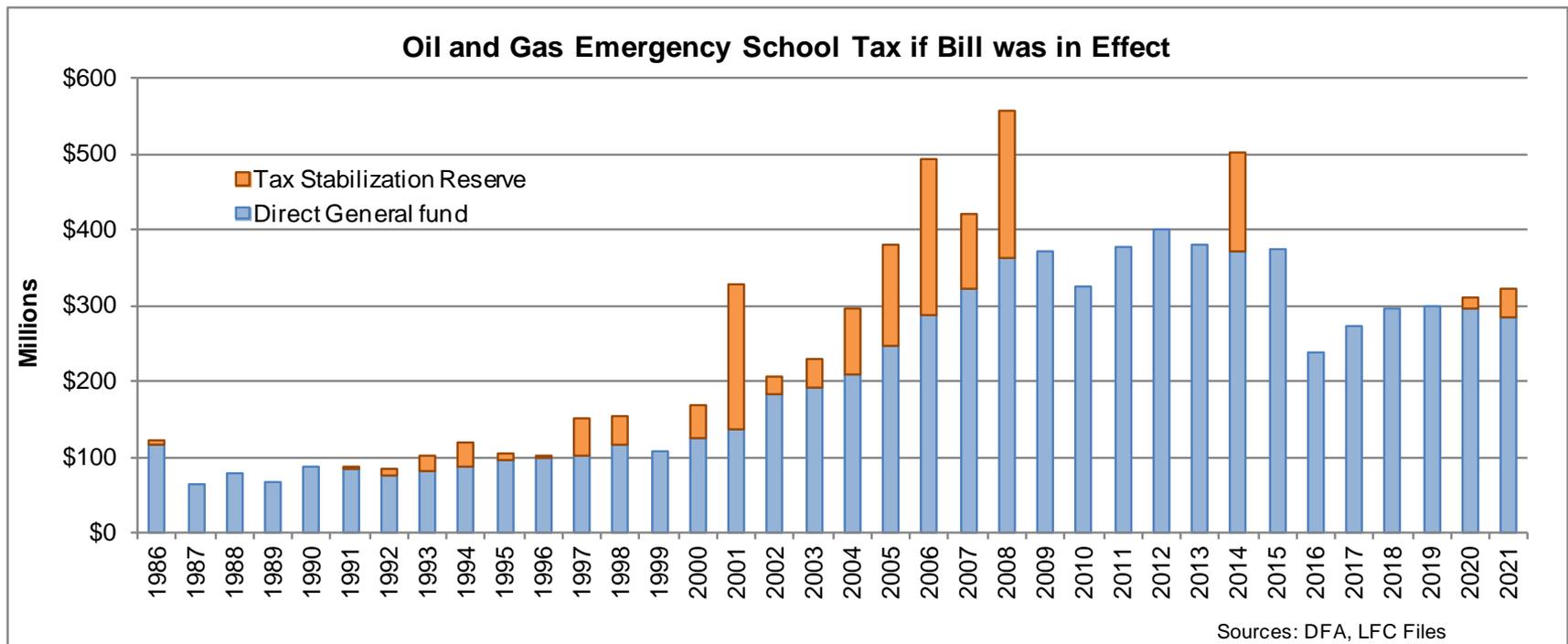
Cash Reserves

- Solvency efforts improved cash reserves



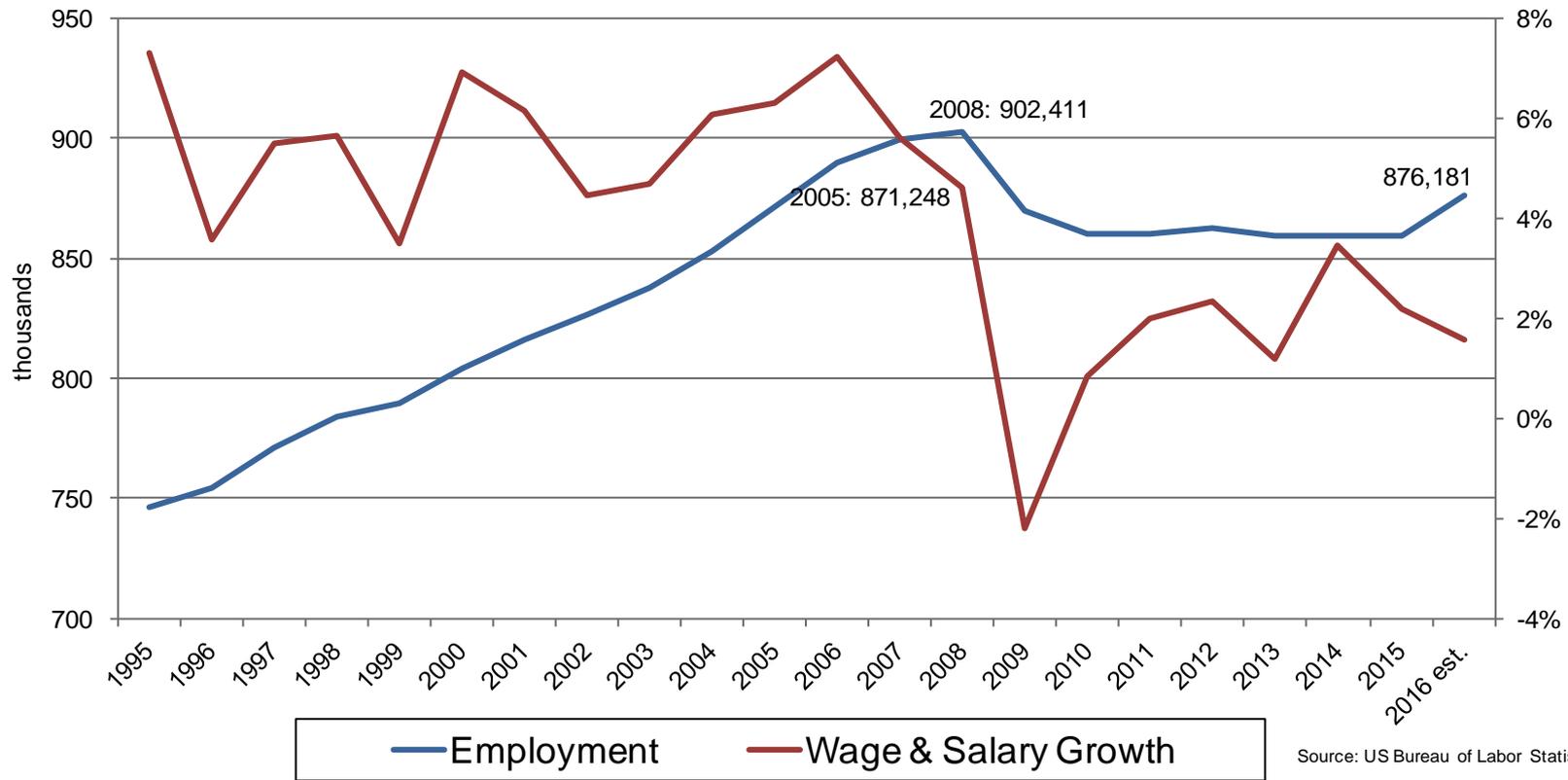
Rainy Day Fund

- New Mexico now has a true rainy day fund



Weak Economic Growth: Lost Decade for Jobs and Wages

New Mexico Total Labor Force and Wage & Salary Growth



General Fund Financial Summary:
2017 Regular & Special Session Revenue Bills, Feed Bill, General Appropriation Act, and Vetoes
(millions of dollars)

June 16, 2017

	<u>Audited</u> <u>FY2016</u>	<u>Estimate</u> <u>FY2017</u>	<u>Estimate</u> <u>FY2018</u>
<u>APPROPRIATION ACCOUNT</u>			
REVENUE			
Recurring Revenue			
Total Recurring Revenue	\$ 5,708.8	\$ 5,607.8	\$ 5,931.8
Total Nonrecurring Revenue	\$ 0.1	\$ 513.2	\$ 18.7
TOTAL REVENUE	\$ 5,708.9	\$ 6,120.9	\$ 5,950.5
APPROPRIATIONS			
Total Recurring Appropriations	\$ 6,210.5	\$ 6,087.8	\$ 6,082.2
Total Nonrecurring Appropriations	\$ 92.8	\$ 25.9	\$ 1.1
TOTAL APPROPRIATIONS	\$ 6,303.3	\$ 6,113.7	\$ 6,083.3
Recurring Budget Gap	\$ (501.7)	\$ (480.1)	\$ (150.4)
GENERAL FUND RESERVES			
Beginning Balances	\$ 713.1	\$ 146.1	\$ 166.4
Transfers from (to) Appropriations Account	\$ (485.4)	\$ 7.2	\$ (3.7)
Revenue and Reversions	\$ 105.9	\$ 68.3	\$ 46.4
Appropriations, Expenditures and Transfers Out	\$ (187.4)	\$ (55.3)	\$ (186.1)
Ending Balances	\$ 146.1	\$ 166.4	\$ 22.9
<i>Reserves as a Percent of Recurring Appropriations</i>	<i>2.4%</i>	<i>2.7%</i>	<i>0.4%</i>

Recurring spending exceeds recurring revenues

With solvency legislation, and budgets for Higher Education and the Legislature restored, FY18 reserve balance is projected at about \$23 million (0.4%), based on December 2016 CREG revenue forecast

