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DEPARTMENT OF FINANCE AND ADMINISTRATION

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DEBT AFFORDABILITY STUDY

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Introduction and Scope

The New Mexico Department of Finance and Administration, in conjunction with the State Board of Finance and its Financial Advisors, has developed this Debt Affordability Study as a management tool for assessing the affordability of projected debt issuance by the State and monitoring the State's debt capacity. The availability of capital for investment in critical State infrastructure is essential for the long-term health of the New Mexico economy and for increasing real incomes and the quality of life for New Mexicans. 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. The Fort Bayard lease appropriation bonds are also included, as will be any future state lease appropriation bonds that may be issued. These bonding programs, along with periodic general fund revenue surpluses, are the primary sources of capital investment funding for the State. The study does not address debt issuance by State higher educational institutions, the Mortgage Finance Authority, debt programs of the New Mexico Finance Authority beyond the NMFA issuance of bonds on behalf of the Department of Transportation, or the regional housing authorities.

These core State bonding programs project the issuance of $3.08 billion of new money long-term general obligation and senior severance tax bonds over the next 10 years for State capital projects. The projected debt issuance plans for the core State bonding programs are not funded from, and therefore do not place stress on the State General Fund, and are affordable with respect to the revenue streams that are dedicated to debt repayment. The key debt ratios are projected to trend downward over time even as the new debt is issued. The regular issuance of long-term debt as contemplated for investment in State economic infrastructure and other critical state facilities is consistent with the State’s strong bond ratings.

The key debt ratios used in this Study to assess the debt burden are debt per capita and debt as a percentage of personal income, which evaluate the ability to pay and provide a basis for comparing levels of debt use across states and with peers. These ratios, along with the level of financial reserves and trends in State revenues and other financial resources, directly impact the State bond ratings, and the State bond ratings directly determine the State’s cost of capital. Understanding the position of the State relative to its peers will allow the State to monitor its financial and debt positions and provide a framework for benchmarking with respect to debt issuance levels, debt capacity, and levels of new investment.

Since 2008, the revenues of state governments across the country have been undermined by the national recession. While the National Bureau of Economic Research has determined that the recession ended in June 2009, the impact on state finances has continued. Unemployment rates have yet to improve materially, and the pressure on social service costs, education funding and higher educational institution, continues. Therefore, attention to debt affordability and trends in core credit factors is perhaps more important now than at any time in recent history. Credit market access and access to capital at low rates requires that the State sustain its high bond

ratings. The prudence of the State in the past with respect to judicious use of debt, recent demonstrated ability to rebuild critically important operating reserve balances, and the thoughtful oversight role of the State Board of Finance are important elements in the strong credit position and market access that the State continues to enjoy.

New Mexico's general obligation bond ratings from both Moody's and Standard & Poor's reflect strong credit attributes that include (i) historically strong General Fund reserves, (ii) solid revenue performance, even during periods of national economic weakness, and (iii) rapid debt retirement and moderate, though increasing, debt levels. These credit strengths have been balanced against historically low levels of personal income, the inherent volatility of oil and natural gas-related revenues, a relative lack of economic diversity, and dependence on federal employment.

Consistent with recommendations made in previous years in the context of the annual Debt Affordability Study, the State continues to take important steps to improve management practices that underpin the quality of its bond ratings. Last year, this report emphasized the importance of the new administration meeting the challenge of weighing competing budget demands in a time of continuing economic uncertainty, and placing a priority on stabilizing and rebuilding the State's operating reserve funds. Over the past year, the State has been successful in taking the necessary actions to restore operating reserve levels to healthy levels. The State's determination to restore its reserve balances toward historical levels is a positive credit factor.

Debt capacity for core state infrastructure investment is a limited and scarce resource. State decision makers in the Executive Branch and in the Legislature require solid information for understanding the alternative sources of debt financing for State purposes, and the implications and opportunity costs of decisions regarding the use of scarce debt resources. This Debt Affordability Study will enable the State to structure its future use of debt in a manner that is consistent with preferred debt policies and cognizant of existing and future resource constraints. It will provide a comparison of the State's debt position to relevant industry standards and assess the impact of new debt issuances on the State's debt position.

This Debt Affordability Study will also provide a tool for evaluating the effect of existing and new debt programs on the State credit position. Debt and debt management is one of the four critical factors assessed in the determination of the State bond ratings, along with economic and demographic factors, financial performance, and management. The study will assist in guiding the development of debt management policies as well as policies regarding the use of other financial products to manage the State's financial position and prospects over time.

Core State Bonding Programs

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. The 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 property tax. The severance and supplemental severance tax bonds are secured by and repaid from revenues deposited into the Severance Tax Bonding Fund, which primarily include taxes on mineral production in the state. The transportation revenue bond program is secured by a pledge of revenues received into the Road Fund, which are principally derived from gasoline taxes, registration fees and road user fees, plus an additional pledge of certain federal revenues received annually by the Department of Transportation.

Over the last five years, total capital funding of over $4.3 billion was derived largely from the core State bonding programs, which include General Obligation Bonds, Severance Tax Bonds, Supplemental Severance Tax Bonds and Transportation Revenue Bonds.

In September 2008, the State implemented its first issuance of lease appropriation bonds under a constitutional amendment approved by the voters in 2006, which allows for the State to utilize lease purchase financing for buildings and real property. These bonds were issued by Grant County, New Mexico, as State of New Mexico Department of Health, Lease Appropriation Bonds, Series 2008, for the development of the new Fort Bayard Medical Center. In conjunction with the issuance of these bonds, the State Board of Finance implemented policies and procedures to integrate lease appropriation financings into the State financial management system, and the State anticipates that lease appropriation financing will be utilized for the funding of core state buildings in the years ahead. Accordingly, this study incorporates lease appropriation financing for state facilities as one of the core state bonding programs.

The following table sets forth the sources of capital investment funding for the State over the past five years, including the core State bonding programs, the severance tax note program as well as other sources of funding and pay-as-you-go funding from the General Fund. As shown in this table, in 2009 and 2010 the General Fund contribution to capital funding was negative. This reflects the decision to re-appropriate available prior year funds that had been appropriated for capital projects to utilize those funds for current year operating purposes. This decision marked a significant change from prior year practices, when the State appropriated excess general fund revenues, primarily derived from activities related to oil and natural gas production, for direct expenditure for capital purposes.

Principal Sources of Capital Funding by Fiscal Year (Millions of dollars)						
	2007	2008	2009	2010	2011	Total
General Obligation Bonding Program						
General Obligation Bonds	$142.8	$0.0	$223.4	$0.0	$19.7	$385.9
Subtotal	142.8	0.0	223.4	0.0	19.7	$385.9
Severance Tax Bonding Program						
Severance Tax Bonds	136.4	153.6	0.0	315.3	0.0	605.3
Severance Tax Funding Notes	193.3	150.9	188.7	178.6	27.3	738.8
Supplemental Severance Tax Bonds	0.0	0.0	0.0	112.9	0.0	112.9
Supplemental Severance Tax Funding Notes	210.8	222.8	240.8	97.0	206.1	977.5
Subtotal	540.5	527.3	429.5	703.8	233.4	2,434.5
Other Sources						
General Fund	548.4	123.0	-148.6	-259.2	0.0	263.6
Transportation Bonds	0.0	420.0	112.3	635.7	0.0	1,168.0
Lease Appropriation Bonds	0.0	0.0	60.0	0.0	0.0	60.0
Subtotal	548.4	543.0	23.7	376.5	0.0	1,491.6
Total	**$1,231.7**	**$1,070.3**	**$676.6**	**$1,080.3**	**$253.1**	**$4,312.0**

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

As the end of fiscal year 2011, the State had $355.5 million of outstanding general obligation bonds and $817.3 million of bonds secured by Severance Taxes Bonding Fund revenues. In addition, the State had $60 million of lease appropriation bonds, and $1.7 billion of transportation bonds supported by Road Fund revenues. The following table sets forth the State tax-supported debt outstanding as of June 30, 2011.

State Debt Outstanding as of June 30, 2011 (millions)	
General Obligation Bonds	$355.50
Severance Tax Bonds	$691.28
Supplemental Severance Tax Bonds	$125.92
Transportation Bonds	$1,704.45
Lease Appropriation	$60.00
	$2,937.15

Review of the State Credit

The State's general obligation bonds are rated *Aaa,* with a "negative" outlook, by Moody's Investors Service ("Moody's") and *AA+,* with a "stable" outlook, by Standard & Poor's Ratings Services ("S&P"). These ratings are the highest ratings offered by Moody's and one notch below the "gilt-edged" triple-A ratings by S&P.

The ratings on 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. Bond ratings are an important factor in the capital markets and directly affect interest rates on State bonds when they are issued. While each series of bonds carries its own credit rates, the general obligation bond rating represents the overall credit rating of the State. In April 2010, Moody's began the recalibration of its municipal bond ratings with the stated objective of "enhancing the comparability of ratings across the Moody's rated universe". The move to a global rating system resulted in an upward shift for 31 state and territory credits, including New Mexico, Indiana, Iowa, Tennessee and Texas advancing to *Aaa*. Moody's cautioned at that time that market participants view the recalibrations not as rating upgrades but as reconfigurations to a different scale.

New Mexico's general obligation bond ratings are Aaa and AA+ from Moody's and Standard & Poor's, respectively. The negative outlook on the Moody's rating reflects Moody's concern over the high level of federal spending and employment in the State, which could be at risk as the Federal Government addresses its budget issues.

In July 2011, Moody's changed the outlook on New Mexico's *Aaa* rating from stable to negative. The Moody's action came in response to growing credit concerns regarding the Aaa status of the United States sovereign credit rating, which led Moody's to place a negative outlook on five of 15 states rated *Aaa*. Moody's has informed New Mexico officials that it will perform additional analysis to confirm whether New Mexico's economic and financial vulnerability to changes in the federal government credit and looming cuts in federal funding warrant reconsideration of New Mexico's *Aaa* rating. Moody's further indicated that a downgrade of the United States to below *Aaa* would not automatically lead to a downgrade of New Mexico or other *Aaa* ratings.

As it reviews New Mexico's credit against federal risk factors, Moody's indicated that they will pay particular attention to the following:

- Employment volatility due to U.S. factors;
- Federal employment as a percentage of total state employment;
- Federal procurement contracts as a percentage of state gross domestic product;
- Medicaid as a percentage of total state expenditures;
- Put-able variable rate debt as a percentage of available resources;
- Availability of operating fund balance as a percentage of operating revenue, as an offset to these risk factors.

In Moody's preliminary scan of New Mexico against these factors, Moody's concluded that the State's risk exposure is above average with respect to (i) federal employment as a share

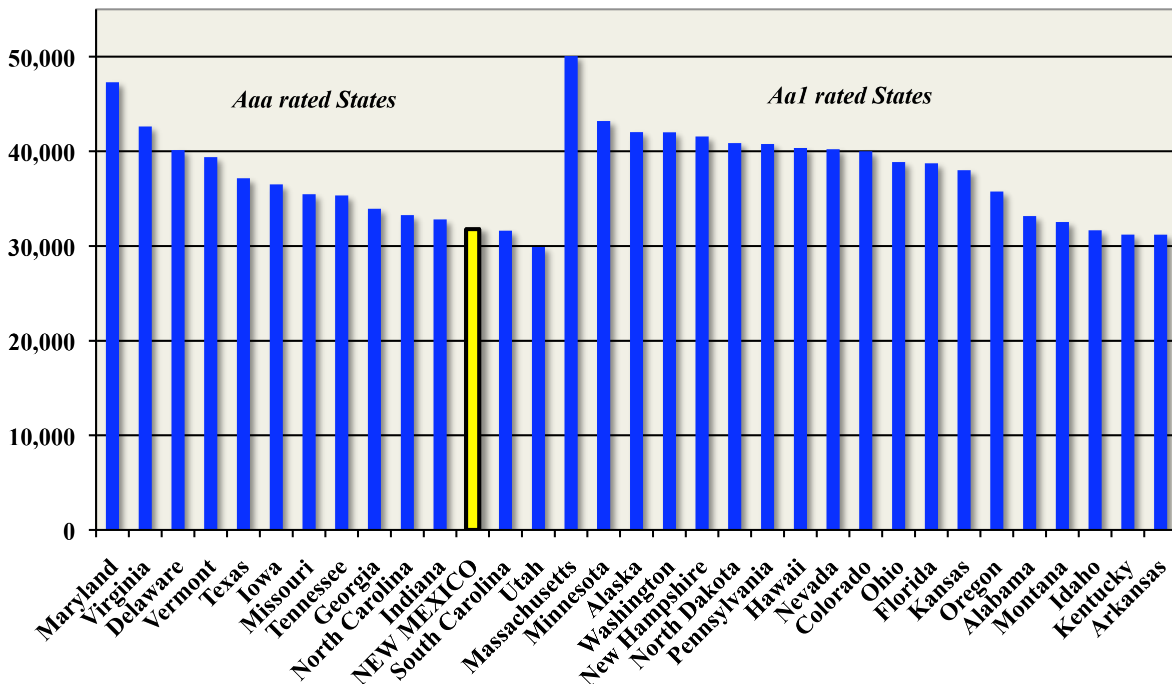
of total state employment, (ii) above average exposure to put-able variable rate debt (at the NMFA), (iii) above average levels of federal procurement contracts as a percentage of state gross domestic product, and (iv) above average level of Medicaid expenditures as a percentage of total expenditures. Against these negative factors, Moody's noted that the State has historically maintained strong operating fund balances as a percentage of operating revenue.

Moody's commentary in its preliminary assessment affirms the core credit attributes of the State. The factors that supported the upgrades of the State general obligation bond ratings over the past two decades from both Moody's and Standard & Poor's include (i) strong General Fund reserves, (ii) solid revenue performance, even during periods of national economic weakness, and (iii) rapid debt retirement and moderate, though increasing, debt levels. These credit strengths have been balanced against historically low levels of personal income, the inherent volatility of oil and natural gas-related revenues, a relative lack of economic diversity, and dependence on federal employment. The following table sets forth a comparison of per capita income in New Mexico with other highly-rated states.

New Mexico's strong bond ratings reflect (i) historically strong General Fund reserves, (ii) solid revenue performance, even during periods of national economic weakness, and (iii) rapid debt retirement and moderate, though increasing, debt levels.

New Mexico's per capita income is at the low end of its peer states, reflecting higher poverty factors in the state.

Peer Comparison: Per Capita Income



The rating analysts have historically recommended specific management practices that would strengthen the State credit position, including the development of a debt affordability study as a debt management tool, the implementation of coordinated, multi-year revenue and expenditure planning, and addressing the timeliness of financial reporting. They have also suggested that legislation to mandate minimum reserve levels in the General Fund would provide additional rating strength.

With the implementation of the Statewide Human Resources and Accounting (SHARE) program, and after years of diligent work to improve its performance with respect to financial reporting, the State issued its Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2010, in March 2011. The Department of Finance is now on track to publish future reports in a timely fashion, and according to industry standards. In the wake of the success of the Department of Finance and Administration in achieving acceptable benchmarks with respect to financial reporting, the State will be on track to address each of the recommended areas of improvements to management practices. This summer, however, it was determined that inconsistencies across State information systems over time led to a failure to request reimbursement for Medicaid funding. To the extent that this reflects ongoing financial management systems issues at the State level, this will be scrutinized by the rating agencies. Accordingly, an effective State response on this issue should be prepared and presented proactively to the bond rating analysts.

Critical to the State bond ratings is continued progress to improve the timeliness of financial reporting and the publication of annual Comprehensive Annual Financial Reports.

The table below sets forth the ratings on outstanding bonds for the core State bonding programs.

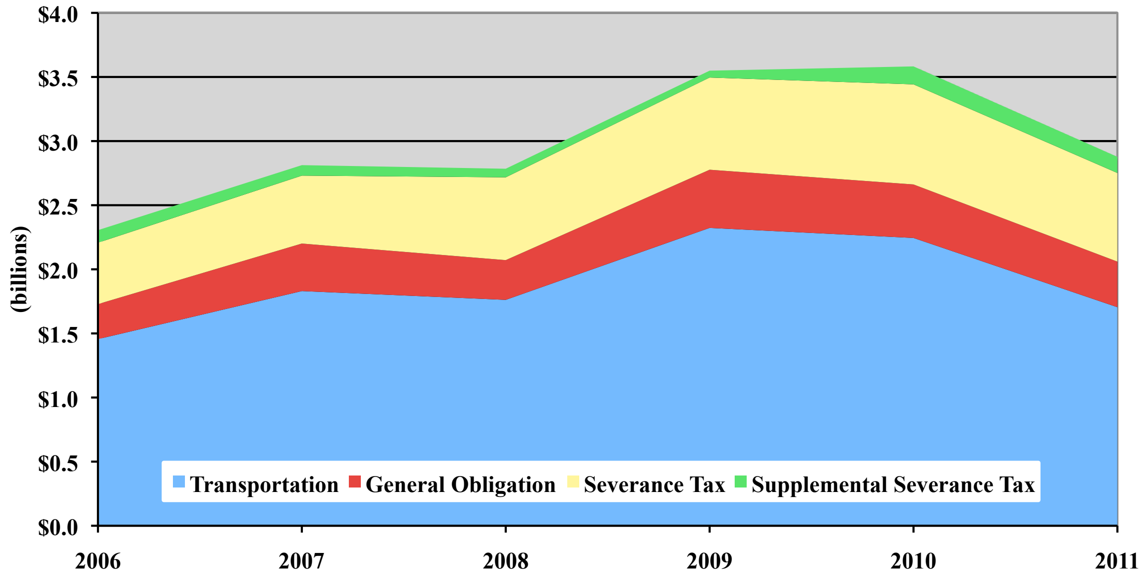
Outstanding State Bond Ratings		
State Board of Finance	**Moody's**	**Standard & Poors**
General Obligation Bonds	Aaa	AA+
Severance Tax Bonds	Aa1	AA
Supplemental Severance Tax Bonds	Aa2	AA-
State Transportation Revenue Bonds		
Senior Lien	Aa1	AA+
Subordinate Lien	Aa2	AA
Adjustible Rate Subordinate Lien	Aaa	AA-
Approved State Lease Appropriation Bonds		
DOH Fort Bayard Project, Grant County	Aa1	AA

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. The trends in

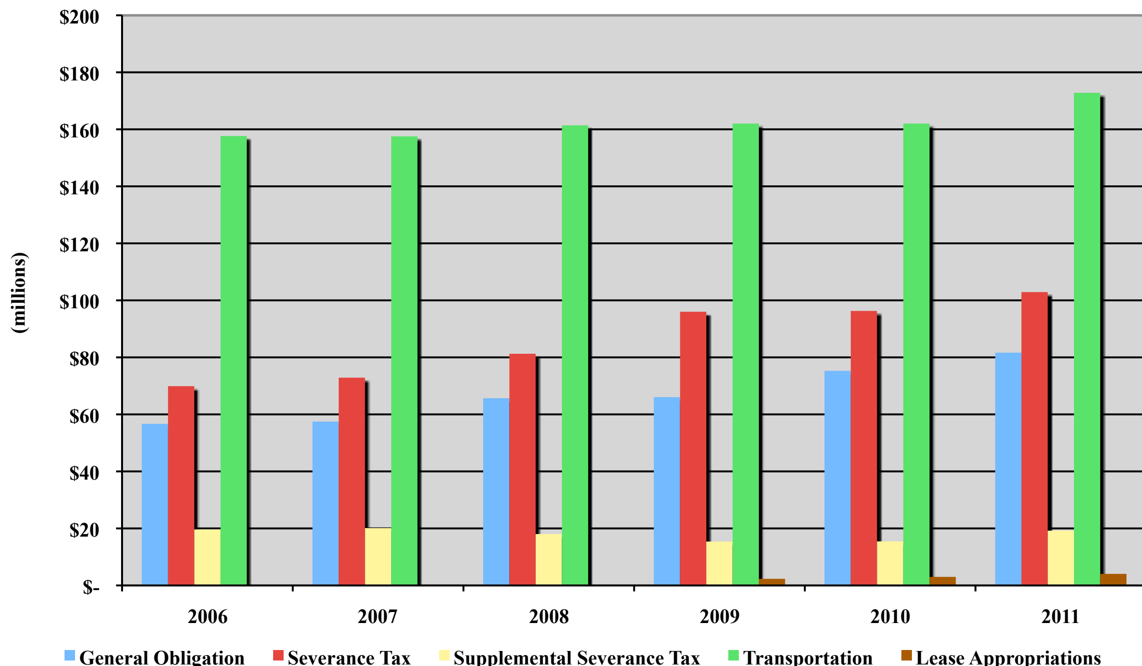
total outstanding state tax-supported debt are illustrated in the following graph, with a slight downward trend in total outstanding debt shown since 2009.

Outstanding Tax-Supported Long-Term Bonds



The State's annual debt service payments have increased over the last five years, rising from approximately $304 million in fiscal year 2006 to approximately $381 million in fiscal year 2011 at an average annual growth rate of approximately 5 percent. As the following graph illustrates, debt has stabilized in recent years.

Tax Supported Bond Debt Service 2006-2011



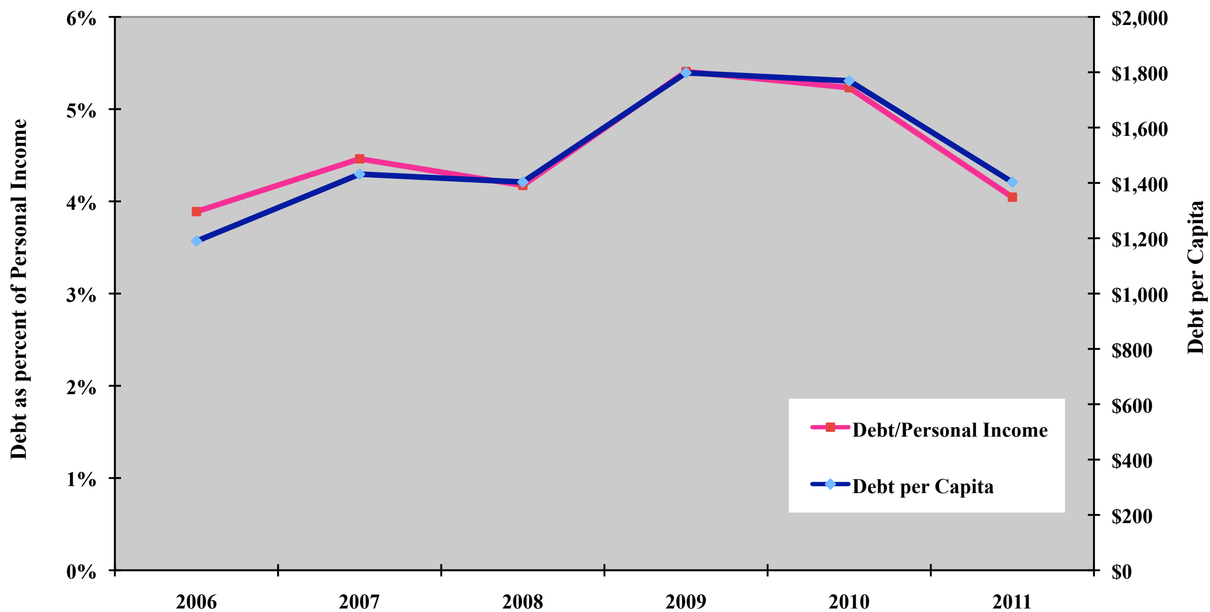
State Debt Ratios

In addition to examining an issuer's total debt position, rating analysts review the issuer's debt ratios and their change over time. The key debt ratios that are evaluated with respect to the credit quality of the State of New Mexico are Net Tax-Supported Debt to Personal Income and Net Tax-Supported Debt per Capita. The debt to personal income ratio provides an indication of the burden a state's indebtedness imposes on the income tax base--the ultimate source of repaying state obligations--while debt per capita provides a relative measure of an entity's debt position compared to its peers.

Other credit factors related particularly to 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 the bonds, and the rate of repayment of the bonds. Payment of 25 percent in five years and 50 percent in 10 years is considered average for general obligation issuers nationally. Therefore, the State's issuance of bonds with a final maturity of 10 years is substantially more conservative than the norm. The following graph presents the State's tax-supported debt ratios over the past five years, revealing an increase in indebtedness over the period, with a downward trend in the debt ratios since 2009.

State law mandates short debt maturities and rapid debt amortization, both strong, structural debt features that contribute to strong rating and low interest rates.

Key Debt Ratios



As noted above, rating analysts also consider the rate of debt repayment as a credit factor. By law, both State general obligation bonds and bonds issued under the Severance Tax Bonding Program are fully retired within 10 years, and the five-year retirement rates of the State general obligation, severance tax and supplemental severance tax bonds are 61.9 percent, 73.0 percent and 58.0 percent, respectively. With respect to the transportation bonds, the five-year retirement

rate is 25.6 percent, while 66.4 percent mature within 10 years. Historically, the State debt management practices have provided for the rapid repayment of bonds, which is generally a positive credit consideration. An opposing view would suggest that the overly rapid bond repayment for the transportation program could be an undue constraint on debt capacity, resulting in the deferral of much needed improvements to the State's transportation infrastructure.

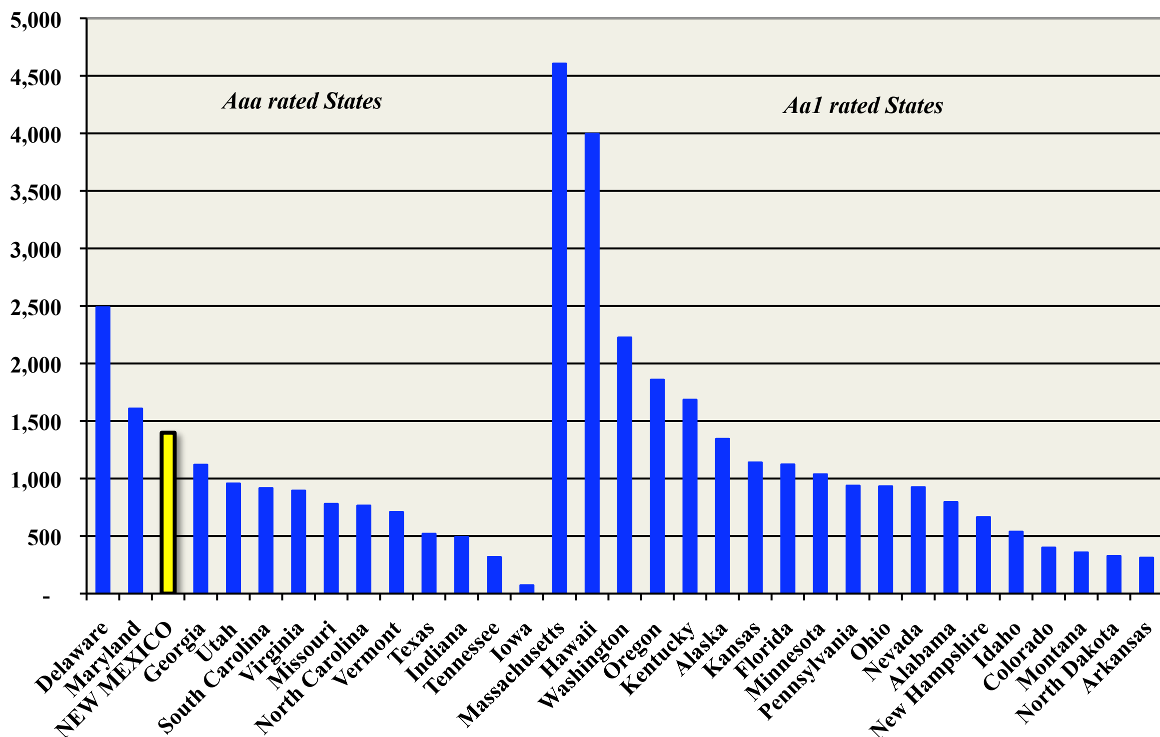
Comparison of Debt Ratios to Selected Peer Group and National Medians

A comparison of key State debt ratios to peer group performance ratios is useful to place the State's debt position in a national context. Both Moody's and Standard & Poor's publish ratio data on state governments on a regular basis. For the purposes of benchmarking the State's key debt ratios, a comparison with peer states is provided below utilizing data published by Moody's in June 2011. The peer group comprises states that are rated *Aaa* and *Aa1*.

Debt ratios are stable, though high compared to peer states relative to both population and personal income, reflecting both the large size of the State relative to population, as well as per capita income.

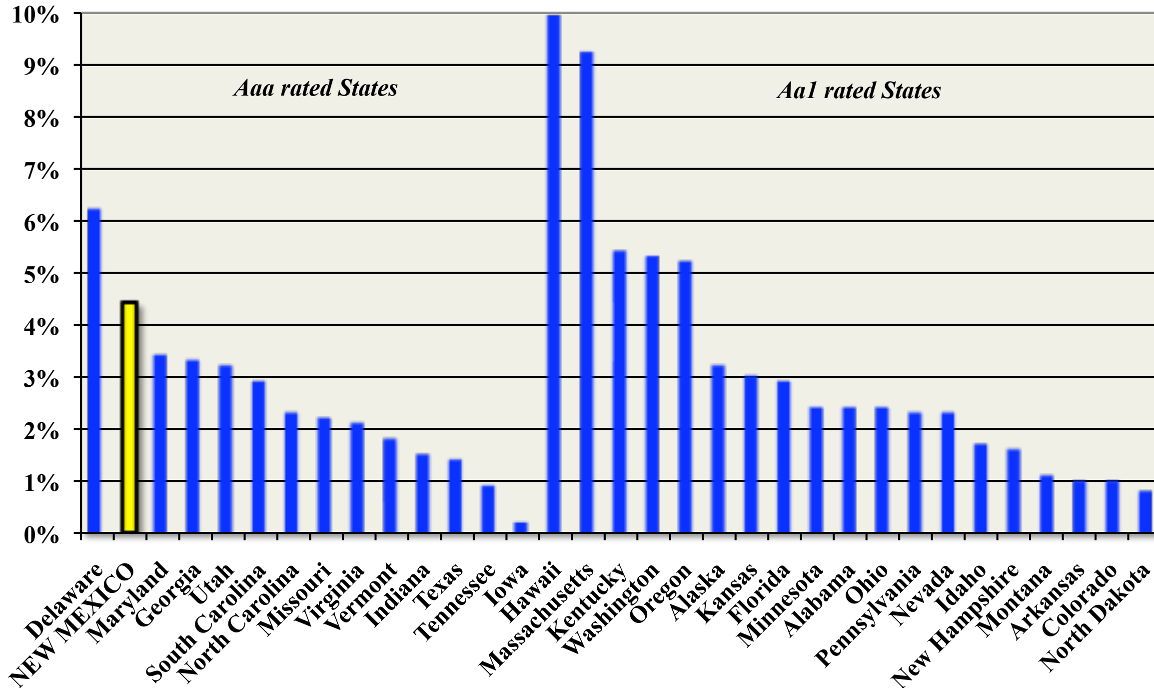
The graph below presents a peer comparison of net debt per capita for states in the two highest rating categories. As is illustrated here, New Mexico has a net debt per capita that is high relative to its peers, exceeded only by Delaware and Maryland. New Mexico's high debt per capita is a function of the infrastructure requirements of being one of the largest states in the nation in terms of land area while having a small population base. The large land area combined with the small population base creates disproportionate costs for roads and other infrastructure on a per capita basis relative to its state peers.

Peer Comparison: Net Debt per Capita



Similarly, the next graph presents the ratio of State net tax-supported debt to personal income in comparison with the same peer group. As illustrated here, New Mexico has a ratio of net tax-supported debt to personal income that is high relative to its peers. Historically, the net debt levels of the State were moderate to low, and have reached or exceeded national norms as the State has begun to address its statewide transportation investment needs.

Peer Comparison: Net Debt as Percent of Personal Income



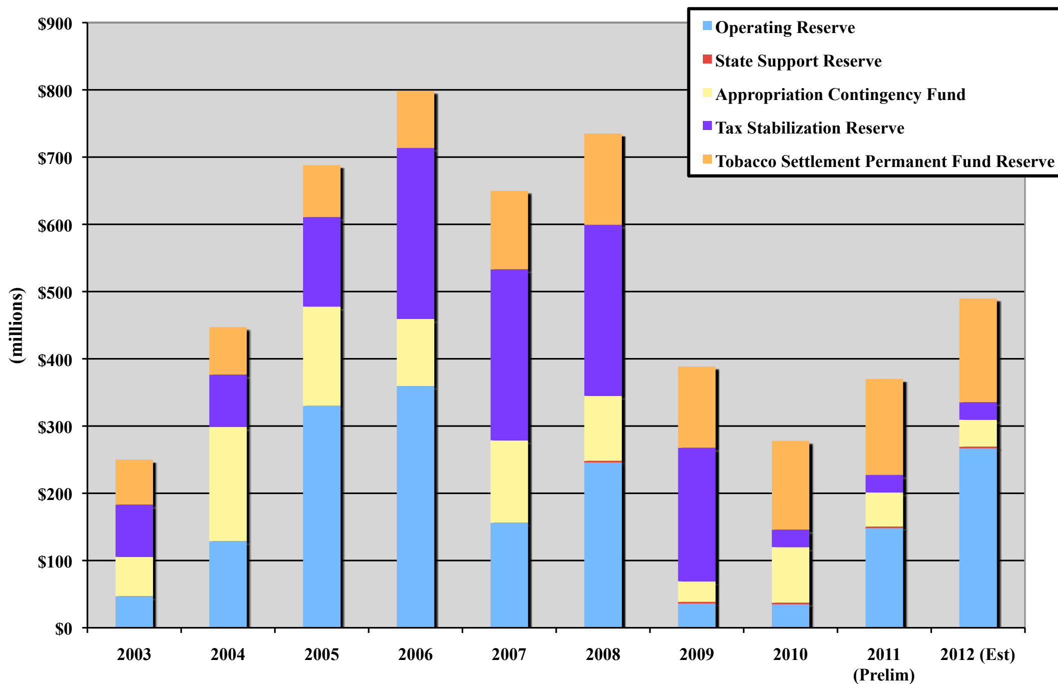
General Fund Reserves

Strong reserve balances in the General Fund have been a positive attribute of the State general obligation bond ratings, and are viewed by Moody's as a potential offset against the State's vulnerability to federal risk, and a credit strength. When the State bond ratings were upgraded by both Moody's and Standard & Poor's from *Aa/AA* to the *Aa1/AA+* ratings in the 1993-1994 period, the State economy was strong and General Fund reserves—which at that point were primarily held in the Operating Reserve—were annually 5 to 10 percent of recurring appropriations, reaching a peak of 10.3 percent at the end of fiscal year 1993. Immediately following the two bond upgrades, the State reserves fell by nearly 90 percent over a two-year period, and the State added the Risk Reserve to the General Fund to bolster the budgetary reserves. Neither rating agency downgraded the State in the wake of the reserve decline, however Standard & Poor's put the State on CreditWatch and informed the State that the general obligation bond rating would be lowered if the reserves were not re-established above 5 percent of recurring appropriations and maintained at that level.

General Fund Reserve levels have been critical to the New Mexico bond ratings. Keeping aggregate reserves above five percent and toward 10 percent are key rating metrics for both bond rating agencies.

The following graph presents the components of the General Fund reserve balances, including preliminary results for 2011 and estimated 2012 year-end balances, and illustrates the strong growth over the past 10 years. The Risk Reserve was removed from the General Fund following fiscal year 1999 as the Operating Reserve balances were re-established. Beginning in fiscal year 2000, the Appropriation Contingency Fund and Tax Stabilization Reserve have been funded with excess General Fund revenues, providing additional permanence to the State operating reserves. In addition, in fiscal year 2003 the unencumbered Tobacco Settlement Permanent Fund Reserve was created within the State General Fund.

General Fund Reserves FY 2003-2012 (Est)



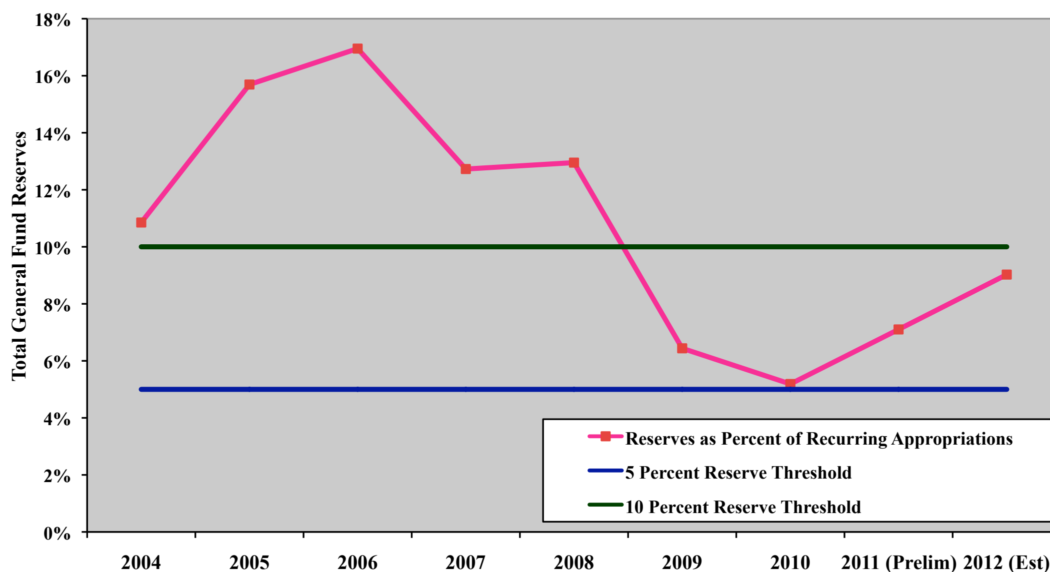
Reserve balances grew steadily, approaching $800 million, or over 17 percent of recurring revenues in fiscal year 2006, before being drawn down to 10.7 percent in fiscal year 2008. However, the 2008 recession placed considerable strain on the State's reserve funding. The Tax Stabilization Reserve funds were appropriated for use in 2009, as seen in the following chart, due to revenue shortfalls resulting from by the national economic downturn. Reserve balances declined to 6.4% for fiscal year 2009, below the 10% level established as the policy goal, before reaching a low of 5.2% in 2010.

The following graph presents the General Fund reserves as a percentage of recurring appropriations, with a line designating the 5 percent reserve floor established as a credit criteria by Standard & Poor's and a line designating the 10 percent reserve target established within the Executive Branch. Over the past 10 years, the reserve ratio has fluctuated, but has remained above the 5 percent reserve threshold at all times, and remained above the 10 percent reserve threshold from fiscal years 2004-2008. The restoration of operating reserves balances, shown

The new administration has met the challenge of restoring General Fund Reserve levels and controlling expenditures in a time of great fiscal challenges for states across the country.

below on a percentage basis and in the graph above show the strong recovery in reserve balances that have been made possible by the combination of recovering revenues and deliberate management action. The ability to restore reserve balances, and the demonstrated political will required to achieve these results, will be a significant positive credit factor going forward.

General Fund Reserves as Percent of Recurring Appropriations



Revenue, Volatility and Forecast Error

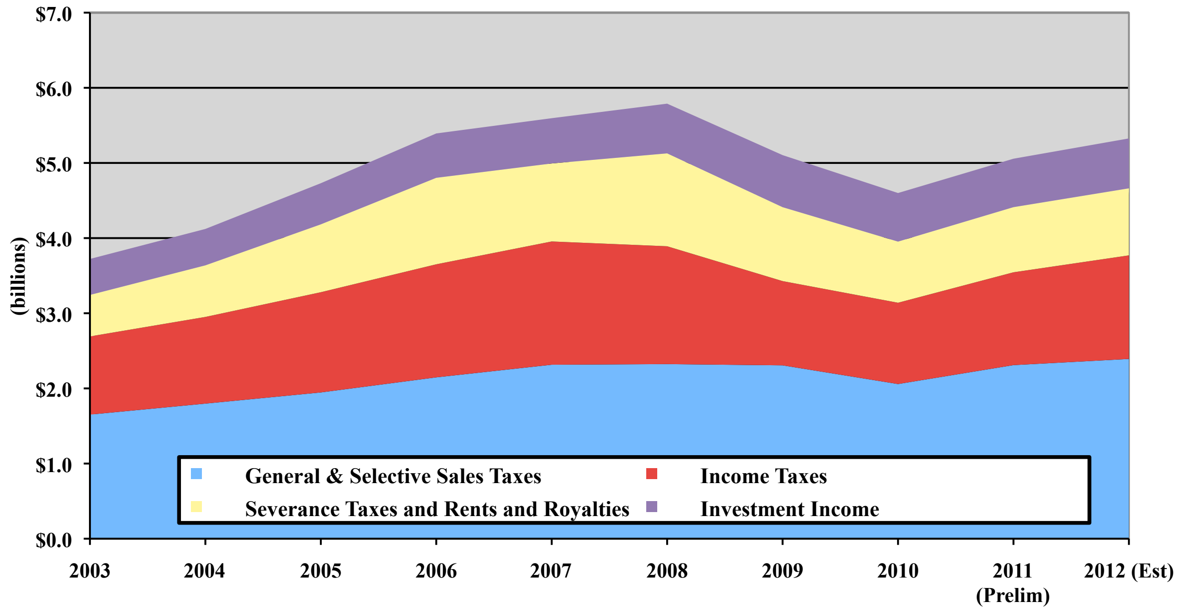
While historically strong General Fund reserves have been a credit factor supporting the strong State ratings, historical volatility of General Fund receipts has led to volatility in reserve levels, as illustrated in the two previous graphs. Trends in primary General Fund revenues, which comprise sales taxes, income taxes, revenues derived from mineral extraction activities and investment earnings, including those from State permanent funds, are evaluated by the rating agencies as they consider fundamental issues of fiscal stability and trends, are illustrated in the graph on the following page.

Severance taxes have tended to provide a counter-cyclical benefit to the State revenue mix.

The normal fluctuation in the primary General Fund revenues reflecting economic cycles is exacerbated by the inherent volatility in revenues related to mineral extraction, as these revenues give the State the posture of being a seller of oil and natural gas, and therefore vulnerable to changes in price, and to a lesser extent production, over time. While Moody's has focused on the volatility in General Fund revenues created by the State's mineral taxes and revenues, Standard & Poor's has noted the counter-cyclic benefits of the revenue diversity, and the strong revenue performance that the State has realized during periods of national economic

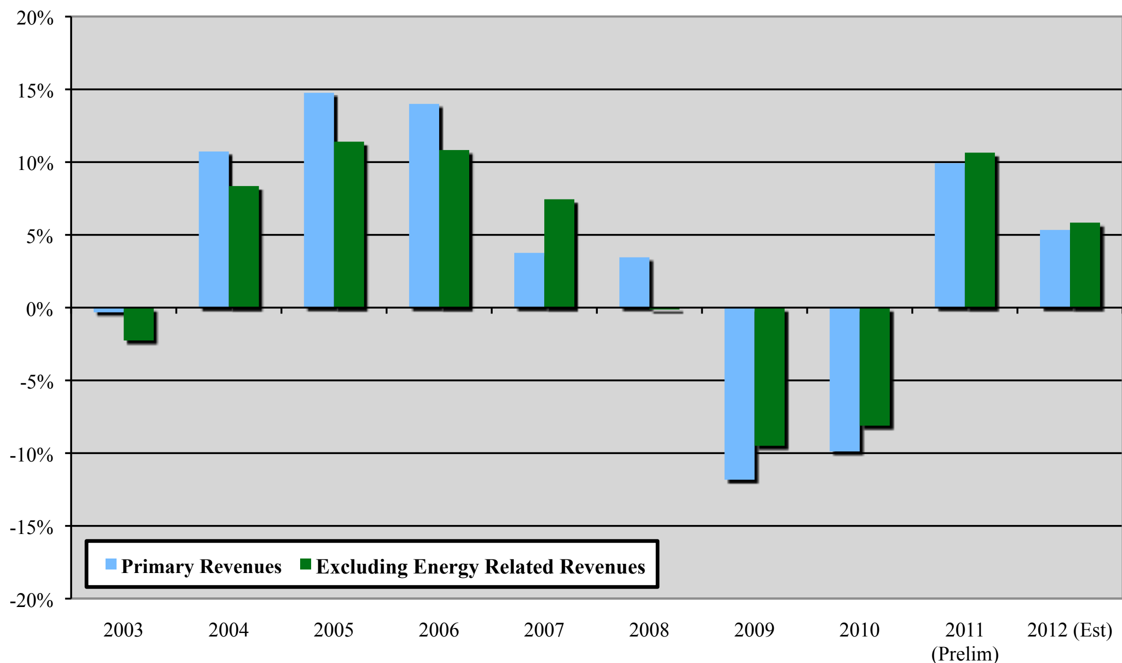
weakness. In the most recent economic recession, however, each of the State core revenues has declined in the face of the deep economic downturn. However, the revenue mix continues to benefit the State by demonstrating counter-cyclical attributes and the strength of natural resource based revenues has balanced the downturn in other core revenue streams through the recent economic downturn.

Primary General Fund Revenues 2003-2012 (Est)

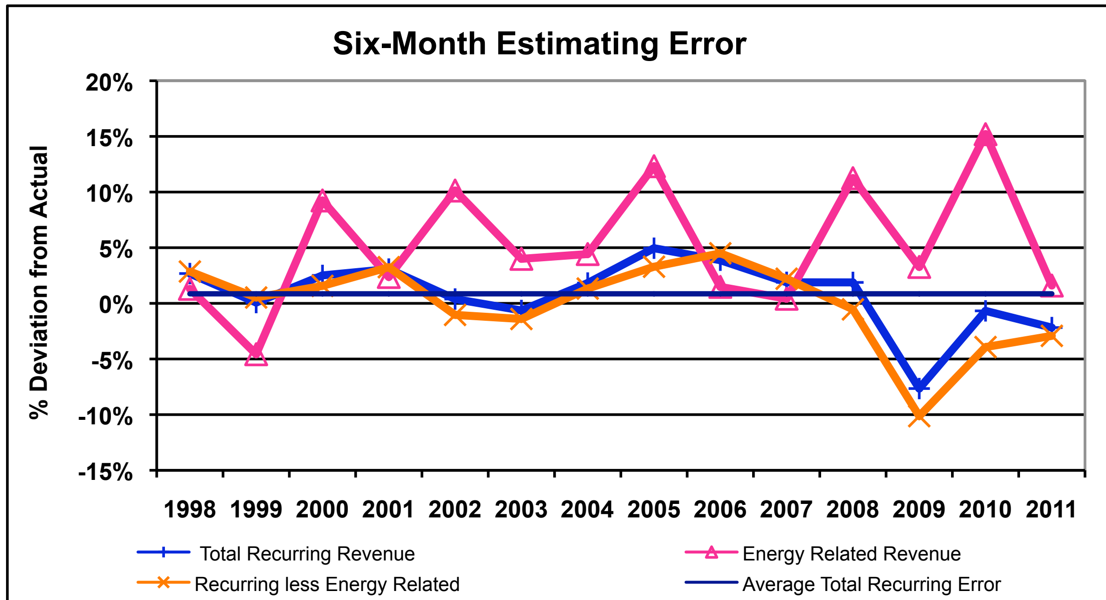


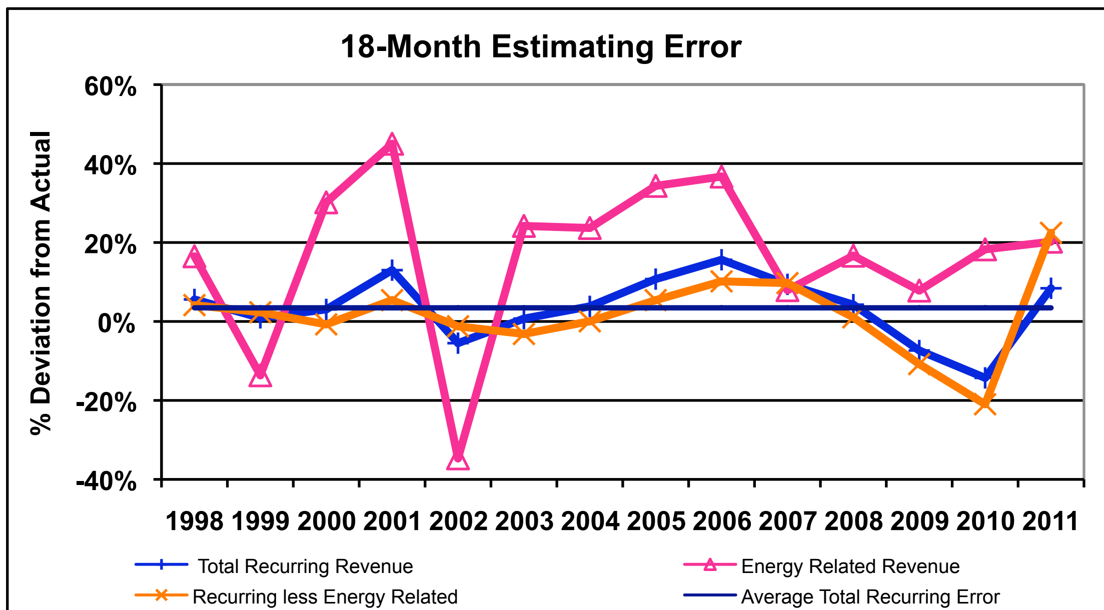
The year over year growth in the primary General Fund revenues, which comprise sales taxes, income taxes, revenues derived from mineral extraction activities and investment earnings, including those from State permanent funds, is presented below.

Annual Fluctuation in Primary Revenues



Because of the role of mineral taxes and revenues in the State revenue mix, the State closely tracks the 6-month and 18-month forecast error in State revenue planning. The 18-month estimate represents projections at the time the fiscal year budget is adopted. As illustrated in the following graphs, State revenue estimates as developed through the consensus revenue estimation process have tended to have a conservative bias that has resulted in core revenues outperforming projections that are utilized for budget planning and in the legislative appropriation process. Negative error indicates actual revenue receipts fell short of estimate. Positive error indicates actual revenue receipts exceeded the estimate.





Financial Reporting

The lack of timely financial reporting, and specifically the delays in the issuance of the State Comprehensive Annual Financial Report, has historically been a negative credit factor for the State. The standard for the issuance of annual financial reports is within six to eight months of the end of the fiscal year, with many states publishing their audited CAFR in less than six months. By comparison, the State has on average issued its CAFR 19 months after the end of the fiscal year, prior to fiscal year 2008. With the implementation of the SHARE system in 2008, the State has addressed this issue. The 2007 CAFR was published July 31, 2008, the 2008 CAFR was published January 31, 2009, the 2009 CAFR was published March 19, 2010, and the 2010 CAFR was published March 15, 2011. There has been significant progress, and the State intends to conform to industry standards (a publication date of six to eight months from the end of the fiscal year).

State Pension Funds and Other Post-Employment Benefit Liabilities

The financial position of the State pension funds and the projected liabilities for Other Post-Employment Benefits (OPEB) have not traditionally been a focus of this debt affordability study. These liabilities, however, constitute the most significant long-term liabilities of the State, and, as with other states across the country, are only likely to increase as areas of concern for bond rating analysts and bond investors. The bond rating agencies have recently intensified their analytic focus on the legal and economic circumstances of state pension funds, and the long-term consequences of chronically underfunded public pension obligations.

The financial condition of PERA and ERB looms as the next significant rating challenge to the State, as bond raters increasingly look at unfunded pension liabilities as part of the overall state debt burden.

Over the next several years, market losses realized during the economic downturn will be fully recognized within the context of multi-year smoothing which may have mitigated the impact of adverse market impacts on portfolio market values at PERA and ERB over the past several years. Additionally, the dramatic change in the interest rate environment, and the long and sustained decline in bond yields, may ultimately require reconsideration of the actuarial yield utilized by the actuaries in valuing State pension and OPEB liabilities. Any ensuing reduction in the actuarial yield assumption would materially increase unfunded pension fund and OPEB liabilities.

Projected State Debt Issuance

The table below represents the projected sources and uses of funds from the core State bonding programs for State capital investment over the next five years. This table includes the issuance of long-term general obligation, severance tax, supplemental severance tax and transportation bonds, and projected lease appropriation obligations, as well as the current year funding provided from the cash available in the Severance Tax Bonding Fund 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. This table also assumes that the Legislature and the Governor authorize projects up the maximum projected debt capacity.

The State projects the issuance of $2.87 billion of bonds for capital funding over the next five years. However, $1.2 billion are from cash flow notes that will not constitute new long-term debt.

Core Bonding Programs:
Sources and Uses of Funds (millions)

Sources of Funds (millions)	FY12	FY13	FY14	FY15	FY16	Five-Year
General Obligation Bonds	$303.5	-	$193.9	-	$214.8	$712.2
Severance Tax Bonds	189.5	189.5	189.5	189.5	189.5	947.5
Severance Tax Notes	74.8	83.2	76.4	66.7	50.6	351.7
Total Seniors	***264.3***	***272.7***	***265.9***	***256.2***	***240.1***	***1,299.2***
Supplemental Severance Tax Bonds	-	-	-	-	-	-
Supplemental Severance Tax Notes	148.7	166.8	177.7	181.9	180.9	856.0
Total Supplemental STBs	***148.7***	***166.8***	***177.7***	***181.9***	***180.9***	***856.0***
Total Sources of Funds	$716.5	$439.5	$637.6	$438.0	$635.8	$2,867.4

Uses of Funds (millions)	FY12	FY13	FY14	FY15	FY16	Five-Year
Projects approved by referendum	$303.5	-	$193.9	$0.0	$214.8	$712.2
New Statewide Capital Projects	130.4	218.2	212.7	203.5	190.8	$955.7
Authorized but Unissued STB Bonds	81.0	-	-	-	-	$81.0
Water Projects	26.4	27.3	26.6	27.0	25.3	$132.6
Colonias Project Capital	13.2	13.6	13.3	12.8	12.0	$65.0
Tribal Projects Capital	13.2	13.6	13.3	12.8	12.0	$65.0
Education Capital	148.7	166.8	177.7	181.9	180.9	$856.0
Total Uses of Funds	$716.5	$439.5	$637.6	$438.0	$635.8	$2,867.4

General Fund pay-as-you-go funding decisions, made as funds were deemed available, resulted in funds being dedicated to capital purposes on a year to year basis. In fiscal years 2005-2008 a total of $1,364.6 million dollars of capital was allocated to projects from this source. Revenue shortfalls and budget constraints have resulted in a reversal of this practice. During fiscal years 2009 and 2010, legislation redirected prior year General Fund appropriations for capital projects in an effort to support reserve levels within the State General Fund.

Note that at the close of fiscal year 2011, there were no State authorized but unissued severance tax bonds.

State Board of Finance Bonding Programs

As presented in the table below, the State Board of Finance currently projects $5.2 billion of new money financing for statewide capital projects over the next 10 years. This amount comprises $1.2 billion of projected general obligation bonding capacity, with issuances subject to legislative authorization and voter approval, $2.3 billion of severance tax bonds and notes subject to legislative authorization and appropriation, and $1.7 billion of supplemental severance tax notes for education projects designated for funding by the Public School Capital Outlay Council. Projections of general obligation bonding capacity reflect a 3.3 percent increase in net taxable values for property tax year 2012 over 2011, though at that level statewide values remain 2.1 percent below pre-recession levels from property tax year 2009. For the subsequent years, increases are projected at 4.0 percent. Projections of severance tax bonding capacity reflect long-term natural resource price and production projections developed by State economists and are revised periodically.

State Board of Finance
Projected Bonding Capacity by Fiscal Year
(millions of dollars)

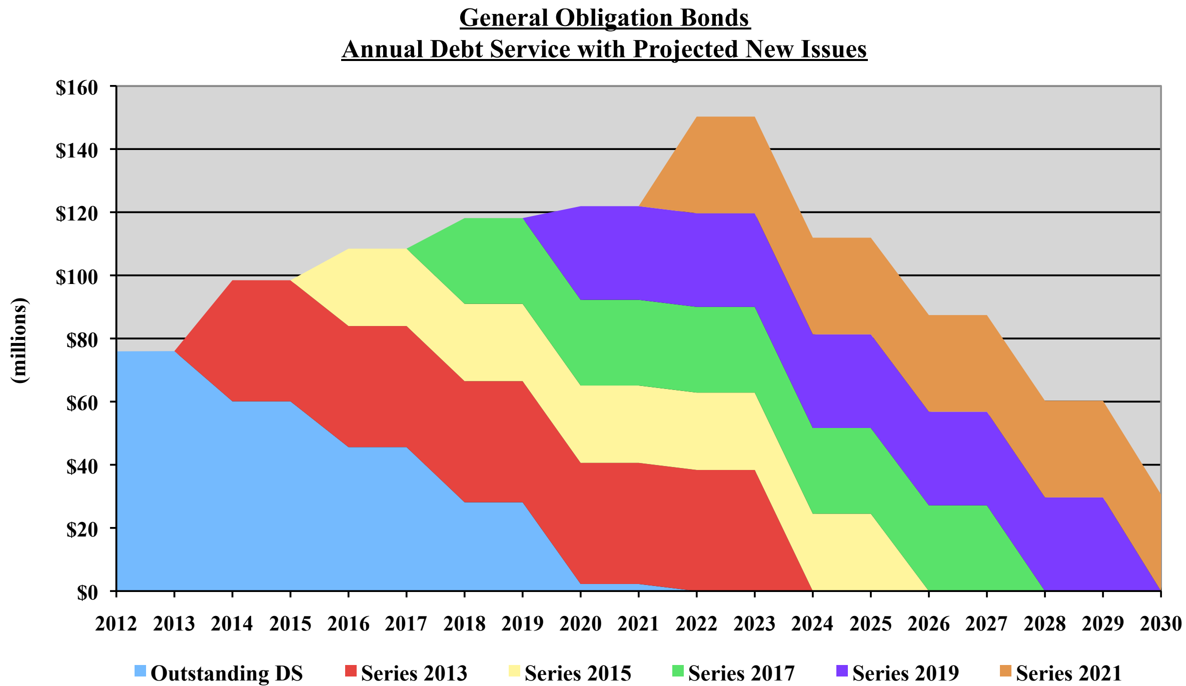
		Severance Tax Bond Program		Supplemental STB Program		
	GO Bonds	**Bonds**	**Notes**	**Bonds**	**Notes**	**Total**
2012	$303.5	$189.5	$74.8	--	$148.7	$716.5
2013	-	$189.5	83.2	--	166.8	439.5
2014	193.9	$189.5	76.4	--	177.7	637.6
2015	-	$189.5	66.7	--	181.9	438.0
2016	214.8	$189.5	50.6	--	180.9	635.8
2017	-	$189.5	35.5	--	178.1	403.1
2018	234.7	$189.5	25.1	--	173.7	623.0
2019	-	$189.5	14.4	--	170.4	374.3
2020	242.2	$189.5	6.8	--	167.2	605.7
2021	-	$189.5	0.2		163.9	353.5
Total	**$1,189.1**	**$1,895.0**	**$433.7**	**$0.0**	**$1,709.3**	**$5,227.1**

General Obligation Bond Issuance

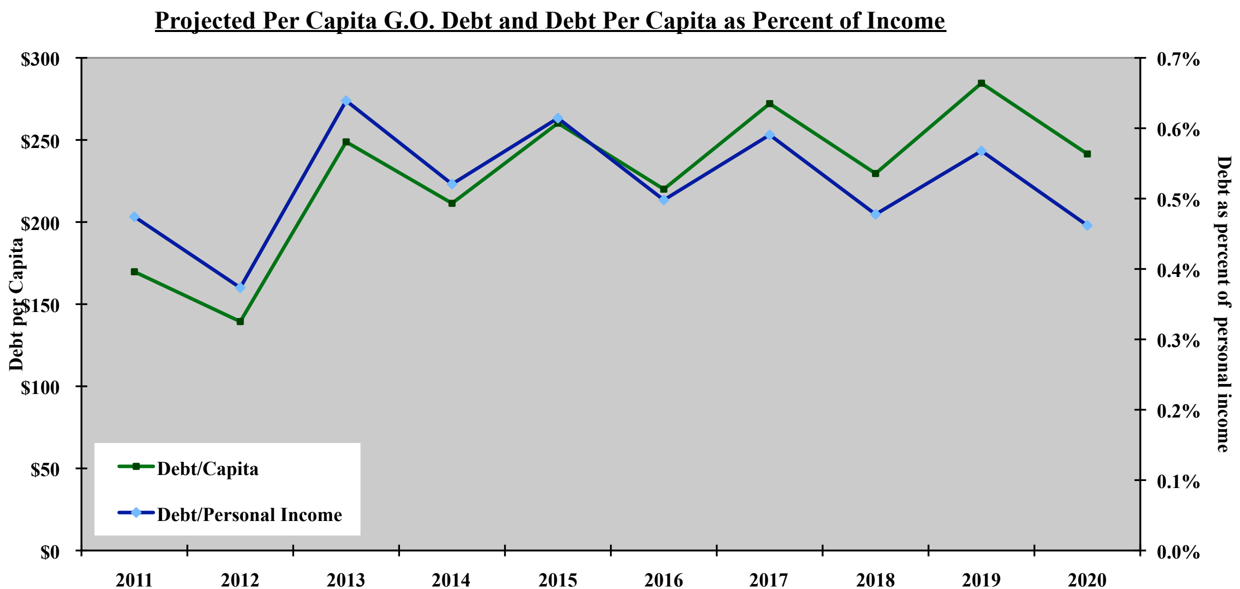
State general obligation bonds are authorized by the Legislature and placed on the ballot for voter approval on a biennial basis. General obligation bonds are subject to a debt limit equal to 1 percent of statewide net taxable property value. The debt limit as of the most recent property valuation is approximately $520 million, and $355.5 million in general obligation bonds were outstanding as of the end of fiscal year 2011. General obligation bonds are secured by the full faith and credit of the State and repaid from a dedicated property tax millage assessment established pursuant to the voter approval of the bonds. The graph below illustrates the debt

General obligation bonding capacity of $1.19 billion over the next decade is structured with rapid debt amortization.

service profile of outstanding debt, and the new general obligation bond issues projected in the table above.



General obligation bonds are sold with a maximum maturity of 10 years. As illustrated in the following graph, the projected biennial issuance of general obligation bonds sustains a stable level of debt per capita and a moderately declining level of general obligation debt service as percentage of personal income in the State.



For the purposes of projecting future debt ratios, population growth in the State is projected to continue at an annual rate of 1.7 percent, and projected personal income growth in the State at a continuing annual rate of 4.3 percent. Personal income growth over the past two years has been approximately 6 percent, however for long-term planning purposes we have utilized a rate that roughly comprises population growth of 1.7 percent, inflation of 3.3 percent and real growth of 1.0 percent.

Severance Tax and Supplemental Severance Tax Bond Issuance

Severance tax bonds are authorized by the Legislature for statewide capital projects. Currently, 10 percent of severance tax bonding capacity is set aside for water projects and 5 percent of senior severance tax bonding capacity is set aside for both tribal projects and the colonias projects. As noted earlier, 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, subject to the annual bonding capacity limitations of the supplemental severance tax bonding program.

SEVERANCE TAX BONDING FUND REVENUES

Remaining Revenues at maximum debt service **5%**

Maximum revenues available to pay debt service on Severance Tax Bonds and Notes, Supplemental Serverance Tax Bonds and Supplemental Severance Tax Notes **95%**

Maximum revenues available to pay debt service on Severance Tax Bonds and Notes and Supplemental Severance Tax Bonds **62.5%**

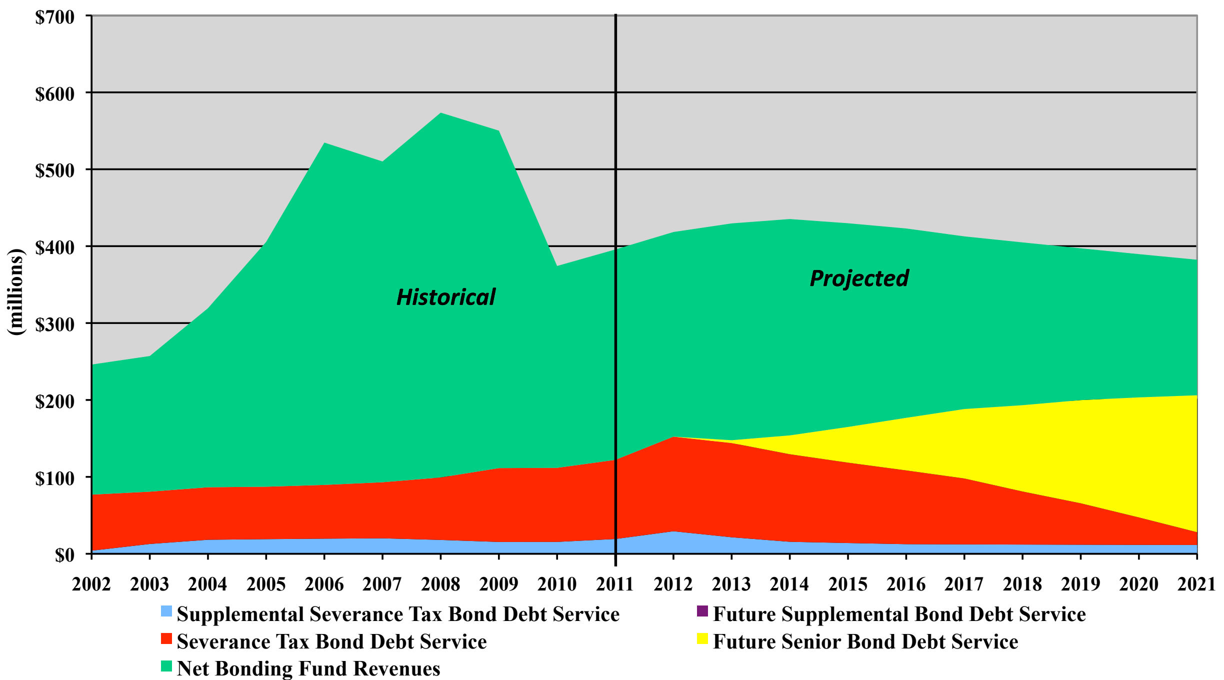
Revenues available to pay debt service on Severance Tax Bonds and Notes **50%**

Severance tax and supplemental severance tax bonds are secured by a pledge of and repaid from revenues received in the Severance Tax Bonding Fund. Under the statutory test governing the issuance of severance tax and supplemental severance tax bonds, and as illustrated in the preceding chart, severance tax bonds and notes can only be issued to the extent that severance tax bond debt service does not exceed 50 percent of revenues received into the Severance Tax Bonding Fund during the most recent completed fiscal year, and supplemental severance tax bonds can only be issued to the extent that the severance tax bond and supplemental severance tax bond debt service does not exceed 62.5 percent of revenues received into the Severance Tax Bonding Fund during the most recent completed fiscal year. Severance tax notes issued to make cash available in the Severance Tax Bonding Fund prior to the semi-annual transfer to the Severance Tax Permanent Fund available for capital projects are subject to the same test as severance tax bonds. Supplemental severance tax notes can be issued to the extent that the severance tax bond and note, and supplemental severance tax bond and note debt service does not exceed 95 percent of revenues received into the Severance Tax Bonding Fund during the most recent completed fiscal year.

Annual long-term capacity for severance tax bonds is determined by the State Board of Finance, based upon outstanding debt service and projections of future Severance Tax Bonding Fund revenues. As a general matter, annual capacity is calculated as 10 percent of the long-term debt capacity under the statutory test, and based upon level-debt service bond amortization over a 10-year life. Annual capacity for severance tax and supplemental severance tax notes are similarly calculated based upon long-term revenue forecasts, projections of long-term bond issuance, and the resulting cash flow available on an annual basis to be set aside for capital purposes through note issuance.

Long-standing State policy has allocated total long-term severance tax bonding capacity over a ten-year horizon. With $1.9 billion of long-term capacity, and $2.1 billion of short-term "sponge" capacity, less than half of the Severance Tax Bonding Program comprises the issuance of long-term debt.

The following graph illustrates the historic and projected revenue and debt service profile of the Severance Tax Bonding Program reflecting the projected issuance of $189.5 million of new long-term severance tax bond issues annually, as projected in the table earlier. It also illustrates the State practice of projecting Severance Tax Bonding Fund revenues based upon declining oil and natural gas prices and production levels, which has tended to suppress the volume of long-term financing and debt service and increase the use of cash funding for capital projects.



Notwithstanding the stipulated long-term severance tax bond capacity of $189.5 per year projected over a 10-year horizon, authorization and funding of projects in fiscal year 2012 may exceed this amount. No severance tax bonding capacity was utilized in fiscal year 2011.

The table below presents the historic and projected debt service coverage for long-term severance tax and supplemental severance tax bonds. The first two columns present the severance tax bond debt service coverage for the outstanding bonds (historical and projected), and the second two columns present historical coverage and projected coverage (assuming future issues).

Severance Tax Bonding Program
Historical and Projected Debt Service Coverage

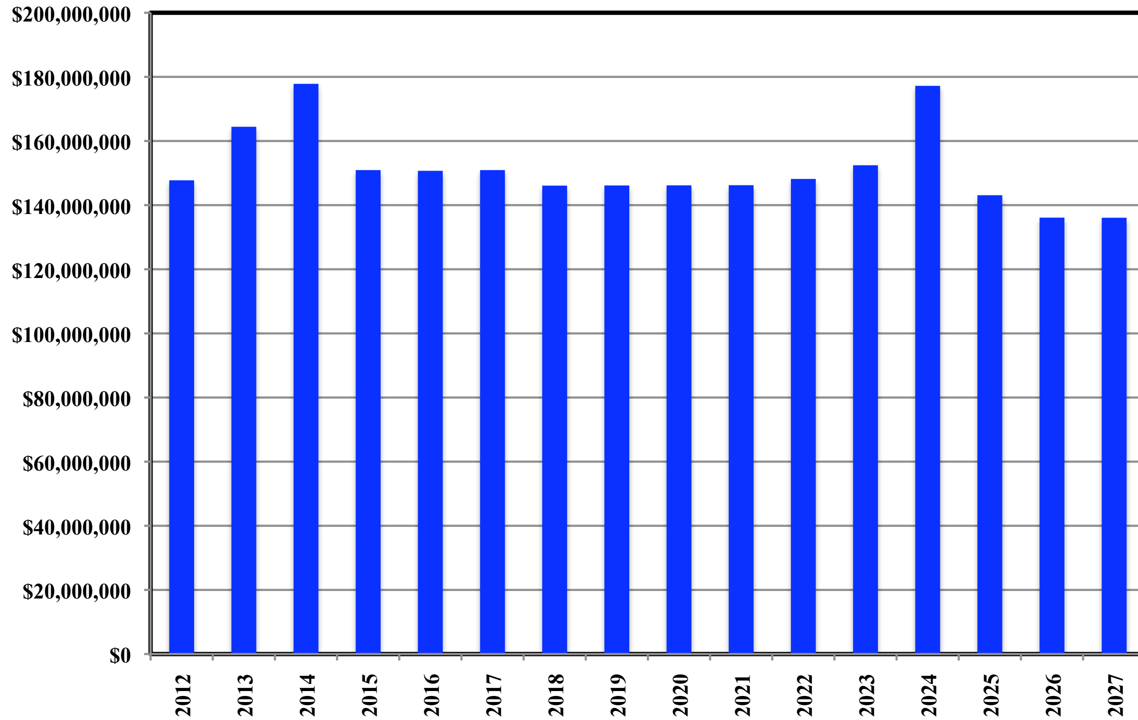
Fiscal Year	Senior Severance Tax Bonds	Supplemental Bonds	Coverage with Future Issues: Senior	Coverage with Future Issues: Supplemental	
2003	3.78	3.18	3.78	3.18	
2004	4.68	3.69	4.68	3.69	
2005	5.95	4.65	5.95	4.65	
2006	7.65	5.97	7.65	5.97	
2007	7.00	5.48	7.00	5.48	
2008	7.06	5.78	7.06	5.78	
2009	5.73	4.94	5.73	4.94	
2010	3.89	3.35	3.89	3.35	
2011	3.84	3.24	3.84	3.24	**Actual**
2012	3.40	2.75	3.40	2.75	**Projected**
2013	3.51	2.98	3.40	2.91	
2014	3.82	3.36	3.15	2.83	
2015	4.11	3.63	2.85	2.61	
2016	4.41	3.90	2.57	2.39	
2017	4.82	4.22	2.34	2.19	
2018	5.87	5.00	2.23	2.10	
2019	7.38	6.05	2.11	1.99	
2020	10.93	8.25	2.03	1.92	

Transportation Bond Program Projected Revenues and Bond Issuance

The 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 Department of Transportation through the New Mexico Finance Authority are secured by and repaid from revenues received into the Road Fund, which are principally derived from gasoline taxes, registration fees and road user fees, plus an additional pledge of certain federal revenues received annually by the Department of Transportation. As of June 30, 2011, the Transportation debt outstanding was $1.704 billion.

The graph below presents current outstanding transportation bonds. The strong ratings and stable outlook reflect the rating agencies' assessment of long and stable trends in pledged state revenues and very strong historical and projected coverage.

Transportation Bond Debt Service



The table below presents debt outstanding, aggregate debt service on outstanding transportation bonds, and the projected level of debt service coverage from the pledged revenues.

Transportation Program
Projected Revenues, Debt Service, and Coverage

	Total Debt Service	Principal Outstanding	Pledged Revenues	Debt Service Coverage
2012	$147,740,225	$1,635,870,000	$624,010,000	4.22
2013	$164,433,330	$1,547,360,000	$624,010,000	3.79
2014	$177,827,629	$1,440,750,000	$624,010,000	3.51
2015	$150,925,900	$1,356,630,000	$624,010,000	4.13
2016	$150,701,229	$1,268,430,000	$624,010,000	4.14
2017	$150,923,766	$1,175,520,000	$624,010,000	4.13
2018	$146,083,198	$1,083,010,000	$624,010,000	4.27
2019	$146,134,304	$985,880,000	$624,010,000	4.27
2020	$146,169,263	$884,315,000	$624,010,000	4.27
2021	$146,216,388	$777,640,000	$624,010,000	4.27
2022	$148,166,988	$663,695,000	$624,010,000	4.21
2023	$152,434,713	$539,640,000	$624,010,000	4.09
2024	$177,197,466	$385,735,000	$624,010,000	3.52
2025	$143,090,191	$259,080,000	$624,010,000	4.36
2026	$136,096,892	$133,500,000	$624,010,000	4.59
2027	$136,064,884	$0	$624,010,000	4.59

Lease Appropriation Bond Financing

Lease appropriation financing has become one of the central tools for the financing of public facilities in the United States. However, until the approval of a constitutional amendment in 2006, New Mexico was one of very few states whose courts declined to permit lease appropriation financing.

In September 2008, the State completed its first issuance of lease appropriation bonds for a core state facility, the Fort Bayard Medical Center in Grant County, in the amount of $60,000,000. In anticipation of this financing, the Department of Finance and Administration in 2008 established procedures and policies that will govern the issuance of lease appropriation bonds for core state facilities in the future. This policy document is attached hereto as Appendix B.

Affordability of Projected State Debt Issuance

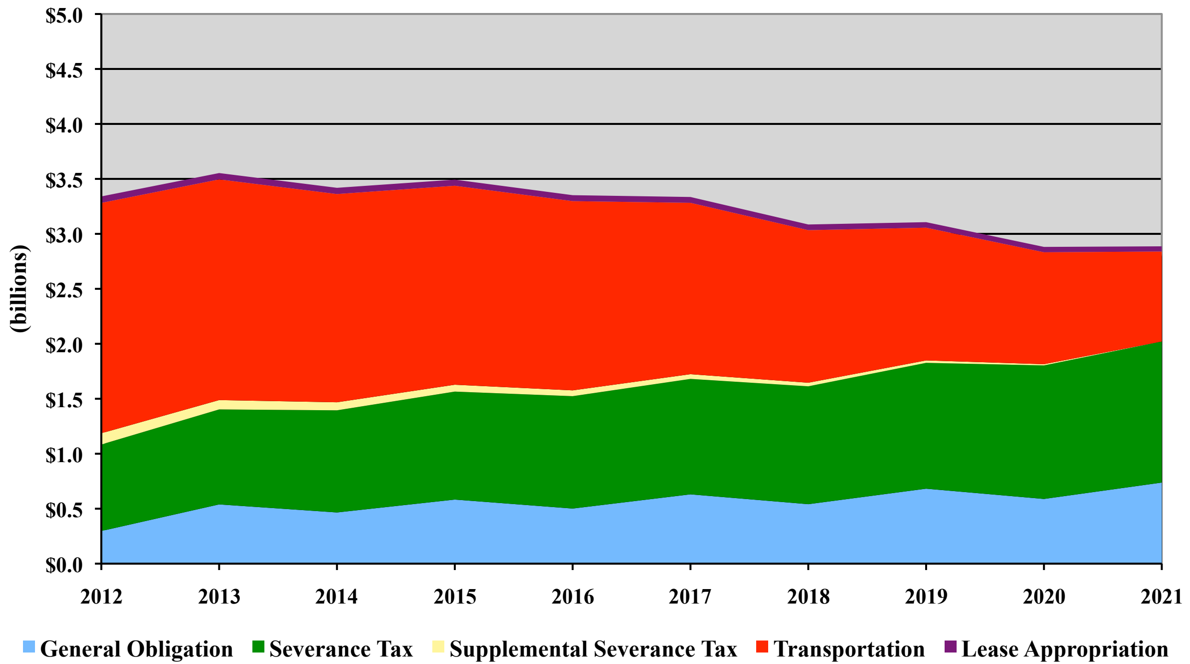
The projected 3.08 billion of long-term bonding capacity over the next decade is fully funded by dedicated revenue streams that do not flow into the State General Fund, and accordingly do not place stress on State finances or competing uses of funds.

The core State bonding programs project the issuance of $3.08 billion of new money long-term general obligation and severance tax bonds over the next 10 years. Each of the bonding programs are funded by dedicated revenue streams, including the general obligation bond property tax millage, the Severance Tax Bonding Fund revenues and the Road Fund revenues, for the general obligation, severance tax and transportation bonding programs, respectively.

None of these core bonding programs, with the exception of lease appropriation financing, utilize revenues that flow into or would otherwise flow into the General Fund of the State, although Road Fund revenues that secure the transportation bonding program are dedicated to transportation operations as well as bond debt service. Each of the programs provide strong legal protections and the revenue-backed bonds demonstrate strong historical and projected debt service coverage. All long-term debt obligations, however, are repaid from the underlying State economy and rely upon economic strength and continued growth to assure that the repayment of debt does not become an increasing burden on the taxpayers of the State.

The following graph presents the projected levels of outstanding tax-supported debt, categorized by debt type, over the next 10 years.

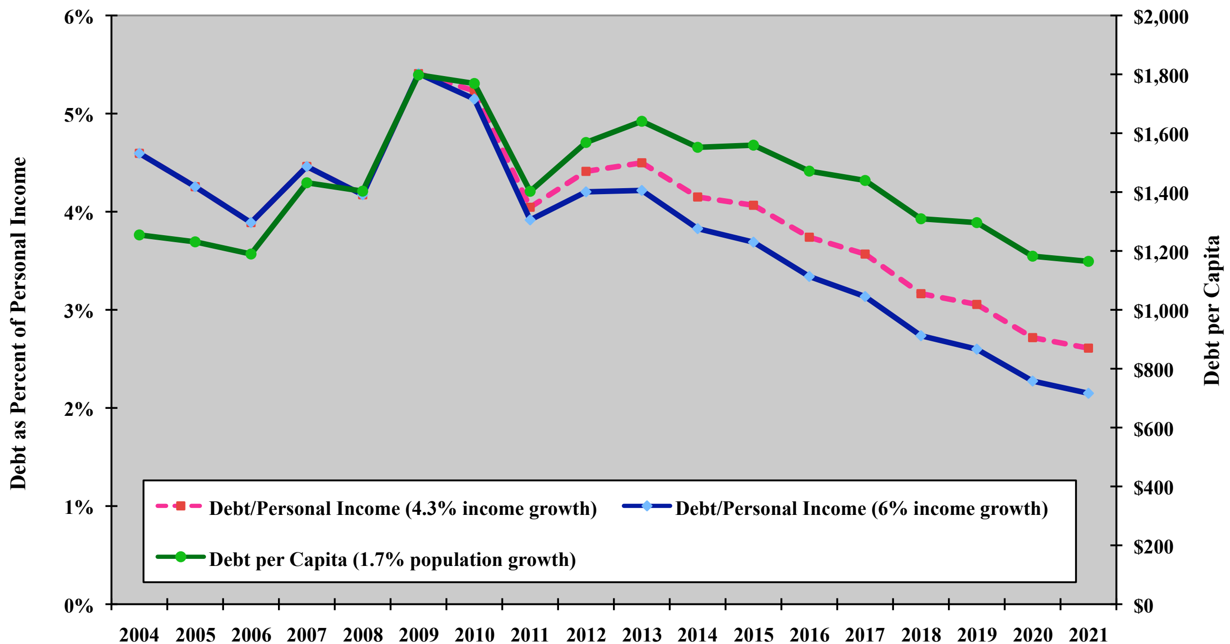
Projected Outstanding Tax-supported Long-term Bonds



The following graph projects the impact of the planned issuance of $3.08 billion of new debt over the next 10 years, and retirement of outstanding debt, on the key debt ratios of the State. As illustrated, the debt ratios are projected to trend downward since peaking in 2009 following the large transportation issuance in 2007 and the biennial issuance of general obligation bonds. When debt ratios peaked in 2009, debt per capita reached a high of $1,798 and debt as a percentage of personal income was 5.4 percent; and both are now trending downward. As noted earlier, for the purposes of projecting future debt ratios, we have projected population growth in the State at a continuing annual rate of 1.7 percent, and projected personal income growth in the State at a continuing annual rate of 4.3 percent. Personal income growth over the past two years has been approximately 6 percent, however for long-term planning purposes we have utilized a rate that roughly comprises population growth of 1.7 percent, inflation of 3.3 percent and real growth of 1.0 percent. For comparison purposes, we have added a dotted red line illustrating the projected ratios at a rate of personal income growth closer to national norms.

The projected long-term bonding does not place stress on the State debt levels, as measured by key rating metrics of debt as a percentage of personal income and debt per capita. For the foreseeable future, the State indebtedness as measured by these key credit ratios will remain high relative to peer states, but should trend downward.

Historical and Projected Debt Ratios



As is illustrated here, the projected debt issuance plans for the core State bonding programs do not place stress on the State General Fund, and are affordable with respect to the revenue streams that are dedicated to debt repayment. The increase in debt ratios appears to have

peaked, and the ratios are projected to decline steadily. These ratios do suggest, however, that for the foreseeable future, the State indebtedness as measured by the key credit ratios will remain high relative to New Mexico's rating peer group, though as economic and population growth continues, State indebtedness as measured by these credit ratios should trend downward.

The projected ratios for the State indicate that the projected level of debt issuance is manageable and should not impair the State's strong bond ratings. The regular updating of this debt affordability analysis, however, should be used as a tool to identify changes in economic or demographic trends, or debt program management, and consider appropriate changes to its debt policies and bonding plans.

Capital Planning, Debt and Financial Policies

Capital Project Prioritization

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.

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.

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.

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 constitutional special schools. Based upon this review and prioritization, the recommended capital plan is submitted to the Governor and Legislature for funding through the general obligation bond program.

Debt Management Policies

Policy Area	*G.O. Bonds*	*Severance Tax Bonds*	*Transportation Bonds*
Bond Life	10-year maximum term.	10-year maximum term.	Bond life may not exceed project design life.
Bond Amortization	Substantially level debt service.	Substantially level debt service.	Substantially level debt service.
Debt Service Coverage	Not applicable.	Senior and supplemental bonds subject to the terms of the statutory issuance test and the market test.	Long-term coverage projected at 4.50x.
Variable Rate Bond Limits	Not utilized.	Unhedged exposure will not exceed 20% of par outstanding.	Unhedged exposure will not exceed 20% of par outstanding.
Variable Rate Bond Considerations	Not utilized.	Balance interest savings and cashflow risks. Short bond life lessens potential savings.	Balance interest savings, cashflow risk and balance sheet management considerations.
Debt Staging	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.
Interest Rate Swaps	Not utilized.	Not utilized to date due to short bond life.	Limited to 30% of par outstanding.
Refundings	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.	Debt evaluated on an ongoing basis to identify bond refunding, and cash and economic defeasance opportunities.
Cash Financing	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 31st and June 30th.	Transportation capital primarily funding with bond proceeds, with cash contributions from the Road Fund, the General Fund and federal revenues.

Policy Area	***G.O. Bonds***	***Severance Tax Bonds***	***Transportation Bonds***
Disclosure	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, and accordingly they have not been attractive for use in conjunction with the general obligation or severance tax bonding programs.

Other information on debt management and related policies is provided in Appendix A in the State Board of Finance Debt Policy.

Conclusion

Steady revenues and stable economic growth and diversification underpin the State of New Mexico bonding programs and assure the affordability of its capital improvement program. Each of the core State bonding programs are funded by dedicated revenue streams, including the general obligation bond millage, the Severance Tax Bonding Fund revenues and the 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 provide strong legal protections and the revenue-backed bonds demonstrate strong historical and projected debt service coverage.

The global financial crisis and the ensuing recession have placed considerable stress on state and municipal government credit ratings including the State of New Mexico. Last year, this report emphasized the importance of the new administration meeting the challenge of weighing competing budget demands in a time of continuing economic uncertainty, and placing a priority on stabilizing and rebuilding the State's operating reserve funds. Over the past year, the State has been successful in taking the necessary actions to restore operating reserve levels to healthy levels. The State's determination to restore its reserve balances toward historical levels will be a positive credit factor.

New Mexico bond ratings, like those of all state and local governments, are under increased scrutiny. Pressure on state and local government bond ratings is significant due to (i) diminished revenues, (ii) reduced reserves, (iii) sustained higher levels of unemployment, (iv) budget pressures to sustain and increase social services and support, (v) pension fund and other investment losses, and (vi) deteriorating wealth measures. Consistent with recommendations made in previous years in the context of the annual Debt Affordability Study, the State continues to take important steps to improve management practices and policies that underpin the quality of its bond ratings. This effort to continually improve management practices and the new administration's success in rebuilding fund balances will be important for maintaining the State's high quality ratings in the face of continuing financial challenges.

The State's key debt ratios are at the high end of its peer group and above national median levels. This is primarily a function of the infrastructure requirements of being one of the largest states in the nation in terms of land area while having a small population base. The State retires its debt rapidly and funds a significant portion of its annual capital expenditures utilizing cash resources from the State General Fund and from the Severance Tax Bonding Fund. The State's historically strong General Fund reserves are central to its strong credit ratings, and will be particularly important in addressing Moody's concerns regarding vulnerability to federal fiscal issues, as are its transparent policies with respect to investments, debt and derivatives.

The effort to continually improve management practices will be important for maintaining the State's high quality ratings in the face of financial challenges. The Department of Finance and Administration and the State Board of Finance adopted a debt policy (see Appendix A) and a lease appropriation policy (see Appendix B) in March 2007. Policies were also issued in 2008 governing the sale of lease appropriation bonds. The State issued its Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2010 CAFR in March 2011. The Department of Finance is on track to publish future reports in a timely

fashion, and according to industry standards. This progress in timely reporting represents the culmination of diligent work by the Department of Finance and Administration's Financial Control Division to address long-standing issues with regard to timely financial reporting.

The planned issuance of $3.08 billion of new general obligation and severance tax secured debt over the next 10 years are not projected to adversely impact the key debt ratios of the State. As discussed in this report, the debt ratios are projected to trend downward from their 2009 peak after taking into account future planned debt issuance.

This study recommends the continued utilization of an annual debt affordability study as a tool for assessing state credit factors and financial policies, and that the State continue to work toward the adoption of a State-wide capital improvement program and the development of five-year expenditure forecasts in parallel with the current long-term revenue estimation process.