

NEW ISSUE – BOOK-ENTRY ONLY

| Ratings: | Insured | Underlying |
|------------------------|----------------|-------------------|
| Moody's: | Aaa | Aa3 |
| S & P: | AAA | AA- |
| (See "RATINGS" herein) | | |

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2004B Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum taxes imposed on certain corporations. In the opinion of such Special Tax Counsel to the NMFA, under existing laws, interest on the Series 2004B Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes. Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004B Bonds. See "TAX MATTERS" herein.

\$237,950,000
NEW MEXICO FINANCE AUTHORITY
STATE TRANSPORTATION REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2004B

Dated: Delivery Date**Due:** June 15, as shown on inside front cover

The New Mexico Finance Authority's State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B (the "Series 2004B Bonds"), are being issued as fully registered bonds in denominations of \$5,000 or any integral multiples thereof. The Depository Trust Company will act as securities depository for all of the Series 2004B Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each maturity of the Series 2004B Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2004B Bonds will be made in book-entry form only, and beneficial owners of the Series 2004B Bonds will not receive physical delivery of bond certificates, except as described herein. Upon receipt of payments of principal and interest, DTC will remit such payments to DTC participants for subsequent disbursement to the beneficial owners of the Series 2004B Bonds.

The Series 2004B Bonds and the New Mexico Finance Authority's Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004C Bonds (collectively, the "2004 Subordinate Lien Bonds") are being issued by the New Mexico Finance Authority (the "NMFA") at the direction of the State Transportation Commission, formerly known as the State Highway Commission (the "Commission"), of the State of New Mexico (the "State") to provide funds to refund and restructure certain outstanding bonds of the NMFA and the Commission.

Interest on the Series 2004B Bonds is payable on June 15 and December 15 of each year, commencing on December 15, 2004, as more fully described herein. Principal on the Series 2004B Bonds is payable on the dates, and interest is payable at the rates, shown on the Maturity Schedule set forth on the inside front cover.

**SEE MATURITY SCHEDULE
ON INSIDE FRONT COVER**

The Series 2004B Bonds are not subject to redemption prior to maturity.

THE SERIES 2004B BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE NMFA PAYABLE, TOGETHER WITH ADDITIONAL BONDS HEREAFTER ISSUED, SOLELY FROM AND SECURED SOLELY BY FEDERAL FUNDS NOT OTHERWISE OBLIGATED THAT ARE PAID INTO THE STATE ROAD FUND, PROCEEDS OF THE COLLECTION OF TAXES AND FEES THAT ARE REQUIRED TO BE PAID INTO THE STATE ROAD FUND, AND TAXES AND FEES REQUIRED BY LAW TO BE PAID INTO THE HIGHWAY INFRASTRUCTURE FUND. THE LIEN OF THE SERIES 2004B BONDS ON SUCH REVENUES IS SUBORDINATE TO THE LIEN THEREON SECURING OTHER BONDS ISSUED CONCURRENTLY WITH THE SERIES 2004B BONDS OR WHICH MAY HEREAFTER BE ISSUED BY THE NMFA. THE SERIES 2004B BONDS DO NOT CONSTITUTE OR CREATE A GENERAL OBLIGATION OR OTHER INDEBTEDNESS OF THE STATE OF NEW MEXICO, THE NMFA, THE COMMISSION, THE NEW MEXICO DEPARTMENT OF TRANSPORTATION (THE "DEPARTMENT") OR ANY GOVERNMENTAL UNIT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. THE NMFA HAS NO TAXING POWERS. THE PRINCIPAL OF AND INTEREST AND PREMIUM, IF ANY, ON THE SERIES 2004B BONDS DO NOT CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY ON THE PART OF THE MEMBERS, DIRECTORS AND OFFICERS OF THE NMFA, THE COMMISSION OR THE DEPARTMENT. NO BREACH OF ANY PLEDGE, OBLIGATION OR AGREEMENT OF THE NMFA WILL IMPOSE A PECUNIARY LIABILITY OR A CHARGE UPON THE GENERAL CREDIT OR TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE.

Payment of the principal of and interest on the Series 2004B Bonds when due will be insured by a Financial Guaranty Insurance Policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Series 2004B Bonds. See "BOND INSURANCE" and "FORM OF FINANCIAL GUARANTY INSURANCE POLICY" in Appendix G.

Ambac

The NMFA and the Department have undertaken, for the benefit of owners of the Series 2004B Bonds, to provide certain annual and periodic disclosure as described herein under the caption "CONTINUING DISCLOSURE UNDERTAKING."

Certain legal matters will be passed on by Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, Bond Counsel to the NMFA. Certain legal matters with respect to the tax status of the interest paid on the Series 2004B Bonds will be passed on by Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA. Certain legal matters will be passed on for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. Certain legal matters will be passed on by Brownstein Hyatt & Farber, P.C., Albuquerque, New Mexico, Disclosure Counsel to the NMFA, for the Underwriters by Hogan & Hartson LLP, Denver, Colorado, and for the Commission and the Department by Hughes & Strumor, Ltd. Co., Albuquerque, New Mexico. First Southwest Company, Dallas, Texas, has acted as financial advisor to the NMFA in connection with the Series 2004B Bonds. It is expected that a single certificate for each maturity of the Series 2004B Bonds will be delivered to DTC or its agent on or about May 20, 2004. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2004B Bonds.

JPMorgan
RBC Dain Rauscher

Dated: April 30, 2004

UBS Financial Services Inc.
George K. Baum & Company

\$237,950,000
NEW MEXICO FINANCE AUTHORITY
STATE TRANSPORTATION REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2004B

| <u>Year Due</u> <u>(June 15)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>CUSIP</u> <u>Number</u> |
|---|---|--|---------------------|---|
| 2005 | \$27,695,000 | 3.000% | 1.465% | 64711RAA4 |
| 2006 | 5,425,000 | 2.000% | 1.900% | 64711RAB2 |
| 2006 | 22,515,000 | 5.000% | 1.900% | 64711RAC0 |
| 2007 | 3,180,000 | 2.000% | 2.280% | 64711RAD8 |
| 2007 | 15,305,000 | 5.000% | 2.280% | 64711RAE6 |
| 2007 | 1,500,000 | 2.500% | 2.280% | 64711RBS4 |
| 2008 | 2,720,000 | 2.500% | 2.650% | 64711RAF3 |
| 2008 | 10,450,000 | 5.000% | 2.650% | 64711RAG1 |
| 2009 | 2,085,000 | 2.800% | 2.960% | 64711RAH9 |
| 2009 | 7,150,000 | 5.000% | 2.960% | 64711RAJ5 |
| 2009 | 1,500,000 | 3.500% | 2.960% | 64711RBT2 |
| 2010 | 160,000 | 3.000% | 3.240% | 64711RAK2 |
| 2010 | 9,070,000 | 5.000% | 3.240% | 64711RAL0 |
| 2011 | 395,000 | 3.300% | 3.510% | 64711RAM8 |
| 2011 | 33,880,000 | 5.000% | 3.510% | 64711RAN6 |
| 2011 | 2,000,000 | 3.750% | 3.510% | 64711RBU9 |
| 2012 | 50,000 | 3.500% | 3.740% | 64711RAP1 |
| 2012 | 29,010,000 | 5.000% | 3.740% | 64711RAQ9 |
| 2013 | 200,000 | 3.700% | 3.910% | 64711RAR7 |
| 2013 | 33,920,000 | 5.000% | 3.910% | 64711RAS5 |
| 2014 | 300,000 | 3.800% | 4.050% | 64711RAT3 |
| 2014 | 29,440,000 | 5.000% | 4.050% | 64711RAU0 |

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the Series 2004C Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum taxes imposed on certain corporations. In the opinion of such Special Tax Counsel to the NMFA, under existing laws, interest on the Series 2004C Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes. Such Special Tax Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004C Bonds. See "TAX MATTERS" herein.

\$200,000,000
NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2004C
consisting of

\$80,000,000 Series 2004C-1**\$80,000,000 Series 2004C-2****\$40,000,000 Series 2004C-3****Dated:** Delivery Date**Price:** 100%**Due:** June 15, 2024

The New Mexico Finance Authority's Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004C (the "Series 2004C Bonds"), are being issued as fully registered bonds in denominations of \$25,000 or any integral multiples thereof. The Depository Trust Company will act as securities depository for all of the Series 2004C Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount of each subseries of the Series 2004C Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2004C Bonds will be made in book-entry form only, and beneficial owners of the Series 2004C Bonds will not receive physical delivery of bond certificates, except as described herein. Upon receipt of payments of principal and interest, DTC will remit such payments to DTC participants for subsequent disbursement to the beneficial owners of the Series 2004C Bonds.

The Series 2004C Bonds and the New Mexico Finance Authority's State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B (collectively, the "2004 Subordinate Lien Bonds") are being issued by the New Mexico Finance Authority (the "NMFA") at the direction of the State Transportation Commission, formerly known as the State Highway Commission (the "Commission"), of the State of New Mexico (the "State") to provide funds to refund and restructure certain outstanding bonds of the NMFA and the Commission.

The Series 2004C Bonds initially will be in an Auction Rate Period. For a description of the method of determination of interest rates, interest payment dates and certain other terms applicable to the Series 2004C Bonds while in an Auction Rate Period, see the inside cover. Each subseries of the Series 2004C Bonds will bear interest at an Auction Rate from and including their date of issuance to but excluding the date on which the interest rate applicable to such subseries of the Series 2004C Bonds is changed to another Interest Rate, in which event such subseries of the Series 2004C Bonds will be subject to mandatory tender for purchase on such date at the purchase price equal to the principal amount thereof plus accrued interest, if any. ***This Official Statement, in general, describes the terms of the Series 2004C Bonds only during the Auction Rate Period and not the terms which will apply in the event that the Series 2004C Bonds are converted to a new Interest Rate as described herein.***

The Series 2004C Bonds are subject to redemption prior to maturity as more fully described herein.

THE SERIES 2004C BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE NMFA PAYABLE, TOGETHER WITH ADDITIONAL BONDS HEREAFTER ISSUED, SOLELY FROM AND SECURED SOLELY BY FEDERAL FUNDS NOT OTHERWISE OBLIGATED THAT ARE PAID INTO THE STATE ROAD FUND, PROCEEDS OF THE COLLECTION OF TAXES AND FEES THAT ARE REQUIRED TO BE PAID INTO THE STATE ROAD FUND, AND TAXES AND FEES REQUIRED BY LAW TO BE PAID INTO THE HIGHWAY INFRASTRUCTURE FUND. THE LIEN OF THE SERIES 2004C BONDS ON SUCH REVENUES IS SUBORDINATE TO THE LIEN THEREON SECURING OTHER BONDS ISSUED CONCURRENTLY WITH THE SERIES 2004C BONDS OR WHICH MAY HEREAFTER BE ISSUED BY THE NMFA. THE SERIES 2004C BONDS DO NOT CONSTITUTE OR CREATE A GENERAL OBLIGATION OR OTHER INDEBTEDNESS OF THE STATE OF NEW MEXICO, THE NMFA, THE COMMISSION, THE NEW MEXICO DEPARTMENT OF TRANSPORTATION (THE "DEPARTMENT") OR ANY GOVERNMENTAL UNIT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. THE NMFA HAS NO TAXING POWERS. THE PRINCIPAL OF AND INTEREST AND PREMIUM, IF ANY, ON THE SERIES 2004C BONDS DO NOT CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY ON THE PART OF THE MEMBERS, DIRECTORS AND OFFICERS OF THE NMFA, THE COMMISSION OR THE DEPARTMENT. NO BREACH OF ANY PLEDGE, OBLIGATION OR AGREEMENT OF THE NMFA WILL IMPOSE A PECUNIARY LIABILITY OR A CHARGE UPON THE GENERAL CREDIT OR TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE.

Payment of the principal of and interest on the Series 2004C Bonds when due will be insured by a Financial Guaranty Insurance Policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Series 2004C Bonds. See "BOND INSURANCE" and "FORM OF FINANCIAL GUARANTY INSURANCE POLICY" in Appendix G.

Ambac

The NMFA and the Department have undertaken, for the benefit of owners of the Series 2004C Bonds, to provide certain annual and periodic disclosure as described herein under the caption "CONTINUING DISCLOSURE UNDERTAKING."

Certain legal matters will be passed on by Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, Bond Counsel to the NMFA. Certain legal matters with respect to the tax status of the interest paid on the Series 2004C Bonds will be passed on by Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA. Certain legal matters will be passed on for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer's Counsel to the NMFA. Certain legal matters will be passed on by Brownstein Hyatt & Farber, PC., Albuquerque, New Mexico, Disclosure Counsel to the NMFA, for the Underwriters by Hogan & Hartson LLP, Denver, Colorado, and for the Commission and the Department by Hughes & Strumor, Ltd. Co., Albuquerque, New Mexico. First Southwest Company, Dallas, Texas, has acted as financial advisor to the NMFA in connection with the Series 2004C Bonds. It is expected that a single certificate for each subseries of the Series 2004C Bonds will be delivered to DTC or its agent on or about May 20, 2004. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2004C Bonds.

JPMorgan**UBS Financial Services Inc.****RBC Dain Rauscher**

Dated: April 30, 2004

\$200,000,000
NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2004C

consisting of

\$80,000,000 Series 2004C-1 \$80,000,000 Series 2004C-2 \$40,000,000 Series 2004C-3

The initial interest rate for each subseries of the Series 2004C Bonds will apply to the period commencing on their date of delivery to and including the initial Auction Date. Thereafter, each subseries of the Series 2004C Bonds will bear interest at an Auction Rate resulting from an Auction conducted on each Auction Date in accordance with the Auction Procedures, described herein, subject to certain exceptions. Interest on each subseries of the Series 2004C Bonds will be payable commencing on the initial Interest Payment Date therefor and on each Interest Payment Date thereafter. The initial Auction Date and each Auction Date thereafter and the initial Interest Payment Date and each Interest Payment Date thereafter for each subseries of the Series 2004C Bonds are set forth below.

| <u>Subseries</u> | <u>Initial Auction Date</u> | <u>Auction Day⁽¹⁾</u> | <u>Auction Period⁽²⁾</u> | <u>Initial Interest Payment Date</u> | <u>Interest Payment Date⁽³⁾</u> | <u>CUSIP Number</u> |
|------------------|-------------------------------------|----------------------------------|---|--|--|-------------------------|
| 2004C-1 | June 29, 2004 | each fifth Tuesday | 35-day | June 30, 2004 | each fifth Wednesday | 64711RCB0 |
| 2004C-2 | June 29, 2004 | each fifth Tuesday | 35-day | June 30, 2004 | each fifth Wednesday | 64711RCC8 |
| 2004C-3 | June 29, 2004 | each fifth Tuesday | 35-day | June 30, 2004 | each fifth Wednesday | 64711RCD6 |

(1) If such day is not a Business Day, an Auction will be held on the Business Day immediately preceding such day.

(2) Subject to change to a different Auction Period and to certain exceptions (see "AUCTION PROCEDURES" in Appendix F).

(3) If such day is not a Business Day, interest will be payable on the Business Day immediately following such day.

The length of an Auction Period for each subseries of the Series 2004C Bonds may be changed as described herein. The Series 2004C Bonds will not be subject to mandatory tender for purchase upon a change in the length of the applicable Auction Period; however, notice of such change will be given as further described in "AUCTION PROCEDURES" in Appendix F.

Prospective purchasers of the Series 2004C Bonds should carefully review the Auction Procedures set forth in Appendix F and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell the Series 2004C Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone, facsimile transmission or other similar electronic means of communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in the Series 2004C Bonds may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer. See "AUCTION PROCEDURES" in Appendix F.

Deutsche Bank Trust Company Americas will serve as the initial Auction Agent for all Series 2004C Bonds. J.P. Morgan Securities Inc. will serve as the initial Broker-Dealer for the Series 2004C-1 Bonds. UBS Financial Services Inc. will serve as the initial Broker-Dealer for the Series 2004C-2 Bonds. RBC Dain Rauscher Inc. will serve as the initial Broker-Dealer for the Series 2004C-3 Bonds.

No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than as contained in this Official Statement, in connection with the offering of the 2004 Subordinate Lien Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the NMFA or the Underwriters. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized or in which any person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information contained in this Official Statement has been obtained from the NMFA, the Commission, the Department and other sources that are believed by the NMFA to be reliable. The information in this Official Statement is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the NMFA, the Commission, the Department or others since the date hereof.

The 2004 Subordinate Lien Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions contained in that Act. The registration and qualification of the 2004 Subordinate Lien Bonds in accordance with applicable provisions of the securities laws of the states in which the 2004 Subordinate Lien Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity, nor any agency or department thereof, has passed upon the merits of the 2004 Subordinate Lien Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

This Official Statement is not to be construed as a contract with the purchasers of the 2004 Subordinate Lien Bonds.

The prices at which the 2004 Subordinate Lien Bonds are offered to the public by the Underwriters (and the yields resulting therefrom) may vary from the initial public offering prices or yields appearing on the inside front cover page hereof. In addition, the Underwriters may allow concessions or discounts from such initial public offering prices to dealers and others. In connection with the offering of the 2004 Subordinate Lien Bonds, the Underwriters may effect transactions that stabilize or maintain the market price of the 2004 Subordinate Lien Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

NEW MEXICO FINANCE AUTHORITY

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Albuquerque, New Mexico

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OFFICIAL STATEMENT

\$237,950,000

**NEW MEXICO FINANCE AUTHORITY
STATE TRANSPORTATION REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2004B**

\$200,000,000

**NEW MEXICO FINANCE AUTHORITY
ADJUSTABLE RATE STATE TRANSPORTATION REFUNDING REVENUE BONDS
(SUBORDINATE LIEN)
SERIES 2004C**

consisting of

\$80,000,000 Series 2004C-1

\$80,000,000 Series 2004C-2

\$40,000,000 Series 2004C-3

INTRODUCTION

This Official Statement, which includes the cover page and the appendices hereto, sets forth certain information in connection with the offering of \$237,950,000 aggregate principal amount of State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B (the “Series 2004B Bonds”) and \$200,000,000 aggregate principal amount of Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004C (the “Series 2004C Bonds” and, together with the Series 2004B Bonds, the “2004 Subordinate Lien Bonds”), to be issued by the New Mexico Finance Authority (the “NMFA”), at the direction of the State Transportation Commission, formerly known as the State Highway Commission (the “Commission”), of the State of New Mexico (the “State”). Capitalized terms used in this Official Statement and not defined have the meanings specified in the Master Indenture of Trust dated as of May 1, 2004 (the “Master Indenture”) between the NMFA and Bank of Albuquerque, N.A., Albuquerque, New Mexico, as trustee (the “Trustee”), and as supplemented and amended by the First Series Indenture of Trust dated as of May 1, 2004 (the “First Series Indenture”) and the Second Series Indenture of Trust dated as of May 1, 2004 (the “Second Series Indenture”) each between the NMFA and the Trustee and are set forth under “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE – Certain Definitions” in Appendix C. The Master Indenture, the First Series Indenture and the Second Series Indenture are collectively referred to herein as the “Indenture.” See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE” in Appendix C. The 2004 Subordinate Lien Bonds are payable from and secured by a pledge of federal aid revenues received by or on behalf of, or available to the New Mexico Department of Transportation (the “Department”) pursuant to Title 23 of the United States Code or other federal law, that are paid into the State Road Fund, proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight/distance taxes, motor vehicle registration fees, and motor vehicle excise taxes (to the extent authorized to be paid into the State Road Fund in the future) in each case that are required by law to be paid into the State Road Fund, interest on the State Road Fund, proceeds of the collection of leased vehicle gross receipts taxes and tire recycling fees in each case that are required by law to be paid into the Highway Infrastructure Fund, and interest on amounts in the Highway Infrastructure Fund (the “Pledged Revenues”). The 2004 Subordinate Lien Bonds are limited obligations of the NMFA payable from and secured solely by the Pledged Revenues, subject to the liens thereon of certain obligations of the NMFA and the Commission and to the uses of the Pledged Revenues pledged by, and the priorities set forth in, the Indenture, as described more fully under “SECURITY AND SOURCES OF PAYMENT FOR THE 2004 SUBORDINATE LIEN BONDS.”

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page, inside front cover and appendices hereto, and the documents summarized or described herein. A full

review should be made of the entire Official Statement. The offering of the 2004 Subordinate Lien Bonds to potential investors is made only by means of the entire Official Statement.

New Mexico Finance Authority

The NMFA, established by the legislature of the State (the “State Legislature”) in 1992, is a governmental instrumentality separate and apart from the State created to coordinate the planning and financing of state and local public projects. The NMFA is not subject to the supervision or control of any other board, bureau, department or agency of the State, except that a legislative oversight committee is empowered to monitor and oversee its operations. The NMFA voluntarily conducts its financing of state-level projects in coordination with the Governor’s Finance Council, which has approved the issuance of the 2004 Subordinate Lien Bonds. For additional information concerning the NMFA, see “NEW MEXICO FINANCE AUTHORITY.”

Purposes of the 2004 Subordinate Lien Bonds

Proceeds from the sale of the 2004 Subordinate Lien Bonds will be used to refund and restructure the NMFA’s Federal Highway Grant Anticipation Revenue Bonds, Series 1998A, currently outstanding in the principal amount of \$85,055,000, and Federal Highway Grant Anticipation Revenue Bonds, Series 2001, currently outstanding in the principal amount of \$16,185,000 (collectively, the “Prior Federal Revenue Bonds”), and certain maturities of the Commission’s Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1998A, 1999, 2000A, 2001A, 2002A and 2002D, Subordinate Lien Tax Revenue Highway Bonds, Series 1998B and 2002B, and Highway Infrastructure Fund Revenue Bonds (Additionally Secured by a Senior Lien on Certain State Road Fund Revenues), Series 2002C (the “Prior State Highway Bonds” and, together with the Prior Federal Revenue Bonds, the “Refunded Bonds”). See “PLAN OF FINANCING—The Refunding.” Proceeds will also be used to provide funding for the payment of costs of issuance of the 2004 Subordinate Lien Bonds and other purposes permitted by law.

Senior and Parity Obligations

Bonds with a lien on a portion of the Pledged Revenues senior to the lien thereon of the 2004 Subordinate Lien Bonds have been previously issued by the Commission. For a description of the senior bonds currently outstanding, see “SECURITY AND SOURCES OF PAYMENT FOR THE 2004 SUBORDINATE LIEN BONDS—Outstanding Closed Lien Obligations.” Concurrently with the issuance of the 2004 Subordinate Lien Bonds, the NMFA expects to issue \$700,000,000 aggregate principal amount of its State Transportation Revenue Bonds (Senior Lien), Series 2004A (the “Series 2004A Bonds”), which will have a lien on the Pledged Revenues senior to the lien thereon of the 2004 Subordinate Lien Bonds.

The NMFA has agreed pursuant to the Master Indenture, and the Commission has resolved in Commission Resolution 2004-5(APR), that no additional bonds having a lien on any of the Pledged Revenues senior to the lien thereon of the Series 2004A Bonds may be issued by the NMFA or the Commission. However, bonds and other obligations with a lien on the Pledged Revenues on a parity with the lien thereon of the Series 2004A Bonds (collectively, “Senior Lien Bonds”) may be issued in the future, subject to the satisfaction of certain conditions. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004 SUBORDINATE LIEN BONDS—Additional Senior Lien Bonds.” Bonds and other obligations with a lien on the Pledged Revenues on a parity with the lien thereon of the 2004 Subordinate Lien Bonds (collectively, the “Subordinate Lien Obligations”) may also be issued in the future. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004 SUBORDINATE LIEN BONDS—Additional Subordinate Lien Obligations.”

Authority for Issuance

The 2004 Subordinate Lien Bonds are being issued under the authority of and pursuant to the laws of the State of New Mexico, including particularly the New Mexico Finance Authority Act, Section 6-21-1 *et seq.* NMSA 1978, as amended, and Section 67-3-59.3 NMSA 1978, as amended (collectively, the “Act”), and the Indenture.

Terms of the 2004 Subordinate Lien Bonds

Payments

The 2004 Subordinate Lien Bonds will be dated the date of their initial delivery (the “Delivery Date”). Interest on the Series 2004B Bonds is payable on June 15 and December 15 of each year, commencing December 15, 2004. The Series 2004B Bonds will mature on the dates and in the amounts (unless redeemed prior to maturity) and will bear interest at the rates shown on the inside front cover hereof. Each subseries of the Series 2004C Bonds will initially bear at an Auction Rate (as described below) during which the interest rate on the Series 2004C-1 Bonds will initially be set by J.P. Morgan Securities Inc. as the initial Broker-Dealer for the Series 2004C-1 Bonds, the interest rate on the Series 2004C-2 Bonds will initially be set by UBS Financial Services Inc. as the initial Broker-Dealer for the Series 2004C-2 Bonds, and the interest rate on the Series 2004C-3 Bonds will initially be set by RBC Dain Rauscher Inc. as the initial Broker-Dealer for the Series 2004C-3 Bonds, all on the date of issuance of the Series 2004C Bonds. Thereafter the interest rate on the Series 2004C-1 Bonds will be adjusted each 35 days, the interest rate on the Series 2004C-2 Bonds will be adjusted each 35 days and the interest rate on the Series 2004C-3 Bonds will be adjusted each 35 days (each an “Auction Period”) in accordance with an Auction conducted by the Auction Agent, all as more fully described herein and in Appendix F. While the Series 2004C-1 Bonds bear interest in an Auction Rate for a 35-day Auction Period, interest on the Series 2004C-1 Bonds will be payable on the Business Day immediately following the expiration of each such Auction Period, each Mandatory Tender Date and the maturity date of the Series 2004C-1 Bonds. While the Series 2004C-2 Bonds bear interest in an Auction Rate for a 35-day Auction Period, interest on the Series 2004C-2 Bonds will be payable on the Business Day immediately following the expiration of each such Auction Period, each Mandatory Tender Date and the maturity date of the Series 2004C-2 Bonds. While the Series 2004C-3 Bonds bear interest in an Auction Rate for a 35-day Auction Period, interest on the Series 2004C-3 Bonds will be payable on the Business Day immediately following the expiration of each such Auction Period, each Mandatory Tender Date and the maturity date of the Series 2004C-3 Bonds. Each subseries of the Series 2004C Bonds will mature on June 15, 2024.

Denominations

The Series 2004B Bonds are issuable in denominations of \$5,000 or integral multiples thereof. While in the Auction Period, the Series 2004C Bonds are issuable in denominations of \$25,000 or integral multiples thereof.

Book-Entry System

Individual purchases will be made in book-entry form only, and purchasers of the 2004 Subordinate Lien Bonds will not receive physical delivery of bond certificates except as more fully described herein. Payments of principal of and interest on the 2004 Subordinate Lien Bonds will be made directly to The Depository Trust Company (“DTC”) or its nominee, Cede & Co., by the Paying Agent, so long as DTC or Cede & Co. is the sole registered owner. Upon receipt of such payments, DTC is to remit such payments to the DTC Participants (as hereinafter defined) for subsequent disbursement to the beneficial owners of the 2004 Subordinate Lien Bonds, all as more fully described in “BOOK-ENTRY ONLY SYSTEM” in Appendix E. In reading this Official Statement, it should be understood that while the 2004 Subordinate Lien Bonds are in book-entry only form, references in other sections of this Official Statement to Owners should be read to include the person for whom the Participants and Indirect Participants acquire an interest in the 2004 Subordinate Lien Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry only system as described more fully herein, and (ii) except as otherwise provided in the Indenture, notices that are to be given to Owners by the NMFA, the Trustee or the Paying Agent will be given only to DTC.

Redemption of the 2004 Subordinate Lien Bonds

The Series 2004B Bonds are not subject to redemption prior to maturity. The Series 2004C Bonds are subject to redemption prior to maturity. See “THE 2004 SUBORDINATE LIEN BONDS—Redemption of the Series 2004C Bonds.”

Mandatory Tender of the Series 2004C Bonds

The Series 2004C Bonds are subject to mandatory tender for purchase. See “THE 2004 SUBORDINATE LIEN BONDS—Mandatory Tender of the Series 2004C Bonds.”

Security and Sources of Payment for the 2004 Subordinate Lien Bonds

Special, Limited Obligations

The 2004 Subordinate Lien Bonds are special, limited obligations of the NMFA payable solely from the Pledged Revenues and certain funds and accounts created and maintained pursuant to the Indenture. The 2004 Subordinate Lien Bonds do not constitute or create a general obligation or other indebtedness of the State, the NMFA, the Commission or the Department within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest on the 2004 Subordinate Lien Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA, the Commission or the Department. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004 SUBORDINATE LIEN BONDS—Special, Limited Obligations.”

Pledged Revenues

The Pledged Revenues are defined by the Indenture to mean, collectively, Federal Revenues and State Revenues. “Federal Revenues” are defined to mean proceeds from federal aid revenues received by or on behalf of, or available to the Department pursuant to Title 23 of the United States Code or other federal law, not otherwise obligated by federal or state law that are paid into the State Road Fund or as may be authorized or permitted by federal or state law to be pledged for payment of Obligations and are so pledged by the NMFA. “State Revenues” are defined as (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight/distance taxes, motor vehicle registration fees, and motor vehicle excise taxes (to the extent authorized to be paid into the State Road Fund in the future) in each case that are required by law to be paid into the State Road Fund, and interest on amounts in the State Road Fund; (ii) proceeds of the collection of leased vehicle gross receipts taxes and tire recycling fees in each case that are required by law to be paid into the Highway Infrastructure Fund and interest on amounts in the Highway Infrastructure Fund; and (iii) such additional moneys as may be authorized by law to be pledged as security and are so pledged by the NMFA. For a description of the components of the Pledged Revenues, see “THE PLEDGED REVENUES.” For a description of the funds and accounts created by the Indenture and the flow of certain of the Pledged Revenues through these funds and accounts, see “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Funds and Accounts” in Appendix C. See also “SECURITY AND SOURCES OF PAYMENT FOR THE 2004 SUBORDINATE LIEN BONDS—Pledged Revenues.”

Additional Bonds

The Act authorizes the NMFA to issue up to \$1,585,000,000 aggregate principal amount of “new money” bonds (including the Series 2004A Bonds), payable from the Pledged Revenues in cumulative annual increments of \$350,000,000 beginning in 2003 and an unlimited amount of refunding bonds as part of Governor Richardson’s Investment Partnership. A substantial portion of such bonds is expected to be issued as Senior Lien Bonds. The NMFA and the Commission may also issue additional Subordinate Lien Obligations. The timing, amount and other details of such Senior Lien Bonds, other than the Series 2004A Bonds, and Subordinate Lien Obligations, other than the 2004 Subordinate Lien Bonds, are not known as of the date of this Official Statement. Contemporaneously with the issuance of the 2004 Subordinate Lien Bonds, the NMFA is entering into forward-starting interest rate exchange agreements (collectively, the “Forward-Starting Swap Agreements”) under which the NMFA will be a fixed rate payor for a period beginning on December 15, 2006 and having an aggregate notional amount of \$220,000,000 indicating an expectation on the part of the NMFA that it will be issuing variable rate obligations, which would be expected to be Subordinate Lien Bonds in a similar aggregate principal amount on or about that date. Contemporaneously with the issuance of the 2004 Subordinate Lien Bonds, the NMFA is also entering into other interest rate exchange agreements (the “2004 Swap Agreements”). Payment obligations, other than termination

payment obligations, of the NMFA on the Forward-Starting Swap Agreements and the 2004 Swap Agreements are Subordinate Lien Obligations. Termination payment obligations of the NMFA on the Forward-Starting Swap Agreements and the 2004 Swap Agreements are Junior Subordinate Lien Obligations. See “INTEREST RATE SWAPS.”

The NMFA must meet certain requirements prior to the issuance of additional Senior Lien Bonds. The Commission has resolved that it will only issue obligations payable from and secured by a lien on the Pledged Revenues on a parity with the Senior Lien Bonds in compliance with the requirements of the Master Indenture applicable to the NMFA's issuance of additional Senior Lien Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004 SUBORDINATE LIEN BONDS—Additional Senior Lien Bonds.” The NMFA and the Commission, in the case of issuing Additional Highway Bonds secured by a lien on the Pledged Revenues (other than moneys paid into the Highway Infrastructure Fund) on a parity with Subordinate Lien Obligations, must meet certain requirements prior to the issuance of Subordinate Lien Obligations, and the NMFA must meet certain requirements prior to the issuance of Junior Subordinate Lien Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004 SUBORDINATE LIEN BONDS—Additional Subordinate Lien Obligations.” For a discussion of the outstanding bonds with a lien on a portion of the Pledged Revenues senior to that of the Series 2004A Bonds, see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2004A BONDS—Outstanding Closed Lien Bonds.” The NMFA has agreed pursuant to the Master Indenture, and the Commission has resolved in Commission Resolution 2004-5(APR), that no additional bonds having a lien on any of the Pledged Revenues senior to the lien thereon of the Series 2004A Bonds may be issued by the NMFA or the Commission.

Continuing Disclosure

The NMFA and the Department have undertaken for the benefit of the Owners that, so long as the 2004 Subordinate Lien Bonds remain outstanding, the NMFA will provide certain annual financial information with respect to the Pledged Revenues for any year during which the 2004 Subordinate Lien Bonds are outstanding to each nationally recognized municipal securities information repository and notice of certain material events to the Municipal Securities Rulemaking Board (the “MSRB”) in accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as described in “CONTINUING DISCLOSURE UNDERTAKING.”

The NMFA and the Department are in compliance with their respective current continuing disclosure undertakings.

Professionals Involved in the Offering

At the time of the issuance and sale of the 2004 Subordinate Lien Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, will deliver its opinion included in Appendix D and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, Special Tax Counsel to the NMFA, will deliver its opinion discussed under “TAX MATTERS” and also included in Appendix D. Certain legal matters relating to the 2004 Subordinate Lien Bonds will be passed upon for the Underwriters by their counsel, Hogan & Hartson LLP, Denver, Colorado. Certain legal matters will be passed upon for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer’s Counsel to the NMFA. Certain legal matters will be passed on by Brownstein Hyatt & Farber, P.C., Albuquerque, New Mexico, Disclosure Counsel to the NMFA. Certain legal matters will be passed upon for the Commission and the Department by their counsel Hughes & Strumor, Ltd. Co., Albuquerque, New Mexico. See “LEGAL MATTERS.” First Southwest Company, Dallas, Texas, has acted as financial advisor to the NMFA in connection with its issuance of the 2004 Subordinate Lien Bonds. See “FINANCIAL ADVISOR.”

The Department’s financial statements for the year ended June 30, 2003, an extract from which is included in Appendix A, have been audited by the State Auditor and Barraclough & Associates, P.C., Santa Fe, New Mexico. See also “FINANCIAL STATEMENTS.”

Offering and Delivery of the 2004 Subordinate Lien Bonds

The 2004 Subordinate Lien Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel and the satisfaction of certain other conditions. It is anticipated that a single certificate for each maturity of the Series 2004B Bonds and for each subseries of the Series 2004C Bonds will be delivered to DTC or its agent on or about May 20, 2004.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to such laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the Department, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 409 St. Michael's Drive, Santa Fe, New Mexico 87505, Attention: Executive Director.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the 2004 Subordinate Lien Bonds.

SPECIAL FACTORS RELATING TO THE 2004 SUBORDINATE LIEN BONDS

Each investor or prospective investor in the 2004 Subordinate Lien Bonds is encouraged to read this Official Statement and to give particular attention to the factors described below which, among other conditions, could affect the payment of debt service on the 2004 Subordinate Lien Bonds and could affect the market price of the Bonds to an extent that cannot be determined at this time.

Native American Gasoline Tax Issues and Other Gasoline Tax Issues Affecting the Pledged Revenues

The Pledged Revenues consist, in part, of gasoline excise taxes that are required by law to be paid into, the State Road Fund. Prior to 1999 the State gasoline tax was imposed in such a manner that allowed Native American gasoline wholesalers to exploit the federal preemption that disallows a state from imposing tax on a Native American conducting business within the boundaries of his tribal reservation, pueblo grant or trust lands. Pursuant to Chapter 190, New Mexico Laws of 1999, the technical imposition of the gasoline tax was revised to address the federal preemption issue, and the amount of gasoline that may be sold within an Indian reservation by any single registered Native American wholesale distributor for resale outside the Indian reservation, pueblo grant or trust lands free of state gasoline tax is limited to 30,000,000 gallons per year pursuant to a state tax exemption. Chapter 190 limits the use of this exemption to registered Native American distributors who have sold more than one million gallons of gasoline within the Indian reservation, pueblo grant or trust lands for resale outside the Indian reservation during the four months ended August 1998. The New Mexico Taxation and Revenue Department ("TRD") has certified two registered Native American wholesale distributors as eligible for this exemption, meaning that up to 60,000,000 gallons per year of gasoline currently may be sold at wholesale free of State gasoline tax under this exemption.

Chapter 150, New Mexico Laws of 2003 allowed the State to enter into a "gasoline tax sharing agreement" with one of the two registered Native American wholesale distributors, and a contract agreement was subsequently executed effective December 31, 2003. Under that agreement the Native American wholesaler agrees not to engage in gasoline wholesale activity for a period of ten years in exchange for a distribution of revenue equal to forty percent of the gasoline tax imposed on 2,500,000 gallons per month (30,000,000 gallons per year). Chapter 109, New Mexico Laws of 2004 provides for a similar "gasoline tax sharing agreement" with the other registered Native American wholesale distributor. It is anticipated that an agreement with the second Native American wholesaler will be executed in the latter half of calendar year 2004. The revenue effect of each agreement is to provide more stability and predictability to gasoline tax revenue, and to provide additional revenue of approximately \$1,850,000 per year for each of two agreements to the State Road Fund.

Chapter 190, Laws 1999 also permits gasoline to be sold at retail by registered Indian tribal distributors on Indian reservations, pueblo grants or trust lands free of State gasoline tax to the extent that the applicable Indian government imposes a similar tax (for its own benefit) on retail gas sales. In its 2000 regular session (Laws 2000, Chapter 50), the Legislature enacted a deduction from gasoline taxes for retail sales by persons other than Indian tribal distributors of gasoline on Indian reservations, pueblo grants or trust lands and Indian trust lands. The deduction, which became effective on April 1, 2000, is effectively equal to the lesser of the tribal tax on the gasoline sold or the State gasoline tax.

As a result of the foregoing and other factors (such as more fuel efficient vehicles and higher gasoline prices), the New Mexico Transportation Department (the “Department”) expects a very slow rate of growth, if any, in gasoline excise taxes paid into the State Road Fund over the next several years. See “THE PLEDGED REVENUES—State Road Fund—*Gasoline Excise Taxes*.”

Legislative Changes to Pledged Revenues

Section 67-3-59.3(G) NMSA 1978 provides that:

Any law authorizing the imposition or distribution of taxes or fees paid into the state road fund or the highway infrastructure fund or that affects those taxes and fees shall not be amended or repealed or otherwise directly or indirectly modified so as to impair any outstanding bonds secured by a pledge of revenues from those taxes and fees paid into the state road fund or the highway infrastructure fund, unless the bonds have been discharged in full or provisions have been made for a full discharge. In addition, while any bonds issued by the New Mexico finance authority pursuant to the provisions of this section remain outstanding, the powers or duties of the state transportation commission or the authority shall not be diminished or impaired in any manner that will affect adversely the interests and rights of the holder of such bonds.

The State Legislature has amended laws imposing or distributing taxes paid into the State Road Fund on several occasions in recent years. Examples include the changes with respect to the distribution and sale of gasoline on Indian reservations, pueblos and Indian trust lands discussed in “SPECIAL FACTORS RELATING TO THE 2004 SUBORDINATE LIEN BONDS—Native American Gasoline Tax Revenues and Other Gasoline Tax Issues Affecting the Pledged Revenues.” Further, the State Legislature in its special session held in May 1999 provided that beginning July 1, 1999 leased vehicle gross receipts tax revenues five-twelfths of which were previously deposited into the State Road Fund be deposited instead (together with a portion of the distributions of the leased vehicle gross receipts tax which were previously deposited in the State’s general fund) into the newly created Highway Infrastructure Fund (75%) and the Local Governments Road Fund (25%). Taxes and fees required by law to be paid into the Highway Infrastructure Fund are pledged to the payment of the 2004 Subordinate Lien Bonds.

Uncertainties in Federal Funding

The Federal Revenues have historically been authorized under multiple-year authorizing legislation. The immediately prior legislative authorization was provided by the Transportation Equity Act of the 21st Century, as amended (“TEA-21”), which went into effect on October 1, 1997 and expired on September 30, 2003. New multi-year authorization has not been enacted. The current continuing resolution, the Surface Transportation Extension Act of 2004, Part II (“STE 2004 II”) was signed into law by the President on April 30, 2004, and is seen as an interim reauthorization for such purpose. STE 2004 II extended the authorization of the Federal-Aid Highway Program for a period ending June 30, 2004. There can be no assurance as to whether or when federal reauthorization legislation may be enacted, funding levels or the substantive provisions that may be included in such legislation. There can be no assurance that Federal Revenues will be available absent Congressional action. See “THE PLEDGED REVENUES—Federal Revenues—TEA-21 and Reauthorization.” TEA-21 included certain provisions designed to provide continuity in the flow of federal transportation funds to the states, including the State. There can be no assurance that such measures will be continued under any future federal reauthorization or that, if continued, such measures will be sufficient to ensure that Federal Revenues will be available as needed if in the future Congress amends existing laws or fails to reauthorize expired transportation legislation, or if future legislation

or federal administrative action reduces the amount of Federal Revenues available to the Commission and the Department.

In addition to issues of reauthorization, there can be no assurance that Federal Revenues will be paid into the State Road Fund that, together with other Pledged Revenues, will be sufficient to pay the debt service on the Senior Lien Bonds and the 2004 Subordinate Lien Bonds. The amount of federal funds available for projects is subject to authorization and periodic reauthorization by Congress, approval on an annual basis by the U.S. Secretary of Transportation and compliance with federal regulations. As such, the Department competes for such funds with other national transportation funding priorities. Federal law specifically provides that a state's eligibility for funds does not create a commitment or obligation on the part of the United States to provide for the payment of principal or interest on bonds. See "THE PLEDGED REVENUES—Federal Revenues."

Limited Obligations

The 2004 Subordinate Lien Bonds are limited obligations of the NMFA and are payable as to principal and interest exclusively from the Pledged Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2004 SUBORDINATE LIEN BONDS." The ability of the NMFA, the Commission and the Department to realize Pledged Revenues in amounts sufficient to pay debt service on the Bonds and other obligations payable from the Pledged Revenues senior to or on a parity with the Bonds depends on numerous factors, many of which are not subject to the control of the NMFA, the Commission or the Department.

Subordinated Obligations

The 2004 Subordinate Lien Bonds will be payable from the Pledged Revenues, and the lien on a portion of the Pledged Revenues securing the Bonds will be subordinate to the lien on the portion of Pledged Revenues that secures the Outstanding Closed Lien Obligations. The lien on the Pledged Revenues securing the 2004 Subordinate Lien Bonds will also be subject and subordinate to the lien on the Pledged Revenues that secure the Senior Lien Bonds. To this extent, the Bonds will be subject to prior payment of the Outstanding Closed Lien Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2004 SUBORDINATE LIEN BONDS—Outstanding Closed Lien Obligations" and "—Additional Senior Lien Bonds."

Additional Obligations

Additional Senior Lien Bonds and other obligations may be issued with a lien on the Pledged Revenues superior to the lien of the 2004 Subordinate Lien Bonds and other Subordinate Lien Obligations on the Pledged Revenues upon satisfaction of certain conditions. In addition to the 2004 Subordinate Lien Bonds, additional Subordinate Lien Obligations may be issued on a parity with the 2004 Subordinate Lien Bonds and other subordinate obligations may be issued subordinate to the 2004 Subordinate Lien Bonds with respect to the Pledged Revenues upon satisfaction of certain conditions. See, "SECURITY AND SOURCES OF PAYMENT FOR THE 2004 SUBORDINATE LIEN BONDS—Additional Senior Lien Bonds," "—Additional Subordinate Lien Obligations" and "—Subordinate Debt."

Special Considerations Relating to the Series 2004C Bonds

The Indenture provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 45-days notice to the NMFA, the Bond Insurer and the Trustee or, if it has not been paid, 30-days notice to the NMFA and Trustee. It is a condition to the effectiveness of such resignation that a replacement Auction Agent be in place, except for a resignation if the Auction Agent's fee has not been paid. The Broker-Dealer Agreements provide that any party to the Broker-Dealer Agreement may terminate it upon 5 Business Days notice to the other parties and do not require, as a condition to the effectiveness of such termination or removal, that a replacement Broker-Dealer be in place. For any subseries of Series 2004C Bonds, for any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on such subseries of the Series 2004C Bonds will be the Default Rate.

A Holder who desires to sell Series 2004C Bonds on an Auction Date may be required to continue to hold such Series 2004C Bonds after such Auction Date if sufficient bids to purchase such Series 2004C Bonds are not received in which case the Auction Rate will be the Maximum Auction Rate.

The Broker-Dealer Agreements provide that the relevant Broker-Dealer may submit an Order in Auctions for its own account. If the Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders in that it would have knowledge of orders placed through it in that Auction; the Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. In the Broker-Dealer Agreements, the Broker-Dealers agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

Tax Status of 2004 Subordinate Lien Bonds

The opinions expressed by Special Tax Counsel are based on existing law as of the delivery date of the 2004 Subordinate Lien Bonds. No assurance can be given that any future legislation or clarification of the Code or State law, will not cause interest on the 2004 Subordinate Lien Bonds to be subject, directly or indirectly, to federal or State income taxation, or otherwise prevent owners from realizing the full current benefit of the tax status of such interest. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service, including but not limited to selection of the 2004 Subordinate Lien Bonds for audit examination, or the course or result of any Internal Revenue Service examination of the 2004 Subordinate Lien Bonds, or bonds which present similar tax issues, will not affect the market price for the 2004 Subordinate Lien Bonds. Prospective purchasers of the 2004 Subordinate Lien Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Special Tax Counsel expresses no opinion.

THE 2004 SUBORDINATE LIEN BONDS

Generally

Set forth below is a summary of certain provisions of the 2004 Subordinate Lien Bonds. Other information describing the 2004 Subordinate Lien Bonds appears elsewhere in this Official Statement. This summary and such other information should be read together and are qualified in their entirety by reference to the Indenture and the 2004 Subordinate Lien Bonds. For a description of certain provisions of the Indenture, see “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE” in Appendix C. Copies of the Indenture are available as provided in “ADDITIONAL INFORMATION.” The 2004 Subordinate Lien Bonds are being issued pursuant to the Act and the Indenture. The 2004 Subordinate Lien Bonds are being issued to provide funds to refund and restructure the Refunded Bonds. See “THE PLAN OF FINANCING—The Refunding Project.”

Description of the 2004 Subordinate Lien Bonds

The 2004 Subordinate Lien Bonds will be dated the Delivery Date. The 2004 Subordinate Lien Bonds will be issued in the aggregate principal amounts and will mature on the dates and in the amounts shown on the inside front covers (unless redeemed prior to maturity). ***This Official Statement, in general, describes the Series 2004C Bonds only during the Auction Rate Period and not the terms which will apply in the event that the Series 2004C Bonds are converted to a new Interest Rate as described herein.***

The Series 2004B Bonds are issuable in denominations of \$5,000 or integral multiples thereof and, while bearing interest at the Auction Rate, the Series 2004C Bonds are issuable in denominations of \$25,000 or integral multiples thereof (each, the “Authorized Denominations”). Interest on the Series 2004B Bonds will accrue from the Delivery Date at the rates set forth on the inside front cover of this Official Statement (calculated on the basis of the 360-day year consisting of twelve 30-day months), and is payable on June 15 and December 15 of each year, commencing December 15, 2004.

Each subseries of the Series 2004C Bonds will initially bear interest at an Auction Rate. The length of the initial Auction Period for each subseries of the Series 2004C Bonds will be 35 days, followed by 35-day Auction Periods with Auction Dates generally on each fifth Tuesday.

Auction Procedures for Series 2004C Bonds

The procedure for submitting orders with respect to each Auction and the particulars with regard to the determination of the Auction Rate (collectively the “Auction Procedures”) are described in “AUCTION PROCEDURES” in Appendix F. The day of the week on which Auctions are held may be changed by the Auction Agent. Changes in Auction Periods and Auction Dates do not require the amendment of the Auction Procedures or receipt of any consents. The NMFA may from time to time, on any Interest Payment Date for any subseries of the Series 2004C Bonds, change the length of the Auction Period with respect to such subseries.

Auction Agent and Broker-Dealers for Series 2004C Bonds

Contemporaneously with the issuance of the Series 2004C Bonds, the NMFA will enter into an Auction Agreement initially with Deutsche Bank Trust Company Americas (the “Auction Agent”), pursuant to which the Auction Agent, as agent for the Trustee, will perform the duties of Auction Agent. The Auction Agreement will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures. Contemporaneously with the issuance of the Series 2004C Bonds, the Auction Agent will enter into a Broker-Dealer Agreement with J.P. Morgan Securities Inc. pursuant to which J.P. Morgan Securities Inc. will act as the initial Broker-Dealer for the Series 2004C-1 Bonds, a Broker-Dealer Agreement with UBS Financial Services Inc. pursuant to which UBS Financial Services Inc. will act as the initial Broker-Dealer for the Series 2004C-2 Bonds and a Broker-Dealer Agreement with RBC Dain Rauscher Inc. pursuant to which RBC Dain Rauscher Inc. will act as the initial Broker-Dealer for the Series 2004C-3 Bonds. **The initial Broker-Dealers for the Series 2004C Bonds have advised the NMFA that they intend to make a market in the subseries of Series 2004C Bonds for which they have been appointed the initial Broker-Dealer between Auctions; however, the Broker-Dealers are not obligated to make such markets and no assurance can be given that secondary markets therefor will develop.**

Interest Calculation for Series 2004C Bonds

Interest on the Series 2004C Bonds is payable as described in Appendix F. Interest on Series 2004C Bonds that are in an Auction Period of 180 days or less will be calculated on the basis of a 360-day year for the actual number of days elapsed to the Interest Payment Date.

Conversion from One Auction Period to Another

The NMFA may from time to time on the last Interest Payment Date of any Auction Period, upon written notice to the Trustee, the Broker-Dealer, the Bond Insurer, and Auction Agent and upon the satisfaction of certain conditions, change the length of the Auction Period with respect to all Series 2004C Bonds of any subseries in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids, the Series 2004C Bonds will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Auction Rate. In connection with a conversion from one Auction Period to another, written notice of such conversion is to be given in accordance with the Auction Procedures; **however, the Series 2004C Bonds will not be subject to mandatory tender on such conversion date.**

Conversion of Series 2004C Bond; Change in Interest Period

At the option of the NMFA, any subseries of the Series 2004C Bonds may be converted to bear interest at a Variable Rate or a Commercial Paper Rate. On the Conversion Date applicable to the Series 2004C Bonds of such subseries to be converted, the Series 2004C Bonds of such subseries to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of the Series 2004C Bonds so tendered is payable solely from the proceeds of the remarketing of such Series 2004C Bonds. In the event that the conditions of a conversion are not satisfied, the Series 2004C Bonds will not be subject to mandatory tender, will be returned to their Owners, will remain in the previous Auction Period and will bear interest at the Maximum Auction Rate and thereafter will bear interest at an Auction Rate determined pursuant to the Auction Procedures in Appendix F.

It is currently anticipated that, should the Series 2004C Bonds be converted to bear interest at a Variable Rate or Commercial Paper Rate, a remarketing memorandum or remarketing circular will be distributed describing the Series 2004C Bonds during such period.

Special Considerations Relating to the Series 2004C Bonds in Auction Period

An Owner who desires to sell Series 2004C Bonds on an Auction Date may be required to continue to hold such Series 2004C Bonds after such Auction Date if sufficient bids to purchase such Series 2004C Bonds are not received, in which case the Auction Rate will be the Maximum Auction Rate. The Auction Procedures will be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Trustee or the NMFA of the occurrence of an Event of Default resulting from a failure to pay principal or interest on the Series 2004C Bonds when due (provided, however, that, only for purposes of this provision, payment by the Bond Insurer shall be deemed to cure such Event of Default and no suspension of the Auction Procedures shall occur) but will resume two (2) Business Days after the date on which the Auction Agent receives notice from the Trustee that such Event of Default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

Book-Entry Only System

The Depository Trust Company ("DTC") will act as securities depository for all of the 2004 Subordinate Lien Bonds through its nominee, Cede & Co. One fully registered bond in a denomination equal to the principal amount and maturity of the Series 2004B Bonds and each subseries of the Series 2004C Bonds will be registered in the name of Cede & Co. Individual purchases of 2004 Subordinate Lien Bonds will be made in book-entry form only, and beneficial owners of the 2004 Subordinate Lien Bonds will not receive physical delivery of bond certificates, except as described herein. Upon receipt of payments of principal and interest, DTC will remit such payment to DTC participants for subsequent disbursement to the beneficial owners of the 2004 Subordinate Lien Bonds. For a more complete description of the book-entry only system, see "BOOK-ENTRY ONLY SYSTEM" in Appendix E.

Redemption of the Series 2004C Bonds

Optional Redemption by the NMFA

The Series 2004C Bonds of any subseries or portion thereof bearing interest at an Auction Rate are subject to optional redemption in whole or in part (if in part, in integral multiples of \$25,000) at the option of the NMFA, at the redemption price of 100% of the principal amount of the Series 2004C Bonds to be redeemed, plus accrued interest to the redemption date, but without premium, on the Interest Payment Date immediately following the end of an Auction Period.

Mandatory Sinking Fund Redemption of the Series 2004C Bonds

The Series 2004C-1 Bonds are subject to mandatory sinking fund redemption as set forth below, at a price equal to 100% of the principal amount of each Series 2004C-1 Bond so redeemed and accrued interest to the redemption date, in the following respective principal amounts; provided that, if the redemption date is other than an Interest Payment Date, such Series 2004C-1 Bonds shall be subject to mandatory sinking fund redemption in the required amounts on the Interest Payment Date immediately preceding such redemption date.

| Redemption Dates (June 15) | Principal to be Redeemed |
|-------------------------------|--------------------------|
| 2023 | \$25,750,000 |
| 2024 ⁺ | \$54,250,000 |

⁺Final Maturity

The Series 2004C-2 Bonds are subject to mandatory sinking fund redemption as set forth below, at a price equal to 100% of the principal amount of each Series 2004C-2 Bond so redeemed and accrued interest to the redemption date, in the following respective principal amounts; provided that, if the redemption date is other than an Interest Payment Date, such Series 2004C-2 Bonds shall be subject to mandatory sinking fund redemption in the required amounts on the Interest Payment Date immediately preceding such redemption date.

| Redemption Dates (June 15) | Principal to be Redeemed |
|-------------------------------|--------------------------|
| 2023 | \$25,750,000 |
| 2024 ⁺ | \$54,250,000 |
| <hr/> | |
| +Final Maturity | |

The Series 2004C-3 Bonds are subject to mandatory sinking fund redemption as set forth below, at a price equal to 100% of the principal amount of each Series 2004C-3 Bond so redeemed and accrued interest to the redemption date, in the following respective principal amounts; provided that, if the redemption date is other than an Interest Payment Date, such Series 2004C-3 Bonds shall be subject to mandatory sinking fund redemption in the required amounts on the Interest Payment Date immediately preceding such redemption date.

| Redemption Dates (June 15) | Principal to be Redeemed |
|-------------------------------|--------------------------|
| 2023 | \$12,875,000 |
| 2024 ⁺ | \$27,125,000 |
| <hr/> | |
| +Final Maturity | |

If less than all of a subseries of the Series 2004C Bonds then outstanding are redeemed in a manner other than pursuant to a mandatory sinking fund redemption, the principal amount so redeemed is to be credited at 100% of the principal amount thereof against the obligation of the NMFA on the next mandatory sinking fund redemption date for such subseries of the Series 2004C Bonds.

Selection of Bonds to Be Redeemed

If less than all of the Series 2004C Bonds of a subseries are called for redemption, the particular Series 2004C Bonds of such subseries to be redeemed will be selected for redemption by the Trustee by lot in such manner as the Trustee in its discretion may determine; provided, however, that the portion of any Series 2004C Bonds to be redeemed shall be in an Authorized Denomination, and that in selecting Series 2004C Bonds for redemption, the Trustee will treat each Series 2004C Bond as representing that number of Series 2004C Bonds of such subseries which is obtained by dividing the principal amount at maturity of such Series 2004C Bond by the minimum Authorized Denomination.

Notice of Redemption

In the event any of the Series 2004C Bonds are to be redeemed, notice of such redemption is to be mailed by first class mail, postage prepaid, to all Owners of Series 2004C Bonds to be redeemed at their addresses as they appear on the registration books of the Trustee at least 30 days, but not more than 60 days, prior to the date fixed for redemption.

In addition, further notice of any redemption of Series 2004C Bonds is to be given by the Trustee at least two Business Days in advance of the mailed notice to Owners, by registered or certified mail or overnight delivery service, to all registered securities depositories then in the business of holding substantial amounts (as reasonably determined by the Trustee) of obligations of types comprising the Series 2004C Bonds and to at least two national information services that disseminate notices of redemption of obligations such as the Series 2004C Bonds. Failure to give all or any portion of such further notice will not in any manner defeat the effectiveness of a call for redemption.

If at the time of mailing of any notice of redemption there are not on deposit with the Paying Agent moneys sufficient to redeem all the Series 2004C Bonds called for redemption, such notice is to state that such redemption is subject to the deposit of the redemption moneys with the Paying Agent not later than the redemption date and that such notice will be of no effect unless such moneys are so deposited.

A second notice of redemption is to be given, not later than 90 days subsequent to the redemption date, to Owners of Bonds or portions thereof redeemed but who failed to deliver Series 2004C Bonds for redemption prior to the 60th day following such redemption date. Any notice mailed will be conclusively presumed to have been duly given, whether or not the owner of such Series 2004C Bonds receives the notice. Receipt of such notice is not a condition precedent to such redemption and failure so to receive any such notice by any of such Owners will not affect the validity of the proceedings for the redemption of the Series 2004C Bonds.

Partially Redeemed Series 2004C Bonds

In case any Bond is redeemed in part, upon the presentation of such Bond for such partial redemption, the NMFA will execute and the Trustee will authenticate and deliver or cause to be delivered to or upon the written order of the Owner thereof, at the expense of the NMFA, a Series 2004C Bond or Series 2004C Bonds of the same subseries (if applicable), interest rate and maturity and in an aggregate principal amount equal to the unredeemed portion of such Series 2004C Bond. A portion of any Series 2004C Bond of a denomination of more than the relevant Authorized Denomination to be redeemed will be in the principal amount of the relevant Authorized Denomination or an integral multiple thereof and, in selecting portions of such Series 2004C Bonds for redemption, the Trustee will treat each such Series 2004C Bond as representing that number of Series 2004C Bonds of the relevant Authorized Denomination which is obtained by dividing the principal amount of such Series 2004C Bonds by the relevant Authorized Denomination.

Mandatory Tender of the Series 2004C Bonds

The Series 2004C Bonds of any subseries are subject to mandatory tender for purchase on the date they are converted to an Interest Rate other than the Auction Rate. The Paying Agent will give notice of the conversion to the Owners of the Series 2004C Bonds of such subseries not less than 20 days before the Conversion Date. Interest on any Series 2004C Bond that is required to be tendered for purchase and which is not delivered on the tender date will cease to accrue on the purchase date. Such Series 2004C Bonds will be deemed to have been purchased on the date fixed for purchase thereof, and ownership of such Series 2004C Bonds will be transferred to the purchaser. The Owner of such Series 2004C Bond is not entitled to the benefits of the Indenture with respect to such Series 2004C Bond except for the payment of the purchase price thereof upon surrender of such Series 2004C Bond from monies held by the Paying Agent for such payment.

SECURITY AND SOURCES OF PAYMENT FOR THE 2004 SUBORDINATE LIEN BONDS

Special, Limited Obligations

The 2004 Subordinate Lien Bonds are special, limited obligations of the NMFA payable solely from the Pledged Revenues and other moneys held in certain funds and accounts created under the Indenture. The 2004 Subordinate Lien Bonds do not constitute nor create a general obligation or other indebtedness of the State, the NMFA, the Commission, the Department or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the 2004 Subordinate Lien Bonds do not constitute or give rise to a pecuniary liability on the part of the members, directors and officers of the NMFA, the Commission or the Department. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State or any political subdivision of the State.

Pledged Revenues

The principal of and interest on the 2004 Subordinate Lien Bonds will be payable from the Pledged Revenues, which revenues are pledged and are payable as provided in the Indenture. Such pledge is subject to the

pledge in favor of the Outstanding Closed Lien Obligations, the Senior Lien Bonds and to the uses of the Pledged Revenues and other amounts pledged by, and the priorities set forth in, the Indenture. See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Funds and Accounts” in Appendix C. The 2004 Subordinate Lien Bonds constitute an irrevocable lien, but not an exclusive lien, on the Pledged Revenues as set forth in the Indenture.

The Pledged Revenues pledged to the payment of the 2004 Subordinate Lien Bonds and any other Subordinate Lien Obligations will be applied to the 2004 Subordinate Lien Bonds and the other Subordinate Lien Obligations without priority or distinction of one over the other, after the payment of the Outstanding Closed Lien Obligations and the Senior Lien Bonds.

The NMFA and the Department have entered into a procedural memorandum under which the NMFA will, during each month in which the 2004 Subordinate Lien Bonds are Outstanding, present requisitions to the Department for payment from the State Road Fund and the Highway Infrastructure Fund of the amounts of Pledged Revenues required for debt service to be deposited with the Trustee under the Indenture. The Department will issue warrants for payment of those amounts from the State Road Fund and/or the Highway Infrastructure Fund to the NMFA and the NMFA will cause the amounts to be deposited with the Trustee in the Revenue Fund. Only the Pledged Revenues so transferred by the Department (but not all Pledged Revenues) will be deposited to the Revenue Fund held by the Trustee under the Indenture.

Outstanding Closed Lien Obligations

The Commission has previously issued and there are currently outstanding \$68,680,000 in aggregate principal amount of its Senior Subordinate Lien Tax Revenue Highway Bonds Series 1998A (the “1998A Bonds”). The Commission has previously issued and there are currently outstanding \$75,225,000 in aggregate principal amount of its Subordinate Lien Tax Revenue Highway Bonds, Series 1998B (the “1998B Bonds”). The Commission has previously issued and there are currently outstanding \$77,870,000 in aggregate principal amount of its Senior Subordinate Lien Tax Revenue Highway Bonds Series 1999 (the “1999 Bonds”). The Commission has previously issued and there are currently outstanding \$174,220,000 in aggregate principal amount of its Senior Subordinate Lien Tax Revenue Highway Bonds Series 2000A (the “2000 Bonds”). The Commission has previously issued and there are currently outstanding \$184,760,000 in aggregate principal amount of its Senior Subordinate Lien Tax Revenue Highway Bonds Series 2001A (the “2001 Bonds”). The Commission has previously issued and there are currently outstanding \$93,000,000 in aggregate principal amount of its Senior Subordinate Lien Tax Revenue Highway Bonds Series 2002A (the “2002A Bonds”). The Commission has previously issued and there are currently outstanding \$67,070,000 in aggregate principal amount of its Subordinate Lien Tax Revenue Highway Bond, Series 2002B (the “2002B Bonds”). The Commission has previously issued and there are currently outstanding \$64,620,000 in aggregate principal amount of its Highway Infrastructure Fund Revenue Bonds (Additionally Secured by a Senior Subordinate Lien on Certain State Road Fund Revenues), Series 2002C (the “2002C Bonds”). The Commission has previously issued and there are currently outstanding \$14,670,000 in aggregate principal amount of its Senior Subordinate Lien Tax Revenue Highway Bonds Series 2002D (the “2002D Bonds”). The 1998A Bonds, the 1998B Bonds, the 1999 Bonds, the 2000 Bonds, the 2001 Bonds, the 2002A Bonds, the 2002B Bonds, 2002C Bonds and the 2002D Bonds (collectively, the “Outstanding Closed Lien Obligations”) are payable from and secured by a lien on a portion of the State Revenues consisting of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and, to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund (the “Closed Lien State Revenues”). The lien of the 2004 Subordinate Lien Bonds on the Closed Lien State Revenues is subordinate and junior to the lien of the Outstanding Closed Lien Obligations on the Closed Lien State Revenues. In addition, the Series 2002C Bonds are payable from and secured by a lien on a portion of the State Revenues consisting of leased vehicle gross receipts tax revenues and tire recycling fees, in each case that are required by law to be paid into the Highway Infrastructure Fund and interest on such amounts in the Highway Infrastructure Fund (the “Senior Lien HIF Revenues”). The lien of the 2004 Subordinate Lien Bonds on the Closed Lien HIF Revenues is subordinate and junior to the lien of the Outstanding Closed Lien Bonds on the Closed Lien HIF Revenues. Pursuant to a resolution adopted by the Commission on April 15, 2004, the Commission has agreed not to issue any bonds or other obligations secured by a lien on any of the Pledged

Revenues superior to the Series 2004A Bonds. Certain of the Outstanding Closed Lien Obligations are expected to be refunded with proceeds of the 2004 Subordinate Lien Bonds.

Series 2004A Bonds

Concurrently with the issuance of the 2004 Subordinate Lien Bonds, the NMFA expects to issue \$700,000,000 in aggregate principal amount of the Series 2004A Bonds, which will be Senior Lien Bonds payable from and secured by a lien on the Pledged Revenues senior and superior to that securing 2004 Subordinate Lien Bonds.

Additional Senior Lien Bonds

The Indenture provides that no additional Senior Lien Bonds may be issued (other than for purposes of refunding) by the NMFA unless (i) the State Revenues in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Senior Lien Bonds were at least 300% of the maximum combined Debt Service Requirements coming due in any subsequent Fiscal Year on (a) then Outstanding Closed Lien Obligations, (b) then Outstanding Senior Lien Bonds and (c) the Senior Lien Bonds proposed to be issued, and (ii) the Pledged Revenues in any twelve consecutive calendar months and out of the eighteen month immediately preceding the date of issuance of such Senior Lien Bonds were at least 350% of the maximum combined Debt Service Requirements coming due in any subsequent fiscal year on (x) then Outstanding Closed Lien Obligations, (y) then Outstanding Senior Lien Bonds and (z) the Senior Lien Bonds proposed to be issued. See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Additional Obligations Payable from Pledged Revenues—Limitations Upon Issuance of Senior Lien Bonds” in Appendix C. The Commission may not issue any additional obligations payable from and secured by a lien on the Pledged Revenues on a parity with the Senior Lien Bonds unless it receives future statutory authorization to do so, in which event it may issue such additional obligations subject to the satisfaction of the same conditions that apply to the issuance of additional Senior Lien Bonds by the NMFA.

Additional Subordinate Lien Obligations

The Indenture provides that no additional Subordinate Lien Obligations may be issued (other than for purposes of refunding) by the NMFA, and that no Additional Highway Bonds may be issued by the Commission, unless the Pledged Revenues in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Subordinate Lien Obligations or Additional Highway Bonds were at least 300% of the maximum combined Debt Service Requirements coming due in any subsequent Fiscal Year on (a) then Outstanding Closed Lien Obligations, (b) then Outstanding Senior Lien Bonds, (c) then Outstanding Subordinate Lien Obligations, (d) then Outstanding Additional Highway Bonds, and (e) the Subordinate Lien Obligations or Additional Highway Bonds proposed to be issued. See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Additional Obligations Payable from Pledged Revenues—Limitations Upon Issuance of Subordinate Lien Bonds” in Appendix C.

Subordinate Debt

The NMFA and the Commission may issue additional bonds or other obligations payable from the Pledged Revenues constituting a lien on Pledged Revenues subordinate and junior to the lien on the Pledged Revenues of the 2004 Subordinate Lien Bonds, including Junior Subordinate Lien Obligations.

Superior Obligations Prohibited

Neither the NMFA nor the Commission will issue bonds or incur obligations that have a lien on the any of the Pledged Revenues prior and superior to the lien on the Pledged Revenues of the Senior Lien Bonds.

Debt Service Reserve Fund

The Indenture establishes a Debt Service Reserve Requirement for the 2004 Subordinate Lien Bonds in an amount equal to \$41,212,380.38, which amount shall be deposited to the 2004 Subordinate Lien Account of the Debt Service Reserve Fund held under the Indenture in connection with the issuance of the 2004 Subordinate Lien Bonds. Amounts in the 2004 Subordinate Lien Account of the Debt Service Reserve Fund are to be used only to make payments of debt service of the 2004 Subordinate Lien Bonds to the extent amounts in the relevant accounts of the Debt Service Fund are insufficient and, at the option of the NMFA, on the final payment date or, with respect to the Series 2004C Bonds, any date on which the Series 2004C Bonds are redeemed in whole, to pay the principal of and interest on the 2004 Subordinate Lien Bonds or such Series thereof, as the case may be. See “EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE—Debt Service Reserve Fund” in Appendix C.

The NMFA expects to enter into a Reserve Fund Forward Delivery Agreement contemporaneously with the delivery of the 2004 Subordinate Lien Bonds with Merrill Lynch Capital Services, Inc. for investment of the Debt Service Reserve Requirement. The Reserve Fund Forward Delivery Agreement qualifies as an Investment Security under the Indenture, has a fixed maturity date of June 15, 2024 and guaranteed annual rate of return of 5.405% for the Debt Service Reserve Requirement.

THE PLEDGED REVENUES

The Pledged Revenues are defined by the Indenture to mean, collectively, Federal Revenues and State Revenues. “Federal Revenues” are defined to mean proceeds from federal aid revenues received by or on behalf of, or available to the Department pursuant to Title 23 of the United States Code or other federal law, not otherwise obligated by federal or state law that are paid into the State Road Fund or as may be authorized or permitted by federal or state law to be pledged for payment of Obligations and are so pledged by the NMFA. “State Revenues” are defined as (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain state corporation commission fees, trip taxes, weight/distance taxes, motor vehicle registration fees, and motor vehicle excise taxes (to the extent authorized to be paid into the State Road Fund in the future) in each case that are required by law to be paid into the State Road Fund, and interest on amounts in the State Road Fund; (ii) proceeds of the collection of leased vehicle gross receipts taxes and tire recycling fees in each case that are required by law to be paid into the Highway Infrastructure Fund and interest on amounts in the Highway Infrastructure Fund; and (iii) such additional moneys as may be authorized by law to be pledged as security and are so pledged by the NMFA.

State Road Fund

The State Road Fund is established pursuant to Section 67-3-65 NMSA 1978, as amended. No income earned on the fund may be transferred to another fund. Pursuant to Section 67-3-65.1 NMSA 1978, as amended, distributions from the State Road Fund may be used only for maintenance, construction and improvement of the public highways and to meet federal allotments under the federal-aid road laws, but the State Treasurer must set aside sufficient money from the State Road Fund each year to pay the principal of and interest of highway debentures issued to anticipate the collection of this revenue as the principal and interest matures. Substantially all of the taxes and fees attributable to the State Road Fund are collected and administered by the New Mexico Department of Taxation and Revenue (“TRD”) and transferred by the State Treasurer from various suspense funds to the State Road Fund monthly.

Chapter 3, New Mexico Laws of 2003 1st Special Session (October, 2003) enacted various tax and fee rate increases to benefit the State Road Fund with the intent of undertaking a major highway construction initiative. On a full-year, full accrual basis, the tax and fee increases to the State Road Fund are projected at approximately \$60,000,000 per year beginning in Fiscal Year 2005. The tax and fee rate increases in the legislation included a \$0.03 per gallon increase in the Special Fuel Excise Tax (a 17% increase estimated to be worth about \$13,910,000 per year), a 38% increase in the Weight-Distance Tax (estimated to be worth about \$21,200,000 per year), a \$5 to \$14 per year increase in vehicle registration fees (a 33% increase averaging about \$12.50 per vehicle per year, and estimated to be worth about \$22,200,000 per year), and a \$2,800,000 per year increase in the fees charged for

oversize and overweight trucks. The vehicle registration fee increase became effective March 1, 2004, and the other increases are effective July 1, 2004.

Gasoline Excise Taxes

Gasoline excise taxes are imposed pursuant to the Gasoline Tax Act, Sections 7-13-1 through 7-13-18 NMSA 1978, as amended. The Gasoline Tax Act imposes a tax of 17 cents per gallon on gasoline received in the State. Not all of the tax imposed by the Gasoline Tax Act is paid into the State Road Fund (see the discussion below). The State's gasoline excise tax rate is lower than that of any Western state with the exception of Oklahoma (16 cents per gallon) and Wyoming (13 cents per gallon).

Wholesale Exemption

Under the current statutory provisions for the collection of gasoline excise taxes, gasoline wholesaled by "registered" Native American distributors on Indian reservations, pueblo grants or trust lands is not subject to the tax. Pursuant to Chapter 190, Laws of 1999, the amount of gasoline that may be sold within an Indian reservation, pueblo grant or trust lands by any single registered Native American wholesale distributor for resale outside the Indian reservation, pueblo grant or trust lands free of state gasoline tax is limited to 30,000,000 gallons per year. Chapter 190 limits the use of this exemption to registered Native American wholesale distributors who have sold more than one million gallons of gasoline within the Indian reservation, pueblo grants or trust lands for resale outside the Indian reservation during the four months ended August 1998. TRD has certified two registered Native American wholesale distributors as eligible for this exemption, meaning that up to 60,000,000 gallons per year of gasoline currently may be sold at wholesale free of State gasoline tax under this exemption.

Chapter 150, New Mexico Laws of 2003 allowed the State to enter into a "gasoline tax sharing agreement" with one of the two registered Native American wholesale distributors, and a contract agreement was subsequently executed effective December 31, 2003. Under that agreement the Native American wholesaler agrees not to engage in gasoline wholesale activity for a period of ten years in exchange for a distribution of revenue equal to forty percent of the gasoline tax imposed on 2,500,000 gallons per month (30,000,000 gallons per year). Chapter 109, New Mexico Laws of 2004 provides for a similar "gasoline tax sharing agreement" with the other registered Native American wholesale distributor. It is anticipated that an agreement with the second Native American wholesaler will be executed in the latter half of calendar year 2004. The revenue effect of each agreement is to provide more stability and predictability to gasoline tax revenue, and to provide additional revenue of approximately \$1,850,000 per year for each of two agreements to the State Road Fund.

Retail Exemption

Chapter 190, Laws of 1999 also permits gasoline to be sold at retail by registered Indian tribal distributors on Indian reservations free of State gasoline tax to the extent that the applicable Indian government imposes a similar tax (for its own benefit) on retail gasoline sales. In its 2000 regular session, the State Legislature enacted a deduction from gasoline taxes for retail sales of gasoline by persons other than registered Indian tribal distributors on Indian reservations, pueblo grants and trust lands. The deduction, which became effective on April 1, 2000, is effectively equal to the lesser of the tribal tax on the gasoline sold or the State gasoline tax. According to the TRD, there are approximately 271 registered gasoline dealers in the State. Of those 271, 21 are tribally-owned, otherwise affiliated with tribes or located on Indian reservations, pueblo grants and trust lands.

Exemption Results

As a result of the foregoing and other factors (such as more fuel efficient vehicles and higher gasoline prices), the Department expects a very slow rate of growth in gasoline excise taxes paid into the State Road Fund over the next several years. Fiscal Year 2001 taxable gasoline distributions in the State totaled 840 million gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 88 million gallons. Fiscal Year 2002 taxable gasoline distributions in the State totaled 842 million gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 95 million gallons. Fiscal Year 2003 taxable gasoline distributions in the State totaled 856 million gallons while tax exempt reservation, pueblo grant and trust fund distributions totaled 101 million

gallons. The Department reported that in Fiscal Year 2003 tax exempt Native American activity resulted in a loss to the State Road Fund of approximately \$13.1 million.

The Department projects that future Native American retail sales of gasoline within reservation, pueblo grant and trust land boundaries will grow at a rate of about 5% per year above the Fiscal Year 2003 level of 50.8 million gallons (a \$6.6 million revenue loss to the State Road Fund). Native American wholesale activity outside reservation, pueblo grant and trust land boundaries is expected to be eliminated for at least the next ten years as a result of “gasoline tax sharing agreements” with two registered Native American wholesale distributors.

Collection Procedures

The tax is payable by gasoline distributors on or before the 25th day of the month after the month in which the gasoline is “received” in New Mexico. The definition of received imposes the gasoline tax in the first instance on refiners, owners of stored gasoline or importers. If, however, gasoline is delivered at a pipeline terminal or refinery in New Mexico by one of those entities to a distributor registered under the Gasoline Tax Act, the incidence of the tax shifts to the registered distributor. In this case, the registered distributor has received the gasoline and is responsible for reporting and paying the gasoline tax with respect to the gasoline received. The distributor receiving the gasoline may not further shift the receipt of the gasoline and the obligation to report and pay gasoline tax to any other person, even if the gasoline is subsequently sold or otherwise transferred to another registered distributor. Deductions from the tax are provided for gasoline exported from the State (other than in the fuel tank of a motor vehicle), gasoline sold to the United States or any agency or instrumentality thereof or an Indian government for its exclusive use and gasoline sold through Indian wholesalers and retailers on Indian reservations, pueblo grants or trust lands as described above. In addition, refunds are available for uses of gasoline other than in motor boats and motor vehicles.

The net receipts of the taxes, surcharges, penalties and interest imposed pursuant to the Gasoline Tax Act are payable into the State Road Fund pursuant to Section 7-1-6.10(A) NMSA 1978, as amended, subject to certain deductions for payments into other funds or to municipalities or counties specified in that Section. Consequently, approximately 76.27% of the receipts attributable to the gasoline tax are paid into the State Road Fund.

Set forth below is a 10-year history of taxable gallons of gasoline and gasoline taxes paid into the State Road Fund.

| <u>Year Ended June 30</u> | <u>Taxable Gallons (000s)</u> | <u>Percent Change (%)</u> | <u>State Road Fund Distribution (000s)</u> | <u>Percent Change (%)</u> |
|-------------------------------|-----------------------------------|-------------------------------|--|-------------------------------|
| 1994 | 858,110 | 1.71 | \$110,730 | 9.64 |
| 1995 | 891,498 | 3.89 | 114,733 | 3.62 |
| 1996 | 896,347 | 0.54 | 116,788 | 1.79 |
| 1997 | 888,910 | -0.83 | 115,352 | -1.23 |
| 1998 | 911,407 | 2.53 | 117,880 | 2.19 |
| 1999 | 892,490 | -2.08 | 115,660 | -1.88 |
| 2000 | 868,022 | -2.74 | 111,961 | -3.20 |
| 2001 | 838,445 | -3.41 | 108,534 | -3.06 |
| 2002 | 839,001 | 0.07 | 108,941 | 0.37 |
| 2003 | 851,912 | 1.54 | 110,465 | 1.40 |

Source: New Mexico Department of Transportation.

Special Fuel Excise Tax

The special fuel excise tax is imposed under the Special Fuels Supplier Tax Act, Sections 7-16A-1 through 7-16A-21 NMSA 1978, as amended. The tax applies to diesel fuel and kerosene used as a fuel in motor vehicles and is imposed generally upon receipt of the special fuel in the State. The tax is payable by refineries, terminal operators and transporters, on or before the 25th day of the month after the month of receipt. Deductions are provided for special fuels exported from the State on a wholesale basis, for sales to the federal government and its agencies, the State, its agencies and political subdivisions and Indian tribes and their agencies and subdivisions, and for dyed fuels

not for highway use. A refund of tax is available for clear fuel used for purposes other than propelling a vehicle on public roads. The tax on special fuels has been at a rate of 18 cents per gallon (effective from July 1, 1993 through June 30, 2004). The tax rate will increase to 21 cents per gallon effective July 1, 2004. The net receipts of the taxes imposed by the Special Fuels Supplier Tax Act are payable into the State Road Fund pursuant to Section 7-1-6.10(A) NMSA 1978, as amended, subject to certain deductions for payments into other funds specified in that Section (but without duplication of the deductions applicable to gasoline excise taxes).

Set forth below is a 10-year history of taxable gallons of special fuels and special fuel taxes paid into the State Road Fund.

| <u>Year Ended June 30</u> | <u>Taxable Gallons (000s)</u> | <u>Percent Change (%)</u> | <u>State Road Fund Distribution (000s)</u> | <u>Percent Change (%)</u> |
|-------------------------------|-----------------------------------|-------------------------------|--|-------------------------------|
| 1994 | 334,205 | 5.14 | \$49,967 | -6.75 |
| 1995 | 334,188 | -0.01 | 49,858 | -0.22 |
| 1996 | 324,676 | -2.85 | 51,111 | 2.51 |
| 1997 | 341,684 | 5.24 | 53,926 | 5.51 |
| 1998 | 373,747 | 9.38 | 59,732 | 10.77 |
| 1999 | 398,425 | 6.60 | 63,833 | 6.75 |
| 2000 | 411,197 | 3.21 | 66,763 | 4.52 |
| 2001 | 411,855 | 0.16 | 66,940 | 0.44 |
| 2002 | 407,536 | -1.05 | 65,689 | -1.87 |
| 2003 | 430,852 | 5.72 | 69,478 | 5.77 |

Source: New Mexico Department of Transportation.

Weight Distance Tax

A weight distance tax is imposed by the Weight Distance Tax Act, Section 7-15A-1 through 7-15A-11 NMSA 1978. The tax is imposed on the registered owners and operators of motor vehicles having a declared gross weight or gross vehicle weight in excess of 26,000 pounds operated on the State's highways, that are registered with the New Mexico Taxation and Revenue Department. The tax levied on motor vehicles other than buses is based on a detailed schedule, by gross vehicle weight, ranging from 7.97 mills per mile on motor vehicles having a declared gross vehicle weight between 26,000 and 28,000 pounds and 31.68 mills per mile on motor vehicles having a declared vehicle weight of 28,001 pounds or more for round-trip hauls. The tax on one-way hauls ranges from 5.31 mills per mile on motor vehicles having a declared gross vehicle weight between 26,000 and 28,000 pounds to 21.12 mills per mile on motor vehicles having a declared gross vehicle weight of 28,001 pounds or more.

The tax levied on buses also is based on a detailed schedule, by gross vehicle weight, ranging from 7.97 mills per mile on buses having a declared gross vehicle weight between 26,000 and 28,000 pounds to 19.76 mills per mile on buses having a declared gross vehicle weight of 28,001 pounds or more.

Effective July 1, 2004 the tax rates described above will be revised to reflect an increase of about 38%. The tax levied on motor vehicles other than buses will range from 11.01 mills per mile on motor vehicles having a declared gross vehicle weight between 26,000 and 28,000 pounds up to 43.78 mills per mile on motor vehicles having a declared vehicle weight of 28,001 pounds or more for round-trip hauls. The tax on one-way hauls will range from 7.34 mills per mile on motor vehicles having a declared gross vehicle weight between 26,000 and 28,000 pounds up to 29.19 mills per mile on motor vehicles having a declared gross vehicle weight of 28,001 pounds or more.

The tax levied on buses will also increase effective July 1, 2004, ranging from 11.01 mills per mile on buses having a declared gross vehicle weight between 26,000 and 28,000 pounds to 27.29 mills per mile on buses having a declared gross vehicle weight of 28,001 pounds or more.

Motor carriers pay the tax quarterly on January 31, April 30, July 31 and October 31 for the preceding calendar quarter. In addition, until 2000, each person required to pay the weight distance tax was subject to an annual registration fee of \$5.00 per motor vehicle, payable on January 31 of the following year. It became apparent,

in connection with litigation in the State and elsewhere that the annual registration fee was unconstitutional. The fee is no longer being collected, resulting in a projected \$3.7 million per year recurring loss to the State Road Fund. Effective July 1, 2004, a similar but constitutionally-valid fee will be reimposed with that revenue earmarked to TRD to reimburse the cost of administering the weight distance tax identification permit.

School buses, buses used exclusively for the transportation of agricultural workers and buses operated by religious or nonprofit charitable organizations are exempt from the tax.

The net receipts of the taxes imposed by the Weight Distance Tax Act are payable into the State Road Fund pursuant to Section 7-1-6.10(13) NMSA 1978, as amended. Set forth below is a 10-year history of weight distance taxes paid into the State Road Fund.

| <u>Year Ended June 30</u> | <u>State Road Fund Distribution (000s)</u> | <u>Percent Change (%)</u> |
|-------------------------------|--|-------------------------------|
| 1994 | \$39,336 | 17.45 |
| 1995 | 41,696 | 6.00 |
| 1996 | 42,409 | 1.71 |
| 1997 | 44,311 | 4.49 |
| 1998 | 47,603 | 7.43 |
| 1999 | 52,670 | 10.64 |
| 2000 | 54,098 | 2.71 |
| 2001 | 50,851 | -6.00 |
| 2002 | 50,903 | 0.10 |
| 2003 | 51,394 | 0.96 |

Source: New Mexico Department of Transportation.

Motor Vehicle Registration Fees

Pursuant to Sections 66-6-1 through 66-6-36 NMSA 1978, as amended, motor vehicles, including passenger cars, trucks, buses and other vehicles, are subject to annual registration fees. The State Road Fund share of these fees collected increased from 66.541% to 74.65% beginning March 1, 2004.

Registration fees for passenger cars are based on gross factory shipping weight and years of registration, calculated from the date when the vehicle was first registered in any state. Passenger car registration fees range from \$21.00 for a passenger car with a gross factory shipping weight of not more than 2,000 pounds that has been registered for more than five years to \$56.00 for a passenger car with a gross factory shipping weight of more than 3,000 pounds that has been registered for five years or less. These rates were increased from \$16.00 and \$42.00, respectively, as of March 1, 2004. Registration fees for passenger cars are collected by the Motor Vehicle Division of TRD. As of January 1999, the Motor Vehicle Division has allowed a two-year registration option. Registrants who choose the two-year option pay twice the normal fee and are exempt the following year. As a consequence, fees that would normally be collected in one fiscal year could be accelerated into the preceding fiscal year. The State's vehicle registration fees are quite low in comparison to most other states.

Registration fees for trucks and buses are based on vehicle weight and years of registration, and, for vehicles weighing more than 26,000 pounds, the proportion of their total miles traveled in New Mexico. Registration fees for trucks and buses weighing more than 26,000 pound are centrally assessed through the International Registration Plan ("IRP"), a federally mandated program which allocates registration fees among the states through which trucks and buses travel. Registration fees for trucks and buses are based on vehicle weight and years of registration, and the proportion of their total miles traveled in New Mexico. Truck and bus registration fees range from \$32.00 for a truck or bus with a declared gross vehicle weight of 4,000 pounds or less that has been registered for more than five years to \$172.00 for a truck or bus with a declared gross vehicle weight of 48,001 pounds or more that has been registered for five years or less. These rates were increased from \$24.00 and \$129.50, respectively, as of March 1, 2004. School buses and buses operated by religious or nonprofit organizations pay annual registration fees of \$7.00 and buses having a normal seating capacity of 40 passengers or less used for

transporting agricultural workers pay annual registration fees of \$33.00. These rates were increased from \$5.00 and \$25.00, respectively, as of March 1, 2004.

Registration fees for farm vehicles are based on gross vehicle weight only. Farm vehicle registration fees range from \$26.67 for a farm vehicle with a gross vehicle weight of 4,000 pounds or less to \$134.00 for a farm vehicle with a gross vehicle weight between 24,001 and 26,000 pounds.

In addition to registration fees assessed on passenger cars, trucks, buses and farm vehicles, New Mexico assesses registration fees of \$15.00 on motorcycles, \$13.00 on freight trailers, \$7.00 plus \$1.00 for each hundred pounds of empty weight over 500 pounds on utility trailers, \$7.00 on fertilizer trailers under 3,000 pounds empty weight and \$7.00 on manufactured homes. These rates were increased from \$11.00, \$10.00, \$5.00, \$5.00 and \$5.00, respectively, as of March 1, 2004.

Permanent registration of trailers is available for a fee of \$13.00 on commercial freight trailers, and \$33.00 plus \$7.00 for each hundred pounds of empty weight over 500 pounds on noncommercial utility trailers.

Reduced fees are available for veterans and for vehicles used only part of the year. Additional fees are applicable to vehicles with solid tires. Vehicles of the United States, other states, the State and counties and municipalities are exempt from registration fees. Passenger vehicles are also subject to an annual \$1.50 tire recycling fee and motorcycles to a \$1.00 annual fee, \$1.00 and 50 cents of which, respectively, are deposited in the Highway Infrastructure Fund.

Set forth below is a ten-year history of motor vehicle registration fees paid into the State Road Fund.

| <u>Fiscal Year Ended June 30</u> | <u>Total New Mexico Vehicle Registrations⁽¹⁾</u> | <u>Percent Change (%)</u> | <u>State Road Fund Distribution (000s)</u> | <u>Percent Change (%)</u> |
|--------------------------------------|---|-------------------------------|--|-------------------------------|
| 1994 | 1,573,801 | 3.40 | \$35,137 | 3.55 |
| 1995 | 1,643,746 | 4.44 | 36,479 | 3.82 |
| 1996 | 1,661,173 | 1.06 | 37,630 | 3.16 |
| 1997 | 1,685,215 | 1.45 | 38,583 | 2.53 |
| 1998 | 1,720,117 | 2.07 | 40,162 | 4.09 |
| 1999 | 1,696,295 | -1.38 | 42,537 | 5.91 |
| 2000 | 1,647,345 | -2.89 | 44,302 | 4.15 |
| 2001 | 1,518,874 | -7.80 | 41,600 | -6.10 |
| 2002 | 1,550,536 | 2.08 | 44,137 | 6.10 |
| 2003 | 1,552,965 | 0.02 | 43,993 | -0.33 |

⁽¹⁾ Counts do not include vehicles registered in other states under IRP.

Source: New Mexico Department of Transportation.

Highway Infrastructure Fund

The Highway Infrastructure Fund was established in 1999 pursuant to Section 67-3-59.2 NMSA 1978, as amended. No income earned on the fund may be transferred to another fund. Distributions from the Highway Infrastructure Fund may be used only for acquisition of rights of way or planning, design, engineering, construction or improvement of state highway projects authorized by the State Legislature. All of the taxes and fees attributable to the Highway Infrastructure Fund are collected and administered by TRD and transferred by the State Treasurer from various suspense funds to the Highway Infrastructure Fund monthly.

Leased Vehicle Gross Receipts Taxes

Leased vehicle gross receipts taxes are imposed pursuant to Section 7-14A-3 NMSA 1978. The tax is an excise tax of five percent of the gross receipts from vehicle leasing of person engaged in the business of leasing passenger vehicles for periods of less than six months and having a fleet of five or more such vehicles. Certain taxes paid to Indian nations, tribes or pueblos are excluded from gross receipts. Deductions from gross receipts for purposes of computing the tax are available for transactions in interstate commerce and vehicle trade-in allowances.

Receipts with respect to the leasing of vehicles, acquired before July 1, 1991 are exempt from the tax. The leased vehicle gross receipts tax is administered and collected by TRD. Payments of the tax by vehicle lessors are due on or before the 25th day of the month following the month in which the transaction took place. Pursuant to Section 7-14A-10 NMSA 1978, as amended, 75% of the net receipts attributable to the leased vehicle gross receipts tax and any associated penalties and interest are distributed by TRD to the Highway Infrastructure Fund and 25% to the Local Governments Road Fund. Leased vehicle gross receipts taxes paid into the Highway Infrastructure Fund are subject to audit by the State Auditor and an independent certified public accountant along with other funds administered by the Department.

Set forth below is a seven-year history of leased vehicle gross receipts taxes:

| <u>Year Ended June 30</u> | <u>Leased Vehicle Gross Receipts Taxes (000s)⁽¹⁾</u> | <u>Percent Change (%)</u> |
|-------------------------------|---|-------------------------------|
| 1997 | \$5,444 | - |
| 1998 | 5,580 | 2.50 |
| 1999 | 5,528 | -0.93 |
| 2000 | 6,128 | 10.85 |
| 2001 | 6,413 | 4.66 |
| 2003 | 6,010 | -6.28 |
| 2003 | 5,954 | -0.93 |

⁽¹⁾ 75% of net receipts attributable to the leased vehicle gross receipts tax are payable into the Highway Infrastructure Fund.

Source: New Mexico Department of Transportation.

Tire Recycling Fees

Tire recycling fees are imposed pursuant to Section 66-6-1, 66-6-2, 66-6-4, 66-6-5, and 66-6-8 NMSA 1978, as amended. The Highway Infrastructure Fund's portion of the fee is 50 cents per year for motorcycles, one dollar per year for passenger vehicles and trucks with gross weights of 26,000 pounds or less, and 25 cents per wheel in contact with the ground for buses. Tire recycling fees are collected by the Motor Vehicle Division of the Taxation and Revenue Department along with vehicle registration fees. As of 1999, the Motor Vehicle Division has allowed a two-year registration option. Registrants who choose the two-year option pay twice the normal fee and are exempt the following year. As a consequence, fees that would normally be collected in one fiscal year could be accelerated into the preceding fiscal year. Tire recycling fees are paid by the Motor Vehicle Division to the State Treasurer for deposit to the Motor Vehicle Suspense Fund and then into the Highway Infrastructure Fund and the Tire Recycling Fund. 2003 legislation increased the amount of the tire recycling fee and directed the amount of the increase to the Tire Recycling Fund.

Set forth below is a seven-year history of tire recycling fees taxes:

| <u>Year Ended June 30</u> | <u>Tire Recycling Fees (000s)</u> | <u>Percent Change (%)</u> |
|-------------------------------|---------------------------------------|-------------------------------|
| 1997 | \$1,804 | - |
| 1998 | 1,573 | -12.80 |
| 1999 | 1,552 | -1.34 |
| 2000 | 1,455 | -6.25 |
| 2001 | 1,411 | -3.02 |
| 2002 | 1,655 | 17.29 |
| 2003 | 1,679 | 1.45 |

Source: New Mexico Department of Transportation.

Federal Revenues

FHWA and the National Highway System

The Federal Highway Administration ("FHWA") is a unit of the U.S. Department of Transportation. FHWA administers the Federal-Aid Highway Program (the "Program"), a program of financial assistance to states

for transportation projects. Funds for the Program come from the Highway Trust Fund (“HTF”). The principal source of funds in the Highway Trust Fund is federal excise taxes on motor fuels. The Interstate System and the National Highway System comprise the Federal-Aid Highway system.

The Federal-Aid Highway Program

The FHWA administers payments to states under the Program through the HTF. Funded by collection of federally-imposed motor vehicle user fees, primarily fuel taxes, the HTF is a dedicated federal fund with dedicated revenues that are used for reimbursement of the states’ cost of eligible transportation projects, including highway projects. The HTF presently contains the Highway Account and a Mass Transit Account. The Highway Account receives approximately 84% of gasoline tax revenues and 88% of diesel fuel tax revenues, with the remaining share of such revenues deposited in the Mass Transit Account. Using revenues in the Highway Account of the HTF, the FHWA reimburses states for expenditures related to approved highway projects. The Department bills the FHWA monthly for amounts payable to the Department under the Program and the FHWA transfers such amounts to the State Treasurer for deposit in the State Road Fund.

Funding under the various federal transportation programs is provided through a number of steps, including: (i) the authorization act, under which Congress establishes or continues federal programs or agencies and establishes an upper limit on the amount of funds for the program(s); (ii) apportionment and allocation, under which the FHWA apportions the authorized funding for each federal fiscal year (October 1 through September 30) (“FFY”) among the states either according to statutory formulas (apportionment) or through discretionary administrative action (allocation); (iii) program implementation, under which states develop highway programs describing how federal reimbursements will be earned on a project-by-project level; (iv) obligation, under which the federal government promises to pay to the relevant state the federal share of a project, which occurs when the project is approved and the project agreement is executed; and (v) reimbursement, under which a state requests and is paid federal reimbursements for eligible projects. *The procedures described in this section are those in effect under current law; however, there can be no assurance that there will not be future changes in law, regulation, or policy that materially alter these procedures and the resulting levels of federal transportation funding.*

Current law requires that the cash balance of the Highway Account of the HTF, plus projected revenues for the next two years, must suffice to repay all unpaid obligations before any additional apportionments of revenues can be made from the HTF. As a result, and unlike most federal programs, the flow of federal funding to states for highway projects does not depend on timely appropriation of revenues by Congress as funding is provided through trust-funded contract authority rather than appropriated budget authority.

Federal gasoline excise taxes are the largest revenue source for the HTF. The majority of these tax revenues, including 15.44 cents per gallon out of the current 18.4 cents per gallon tax, go to the Highway Account.

Reauthorization of HTF Collections

Collection of HTF taxes (“HTF collections”), like the Program itself, must be periodically reauthorized by Congress. Historically, the HTF and its constituent taxes have been authorized to operate for limited periods of time. Originally, the HTF was authorized through June 1972; it was reauthorized several times and the Intermodal Surface Transportation Efficiency Act of 1991 (“ISTEA”) reauthorized the Program through September 30, 1997 and reauthorized the HTF and most of the user taxes that flow into it through September 30, 1999. TEA-21 further extended HTF collections to FFY 2005.

History

The modern Federal-Aid Highway Program originated in the Federal-Aid Highway Act of 1956 and since 1978, Congress has included highway legislation as part of a larger surface transportation act.* The Program

* The Federal-Aid Highway Act of 1956 was one of a long series of authorizing statutes for the Program. Extensions of the act were passed in 1958, 1959, 1960, 1961, 1962, 1964, 1966, 1968, 1970, 1973, 1974, and 1976; in each case the statute was known as the Federal-Aid Highway Act. The 1965 Highway Beautification Act made minor additions and changes to the program, as did the Highway Safety Act of 1973. The 1978 Surface Transportation Act and the Federal-Aid Highway Act of 1981 were also primarily extensions of the existing authority.

initially was established as a pay-as-you-go system, meaning that costs of constructing and maintaining the system were to be borne primarily by its users, who would pay a federally-imposed tax on motor fuel. Federal user fees were to provide 90% of the cost of construction, with the remainder paid for by the states.

The current practice of guaranteeing each state a minimum return on the moneys generated by highway users in that State began in 1982 with the passage of the Surface Transportation Assistance Act (“STAA”). The STAA made notable changes to the Program, and began the modern multi-year (*i.e.*, four or more years) authorizing process. STAA also guaranteed each state a minimum 85% return on the money paid in by highway users of the state. Such “equity provisions” have continued in all subsequent authorizing legislation to date, and operate to compensate so-called “donor states,” whose historic highway funding levels have been below their collections for the HTF.

In 1991, ISTEA broadened the focus of the Program, changed its structure significantly and created several new funding categories. ISTEA also gave state and local governments far greater flexibility in determining their transportation infrastructure priorities, whether transit or highways, and for the first time allowed significant flexibility to redirect federal revenues among such priorities. ISTEA also authorized innovative approaches to federal-aid highway funding, including the use of private sector funding sources for transportation improvements. Innovative financing procedures were authorized and encouraged, and states were authorized to augment federal revenues with alternate sources of revenues.

The National Highway System Designation Act of 1995 (the “NHS Act”) fulfilled an ISTEA mandate by designating the National Highway System to include the Interstate System as well as other roads important to the nation’s economy, defense and mobility. The NHS Act made several changes affecting the financing of federal-aid highway projects, including Advance Construction (“A/C”) procedures:

- (a) Standard federal highway financing practices require states to have sufficient “Obligation Authority” before they begin a highway project. Obligation is the commitment of the federal government to pay, through reimbursements to a state, its share of the eligible expenditures on an approved project. The amount of such federal revenues that a state can obligate in a given FFY is called its Obligation Authority. If a state has many projects or a particularly large project, it may be unable to provide enough Obligation Authority to get federal approval to begin specific projects. To avoid delays in projects that are eligible for federal funding, the FHWA may approve A/C for a project if the state can provide 100% of the costs up-front. The A/C procedure allows states to commence eligible projects without first having to obligate the federal government’s share of expenditures. Thus, states may begin a project before amassing all of the Obligation Authority needed to cover the federal government’s share.
- (b) Under A/C procedures prior to the NHS Act, only when a state had amassed sufficient Obligation Authority to cover the federal share of a project’s total costs could it convert the project from A/C to Obligation Authority and be reimbursed for the federal share. The NHS Act removed the requirement that states must amass Obligation Authority equal to the full federal share before reimbursement could occur. Now, under partial conversion of A/C, in a given year a state may convert A/C to Obligation Authority and thus be eligible for reimbursement for a portion of the federal share of an A/C project in that or in a subsequent FFY. This removes any requirement for the state to wait for reimbursements until the full amount of Obligation Authority needed for the entire project is available. The Department has received A/C for debt service on the 2004 Subordinate Lien Bonds.

Title 23

Under Title 23, the department of transportation or highway department of a state wishing to avail itself of benefits under the Federal-Aid Highway Program may apply to the Secretary of Transportation for approval of a program or programs of proposed projects. The application must be made for each federal fiscal year as soon as practicable after apportionments for the Program for that year have been made. Once a particular project has been approved, the Department of Transportation enters into an agreement with the relevant state department of transportation or highway department concerning the construction and maintenance of the project.

Funds authorized under the Federal-Aid Highway Program that are authorized for a particular year are apportioned to the states on the first day of that federal fiscal year (October 1), at which time they are available for obligation by the states as they choose and the Secretary of Transportation approves. In general, funds appropriated under Title 23 for a project remain available for obligation in the relevant state for three years after the end of the fiscal year for which the funds are authorized. Funds are available to states under Title 23 to pay principal of, interest on and costs of issuance related to the bonds issued to finance eligible projects.

The Department and FHWA have entered into a Memorandum of Understanding under which the Department may use Title 23 funds for debt service on the 2004 Subordinate Lien Bonds.

TEA-21 and Reauthorization

The immediately prior legislative authorization for the Program was provided by TEA-21, which went into effect on October 1, 1997 and expired on September 30, 2003. TEA-21 authorized a total of nearly \$218 billion in federal funds nationwide over the life of the authorization, a 40% increase over the ISTEA, which was also a six-year program.

The first Reauthorization Extension Bill, the Surface Transportation Extension Act of 2003 (P.L. 108-88), approved September 26, 2003, extended TEA-21 programs at the federal fiscal year 2004 budget level from October 1, 2003 through February 29, 2004. The Surface Transportation Extension Act of 2004 (P.L. 108-202), approved February 11, 2004 and signed into law by the President on February 24, 2004, extended the TEA-21 programs at the federal fiscal year 2004 budget level from February 29, 2004 through April 30, 2004. STEA 2004 II (P.L. 108-224), approved and signed into law by the President on April 30, 2004, extended the TEA-21 program at the federal fiscal year 2004 level from April 30, 2004 through June 30, 2004. These three legislative actions combine to limit state transportation agencies to nine months' highway funding at the federal fiscal year 2004 level. On January 23, 2004, President Bush signed into law P.L. No. 108-199, the federal fiscal year 2004 Consolidated Appropriations Act that includes a \$33.5 billion obligation ceiling for highways. In addition to the \$33.5 billion obligation limitation for federal fiscal year 2004, the bill provides another \$700 million for exempt programs including emergency relief, minimum guarantee and others, bringing the total highway funding package to a record level of \$34.2 billion.

Congress is currently considering a new six-year highway spending bill to replace the program that expires June 30, 2004; however, there can be no assurance that new multi-year authorization or continuing resolution reauthorization will be adopted effective for any period subsequent to June 30, 2004, or if adopted, that any such legislation will be signed into law by the President.

Congressional Budget Office forecasts show that, at the current baselines (i.e. spending at currently enacted levels with adjustments for inflation within the context of current tax policies), the Highway Account of the HTF would be depleted by 2006. There can be no assurance that Congress will reauthorize any funding under Title 23, that any reauthorization will be at any particular level or sufficient to pay the principal of and interest on the 2004 Subordinate Lien Bonds as they come due, or that Congress will not change or rescind any appropriation or authorization contained in any reauthorization.

Set forth below is a history of amounts received by the Department under ISTEA or its predecessors or successors:

NEW MEXICO FEDERAL AID FORMULA FUNDS – ISTE A

| APPORTIONMENTS | Federal Fiscal <u>Year 1992</u> | Federal Fiscal <u>Year 1993</u> | Federal Fiscal <u>Year 1994</u> | Federal Fiscal <u>Year 1995</u> | Federal Fiscal <u>Year 1996</u> | Federal Fiscal <u>Year 1997</u> | <u>Totals</u> |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|-------------------|
| Interstate Maintenance | \$ 37,712,449 | \$ 45,035,317 | \$ 44,507,000 | \$44,611,935 | \$ 38,768,743 | \$ 45,238,062 | \$ 255,873,506 |
| National Highway System | 30,054,601 | 35,932,724 | 35,744,009 | 35,114,908 | 30,807,200 | 35,460,385 | 203,113,827 |
| Bridge | 5,658,475 | 6,915,384 | 7,001,976 | 7,951,371 | 6,517,044 | 7,236,811 | 41,281,061 |
| Surface Transportation Program | 38,946,490 | 46,655,287 | 46,593,675 | 44,583,857 | 39,393,469 | 44,865,932 | 261,038,710 |
| Congestion Mitigation/Air Quality | 4,130,305 | 4,935,942 | 4,910,499 | 4,824,312 | 4,247,855 | 4,877,074 | 27,925,987 |
| Metropolitan Planning | 583,403 | 698,303 | 694,752 | 692,952 | 683,978 | 785,294 | 4,138,682 |
| Apportionment Adjustment (Hold Harmless) | 54,019,878 | 39,680,924 | 42,273,587 | 51,012,338 | 27,476,550 | 27,995,277 | 242,458,554 |
| Interstate Reimbursement Fund | -0- | -0- | -0- | -0- | 8,255,453 | 9,478,302 | 17,733,755 |
| Restoration Funds (New) | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>2,718,529</u> | <u>1,581,000</u> | <u>4,299,529</u> |
| Total Apportionment | \$171,105,601 | \$179,853,881 | \$181,725,498 | \$188,791,673 | \$158,868,821 | \$177,518,137 | \$1,057,863,611 |
| OBLIGATIONS | | | | | | | |
| Original Obligation Authority | \$170,015,732 | \$148,380,594 | \$169,242,117 | \$171,874,396 | \$169,081,661 | \$154,925,493 | \$ 983,519,993 |
| August Redistribution | 500,709 | 1,685,254 | 3,201,814 | 1,697,044 | 1,082,795 | -0- | 8,167,616 |
| Additional Redistribution | <u>4,365,034</u> | <u>43,849</u> | <u>-0-</u> | <u>932,956</u> | <u>1,561,787</u> | <u>7,057,801</u> | <u>13,961,427</u> |
| Total Authority | \$174,881,475 | \$150,109,697 | \$172,443,931 | \$174,504,396 | \$171,726,243 | \$161,983,294 | \$1,005,649,036 |
| Unavailable Apportionment Balance | \$ (3,775,874) | \$ 29,744,184 | \$ 9,281,567 | \$14,287,277 | \$(12,857,422) | \$ 15,534,843 | N/A |
| Accumulated Unobligated Balance | <u>(3,775,874)</u> | <u>25,968,310</u> | <u>35,249,877</u> | <u>49,537,154</u> | <u>36,679,732</u> | <u>52,214,575</u> | N/A |
| Total Unobligated Balance (Includes \$20,052,955 from FY '91) | \$ 16,277,081 | \$ 46,021,265 | \$ 55,302,832 | \$ 69,590,109 | \$ 56,732,687 | -0- | N/A |

Source: FHWA

Set forth below is a history of the Obligation Authority of and reimbursement amounts received by the Department under TEA-21:

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NEW MEXICO FEDERAL – AID HIGHWAY PROGRAM FUNDS – TEA 21

| | <u>Federal Fiscal Year 1998</u> | <u>Federal Fiscal Year 1999</u> | <u>Federal Fiscal Year 2000</u> | <u>Federal Fiscal Year 2001</u> | <u>Federal Fiscal Year 2002</u> | <u>Federal Fiscal Year 2003</u> | <u>Totals</u> |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------|
| National Highway System | \$ 51,242,669 | \$60,396,028 | \$ 64,829,792 | \$ 69,623,960 | \$ 75,731,875 | \$ 75,387,486 | \$397,211,810 |
| Bridge | 8,451,991 | 10,539,910 | 12,195,954 | 12,899,034 | 15,345,467 | 13,312,643 | 72,745,000 |
| Surface Transportation Program ⁽¹⁾ | 35,098,908 | 41,234,645 | 43,731,955 | 46,293,425 | 48,625,970 | 49,073,310 | 264,057,452 |
| Minimum Guarantee | 31,643,371 | 31,128,866 | 30,538,964 | 30,036,771 | 30,238,728 | 29,907,334 | 183,494,025 |
| | | | | | | | |
| Surface Transportation Program (Urban Areas) | 7,024,385 | 8,252,338 | 8,751,975 | 9,569,909 | 10,268,213 | 10,476,349 | 54,343,170 |
| Interstate Maintenance | 47,402,238 | 54,989,802 | 58,821,241 | 63,417,400 | 69,159,815 | 62,761,855 | 356,552,350 |
| Congestion Mitigation/Air Quality Improvement | 5,987,999 | 6,852,293 | 7,370,310 | 8,047,929 | 8,607,408 | 8,550,135 | 45,416,075 |
| Recreational Trails | 484,517 | 636,744 | 786,604 | 663,358 | 836,354 | 925,057 | 4,332,635 |
| Metro Planning | 715,807 | 812,831 | 814,638 | 846,711 | 912,523 | 1,037,559 | 5,140,069 |
| Research Program | 935,236 | 1,069,027 | 1,134,011 | 1,206,418 | 1,306,496 | 1,295,229 | 6,946,417 |
| Planning Programs | 2,805,708 | 3,207,080 | 3,402,030 | 3,619,253 | 3,919,486 | 3,885,685 | 20,839,242 |
| High Priority Projects | 7,816,298 | 10,562,887 | 13,270,044 | 13,951,387 | 13,697,860 | 15,520,683 | 74,819,159 |
| Redistribution of Authority | <u>1,129,588</u> | <u>1,930,022</u> | <u>2,048,703</u> | <u>2,070,116</u> | <u>1,738,494</u> | <u>1,232,308</u> | <u>10,149,231</u> |
| Aggregate Obligation Limit | \$200,738,715 | \$231,612,473 | \$247,695,452 | \$262,245,672 | \$280,388,689 | \$273,365,632 | \$1,496,046,633 |
| | | | | | | | |
| Aggregate Reimbursement | \$161,304,000 | \$212,328,000 | \$277,983,000 | \$260,146,000 | \$278,897,000 | \$263,226,000 | \$1,453,884,000 |

⁽¹⁾ Excluding large urban areas (Albuquerque and Sunland Park).

Source: New Mexico Department of Transportation.

NOTE THAT THE DEPARTMENT MAY ALLOCATE ITS OBLIGATION AUTHORITY AMONG TEA-21 REVENUE CATEGORIES AS IT DESIRES, SUBJECT TO THE AGGREGATE APPORTIONMENT AND ALLOCATION AMOUNT IN EACH CATEGORY AND THE AGGREGATE OBLIGATION LIMIT. OBLIGATION AUTHORITY DOES NOT REPRESENT FEDERAL REVENUES. FEDERAL REVENUES ARE REPRESENTED BY REIMBURSEMENT AMOUNTS. REIMBURSEMENT AMOUNTS VARY SIGNIFICANTLY YEAR-TO-YEAR DEPENDING ON CONSTRUCTION SCHEDULES. OVER TIME, REIMBURSEMENT REVENUES ARE APPROXIMATELY EQUAL TO OBLIGATION AUTHORITY.

Pledged Revenues History and Estimates

Set forth below is a six-year history of Pledged Revenues and an estimate of Pledged Revenues for the current Fiscal Year and the next four Fiscal Years. The estimates are based on Department projections as of January 2004. Such projections are based on certain assumptions that may not be realized. See “SPECIAL FACTORS RELATING TO THE 2004 SUBORDINATE LIEN BONDS” and “FORWARD-LOOKING STATEMENTS.”

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**ACTUAL AND ESTIMATED
PLEDGED REVENUES**
(in thousands)⁽¹⁾

| | <u>FY98</u> | <u>FY99</u> | <u>FY00</u> | <u>FY01</u> | <u>FY02</u> | <u>FY03</u> | <u>FY04</u> | <u>FY05</u> | <u>FY06</u> | <u>FY07</u> | <u>FY08</u> |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Actual</u> | <u>Estimate</u> | <u>Estimate</u> | <u>Estimate</u> | <u>Estimate</u> | <u>Estimate</u> |
| <u>State Road Fund:</u> | | | | | | | | | | | |
| Gasoline Tax | \$117,880 | \$115,660 | \$111,961 | \$108,534 | \$108,941 | \$110,465 | \$110,489 | \$111,523 | \$112,532 | \$113,938 | \$115,363 |
| Special Fuel Tax | 59,732 | 63,763 | 66,648 | 66,940 | 65,689 | 69,478 | 71,473 | 88,043 | 90,850 | 93,576 | 96,383 |
| Weight/Distance | 47,603 | 52,670 | 54,098 | 50,851 | 50,903 | 51,394 | 52,000 | 74,796 | 78,246 | 81,376 | 84,631 |
| Trip Tax | 9,050 | 9,656 | 9,727 | 7,731 | 6,194 | 4,348 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 |
| Vehicle Registration | 40,162 | 42,537 | 44,302 | 41,600 | 44,137 | 43,993 | 54,127 | 68,283 | 72,309 | 73,755 | 75,230 |
| Vehicle Transaction | 1,062 | 1,242 | 1,178 | 1,111 | 1,144 | 1,115 | 1,150 | 1,130 | 1,153 | 1,176 | 1,199 |
| Driver's License | 3,456 | 3,497 | 4,484 | 4,361 | 4,799 | 4,542 | 3,700 | 3,756 | 3,812 | 3,870 | 3,928 |
| Oversize/License | 1,381 | 1,426 | 1,250 | 1,316 | 1,303 | 1,140 | 1,200 | 4,000 | 4,000 | 4,000 | 4,000 |
| Public Regulatory Commission Fees | 3,700 | 3,842 | 3,964 | 3,655 | 3,549 | 3,391 | 3,400 | 3,400 | 3,400 | 3,400 | 3,400 |
| Penalty Assessments (Reinstatement Fees) | 1,095 | 1,111 | 1,098 | 1,122 | 1,024 | 1,138 | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 |
| MVD Miscellaneous Fees | 1,249 | 1,645 | 1,226 | 881 | 898 | 997 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Leased, Vehicle Gross Receipts Tax | 2,325 | 2,107 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Road Fund Interest | <u>3,730</u> | <u>2,262</u> | <u>2,071</u> | <u>1,714</u> | <u>1,002</u> | <u>509</u> | <u>483</u> | <u>652</u> | <u>1,069</u> | <u>1,379</u> | <u>1,793</u> |
| Total State Road Fund⁽¹⁾ | 292,424 | 301,419 | 302,009 | 289,817 | 289,584 | 292,510 | 304,730 | 361,733 | 373,521 | 382,619 | 392,076 |
| Percent Change | | 3.1% | 0.2% | -4.80% | -0.1% | 1.0% | 4.0% | 18.9% | 3.3% | 2.4% | 2.5% |
| <u>Highway Infrastructure Fund:</u> | | | | | | | | | | | |
| Leased Vehicle Gross Receipts | n/a | n/a | 4,596 | 4,810 | 4,507 | 4,465 | 4,700 | 4,850 | 5,000 | 5,150 | 5,305 |
| Tire Recycling Fees | n/a | n/a | 1,455 | 1,411 | 1,655 | 1,679 | 1,850 | 1,860 | 1,950 | 2,009 | 2,069 |
| Interest | <u>n/a</u> | <u>n/a</u> | <u>168</u> | <u>328</u> | <u>152</u> | <u>115</u> | <u>82</u> | <u>111</u> | <u>182</u> | <u>235</u> | <u>305</u> |
| Total Highway Infrastructure Fund⁽¹⁾ | 0 | 0 | 6,219 | 6,550 | 6,314 | 6,259 | 6,632 | 6,821 | 7,132 | 7,393 | 7,678 |
| Percent Change | | | | 5.3% | -3.6% | -0.9% | 6.0% | 2.8% | 4.6% | 3.7% | 3.9% |
| <u>Federal Funds:</u> | | | | | | | | | | | |
| | 161,304 | 213,328 | 277,983 | 260,146 | 278,897 | 263,226 | 267,423⁽²⁾ | 267,423⁽²⁾ | 267,423⁽²⁾ | 267,423⁽²⁾ | 267,423⁽²⁾ |
| Percentage Change | 32.3% | 30.3% | -6.4% | 7.2% | -5.6% | | | | | | |
| Total Pledged Revenues⁽¹⁾: | 453,728 | 513,747 | 641,211 | 556,513 | 574,795 | 561,995 | 578,785 | 635,977 | 648,076 | 657,435 | 667,177 |
| Percent Change | | 13.2% | 24.8% | -13.2% | -3.3% | -2.2% | 3.0% | 9.9% | 1.9% | 1.4% | 1.5% |

⁽¹⁾ Details may not correspond to totals due to independent rounding.

⁽²⁾ Based on FY 01-03 average.

Source: New Mexico Department of Transportation.

BOND INSURANCE

Ambac Assurance Corporation

Ambac Assurance Corporation (“Ambac Assurance”) is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$7,278,000,000 (audited) and statutory capital of \$4,490,000,000 (audited) as of December 31, 2003. Statutory capital consists of Ambac Assurance’s policyholders’ surplus and statutory contingency reserve. Standard & Poor’s Credit Markets Services, a Division of The McGraw-Hill Companies, Moody’s Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty Insurance Policy will be treated for federal income tax purposes in the same manner as if such payments were made by the NMFA with respect to the 2004 Subordinate Lien Bonds.

Ambac Assurance makes no representation regarding the 2004 Subordinate Lien Bonds or the advisability of investing in the 2004 Subordinate Lien Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading “BOND INSURANCE.”

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the “Company”), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). These reports, proxy statements and other information can be read and copied at the SEC’s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the “NYSE”), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance’s financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance’s administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668 0340.

Incorporation of Certain Documents by Reference

The following document filed by the Company with the SEC (File No. 1-10777) is incorporated by reference in this Official Statement:

The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in “Available Information”.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) relating to the 2004 Subordinate Lien Bonds effective as of the date of issuance of the 2004 Subordinate Lien Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the 2004 Subordinate Lien Bonds that become Due for Payment but are unpaid by reason of Nonpayment by the NMFA (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance receives notice of Nonpayment from the Trustee. The insurance will extend for the term of the 2004 Subordinate Lien Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the 2004 Subordinate Lien Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2004 Subordinate Lien Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding 2004 Subordinate Lien Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the 2004 Subordinate Lien Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a 2004 Subordinate Lien Bond that has become Due for Payment and which is made to a Holder by or on behalf of the NMFA has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; or
3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee or any Paying Agent.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of 2004 Subordinate Lien Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2004 Subordinate Lien Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder’s right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the 2004 Subordinate Lien Bond, or right to payment of principal or interest on such 2004 Subordinate Lien Bond and will be fully subrogated to the surrendering Owner’s rights to payment.

The Financial Guaranty Insurance Policy does not insure against loss relating to payments made in connection with the sale of Series 2004C Bonds at Auctions or losses suffered as a result of an Owner’s inability to sell Series 2004C Bonds.

THE PLAN OF FINANCING

Sources and Uses of Funds

The estimated sources and uses of funds in connection with the 2004 Subordinate Lien Bonds are set forth in the following table.

SOURCES:

| | |
|--|------------------------|
| Series 2004B Bonds Par Amount | \$237,950,000.00 |
| Net Premium - Series 2004B Bonds | \$ 16,347,186.55 |
| Series 2004C Bonds Par Amount | \$ 200,000,000 |
| Transfer from Refunded Bonds Debt Service Fund | <u>\$ 7,285,997.50</u> |
| TOTAL SOURCES: | \$461,583,184.05 |

USES:

| | |
|---|-------------------------|
| Deposit to Escrow Fund for Refunded Bonds | \$416,142,107.94 |
| Costs of Issuance ⁽¹⁾ | \$ 4,228,695.73 |
| Deposit to 2004 Subordinate Lien Account of Debt Service Reserve | <u>\$ 41,212,380.38</u> |
| TOTAL USES: | \$461,583,184.05 |

⁽¹⁾ Includes legal and accounting fees, financial advisory fees, printing, rating fees, Underwriters' discount, insurance premium and other miscellaneous costs. See "UNDERWRITING."

The Refunding

The 2004 Subordinate Lien Bonds are being issued to provide funds to redeem in full the Refunded Bonds at the redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date. A portion of the proceeds of the 2004 Subordinate Lien Bonds will be deposited in the Escrow Fund for the Refunded Bonds (the "Escrow Fund") and used to redeem or pay the Refunded Bonds on the first optional redemption date or the maturity date therefor and to pay scheduled payments of principal and interest on the Refunded Bonds before those dates. The accuracy of computations indicating that amounts deposited in the Escrow Fund will be sufficient to make required payments in connection with the Refunded Bonds will be verified by a firm of certified public accountants. See "VERIFICATION OF MATHEMATICAL CALCULATIONS."

INTEREST RATE SWAPS

Contemporaneously with the issuance of the 2004 Subordinate Lien Bonds, the NMFA is entering into 1992 ISDA (International Swap Dealers Association) Master Agreements (Multicurrency-Cross Border) and related Schedules, Credit Support Annexes and Confirmations (collectively, the "Swap Documents") in connection with interest rate exchange agreements (collectively, the "2004 Swap Agreements"): (i) with Royal Bank of Canada having an initial notional amount of \$100,000,000; (ii) with Goldman Sachs Mitsui Marine Derivatives L.P. having an initial notional amount of \$50,000,000; and (iii) with Lehman Brothers Derivative Products Inc. (together with Royal Bank of Canada and Goldman Sachs Mitsui Marine Derivatives, L.P., the "2004 Counterparties" and each a "2004 Counterparty") having an initial notional amount of \$50,000,000. The 2004 Swap Agreements are being entered into for the purpose of hedging the exposure of the NMFA against interest rate fluctuations arising from the variable rates borne by the Series 2004C Bonds. Under the 2004 Swap Agreements, the NMFA will be the fixed rate payor, paying the relevant 2004 Counterparty a fixed rate of 3.934% per annum on the relevant notional amount, and the 2004 Counterparties will be floating rate payors, paying the NMFA a floating rate equal to: (a) until the second anniversary of the issuance of the 2004 Subordinate Lien Bonds, the Bond Market Association

Municipal Swap Index (the “BMA Index”) on the relevant notional amount; and (b) thereafter, 68% of the 30-day London Interbank Offered Rate on the relevant notional amount. The rates to be paid on under the 2004 Swap Agreements by the 2004 Counterparties are reasonably expected to be substantially the same as the rates borne by the Series 2004C Bonds, but which may from time to time vary from the actual rate payable by the NMFA on each subseries of the Series 2004C Bonds. If the actual rate payable by the NMFA on the Series 2004C Bonds is less than that payable by the relevant 2004 Counterparty, the NMFA will need to use more Pledged Revenues to make the relevant payments than it would had it not entered into the relevant 2004 Swap Agreement. The stated termination date under each 2004 Swap Agreement is June 15, 2024. The aggregate notional amounts of the 2004 Swap Agreements will be reduced on June 15, 2023 in an aggregate amount equal to the aggregate principal portion of the mandatory sinking fund redemption payment on the Series 2004C Bonds on that date.

Contemporaneously with the issuance of the 2004 Subordinate Lien Bonds, the NMFA is entering into Swap Documents in connection with forward-starting interest rate exchange agreements (collectively, the “Forward-Starting Swap Agreements” and, together with the 2004 Swap Agreements, the “Swap Agreements”): (i) with JPMorgan Chase Bank having an initial notional amount of \$110,000,000; and (ii) with UBS AG (together with JPMorgan Chase Bank, the “Forward-Starting Counterparties” and each a “Forward-Starting Counterparty”) having an initial notional amount of \$110,000,000. The Forward-Starting Swap Agreements are being entered into for the purpose of hedging the exposure of the NMFA against interest rate fluctuations arising from the variable rates borne by variable rate bonds to be issued by the NMFA in the future. Under the Forward Starting Swap Agreements, the NMFA will be the fixed rate payor, paying the relevant Forward-Starting Counterparty a fixed rate of 4.732% per annum on the relevant notional amount beginning on December 15, 2006, and the Forward-Starting Counterparties will be floating rate payors, paying the NMFA a floating rate equal to the BMA Index on the relevant notional amount beginning on December 15, 2006. There can be no assurance that the NMFA will issue variable rate bonds in the future, that such bonds will be in a principal amount equal to the aggregate notional amount of the Forward-Starting Swap Agreements or that the actual rate payable by the NMFA on such bonds will be the same as that payable by the relevant Forward-Starting Counterparty on the Forward-Starting Swap Agreements. If the actual rate payable by the NMFA on such bonds is less than that payable by the relevant Forward-Starting Counterparty, the NMFA will need to use more Pledged Revenues to make the relevant payments than it would had it not entered into the relevant Forward-Starting Swap Agreement. The stated termination date under each Forward-Starting Swap Agreement is December 15, 2026. The initial notional amounts of the Forward-Starting Swap Agreements will decline over the terms of the Forward-Starting Swap Agreements.

Payments (other than termination payments as described below) by the NMFA on the Swap Agreements are Subordinate Lien Obligations payable from and secured by a lien on the Pledged Revenues on a parity with the Subordinate Lien Obligations, including the 2004 Subordinate Lien Bonds.

Each of the Swap Agreements provides that the NMFA may bid for termination of the Swap Agreement at any time prior to its termination date and that the Swap Agreement may be terminated prior to its termination date by the relevant 2004 Counterparty or Forward-Starting Counterparty (each a “Counterparty”) under certain circumstances. If a Swap Agreement is terminated prior to the stated termination date, a termination payment may be owed by the NMFA to the relevant Counterparty or by the relevant Counterparty to the NMFA, depending on prevailing economic circumstances at the time of termination. The amount of the termination payment, while not currently ascertainable, could be substantial. Any such termination payments payable by the NMFA are payable from and secured by a lien on the Pledged Revenues subject and subordinate to the lien thereon of the Subordinate Lien Obligations and on a parity with any Junior Subordinate Lien Obligations.

Each of the Swap Agreements is subject to periodic “mark-to-market” valuations. If the mark-to-market valuation exceeds the limitations set in the Swap Agreement, federal securities may be required to be delivered by the NMFA or the relevant Counterparty as collateral securing their respective obligations under the Swap Agreement. The Swap Agreements are being entered into under a debt policy memorandum of understanding entered into by the NMFA and the Commission. Under that policy memorandum of understanding, an advisor to the NMFA, the Commission and the Department is to mark the Swap Agreements to market monthly and a joint committee of the NMFA, the Commission and the Department is to regularly monitor the Swap Agreements.

The arrangements made with respect to the Swap Agreements do not alter the NMFA’s obligations to pay principal of or interest on the 2004 Subordinate Lien Bonds from the Pledged Revenues. Because each of the Swap

Agreements is subject to termination upon the occurrence of certain events, no assurance can be given that it will continue to be in effect. The Swap Agreements do not provide a source of credit or security for the 2004 Subordinate Lien Bonds. The Owners of the 2004 Subordinate Lien Bonds will not have any rights under any Swap Agreement or against any Counterparty.

If a Counterparty is unable to perform its obligations under the relevant Swap Agreement, the NMFA may be exposed to increased interest rate risk. Each Counterparty currently has long-term debt ratings of not less than Aa3 from Moody's and not less than AA- from S&P.

ANNUAL DEBT SERVICE REQUIREMENTS

Debt Service for the 2004 Subordinate Lien Bonds

The following schedule shows the total debt service payable for the 2004 Subordinate Lien Bonds for each Fiscal Year through their final maturity date.

| Fiscal Year | Series 2004B Bonds | | Series 2004C Bonds | | Total Fiscal Year Debt Service Requirements |
|----------------|--------------------------|-------------------------|--------------------------|-------------------------|--|
| | Principal ⁽¹⁾ | Interest ⁽²⁾ | Principal ⁽³⁾ | Interest ⁽⁴⁾ | |
| 2004 | - | - | - | \$ 546,389 | \$ 546,389 |
| 2005 | \$ 27,695,000 | \$11,624,556 | - | 7,868,000 | 47,187,556 |
| 2006 | 27,940,000 | 10,038,865 | - | 7,868,000 | 45,846,865 |
| 2007 | 19,985,000 | 8,804,615 | - | 7,868,000 | 36,657,615 |
| 2008 | 13,170,000 | 7,938,265 | - | 7,868,000 | 28,976,265 |
| 2009 | 10,735,000 | 7,347,765 | - | 7,868,000 | 25,950,765 |
| 2010 | 9,230,000 | 6,879,385 | - | 7,868,000 | 23,977,385 |
| 2011 | 36,275,000 | 6,421,085 | - | 7,868,000 | 50,564,085 |
| 2012 | 29,060,000 | 4,639,050 | - | 7,868,000 | 41,567,050 |
| 2013 | 34,120,000 | 3,186,800 | - | 7,868,000 | 45,174,800 |
| 2014 | 29,740,000 | 1,483,400 | - | 7,868,000 | 39,091,400 |
| 2015 | - | - | - | 7,868,000 | 7,868,000 |
| 2016 | - | - | - | 7,868,000 | 7,868,000 |
| 2017 | - | - | - | 7,868,000 | 7,868,000 |
| 2018 | - | - | - | 7,868,000 | 7,868,000 |
| 2019 | - | - | - | 7,868,000 | 7,868,000 |
| 2020 | - | - | - | 7,868,000 | 7,868,000 |
| 2021 | - | - | - | 7,868,000 | 7,868,000 |
| 2022 | - | - | - | 7,868,000 | 7,868,000 |
| 2023 | - | - | 64,375,000 | 7,868,000 | 72,243,000 |
| 2024 | - | - | 135,625,000 | 5,335,488 | 140,960,488 |
| TOTAL | <u>\$237,950,000</u> | <u>\$68,363,786</u> | <u>\$200,000,000</u> | <u>\$155,373,876</u> | <u>\$661,687,663</u> |

⁽¹⁾ Payable on June 15 of each year.

⁽²⁾ Payable on June 15 and December 15, commencing December 15, 2004.

⁽³⁾ Payable on June 15 of each year. Includes mandatory sinking fund payments.

⁽⁴⁾ Payable on June 15 and December 15, commencing June 15, 2004. Based on the fixed rate payable by the NMFA under the 2004 Swap Agreements.

Source: First Southwest Company.

Debt Service and Projected Coverage

The following table sets forth for each Fiscal Year from 2004 through 2024, the amounts in each such Fiscal Year of estimated Pledged Revenues, the estimated amounts required in each such year for debt service on the 2004 Subordinate Lien Bonds, the Series 2004A Bonds, the Outstanding Closed Lien Obligations and the projected debt service coverage ratios. Estimated Pledged Revenues are based on Department projections as of January 2004. Such projections are based on certain assumptions that may not be realized. See “SPECIAL FACTORS RELATING TO THE 2004 SUBORDINATE LIEN BONDS” and “FORWARD-LOOKING STATEMENTS.”

| Fiscal Year | Estimated Pledged Revenues ⁽¹⁾ | Debt Service Payments | | | | Debt Service Payments | | | |
|-------------|---|--|------------------------|---|---------------------------------|-----------------------|-----------------------------------|---|---------------------------------|
| | | Total Outstanding Closed Lien Obligations ⁽²⁾ | Series 2004A Bonds | Total Closed Lien and Senior Lien Obligations | Projected Debt Service Coverage | Series 2004B Bonds | Series 2004C Bonds ⁽³⁾ | Total Closed Lien, Senior Lien and Subordinate Lien Bonds | Projected Debt Service Coverage |
| 2004 | \$578,785,000 | \$ 80,666,473 | - | \$ 80,666,473 | N/A | - | \$ 546,389 | \$ 81,212,863 | N/A |
| 2005 | 635,977,000 | 71,186,940 | \$38,731,811 | 109,918,751 | 5.79x | \$39,319,556 | 7,868,000 | 157,106,308 | 4.05x |
| 2006 | 648,076,000 | 75,559,490 | 36,216,759 | 111,776,249 | 5.80x | 37,978,865 | 7,868,000 | 157,623,114 | 4.11x |
| 2007 | 657,435,000 | 74,939,190 | 36,216,759 | 111,155,949 | 5.91x | 28,789,615 | 7,868,000 | 147,813,564 | 4.45x |
| 2008 | 667,177,000 | 73,807,384 | 36,216,759 | 110,024,143 | 6.06x | 21,108,265 | 7,868,000 | 139,000,408 | 4.80x |
| 2009 | 667,177,000 | 76,832,234 | 36,216,759 | 113,048,993 | 5.90x | 18,082,765 | 7,868,000 | 138,999,758 | 4.80x |
| 2010 | 667,177,000 | 78,801,978 | 36,216,759 | 115,018,736 | 5.80x | 16,109,385 | 7,868,000 | 138,996,121 | 4.80x |
| 2011 | 667,177,000 | 39,839,659 | 36,216,759 | 76,056,418 | 8.77x | 42,696,085 | 7,868,000 | 126,620,503 | 5.27x |
| 2012 | 667,177,000 | 36,461,311 | 36,216,759 | 72,678,070 | 9.18x | 33,699,050 | 7,868,000 | 114,245,120 | 5.84x |
| 2013 | 667,177,000 | 32,853,061 | 36,216,759 | 69,069,820 | 9.66x | 37,306,800 | 7,868,000 | 114,244,620 | 5.84x |
| 2014 | 667,177,000 | 19,577,859 | 55,576,759 | 75,154,618 | 8.88x | 31,223,400 | 7,868,000 | 114,246,018 | 5.84x |
| 2015 | 667,177,000 | 6,496,896 | 96,574,879 | 103,071,775 | 6.47x | - | 7,868,000 | 110,939,775 | 6.01x |
| 2016 | 667,177,000 | 6,499,406 | 97,096,991 | 103,596,398 | 6.44x | - | 7,868,000 | 111,464,398 | 5.99x |
| 2017 | 667,177,000 | 6,499,563 | 97,422,129 | 103,921,691 | 6.42x | - | 7,868,000 | 111,789,691 | 5.97x |
| 2018 | 667,177,000 | - | 104,255,398 | 104,255,398 | 6.40x | - | 7,868,000 | 112,123,398 | 5.95x |
| 2019 | 667,177,000 | - | 104,624,110 | 104,624,110 | 6.38x | - | 7,868,000 | 112,492,110 | 5.93x |
| 2020 | 667,177,000 | - | 105,002,150 | 105,002,150 | 6.35x | - | 7,868,000 | 112,870,150 | 5.91x |
| 2021 | 667,177,000 | - | 105,399,600 | 105,399,600 | 6.33x | - | 7,868,000 | 113,267,600 | 5.89x |
| 2022 | 667,177,000 | - | 105,807,475 | 105,807,475 | 6.31x | - | 7,868,000 | 113,675,475 | 5.87x |
| 2023 | 667,177,000 | - | 30,657,225 | 30,657,225 | 21.76x | - | 72,243,000 | 102,900,225 | 6.48x |
| 2024 | 667,177,000 | - | 14,777,138 | 14,777,138 | 45.15x | - | 140,960,488 | 155,737,625 | 4.28x |
| Total | | <u>\$680,021,444</u> | <u>\$1,245,659,734</u> | <u>\$1,925,681,178</u> | | <u>\$306,313,786</u> | <u>\$355,373,876</u> | <u>\$2,587,368,841</u> | |

⁽¹⁾ Projected; Pledged Revenues for 2009 through 2024 are based on Pledged Revenues estimated for Fiscal Year 2008 by the Department. See “THE PLEDGED REVENUES—Pledged Revenues History and Estimates.”

⁽²⁾ Debt Service for Fiscal Year 2004 represents only the June 15, 2004 principal and interest.

⁽³⁾ Calculated using an annual interest rate of 3.934% per annum (the fixed rate payable by the NMFA under the 2004 Swap Agreements).

Source: First Southwest Company (except Estimated Pledged Revenues: New Mexico Department of Transportation).

NEW MEXICO FINANCE AUTHORITY

Generally

The NMFA is a public body politic and corporate, separate and apart from the State, and governmental instrumentality of the State. It was created in 1992 pursuant to the New Mexico Finance Authority Act (the “NMFA Act”) for the purpose of coordinating the planning and financing of State and local public projects, to provide for long-term planning and assessment of State and local capital needs and to improve cooperation among the executive and legislative branches of State government and local governments in financing public projects. Pursuant to the NMFA Act, the NMFA and its corporate existence will continue until terminated by law, provided that no such law will take effect so long as the NMFA has bonds or other obligations outstanding, unless provision has been made for the payment of all such obligations. The NMFA is governed by a board of directors and currently employs 22 persons.

Powers

In addition to the power to issue bonds and other obligations to finance specific programs and projects, pursuant to the NMFA Act, the NMFA is granted all powers necessary and appropriate to carry out and effectuate its public and corporate purposes, including but not limited to the following powers: to sue or be sued; to adopt, subject to the review and approval of the NMFA oversight committee, such regulations as are necessary and appropriate to implement the provisions of the NMFA Act; to make, enter into and enforce all contracts, agreements and other instruments necessary, convenient or desirable in the exercise of its powers and functions and for the purposes of the NMFA Act; to acquire, construct, hold, improve, mortgage, sell, lease, convey or dispose of real and personal property for its public purposes; to make loans and purchase securities and contract to make loans and purchase securities; to make grants from the Water and Wastewater Project Grant Fund and Water and Wastewater Planning Fund to qualified entities to finance public projects; to procure insurance to secure payment on any loan, lease or purchase payments owed to the NMFA by a qualified entity in such amounts and from such insurers, including the federal government, as it may deem necessary or desirable, and to pay any premiums for such insurance; to fix, revise from time to time, charge and collect fees and other charges in connection with the making of loans and any other services rendered by the NMFA; and to borrow money and to issue bonds and provide for the rights of the holders of the bonds; to establish and maintain reserve and sinking fund accounts to insure against and have funds available for maintenance and other debt service accounts; to invest and reinvest its funds and to take and hold property as security for the investment of such funds; and to employ advisers, consultants and agents. The NMFA has no authority to impose or collect taxes of any kind.

Organization and Governance

The NMFA’s governing body, the Board of Directors of the NMFA, is composed of the 12 members of the NMFA, seven of which are ex-officio members designated in the NMFA Act and five of which are appointed by the Governor with the advice and consent of the State senate. The seven designated members include five ex-officio State officials, of which four are cabinet-level secretaries (the secretary of finance and administration, the secretary of economic development, the secretary of energy, minerals and natural resources, and the secretary of environment), and one is a State agency official (the State investment officer), and two are the chief executives of state-wide associations (the executive director of the New Mexico Municipal League and the executive director of the New Mexico Association of Counties). One of the five members appointed by the Governor must be the chief financial officer of a State higher educational institution and the remaining four members appointed by the Governor are members of the public. Each of the appointed members of the NMFA serve staggered four-year terms, so that the term of at least one member expires on January 1 of each year. Vacancies are filled by appointment for the remainder of the unexpired term. Any member is eligible for reappointment.

The NMFA Act also provides for the creation of a legislative oversight committee, whose membership is determined by the State Legislative Council. The oversight committee is required to monitor and oversee the operation of the NMFA, and in that connection it: meets on a regular basis to receive and review reports from the NMFA on implementation of the provisions of the Act and to review and approve regulations proposed for adoption; monitors and provides assistance and advice on the public project financing program of the NMFA; oversees and monitors State and local government capital planning and financing; provides advice and assistance to the NMFA

and cooperates with the executive branch of State government and local governments on planning, setting priorities for and financing of State and local capital projects; undertakes an ongoing examination of the statutes, constitutional provisions, regulations and court decisions governing State and local government capital financing in the State; and reports its findings and recommendations, including recommended legislation or necessary changes, to the Governor and to each session of the legislature. The report and proposed legislation are required to be made available on or before December 15 each year.

The Governor's Finance Council was created pursuant to Executive Order No. 2003-017 on May 23, 2003 to develop an overall strategy for issuing long-term debt obligations and making investments, to improve the New Mexico economy and to coordinate and integrate infrastructure development and the capital outlay processes. Although the NMFA is a governmental instrumentality separate from the State and not legally an "executive agency," the NMFA voluntarily participates in the Governor's Finance Council in order to meet the goals of Executive Order No. 2003-017 and the goals of the NMFA.

Governing Body and Staff Members

Current members of the Board of Directors of the NMFA, and their respective occupations, are set out below:

| <u>Name</u> | <u>Occupation</u> | <u>Term Expires</u> |
|---|---|----------------------------|
| Gary Bland ⁽¹⁾ | State Investment Officer, State Investment Council | not applicable |
| John A. Carey ⁽²⁾ | President and CEO Association of Commerce and Industry | 01/01/08 |
| Ron Curry ⁽¹⁾ | Secretary, Environment Department, State of New Mexico | not applicable |
| Stephen R. Flance ⁽²⁾ (Chairman) | Owner/CEO, The Flance Company | 12/31/05 |
| William Fulginiti ⁽¹⁾ (Vice-Chairman) | Executive Director, New Mexico Municipal League | not applicable |
| Randy Harris ⁽²⁾ | President and CEO, Bank of Clovis | 12/31/04 |
| Rick Homans ⁽¹⁾ | Secretary, Economic Development Department, State of New Mexico | not applicable |
| James Jimenez ⁽¹⁾ | Secretary, Department of Finance and Administration, State of New Mexico | not applicable |
| James L. McDonough ⁽²⁾ | Chief Financial Officer, New Mexico State University | 12/31/07 |
| Samuel O. Montoya ⁽¹⁾ (Secretary) | Executive Director, New Mexico Association of Counties | not applicable |
| Joanna Prukop ⁽¹⁾ | Secretary, Energy, Minerals and Natural Resources Department, State of New Mexico | not applicable |
| Craig Reeves ⁽²⁾ | President, First National Bank of New Mexico | 01/01/08 |

⁽¹⁾ Ex-Officio Member.

⁽²⁾ Appointed by the Governor of the State.

Set out below is certain information concerning key staff members of the NMFA involved in the issuance of the 2004 Subordinate Lien Bonds and the administration of the NMFA's financing programs.

James Jimenez, Interim Executive Director. A native New Mexican, James Jimenez began his career in government in 1986 as an economic analyst for the New Mexico Department of Finance and Administration (DFA). He served in that position until 1989 when he left to accept a similar position with the Legislative Finance Committee. Mr. Jimenez returned to DFA in 1995 and served as deputy secretary of the department for one year. In 1995, he accepted a position with the City of Rio Rancho as Finance Director, which he held for 3 1/2 years. He was promoted to the position of City Administrator for the City of Rio Rancho in 1999 and held that position until January 2003. In January, he was named Secretary of Finance and Administration by Governor Bill Richardson. He holds a Bachelor of Arts degree in Economics from the University of New Mexico and a Master of Public Administration degree also from UNM. In 2002, he received the distinguished alumnus award from the University of New Mexico Economics Department. He was also awarded the Ferrel Heady Prize for the outstanding professional paper upon completion of his Master of Public Administration degree. During his tenure at the City of Rio Rancho, for seven consecutive years the city received a distinguished budget award. Mr. Jimenez is also a member of the Board of Directors of the NMFA, but has agreed not to vote on matters coming before the Board of Directors while he serves as Interim Executive Director.

Keith H. Mellor, Chief Financial Officer. Mr. Mellor joined the NMFA in November 1995. Before coming to the NMFA Mr. Mellor was controller for the Los Alamos Credit Union. He brings with him an extensive background in controllership, investment portfolio management, governmental auditing and accounting. His responsibilities include design, implementation, and maintenance of financial controls, reporting systems and investment strategies. Prior to serving at the Los Alamos Credit Union, Mr. Mellor was CFO/Controller for CNS, Inc., a systems engineering and integration firm. Mr. Mellor holds B.S. in accounting from Metro State College, Denver, Colorado. He holds a Certified Public Accountant's license in the State of Colorado.

Brian L. Brooks, Director – Governor Richardson's Investment Partnership (GRIP). Mr. Brooks joined the NMFA in April 1999. Before becoming GRIP Director at the NMFA, Mr. Brooks was a Special Projects Manager who also over saw the Primary Care Capital Fund (PCCF). Prior to working for the NMFA, Mr. Brooks had a diverse career in the investment industry. His career began on the sell-side of the industry as an Investment Broker for A. G. Edwards and Sons. He then moved over to the consulting side of the investment industry working as a Risk Management Associate for Kase and Co. At Kase and Co., Mr. Brooks helped design risk management plans for utility and airline companies using future contracts. He also assisted in the writing of the book "Trading with the Odds". Mr. Brooks then worked on the buy-side of the investment industry as a Financial Analyst at Davis Selected Advisors. Mr. Brooks' responsibilities included the daily management of several annuity funds, research on convertible securities, and served as the backup equity trader for the firm. Mr. Brooks holds a B.S. in Business Administration from New Mexico Institute of Mining and Technology, where he also serves as the coordinator the Management Department's Advisory Committee.

Marquita Russel, Chief of Programs. Ms. Russel joined the NMFA in September 2000. Ms. Russel has 15 years of experience in the financial services industry in both marketing and financial analysis. Prior to joining the NMFA, Ms. Russel spent 10 years at the Illinois Development Finance Authority where she held the positions of Marketing Director and Senior Program Administrator. During that time, Ms. Russel closed more than \$1 billion of transactions, ranging from \$5,000 microloans to \$175 million tax exempt hospital bonds. Ms. Russel earned her bachelor's degree from Marquette University, Milwaukee, Wisconsin.

The NMFA staff provides a full range of services to its borrowers and other parties benefiting from or otherwise interested in the NMFA's financing programs. Those services include loan servicing and program fund administration, financial analysis relating to all aspects of the NMFA's programs, accounting, program marketing and development services, application assistance to borrowers, coordination and assistance with other funding sources, coordination with taxing and regulatory authorities, and coordination with various legislative authorities.

Other NMFA Programs and Projects

The NMFA participates in several other programs designed to provide financing for equipment and projects to both local government entities and state agencies. These projects are funded by various sources and do not have a lien or claim of any type on the Pledged Revenues that secure the 2004 Subordinate Lien Bonds.

The Public Project Revolving Fund Program

The Public Project Revolving Fund Program of the NMFA is authorized by the NMFA Act and was created to fulfill the duty of the NMFA to develop and administer a program to assist qualified entities, individually or jointly, in financing all types of projects of a long-term capital nature, including but not limited to buildings and furnishings, water systems, water rights, sewerage and waste disposal systems, solid waste disposal systems, land, streets, airports, municipal utilities, parking facilities and capital equipment. To implement the Public Project Revolving Fund Program, the NMFA has been granted the following specific powers: to make loans to qualified entities that establish one or more dedicated sources of revenue to repay the loan from the NMFA; to make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the NMFA or pertaining to (i) a loan to a qualified entity, (ii) a purchase or sale of securities individually or on a pooled basis, or (iii) the performance of its duties and execution of any of its powers under the Act; to purchase, hold or sell securities; to charge for its costs and services in review or consideration of a proposed loan to a qualified entity or purchase by the NMFA of securities; in connection with the purchase of any securities, to consider the ability of the qualified entity to secure financing from other sources and the costs of that financing and the particular public project or purpose to be financed or refinanced with the proceeds of the securities to be purchased by the NMFA; and to acquire and hold title to or leasehold interest in real and personal property and to sell, convey or lease that property in the event of a default by a qualifying entity, enforce its rights by suit or mandamus or use all of the available remedies under state law.

The NMFA has issued several series of its Public Project Revolving Fund Revenue Bonds since July 1995. The proceeds of such bonds were used to make loans and grants to numerous local governmental entities of the State as well as two departments of State government, for the construction of infrastructure projects. The NMFA issued \$43,400,000 aggregate principal amount of its Public Project Revolving Fund Revenue Bonds, Series 2004A in January 2004 for similar purposes.

Workers' Compensation Administration Building Financing

In 1993 and 1994, the State Legislature authorized the NMFA to sell a total of \$6,000,000 in revenue bonds for the acquisition of land and site improvement, planning, designing, constructing, equipping and furnishing of a state office for the Workers' Compensation Administration ("WCA"). The State Legislature also provided that the first forty cents (\$.40) of each quarterly four dollar (\$4) of Workers' Compensation assessment paid to the State would be pledged to the NMFA for payment of the revenue bonds associated with the WCA project. In July 1995, the NMFA publicly sold \$2,500,000 of its revenue obligations to provide funds for the acquisition of land and the construction and equipping of an office building in Albuquerque. In July 1996, the NMFA sold \$4,310,000 in long-term bonds to retire the outstanding bonds and to finance construction of the Workers' Compensation Administration Building.

Cigarette Tax Bond Projects

In 1993, the State Legislature authorized the NMFA to issue revenue bonds payable from a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. The NMFA issued such revenue bonds in an aggregate principal amount of \$6,000,000 in July 1996. The proceeds of the bonds were used to design, construct, equip and furnish an addition to the University of New Mexico Cancer Center.

In 2003, the State Legislature authorized the NMFA to issue up to \$60,000,000 of revenue bonds payable from a portion of the net cigarette tax receipts collected by the State and distributed to the NMFA. The proceeds of the bonds will be used for the purpose of providing funds to design, construct, equip and furnish additions and improvements to the University of New Mexico Hospital and the Cancer Research and Treatment Center at the

University of New Mexico Health Sciences Center. On April 1, 2004, the NMFA issued \$39,035,000 aggregate principal amount of its Cigarette Tax Revenue Bonds, Series 2004A.

Primary Care Capital Fund

In 1994, a \$5,000,000 revolving fund was created in the State treasury from which to provide loans and other financial assistance to rural primary care health clinics. The legislation establishing the fund directed NMFA to administer the revolving fund, and to assume responsibility for all financial duties related to the program. The New Mexico Health Department and the NMFA have negotiated a joint powers agreement whereby the Health Department will provide all required health-related services and the NMFA will administer the revolving fund. In September 1994, later amended in April 1998, the NMFA and the Health Department have adopted and periodically updated program operation rules to govern the financing of the repair, renovation or construction of primary care clinics in underserved areas of the State. The NMFA has funded thirteen loans totaling approximately \$6,650,000.

Administrative Office of the Courts Financing

The 1996 and 1999 State Legislatures authorized the NMFA to issue revenue bonds in an amount not to exceed \$12,000,000 for the purpose of financing acquisition of court automation systems for the State court system and development of statewide appellate automation, including the acquisition, development and installation of computer hardware and software by the Administrative Office of the Courts. The NMFA sold \$8,500,000 in bonds in 1996 and an additional \$3,500,000 in bonds in 1999. Such bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the State, and a portion of certain costs and penalty assessments to be collected upon conviction of persons of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle. The 1996 and 1999 Bonds were defeased on June 1, 2001.

Drinking Water Program

The New Mexico Drinking Water State Revolving Loan Fund Act (the "Drinking Water Fund Act") was signed into law on April 9, 1997. The Drinking Water Fund Act creates, in the NMFA, the New Mexico Drinking Water State Revolving Loan Fund ("DWRLF") which is administered by the NMFA. The NMFA was charged with the establishment, in cooperation with the State of New Mexico Environment Department, of a loan program to provide local authorities with low-cost financial assistance in the construction of drinking water facilities necessary to protect the public health. The passage of the Drinking Water Fund Act was in response to the re-authorization by Congress and the President of the federal Safe Drinking Water Act ("SDWA"), which required the Environmental Protection Agency ("EPA") to make capitalization grants to the states to further the health objectives of the SDWA. Under the re-authorization, capitalization grants will be made to the states over the next seven years.

New Mexico has been awarded a total of \$50,943,500 in capitalization grant dollars from the EPA through December 1, 2003, and has provided a total state match of \$10,188,700.

The NMFA can utilize funds in the DWRLF to make loans to localities for drinking water facility construction, renovation or expansion. For projects with proper legislative approval, these loans can be combined with loans from the Public Project Revolving Fund to leverage the funds in the DWRLF to create a greater dollar volume of loans. To date the NMFA has funded 17 loans totaling approximately \$21,162,361.

Bernalillo County Metropolitan Court

During the 1998 special legislative session and the 2000 legislative session, the State Legislature authorized the NMFA to issue up to \$57,900,000 in revenue bonds for the purpose of financing the acquisition of real property and the design, construction and equipping of a new court building and an adjacent parking facility for the Bernalillo County Metropolitan Court in Albuquerque, New Mexico. The first series of bonds for the Metropolitan Court Project, the Court Facilities Fee Revenue Bonds, were issued on August 16, 2001 in the amount of \$33,000,000. On September 5, 2002, the next series of bonds was issued in the amount of \$24,900,000. Such bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the State, a portion of certain

costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle and certain other amounts.

During the 2003 legislative session, the State Legislature authorized the NMFA to issue an additional \$3,900,000 in revenue bonds for the purpose of funding additional improvements to the Bernalillo County Metropolitan Court. These bonds are payable solely from a portion of the docketing fees and costs collected by the various courts of the State, a portion of certain costs and penalty assessments to be collected upon conviction from persons convicted of violating any provision of the Motor Vehicle Code involving the operation of a motor vehicle. The bonds were purchased as securities with monies on deposit in the public project revolving fund as authorized by State law.

Water and Wastewater Grant Fund Program

In 2000, the State Legislature authorized the NMFA to issue up to \$5,000,000 in bonds to fund grants for 38 public water and wastewater systems. In 2001, the State Legislature appropriated approximately \$41,000,000 to the Water and Wastewater Grant Fund Program to fund 72 public water and wastewater systems. In 2002, the State Legislature appropriated \$15,000,000 to the Water and Wastewater Grant Fund, but did not identify specific projects to receive the benefit of these funds. For this reason, the NMFA has used the 2002 legislative appropriation only for certified emergency projects. In 2003, the State Legislature granted a temporary increase in the total amount of emergency grants the NMFA can make in any fiscal year. As a result, through fiscal year 2006, the NMFA may make up to \$6,000,000 in emergency grants per fiscal year. As of December 31, 2003, the NMFA Board of Directors has approved 139 grants, totaling approximately \$51,000,000.

Water and Wastewater Planning Fund Program

The Water and Wastewater Planning Fund was created by the State Legislature in 2002 to provide grants for qualified entities to evaluate and to estimate the costs of implementing the most feasible alternatives for meeting water and wastewater public project needs. The grants need not have specific authorization by statute. Pursuant to statute, the NMFA issued \$1,000,000 in bonds to capitalize this grant fund. The 2003 State Legislature appropriated an additional \$1,000,000 to this fund.

State Building Bonding Fund Program

The State Legislature in 2001 authorized the NMFA to issue bonds in the amount of \$75,000,000 to finance four separate projects: (i) purchase, renovate, equip and furnish the National Education Association Building on South Capitol Street in Santa Fe, (ii) plan, design, construct, equip and furnish a new office building with integrated parking at the West Capitol Complex on Cerrillos Road in Santa Fe, (iii) purchase, renovate, equip and furnish the Public Employees Retirement Association Building on Paseo de Peralta in Santa Fe, and (iv) purchase land adjacent to the District 5 Office of the State Highway and Transportation Department on Cerrillos Road in Santa Fe. The bonds are payable from a pledge of a portion of the State's gross receipts tax. In January 2002, the NMFA issued its State Office Building Tax Revenue Bonds, Series 2002A in the amount of \$34,695,000 to finance a portion of the authorized projects.

The State Legislature in 2003 authorized the NMFA to issue bonds in the amount of \$5,760,000 for the purpose of renovating and maintaining existing structures and developing permanent exhibits at state museums and monuments. The bonds are payable from a pledge of a portion of the State's gross receipts tax. The bonds were purchased as securities with monies on deposit in the public project revolving fund as authorized by State law.

Interim Loan Programs

The NMFA is authorized to use money on deposit in the public project revolving fund to make loans to qualified entities for the financing of (1) equipment for fire protection, law enforcement and protection, computer and data processing, street and road construction and maintenance, emergency medical services, solid waste collection, transfer and disposal, radio and telecommunications, and utility system purposes, and (2) the acquisition, construction and improvement of fire stations. Interim loans may be made for those purposes in amounts not

exceeding seven hundred fifty thousand dollars, and will, within two years after loans are made, be specifically authorized by law at a legislative session or, within that two year period, bonds will be issued by the NMFA, the proceeds of which will be used to reimburse the public project revolving fund for the amounts used to make interim loans. Projects funded with the proceeds of interim loans under the equipment program are not required to obtain specific authorization by law, as required of projects funded directly from the public project revolving fund.

THE COMMISSION AND THE DEPARTMENT

The Commission

The Commission is created by Article V, Section 14 of the State Constitution. The Commission currently consists of six commissioners, one from each of the six state transportation commission districts within the State. Two members of the Commission are appointed by the Governor of the State, with the advice and consent of the State Senate, every two years for terms of six years. Vacancies are filled by the Governor, with the approval of the Senate, for the remainder of the unexpired term. The names, titles, residences and terms of the current commissioners are set forth below.

| <u>Name</u> | <u>Title</u> | <u>Residence</u> | <u>Term Expires</u> |
|------------------|------------------|------------------|---------------------|
| Johnny Cope | Chairperson | Hobbs | 12/31/06 |
| David Schutz | Vice-Chairperson | Santa Fe | 12/31/09 |
| Gregory T. Ortiz | Secretary | Milan | 12/31/09 |
| Norman Assed | Member | Albuquerque | 12/31/04 |
| Jim Franken | Member | Las Vegas | 12/31/04 |
| Bud Hettinga | Member | Las Cruces | 12/31/10 |

The Commission is responsible for all matters of policy for the Department and all policy matters pertaining to the expenditure of the State Road Fund in the construction, improvement and maintenance of State highways and bridges. The Commission's name was changed from "State Highway Commission" to "State Transportation Commission" by a constitutional amendment ratified by the voters on November 5, 2002.

The Department

The Department is a Cabinet level department within the executive branch of the State's government. The Department is a multimodal transportation agency with emphasis on all modes of transportation and is implementing a bold and innovative approach to address the transportation needs of every New Mexican. The Department has successfully implemented park-and-ride services in Central and Northern New Mexico with future plans to provide similar services in Southern New Mexico. In conjunction with local governmental agencies and tribal sovereign governments, the Department is in the process of providing commuter rail service between Belen and Bernalillo within the next 18 months, and between Bernalillo and Santa Fe in the next four years. The Department is also undertaking an innovative pilot project in conjunction with other State agencies to improve rural transportation in the State. The Department is pursuing federal funding to expand and improve air service within New Mexico, along with expanding interstate and international air service from New Mexico.

The Department is also responsible for maintaining US, Interstate and state highways within New Mexico. Its responsibilities in highway operations include: maintenance and operation of the state highway system; coordination of transportation planning with local and tribal governments; annual development of a priority program of capital improvements; administrative jurisdiction over traffic safety programs such as seatbelt enforcement and drunken driving prevention; and implementation of these programs in accordance with applicable law.

The Department's budget is subject to review by the Commission, then to review by the State's Department of Finance and Administration and the Legislative Finance Committee and is subject to final approval by the State Legislature and the Governor.

The Secretary is the chief executive officer of the Department and is appointed by the Governor, with the approval of the Commission and subject to the advice and consent of the State Senate. The Secretary coordinates the work of the Commission and acts as its active executive representative. The Secretary serves on the Governor's Cabinet. Rhonda G. Faught, P.E. has been with the Department since 1988 and was appointed Secretary in 2003.

The Department's finances are comprised of revenues from State and federal sources. In Fiscal year 2003, 50% of the Department's revenues consisted of State-generated income to the State Road Fund and bond proceeds and 45% consisted of federal grants and other federal reimbursements. The balance, 5%, consisted of revenues to the funds administered by the Department in addition to the State Road Fund: the Highway Infrastructure Fund, the Local Government Road Fund, the Aviation Fund and miscellaneous transportation funds. (The above percentages exclude interest earnings.) Cash balances in the funds administered by the Department are deposited with the State Treasurer to be pooled and invested.

An independent auditor audits the financial statements of the Commission and the Department annually. Excerpts from the most recently available of such audited financial statements, for Fiscal Year 2003, are attached as Appendix A.

As a condition for receiving federal funds for transportation programs, states must develop comprehensive plans that are based upon anticipated short-term and long-term funding amounts for specific programmatic categories of the FHWA. States must fulfill these federal requirements in order to be eligible for federal transportation funds. Specific projects are not eligible for federal reimbursements unless each project is identified in a state-wide transportation improvement program ("STIP"). ISTEA, TEA-21 and the STEA 2004 require states to develop these programs. STIPs are consistent with Long-Range Transportation Plans and provide a detailed outline of projects that are proposed for implementation in a time-frame of one to six years. The Department, with input from the State's Metropolitan Planning Organizations and Regional Planning Organizations, prepares the STIP for the approval of the Commission. At the federal level, the STIP is reviewed by the FHWA, the Federal Transit Authority and the Environmental Protection Agency.

The STIP lists all projects funded with federal funds for a period of at least three years. In New Mexico, the STIP is currently developed annually and covers a six-year period. The most recent six-year STIP covering federal fiscal years 2004 through 2009 was approved by the Commission in February 2004. The STIP is subject to change from month to month. The first half (three years) of the STIP represents \$1,774.2 million of projects to be undertaken during federal fiscal years 2004 through 2006.

Among other federal requirements, the STIP must be federally reviewed and approved at least every two years. The STIP must include the estimated project cost for each project and the amount of federal funds to be obligated for each project. The Department requests FHWA authorization to use federal funding on a project and submits plans, specifications and estimates to the FHWA. Each project submitted must be included on the STIP. Provided that all requirements are satisfied, the FHWA authorizes the federal financial participation in the project. After expending bond proceeds or other available funds to construct the projects or to pay debt service on relevant bonds, the Department can request and be reimbursed by the FHWA for the federal share of construction costs or the federal share of such debt service, as the case may be.

The Department, the Commission and the NMFA have entered into a memorandum of understanding with respect to the 2004 Subordinate Lien Bonds, the Series 2004A Bonds and other Senior Lien Bonds and Junior Lien Obligations under which the Department, the Commission and the NMFA will cooperate in various administrative, managerial and reporting matters.

LITIGATION

To the knowledge of the NMFA, the Commission and the Department, there is no litigation known to be pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the 2004 Subordinate Lien Bonds, the execution, adoption or effectiveness of the Indenture or the levying or collecting of any payments which will provide Pledged Revenues for the payment of the debt service on the 2004 Subordinate Lien Bonds or in any way contesting or affecting the validity or enforceability of the 2004 Subordinate Lien Bonds, the Indenture, or any

proceeding and authority of the NMFA taken with respect to the foregoing. The NMFA, the Commission, the Department and the Office of the Attorney General of the State of New Mexico will deliver no-litigation certificates as to the foregoing prior to the issuance of the 2004 Subordinate Lien Bonds.

UNDERWRITING

J.P. Morgan Securities Inc., UBS Financial Services Inc., RBC Dain Rauscher Inc. and George K. Baum & Company (collectively, the “Series 2004B Underwriters”) have agreed to purchase the Series 2004B Bonds from the NMFA pursuant to a Bond Purchase Agreement dated April 30, 2004 (the “Bond Purchase Agreement”), at an aggregate price of \$253,226,411.55 (being the aggregate principal amount plus a net original issue premium of \$16,347,186.55 and less Underwriters’ discount of \$1,070,755.00). The Bond Purchase Agreement provides that the Series 2004B Underwriters will purchase all of the Series 2004B Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval of certain legal matters by counsel and certain other conditions.

J.P. Morgan Securities Inc., UBS Financial Services Inc. and RBC Dain Rauscher Inc. (collectively, the “Series 2004C Underwriters” and, together with the Series 2004B Underwriters, the “Underwriters”) have agreed to purchase the Series 2004C Bonds from the NMFA pursuant to a Bond Purchase Agreement dated April 30, 2004 (the “Bond Purchase Agreement”), at an aggregate price of \$199,100,000.00 (being the aggregate principal amount less Underwriters’ discount of \$900,000.00). The Bond Purchase Agreement provides that the Series 2004C Underwriters will purchase all of the Series 2004C Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, including the approval of certain legal matters by counsel and certain other conditions.

The prices at which the 2004 Subordinate Lien Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the cover pages of this Official Statement. In addition, the Underwriters may allow commissions or discounts from such initial offering prices to dealers and others.

TAX MATTERS

Federal Income Tax

The Internal Revenue Code of 1986, as amended (the “Code”), contains a number of requirements and restrictions which apply to the 2004 Subordinate Lien Bonds. The NMFA and the Department have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the 2004 Subordinate Lien Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the 2004 Subordinate Lien Bonds. Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, has assumed without undertaking to verify or confirm continuing compliance by the NMFA and the Department with such requirements and restrictions in rendering its opinion regarding the tax-exempt status of interest on the 2004 Subordinate Lien Bonds.

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, based on an analysis of currently existing laws, regulations, decisions and interpretations and assuming, among other matters, continuing compliance with certain covenants, interest on the 2004 Subordinate Lien Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations but such interest is included in earnings and profits in computing the federal alternative minimum taxes imposed on certain corporations.

Although Special Tax Counsel will render an opinion that interest on the 2004 Subordinate Lien Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 2004 Subordinate Lien Bonds may otherwise affect a bondholder’s tax liability. The nature and extent of these other tax consequences will depend upon the bondholder’s particular tax status and the bondholder’s other items of income or deduction. Special Tax Counsel expresses no opinion regarding any other tax

consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2004 Subordinate Lien Bonds.

Original Issue Premium

Certain of the Series 2004B Bonds may be offered at a premium (“original issue premium”) over principal amount. Original issue premium is amortizable periodically over the term of a Series 2004B Bond through reductions in the holder’s tax basis for the Series 2004B Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the Series 2004B Bond rather than creating a deductible expense or loss. Series 2004B Bondholders should consult their tax advisors for an explanation of the amortization rules.

Original Issue Discount

Certain of the Series 2004B Bonds may be offered at a discount (“original issue discount”) equal generally to the difference between public offering price and principal amount. Original issue discount on a Series 2004B Bond accrues as tax-exempt interest periodically over the term of the Series 2004B Bond. The accrual of original issue discount increases the holder’s tax basis in the Series 2004B Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Series 2004B Bondholders should consult their tax advisors for an explanation of the accrual rules.

State of New Mexico Income Tax

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, Special Tax Counsel to the NMFA, under laws of the State of New Mexico as currently enacted and construed, interest on the 2004 Subordinate Lien Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

LEGAL MATTERS

In connection with the issuance and sale of the 2004 Subordinate Lien Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., Albuquerque, New Mexico, as Bond Counsel to the NMFA, and Ballard Spahr Andrews & Ingersoll, LLP, Salt Lake City, Utah, as Special Tax Counsel to the NMFA, will deliver the respective opinions included in Appendix D. Certain legal matters will be passed upon for the NMFA by Virtue Najjar & Brown PC, Santa Fe, New Mexico, Issuer’s Counsel to the NMFA. Certain legal matters will be passed on by Brownstein Hyatt & Farber, P.C., Albuquerque, New Mexico, Disclosure Counsel to the NMFA, for the Underwriters by Hogan & Hartson LLP, Denver, Colorado, and for the Commission and the Department by Hughes & Strumor, Ltd. Co., Albuquerque, New Mexico. The counsel involved in this transaction have not participated in any independent verification of the information concerning the financial condition or capabilities of the NMFA, the Commission or the Department contained in this Official Statement.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the NMFA in connection with the issuance of the 2004 Subordinate Lien Bonds. First Southwest Company, in its capacity as Financial Advisor, has not verified and does not assume responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

FINANCIAL STATEMENTS

The financial statements for the Department for the year ended June 30, 2003, an extract from which is included as Appendix A to this Official Statement, have been audited by the State Auditor and by Barraclough & Associates, P.C., certified public accountants, Santa Fe, New Mexico, as set forth in their report therein dated

November 7, 2003. Such financial statements represent the most current audited financial information available for the Department. The State Auditor and Barraclough & Associates, P.C., have consented to the use of their names and the audited financial reports for the Department in this Official Statement.

FORWARD LOOKING STATEMENTS

This Official Statement contains statements relating to the NMFA's, the Commission's and the Department's future financial plans, receipt of future revenues and other matters that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "intend," "anticipate," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission in connection with the issuance of the 2004 Subordinate Lien Bonds, the NMFA and the Department will execute and deliver a Continuing Disclosure Undertaking pursuant to which the Department will agree to provide the following information to the NMFA, and the NMFA will agree to provide the following information to each nationally recognized municipal securities information repository ("NRMSIR"):

- (1) annual financial information and operating data with respect to the Department, and information concerning the Pledged Revenues, such information to be of the type set forth in each of the tables contained in the section of this Official Statement captioned "THE PLEDGED REVENUES"; and
- (2) audited financial statements for the Department.

Such information will be provided on or before March 31 of each year beginning in 2005 and will be made available, in addition to each NRMSIR and to each holder of the 2004 Subordinate Lien Bonds who requests such information. In the event that audited financial statements are not available within such time period, unaudited financial statements will be provided.

The NMFA will also agree to provide in a timely manner to the Municipal Securities Rulemaking Board ("MSRB") and to a State information depository, if any, notice of the occurrence of any of the following events (if applicable) with respect to the 2004 Subordinate Lien Bonds, if material:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or events affecting the tax-exempt status of the 2004 Subordinate Lien Bonds;
- (7) modification of rights of security holders;
- (8) bond calls (other than mandatory sinking fund redemption);

- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the 2004 Subordinate Lien Bonds; and
- (11) rating changes.

The NMFA and the Department may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the NMFA and the Department, such other event is material with respect to the 2004 Subordinate Lien Bonds. However, the NMFA and the Department do not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above

The NMFA will also agree to provide in a timely manner to the MSRB notice of a failure to provide the required annual financial information on or before the date specified in the written continuing disclosure undertaking.

The NMFA and the Department reserve the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the NMFA and the Department; provided that, the NMFA and the Department have agreed that any such modification will be done in a manner consistent with the Rule. The NMFA and the Department acknowledge that their undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the Owners of the 2004 Subordinate Lien Bonds and is to be enforceable by the Owners; provided that, the right to enforce the provisions of this undertaking are limited to a right to obtain specific enforcement of the NMFA's and the Department's obligations, and any failure by the NMFA and the Department to comply with the provisions of the undertaking shall not be an event of default with respect to the 2004 Subordinate Lien Bonds.

The NMFA will act as the agent for the NMFA and the Department in making the required disclosures to the NRMSIRs, the MSRB and any State information depository.

The NMFA and the Department are now and have, for at least the last five years, been in compliance with their respective current continuing disclosure undertakings.

RATINGS

Moody's Investor's Service, Inc. ("Moody's") and Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc. ("S&P") have assigned ratings of "Aaa" and "AAA," respectively, to the 2004 Subordinate Lien Bonds, based on the understanding that upon the delivery of the 2004 Subordinate Lien Bonds, the Financial Guaranty Insurance Policy will be issued by Ambac Assurance. In addition, Moody's and S&P have assigned underlying (i.e., without regard to the Financial Guaranty Insurance Policy) long-term ratings of "Aa3" and "AA-," respectively, to the 2004 Subordinate Lien Bonds. An explanation of the significance of such ratings may be obtained from Moody's at 99 Church Street, New York, New York 10007 and S&P at 55 Water Street, New York, New York 10041.

Such ratings reflect only the views of such organizations. The ratings are not a recommendation to buy, sell or hold the 2004 Subordinate Lien Bonds and there is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any downward revision or withdrawal of the ratings given to the 2004 Subordinate Lien Bonds may have an adverse effect on the market price of the 2004 Subordinate Lien Bonds. The Underwriters have not undertaken any responsibility to bring to the attention of the owners of the 2004 Subordinate Lien Bonds any proposed revision or withdrawal of the ratings on the 2004 Subordinate Lien Bonds, or to oppose any such proposed revision or withdrawal.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

At the time of delivery of the 2004 Subordinate Lien Bonds to the Underwriters, Grant Thornton LLP, certified public accountants, are expected to deliver a report as to the mathematical accuracy of certain computations contained in schedules provided to them by the Underwriters and the NMFA relating to the adequacy of the proceeds of the 2004 Subordinate Lien Bonds to provide for payment of principal of, interest on and premiums due in connection with the redemption of the Refunded Bonds.

ADDITIONAL INFORMATION

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The quotations from, and summaries and explanations of, the statutes, regulations and documents contained herein do not purport to be complete, and reference is made to said laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, and of the financial statements of the NMFA, may be obtained during the offering period, upon request to the NMFA and upon payment to the NMFA of a charge for copying, mailing and handling, at 409 St. Michael's Drive, Santa Fe, New Mexico 87505, Attention: Executive Director.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the NMFA and the purchasers or holders of any of the 2004 Subordinate Lien Bonds.

APPROVAL BY THE NMFA

This Official Statement has been deemed "final" under the meaning of the Rule and its distribution and use by the Underwriters have been duly authorized and approved by the NMFA, and this Official Statement has been executed and delivered on behalf of the NMFA by the Chairman of its Board of Directors and its Interim Executive Director.

NEW MEXICO FINANCE AUTHORITY

By /s/ Stephen R. Flance

Stephen R. Flance

Chairman of the Board of Directors

By /s/ James Jimenez

James Jimenez

Interim Executive Director

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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Formerly known as the New Mexico State Highway
and Transportation Department

**Financial Statements and
Other Financial Information**

(With Independent Auditors' Reports Thereon)

Year Ended June 30, 2003

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Official Roster

June 30, 2003

COMMISSION

| <u>Name</u> | <u>Title</u> | <u>Residence</u> |
|------------------|------------------|------------------|
| Johnny Cope | Chairperson | Hobbs |
| David Schutz | Vice-Chairperson | Santa Fe |
| Gregory T. Ortiz | Secretary | Pueblo of Acoma |
| Bud Hettinga | Member | Las Cruces |
| Jim Franken | Member | Las Vegas |
| Norman Assed | Member | Albuquerque |

ADMINISTRATIVE OFFICER

| | |
|------------------------|-------------------|
| Rhonda G. Faught, P.E. | Cabinet Secretary |
|------------------------|-------------------|

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis For Year Ended June 30, 2003 (Unaudited)

As management of New Mexico Department of Transportation (Department), we offer the readers of the Department's financial statement this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in footnotes to the basic financial statements which can be found on pages 18-48 of this audit report.

FINANCIAL HIGHLIGHTS

The Department's net assets declined by approximately \$253 million mainly due to depreciation expense of approximately \$483 million being recorded for the year ended June 30, 2003. The Department's governmental fund balance decreased by \$157 million due to spending from the 2002 bond issuance proceeds that occurred in the 2003 fiscal year. The Department also issued a \$16 million bond issue during the 2003 fiscal year for road construction projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) major governmental fund financial statements and 3) notes to the financial statements. This report also contains other nonmajor combining and individual governmental fund statements, supplementary information, including the schedule of expenditures of Federal awards in addition, to the basic financial statements themselves.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the Department's finances, in a manner similar to private-sector business.

The Statement of Net Assets presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The Statement of Activities presents information showing how the Department's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in the future fiscal periods.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis For Year Ended June 30, 2003 (Unaudited)

The Department's primary purpose is the construction and maintenance of the infrastructure of the State of New Mexico. Thus, in the government-wide financial statements the primary function is public works.

The government-wide financial statements can be found on pages 3-4 of this report.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department are divided into two categories – governmental funds and a proprietary fund.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheets and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Department has 29 governmental funds. Governmental funds are reported as major funds in the accompanying financial statements if they meet both of the following criteria.

- *Ten percent criterion.* An individual governmental fund reports at least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund expenditures.
- *Five percent criterion.* An individual governmental fund reports at least 5 percent of the total for both governmental and enterprise funds of any of the items for which it met the 10 percent criterion.

The Department's major governmental funds are the following:

State Road Fund – The state road fund was created by Section 67-3-65, NMSA 1978. The state road fund is the operating fund of the Department and is used to account for substantially all the Department's financial activities. The Department's other major fund is the 2002C HIF Bond Project Fund. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis For Year Ended June 30, 2003 (Unaudited)

for the two major funds. Data from the other 27 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in this report. See pages 49-58.

Enterprise Funds – The Department has one type of proprietary fund. An enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The Department uses its enterprise fund to account for the State Infrastructure Bank, since its purpose is to make loans for road projects.

Proprietary funds provide the same type of information as the government-wide financial statements. The proprietary fund financial statements provide separate information for the State Infrastructure Bank since it is considered to be a major fund of the Department.

The basic proprietary fund financial statements can be found on pages 3-4 and the cash flow statement is on page 6 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-48 of this report.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information including the Schedule of Severance Tax Bonds, Schedule of Special Appropriations, Schedule of Petty Cash Deposit Accounts, Schedule of State Road Fund User and Fuel Taxes, Schedule of Debt Service and Coverage Ratios and the Schedule of Expenditures of Federal Awards.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of Department's financial position. At June 30, 2003 the Department's assets exceeded liabilities by \$7,082,660,617.

The largest portion of the Department's net assets reflect its investments in capital assets (e.g., land, building, equipment, improvements and infrastructure), less any debt and unspent bond proceeds used to acquire those assets that is still outstanding. Although the Department's investments in its capital assets is reported net of related debt and unspent bond proceeds, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis For Year Ended June 30, 2003 (Unaudited)

THE DEPARTMENT'S NET ASSETS

As of June 30, 2003 and 2002, the Department has positive balances in two categories of net assets, both for the government fund financial statement as a whole, as well as for its separate categories – governmental and business-type activities.

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|----------------------------|-------------------------|-----------------------------|----------------------|-------------------------|-------------------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Current and other assets | \$ 292,235,897 | \$ 447,273,203 | \$ 17,802,931 | \$ 17,554,610 | \$ 310,038,828 | \$ 464,827,813 |
| Capital Assets and other | 7,814,900,590 | 7,971,642,000 | - | - | 7,814,900,590 | 7,971,642,000 |
| Total Assets | <u>\$ 8,107,136,487</u> | <u>8,418,915,203</u> | <u>17,802,931</u> | <u>17,554,610</u> | <u>8,124,939,418</u> | <u>8,436,469,813</u> |
| Current liabilities | 174,947,786 | 170,419,870 | - | - | 174,947,786 | 170,419,870 |
| Long-term liabilities | 867,331,015 | 930,076,934 | - | - | 867,331,015 | 930,076,934 |
| Total Liabilities | <u>1,042,278,801</u> | <u>1,100,496,804</u> | <u>-</u> | <u>-</u> | <u>1,042,278,801</u> | <u>1,100,496,804</u> |
| Net Assets: | | | | | | |
| Invested in capital assets, net of related debt and unspent bond proceeds | 6,981,434,617 | 7,183,113,415 | - | - | 6,981,434,617 | 7,183,113,415 |
| Restricted | 83,423,069 | 135,304,984 | 17,802,931 | 17,554,610 | 101,226,000 | 152,859,594 |
| Total Net Assets | <u>\$ 7,064,857,686</u> | <u>\$ 7,318,418,399</u> | <u>\$ 17,802,931</u> | <u>\$ 17,554,610</u> | <u>\$ 7,082,660,617</u> | <u>\$ 7,335,973,009</u> |

Analysis for Department's Operations – The following table provides a summary of the Department's operations for the years ended June 30, 2003 and June 30, 2002. Governmental activities declined the Department's net assets by \$253,560,713 in 2003 and by \$230,753,743 in 2002. The decreases are mainly due to depreciation expense on the capital assets. Business-type activities increase the Department's net assets by \$248,321 and \$464,611 in 2003 and 2002 because of interest income earned during the year.

The change in net assets for the Departments major funds for 2003 are as follows:

| | |
|-----------------------------------|------------------------|
| State Road Fund | \$ (36,258,136) |
| 2002 HIF Bond Project Fund | <u>(32,970,075)</u> |
| Major funds, net change in assets | <u>\$ (69,228,211)</u> |

The 2001 and 2002A CHAT bond project funds reflected as major funds at June 30, 2002 are not reflected as major funds at June 30, 2003 as they did not meet the major fund determination criteria discussed on page 19 of the report.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis For Year Ended June 30, 2003 (Unaudited)

DEPARTMENT'S CHANGES IN NET ASSETS FOR 2003

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|-------------------------|
| Revenues: | | | |
| Program Revenues: | | | |
| Capital grants | \$ 304,375,992 | \$ - | \$ 304,375,992 |
| Operating grants | 12,370,270 | - | 12,370,270 |
| Charges for services | 9,662,386 | - | 9,662,386 |
| General revenues: | | | |
| Taxes | 321,219,645 | - | 321,219,645 |
| Interest income | 5,672,145 | 248,321 | 5,920,466 |
| Total revenues | <u>653,300,438</u> | <u>248,321</u> | <u>653,548,759</u> |
| Expenses: | | | |
| Public works | 362,445,091 | - | 362,445,091 |
| Depreciation | 482,944,916 | - | 482,944,916 |
| Interest on long term debt | 49,859,913 | - | 49,859,913 |
| Other | 3,002,042 | - | 3,002,042 |
| Total other expenses | <u>898,251,962</u> | <u>-</u> | <u>898,251,962</u> |
| Net revenues (loss) before transfers and reversions | (244,951,524) | 248,321 | (244,703,203) |
| Transfers and reversions (out) | <u>(8,609,189)</u> | <u>-</u> | <u>(8,609,189)</u> |
| (Decrease) increase in net assets | (253,560,713) | 248,321 | (253,312,392) |
| Net assets - July 1, 2002 | <u>7,318,418,399</u> | <u>17,554,610</u> | <u>7,335,973,009</u> |
| Net assets - June 30, 2003 | <u>\$ 7,064,857,686</u> | <u>\$ 17,802,931</u> | <u>\$ 7,082,660,617</u> |

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis For Year Ended June 30, 2003 (Unaudited)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds – The Department's governmental funds are designed to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2003 fiscal year, the Department's governmental funds reported combined ending fund balances of \$250,278,004 a decrease of \$157,752,140 from the prior year. Fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to pay for encumbrances \$307,289,328 (2) to provide for inventories, long term assets and prepaid items and other reserved items \$74,920,737 (3) to pay for debt service \$604,778 and (4) to provide for capital projects for the Department \$467,029. The unreserved and undesignated fund balance deficit (\$133,003,868) is due to the recording of the encumbrance when the Department enters into contracts. This occurs prior to the Department incurring the expenditures and receiving the funding.

Budgetary Highlights – The Department budgets on a Non GAAP basis and not all funds are budgeted, see Exhibit 8 and Exhibit 11 for the Department's budget. Also see footnote 3 for the reconciliation of governmental fund types to the budgetary basis. The Department made revisions to the original approved budget by \$84,325,884. Overall these changes were caused by the following significant budget adjustments:

| Description | Amount |
|--|----------------------|
| Increase of the state budget for funding for 2003C HIF bond sale | \$ 54,811,200 |
| Increase in budget for two construction projects | 12,661,324 |
| Increase in budget for 2002D bond proceeds and bond premium for construction projects | 12,441,128 |
| Increase in the federal budget for airport improvement programs | 519,570 |
| Increase in budget for revenue from Intel and City of Rio Rancho for construction of NM528 | 10,000,000 |
| Decrease of the federal budget due to over appropriation during fiscal year 2002 legislative session | (18,089,600) |
| Budget additional projected revenue to restore budget cut during 2002 legislative session | 998,500 |
| Increase of the federal budget for Public Transportation Grants | 4,306,500 |
| Increase of the budget for incentives earned by the contractor on the Big-I construction project | 512,000 |
| Increase of the federal budget for Traffic Safety Grants | 529,673 |
| Increase for group insurance | 1,347,600 |
| Increase debt service for 2002D CHAT bond issuance | 1,652,856 |
| Increases of the state budget for airport improvement programs | 501,000 |
| | <u>82,191,751</u> |
| Other changes | <u>2,134,133</u> |
| Total changes | <u>\$ 84,325,884</u> |

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis For Year Ended June 30, 2003 (Unaudited)

CAPITAL ASSETS OVERVIEW

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2003, amounts to \$7,761,187,666 (net of accumulated depreciation). This investment in capital assets includes land, right of way, buildings, equipment, improvement and the infrastructure.

Major Infrastructure Projects – The Department develops plans to build a road system that will better serve the State of New Mexico. Advanced and innovative strategies include building roads using a corridor approach where an entire route between communities is built. By designing and constructing entire corridors the Department has been able to realize efficiencies to benefit the State. The Department also employs innovative project development techniques, warranty agreements, and highly advanced financing techniques to accomplish the objectives of the Major Investment Program.

Fiscal year 2002-2003 Active Projects with a contract amount of \$10 million or more:

US 70, 9.126 km West of Jct. NM 48-East for 9.126 km
US 70, Chaves County Line – Northeast for 19.380 km
US 70 D/B, MP 264.2 to MP 302.1, Ruidoso Downs to Riverside
US 70, Jct. NM 467 15.9 Miles to Brady Avenue (Clovis)
US 70, Northeast of Roswell MP 349 to 370 for 33.660 Miles
US 70, MP 302.2 to MP 318.8, 0.8 km East of Riverside
US 54, (CN's 3391, 3775, 3776, 2992 & 3774)
NM 528 Design Build, Jct NM448 N to Southern Blvd
I-40, Business Loop, Santa Rosa for 3.400 km
US 84/285 North of Santa Fe from Santa Fe Opera House to Cuyamungue
US 550, MP 18.231 to MP 23.301 for 8.190 km
US 84, North of Jemez Coop to US 285/84 Intersection
I-40, Edgewood Interchange for 4.956 km
US 84/285, Santa Fe Relief Route to Santa Fe Opera and Northern Tesuque
Reservation Boundary North to County Rd. 89D
I-40, MP 7.75 to MP 12.00 for 4.250 Miles
NM 48, 5.2 Miles South of Jct. NM 532 for 2.961 Miles
Alamorgo Relief Route, First Street to Jct. 70/54/82 for 3.873 Miles
NM 18, City of Jal to MP 31.2 for 36.079 km
I-40, Eastbound Lanes West of Wyoming to Juan Tabo
US 285, SE of Vaughn, MP 194.19 to MP 204.47 for 10.282 Miles
I-40, MP 249 – East
I-40, Arizona State Line MP 0.00 to MP 6.97 for 6.970 Miles

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis For Year Ended June 30, 2003 (Unaudited)

Equipment – For fiscal year 2003, the Equipment Non-GAAP Budget total was \$10.7 million. Of this budget \$9.3 million was fully expended with the remaining \$1.4 million encumbered at June 30, 2003. Equipment purchased includes pickups, dump trucks, rollers, excavators, mowers, tractors, loaders, snowplows, brooms, dozers, motor graders, spreaders, millers, trailers, motor vehicles, etc. All items are approved during the legislative session prior to July of each fiscal year. The Department holds several sales and public auctions during the year to liquidate old and obsolete equipment to public and private entities.

| | Capital Assets | |
|--------------------------|----------------------------|----------------------------|
| | 2003 | 2002 |
| | Governmental Activities | Governmental Activities |
| Land | \$ 4,090,735 | \$ 4,013,075 |
| Right of way | 349,657,000 | 347,257,000 |
| Infrastructure | 15,176,903,702 | 15,172,011,134 |
| Buildings | 30,668,599 | 30,047,739 |
| Equipment and furniture | 48,254,514 | 47,785,665 |
| Vehicles | 147,598,859 | 142,369,503 |
| Accumulated Depreciation | (7,995,985,743) | (7,829,521,250) |
| Total | <u>\$ 7,761,187,666</u> | <u>\$ 7,913,962,866</u> |

Additional information on the Department's capital assets can be found in note 11 on page 33 of this report.

DEBT ADMINISTRATION

The Department is authorized to issue bonds by authority of Section 67-3-59.1 of New Mexico Statutes Annotated (NMSA)(1978), as amended. The focus of the Department's bond program is to accelerate highway construction projects while maintaining strong debt service coverage ratios and minimizing the costs of borrowing.

At the end of June 30, 2003 and June 30, 2002, the Department had a total outstanding debt including capitalized leases, bonds, and loans payable of \$930,023,669 and \$986,465,839. Of this amount as of June 30, 2003, \$820,115,000 comprises debt backed by the tax revenue of the Department and \$108,165,000 represents loans from the New Mexico Finance Authority that are paid by FHWA revenues. The capital lease obligation of \$1,743,669 pertains to computer equipment leased by the Department.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis For Year Ended June 30, 2003 (Unaudited)

| | Outstanding Debt | |
|----------------|----------------------------|----------------------------|
| | 2003 | 2002 |
| | Governmental Activities | Governmental Activities |
| Bonds | \$ 820,115,000 | \$ 868,140,000 |
| Loans Payable | 108,165,000 | 113,920,000 |
| Capital Leases | 1,743,669 | 4,405,839 |
| Total | <u>\$ 930,023,669</u> | <u>\$ 986,465,839</u> |

The Department's total bond debt and loans payable decreased by 5.5% or \$53,780,000 during the 2003 fiscal year. Total outstanding debt at the end of the 2003 fiscal year was \$928,280,000 compared to \$982,060,000 at the end of the 2002 fiscal year. Key factors affecting bond and loans payable during the current fiscal year included bond principal repayments totaling \$64,025,000 and principal repayments of \$5,755,000 on the loans payable. Total debt repayments were \$69,780,000. See footnote 13 for a detail of all debt outstanding.

The Department retired one bond issue during the 2003 fiscal year. The 1993 Bond Series issued in December of 1993 was paid off in June of 2003. The Department also paid \$2,639,038 of rebatable arbitrage to the Internal Revenue Service for excess interest income earned on the Adjustable Tender Subordinate Lien Tax Revenue Highway Bonds Series 1996. See footnote 17 for the arbitrage liability owed on excess interest income on other bond issues.

During the fiscal year, the Department issued \$16,000,000 in bonds. The following is the detail of the bonds issued:

The Bonds are special, limited obligations of the State Transportation Commission, payable solely from and secured by a senior subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002D CHAT Bonds were issued to fund projects identified by the Department and Legislature.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis For Year Ended June 30, 2003 (Unaudited)

ECONOMIC FACTORS AND REVENUE FORECASTS

Revenue Forecasts and Budgets

I) Federal Revenue:

Federal Highway and Administration (FHWA) Revenue: The amount of FHWA revenue (obligation authority) available to all states declined slightly in fiscal year 2003, and the amount available to New Mexico also declined from \$280,400,000 in fiscal year 2002 to \$273,400,000 in fiscal year 2003. Other "discretionary" FHWA money also declined from \$25,900,000 in fiscal year 2002 to \$12,100,000 in fiscal year 2003. Despite the fiscal year 2003 decline, New Mexico's share of all FHWA funding to all states increased from 1.052% in fiscal year 2002 to 1.101% in fiscal year 2003. With the failure of Congress to pass a federal budget, FHWA funds are being released on an incremental basis under the federal Continuing Budget Resolution at the same levels as the prior fiscal year. Fiscal year 2003 FHWA funding levels to New Mexico were about \$285,500,000 (obligation authority plus discretionary allocations). With fiscal year 2004 funding levels still uncertain, the Department now believes the "best guess" is that funding should continue at approximately the same levels as fiscal year 2003.

Federal Transit and Traffic Safety Revenue: The six-year reauthorization of federal transportation funding to the states that is currently being crafted in Congress is entitled the "Safe, Accountable, Flexible, and Efficient Transportation Equity Act for the 21st Century (SAFETEA). The reauthorization bill stresses the importance of safety innovations, including a new "Safe Routes to School Program" that promotes walking and riding bicycles to school. With this emphasis on safety it is expected there will be increased federal revenue available to states for traffic safety and transit programs.

DOE Revenue: The Department of Energy will continue to provide New Mexico with more than \$20 million per year through fiscal year 2011 pursuant to an agreement in connection with the Waste Isolation Pilot Project in Carlsbad, NM. The amount of this revenue budgeted for debt service is \$20,700,000 in fiscal year 2004, and \$21,100,000 in fiscal year 2005.

II) State Revenue:

The budget estimate for state tax and fee revenue to the Department is prepared in July/August and December/January each year for the budget year ending 24 months (or 18 months) later. The fiscal 2003 estimate prepared in December 2001 has assumed a gradual improving economy that would strengthen revenue from commercial motor carriers, but maintained a very cautious and conservative forecast in regard to gasoline tax revenue as a result of concerns over tax compliance issues. In fiscal year 2003, gasoline tax revenue was considerably stronger than forecast, however, that strength was offset by weakness in Trip Tax revenue (see discussion below). Fiscal year 2003 revenue for taxes and fees to the State Road Fund was 1.01% above what had been estimated for the budget and increased by about 1.2% over the prior year.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis For Year Ended June 30, 2003 (Unaudited)

The budget estimate for fiscal year 2004 assumed a more optimistic scenario, given continued evidence of economic recovery at the national level. Estimated growth in state revenue of 2.1% was assumed for budget purposes. These growth rates are considerably higher than those realized in recent years, but are more in line with long run traditional growth rates.

One particularly weak revenue source that is not expected to recover is the Trip Tax imposed on heavy trucks that are not registered with the state to file Weight-Distance tax and Special Fuel Use Tax returns. The elimination of the \$6 fee associated with tax qualification cards (cab cards) pursuant to the settlement of *C.R. England v. New Mexico*, and the reported large increase in the number of tax qualification cards requested by the industry, may explain the decrease in revenue associated with the higher Trip Tax rates administered at state ports-of-entry. Legislation passed during the 2003 Special Session of the Legislature that requires a return to issuing Weight Distance Tax identification permits to individual vehicles rather than issuing a single permit to each motor carrier company. The vehicle-specific tax identification permit (effective July 1, 2004) is expected to enhance tax compliance efforts and gradually augment Trip Tax revenue to some degree.

Native American Gasoline Tax Exemption:

Under the current statutory provisions for the collection of gasoline excise taxes, gasoline wholesaled by registered Native American distributors on Indian reservations is exempt from state gasoline tax. Pursuant to Chapter 190, New Mexico Laws of 1999, the amount of gasoline that may be sold within an Indian reservation by any single registered Native American wholesale distributor for resale outside the Indian reservation free of state gasoline tax is limited to 30,000,000 gallons per year. Chapter 190 limits the use of this exception to registered Native American distributor who have sold more than one million gallons of gasoline within the Indian reservation for resale outside the Indian reservation during the four months ended August 1998. The New Mexico Taxation and Revenue Department has certified two registered Native American wholesale distributors as eligible for this exemption, meaning that up to 60,000,000 gallons per year of gasoline currently may be sold at wholesale free of state gasoline tax under this exemption.

Chapter 190 also permits gasoline to be sold at retail by registered Indian tribal distributors on Indian reservations free of State gasoline tax to the extent that the applicable Indian government imposes a similar tax (for its own benefit) on retail gas sales. In its 2000 regular session, the Legislature enacted a deduction from gasoline taxes for retail sales of gasoline on Indian reservations, pueblos and Indian trust lands. The deduction, which became effective on April 1, 2000, is effectively equal to the lesser of the tribal tax on the gasoline sold or the State gasoline tax.

As a result of the foregoing and other factors (such as more fuel efficient vehicles and higher gasoline prices), the Department expects very slow growth in gasoline excise taxes paid into the State Road Fund over the next several years. Having established the level of state tax revenue lost to Native American activity over the past two years, the growth in Native American gasoline activity is expected to decelerate, and allow a return to slow but positive overall growth in gasoline tax revenue.

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State of New Mexico

OFFICE OF THE STATE AUDITOR

Domingo P. Martinez, CGFM
State Auditor

Carl M. Baldwin, CPA, CFE
Deputy State Auditor

INDEPENDENT AUDITORS' REPORT

New Mexico Department of Transportation
Commission:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the combining and individual non major governmental fund financial statements of the New Mexico Department of Transportation (the Department), as of and for the year ended June 30, 2003, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the basic financial statements of the Department are intended to present the financial position, and changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the individual nonmajor fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund of the Department as of June 30, 2003, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the combining and individual non major governmental funds of the Department referred to above present fairly in all material respects, the financial position of each of the individual non major funds of the Department as of June 30, 2003, and changes in financial position for such funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

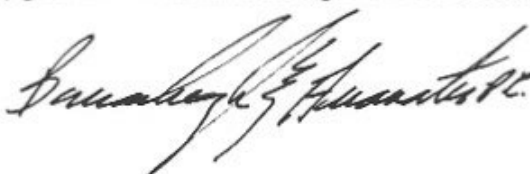
2113 Warner Circle, Santa Fe, New Mexico 87505-5499
(505) 827-3500 (800) 432-5517 Fax (505) 827-3512
<http://www.saonm.org>

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2003 except for footnote 20, which is dated January 13, 2004 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Department's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying other supplementary financial information listed as supplemental schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Department. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Office of the State Auditor



November 7, 2003
except for footnote 20, which is dated January 13, 2004

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Net Assets

June 30, 2003

| ASSETS | Governmental Activities | Business-type Activities (State Infrastructure Bank) | Total |
|--|----------------------------|--|------------------|
| | | | |
| Current assets: | | | |
| Cash and cash equivalents (Note 4) | | | |
| Unrestricted | \$ 47,706,697 | \$ - | \$ 47,706,697 |
| Restricted | 157,653,182 | 15,276,700 | 172,929,882 |
| Receivables: | | | |
| Tax receivable | 21,486,067 | - | 21,486,067 |
| Accounts receivable, net (Note 5) | 51,689 | - | 51,689 |
| Severance tax bond proceeds receivable (Note 6) | 11,330,472 | - | 11,330,472 |
| Notes receivable (Note 7) | 37,837 | - | 37,837 |
| Interest receivable | 385,030 | 25,160 | 410,190 |
| Loans receivable (Note 7) | - | 2,501,071 | 2,501,071 |
| U.S. Department of Transportation, net (Note 8) | 31,809,272 | - | 31,809,272 |
| NM Department of Labor | 148,947 | - | 148,947 |
| Capitalized issuance costs | 206,606 | - | 206,606 |
| Inventories (Note 10) | 12,141,293 | - | 12,141,293 |
| Prepaid expense - warranty | 3,878,936 | - | 3,878,936 |
| Property held for resale, net | 5,399,869 | - | 5,399,869 |
| Total current assets | 292,235,897 | 17,802,931 | 310,038,828 |
| Noncurrent assets: | | | |
| Capitalized issuance costs | 1,696,491 | - | 1,696,491 |
| Prepaid expense - warranty | 52,016,433 | - | 52,016,433 |
| Capital assets, net (Note 11) | 7,761,187,666 | - | 7,761,187,666 |
| Total noncurrent assets | 7,814,900,590 | - | 7,814,900,590 |
| Total assets | 8,107,136,487 | 17,802,931 | 8,124,939,418 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable and contracts payable, including retainage of \$6,352,432 | 73,359,894 | - | 73,359,894 |
| Accrued payroll, taxes and withholdings | 2,867,044 | - | 2,867,044 |
| Accrued interest | 3,447,087 | - | 3,447,087 |
| Deferred revenue | 10,561,621 | - | 10,561,621 |
| Arbitrage liability (Note 17) | 4,065,669 | - | 4,065,669 |
| Other liabilities | 264,719 | - | 264,719 |
| Current portion of long-term obligations (Note 13) | | | |
| Compensated absences | 4,508,852 | - | 4,508,852 |
| Debentures and loans payable | 73,985,000 | - | 73,985,000 |
| Capitalized bond premium | 922,802 | - | 922,802 |
| Capital leases | 965,098 | - | 965,098 |
| Total current liabilities | 174,947,786 | - | 174,947,786 |
| Long-term liabilities: | | | |
| Arbitrage liability (Note 17) | 2,648,773 | - | 2,648,773 |
| Long-term obligations (Note 13) | | | |
| Compensated absences | 2,010,518 | - | 2,010,518 |
| Debentures and loans payable | 854,295,000 | - | 854,295,000 |
| Capitalized bond premium | 7,598,153 | - | 7,598,153 |
| Capital leases | 778,571 | - | 778,571 |
| Total long-term liabilities | 867,331,015 | - | 867,331,015 |
| Total liabilities | 1,042,278,801 | - | 1,042,278,801 |
| NET ASSETS | | | |
| Investment in capital assets, net of related debt and unspent debt proceeds | 6,981,434,617 | - | 6,981,434,617 |
| Restricted for: | | | |
| Capital projects | 1,706,684 | - | 1,706,684 |
| Road projects | 77,950,181 | - | 77,950,181 |
| Loans | - | 17,802,931 | 17,802,931 |
| Other purposes | 3,766,204 | - | 3,766,204 |
| Total net assets | \$ 7,064,857,686 | \$ 17,802,931 | \$ 7,082,660,617 |

The accompanying notes are an integral part of this financial statement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Activities

Year Ended June 30, 2003

| | Governmental Activities | Business-type Activities (State Infrastructure Bank) | Total |
|---|----------------------------|--|-------------------------|
| Expenses: | | | |
| Public works - roads | \$ 362,445,091 | \$ - | \$ 362,445,091 |
| Depreciation | 482,944,916 | - | 482,944,916 |
| Interest | 49,859,913 | - | 49,859,913 |
| Disposal of assets | 115,370 | - | 115,370 |
| Arbitrage and other expenses | 2,886,672 | - | 2,886,672 |
| Total program expenses | <u>898,251,962</u> | <u>-</u> | <u>898,251,962</u> |
| Program revenues: | | | |
| Charges for services | 9,662,386 | - | 9,662,386 |
| Operating grants | 12,370,270 | - | 12,370,270 |
| Capital grants | 304,375,992 | - | 304,375,992 |
| Total program revenues | <u>326,408,648</u> | <u>-</u> | <u>326,408,648</u> |
| Net program (expense) revenue | <u>(571,843,314)</u> | <u>-</u> | <u>(571,843,314)</u> |
| General revenues: | | | |
| User and fuel taxes | 321,219,645 | - | 321,219,645 |
| Interest income | 5,672,145 | 248,321 | 5,920,466 |
| Total general revenues | <u>326,891,790</u> | <u>248,321</u> | <u>327,140,111</u> |
| Transfers to other state agencies (Note 15) | (8,619,218) | - | (8,619,218) |
| Reversions from/to other state agencies, net (Note 16) | 10,029 | - | 10,029 |
| Total transfers and reversions | <u>(8,609,189)</u> | <u>-</u> | <u>(8,609,189)</u> |
| Net general revenues, transfers and reversions | <u>318,282,601</u> | <u>248,321</u> | <u>318,530,922</u> |
| Change in net assets | (253,560,713) | 248,321 | (253,312,392) |
| Net assets - beginning | <u>7,318,418,399</u> | <u>17,554,610</u> | <u>7,335,973,009</u> |
| Net assets - ending | <u>\$ 7,064,857,686</u> | <u>\$ 17,802,931</u> | <u>\$ 7,082,660,617</u> |

The accompanying notes are an integral part of this financial statement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Reconciliation of the Governmental Fund
Balance Sheet to the Statement of Net Assets

June, 30 2003

| | |
|---|-------------------------|
| Total fund balance - total governmental funds | \$ 250,278,004 |
| Net capital assets not included in the governmental funds, capitalized in the Statement of Net Assets. | 7,761,187,666 |
| Long-term debt not recorded as liabilities in the governmental funds, but recorded as long-term liabilities in the Statement of Net Assets. | (930,023,669) |
| Accrual of interest on long-term obligations not recorded by the governmental funds until paid. | (3,447,087) |
| Deferred debenture premiums not recorded in the governmental funds as a liability, net of amortization. | (8,520,955) |
| Capitalized issuance costs not recorded in the governmental funds as an asset, net of amortization. | 1,903,097 |
| Compensated absences recorded in the Statement of Net Assets, not recorded in the governmental funds. | <u>(6,519,370)</u> |
| Total net assets of governmental activities | <u>\$ 7,064,857,686</u> |

The accompanying notes are an integral part of this financial statement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Cash Flows
Business-type Activities - Enterprise Fund

Year Ended June 30, 2003

| | State Infrastructure Bank |
|---|-----------------------------|
| Cash flow provided from operating activities: | |
| Interest income received | \$ 317,166 |
| Cash flows provided from financing activities: | |
| Loans repaid | <u>1,027,685</u> |
| Net increase in cash and cash equivalents | 1,344,851 |
| Cash and cash equivalents at June 30, 2002 | <u>13,931,849</u> |
| Cash and cash equivalents at June 30, 2003 | <u><u>\$ 15,276,700</u></u> |
| Reconciliation of operating income to net cash provided from operating activities - operating income | \$ 248,321 |
| Adjustment to operating income: | |
| Collection of accrued interest | <u>68,845</u> |
| | <u><u>\$ 317,166</u></u> |

The accompanying notes are an integral part of this financial statement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Balance Sheet - Governmental Funds

June 30, 2003

| | Major Funds | | | Total (Governmental Funds) |
|---|-----------------------|--|--------------------------------|----------------------------------|
| | State Road Fund | Bond Project Fund (2002C HIF) | Other Governmental Funds | |
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents (Note 4): | | | | |
| Unrestricted | \$ 28,920,759 | \$ - | \$ 18,785,938 | \$ 47,706,697 |
| Restricted | 42,685,554 | 43,269,937 | 71,697,691 | 157,653,182 |
| Receivables: | | | | |
| Taxes receivable | 19,492,177 | - | 1,993,890 | 21,486,067 |
| Accounts receivable, net (Note 5) | 36,474 | - | 15,215 | 51,689 |
| Severance tax bond proceeds receivable (Note 6) | 11,330,472 | - | - | 11,330,472 |
| Notes receivable (Note 7) | 37,837 | - | - | 37,837 |
| Interest receivable | 250,394 | 44,888 | 89,748 | 385,030 |
| Due from: | | | | |
| U.S. Department of Transportation, net (Note 8) | 30,674,478 | - | 1,134,794 | 31,809,272 |
| NM Department of Labor | - | - | 148,947 | 148,947 |
| Other funds (Note 9) | 12,777,313 | - | 9,709,852 | 22,487,165 |
| Inventories (Note 10) | 12,141,293 | - | - | 12,141,293 |
| Prepaid expense - warranty | 55,895,369 | - | - | 55,895,369 |
| Property held for resale, net | 5,399,869 | - | - | 5,399,869 |
| Total assets | \$ 219,641,989 | \$ 43,314,825 | \$ 103,576,075 | \$ 366,532,889 |

(continued)

The accompanying notes are an integral part of this financial statement.

ON

| | Other Governmental Funds | Total (Governmental Funds) |
|----|--------------------------------|----------------------------------|
| | | |
| 16 | \$ 22,354,183 | \$ 80,074,336 |
| | 17,266 | 2,867,044 |
| | - | 264,719 |
| 39 | 3,457,101 | 22,487,165 |
| | 95,484 | 10,561,621 |
| 55 | 25,924,034 | 116,254,885 |
| | | |
| 00 | 54,808,170 | 307,289,328 |
| | - | 68,036,662 |
| | - | 1,443,269 |
| | - | 3,100 |
| | 604,778 | 604,778 |
| | - | 37,837 |
| | - | 5,399,869 |
| | 467,029 | 467,029 |
| 70 | 21,772,064 | (133,003,868) |
| 70 | 77,652,041 | 250,278,004 |
| | | |
| 25 | \$ 103,576,075 | \$ 366,532,889 |

atement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds

Year Ended June 30, 2003

| | Major Funds | | Other | Total |
|---|-----------------------|-------------------------------------|-----------------------|-------------------------|
| | State Road Fund | Bond Project Fund (2002C HIF) | Governmental Funds | (Governmental Funds) |
| Revenues: | | | | |
| User and fuel taxes | \$ 298,145,287 | \$ - | \$ 23,074,358 | \$ 321,219,645 |
| U.S. Department of Transportation | 258,436,016 | - | 21,902,366 | 280,338,382 |
| U.S. Department of Energy | 25,678,358 | - | - | 25,678,358 |
| NM Department of Human Services | - | - | 1,034,173 | 1,034,173 |
| NM Department of Labor | - | - | 255,576 | 255,576 |
| Other revenues | 10,438,953 | - | 3,912 | 10,442,865 |
| Interest | 1,589,161 | 1,461,366 | 2,621,618 | 5,672,145 |
| Total revenues | 594,287,775 | 1,461,366 | 48,892,003 | 644,641,144 |
| Current expenditures: | | | | |
| Personal services | 76,687,993 | - | 545,727 | 77,233,720 |
| Employee benefits | 31,593,086 | - | 182,639 | 31,775,725 |
| Travel | 11,618,815 | - | 35,577 | 11,654,392 |
| Maintenance and repairs | 7,953,017 | - | 43,240 | 7,996,257 |
| Supplies | 30,006,249 | - | 29,799 | 30,036,048 |
| Contractual services | 331,026,679 | 34,431,441 | 105,253,214 | 470,711,334 |
| Operating costs | 8,936,973 | - | 91,839 | 9,028,812 |
| Grants and services | 3,100,693 | - | 34,253,246 | 37,353,939 |
| Other costs | 35,750 | - | 2,850,922 | 2,886,672 |
| Out-of-state travel | 184,648 | - | 39,183 | 223,831 |
| Total current expenditures | 501,143,903 | 34,431,441 | 143,325,386 | 678,900,730 |
| Other expenditures: | | | | |
| Capital outlay | 16,591,747 | - | 1,271,439 | 17,863,186 |
| Debt service - principal | 2,428,166 | - | 69,780,000 | 72,208,166 |
| Debt service - interest | 286,104 | - | 50,665,180 | 50,951,284 |
| Total expenditures | 520,449,920 | 34,431,441 | 265,042,005 | 819,923,366 |
| Excess (deficiency) of revenues over expenditures | 73,837,855 | (32,970,075) | (216,150,002) | (175,282,222) |
| Other financing sources (uses): | | | | |
| Operating transfers - other funds (Note 12) | (111,698,269) | - | 111,698,269 | - |
| Transfers to other state agencies (Note 15) | (8,619,218) | - | - | (8,619,218) |
| Severance tax bond revenue (Note 6) | 8,464,273 | - | - | 8,464,273 |
| Reversion from other governmental agencies (Note 16) | 10,029 | - | - | 10,029 |
| State general fund revenue | 975,500 | - | - | 975,500 |
| Reversion to the state road fund (Note 16) | 771,694 | - | (771,694) | - |
| Highway debentures proceeds (Note 13) | - | - | 16,699,498 | 16,699,498 |
| Net other financing sources (uses) | (110,095,991) | - | 127,626,073 | 17,530,082 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | (36,258,136) | (32,970,075) | (88,523,929) | (157,752,140) |
| Fund balance, beginning of year | 171,965,729 | 69,888,445 | 166,175,970 | 408,030,144 |
| Fund balance, end of year | \$ 135,707,593 | \$ 36,918,370 | \$ 77,652,041 | \$ 250,278,004 |

The accompanying notes are an integral part of this financial statement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental
Funds to the Statement of Activities**

Year Ended June, 30 2003

| | |
|--|-------------------------|
| Net change in fund balance - total governmental funds | \$ (157,752,140) |
| Capital outlay additions recorded as expenditures in the governmental funds, capitalized in the Statement of Net Assets. | 331,065,564 |
| Capital asset deletions, net of accumulated depreciation and sale proceeds recorded in the Statement of Activities as a loss on disposal of assets. Recorded in the governmental funds as \$780,479 in other revenues for the sale proceeds. | (895,849) |
| Depreciation expense recorded in the Statement of Activities not recorded as expenditures in the governmental funds. | (482,944,916) |
| Repayment of bond principal recorded as an expenditure in the governmental funds, recorded as a reduction of long-term liabilities in the Statement of Net Assets. | 69,780,000 |
| Long-term debt proceeds recorded as other financing sources in the governmental funds, recorded as long-term liabilities in the Statement of Net Assets. | (16,000,000) |
| Debenture premiums recorded in the governmental funds as an other financing source, recorded as a liability in the Statement of Net Assets, net of amortization of \$895,495 recorded as a reduction of interest expense in the Statement of Activities. | 195,997 |
| Debenture issuance costs recorded in the governmental funds as other costs, recorded as an asset in the Statement of Net Assets, net of amortization of \$201,659 recorded as an expense in the Statement of Activities. | (74,901) |
| Repayment of capital leases principal recorded as an expenditure in the governmental funds, recorded as a reduction of long-term liabilities in the Statement of Net Assets. | 2,662,170 |
| Net change in accrual of long-term debt interest expense not recorded in the governmental funds until paid. | 195,876 |
| Net change in compensated absences recorded in the Statement of Net Assets as a liability, not recorded in the governmental funds. | 207,486 |
| Change in net assets of governmental activities | <u>\$ (253,560,713)</u> |

The accompanying notes are an integral part of this financial statement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combined Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
(Non-GAAP Budgetary Basis) - Special Revenue and Debt Service Fund Types

Year Ended June 30, 2003

| | Special Revenue and Debt Service Funds | | | Variance |
|---------------------------------------|--|----------------|----------------|----------------|
| | Budgeted Amounts | | Actual | Favorable |
| | Original | Final | | (Unfavorable) |
| Revenues: | | | | |
| Federal funds | \$ 319,554,900 | \$ 309,231,969 | \$ 307,306,489 | \$ (1,925,480) |
| Other state funds | 321,076,400 | 332,291,790 | 353,317,606 | 21,025,816 |
| State General Fund | - | - | 975,500 | 975,500 |
| Total revenues | 640,631,300 | 641,523,759 | \$ 661,599,595 | \$ 20,075,836 |
| Prior-year cash balance carry forward | 13,270,500 | 16,790,281 | | |
| | \$ 653,901,800 | \$ 658,314,040 | | |

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combined Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
(Non-GAAP Budgetary Basis) - Special Revenue and Debt Service Fund Types (Continued)

Year Ended June 30, 2003

| | | Special Revenue and Debt Service Funds | | | | | | | | | | | |
|------------------------------------|----|--|-------------|--------------|--------------|---------------|-------------|-------------|-------------|-------------|-------------|------------|------------|
| | | Budgeted Amounts | | Current Year | | Variance | | | | | | | |
| | | | | | Outstanding | Total | | | | | | | |
| | | Original | Final | Expenditures | Encumbrances | Actual | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | Favorable | | | | | | | |
| | | | | | | (Unfavorable) | | | | | | | |
| Expenditures: | | | | | | | | | | | | | |
| Aviation: | | | | | | | | | | | | | |
| Personal services | \$ | 398,800 | \$ | 401,600 | \$ | 382,440 | \$ | - | \$ | 382,440 | \$ | 19,160 | |
| Contractual services | | 205,300 | | 884,350 | | 86,198 | | 92,075 | | 178,273 | | 706,077 | |
| Other costs | | 2,013,000 | | 2,514,000 | | 709,583 | | 1,802,791 | | 2,512,374 | | 1,626 | |
| | | 2,617,100 | | 3,799,950 | | 1,178,221 | | 1,894,866 | | 3,073,087 | | 726,863 | |
| Construction: | | | | | | | | | | | | | |
| Personal services | | 43,843,000 | | 44,600,394 | | 41,168,672 | | - | | 41,168,672 | | 3,431,722 | |
| Contractual services | | 260,778,200 | | 251,614,713 | | 91,925,440 | | 123,422,183 | | 215,347,623 | | 36,267,090 | |
| Other costs | | 21,470,800 | | 22,295,090 | | 12,781,324 | | 9,005,863 | | 21,787,187 | | 507,903 | |
| Debt Service | | 108,904,400 | | 110,557,256 | | 108,759,905 | | - | | 108,759,905 | | 1,797,351 | |
| | | 434,996,400 | | 429,067,453 | | 254,635,341 | | 132,428,046 | | 387,063,387 | | 42,004,066 | |
| Maintenance: | | | | | | | | | | | | | |
| Personal services | | 41,467,200 | | 42,066,975 | | 41,021,857 | | - | | 41,021,857 | | 1,045,118 | |
| Contractual services | | 41,443,500 | | 41,443,500 | | 21,524,613 | | 19,904,291 | | 41,428,904 | | 14,596 | |
| Other costs | | 65,727,300 | | 65,727,300 | | 51,888,329 | | 13,708,779 | | 65,597,108 | | 130,192 | |
| | | 148,638,000 | | 149,237,775 | | 114,434,799 | | 33,613,070 | | 148,047,869 | | 1,189,906 | |
| Program Support: | | | | | | | | | | | | | |
| Personal services | | 26,412,600 | | 26,642,239 | | 24,777,510 | | - | | 24,777,510 | | 1,864,729 | |
| Contractual services | | 1,141,600 | | 1,383,600 | | 798,928 | | 560,106 | | 1,359,034 | | 24,566 | |
| Other costs | | 14,637,400 | | 15,393,900 | | 11,420,792 | | 3,400,018 | | 14,820,810 | | 573,090 | |
| Other financing uses | | 7,272,800 | | 7,272,800 | | 7,272,715 | | - | | 7,272,715 | | 85 | |
| | | 49,464,400 | | 50,692,539 | | 44,269,945 | | 3,960,124 | | 48,230,069 | | 2,462,470 | |
| Traffic Safety: | | | | | | | | | | | | | |
| Personal services | | 762,200 | | 767,500 | | 711,997 | | - | | 711,997 | | 55,503 | |
| Other costs | | 10,728,000 | | 13,586,823 | | 3,472,005 | | 4,731,874 | | 8,203,879 | | 5,382,944 | |
| | | 11,490,200 | | 14,354,323 | | 4,184,002 | | 4,731,874 | | 8,915,876 | | 5,438,447 | |
| Transportation: | | | | | | | | | | | | | |
| Personal services | | 489,000 | | 491,700 | | 453,431 | | - | | 453,431 | | 38,269 | |
| Other costs | | 6,206,700 | | 10,670,300 | | 5,603,527 | | 5,008,464 | | 10,611,991 | | 58,309 | |
| | | 6,695,700 | | 11,162,000 | | 6,056,958 | | 5,008,464 | | 11,065,422 | | 96,578 | |
| Total annual budgeted expenditures | | \$ | 653,901,800 | \$ | 658,314,040 | \$ | 424,759,266 | \$ | 181,636,444 | \$ | 606,395,710 | \$ | 51,918,330 |

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combined Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
(Non-GAAP Budgetary Basis) - Special Revenue and Debt Service Fund Types (Continued)

Year Ended June 30, 2003

| | Special Revenue and Debt Service Funds | | | | | | |
|--|--|----------------|----------------|-----------------------------|-------------------------|-----------------------|--|
| | Budgeted Amounts | | Current Year | | Prior Year Actual | Total Expenditures | Variance Favorable (Unfavorable) |
| | Original | Final | Expenditures | Outstanding Encumbrances | | | |
| Total annual budgeted expenditures | \$ 653,901,800 | \$ 658,314,040 | \$ 424,759,266 | \$ 181,636,444 | \$ 606,395,710 | \$ - | \$ 51,918,330 |
| Multi-year Budgets - Special Revenue Funds: | | | | | | | |
| Expenditures for 2003 multi-year projects | | | | | | | |
| Severance tax - | | | | | | | |
| Contractual services | \$ 9,342,100 | \$ 9,342,100 | \$ 2,467,789 | \$ 6,408,396 | 8,876,185 | \$ - | \$ 8,876,185 |
| Total expenditures for 2003 multi-year budgeted projects | \$ 9,342,100 | \$ 9,342,100 | \$ 2,467,789 | \$ 6,408,396 | 8,876,185 | \$ - | \$ 8,876,185 |
| Expenditures for 2002 multi-year projects | | | | | | | |
| Severance tax - | | | | | | | |
| Contractual services | \$ 347,500 | \$ 347,500 | \$ 152,450 | \$ 193,018 | 345,468 | \$ - | \$ 345,468 |
| Total expenditures for 2002 multi-year budgeted projects | \$ 347,500 | \$ 347,500 | \$ 152,450 | \$ 193,018 | 345,468 | \$ - | \$ 345,468 |
| Expenditures for 2001 multi-year projects | | | | | | | |
| Severance tax - | | | | | | | |
| Contractual services | \$ 6,910,784 | \$ 6,849,655 | \$ 696,543 | \$ 2,035,758 | 2,732,301 | \$ 3,953,007 | \$ 6,685,308 |
| General Fund - | | | | | | | |
| Contractual services | 2,577,500 | 2,574,527 | 352,869 | 909,750 | 1,262,619 | 1,276,906 | 2,539,525 |
| Total expenditures for 2001 multi-year budgeted projects | \$ 9,488,284 | \$ 9,424,182 | \$ 1,049,412 | \$ 2,945,508 | 3,994,920 | \$ 5,229,913 | \$ 9,224,833 |

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combined Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
(Non-GAAP Budgetary Basis) - Special Revenue and Debt Service Fund Types (Continued)

Year Ended June 30, 2003

| | Special Revenue and Debt Service Funds | | | | | | | |
|---|--|--------------|--------------|-----------------------------|-----------------|----------------|--------------|----------------------------|
| | Budgeted Amounts | | Current Year | | | Prior | Total | Variance |
| | Original | Final | Expenditures | Outstanding Encumbrances | Total Actual | Year Actual | Expenditures | Favorable (Unfavorable) |
| Multi-year Budgets - Special Revenue Funds (Continued): | | | | | | | | |
| Expenditures for 2000 multi-year projects | | | | | | | | |
| Severance tax - | | | | | | | | |
| Contractual services | \$ 5,677,682 | \$ 5,669,579 | \$ 623,393 | \$ 748,369 | 1,371,762 | \$ 4,126,264 | \$ 5,498,026 | \$ 171,553 |
| Total expenditures for 2000 multi-year budgeted projects | \$ 5,677,682 | \$ 5,669,579 | \$ 623,393 | \$ 748,369 | 1,371,762 | \$ 4,126,264 | \$ 5,498,026 | \$ 171,553 |
| Expenditures for 1999 multi-year projects | | | | | | | | |
| Severance tax - | | | | | | | | |
| Contractual services | \$ 8,985,435 | \$ 8,047,486 | \$ 706,011 | \$ 176,266 | 882,277 | \$ 7,082,266 | \$ 7,964,543 | \$ 82,943 |
| General Fund - | | | | | | | | |
| Contractual services | 300,000 | 300,000 | - | - | - | 300,000 | 300,000 | - |
| Total expenditures for 1999 multi-year budgeted projects | \$ 9,285,435 | \$ 8,347,486 | \$ 706,011 | \$ 176,266 | 882,277 | \$ 7,382,266 | \$ 8,264,543 | \$ 82,943 |
| Expenditures for 1997 multi-year projects | | | | | | | | |
| Severance tax - | | | | | | | | |
| Contractual services | \$ 2,914,811 | \$ 2,914,811 | \$ - | \$ - | - | \$ 2,914,808 | \$ 2,914,808 | \$ 3 |
| General Fund - | | | | | | | | |
| Contractual services | 1,615,480 | 1,615,480 | 97,822 | - | 97,822 | 1,517,658 | 1,615,480 | - |
| Total expenditures for 1997 multi-year budgeted projects | \$ 4,530,291 | \$ 4,530,291 | \$ 97,822 | \$ - | 97,822 | \$ 4,432,466 | \$ 4,530,288 | \$ 3 |
| Total annual and multi-year budgeted expenditures | | | | | \$ 621,964,144 | | | |

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combined Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
(Non-GAAP Budgetary Basis) - Special Revenue and Debt Service Fund Types (Continued)

Year Ended June 30, 2003

| | |
|--|----------------|
| Total annual and multi-year budgeted expenditures | \$ 621,964,144 |
| Revenues over expenditures | 39,635,451 |
| Transfers, reversions and other: | |
| 1998 NMFA interest income | 48,515 |
| 2001 NMFA interest income | 668,032 |
| Amortization of prepaid warranty | (4,232,144) |
| Transfers to other state agencies | (1,346,503) |
| Severance tax bond revenue, net of reversions | 8,464,273 |
| Reversions from other state agencies | 10,029 |
| Reversion from the Capital Project Fund | 771,694 |
| Total transfers and reversions and other, net | 4,383,896 |
| Revenues over expenditures, transfers, reversions and other | 44,019,347 |
| Less: Prior year encumbrances paid in current year | (327,339,120) |
| Plus: Current year encumbrances outstanding at year end after accounts payable entries | 134,348,910 |
| Less: Other costs recorded to reimburse the federal government for prior year ineligible traffic safety expenditures | (147,761) |
| Less: 1998 NMFA expenditures not budgeted | (2,188,685) |
| Less: 2001 NMFA expenditures not budgeted | (4,372,221) |
| Combined Special Revenue and Debt Service Fund balance, beginning of year | 404,250,850 |
| Combined Special Revenue and Debt Service Fund balance, end of year | \$ 248,571,320 |

The accompanying notes are an integral part of this financial statement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

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June 30, 2003

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NEW MEXICO DEPARTMENT OF TRANSPORTATION

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NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements

June 30, 2003

(1) General Description of the Department

The New Mexico Department of Transportation (Department) formerly known as the New Mexico State Highway and Transportation Department within the State of New Mexico is responsible for planning, organizing, and directing a comprehensive transportation network. The Department was created by the Constitution of New Mexico, Article V, Section 14; and Sections 67-3-1 through 67-3-70, New Mexico Statutes Annotated, 1978 Compilation. The Highway & Transportation Department Reorganization Bill (House Bill 210) created the Department as of July 1, 1987. Under this reorganization act, portions of the Transportation Department were merged into the Department to create the Department's Aviation and Transportation Divisions. On April 4, 2003, the Governor signed a bill changing the Department's name to the New Mexico Department of Transportation.

The governing body of the Department is a six person State Highway Commission. Commissioners are appointed by the Governor, with the advice and consent of the Senate, and each serves for staggered six-year terms.

(2) Summary of Significant Accounting Policies

Financial Reporting Entity

The accompanying financial statements of the Department, includes all funds, and activities over which the Department has oversight responsibility. The Department is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Even though the Governor appoints the Commission, the Commission has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The Department has no blended or discretely presented component units during the year ended June 30, 2003.

The Department, the New Mexico Finance Authority (NMFA) and the Federal Highway Administration (FHWA) established a State Infrastructure Bank (SIB) on September 30, 1997. The SIB is a revolving loan program accounted for as a business type operation – enterprise fund and is administered by the Department to finance highway projects. The initial capitalization for the SIB came from the Highway Department's allotment of federal funds. The Department matched the federal funds based on the required matching percentage from state funds.

A. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The GASB has issued Statement 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Statement 37 *Basic Financial Statements – Management's Discussion and Analysis – for State and local Governments* and Statement 38 – *Certain Financial Statement Note Disclosures*. These Statements established the financial reporting requirements for state and local governments throughout the United States. The Department is responsible for the fair presentation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America.

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(2) Summary of Significant Accounting Policies (continued)

The Department has prepared required supplementary information titled *Management's Discussion and Analysis*, which precedes the basic financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Department. The effect of material interfund activity has been removed from these government-wide statements. Governmental activities, primarily the construction and maintenance of the State's road system, which normally is supported by taxes and intergovernmental revenues, are reported separately from the business-type activities of the SIB, which to a significant extent acts as a business loaning funds to other entities and charges interest on the loans. Operating income for the State Infrastructure Bank is interest income. All other income, if any, would be non operating income to the State Infrastructure Bank.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific Department function of building and maintaining the State's road system (public works). Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a Department. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements for public works. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The Department does not allocate general government expenses to other functions except for public works. When both restricted and unrestricted resources are available for use, the Department's policy is to first use restricted resources then unrestricted resources.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental funds are reported as major funds in the accompanying financial statements if they meet both of the following criteria.

- *Ten percent criterion.* An individual governmental fund reports at least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures.
- *Five percent criterion.* An individual governmental fund reports at least 5 percent of the total for both governmental and enterprise funds of any of the items for which it met the 10 percent criterion.

The Department's major governmental funds are the following:

State Road Fund – The state road fund was created by Section 67-3-65, NMSA 1978. The state road fund is the operating fund of the Department and is used to account for substantially all of the Department's financial activities. (CAS Fund #201)

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(2) Summary of Significant Accounting Policies (continued)

B. Government-Wide and Fund Financial Statements (continued)

Bonds Project Fund (2002C HIF) – The bond project fund was created due to the issuance of the May 2002 \$67,750,000 New Mexico State Highway Commission Infrastructure Fund Revenue Highway Bonds 2002C. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Also, proceeds can be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are used to finance State Highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds. (CAS #361)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Business Type – Proprietary Fund – State Infrastructure Bank (SIB) Financial Statements – The financial statements of the proprietary fund are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

A proprietary fund has the option under Governmental Accounting Standards Board (GASB), Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting* to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The SIB has elected to not apply FASBs issued after the applicable date.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the Department considers revenues to be available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

- Employees' vested compensated absences are recorded as an expenditure when utilized. The amount of accumulated compensated absences unpaid at June 30, 2003, has been reported only in the government-wide financial statements.
- Interest and principal payments on general long-term obligations is recognized as expenditures when paid.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.

The financial activities of the Department are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Department uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(2) Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The measurement focus is on the flow of expendable financial resources, rather than on net income determination. The following are the governmental fund types used:

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The State Road Fund is the operating fund of the Department and is used to account for substantially all of the Department's financial activities. Resources are generated primarily from user and fuel taxes and Federal grants. Expenditures are incurred to build and improve the roadway system within the State of New Mexico.

Debt Service Funds – Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Debt service requirements are met through the transfer of vehicle and gasoline tax revenues from the State Road Fund monthly. The Department may transfer interest earned on the other bond issues to their respective debt service funds.

Capital Projects Fund – The capital projects fund is used to account for the purchase or construction of facilities used in the operation of the Department. (No CAS Number) As it a nonmajor fund it is shown in the accompanying financial statements Exhibit 9 and Exhibit 10.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized in the period in which they become susceptible to accrual (i.e., when they are both measurable and available to pay liabilities of the current period). "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Intergovernmental revenues, including Federal allotments and grants, are recorded in accordance with their legal or contractual requirements if collected in the current period or if collectibility is assured subsequent to year-end. Grant revenues collected in advance of the period they are intended to finance expenditures or if the eligibility requirements are not met are recorded as deferred revenues. Interest income is recorded when earned. Bond proceeds are recognized at the time the bonds are sold. Principal and interest payments are recorded in the debt service fund when these disbursements are made or when resources have been provided for debt service payments due early in a subsequent fiscal year. All other revenues are not susceptible to accrual.

D. Budgets and Budgetary Accounting

The State Legislature makes annual appropriations to the Department. Legal compliance is monitored through the establishment of an annual budget for the Special Revenue Fund Type and multi-year budgets for Severance Tax multi-year Capital Projects, General Fund multi-year Capital Projects, and the Capital Projects funds using the budgetary basis of accounting and a financial control system which permits a budget-to-actual expenditure comparison. The Debt Service Fund expenditures for principal and interest and the State Infrastructure Bank expenditures for loans funded are included in the Road Betterments Division budget of the State Road Fund.

Expenditures may not legally exceed appropriations for each division's budget at the expenditure classification level.

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(2) Summary of Significant Accounting Policies (continued)

D. Budgets and Budgetary Accounting (continued)

Amendments to the budget require approval by the Budget Division of the Department of Finance and Administration. Unencumbered annual budget appropriations lapse at year-end. Appropriations of the proceeds of severance tax bonds are subject to the limitations contained in the law which authorized the appropriation.

The budgetary legal authorization to incur obligations is on a basis that differs from the basis of accounting required by generally accepted accounting principles (GAAP). There are significant differences between the budgetary basis and GAAP basis of accounting. For example, budgetary basis expenditures include encumbrances (commitments for the expenditure of monies relating to unperformed contracts or orders for goods and services). GAAP basis accounting does not record encumbrances as expenditures. Loans funded by the State Infrastructure Bank are recorded as budgetary expenditures. GAAP basis accounting records the loans as an asset.

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, including the federal portion of road construction costs, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is utilized in governmental funds. Encumbrances are reported in the accompanying governmental fund balance sheets as reservations of fund balances since they do not constitute expenditures or liabilities. For budgetary purposes, current year encumbrances are treated as expenditures and unencumbered balances lapse at year-end (Note 3).

F. Restricted Cash and Cash Equivalents

The funds deposited in the debt service funds are restricted to pay future principal and interest payments due under the \$105,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1998A (CHAT Bonds); the \$100,000,000 Subordinate Lien Tax Revenue Highway Bonds Series 1998B (WIPP Bonds); the proceeds from the 1998 NMFA loan of \$100,230,000; the \$100,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds Series 1999 (CHAT Bonds); the \$201,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds Series 2000A (CHAT Bonds); the \$198,800,000 Senior Subordinate Lien Tax Revenue Highway Bonds Series 2001A (CHAT Bonds); the proceeds from the 2001 NMFA loan of \$18,535,000; the \$95,000,000 Senior Subordinate Lien Tax Revenue Highway Bonds Series 2002A (CHAT Bonds); the \$79,920,000 Subordinate Lien Tax Revenue Highway Bonds Series 2002B (WIPP Bonds); the \$67,750,000 Highway Infrastructure Fund Revenue Highway Bonds Series 2002C (HIF Bonds) and the \$16,000,000 Senior Subordinate Tax Revenue Series 2002D (CHAT Bonds). The remaining balance of the proceeds from the sale of the Debentures, Bonds and the NMFA loan are also classified as restricted cash because the use of these funds is limited. Proceeds of the various bond issues are also invested through the State Treasurer's Office in securities repurchase agreements with financial institutions and a money market mutual fund which invests in U.S. Treasury securities. Cash received from the Department of Energy (for the WIPP Project fund) in advance of incurring the eligible expenditures is also reflected as restricted cash because the cash can only be used on specified road projects. Cash held in the State Infrastructure Bank is restricted for use in funding loans (Note 4).

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(2) Summary of Significant Accounting Policies (continued)

G. Taxes Receivable

Taxes receivable represent the amounts due, from the New Mexico Taxation and Revenue Department for the Department's June 30th fiscal year user and fuel taxes that are received by the Department after year-end and accordingly no allowances for uncollectible amounts is necessary.

H. Accounts Receivable

Accounts receivable consists of amounts due from various entities: individuals and other state and local agencies located within the State of New Mexico for the sale of maps, brochures and other materials; federal excise taxes; and for other services performed by the Department. The Department provides an allowance for uncollectible accounts. The allowance is based on estimated collectible balances using an analysis of an aging of outstanding accounts and historical collection experience. The Department does not require collateral on these accounts receivable (Note 5).

I. Severance Tax Bonds Proceeds Receivable

The State of New Mexico Legislature has authorized the State Board of Finance to issue and sell revenue bonds which are to be retired using future taxes levied against the extractive industries in the state. The proceeds from bonds sold are appropriated to the Department to be used for specific programs and are recorded as revenues by the Department. Expenditures incurred by the Department for such programs are reimbursable from the State Board of Finance. The severance tax bonds proceeds receivable represents the amounts due and available from the State Board of Finance as of year-end (Note 6).

J. Notes and Loans Receivables

Note receivables represent:

- a. Funds advanced to various state and local agencies to promote van-pooling activities within the state. The Federal Highway Administration (FHWA) provides matching funds, ninety (90) percent, for the purchase of vehicles by various non-profit van-pooling organizations.
- b. The funds advanced to such organizations are payable to the Department and are designated for future vehicle purchases.
- c. Notes to individuals displaced by purchases of right of way properties. The funds loaned to such individuals come partially from FHWA funds as per FHWA guidelines.

Loan receivables represent:

Loans to other governmental entities made by the State Infrastructure Bank. Loans are stated at their principal amount. Interest on loans is accrued based on the daily principal balance outstanding except when a loan has been past due for 90 days. All loans are to governmental entities, secured by certain pledged revenues. The loans are being repaid in accordance with their loan agreements. Management's evaluation of the loan portfolio has determined that no allowance for uncollectible loans is required at June 30, 2003. There are no loans past due for more than 90 days at the end of the fiscal year, which would be required to be placed on nonaccrual status (Note 7).

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(2) Summary of Significant Accounting Policies (continued)

K. Due from the U.S. Department of Transportation

Due from the U.S. Department of Transportation represents amounts billed and unbilled in accordance with the various grant agreements. The "billed" portion represents contract expenditures incurred and billed by the Department. The "unbilled" portion represents expenditures included in accounts payable which will be billed when paid by the Department. The "excess project costs" represents costs actually incurred on a project in excess of approved amounts. The Department provides for an allowance for uncollectible accounts in the excess project costs classification. The allowance is based on an analysis of amounts that are reasonably assured of collection (Note 8).

L. Due from/to Other Funds

Due from/to other funds represents amounts due from and to other funds within the Department (Note 9) and are included in the governmental fund financial statements. Inter-fund transactions are eliminated in the GAAP-basis governmental-wide financial statements.

M. Inventories

Inventories of the Special Revenue Fund consist of materials used in the Department's operations and are accounted for using the consumption method whereby inventories are recorded as expenditures in the period when used. Inventories are stated at the lower of average cost or market. Reported inventories are equally offset by the fund balance reserve which indicates that they do not constitute an "available expendable resource" (Note 10) in the governmental fund financial statements.

N. Prepaid Expense – Warranty

\$38,194,009 of the warranty represents the no fault warranty that the pavement will meet performance criteria. This amount is being amortized over 20 years. The remaining \$17,701,360 of the warranty represents the no fault warranty that the structures will meet performance criteria. This amount is being amortized over 11½ years.

O. Property Held for Resale

Property held for resale represent excess land acquired through condemnation and is recorded at its estimated fair value. The Department's management estimated the fair value based upon recent sales of similar type assets.

P. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (which is normally immovable and of value only to the state, such as roads, streets tunnels and similar infrastructure items), are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the state as assets which have a cost of \$1,000 or more at the date of acquisition and have an expected useful life of more than one year. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(2) Summary of Significant Accounting Policies (continued)

P. Capital Assets (continued)

- The Department records the specific roads, tunnels and other infrastructure that it owns or has primary responsibility for maintenance. According to GASB, if the Department has the primary responsibility for the asset's maintenance then the capital asset would be recorded on its books.
- An estimated historical cost of the entire infrastructure on the Department's government wide financial statements was determined as of June 2001. The Department calculated the replacement cost as of June 30, 2001 for its entire infrastructure and then deflated the cost by use of a construction price level index maintained by the Federal Highway Administration. Accumulated depreciation at June 30, 2001 was calculated based on the estimated historical cost of the infrastructure, estimated use of the assets and using a 25 to 30-year life of the infrastructure. Current year activity is shown in footnote 11 to the financial statements.
- The Department follows the depreciation method. This method requires the Department to allocate the cost of infrastructure assets over their useful lives as depreciation expense. Another allowable and methodology is to use the modified approach to record infrastructure. Under this process, the Department does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. If this method was used it would require the Department to: 1) commit to maintaining and preserving the assets at or above a condition level established by the Department, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. The Department elected to use the depreciation method as it determined it could not meet the condition to maintain the infrastructure at a predetermined condition level due to an anticipated lack of future funding for maintenance.
- The Department records its other capital assets (buildings, machinery and equipment) at historical cost and depreciate the assets over their estimated useful lives.

Capital assets acquired in the current year in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Department are depreciated on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land and right of way land. Generally, estimated useful lives are as follows:

| | |
|----------------------------------|-------------|
| Machinery and Equipment | 7-14 years |
| Buildings and Other Improvements | 40 years |
| Infrastructure | 25-30 years |

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(2) Summary of Significant Accounting Policies (continued)

Q. Accrued Compensated Absences

The Department records accrued vacation, sick time and compensatory time and a liability is recorded in the government-wide financial statements. The governmental fund financial statements record the expenditure when the employees are paid or when compensated absences expected to be liquidated with expendable available financial resources in the governmental funds. Vacation and sick leave earned and not taken is cumulative; however, sick pay up to 600 hours is forfeited upon termination of state service and vacation is limited to 240 hours. Sick leave accumulated in excess of 600 hours, not to exceed 120 hours, is payable semiannually to qualified employees at a rate equal to 50 percent of their hourly rate. Upon retirement, sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50 percent hourly rate. The Department also allows certain employees to defer being paid overtime in exchange for compensatory time off. The Department will pay up to 240 hours of compensatory time off to selected classes of employees upon termination.

R. Deferred Revenue

Deferred revenue occurs when the Department receives funds before the corresponding expense or expenditure has been incurred or all of the eligibility requirements have not been met. The Department has received funds in advance from the Department of Energy (DOE) for road projects and other costs relating to the Waste Isolation Pilot Plant (WIPP). The Department had received pass-through federal funds in advance from the New Mexico Department of Human Services for the temporary assistance for needy families. Revenue is recognized when eligible expenditures are incurred for these projects and programs and all eligibility requirements are met.

S. Long-Term Obligations

Premiums, Discounts and Issuance Costs – In the government-wide financial statements long-term debt and other long-term obligations are presented in the columns for governmental and business-type activities. The same is presented in the proprietary fund financial statements. Bond and note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and amortized over the term of the related debt.

In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other expenditures.

Arbitrage Rebate Liability – Any arbitrage rebate is recorded as a liability when it is determined to be owed to the Internal Revenue Service.

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(2) Summary of Significant Accounting Policies (continued)

T. Reserved Fund Balance

Fund balance reserved in governmental fund is used to indicate that a portion of the fund balance is not available for expenditure or is legally segregated for the specific future use. Amounts reserved for subsequent years' expenditures represent that portion of fund balance that is segregated for obligations for which a contract has not been finalized.

U. Designated Fund Balance

The Department established a designation for projects to be funded by the capital projects fund that have not been started in the governmental fund financial statements.

V. Interfund and Interagency Transactions

Transfers which, because of budgetary or legal restrictions, must be expended by funds other than the fund initially receiving the revenue, are recorded as operating transfers in (out) under the other financing sources (uses) category (Notes 12 and 15) in the governmental fund financial statements.

W. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

X. Eliminations

Total columns in the governmental fund financial statements are captioned "Total (Governmental Funds)" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operation or changes in financial position of the Department as a whole in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation in the governmental fund financial statements. Due to/from other funds and interfund transfers have been eliminated in the Governmental-wide financial statements.

(3) Budget and Actual Data (Note 2-D)

Budgeted amounts presented in the accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – All Government Fund Types are as originally adopted, or as approved by the Department of Finance and Administration (DFA).

The accompanying governmental fund financial statements on page 9 is presented in accordance with GAAP. The Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – Special Revenue and Debt Service Fund Types on pages 11 through 15 and the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – Capital Project Fund on page 51 are presented on a budgetary basis. Data presented in these two statements differ because encumbrances (i.e., contracts, unfilled purchase orders and other commitments for future expenditures) are recorded as expenditures for

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(3) Budget and Actual Data (Note 2-D) (continued)

budgetary purposes but are recorded as a reservation of fund balance for GAAP purposes. The NMFA loan proceeds, interest income on the road projects, and related road project expenditures are not budgeted by the Department. Adjustments necessary to reconcile the deficiency of revenues and other financing sources over expenditures and other financing uses are shown on pages 15 and 51.

The following reconciles revenues and expenditures on GAAP basis to budgetary basis for the year ended June 30, 2003:

| | Governmental Fund Types | | |
|--|--|-----------------------------|----------------------|
| | Special Revenue and Debt Service Funds | Capital Projects Fund | Total |
| Governmental Funds basis revenues (per Exhibit 6) | \$644,641,144 | \$ - | \$644,641,144 |
| Highway debenture proceeds | 16,699,498 | - | 16,699,498 |
| Interest income on the 1998 NMFA loan proceeds not budgeted | (48,515) | - | (48,515) |
| Interest income on the 2001 NMFA loan proceeds not budgeted | (668,032) | - | (668,032) |
| State general fund | <u>975,500</u> | <u>-</u> | <u>975,500</u> |
| Budgetary basis revenues (per Exhibit 8) | <u>\$661,599,595</u> | <u>\$ -</u> | <u>\$661,599,595</u> |
| Governmental Funds basis expenditures (per Exhibit 6) | \$818,622,450 | \$ 1,300,916 | \$819,923,366 |
| Current year encumbrances outstanding at year-end, not included in accounts payable | 134,348,910 | 910,790 | 135,259,700 |
| Prior year encumbrances paid in current year | (327,339,120) | (767,468) | (328,254,349) |
| Other costs recorded to reimburse the federal government for prior year ineligible traffic safety expenditures | (147,761) | - | (147,761) |
| Warranty amortization expenditure for GAAP purposes not shown as a budgetary expenditure | (4,232,144) | - | (4,232,144) |
| Transfers included in budgetary expenditures | 7,272,715 | - | 7,272,715 |
| 1998 NMFA Loan expenditures not budgeted | (2,188,685) | - | (2,188,685) |
| 2001 NMFA Loan expenditures not budgeted | <u>(4,372,221)</u> | <u>-</u> | <u>(4,372,221)</u> |
| Budgetary basis expenditures (per Exhibit 8 and Exhibit 11) | <u>\$621,964,144</u> | <u>\$ 1,444,238</u> | <u>\$623,408,382</u> |

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(4) Cash and Cash Equivalents (Note 2-F)

Cash funds, other than petty cash, are deposited by the Department into its accounts with the State Treasurer which are pooled and invested by the State Treasurer. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments. In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50 percent. Money of the Department may be deposited with the State Treasurer for short-term investment pursuant to Section 6-10-10.1, NMSA 1978 Compilation, or may be invested in direct and general obligations or of obligations fully and unconditionally guaranteed by the United States, obligations issued by agencies of the United States, obligations of the State of New Mexico or any political subdivision of the State and other investments allowed by state law. Petty cash funds are deposited with various financial institutions and are fully insured. Some of the cash held by the trustee for the NMFA loan proceeds is also invested in a money market mutual fund which invests in short-term U.S. Treasury securities. The reconciled balances at June 30, 2003, are as follows:

| | CAS Account Number | Amount |
|--------------------------|--------------------------|---------------------|
| Unrestricted: | | |
| Road Fund-General | 201 | \$24,789,227 |
| Road Fund-Payroll | 788 | 2,207,397 |
| Local Government Fund | 203 | 16,522,963 |
| Aviation Fund | 205 | 395,740 |
| Motorcycle Training Fund | 206 | 116,882 |
| DWI Prevention Fund | 207 | 190,043 |
| Traffic Safety | 208 | 1,560,310 |
| Rubberized Asphalt | 820 | 1,921,035 |
| Petty Cash Funds | N/A | 3,100 |
| | | <u>\$47,706,697</u> |

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(4) Cash and Cash Equivalents (Note 2-F) (continued)

| | CAS Account Number | Amount |
|---|--------------------------|----------------------|
| Restricted: | | |
| Road Fund (1998 and 2001 NMFA loan proceeds including \$2,536,530 in money market mutual funds and \$13,463,159 in repurchase agreements) | N/A | \$15,999,689 |
| Road Fund (relates to WIPP bond projects and other various road projects) | 201/431 | 19,864,291 |
| Highway Infrastructure Fund | 202 | 6,821,574 |
| Bond Project Fund (1993 Bonds) | 394 | 1,327,959 |
| Bond Project Fund (1998 WIPP Bonds) | 004 | 1,177 |
| Bond Project Fund (1998 CHAT Bonds) | 546 | 170 |
| Bond Project Fund (1999 CHAT Bonds) | 430 | 265,420 |
| Bond Project Fund (2000 CHAT Bonds) | 345 | 4,264 |
| Bond Project Fund (2001 CHAT Bonds) | 006 | 18,889,664 |
| Bond Project Fund (2002A CHAT Bonds) (including a \$20,000,000 repurchase agreement) | 368 | 34,040,558 |
| Bond Project Fund (2002C HIF Bonds) (including a \$28,500,000 repurchase agreement) | 361 | 43,269,937 |
| Bond Project Fund (2002D CHAT Bonds) | 115 | 16,607,492 |
| Debt Service Fund (1993 Bonds) | 261 | 45,997 |
| Debt Service Fund (1998 WIPP Bonds) | 972 | 39,678 |
| Debt Service Fund (1998 CHAT Bonds) | 548 | 67,668 |
| Debt Service Fund (1999 CHAT Bonds) | 434 | 64,121 |
| Debt Service Fund (2000 CHAT Bonds) | 432 | 95,445 |
| Debt Service Fund (2001 CHAT Bonds) | 007 | 119,726 |
| Debt Service Fund (2002A CHAT Bonds) | 547 | 26,805 |
| Debt Service Fund (2002B WIPP Bonds) | 211/677/750/789 | 70,038 |
| Debt Service Fund (2002C HIF Bonds) | 363 | 27,760 |
| Debt Service Fund (2002D CHAT Bonds) | 187 | 3,749 |
| State Infrastructure Bank | 893 | 15,276,700 |
| | | <u>\$172,929,882</u> |

State law requires that repurchase agreements be secured by collateral with a market value greater than 102% of the value of the agreement. The securities are held by a third party in the Department's name. The fair value of the repurchase agreement approximates the cost at June 30, 2003.

GASB 31, which requires the Department to record investments with a maturity greater than one year at the time of their purchase at fair value, does not have any effect on the Department.

The Departments total unspent debt proceeds at June 30, 2003 was \$150,270,621.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(5) Accounts Receivable (Note 2-H)

The aging of accounts receivable as of June 30, 2003, is as follows:

| <u>Number of Days Outstanding</u> | |
|---|------------------|
| 0 - 30 | \$ 57,635 |
| 31 - 60 | 10,166 |
| 61-120 | 14,368 |
| Beyond 120 | <u>1,826,253</u> |
| | 1,908,422 |
| Less allowance for uncollectible accounts | <u>1,856,733</u> |
| | <u>\$ 51,689</u> |

(6) Severance Tax Bond Proceeds Receivable (Note 2-I)

Severance tax bonds proceeds receivable as of June 30, 2003, appropriated to the Department, were held by the State Board of Finance to reimburse expenditures incurred by the Department. The activity of this account is as follows:

| | |
|---|---------------------|
| Balance, beginning of year | \$ 6,986,338 |
| Sale of severance tax bonds | 9,342,100 |
| Funding from the State Board of Finance | (4,120,139) |
| Reversion to the State Board of Finance | <u>(877,827)</u> |
| Balance, end of year | <u>\$11,330,472</u> |

The funding for the year ended June 30, 2003 was received under the Laws of 1998, Chapter 118; Laws of 1998, Chapter 7; Laws of 1999, Chapter 2; Laws of 2000, Chapter 23 and Laws of 2002, Chapter 110 for projects completed.

(7) Note and Loan Receivables (Note 2-J)

Note receivables as of June 30, 2003, consist of the following:

| | |
|--|------------------|
| Notes receivable from various private, non interest-bearing, in accordance with federal statutes, due at various dates through 2015 and mortgage loans, collateralized by various properties | <u>\$ 37,837</u> |
|--|------------------|

Loan receivables funded by the State Infrastructure Bank consist of the following:

| | |
|--|--------------------|
| Bernalillo County 1.43%, paid in full October 7, 2003 secured by federal highway revenue | <u>\$2,501,071</u> |
|--|--------------------|

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(8) Due from U.S. Department of Transportation (Note 2-K)

Due from the U.S. Department of Transportation (USDOT) consists of the following as of June 30, 2003:

| <u>Agency</u> | |
|---|---------------------|
| Federal Highway Administration: | |
| Billed | \$ 6,904,670 |
| Unbilled | 18,707,579 |
| Excess project costs, net of unbilled amounts | <u>4,770,066</u> |
| Total Federal Highway Administration, net | 30,382,315 |
| Other USDOT Agencies – Billed | <u>1,426,957</u> |
| Total USDOT | <u>\$31,809,272</u> |

Subsequent to June 30, 2003 the Federal Highway Administration unbilled portion was billed and the amounts were collected by the Department. No allowance was needed at June 30, 2003.

(9) Due from/to Other Funds (Note 2-L)

Due from and to other funds as of June 30, 2003 in the governmental fund financial statements are as follows:

| | <u>Due from Other Funds</u> | <u>Due to Other Funds</u> |
|--|---------------------------------|-------------------------------|
| Special Revenue Funds: | | |
| State Road Fund | \$12,777,313 | \$17,225,925 |
| Local Government | - | 1,157,512 |
| Federal Planning and Development | 892,732 | - |
| Federal Traffic Safety Fund | 1,966,223 | 1,000,045 |
| State Aviation Fund | 466,717 | 784,923 |
| Motorcycle Training Fund | - | 10,000 |
| Driver Improvement Program Fund | 399,170 | 300 |
| Bond Project Fund (1993 Bonds) | - | 7,487 |
| Bond Project Fund (WIPP Bonds) | 1,093,745 | 19,136 |
| Bond Project Fund (1998 & 1999 CHAT Bonds) | 1,541,785 | 4,287 |
| Bond Project Fund (2000 CHAT Bonds) | 1,621,480 | - |
| Bond Project Fund (2001 CHAT Bonds) | - | 436,866 |
| Bond Project Fund (2002A CHAT) | - | 3,652 |
| Bond Project Fund (2002C HIF) | - | 1,804,139 |
| Bond Project Fund (2002D CHAT) | - | 32,893 |
| Total Special Revenue Funds | <u>20,759,165</u> | <u>22,487,165</u> |
| Debt Service Funds: | | |
| Debt Service Fund (1993 Bonds) | 7,487 | - |
| Debt Service Fund (WIPP Bonds) | <u>13,829</u> | <u>-</u> |
| Total Debt Service Funds | 21,316 | - |
| Capital Projects Fund | <u>1,706,684</u> | <u>-</u> |
| | <u>\$22,487,165</u> | <u>\$22,487,165</u> |

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(10) Inventories (Notes 2-M)

Inventories as of June 30, 2003 consist of the following:

| | |
|--|---------------------|
| Highway maintenance materials stockpiled | \$ 7,892,161 |
| Repair parts and expendable supplies | 3,927,962 |
| Fuel, oil and lubricants | <u>321,170</u> |
| | <u>\$12,141,293</u> |

(11) Capital Assets (Note 2-P)

The following is the capital assets activity for the year ended June 30, 2003:

| | Balance, June 30, 2002 | Increase | Decrease | Balance, June 30, 2003 |
|--------------------------------|---------------------------|-------------------------|----------------------|---------------------------|
| Non Depreciable Assets | | | | |
| Land | \$ 4,013,075 | \$ 83,375 | \$ (5,715) | \$ 4,090,735 |
| Right of way | 347,257,000 | 2,400,000 | - | 349,657,000 |
| Depreciable Assets | | | | |
| Infrastructure | 15,172,011,134 | 313,364,359 | (308,471,791) | 15,176,903,702 |
| Equipment and furniture | 47,785,665 | 2,941,560 | (2,472,711) | 48,254,514 |
| Vehicles | 142,369,503 | 11,178,544 | (5,949,188) | 147,598,859 |
| Buildings | 30,047,739 | 1,097,726 | (476,866) | 30,668,599 |
| | <u>15,743,484,116</u> | <u>331,065,564</u> | <u>(317,376,271)</u> | <u>15,757,173,409</u> |
| Accumulated Depreciation | | | | |
| Infrastructure | (7,692,396,448) | (467,537,644) | 308,471,791 | (7,851,462,301) |
| Equipment and furniture | (27,450,072) | (4,011,358) | 2,068,075 | (29,393,355) |
| Vehicles | (90,713,126) | (10,718,830) | 5,796,394 | (95,635,562) |
| Buildings | (18,961,604) | (677,083) | 144,162 | (19,494,525) |
| Total Accumulated Depreciation | <u>(7,829,521,250)</u> | <u>(482,944,915)</u> | <u>316,480,422</u> | <u>(7,995,985,743)</u> |
| Capital Assets, net | <u>\$ 7,913,962,866</u> | <u>\$ (151,879,351)</u> | <u>\$ (895,849)</u> | <u>\$ 7,761,187,666</u> |

Depreciation expense was \$482,944,915 for the year ended June 30, 2003. Road construction commitments as of June 30, 2003 was approximately \$231,000,000.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(12) Interfund Transfers (Note 2-V)

The following is a summary of interfund transfers in the governmental fund financial statements for the year ended June 30, 2003:

| | |
|--|----------------------|
| The transfer from the State Road Fund to the Debt Service Fund (1993 Bonds) for the debt repayments required by the State of New Mexico Highway Debentures | \$ 6,185,700 |
| The transfer from the Debt Service Fund (1993 Bonds) to the Bond Project Fund (1993 Bonds) | <u>(808,331)</u> |
| Total transfers to the 1993 Debt Service Fund | 5,377,369 |
| The transfer from the WIPP Bond Project Funds to the Debt Service Funds (1998 and 2002B WIPP Bonds) for the debt repayments required by the State of New Mexico Highway Debentures | 19,165,958 |
| The transfer from the State Road Fund to the Debt Service Funds (1998, 1999, 2000, 2001, 2002A and 2002D CHAT Bonds, the 2001 NMFA Loan and the 2002B HIF Bonds) for debt repayments required by the State of New Mexico Highway Debentures | <u>80,996,338</u> |
| Net transfers to debt service funds from the special revenue funds | <u>\$105,539,665</u> |

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(13) Long-Term Obligations (Note 2-S)

The following are the changes in long-term obligations of the Department for the year ended June 30, 2003:

| | Balance, June 30, 2002 | Increases | Decreases | Balance, June 30, 2003 |
|--|------------------------------|---------------|---------------|------------------------------|
| Governmental Activities | | | | |
| 1993 Highway Debentures | \$ 5,925,000 | \$ - | \$ 5,925,000 | \$ - |
| 1998 CHAT Bonds | 76,875,000 | - | 8,195,000 | 68,680,000 |
| 1998 WIPP Bonds | 81,305,000 | - | 6,080,000 | 75,225,000 |
| 1998 NMFA Loan | 95,385,000 | - | 5,050,000 | 90,335,000 |
| 1999 CHAT Bonds | 85,610,000 | - | 7,740,000 | 77,870,000 |
| 2000 CHAT Bonds | 184,160,000 | - | 9,940,000 | 174,220,000 |
| 2001 CHAT Bonds | 197,720,000 | - | 12,960,000 | 184,760,000 |
| 2001 NMFA Loan | 18,535,000 | - | 705,000 | 17,830,000 |
| 2002 CHAT Bonds, Series A | 95,000,000 | - | 2,000,000 | 93,000,000 |
| 2002 WIPP Bonds, Series B | 73,795,000 | - | 6,725,000 | 67,070,000 |
| 2002 HIF Bonds, Series C | 67,750,000 | - | 3,130,000 | 64,620,000 |
| 2002 CHAT Bonds, Series D | - | 16,000,000 | 1,330,000 | 14,670,000 |
| Vacation, sick leave and other compensated absences | 6,726,856 | 6,519,370 | 6,726,856 | 6,519,370 |
| Capital leases | 4,405,839 | - | 2,662,170 | 1,743,669 |
| Total obligations | 993,192,695 | \$ 22,519,370 | \$ 79,169,026 | 936,543,039 |
| Less current portion | 75,036,355 | | | 79,458,950 |
| Net long-term obligations | \$ 918,156,340 | | | \$ 857,084,089 |

The Department is authorized to issue bonds from time to time, payable from the proceeds of the collection of gasoline excise taxes, motor vehicle registration fees and other fees that are required by law to be paid into the State Road Fund and not otherwise pledged solely to the payment of outstanding bonds and debentures. The total aggregate outstanding bonds issued are in accordance with the authorizing legislation for the bonds and other debt are with the approval of the State Board of Finance, includes Section 67-3-59.1 of the New Mexico Statutes Annotated (NMSA) (1978), as amended; and the Supplemental Public Securities Act constituting Sections 6-14-8 through 6-14-11 of the NMSA (1978), as amended.

The Department issued \$50,000,000 of the State of New Mexico Highway Debentures, Series 1993 (the "Debentures") in December 1993. The net proceeds to the Department totaled \$49,569,159. The Debentures were issued by the Department for the purpose of financing general improvements to certain designated public highways within the State of New Mexico. The Debentures are special obligations of the Department payable from and secured by a first lien on and a pledge of monies derived from gasoline excise taxes and motor vehicle registration fees that are required to be paid into the State Road Fund.

Principal of the Debentures was payable annually on each June 15th and interest was payable semi-annually on June 15th, and December 15th through the year 2003. As of June 30, 2003 these bonds were paid in full.

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(13) Long-Term Obligations (Note 2-S) (Continued)

The Department issued \$105,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds Series 1998A and \$100,000,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds Series 1998B in October 1998. The net proceeds to the Department were \$108,979,050 for the Series 1998A Bonds and \$103,753,450 for the Series 1998B Bonds. The costs of issuance for the Series 1998A and Series 1998B Bonds were \$773,588 and \$767,380 respectively. The Bonds are special limited obligations of the Department payable solely by a pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes and vehicle transaction taxes and fees that are required to be paid into the State Road Fund. The Series 1998A Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature. The Series 1998B Bonds (1998 WIPP Bonds) were issued by the Department for roads relating to the Waste Isolation Pilot Project (WIPP) in the State of New Mexico.

Principal of both 1998 Series Bonds is payable annually each June 15th and interest is payable semi-annually on June 15th and December 15th.

The Department's future scheduled annual requirements to amortize the Series 1998A Bonds (CHAT) including interest payments of \$14,124,760 based on interest rates that range from 4.5% to 5.125% are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|----------------------|----------------------|----------------------|
| 2004 | \$ 8,560,000 | \$ 3,268,233 | \$ 11,828,233 |
| 2005 | 8,945,000 | 2,883,033 | 11,828,033 |
| 2006 | 9,290,000 | 2,538,650 | 11,828,650 |
| 2007 | 9,730,000 | 2,097,375 | 11,827,375 |
| 2008 | 10,195,000 | 1,635,200 | 11,830,200 |
| 2009 | 10,705,000 | 1,125,450 | 11,830,450 |
| 2010 | 11,255,000 | 576,819 | 11,831,819 |
| | <u>\$ 68,680,000</u> | <u>\$ 14,124,760</u> | <u>\$ 82,804,760</u> |

The Department's future scheduled annual requirements to amortize the Series 1998B Bonds (1998 WIPP Bonds) including interest payments of \$18,488,549 based on interest rates that range from 3.7% to 5.125% are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|----------------------|----------------------|----------------------|
| 2004 | \$ 6,740,000 | \$ 3,610,358 | \$ 10,350,358 |
| 2005 | 7,390,000 | 3,354,238 | 10,744,238 |
| 2006 | 8,095,000 | 3,040,163 | 11,135,163 |
| 2007 | 8,890,000 | 2,635,413 | 11,525,413 |
| 2008 | 9,675,000 | 2,235,363 | 11,910,363 |
| 2009 | 10,545,000 | 1,751,613 | 12,296,613 |
| 2010 | 11,460,000 | 1,224,363 | 12,684,363 |
| 2011 | 12,430,000 | 637,038 | 13,067,038 |
| | <u>\$ 75,225,000</u> | <u>\$ 18,488,549</u> | <u>\$ 93,713,549</u> |

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(13) Long-Term Obligations (Note 2-S) (Continued)

On October 2, 1998 the Department borrowed \$100,230,000 from the New Mexico Finance Authority (NMFA). The NMFA had issued \$100,230,000 of NMFA Federal Highway Grant Anticipation Revenue Bonds to fund the loan. The Department's obligation under the loan agreement is to repay the loan from certain federal funds payable to the Department from the Federal Highway Administration. If insufficient federal revenues are received, the Department will use good faith efforts to seek additional revenues that are otherwise not obligated and are legally available to repay the loan. After all loan payments and other payments due on any future obligations secured by these federal funds are made, any remaining federal funds received will be deposited into the State Road Fund.

Eligible federal funds that can be used for debt repayment are not available for approximately two years after the date of the loan. Accordingly \$8,468,561 of the loan proceeds were recorded to the debt service fund to pay future debt service.

The Department was also responsible for the NMFA issuance costs and must annually pay the NMFA two basis points on the outstanding principal balance every September 1st. Total issue costs were \$2,144,423 net of \$1,656,807 of the premium received from the sale of the NMFA bonds.

Principal of the loan is payable annually each September 1st starting 2001. Interest with rates ranging from 3.95% to 5.25% per annum, is payable semi-annually on September 1st and March 1st through the year 2016.

The Department's future debt service for the NMFA loan, including interest payments of \$31,327,152 are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|----------------------|----------------------|-----------------------|
| 2004 | \$ 5,280,000 | \$ 4,139,431 | \$ 9,419,431 |
| 2005 | 5,485,000 | 3,925,451 | 9,410,451 |
| 2006 | 5,705,000 | 3,698,799 | 9,403,799 |
| 2007 | 5,940,000 | 3,455,621 | 9,395,621 |
| 2008 | 6,195,000 | 3,182,265 | 9,377,265 |
| 2009 | 6,485,000 | 2,881,115 | 9,366,115 |
| 2010 | 6,795,000 | 2,578,455 | 9,373,455 |
| 2011 | 7,090,000 | 2,243,702 | 9,333,702 |
| 2012 | 7,465,000 | 1,861,634 | 9,326,634 |
| 2013 | 7,855,000 | 1,459,484 | 9,314,484 |
| 2014 | 8,270,000 | 1,058,945 | 9,328,945 |
| 2015 | 8,660,000 | 637,275 | 9,297,275 |
| 2016 | 9,110,000 | 204,975 | 9,314,975 |
| | <u>\$ 90,335,000</u> | <u>\$ 31,327,152</u> | <u>\$ 121,662,152</u> |

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(13) Long-Term Obligations (Note 2-S) (Continued)

The Department issued \$100,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1999 in November 1999. The gross proceeds to the Department were \$101,161,999 and the cost of issuance including underwriting fees was approximately \$791,000. The Bonds are special, limited obligations of the State Highway Commission, payable solely from and secured by a pledge of proceeds of the collection of gasoline excise taxes and motor vehicle registration fees that are required to be paid into the State Road Fund. The Series 1999 Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the Bonds is payable annually each June 15th. Interest with rates ranging from 4.75% to 6% per annum, is payable semi-annually on June 15th and December 15th through the year 2011.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$21,095,051 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|----------------------|----------------------|----------------------|
| 2004 | \$ 8,110,000 | \$ 4,261,482 | \$ 12,371,482 |
| 2005 | 8,495,000 | 3,876,256 | 12,371,256 |
| 2006 | 8,920,000 | 3,451,506 | 12,371,506 |
| 2007 | 9,385,000 | 2,983,207 | 12,368,207 |
| 2008 | 9,870,000 | 2,502,225 | 12,372,225 |
| 2009 | 10,410,000 | 1,959,375 | 12,369,375 |
| 2010 | 11,010,000 | 1,360,800 | 12,370,800 |
| 2011 | 11,670,000 | 700,200 | 12,370,200 |
| | <u>\$ 77,870,000</u> | <u>\$ 21,095,051</u> | <u>\$ 98,965,051</u> |

The Department issued \$201,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A in May 2000. The gross proceeds to the Department were \$206,023,307 and the cost of issuance including underwriting fees was approximately \$1,392,000. The Bonds are special, limited obligations of the State Highway Commission, payable solely from and secured by a pledge of proceeds of the collection of gasoline excise taxes and motor vehicle registration fees that are required to be paid into the State Road Fund. The Series 2000 Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the Bonds is payable annually each June 15. Interest with rates ranging from 5% to 6% per annum, is payable semi-annually on June 15 and December 15 through the year 2015.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$73,784,013 are as follows:

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(13) Long-Term Obligations (Note 2-S) (Continued)

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|-----------------------|----------------------|-----------------------|
| 2004 | \$ 10,485,000 | \$ 10,181,488 | \$ 20,666,488 |
| 2005 | 11,090,000 | 9,578,600 | 20,668,600 |
| 2006 | 11,700,000 | 8,968,650 | 20,668,650 |
| 2007 | 12,340,000 | 8,325,150 | 20,665,150 |
| 2008 | 13,060,000 | 7,607,425 | 20,667,425 |
| 2009 | 13,810,000 | 6,857,375 | 20,667,375 |
| 2010 | 14,605,000 | 6,063,075 | 20,668,075 |
| 2011 | 15,480,000 | 5,186,775 | 20,666,775 |
| 2012 | 16,410,000 | 4,257,975 | 20,667,975 |
| 2013 | 17,350,000 | 3,314,400 | 20,664,400 |
| 2014 | 18,395,000 | 2,273,400 | 20,668,400 |
| 2015 | 19,495,000 | 1,169,700 | 20,664,700 |
| | <u>\$ 174,220,000</u> | <u>\$ 73,784,013</u> | <u>\$ 248,004,013</u> |

The Department issued \$198,800,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2001A in March 2001. The gross proceeds to the Department were \$209,050,033 including \$10,250,033 of an original issue premium. The cost of issuance including underwriter fees was \$1,343,586. The Bonds are special, limited obligations of the State Highway Commission, payable solely from and secured by a pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, and, to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2001 Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the Bonds is payable annually each June 15th. Interest with rates ranging from 4% to 5.25% per annum, is payable semi-annually on June 15th and December 15th through the year 2013.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$55,835,318 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|-----------------------|----------------------|-----------------------|
| 2004 | \$ 14,705,000 | \$ 9,356,035 | \$ 24,061,035 |
| 2005 | 15,425,000 | 8,632,435 | 24,057,435 |
| 2006 | 16,190,000 | 7,867,585 | 24,057,585 |
| 2007 | 16,990,000 | 7,071,235 | 24,061,235 |
| 2008 | 17,835,000 | 6,224,335 | 24,059,335 |
| 2009 | 18,725,000 | 5,333,710 | 24,058,710 |
| 2010 | 19,665,000 | 4,397,460 | 24,062,460 |
| 2011 | 20,645,000 | 3,415,148 | 24,060,148 |
| 2012 | 21,720,000 | 2,338,838 | 24,058,838 |
| 2013 | 22,860,000 | 1,198,537 | 24,058,537 |
| | <u>\$ 184,760,000</u> | <u>\$ 55,835,318</u> | <u>\$ 240,595,318</u> |

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(13) Long-Term Obligations (Note 2-S) (Continued)

On March 14, 2001 the Department borrowed \$18,535,000 from the New Mexico Finance Authority (NMFA). The NMFA had issued \$18,535,000 of NMFA Federal Highway Grant Anticipation Revenue Bonds to fund the loan. The Department's obligation under the loan agreement is to repay the loan from certain federal funds payable to the Department from the Federal Highway Administration. If insufficient federal revenues are received, the Department will use good faith efforts to seek additional revenues that are otherwise not obligated and are legally available to repay the loan. After all loan payments and other payments due on any future obligations secured by these federal funds are made, any remaining federal funds received will be deposited into the State Road Fund.

The Department was also responsible for the NMFA issuance costs and must annually pay the NMFA two basis points on the outstanding principal balance every September 1. Total issue costs were \$467,998 and there was a premium of \$704,443 from the sale of the NMFA bonds.

Principal of the loan is payable annually each September 1st starting 2002. Interest with rates ranging from 4% to 5.5% per annum, is payable semi-annually on September 1st and March 1st through the year 2012.

The Department's future debt service for the NMFA loan, including interest payments of \$4,159,773 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|----------------------|---------------------|----------------------|
| 2004 | \$ 1,645,000 | \$ 808,675 | \$ 2,453,675 |
| 2005 | 1,715,000 | 738,163 | 2,453,163 |
| 2006 | 1,790,000 | 658,550 | 2,448,550 |
| 2007 | 1,875,000 | 572,100 | 2,447,100 |
| 2008 | 1,960,000 | 480,650 | 2,440,650 |
| 2009 | 2,055,000 | 385,560 | 2,440,560 |
| 2010 | 2,155,000 | 284,995 | 2,439,995 |
| 2011 | 2,260,000 | 173,670 | 2,433,670 |
| 2012 | 2,375,000 | 57,410 | 2,432,410 |
| | <u>\$ 17,830,000</u> | <u>\$ 4,159,773</u> | <u>\$ 21,989,773</u> |

The Department issued \$95,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002A in January 2002. The gross proceeds including accrued interest to the Department were \$98,361,534 including \$3,913,043 of an original issue premium. The cost of issuance including underwriter fees was \$592,819. The Bonds are special, limited obligations of the State Highway Commission, payable solely from and secured by a senior subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and, to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002A Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the Bonds is payable annually each June 15th. Interest with rates ranging from 4.5% to 5.5% per annum, is payable semi-annually on June 15th and December 15th through the year 2014.

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(13) Long-Term Obligations (Note 2-S) (Continued)

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$32,181,950 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|----------------------|----------------------|-----------------------|
| 2004 | \$ 6,515,000 | \$ 4,867,250 | \$ 11,382,250 |
| 2005 | 6,840,000 | 4,541,500 | 11,381,500 |
| 2006 | 7,180,000 | 4,199,500 | 11,379,500 |
| 2007 | 7,540,000 | 3,840,500 | 11,380,500 |
| 2008 | 7,935,000 | 3,444,650 | 11,379,650 |
| 2009 | 8,330,000 | 3,047,900 | 11,377,900 |
| 2010 | 8,750,000 | 2,631,400 | 11,381,400 |
| 2011 | 9,210,000 | 2,172,025 | 11,382,025 |
| 2012 | 9,690,000 | 1,688,500 | 11,378,500 |
| 2013 | 10,225,000 | 1,155,550 | 11,380,550 |
| 2014 | 10,785,000 | 593,175 | 11,378,175 |
| | <u>\$ 93,000,000</u> | <u>\$ 32,181,950</u> | <u>\$ 125,181,950</u> |

The Department issued \$79,920,000 of the New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bonds, Series 2002B in January 2002. The gross proceeds including accrued interest to the Department were \$82,008,147 including \$2,670,686 of an original issue premium. The cost of issuance including underwriter fees was \$614,561. The Bonds are special, limited obligations of the State Highway Commission, payable solely from and secured by a subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and, to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002B Bonds (WIPP Bonds) were issued to provide funds to refund the 1996 WIPP Bonds on the date of delivery of the Bonds and to pay all costs incident thereto and to the issuance of the Bonds, including, without limitation, costs of issuance.

Principal of the Bonds is payable annually each June 15th. Interest with rates ranging from 3.25% to 5% per annum, is payable semi-annually on June 15th and December 15th through the year 2011.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$15,877,500 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|---------------------|---------------------|---------------------|
| 2004 | \$ 7,000,000 | \$ 3,341,000 | \$10,341,000 |
| 2005 | 7,325,000 | 2,991,000 | 10,316,000 |
| 2006 | 7,730,000 | 2,624,750 | 10,354,750 |
| 2007 | 8,115,000 | 2,238,250 | 10,353,250 |
| 2008 | 8,525,000 | 1,832,500 | 10,357,500 |
| 2009 | 8,965,000 | 1,406,250 | 10,371,250 |
| 2010 | 9,445,000 | 958,000 | 10,403,000 |
| 2011 | 9,965,000 | 485,750 | 10,450,750 |
| | <u>\$67,070,000</u> | <u>\$15,877,500</u> | <u>\$82,947,500</u> |

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(13) Long-Term Obligations (Note 2-S) (Continued)

The Department issued \$67,750,000 of the New Mexico State Highway Commission Highway Infrastructure Fund Revenue Highway Bonds (Additionally Secured by a Senior Subordinate Lien on Certain State Road Fund Revenues), Series 2002C in May 2002. The gross proceeds including accrued interest to the Department were \$69,809,036 including \$2,499,411 of an original issue premium. The cost of issuance including underwriter fees was \$440,375. The Bonds are special, limited obligations of the State Highway Commission, payable from and secured by a senior pledge of proceeds of the collection of leased vehicle gross receipts tax revenues and tire recycling fees, in each case that are required by law to be paid into the Highway Infrastructure Fund and interest on such amounts in the Highway Infrastructure Fund. The Bonds are additionally payable from and secured by a senior subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002C Bonds (HIF Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the Bonds is payable annually each June 15th. Interest with rates ranging from 3.25% to 5.283% per annum, is payable semi-annually of June 15th and December 15th through the year 2017.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$26,363,074 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|----------------------|----------------------|----------------------|
| 2004 | \$ 3,490,000 | \$ 3,010,574 | \$ 6,500,574 |
| 2005 | 3,600,000 | 2,897,149 | 6,497,149 |
| 2006 | 3,720,000 | 2,780,148 | 6,500,148 |
| 2007 | 3,860,000 | 2,640,649 | 6,500,649 |
| 2008 | 4,010,000 | 2,486,249 | 6,496,249 |
| 2009 | 4,195,000 | 2,303,349 | 6,498,349 |
| 2010 | 4,395,000 | 2,105,549 | 6,500,549 |
| 2011 | 4,595,000 | 1,903,761 | 6,498,761 |
| 2012 | 4,810,000 | 1,685,974 | 6,495,974 |
| 2013 | 5,040,000 | 1,459,524 | 6,499,524 |
| 2014 | 5,295,000 | 1,204,284 | 6,499,284 |
| 2015 | 5,570,000 | 926,896 | 6,496,896 |
| 2016 | 5,865,000 | 634,406 | 6,499,406 |
| 2017 | 6,175,000 | 324,562 | 6,499,562 |
| | <u>\$ 64,620,000</u> | <u>\$ 26,363,074</u> | <u>\$ 90,983,074</u> |

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(13) Long-Term Obligations (Note 2-S) (Continued)

The Department issued \$16,000,000 of the New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002D in December 2002. The gross proceeds to the Department were \$16,572,740 including \$699,498 of an original issue premium. The cost of issuance including underwriter fees was \$126,758. The Bonds are special, limited obligations of the State Highway Commission, payable solely from and secured by a senior subordinate pledge of proceeds of the collection of gasoline excise taxes, special fuel excise taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain Public Regulation Commission fees, trip taxes, weight distance taxes, motor vehicle registration fees, and to the extent authorized to be paid into the State Road Fund in the future, motor vehicle excise taxes, in each case that are required by law to be paid into the State Road Fund and interest on such amounts in the State Road Fund. The Series 2002D Bonds (CHAT Bonds) were issued to fund projects identified by the Department and the Legislature.

Principal of the Bonds is payable annually each June 15th. Interest with rates ranging from 2.25% to 5.00% per annum, is payable semi-annually of June 15th and December 15th through the year 2014.

The Department's future scheduled annual requirement to amortize the Bonds, including interest payments of \$4,063,000 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|----------------------|---------------------|----------------------|
| 2004 | \$ 1,095,000 | \$ 608,525 | \$ 1,703,525 |
| 2005 | 1,140,000 | 564,725 | 1,704,725 |
| 2006 | 1,165,000 | 539,075 | 1,704,075 |
| 2007 | 1,200,000 | 504,125 | 1,704,125 |
| 2008 | 1,260,000 | 444,125 | 1,704,125 |
| 2009 | 1,310,000 | 393,725 | 1,703,725 |
| 2010 | 1,360,000 | 341,325 | 1,701,325 |
| 2011 | 1,430,000 | 273,325 | 1,703,325 |
| 2012 | 1,500,000 | 201,825 | 1,701,825 |
| 2013 | 1,575,000 | 126,825 | 1,701,825 |
| 2014 | 1,635,000 | 65,400 | 1,700,400 |
| | <u>\$ 14,670,000</u> | <u>\$ 4,063,000</u> | <u>\$ 18,733,000</u> |

Capital Leases

The Department has entered into several lease agreements as lessee for financing the acquisition of computer equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The capital leases have interest rates that range from 4% to 19%; a total of \$2,714,270 was paid during the 2003 fiscal year for capital lease obligations, and was recorded as debt service expense in the State Road Fund. No computer equipment was acquired through capital leases during the 2003 fiscal year.

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(13) Long-Term Obligations (Note 2-S) (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003 are as follows:

| <u>Year Ending June 30</u> | |
|---|--------------------|
| 2004 | \$1,102,148 |
| 2005 | 693,377 |
| 2006 | 190,078 |
| Total minimum lease payments | 1,985,603 |
| Less amount representing interest | 241,934 |
| Present value of minimum lease payments | <u>\$1,743,669</u> |

Total future principal and interest obligation repayments are as follows:

| <u>Year Ending</u> | <u>Bonds and Loan</u> | <u>Capital Lease</u> | <u>Total</u> |
|-----------------------------|------------------------|----------------------|------------------------|
| 2004 | \$ 121,078,051 | \$1,102,148 | \$ 122,180,199 |
| 2005 | 121,432,550 | 693,377 | 122,125,927 |
| 2006 | 121,852,376 | 190,078 | 122,042,454 |
| 2007 | 122,228,625 | - | 122,228,625 |
| 2008 | 122,594,987 | - | 122,594,987 |
| 2009 and thereafter to 2014 | 557,620,737 | - | 557,620,737 |
| 2015 and thereafter to 2017 | 58,772,814 | - | 58,772,814 |
| | <u>\$1,225,580,140</u> | <u>\$1,985,603</u> | <u>\$1,227,565,743</u> |

An obligation amounting to \$6,519,370 at June 30, 2003, has been recorded to the government-wide financial statements representing the Department's commitment for accrued vacation, sick leave and other compensated absences (Note 2-Q).

(14) Retirement and Health Plans

PERA Pension Plan

Plan Description – Substantially all of the Department's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

Funding Policy – Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59%. The contribution requirements of plan members and the Department is established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Department's contributions to PERA for the years ended June 30, 2003, 2002 and 2001 were \$12,182,210, \$12,049,981 and \$11,878,018, respectively, equal to the amount of the required contributions for each year.

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(14) Retirement and Health Plans (continued)

Post Employment Benefits

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out-of-pocket payments of eligible retirees.

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers are institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Educational Retirement Act, Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act.

Eligible retirees are: (1) Retirees who made contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf, unless that person retires on or before July 1, 1995, in which event the time period for contributions shall become the period of time between July 1, 1990 and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990.

Each participating employer makes contributions to the fund in the amount of 1.3% of each participating employee's annual salary. Each participating employee contributes to the fund an employee contribution equal to .65% of the employee's annual salary. Each participating retiree pays a monthly premium for the basic single plan and an additional participation fee of five dollars (\$5.00) if eligible participant retired prior to July 1, 1990 and made no contributions to the plan.

Contributions from participating employers and employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act. The employer, employee and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee and retiree) and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 810 West San Mateo, Santa Fe, New Mexico 87505.

For the fiscal year ended June 30, 2003, the Department remitted \$954,496 in employer contributions and \$477,248 in employee contributions to the Retiree Health Care Authority.

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(15) Transfers to Other State Agencies (Note 2-V)

The following is a summary of interagency cash transfers, as a result of the 2002 General Appropriations Act and for an employee assistance assessment and the HRS assessment to the General Services Department.

| | <u>Agency Number</u> | <u>Amount</u> |
|-------------------------------|--------------------------|--------------------|
| <u>Special Revenue Funds:</u> | | |
| Department of Public Safety | 01-790 | \$7,220,100 |
| General Services Department | 01-350 | 52,615 |
| Office of Cultural Affairs | 01-505 | 1,346,503 |
| Total transfers | | <u>\$8,619,218</u> |

(16) Reversions from Other Governmental Agencies and from/to Governmental Funds

During the year ended June 30, 2003, the Department recorded a \$10,029 reversion from the N.M. General Services Department for unexpended cash for the Laws of 1998, Chapter 32.

During the year ended June 30, 2003, Department recorded a \$771,694 reversion from the Capital Project Fund to the State Road Fund for unexpended cash for the Laws of 2000, Chapter 23.

(17) Commitments and Contingencies

Cooperative and Joint Powers Agreement

The State Legislature and the State Highway Commission have approved certain agreements between the Department and various counties, municipalities and other agencies to construct or improve public highways, school grounds, parking areas, and for the purpose of litter control. The Department's funding responsibility varies from zero to 100 percent. Total commitments under these agreements are approximately \$81,390,000 as of June 30, 2003. None of these cooperative and joint power agreements have created legally separate organizations which need to be included as component units or joint ventures in the Department's financial statements.

Risk Management

The Department is exposed to various risks of loss for which the Department carries insurance (Auto; Employee Fidelity Bond; General Liability, Civil Rights, and Foreign Jurisdiction; Money and Securities; Property; and Workers' Compensation) with the State of New Mexico Risk Management Division.

Federal Highway Administration (FHWA) Allotments

The FHWA annually allocates funds to the State of New Mexico which are available for various federally-sponsored projects. The allotments expire within two to five years from date of authorization.

In order to obtain funding commitments from FHWA for such allotments, projects must be submitted to and be approved by the FHWA. As of June 30, 2003, the following allotments granted to the State of New Mexico had not been converted to commitments because FHWA did not award sufficient obligational authority to the Department:

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(17) Commitments and Contingencies (continued)

Year in which allotments expire:

September 30, 2004

\$21,107,871

The Department anticipates that all future allotments will be fully used in the following years.

Litigation

The Department is subject to various legal proceedings, claims and liabilities, including right-of-way condemnation proceedings and employee claims, which arise in the ordinary course of the Department's operations. In the opinion of the Department's management and in-house legal counsel, the ultimate resolution of the above matters will not have a material adverse impact on the financial position or results of operations of the Department.

Operating Leases

The Department leases certain equipment and premises under numerous operating leases. Leases are subject to future appropriation and as such are cancelable by the Department at the end of a fiscal year. Rental expense for the year ended June 30, 2003 was \$1,567,178.

The future minimum lease payments under operating leases as of June 30, 2003 are approximately as follows:

Years Ending June 30:

| | |
|------|--------------------|
| 2004 | \$1,270,000 |
| 2005 | 909,000 |
| 2006 | 802,000 |
| 2007 | <u>785,000</u> |
| | <u>\$3,766,000</u> |

Arbitrage Rebate

As of June 30, 2003, the Department has estimated it will owe an arbitrage rebate to the Internal Revenue Service (IRS) on the excess interest income earned on the 1993 WIPP bonds, 1998 NMFA loan proceeds, 1998 CHAT bond proceeds, 1998 WIPP bond proceeds, 1999 CHAT bond proceeds and the 2000 CHAT bond proceeds. An accrual of \$6,714,442 has been recorded to the June 30, 2003 financial statements for the arbitrage rebates. The amounts owed to the IRS will be due during fiscal years 2004, 2005 and 2006 in the amounts of \$4,065,669, \$1,055,325 and \$1,593,448.

Grant Revenue

The Department participates in numerous federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Department has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2003 may be impaired. In the opinion of the Department, there are no significant contingent liabilities relating to compliance with the rules and

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements, Continued

June 30, 2003

(17) Commitments and Contingencies (continued)

Grant Revenue (continued)

regulations governing the respective grants except for the National Highway Traffic Safety Administration (NHTSA) has questioned costs relating to funds expended under various federal highway safety grant programs. See Footnote 20.

(18) Unreserved, Undesignated Fund Balance (Deficit)

The unreserved, undesignated fund balance (deficit) is the component of fund balance that represents the portion of the encumbrances which have not been billed to the applicable funding source.

(19) Subsequent Event

In November 2003, the state legislature passed and the Governor signed legislation detailing future transportation projects that will be funded by a maximum of \$1.585 billion in bonds to be issued over the next six years. In addition, vehicle registration fees, weight distance taxes, special fuel taxes and oversized overweight permit fees are to be increased in 2004. The Department estimates the impact of the new revenue will be approximately \$60 million in the 2005 fiscal year.

(20) Traffic Safety Grant Revenue

The Department's Traffic Safety Bureau (TSB) grant programs funded by NHTSA and FHWA were subject to a program audit and NHTSA questioned costs of approximately \$536,550. The Department completed a review of the current and prior years costs charged to these programs and in their response dated December 22, 2003 to NHTSA acknowledged that \$393,171 in costs had been incorrectly charged to these programs and has recorded a liability to the federal government. Accordingly, these ineligible costs have not been reflected as federal participating expenditures in the accompanying financial statements and schedule of Expenditures of Federal Awards.

(continued)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2003

| | Nonmajor Special Revenue Funds | Nonmajor Debt Service Funds | Nonmajor Capital Project Fund | Total Nonmajor Governmental Funds |
|--|--------------------------------------|-----------------------------------|-------------------------------------|--|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents: | | | | |
| Unrestricted | \$ 18,785,938 | \$ - | \$ - | \$ 18,785,938 |
| Restricted | 71,136,996 | 560,695 | - | 71,697,691 |
| Receivables: | | | | |
| Taxes receivable | 1,993,890 | - | - | 1,993,890 |
| Accounts receivable, net | 15,215 | - | - | 15,215 |
| Interest receivable | 66,981 | 22,767 | - | 89,748 |
| Due from: | | | | |
| U.S. Department of Transportation | 1,134,794 | - | - | 1,134,794 |
| U.S. Department of Labor | 148,947 | - | - | 148,947 |
| Other funds | 7,981,852 | 21,316 | 1,706,684 | 9,709,852 |
| Total assets | <u>\$ 101,264,613</u> | <u>\$ 604,778</u> | <u>\$ 1,706,684</u> | <u>\$ 103,576,075</u> |
| <u>LIABILITIES & FUND EQUITY</u> | | | | |
| Liabilities: | | | | |
| Accounts and contracts payable, including retainage of \$686,887 | \$ 22,354,183 | \$ - | \$ - | \$ 22,354,183 |
| Accrued payroll, taxes and withholdings | 17,266 | - | - | 17,266 |
| Due to other funds | 3,457,101 | - | - | 3,457,101 |
| Deferred revenue | 95,484 | - | - | 95,484 |
| Total liabilities | <u>25,924,034</u> | <u>-</u> | <u>-</u> | <u>25,924,034</u> |
| Fund Equity: | | | | |
| Fund balance: | | | | |
| Reserved for encumbrances | 53,568,515 | - | 1,239,655 | 54,808,170 |
| Reserved for debt service | - | 604,778 | - | 604,778 |
| Reserved for capital projects | - | - | 467,029 | 467,029 |
| Unreserved, undesignated | 21,772,064 | - | - | 21,772,064 |
| Total fund equity | <u>75,340,579</u> | <u>604,778</u> | <u>1,706,684</u> | <u>77,652,041</u> |
| Total liabilities and fund equity | <u>\$ 101,264,613</u> | <u>\$ 604,778</u> | <u>\$ 1,706,684</u> | <u>\$ 103,576,075</u> |

The accompanying notes are an integral part of this financial statement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds

Year Ended June 30, 2003

| | Nonmajor Special Revenue Funds | Nonmajor Debt Service Funds | Nonmajor Capital Project Fund | Total Nonmajor Governmental Funds |
|---|--------------------------------------|-----------------------------------|-------------------------------------|--|
| Revenues: | | | | |
| User and fuel taxes | \$ 23,074,358 | \$ - | \$ - | \$ 23,074,358 |
| U.S. Department of Transportation | 11,033,160 | 10,869,206 | - | 21,902,366 |
| NM Department of Human Services | 1,034,173 | - | - | 1,034,173 |
| NM Department of Labor | 255,576 | - | - | 255,576 |
| Other revenues | 3,912 | - | - | 3,912 |
| Interest | 2,036,202 | 585,416 | - | 2,621,618 |
| | <u>37,437,381</u> | <u>11,454,622</u> | <u>-</u> | <u>48,892,003</u> |
| Current expenditures: | | | | |
| Personal services | 545,727 | - | - | 545,727 |
| Employee benefits | 182,639 | - | - | 182,639 |
| Travel | 35,577 | - | - | 35,577 |
| Maintenance and repairs | 43,240 | - | - | 43,240 |
| Supplies | 29,799 | - | - | 29,799 |
| Contractual services | 104,819,362 | - | 433,852 | 105,253,214 |
| Operating costs | 91,839 | - | - | 91,839 |
| Grants and services | 34,253,246 | - | - | 34,253,246 |
| Other costs | 2,850,922 | - | - | 2,850,922 |
| Out-of-state travel | 39,183 | - | - | 39,183 |
| Total current expenditures | <u>142,891,534</u> | <u>-</u> | <u>433,852</u> | <u>143,325,386</u> |
| Capital outlay | 404,375 | - | 867,064 | 1,271,439 |
| Debt service - principal | - | 69,780,000 | - | 69,780,000 |
| Debt service - interest | - | 50,665,180 | - | 50,665,180 |
| Total expenditures | <u>143,295,909</u> | <u>120,445,180</u> | <u>1,300,916</u> | <u>265,042,005</u> |
| Excess (deficiency) of revenues over expenditures | <u>(105,858,528)</u> | <u>(108,990,558)</u> | <u>(1,300,916)</u> | <u>(216,150,002)</u> |
| Other financing sources (uses): | | | | |
| Operating transfers - other funds | 6,158,604 | 105,539,665 | - | 111,698,269 |
| Reversion to the state road fund | - | - | (771,694) | (771,694) |
| Highway debentures proceeds | 16,699,498 | - | - | 16,699,498 |
| Net other financing sources (uses) | <u>22,858,102</u> | <u>105,539,665</u> | <u>(771,694)</u> | <u>127,626,073</u> |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | <u>(83,000,426)</u> | <u>(3,450,893)</u> | <u>(2,072,610)</u> | <u>(88,523,929)</u> |
| Fund balance, beginning of year | <u>158,341,005</u> | <u>4,055,671</u> | <u>3,779,294</u> | <u>166,175,970</u> |
| Fund balance, end of year | <u>\$ 75,340,579</u> | <u>\$ 604,778</u> | <u>\$ 1,706,684</u> | <u>\$ 77,652,041</u> |

The accompanying notes are an integral part of this financial statement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
(Non-GAAP Budgetary Basis) - Capital Project Fund

Year Ended June 30, 2003

| | Capital Projects Fund | | | | | | |
|--|-----------------------|--------------|--------------|-----------------------------|-------------------------|-----------------------|--|
| | Budgeted Amounts | | Current Year | | Prior Year Actual | Total Expenditures | Variance Favorable (Unfavorable) |
| | Original | Final | Expenditures | Outstanding Encumbrances | | | |
| Projects originated in 2000 | | | | | | | |
| Capital outlay | \$ 2,238,000 | \$ 2,238,000 | \$ 533,448 | \$ 910,790 | \$ 326,732 | \$ 1,770,970 | \$ 467,030 |
| Total expenditures | | | | | | 1,444,238 | |
| (Deficiency) of revenues over expenditures | | | | | | (1,444,238) | |
| Reversion to the state road fund | | | | | | (771,694) | |
| Prior year encumbrances paid in current year | | | | | | (767,468) | |
| Current year encumbrances outstanding at year end | | | | | | 910,790 | |
| Fund balance, beginning of year | | | | | | 3,779,294 | |
| Fund balance, end of year | | | | | | \$ 1,706,684 | |

The accompanying notes are an integral part of this financial statement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION
NONMAJOR SPECIAL REVENUE FUNDS

Special Revenue Funds account for the resources devoted to the general operations of the Department. The individual funds are as follows:

Local Government Road Fund – The local government road fund was created by Section 67-3-28.2, NMSA 1978. This fund is used to account for monies received for (1) a cooperative agreements program for construction and improvement of public highways and streets, and public school parking lots; (2) a municipal arterial program for construction for reconstruction of highways and streets not on the state highway systems; (3) a school bus route program for maintaining, repairing, improving and paving school bus routes, and public school parking lots; and (4) a county arterial program for construction, reconstruction, improvement and maintenance of county roads. Financing for this fund is received from state excise taxes. (CAS Fund #203)

Federal Planning and Development Fund – This fund is authorized by the Commission to account for the planning and administration of federal grant monies and state matching funds for mass transportation and railroad improvements.

Traffic Safety Fund – This fund is authorized by the Commission to account for federal grant monies and state matching monies received for various traffic safety programs. (CAS Fund #208)

State Aviation Fund – The state aviation fund was created by Section 64-1-15, NMSA 1978. This fund is used to account for planning, construction, and maintenance of a system of airports, navigation aids, and related facilities serving New Mexico. Financing is provided from all unrefunded taxes collected on the sale of motor fuel sold for use in aircraft. (CAS Fund #205)

Motorcycle Training Fund – The motorcycle training fund was created by Section 66-10-10, NMSA 1978. This fund is used to account for the operation of a motorcycle safety training program. Financing is provided from motorcycle registration fees and student training fees. All money in the motorcycle training fund in excess of amounts budgeted revert to the State Road Fund. (CAS Fund #206)

Driver Improvement Program Fund – The driver improvement program fund was created by Executive Order 87-20. This fund is used to account for the operation of a driver improvement program. Financing is provided from fees collected for drivers' manuals and admissions to driver training courses.

DWI Prevention and Education Fund – The DWI prevention and education fund was created by Section 66-5-35, NMSA 1978. This fund is used to account for the operation of a DWI (Driving While Intoxicated) prevention and education program for elementary and secondary school students. Financing is provided from limited license and permit fees. (CAS Fund #207)

Bond Project Fund (1993 Bonds) – The bond project fund was created due to the issuance of the December 1993 \$50,000,000 State of New Mexico Highway Debentures. The funds from the sale of all of the Debentures were required to be deposited in a special account with the State Treasurer. Also, proceeds can be invested in U.S. Treasury obligations held by the State Treasurer with maturities of no more than one year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds. (CAS Fund #394)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

NONMAJOR SPECIAL REVENUE FUNDS (continued)

Bond Project Fund (WIPP Bonds) – The bond project fund was created due to the issuance of the December 1996 \$100,000,000 State of New Mexico Highway Debentures and the \$100,000,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bond Series 1998B issued in October 1998. The funds from the sales of the Debentures were required to be deposited in a special account with the State Treasurer. Also, proceeds can be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are to be used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds. (CAS Fund #789 and 004)

Bond Project Fund (1998 & 1999 CHAT) – The bond project fund was created due to the issuance of the October 1998 \$105,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 1998A and the \$100,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bond Series 1999 issued in November 1999. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Also, proceeds can be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds. (CAS Fund #546)

Bond Project Fund (2000 CHAT) – The bond project fund was created due to the issuance of the May 2000 \$201,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bond Series 2000A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Also, proceeds can be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds. (CAS Fund #345)

Bond Project Fund (2001 CHAT) – The bond project fund was created due to the issuance of the March 2001 \$198,800,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bond Series 2001A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Also, proceeds can be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds. (CAS Fund #006)

Bond Project Fund (2002A CHAT) – The bond project fund was created due to the issuance of the January 2002 \$95,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002A. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Also, proceeds can be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds. (CAS Fund #368)

Bond Project Fund (2002D CHAT) – The bond project fund was created due to the issuance of the December 2002 \$16,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bond Series 2002D. The funds from the sale of the Debentures were required to be deposited in a special account with the State Treasurer. Also, proceeds can be invested in U.S. Treasury obligations and repurchase agreements with maturities of no more than one year until needed. The funds are used to finance state highway projects, pay expenses incurred to issue the Debentures and payments of rebate, penalty, interest and other obligations relating to the Debentures or the proceeds. (CAS Fund #115)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2003

| ASSETS | Total Government Road Fund | Federal Planning & Development Fund | Traffic Safety Fund | State Aviation Fund | Motor- cycle Training Fund | Driver Improvement Program Fund | DWI Prevention & Educa- tion Fund | Bond Project Fund (93 Bonds) | Bond Project Fund (WIPP Bonds) | Bond Project Fund (1998 & 1999 CHAT) | Bond Project Fund (2000 CHAT) | Bond Project Fund (2001 CHAT) | Bond Project Fund (2002A CHAT) | Bond Project Fund (2002D CHAT) | Total Nonmajor Special Revenue Funds |
|--|----------------------------------|--|---------------------------|---------------------------|-------------------------------------|--|--|---------------------------------------|---|---|--|--|---|---|---|
| Cash and cash equivalents: | | | | | | | | | | | | | | | |
| Unrestricted | \$16,522,963 | \$ - | \$ 1,560,310 | \$ 395,740 | \$ 116,882 | \$ - | \$ 190,043 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 18,785,938 |
| Restricted | - | - | - | - | - | - | - | 1,327,959 | 1,469 | 265,590 | 4,264 | 18,889,664 | 34,040,558 | 16,607,492 | 71,136,996 |
| Receivables: | | | | | | | | | | | | | | | |
| Taxes receivable | 1,598,591 | - | 254,743 | 125,286 | 7,050 | 5,025 | 3,195 | - | - | - | - | - | - | - | 1,993,890 |
| Accounts receivable, net | - | - | 15,215 | - | - | - | - | - | - | - | - | - | - | - | 15,215 |
| Interest receivable | 15,315 | - | 1,474 | - | 107 | - | - | 1,086 | 213 | 259 | 4 | 18,127 | 14,208 | 16,188 | 66,981 |
| Due from: | | | | | | | | | | | | | | | |
| U.S. Department of Transportation | - | 802,193 | 310,847 | 21,754 | - | - | - | - | - | - | - | - | - | - | 1,134,794 |
| NM Department of Human Services | - | 148,947 | - | - | - | - | - | - | - | - | - | - | - | - | 148,947 |
| Other funds | - | 892,732 | 1,966,323 | 466,717 | - | 399,170 | - | - | 1,093,745 | 1,541,785 | 1,621,480 | - | - | - | 7,981,852 |
| Total assets | \$18,136,869 | \$ 1,843,872 | \$ 4,108,812 | \$ 1,009,497 | \$ 124,039 | \$ 404,195 | \$ 193,238 | \$ 1,329,045 | \$ 1,095,427 | \$ 1,807,634 | \$ 1,625,748 | \$ 18,907,791 | \$ 34,054,766 | \$ 16,623,680 | \$ 101,264,613 |
| LIABILITIES & FUND EQUITY | | | | | | | | | | | | | | | |
| Liabilities: | | | | | | | | | | | | | | | |
| Accounts and contracts payable, including retainage of \$686,887 | \$ 3,353,791 | \$ 1,746,209 | \$ 49,773 | \$ 214,652 | \$ - | \$ 16,214 | \$ - | \$ 133,958 | \$ 1,076,291 | \$ 1,803,347 | \$ 1,625,748 | \$ 710,481 | \$ 11,623,719 | \$ - | \$ 22,354,183 |
| Accrued payroll, taxes and withholdings | - | 2,179 | 5,165 | 9,922 | - | - | - | - | - | - | - | - | - | - | 17,266 |
| Accrued compensated absences | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Due to other funds | 1,157,512 | - | 1,000,045 | 784,923 | 10,000 | 300 | - | 7,487 | 19,136 | 4,287 | - | 436,866 | 3,652 | 32,893 | 3,457,101 |
| Deferred revenue | - | 95,484 | - | - | - | - | - | - | - | - | - | - | - | - | 95,484 |
| Total liabilities | 4,511,303 | 1,843,872 | 1,054,983 | 1,009,497 | 10,000 | 16,514 | - | 141,445 | 1,095,427 | 1,807,634 | 1,625,748 | 1,147,347 | 11,627,371 | 32,893 | 25,924,034 |
| Fund Equity: | | | | | | | | | | | | | | | |
| Fund balance: | | | | | | | | | | | | | | | |
| Reserved for encumbrances | 12,381,897 | 3,609,525 | 3,178,716 | 2,070,215 | - | 67,355 | 30,000 | 148,708 | 404,567 | - | 946,768 | 9,415,981 | 21,314,783 | - | 53,568,515 |
| Unreserved, undesignated (deficit) | 1,243,669 | (3,609,525) | (124,887) | (2,070,215) | 114,039 | 320,326 | 163,238 | 1,038,892 | (404,567) | - | (946,768) | 8,344,463 | 1,112,612 | 16,590,787 | 21,772,064 |
| Total fund equity | 13,625,566 | - | 3,053,829 | - | 114,039 | 387,681 | 193,238 | 1,187,600 | - | - | - | 17,760,444 | 22,427,395 | 16,590,787 | 75,340,579 |
| Total liabilities and fund equity | \$18,136,869 | \$ 1,843,872 | \$ 4,108,812 | \$ 1,009,497 | \$ 124,039 | \$ 404,195 | \$ 193,238 | \$ 1,329,045 | \$ 1,095,427 | \$ 1,807,634 | \$ 1,625,748 | \$ 18,907,791 | \$ 34,054,766 | \$ 16,623,680 | \$ 101,264,613 |

The accompanying notes are an integral part of this financial statement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Special Revenue Funds

Year Ended June 30, 2003

| | Local Government Road Fund | Federal Planning & Development Fund | Traffic Safety Fund | State Aviation Fund | Motor- cycle Training Fund | Driver Improvement Program Fund | DWI Prevention & Educa- tion Fund | Bond Project Fund (93 Bonds) | Bond Project Fund (WIPP Bonds) | Bond Project Fund (1998 & 1999 CHAT) | Bond Project Fund (2000 CHAT) | Bond Project Fund (2001 CHAT) | Bond Project Fund (2002A CHAT) | Bond Project Fund (2002D CHAT) | Total Nonmajor Special Revenue Funds |
|---|----------------------------------|--|---------------------------|---------------------------|-------------------------------------|--|--|---------------------------------------|---|---|--|--|---|---|---|
| Revenues: | | | | | | | | | | | | | | | |
| User and fuel taxes | \$19,681,990 | \$ - | \$ 1,648,195 | \$ 1,432,709 | \$ 62,734 | \$ 180,062 | \$ 48,668 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 23,074,358 |
| U.S. Department of Transportation | - | 6,684,098 | 3,991,432 | 357,630 | - | - | - | - | - | - | - | - | - | - | 11,033,160 |
| NM Department of Human Services | - | 1,034,173 | - | - | - | - | - | - | - | - | - | - | - | - | 1,034,173 |
| NM Department of Labor | - | 255,576 | - | - | - | - | - | - | - | - | - | - | - | - | 255,576 |
| Other revenues | 3,161 | - | - | 751 | - | - | - | - | - | - | - | - | - | - | 3,912 |
| Interest | 164,512 | - | 15,751 | - | 1,959 | - | - | 8,073 | 65,163 | 10,967 | 59,255 | 388,864 | 1,206,778 | 114,880 | 2,036,202 |
| | <u>19,849,663</u> | <u>7,973,847</u> | <u>5,655,378</u> | <u>1,811,090</u> | <u>64,693</u> | <u>180,062</u> | <u>48,668</u> | <u>8,073</u> | <u>65,163</u> | <u>10,967</u> | <u>59,255</u> | <u>388,864</u> | <u>1,206,778</u> | <u>114,880</u> | <u>37,437,381</u> |
| Current expenditures: | | | | | | | | | | | | | | | |
| Personal services | - | 64,701 | 196,260 | 284,766 | - | - | - | - | - | - | - | - | - | - | 545,727 |
| Employee benefits | - | 24,514 | 68,371 | 89,754 | - | - | - | - | - | - | - | - | - | - | 182,639 |
| Travel | - | 2,534 | 3,470 | 29,573 | - | - | - | - | - | - | - | - | - | - | 35,577 |
| Maintenance and repairs | - | 100 | - | 43,140 | - | - | - | - | - | - | - | - | - | - | 43,340 |
| Supplies | - | 3,620 | 5,001 | 21,178 | - | - | - | - | - | - | - | - | - | - | 29,799 |
| Contractual services | - | 122 | - | 661,671 | - | - | - | - | 1,359,693 | - | 4,068,352 | 21,425,214 | 77,080,719 | 223,591 | 104,819,362 |
| Operating costs | - | 10,231 | 2,641 | 78,967 | - | - | - | - | - | - | - | - | - | - | 91,839 |
| Grants and services | 19,685,727 | 8,394,970 | 4,525,388 | 1,345,380 | 120,000 | 181,581 | - | - | - | - | - | - | - | - | 34,253,246 |
| Other costs | - | 39,913 | 162,336 | - | - | - | - | - | - | 1,055,325 | 1,593,448 | - | - | - | 2,850,922 |
| Out-of-state travel | - | 7,369 | 16,706 | 15,108 | - | - | - | - | - | - | - | - | - | - | 39,183 |
| Total current expenditures | <u>19,685,727</u> | <u>8,548,074</u> | <u>4,980,273</u> | <u>2,569,537</u> | <u>120,000</u> | <u>181,581</u> | <u>-</u> | <u>-</u> | <u>1,359,693</u> | <u>1,055,325</u> | <u>5,661,800</u> | <u>21,425,214</u> | <u>77,080,719</u> | <u>223,591</u> | <u>142,891,534</u> |
| Capital outlay | - | 235,665 | 168,710 | - | - | - | - | - | - | - | - | - | - | - | 404,375 |
| Total expenditures | <u>19,685,727</u> | <u>8,783,739</u> | <u>5,148,983</u> | <u>2,569,537</u> | <u>120,000</u> | <u>181,581</u> | <u>-</u> | <u>-</u> | <u>1,359,693</u> | <u>1,055,325</u> | <u>5,661,800</u> | <u>21,425,214</u> | <u>77,080,719</u> | <u>223,591</u> | <u>143,295,909</u> |
| Excess (deficiency) of revenues over expenditures | <u>163,936</u> | <u>(809,892)</u> | <u>506,395</u> | <u>(758,447)</u> | <u>(55,307)</u> | <u>(1,519)</u> | <u>48,668</u> | <u>8,073</u> | <u>(1,294,530)</u> | <u>(1,044,358)</u> | <u>(5,602,545)</u> | <u>(21,036,350)</u> | <u>(75,873,941)</u> | <u>(108,711)</u> | <u>(105,858,528)</u> |
| Other financing sources (uses): | | | | | | | | | | | | | | | |
| Operating transfers - other funds | - | 563,270 | (662,637) | 758,447 | - | - | - | 808,332 | 1,093,745 | 1,044,358 | 645,582 | 1,907,507 | - | - | 6,158,604 |
| Highway debentures proceeds | - | - | - | - | - | - | - | - | - | - | - | - | - | 16,699,498 | 16,699,498 |
| Net other financing sources (uses) | <u>-</u> | <u>563,270</u> | <u>(662,637)</u> | <u>758,447</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>808,332</u> | <u>1,093,745</u> | <u>1,044,358</u> | <u>645,582</u> | <u>1,907,507</u> | <u>-</u> | <u>16,699,498</u> | <u>22,858,102</u> |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | <u>163,936</u> | <u>(246,622)</u> | <u>(156,242)</u> | <u>-</u> | <u>(55,307)</u> | <u>(1,519)</u> | <u>48,668</u> | <u>816,405</u> | <u>(200,785)</u> | <u>-</u> | <u>(4,956,963)</u> | <u>(19,128,843)</u> | <u>(75,873,941)</u> | <u>16,590,787</u> | <u>(83,000,426)</u> |
| Fund balance, beginning of year | <u>13,461,630</u> | <u>246,622</u> | <u>3,210,071</u> | <u>-</u> | <u>169,346</u> | <u>389,200</u> | <u>144,570</u> | <u>371,195</u> | <u>200,785</u> | <u>-</u> | <u>4,956,963</u> | <u>36,889,287</u> | <u>98,301,336</u> | <u>-</u> | <u>158,341,005</u> |
| Fund balance, end of year | <u>\$13,625,566</u> | <u>\$ -</u> | <u>\$ 3,053,829</u> | <u>\$ -</u> | <u>\$ 114,039</u> | <u>\$ 387,681</u> | <u>\$ 193,238</u> | <u>\$ 1,187,600</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$17,760,444</u> | <u>\$22,427,393</u> | <u>\$16,590,787</u> | <u>\$ 75,340,579</u> |

The accompanying notes are an integral part of this financial statement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

NONMAJOR DEBT SERVICE FUNDS

The Debt Service Funds account for the resources pledged to the repayment of the 1993, WIPP, and CHAT bond issues and the NMFA loan. The individual debt service funds were created as required by the applicable bond issues and NMFA loan agreement.

Debt Service – 1993 Bonds was created when the \$50,000,000 State of New Mexico Highway Debentures Series were issued in 1993. (CAS Fund #261)

Debt Service – WIPP Bonds was created when the \$100,000,000 New Mexico State Highway Commission Adjustable Tender Subordinate Lien Tax Revenue Highway Bonds were issued in December 1996 and subsequently refunded in January 2002 creating the 2002 WIPP Bonds and the \$100,000,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Highway Bond Series 1998B were issued in October 1998. (CAS Fund #211, 677 and 972)

Debt Service – 1998 CHAT Bonds – was created when the \$105,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 1998A were issued in October 1998. (CAS #548)

Debt Service – 1998 NMFA Loan – was created when the \$100,230,000 loan agreement with the New Mexico Finance Authority was signed in October 1998. There is no CAS number for this fund.

Debt Service – 1999 CHAT Bonds – was created when the \$100,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 1999 were issued in November 1999. (CAS #434)

Debt Service – 2000 CHAT Bonds – was created when the \$201,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2000A were issued in May 2000. (CAS #432)

Debt Service – 2001 CHAT Bonds – was created when the \$198,800,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2001A were issued in March 2001. (CAS #007)

Debt Service – 2001 NMFA Loan – was created when the \$18,535,000 loan agreement with the New Mexico Finance Authority was signed in March 2001. There is no CAS number for this fund.

Debt Service – 2002A CHAT Bonds – was created when the \$95,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bond Series 2002A were issued in January 2002. (CAS #547)

Debt Service – 2002B WIPP Bonds – was created when the \$79,920,000 New Mexico State Highway Commission Subordinate Lien Tax Revenue Bond Series 2002B were issued in January 2002. (CAS #750)

Debt Service – 2002C HIF Bonds – was created when the \$67,750,000 New Mexico State Highway Commission Infrastructure Fund Revenue Bond Series 2002C were issued in May 2002. (CAS #363)

Debt Service – 2002D CHAT – was created when the \$16,000,000 New Mexico State Highway Commission Senior Subordinate Lien Tax Revenue Bonds Series 2002D were issued in December 2002. (CAS #187)

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet
Nonmajor Debt Service Funds

June 30, 2003

| | Debt Service (1993 Bonds) | Debt Service (WIPP Bonds) | Debt Service (1998 CHAT) | Debt Service (1998 NMFA Loan) | Debt Service (1999 CHAT) | Debt Service (2000 CHAT) | Debt Service (2001 CHAT) | Debt Service (2001 NMFA Loan) | Debt Service (2002A CHAT) | Debt Service (2002B WIPP) | Debt Service (2002C HIF) | Debt Service (2002D CHAT) | Total Nonmajor Debt Service Funds |
|--|---------------------------------|---------------------------------|--------------------------------|-------------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------------|---------------------------------|---------------------------------|--------------------------------|---------------------------------|--|
| ASSETS | | | | | | | | | | | | | |
| Cash - Restricted | \$ 45,997 | \$ 59,791 | \$ 67,668 | \$ - | \$ 64,121 | \$ 95,445 | \$ 119,726 | \$ - | \$ 26,805 | \$ 49,633 | \$ 27,760 | \$ 3,749 | \$ 560,695 |
| Interest receivable | 1,740 | 2,222 | 2,694 | - | 2,623 | 3,931 | 4,782 | - | 1,098 | 2,131 | 1,158 | 388 | 22,767 |
| Due from other funds | 7,487 | 13,829 | - | - | - | - | - | - | - | - | - | - | 21,316 |
| Total assets | <u>\$ 55,224</u> | <u>\$ 75,842</u> | <u>\$ 70,362</u> | <u>\$ -</u> | <u>\$ 66,744</u> | <u>\$ 99,376</u> | <u>\$ 124,508</u> | <u>\$ -</u> | <u>\$ 27,903</u> | <u>\$ 51,764</u> | <u>\$ 28,918</u> | <u>\$ 4,137</u> | <u>\$ 604,778</u> |
| LIABILITIES & FUND EQUITY | | | | | | | | | | | | | |
| Liabilities: | | | | | | | | | | | | | |
| Other liabilities | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balance - Reserved for debt service | 55,224 | 75,842 | 70,362 | - | 66,744 | 99,376 | 124,508 | - | 27,903 | 51,764 | 28,918 | 4,137 | 604,778 |
| Total liabilities and fund equity | <u>\$ 55,224</u> | <u>\$ 75,842</u> | <u>\$ 70,362</u> | <u>\$ -</u> | <u>\$ 66,744</u> | <u>\$ 99,376</u> | <u>\$ 124,508</u> | <u>\$ -</u> | <u>\$ 27,903</u> | <u>\$ 51,764</u> | <u>\$ 28,918</u> | <u>\$ 4,137</u> | <u>\$ 604,778</u> |

The accompanying notes are an integral part of this financial statement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Debt Service Funds

Year Ended June 30, 2003

| | Debt Service (1993 Bonds) | Debt Service (WIPP Bonds) | Debt Service (1998 CHAT) | Debt Service (1998 NMFA Loan) | Debt Service (1999 CHAT) | Debt Service (2000 CHAT) | Debt Service (2001 CHAT) | Debt Service (2001 NMFA Loan) | Debt Service (2002A CHAT) | Debt Service (2002B WIPP) | Debt Service (2002C HIF) | Debt Service (2002D CHAT) | Total Nonmajor Debt Service Funds |
|--|---------------------------------|---------------------------------|--------------------------------|-------------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------------|---------------------------------|---------------------------------|--------------------------------|---------------------------------|--|
| Revenues: | | | | | | | | | | | | | |
| U.S. Department of Transportation | \$ - | \$ - | \$ - | \$ 9,407,336 | \$ - | \$ - | \$ - | \$ 1,461,870 | \$ - | \$ - | \$ - | \$ - | \$ 10,869,206 |
| Interest | 47,737 | 63,970 | 70,362 | - | 66,743 | 99,377 | 124,508 | - | 27,903 | 51,761 | 28,918 | 4,137 | 585,416 |
| Total revenues | 47,737 | 63,970 | 70,362 | 9,407,336 | 66,743 | 99,377 | 124,508 | 1,461,870 | 27,903 | 51,761 | 28,918 | 4,137 | 11,454,622 |
| Other expenditures: | | | | | | | | | | | | | |
| Debt service - principal | 5,925,000 | 6,080,000 | 8,195,000 | 5,050,000 | 7,740,000 | 9,940,000 | 12,960,000 | 705,000 | 2,000,000 | 6,725,000 | 3,130,000 | 1,330,000 | 69,780,000 |
| Debt service - interest | 260,700 | 3,883,958 | 3,637,008 | 4,357,336 | 4,629,131 | 10,728,188 | 10,017,798 | 855,674 | 4,957,250 | 3,643,625 | 3,371,657 | 322,855 | 50,665,180 |
| Total other expenditures | 6,185,700 | 9,963,958 | 11,832,008 | 9,407,336 | 12,369,131 | 20,668,188 | 22,977,798 | 1,560,674 | 6,957,250 | 10,368,625 | 6,501,657 | 1,652,855 | 120,445,180 |
| Excess (deficiency) of revenues over expenditures | (6,137,963) | (9,899,988) | (11,761,646) | - | (12,302,388) | (20,568,811) | (22,853,290) | (98,804) | (6,929,347) | (10,316,864) | (6,472,739) | (1,648,718) | (108,990,558) |
| Other financing sources | | | | | | | | | | | | | |
| Operating transfers - other funds | 5,377,369 | 8,825,785 | 11,098,175 | - | 11,908,338 | 20,099,295 | 22,842,278 | 98,804 | 6,794,936 | 10,340,173 | 6,501,657 | 1,652,855 | 105,539,665 |
| Total other financing sources | 5,377,369 | 8,825,785 | 11,098,175 | - | 11,908,338 | 20,099,295 | 22,842,278 | 98,804 | 6,794,936 | 10,340,173 | 6,501,657 | 1,652,855 | 105,539,665 |
| Excess of revenues and other financing sources over expenditures and other financing uses | (760,594) | (1,074,203) | (663,471) | - | (394,050) | (469,516) | (11,012) | - | (134,411) | 23,309 | 28,918 | 4,137 | (3,450,893) |
| Fund balance, beginning of year | 815,818 | 1,150,045 | 733,833 | - | 460,794 | 568,892 | 135,520 | - | 162,314 | 28,455 | - | - | 4,055,671 |
| Fund balance, end of year | \$ 55,224 | \$ 75,842 | \$ 70,362 | \$ - | \$ 66,744 | \$ 99,376 | \$ 124,508 | \$ - | \$ 27,903 | \$ 51,764 | \$ 28,918 | \$ 4,137 | \$ 604,778 |

The accompanying notes are an integral part of this financial statement.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Severance Tax Bonds

June 30, 2003

| Chapter | Laws | Bonds Appropriated | Bonds Sold | Funds Reauthorized | Funds Reverted | Bond Balance After Reauthorization | Art in Public Places | Amount Received | Expended to Date | Balance Available |
|---------|------|-----------------------|---------------------|-----------------------|-----------------------|--|----------------------------|---------------------|---------------------|----------------------|
| 118 | 1998 | \$ 3,895,000 | \$ 3,895,000 | \$ 100,000 | \$ (410,068) | \$ 3,584,932 | \$ - | \$ 3,418,310 | \$ 3,418,437 | \$ 166,495 |
| 7 | 1998 | 5,052,950 | 5,052,950 | - | (590,401) | 4,462,549 | - | 4,369,841 | 4,369,841 | 92,708 |
| 2 | 1999 | 5,973,321 | 5,973,321 | - | (11,243) | 5,962,078 | - | 4,642,869 | 4,890,123 | 1,071,955 |
| 23 | 2000 | 6,965,784 | 6,965,784 | - | (61,132) | 6,904,652 | - | 4,599,182 | 4,661,531 | 2,243,121 |
| 110 | 2002 | 9,467,100 | 9,342,100 | - | - | 9,342,100 | - | 1,895,637 | 2,467,789 | 6,874,311 |
| 429 | 2003 | 7,424,100 | - | - | - | - | - | - | - | - |
| | | <u>\$38,778,255</u> | <u>\$31,229,155</u> | <u>\$ 100,000</u> | <u>\$ (1,072,844)</u> | <u>\$ 30,256,311</u> | <u>\$ -</u> | <u>\$18,925,839</u> | <u>\$19,807,721</u> | <u>\$10,448,590</u> |

Note: The Department had outstanding requests for reimbursement with the State Board of Finance for expenditures incurred for the year ended June 30, 2003 as follows:

| | |
|---------------------------|-------------------|
| Chapter 118, Laws of 1998 | \$ 127 |
| Chapter 2, Laws of 1999 | 247,254 |
| Chapter 23, Laws of 2000 | 62,349 |
| Chapter 110, Laws of 2002 | <u>572,152</u> |
| | <u>\$ 881,882</u> |

SPECIAL APPROPRIATIONS

Special Revenue Fund

Under the Laws of 1991, Chapter 10, the Department was directed to expend \$250,000 from the State Road Fund to conduct a study of financing options and evaluation of environmental issues relating to a proposed rapid rail system.

Under the Laws of 1994, House Memorial 110, and Senate Memorial 130, the Department was directed to expend \$11,505,000 and \$11,278,000 respectively, from the State Road Fund for certain infrastructure improvements.

Under the Laws of 1995, House Memorial 38, the Department was directed to expend \$3,500,000 from the State Road Fund for certain infrastructure improvements.

Under the Laws of 1995, Senate Memorial 29, the Department was directed to expend \$3,000,000 from the State Road Fund for certain infrastructure projects.

Under the Laws of 2000, Chapter 23, the Department was appropriated \$2,577,500 from the State of New Mexico General Fund for certain infrastructure projects. Any unexpended or unencumbered balance remaining at the end of the 2005th fiscal year will revert to the State General Fund.

Under the Laws of 2001, Chapter 198, the Department was appropriated \$400,000 from the State of New Mexico General Fund for an air service assistance program. Any unexpended or unencumbered balance remaining at the end of the 2002nd fiscal year has reverted to the State General Fund.

Under the Laws of 2003, Chapter 134, the Department was appropriated \$975,500 from the State of New Mexico General Fund for certain infrastructure projects and improvements. Any unexpended or unencumbered balance remaining at the end of the 2008th fiscal year will revert to the State General Fund.

Capital Projects Fund

Under the Laws of 1998, Chapter 118, the Department was appropriated \$4,862,000 from the State Road Fund for various capital projects. Any unexpended or unencumbered balance remaining at the end of the 2000 through 2001st fiscal year depending on the applicable capital projects shall revert to the State Road Fund.

Under the Laws of 1998, Chapter 7, the Department was appropriated \$1,633,800 from the State Road Fund for various capital projects. Any unexpended or unencumbered balance remaining at the end of the 2002nd fiscal year has reverted to the State Road Fund.

Under the Laws of 1999, Chapter 2, the Department was appropriated \$2,043,000 from the State Road Fund for various capital projects. Any unexpended or unencumbered balance remaining at the end of the 2003rd fiscal year has reverted to the State Road Fund.

Under the Laws of 2000, Chapter 23, the Department was appropriated \$2,238,000 from the State Road Fund for various capital projects. Any unexpended or unencumbered balance remaining at the end of the 2004th fiscal year shall revert to the State Road Fund.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Special Appropriations

Year Ended June 30, 2003

| | Appropriation Amount | Expenditures Inception to 6/30/2003 | Encumbrance Balance as of 6/30/2003 | Reappropriation Amount | Reversion Amount | Balance as of 6/30/2003 |
|--|-------------------------|---|---|---------------------------|---------------------|----------------------------|
| <u>Special Revenue Funds</u> | | | | | | |
| Laws of 1991, Chapter 10 | \$ 250,000 | \$ - | \$ - | \$ - | \$ - | \$ 250,000 |
| * Laws of 1994, State House Memorial 110 | 11,505,000 | 9,220,584 | 80,442 | - | 2,111,207 | 92,767 |
| * Laws of 1994, Senate Memorial 130 | 11,278,000 | 9,153,504 | 90,000 | - | 1,944,496 | 90,000 |
| * Laws of 1995, State House Memorial 38 | 3,500,000 | 2,542,753 | 36,338 | - | 920,909 | - |
| * Laws of 1995, Senate Memorial 29 | 3,000,000 | 2,350,706 | 13,832 | - | 635,462 | - |
| Laws of 2000, Chapter 23 | 2,577,500 | 1,629,775 | 909,750 | - | 2,973 | 35,002 |
| Laws of 2001, Chapter 198 | 400,000 | 259,831 | 140,169 | - | - | - |
| Laws of 2003, Chapter 134 | 975,500 | - | - | - | - | 975,500 |
| Total Special Revenue Funds | <u>33,486,000</u> | <u>25,157,153</u> | <u>1,270,531</u> | <u>-</u> | <u>5,615,047</u> | <u>1,443,269</u> |
| <u>Capital Projects Funds</u> | | | | | | |
| Laws of 1998, Chapter 118 | 4,862,000 | 4,634,561 | 218,816 | - | 8,623 | - |
| Laws of 1998, Chapter 7 | 1,633,800 | 14,034,207 | 78,293 | 12,478,700 | - | - |
| Laws of 1999, Chapter 2 | 2,043,000 | 1,239,552 | 31,754 | - | 771,694 | - |
| Laws of 2000, Chapter 23 | 2,238,000 | 860,181 | 910,790 | - | - | 467,029 |
| Total Capital Projects Funds | <u>10,776,800</u> | <u>20,768,501</u> | <u>1,239,653</u> | <u>12,478,700</u> | <u>780,317</u> | <u>467,029</u> |
| Total all fund types | <u>\$ 44,262,800</u> | <u>\$ 45,925,654</u> | <u>\$ 2,510,184</u> | <u>\$ 12,478,700</u> | <u>\$ 6,395,364</u> | <u>\$ 1,910,298</u> |

* Note: State House and Senate Memorials are directions on how appropriated monies should be spent. They are not laws.

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Petty Cash Deposit Accounts

June 30, 2003

| <u>Name of Depository</u> | <u>Type</u> | Balance as of <u>June 30, 2003</u> |
|--------------------------------|-------------|--|
| Wells Fargo Bank (Deming) | Checking | \$ 500 |
| Wells Fargo Bank (Roswell) | Checking | 500 |
| Bank of The West (Albuquerque) | Checking | 500 |
| Bank of Las Vegas | Checking | 500 |
| Wells Fargo Bank (Santa Fe) | Checking | 500 |
| Wells Fargo Bank (Grants) | Checking | 500 |
| General Office (Santa Fe) | Cash Box | 100 |
| | | <u>\$ 3,100</u> |

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of State Road Fund User and Fuel Taxes

Year ended June 30, 2003

| | |
|--|-----------------------|
| Gasoline Tax | \$ 110,465,384 |
| Special Fuel Tax | 69,477,500 |
| Weight/Distance Tax | 51,393,758 |
| Vehicle Registration Fees | 43,993,240 |
| Drivers' License Fees | 4,541,929 |
| Leased Vehicle Gross Receipts Tax | 4,465,347 |
| Trip Tax | 4,348,061 |
| Public Regulation Commission Fees | 3,390,572 |
| Tire Recycling - Vehicle Registration Fees | 1,679,063 |
| Oversize/Overweight Permits | 1,139,695 |
| Vehicle Transaction Fees | 1,115,149 |
| Subtotal - Pledged Revenues | 296,009,698 |
| Miscellaneous Fees | 2,135,589 |
| Total User and Fuel Taxes (Exhibit 6) | <u>\$ 298,145,287</u> |

NEW MEXICO DEPARTMENT OF TRANSPORTATION

Supplemental Schedule of Debt Service and Coverage

June 30, 2003

| | 1993 BONDS | 1998-CHAT | 1998-WIPP | 1999 - CHAT | 2000 - CHAT | 2001 - CHAT | 2002A - CHAT | 2002B - WIPP | 2002C - HIF | 2002D - CHAT |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Gasoline Tax | \$ 110,465,384 | \$ 110,465,384 | \$ 110,465,384 | \$ 110,465,384 | \$ 110,465,384 | \$ 110,465,384 | \$ 110,465,384 | \$ 110,465,384 | \$ 110,465,384 | \$ 110,465,384 |
| Vehicle Registration Fees | 43,993,240 | 43,993,240 | 43,993,240 | 43,993,240 | 43,993,240 | 43,993,240 | 43,993,240 | 43,993,240 | 43,993,240 | 43,993,240 |
| Special Fuel Tax | - | 69,477,500 | 69,477,500 | 69,477,500 | 69,477,500 | 69,477,500 | 69,477,500 | 69,477,500 | 69,477,500 | 69,477,500 |
| Vehicle Transaction Fees | - | 1,115,149 | 1,115,149 | 1,115,149 | 1,115,149 | 1,115,149 | 1,115,149 | 1,115,149 | 1,115,149 | 1,115,149 |
| Driver's License Fees | - | 4,541,929 | 4,541,929 | 4,541,929 | 4,541,929 | 4,541,929 | 4,541,929 | 4,541,929 | 4,541,929 | 4,541,929 |
| Oversize/Oversight Permit | - | 1,139,695 | 1,139,695 | 1,139,695 | 1,139,695 | 1,139,695 | 1,139,695 | 1,139,695 | 1,139,695 | 1,139,695 |
| Public Regulation Commission Fees | - | 3,390,572 | 3,390,572 | 3,390,572 | 3,390,572 | 3,390,572 | - | - | 3,390,572 | 3,390,572 |
| Trip Tax | - | 4,348,061 | 4,348,061 | 4,348,061 | 4,348,061 | 4,348,061 | 4,348,061 | 4,348,061 | 4,348,061 | 4,348,061 |
| Weight/Distance Tax | - | 51,393,758 | 51,393,758 | 51,393,758 | 51,393,758 | 51,393,758 | 51,393,758 | 51,393,758 | 51,393,758 | 51,393,758 |
| Leased Vehicle Gross Receipts Tax | - | - | - | - | - | - | - | - | 4,465,347 | - |
| Tire Recycling - Vehicle Registration Fees | - | - | - | - | - | - | - | - | 1,679,063 | - |
| Subtotal | 154,458,624 | 289,865,288 | 289,865,288 | 289,865,288 | 289,865,288 | 289,865,288 | 286,474,716 | 286,474,716 | 296,009,698 | 289,865,288 |
| Interest on Cash Balances* | - | 508,717 | 508,717 | 508,717 | 508,717 | 508,717 | 508,717 | 508,717 | 114,609 | 508,717 |
| Total Pledged Revenues Received | \$ 154,458,624 | \$ 290,374,005 | \$ 290,374,005 | \$ 290,374,005 | \$ 290,374,005 | \$ 290,374,005 | \$ 286,983,433 | \$ 286,983,433 | \$ 296,124,307 | \$ 290,374,005 |
| | | | | | | | | | | |
| | 1993 BONDS | 1998-CHAT | 1998-WIPP | 1999 - CHAT | 2000 - CHAT | 2001 - CHAT | 2002 - CHAT | 2002 - WIPP | 2002 - HIF | 2002D - CHAT |
| Debt Service Principal Expenditures** | \$ 5,925,000 | \$ 8,195,000 | \$ 6,080,000 | \$ 7,740,000 | \$ 9,940,000 | \$ 12,960,000 | \$ 2,000,000 | \$ 6,725,000 | \$ 3,130,000 | \$ 1,330,000 |
| Debt Service Interest Expenditures** | 260,700 | 3,637,008 | 3,883,958 | 4,629,131 | 10,728,188 | 10,017,798 | 4,957,250 | 3,643,625 | 3,371,657 | 322,855 |
| Total Debt Service | \$ 6,185,700 | \$ 11,832,008 | \$ 9,963,958 | \$ 12,369,131 | \$ 20,668,188 | \$ 22,977,798 | \$ 6,957,250 | \$ 10,368,625 | \$ 6,501,657 | \$ 1,652,855 |
| | | | | | | | | | | |
| DEBT SERVICE COVERAGE | 24.97 | 24.54 | 29.14 | 23.48 | 14.05 | 12.64 | 41.25 | 27.68 | 45.55 | 175.68 |

*The interest excludes interest earned on the New Mexico Finance Authority Loan proceeds. The 2002 HIF Bonds only include interest paid into the Highway Infrastructure Fund.

**The 1998 and 2001 Finance Authority Loans are secured by federal revenues and are excluded from this schedule.

APPENDIX B

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE STATE

The following economic and demographic information is furnished for information only. The Bonds do, not constitute a general obligation or other indebtedness of the State, the NMFA, the Commission, the Department or any governmental unit within the meaning of any constitutional or statutory debt limitation and are special obligations of NMFA payable solely from the Pledged Revenues. THE NMFA HAS NO TAXING POWERS. The principal of and interest and premium, if any, on the 2004 Subordinate Lien Bonds do not constitute or give rise to a pecuniary liability on the part of the directors and officers of the NMFA. No breach of any pledge, obligation or agreement of the NMFA will impose a pecuniary liability or a charge upon the general credit or taxing power of the State, the NMFA, the Commission, the Department or any political subdivision of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2004 SUBORDINATE LIEN BONDS."

Generally

The State of New Mexico (the "State") was admitted as the forty-seventh state on January 6, 1912. It is the fifth largest state, containing approximately 121,593 square miles.

The State's climate is characterized by sunshine and warm, bright skies in both winter and summer. Every part of the State receives no less than 70% sunshine year-round. Humidity ranges from 60% (mornings) to 30% (afternoons). Evenings are crisp and cool in all seasons because of the low humidity.

The State has a semiarid subtropical climate with light precipitation. Thunderstorms in July and August bring most of the moisture to the State. December to March snowfalls vary from 2 inches (lower Rio Grande Valley) to 300 inches (north central mountains).

Governmental Organization

The State's government consists of the three branches characteristic of the American political system: executive, legislative and judicial. The executive branch is headed by a governor, who is elected for a four-year term. A governor may succeed himself in office only once. Following a reorganization plan implemented in 1978 to reduce and consolidate some 390 agencies, boards and commissions, the primary functions of the executive branch are now carried out by seventeen cabinet departments, each headed by a cabinet secretary appointed by the Governor.

The State Legislature consists of 112 members and is divided into a Senate and a House of Representatives. Senators are elected to four-year terms, and members of the House to two-year terms. The State Legislature convenes in regular session annually on the third Tuesday in January. Regular sessions are constitutionally limited in length to sixty calendar days in odd-numbered years and thirty calendar days in even-numbered years. In addition, special sessions of the State Legislature maybe convened by the Governor and, under certain limited circumstances, extraordinary sessions may be convened by the legislators. Legislators receive no salary, but do receive per diem and mileage allowances while in session or on official State business.

The judicial branch is composed of a statewide system of Magistrate and District Courts, the Court of Appeals and the Supreme Court. The District Court is the trial court of record with general jurisdiction.

Economic and Demographic Information

New Mexico is the 36th largest state by population and the fifth largest in land area. The population of the State as of the time of the official 2000 United States Census was 1,819,046. In the 1990's, the State was the 12th fastest growing state, as the population increased 20.1 percent from the 1990 population of 1,515,069. Over the same period of time, the national population grew 13.2 percent.

Most of this population growth is occurring in or near the large cities. There are three Metropolitan Statistical Areas (“MSAs”) in the state. The Albuquerque MSA is comprised of Bernalillo, Sandoval and Valencia Counties; the Las Cruces MSA is in Doña Ana County; and the Santa Fe MSA includes Los Alamos and Santa Fe Counties. The fastest growing counties in the state are Torrance, Valencia, Sandoval, Lincoln, Luna and Doña Ana.

Major industries in the State are energy resources, semi-conductor manufacturing, tourism, services, arts and crafts, agriculture-agribusiness, government, manufacturing, and mining. In Fiscal Year 2001, the value of energy resources production (crude petroleum, natural gas and coal) was approximately \$10.6 billion. Major federally funded scientific research facilities at Los Alamos, Albuquerque and White Sands are also a notable part of the State’s economy. The following table presents data on employment for the State by industry compiled by the New Mexico Department of Labor for the first quarter of 2003.

**Employment by Industry Group
First Quarter, 2003**

| <u>Industry</u> | <u>Employment</u> |
|--|--------------------------|
| Agriculture, Forestry, Fishing & Hunting | 9,707 |
| Mining | 13,815 |
| Utilities | 5,983 |
| Construction | 48,204 |
| Manufacturing | 36,282 |
| Wholesale Trade | 22,247 |
| Retail Trade | 89,893 |
| Transportation and Warehousing | 22,956 |
| Information | 17,573 |
| Finance and Insurance | 22,412 |
| Real Estate and Rental and Leasing | 10,540 |
| Professional and Technical Services | 41,496 |
| Management of Companies and Enterprises | 5,164 |
| Administrative and Waste Services | 44,718 |
| Educational Services | 77,030 |
| Health Care and Social Assistance | 97,956 |
| Arts, Entertainment and Recreation | 17,452 |
| Accommodation and Food Services | 72,538 |
| Other Services, Except Public Administration | 20,768 |
| Government and Government Enterprises | 55,927 |

State of New Mexico
Wages and Salaries by Industry Sector, 2001-2002
(thousands of dollars)

| | <u>New Mexico</u> | | <u>United States</u> | |
|---|-----------------------------|-----------------------------|-------------------------------|-------------------------------|
| | <u>2002</u> | <u>2001</u> | <u>2002</u> | <u>2001</u> |
| Farm Total | \$ 194,395 | \$ 182,136 | \$ 19,631,005 | \$ 18,393,000 |
| Non Farm Private | | | | |
| Forestry, Fishing, Related Activities & Other | 65,302 | 58,034 | 13,856,755 | 12,842,000 |
| Mining | 674,800 | 737,271 | 31,019,757 | 32,427,000 |
| Utilities | 217,184 | 230,642 | 40,197,757 | 39,647,000 |
| Construction | 1,456,455 | 1,510,075 | 276,883,002 | 276,316,000 |
| Manufacturing | 1,463,157 | 1,578,293 | 676,774,514 | 710,537,000 |
| Wholesale Trade | 861,993 | 838,244 | 281,930,007 | 285,057,000 |
| Retail Trade | 1,972,828 | 1,925,384 | 360,991,760 | 356,105,000 |
| Transportation and Warehousing | 679,260 | 657,606 | 163,511,767 | 165,916,000 |
| Information | 544,864 | 568,497 | 191,685,258 | 209,122,000 |
| Finance and Insurance | 865,333 | 819,338 | 371,872,003 | 375,226,000 |
| Real Estate and Rental and Leasing | 317,103 | 254,904 | 72,539,004 | 70,568,000 |
| Professional and Technical Services | 2,171,318 | 2,081,419 | 417,234,756 | 431,297,000 |
| Management of Companies and Enterprises | 239,706 | 244,489 | 118,525,005 | 120,940,000 |
| Administrative and Waste Services | 1,051,048 | 1,011,363 | 199,546,007 | 196,738,000 |
| Educational Services | 200,853 | 193,847 | 73,345,005 | 68,473,000 |
| Health Care and Social Assistance | 2,347,656 | 2,086,601 | 480,147,756 | 448,149,000 |
| Arts, Entertainment and Recreation | 126,709 | 121,818 | 49,223,756 | 47,390,000 |
| Accommodation and Food Services | 870,774 | 827,541 | 148,289,007 | 144,057,000 |
| Other Services, Except Public Administration | 614,791 | 596,075 | 139,063,753 | 138,002,000 |
| Government and Government Enterprises | 7,060,720 | 6,514,529 | 842,085,775 | 800,148,000 |
| Non Farm Private Total | (not available) | 22,855,970 | (not available) | 4,928,957,000 |
| TOTAL | <u>\$ 23,996,249</u> | <u>\$ 23,038,106</u> | <u>\$4,968,353,409</u> | <u>\$4,947,350,000</u> |

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

State of New Mexico
Civilian Labor Force, Employment and Unemployment
in New Mexico and the United States, 1993-2002

| <u>Year</u> | <u>Civilian Labor Force (000)</u> | | <u>Number Employed (000)</u> | | <u>Unemployment Rate</u> | | |
|-------------|---------------------------------------|-------------|----------------------------------|-------------|--------------------------|-------------|-----------------------------------|
| | <u>N.M.</u> | <u>U.S.</u> | <u>N.M.</u> | <u>U.S.</u> | <u>N.M.</u> | <u>U.S.</u> | <u>N.M. as % of U.S. Rate</u> |
| 1993 | 756 | 129,200 | 698 | 120,259 | 7.7% | 6.9% | 112% |
| 1994 | 778 | 131,056 | 729 | 123,060 | 6.3% | 6.1% | 103% |
| 1995 | 791 | 132,304 | 741 | 124,900 | 6.3% | 5.6% | 113% |
| 1996 | 798 | 133,943 | 734 | 126,708 | 8.1% | 5.4% | 150% |
| 1997 | 814 | 136,297 | 763 | 129,558 | 6.3% | 4.9% | 129% |
| 1998 | 831 | 137,673 | 780 | 131,463 | 6.2% | 4.5% | 138% |
| 1999 | 809 | 139,368 | 764 | 133,488 | 5.6% | 4.2% | 133% |
| 2000 | 855 | 142,583 | 812 | 136,891 | 5.0% | 4.0% | 123% |
| 2001 | 861 | 143,739 | 819 | 136,933 | 4.8% | 4.7% | 102% |
| 2002 | 877 | 144,863 | 829 | 136,485 | 5.4% | 5.8% | 93% |

Source: New Mexico Department of Labor, Bureau of Labor Statistics

State of New Mexico
Per Capita Personal Income in New Mexico and the U.S., 1993-2002

| <u>Year</u> | <u>Per Capita Income</u> | | | <u>Annual % Change</u> | |
|-------------|--------------------------|-------------|------------------------|------------------------|-------------|
| | <u>New Mexico</u> | <u>U.S.</u> | <u>NM as % of U.S.</u> | <u>New Mexico</u> | <u>U.S.</u> |
| 1993 | \$16,999 | \$21,539 | 79% | 4.5% | 2.8% |
| 1994 | 17,636 | 22,340 | 79% | 3.7% | 3.7% |
| 1995 | 18,435 | 23,255 | 79% | 4.5% | 4.1% |
| 1996 | 18,964 | 24,470 | 78% | 2.9% | 4.4% |
| 1997 | 19,641 | 25,412 | 77% | 3.6% | 4.7% |
| 1998 | 20,551 | 26,893 | 76% | 4.6% | 5.8% |
| 1999 | 20,949 | 27,843 | 75% | 1.9% | 3.5% |
| 2000 | 21,931 | 29,469 | 74% | 4.7% | 5.8% |
| 2001 | 23,162 | 30,271 | 77% | 5.6% | 2.7% |
| 2002 | 23,908 | 30,832 | 75% | 3.2% | 1.9% |

Source: U.S. Department of Commerce, Bureau of Economic Analysis

APPENDIX C

EXTRACTS OF CERTAIN PROVISIONS OF THE INDENTURE

The following contains extracts of certain provisions and definitions contained in the Indenture and is not to be considered as a full statement thereof. Reference is made to the Indenture for full detail thereof.

Certain Definitions:

“Account” or “Accounts” means one or more of the separate accounts which are established within Funds created pursuant to the Master Indenture.

“Accountant’s Certificate” means an opinion signed by a certified public accountant or firm of such accountants duly licensed to practice and practicing as such under the laws of the State, selected by the Authority, who is independent and not under the domination of the Authority, who does not have any substantial interest, direct or indirect, in the Authority, but who may be regularly retained to make annual or other audits of the books or records of the Authority.

“Acquisition Fund” means the Fund so designated which is created by the Master Indenture.

“Act” means, collectively, Sections 6-18-1 *et seq.*, NMSA 1978, as amended and supplemented, Sections 6-21-1 *et seq.*, NMSA 1978, as amended and supplemented, and Chapter 3, Laws of New Mexico, 2003 (1st Special Session) (compiled in part as Sections 67-3-59.2, 67-3-59.3 and 67-3-65.1, NMSA 1978).

“Additional Highway Bonds” means bonds, debentures or other obligations issued by the Commission pursuant to 67-3-59.1, NMSA 1978 in an outstanding amount at any one time not to exceed \$50,000,000, which may be payable from (1) Federal Revenues and (2) State Revenues (other than moneys paid into the Highway Infrastructure Fund), which Additional Highway Bonds are to be issued with a lien on the revenues described in (1) and (2) on a parity with the lien thereon of the Subordinate Lien Obligations.

“Authority” means the New Mexico Finance Authority, a public body politic and corporate, separate and apart from the State, constituting a governmental instrumentality and created by Sections 6-21-1 through 6-21-31, NMSA 1978, as amended and supplemented, and any successor to its functions and duties.

“Authority Certificate,” “Authority Order” or “Authority Request” means, respectively, a written certificate, order or request signed in the name of the Authority by an Authorized Officer and delivered to the Trustee, which certificate, order or request shall recite and certify that it is in compliance with the Master Indenture.

“Authority Exchange Payment” means a payment required to be made by or on behalf of the Authority due to a Qualified Counterparty pursuant to a Qualified Exchange Agreement, including Exchange Termination Payments unless otherwise provided in the Master Indenture (which payments, other than Exchange Termination Payments, may be made net of Qualified Counterparty Payments).

“Authorized Denomination” means, with respect to a Series, the denominations of principal amount authorized for such Series in the applicable Series Indenture.

“Authorized Officer” means the Chair of the Board, the Vice Chair of the Board, the Secretary of the Board, the Executive Director of the Authority, the Chief Financial Officer of the Authority, or other person designated in writing by any of the above-listed officers to the Trustee, which writing may limit the functions which such other person may undertake as an Authorized Officer hereunder.

“BMA Index” means the Bond Market Association Municipal Swap Index as released to subscribers thereof.

“Board” means the Board of Directors of the Authority.

“Bond Counsel” means nationally recognized bond counsel in the field of law relating to municipal, state and public agency financing, satisfactory to the Trustee, and listed in the list of municipal bond attorneys, as published semiannually by The Bond Buyer, or any successor publication.

“Bond” or “Bonds” means Senior Lien Bonds, Subordinate Lien Bonds and, Junior Subordinate Lien Bonds issued by the Authority under and at any time Outstanding pursuant to the Master Indenture.

“Business Day” means a day of the year on which banks located in the city (i) in which the office of the Trustee located at the address specified in the Master Indenture is located or (ii) in which the office of a Liquidity Facility Provider is located, are not required or authorized to remain closed, and on which The New York Stock Exchange is not closed.

“Closed Lien Obligations” means, at any time, the remaining outstanding (i) Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1998A, initially issued in the aggregate principal amount of \$105,000,000; (ii) Subordinate Lien Tax Revenue Highway Bonds, Series 1998B, initially issued in the aggregate principal amount of \$100,000,000; (iii) Senior Subordinate Lien Tax Revenue Highway Bonds, Series 1999, initially issued in the aggregate principal amount of \$100,000,000; (iv) Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2000A, initially issued in the aggregate principal amount of \$201,200,000; (v) Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2001A, initially issued in the aggregate principal amount of \$198,800,000; (vi) Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002A, Bonds initially issued in the aggregate principal amount of \$95,000,000; (vii) Subordinate Lien Tax Revenue Highway Bonds, Series 2002B, initially issued in the aggregate principal amount of \$79,920,000; (viii) Highway Infrastructure Fund Revenue Bonds (additionally secured by a Senior Subordinate Lien on certain State Road Fund Revenues), Series 2002C, initially issued in the aggregate principal amount of \$67,750,000; and (ix) Senior Subordinate Lien Tax Revenue Highway Bonds, Series 2002D, initially issued in the aggregate principal amount of \$16,000,000, all payable from and secured by a pledge of certain State Revenues and previously issued by the Commission.

“Code” means the Internal Revenue Code of 1986, as amended, with respect to a Series, to the date of initial issuance of such Series, and the regulations thereunder.

“Commission” means the New Mexico State Transportation Commission created and existing under Article V, Section 14 of the State Constitution, as amended.

“Confirmation” means a letter from each Rating Agency then rating a Series confirming that the action proposed to be taken by the Authority or the Commission will not, in and of itself, result in a lowering, suspension or withdrawal of the ratings then applicable to any Bonds.

“Costs of Issuance” means all items of expense, directly or indirectly payable or reimbursable by or to the Authority or the Commission and related to the authorization, sale and issuance of Obligations, including but not limited to underwriters’ compensation on such Bonds, initial fees and expenses due to any Qualified Counterparty, Credit Facility Provider or Liquidity Facility Provider, printing costs, costs of preparation and reproduction of documents, filing fees, initial fees and charges of the Fiduciaries and other private parties performing services for the Authority or the Commission or under the Master Indenture in connection with the issuance or payment of Obligations, any initial credit enhancement fees, legal fees and charges, fees and disbursements of underwriters, financial advisors, consultants and professionals, costs of credit ratings, fees and charges for preparation and execution of Obligations, financing charges, accrued interest with respect to the initial investment of proceeds of Obligations, other costs incurred by the Authority or the Commission in anticipation of the issuance of Obligations, and any other cost, charge or fee in connection with the issuance of the Obligations.

“Counsel” means a person, or firm of which such a person is a member, authorized in any state to practice law.

“Counterparty Payments” means any payment to be made to, or for the benefit of, the Authority under a Qualified Exchange Agreement (which payment, other than Exchange Termination Payments, may be made net of Authority Exchange Payments).

“Credit Enhancement Facility” means an insurance policy insuring, or a letter of credit or surety bond providing a direct or indirect source of funds for, the timely payment of principal of and interest on the Bonds of a Series or any portion thereof, as shall be designated pursuant to a Series Indenture with respect to such Series.

“Credit Facility Provider” means a commercial bank or other Person providing a Credit Enhancement Facility pursuant to any Series Indenture with respect to a Series.

“Debt Service” means, with respect to any particular Fiscal Year and any particular Series, an amount equal to the sum of all interest payable on such Bonds and any Principal Installment in respect of such Bonds which shall be due and payable at any time from the second day of such Fiscal Year to the first day of the ensuing Fiscal Year, inclusive.

“Debt Service Fund” means the Fund so designated which is created pursuant to the Master Indenture.

“Debt Service Requirements” means, for any period, the sum of: (i) the amount required to pay the interest, or to make reimbursements for payments of interest, becoming due on the applicable Obligations, Closed Lien Obligations and Additional Highway Bonds during such period; *plus* (ii) the amount required to pay the principal or accreted value, or to make reimbursements for the payment of principal or accreted value, becoming due on the applicable Obligations, Closed Lien Obligations and Additional Highway Bonds during that period, whether at maturity, an accretion term date, or upon mandatory sinking fund redemption dates; *plus* (iii) any net periodic payments required to be made by the Authority pursuant to a Qualified Exchange Agreement; *minus* (iv) any net periodic payments to be received by the Authority pursuant to a Qualified Exchange Agreement subject to the following limitations.

(a) Except as otherwise provided in subsection (b)(2) below, no payments required on Obligations which may occur because of the exercise of an option by the Authority, or which may otherwise become due by reason of any other circumstance or contingency, which constitute other than regularly scheduled payments of principal, accreted value, interest, or other regularly scheduled payments on Obligations shall be included in any computation of Debt Service Requirements for any computation period prior to the maturity or otherwise certain due dates thereof.

(b) (1) Debt Service Requirements required to be made pursuant to a Qualified Exchange Agreement shall be based upon the actual amount required to be paid by the Authority, if any, to the Qualified Counterparty. In determining that amount, any payments required to be made by either party pursuant to the Qualified Exchange Agreement at a variable interest rate shall be computed, in determining the obligation of the Authority under the Qualified Exchange Agreement, using the procedures set forth in paragraph (f) of this definition.

(2) Exchange Termination Payments payable by the Authority shall be considered as part of Debt Service Requirements on the date of computation only if those Exchange Termination Payments have become due and remain unpaid at the time of computation in accordance with the terms of the applicable Qualified Exchange Agreement.

(c) Unless, at the time of computation of Debt Service Requirements, Repayment Obligations are owed to, or Obligations are owned or held by, a Credit Facility Provider, a Liquidity Facility Provider or Reserve Alternative Instrument Provider, pursuant to the provisions of the related instruments, the computation of interest for the purposes of this definition shall be made without considering the interest rate payable pursuant to a Credit Facility, Liquidity Facility or Reserve Alternative Instrument.

(d) For the purpose of the definition of Debt Service Requirements, the accreted value of capital appreciation bonds shall be included in the calculation of interest and principal only for the applicable year during which the accreted value becomes payable.

(e) In the computation of Debt Service Requirements relating to the issuance of additional Obligations as set forth in the Master Indenture, there shall be deducted from that computation amounts and investments which

are irrevocably committed to make designated payments on Obligations and Additional Highway Bonds included as part of the computation during the applicable period, including, without limitation: (i) money on deposit in any debt service account, (ii) amounts on deposit in an escrow account, (iii) amounts deposited to the credit of an account for the payment of capitalized interest on Obligations and Additional Highway Bonds included as part of the computation, and (iv) money on deposit in an Account of Debt Service Reserve which may be used for payment of the final principal maturity of the Obligations secured by such Account in the Debt Service Reserve Fund.

(f) To determine Debt Service Requirements for Obligations and Additional Highway Bonds with a variable interest rate, the Authority shall use the procedures set forth in the following paragraphs to determine the amount of interest or other payments to be paid by the Authority on those Obligations and Additional Highway Bonds and the amount of credit against Debt Service Requirements for payments to be received by the Authority based upon variable interest rates to be made by a Qualified Counterparty or otherwise.

(1) Prospective computations of variable interest rates on Obligations and Additional Highway Bonds, other than a Qualified Exchange Agreement, shall be made on the assumption that the applicable Obligations and Additional Highway Bonds bear interest at a fixed annual rate equal to the average of the BMA Index during the five (5) year period, next preceding a date which is no more than 60 days prior to the date of the issuance of the additional Obligations and Additional Highway Bonds, as certified in writing by the Authority's financial advisor, an investment banker designated by the Authority from time to time, or a Qualified Counterparty.

(2) Prospective computations of variable interest rates for a Qualified Exchange Agreement shall be based upon:

(A) the average interest rate used to compute the net amounts paid over the most recent 12-month period ending on the date of computation by the Authority to the Qualified Counterparty or (expressed as a negative number) by the Qualified Counterparty to the Authority, or

(B) if no such payment has been made under the pertinent Qualified Exchange Agreement, the interest rate used to determine the estimated initial net payment obligation on such Qualified Exchange Agreement on the computation date as certified by the Authority's financial advisor, an investment banker, designated by the Authority from time to time or a Qualified Counterparty.

(g) The purchase or tender price of Obligations and Additional Highway Bonds resulting from the optional or mandatory tender or presentment for purchase of those Obligations and Additional Highway Bonds shall not be included in any computation of Debt Service Requirements.

"Debt Service Reserve Fund" means the Fund so designated which is created pursuant to the Master Indenture.

"Debt Service Reserve Requirement" means, as of any particular date of calculation, the amount, if any, established for a Series of Outstanding Senior Lien Bonds, Subordinate Lien Bonds or Junior Subordinate Lien Bonds in the applicable Series Indentures. The Debt Service Reserve Requirement may be composed of cash, Investment Securities or Reserve Alternative Instruments or any combination of the foregoing, as the Authority may from time to time determine.

"Defaulted Interest" has the meaning set forth in Section 301 of the Master Indenture.

"Department" means the New Mexico Department of Transportation established as a department of State government within the executive branch pursuant to Section 67-3-6, NMSA 1978, as amended and supplemented.

“Depository” means any bank, trust company or national banking association selected by the Authority or the Trustee as a depository of moneys or Investment Securities held under the provisions of the Master Indenture and may include the Trustee or any Paying Agent.

“Event of Default” means any of the events of default described in Section 801 of the Master Indenture.

“Exchange Termination Payment” means the amount payable pursuant to a Qualified Exchange Agreement by the Authority or a Qualified Counterparty for the early termination of the obligations, in whole or in part, of the parties to that Qualified Exchange Agreement.

“Federal Revenues” means proceeds from federal aid revenues received by or on behalf of, or available to the Department pursuant to Title 23 of the United States Code or other federal law, not otherwise obligated by federal or state law that are paid into the State Road Fund or as may be authorized or permitted by federal or state law to be pledged for payment of Obligations and are so pledged by the Authority or as security for Obligations pursuant to a Supplemental Indenture.

“Fiduciary” or “Fiduciaries” means the Trustee and any successor, any Depository, any Paying Agent, auction agent, remarketing agent, escrow agent, or similar agent or any of or all of them, as may be appropriate.

“Fiscal Year” means the period from July 1 in any calendar year to June 30 in the following calendar year, both inclusive, or such other fiscal year of the Authority as may be established from time to time.

“Fund” or “Funds” means one or more of the special trust funds which are created pursuant to the Master Indenture.

“Governmental Obligations” means direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America.

“Highway Infrastructure Fund” means the fund created in the state treasury and administered by the Department pursuant to Section 67-3-59.2, NMSA 1978, as amended and supplemented.

“Indenture” means, collectively, the Master Indenture, Supplemental Indentures and Series Indentures entered into in accordance with the terms of the Master Indenture.

“Interest Account” means the account so established within the Debt Service Fund by the Master Indenture.

“Interest Payment Date” means any date upon which interest on the Bonds of any Series shall be payable as specified in the applicable Series Indenture.

“Investment Securities” means the following, to the extent permitted by State law:

- (a) Governmental Obligations;
- (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies, provided that such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):
 - (i) *Farmers Home Administration (FMHA) Certificates of Ownership;*
 - (ii) *Federal Housing Administration (FHA) Debentures;*
 - (iii) *General Services Administration Participation certificates;*

- (iv) *Government National Mortgage Association (GNMA or “Ginnie Mae”)*
GNMA-guaranteed mortgage-backed bonds
GNMA-guaranteed pass-through obligations (participation certificates);
 - (v) *U.S. Maritime Administration* Guaranteed Title XI financing;
 - (vi) *U.S. Department of Housing and Urban Development (HUD)* Project Notes Local Authority Bonds;
 - (vii) *Tennessee Valley Authority (TVA)* Debentures;
- (c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):
- (i) *Federal Home Loan Bank System* Senior debt obligations (Consolidated debt obligations);
 - (ii) *Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)* rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s
Participation Certificates (Mortgage-backed securities)
Senior debt obligations;
 - (iii) *Federal National Mortgage Association (FNMA or “Fannie Mae”)* rated “AAA” by Standard & Poor’s and “Aaa” by Moody’s
Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal);
 - (iv) *Student Loan Market Association (SLMA or Sallie Mae)* Senior debt obligations;
 - (v) *Resolution Funding Corp. (REFCORP)* Only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable;
 - (vi) *Farm Credit System* Consolidated system-wide bonds and notes;
- (d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAAm” or “Aam” or by Moody’s of “Aaa”, including funds from which the Trustee or its affiliates receive fees for investment advisory or other services to such funds;
- (e) Certificates of deposit (“CD”) secured at all times by collateral described in (a) and/or (b) above. CD’s must have a one-year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated “A-1+” or better by S&P, and “Prime-1” or better by Moody’s. The collateral must be held by a third party and the third party must have a perfected first security interest in the collateral;
- (f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BID and SAIF;

(g) Commercial paper rated “Prime-1” by Moody’s and “A-1+” or better by S&P and which matures not more than 270 days after the date of purchase;

(h) Bonds or notes issued by any municipality which are rated by Moody’s and S&P in the highest long-term rating category assigned by such agencies.

(i) Federal funds or bankers’ acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime-1” by Moody’s and “A-1+” by SAP;

(j) Repurchase agreements (excluding term purchase agreements) involving the purchase and sale of securities described in parts (a) and (b) of this definition, the par value of which is collateralized by a perfected first pledge of, or security interest in, or the payments of which are unconditionally guaranteed by, securities described in parts (a), and (b), and (c) of this definition, which collateral is held by the Trustee, or for the benefit of the Trustee, by a party other than the provider of the repurchase agreement, with a collateral value of at least 102% of the par value of such repurchase agreement or 102% of the market value thereof, valued at intervals of no less than monthly and which collateral is not subject to any other pledge or security interest;

(k) Investment contracts with providers, the long term, unsecured debt obligations of which are rated in one of the top two Rating Categories by a Rating Agency, the par value of which is collateralized by a perfected first pledge of, or security interest in, or the payments of which are unconditionally guaranteed by, securities described in parts (a), and (b) of this definition, which collateral is held by the Trustee, or for the benefit of the Trustee, by a party other than the provider of the guaranteed investment contract, with a collateralized value of at least 102% of the par value of such guaranteed investment contract or 102% of the market value thereof, valued at intervals of no less than monthly and which collateral is not subject to any other pledge or security interest;

(l) Forward supply or forward delivery agreements with providers the long term unsecured debt obligations of which are rated in one of the top two Rating Categories by a Rating Agency, for delivery at specified future dates and at specified prices of the securities described in parts (a), (b), (c) or (g) of this definition; and

(m) The State Treasurer’s short-term investment fund created pursuant to Section 6-10-10.1, NMSA 1978, maintained and invested by the State Treasurer;

provided, that it is expressly understood that the definition of Investment Securities shall be, and is deemed to be, expanded, or new definitions and related provisions shall be added to the Indenture, thus permitting investments with different characteristics from those permitted which the Authority deems from time to time to be in the interest of the Authority to include as Investment Securities if, at the time of inclusion, the Trustee shall have received a Confirmation from the Rating Agencies that such inclusion will not, in and of itself, impair, or cause any of the Bonds to fail to retain, the then existing rating assigned to them by the Rating Agencies.

“ISDA Master Agreement” means the 1992 ISDA Master Agreement (Multicurrency–Cross Border), and any successor thereto and as in effect with respect to any Qualified Exchange Agreement.

“Junior Subordinate Lien Bonds” means Bonds issued by the Authority with a lien on the Trust Estate subordinate to the lien thereon of Senior Lien Bonds and Subordinate Lien Bonds (but not an exclusive junior subordinate lien) and so designated in the applicable Series Indenture authorizing such Junior Subordinate Lien Bonds.

“Junior Subordinate Lien Obligations” means Junior Subordinate Lien Bonds and any Qualified Exchange Agreement the priority of payment from the Trust Estate of which is equal with that of Junior Subordinate Lien Bonds.

“Liquidity Facility” means a standby bond purchase agreement, letter of credit or other agreement providing liquidity with respect to any Series or portion thereof for the Authority’s obligation to repurchase Bonds subject to remarketing which have not been remarketed, as shall be designated pursuant to a Series Indenture with respect to such Series.

“Liquidity Facility Provider” means a commercial bank or other Person providing a Liquidity Facility pursuant to any Series Indenture with respect to a Series.

“Mandatory Sinking Fund Installment” means the principal amount of Bonds of all Series which pursuant to the applicable Series Indentures the Authority is unconditionally required (except as provided in the Master Indenture) to redeem on any particular date (such that failure to redeem such principal amount is, regardless of the availability of moneys therefor, an Event of Default).

“Master Indenture” means the Master Indenture of Trust as supplemented or amended by each Supplemental Indenture entered into in accordance with the terms thereof.

“Moody’s” means Moody’s Investors, or any successor thereto; provided, that if such Rating Agency shall no longer have outstanding any rating assigned to any of the Bonds, any provision in the Master Indenture referring to Moody’s shall be of no further force and effect.

“Obligations” means, collectively, the Senior Lien Bonds, the Subordinate Lien Obligations, and the Junior Subordinate Lien Obligations.

“Outstanding,” when used with respect to a Qualified Exchange Agreement, means a Qualified Exchange Agreement which has not expired, been terminated or been deemed paid in accordance with the provisions of the Master Indenture, and when used with reference to any Bonds, means, as of any date, all Bonds theretofore or then being authenticated and delivered under the Master Indenture except:

(a) any Bonds cancelled by, or delivered for cancellation to, the Trustee because of payment at maturity or redemption or purchase prior to maturity;

(b) Bonds (or portions thereof) deemed paid in accordance with the provisions of the Master Indenture; and

(c) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Master Indenture.

“Owner” means (i) with respect to a Bond, the registered owner of such Bond, and (ii) with respect to a Qualified Exchange Agreement, any Qualified Counterparty, unless the context otherwise requires.

“Participant” means a broker-dealer, bank or other financial institution from time to time for which the Securities Depository effects book-entry transfers and pledges of securities deposited with the Securities Depository.

“Paying Agent” means any bank with trust powers or trust company so designated pursuant to the Master Indenture, and its successor or successors hereafter appointed, as paying agent for any Series.

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Pledged Revenues” means, collectively, Federal Revenues and State Revenues.

“Principal Account” means the account so established within the Debt Service Fund by the Master Indenture.

“Principal Installment” means, as of the date of calculation and with respect to any Series Outstanding, (i) the principal amount of Bonds of such Series due on a certain future date (whether at a stated maturity date or a date fixed for redemption prior to a stated maturity date) for which no Mandatory Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in Section 505) of any Mandatory Sinking Fund Installments in a principal amount equal to said unsatisfied balance of such Mandatory Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal

amount of Bonds and of such unsatisfied balance of Mandatory Sinking Fund Installments due on such future date, plus such applicable redemption premiums, if any.

“Principal Installment Date” means any date upon which any Principal Installment on Bonds of any Series shall be due and payable pursuant to the applicable Series Indenture.

“Qualified Counterparty” means any party whose senior long term debt obligations, or whose obligations under a Qualified Exchange Agreement are guaranteed by a party whose senior long term debt obligations, are rated (at the time of execution of the Qualified Exchange Agreement) in one of the top two Rating Categories by a Rating Agency, and which is obligated to make Counterparty Payments under a Qualified Exchange Agreement.

“Qualified Exchange Agreement” means an ISDA Master Agreement (and schedule and credit support annex, if any, thereto) between the Authority and a Qualified Counterparty under which the Authority is obligated to pay (whether on a net payment basis or otherwise) on one or more scheduled and specified Qualified Exchange Agreement Payment Dates, Authority Exchange Payments in exchange for the Qualified Counterparty’s obligations to pay (whether on a net payment basis or otherwise), or to cause to be paid, to the Authority, Counterparty Payments on one or more scheduled and specified Qualified Exchange Agreement Payment Dates in the amounts set forth in the Qualified Exchange Agreement, and

(i) for which the Authority’s obligations to make Authority Exchange Payments may be secured by a pledge of and lien on the Trust Estate on an equal and ratable basis with the Outstanding Subordinate Lien Bonds, or the Junior Subordinate Lien Bonds and for which the Authority’s obligations to make Exchange Termination Payments may be secured by a pledge of and lien on the Trust Estate on an equal and ratable basis with the Junior Subordinate Lien Bonds; and

(ii) under which the Counterparty Payments are to be made directly to the Trustee for deposit into the Revenue Fund.

“Qualified Exchange Agreement Payment Date” means, with respect to a Qualified Exchange Agreement, any date specified in the Qualified Exchange Agreement on which both or either of the Authority Exchange Payment and/or a Counterparty Payment is due and payable under the Qualified Exchange Agreement.

“Qualified Exchange Agreement Value” means the market quotation of a Qualified Exchange Agreement, if any, that would be payable to a Qualified Counterparty, provided that such market quotation is defined and calculated in substantially the same manner as amounts are defined and calculated pursuant to the applicable provisions of an ISDA Master Agreement.

“Rating Agency” or “Rating Agencies” means Moody’s or S&P or any other generally recognized rating agency to the extent any such agency (i) provides a rating for a Qualified Counterparty or a Qualified Exchange Agreement; or (ii) has been requested in writing by the Authority to issue a rating on any of the Bonds and such agency has issued and continues to apply a rating on such Bonds at the time in question.

“Rating Category” means a generic securities rating category assigned by a Rating Agency, without regard, in the case of a long-term rating category, to any refinement or gradation of such long-term rating category by a numerical modifier or otherwise.

“Rebate Fund” means the Rebate Fund authorized pursuant to the Master Indenture.

“Redemption Date” means, when used with respect to any Bonds to be redeemed, the date fixed for such redemption by or pursuant to the Master Indenture and the applicable Series Indenture.

“Redemption Price” means the total of principal, premium (if any) and interest due on any Bond redeemed pursuant to any applicable redemption provision of the Master Indenture and the applicable Series Indenture.

“Refunding Bonds” means all Bonds, whether issued in one or more Series, authenticated and delivered pursuant to Section 207 of the Master Indenture.

“Regular Record Date” means (i) the 15th day (whether or not a Business Day) preceding any Interest Payment Date on the Bonds, or (ii) the second day immediately preceding an Interest Payment Date in the case of any Series 2004C Bonds bearing interest at an Auction Rate.

“Repayment Obligations” means the obligations of the Authority to repay a Credit Facility Provider, a Liquidity Facility Provider or the provider of a Reserve Alternative Instrument for amounts advanced by any such provider with respect to the principal of or interest on or the purchase price of Obligations issued hereunder.

“Reserve Alternative Instrument” means an insurance policy or surety bond or irrevocable letter of credit or guaranty rated in one of the top two Rating Categories by a Rating Agency deposited in the Debt Service Reserve Fund in lieu of or in partial substitution for the deposit of cash and Investment Securities in satisfaction of the Debt Service Reserve Requirement. The Reserve Alternative Instrument shall be payable (upon the giving of notice as required thereunder) to remedy any deficiency in the appropriate subaccounts in the Interest Account and the Principal Account in order to provide for the timely payment of interest and principal (whether at maturity or to pay a Mandatory Sinking Fund Installment therefor).

“Revenue Fund” means the fund so designated which is created by the Master Indenture.

“S&P” means Standard & Poor’s Ratings Group, or any successor thereto; provided, that if such Rating Agency shall no longer have outstanding any rating assigned to any of the Bonds, any provision in the Master Indenture referring to S & P shall be of no further force and effect.

“Securities Depository” means The Depository Trust Company, New York, New York, and its successors and assigns, or any additional or other securities depository designated in a Series Indenture, or (i) if the then Securities Depository resigns from its functions as depository of the Bonds, or (ii) if the Authority discontinues use of the Securities Depository pursuant to Section 308 of the Master Indenture, then any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Authority with the consent of the Trustee.

“Senior Lien Bonds” means Bonds issued by the Authority with a first lien (but not an exclusive first lien) on the Trust Estate, subject to the lien thereon of the Closed Lien Obligations and so designated in the applicable Series Indenture authorizing such Senior Lien Bonds.

“Series” means all Bonds of a designated series or subseries authenticated and delivered on original issuance authorized by a given Series Indenture, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as provided in the Master Indenture, regardless of variations in maturity, interest rate, Mandatory Sinking Fund Installments, or other provisions.

“Series Indenture” means any indenture of the Authority authorizing the issuance of a Series in accordance with the terms and provisions thereof, executed and delivered in accordance with the Master Indenture.

“Special Record Date” for the payment of any Defaulted Interest on Bonds means a date fixed by the Trustee pursuant to the Master Indenture.

“State” means the State of New Mexico.

“State Revenues” means (i) proceeds of the collection of gasoline taxes, special fuels taxes, vehicle transaction taxes or fees, drivers license fees, oversize/overweight permit fees, certain public regulation commission fees, trip taxes, weight/distance taxes, motor vehicle registration fees, and motor vehicle excise taxes (to the extent authorized to be paid into the State Road Fund in the future) in each case that are required by law to be paid into the State Road Fund, and interest on amounts in the State Road Fund; (ii) proceeds of the collection of leased vehicle gross receipts taxes and tire recycling fees in each case that are required by law to be paid into the Highway

Infrastructure Fund, and interest on amounts in the Highway Infrastructure Fund; and (iii) such additional moneys as may in the future be authorized by law to be pledged as security, and are so pledged by the Authority pursuant to a Supplemental Indenture, as security for Obligations.

“State Road Fund” means the fund created pursuant to Section 67-3-65 NMSA 1978, as amended and supplemented.

“State Transportation Program” means the program of the Authority, the Commission and the State Transportation Department to finance, construct and improve State Transportation Projects as provided by the Act.

“State Transportation Program Financing Expenses” means (i) the fees and expenses of Fiduciaries, (ii) the fees and expenses of any auction agent, market agent and any broker-dealer then acting under a Series Indenture with respect to auction rate Bonds, (iii) the fees and expenses of any calculation agent then acting under a Series Indenture with respect to index-based Bonds, (iv) the costs of any remarketing of any Bonds, including the fees and expenses of any remarketing agent then acting under a Series Indenture with respect to variable rate Bonds, (v) the fees and expenses (but not Repayment Obligations) due to any Credit Facility Provider or any Liquidity Facility Provider with respect to any Bonds for which any Credit Enhancement Facility or a Liquidity Facility is in place, (vi) the fee of the Authority (other than Costs of Issuance) charged to the Commission and/or the Department in carrying out and administering its powers, duties and functions under the Act, the State Transportation Program, the Authority’s agreements with the Commission relating to the Bonds, the Closed Lien Obligations and the Master Indenture and the resolution of the Commission acknowledging and agreeing that the fee of the Authority shall be payable from the State Road Fund, (vii) fees and expenses associated with the delivery of a substitute Credit Enhancement Facility or Liquidity Facility under a Series Indenture, (viii) fees and expenses associated with the monitoring of the Bonds and the State Transportation Program by the Rating Agencies, and (ix) fees and expenses associated with (but not payments under) Qualified Exchange Agreements.

“State Transportation Projects” means the transportation projects authorized by Laws of New Mexico 2003 (First Special Session), Chapter 3, Sections 27 and 28, the cost of which projects are eligible for reimbursement from Federal Revenues pursuant to Title 23 of the United States Code and regulations promulgated thereunder, or such other federal statutes and regulations pursuant to which Federal Revenues are received by the Department and paid into the State Road Fund.

“Subordinate Lien Bonds” means Bonds issued by the Authority with a lien on the Trust Estate subordinate to the lien thereon of Senior Lien Bonds (but not an exclusive subordinate lien) and so designated in the applicable Series Indenture authorizing such Subordinate Lien Bonds.

“Subordinate Lien Obligations” means Subordinate Lien Bonds and any Qualified Exchange Agreement the priority of payment from the Trust Estate of which is equal with that of Subordinate Lien Bonds.

“Supplemental Indenture” means any indenture of the Authority, other than a Series Indenture, supplemental to or amendatory of the Master Indenture executed and delivered in accordance with Article VII of the Master Indenture.

“Tax Certificate” means, with respect to a Series the interest on which is intended to be excluded from the gross income of the owners thereof for federal income tax purposes, the certificate concerning certain federal tax matters furnished by the Authority and/or the Commission in connection with the initial issuance and delivery of such Series.

“Trust Estate” means (i) all rights, title, interest and privileges of the Authority to (a) the Pledged Revenues: (b) any Credit Enhancement Facility and any Liquidity Facility; (ii) the proceeds of the sale of Bonds, and all other moneys in all Funds and Accounts established under the Master Indenture (other than amounts in the Rebate Fund owing to the United States), including the investments, if any, thereof, and earnings, if any, thereon (other than as stated in the Master Indenture) until applied in accordance with the terms of the Master Indenture; (iii) all rights, title, interest and privileges of the Authority in and to any Qualified Exchange Agreement and any Counterparty Payments (provided; however, that this clause (iii) shall not be for the benefit of a Qualified

Counterparty with respect to its Qualified Exchange Agreement); and (iv) the money, Investment Securities and funds and all other right of every name and nature from time to time hereafter by delivery or by writing of any kind pledged, assigned transferred as and for additional security hereunder.

“Trustee” means Bank of Albuquerque, N.A. and the successor or successors of such bank or trust company and any other corporation which may at any time be substituted in its place pursuant to the Master Indenture.

“Value” means, as of any date of computation, the value of the Trust Estate or Investment Securities calculated by or on behalf of the Authority as to (a) below and otherwise by the Trustee, as follows:

(i) with respect to any funds of the Authority held under the Master Indenture and on deposit in any commercial bank or as to any certificates of deposit or banker’s acceptances, the amount thereof plus accrued but unpaid interest;

(ii) as to investments the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, in *The New York Times*), the average of the bid and asked prices for such investments so published on such date of calculation or most recently prior to such date of calculation;

(iii) as to investments (other than investment contracts and repurchase agreements) the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times*, (i) the lower of the bid prices at such date of calculation for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments, or (ii) the bid price published by a nationally recognized pricing service;

(iv) as to an investment contract, an amount equal to the principal amount plus any accrued interest required to be remitted to the Trustee (without regard to notice requirements of seven days or less) pursuant to the terms of such investment contract;

(v) as to a repurchase agreement, an amount equal to the unpaid repurchase price thereof plus any accrued interest thereon as of such date; and

(vi) with respect to any investment not specified above, the value thereof established by prior written agreement by the Authority, the Trustee and the Rating Agencies.

Additional Obligations Payable from Trust Estate

Limitations Upon Issuance of Senior Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Senior Lien Bonds, or to prevent the issuance of bonds or other obligations refunding all or a part of any Senior Lien Bonds. However, before any Senior Lien Bonds are issued (excluding Refunding Bonds or refunding obligations issued pursuant to the Master Indenture):

(1) The Authority shall then be current in all accumulations required to be made pursuant to the Master Indenture with respect to Outstanding Obligations; and

(2) The State Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Senior Lien Bonds shall have been sufficient to pay an amount representing three hundred percent (300%) of the maximum combined Debt Service Requirements coming due in any subsequent Fiscal Year on: (x) then outstanding Closed Lien Obligations, (y) then Outstanding Senior Lien Bonds, and (z) the Senior Lien Bonds proposed to be issued; and

(3) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Senior Lien Bonds shall have been sufficient to pay an amount representing three hundred

and fifty percent (350%) of the maximum combined Debt Service Requirements coming due in any subsequent Fiscal Year on: (x) then outstanding Closed Lien Obligations, (y) then outstanding Senior Lien Bonds, and (z) the Senior Lien Bonds proposed to be issued;

Limitations Upon Issuance of Subordinate Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Subordinate Lien Bonds or to prevent the issuance by the Commission of Additional Highway Bonds, or to prevent the issuance of bonds or other obligations refunding all or a part of any Subordinate Lien Bonds or any Additional Highway Bonds. However, before any Subordinate Lien Bonds, or Additional Highway Bonds are issued (excluding Refunding Bonds or refunding obligations issued pursuant to the Master Indenture):

(1) The Authority and the Commission shall then be current in all accumulations required to be made pursuant to the Master Indenture (or similar sections of the Commission resolutions or instruments governing the issuance of Additional Highway Bonds) with respect to Outstanding Obligations and Outstanding Additional Highway Bonds; and

(2) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Subordinate Lien Bonds, or Additional Highway Bonds shall have been sufficient to pay an amount representing three hundred percent (300%) of the maximum combined Debt Service Requirements coming due in any subsequent Fiscal Year on: (u) then Outstanding Closed Lien Obligations, (w) then Outstanding Senior Lien Bonds, (x) then outstanding Subordinate Lien Obligations, (y) then outstanding Additional Highway Bonds, and (z) the Subordinate Lien Bonds proposed to be issued.

Limitations Upon Issuance of Junior Subordinate Lien Bonds. No provision of the Master Indenture shall be construed to prevent the issuance by the Authority of Junior Subordinate Lien Bonds or to prevent the issuance of bonds or other obligations refunding all or a part of Junior Subordinate Lien Bonds. However, before any Junior Subordinate Lien Bonds are issued (excluding Refunding Bonds issued pursuant to the Master Indenture):

(1) The Authority and the Commission shall then be current in all accumulations required to be made pursuant to the Master Indenture (or similar sections of the Commission resolutions or instrument governing the issuance of Additional Highway Bonds) with respect to Outstanding Obligations and Outstanding Additional Highway Bonds; and

(2) The Pledged Revenues received by the Authority and the Commission in any twelve consecutive calendar months out of the eighteen calendar months immediately preceding the date of issuance of such Junior Subordinate Lien Bonds shall have been sufficient to pay an amount representing two hundred percent (200%) of the maximum combined Debt Service Requirements coming due in any subsequent Fiscal Year on: (u) then Outstanding Closed Lien Obligations, (v) then Outstanding Senior Lien Bonds, (w) then Outstanding Subordinate Lien Bonds, (x) then Outstanding Additional Highway Bonds, (y) then Outstanding Junior Subordinate Lien Obligations, and (z) the Junior Subordinate Lien Bonds proposed to be issued.

Certification of State Revenues and Pledged Revenues. A written certificate or opinion by the Secretary of the Department, the chief financial officer of the Authority, or an Accountant's Certificate that such State Revenues and Pledged Revenues, as applicable, are sufficient to cover the amounts required by the Master Indenture shall be required and shall be conclusively presumed to be accurate in determining the right of the Authority to authorize, issue, sell and deliver additional Senior Lien Bonds, Subordinate Lien Bonds or Junior Subordinate Lien Bonds or the right of the Commission to authorize, issue, sell and deliver Additional Highway Bonds.

No provision of the Master Indenture shall be construed to prevent the issuance by the Authority or the Commission of additional bonds or other obligations payable from the Pledged Revenues constituting a lien on the Trust Estate (or any portion thereof) subordinate and junior to the lien on the Trust Estate of Bonds described above. Such additional subordinate and junior bonds or other obligations may be issued pursuant to a Series Indenture and/or Supplemental Indenture prepared for that specific purpose or pursuant to an indenture or resolution separate and distinct from this Master Indenture.

The Authority or the Commission shall not issue Bonds or incur Obligations payable from the Pledged Revenues having a lien on the Trust Estate prior and superior to the lien on the Trust Estate of the Senior Lien Bonds.

In Commission Resolution No. 2004-5(APR), adopted by the Commission on April 15, 2004, the Commission affirmatively resolved that Additional Highway Bonds and any other future obligations payable from the Pledged Revenues that may be issued by the Commission shall be issued in compliance with the restrictions applicable to the issuance of additional Senior Lien Bonds, Subordinate Lien Bonds and Junior Subordinate Lien Bonds set forth in this section.

Funds and Accounts

Establishment of Funds and Accounts

The Master Indenture creates and establishes the following Funds and Accounts to be held and maintained by the Trustee for the benefit of the Owners:

- (1) Acquisition Fund
- (2) Revenue Fund
- (3) Debt Service Fund
 - Senior Lien Interest Account
 - Senior Lien Principal Account
 - Subordinate Lien Interest Account
 - Subordinate Lien Principal Account
 - Junior Subordinate Lien Interest Account
 - Junior Subordinate Lien Principal Account
- (4) Debt Service Reserve Fund

The Master Indenture creates and establishes the Rebate Fund to be held and maintained by the Trustee in which neither the Authority (except as provided in the Master Indenture) nor the Owners have any right, title or interest.

The Trustee is authorized by the Master Indenture for the purpose of facilitating the administration of the Trust Estate and for the administration of any Series issued under the Master Indenture to create accounts or subaccounts in any of the various Funds and Accounts established under the Master Indenture or any additional Funds or Accounts which are deemed necessary or desirable; provided, however, that the obligation of the Authority to provide the Funds and Accounts described above is not altered or amended.

Acquisition Fund

(a) The Trustee shall from time to time pay out, or permit the withdrawal of, moneys credited to the Acquisition Fund, free and clear of any lien, pledge or assignment in trust created hereby, for the purpose of paying in the manner authorized in the Master Indenture any Costs of Issuance, for which provision is not otherwise made, upon receipt by said Trustee of a written requisition substantially in the form set forth in the Master Indenture signed by an Authorized Officer stating that the amount to be paid from such Fund pursuant to such requisition is a proper charge thereon, and stating with respect to each payment to be made: (1) the item for which payment is to be made, (2) the name of the Person to whom the payment is to be made, and (3) the amount to be paid.

Upon receipt of each such requisition properly drawn, the Trustee shall deliver a check or draft, drawn upon the Acquisition Fund for the payment of each item.

(b) From the proceeds of each Series, there shall be deposited into the Acquisition Fund the amounts, if any, required by Section 401 of the Master Indenture, as specified in the related Series Indenture. In addition, there shall be credited to the Acquisition Fund any amounts transferred thereto from the Revenue Fund.

Except as otherwise specifically directed in the Master Indenture or in any Series Indenture, amounts in the Acquisition Fund shall be expended and applied, upon Authority Order on behalf of the Department, only for State Transportation Projects and Costs of Issuance. Authority Orders may include requisitions of moneys in amounts certified by the Department as necessary to meet anticipated expenditures for State Transportation Projects. In the event an Authority Order is not or cannot be made available in a timely fashion to meet payment deadlines for expenditures for State Transportation Projects, the Trustee is authorized to accept substantially similar orders from the Commission or the Department for disbursements from the Acquisition Fund.

The Authority may, at any time upon Authority Order, direct the Trustee to transfer any moneys in the Acquisition Fund to the Revenue Fund or to any other Fund or Account hereunder.

Revenue Fund

(a) All moneys received by or on behalf of the Authority from Pledged Revenues in accordance with Section 67-3-59.3, NMSA 1978, and in accordance with procedures established from time to time by the Authority with the Commission and the Department for payment of Obligations, Repayment Obligations, and State Transportation Program Expenses, any moneys received as Counterparty Payments and any monies transferred from any other Fund or Account under the Master Indenture for deposit to the Revenue Fund, shall be deposited promptly to the credit of the Revenue Fund. There may also be paid into the Revenue Fund, at the option of the Authority, any moneys received by the Authority from any other source.

(b) As of the first Business Day of each calendar month, except as specifically provided below and unless specifically provided to the contrary in a Series Indenture, the Trustee shall withdraw from the Revenue Fund and, to the extent that there are amounts in the Revenue Fund available therefor, deposit to the credit of the following Funds and Accounts the following amounts in the following order of priority, the requirements of each such deposit (including the making up of any deficiencies resulting from lack of amounts in the Revenue Fund sufficient to make any earlier required deposit) at the time of deposit to be satisfied, and the results of such satisfaction being taken into account, before any deposit is made subsequent in priority (any money not so deposited to remain in the Revenue Fund until subsequently applied pursuant to the Master Indenture):

(A) First, on each December 1, or the first Business Day thereafter, to the Rebate Fund, an amount to be calculated by the Authority which, when added to the amount already within the Rebate Fund, will equal the amount determined by the Authority to be required to be on deposit therein.

(B) Second, to the Senior Lien Interest Account, an amount such that, if the same amounts are so paid and credited to the Senior Lien Interest Account on the same day of each succeeding calendar month thereafter prior to the next Interest Payment Date, the aggregate of the amounts so paid and credited to the Senior Lien Interest Account, when added to any amount on deposit in the Interest Account for such purpose on the day of the calculation, would on such Interest Payment Date be equal to the interest on all Outstanding Senior Lien Bonds and any related Repayment Obligations for a Credit Enhancement Facility or a Liquidity Facility secured on a parity with the Senior Lien Bonds accrued and unpaid as of such date, provided, however, that in order to ensure that the Senior Lien Interest Account is neither overfunded nor underfunded for all Senior Lien Bonds (giving due regard to the different payment intervals for the various Senior Lien Bonds), the Trustee shall, not later than the tenth day of each calendar month, ensure that the amount so transferred to the Senior Lien Interest Account reflects the amount of interest actually accrued in the prior calendar month for each Series of Senior Lien Bonds and the amount actually accrued in the prior calendar month for each such related Repayment Obligation for a Credit Enhancement Facility or a Liquidity Facility. In the event that different Interest Payment Dates are established in respect of different Series of Senior Lien Bonds, deposits in the Senior

Lien Interest Account shall be made in accordance with the foregoing calculation applied separately to each such different Series.

(C) Third, to the Senior Lien Principal Account, whenever a Principal Installment of Senior Lien Bonds (and related Repayment Obligations for a Credit Enhancement Facility or a Liquidity Facility) is to fall due within one year of the date of transfer, an amount such that, if the same amounts are so paid and credited to the Senior Lien Principal Account from the same source on the same day of each succeeding calendar month thereafter prior to the next day upon which a Principal Installment on Senior Lien Bonds (and related Repayment Obligations for a Credit Enhancement Facility or a Liquidity Facility) is due, the aggregate of the amounts so paid and credited to the Principal Account, when added to any amount on deposit in the Principal Account for such purpose on the day of the calculation, would on such Principal Installment Date be equal to the amount of all accrued and unpaid Principal Installments on Senior Lien Bonds (and related Repayment Obligations for a Credit Enhancement Facility or a Liquidity Facility) as of such date. In the event that different dates (within one year of the date of transfer) on which such Principal Installments fall due are established in respect of different Series of Senior Lien Bonds (and related Repayment Obligations for a Credit Enhancement Facility or a Liquidity Facility), deposits in the Senior Lien Principal Account shall be made in accordance with the foregoing calculation applied separately to each such different Series. There shall also be deposited to the Senior Lien Principal Account, or, if an escrow account has been specifically created for the redemption of a Series of Senior Lien Bonds, to that escrow account, whenever such Senior Lien Bonds have been duly called for redemption and such redemption is to occur within thirty days, an amount equal to the principal amount of Senior Lien Bonds to be redeemed on such Redemption Date.

(D) Fourth, (i) to the Accounts of the Debt Service Reserve Fund established in any Series Indenture for a related Series of Senior Lien Bonds, so much as may be required so that the amounts in each Account therein shall equal the Debt Service Reserve Requirement for the related Senior Lien Bonds then Outstanding and for which an Account in the Debt Service Reserve Fund has been established, and (ii) on a parity with the transfer under (i) of this Subsection (D), to the payment of related Repayment Obligations for Reserve Alternative Instruments for Senior Lien Bonds.

(E) Fifth, to the Subordinate Lien Interest Account, an amount such that, if the same amounts are so paid and credited to the Subordinate Lien Interest Account on the same day of each succeeding calendar month thereafter prior to the next Interest Payment Date or Qualified Exchange Agreement Payment Date, the aggregate of the amounts so paid and credited to the Subordinate Lien Interest Account, when added to any amount on deposit in the Subordinate Lien Interest Account for such purpose on the day of the calculation, would on such Interest Payment Date or Qualified Exchange Agreement Payment Date be equal to the interest on all Outstanding Subordinate Lien Bonds, any related Repayment Obligations for a Credit Enhancement Facility or a Liquidity Facility, and any Authority Exchange Payment (other than any Exchange Termination Payment) secured on a parity with the Subordinate Lien Bonds accrued and unpaid as of such date; provided, however, that in order to ensure that the Subordinate Lien Interest Account is neither overfunded or underfunded for all Subordinate Lien Obligations Outstanding (giving due regard to the different payment intervals for the various Subordinate Lien Obligations), the Trustee shall, not later than the tenth day of each calendar month, ensure that the amount so transferred to the Subordinate Lien Interest Account reflects the amount of interest actually accrued in the prior calendar month for each Series of Subordinate Lien Bonds and the amount actually accrued in the prior calendar month for each such related Repayment Obligation for a Credit Enhancement Facility or a Liquidity Facility and Authority Exchange Payment (other than an Exchange Termination Payment). In the event that different Interest Payment Dates are established in respect of different Series of Subordinate Lien Bonds, deposits in the Subordinate Lien Interest Account shall be made in accordance with the foregoing calculation applied separately to each such different Series.

(F) Sixth, to the Subordinate Lien Principal Account, whenever a Principal Installment of Subordinate Lien Bonds is to fall due within one year of the date of transfer, an amount such that, if the same amounts are so paid and credited to the Subordinate Lien Principal Account from the same source on the same day of each succeeding calendar month thereafter prior to the next day upon which a Principal Installment on Subordinate Lien Bonds (and related Repayment Obligations for a Credit Enhancement Facility or a Liquidity Facility) is due, the aggregate of the amounts so paid and credited to the Principal Account, when added to any amount on deposit in the Subordinate Lien Principal Account for such purpose on the day of the calculation, would on such Principal Installment Date be equal to the amount of all accrued and unpaid Principal Installments on Subordinate Lien Bonds (and related Repayment Obligations for a Credit Enhancement Facility or a Liquidity Facility) as of such date. In the event that different dates (within one year of the date of transfer) on which such Principal Installments fall due are established in respect of different Series of Subordinate Lien Bonds (and related Repayment Obligations for a Credit Enhancement Facility or a Liquidity Facility), deposits in the Subordinate Lien Principal Account shall be made in accordance with the foregoing calculation applied separately to each such different Series. There shall also be deposited to the Subordinate Lien Principal Account, or, if an escrow account has been specifically created for the redemption of a Series of Subordinate Lien Bonds, to that escrow account, whenever such Subordinate Lien Bonds have been duly called for redemption and such redemption is to occur within thirty days, an amount equal to the principal amount of Subordinate Lien Bonds to be redeemed on such Redemption Date.

(G) Seventh, (i) to the Accounts of the Debt Service Reserve Fund established in any Series Indenture for a related Series of Subordinate Lien Bonds, so much as may be required so that the amounts in each Account shall equal the Debt Service Reserve Requirement for the related Subordinate Lien Bonds then Outstanding and for which an Account in the Debt Service Reserve Fund has been established, and (ii) on a parity with the transfer under (i) of this Subsection (G), to the payment of related Repayment Obligations for Reserve Alternative Instruments for Subordinate Lien Bonds.

(H) Eighth, to the Authority, at any time, upon Authority Order directing the same, moneys sufficient to pay State Transportation Program Financing Expenses actually incurred or accrued.

(I) Ninth, to the Junior Subordinate Lien Interest Account, an amount such that, if the same amounts are so paid and credited to the Junior Subordinate Lien Interest Account on the same day of each succeeding calendar month thereafter prior to the next Interest Payment Date or Qualified Exchange Agreement Payment Date, the aggregate of the amounts so paid and credited to the Junior Subordinate Lien Interest Account, when added to any amount on deposit in the Junior Subordinate Lien Interest Account for such purpose on the day of the calculation, would on such Interest Payment Date or Qualified Exchange Agreement Payment Date be equal to the interest on all Outstanding Junior Subordinate Lien Bonds related Repayment Obligations for a Credit Enhancement Facility or a Liquidity Facility and any Authority Exchange Payment (other than any Exchange Termination Payment) accrued and unpaid as of such date; provided, however, that in order to ensure that the Junior Subordinate Lien Interest Account is neither overfunded or underfunded for all such Junior Subordinate Lien Obligations Outstanding (giving due regard to the different payment intervals for the various Junior Subordinate Lien Obligations), the Trustee shall, not later than the tenth day of each calendar month, ensure that the amount so transferred to the Junior Subordinate Lien Interest Account reflects the amount of interest actually accrued in the prior calendar month for each Series of such Bonds and the amount actually accrued in the prior calendar month for each such related Repayment Obligation for a Credit Enhancement Facility or a Liquidity Facility and Authority Exchange Payment. In the event that different Interest Payment Dates are established in respect of different Series of such Junior Subordinate Lien Bonds, deposits in the Junior Subordinate Lien Interest Account shall be made in accordance with the foregoing calculation applied separately to each such different Series.

(J) Tenth, to the Principal Account, whenever a Principal Installment of Bonds subordinate to the Subordinate Lien Bonds is to fall due within one year of the date of transfer, an amount (in descending order of lien priority of such Bonds) such that, if the same amounts are so paid and credited to the Principal Account from the same source on the same day of each succeeding calendar month thereafter prior to the next day upon which a Principal Installment on such Bonds (and related Repayment Obligations for a Credit Enhancement Facility or a Liquidity Facility) is due, the aggregate of the amounts so paid and credited to the Principal Account, when added to any amount on deposit in the Principal Account for such purpose on the day of the calculation, would on such Principal Installment Date be equal to the amount of all accrued and unpaid Principal Installments of such Bonds (and related Repayment Obligations for a Credit Enhancement Facility or a Liquidity Facility) as of such date. In the event that different dates (within one year of the date of transfer) on which such Principal Installments fall due are established in respect of different Series of such Bonds, (and related Repayment Obligations for a Credit Enhancement Facility or a Liquidity Facility), deposits in the Principal Account shall be made in accordance with the foregoing calculation applied separately to each such different Series, in descending order of lien priority. There shall also be deposited to the Principal Account, (i) amounts necessary to make any Exchange Termination Payment when due, (ii) amounts necessary to collateralize the Authority's obligations under any Qualified Exchange Agreement, (iii) any loss amounts or termination payments owed by the Authority to a provider of an Investment Security described in paragraphs (j), (k) or (l) in the definition of Investment Securities in the Master Indenture, and (iv) or, if an escrow account has been specifically created for a Series of Junior Subordinate Lien Bonds, to that escrow account, whenever such Junior Subordinate Bonds have been duly called for redemption and such redemption is to occur within thirty days, an amount equal to the principal amount of such Bonds to be redeemed on such Redemption Date.

(K) Eleventh, (i) to the Accounts of the Debt Service Reserve Fund established in any Series Indenture for a related Series of Junior Subordinate Lien Bonds, so much as may be required so that the amounts in each Account shall equal the Debt Service Reserve Requirement for the related Junior Subordinate Lien Bonds then Outstanding and for which an Account in the Debt Service Reserve Fund has been established, and (ii) on a parity with the transfer under (i) of this Subsection (K), to the payment of related Repayment Obligations for Reserve Alternative Instruments for Junior Subordinate Lien Bonds.

For purposes of paragraphs (B), (C), (E), (F), (I) and (J) above, if at any time there are insufficient moneys for all of the payments required to be made pursuant to any such paragraph for all Series of Bonds, Repayment Obligations and, except with respect to paragraph (B), Qualified Exchange Agreements, the moneys available shall be allocated among the payments on such Series of Bonds, Repayment Obligations and Qualified Exchange Agreements ratably based upon the respective amounts of the payments then due, in accordance with their respective lien priorities.

For purposes of paragraphs (B), (E) and (I) above, moneys in any Interest Account in excess of the amount necessary to pay the interest actually accrued in the prior calendar month for the related Series of Bonds, Repayment Obligations and, except with respect to paragraph (B), Authority Exchange Payment shall be credited toward the Interest Payment coming due on the next Interest Payment Date.

Application of Moneys in Other Funds and Accounts

(a) *Rebate Fund.* To the extent required by the Master Indenture, all of the amounts on deposit in the Funds and Accounts created and established pursuant to the Master Indenture and all amounts pledged to the payment of Debt Service for the Bonds pursuant to the Master Indenture, (i) shall be invested in compliance with the procedures established by the relevant Tax Certificate, and (ii) to the extent required by such Tax Certificate, the investment earnings thereon shall be deposited from time to time into the appropriate Rebate Account for timely payment of all amounts due and owing to the United States Department of the Treasury. Amounts on deposit in the Rebate Fund shall not be subject to the lien and pledge of the Master Indenture to the extent such amounts are required to be paid to the United States Department of the Treasury. The Authority shall verify or cause to be verified from the date of delivery of each Series the interest on which is intended to be excluded from the gross

income of the Owners thereof for federal income tax purposes that (x) all of requirements of this subsection (a) have been met on a continuing basis, (y) the proper amounts are deposited into each Rebate Account, and (z) the timely payment of all amounts due and owing to the United States Department of the Treasury from each Rebate Account has been made. Upon receipt of a verification report from an accounting or investment consultant retained for such purpose or an opinion of Bond Counsel that the balance in any Rebate Account is in excess of the amount required by the relevant Tax Certificate to be included therein, such excess shall be transferred to the Revenue Fund. Records of the determinations made with respect to the above covenant and the Rebate Fund shall be retained by the Authority until six years after the retirement of all of the Bonds.

(b) *Interest Account.* Moneys in each respective Interest Account shall be applied to pay interest on the related Bonds and any Authority Exchange Payments (other than Exchange Termination Payments) relating thereto.

(c) *Principal Account.* Moneys in each respective Principal Account shall be applied to pay Principal Installments on the related Bonds and, in the Junior Subordinate Lien Principal Account, any Exchange Termination Payments or amounts necessary to collateralize the Authority's obligations under any Qualified Exchange Agreement.

(d) *Debt Service Reserve Fund; Series Reserve Accounts.* If, on any date that principal of or interest on Senior Lien Bonds is due and payable, there are insufficient moneys in the Principal Account or Interest Account, as the case may be, to make the required payment, then moneys, if any, in the Account of the Debt Service Reserve Fund created by the Series Indenture for the related Senior Lien Bonds shall be applied to pay the principal of and interest on the related Senior Lien Bonds then due and payable. If, on any date that principal of or interest on Subordinate Lien Bonds is due and payable there are insufficient moneys in the Principal Account or Interest Account, as the case may be to make the required payment, then moneys, if any, in the Account of the Debt Service Reserve Fund created by the Series Indenture for the related Senior Lien Bonds shall be applied to pay the principal of and interest on the related Senior Lien Bonds then due and payable. If, on the date that principal of or interest on Junior Subordinate Lien Bonds is due and payable there are insufficient moneys in the Principal Account or Interest Account, as the case may be, to make the required payment, then moneys, if any, in the Account of the Debt Service Reserve Fund created by the Series Indenture for the related Series of Junior Subordinate Lien Bonds shall be applied to pay the principal of and interest on the related Junior Subordinate Lien Bonds then due and payable. Moneys shall in no event be transferred to or maintained in any Account of the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement for the related Series of Bonds. Any moneys in excess of the Debt Service Reserve Requirement, if any, for any Series shall be forthwith transferred to the Revenue Fund. If at any time (i) the balance in any Account of the Debt Service Reserve Fund, together with other available moneys and Investment Securities in the Trust Estate, shall be sufficient to pay all related Series of Bonds Outstanding, and (ii) all such related Series of Bonds Outstanding are then subject to redemption or other payment, then such balance in the related Account of the Debt Service Reserve Fund may be applied upon Authority Order to the redemption or payment of all the related Series of Bonds Outstanding.

(e) *General.* Notwithstanding any provision hereof pertaining to the application of moneys in any Fund or Account, amounts deposited in all Funds and Accounts (except the Rebate Fund) may be used, upon an Authority Order, for the payment of principal of and interest on the Bonds, any Authority Exchange Payment or any Repayment Obligation if there would otherwise be a default in payment of Debt Service, any Authority Exchange Payment or any Repayment Obligation.

Effect of Redemptions on Mandatory Sinking Fund Installments. Upon any redemption or purchase of Bonds of any Series and maturity for which Mandatory Sinking Fund Installments have been established, there shall be credited toward each such Mandatory Sinking Fund Installment thereafter to become due an amount bearing the same ratio to such Mandatory Sinking Fund Installment as the total principal amount of such Bonds so purchased or redeemed bears to the total amount of all such Mandatory Sinking Fund Installments to be credited. If, however, there shall be filed with the Trustee by an Authorized Officer written instructions specifying a different method for crediting Mandatory Sinking Fund Installments upon any such purchase or redemption of Bonds, then such Mandatory Sinking Fund Installments shall be so credited as shall be provided in such instructions. The portion of any such Mandatory Sinking Fund Installment remaining after the deduction of any such amounts credited towards the same (or the original amount of any such Mandatory Sinking Fund Installment if no such amounts shall have

been credited toward the same) shall constitute the unsatisfied balance of such Mandatory Sinking Fund Installment for the purpose of calculation of Mandatory Sinking Fund Installments due on a future date.

Investment of Funds and Accounts

(a) Moneys in each Fund and Account shall be invested at the written direction of the Authority, consistent with the required uses of such moneys, in Investment Securities. Investment Securities are deemed to be part of the Fund or Account for which purchased or to such Funds or Accounts to which such Investment Securities are subsequently transferred, and earnings, gains and losses on Investment Securities are to be credited or charged to the Fund or Account for which the Investment Securities were purchased or to such Funds or Accounts to which such Investment Securities are subsequently transferred. Earnings on, and profit or loss with respect to, the investments in the Rebate Fund shall be credited to or charged against the Rebate Fund.

(b) In computing the amount in any Fund or Account held by the Trustee under the provisions of the Master Indenture, obligations purchased as an investment of moneys therein shall be valued at their Value.

(c) Except as otherwise provided in the Master Indenture, the Trustee shall sell at the best price obtainable, or present for redemption, any obligation so purchased as an investment whenever it shall be requested in writing by an Authorized Officer so to do or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund or Account held by it.

(d) It shall not be necessary for any Paying Agent to give security for the deposit of any moneys with it held in trust for the payment of principal of or Redemption Price, if any, or interest on any Bonds.

(e) The Trustee shall advise the Authority in writing, on or before the fifth Business Day of each calendar month, or as soon thereafter as practicable, of all investments held for the credit of each Fund and Account in its custody under the provisions of the Master Indenture as of the end of the preceding month.

(f) Except for amounts invested in investment contracts or in other Investment Securities which shall be subject to redemption at any time at face value by the holder thereof, at the option of such holder, amounts in the Funds and Accounts shall be invested in Investment Securities which shall mature at or before the time such amounts are required to be used pursuant to the Indenture.

Moneys Held in Trust. All moneys which the Trustee shall have withdrawn or set aside for the purpose of paying any of the Obligations secured by the Master Indenture, either at the maturity thereof or upon call for redemption, shall be held in trust for the respective Owners of such Obligations and such moneys shall not be subject to lien or attachment by any creditor of the Authority or the Trustee. Any moneys which shall be so set aside by the Trustee and which shall remain unclaimed by the Owners of such Obligations for the period of three years after the final maturity date on such Obligations, or, if less, the maximum time provided by the laws of the State prior to escheat to the State, shall be paid to the Authority or to such officer, board or body as may then be entitled by law to receive the same, and there-after the Owners of such Obligations shall look only to the Authority or to such officer, board or body, as the case may be, for payment and then only to the extent of the amounts so received without any interest thereon, and the Trustee shall have no responsibility with respect to such moneys. All interest earned on the investment of such amounts shall be paid to the Authority as and when received by the Trustee, free and clear of the lien of the Master Indenture. Any such moneys held by a Paying Agent for the payment of Obligations which have not been used for such purpose shall be remitted by the Paying Agent to the Trustee within 30 days of the Paying Agent's receipt thereof.

Use of Available Funds. Nothing in the Master Indenture shall be construed to prevent the Authority from depositing in any Fund or Account created under the provisions of the Master Indenture any moneys legally available to the Authority for such deposit.

Certain Covenants

Payment of Obligations. The Authority shall duly and punctually pay or cause to be paid (but only from the Trust Estate), the principal (or, if Bonds have been duly called for redemption, the Redemption Price) of each and every Obligation and the interest thereon, at the dates and places and in the manner mentioned in such Obligation according to the true intent and meaning thereof. On each Interest Payment Date, Principal Installment Date or Qualified Exchange Agreement Payment Date, as applicable, the Trustee shall transfer to the Paying Agent from the Interest Account and the Principal Account, respectively, sums sufficient to pay the interest on and/or principal of and premium, if any, on the Bonds and any Authority Exchange Payments due on such date. In the event that such transfer has not been effected prior to noon on the Interest Payment Date, Principal Installment Date or Qualified Exchange Agreement Payment Date, as applicable, the Paying Agent shall immediately notify the Trustee.

Offices for Servicing Bonds. The Authority shall at all times cause to be maintained an office or agency where Bonds may be presented for registration, transfer, exchange or payment and where notices, presentations and demands in respect of the Bonds or of the Master Indenture may be served. The Authority has appointed the Trustee pursuant to the Master Indenture as agent to maintain such office or agency for the registration, transfer or exchange of Bonds, and for the service of such notices, presentations and demands. The Authority has appointed the Paying Agent pursuant to the Master Indenture as agent to maintain such offices or agencies for the payment of Bonds.

Further Assurances. At any time and at all times the Authority shall pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, indentures, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues pledged or assigned under the Master Indenture, or intended so to be, or which the Authority may hereafter become bound to pledge or assign.

Protection of Security; Power to Issue Bonds and Pledge Revenues and Other Funds; Indenture to Constitute Contract. The Authority is duly authorized pursuant to the Act to issue the Bonds, to enter into Qualified Exchange Agreements (with such prior approvals required by the laws of the State) and the Master Indenture, to pledge the Pledged Revenues and the Trust Estate, and to obtain moneys from the State Road Fund to make all payments contemplated by the Master Indenture and each Series Indenture in the manner and to the extent provided in the Master Indenture. The Obligations and the provisions of the Master Indenture and each Series Indenture are and will be valid and legally enforceable obligations of the Authority in accordance with their respective terms. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Pledged Revenues and the Trust Estate and all the rights of the Owners hereto against a claims and demands of all Persons whomsoever.

In consideration of the purchase and acceptance of the Obligations by those who shall own the same from time to time, the provisions of the Master Indenture shall be a part of the contract of the Authority with the Owners and shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Owners.

Tax Covenants. The Authority covenants for the benefit of the Owners of each Series the interest on which is intended to be excluded from the gross income of the Owners thereof for federal income tax purposes that it will not take any action or omit to take any action with respect to such Bonds, the proceeds thereof or any other funds of the Authority if such action or omission would cause the interest on such Bonds to lose its exclusion from gross income for federal income tax purposes under Section 103 of the Code, would subject the Authority to any penalties under Section 148 of the Code, or would cause such Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code. The foregoing covenants shall remain in full force and effect notwithstanding the payment in full or defeasance of such Bonds until the date on which all obligations of the Authority in fulfilling the above covenant under the Code have been met. The Authority shall execute and deliver from time to time such certificates, instruments and documents as shall be deemed necessary or advisable to evidence compliance by the Authority with said Code sections and the regulations thereunder with respect to the use of the proceeds of such Bonds and any other funds of the Authority. Such certificates, instruments and documents may contain such stipulations as shall be necessary or advisable in connection with the stated purpose of the Master Indenture and the foregoing provisions thereof, and the Authority and the Trustee covenant and agree to comply with the provisions of any such stipulation throughout the term of such Bonds.

Books of Account; Annual Audit. The Authority shall cause to be kept and maintained proper books of account relating to the funds and accounts established under the Master Indenture, in which full, true and correct entries will be made, in accordance with generally accepted accounting principles, of all transactions of or in relation to the business of the Authority with respect to the funds and accounts established under the Master Indenture, and after the end of each Fiscal Year shall cause such books of account to be audited by a certified public accountant or firm of such accountants duly licensed to practice and practicing as such under the laws of the State, selected by the Authority, who is independent and not under the domination of the Authority, who does not have any substantial interest, direct or indirect, in the Authority, which audit shall be completed as soon as possible after the end of each Fiscal Year but in any event within 270 days thereafter. A copy of each annual balance sheet statement of net assets, statement of revenues and expenses, and statement of cash flows, showing in reasonable detail the financial condition of the Funds and Accounts established under the Master Indenture, as of the close of each Fiscal Year, and summarizing in reasonable detail the income and expenses for the Fiscal Year, shall be filed promptly with the Trustee and shall be available for inspection by any Owner at the office of the Trustee designated for such purposes during normal business hours.

Compliance with Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law or by the Master Indenture or a Series Indenture to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, shall have happened and shall have been performed, and such Bonds, together with all indebtedness of the Authority, shall be within every debt and other limit prescribed by law.

Waiver of Laws. To the extent permitted by law and public policy, the Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the Master Indenture, any Series or Supplemental Indenture, or the Obligations, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or claims for interest by the purchase or funding of such Bonds, or claims for interest by any other arrangement.

Security Interest in Trust Estate.

(a) Except for the lien and pledge of the Master Indenture as described therein, and any other liens expressly authorized under the Master Indenture, the Authority will not cause or permit all or any part of the Trust Estate, including but not limited to the Pledged Revenues and the Funds, to become subject to any consensual or non-consensual lien or encumbrance.

(b) Except as provided in the Master Indenture and except as permitted by laws of the State with regard to the actions of the Commission, the Authority has not voluntarily encumbered, and has not authorized any other party to encumber, all or any part of the Trust Estate, and the Authority has not knowingly permitted any party other than the Trustee to obtain or maintain any lien or encumbrance on all or any part of the Trust Estate.

(d) Except for the lien and pledge of the Master Indenture as described therein, the Authority has no knowledge, and has not received any notice, that any party other than the Trustee, on behalf of the owners of the Obligations, has or claims to have any security interest or other lien on all or any part of the Trust Estate.

Credit Enhancement Facilities and Liquidity Facilities. The Authority may from time to time enter into or obtain the benefit of any Credit Enhancement Facilities and/or any Liquidity Facilities with respect to any Bonds of any Series, and may include such provisions as are required, necessary or convenient in connection with such Credit Enhancement Facilities and/or any Liquidity Facilities in the Series Indenture pursuant to which such Bonds are issued.

Default Provisions

Events of Default. Each of the following events is declared to be an “Event of Default”:

- (a) default by the Authority in the payment of any installment of interest on the Bonds when due;
- (b) default by the Authority in the payment of principal of Bonds as they mature, or the Redemption Price thereof if Bonds have been duly called for redemption (including Mandatory Sinking Fund Installments); or
- (c) default in the performance or observance of any other of the covenants, agreements or conditions contained in the Master Indenture, any Series Indenture or Supplemental Indenture or the Bonds, and such failure, refusal or default shall continue for a period of 45 days after written notice thereof by the Trustee or the Owners of not less than 25% in principal amount of the Outstanding Bonds; provided, however, if any such default shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Authority within such period and diligently pursued until such default is corrected.

Remedies. Upon the happening and continuance of any event described in the (a) or (b) above the Trustee, independently, or the Owners of 25% or more in principal amount of Outstanding Bonds may jointly proceed, in their own names, to protect and enforce their rights by such of the following remedies as they deem most effectual:

- (a) enforce, by mandamus or other suit, action or proceedings at law or in equity, all rights of the Owners, including the right to require the Authority to receive and collect the revenues and other assets, including Pledged Revenues adequate to carry out the covenants and agreements as to, and pledge of, such revenues and assets, and to require the Authority to carry out any other covenant or agreement with the Owners;
- (b) bring suit upon any Bonds;
- (c) require the Authority by action or suit to account as if it were the trustee of an express trust for the Owners; or
- (d) enjoin by action or suit any acts or things which may be unlawful or in violation of the rights of the Owners.

The Trustee shall give notice to each Rating Agency of any Event of Default under the Master Indenture.

Limitation on Action. No Owner shall have any right to institute any action except as authorized in the Master Indenture. Nothing contained in the Master Indenture shall impair the right of any Owner to enforce payment of principal of and interest on its Bonds.

Priority of Payments After Default. In the event that, upon the happening and continuance of any Event of Default, the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal and interest then due on the Bonds of all Series then Outstanding and of all Authority Exchange Payments then due, such funds and any other moneys received or collected pursuant to the Master Indenture shall be applied after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee, including, but not limited to, the fees and expenses of its Counsel and other agents, as follows:

First: With respect to interest on the Senior Lien Bonds to the payment to the Persons entitled thereto of all installments then due in the order of the maturity of such installments and if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or preference;

Second: With respect to the Senior Lien Bonds, to the payment to the Persons entitled thereto of the unpaid principal of any such Bonds, and, if the amounts available shall not be sufficient to pay in full all the Senior Lien Bonds, then to the payment thereof ratably, without any discrimination or preference;

Third: With respect to interest on the Subordinate Lien Bonds and all Authority Exchange Payments (other than any Exchange Termination Payment) secured on a parity with the Subordinate Lien Bonds, to the payment to the Persons entitled thereto of all installments then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or preference;

Fourth: With respect to the Subordinate Lien Bonds, to the payment to the Persons entitled thereto of the unpaid principal of any such Bonds, and, if the amounts available shall not be sufficient to pay in full all the Subordinate Lien Bonds, then to the payment thereof ratably, without any discrimination or preference.

Fifth: With respect to interest on any Junior Subordinate Lien Bonds and all Authority Exchange Payments (other than any Exchange Termination Payment) secured on a parity with such Bonds, to the payment to the Persons entitled thereto of all installments then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or preference; and

Sixth: To any Qualified Counterparty, any Exchange Termination Payment then due; and

Seventh: With respect to Junior Subordinate Lien Bonds, to the payment to the Persons entitled thereto of the unpaid principal of any such Bonds, and to any qualified Counterparty any Exchange Termination Payment secured on a parity with such Bonds then due, if the amounts available shall not be sufficient to pay in full all such Bonds and any Exchange Termination Payment, then to the payment thereof ratably, without any discrimination or preference.

Termination of Proceedings. In case any proceedings taken on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case the Authority, the Trustee and the Owners shall be restored to their former positions and rights under the Master Indenture, respectively, and all rights, remedies, powers and duties therein conferred shall continue as though no such proceeding had been taken.

Remedies Not Exclusive. No remedy conferred in the Master Indenture upon or reserved to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

No Waiver of Default. No delay or omission of any Owner of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Master Indenture to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Notice of Event of Default. The Trustee shall give to the Owners notice of each Event of Default under the Master Indenture known to the Trustee within 90 days after knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice. Each such notice of an Event of Default shall be given by the Trustee by mailing written notice thereof (1) to all registered Owners of Bonds, as the names and addresses of such Owners appear upon the registration records kept by the Trustee; (2) to such beneficial owners as have filed their names and addresses with the Trustee for that purpose; and (3) to Qualified Counterparties.

Defeasance

(a) If the Authority shall pay or cause to be paid, or there shall otherwise be paid, (i) to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Master Indenture, and (ii) to each Qualified Counterparty, all Authority Exchange Payments then due, and in any case provided that all expenses then due and owing shall have been paid, then the pledge of any Pledged Revenues and other moneys and property pledged hereunder and all covenants, agreements, and other obligations of the Authority to the Owners, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the Authority to be prepared and filed with the Authority, and upon Authority Request, shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the Authority all moneys or Investment Securities held by them pursuant to the Master Indenture which are not required for the payment of principal or Redemption Price, if applicable, on Bonds. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular Series, the principal or Redemption Price, if applicable, and interest due or to become due thereon, and to each Qualified Counterparty all Authority Exchange Payments then due, at the times and in the manner stipulated therein and in the Master Indenture and in the Qualified Exchange Agreement, such Bonds and each Qualified Counterparty shall cease to be entitled to any lien, benefit or security hereunder and all covenants, agreements and obligations of the Authority to the Owners of such Bonds and to each Qualified Counterparty shall thereupon cease, terminate and become void and be discharged and satisfied.

(b) Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by Fiduciaries (through deposit by the Authority of funds for such payment or redemption or otherwise) shall, at the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed paragraph (a) above. All Outstanding Bonds shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) above if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail as provided in Article X notice of redemption on said date of such Bonds, (ii) there shall have been deposited with, or credited to the account (at a Federal Reserve Bank) of, the Trustee, or another Fiduciary acting as escrow agent either moneys in an amount which shall be sufficient, or non callable Investment Securities not subject to prepayment (which for the purpose of this Article, shall include only those obligations described in paragraphs (a) and (b) of the definition thereof in the Master Indenture hereof, but shall not include shares of unit investment trusts or mutual funds regardless of the rating thereto), the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee or another Fiduciary acting as escrow agent, at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be; provided that, except in the event of a full cash defeasance or a current refunding of less than ninety days to maturity or Redemption Date, the sufficiency of such moneys or investments must be confirmed to the Authority in an Accountant's Certificate, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Master Indenture and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on said Bonds. Neither Investment Securities nor moneys deposited with the Trustee pursuant to the Master Indenture nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Investment Securities deposited with the Trustee or other Fiduciary acting as escrow agent, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on said Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Authority, as received by the Trustee, free and clear of any trust, lien or pledge.

(c) Any Authority Exchange Payments are deemed to have been paid and the applicable Qualified Exchange Agreement terminated when payment of all Authority Exchange Payments due and payable to each Qualified Counterparty under its respective Qualified Exchange Agreement have been made or duly provided for to the satisfaction of each Qualified Counterparty and the respective Qualified Exchange Agreement has been terminated.

(d) If, through the deposit of moneys by the Authority or otherwise, the Fiduciaries shall hold, pursuant to the Master Indenture, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds, or in the case of Bonds in respect of which the Authority shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then upon Authority Request all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or redemption of Outstanding Bonds.

Supplemental Indentures

Modification and Amendment Without Consent. Notwithstanding any other provisions of the Master Indenture, the Authority may, from time to time and at any time, without the consent of or notice to any Owner, enter into such indentures supplemental to the Master Indenture which, in the opinion of the Trustee, who may rely upon an opinion of Counsel, shall not materially and adversely affect the interest of the Owners (which Supplemental Indentures shall thereafter form a part hereof):

(a) to add to the covenants and agreements of the Authority in the Master Indenture other covenants and agreements thereafter to be observed by the Authority;

(b) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Master Indenture;

(c) to confirm as further assurance any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of the Master Indenture;

(d) to grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee;

(e) to include as Pledged Revenues or money under, and subject to the provisions of, the Master Indenture any additional revenues or money legally available therefor;

(f) to cure any ambiguity, defect, omission or inconsistent provision in the Master Indenture or to insert such provisions clarifying matters or questions arising under the Master Indenture as are necessary or desirable, provided such action shall not adversely affect the interest of the Owners hereunder;

(g) to modify any of the provisions of the Master Indenture in any respect whatever; provided, however, that (1) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the execution by the Authority of such Supplemental Indenture shall cease to be Outstanding, and (2) such Supplemental Indenture shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the execution by the Authority of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof;

(h) to modify, eliminate and/or add to the provisions of the Master Indenture to such extent as shall be necessary to effect the qualification of the Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter enacted, and to add to the Master Indenture such other provisions as may be expressly permitted by the Trust Indenture Act of 1939;

(i) to make the terms and provisions of the Master Indenture, including the lien and security interest granted therein, applicable to a Qualified Exchange Agreement, and to modify Section 208 of the Master Indenture with respect to any particular Qualified Exchange Agreement;

(j) provided the Authority has first obtained a Confirmation, to amend the Master Indenture to allow for any Bonds to be supported by a Credit Enhancement Facility or Liquidity Facility, including amendments with respect to repayment to such a provider on a parity with any Bonds or Qualified Exchange Agreement and providing rights to such provider under the Master Indenture, including with respect to defaults and remedies;

(k) to preserve the exclusion from gross income for federal income tax purposes of interest on Bonds the interest on which is intended to be excluded from the gross income of the Owners thereof for federal income tax purposes;

(l) to make any change as shall be necessary in order to maintain the rating(s) on any of the Bonds from any Rating Agency;

(m) if the Bonds affected by any change are rated by a Rating Agency, to make any change which does not result in a reduction of the rating applicable to any of the Bonds so affected; provided that, if any of the Bonds so affected are secured by a Credit Enhancement Facility or a Liquidity Facility, such change must be approved in writing by the related Credit Facility Provider or Liquidity Facility Provider;

(n) if the Bonds affected by any change are secured by a Credit Enhancement Facility, to make any change approved in writing by the related Credit Facility Provider; provided that, if any of the Bonds so affected are rated by a Rating Agency, such change shall not result in a reduction of the rating applicable to any of the Bonds so affected; or

(o) to make any other change in the Master Indenture which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Owners. In making any such judgment, the Trustee may rely upon an opinion of Counsel.

Supplemental Indentures Effective with Consent of Owners. The provisions of the Master Indenture may also be modified or amended at any time or from time to time by a Supplemental Indenture, subject to the consent of Owners in accordance with and subject to the provisions of the Master Indenture, upon the Trustee's receipt of an opinion of Bond Counsel that such modification or amendment will not adversely affect the exclusion from gross income of interest, on Bonds the interest on which is intended to be excluded from the gross income of the owners thereof for federal income tax purposes.

General Provisions Relating to Supplemental Indentures. The Master Indenture shall not be modified or amended in any respect except in accordance with and subject to the provisions of the Master Indenture. Nothing contained in the Master Indenture shall affect or limit the rights or obligations of the Authority to execute or deliver any resolution, act or other instrument pursuant to the provisions of the Master Indenture or the right or obligation of the Authority to execute and deliver to the Trustee or any Paying Agent any instrument elsewhere in the Master Indenture provided or permitted to be delivered to the Trustee or any Paying Agent.

Before the execution and delivery of any Supplemental Indenture, the Authority and the Trustee shall have received an opinion of Bond Counsel stating that such Supplemental Indenture has been duly and lawfully executed in accordance with the provisions of the Master Indenture, is authorized or permitted by the Master Indenture, is valid and binding upon the Authority and enforceable in accordance with its terms and will not adversely affect the exclusion from gross income of interest on Bonds the interest on which is intended to be excluded from the gross income of the Owners thereof for federal income tax purposes. Each such Supplemental Indenture shall also be filed with each Rating Agency.

The Trustee is hereby authorized to make all further agreements and stipulations which may be contained in any Supplemental Indenture, and, in taking such action, the Trustee shall be fully protected in relying on an opinion of Counsel that such Supplemental Indenture is authorized or permitted by the provisions of the Master Indenture.

Powers of Amendment with Consent of Owners. Any modification or amendment of the Master Indenture and of the rights and obligations of the Authority and of the Owners, in any particular, may be made by a Supplemental Indenture, with the written consent given as provided below, of the Owners of a majority in unpaid principal amount of the Bonds Outstanding at the time such consent is given, with a Confirmation. Unless with the unanimous written consent of all Owners, however, no such amendment shall:

- (a) permit a change in the terms of redemption or maturity of the principal of any outstanding Obligation or of any installment of interest thereon or a reduction in the principal amount thereof or the rate of interest or redemption premium thereon;
- (b) reduce the percentage of Obligations the consent of the Owners of which is required to effect such amendment; or
- (c) change the existing preferences or priorities of Obligations over any other Obligations or create any new preferences or priorities.

A copy of such proposed Supplemental Indenture (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Owners for their consent thereto in form satisfactory to the Trustee, shall be mailed by the Trustee, at the expense of the Authority, to the Owners (but failure to mail such copy and request shall not affect the validity of the Supplemental Indenture when consented to as provided in Section 704 of the Master Indenture). Such Supplemental Indenture shall not be effective unless and until there shall have been filed with the Trustee the written consents of Owners of the percentage of Outstanding Bonds specified in this Section.

Each such consent shall be effective only if accompanied by proof of the ownership at the date of such consent of the Obligations with respect to which such consent is given, which proof, in the case of Bonds, shall be such as is permitted by the Master Indenture. A certificate or certificates filed with the Trustee that it has examined such proof and that such proof is sufficient in accordance with the Master Indenture shall be conclusive that the consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee. Any such consent shall be binding upon the Owner of the Obligations giving such consent and, anything in the Master Indenture to the contrary notwithstanding, upon any subsequent Owner of such Obligations and of any Obligations issued in exchange therefor (whether or not such subsequent Owner thereof has notice thereof), unless such consent is revoked in writing by the Owner of such Obligations giving such consent or a subsequent owner thereof by filing such revocation with the Trustee, prior to the time when the written statement of the Trustee provided for below is filed. The fact that a consent has not been revoked may likewise be proved by a certificate of the Owner filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Owners of the required percentage of Obligations shall have filed their consents to the Supplemental Indenture, the Trustee shall make and file with the Authority a written statement that the Owners of such required percentage of Obligations have filed such consents. Such written statement shall be conclusive that such consents have been so filed. If the Owners of required percentage of the Obligations shall have consented to and approved the execution thereof as provided in the Master Indenture, no Owner shall have any right to object to the execution of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

Upon the execution of any Supplemental Indenture pursuant to the provisions of the Master Indenture, the Master Indenture shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Master Indenture of the Authority, the Trustee and all Owners shall thereafter be determined, exercised and enforced in all respects under the provisions of the Master Indenture as so modified and amended.

Mailing of Notices. Any provision in the Master Indenture for the mailing of a notice or other document to Owners of Obligations shall be fully complied with if it is mailed postage prepaid only to each registered owner of Obligations then Outstanding at his address, if any, appearing upon the registration records kept by the Trustee, and to the Trustee.

Modifications by Unanimous Action. Notwithstanding anything contained in the foregoing provisions of the Master Indenture the rights and obligations of the Authority and of the Owners of the Obligations and the terms and provisions of the Obligations or of the Master Indenture may be modified or amended in any respect upon the execution and delivery of a Supplemental Indenture and the consent of the Owners of all of the Obligations then Outstanding, such consent to be given as provided in the Master Indenture, upon the Trustee's receipt of an opinion of Bond Counsel that such modification or amendment will not adversely affect the exclusion from gross income of interest on Bonds the interest on which is intended to be excluded from the gross income of the owners thereof for federal income tax purposes; provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto in addition to the consent of the Authority and of the Owners.

Exclusion of Bonds. Bonds, if any, owned or held by or for the account of the Authority, the Commission or the Department shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in the Master Indenture, and neither the Authority, the Commission nor the Department shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in the Master Indenture. At the time of any consent or other action taken under the Master Indenture, the Authority shall furnish the Trustee an Authority Certificate, upon which the Trustee may rely, describing all Bonds so to be excluded.

Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as in Article VII of the Master Indenture provided may, and if the Trustee so determines, shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and upon presentation of such Bond for such purpose at the office of the Trustee, suitable notation shall be made on such Bond by the Trustee as to any such action. If the Authority or the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee and the Authority conform to such action shall be prepared and delivered, and upon demand of the Owner of any such Bond then Outstanding shall be exchanged, without cost to such Owner, for Bonds of the same Series and maturity then Outstanding, upon surrender of such Bonds.

Qualified Counterparty Consent. Notwithstanding anything to the contrary in the Indenture, no amendment, supplement or modification to the Indenture that adversely affects any Qualified Counterparty shall be effective without the prior written consent of such Qualified Counterparty.

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APPENDIX D

FORMS OF OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL

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FORM OF OPINION OF SPECIAL TAX COUNSEL

Upon the issuance of the Series 2004B Bonds, Ballard Spahr Andrews & Ingersoll, LLP, special tax counsel to the New Mexico Finance Authority, proposes to issue its opinion in substantially the following form:

May __, 2004

New Mexico Finance Authority
Santa Fe, New Mexico 87505

Re: New Mexico Finance Authority State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B

We have acted as special tax counsel to the New Mexico Finance Authority (the "NMFA") in connection with the issuance by the NMFA of its State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B in the aggregate principal amount of \$237,950,000 (the "Series 2004B Bonds"). The Series 2004B Bonds are being issued for the purpose of providing funds to refund certain outstanding bonds.

We have reviewed opinions of counsel to the NMFA, certificates of the NMFA, the New Mexico Department of Transportation ("NMDOT") and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Furthermore, with respect to the validity of the Series 2004B Bonds, we are relying upon the opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel to the NMFA. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2004B Bonds. The NMFA and NMDOT have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2004B Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2004B Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA and NMDOT with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the Series 2004B Bonds.

Based on our examination and the foregoing, we are of the opinion, as of the date hereof and under existing law as presently enacted and construed, as follows:

1. Interest on the Series 2004B Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

2. Interest on the Series 2004B Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

In rendering our opinion, we wish to advise you that:

(a) we express no opinion herein as to the accuracy, adequacy, or completeness of the Official Statement or any other offering material relating to the Series 2004B Bonds; and

(b) although we have rendered an opinion that interest on the Series 2004B Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of or the

accrual or receipt of interest on, the Series 2004B Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. We express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004B Bonds.

Respectfully submitted,

FORM OF OPINION OF SPECIAL TAX COUNSEL

Upon the issuance of the Series 2004C Bonds, Ballard Spahr Andrews & Ingersoll, LLP, special tax counsel to the New Mexico Finance Authority, proposes to issue its opinion in substantially the following form:

May __, 2004

New Mexico Finance Authority
Santa Fe, New Mexico 87505

Re: New Mexico Finance Authority Adjustable Rate State Transportation Refunding Revenue Bonds
(Subordinate Lien), Series 2004C

We have acted as special tax counsel to the New Mexico Finance Authority (the "NMFA") in connection with the issuance by the NMFA of its Adjustable Rate State Transportation Refunding Revenue Bonds, (Subordinate Lien), Series 2004C in the aggregate principal amount of \$200,000,000 (the "Series 2004C Bonds"). The Series 2004C Bonds are being issued for the purpose of providing funds to refund certain outstanding bonds.

We have reviewed opinions of counsel to the NMFA, certificates of the NMFA, the New Mexico Department of Transportation ("NMDOT") and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to the questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation. Furthermore, with respect to the validity of the Series 2004C Bonds, we are relying upon the opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel to the NMFA. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Series 2004C Bonds. The NMFA and NMDOT have covenanted to comply with all such requirements and restrictions. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2004C Bonds to become includible in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2004C Bonds. We have assumed, without undertaking to determine or confirm, continuing compliance by the NMFA and NMDOT with such requirements and restrictions in rendering our opinion regarding the tax exempt status of interest on the Series 2004C Bonds.

Based on our examination and the foregoing, we are of the opinion, as of the date hereof and under existing law as presently enacted and construed, as follows:

1. Interest on the Series 2004C Bonds is excludable from gross income for federal income tax purposes and is not a specific item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations, but such interest is included in earnings and profits in computing the federal alternative minimum tax imposed on certain corporations.

2. Interest on the Series 2004C Bonds is excludable from net income of the owners thereof for State of New Mexico income tax purposes.

In rendering our opinion, we wish to advise you that:

(a) we express no opinion herein as to the accuracy, adequacy, or completeness of the Official Statement or any other offering material relating to the Series 2004C Bonds; and

(b) although we have rendered an opinion that interest on the Series 2004C Bonds is excludable from gross income for federal income tax purposes, the ownership or disposition of or the

accrual or receipt of interest on, the Series 2004C Bonds may otherwise affect a bondholder's tax liability. The nature and extent of these other tax consequences will depend upon the bondholder's particular tax status and the bondholder's other items of income or deduction. We express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004C Bonds.

Respectfully submitted,

FORM OF OPINION OF BOND COUNSEL

May __, 2004

New Mexico Finance Authority
Santa Fe, New Mexico

We have acted as bond counsel to the New Mexico Finance Authority (the "NMFA") in connection with the issuance by the NMFA of its New Mexico Finance Authority State Transportation Refunding Revenue Bonds (Subordinate Lien), Series 2004B (the "2004B Bonds") and its New Mexico Finance Authority Adjustable Rate State Transportation Refunding Revenue Bonds (Subordinate Lien) Series 2004C (the "2004C Bonds", and together with the 2004B Bonds, the "2004B/C Bonds"). The 2004B/C Bonds are being issued for the purpose of providing funds to refund and restructure certain outstanding bonds of the NMFA and the New Mexico State Transportation Commission (the "Commission").

The NMFA is a public body politic and corporate, separate and apart from the State of New Mexico, constituting a governmental instrumentality, created by and existing under the New Mexico Finance Authority Act, Sections 6-21-1 et seq., NMSA 1978, as amended and supplemented (the "Act"). The 2004B/C Bonds are being issued pursuant to the February 19, 2004 direction of the Commission, Chapter 3, Laws of New Mexico 2003 (1st Special Session) (compiled in part as Sections 67-3-59.2, 67-3-59.3 and 67-3-65.1) (the "Transportation Act"), the Act, resolutions adopted by the NMFA on March 19, 2004 and on April 30, 2004 (collectively, the "Resolutions"), and the Master Indenture of Trust and Second Series Indenture of Trust, each dated as of May 1, 2004 (collectively, the "Indenture"), between the NMFA and Bank of Albuquerque, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

We have reviewed the Act, the Transportation Act, the Resolutions, the Indenture and such other documents, opinions and matters of law to the extent we deemed necessary to render the opinions set forth herein. Regarding questions of fact material to our opinion, we have relied on the representations of the NMFA contained in the Resolutions, and in the certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon and subject to the foregoing, and in reliance thereon, as of the date hereof and under existing law, it is our opinion that:

1. The NMFA is a public body politic and corporate, separate and apart from the State of New Mexico, constituting a governmental instrumentality, duly organized and validly existing under the laws of the State and has lawful authority to issue the 2004B/C Bonds.

2. The Resolutions have been duly adopted by the NMFA, are valid and binding obligations of the NMFA and create a valid lien on and pledge of the Pledged Revenues for the payment of principal of and interest on the 2004B/C Bonds.

3. The Indenture has been duly authorized, executed and delivered by the NMFA, is valid and binding upon the NMFA and creates a valid lien on the Pledged Revenues and the funds and accounts held by the Trustee and pledged under the Indenture to secure the payment of the principal of and interest on the 2004B/C Bonds on a parity with other Subordinate Lien Bonds (if any) issued or to be issued under the Indenture, and with a lien subordinate to the lien thereon of Senior Lien Bonds issued under the Indenture, subject to the provisions of the Indenture permitting the issuance thereof for the purposes and on the terms and conditions set forth in the Indenture.

4. The 2004B/C Bonds have been duly and validly authorized, are issued in accordance with law and the Indenture and constitute valid and binding special limited obligations of the NMFA, payable solely from the Pledged Revenues, the funds and accounts held by the Trustee and pledged under the Indenture, and do not

constitute a debt or liability of the State or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation.

In rendering our opinion, we wish to advise you that:

(a) the rights of the holders of the 2004B/C Bonds and the enforceability thereof and of the Indenture are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and the enforcement thereof is also subject to the application of equitable principles and the exercise of judicial discretion in appropriate cases;

(b) we have not addressed, nor do we express any opinion on, the tax consequences to any person regarding the investment in, the ownership or disposition of, or the accrual or receipt of interest on, the 2004B/C Bonds;

(c) we have not been engaged or undertaken to review the accuracy, completeness or sufficiency of any offering material relating to the 2004B/C Bonds and we express no opinion relating thereto;

(d) we express no opinion as to the validity or enforceability of, or the security provided by, the bond insurance policy issued by Ambac Assurance Corporation with respect to the 2004B/C Bonds;

(e) our opinion represents our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of result;

(f) our opinion is limited to the matters expressly set forth herein and we express no opinion concerning any other matters; and

(g) our opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the NMFA believes to be reliable, but the NMFA takes no responsibility for the accuracy thereof.

DTC will act as securities depository for the 2004 Subordinate Lien Bonds. The 2004 Subordinate Lien Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the 2004 Subordinate Lien Bonds, each in the aggregate principal amount of such maturity, and will be deposited with or held for the account of DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC), also subsidiaries of DTCQ, as well as by the New York Stock Exchange Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to DTC is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2004 Subordinate Lien Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2004 Subordinate Lien Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2004 Subordinate Lien Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2004 Subordinate Lien Bonds, except in the event that use of the book-entry system for the 2004 Subordinate Lien Bonds is discontinued.

To facilitate subsequent transfers, all 2004 Subordinate Lien Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2004 Subordinate Lien Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2004 Subordinate Lien Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2004 Subordinate Lien Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the 2004 Subordinate Lien Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2004 Subordinate Lien Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Paying Agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2004 Subordinate Lien Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2004 Subordinate Lien Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC, by Bank of Albuquerque, N.A. (the "Paying Agent" and the "Bond Registrar"). DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the NMFA or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Paying Agent or the NMFA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the NMFA or the Paying Agent, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

So long as Cede & Co. or its registered assign is the registered owner of the 2004 Subordinate Lien Bonds, the NMFA and the Paying Agent will be entitled to treat Cede & Co., or its registered assign, as the absolute owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the NMFA or the Paying Agent and the NMFA and the Paying Agent will have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any Beneficial Owners of the 2004 Subordinate Lien Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference only relates to those permitted to act by statute, regulation or otherwise on behalf of such Beneficial Owners for such purposes. When notices are given, they are to be sent to DTC, and neither the NMFA nor the Paying Agent has responsibility for distributing such notices to the Beneficial Owners.

The Paying Agent does not have any responsibility or obligation to the DTC Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any DTC Participant; (b) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the 2004 Subordinate Lien Bonds; (c) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the 2004 Subordinate Lien Bonds; (d) any consent given or other action taken by DTC, or its nominee, Cede & Co., as Bond Owner; or (e) the distribution by DTC to DTC Participants or Beneficial Owners of any notices received by DTC as registered owner of the 2004 Subordinate Lien Bonds.

DTC may discontinue providing its services as securities depository with respect to the 2004 Subordinate Lien Bonds at any time by giving reasonable notice to the NMFA or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The NMFA may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

APPENDIX F

AUCTION PROCEDURES

Definitions:

In addition to the words and terms elsewhere defined in the Supplemental Indenture, the following words and terms as used in this Appendix F and elsewhere in the Supplemental Indenture have the following meanings with respect to Series 2004C Bonds in an Auction Rate Period unless the context or use indicates another or different meaning or intent:

“Agent Member” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“All Hold Rate” means, as of any Auction Date, 55% of the Index in effect on such Auction Date.

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means the auctioneer appointed in accordance the Indenture and shall initially be Deutsche Bank Trust Company Americas.

“Auction Agreement” means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in Exhibit B to the Supplemental Indenture with respect to the Series 2004C Bonds of any Subseries while bearing interest at an Auction Rate, as such agreement may from time to time be amended or supplemented.

“Auction Date” means during any period in which the Auction Procedures are not suspended in accordance with the provisions hereof, (i) if the Series 2004C Bonds of any Subseries are in a daily Auction Period, each Business Day, (ii) if the Series 2004C Bonds of any Subseries are in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and (iii) if the Series 2004C Bonds of any Subseries are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Series 2004C Bonds of any Subseries (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the Series 2004C Bonds of any Subseries in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Series 2004C Bonds of any Subseries and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Series 2004C Bonds of any Subseries; and provided, further, that if the Series 2004C Bonds of any Subseries are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for the Series 2004C Bonds of any Subseries and (y) the Business Day next preceding the final maturity date for the Series 2004C Bonds of any Subseries. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Date for the Series 2004C Bonds of any Subseries is June 29, 2004.

“Auction Multiple” means, as of any Auction Date, the Percentage of Index (in effect on such Auction Date) determined as set forth below, based on the Prevailing Rating of the Series 2004C Bonds of any Subseries in effect at the close of business on the Business Day immediately preceding such Auction Date:

| <u>Prevailing Rating</u> | <u>Percentage of Index</u> |
|--------------------------|----------------------------|
| AAA/Aaa | 175% |
| AA/Aa | 175% |
| A/A | 200% |
| BBB/Baa | 250% |
| Below BBB/Baa | 275% |

“Auction Period” means (i) a Flexible Auction Period, (ii) with respect to Series 2004C Bonds of any Subseries in a daily mode, a period beginning on each Business Day and extending to but not including the next succeeding Business Day, (iii) with respect to Series 2004C Bonds of any Subseries in a seven-day mode, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) with respect to Series 2004C Bonds of any Subseries in a 28-day mode, a period of generally 28 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (v) with respect to Series 2004C Bonds of any Subseries in a 35-day mode, a period of generally 35 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (vi) with respect to Series 2004C Bonds of any Subseries in a three-month mode, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period, and (vii) with respect to Series 2004C Bonds of any Subseries in a semiannual mode, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding June 15 or December 15; provided, however, that if there is a conversion of Series 2004C Bonds from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), if there is a conversion from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and, if there is a conversion from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but not more than 35 days from such date of conversion.

“Auction Period Rate” means the rate of interest to be borne by the Series 2004C Bonds of any Subseries during each Auction Period determined in accordance with Exhibit B to the Second Series Indenture; provided, however, in no event may the Auction Period Rate exceed the Maximum Interest Rate.

“Auction Procedures” means the procedures for conducting Auctions for Series 2004C Bonds of any Subseries during an Auction Rate Period set forth in Exhibit B to the Second Series Indenture.

“Auction Rate” means for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Series 2004C Bonds of any Subseries are the subject of Submitted Hold Orders, the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate.

“Auction Rate Conversion Date” means with respect to Series 2004C Bonds of any Subseries, the date on which the Series 2004C Bonds of such Subseries convert from an interest rate period other than an Auction Rate Period and begin to bear interest at the Auction Period Rate.

“Auction Rate Period” means after the Initial Period any period of time commencing on the day following the Initial Period and ending on a Variable Rate Conversion Date, a Commercial Paper Rate Conversion Date or a Fixed Rate Conversion Date.

“Available Bonds” means on each Auction Date, the aggregate principal amount of Series 2004C Bonds of any Subseries that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in Exhibit B to the second Series Indenture.

“Bidder” means each Existing Owner and Potential Owner who places an Order.

“Broker-Dealer” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix F, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the NMFA and that is a party to a Broker-Dealer Agreement with the Auction Agent.

“Broker-Dealer Agreement” means an agreement among the Auction Agent, the NMFA and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix F, as such agreement may from time to time be amended or supplemented.

“Conversion Date” means the date on which the Series 2004C Bonds of any Subseries begin to bear interest at a Fixed Rate, a Variable Rate or a Commercial Paper Interest Rate.

“Default Rate” means, in respect of any Auction Period other than a daily Auction Period, a per annum rate equal to three hundred percent (300%) of the Index determined on the Auction Date next preceding the first day of such Auction Period or in the case of Series 2004C Bonds of any Subseries in a daily Auction Period, three hundred percent (300%) of the Index determined on the Auction Date which was the first day of such Auction Period, provided, however, the Default Rate shall not exceed the Maximum Interest Rate.

“Existing Owner” means (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Register at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (b) with respect to and for the purpose of dealing with a Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of Bonds.

“Flexible Auction Period” means any period of not less than seven nor more than 364 days which begins on an Interest Payment Date and ends on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day.

“Hold Order” has the meaning specified in subsection (a) under the caption “Auction Procedures—Orders by Existing Owners and Potential Owners” below.

“Index” shall have the meaning specified under the caption “Auction Procedures—Index” below.

“Initial Period” means the period from the Issue Date to but not including June 30, 2004.

“Interest Payment Date” with respect to Series 2004C Bonds of any Subseries bearing interest at Auction Period Rates, means June 30, 2004 and thereafter (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 92 days, the Business Day immediately following such Flexible Auction Period, or (ii) 92 or more days, each thirteenth Tuesday after the first day of such Flexible Auction Period or the next Business Day if such Tuesday is not a Business Day and on the Business Day immediately following such Flexible Auction Period, (d) after the Fixed Rate Conversion Date, each June 15 and December 15, (e) each Mandatory Tender Date, and (f) the Maturity Date.

“LIBOR,” on any date of determination for any Auction Period, means (i) for any Auction Period of fewer than 40 days, the offered rate for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market (the “calculation date”) and (ii) for any Auction Period of 40 or more but fewer than 95 days, such rates for deposits in U.S. dollars for a three-month period.

“Maximum Auction Rate” means, as of any Auction Date, the product of the Index multiplied by the Auction Multiple, provided, however, the Maximum Auction Rate shall not exceed the Maximum Interest Rate.

“Maximum Interest Rate” means the lesser of fourteen percent (14%) or the maximum rate permitted by applicable law.

“Order” means a Hold Order, Bid or Sell Order.

“Potential Owner” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Series 2004C Bonds of any Subseries in addition to the Series 2004C Bonds of any Subseries currently owned by such Person, if any.

“Prevailing Rating” means (a) AAA/Aaa, if the Series 2004C Bonds of any Subseries shall have a rating of AAA or better by S&P and a rating of Aaa or better by Moody’s, (b) if not AAA/Aaa, AA/Aa if the Series 2004C Bonds of any Subseries shall have a rating of AA- or better by S&P and a rating of Aa3 or better by Moody’s, (c) if not AAA/Aaa or AA/Aa, A/A if the Series 2004C Bonds of any Subseries shall have a rating of A- or better by S&P and a rating of A3 or better by Moody’s, (d) if not AAA/Aaa, AA/Aa or A/A, BBB/Baa if the Series 2004C Bonds shall have a rating of BBB or better by S&P and a rating of Baa or better by Moody’s, and (e) if not AAA/Aaa, AA/Aa, A/A or BBB/Baa, then below BBB/Baa whether or not the Series 2004C Bonds of any Subseries are rated by any securities rating agency. For purposes of this definition, S&P’s rating categories of “AAA,” “AA,” and “A-” and Moody’s rating categories of “Aaa,” “Aa3” and “A3,” shall be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Agencies shall have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof shall use different rating categories. If the Series 2004C Bonds of any Subseries are not rated by a Rating Agency, the requirement of a rating by such Rating Agency shall be disregarded. If the ratings for the Series 2004C Bonds of any Subseries are split between two of the foregoing categories, the lower rating shall determine the Prevailing Rating. If there is no rating, then the Auction Period Rate shall be the Maximum Auction Rate.

“Principal Office” means, with respect to the Auction Agent, the office thereof designated in writing to the NMFA, the Trustee and each Broker-Dealer.

“Sell Order” has the meaning specified in subsection (a) under the caption “Auction Procedures—Orders by Existing Owners and Potential Owners” below.

“Submission Deadline” means 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

“Submitted Bid” has the meaning specified in subsection (b) under the caption “Auction Procedures—Determination of Auction Period Rate” below.

“Submitted Hold Order” has the meaning specified in subsection (b) under the caption “Auction Procedures—Determination of Auction Period Rate” below.

“Submitted Order” has the meaning specified in subsection (b) under the caption “Auction Procedures—Determination of Auction Period Rate” below.

“Submitted Sell Order” has the meaning specified in subsection (b) under the caption “Auction Procedures—Determination of Auction Period Rate” below.

“Sufficient Clearing Bids” means with respect to Series 2004C Bonds of any Subseries, an Auction for which the aggregate principal amount of Series 2004C Bonds of such Subseries that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Auction Rate is not less than the aggregate principal amount of Series 2004C Bonds of such Subseries that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Auction Rate.

“Series 2004C Bonds” used in Exhibit B to the Second Series Indenture means the Series 2004C while they bear interest at an Auction Rate.

“Winning Bid Rate” means with respect to Series 2004C Bonds of any Subseries, the lowest rate specified in any Submitted Bid which if selected by the Auction Agent as the Auction Period Rate would cause the aggregate principal amount of Series 2004C Bonds of such Subseries that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds of such Subseries.

Auction Procedures

Orders by Existing Owners and Potential Owners.

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of Series 2004C Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,

(B) the principal amount of Series 2004C Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or

(C) the principal amount of Series 2004C Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Series 2004C Bonds of any Subseries, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of Series 2004C Bonds of such Subseries, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof an Order containing the information referred to in clause (i)(A) above is herein referred to as a “Hold Order”, an Order containing the information referred to in clause (i)(B) or (ii) above is herein

referred to as a “Bid”, and an Order containing the information referred to in clause (i)(C) above is herein referred to as a “Sell Order.”

(b) (i) A Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Series 2004C Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Series 2004C Bonds to be determined as described in subsection (a)(v) under the caption “Auction Procedures—Allocation of Series 2004C Bonds of any Subseries” below if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of Series 2004C Bonds to be determined as described in subsection (b)(iv) under the caption “Auction Procedures—Allocation of Series 2004C Bonds of any Subseries” below if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Series 2004C Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Series 2004C Bonds as described in subsection (b)(iv) under the caption “Auction Procedures—Allocation of Series 2004C Bonds of any Subseries” below if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of Series 2004C Bonds of any Subseries specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Series 2004C Bonds of any Subseries as described in subsection (a)(vi) under the caption “Auction Procedures—Allocation of Series 2004C Bonds of any Subseries” below if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies Series 2004C Bonds to be held, purchased or sold in a principal amount which is not \$25,000 or an integral multiple thereof shall be rounded down to the nearest \$25,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Series 2004C Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a Series 2004C Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction; and

(iv) the Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Trustee or the NMFA of the occurrence of an Event of Default resulting from a failure to pay principal, premium or interest on any Series 2004C Bond when due (provided, however, that for purposes of this provision only payment by the Bond Insurer shall be deemed to cure such Event of Default and no suspension of the Auction Procedures shall occur) but shall resume two Business Days after the date on which the Auction Agent receives notice from the Trustee that such Event of Default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

Submission of Orders by Broker-Dealers to Auction Agent.

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, including such electronic communication acceptable to the parties, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying, if requested, with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of Series 2004C Bonds of any Subseries, if any, that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of Series 2004C Bonds of any Subseries, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of Series 2004C Bonds of any Subseries, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of Series 2004C Bonds of any Subseries, if any, subject to any Sell Order placed by such Existing Owner;

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the Series 2004C Bonds of any Subseries held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Series 2004C Bonds of such Subseries held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of Series 2004C Bonds of such Subseries to be converted held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Series 2004C Bonds of such Subseries to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of Outstanding Series 2004C Bonds of any Subseries held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the principal amount of Series 2004C Bonds of such Subseries held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of Series 2004C Bonds of any Subseries held by such Existing Owner over the principal amount of the Series 2004C Bonds of such Subseries subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A) above, all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of Series 2004C Bonds of such Subseries held by such Existing Owner over the principal amount of Series 2004C Bonds of such Subseries held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of Series 2004C Bonds of such Subseries held by such Existing Owner over the principal amount of Series 2004C Bonds of such Subseries held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above; and

(D) the principal amount, if any, of such Series 2004C Bonds of such Subseries subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including a principal amount of Series 2004C Bonds of such Subseries equal to the excess of the principal amount of Series 2004C Bonds of such Subseries held by such Existing Owner over the sum of the principal amount of the Series 2004C Bonds of such Subseries considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of Series 2004C Bonds of such Subseries considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of Series 2004C Bonds of such Subseries specified therein.

(f) Neither the NMFA, the Trustee nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

Determination of Auction Period Rate.

(a) Not later than 9:30 a.m., New York City time, on each Auction Date, the Auction Agent shall advise the Broker-Dealers and the Trustee by telephone or other electronic communication acceptable to the parties of the All Hold Rate, the Maximum Auction Rate and the Index for the Series 2004C of such Subseries.

(b) Promptly after the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above the Auction Agent shall advise the Trustee by telephone (promptly confirmed in writing), telex or facsimile transmission or other electronic communication acceptable to the parties of the Auction Rate for the next succeeding Auction Period and the Trustee shall promptly notify DTC of such Auction Rate.

(d) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Period Rate for the new Auction Period shall be the same as the Auction Period Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended to the next Tuesday (or if such Tuesday is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Period Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extend to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended.

(e) In the event of a failed conversion to a Variable Rate Period, a Commercial Paper Rate Period or a Fixed Rate Period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Series 2004C Bonds of any Subseries are not rated or are not registered in the name of the Securities Depository, then the Auction Period Rate shall be the Maximum Auction Rate.

Allocation of Series 2004C Bonds of any Subseries.

(a) In the event of Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004C Bonds of any Subseries that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Series 2004C Bonds of any Subseries that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004C Bonds of any Subseries that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Series 2004C Bonds of any Subseries that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004C Bonds of any Subseries that are the subject of such Submitted Bid, but only up to and including the principal amount of Series 2004C Bonds of such Subseries obtained by multiplying (A) the aggregate principal amount of Outstanding Series 2004C Bonds of such Subseries which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Series 2004C Bonds of such Subseries held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Outstanding Series 2004C Bonds of such Subseries subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to

the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Series 2004C Bonds of such Subseries;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Series 2004C Bonds of any Subseries that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Series 2004C Bonds of such Subseries obtained by multiplying (A) the aggregate principal amount of Outstanding Series 2004C Bonds of such Subseries which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Series 2004C Bonds of such Subseries subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Outstanding Series 2004C Bonds of such Subseries subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004C Bonds of any Subseries that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004C Bonds of any Subseries that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring each such Potential Owner to purchase the Series 2004C Bonds of any Subseries that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Auction Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of Series 2004C Bonds of such Subseries obtained by multiplying (A) the aggregate principal amount of Series 2004C Bonds of such Subseries subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Outstanding Series 2004C Bonds of such Subseries held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Outstanding Series 2004C Bonds of such Subseries subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Series 2004C Bonds of such Subseries; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Auction Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Series 2004C Bonds of such Subseries which is not an integral multiple of \$25,000 on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of Series 2004C Bonds of such Subseries to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the

aggregate principal amount of Series 2004C Bonds of such Subseries purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Series 2004C Bonds of such Subseries on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than \$25,000 in principal amount of Series 2004C Bonds of such Subseries on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate Series 2004C Bonds of such Subseries for purchase among Potential Owners so that the principal amount of Auction purchased on such Auction Date by any Potential Owner shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Potential Owners not purchasing Series 2004C Bonds of such Subseries on such Auction Date.

Notice of Auction Period Rate.

(a) On each Auction Date, the Auction Agent shall notify by telephone or other telecommunication device or other electronic communication acceptable to the parties or in writing each Broker-Dealer that participated in the Auction held on such Auction Date of the following:

- (i) the Auction Period Rate determined on such Auction Date for the succeeding Auction Period;
- (ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;
- (iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the principal amount of Series 2004C Bonds, if any, to be sold by such Existing Owner;
- (iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the principal amount of Series 2004C Bonds, if any, to be purchased by such Potential Owner;
- (v) if the aggregate principal amount of the Series 2004C Bonds of any Subseries to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Series 2004C Bonds of such Subseries to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Series 2004C Bonds of such Subseries to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and
- (vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of Series 2004C Bonds to be purchased pursuant to such Bid (including, with respect to the Series 2004C Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Series 2004C Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Owner's Agent

Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of Series 2004C Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

Index.

(a) The Index on any Auction Date with respect to Series 2004C Bonds of any Subseries in any Auction Period of 95 days or less shall be LIBOR on such date. The Index with respect to Series 2004C Bonds of any Subseries in any Auction Period 95 days or more shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Auction Agent and the NMFA.

(b) If for any reason on any Auction Date the Index shall not be determined as hereinabove provided in this Section, the Index shall be the Index for the Auction Period ending on such Auction Date.

(c) The determination of the Index as provided herein shall be conclusive and binding upon the NMFA, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of the Series 2004C Bonds of such Subseries.

Miscellaneous Provisions Regarding Auctions.

(a) In Exhibit B to Second Series Indenture, each reference to the purchase, sale or holding of Series 2004C Bonds shall refer to beneficial interests in Series 2004C Bonds, unless the context clearly requires otherwise.

(b) During an Auction Rate Period, the provisions of the Indenture and the definitions contained therein and described in this Appendix F, including without limitation the definitions of Default Rate, All Hold Rate, Index, Auction Multiple and Auction Rate, may be amended pursuant to the Indenture by obtaining the consent of the owners of all Outstanding Series 2004C Bonds of any Subseries bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the Outstanding Series 2004C Bonds of such Subseries as required by the Indenture, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the NMFA and the Trustee an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Series 2004C Bonds or any exemption from federal income tax to which the interest on the Series 2004C Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all affected Outstanding Series 2004C Bonds of such Subseries bearing interest at Auction Period Rate.

(c) If the Securities Depository notifies the NMFA that it is unwilling or unable to continue as owner of the Series 2004C Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the NMFA within 90 days after the NMFA receives notice or becomes aware of such condition, as the case may be, the NMFA shall execute and the Trustee shall authenticate and deliver certificates representing the Series 2004C Bonds. Such Series 2004C Bonds shall be registered in such names and authorized denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the NMFA and the Trustee.

During an Auction Rate Period, so long as the ownership of the Series 2004C Bonds of any Subseries is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Series 2004C Bond of such Subseries only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Series 2004C Bonds of such Subseries from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Series 2004C Bonds of such Subseries to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the

Existing Owner of the Series 2004C Bonds of such Subseries so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Changes in Auction Period or Auction Date.

(a) *Changes in Auction Period.*

(i) During any Auction Rate Period, the NMFA may, from time to time on the last Interest Payment Date of any Auction Period, change the length of the Auction Period with respect to all of the Series 2004C Bonds of any Subseries among daily, seven-days, 28-days, 35-days, three months, six months and a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Series 2004C Bonds of such Subseries. The NMFA shall initiate the change in the length of the Auction Period by giving written notice to the Trustee, the Bond Insurer, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Series 2004C Bonds of such Subseries in an Auction Rate Period.

(iii) The change in the length of the Auction Period shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iv) The change in length of the Auction Period shall take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from the NMFA consenting to the change in the length of the Auction Period specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Series 2004C Bonds of any Subseries except to the extent such Existing Owner submits an Order with respect to such Bonds. If the condition referred to in (A) above is not met, the Auction Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Auction Rate for the next Auction Period shall be the Maximum Auction Rate, and the Auction Period shall be a seven-day Auction Period.

(b) *Changes in Auction Date.* During any Auction Rate Period, the Auction Agent, with the written consent of the NMFA, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Series 2004C Bonds of any Subseries. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the NMFA, the Broker-Dealers and the Securities Depository.

Auction Agent

Auction Agent

(a) The Auction Agent shall be appointed by the Trustee at the written direction of the NMFA, to perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its

acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Trustee, the NMFA and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the NMFA and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in Series 2004C Bonds of any Subseries with the same rights as if such entity were not the Auction Agent.

Qualifications of Auction Agent; Resignation; Removal. The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of NASD having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by this Indenture and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least forty-five (45) days notice to the NMFA, the Bond Insurer and the Trustee. The Auction Agent may be removed at any time by the NMFA by written notice, delivered to the Auction Agent, the Bond Insurer and the Trustee. Upon any such resignation or removal, the Trustee shall appoint a successor Auction Agent meeting the requirements of this section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Series 2004C Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties until its successor has been appointed by the Trustee. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving thirty (30) days notice to the NMFA and the Trustee even if a successor Auction Agent has not been appointed.

APPENDIX G

FORM OF FINANCIAL GUARANTY INSURANCE POLICY

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Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

Authorized Officer of Insurance Trustee

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